Thinking about Doing Business in Zimbabwe?
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We were recently invited by friends of the Zimbabwean ambassador in Australia to think of ways in which Zimbabwe could attract foreign investors. After some contemplation of the facts, we believe the best way to start answering this is to think of the problem from the point of view of a potential investor. Investing money into a country is not something people do because they like Zimbabwe, or want to help Zimbabwe, or are eager to share their knowledge and wisdom with Zimbabwe. Investors will come with one major motive: to make money.

If one wants to attract foreign investors, one should not spend time and effort telling them about the needs of Zimbabwe, or how Zimbabwe will one day be a happy, democratic, and efficiently run country, or how the mistakes of the past will not recur in the future. One should accept that investors will be hard to convince, suspicious of one's good intentions, and sceptical of one's ability to deliver on promises.

In this piece, we ask you to put yourself in the shoes of an investor considering doing business in Zimbabwe simply in order to make money. What are the risks, and what are the opportunities? Below we present our opinions on these questions, and conclude with our thoughts on how Zimbabwe can best attract foreign investors.

The risks

When an investor evaluates risks, he first analyses what has happened recently in a country. So let us look at the recent history of Zimbabwe from an investor's point of view.

Zimbabwe at the time of independence in 1980 was arguably the jewel of Africa. Thirty years ago, Zimbabwe boasted a near 95% literacy rate, relatively high life expectancies, an education level that was the envy of Africa, a responsible and active independent legal system, a thriving economy with a GDP of around US$2400 per person (according to the CIA historical files), a strong own currency, abundant farming and natural resources, and a modern infrastructure.

Yet in the recent past, as investors are all too aware, the situation has radically altered. Zimbabwe has declined dramatically due to increasing political corruption, supported by a military with insufficient checks on its power and self-serving storylines that appeal to historical grudges still held by common Zimbabweans. In their rise, Mugabe and his generals successfully ran a story of 'sharing the wealth', which in practice meant that they personally tapped all the visible wealth held by others. Ethnic loyalty was used to justify this, where the euphemism of 'indigenisation' meant that things owned by people from the wrong ethnic group were taken away by a political elite from the right ethnic group.

An investor does not have to look far for evidence that these recent changes are still having an impact on the business climate in Zimbabwe. Recently, foreign miners were given until September 25th 2012 to sell 51% of their shares of any mines to locals. Any prospective investor will look at this type of event and fear that the stealing of foreign assets is still occurring right now.

What other recent stories would give an investor pause? One ominous example is the current media coverage of Chinese businesses operating in Zimbabwe. The Chinese have a significant business presence in Zimbabwe (in mining, for example) because of the old communist connections made in the time of the USSR. Much of their investment was made in the days that they were able to count on some protection from Mugabe, and they were amongst the few foreigners who did not leave after the mass 'indigenisations' of the 1990s and 2000s. Partially because of corruption and the exodus of educated people however, the Chinese have imported their own population to run businesses and support their mining companies and other enterprises.

The Zimbabwean press (which is controlled by the political elite) is now running the story that these Chinese are not sharing enough with local Zimbabwean companies. This has caused alarm amongst the Chinese, who are now not sure whom to pay off or how to avoid the fate that has befallen others of the wrong skin colour or ethnicity. The fact that Zimbabwe just defaulted on a US$200 million loan from the Chinese has also shaken their confidence.

Those serious about securing the future of Zimbabwe should not look away and pretend that these problems are not fundamental, or that they are a thing of the past. Such events are happening now, and are absolutely pivotal to investors' decision-making. Signs of unpredictable political interference with basic business activities can make or break investors' willingness to commit resources to a country. Moreover, investors will not believe that the stealing happening today will stop with a simple peaceful election, called by those presently in power. An investor will worry about how the politicians making money now in the present regime will occupy themselves in the future. Will they quietly let others make all the decisions, and politely stop appropriating others' assets? Or will they align themselves with a single figurehead like Mugabe or his successor, and continue to find ways to remain in power for many years to come? Investors will very rationally and calmly decide that the latter is most likely and, in our judgment, will think it highly unlikely that the politicians currently appropriating businesses will somehow cease to be a force in the future.

The unpredictability of these appropriations make Zimbabwe's political situation highly unstable, and this instability is the key reason why many investors are hesitant to invest. By 'instability' we do not simply mean corruption. Occasionally having to bribe a politician is normal business practice in many countries, but in Zimbabwe at the moment, whomever you bribe and whatever you do, there is a significant risk that all your assets may be taken from you. Rather than featuring a well-organized system in which you know how much you have to pay in both bribes and taxes, which allows businesspeople to plan their activities, Zimbabwe presents businesspeople with an unorganized set of politicians, each of whom seems incapable of delivering reliable protection from the other politicians.

To be asked to start a business in such a country is then like being asked to leave a piece of juicy bacon in the middle of a large group of cats. As soon as you show the bacon, each cat will try to eat it as quickly as possible before the other cats, leaving nothing for later. The lack of a clear leadership hierarchy amongst the cats creates the political instability so detrimental to new investment. The first question in the mind of a potential investor about the future of Zimbabwe is simply how he will be protected from the cats.

On top of this problem of political instability, Zimbabwe suffers from many of the standard social and economic problems one sees in many other sub-Saharan African countries. These problems are all the more striking because most of them were strongly in remission in the country fairly recently. GDP per person is only half of what it was 30 years ago; literacy and life expectancy have reduced;

the legal system was dismantled and is seen to be rife with political interests; infrastructure has crumbled; around 4 million educated Zimbabweans and their families have emigrated out of the country; agriculture declined after the well-known farm takeovers; currency problems have prompted Zimbabwe to switch to the American dollar; and the education system is in decline. Zimbabwe now depends heavily on remittances sent home from people living abroad and donor money from international aid agencies, with Australian Aid one of the major sources. Remittances and aid together sum to close to 25% of GDP. This is a very high number.

For the investor, this means that even if you are willing to ignore the risk presented by Zimbabwe's political instability, it will be difficult to find healthy, highly-educated local labour; you will have no reliable legal recourse in cases of breaches of contract; high-quality suppliers will be thin on the ground; and you will likely be seen not only by politicians but also by local Zimbabweans as first and foremost a source of resources to be milked.

Consider how these risks limit the set of businesses one can hope to attract. In order to overcome the risks, potential profits must be large and a business must not rely on the presence of a local high-skilled labour force. Risks will be minimized in businesses that require lower capital investments and more foreign skills, because those skills cannot be appropriated as can capital investment. So, high-profit, high foreign-skilled, high local-intelligence, low-capital business propositions are the type of engagement in Zimbabwe that would most appeal to the foreign investor.

The potential upside

What does Zimbabwe have to offer? Mainly, it has a young, English-speaking unskilled population, fertile farm land, and significant mineral deposits.

Zimbabwe's mineral deposits together with its relatively cheap labour offer the potential for high-profit mining operations. Yet mining also involves large, long-run capital investments of the type particularly vulnerable to political opportunists. For these reasons, foreign mining is the kind of activity that would be rare in Zimbabwe right now but that would return quickly if foreign investors believed that the political situation had stabilised such that their assets were safe.

Agriculture, which also draws on unskilled labour and relies less on fixed capital investment, is less complicated. Foreign investment in farming would simply require greater certainty over who owns the land in the coming decades. To the foreign investor, it does not matter who the nominal owner is – white or black, competent or incompetent. What matters is that ownership of land is clear enough that long-term deals can be made with the owners about supply contracts, machinery, training, and so forth, that allow the resource to be exploited. Political stability is less important in farming than in mining because even if in 10 years' time another set of parasitical politicians takes over Zimbabwe, a foreign investor could pull out his machinery and manpower well in advance – something that is not possible with a mine. There are also significant profits to be made in agriculture in an era of rising worldwide food prices. Farming investment should therefore pick up much more quickly than mining investment following political stabilisation.

A young, English-speaking population can be put to use in service activities that require English and intelligence but not necessarily much formal training. Call centres, computer programming, health clinics, simple service centres, and training centres all require relatively little capital investment, but need intelligent, English-speaking workers. These are the sorts of enterprises that should be expected to grow first. The only inputs to a low-education industry like a call centre, for example, are an intelligent English-speaking workforce, a minimum number of computers, and an internet connection. Such an enterprise could be set up and pay for itself in a matter of a few years, meaning that to attract foreign investment one would only require relatively short-term political predictability.

By contrast, to attract foreign investment into a high-education enterprise, such as a health clinic where people come to have heart transplants, stability over decades is essential. Over 15 years are needed to educate a medical specialist, and the capacity to provide that education itself takes a long time to establish. For investors to make the commitment to set up such enterprises would thus require easily a 30-year horizon of predictability. This is completely unrealistic at the moment in present-day Zimbabwe.

Historical analogues

Zimbabwe's case is not unique in history. Two relatively recent examples come to mind of investment and development trajectories in countries with underlying attributes similar to Zimbabwe.

In India, growth is mainly driven by big cities with a large degree of political independence. Cities like Kolkata, New Delhi, and Mumbai act essentially like competing little kingdoms. The cities compete with others for prestige, and also for highly-educated businesspeople. High-skilled service industries have grown in such cities, and they also nurture new industries. Like Zimbabwe, India is rife with corruption, so one must ask why the Indian politicians do not steal from all these urban businesses. They do not do this partly because many businesses are quite mobile, and can relocate if they are threatened; partly because the city government itself is run by businesses; and partly because the political elite can so confidently predict to be so safely in charge for so many years that it has a strong incentive to simply tax existing businesses at a steady rate, rather than stealing everything in one go. On the back of this inter-city competition, India has grown very rapidly for over 20 years. Even health clinics servicing foreigners are emerging.

Macau, a city-region in China, was rich for the whole of the 20th century while China was poor for most of that century. While China struggled through communism, nationalism, and imperialism, Macau was a stable place where many businesses thrived. Chinese people living near Macau commuted there to work. Know-how and energy flowed into China from Macau. Why did this work? Macau's relative prosperity was a result of its stable Portuguese – i.e., foreign – ownership for 300 years. In 1999 Macau was 'given back' to China, whose central bureaucracy still allows Macau to mainly run itself, with minimal interference.

These examples demonstrate that in a place with generally unstable and at times extremely corrupt national political circumstances, special regions can thrive which are run either by stable foreign countries (in the case of Macau) or by stable, semi-autonomous regional authorities in competition with each other (in the case of Indian cities). In our minds, the key question for Zimbabwe is whether it can mimic either of these examples.

The future of Zimbabwe

We now sketch three scenarios for Zimbabwe on the basis of our analysis: the business-as-usual scenario that we think is the most likely, followed by two alternative scenarios that Zimbabwe could explore. We will focus mainly on the politics of each scenario, because it is the politics that are presently dissuading potential foreign investment.

Scenario 1: Business-as-usual

In the business-as-usual scenario, Zimbabwe will render a beautiful constitution; foreign aid agencies will labour to rebuild the central state apparatus (the legal system, the police); foreign aid and remittances will support the provision of basic services (water, education, health); and politicians who got rich in the previous regime will stay rich and continue to focus on stealing anything they can from investors.

Simply because there are many Zimbabwean expatriates, some will return and try to build businesses. Lured by the promise of major returns, some foreign businesses will also re-enter Zimbabwe, first in farming and simple services, but perhaps also in high-profit mining activities if they decide to take the risk.

It is not completely impossible that Zimbabwe might get lucky and lure back a thriving, educated civil society. We think it more likely however that the business-as-usual scenario would involve the ZANU-PF elements centring on a new 'strong man' who takes over after Mugabe, either via a military coup or as an outgrowth of the MDC. Once reassured of their continuing power, the politicians would naturally target precisely what had been built up by others (i.e., new businesses) during the political transition. Within our previous metaphor, the bacon that is produced while the cats are temporarily at bay provides a powerful incentive for the cats to choose a new leader and return. There is also a real risk that the entire role of ZANU-PF may simply be taken over by the MDC, which will bring with it the same tendency for corruption. An ominous sign in that regard is the corruption already witnessed amongst local politicians in the MDC.

The deeper reasons for the tenacity of a parasitical type of politics lie in having a population that is relatively low in education and relies heavily on agriculture. Here we simply state that in our opinion, the business-as-usual scenario carries the distinct danger that Zimbabwe slides down into another dictatorship. We see little in current-day Zimbabwe that would prevent this slide. Popular opposition to dictatorship was far stronger 20 years ago than it is now. If a highly literate, well-organised cultural and legal elite could not stop Mugabe, it would be naive to think that a less educated and organised civil society with far weaker institutional control could stop the next dictator. We know Zimbabweans will be reluctant to believe that this is truly the most likely scenario for their future. We hope they can forgive us for our prediction, and we hope to be wrong.

In our opinion, it is in Zimbabweans' best interests to find ways to get the country moving forward while there is still as little as possible for a returning dictatorship to steal. The question is how to generate development within a very unstable political system and with a backdrop of institutions that will be quite weak for many years to come. This motivation leads us to develop our next scenarios. We do think that it is only useful to consider these alternative scenarios if one is sufficiently worried about the possibility of another dictatorship emerging under `business as usual'.

Scenario 2: More independent locally-run regions

Consider the difficulties inherent in copying the success of Indian cities. Suppose one were to increase the independence of regions in Zimbabwe, in the hope of encouraging competition amongst them for businesses, skilled labour, and investors. One could try to achieve this by writing a constitution with a strong federalist element, and one could ask the foreign aid agencies to help structure the legal system along those lines. Individuals and businesses would be free to move between regions, because that would allow true inter-regional competition to develop[1].

The danger in this scenario is that the more powerful local politicians would try to break away from any central control and, instead of trying to form long-run relations with businesses, simply steal as much locally as they could, as quickly as they could. This fear is quite realistic in our minds because the political uncertainty even at the local level is so high that local Zimbabwean politicians regard their positions as very uncertain. This is precisely why they have such extreme incentives to quickly steal as much as they can.

Because of this overarching instability, trying to adopt a more federal political model at present would not lead to short-run improvements. Only after the consolidation of the local elites could one hope to build relatively stable competing regions that would support regular inter-regional labour and business flows. However, given the low internal mobility in Zimbabwe today and the population's lack of familiarity with competing regions, this would take time, and might not succeed at all. Indeed, efforts in this direction might split the country into several smaller ones.

Scenario 3: small, independent, foreign-run regions

The scenario most likely to kick-start investment and development in Zimbabwe is also the most radical: to copy the example of Macau (an example that has also been played out in Goa and in Hong Kong). One would ideally wish to capture the benefits that these examples demonstrate are available from such a scheme, minus the hollow feeling that Zimbabwe is being sold to foreigners.

How can this be done? The first ingredient would be a close study of how the example of Macau can be copied in the modern age in Zimbabwe, but the main element of the mimicry effort would be clear immediately. One would declare one or more quite small regions within the country as 'development zones', and invite foreign entities to run these regions for a fixed period of time (say, 50 years).

Importantly, one should not think of this scheme as 'giving away territory' for some period of time, but more as awarding a temporary license, much as cities now give media companies a temporary license to run cable television or to use radio waves. In identical fashion, Zimbabwe could identify a small set of regions with particularly appealing economic traits, such as having rich mineral deposits or being close to other countries, and simply hold an international auction amongst foreign countries for the right to run each of those regions for a fixed period of time.

[1] The internal politics of South Africa and indeed of the whole sub-Saharan region provide another example of the economic influence of this kind of competition. One of the forces keeping South Africa's political elite in line is the fear that other provinces within South Africa might attract businesses away from their pet province. A similar fear exists within the politics of sub-Saharan African countries: businesses may be lost if the elite of a particular country steals too much investor wealth, sending those investors to seek opportunities elsewhere in Africa. This type of competition is a small force in this region relative to its power within Europe, the US, or China, but it is there.

Overseas countries could then bid for the right to temporarily run a small region, and could offer all kinds of benefits as part of the deal. They could offer to educate Zimbabweans in some particular trade. They could promise that part of the tax receipts within those regions would be put into a fund for the future benefit of Zimbabweans. They could alternatively offer an immediate payment now (a 'signing fee'), with fixed monetary transfers in years to come. It would be the task of the democratic process in Zimbabwe to decide which foreign offer is the most appealing.

In order for foreign countries to be interested in bidding, it would not be enough to merely invite offers for identified regions. Any major country would immediately believe that a region `leased' in this manner would truly be under its control for 50 years (after all, neither current nor future Zimbabwean politicians can credibly threaten major foreign countries), but in order to nurture healthy investment into the leased regions, no alternative avenue must exist via which future local Zimbabwean politicians might be able to blackmail businesses in these regions. Taking a lesson from the example of India, one way to help provide this reassurance would be to require that transport corridors connecting the designated regions be part of every deal, such that inter-regional labour and capital movements are well-supported.

Concluding remarks

The idea of auctioning temporary control over smaller regions in a struggling country is a radical new development idea. It treats good governance as an input to production that can potentially be supplied by other countries, who then act and are treated much like any other business: they must compete with each other on price, quality, and quantity. The arrangements made between the developing country (Zimbabwe in this case) and foreign countries would have to be overseen by outside international parties who could arbitrate in case of conflicts.

In the medium run, Zimbabwe's special economic zones would see far more than just trade in resources. They would give rise to the best universities, the new cadre of civil servants, and venture capital to finance the development of the rest of Zimbabwe. In our view, this plan of region-specific, foreign-lease-based development is the best option for securing for Zimbabwe the foreign investment it seeks and leading it to a brighter future.