THE IMPACT OF THE NATIONALISATION THREAT ON ZIMBABWE'S ECONOMY

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Abstract

The purpose of this study was to examine the likely impact that the proposed agenda of nationalisation of foreign-owned business in Zimbabwe, by implementing the Indigenisation and Economic Empowerment Act, would have on the economy in the country. Nationalisation of foreign-owned businesses comes on the back of the disastrous Fast-Track Land Reform Programme which had sought to give land to the black majority in the country. The results of the study show that foreign investors were shaken by the announcement of nationalisation of all foreign-owned firms, including banks and mines. Most foreign investors adopted a "wait and see" attitude since the nature of their investment was mainly resource-seeking FDI, and they could therefore not remove their fixed, immovable assets from the country. With the economy still trying to recover from earlier declines in economic activity, it is recommended that the Government revises the Indigenisation Act in order to ensure FDI inflows continue to be attracted into the country, in a bid to stabilise and further grow the economy.

Keywords: FDI, Nationalisation, Expropriation, Indigenisation, Zimbabwe

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1 Introduction

For many years, Zimbabwe was run by the British under the leadership of Ian Smith. In 1979, the infamous Lancaster House agreement was signed by many great politicians of Rhodesia (now Zimbabwe) at that time, including Bishop Muzorewa, Joshua Nkomo and Robert Mugabe, each representing various political parties under their leadership, as well as representatives of Britain. Amongst many aspects, the agreement pertained to "the people's land", and how the country would be run going forward. One particular clause in the 1979 Lancaster Agreement stood out; *The Freedom from Deprivation of Property*, which stated:

"*Every person will be protected from having his property compulsorily acquired, except when the acquisition is in the interests of defence, public safety, public order, public morality, public health, town and country planning, the development or utilisation of that or other property in such a manner as to promote the public benefit or, in the case of under- utilised land, settlement of land for agricultural purposes. When property is wanted for one of these purposes, its acquisition will be lawful, only on condition that the law provides for the prompt payment of adequate compensation and, where the acquisition is contested, that a court order is obtained. A person whose property is so acquired will be guaranteed the right of access to the High Court to determine the amount of compensation*." (Zimlii.org, Undated).

In essence, this was assurance to both the minority (whites) and the majority (blacks) of Zimbabwe, that despite the imminent changes in Government, several rights would be respected, and that included property rights. The British Government negotiated for, and agreed to fund the acquisition of land on a "willing buyer, willing seller" basis, which was constitutionally protected for a ten-year tenure.

After many decades of British colonial rule, Zimbabwe gained its independence in 1980, with Robert Mugabe emerging as the new leader of Zimbabwe. Hence, between attaining independence in 1980 and 1990, the country encountered its Phase One of Land Reform, which was guided by the Lancaster House Agreement of 1979. Fast forward to the late 1990s – Zimbabwe published a list of commercial farms owned by whites that it intended to acquire for purposes of resettling the black population, and with that, the Land Reform and Resettlement Programme Phase Two was in motion. Displeased at the slow progress of acquiring farms, and motivated by the recent rejection of the Referendum by the masses, ZANU-PF between 2000 and 2002, then instigated the violent seizing of white and foreign owned farms under the Fast-Track Land Reform Programme (Mandizadza, 2010). While the Land Reform Programme Phase Two partially achieved its social objectives of equitable land redistribution to blacks, it had far-reaching economic impacts. The country went from being the bread basket of SADC to being a net importer of basic grains.

After the 2008 elections, there was no clear-cut winner, and hence a Government of National Unity (GNU) was formed between Zanu-PF and the two MDC factions. The economic situation in Zimbabwe deteriorated so much with an era of hyperinflation never imaginable before. In order to curb the hyperinflationary environment, Zimbabwe in 2009 then did away with the Zimbabwean currency and adopted a multi-currency regime with the United States Dollar, British Pound, South African Rand and Botswana Pula as the main currencies. To this day, those are the currencies still in use for trading purposes in Zimbabwe.

The idea of nationalisation was mooted by the Government in 2007. During his 2007 Mid-Year Monetary Policy presentation, the Reserve Bank of Zimbabwe (RBZ) Govenor stated that the Indigenisation Policy was a noble move to involve the ordinary Zimbabwean in the economic activities of Zimbabwe by giving them access to, and equitable ownership of, the country's natural resources, including land and minerals. While there was nothing wrong with the policy itself, it is the manner in which it was to be implemented which posed a threat to many foreign-owned businesses, and therefore the economy at large. As such, this study seeks to examine the economic implications of the Indigenisation and Empowerment Act [Chapter 14:33] of 2007 in Zimbabwe.

The rest of this paper is organised as follows: Section Two provides a brief overview of indigenisation and nationalisation, using examples from other countries. Section Three provides an insight on nationalisation in Zimbabwe. Lastly, the implications of nationalisation and the Indigensation and Empowerment Act has had on the Zimbabwean economy, as well as the targeted sectors of mining, banking and manufacturing sectors, and recommendations thereof will be considered in Section Four of the study.

2 Overview of indigenisation and nationalisation

Nationalisation of private companies has been attempted in many developed and developing countries, with mixed results. Examples of nationalisation in Africa include the nationalisation of copper mines in Zambia in 1968/9, and privately-owned banks (not foreign banks) in 1970 (Simutanyi, 2010). In Angola, the 1976 nationlisation process was targeted at companies of Portuguese origin only (Delgado, 2010). Elsewhere in the world, US-owned copper mining firms were nationalised by the Chilean Government between 1967 and 1971. This move saw Chilean copper production grow from a mere one million tonnes in the mid-1970s to just over 5.5million tonnes in the mid-2000s. By 2008, Chile was churning out 34.6% of the world's production (Duncan, 2011).

Rood (1976) distinguished between expropriation, nationalisation, indigenisation and Africanisation. According to her:

- *Expropriation* is associated with the forceful seizure of property and assets, justifiable only if in the end it meets a public purpose and the owner receives compensation for it;
- *Nationalisation* is a term used when asset seizure is part of social and economic reform to improve the livelihoods of a country's nationals;
- *Indigenisation* is a Government-initiated process whereby it limits certain industrial sectors to its native citizens only, and hence forces foreigners (aliens) to sell those targeted assets. The Government does not have ownership of the assets, but rather ensures a stronger hold over its domestic economy, and through indigenisation can encourage and ensure the growth of local firms and individuals;
- *Africanisation* is considered to be the replacing of non-African employees by Africans, and is usually effected through a state requirement that an industrial sector limits the number of foreigners employed. It is therefore more of a transfer of jobs and skills as opposed to ownership. An example of where this is practised is South Africa where on an annual basis, the Department of Labour issues a list of "scarce skills" which the country requires. The scarce skills list is then used by the Department of Home Affairs to assess and issue work visas to foreigners in the identified fields. Further to this, South Africa has an Employment Equity (EE) Act which requires companies to fill available vacancies with South African citizens. Where this is not possible, firms are expected to submit a detailed report as to why they had to employ a foreigner or an individual who is not from a previously-disadvantaged background. The hierarchy of EE in South Africa favours black females, disabled persons, and ends with males (black preferred over white). In the corporate world, firms which are preferred procurement suppliers are also required to meet the Broad-Based Black Economic Empowerment (BBBEE) requirements, as stipulated in the Black Economic Empowerment (BEE) Act of 2003. This practice has resulted in some firms cheekily putting forward a black face with a top leadership or managerial position in the company, while it is in fact whites who control that black face behind closed doors of the boardroom, thereby defeating the Act's objective of promoting economic transformation by enabling meaningful participation of black people in the South African economy (Chiwunze, 2014).

Dupuis (2005) defined nationalisation as the taking over by the Government of assets and a corporation, usually by acquiring the majority or the whole stake in the corporation, via appropriation or confiscation of the asset, or by puchasing the assets from its legal owners and paying a price close to its market value. According to Simutanyi (2010), nationalisation is a process by which a Government takes controlling shares (more than 50% shareholding) and management of privately-owned enterprises, by establishing parastatals or state-owned enterprises (SOEs). Gwenhamo (2011) adds that expropriation includes nationalisation of assets, periods of domestic instability, capital controls and direct or implicit taxes faced by foreign and domestic investors.

In the study by Rood (1976), it was found that the manner in which foreign assets are seized, typically occurs in one of three ways: nationalisation of large extractive industries owned by MNCs or foreign investors; nationalisation of small branches of MNCs such as banks and insurance firms; and lastly, indigenisation of small and medium-sized foreign-owned businesses. Whichever mode is pursued, it is up to the Government in power to decide whether the taking over of foreign assets will be on a voluntary or compulsory basis, and whether the foreign owners will be compensated or not. The work of Duncan (2011) further discusses the principle of expropriation, particularly in the minerals or mining sector, vis-à-vis nationalisation. According to him, expropriation can be effected in one of three ways:

- Seizure of capital including mining equipment, mine reserves or mining rights (a complete seizure of domestic assets of the foreign company is called "nationalisation");
- Compelled sale of the mining company's shares/ equity to the Government or domestic nationals; or
- Raising taxes on mining revenues or profits.

From a legal perspective, Sornarajah (2004) elaborates that international law is explicit about the seizure of capital and resources within the borders of a soverign nation.Should a foreign-owned firm encounter such action from its host nation, the foreign investors' only recourse would be to seek fair value compensation through the courts. This is only one of many political risks that foreign investors must bear in mind when undertaking capital investment projects outside their borders.

As can be noted from the above attempts to distinguish the various forms of asset seizure, with or without compensation, initiated by Government – literature shows no consensus on the appropriate term to be used. As such, for the purposes of this study; expropriation, nationalisation and indigenisation will be used interchangeably to refer to the programmes and actions of Government which result in the loss of assets and/or capital by foreign or non-native investors.

Several reasons are given by advocates in favour of Governments pursuing nationalisation. According to Atud (2011), the growing support for nationalisation includes the following statements:

- Nationalisation allows profits to be equitably distributed amongst more people, and the country as a whole;
- Nationalisation can lead to regional economic development, not just development in the country implementing nationalisation;
- Nationalisation prevents private monopolies, thereby protecting consumers from restricted quantities and inflated prices;
- Nationalisation's objective is social welfare rather than wealth or profit maximisation, hence more people benefit;
- Nationalisation can lead to economies of scale, improved quality and greater efficiency;
- Nationalisation results in increased employment and greater job security. In industries that were failing, nationalisation can revive those industries and thereby prevent unemployment.

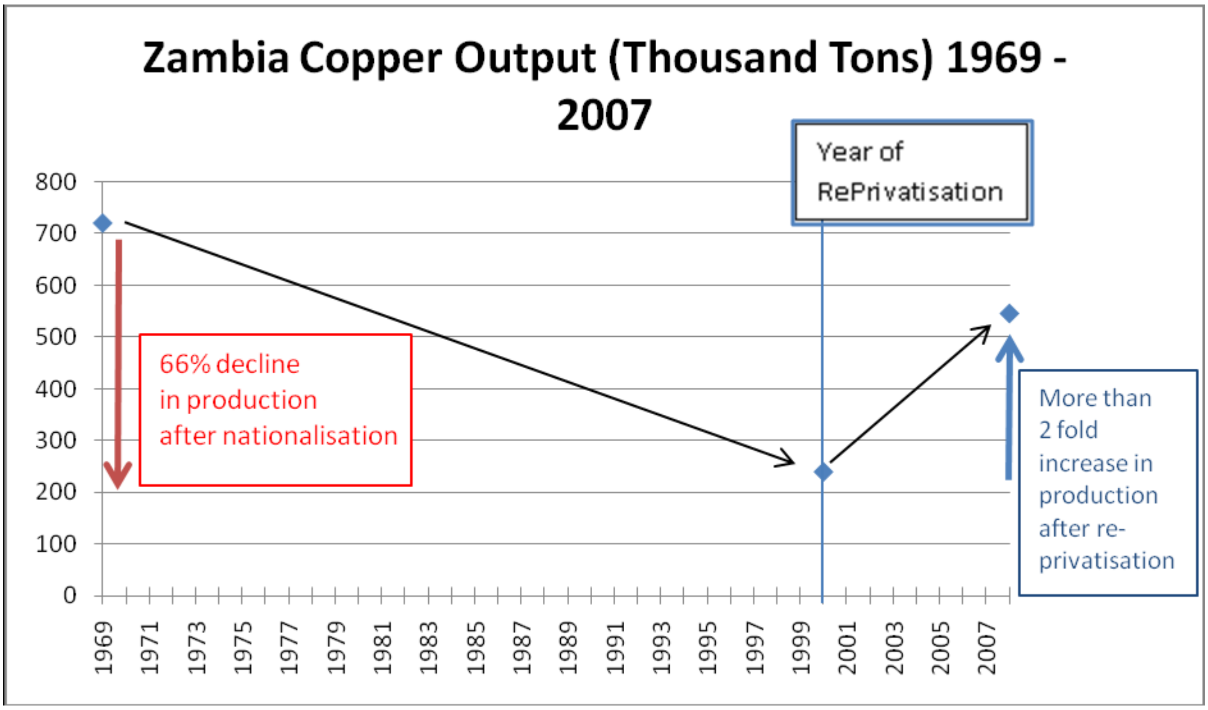
The above list is by no means exhaustive. Despite the positive arguments in favour of nationalisation, there are other factors which also need to be taken into account to ensure the success of the nationalisation programmes implemented. These include the timing of the programme, the economic state of the country, the objectives and rationale of nationalising those industries, availability of capital and qualified personnel to run the "new" entities, amongst others. The problem with nationalisation programmes in Africa is that the initiators are motivated more by political and personal concerns than by economic and social development (Simutanyi, 2010).

3 Nationalisation: experiences of other countries

3.1 Zambia

Zambia's attempt to nationalise its key industrial sectors in the 1970s, catalysed a series of economic disasters. According to Walters (2010), in 1968, the Zambian Government announced its intention to acquire controlling equity stakes of at least 51% in a number of key, foreign-owned firms, as part of its economic restructuring programme. This controlling stake was to be managed by the parastatal, Industrial Development Corporation (INDECO). In 1970, the Government again acquired majority shareholding in Anglo American Corporation and Rhodesia Selection Trust, both being giant mining firms in Zambia. These acquisitions were then named Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM), respectively; in 1982 NCCM and RCM were merged to become Zambia Consolidated Copper Mines Ltd (ZCCM). The desire to have control over its biggest national asset made sense to the Zambian Government, considering that in 1964 copper mining accounted for a third of Zambia's GDP and 80% of its foreign exchange earnings (Walters, 2010). However, what the Government had not anticipated was a significant drop in the global copper prices as a result of oil crises in 1974 and 1979, respectively. In the meantime, the Kaunda-led Government had incurred huge debt with the belief that the economic decline was temporary. Zambia was only saved from itself by the IMF's intervention and a change in Government. With Chiluba now at the helm, ZCCM was privatised in the late 1990s, resulting in an increase in FDI inflows, especially from China. Over time, the Zambian economy bounced back, and was even able to reduce its foreign debt by 2008.

Figure 1. Zambia's Copper Output (1969-2007)



Source: (Atud, 2011)

An analysis of why nationalisation in Zambia was unsuccessful revealed that nationalisation was predominantly focused on the mining sector, which at the time was the country's biggest foreign currency earner. In addition to this, there was conflict between commercial, political and social objectives of the nationalisation programme; as well as an over-dependency on copper mining at the expense of growing other industrial sectors to diversify the economy, hence when the Kaunda-led Government borrowed money from international organisations, that money was not used for infrastructure development and the debt just mounted (Walters, 2010). Lessons learned from the Zambian experience are that when parastatals cannot efficiently and competently manage firms, then the Government must leave such firms to the private sector (Simutanyi, 2010). If instead of nationalisng mines, the Government had raised its revenue through taxes, it would have raised finance to invest in its social programmes which would have benefitted more of its indigenous citizens (Atud, 2011).

3.2 Chile

Between 1955 and 1972, the Chilean Government nationalised its copper mining industry, merging all mining companies into a parastatal called Codelco. Nationalisation resulted in Anaconda Copper Mines reporting a 66% decline in copper output at the time. In 1983, Chile revived its ailing mining sector by introducing a new code to restore property rights and private participation. Codelco went into partnership with private firms, despite still being a parastatal. To date, private firms are engaged in mining operations in Chile, existing side-by-side with Codelco. This remains one of the few success stories because although nationalisation (intentionally) slowed down the copper industry's development, the economy thrived on other sound macroeconomic decisions made by the Government during that time (Atud, 2011).

3.3 Venezuela

According to Keeton & Beer (2011), Venezuela still actively pursues a nationalisation policy. Nationalisation has been in oil and gas (from as early as 1976; paused then resumed in 2007), energy, construction materials, glass, cement, retailing and breweries; basically across multiple sectors. Interestingly, no mines have been nationalised. The pattern of targeted firms for nationalisation seem to follow more of a personal vendetta which President

Chavez had against the firms or their owners, including six French-owned supermarkets in 2010 and newly developed property housing estates in 2011 (Keeton & Beer, 2011). There has been no consistency in the payment of compensation to the affected firm owners. Consequences of nationalisation in Venezuela include economic decline, a slowdown in FDI inflows, higher staffing levels, lower prices, increased Government subisidies as a result of a smaller product range, decreased output and scarcities (Atud, 2011).

3.4 Norway

Throughout its sovereign history, Norway has only experienced "nationalisation" twice – in its oil deposits and its banks. Norway "nationalised" three banks as part of an emergency rescue operation in 1992, after they faced collapse which would have affected many local savers, in a similar fashion as what the UK and USA did after the 2008 global financial crisis. Although the State has control of the oil and gas industries, it is not attributable to nationalisation, but rather how and when the industries began. The discovery of oil in the North Sea created an opportunity for the Norwegian Government to empower its citizens. It did this by setting up (from scratch) a parastatal called Statoil which was tasked with the responsibility of handling, conserving and protecting oil proceeds through a wealth fund. Due to transparency and lack of corruption, Norwegians have indeed benefitted from Statoil's existence and resultant spin-offs. Private firms which found oil and gas reserves of Norway's coast are still permitted to operate in the industry as licensees (Atud, 2011).

4 Nationalisation in Zimbabwe

The indigensation debate is not a new phenomenon in Zimbabwe. During the early 1990s, Zimbabwe pursued the IMF-funded Economic Structural Adjustment Programme (ESAP), whose primary goal was to take Zimbabwe's tightly controlled economy and convert it into an open, market-oriented one. According to the World Bank (2012), the restructuring was intended to induce higher economic growth by reducing poverty and unemployment through four main streams:

- Reducing fiscal and parastatal (state-owned entities) deficits, as well as institute prudent monetary policies;
- Liberalising trade policies and the foreign exchange system;
- Carrying out domestic deregulation;
- Establishing social safety nets and training programmes for vulnerable groups.

This initial attempt of indigenisation sought to reduce unemployment by increasing the size of Zimbabwe's economy with the intent of creating new black-owned businesses, rather than inheriting existing white- and foreign-owned business (Raftopoulos & Compagnon, 2003).

For many decades after gaining independence from British rule, the Zimbabwean Government has made it its mandate to ensure that it economically empowers the black people who were oppressed by earlier regimes. Before 1990, Zimbabwe applied the "willing buyer, willing seller" principle in acquiring land from whites with the intention of resettling black people. Unhappy with the slow progress of sourcing funding from Britain to acquire the land and pay fair value for it, the country's war veterans led by the late Chenjerai Hunzvi started invading vast tracts of white-owned farms, killing farmers and their families, and even torching farmhouses and crops. The Government condoned these unruly land seizures, as by ensuring people have land; they would continue to vote for the ruling party, Zanu-PF. The majority of productive and fertile farms were unfortunately seized by politicians and their families.

According to Nicholas (1994) and Raftopoulos (1996), the post-independence Zanu-PF Government was against any policy which promoted the emergence of African bourgeoisie, as Zanu-PF would have been coerced into sharing political power with those with the capital. However, Zanu-PF seized the opportunity to gain favour with the bourgeoisie by offering them multiple farms. As "illegal" beneficiaries of the land reform programme in the early 2000s, these bourgeoisie capitalists are now indebted to Zanu-PF, and will support the political party, for fear of losing their ill-gained farms. Falling out of favour with Zanu-PF has resulted in many influential business people losing their businesses too. Magure (2012) gives the example of Mutumwa Mawere of African Resources Limited who was believed to have amassed his wealth using Zanu-PF links. Needless to say, his entire business empire collapsed in 2004, after a fall-out with Zanu-PF.

Zimbabwe's land reform programme is also considered to have failed because the beneficiaries of the programme held no proof of ownership of the land, and banks were therefore reluctant to commit any of their loan books to the new farmers, unless they were able to provide collateral. Barclays Bank of Zimbabwe, for example, had already lost a significant amount of money that it had loaned to Kondozi. Kondozi was invaded by the war veterans at the height of the farm grabs in 2000. This refusal by banks to advance loans to the new black farmers is also partially the reason for wanting to "indigenise" the foreign-owned banks. Mutenyo & Routman (2011) lamented the upheaval caused by the land redistribution programme of 2000, as most of the fertile land was seized by Zanu-PF Comrades. As a result, agricultural producion declined from 3% in 2000 to -3% in just three years. Net FDI inflows plummetted from US$435million in 1998 to neglible levels by 2001, while exports went from

US$2.1billion to US$1.3billion during the same period. Over the decade, Zimbabwe's economy shrunk, went through a hyperinflationary period and eventually replaced its own currency with the American Dollar, South African Rand, British Pound and Botswana Pula in an attempt to stablise the economy. With the economy having shown signs of recovery, the Government then announced plans to nationlise private firms and again the economy retaliated against this.

The recent indigensation process that the Government wished to implement was halted temporarily following outcries from foreign investors of the targeted businesses, mainly in the mining and banking sectors of the economy. According to the Government of Zimbabwe (2011), the Indigenisation and Economic Empowerment Act, contains two key definitions:

1) "indigenisation" means a deliberate involvement of indigenous Zimbaweans in the economic activities of the country, to which hitherto they had no access, so as to ensure the equitable ownership of the nation's resouces.

2) "indigenous Zimbabwean" means any person who, before 18th april 1980, was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of the members or hold the controlling interest.

Sibanda (2010) observed that the above definitions are in fact racist. Dean (2012) also affirms that the above definitions clearly imply "blacks" when reference is made to "previously disadvantaged", and by default, are racist in nature as they clearly exclude people of mixed race, whites and Asians. Dean (2012) further adds that the Act clearly stipulates that the indigenisation and economic empowerment process will include a programme for those who are wealthy enough to acquire shares of the targeted foreign companies primarily using the Zimbabwe Stock Exchange; thereby seemingly favouring cash-rich Zimbabweans from the ordinary man on the street. In essence, while the Act itself appears reasonable on paper, the Government of Zimbabwe coffers are dry, and they cannot (and are unwilling to) pay for the 51% stake in any foreign-owned firm in the country. In other words, it is unlikely that any form of compensation will be offered to owners of foreign firms, and limited recourse will be available to these foreign investors.

Along similar lines, Dean (2012) further clarified the Indigenous and Economic Empowerment Act [Chapter 14:33]. He highlighted that the Act was supposed be implemented in phases, starting with the mining sector, followed by manufacturing and lastly the finance, tourism, education and sport, arts/entertainment/culture, engineering and construction, energy, services, telecommunications, transport and motor industry, as per the Gazetted Government notices. This basically implied that no business which is non-black Zimbabwean owned would be spared. In the retail and services sector, it meant that even hair salons would be indigenised. How practical and realistic is such a scenario? Skilled labour and capital are two very key inputs to keep the economy of Zimbabwe going, hence it would be best to leave these industries to conduct their business uninterrupted because scarcity of goods, services and commodities could potentially result in hoarding and even price hikes, which in turn would induce higher inflation.

If indigenisation is implemented in the similar fashion that land reform was undertaken, Zimbabwe will be drained of much-needed FDI as foreign companies will seek to invest in countries with more politically-friendly environments. In as much as fixed assets cannot be moved, there is likely to be a drastic decline in mining activity as a result of the flight of expertise and capital which would ordinarily be reinvested into the mining projects, for example. As such, it is plausible to conclude that, in the same manner that Zanu-PF elitists benefitted from the land grabs in the 2000s, the same is likely to occur with the nationalising of foreign-owned entities in Zimbabwe. The already-profitable mining projects will be inherited by those influential enough to line the pockets of decision-makers in Zanu-PF, instead of uplifting the economic and social standings of the communities within those mining areas. It is recommended therefore that the Government considers alternative ways of gaining more out of its economic activities. To divert state funds which would be better utilised for social upliftment such as investing in health, education and even housing (as per the 2015 United Nations' Millenium Development Goals) does not make holistic economic sense. Mining worldover is characterised by high financial outlays, long payback periods and being capital- and sometimes labour- intensive; and hence should be left to those with the expertise, experience and capital. The Government can consider formulating a policy with special (higher) taxation rates applicable to the foreign-owned entities; or encourage greater corporate social responsibility commitments such as building and maintaining roads, schools and clinics for the communities around the mining areas. This way, economic stability is maintained, and the country contiunes to enjoy the spillover effects of FDI capital injections into its economy.

Foreign-owned firms were given until 1 January 2014 to comply with the provisions of the Indigenisation and Economic Empowerment Act [Chapter 14:33]. The Government Minister responsible for the indigenisation implementation still insists that there will be no compensation to foreign investors because the minerals under the ground already belong to Zimbabweans and not those who have been mining them. Simutanyi (2010) states that unlike East Asian elites of the same era, African post-independence elites are seemingly motivated more by political and personal concerns and gains, than by economic and social development. As a result, any attempts to socially or economically empower their citizens have a higher likelihood of failing to fulfil those objectives.

Some of the foreign-owned firms targeted for indigenisation in Zimbabwe are tabulated below.

Table 1. Foreign-owned firms targeted for Indigenisation in Zimbabwe

Company	Sector	Current majority shareholder
Barclays Bank of Zimbabwe	Banking	Subsidiary of Barclays Bank plc (Britain)
Standard Chartered Bank	Banking	Subsidiary of Standard Chartered plc of Britain. Standard Chartered Holdings Africa (88%); Standard Chartered Holdings International (3%); Standard Chartered Bank (9%)
Stanbic Bank	Banking	Standard Bank Group (South Africa); (100%)
MBCA Bank	Banking	100% owned by MBCA Holdings; MBCA Holdings is owned by Old Mutual (18.29%), MN Holdings (Nedbank 63.95%); NedZim Ltd UK (6.91%)
Zimplats	Platinum mining	Impala Platinum (87%)
Mimosa	Platinum mining	Wholly-owned by Mimosa Investments Limited, a Mauritius-based company jointly held by Impala Platinum (50%) and Aquarius Platinum Limited
Unki	Platinum mining	AngloAmerican Platinum (100%)
Murowa Mine	Diamond mining	Rio Tinto plc (78%) RioZim Limited (22%)
Tongaat Hulett Sugar	Sugar production	South African-owned company with interests in Triangle, and a 50.3% stake in Hippo Valley Estates

Sources: (Reserve Bank of Zimbabwe, 2014); (AngloAmerican, 2014); (Implats, 2014); (RioTintoDiamonds, 2014); (Hullets, 2014)

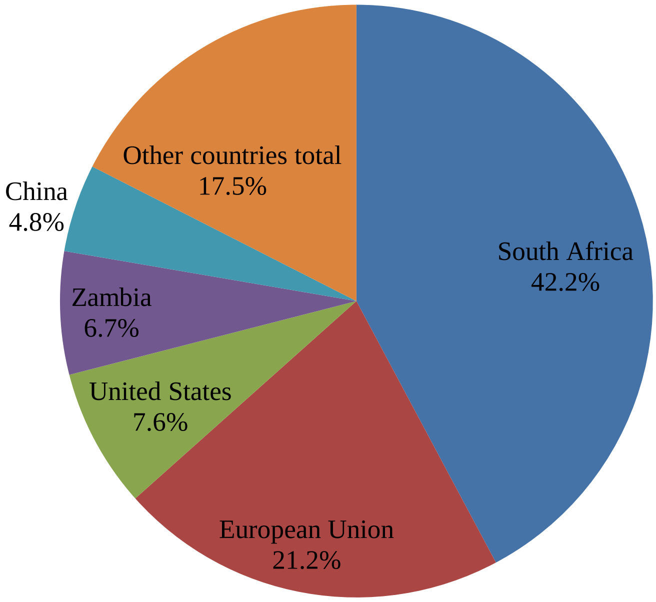
In 2002, Zimbabwe was suspended from the Commonwealth after the Presidential elections which were considered as flawed following politically-motivated violence against opposition party members. The Commonwealth then issued a CHOGM statement on Zimbabwe which irked Mugabe, leading to the subsequent withdrawal of Zimbabwe from the Commonwealth completely. In addition to this, Zimbabwe as a country, and various individuals had sanctions imposed on them by the Western Nations, particularly the United States of America and the European Union in 2012, due to what was perceived as violation of human rights by the stronger nations. With relations strained with the West as Mugabe defied their pressure to step down as President, he then took the country and looked East, strengthening ties with China to ensure an ally. China has taken advantage of the bilateral agreements and has wrestled itself into the Zimbabwean economy predominantly in the lucrative mining sector, as well as some parastatals. As a result of the Chinese investors' presence in Zimbabwe, and the threat that the Indigenisation Act posed – the Government appears to have softened its stance towards the 51% local ownership demands as a withdrawal of Chinese FDI would be detrimental to the entire economy.

Interestingly however, are the import and export profiles of Zimbabwe. With the immense persuasion China has over Zimbabwe, and other African states, the trade between China and Zimbabwe is minimal. Statistics drawn from the World Trade Organisation (2014), show that Zimbabwe's total exports are mainly destined for South Africa (68.9%), the United Arab Emirates (12.4%) and even the EU (2.9%). Main export products are fuels and mining outputs (36.8%), agricultural products (33.3%) and manufacturing (21.1%). China does not seem to be a major importer of Zimbabwean products. On the other hand, Zimbabwe's imports are predominantly sourced from South Africa (42.2%), the EU (21.2%), USA (7.6%) and China (4.8%), being mainly manufacturing products (67.3%), fuel and mining products (16.7%) and agricultural products (15.4%), respectively.

5 Impact of indigenisation (nationalisation) on the Zimbabwean economy

According to the World Economic Forum (2013), the economic contribution to Zimbabwe's GDP in 2011 came largely from services (64.3%), followed by manufacturing and industry (22.9%) and finally agriculture (12.8%) . Zimbabwe used to be an agro-based economy, wherein most employment was also available until the chaotic land grabbing of farms occurred. Between 2000 and 2010, the agricultural sector was affected by the land reform programme. It must be noted that manufacturing data includes value-addition from mining. The African Development Bank (undated) laments Zimbabwe's proposed Indigenisation and Economic Empowerment Act as the reason for the declines in mining, as FDI was withheld, erratic supplies of electricity and the brain and skills drain kicked in.

Figure 2. Zimbabwe's total imports by country of origin (2013)



Source: (World Trade Organisation, 2014)

Zimbabwe's 2012 GDP was US$7.2billion, with a 4.4% growth rate and inflation of 3.7%. As a result of the poor economic conditions, unemployment stood at 95%, with most of the population working in the informal sectors of the economy. FDI inflows were US$399.5million, while public debt gobbled up 60.5% of the GDP in 2012 (Heritage Foundation, 2014). This is a clear indication that the country is in dire need of further and consistent injections of foreign capital in the form of FDI more than official development assistance (ODA). Without this, the domestic economy alone cannot sustain the country. Zimbabwe's relations with international donors such as the IMF and Commonwealth are strained and almost non-existent. The country's "Look East" policy to China may not yield the required permanent FDI commitments needed to resuscitate the economy of Zimbabwe, and it is therefore advisable for the country's leadership to mend its relations with international agencies and economies.

According to the Heritage Foundation (2014), Zimbabwe's economic freedom score is 35.5, making its economy the world's 176th freest in the 2014 index. It is however ranked last out of 46 countries in Sub-Saharan Africa. Over the 20-year history of Heritage's economic freedom index, Zimbabwe has encountered significant declines in its scores for property rights, investment freedom, business freedom and labour freedom. This essentially makes Zimbabwe an unattractive destination for would-be investors, unless they are able and willing to bribe their way into investing and conducting their business operations in the country.

An examination of Zimbabwe's FDI flows indicates that net FDI grew steadily between 1985 and 1998, at an annualised rate of 0.24% of GDP. However, the fast-track land reform programme shortly after 1998, rattled investor confidence in the wake of land grabs and violation of property rights (Chiwunze, 2014). The resultant effect was a significant decline in FDI inflows to Zimbabwe between 1999 and 2009. Just as foreign investors were becoming optimistic and regaining confidence about the macroeconomic environment in Zimbabwe, the Government proposed the Indigenisation and Economic Empowerment Bill, which has since been signed into law. While FDI inflows have yet to react to the news of indigenisation, there have been noticeable FDI outflows from the Zimbabwean economy, with the figure increasing from 0.05% of GDP in 2007 to 0.47% of GDP in 2012 (Chiwunze, 2014). The reason for this could be that foreign investors tried as quickly as possible to divest from Zimbabwe for fear of losing their assets in a similar fashion as the land reform land grabs. The Zimbabwe Government is renowned for not compensating owners whose assets are seized, hence foreign investors would rather take flight and cut their losses.

For substantive inflows of FDI to be received, investors require political stability, respect for legal and property rights, and sound corporate governance practices to ensure their investments are secure. The continued disregard for property rights, high incidence of graft and corruption within the Government and business sectors is driving investors away from Zimbabwe.

6 Conclusion

The purpose of this study was to examine the impact of the nationalisation attempt of foreign-owned businesses by the Zimbabwean Government. We found that, despite an abundance of cheap labour, and mineral and other natural resources such as platinum, diamonds, coal, amongst many others, Zimbabwe's economy was deteriorating due to unstable economic policies it keeps implementing. Initially, it was the land reform programme at the beginning of the millennium, later followed by the drive for indigenisation of foreign firms.

Several authors have examined the effect of political risk on FDI, especially in developing countries (Gwenhamo, 2011; Albuquerque, 2003; Wei, 2000; Geiger, 1989). It has been found that the risk of expropriation is highest for resource-based FDI, especially in mining and oil, than other industries. In his FDI models on mineral supply reactions to expropriation, Duncan (2011) is of the belief that certain punishments can be imposed on Governments that threaten foreign investors with expropriation or nationalisation. Amongst the punishments to be considered are the loss of future access to capital, as well as the loss of foreign management and technical expertise. Although investment in a mining concern is highest in the R&D stage as well as start-up, recapitalisation and reinvestment in new equipment and technology is still required through the mining project's lifespan. With no access to high capital inflows, and expert labour to run the mines, a country's economy is affected negatively resulting in reduced productivity and resultant unemployment. This is the case in Zimbabwe.

An examination of the nationalisation programmes pursued by other countries elsewhere in the world, pointed out some important lessons. A one-size-fits-all approach will not be ideal for Zimbabwe. The Government needs to identify those strategic national assets and resources which it can manage efficiently, and will be for the benefit of all its citizens. Also, not all sectors of the economy are equally-important in terms of their contribution to the country's fiscus, hence some firms should be left to be run by the private sector, and those with the financial muscle to sustain those operations. If the indigenisation process is an absolute must for Zimbabwe, then it needs to be more transparent, flexible, merit-based and gradual, as compared to the land reform programme. Zimbabwe is already struggling to sustain its parastatals, and any further asset seizures will just magnify the level of graft, corruption and political bias in the country.

This study was important because it highlighted areas of weakness which the Zimbabwean Government needs to immediately address before its economy sinks again. The Zimbabwean Government needs foreign investors to resuscitate and sustain its economy. Domestic savings levels are too low to sustain any meaningful economic growth in the country. Hence, having seen and experienced the disastrous consequences of the land reform on the economy, the Government should instead of nationalising private firms, rather negotiate with foreign-owned firms to list their shares on the domestic bourse (Zimbabwe Stock Exchange, ZSE) so that the general public is able to own a stake in the firms, and in the process become part-owners with a say, a vote and share in the spoils through dividends. Owning land is nothing if the land is not used productively. In the same manner, taking over the operations of successful, foreign-owned firms will yield nothing for the people of Zimbabwe if they do not have the expertise or capital to sustain those firms. Such a scenario would only further damage the already-fragile economy of the country. If Zimbabwe pursues any further plans to nationalise foreign-owned assets, it will be sending a negative signal to prospective foreign investors that the country has no regard for the rule of law, and property rights in Zimbabwe do not exist.

Zimbabwe therefore needs to rethink its approach to indigenisation of foreign-owned firms, and re-formulate appropriate foreign investment policies that will attract adequate levels of FDI, as well as ensure a business environment conducive to complement other domestic policies, thereby promoting economic growth to reduce unemployment and poverty in the country.

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