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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

"The Reserve Bank of Zimbabwe officially abolished the Zimbabwe dollar with a redemption rate of 35 quadrillion Zimbabwe dollars to 1 U.S. dollar." Some of you may have heard this surprising news around the beginning of June (note 1).

Picture 1: Zimbabwe notes worth 30,510,100,000 Zimbabwe dollars

Now with 30.5101 billion (30,510,100,000) Zimbabwe dollars I have thought I was a billionaire, but now rue this day ever coming (picture 1) (note 2)

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It is this deeply impressionable, but hyper-inflated country Zimbabwe that I will introduce this time.

Table 1: Zimbabwe Country Information

Basic Data (2014)	
Population	13.3 million
Land Area	386 thousand ㎢
Nominal GDP	$14 billion
Per Capital GDP	$1,043
Official Language	English

Source: IMF

Zimbabwe is a landlocked country located in southern Africa surrounded by Zambia in the north, Mozambique in the east, South Africa in the south and Botswana on its western border. Although its land size is about the same as Japan's, its population is only one-tenth that of Japan's and its nominal GDP only one three hundred sixtieth that of Japan's (table 1).

Zimbabwe has a temperate climate with a summer rainy season. The capital of Harare is located at 1,500 meters above sea level with low temperatures of around 7 degrees centigrade in the winter and highs of up to 30 degrees or more in the summer months.

As Zimbabwe has ample tourism resources, the country is a popular destination for tourists. As far as major tourist destinations go in the country the Mana Pools National Park has been designated a World Heritage Site, there are also the Sapi and Chewore nature reserves/safari areas, as well as the massive Great Zimbabwe stone ruins. However, the most popular tourist destination is still Victoria Falls. As introduced in the Zambia report (April 2015), Victoria Falls is one of the world's three largest waterfalls and is located on the border of Zambia and Zimbabwe. It is called Mosi-oa-Tunya in the local language and means the "smoke (water spray) that thunders" (picture 2).

Picture 2: View of Victoria Falls from Zimbabwe

Zimbabwe's main food staple is "saza", cornmeal kneaded into a dough-like paste using hot water. It is also a common food staple found in most countries in southern Africa and is often eaten with a beef or chicken and vegetable stew, along with sautéed leafy vegetables called "murio". Besides traditional recipes, beef has long been a favorite among Zimbabweans and in recent times steak has become popular (pictures 3, 4 and 5).

Picture 3: A saza, murio and stew set

Picture 4: At the airport, of course saza is served

Picture 5: Zimbabwe beefsteak with local style chili peppers

Zimbabwe was founded in the 1890s by the British South African Company (established by Cecil Rhodes in 1889 under a British charter) to build trade in southern Africa under the auspices of British expansionism and governance. Following WWI, Great Britain abandoned its administrative authority and charter rights over all African companies and in 1923 Zimbabwe became an autonomous, self-governing British colony under the name Southern Rhodesia with Great Britain maintaining diplomatic rights. Southern Rhodesia encouraged mass settlement by the English and saw investment expand with growth taking place mainly in the agricultural and manufacturing sectors. At the same time, Northern Rhodesia, also a British colony (now Zambia), became prosperous through copper mining, but their supply of labor was located mainly in neighboring Nyasaland (present day Malawi). So the British decided to consolidate the two Rhodesias and Nyasaland to form one entity, the Federation of Rhodesia and Nyasaland in 1953 (also known as the Central African Federation). However, due to the political and economic dominance of the white minority, especially Southern Rhodesia's, and increasing African nationalism in Nyasaland and general dissent in Northern Rhodesia, the union broke up in 1963.

Following this, under the government of Prime Minister Ian Smith, white-centered minority rule and control in Southern Rhodesia strengthened and in 1965 it declared its independence (as Rhodesia) from Great Britain. However, with increasing criticism over Rhodesia's white-centered minority rule, economic sanctions were imposed by the international community, but it was able to maintain its economy through cooperation with Mozambique, which was under the control of Portugal, and South Africa. However, with Mozambique gaining independence and the rise of such black resistance groups as the Zimbabwe African National Union (ZANU) and the Zimbabwe African People's Union (ZAPU), long-term intensified guerilla warfare broke out (Rhodesian Bush War) which would batter Rhodesia's economy. In 1980, through British arbitration, Zimbabwe became a newly independent country.

In the elections of 1980, carried out under Zimbabwe's new constitution, ZANU won 57 seats in parliament, while ZAPU garnered 20 seats. Mr. Canaan Banana was named president and head of state (non-executive), while Mr. Robert Mugabe, the leader of ZANU, was appointed prime minister and head of government. In 1987, Mr. Mugabe's government eliminated the position of prime minister and Mr. Mugabe then took over the presidency and has been president of Zimbabwe ever since (note 3).

In order to understand Zimbabwe's current political economy, we need to go back and look at how Zimbabwe developed following independence in a little more detail.

Following independence, Mr. Mugabe initially cooperated with the white minority in the management of economic matters which resulted in a rather stable economy. On the other hand, resentment toward the white minority by the black majority was deep-rooted and this cooperation with the white minority came to be strongly criticized (note 4). As the economy began to deteriorate somewhat in the 1990s, criticism of corruption in the Mugabe government and the fact that the white minority still held large tracts of Zimbabwe's land grew, so to mute this criticism President Mugabe enacted the Land Acquisition Act in 1992. However, the acquisition of land was only carried out on a small scale which did not quell public discontent and led to a large anti-Mugabe movement in the form of an organized opposition called the Movement for Democratic Change (MDC) in Zimbabwe. Furthermore, Mr. Mugabe's decision to participate in Congo's civil war in 1999 proved unpopular both inside and outside Zimbabwe, leading to a further drop in his support rate.

Given these circumstances, Mugabe escalated his hardline policies toward the white minority with the forced expropriation of large amounts of white farmlands in 2000 and redistributing them in small units to blacks as part of his official "Fast Track Land Reform Program". Due to this land acquisition policy, the redistribution of these land tracts in small units has led to increased amounts of undeveloped land that lack the appropriate agricultural infrastructure (irrigation systems, etc.) causing agricultural productivity to plummet. Moreover, the international community's confidence in Zimbabwe fell leading to foreign capital outflows and causing further deterioration in the economy.

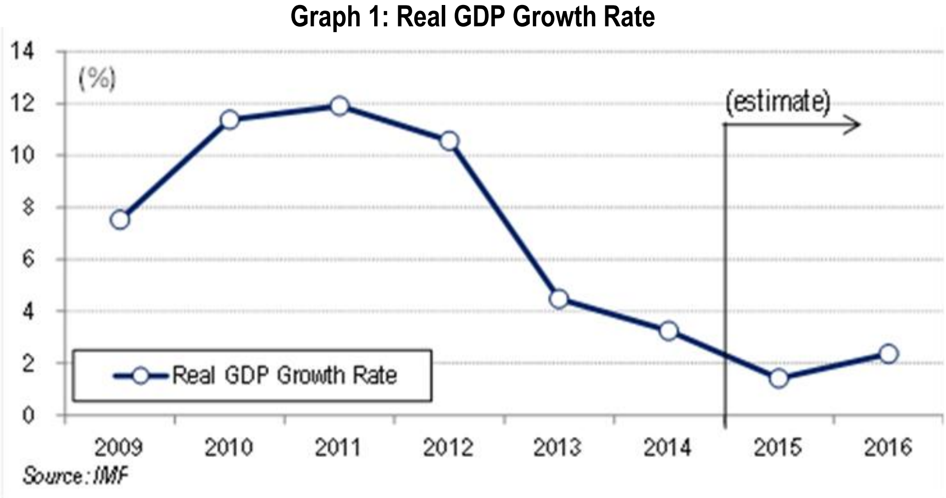
Given these policies and the non-transparent elections that took place in 2002 and 2008, the U.S. and much of Europe imposed and/or strengthened economic sanctions on Zimbabwe (note 5).

As a result of this, Zimbabwe's inflation accelerated, and combined with repeated economic mismanagement the economy was in danger of collapse (note 6).

In 2009, the issuance of Zimbabwe dollars was halted, a multiple (basket) foreign currency system was introduced (the U.S. dollar and rand are used as domestic currency), inflation was tamed somewhat through such policies as the creation of a cash budget system, and Zimbabwe saw plus economic growth for the first time in 12 years.

In light of Zimbabwe's past economic situation the current economy could be better, however, it is not as poor as it seems either. From 2009 until now the economy has shown plus growth every year, however, the pace of growth has been slowing (graph 1).

Graph 1: Real GDP Growth Rate



The reasons for this are one, industry has not yet recovered from the withdrawal of foreign capital and the period of accelerated inflation, two, there is some resistance to foreign investment in the country, and three, the falling prices for mineral resources and export restrictions on them.

In terms of the first reason above, the lack of capital in the country can be attributed to Western economic sanctions and the problem of debt owed to the IMF and the World Bank, thus industrial development has not been fostered due to this shortage of investment funds. In addition, as the dollar is mainly used as the domestic currency given the dollar appreciation versus emerging economy currency depreciation purchasing power parity is high making foreign product imports cheap thus discouraging import substitution and the domestic industrial development that would accompany it (note 7).

Regarding reason two above, the notion of resistance to foreign capital comes from the history of forced appropriation of white farmland (farms) and the fact that Zimbabwe has 51% domestic ownership law for companies in Zimbabwe (note 8).

Concerning the third reason above, while Zimbabwe is in fact considered an agricultural country, it also has reserves of gold, coal, copper, diamonds, chrome, nickel and platinum among other mineral resources it produces making it a metal and mineral resource country as well. In particular, it is the third largest producer of platinum following South Africa and Russia (table 2). However, as Zimbabwe has export restrictions on various raw ores (refining/processing ores within the country to create domestic value-added is mandatory), exports are sluggish and due to the drop in resource prices, the willingness to invest in value-added in the mining industry by mining companies has fallen off.

Table 2: World Platinum Production

	Platinum		Proven
	2013	2014	Reserves
South Africa	131,000	110,000	63,000,000
Russia	25,500	25,000	1,100,000
Zimbabwe	12,400	11,000	N/A
Canada	7,000	7,200	310,000
United States	3,720	3,650	900,000
Other Countries	3,780	3,800	800,000
World Total	183,000	161,000	66,000,000

Source: USGS

In this way the Zimbabwe economy finds itself in a difficult situation, however, the outlook is not all dark. Below I would like to introduce some positive elements.

First, in terms of the lack of capital previously mentioned, the Zimbabwean government has now accepted the IMF's Staff Monitored Program (SMP) and is undertaking expenditure reforms to reduce the budget deficit. Both progress in this program and in negotiations with the IMF, World Bank and African Development Bank (AfDB) to resolve Zimbabwe's external debt situation and arrears have been made. Currently though, due to Zimbabwe's overdue external debt no new funding can be made yet to the country by international financial institutions, however, as repayment plans to the IMF and other institutions materialize it may be possible for Zimbabwe to receive new loans from international institutions and various overseas countries. In addition, Europe, with its long historical connection to Africa, has greatly eased its economic sanctions on Zimbabwe, and you can see changes by various other countries and institutions in their policies toward Zimbabwe which are starting to have a positive effect.

In regards to Zimbabwe's export restrictions on ores and requirements for domestic refining to ensure domestic value-added, there are signs of an easing in this policy, as some now see it as unrealistic, as moves to lift the export restrictions on chrome ores can now be seen.

It has been nearly 40 years since Zimbabwe's independence in 1980 and it is unique in that it has basically had a one-man dictatorship under Mr. Mugabe during that entire time, and it is undoubtedly due to many of his past policies that companies are reluctant to invest in the country.

Incidentally, although Mr. Mugabe is the symbol of African dictatorship, he is serving as chairman of the African Union and seemingly plans on running in the next presidential election in Zimbabwe scheduled for 2018 which means he still remains very active. Still, Mr. Mugabe is now 91 years old, which makes any predictions about the future with him difficult and this is already leading many countries to consider their future moves toward Zimbabwe and is changing the environment and reality in the country.

So, it will be important to keep a strong eye on Zimbabwe as a country that will potentially have rapidly growing business opportunities in the not too distant future.

Picture 5: In the summer you can see the bright red flowering of the Flamboyant trees

Although a country with a long-term dictatorship may conjure up an image of fear or repression, within Zimbabwe there doesn't seem to be that type of atmosphere. The security situation is relatively good, so tourists flock to Victoria Falls and other tourist attractions in the country. So, even though the country has a history of hyper-inflation, I recommend you visit to see what kind of a country it is for yourself.

Note 1: *On June 11, 2015 the Reserve Bank of Zimbabwe demonetized the Zimbabwe dollar, which it had already stopped circulating in 2009, and announced its redemption process. A bank savings account with a balance of 175 quadrillion Zimbabwe dollars in it was replaced with U.S. 5 dollars, and 35 quadrillion Zimbabwe dollars could be exchanged for $1 U.S. In other words, the 30.5101 billion Zimbabwe dollars I have are now worth about 0.0000009 U.S. dollars.*

Note 2: *The largest Zimbabwe note denomination is the 100 trillion Zimbabwe dollar bill. And, although it is no longer issued as currency it can be bought at such tourist destinations as Victoria Falls as a souvenir only (no par value), for about $1 U.S.*

Note 3: *Initially the post of president was only ceremonial, however in 1987 executive and administrative authority was shifted to the president (prime minister's post eliminated). In 1988 ZANU absorbed ZAPU forming the Zimbabwe African National Union-Patriotic Front (ZANU-PF). It has maintained power to this day with Mr. Mugabe serving six consecutive terms as president.*

Note 4: *Zimbabwe has very fertile land and during the Southern Rhodesia period with its large-scale efficient farming operations an agricultural country known as the "granary of Africa".*

Note 5: *Although the support rate favored the opposition party MDC in the 2002 and 2008 presidential elections, Mr. Mugabe emerged the winner in both. In 2001, the U.S. imposed its first sanctions on Zimbabwe with the passage of the Zimbabwe Democracy and Economic Recovery Act. Due to the non-transparent process in the 2008 presidential election 17 new types of sanctions were introduced aimed at both organization and individuals and such sanctions as the prohibition of commercial and financial transactions and the freezing of assets in the U.S. were strengthened.*

Note 6: *In 2007, Zimbabwe enacted a law requiring minimum of 51% of the shares of (foreign) companies operating in Zimbabwe be held by black Zimbabwe nationals. Policies were also implemented aimed at suppressing inflating consumer prices in the form of price controls with reductions of up to half the price of the product being enforced (making black market trading conducive). And the issuance of astronomically large bank note denominations, along with other government missteps only served to accelerate inflation.*

Note 7: *On the other hand, one plus factor is that having cheaper imports will help suppress high inflation rates. However, it also reduces export competitiveness versus neighboring countries, hurting the growth of domestic industry in the mid to long term, which is a minus.*

Note 8: *In 2012, notification was made that the 2007 law on shareholding allocation in foreign companies in Zimbabwe aimed at creating a "certain amount of localization (indigenization) and empowering black nationals" would be enforced. However, other than in the mining industry, where the law has been basically applied, the reality is the interpretation of the law varies and in many cases is not very strict. As a result, there is some concern over the opaqueness involved in the policy process.*

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