Foreign Exchange Control and Capital Accumulation in Zimbabwe: Insights from Alami 2019

By:

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In January 2009, after a period of hyperinflation, the Reserve Bank of Zimbabwe (RBZ) printed a note displaying the most zeros in the history of money. The record breaking 100 trillion-dollar bill showed fourteen zeros in its design. Though remarkable, Zimbabwe's 100 trillion-dollar note was not the largest denomination in the history of money. That record remains with Hungary (Pilossof, 2009). In the end, Zimbabwe was forced to ditch its own currency in favour of multiple currencies including the rand, euro, kwacha, U.S dollar, and metical. By April 2009, confidence in the Zimbabwe dollar had reached rock-bottom forcing the government to officially dollarize the economy (Noko, 2011).

Dollarization marked the end of a period of socio-economic chaos which included political violence and shortages of basic commodities (Jones, 2010). And yet, overplaying the role of money and finance in bringing about economic stability has meant that currency and price stability have remained elusive.

More recently, the government has been forced to issue a series of exchange control decrees in line with its ‘three pronged’ monetary policy strategy. According to the central bank governor, price stability, exchange rate stability, and financial sector stability are key pillars to Zimbabwe’s economic development (Mangudya, 2020). But how true is this?

In this essay I go beyond the numbers and the blabber. I argue that to fully understand Zimbabwe’s currency woes, attention should be given to the country’s foreign exchange management policy. To support my argument, I draw insights from Ilias Alami’s book: *Money Power and Financial Capital in Emerging Markets: facing the liquidity tsunami*, Routledge, 2019.

Zimbabwe has unsurprisingly attracted a lot of scholarly and media attention. Consider Professor William Mitchell, a strident proponent of Modern Monetary Theory (MMT). In a blog article curiously entitled ‘Zimbabwe for hyperventilators 101’, Mitchell, provided a straightforward answer: ‘Zimbabwe is **an African country** with a dysfunctional government’ (emphasis mine). To start with, Mitchell’s reasoning carries the sort of prejudices that scholars of European heritage often have against Africans, and at worst could be interpreted as racist. Surely Mitchell ought to have known that historically European countries have recorded the most hyperinflationary episodes. This is not an unwarranted opprobrium. Far from it, the very idea that an African country with a dysfunctional government is likely to experience hyperinflation is not politically neutral. In fact, it can be interpreted as part of what Alami calls the social construction of sub-Saharan African countries as badly managed, exotic, ‘open for grabs’ investment destinations.

By any measure, hyperinflation, exchange rate volatility, and currency collapse are arguably the climax of not only a financial crisis but capitalism in general. Take for instance the global financial crisis of 2008 which emerged from the United States. Although it is generally considered the worst financial crisis in capitalism’s history, it did not result in either hyperinflation or the collapse of the US dollar. Why then are the effects of financial crises unequal amongst nations? In his book, Alami attempts to answer this question by shining light on the interaction between the structural configuration of money-power and cross-border finance management. For Alami, money-power is the coercive force of money which enables it to impose its logic over social relations and human interaction with nature. For example, money power forces many people to sell their labour power to reproduce daily life.

And what of finance management? According to Alami (2020, p. 44), within the context of emerging markets, cross-border finance management is (emphasis mine):

> the ensemble of policies, regulations, and institutions which influence the cross-border movement of money and finance, including **currency convertibility and exchange rate policy**, macroeconomic policy, diverse forms of capital controls, macroprudential regulation and the regulation of domestic financial systems, and foreign exchange reserve accumulation.

With this understanding in mind, Alami sets out to demonstrate the inner, often unstated, motivations of emerging market cross-border finance management. Specifically, Alami argues that quite apart from its appearance, cross-border finance management is not an impersonal and politically neutral process. Rightly so, he rejects the technicisation and depoliticization of money and finance. For him, the mainstream economics dogma of polices, institutions, and tight regulations belie the core issues in cross-border finance management. In equal measure, Alami does not fully agree with the non-Marxist heterodox theories of cross border finance management. Instead, he proposes that cross-border finance management must be situated within the broader context of the transformation of social relations of power and capital accumulation. Through the examples of South Africa and Brazil, Alami demonstrates that the ability of developing and emerging market countries to transform social relations is constrained by their *subordinate positionality in global financial and monetary relations*.

Besides this, one of the key insights from Alami's work is that we must think politically about cross-border finance management. How then might we think politically about Zimbabwe's cross-border finance management? Cross-border finance management policies in Zimbabwe date back to the era of the Federation of Rhodesia and Nyasaland. During that colonial period, Southern Rhodesia's economy benefited from an influx of financial inflows from Britain and South Africa (Phimister & Gwande, 2017). But the 1961 impending dissolution of the Federation prompted fears of capital flight. Because of this, measures to restrict foreign exchange were strengthened. By 1964, it was deemed necessary to formalise the measures by promulgating the Exchange Control Act, No.62 (Dashwood, 2000), hereinafter ECA. Interestingly, the ECA remains in force today notwithstanding several amendments. According to the ECA, the President has unfettered power to make regulations relating to gold; currency and securities; exchange transactions; and the control of: imports into and exports from Zimbabwe, the transfer or settlement of property, payments, and debt transactions. And herein lies evidence of the politics of exchange control in Zimbabwe.

Most striking, however, is that apart from minor modifications, Zimbabwe’s cross-border finance management policy has not fundamentally changed since the colonial era. A major reason for this is related to the structure and functioning of the country’s economy which has also barely changed. This view snugly fits with Alami’s thesis that cross-border finance management follows historically specific forms of capital accumulation. Capital accumulation in Zimbabwe is based on the exportation of mineral and agricultural products. To sustain this export led economy, Zimbabwe relies heavily on the import of manufacturing inputs. This partly explains why the country’s economy has a high export dependence on agriculture and mining and a high import penetration in the manufacturing sector (Davies et al., 2018).

After gaining legal independence from Britain in 1980, Zimbabwe did not attempt to dismantle the colonial system of capital accumulation. Instead, the ZANU-PF government sought to appease the former white settlers and foreign capital by steering clear of economic transformation whilst simultaneously trying to improve the living standards of the majority black population (Skalnes, 1995). In so doing the country earned plaudits from the World Bank.

According to the World Bank’s first country economic memorandum, Zimbabwe’s challenge revolved around increasing African participation in the economy whilst ‘maintaining and even increasing output’ (World Bank, 1981). In other words, notwithstanding colonial roots, change in Zimbabwe was supposed to come from within the confines of the inherited economic structure. Although the government maintained the rhetoric Marxist-Leninist socialism, in reality, the government’s post-independence developmental plan was more reformist than it was revolutionary (Davies, 1988). For this reason, similar to the colonial era, foreign currency allocation remained an important determinant of industrial growth, employment, and income distribution (Dashwood, 2000).

That foreign currency allocation was a fundamental lever of power cannot be overestimated especially if one looks at the World Bank and IMF's position on the matter. Most revealing is that foreign exchange control formed one of the policy prescriptions of the IFIs. Of course, the implicit objective was to integrate a hitherto excluded economy into the global system (Stoneman, 1989). Just like many countries in the developing world, Zimbabwe experienced economic challenges in the early 1980s key of which was a high current account deficit and balance of payment problems. The consequent need to adjust to declining terms of trade forced Zimbabwe to further concentrate on those commodities associated with price instability (Stoneman, 1988). In the circumstances, the country signed up to an IMF stabilisation package as well as World Bank loans. But as is the norm, the loans were conditional on Zimbabwe reducing food subsidies, devaluing the Zimbabwe dollar, reducing the budget deficit, and focusing on export led growth.

The subsequent much stronger dose of market-based reforms or structural adjustment programme implemented between 1991-1997 targeted amongst other things the complete removal of foreign exchange controls (Bond & Manyanya, 2002). Known as the Economic Structural Adjustment Programme (ESAP), Zimbabwe's structural adjustment programme failed remarkably (Simpson & Hawkins, 2018). There is not enough space here to discuss ESAP except to state that by the late 90s, apart from job cuts in government, foreign exchange liberalisation, lower tariffs, liberalisation of foreign investments, and the deregulation of labour markets, the only other significant outcome of ESAP was socio-economic strife (Bond & Manyanya, 2002). By 1997 things had reached a tipping point such that in November of that year, and on a single day, the Zimbabwe dollar plummeted by 75% relative to the US dollar.

The turn of the new millennium witnessed protest activities by veterans of the struggle for independence most of whom had incidentally borne the brunt of ESAP (Moyo & Yeros, 2007). As a result of this, fissures started to widen in the independence class compromise (Dawson & Kelsall, 2012). The outcome was a demand by peasants and war veterans for radical land reform. In fear of losing power, ZANU-PF ‘co-opted and adopted’ the land occupation movement in the year 2000 (Moyo & Yeros, 2007). The concomitant class struggle disrupted tobacco farming one of the country’s biggest foreign currency earners (Kairiza, 2009).

The decline in foreign currency earning capacity as well as the 2001 US financial sanctions accentuated the rapid decline of the Zimbabwe dollar. By late 2003, the hubris of financial enterprise as promoted by ESAP became nemesis especially in the context of increasing inflation (Makoni, 2006). This compelled the RBZ to tighten liquidity by hiking interest rates. Because of this, many indigenous banks struggled to cover their positions leading to failure. The ensuing financial crisis forced the central bank to intervene through Quasi-Fiscal Activities (QFAs). QFAs lend themselves to a rather esoteric definition, however, in simple terms they pertain to the extensive use of monetary policy to meet macro-economic objectives.

Four measures were implemented along these lines. Firstly, the central bank provided ‘free’ foreign currency to parastatals for the importation of grain, fuel, and electricity on behalf of the government; free in the sense that the RBZ accounted for the transactions as interest-free loans to the government (Munoz, 2007). Secondly, the RBZ provided subsidies to exporters of primary products to make up for an overvalued exchange rate. Thirdly, the central bank bailed out financial institutions under the Troubled Bank Fund. Fourth, the RBZ subsidized loans to farmers, manufacturers, and public enterprises. To finance the measures, the RBZ raided the foreign currency accounts of corporations, non-governmental organisations, and banks (Parliament of Zimbabwe, 2015). To compensate the affected parties, the Bank issued debt instruments.

Former central bank governor, Gideon Gono (2008), described QFA’s as ‘extraordinary measures for extraordinary challenges’. This depiction was no doubt aimed at presenting QFAs as patriotic measures. However, as argued by Alami, money, finance, and cross border finance management should never be separated from politics. Here we can make three observations. Firstly, by his own admission, Gono maintained a strong personal relationship with the late President Robert Mugabe. Hence, the foremost reason for QFAs was to keep his close ally in power. Secondly, QFAs served the broad goal of distributing the available foreign currency amongst powerful social subjects. Thirdly, and perhaps most significant is that QFAs were geared towards the reproduction of capital and not labour. The upshot was that exporters benefited immensely from the RBZ’s inflationary measures at the expense of labour.

To conclude, I have demonstrated the applicability of Alami’s framework as a tool for understanding Zimbabwe’s foreign currency policies. Based on a careful analysis of historical and contemporary capitalism in Zimbabwe, it has been shown that money and foreign currency management is deeply political. Hence, instead of being applicable to emerging markets only, there is a case for extending Alami’s work to developing countries in general. Alami’s book is highly recommended to anyone interested in understanding the functioning of money, finance, and indeed the logic of foreign exchange policies in sub-Saharan Africa.

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