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## Reflections on Zimbabwe's past and future: Tradeoffs between the Lexus and the Baobab tree

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**Abstract.** In early 2018, President Mnangagwa seemingly struck a new tone to the Western world that was welcoming, rather than antagonistic to business investment (Mnangagwa, 2018). Nonetheless, recent and continued land expropriations, continued deficit spending and a severe shortage of cash liquidity have made any recovery a very challenging prospect. Outside observers now have differing outlooks on Zimbabwe, ranging from uniformly “negative” to “mixed”, “neutral” or “cautiously optimistic” (World Bank, 2018; Mining Review Africa, 2018; Mdzungairi, 2018) My recent take on the country in an op-ed for *The Wall Street Journal* sided with the cautiously optimistic group (Richardson, 2018), but it appears I was too sanguine.

**Keywords.** Reflections, Baobab tree, Zimbabwe, Tradeoffs.

JEL. B1, B50, F11, F13, G10.

### 1. Introduction

In early 2018, President Mnangagwa seemingly struck a new tone to the Western world that was welcoming, rather than antagonistic to business investment (Mnangagwa, 2018). Nonetheless, recent and continued land expropriations, continued deficit spending and a severe shortage of cash liquidity have made any recovery a very challenging prospect. Outside observers now have differing out looks on Zimbabwe, ranging from uniformly “negative” to “mixed”, “neutral” or “cautiously optimistic” (World Bank, 2018; Mining Review Africa, 2018; Mdzungairi, 2018). My recent take on the country in an op-ed for *The Wall Street Journal* sided with the cautiously optimistic group (Richardson, 2018), but it appears I was too sanguine.

A 2018 paper by the Zimbabwean-based economist John Robertson, titled “The Prospects for Foreign Direct Investment: Does Zimbabwe have what investors are looking for?” points out that Zimbabwe is on a “fiercely competitive playing field” with 200 other countries (Robertson, 2018). He then lays out the key things that need to change - improvements in infrastructure, rule of law, banking services, health services, transport services and so forth.

I've been covering the importance of property rights in Zimbabwe and what has happened since they were severely damaged in the wake of the post-2000 land reforms for the past 15 years. As more than 3,000

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commercial farms were seized and redistributed, some went to political allies, and some went to indigenous farmers. What is indisputable is that Zimbabwe's agricultural output has dramatically fallen so far that the country can no longer feed itself and has relied on foreign food aid since these land reforms were imposed. Property rights are the key to economic development, working like a foundation for a house, hidden strength that allows a number of important things such as allowing collateral for loans, transforming people's time frames from months to generations, and stimulating economic activity to take place.

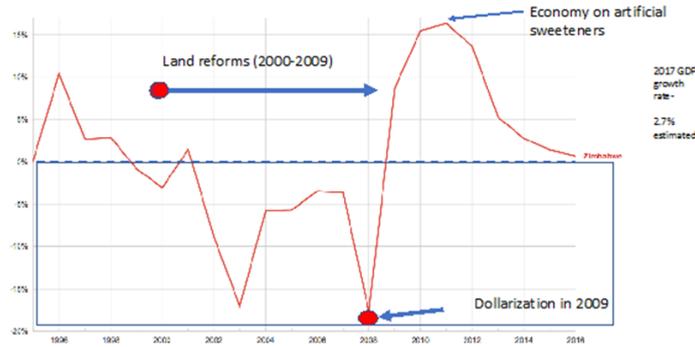
Yet making this argument isn't always easy when people have little experience with the invisible hands of markets. Sometimes we're arguing with logic and they're resisting with emotion. Two years ago, I was in Cuba to visit with a group of other professors. We stayed there for 2 weeks and I had a chance to walk the streets every day. Cuba has had a command economy for 56 years. Although I've been around the world, it shocked me that there was scarcely anything to be bought or sold anywhere. Land sales had been forbidden for 50 years so buildings were falling down in Havana at a rate of 1 or 2 a day on average. No one owned the buildings so no one maintained them.

With virtually no markets of any kind, you'd think Cubans would be ready to embrace free markets and improve their struggling lives. Yet wherever I went, when we spoke of the miracles of free markets, many people immediately said, "well once people start making profits, we may lose our jobs, the businesses can charge whatever they want, and we may die or starve."

So, it is important for us economists to acknowledge that markets can make people, who have been living under very poor but predictable conditions, very afraid. That's the key. We need not only argue with cold logic but with emotional empathy about the fear of moving to a new system and how that will work. We need to create a bridge between the old and the new ways, so they can see how it works first.

What I want to argue today is that free markets and property rights, properly directed, can actually lead to even more predictability as well as higher standards of living, while still retaining avenues for community connections.

So, in order to begin, let's first take a look at where Zimbabwe has gone and where it's going in Figure 1.



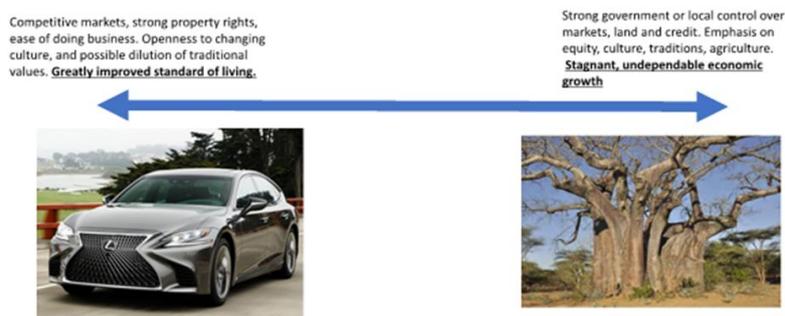
**Figure 1.** *It's been a wild ride, Zimbabwe: GDP growth, 1995-2016*  
**Data source:** World Bank

The crash in the economy is self-evident from 2000–2009, the seizures of white-owned farms caused the longest recession in Zimbabwe’s history, as I have covered extensively in my 2004 book and subsequent articles. In 2009, the history-making hyperinflation was calmed down through the adoption of the U.S. dollar. But it wasn’t enough for sustainable growth. In 2013, I wrote a policy paper for The Cato Institute called, “Zimbabwe: Why is the World’s Worst Managed Economy Growing So Fast?”

The problem, and why I call it an economy driven by “artificial sweeteners”, is that according to my calculations, nearly all the GDP growth post 2009 was driven by rapid increases in government expenditures and large foreign grants. It created an illusion of prosperity that quickly crashed because the private sector wasn’t expanding alongside it. In addition, it’s important not to be overly focused on GDP growth itself. A country like Angola only does one thing: it exports crude oil to the world market. When oil prices rise quickly, Angola’s GDP can rise faster than many other countries. Yet, I would argue that this is not a good indicator of the nation’s overall economic health. To assess that, we need a way to determine not only the speed of growth but also *the way the economy is growing*. That brings us to the type of country Zimbabwe wants to be.

## 2. The Lexus and the Baobab Tree

We need to ask ourselves, what kind of country does Zimbabwe want to be?



(\*borrowing from author Tom Friedman’s 1999 book, *The Lexus and the Olive Tree*)

**Figure 2.** *Where to, Zimbabwe? Tradeoffs between the Lexus and the Baobab tree*

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There is a book written almost 20 years ago by *New York Times* columnist Thomas Friedman, entitled *The Lexus and the Olive Tree* (1999).

The book is about the clash of ideas that occurs with economic growth. The Lexus represents globalization, manufacturing prowess, and sleek efficiency. But the Lexus is also a made-up name by a committee in the Toyota company. It has no personality, unlike the storied brands of Jaguar, Mercedes and Ford that have a rich history backed by spirited individuals with a passion for automobiles.

Lexus is a soul-less brand but it beats German cars in terms of reliability, efficiency and value per dollar. Millions of people have looked past its lack of personality, willing to make a tradeoff of personality for incredible value. After all, some of these cars with wonderful personalities have left us stranded on the side of the road.

Tom Friedman argued that as we enter into globalization, with all the wonderful imported products, that some people would resist, in fear of losing their former way of life. Imported toys from China would replace homemade wooden ones. Imported beer would replace local blends. New foods might upset our traditional ways of eating.

Hence, the olive tree in Friedman's book represents the tug of old ways, the country's old culture. In Zimbabwe, let's switch the Baobab tree with the analogy of the olive tree. The Baobab tree means respecting the culture and traditions of old Zimbabwe: its heritage, its music, its arts, its food, its connection to the land through agriculture. It represents equity in terms of distribution of resources. It also represents centralized power and control - from village chiefs to government laws and regulations. All this implies a resistance to change.

In the summer of 2018, I traveled to the communal lands and spent many hours with Chief Felix Ndiweni. Ndiweni oversees a vast county-sized area in the country and was educated in England, but later returned to Zimbabwe to head up his tribe. He is well aware of the afore mentioned tension and spoke of the cultural attachment of his people to the land. His people find spiritual connection to the land and may even take a bag of that land back to the city as a reminder. At the same time, he has been at the forefront of arguing for property rights for his people. Showing me the thin cows grazing on communal lands, he said this was the direct result of having no fences and no property titles, so there is inherent mismanagement and overgrazing. Later in the day, Ndiweni took us to a village on his land that, through a historical accident, villagers received a title to their land. In an unforgettable exchange with the local headsman, Ndiweni and myself asked the headsman in his comfortable home what a property title meant to him. The 80-year old man turned and thumped his chest fiercely, saying in English, "Mine! Mine! Mine!"

When you move towards the Lexus economy - embrace of globalization and trade, you do make some tradeoffs. Fear of change - by people living at a subsistence standard of living, needs to be taken into account. If you are one step away from starvation, then any change's downside carries more

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weight than the upside. We need to understand what is at stake and think about how we might recognize the potential loss of cultural identity, as well as power by the chief. With some imagination, we might have property rights exist side by side with cultural identity within these rural communities.

At the same time, moving towards the Baobab tree also involves tradeoffs in terms of lower standard of living and more uncertainty, just like holding onto my dear old Alfa Romeo. Chief Ndiweni was very interested in moving forward with property rights and identifying that balance. When I mentioned this tension between the old and the new, he was sympathetic to it, and at the same time, determined to move his people forward in terms of living standards.

So, what is the cost of staying put?

The Zimbabwe government, like the Cuban government, has, for the past 20 years, created great complexity in rules and crushed property rights' ability to create new forms of financial capital and thus new types of businesses. The end result is an economy that produces little else but crude commodities for sale - unrefined oil, unpolished diamonds, unprocessed gold and raw tobacco. In Zimbabwe's case, I argue that crude economic output has led to widespread poverty and great uncertainty.

### 3. The Baobab Tree Economy: Crude output and its implications on the poor

Let's call this problem of crude output an outgrowth of the Baobab Tree economy.

Figure 3 shows what Zimbabwe exported in 2016, which comes from the Harvard/MIT Atlas of Economic complexity. The square represents the dollar value of the exports, and one thing stands out. Nearly everything Zimbabwe ships out of the country is in its crude, unprocessed state. So, what is the problem?

These types of commodities are traded on the world market and subject to enormous volatility and huge price swings, making it difficult for the government to anticipate tax revenue and thus plan for building infrastructure. In 2008, there was a massive spike upward in commodity food prices such as maize, causing terrible distress around the world. Not only that, but because farmers had no access to collateral, they could not capitalize on the rising prices and plant more maize and other crops. Hence, they were hit with a double whammy.

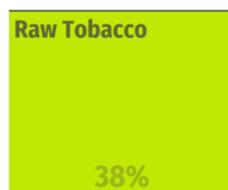


Figure 3. Zimbabwe exports 2016

Source: MIT/Harvard Atlas of Economic Complex

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A way to think about this is like an investment portfolio. Any investment counselor would tell you that if you put your personal money into a portfolio that resembles Zimbabwe's exports, that you would have a awfully risky portfolio, akin to placing bets at the track.

The best portfolios, like the best economies, have their "bets" spread not only around individual commodities, but invested in complex products that can easily buffer changes in worldwide prices. This is because any complex product is a combination of hundreds of different products and services, each playing a small role in the final price.

### 4. Laying the groundwork for economic complexity

So, what are the conditions that allow economic complexity to take shape? As is well known, simple rules create complexity, and conversely, the more complicated the rules, the less complexity you will have in an economy. With less complexity, the poorest Zimbabweans are subject to the vagaries of volatile world-wide commodity prices.

Table 1 indicates some important indicators of a welcoming business environment out of dozens available at The World Bank's Doing Business (DB) Indicators. I present just three - "time to start a business," "registering property," and "strength of legal rights." Note the incredible gains Rwanda has made in these three areas, which ranks it near Hong Kong. Zimbabwe obviously has a long way to go in many areas, but the important thing to remember is that investors pay attention to direction as well as absolute levels. If Zimbabwe makes solid gains in many Doing Business Indicators for three or four years, some investors will conclude this is the time to get in before the herd.

The last measure, the legal rights index, measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. This obviously plays into property rights which is key not only for local business development, but also in the eyes of foreign investors around the world. Again, Rwanda had made superb gains in this area to become nearly the best in the world.

**Table 1.** *Lexus and Baobab economics: What are the conditions for creating complex economies?*

	Rwanda	Zimbabwe	Sub-Saharan Africa	OECD countries
Time to start a business	4 days	61 days	24 days	8.5
Registering property	7 days	36 days	59.3 days	22.3 days
Strength of legal rights index	10	5	5.1	6

**Note:** The direction of change is as important as the absolute level.

**Source:** Doing Business Indicators, World Bank (2018)

Property rights and economic development are linked as seen in Figure 4, which is a list of sub-Saharan African countries and their ranking. As we can see, Zimbabwe currently stands near the bottom, according to a well-known index put out by The Heritage Foundation. Notice again how impressive Rwanda's performance is, highlighted in yellow. As a result of its many business friendly policies, statistics from Rwanda's government

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show that foreign direct investment steadily rose, from \$67 million in 2008 to \$380 million in 2015, a percentage change of almost 500% in just 7 years. If Rwanda can do it, surely so can Zimbabwe.

The strength of property rights is strongly linked to FDI and economic complexity. It signals trust to outsiders.

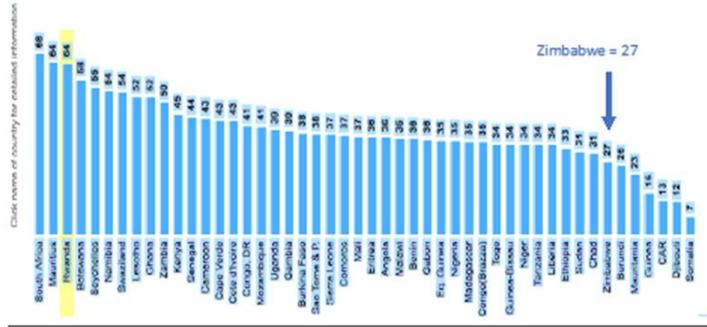


Figure 4. Property rights indices across Africa. Source: Heritage Foundation (2017).

What this impressive improvement in property rights and business environment in Rwanda has produced is a much more balanced portfolio of exports. In 1996, 83 percent of the export output was coffee, and it was just raw coffee beans. Today, there is no single export that accounts for more than 16 percent of the exports. Tea is the highest, at 16 percent, followed by coffee at 10 percent, as shown in Figure 5.

Consider how a large economy like the United States weathered the 2008-09 food crisis. We didn't even notice it. Now it wasn't because we are rich relative to other countries. We didn't notice it because there is scarcely anything that is bought or sold by ordinary Americans that is just a commodity.

It is not just the diversity of products but also the complexity of products themselves. Take an example of a box of Corn Flakes, which seems like a simple product. It is not. Just 2 percent of the cost of a box of Corn Flakes is due to the price of corn. Embedded in the other 98 percent of Corn Flakes are American jobs in advertising, cardboard box production, ink production, milling machines, delivery drivers, cellophane wrap manufacturing, and on and on.



Figure 5. Rwanda, change in distribution of exports, 1996 versus 2016

So, in a complex economy, any upward spike of corn commodity prices goes pretty much unnoticed, by both suppliers and consumers. That's what happened in 2008. A complex economy has the notable quality of shielding people from wild swings in worldwide commodity prices, and it is most beneficial to the people at the bottom of the income ladder. It serves as a type of insurance policy that they cannot otherwise afford. It is also less likely that these folks will be laid off in the labor market if they are working in an industry making complex products.

Just as a more balanced portfolio would predict, the volatility of the economy has sharply decreased from 1996 to 2016, as seen in Figure 5. Although the average GDP growth may be a bit less, from the perspective of both citizens and foreign investors, Rwanda is a far more pleasant place to live and invest. The roller coaster days seem to be in the past, and this stable, moderate growth is a much more sustainable path.

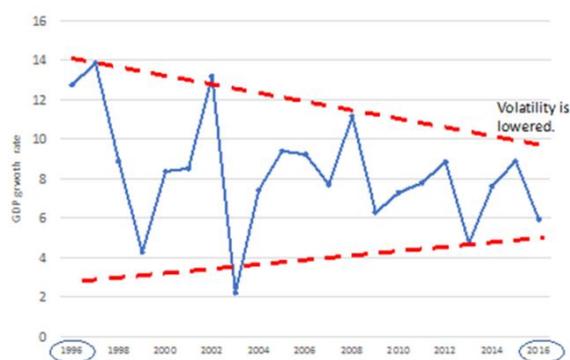


Figure 5. A more balanced export portfolio GDP growth rate, Rwanda: 1996-2016  
Source: World Bank Development Indicators.

## 5. The 99-year lease: A reasonable middle-ground approach to the Lexus-Baobab Tree Dilemma?

This brings us to the land dilemma. The government has been moving strongly in the direction of the 99- year land lease, as apparently a middle ground between its former stance, where it had in many cases no recognition at all, or 5-year land leases. There is no doubt that stretching out the length of the lease creates more long-term incentives. It's a movement towards a Lexus economy that enhances economic growth. But what is the opportunity cost of NOT having land titles? What is being left on the table? Or are, in fact, 99-year leases superior to freehold titles if there are other goals in mind, such as distributive justice? This is a question about the Lexus vs. The Baobab tree type economy.

In order to investigate this further, I use a framework employed by a well-known academic expert in Zimbabwe from The University of Sussex in England, Professor Ian Schoones. Schoones argues that government-regulated land through 99 year leases is, in fact, superior to freehold titles. Schoones worked with the late Sam Moyo, another academic who is well

known for his studies of Zimbabwe land markets and reforms, to argue for 99-year leases. My critiques of their arguments follow.

**Table 2.** Schoones and Moyo's Take on 99-Year Leases\*

	Advantage of the 99 year lease?? Schoones and Moyo		Question to Be Raised (Richardson)
	Freehold title	Regulated leasehold	
Democratic accountability to state	None	Yes	Do you trust the state to have democratic accountability?
Flexible land markets	Yes	Yes	How would flexibility differ?
Credit and collateral	Yes	Yes	How much uncertainty does a 99-year lease create vs. a title with an infinite timeframe?
Regulation against capture	No, although potentials for statutory restrictions on sales	Yes	Who will regulate the regulators?
Preferential women's access	None	Potential lease condition	Why can't women have equal access in a freehold title?
Administrative cost	Very high	High	Why can't low cost methods be adopted for freehold title?
Revenues and incentives	Survey, land registration, title fees/Land tax	Lease fees/land tax	Do we consider land registration a waste of money?

**Note:** \* Blog entry by Ian Schoones, July 3, 2017. [Retrieved from].

Let's take each so-called "advantage" of the 99-year lease, according to Schoones and Moyo, and address it in turn.

### 5.1. Democratic accountability

It's important to understand that from my reading, Schoones and Moyo have a fundamental distrust in free markets and how they allocate resources. They place faith in the government to assure that land is distributed equitably and fairly to all citizens, rather than, as they see it, to powerful and rich interests. This is what is meant by "democratic accountability" in the first row of Table 2. According to them, the government is the judicious allocator of scarce land. At the same time, I think their view of Zimbabweans is a bit patronizing. Zimbabweans are treated like children who need guidance on the proper path to take - and that path is entirely premised on land being used solely for agriculture.

The question I must ask is, do you trust your government to be accountable? Will it allocate land in a way that is preferred to a free market outcome? And I say this not just about Zimbabwe's government, but any government. Who is in charge of making decisions about land? This is enormous power to give to individuals who are not vested in its distribution, unless there are bribes and other forms of influence. Schoones is betting that governments will act benignly and fairly. That is a very big bet and the risk is not acknowledged, as far as I know.

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In my own country, the United States, in my own city of Winston-Salem, I have seen abuses of power regarding the land and government in the name of democratic aims and ideals. Several decades ago our state of North Carolina passed a law that declared that any time the Department of Transportation planned a future road, they had the power to immediately cancel all building permits for anyone who owned land.

The justification for this was they were saving taxpayers' money, since the eventual acquisition costs would be lower. However, this had the effect of making the land almost worthless, since it became impossible to sell. Who would want to buy a house that could never be remodeled or improved, or that might be bulldozed with 90 days' notice?

Hundreds of millions of dollars of wealth was lost in our North Carolina county, but not taken into account by our government. In effect, it transformed the land into something closer to a long-term lease. People who had planned to retire in another state were locked in their house. They couldn't even use their house as collateral for a bank loan. Real estate agents considered these homes untouchable and dead in the water. Thousands of people's lives had been damaged, until last year, when the law was overturned in our state Supreme Court.

When I see things like this happen in supposedly great democracies, I am skeptical of Schoones' view that well-meaning government actors will act in society's best interest better than the free market would. In my 2018 visit to Zimbabwe communal lands, I observed highly unequal distributions of resources that can depend on which tribe a Zimbabwean belongs to or their political and personal connections.

### 5.2. Flexible land markets

In the second category, "flexible land markets," Schoones sees little or no distinction between 99-year leases and freehold titles. Yet, in this framework, it is important to note the degrees of flexibility. In the new brochures put out by Zimbabwe's own Ministry of Lands, numerous restrictions are put on the use of the land that constrain it primarily to agriculture. This type of system also requires government monitors who must assess productivity and use, again, highly subjective measurements that are concerning.

Think about the enormous expense that must be paid to government "minders" who now must subjectively determine if land is being used "correctly." It gives government enormous power to pick and choose who to leave alone and who to break the lease with, with only 90 days' notice. Rather than letting people mind themselves through a profit and loss system, added government employees must be added to the state government expenditures. With tens of thousands of farms to inspect and evaluate, the end result will be either little true flexibility or accountability.

Moreover, 99-year leased land does not easily allow for growth and development within urban areas that is natural within any growing economy. As a result of constraints on the ways land can be developed,

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rents rising much faster in the cities will result. This will do two things: it will enrich the people who already have property, and it will force all others onto farmland, creating a widening gap between the rich and the poor.



**Figure 6.** *Inflexible land market: 99 year leases drive up rents; free titled land allows for greater expansion of economic activity*

It also stifles imagination. Consider the United States, just up the road from me, a former farm has now been converted to a popular development, where nice middle-class homes are being built. This in turn has created a demand for skilled construction workers, electricians, roofers, and architects. Imagine if the state had forced this land to stay a farm. It would probably be stagnant or low producing since money would be allocated to other, more high-yield investments. Another farm in my state has been converted to a solar farm, generating not only sustainable clean energy, but a demand for solar power installers and repairers. No doubt these jobs pay much more than being a farm worker. Freehold titles bring out enormous creativity that one will never get from regulated land leases.

### 5.3. Credit and collateral

Schoones also notes that credit and collateral are readily available under both freehold title and regulated land leases. I think that remains to be seen. I have seen some mixed reports on this via local Zimbabwe banks, but one thing I know, and this was underscored in Mr. Robertson's report, is that foreign banks will not look kindly into providing capital for these types of loans. As a result, interest rates will be higher, which hurts the poor the most.

Moreover, the government has the right to cancel the lease with only 90 days' notice, if the leaser of the land is not living up to the subjective standards of how the land is to be "properly used." This represents tremendous risks to lending institutions, which at the very least will push higher interest rates onto the borrowers, or worse, freeze credit lending.

### 5.4. Regulation against capture

Schoones looks at "regulation against capture," which means guarding against speculators. How does one know what is speculation and what is not? Rising prices in land may be a sign of growing demand for particular

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types of uses, rather than speculation. If there is speculation, there is great risk as well, and the speculators stand to lose if they play this game. Again, this puts tremendous power in the hands of government officials who may incorrectly interpret economic conditions.

### 5.5. Preferential access to women

Schoones also claims that land leases provide preferential access to women whereas freehold titles do not. While it is true that throughout much of Africa, women are not allowed to own land, it is extremely simple to write up freehold titles that allow it. After all, this occurs throughout the world.

### 5.6. Administrative costs

The last two categories relate to administrative costs and revenues, and while I do not have at my disposal the costs of land titling and surveying, this is a case where one must balance these costs against the lost opportunities for future development. There have been innovative ideas from Hernando de Soto, who is looking at block chain technology to rapidly lower the costs of surveying. Other innovative ideas such as What3words, is a company that has mapped every square meter in the world with a unique set of 3 words. This technology is already being used in far flung places such as Mongolia to map out physical addresses for nomadic tribes.

## **6. The unchecked assumption: Who wants to be a farmer in Zimbabwe?**

We need to be careful not to presume what people want to be in their lives and what sort of tradeoffs they are willing to make between improved economic conditions, greater stability in their lives and a loss in culture and traditions.

There are some people who are very good at farming, who possess the knowledge and skills, or want to learn. They are passionate about the land, and what it can deliver not only for their families but for their country. At the same time, there are no doubt many people on the farmland who feel trapped. They wish they could explore their dreams of being a baker, an engineer, a chef, or an auto mechanic.

The 99-year land lease pushes people into a tradition of agriculture that they may not want at all. Indeed, the history of every developing country is that the majority of people move to cities to get jobs when they get the chance, leaving the farming to the ones who enjoy it the most. Land leases have as their end result an economy that is far less complex and diversified than would exist in a free market. By having complex rules that dictate how land is to be used, it stifles all the creativity that human beings have, leading to an economy that makes people far more vulnerable to external price swings. Freehold property titles allow people who have other

ambitions and dreams to sell or develop the land to its highest and best use. As a result, more complex economies will develop, as we have seen in Rwanda and other countries that have embraced deregulation of economies.

## **7. Conclusion**

1. Moving to a “Lexus” economy can mean tradeoffs between retaining culture and improving living standards, but with some imagination, culture can be preserved through creative alternatives. There are many ways to build community without sharing productive farmland. One way is to encourage shared meeting places, local markets, and community spaces for art and music.

2. The speed of GDP growth is not as important as the type of growth.

3. Growing economic complexity is a sign of a strong property rights and an improving business environment. Moreover, it provides insurance against sudden economic downswings.



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