

PAINFUL PARADOXES: MINING, CRISIS AND REGIONAL CAPITAL IN ZIMBABWE

by Richard Saunders

Introduction: Painful Paradoxes

Zimbabwe today confronts an unhappy paradox: despite several years of a commodities boom for minerals in which the country enjoys an advantage, much of the country's mining production has effectively collapsed in the 2000s. Only ten years ago Zimbabwe was a key player in African gold and ferrochrome production, among other minerals, but foreign investment into the once-thriving sector has since crashed. Several international miners have mothballed operations, or pulled out entirely. Only a handful of operations in the important platinum and diamond sectors have been spared.

Equally jarring is the reality – in the face of the ZANU-PF government's militant rhetoric around "indigenisation" or black empowerment – that remarkably little transformation of ownership in the mining sector has actually taken place. The transferral of ownership to Zimbabweans by legal or violent means, seen in some other sectors, has not happened in mining. Foreign mining houses, led by South African-based companies, continue to dominate the local industry. The key recent change, instead, is that regional investors now include a significant number of black-owned mining firms. Thus a second paradox: if there has been black empowerment in Zimbabwean mining in the 2000s, it has typically involved *non-Zimbabweans* based outside the country.



African gold production: Zimbabwe has gone from key player to collapse.

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What kinds of new investment opportunities emerged for regional players *along with* the worsening crisis in mining, and how have these openings been mediated by the Zimbabwean State, local business and civil society? What has been lost and gained, and by whom, in the dynamic of cross-border investment in the crisis years of the 2000s? Is the current political-economic tragedy cultivating a new form of opportunistic, parasitic economic domination by external forces in the region?

The dilemma of mining in Zimbabwe also raises broader questions around the engagement and disciplining of large scale foreign investments by national interests that are comparatively weak in financial and technical resources: namely, what kinds of institutions, instruments and policy initiatives might be most effective in sustaining investment *and* greater shared local beneficiation?

A Golden Age, Found & Lost

Zimbabwe's mining sector has been beset by a deepening crisis for more than a decade. Initially based in declining production efficiencies and investor wariness due to the country's worsening economic climate, the sector's continuing deterioration has since been punctuated by political faction-fights over divested public and private assets, murky deals involving the takeover of mineral producers by quasi-state organisations and, more recently, mounting allegations of corruption and smuggling in the diamond and gold sectors.

The key factors in mining's decline lie outside the economics and logistics of the sector, in the security-driven restructuring of Zimbabwean politics and business in the late 1990s and early 2000s. The ensuing economic instability and growing political unpredictability deprived the potentially high-growth sector of the kind of investment needed to sustain and expand existing operations. In this dynamic both local mining entrepreneurs and mineworkers and their communities have been among the most profoundly and negatively affected.

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In the 1990s Zimbabwe was poised to become a significant force in African mining. With competitive mineral resources, a well-maintained infrastructure, skilled workforce, professionally-managed state regulatory institutions and liberalised, relatively stable fiscal and monetary regime, the country held key ingredients for a resurgence in mining growth.

Foreign dominated mining houses, including global giants like Anglo American and Rio Tinto, responded favourably. Investments in the gold sector lifted Zimbabwe into third place among African gold producers and into the world top ten. New interest in ferrochrome, and a large greenfield investment in platinum – the second largest foreign direct investment since independence at more than half a billion US dollars – helped boost capital inflows into mining exploration, mine commissioning and production expansion.

Reflecting the new optimism, plans for other major investments in coal and thermal power generation were also developed, including a US\$160 million Sengwa Coal Field project envisaged by Rio Tinto. With growing support for larger projects, Zimbabwe appeared to be on the verge of a breakthrough as an international mining investment destination.

Source: BusinessMap SADC FDI Database, Johannesburg. (Figures do not include follow-on investments.)

Investment	Source Company	Source Country	US\$m	Year
Hartley Platinum Mines	BHP	Australia	500	1998
Selous Platinum Mine	Zimplats	Australia, SA	80	2001
Mimosa Platinum Mine	Implats, Aquarius	SA, Australia	30	2001
Turk Mine	Casmyn Corporation	Canada	30	1995
Eureka Gold Mine	Delta Gold	Australia	24	1998
Indarama Gold Mine	Trillion Resources	Canada	15	1998
Jena Gold Mine	Trillion Resources	Canada	12	1991
Rio Tinto Zinc Corporation	Rio Tinto	UK	5	1994
Chaka Processing Plant	Delta Gold	Australia	3	1998

Bubi Gold Mine	Anglo American	SA	2	1997
ZIMBABWE: NEW MINING INVESTMENT 1990-2001				

This promise was shattered by the economic and political crisis that emerged in the late 1990s and exploded into a direct challenge to ZANU-PF by a resurgent opposition in the 2000 constitutional referendum and parliamentary elections.

The ZANU-PF leadership responded to mounting revelations of elite corruption and deepening economic decline under structural adjustment policies by militarizing the ruling party, State and broader terrain of national politics. This trend was reflected in the rising prominence of so-called "war veterans", state security personnel and later, party-affiliated militias, in the senior ranks of ZANU-PF and black business. The immediate and longer term consequences for political and economic stability were soon evident.

Within government, State institutions were subordinated to the dictates of party chiefs. Government was increasingly hostile to demands for participation from a range of labour, business and other community interests. During the 2000 and 2002 parliamentary and presidential elections, ZANU-PF's nationalist posturing reasserted the need for claiming sovereign rights over strategic natural and economic resources. The combined impact of these dynamics was sharply negative not only for political participation and governance, but also for the wider economy. An economic downturn was immediate and pronounced, and worsened in subsequent years.

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Production and foreign earnings in most industrial and commercial agricultural sectors plummeted after the 2000-2002 "fast-track" land redistribution exercise, which undermined investor confidence, destabilised the supply of agricultural inputs into an array of local processing industries, and was followed by intermittent threats against and attacks on urban commerce and industry. Inconsistent fiscal and monetary policy amid declining macroeconomic indicators played havoc with cost management, and increasingly unstable power supply, rising fuel costs and skills flight made production planning precarious. As foreign currency reserves dwindled amid continuing draw-downs for fuel, electricity, plant and spares, production went into a deep slide. A 7% decline in GDP in 2000 was compounded by drops in following years. By 2005, Zimbabwe's economy was ranked the world's fastest-shrinking. Fiscal and monetary policy became increasingly *ad hoc* and unpredictable, designed – unsuccessfully – to suppress exploding inflation, domestic interest rates and prevent exchange rate collapse.

While a parallel market in foreign exchange blossomed, private sector exporters and others within the regulatory reach of government were compelled to trade mostly at impossibly low official exchange rates – while local input costs inflated rapidly. For exporters the rising shortage of foreign exchange therefore spelt disaster, not opportunity.



Helmets without heads: the mining sector was a critical casualty of foreign exchange problems.

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The mining sector, a key consumer and generator of foreign exchange and domestic employment, was a critical casualty. The gold sector was particularly hard hit, buffeted by complicated and unpredictable foreign exchange regimes managed unpredictably by the Reserve Bank. Several producers were pushed to the brink of collapse in 1998-2000, prompting slowdowns and closure of a number

of key operations. In 2000-2001, 14 gold mines were closed or placed on care and maintenance, and gold production fell sharply from 27 tonnes in 1999 to 18 tonnes in 2001, 12.5 in 2003 and only about 8 in 2007. The consequences for the broader economy would be critical: after the collapse of commercial agriculture, gold mining accounted for one-third of foreign currency earnings and more than 50% of mineral production.

Production of several other key minerals also fell off, affected by the same combination of rising production costs, materials shortages, degraded infrastructure, skills flight and low realised returns due to distorted exchange rates. Copper production collapsed from about 15,000 tonnes in 1990 to barely 2,000 in 2001; and ferrochrome, which peaked in 1995 at nearly 300,000 tonnes, fell to 218,000 tonnes ten years later.

Exploration spending, a critical indicator of future investment intentions, declined sharply after peaking in 1996. Since 1999 there has been no new internationally financed exploration even though the same period has seen high growth in exploration spending in neighbouring mineral-bearing countries. Apart from the booming platinum sector, represented by the Ngezi Selous mine operated by Zimplats (an Australia-listed company with a majority shareholding held by South Africa's Impala Platinum-Implats) and the smaller Mimosa Mine (jointly owned by Implats and Australian mining house Aquarius), large new investors have been warned off by the deteriorating investment climate.

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In the 2000s, foreign mining investments have primarily involved mergers and acquisitions and wholly new projects have been the exception. Overall, the Chamber of Mines and industry observers have pointed to the *absence* of new project implementation as the worrying dominant trend in a sector which had seen a range of liberalisation measures designed to encourage new foreign investment.

Indigenisation: Low Grade Participation

If a vibrant minerals sector was a short-lived legacy of the 1990s, a more problematic and enduring one was the pattern of mine ownership. Here, the persistent exclusion of local participation in large scale mining, with the exception of government's own ill-fated interventions through the parastatal miner, the Zimbabwe Mining Development Corporation (ZMDC), helped prompt sporadic but mostly unsuccessful initiatives for mining empowerment. In reality, processes of restructuring and empowerment in large scale mining have been dominated by larger mining houses, with the result that patterns of domestic participation in large scale mining have not changed significantly since the 1990s – or at least not through any publicly-acknowledged, transparently structured means.

The need for sustained black empowerment was recognised by the Chamber of Mines (the main representative body for mine owners) in the 1990s. A few examples of empowerment were in place by 2000. Mutumwa Mawere, a "self-made" indigenous mining magnate with links to the ZANU-PF leadership, used creative financial restructuring to become the controlling shareholder in Shabanie Mashaba asbestos Mines in 1998. His deal was celebrated by government which called on other aspiring black entrepreneurs to take control in the commanding heights of the mining sector. At the time, Mawere spoke of expanding his interests via financing facilities designed to act as an indigenisation trust for privatised state assets and other targets. However the murky politics of

competing ruling party players and financing issues soon intervened, and his acquisitions soon fell into financial problems following the withdrawal of political support from the State. The one-time indigenisation hero, recast by government as a suspect businessman, later chose self-imposed exile in South Africa under threat of arrest in Zimbabwe, while government seized his Shabanie assets.

Other smaller-scale efforts at indigenisation were more successful, and involved extensive artisanal works in different locations. However, none of these grew into large operations and occasionally their operators too were harassed by government officials, who accused miners of violating exchange control regulations by smuggling gold and other minerals; of operating illegally without permits; and other offences. "Bottom-up" empowerment by the small-scale sector therefore met with continuous challenges and in its public profile was typically trashed, rather than celebrated and encouraged, by government.

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Beyond a small elite of aspiring mining entrepreneurs and a larger grouping of small scale and informal sector miners, government and empowerment groups failed to mobilise a popular base among a wider constituency – and particularly among mineworkers and mining communities. To the contrary, the latter were victims in the early 2000s of a double assault from the economic downturn and politically-motivated violence.

In ZANU-PF's increasing militarization of politics, workers and workers organisations were identified by government and the ruling party as potential "opponents". The ruling party was determined to prevent its rural political base from being occupied and reorganized by its political critics, and soon violence and intimidation were unleashed on mineworkers, their union (the 10,000 strong Associated Mineworkers of Zimbabwe-AMZ), mining compounds and surrounding communities. Mineworkers who were already hard-hit in the 1990s by mechanisation and restructuring – which saw mining employment drop from 83,000 in 1995 to less than 50,000 in 1999 – soon suffered more direct and unambiguous forms of injury.

In 2001, workers on several mines were physically assaulted, harassed and otherwise strong-armed by members of the self-styled Zimbabwe Federation of Trade Unions, a ZANU-PF-inspired "trade union" led by war veteran Joseph Chinotimba, whose members seemed to consist mostly of "war vets", youth militias and unemployed party-linked youths. These attacks, unpunished by the State, led to the extortion of funds from workers and mine owners; displacement of the AMZ's organising capacity and access to its dues-paying members; and the disabling of the MDC's political and organisational support in mining compounds.



Knocking-off time for Zimbabwean gold miners: already hit hard by restructuring, they soon suffered more direct forms of injury.

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Many mining communities were left to limp along without further investment in the context of slowed-down or closed operations, a rapidly declining social economy and threats of further violence from government-aligned pseudo-unions. Since then, there have been no meaningful or sustained efforts by government and State-backed empowerment activists to incorporate mineworkers or mining communities into mining indigenisation policies or projects.

Empowerment Exported

In the 2000s, government's approach to empowerment investors took a new direction in response to the changing political environment. After 2000, black business groups' empowerment deals were increasingly tied with, and dependent upon, powerful political factions in the party – especially those with military and security connections who were in the ascendant in this period. Since the securing of new economic assets was perceived as having direct bearing on these factional struggles, empowerment initiatives became increasingly hotly-contested, *ad hoc* and unstable. Despite heightened focus by government on the imperative of indigenisation, in practice the door would be opened to the expanded involvement of new foreign investors from southern Africa.

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Early targets of renewed indigenisation efforts in the 2000s included the gold, nickel and platinum projects of Anglo American, Implats' platinum operations and Metallon Gold's five gold mines. Each of these South African-rooted mining houses have faced demands to take on substantial local partners – but with little effect.

Anglo American, having signalled its intention of divesting from most of its Zimbabwean assets to concentrate on larger projects, was an early target for local investors – yet most of its more expensive nickel and gold assets on sale ended up going to non-Zimbabwean companies. An exception was its Zimbabwe Alloys group of chrome mines, where production had levelled off and was downward by the early 2000s, which was sold in 2005 to a "broad-based indigenous consortium" of Zimbabweans. In the case of Anglo's Unki platinum project, the company sought to hold on to its undeveloped assets. However, wrangling with government over the reported imposition of unnamed local partners to take up a 15% - 20% stake in the project, contributed to lengthy delays in the US\$90m project. Despite record high platinum prices and continuing interest by Anglo American Platinum, the project is on a go-slow basis.

At Zimplats, 87% owned by South Africa's Implats, engagement with three successive sets of local partners nominated by government all collapsed as the company required bankable financial commitments from future partners and this was not forthcoming. In lieu of suitable local project partners, Zimplats negotiated terms for the recognition of "empowerment credits" through partial ceding of its land claim and recognition of current and future social investments. A deal was concluded with government in 2006 that enabled the company to shut out significant local investment.

Meanwhile, South African-based empowerment gold producer Metallon bought a controlling stake in Zimbabwe's Independence Gold mines from SA's Lonmin in 2002 and immediately ran into empowerment problems of its own. At the time of the acquisition Metallon negotiated with a local consortium of three prominent business figures for a 30% local stake in Metallon's local operations. But the agreement soon collapsed and resulted in a flurry of law suits from each side. Metallon's plans for expansion of its Zimbabwe activities, projected to triple its gold output over five years through an investment of up to US\$100m, were placed on hold.

One notable successfully engineered empowerment deal involved the Murowa Diamonds project, which is 78% owned by Rio Tinto plc with junior partner RioZim, a Zimbabwe-listed company whose 56% majority shareholding held by Rio Tinto was ceded to local investors as part of the Murowa deal. However the market-leverage empowerment option pursued by Rio Tinto in 2004-

2005 has not been favoured by government or empowerment activists – probably because it has tended to favour established (not politically-dependent) business interests in the country.

In reality, since Mawere's asbestos deal in the 1990s – which predated the international financial boycott – few significant empowerment deals have been concluded that involve contractually structured, transparently implemented partnership transactions involving local consortia.¹

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Significantly, the only substantial "empowerment" investor in Zimbabwe in recent years has been the *South African*-based empowerment mining group, Mwana Africa. Mwana has links to powerful business and political interests in the DRC, South Africa and Zimbabwe. The company has acquired important assets from international players, including Freda Rebecca Gold Mine (AngloGold Ashanti), Bindura Nickel (AngloAmerican), Cluff Mining Zimbabwe (gold assets) and Gravity Diamonds (based in the DRC). However, Mwana's profile, with its heavyweight international financing and mining pedigree – its CEO Kaala Mpinga and some of his team were formerly at Anglo-American in South Africa – is distinct from that of most aspiring empowerment dealmakers in Zimbabwe. This is not the kind of empowerment that government had promised its loyal empowerment lobby.



Platinum bars: an eventual 51% for government and gov't-nominated Zimbabwean investors.

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Sweeping new empowerment legislation, the Indigenisation and Economic Empowerment Act of 2007, addresses these shortcomings in principle but falls short in practice, particularly when it comes to capital-intensive sectors like mining. It calls for the acquisition a 51% stake in foreign-owned mining operations in the strategic platinum, diamonds, gold and emerald sectors, including an uncompensated expropriated stake of 25% . Twenty percent of the stakes in question would be acquired within two years, with the state's holding rising to 40% after five years and reaching 51% by the end of seven. Unnamed government-nominated Zimbabwean investors would benefit from access to government's newly acquired

shareholdings, and future new investments would be required to include state or indigenous participation from the outset. Similar sector-specific proposals had been announced by the Mines and Minerals Development ministry in 2006.

Local mining houses and the Chamber of Mines, both of which had engaged government on indigenisation policy over an extended period, were not the only ones surprised by the proposals. South African empowerment figures and their home government were also caught unawares. The ANC government had earlier initiated negotiations with Zimbabwe around financial and technical cooperation to help formulate and implement a transparent, well-managed, gradual empowerment transformation of the local industry – perhaps in response to new South African mining investments in the country in the early 2000s. As part of the bilateral engagement, Zimbabwe and SA had reportedly discussed an empowerment-related exchange programme in which SA would assist in the development of an indigenisation charter. But by 2006 the scramble for elite-based, ZANU-PF-led and untransparent "empowerment" had relegated more systematically structured and codified approaches.

Yet the new dispensation has also failed to deliver greater empowerment via the disciplining of foreign mining capital. State engagement with foreign investors remains case-by-case and bilateral, and has been complicated by feuds among the Ministry of Mines, Ministry of Empowerment and Indigenisation and the Reserve Bank of Zimbabwe. Government in its various incarnations exhibits several competing sets of expectations around indigenisation – from private accumulation for new businesspeople and the reigning-in of foreign companies exploiting Zimbabwe's mineral wealth, to the development of local infrastructure, rebuilding of metals exports industries and provision of foreign exchange to the State. Both foreign mining houses and prospective local community beneficiaries and market players, have struggled to understand and engage with this changing thorny complex of personalities and power interests. On the ground, partisan indigenisation regulations have *marginalised* the participation of previously disadvantaged communities and legitimate local market participants, while failing to coherently and positively shape future foreign capital flows into mining.

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State Crisis, Regional Capital and Deferred Development

The recent decline of foreign investment in Zimbabwe's richly endowed minerals sector has been overdetermined by the country's high-risk political environment. But this risk factor alone does not sufficiently account for the parlous and uneven fall in inward capital flows – or for the heightened activity of regional investors in the local industry in the 2000s. To understand the tragic trajectory of mining development and the failure of "indigenisation", we also need to track the impact of State restructuring under neoliberalism in the 1990s and later, ZANU-PF's rearguard defence of power in the face of the democracy movement. Structural adjustment in the 1990s and partisan militarization of national institutions in the 2000s gutted much of the professional bureaucratic capacity of the state, and made policy making and implementation more *ad hoc*, reactive, elitist, unpredictable and vehemently partisan. The State's policy making and regulatory institutions have been subsumed, and with them the capacity to develop and implement coherent strategies aimed at disciplining foreign capital and asserting sovereignty over key national resources.

The erratic development of an indigenisation policy for the minerals sector is an important reflection of this broader trend. Recent policy and practice in mining starkly reflects government's precarious capacity and equivocal will to pursue a transparent approach to indigenisation. It also points to the wider, profoundly negative consequences for the national economy, local communities and indigenous entrepreneurs, and raises questions around the options for State and civil society interventions aimed at leveraging greater local participation in the foreign-led sector. The collapse of key parts of the mining sector mirrors the collapse of the State's own capacity to manage the economy. At the same time, the survival and expansion of some operations – dominated by South African players and including platinum, diamonds and some gold – reflects both a regional appetite for seizing opportunities emerging from crisis, and a corresponding capacity to mobilise political assets to diminish investment risk.

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Is a new pattern of cross-border investment emerging? If so, who are the primary beneficiaries and what roles have governments in Zimbabwe and the region played in enabling the new dispensation? Are we seeing, in fact, a resurgence of intra-regional mining imperialism?

Inside Zimbabwe, government's policy engagement with both the established black business community and most sections of civil society has turned profoundly negative since the late 1990s. Notions of economic participation linked to systematic redistribution have been dropped, and along with them, opportunities for building a broad social coalition and strategy for reclaiming economic and social rights in the mining sector. "Empowerment" is now widely understood to mean the enrichment of the political and military elite from both Zimbabwe and neighbouring countries; and redistribution entails the sharing of spoils through corrupt secretive deals. The fiasco of intra-elite faction fights and regional diamond smuggling that emerged from a state-regulated diamond rush in eastern Zimbabwe in 2006-07 underlined the exclusive, chaotic, regionalised and destructive nature of the State's management of the mining sector.



Diamonds: underlining the exclusive, chaotic, regionalised, destructive nature of Zimbabwe's mining sector.

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Recent government policies have left ownership in much of the sector untransformed. Large scale mining remains relatively undented by demands for local inclusion. The largest and most lucrative new investments in the past decade, the Zimplats and Mimosa platinum mines and Rio Tinto's Murowa diamond project, have successfully deflected indigenisation challenges. Other regional mining newcomers have withstood similar tests; for example, Mwana Africa has continued to operate despite being at the centre of perhaps the messiest, most chaotic – and failed – empowerment deal with aspiring Zimbabwean indigenisation investors.

If there has been transformation in the sector, it has involved the strengthened and continuing presence of South African and regional players – and the slamming of the window of opportunity in the face of traditional market-based Zimbabwean investors. In reality, there has been much less indigenisation in the mining sector (not counting secret, unverifiable changes of ownership) in the militantly nationalist period of the 2000s than in the previous two decades of independence.

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The continuing role of South African and regional mining houses in Zimbabwe raises questions over the linkages between regional political elites and cross-border investors. Some Zimbabwean industry insiders insist that attractive SA-controlled assets, such as the Zimplats platinum operations, are afforded protection by their parent company's links with the SA government. Such protection is difficult to measure and assess, and it has not prevented the making of claims against Zimplats, Anglo American and others, and various forms of regulatory and legal intimidation, particularly around issues of foreign exchange access and shifting taxation rules. Still, the fundamental security of South African and regionally-controlled mining investments has not been jeopardised.

Regular signals sent by South African industry and government officials concerning the rights of foreign companies in Zimbabwe suggest that regional political muscle has been a critical factor in keeping spaces open for South African and regional business, in Zimbabwe's otherwise profoundly

hostile economic terrain. Is this sign of a new politically-facilitated regional imperialism, or fire sale bargain-hunting by opportunistic elites? Will such activity be sustainable in the face of a stronger, more legitimate State backed by a consensus-driven policy on national resources, foreign investment and local participation? The evolution of the broader Zimbabwean crisis in the near term might begin to provide answers to these questions.

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Surveying at an open-pit copper mine in Zambia: struggles in neighbouring countries can help guide future policy engagement from below.

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In the meantime, the crash of mining production and the failure of government-led restructuring efforts underline the critical importance of State capacity for developing both policy vision and social coalitions in support of change. ZANU-PF's partisan withering attacks on state institutions in the 2000s have severely eroded such capacity, and helped set the stage for production chaos leading to a new role of foreign players in a key sector. The way back to alternative forms of empowerment and the assertion of national sovereignty over core resources must begin with the reconstitution of the State, and the recovery of earlier notions and practices of civil society and indigenous

entrepreneurial inclusion. In this regard, Zimbabwe's past – as well as current debates and struggles in neighbouring countries like Zambia and South Africa – can help serve as critical guide for future policy engagement from below. For the moment, the first step in the regulatory disciplining of foreign mining capital must entail the disciplining, restructuring and enabling of the State itself.

(Richard Saunders is Associate Professor in the Department of Political Science at York University, Toronto.)

Note:

1. Mining projects acquired by legally disputed means – for example, occupation or seizure – are harder to track, although they are few and to date do not include larger mines. Also difficult to assess are new business stakes acquired through silent shareholdings that are not publicly acknowledged, and whose ownership is typically cloaked from scrutiny by means of proxy shareholders, numbered companies, offshore holding vehicles, etc. These latter forms of empowerment include investment vehicles of the ruling party, of which many are documented, but in which individual or institutional control and benefit are difficult to detect.