

## Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.

These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

### Vol. 15: Democratic Republic of the Congo

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Do you know which country in sub-Saharan Africa is the widest? The answer is the Democratic Republic of the Congo, which is 6 times wider than Japan and the 11th widest country in the world (note 1).

Depending on the person, I don't think there are many Japanese people that, when they hear the name Democratic Republic of the Congo (DRC), can conjure up a strong image of the country. Rather, they may have a much more familiar image of the country if they were to hear the name Zaire. That is to say some may better know about one of the greatest boxing matches of all time where in 1974 in Kinshasa in what was then known as the Republic of Zaire, but is now called the Democratic Republic of the Congo, the great boxer Muhammad Ali, who was said to be much past his prime, upset the heavyweight champion of the world, George Foreman, in what has been called the "miracle in Kinshasa".

This time it is the Democratic Republic of the Congo, which is often associated with turmoil and conflict, I would like to introduce to you.



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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.

Table 1: DRC Country Information

Basic Data (2014)	
Population	79.3 million
Land Area	2.345 million km <sup>2</sup>
Nominal GDP	\$34.7 billion
Per Capital GDP	\$437
Official Language	French

Source: IMF

The Democratic Republic of the Congo is located almost right in the middle of the African continent and is surrounded by 9 countries; the Republic of the Congo in the west, the Central African Republic and South Sudan in the north, Uganda, Rwanda, Burundi, and Tanzania in the east, Zambia in the south, and Angola along its southwest border. Also, to further distinguish the country from its neighbor, Republic of the Congo, it is sometimes referred to as Congo-Kinshasa or simply the DRC.

The capital of the Democratic Republic of the Congo (hereinafter called the DRC) is Kinshasa, thus Congo-Kinshasa as written above, while the capital of



Republic of the Congo is Brazzaville, which is just a stone's throw away on the other side of the river both are located on and it takes only about 15 minutes by boat between them (picture 1).



**Picture 1:** Brazzaville (opposite shore) as seen from Kinshasa (front)

As the DRC is quite a vast country, it contains several different climate zones. Areas near the equator are made up of tropical rainforest (hot and humid) and often experience tropical monsoons, while much of the rest of country, including Kinshasa, is located in the highlands with a savannah-type climate (cooler and drier).

The DRC was a former Belgian colony and as such French has become the official language, while four major dialects, Swahili in the eastern region of the country, Kikongo in the south, Lingala in the west and Tshiluba in the central part of the country are also widely used. Please note that with the exception of hotels, various international institutions and high-ranking government officials, English use is not common.



**Picture 2:** Townsfolk dressed in colorful traditional clothing and a used Japanese auto standout in this picture



**Picture 3:** A unique robot traffic signal on one of the main roads

In terms of food staples, in addition to rice and bananas, fufu, a dish consisting of corn flour (or cassava flour) kneaded with hot water into a sticky dough, and a fermented and boiled cassava paste called chikwanga are commonly eaten. In addition, such side dishes as chicken, beef and both salt and freshwater fish are often eaten together with potatoes, mashed and boiled cassava leaves called pondou, and stewed green vegetables, zucchini and tomatoes to form bitekuteku-style cooking. Also, as the DRC was a former Belgian territory there is a variety of local beers with a single large bottle of really good quality beer going for only about \$2 to \$3.



**Picture 4:** Chikwanga has a similar texture to Japanese “uirou”, or rice flour pudding/jelly



**Picture 5:** Clockwise from bottom; pondou, grilled fish (2 types), grilled beef, and beans

The history of the DRC has been chaotic to say the least. During the 19th century King Leopold II of Belgium became interested in exploring the Congo River basin region and sponsored the explorer Sir Henry Stanley to carry out the exploration of areas he designated. As a result, at the Conference of Berlin in 1885, King Leopold formally acquired the rights to this territory as his private property and named it the Congo Free State. Abundant amounts of natural rubber were soon found in the Congo Free State resulting in the ejection of the residents from their land in order to harvest the rubber. However, due to growing international criticism of the brutality and inhumane treatment in the Congo Free State under Leopold’s rule, he sold the territory to Belgium in 1908. The territory thus became a colony under the control of the Belgium government and renamed Belgian Congo.

Through the First and Second World Wars African independence movements continued to gain momentum and in the DRC’s case it won recognition for its planned independence from Belgium at the Round Table Conference of Belgium in January 1960. At the meeting, 3 leading political forces emerged, Joseph Kasa-Vubu of the ABAKO Party (ABAKO), Patrice Lumumba of the Congo Nationalist Movement (MNC) and Moise Tshombe of the Confederation of Tribal Associations of Katanga (CONAKAT Party), in the transition to independence which was achieved in June 1960 under the name Republic of the Congo.

In the first election following independence the MNC Party won the elections and Patrice Lumumba became prime minister, the parliament then selected Mr. Kasa-Vubu of the ABAKO Party as president. However, as you might imagine, Mr. Lumumba and Mr. Kasa-Vubu had very different political ideologies and as governor of the very resource rich southeastern province of Katanga, Mr. Tshombe was keen on maintaining his power base, so the signs of potential conflict were already apparent. As such, domestic politics became far from calm as Katanga Province declared their independence from the new country with Belgian troops sent in to support it. This intervention was condemned by the United Nations and subsequently chaos and turmoil broke out leading to upheaval throughout the country.

The Soviet Union intervened at the request of Prime Minister Lumumba, which was vehemently opposed by President Kasa-Vubu. So began a proxy war within the larger context of the U.S.-Soviet Union Cold War. The heightened involvement of the U.S. and Soviet Union and international political influence spurred confusion and greatly complicated the conflict which

culminated in the seizure of power by the chief of staff of the Congolese army, Joseph Mobutu, through two coups. He was appointed president in 1965. In 1971, the country's name was changed to the Republic of Zaire.

The DRC, being roughly in the center of Africa with countries on its north, south, east and west borders was in a sensitive, central and strategic position in Africa during the Cold War era. And so, given its plentiful natural resources, the western countries, including Japan, supported and propped up the country's dictatorship in the former Republic of Zaire.

However, with the end of the Cold War and breakdown of the Cold War structure, support for the Mobutu regime began to decline. Furthermore, with the influx of refugees from the Rwandan genocide along with the Mobutu regime's decline, the seeds of conflict were being planted in the mineral rich east and northern regions.

So with strong anti-government movements lingering just below the surface during this time, by 1996 Mr. Laurent Kabila was able to mobilize the anti-government forces under the Alliance of Democratic Forces for the Liberation of the Congo (AFDL), creating a full-scale movement aimed at overthrowing the Mobutu regime. Such neighboring countries as Uganda, Rwanda, Burundi, and Angola became involved in the conflict with the Ugandan and Rwandan governments sending troops in support of the AFDL (beginning of the First Congo War) leading to the overthrow of Mr. Mobutu. In September of 1997, Mr. Kabila was appointed as the new president (The same year the country's name was changed to the Democratic Republic of the Congo.

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However, dissatisfaction with the Kabila government, past domestic ethnic tensions, ethnic conflicts in neighboring countries, disputes over resource rights and other complicated entanglements in the country resulted again in an armed uprising in the country in 1998. Eventually, more than 25 countries, including neighboring countries and such countries as Zimbabwe, Namibia, Libya, Chad, and Sudan became caught up in the conflict as chaos reigned (the Second Congo War, also called the Great African War).

Though many attempts were made to mediate peace and reconcile differences they all ended in failure. Note that during that time, in January of 2001, the assassination of Laurent Kabila occurred (his son Joseph Kabila was selected as his successor as president). In 2002, the Pretoria Accord, a comprehensive peace agreement, was signed and in 2003 a two-year interim government was established marking an end to the civil war.

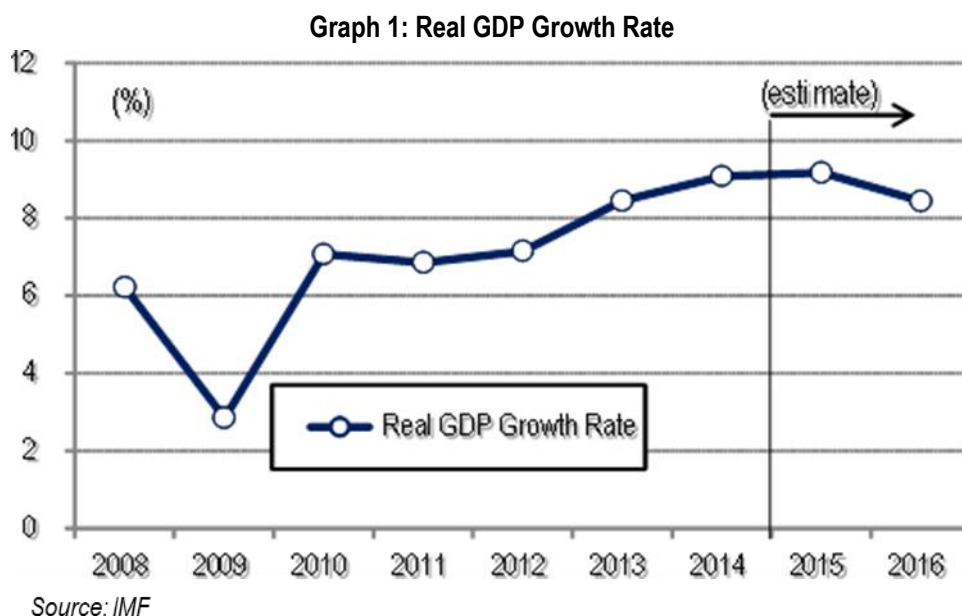
And although the interim government really didn't grasp the entire situation in the country, they were still able to enact a constitution through a voter referendum in 2005 and a presidential election was carried out under the new constitution in 2006 with Joseph Kabila emerging as the victor

Unfortunately, even after the end of the civil war in 2002, intermittent armed conflicts have occurred mainly in North Kivu Province in the eastern part of the country by anti-government forces and historical tribal hostilities and frictions over natural resources have not completely subsided (note 3).



Even under such circumstances, the DRC will carry out a presidential election in November of 2016. The current incumbent president, Joseph Kabila, is in his second term which should be his last under the current constitution. However, moves have been made to facilitate a third term which has led to widespread criticism and confrontation between the opposition and ruling parties which could potentially lead to a serious situation. So, the political and security situation in the DRC should continue to be watched carefully (note 4) (note 5).

Let's turn to the economy of a DRC that has been plagued by major political problems. As a result of continued civil war, the DRC's per capita nominal GDP has remained low. It is the 5th lowest in sub-Saharan African following Malawi, Burundi, Central Africa and Gambia. However, given the country's rich metal and mineral resources, the fact that it has a population of 80 million, following only Nigeria and Ethiopia as the most populous in Africa, and has had steady economic growth over the past few years it is one country where future high growth can be expected (graph 1) (note 6).



Currently, 40% of the DRC's GDP comes from agriculture, 20% from manufacturing and 30% from the service industry. Coffee, cocoa, sugar, rubber, tea, cotton, yams and cassava are the main products produced in the agricultural sector, however, almost all of these products go to domestic consumption with exports nearly non-existent. However, the DRC has a large land mass with plentiful amounts of rain which is suitable for agriculture. As a result, the government is building an agricultural product processing zone with the aim of developing the agricultural industry. Among these agricultural products coffee may be one of the most promising as Doutor Coffee (a coffee roaster, coffee shop chain and franchisee in Japan) is being supplied coffee beans from the Kivu region of the DRC.

Mining is the major industry supporting the DRC economy. The DRC has various mineral resource reserves with copper being the largest in terms of production volume. Rich reserves of copper are found in Africa's copper belt which runs largely through central Zambia and the DRC's southeastern Katanga Province (the provincial capital is Lubumbashi). The DRC was the world's 5th largest copper producer in 2014 (table 2).

**Table 2: World Copper Production**

*(thousand tons)*

	Production Volume		Estimated Reserves
	2013	2014	
Chile	5,780	5,800	209,000
China	1,600	1,620	30,000
Peru	1,380	1,400	68,000
U.S.	1,250	1,370	35,000
DRC	970	1,100	20,000
Australia	990	1,000	93,000
Russia	833	850	30,000
Zambia	760	730	20,000
Canada	632	680	11,000
Mexico	480	520	38,000
Kazakhstan	446	430	6,000
Poland	429	425	28,000
Indonesia	504	400	25,000
Other	2,200	2,400	90,000
World Total	18,300	18,700	700,000

Source: USGG MINERAL COMMODITY SUMMARIES 2015

There are many mining companies located in Lubumbashi, with many people saying “if you’re doing business in the DRC it must be in Lubumbashi”, which signifies the strong presence this region has in the DRC due to its copper production history.

In addition to copper, the DRC is also mining cobalt, gold and diamonds, among others. Gold, coltan and tin are found from the north part of the country to the western part and diamond reserves are mostly in the southeast, so you could say that the DRC is a resource powerhouse with natural and mineral resources found throughout the country (table 3) (note 7).

**Table 3: DRC’s Major Metals/Minerals Production**

	2014	2015 est.
Copper (t)	1,037,441	1,024,424
Cobalt (t)	66,319	65,690
Gold (kg)	19,627	26,194
Diamonds (thousand cts)	16,658	14,901
Coltan (Tantalite) (t)	1,410	1,386
Zinc (t)	14,584	14,464
Tin (t)	10,756	9,092
Wolframite (Tungsten) (t)	24	68

Source: Ministry of Mines

Certainly the current downturn in commodity prices is acting as a headwind blowing against the DRC’s economy. It also can be said that the shortage of electric power is hurting industrial development. As such, given that little progress has been

made in developing other industries, the mining industry should gradually become the driving force behind the country's economy.

Regarding economic development and expanding business in the DRC the following three issues are of the utmost importance. The first issue is improving the political and security environment. It is essential for the development of the economy that the November 2016 presidential election be carried out peacefully and that the power struggle and armed resistance in the east region of the country be terminated.

The second issue needed to be addressed is improving the business climate in order to foster industry. As background to the DRC's security problems and widespread corruption, the country was ranked 184 out of 189 countries on the World Bank's "ease of doing business index" meaning it is one of the most difficult countries in the world to do business in. So, it is imperative to clean up and improve the business climate to re-attract the foreign capital that was pulled out of the country during the periods of civil war and build-up the DRC's manufacturing industry (note 8).

The third pressing issue is infrastructure. Due to the impacts from the DRC's civil wars, the country's logistics infrastructure is both poor and lacking across its large land mass. Historically, the country has basically become divided into three distinct land areas, the western region centered on Kinshasa, the eastern area of the country bordered by Uganda, Rwanda and Burundi and noted for its very unstable security situation, and the south with Katanga Province forming the nucleus. As a result of civil wars, the lack of logistics infrastructure is a problem in some adjacent countries as well, and there is no real rail network in the DRC and between these countries which makes it difficult to export copper and other ores due to this inefficient transport system. So, the DRC needs to develop domestic transport networks as well as its portion of the Lobito Development Corridor, (the transport and economic development corridor that will run from Lobito Port in Angola, through the southern part of the DRC and into Zambia) and connect to the North - South Corridor (which goes to the major port of Durban in South Africa) which will link it to major ports and lower its transport costs in the process (note 9).

As mentioned before, there is a deep rooted image of the DRC as a country of civil war and constant conflict and a business environment that needs fixing, so the country already faces a high hurdle in just overcoming these impressions. However, it is not only that the country is very rich in natural resources, as mentioned, its population is also the highest in Africa after Nigeria and Ethiopia. It is an unrealized giant market with great future growth potential.

While it may be a country that is difficult to take a concrete approach toward, if you don't look at it with the prejudice that the DRC = upheaval, you should be able to at least explore the possibility of doing business from a mid- to long-term perspective.

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**Note 1:** *In terms of land area, including North Africa the DRC is the second largest country in Africa next to Algeria (2.38 million km<sup>2</sup>).*

**Note 2:** *In the dispute between Mr. Kasa-Vubu and Mr. Lumumba, Mr. Mobutu took the side of Mr. Kasa-Vubu and decided to carry out a coup d'etat (Mr. Lumumba was handed over to Katanga Province officials who had him executed). Following this, Mr. Kasa-Vubu appointed Mr. Tshombe, who had been in political exile in Spain, as his prime minister. However,*

*the two had a strong falling out which spurred Mr. Mobutu to carry out another coup, in which he then took power and declared himself head of state.*

**Note 3:** *The March 23rd Movement (M23) was an anti-government group which was eventually disarmed by the government’s military with support from United Nations forces. However, such insurgency groups as the Allied Democratic Forces (ADF) and the National Army for the Liberation of Uganda (NALU), which merged to form the ADF-NALU, and the Democratic Forces for the Liberation of Rwanda (FDLR) have been actively operating out of the eastern region of the DRC and are a factor in the unrest in the region.*

**Note 4:** *The government has decided to divide the current 11 provinces into 26. It has been pointed out that one reason for this is to dilute the power base of Moise Katumbi, one of the presidential candidates and governor of Katanga Province.*

**Note 5:** *The president of neighboring Burundi, Pierre Nkurunziza, in defiance of the term limits of Burundi’s constitution and amidst violent protests and boycotts was reelected for a 3rd presidential term, while the lawmakers in Rwanda voted to support constitutional change to allow the current president, Paul Kagame, to run for a third term. The political outcome in Rwanda may have a stronger influence on Mr. Kabila than refusal by the international community to recognize a third term for him.*

**Note 6:** *The U.S. dollar is the main currency in circulation in the Congo. The local currency, the Congolese franc, does not function well as an auxiliary currency. The Congolese franc has basically been pegged to the U.S. dollar with exchange rate not having moved much over the last few years (The euro and Central African franc have a similar relationship.)*

**Note 7:** *Many of the metals and minerals found in the DRC like tin, tantalum, tungsten, gold and so on, are known as “conflict” minerals, making the handling of them difficult especially given the DRC’s current state of affairs. Conflict minerals are minerals where the money that comes from their purchase is used to fund armed forces in the regions where they are produced and play a strong role in the escalation of conflicts in these regions. The use of these minerals must now be reported to the U.S. Securities & Exchange Commission and strict due diligence related to their distribution is required.*

**Note 8:** *In Transparency International’s Corruption Perceptions Index 2014 the DRC is ranked a very low 154th out of 174 countries, and out of the 55 countries listed in Africa it comes in at number 46.*

**Note 9:** *To travel from the capital Kinshasa in the western part of the country overland to the economic center of Lubumbashi in south it takes 3 days, and by inland water transport by way of the Congo Rives one week is required. Japanese businessmen tend to make the journey between these two cities by air via Nairobi, Kenya or Johannesburg, South Africa.*

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