

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.

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In October 2014, the president of Zambia, Mr. Michael Sata, died in London while recuperating from medical treatment and the vice president, Mr. Guy Scott, was named interim leader of the country. Although this type of succession is normal under a constitutional government, it was the first time in 20 years for a sub-Saharan African country to have a white leader since F. W. de Klerk of South Africa (1989-1994). In the subsequent by-election held in January this year, Mr. Edgar Lungu, from the ruling party, was elected the new president of Zambia, which is the country I am introducing to you this time.



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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: Zambia Country Information

Basic Data (2014)	
Population	15 million
Land Area	753 thousand km ²
Nominal GDP	\$25.6 billion
Per Capital GDP	\$1,700
Official Language	English

Source: IMF

The Republic of Zambia is a landlocked country in the southern part of Africa surrounded by the Democratic Republic of Congo, Tanzania, Malawi, Mozambique, Zimbabwe, Namibia, Angola and Botswana—8 countries in all. Zambia's land is found at a high altitude of 700-2,000 meters (the capital, Lusaka, is at 1,200 meters), and most of the country, being on a plateau, has a moderately humid climate or tropical savanna type climate.



Picture 1: Zambian food staple Nshima (on the upper right of the dish, made from maize flour (white cornmeal) and boiled water and then kneaded into a more solid form. The other dishes are vegetables and tilapia (a river fish), and pork and chicken.

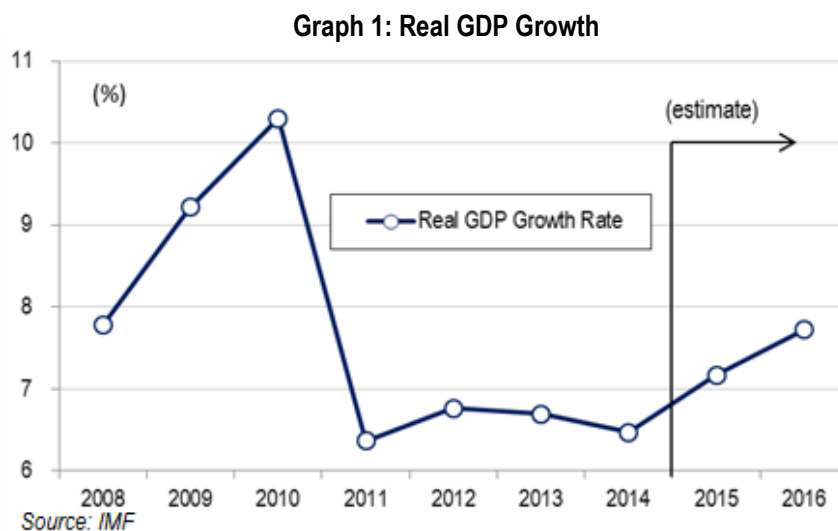
In thinking about Zambia's most famous attractions, Victoria Falls, one of the world's three major waterfalls (note 1), usually comes to mind first. The waterfall is a UNESCO World Heritage Site found on the border of Zambia and Zimbabwe and is 1,700 meters wide. During the periods when water levels are high, there is a superb view of the spray from the falls which can rise several hundreds of meters into the air, and there is no controversy in terms of viewing the falls as both the Zambia side and the Zimbabwe side provide excellent views (note 2).

Regarding Zambia's history, the country was known as Northern Rhodesia when it officially became a British protectorate in 1924. In 1953, Northern Rhodesia (Zambia), Southern Rhodesia (now Zimbabwe) and Nyasaland (now Malawi) were merged to form the Central African Federation. In 1964 the federation was dissolved and Zambia gained its independence from Great Britain. Following independence, Zambia broke off economic relations with South Africa and Rhodesia and supported the independence movements in such neighboring countries as Mozambique. Yet, even in the face of friction with these surrounding countries, Zambia has had a comparatively stable government.

In 1991, Zambia adopted a market economy and multi-party political system, marking the end of the one-party rule of Mr. Kenneth Kuanda, who had been president since independence and the emergence of the Movement for Multi-Party Democracy (MMD) and its leader Mr. Frederick Chiluba as Zambia's new president. In the years following Mr. Chiluba's two terms as president the MMD continued to rule; first with Mr. Levy Mwanawasa and then Mr. Rupiah Banda serving as presidents until 2011. In the 2011 elections, President Banda was defeated by Mr. Michael Sata representing the Patriotic Front (PF), marking the first time that a new party would take over the reins of government since the multi-party system was introduced. As mentioned though, Mr. Sata died in office in 2014 and Mr. Lungu, also of the PF and a former defense minister under Mr. Sata, was elected as the new president in the January by-election, after Mr. Scott had served as the acting president (note 3).

President Lungu is a former lawyer who was eyed as a presidential candidate partly for his clean image. Mr. Lungu is already taking on a heavy diplomatic schedule, first by attending the African Union Summit right after being elected. By coincidence I was recently part of a mission from the Japanese embassy in Zambia that paid a courtesy call on the newly elected president of only about 2 months, and found him to be tall and stylish and a man of few words.

In terms of Zambia's economy, since 2001 the country's GDP growth rate has been high—more than 7% per year on average. What propels Zambia's economy is basically such mineral resources as copper, cobalt, and precious metals, among others. In other words, mining development is the driving force behind Zambia's continued high economic growth (graph 1).



Copper is particularly important as many of you may have heard that the world's so-called copper belt runs from central Zambia to the Democratic Republic of Congo (DRC). As a result, Zambia is the world's 8th largest copper producer and 2nd in Africa following the DRC (table 2). Copper looms large over Zambia's economic structure, making up over 60% of all exports (table 3).

Table 2: World Copper Production

Country	Volume <i>million tons</i>
Chile	5,800
China	1,620
Peru	1,400
United States	1,370
DRC	1,100
Australia	1,000
Russia	850
Zambia	730
Canada	680
Mexico	520
Kazakhstan	430
Poland	425
Indonesia	400
Total	18,700

Source: USGS, 2014 estimate

Table 3: Zambia's Trade Structure

Item	Export <i>million US\$</i>	Import <i>million US\$</i>
Food and live animals	782	263
Beverages and tobacco	547	65
Crude materials except fuels	446	1,607
Mineral fuels, lubricants and related materials	194	582
Animal and vegetable oils, fats and waxes	32	32
Chemicals and related products, n.e.s.	574	969
Manufactured goods	7,239	968
(Copper)	-6,424	
Machinery and transport equipment	439	1,391
Miscellaneous manufactured articles	79	238
Commodities and transactions, n.e.s.	263	9
Total	10,594	10,162

Source: UNCTAD

In recent years international copper prices have been on a downward trend mainly due to sluggish demand in China (table 5). This is proving to be a challenge for Zambia's economy.

Graph 2: LME Copper Prices



Source: Bloomberg

Due to the downturn in commodity prices, especially copper, tax revenues have fallen and the Zambian government made the controversial policy decision to raise mining-related royalties.

This large hike in royalties has dealt a significant blow to companies operating in the mining sector, particularly copper mining. As such, and after strong lobbying by companies and countries over the hike, President Lungu's new government decided to review this policy (note 4).

Other than mining, the agricultural sector is the other major industry in Zambia with more than 60% of the population engaged in agriculture growing maize, cotton and tobacco as the major agricultural commodities [picture 2]. On my recent business trip I visited Zambeef, Zambia's largest agricultural business company, which is involved in the processing and sales of beef, pork and chicken as well as dairy products [picture 3]. They also handle edible oils and livestock feed and have been advancing into such countries as Nigeria and Ghana as they continue to expand their agricultural business. Although the amount of precipitation in Zambia is suitable for agriculture, the fact that the number of small farmers is very large and irrigation systems are insufficient is a serious issue in the agricultural sector.



Picture 2: Large maize field in the suburbs



Picture 3: Sausage production at Zambeef

With the aim of developing industries other than mining, the government is focusing on industrializing agriculture and fostering manufacturing which also entails improving the country's overall infrastructure including electric power (note 5). To do this the government is trying to attract foreign investment by emphasizing Zambia's political stability and relative secure and safe environment as well as providing tax holidays and eliminating foreign currency remittance regulations among other incentives.

One of the biggest challenges to Zambia's future economic development is that it is a land-locked country. As such, the government and those related are trying to give it a more positive image by touting Zambia as a *land-linked* country instead. It is a member of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), and could access a population of more than 700 million people in countries in close proximity, thus the term land-linked country.

However, in order to access this peripheral market efficiently, progress on various corridor development plans in southern Africa (the Nakara corridor, Mtwara corridor, Lobito corridor, etc.) needs to be made, as Zambia cannot tackle this type of challenge single-handedly.

So, whether these corridor plans mentioned above can move forward successfully or not will be key to the future of the Zambia’s economy. In looking at doing business in Zambia though, attention must first be paid to the copper price situation and changes in the copper market. Given copper’s strong presence in the economy I think if we see an upward shift in copper prices, in contrast to the recent downward trend, the possibilities for doing business in Zambia would obviously be enhanced.

- Note 1:** *Niagara Falls, Iguazo Falls and Victoria Falls have been labeled, or called, the world’s three major waterfalls.*
- Note 2:** *It is possible to see both sides at once only from a helicopter.*
- Note 3:** *Mr. Guy Scott’s parents were not born in Zambia, which according to a provision in the constitution bans Mr. Scott from running for president in election and prevented him from seeking election as Mr. Sata’s successor.*
- Note 4:** *In January of 2015, the government decided to raise the royalty from 6% for all types of mining, to 8% for underground mining and 20% for open-pit mining. However, following on this, President Lungu instructed the related ministries to change the royalty by April 8 with the possibility of returning to the 2014 level, which has calmed the situation for now.*
- Note 5:** *Mining costs in the copper belt, including electric power and labor costs, are comparatively high globally, and, being a land-locked country, transport costs remain a challenge for the economy.*

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