

Economy and Globalization in Zambia

At the time of independence, Zambia was expected to become one of the wealthiest nations in Africa. With access to raw materials such as copper and land, Zambia seemed to have all it needed to succeed in the global economy. However, it is now one of the world's poorest nations. So how did this dramatic change take place in less than 30 years? Much of Africa has experienced economic decline in the past decades. How does Zambia's situation compare to other countries in sub-Saharan Africa, and how is it affected by the geographic context in which it exists? Examining the economic situation and Zambia's place in the global economy will help these questions to be understood.

Lusaka, Zambia

Zambia is a land-locked country located in central Africa. About the size of Texas, it is home to 11 million people. The population is made up of a variety of ethnic groups, most of whom speak Bantu. Zambia is currently one of the poorest countries in Africa, and is identified by the United Nations Development Program as a HIPC – Highly Indebted Poor Country.

“Lusaka is the product of a country battling to find its way in a new world, caught between colonial beginnings, years of socialist independence and now democracy.”

-Zambian National Tourist Board

Lusaka became the capital of Zambia in 1930 but growth really took place in the 1960's. The Lusaka City Council describes the city as a metropolis home to 2.5 million people.

Lusaka is constantly changing. New shops are being built, and a multi-million dollar shopping mall is being constructed. However, the Zambian National Tourist Board warns that many travelers may not see any reason to stay and that over 60% of the population of Lusaka is unemployed. Of those that do have work, much of it is in farming, textiles and manufacturing.

Economic History

Before it was colonized, Zambia was inhabited by a large number of different tribes, organized into chieftaincies and monarchies. There was an active trading network in copper, ivory, rhino horn and slaves.

However, when colonization of Africa began, Zambia was taken over by the British government, which was particularly interested in the copper located in the northern part of the country. Because this occurred during the industrial revolution, copper was in high demand and made up 90% of Zambia's exports. Mining was run primarily by the British South African Mining Company, with indigenous people as forced laborers. Zambia itself did not benefit from the significant amount of money coming in from the sale of copper, as this was realized large labor groups organized encouraging nationalist movements.

In 1964, Zambia won independence from Britain, and Kenneth Kaunda became the first leader of the country. He organized Zambia on a socialist economic model. The copper mines were owned by the state. In the first ten years following independence, the level of

real GDP grew at 2.3% a year. Copper prices were increasing and it seemed that Zambia would be a very prosperous nation.

However, by the mid-1970's that dream began to fade. Copper prices fell in the world market. The price of oil and energy fueled global inflation and increased the price of imports. Zambia's reliance on the copper trade was evident, and it was forced to begin borrowing heavily from international institutions. It seems that Zambia, the World Bank, and the IMF all agreed that copper prices would increase again, jump-starting Zambia's economy. However, as time went on, this did not prove true. Further, neighboring countries fighting for independence were supported by Zambia, and trade routes were disrupted. From 1975-1990 the GDP per capital fell by almost 30%.

When it became clear that the *Zambian* economy was not going to just pull out of the situation, global donors were no longer happy to continue the way things were going. They insisted on economic reforms within the country. These included cut backs in government spending, trade liberalization, and privatization of industry. Kuanda, still in power at the time, did attempt to make changes. However, these were met with internal opposition that caused the program to be abandoned.

In 1991, Frederick Chiluba was elected to power. His party was able to push through the same type of economic reform that had been unpopular with the previous regime. In 1991 these changes were implemented. The idea was to privatize the economy and reduce the role of government in price setting and other issues.

The economy became more outwardly oriented and a market based system was adopted. Three main goals were adopted by the government and agreed upon by the World Bank

and IMF. The government was to restore macroeconomic stability, facilitate the private sector growth, and privatize and deregulate agriculture and industrial output. However, these changes have yet to make a significant impact in Zambia's economic state, and it seems that they have a long way yet to go. (www.bized.ac.uk)

Economy

Zambia has a dual sector economy based on traditional subsistence farming, predominantly in the rural areas, and a market-oriented sector in urban areas, responsible for tax revenues and foreign exchange.

In recent years, the government has made the move towards a more privatized, open-market economy. A heavy dependence on copper (90% of exports from Independence until 1990 according to NBER, 2005) proved to be detrimental to Zambia's economy in the past, and now there is a strong trend towards non-traditional exports. These include items like primary products, agro-processing and textiles. By 1999, only 61% of exports were from metal products, while 39% were non-traditional exports. Zambia has a number of resources at hand, and has a number of sectors where growth is possible.

Agriculture

Currently, agriculture makes up approximately 15% of GDP, but is still a relatively small portion of exports. Of the non-traditional exports, however, agriculture is expected to grow very quickly. Cotton, tobacco, meat, and a number of other products can be sold to the Southern Africa Development Community. Developed in 1980, this group includes nine countries in the southern Africa and makes up a significant trading area. Coffee,

paprika, sugar, cotton, and other products are likely to encourage export growth to developed country markets. (NBER, 2005) Right now food crops make up 6.3% of total income from agriculture, while cash crops are only 2.5%. The profitability of agriculture could almost certainly be increased in a number of ways.

In the agricultural sector, only 16% of potential arable land is currently being used. (www.fao.org) This land could be used for production of coffee, tobacco or other goods that can be exported. It could also be used to grow food that would otherwise be imported. Not all Zambian farmers have access to more land at no cost, but a number of them do. Other factors may be a lack of labor supply or access to seeds. (NBER, 2005, p13)

A study by the National Bureau of Economic Research found that if Zambian farmers were to switch one hectare of crops to cotton, they could gain an average of almost 20% of the average expenditure of a representative poor farmer. If a farmer had access to more land at no cost, and simply planted an additional hectare of cotton, gains are above 50% of the average expenditure of poor households in rural areas.

If we look at tobacco rather than cotton, the gain from switching one hectare from subsistence agriculture to tobacco would be roughly 88% of average total household expenditure. If tobacco were planted without having to sacrifice of a hectare of another crop, gains to the farmer would be about 130% of total expenditure of an average poor household.

A third possibility is the growth of hybrid maize, which is of export quality. This would be more than a 55% gain for the farmer switching one hectare from subsistence, and if an

additional hectare can be planted, gains of 100% can be secured. Maize is particularly important, because maize is already widely grown, and can be produced efficiently. One difficulty, however, may be in securing hybrid seeds, which must be purchased in advance.

Agriculture seems like a very clear area where growth is possible. So why haven't these changes been made already? There are many underlying difficulties preventing change in this area. Some challenges specific to agriculture are access to markets, food security and tradition in subsistence agriculture. In Zambia, a history of subsistence agriculture, particularly in rural areas may lead to risk aversion. Especially because cash crops require high quality seeds, which are expensive and difficult to acquire. For example, farmers in the rural village of Mwape were willing to farm cotton if an outside buyer provided seeds and guaranteed that he would purchase the cotton. Though the profits for the farmers were smaller, the security of this deal made it much more desirable than purchasing seeds on their own and hoping for a market. Farmers are unlikely to switch to cash crops if they are not certain of their own food security. In many cases, farmers have access to land, but do not have sufficient transportation or manpower to farm on it. They also may not have transportation to a local market, particularly for cash crops. It seems that the reason many theoretical growth schemes in the agricultural sector fail because of problems that occur at the ground level of production.

Though Africa is recognized as home to primarily agricultural based societies, there remain many serious challenges to efficient agricultural production throughout the continent. Though agriculture is an important sector in many African nations, issues such as poor irrigation and lack of reliability have kept African countries from being significant exporters of agricultural goods in the global economy. Agricultural

production in Africa is still unable to meet the demand of the region for food, as many Africans remain malnourished. Over the past decades agricultural imports have grown faster than agricultural exports. Organizations such as the Comprehensive African Agricultural Development Program by the FAO seek to help organize African agriculture and help increase efficiency.

Mining

Mining is currently the main export of Zambia, even though it isn't nearly as lucrative as it once was. It would be beneficial for Zambia to find a way to make mining more cost-effective. Currently, the Ministry of Mines and Mineral Development with the help of the European Commission, is attempting to show the benefits of mining in Zambia. They cite the ample reserves and importance of Zambia in the world copper and cobalt production. The government has privatized the mining sector and has provided tax breaks and incentives to mining companies operating in the country. Together with a stabilization of the macro economy, this is hoped to bring more business into the primary export industry in the country. (www.zambiamining.co.zm) Currently, however, mining in Zambia is still seen as a risk because of poor infrastructure. A lack of reliable transportation and electricity have been a couple of the reasons companies remain unwilling to invest.

Manufacturing

The manufacturing sector in Zambia made up 25% of real GDP in 2004. A wide range of activities including vehicle assembly, petroleum refining, production of chemical fertilizers, textile mills and more took place. This sector is also operating below capacity because of the difficulty of importing necessary parts. (www.fao.org)

The manufacturing sector was also hard hit by the liberalization of trade. The lowering of tariffs on textile products and removal of tariffs on used clothes led to large increases in imports of second-hand clothing from industrialized countries. The Zambian textile industry has almost completely shut down. In 1991, Zambia had more than 140 textile manufacturing firms, but by 2002, this number had fallen to just eight. (www.africanfocus.org, 2004).

There are also issues with very cheap goods crossing the border from Zimbabwe, which due to economic instability and extremely high inflation is able to create goods for a cost much lower than neighboring Zambia.

Zambia is seen as a high risk investment due to high costs in electricity, fuel and telecommunication. The high interest rates on borrowing and unstable macro economy also deter investors. (Times of Zambia)

Manufacturing is often seen as a sector in which developing nations can thrive since wages and production costs are lower. However, without appropriate infrastructure and stability, this is not the case. The manufacturing situation has led many in Zambia to question the structural adjustment policies suggested by the World Bank and IMF. Even if trade liberalization is shown to help GDP growth overall, those in the manufacturing sector may see only the losses. This may be one example of the ways in which broad policies may not be applicable in every location, depending on existing industry and regional situation.

Energy

One source of income for Zambia comes from its hydroelectric resources. Though it does not currently provide power to everyone within Zambia, it does export 40% of the electricity produced to the neighboring countries. This seems to be due to the fact that rural villages are often isolated and widely dispersed throughout the country. An appropriate electric grid or infrastructure does not exist to connect these areas to a central energy resource. The high cost of installing this infrastructure may mean that rural villages will need to use locally available resources to create power in their area.

Tourism

Though estimated to be only about four percent of Zambia's economy, tourism is one of Zambia's top three growth sectors. Zambia is home to Victoria Falls, and a number of national parks. In 2001 alone, tourism grew by 24.2%, and has quadrupled in the last four years. This may be due, in part, to the crisis occurring in Zimbabwe, and tourists showing preference for the safer, more stable Zambia. (www.msnbc.msn.com)

Zambia, Africa

It is clear a number of factors brought Zambia to where it is today, but Is Zambia alone in this predicament? How does it compare to the rest of Africa? Is it possible that African countries have just been the economic "losers" in a globalization movement that was supposed to be good for all?

According to the World Bank, "Over the last three decades, Africa has been marginalized from global trade. Africa's share of world exports has dropped by nearly 60 percent." So

it is clear that Zambia representative of a broader issue. The World Bank blames the failures on a long list of improvements that need to be made, including further liberalization of trade, such as reducing tariffs on agricultural products and eliminating agricultural subsidies.

However, others argue that the World Bank is pushing in the wrong direction. They suggest that because a large number of African countries are joining the global market before they are economically or socially stable, they are unable to diversify exports. They are encouraged to focus on similar cash crops and this results in price wars between African nations, driving revenues down for everyone.

Without the ability to diversify their markets, industries deemed financially unsustainable are forced to go out of business. The workers displaced from these industries do not have other options readily available to them and the result is merely high unemployment. In countries with low mobility and an underdeveloped economy, openings are very limited.

The question, then, is what is the prescription for sustainable development in Africa? Some suggest that each country must find their own path, or that institutions need to be developed before growth can occur. The World Bank maintains that earlier recommendations were correct and only need to be continued and carried out appropriately. As can be seen, there are many factors that can be pointed to as being less than optimal for promoting growth. Though many theories exist about what needs to be done, there is no consensus or empirical evidence of a successful model for African growth in general.

Challenges

Education

About half the population of Zambia is under 18 years old. One tenth of the population is orphaned children. This makes providing education a very difficult task. The government has committed to achieving the millennium development goals of universal primary education and equal education opportunity for girls. However, it seems unlikely that these goals will be met by 2015. Education funding is 24% of the government's discretionary budget. However, 36% of the education budget is dependent on overseas development assistance. The majority of funding is required for teachers' salaries. (Global Campaign of Education – www.vso.ork.uk)

In 2002, the Zambian government introduced free basic education to help make public education accessible to all. This led to an enrollment rate of over 93% in basic schools. However, high enrollment rates are putting high pressure on existing materials. The pupil teacher ratios are high and rising. Urban schools are short on space and rural schools often require lengthy travel for young children. In rural areas less than 66% of girls complete 7th grade and under 79% of boys. Only 38.5% of children completed school up to grade 9.

Zambia also has a number of higher education opportunities, with the University of Zambia in Lusaka as the primary location. This university has an enrollment of about 5,000 students.

Cultivating an educated population is essential to creating social change and stimulating economic growth. With education, more of the population will be more aware of the workings of the global economy and the issues within Zambia. Educated Zambians can begin to tackle the many problems facing the country and help lead the way to economic achievement.

Rural/Urban Divide

When examining the future possibilities for the economy of Zambia, it must be recognized that issues facing the population are not ubiquitous, and policies put into place will not affect everyone equally. In particular, rural areas tend to have very different situations than urban areas.

In rural areas, 42.5% of total income comes from own-production, where as in urban areas this only makes up 3%. Non-farm income in rural areas is just above 16%, while urban areas are at about 32%. Wages make up about 7% of rural income and over 45% of urban household income. It seems fair to conclude that rural areas get most of their income from subsistence agriculture, and non tradable services. There are much less cash crops and agricultural wages. (NBER, 2005, p8) If rural farmers are able to get access to markets, they stand to benefit highly from the production of higher-return cash crops.

Rural areas tend to be much less wealthy than urban areas, though urban areas do have their share of unemployment. Five percent of Zambia's population takes half of the countries income. Rural subsistence farmers have less ability to affect political decisions

and policies tend to benefit the urban rather than rural population (UNDP, Rural-Urban Divide)

The rural/urban divide is recognized as a problem throughout Sub-Saharan Africa as well as in a number of other developing countries. The Department for International Development discusses the importance of understanding the rural-urban divide when applying development theories. Though the difference in economic activity and development in these areas is acknowledged, however, they also stress the fact that they are linked in many ways and should in no way be pit against each other. They note that thinking of rural and urban areas as completely unrelated, as is traditional in development programs, can be harmful. What seems to be needed in the rural/urban divide issue is a clear understanding of what difference exist and where these areas are linked to adequately promote growth in all areas.

Debt

According to the CIA World Factbook, Zambia's external debt was estimated at 127.5% of GDP in 2004. In 2004, it used 7.35% of its GDP to repay debt. This is twice as much as it spends on education. (Make Poverty History) In 1996, Zambia was identified by the international as a highly indebted poor country (HIPC), which made them part of an initiative to ensure that no poor country faced a burden that it could not manage. However, this requires the completion of a number of controversial conditions, such as macroeconomic stability and economic re-structuring according to the recommendations of the IMF and World Bank. According to a Times of Zambia article published on

September 28, 2005, Zambia has now met the HIPC requirements, and expects half of its external debt to be knocked down over by the end of this year.

HIV/AIDS

Zambia is in the midst of an HIV/AIDS epidemic that has had devastating effects on all aspects of life. It is estimated that 16.5% of adults are affected by HIV/AIDS. The life expectancy in Zambia has fallen to 37 years. The affect is disproportionately affecting women, who are often expected to be submissive, and who are six times more likely to be infected between the ages of 15-25. It is estimated that half of the children under 15 years old (nearly a quarter of the population today) will die from AIDS. Though the government has been engaged in an antiretroviral treatment program and an awareness program, HIV is still at a very high level.

AIDS often develops in people in their most productive years, meaning families are deprived of their highest economic earners. Crops are not gathered and sold, wages are not earned, and children are often kept home from school to take over. Often these children become orphans.

“In the days before the full impact of the HIV and AIDS pandemic, street children were a very rare sight in Zambian cities and towns. Now they are everywhere... sleeping under bridges, behind walls, and in shop corridors.” –Dr. Mannasseh Phiri

The educational system has had significant set-backs due to the AIDS epidemic. Twelve percent of Zambian families reported that a child in their family did not attend school

because a parent or guardian was suffering from AIDS or had died from AIDS. Teachers have also been greatly affected and are now much more difficult to find. In 2002, about 2000 teachers died, while only 1000 graduated from teaching colleges. Finding teachers for rural areas is especially difficult, because when teachers become ill they tend to move to urban areas to be nearer to clinics.

Zambia's healthcare system is under great strain due to the high number of AIDS related illnesses. In some hospitals, more than 50% of beds are occupied by these patients. In addition to an increased need for manpower and space, this has also greatly increased the costs of healthcare.

Every sector of the economy is affected by the epidemic. Employers must deal with absenteeism, medical care, funerals and high turnover. According to the Zambia Business Coalition, 82% of known cases of employee deaths are HIV-related and 17% of staff are recruited to replace people who have died or left because of HIV-related infections. Because these people are in their most productive years, the workforce is constantly losing valuable experience and knowledge.

The AIDS epidemic is affecting every aspect of Zambian life, and without addressing this situation, it is unlikely that significant progress can be made in other sectors.

The Future

Zambia is a nation that is facing a number of challenges, all of which must be addressed to make significant progress. However, the nation seems to have a number of options available for future growth. A decline in the reliance on copper as well as an increasing

focus on non-traditional exports such as agricultural goods have the potential to provide economic development. Though Zambia must still tackle the issues of education, the AIDS crisis, the rural-urban divide, and extreme debt, progress has begun in each of these areas. Global free primary education has been instituted, the AIDS crisis is getting an increasing amount of attention, the rural-urban divide has been identified as an issue, and the HIPC goals have been met. Upon independence, it seemed that Zambia would thrive in the global economy, but after 30 years of decline is still searching for a way to successfully return to its once successful position.

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