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ALTERNATIVE DEVELOPMENT STRATEGIES IN ZAMBIA

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I. Introduction

Zambia, located at the heart of Africa, covers a land area the size of Great Britain, Germany, Denmark, Switzerland, Holland, and Belgium put together. It has the highest per capita income in independent Africa. Yet closer examination suggests that Zambia confronts the same problems of underdevelopment as do other independent African countries. Zambia's problems, moreover, are complicated by the fact that its boundaries were arbitrarily carved by the colonial powers into an odd shape unrelated to ethnic or geographic realities. Landlocked, and surrounded on three sides by still-to-be liberated territories, Zambia's government has from the outset confronted a complex task of breaking the myriad of trade and institutional linkages binding it to the racist political-economic structure of Southern Africa.

The problem is not, and never has been, merely one of changing trade routes. What is required in Zambia, as in all the newly independent countries of Africa, is the restructuring of the entire set of political-economic institutions shaped in the colonial past which condemn most of her 4 million inhabitants to live in poverty.

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*Professor of Economics, University of Zambia, Lusaka. The author wishes to express her appreciation to the many people who participated in early discussions and have read and made constructive criticisms of this article as part of the "Copper Project" in Zambia, 1972-73.

This paper seeks to examine the development policies adopted by Zambia, not only because of their impact on the lives of the people of Zambia, but also because it is hoped that as a case study, it may illuminate the entire developmental process required to attain self-reliant economies in Africa. The paper is divided into three parts: first, an explanation of the problem of underdevelopment as it confronts Zambia; second, an analysis of the policies adopted by the newly independent Zambian government; and, third, the suggested outline of a development strategy which might more effectively achieve Zambia's goals, given the existing constraints.

II. Explanation of the Problem

A. The inherited dual economy

Zambia has often been cited as a classic example of a dual economy.[1] A half century of outright colonial rule bequeathed to it a modern, technologically sophisticated "Copper Belt," which employed about 50,000 workers (1 out of 6 Zambian wage earners), produced 11 percent of the world's copper, and endowed the nation with a per capita income of about K305 ($420) in 1970.[2] The staple foodstuffs consumed by the miners and the associated urban population were produced by about 40,000 African laborers working for the European owners of a thousand or so large, modern, commercial farms strung out along 20 miles

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[1]W. J. Barber, The Economy of British Central Africa, A Case Study of Economic Development in a Dualistic Society (California, Stanford University Press, 1961), p. 6.

[2]The exchange rate was then K1 = $1.40. After 1970, the fall of copper prices reduced the per capita figure significantly in terms of Kwacha. The U.S. devaluation of the dollar in 1973 changed the Kwacha value to K1 = $1.55.

on either side of the line-of-rail by which copper was exported through the south. The rest of the food they consumed was imported, as were almost all the locally consumed manufactured goods, from farms and factories in Rhodesia, South Africa, or overseas.

Outside the Copper Belt the economy had, for the most part, been left to stagnate: almost no schools, hospitals, or even tarmac roads were constructed away from the narrow strip along the line-of-rail. Scattered, sparsely settled peasant holdings, cultivated with hoes, axes, and cutlasses as of old, produced scarcely enough to provide a bare subsistence for the three-fourths of the population remaining in the more remote rural areas. The primary link between the rural population and the cities was the steady drift of young men and women to the cities looking for work.

B. Disruption of pre-colonial economies

Contrary to many orthodox Western theories, the explanation for the failure of any kind of multiplier effects to spread more productive activity from the export enclave in the Copper Belt to the rural areas does not lie primarily in the conservatism of attitudes or traditional institutions in the rural areas. The fact that the mines did not serve as an engine of growth and development throughout the economy cannot be explained in terms of the peasants' lack of N-achievement. Rather in Zambia, as throughout Africa, the explanation must be sought first in the sets of working rules and institutions--public and private--shaped in the colonial era to facilitate the export of raw materials for the mushrooming factories of Europe; and second in the sale, initially of British, and later Rhodesian and South African, manufactured goods in the resulting limited Zambian market.

It is simply not true that the rural inhabitants failed to respond to the "opportunities" created by the expansion of the Copper Belt. The fact is that the "opportunities" themselves were sharply restricted to employment at low wages for long hours for the mine companies and the line-of-rail estates. A host of colonial rules and regulations, affecting practically all aspects of life, relegated Africans to the inferior status of cheap, unskilled labor. The rules found ideological rationalization in myths of racial inferiority. In the beginning, Africans were forced to work through the gentle persuasion of poll and hut taxes--reinforced as necessary by the occasional burning down of the huts of those who refused to pay.[3] The possibility of earning cash to pay the taxes by means other than labor was limited.

African farmers were pushed off the fertile lands along the line-of-rail most accessible to the expanding market on the Copper Belt. Marketing organizations, organized as cooperatives or directly by the colonial government, were set up to facilitate settler sales to the mines for rations for mine workers. Those Africans seeking to sell their own crops for cash were paid lower prices for their produce, or excluded from the market altogether. Trading licences assured that aliens obtained the best locations for trade. African traders who succeeded in obtaining licences found sources of supplies restricted. Bank credit was difficult if not impossible to obtain. Africans seeking the education required to obtain more skilled jobs were frustrated by lack of facilities in the rural areas, and exclusion from those created in urban centers. Africans could not even enter certain shops on the main street in Lusaka or the Copper Belt prior to independence.

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[3] L. H. Gann, A History of Northern Rhodesia, Early Days to 1953 (London: Chatto and Windus, 1964), p. 104.

Yet Africans persisted in their attempts to benefit from the new opportunities and levels of living made possible by modern technology. Tens of thousands of young men travelled, often on foot, hundreds of miles to find cash employment. Some came from as far as Malawi, Tanganyika, and Mozambique. As might be expected, they sought the relatively higher paid employment of the mines and urban centers. Given the low wages on the line-of-rail estates, it should not be surprising that the records are full of settler farmer complaints about the lack of adequate labor supplies.[4] A few Africans accumulated a little money to send their sons away to school or to technical institutions. Some invested their sparse savings in tiny stores or bars in their home villages. But for most, the little cash Africans could earn in the mines or on the commercial farms was barely enough to support their families, pay their taxes, and perhaps buy a bicycle or a little cloth.

The price paid by the rural areas for the steady drain of their most promising young men to work in the export enclave was high. In some villages, as many as 60 percent of the men aged 20 to 40 years old were gone at any given time. Traditional shifting agricultural techniques required continual renewal of the land through leaving it to lie fallow while new areas were cleared and planted.[5] This system was disrupted when men's labor, essential

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[4] Even in 1967, agricultural wages were still only 20 percent of those on the mines.

[5] The attitude of colonial authorities to traditional agriculture is illustrated by the fact that only the line-of-rail commercial farms were listed as "farms." Traditional farmers were reported--if at all--as owning "gardens." Likewise, employment statistics list as "employed" only those earning wages, ignoring the fact that 350,000 to 400,000 farmers and their families are still employed in agriculture on their own farms.

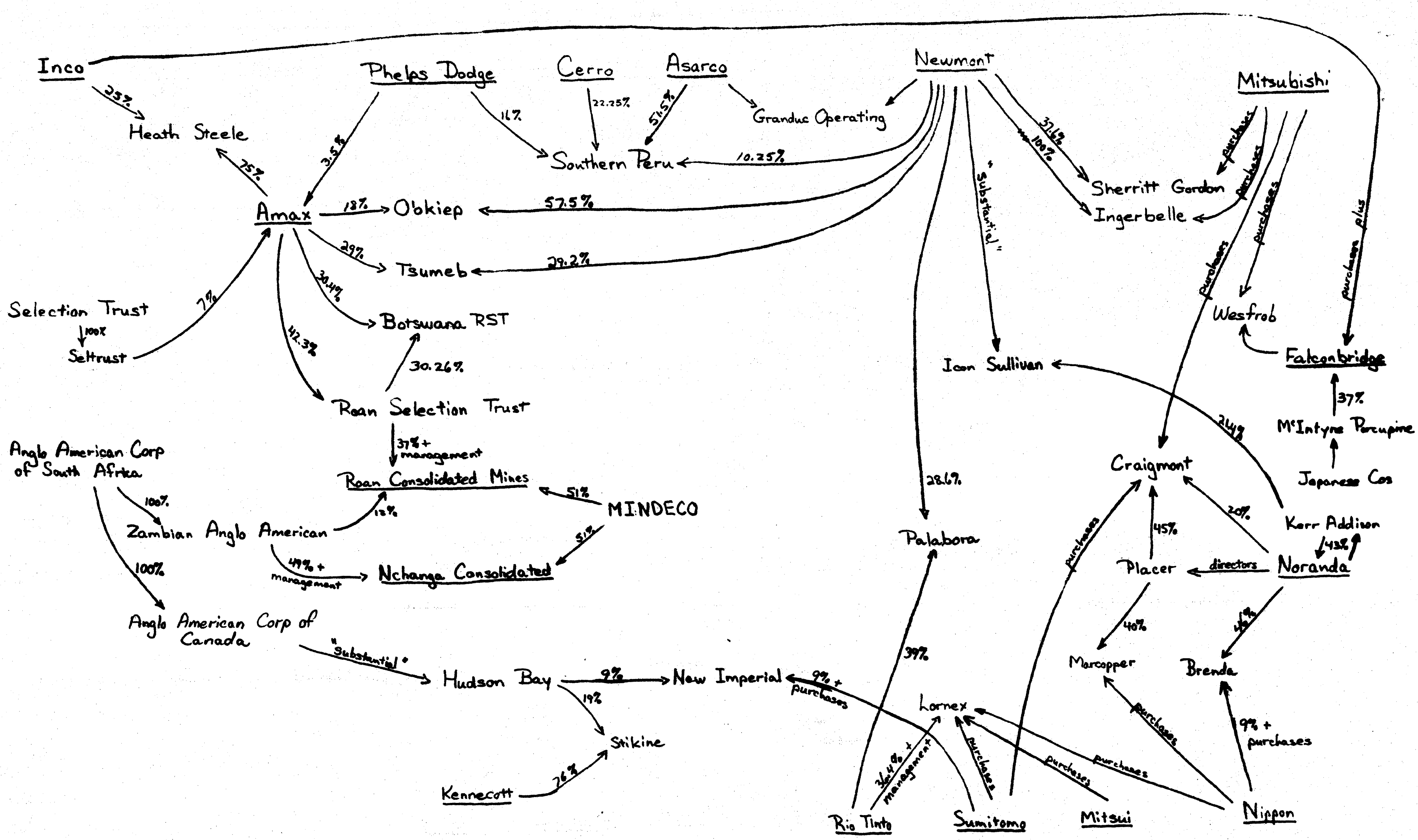
for heavy clearing of woods, was lost. Women, old men, and children had little choice but to plant and harvest over and over from the same tired, eroded patches of land. Production declined. Village elders complained that traditional institutions were undermined by returning young men seeking new ways; but channels were never created to open new opportunities. For the youth, the only escape from worsening rural poverty seemed to be permanent migration.

C. The drain of investable surpluses

The private firms which emerged and dominated the Copper Belt under the umbrella of colonialism were and are in business--in accord with time-honored prescriptions of Western economic theory--to make money. They shaped and were the primary beneficiaries of the distorted dual economy inherited by Zambia at independence. An analysis of their role is essential to understanding the problems confronted by the Zambian government in its efforts to break its ties with Southern African and achieve a balanced, nationally integrated economy capable of attaining increased productivity and higher levels of living in all sectors.

It should be underlined that more than a half a century of colonial rule had, by independence, created conditions which in no way resembled the model of competition assumed by orthodox theory. A handful of private foreign firms so dominated the modern sector of the economy that any effort to restore conditions of even workable competition could only be doomed to failure. Two big mining companies, Anglo-American and Roan Selection Trust, had already, by the 1930s, emerged as the only firms capable of accumulating the capital and technological expertise necessary to develop Northern Rhodesia's rich copper ores. They were by no means simply the product of a few valiant entrepreneurs risking their all to bring the remote treasures of Central Africa on to the

Interlocking Ownership, 1971



world market. Rather, they were both associated with giant companies whose interests already spread across several countries: Anglo-American, originally created with American and British capital, had already become established as a dominant interest in the vast mines of South Africa. The other firm eventually became Roan Selection Trust, affiliated with American Metal Climax, a large company with a going business already established in smelters, and refineries in the United States. The two companies purchased 50,000 square miles of mining concessions from the British South African Company (which in those days still governed Northern Rhodesia as if it were a company holding).

The two companies built smelters and refineries which processed their ore to a considerably higher level than that achieved even in the politically independent Latin American country of Chile, one of the other big four copper exporters. The output was sold directly to European and English fabricators, its fairly advanced level of processing giving the companies considerable flexibility in marketing. The relatively low level of taxes in Northern Rhodesia permitted the companies to reap a high portion of the resulting increased value.

There were relatively few linkages between the mines and the rest of the Zambian economy, except for the continual flow of cheap labor supplies.[6] In 1967, an input-output table suggested that about 15 percent of current mining inputs and 30 percent of fixed capital formulation inputs were imported.[7] Most

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[6] J. Fry and C. Harvey, "Copper Production in Zambia," mimeo. (Lusaka: University of Zambia, 1972).

[7] The companies themselves estimated about a third of their cost-of-sales totals were imported, K100 million worth in 1971. Some of these goods were not imported directly to the mines but to supplier companies, and so do not show up in the input-output table.

of the local inputs were in the form of labor (about 40 percent of current inputs), and by-products of metal mining itself. Other inputs included electricity, water, and timber, and some machinery and chemicals. On the other hand, if Zambians sought to purchase any of the wide range of manufactured products produced from copper, they had to order them from overseas factories.[8] By the time of independence, the companies had long since paid for their original investments out of their profits, and continued to expand their output through re-investment and borrowed funds. Over half of the wages and salaries of the companies were paid to European managers and skilled workers, about 10 percent of the total number of employees. The companies continued to send home to their shareholders a major share of the investable surpluses produced by the mines.

Over the years some of the European traders and settlers on commercial farms along the line-of-rail made efforts to capture a share of the vast profits of the mining companies. It may have been that the mining firms were for this reason content to have Northern Rhodesia become a direct British colony, rather than become more closely linked with the increasingly settler-influenced governments of the South. The pressure for Federation of Northern Rhodesia with Nyasaland (now Malawi) and Southern Rhodesia appears to have stemmed in large part from settler efforts in the three colonies to tax the mines' profits to promote expansion of the local economy for the benefit of the settler population, particularly in Southern Rhodesia. In actual fact, the ten years of Federation--1953 to 1963--saw a direct tax drain of some K70 million from Northern Rhodesia to finance infrastructure as a base for

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[8]The first electric wire and cable factory was only established several years after independence was attained.

industrial growth in Southern Rhodesia; with an additional loss estimated at tens of millions of Kwacha as a result of high prices charged for Southern Rhodesian manufactured goods in the tariff-protected Federation market. The Northern Rhodesian manufacturing industry was so neglected that at independence, even including industries serving the mines, it constituted only about 6 percent of Gross Domestic Product at factor cost.

Southern African and British firms dominated the commercial and financial sectors of the economy. Two major trading firms engaged in the import of consumer goods: ZOK, part of a large South African chain; and CBC, a British importing firm. Both set up wholesale operations and some retail trading outlets in the major urban centers. Three British commercial banks, Barclays, Standard Bank and National Grindlays, handled most of the colony's financial business. The shipping and insurance operations were mostly provided by British, South African, or Southern Rhodesian firms.

It has been estimated that, by the time of independence, the total cost of profits, interest, freight, and insurance paid annually to the giant firms that dominated Zambia's export enclave was on the order of one-fourth to one-third of its total foreign exchange earnings. These funds might have been invested to train Zambian labor, build Zambian roads, and equip Zambian industry and agriculture with modern machinery. Instead they were shipped out of the country to the shareholders of the giant foreign firms that dominated Zambia's economy.

Herein, in the inherited institutional structure, lies the primary explanation of the causes of underdevelopment that characterized major sectors of Zambia's economy at the time of independence. This explanation sets the stage for examining the efforts of Zambia's newly politically independent government to break from the South. The problem was not simply one of ending economic dependence on transport routes through Rhodesia, South Africa, and the Portuguese territories. More critically, it was one of reshaping the entire set of public and private institutions created in the colonial era which linked the distorted growth of a narrow modern enclave in the Zambian economy to the profitable business of exporting copper to the factories of Europe.

III. An Evaluation of Government Policy for Development

The Zambian government's official philosophy is Humanism. Humanism purports to focus on man and his well-being, without regard to race or status. It holds that man can best realize his full value and dignity by cooperation and self-reliance. But Humanism does not pretend to be a blueprint for economic development. For that, one must leaf through various documents and speeches, some prepared by expatriate technicians, others presented by government spokesmen, which have outlined government economic policy since independence.

The development policies adopted by Zambia's newly independent government were not directed to dealing with the problem as posed in Part II above. A fundamental constraint at the outset was the fact that there were almost no Zambians in key governmental posts. A primary goal of the new government was to train Zambians to take over these jobs as rapidly as possible. Beyond that, government policies appeared to be founded initially on the fairly orthodox assumption that government should simply redirect investable surpluses to expand social welfare activities and build the necessary economic infrastructure to attract private investors into productive activities. The primary difference between this approach and that of the former colonial government was the vast increase of government expenditure on facilities designed to open up opportunities for Africans to participate in the modern sector.

A. Expansion of social and economic infrastructure

President Kaunda declared on the eve of independence:

> Time and again we have made it clear that it is our intention to put this country well on the road to progress through intensive economic activity based on our present rich copper mines as well as exploiting other minerals.[9]

He emphasized the necessity of equipping the farming communities and rapidly expanding education and health as well as transport and communications facilities. He added:

> All these facilities cost a lot of money, but from our contacts, capital for development is not going to be a problem to the same extent it is in other countries. Quite a bit of this will be raised here locally, but of course much more will come from outside. Our country will not be a happy one if we don't keep taxes low. If we are going to encourage capital to flow in here, we must keep taxes fairly low and indeed it is our avowed intention to keep the cost of living to a minimum.[10]

The first National Development Plan therefore emphasized the training of manpower and the rapid expansion of social and economic infrastructure throughout the country. Its success was financed by an unprecedented boom in world copper prices which pushed GDP upwards at the exceptionally high rate of 12 percent annually, and, coupled with new government tax policies, almost tripled government revenues to K432 million by 1970. Current expenditures for education were increased five times to K53.6 million in 1971. Funds for health were multiplied seven times to K24 million. Those for rural development rose

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[9] K. Kaunda, Zambia: Independence and Beyond, p. 60.

[10] Ibid.

from almost nothing to K53 million in the same period. Tarmac and upgraded roads and schools and hospitals were built in many remote areas. Construction boomed. Employment in government-sponsored community and social services outpaced all other sectors to provide 62,780 jobs by 1971--about 25 percent more than the total employment in the mining sector.

Despite the hopes expressed in the first National Development Plan , however, the multiplier effects of the copper boom failed to stimulate much productive activity beyond the export enclave along the line-of-rail. Manufacturing employment mounted, it is true, as import substitution industries were set up, spurred by the Rhodesian Unilateral Declaration of Independence and financed to a considerable extent by foreign private capital attracted by expansion of infrastructure and favorable tax policies. However, industries, for the most part remained located in existing urban areas, relatively capital intensive, and to a large extent based on imported parts and materials. Seeking to maximize profits, foreign private firms invested in the kinds of industries and in areas for which the existing market seemed most promising, along the line-of-rail. The beverages and tobacco industry tripled in size, outpacing the growth of all other industries, a typical pattern in developing economies.[11] Most of the new firms imported capital equipment and machinery, employing capital-intensive technologies utilized in their more developed homelands, but hardly appropriate in Zambia where mounting urban unemployment was already causing serious problems. They imported parts and materials from

[11]Republic of Zambia, Monthly Digest of Statistics (Lusaka: Government Printer), June 1972, Table 15 (a), p. 14; see also A. Seidman, Comparative Development Strategies in East Africa (East African Publishing House, 1972), pp. 38, 101, 114, 122-3.

their overseas affiliates to be processed in their Zambian plants rather than seeking to expand Zambian production of raw materials.

Table I: Mining and Manufacturing Industries at Factor Cost as Percentage of Gross Domestic Product in Zambia, 1970

Industry	Percent of Gross Domestic Product
Mines	40
Manufacturing	9

Table II: Percentages of Total Manufacturing Output Produced by Selected Industries (at factor cost), 1969

Industry	Percent of total manufacturing output at factor cost
Food, beverages, tobacco	31
Textiles, wearing apparel	12
Chemicals	10
Foundries, metal products	11
Non-metallic mineral products	9
Sawmills, joineries, etc.	6
Paper products, printing, etc.	5
Machinery	4
All others	12
Total Manufacturing output	100

Source: Calculated from Republic of Zambia, Monthly Digest of Statistics (June 1972), Fabie 56, p. 56.

In agriculture, the government granted millions of Kwachas to subsistence farmers to join in "cooperatives" to clear land for new production in remote provinces. It loaned thousands more through the newly Credit Organization of Zambia. But the lack of skills, necessary farm inputs, and market opportunities obstructed the actual increase of output and sale of cash crops. The cooperatives remained little more than discouraged groups whose members eventually lost interest and returned to traditional farming methods, or left the rural areas to seek employment in the burgeoning cities. Under the circumstances, the government grants and loans appeared to be little more than a limited form of redistributing income to the rural areas. It apparently had little impact on actual productivity there.

By the end of the 1960s, NAMBOARD (National Agricultural Marketing Board) was formed out of the pre-existing marketing organization which had serviced the line-of-rail commercial farms since the colonial days, together with a new agency which had sought to extend marketing services to African peasants in more remote rural areas. But scrutiny of NAMBOARD purchases in 1971 indicates that centralized purchases of maize, milk, beef, and tobacco--formerly produced mainly on settler farms--had declined in the immediate post-independence years. Sales of maize, under the impetus of subsidized NAMBOARD purchase prices recovered to reach record heights in 1971-72 but the statistics suggests that almost three-fourths was purchased from line-of-rail estates.[12] The rural-urban drift mounted into a flood: by the end of the 1960s, some 40 percent of the

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[12]Ministry of Rural Development, Republic of Zambia, <u>Monthly Statistical Bulletin</u>, February, March, 1972, p. 5.

nation's inhabitants were reported to be living in the cities, over half of them in "illegal" squatter compounds where they lacked city water supplies, sewage and garbage disposal, and electricity. About 20 percent of the urban labor force was estimated to be unemployed.

B. Skewed income distribution

Despite the government's declared redistributive policies and the rapid expansion of social welfare expenditures spurred by the copper price boom, income distribution remained sharply skewed. Widespread concern was expressed by government officials and the press about rising wages and the growing urban-rural income gap. This tended to obscure the fact that by far the greatest share of the rapidly expanding national wealth appeared to be going to swell the profits of the still predominantly foreign-owned firms and the high incomes of a relatively small portion of the urban population. Wages rose, it is true, particularly those of the mine workers, whose average wages were almost double the average earnings of workers in other industries. Yet the average wage of African miners remained barely one-fifth of the salaries of the non-Africans, who still held most management and relatively skilled supervisory posts.[13]

Overall, earnings in all industries rose by about 30 percent from 1957 to 1970, after a peak loss of mandays due to industrial disputes in 1966; but

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[13]Non-Africans still constituted about 10 percent of the mine labor force in 1970. It might be noted that the payment of high salaries to expatriate high-level personnel has created a special problem for the Zambian government. It is argued that such salaries are essential to attract expatriate experts, given world market conditions. At the same time, if the Zambian government pays such salaries, it will be creating a local highly paid salariat which an underdeveloped nation can ill afford. Yet to continue two salary scales appears to perpetuate the discriminatory pattern initiated in the colonial era. This dilemma appears unlikely to disappear entirely until Zambianization is complete.

rising prices in urban centers cancelled out much, if not all, of the workers' gains in terms of real purchasing power. Wages and salaries declined as a proportion of Gross Domestic Product at market prices from 40 percent in 1964 to 32 percent in 1969, despite the increase in numbers of workers employed. This suggests that the wageworkers' share of the total national pie was, if anything, declining. The primary cause of the decline in the workers' share of GDP, of course, lies in the rise in total GDP due to rising copper prices on the world market. When the copper prices fell in the 1970s, therefore, the GDP declined, and the workers' share undoubtedly increased again. The evidence does suggest, however, that the high copper prices of the 1960s did permit a relatively small group of individuals and companies to reap windfall profits.

At the same time, the government's program of Zambianization facilitated the entry of a limited number of Africans into the ranks of a rapidly forming high-income elite. Some obtained top government political and civil service posts with high salaries and fringe benefits. These salaries were originally designed to attract Europeans to the colonial service. They hardly seem appropriate to a developing economy devoted to Humanism. A few Zambians were appointed to boards of directors and management posts in private and parastatal businesses. Some entered trade and speculative real estate operations where the more successful could reap profits as high as 70 percent of investment.[14] A number, assisted by government loans, purchased line-of-rail estates vacated

[14]It has been reported that the larger of the African-owned taxi companies welcomed enforcement of licencing regulations as a means of reducing competition by smaller African taxi drivers, would-be entrepreneurs seeking to enter the business world at one of the few points where the required capital and skills are minimal. A. Beveridge, "Businessmen in Zambia," Typed draft Ph.D. Thesis (New Haven : Yale University, 1972).

by settlers upon independence.[15]

There may be some reason to wonder whether such nouveau riche elements in positions of power and prestige would lend whole-hearted support to Humanistic efforts to alter the institutional structure sufficiently to redirect a major share of available investable surpluses to create more productive employment opportunities for the broad masses--especially if it might require a reduction of the higher incomes they enjoyed.[16]

C. The Mulungushi and Matero Reforms: Potential control of the commanding heights?

At the end of the 1960s, as the first National Development Plan came to an end, President Kaunda announced a series of major economic reforms. These had two major thrusts: one was to Zambianize most internal trading establishments, thus enabling private Zambian entrepreneurs to replace non-Zambians in the ownership of most retail trading establishments; the second was to give the government a degree of partial control over what have become known in Africa as "the commanding heights"--basic industries, export-import and

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[15]These may well have been among the major beneficiaries of NAMBOARD's price subsidies designed to increase maize output.

[16]In Kenya, Sir Michael Blundell, in his revealing book, So Rough A Wind (London, 1964), anticipated the likelihood that in similar circumstances in the Kenyan case they would not support structural change. His book was essentially a plea to Kenyan settlers to accept Kenyan independence and majority rule because they could not expect English taxpayers to continue to finance the anti-guerilla warfare which had already cost tens of millions of pounds sterling. He expressed the hope that emergence of a group of well-to-do African farmers and businessmen as well as politicians and highly placed civil servants would--given the impracticality of maintaining white domination--assure continuation of the status quo "by other means (p. 178)."

internal wholesale trade, and financial institutions.[17]

Analysis suggests that the implementation of these reforms had little impact in initiating the kind of fundamental reorganization of critical institutions suggested as essential by the explanation of underdevelopment in Zambia presented in Part II above.

The government did carry out negotiations to purchase 51 percent of the shares of ownership, first of the major manufacturing and importing sectors of the economy and, shortly afterwards, the mines. Under the agreements thus arrived at, the government acquired controlling shares in exchange for fairly generous payment of compensation to the owners.[18]

In actual fact, however, the government's control over its new holdings remained indirect and distinctly limited. The holdings were placed under the

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[17] The commercial banks were originally to be included in the actions initiated, but in fact they were not affected. They have been required to incorporate locally, and keep their reserves for their Zambian business in the country, but as yet they remain wholly foreign-owned with the exception of two banks: the Zambian Commercial Bank, in which the government purchased 60 percent of the shares; and a wholly state-owned bank, the National Commercial Bank of Zambia, the third largest bank in Zambia in terms of assets.

[18] The issue of compensation is, of course, debatable. In the case of the mines, whose original investment had long since been recovered in the form of profits, the government agreed, nevertheless, to pay for book value which had been augmented by loans and reinvestment of part of the profits over the years. This meant that the government guaranteed to pay about $40 million annually, including interest, to the parent companies of Anglo-American and RST until 1978; and to continue paying half that ($21 million) until 1982.

The Chilean Controller General, in contrast, decided that, after deducting from the book value of the mines the excess profits shipped out of Chile from 1955 to 1970 (this assumes a particular definition of profit) two companies, Kennecott and Anaconda, actually owed Chile $310 million and $68 million, respectively; hence the Chilean government refused to pay any compensation at all. Cala Newsletter, 2, no. 2 (Madison, Wis.).

In the Zambian case, however, lack of skilled Zambian manpower and the need to maintain overseas markets with which the companies had contact, undoubtedly influenced the government's decision to pay what can only be termed 'generous' compensation.

overall supervision of a parastatal corporation, ZIMCO, in five subsidiary groups.[19] The first, INDECO, was responsible for eight sub-groups of 52 associated and subsidiary companies with assets totalling K167 million, the largest parastatal holdings of predominantly manufacturing industries in the former British African colonies (see Table III). The second, MINDECO, was given responsibility for the mines, which reported net assets in 1972 of K659 million ($922 million). The third, FINDECO, was given responsibility for the state insurance company, provident fund, and the government's holdings in two commercial banks. The remaining two incorporated the National Corporation and the National Hotels Corporation.

In Zambia, the government continued, for the most part, to treat the new parastatal sector like private firms. The parastatal companies tended to make their decisions with the primary goal of maximizing profits. Little attempt was made, initially, to introduce other criteria for decision-making. Given the shortage of high-level Zambian personnel, the day-to-day management of the subsidiary companies remained, in most cases, provided by the foreign partner. The government did introduce a more vigorous policy of training with a view to accelerating Zambianization of higher level posts, but outside of this its actual control of the parastatals appeared to be more of a future potential

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[19]The parastatal corporation has come to be utilized in predominantly private enterprises for governmental holdings in productive sectors. It is supposed to remove such holdings from the purview of the civil service, permitting their managers to exercise the autonomy required to enable them to function in a market economy much like any private enterprise.

TABLE III: INDECO HOLDINGS, 1971

	Indeco Breweries	Indeco Chemicals	Indeco Industrial Holdings	Indeco Real Estate	Indeco Trading	Rucom Holdings(1)	Steel build Holdings(2)	Other	Total
Turnover*	63,618	58,847	14,254	364	49,558	26,617	33,618	220	247,096
Group profit/(loss) before taxation	8,988	5,735	(247)	(150)	2,689	1,656	4,509	343	23,523
Group profit/(loss) after income tax and withholding tax Net profit/(loss)	6,046	4,517	(660)	(234)	1,447	427	2,310	460	14,313
attributable to Indeco	2,996	2,276	(758)	(234)	834	176	1,336	452	7,078
Group net assets	23,365	65,115	11,688	20,499	11,509	10,136	12,838	12,720	167,870
Number of employees (inclusive of associated companies of consolidated)	5,008	2,516	3,002	263	3,119	3,841	2,794	957	21,500

*Excluding inter-Indeco group sales

Source: INDECO, "Annual Report" (1972).

Notes: (1) Rural small-scale industries

(2) Industries producing industrial inputs: timber, glass, metals, etc.

than a present reality.[20]

Examination of INDECO's holdings in 1972 illustrate the extent to which they had been shaped, not by a conscious development strategy geared to restructuring the economy, but by short-term decisions of the previous owners based on profit-maximizing considerations reflecting--and reinforcing--the distorted domestic market (see Table III). INDECO Breweries had the largest number of employees, the largest turnover, and highest profit of any of the eight subsidiary groups. INDECO's new investment proposals, according to the Chairman, continued to be influenced primarily by import substitution possibilities determined by the existing market, rather than consideration of the kinds of new industries which might more effectively contribute to restructuring both demand and supply in the context of a more integrated, nationally balanced economy.

D. Continued efforts to expand copper production

The primary thrust of government development policy, as it entered the period of the second National Development Plan, appeared to be a major expansion of copper production. It has been argued, in fact, that one of the main reasons for government acquisition of a majority of shares in the mines was the leverage it might then exercise to require investment to expand copper output.[21]

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[20]The government has so far not even been able to exercise its control to influence parastatal salaries policies at the highest income level to bring them more in line with each other and other government posts. (J. Fry, "Issues in Wage Determination," Mimeo. [Lusaka, Univ. of Zambia], p. 28.) Yet the relatively high salaries paid in this sector tend to aggravate the difficulties of allocating Zambian high-level manpower in accordance with some rational manpower planning scheme. The parastatals are supposed to contribute to the government's efforts to control prices, but the generally rising price levels in Zambia suggest that this has not been too successful.

[21]C. Harvey and Bostock, Copper and Zambian Economic Independence (Praeger, 1972).

The second National Development program announced that total copper output was expected to expand by about 6.8 percent a year,[22] or about 40 percent by 1976.[23] To attain this goal it would be necessary to invest about K96 million annually; that is, in each year of the Plan, the amount invested would be equivalent to almost one-third of the total existing assets of INDECO, almost two times the annual government expenditure on rural development. Apparently, the government hoped to continue to reap a high income from copper output which it could then spend to expand other services, as it had during the period of high copper prices in the 1960s.

This policy seemed to be founded on two possible fallacies. First, it involved what might be over-optimistic assumptions about the future world market for copper. These assumptions may have been given a false appearance of validity by the earlier copper price boom. Second, and more critically, it seemed to ignore the fundamental structural causes of the problems of underdevelopment in Zambia suggested by the explanation in Part II above. The remainder of this section will be devoted to an examination of the first of these possible fallacies. An alternative strategy, based on the explanation of the problem of underdevelopment outlined above, will be outlined briefly in Part IV below.

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[22] This represents an average increase of about 3-4 percent per annum, compared with the 1969 output, which was reduced sharply in 1970 by the disaster which put the Mufulira mine out of commission for a long period, and which still affected that mine's output in 1972.

[23] Republic of Zambia, Second National Development Plan (Lusaka: Government Printer, 1971), p. 86.

Consideration of the first fallacy revolves around the issue of whether the world market price for copper is likely to continue to be high enough to cover the added costs which government must incur to make the necessary investment to expand the mine output at the projected rate. The second National Development Plan anticipated a world price of K740 f.o.b. (K810 c.i.f.) per metric ton of copper. Even if the world prices remain at the K740 price per ton forecast in the Plan, however, it is arguable that the actual returns to the government may be insufficient to warrant the additional costs which must be incurred by the government to make the investments.

An important feature of the agreement between the companies and the government, providing for government acquisition of 51 percent of ownership, was the change made in the tax structure affecting the mines. Basically, the previous system of royalties and export tax (in essence, flat rate taxes on production) was replaced by a single mineral tax based on a percentage of gross taxable profit. At the same time, moreover, as the Executive Chairman of Mindeco, Mr. D. C. Mulaisho, explained, "The new tax structure has been designed as an incentive to mining investment, employing as it does generous allowances."[24]

The agreement provides for a 100 percent depreciation of mine investment in the first year, thus reducing the taxable income in that year by the amount of the investment. The effect of this provision, by 1971-72, was to reduce the tax rate from the publicly declared 73 percent to an effective rate of less than 30 percent of net profits. This was responsible for almost one-fourth of the decline in government revenue from a peak of K234 million in 1969 to an

[24]Statement of the Chairman, MINDECO, 1971.

average of K42 million in 1971-72.[25]

The total increase in income to government after payment of compensation over a twenty-year period, assuming prices remained at K740 per ton and costs did not rise, would be on the order of:

Increased tax revenue	K482 million
Increased profit	K251 million
Total	K733 million

This anticipated increase in government income should be discounted by the rate of interest on the funds which the government must contribute to make the increased investment. MINDECO has been borrowing funds on the international market at a 7-9 percent rate of interest.[26] Calculating the government's share

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[25]Four major factors appear to have contributed to this sharp fall in government revenue; their relative impact has been calculated as follows:

Major Factors causing revenue decline	Percent of total decline
Fall in copper price	49
Rise in costs of production and sales	24
Decline in effective tax rate from 53 percent to 28 percent of profits	21
Decline in production	6

[26]As of 1972, RST reported it had borrowed K16.5 million from UK banks, led by Morgan Grenfell & Co.; K13 million from United States Export Import Bank together with Barclays Bank to buy capital equipment in the United States, and arranged for bank and other loans amounting to K27 million--all at rates of 7-9 percent. The NCCM reported it had borrowed K17.8 million through a consortium headed by Standard and Charter Banking Group for three years, plus contractor finance at K19.3 million from the U.S. Import Bank together with private U.S. banks and Barclays; K10 million under two agreements with U.K. Credits Guarantee Department, negotiated through Lazard Brothers and Standard; K24 million from a German Bank for German equipment; and K11 million from Mitsui and Mitsubishi for Japanese equipment. In all, these loans totalled some K137 million , primarily to finance the new investment in capital equipment and machinery. It must be remembered that not only must these loans be repaid, together with interest, as an added cost in the future, thus reducing future profits; they must be paid in foreign exchange, a future burden on the foreign exchange earnings available to Zambia for further imports required for development in other sectors as well as the mines.

of actual investment as being 86 percent of the total of K560 million estimated as required,[27] the actual cost of interest at a 7 percent rate on a declining balance for a twenty-year loan would be about K196 million. Hence, as a result of its investment over the twenty-year period, the Government would obtain _in toto_ in new revenue about K537 million. This is only about K26 million a year, about 6 percent of the record 1970 budget.

This anticipated increase in government revenue is based on an assumption that the world copper price will not fall below K740 a ton f.o.b. (K810 c.i.f.), and that production costs will not continue to rise. If either assumption proves wrong, the increase may disappear over the twenty-year period. Yet either of these eventualities appears more than a mere possibility.

Although the K740 per ton price projected in the second National Development Plan was below the March 1970 peak of K1252, it may in the long run prove to have been overly optimistic. The severe drop in world prices, which reached a low of K696 per ton in November 1971, already appeared to reflect an over-supply of copper on the world market. The average price for the first six months of 1972 was about K710 per ton. Furthermore not only Zambia, but other old-time copper exporters as well as several new ones, were planning to expand production. This appeared likely to create a danger of still greater over-supply and continuing depressed world prices over the years.

The most optimistic estimate of increased world copper consumption by the major buyers in the next decade is at a rate of about 4.5 percent annually.

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[27]This assumes that the investment works out to be an average of K56 million annually for ten years. Since the government gives up revenue in the form of 100 percent depreciation allowance for tax purposes, as well as investing its own 51 percent share of the profits, 86 percent is the actual proportion the government makes of the total investment.

More conservative estimates project the growth of their consumption at about 4 percent a year.[28] If all the currently projected output of copper is actually produced, production (outside the socialist countries) will exceed conservative estimates of demand by about a third in 1977.[29]

Refinery output, which will be limited by available refinery capacity, may be somewhat less--it is estimated to be 10.9 to 11 million short tons--but it still may appear likely to exceed anticipated consumption.

Zambia is more fortunate than other developing countries producing copper ore, for it has more smelter and refinery capacity than most. Hence it may refine and sell more of its own produce without as great a degree of dependence on bargains made at a disadvantage with foreign-owned refineries and smelters in developed countries. Nevertheless, there is a serious danger that Zambia, together with the other developing countries where copper ore production is expanding rapidly, may face a depressed price for copper in the long run.

Zambia together with the other members of copper producing countries' organization (CIPEC), it is argued, could take steps to maintain high world prices through the creation of some sort of a buffer stock. This possibility is reduced by the fact that CIPEC represents only Zambia, Zaire, Chile, and Peru, which produce about 60 percent of all copper exported, and less than a

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[28] "Analysis of Future Production and Consumption of Copper." (Canada: University of Windsor, 1972), based on UNCTAD and UNIDO estimates, provides useful analysis of this data.

[29] The conservative consumption estimate for 1977 is 10.7 million short tons, while actual production of copper mines on that date is estimated to be 13.9 million short tons. These estimates do, it is true, exclude the socialist countries' purchases. If Zambia could secure a longterm fixed share of that market, it might benefit more. (Ibid, Table 2, based on data from World Bureau of Metal Statistics for International Wrought Copper Council, Survey of Free World Increases in Copper Mine, Smelter and Refinery Capacities, 1971-1977, April 1972; American Metal Market Institute, American Metal Market, April 11, 1972, p. 6A, and March 10, 1972.)

third of world copper production.[30]

At the same time, big companies like Anglo-American and Amex have been exploring for and investing in new mines to increase copper output in Australia, Canada, and South East Asia, as well as Africa itself. Some have begun to hedge their bets by buying shares in companies producing aluminum, a close substitute for copper; this possibility is not available to copper-producing countries. Unless CIPEC can unite its own member governments, together with those governments encouraging the companies to open new competing mines, the possibility of stabilizing copper prices at a sufficient level will be reduced. In any event, it appears an unwise policy to increase investment to produce output which may need to be stockpiled to keep prices up.[31]

Prices tended to rise rapidly in early 1973, apparently reflecting uncertainties as to the impact on Zambian copper exports of the closure of Rhodesia's borders and the effects of a prolonged strike in a big Belgian copper refinery. In June 1973, prices rose still further due to the prolonged Chilean mine strike. Such short-run price increases may, however, be of a temporary

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[30]About 40 percent of the copper sold is scrap, which competes successfully with new copper.

[31]Tin prices are regulated by the World Tin Council through the creation of a buffer stock, financed by the participating countries. When output exceeds demand by too much for this method, then export controls are instituted which restrict the producing countries' sales, requiring them to maintain their own stockpiles. See H. W. Allen, "How the Tin Agreement Works," Tin International (Nov. 1971).

Apparently the International Monetary Fund has agreed to provide some assistance to developing countries in financing the tin buffer stock. But as yet there are no such arrangements for copper, and the burden might fall entirely on individual producing countries. William For, "The IMF and the Fourth Tin Agreement," Tin International (Dec. 1971).

nature reflecting temporary shortages, aggravated by speculation on the London Metal Exchange. In the longer run, the international monetary crisis might be expected adversely to affect all industrialized countries, reducing the projected demand for copper. In other words, both short- and long-run factors tend to render assurance of a stable price relatively speculative--hardly the foundation upon which a country should build its future development programs.

There is, in addition, a real possibility that Zambian costs of production may rise, as they did from 1969 to the 1971-72 average. In those few short years, Zambia appears to have shifted from a relatively low cost producer to a relatively high cost producer in terms of world production costs.[32]

Rising copper production costs in Zambia may have two consequences: first, they are likely to reduce total profits, tax revenues, and government's share of the profits; second, they may prevent Zambia's increased production from competing on the world market if there is a continuing oversupply of copper.

Other costs should probably be weighed in considering the rather slim increase in government revenue which might be anticipated from expanded copper

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[32]The cause of rising costs was not clear. Wages and salaries, about 20 percent of direct total cost, appeared stabilized in 1969; in fact, it has been suggested that one purpose of government acquisition of shares of the companies was to ally government with the Companies in holding the line on wage costs. The Mufulira disaster undoubtedly increased RCM's costs, although it should not have affected those of NCCM which rose almost as much. The import surcharge of 10 percent on mining equipment had some effect. And it is possible that declining ore grades required more expensive capital equipment. Management fees were, of course, added as an operating cost, and to the extent that these exceeded normal management salaries, they may also have contributed to rising costs. Depreciation is not provided for in company accounts and replacement expenditure is charged to operating costs; these would have to be examined carefully to determine whether they had increased after the agreement was reached. Import costs may have risen, due to increased transport costs. There is always a possibility that the companies may have overinvoiced imports from their affiliates to reduce the share of profits accruing to the firms in Zambia, where a large share may be taken by the government as taxes and profits, but this is difficult to discover.

TABLE IV: ESTIMATES OF COSTS OF PRODUCING COPPER IN SELECTED COUNTRIES AND ZAMBIA, 1967-70

(U.S. cents per lb.)

A. By Countries

Countries	Production, Selling and Transportation Costs, Circa 1967 (1)	Operating Costs, 1969 (2)	Operating Costs, 1969 (3)	Operating Costs, 1970 (4)	Production Costs, 1970 (5)
Australia	27c/lb.	30.2	-	-	-
Canada	33	32.9	-	-	-
Chile	24	24.3	24.3c/lb.	33.6c/lb.	45c/lb.
Peru	24	22.4	22.4	21.3	21
United States	27	28.9	-	-	-
Zaire	41*	32.5	32.5	33.7	-
Zambia	31*	29.0	29.0	29.8	30
South Africa	-	23.3	-	-	-
Philippines	-	23.5	-	-	-
Other	-	43.8	-	-	-
Total	-	28.5	-	-	-

*Includes royalties and export tax

Source: B: Short, "An analysis of Future Production and consumption of Copper " (Canada, University of Windsor, Mimeo Draft 1973.)
Column (1) - Martin S. Brown and John Butler, The Production, Marketing, and Consumption of Copper and Aluminum (New York: Praeger, 1968), p. 182;
Column (2) - Royal Geological and Mining Society of New Netherlands, Geologie en Mijubouw
Columns (3) and (4) - Reply of Sir Ronald Prain to a question asked at the American Metal Market Forum in London, October 1971;
Column (5) - Bache & Co., "Bache Looks at Copper" p. 2; figures are for year end.

TABLE VI: ESTIMATES OF COSTS OF PRODUCING COPPER IN ZAMBIA, 1969-72

(U.S. cents per lb.)

Zambian estimates show	1969	1970	1971	1972
World Average	30.30	-	-	-
Zambia Average	30.16	31.33	36.44	37.11
NCCM	-	32.2	36.4	36.4
RST	-	29.4	36.4	37.9

Source: Annual Reports of NCCM and RST, 1972 investment, even if production costs and world prices were to remain fixed. In particular, there is the danger of aggravating Zambia's current and long-run balance of payments problems. With the falling world copper price, and rising visible and invisible imports, Zambia's balance of payments position began to deteriorate rapidly in the early 1970s. By the end of 1972, Zambia's foreign exchange reserves had dwindled to less than the value of 2.5 months' imports.[33]

Although the second National Development Plan estimated that the planned increased export of copper would augment the nation's foreign exchange earnings from K509 million in 1971 to K699 million in 1976, it failed to calculate the possible additional burdens that investment might impose on the balance of payments. These include, first of all, the heavy cost of importing capital equipment and machinery and the possibility of having to hire additional expatriate manpower to handle the highly complex new equipment.[34] Second, under the 1969 agreement, the mine companies were guaranteed the right to repatriate their entire share of profits after taxes, as well as the government's compensation payments. As noted above (p. 24), the effective tax rate on the mining companies' profits has been reduced to 28 percent of profits. In fact, however, they are making a significant share of the investments, not out of profits but

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[33]The nation still had a balance of trade surplus of K74 million at the end of 1971, but its total payments for services, including the outflow of investment income (K56 million), contract salary and gratuities transfer (K42 million, up from K8 million in 1968), and "other" unrequited transfers for unspecified reasons (K45 million) totalled K270 million--more than half of the country's total export earnings. About a third of these "invisible" items were transport costs (K86 million), reflecting the increased volume of imports and exports. As a result, Zambia's current balance of payments deficit had mounted, by the end of 1971, to K196 million--about 40 percent of its total export earnings.

[34]Already, expatriate manpower in the mines represents a higher proportion of the total labor force than in any other field except distribution, and finance--about a fifth of all the expatriates employed in Zambia.

by borrowing abroad; they are repatriating almost all of their profits after a mere 28 percent tax has been deducted. Hence, total investment income outflow, together with compensation payments, is likely to remain a heavy burden on the current balance of payments. In the longer run, the investment funds borrowed from abroad must also be repaid along with the rather high 7 to 9 percent rate of interest, a further burden on the future balance of payments. If Zambia were to devalue, this burden would be increased in terms of foreign exchange payments which must be made.[35]

In sum, the government's policy of emphasizing expansion of mine output in hopes of reaping increased government revenue and foreign exchange earnings in the future appears at best very uncertain. More seriously, it is not directed at overcoming the structural causes of the problem of underdevelopment suggested in Part II above. Rather, it is likely to increase the nation's dependence on copper exports and the world market for copper, accompanied by an augmented drain of investable surpluses and future balance of payments difficulties.

IV. An Alternative Development Strategy

There is another way to look at the government's strategy of increasing investment in copper; that is, from the point of view of opportunities foregone to develop other sectors of the economy. If the explanation in Part II is valid,

[35]The requirement to borrow a major share of the investment funds is dictated in part by the fact that the government is required to utilize most of its share of the profits to pay the compensation provided for by the agreement. It might be noted in passing, that when the United States devalued the dollar in 1973, Zambia did not devalue the Kwacha; this led to a reduction in the compensation payments, which are calculated in dollars, from K28.7 million to K25.7 million per annum until 1978, and from K15.1 million to K13.6 million per annum until 1982.

it suggests that the government should formulate a long-term industrial and agricultural development strategy--say over a twenty-year period--designed to increase productive employment opportunities in all sectors of the economy as the essential foundation for raising the levels of living of the broad masses of the population. Such a strategy would be aimed at reducing the nation's dependence on expanded copper production, and increasing the economy's self-reliant production of a growing share of productive inputs and consumer necessities for the needs of the population in the country itself.

This approach does not argue that the copper mines should be neglected. On the contrary, the foreign exchange earnings and tax revenues which the mines earn can and should make an important contribution to the implementation of an appropriate alternative development strategy. This contribution should be maximized within the framework of a realistic analysis of the world market, and in close cooperation with other copper exporting nations to adjust output to consumption and stabilize world copper prices. Further backwards and forwards linkages between mines and the rest of the economy should continue to be forged within the framework of the overall strategy. Efforts should be made to sell copper overseas in an increasingly processed form, especially if longterm markets can be assured to maximize returns from given output. Attention should be given to the potential uses of the resulting processed copper products in Zambia's own industrial development insofar as it is technologically and economically feasible. In other words, this alternative approach would emphasize the necessity of planning the mines' contribution to the carefully designed overall development of industry and agriculture to create an increasingly integrated, balanced national economy.

A. <u>A long-term industrial and agricultural development strategy</u>

A long-term industrial and agricultural strategy would involve several crucial aspects. First, industrial and agricultural output would be planned to complement each other. Particular attention would be directed to the kinds of industries established; their location; and amount of employment provided per Kwacha invested. Carefully planned industrial projects would provide the essential expanding market for agricultural output of both raw materials and foodstuffs. At the same time they would produce necessary farm implements, transport equipment, construction materials, and consumer necessities. This, incidentally, could be expected to reduce the relative significance in the nation's manufacturing sector of such industries as beverages and tobacco.

In developing plans for industry, careful attention would be given to locating pole-of-growth industries and building essential linkages in each province, based on an analysis of the existing and potential resource base.[36] This would help to ensure that over a twenty-year period, the rural-urban gap would be reduced by the creation of productive employment opportunities in all geographical areas of the national economy.

Farmers, on the other hand, would be encouraged to produce foodstuffs and raw materials for the growing manufacturing industries. Their resulting increased incomes would enable them to purchase the new manufactured goods being produced. Over time, productivity in agriculture would be expanded with

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[36] In this connection, Zambia's existing minerals, outside of copper, should be canvassed as a source of additional raw materials. Zambia's engineering and mining expertise might well be directed through appropriate legislation and research to the opening of small mines to contribute to this perspective. (See proposals in M. F. Haddon, "Small Mining in Zambia, 1973," Mimeo presented to Economics Club, Lusaka, February 20, 1973.)

the use of improved tools and equipment provided by industry, as well as more scientific techniques and better seeds. Rural labor would gradually be released to work in the expanding industrial sector throughout the country.

The level of labor-intensity of technologies introduced in both industry and agriculture would be based on a careful assessment of available capital and skills. More capital-intensive machinery and equipment might be introduced as the local availability of both of these crucial factors improves.

A carefully worked out twenty-year industrial strategy would, in this way, focus on these three aspects--the kinds of industries established, their location, and the level of labor vs. capital-intensity appropriate to a step-by-step restructuring of the national economy.

B. The need for more direct controls of the "commanding heights"

Such a strategy would require re-examination of the sets of institutions dominating the "commanding heights" to ensure that the long-term plans, once formulated would be implemented. This would require measures to make fundamental changes in the institutions in three crucial areas.

First, government would need to exert sufficient control over the day-to-day decision-making of basic industries to ensure that new projects were established and old ones expanded within the framework of the overall perspective plan. This could well mean that short-term market opportunities might be foregone, while new investments were directed to the appropriate set of industries to achieve the long-term plan goals.[37]

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[37]For example, since breweries are the most profitable industry in INDECO's portfolio, orthodox market considerations might suggest that new investments should be made there; but longer-term considerations of the kind here suggested would argue strongly against such investments, proposing instead projects producing farm implements, transport machinery and equipment, and construction materials.

Second, the government would need to re-examine export-import and internal wholesale trading institutions to ensure that it had a sufficient degree of control to reduce dependence on imports in line with planned increases in domestic production of consumer necessities and productive inputs for the industrial and agricultural sectors. The use of import licencing and exchange control appears indirect and difficult to enforce as a means of achieving these goals. Treating firms like Consumer Buying Corporation, Zambia O.K. Bazaars and Mwaiseni as private firms for these purposes, despite government ownership of a majority of the shares, appears an inadequate use of the ownership leverage for which the government has already paid in the form of compensation.[38]

Third, the entire set of financial institutions would need to be overhauled to ensure that they functioned within the framework of an overall financial

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[38]The government has acquired 61 percent of Consumer Buying Corporation (CBC), 51 percent of ZOK, Morison, Mwaiseni, and Zambezi, and 100 percent of General Pharmaceuticals and Zambia National Distribution. Together, these firms were reported to handle 15 percent of total imports and perhaps a third of consumer goods imports. (INDECO, Annual Report, 1972.) Since about half of the nation's imports constitute items imported for mining and various manufacturing industries in which the government owns shares through parastatals, the potential impact of government control over imports appears greater than these figures might indicate. Nevertheless, imports continued to increase rapidly throughout 1971 and early 1972, suggesting that government had, as yet, not been able to exercise its potential controls effectively. In 1972, in an effort to reduce costs of imports, the Minister of Trade and Industries relaxed efforts to shift imports away from the South. Yet even before that time, Zambia had been able to shift more of its exports to new ports in Tanzania and Angola than its imports. Already by 1970, about 30 percent of Zambia's exports went out through Tanzania, and 22 percent through Zaire, while only 12 percent and 6 percent came in through those channels, respectively. Closure of the border in 1973 could be expected to lead to a further shift of imports to new sources of supply. It remained to be seen whether concentration of importing in the hands of the largest firms, following the border closure, would lead to more effective import strategy in support of development.

plan directing all possible available investable surpluses to the critical projects identified in the long-term physical plan. This does not seem to be the case at present. As it is now, the Ministry of Finance formulates tax policies primarily to cover projected expenditures for social and economic infrastructure, rather than as an integral part of an overall financial plan designed to implement physical plans to restructure the economy.[39] The three big commercial banks which provide a major part of the credit for the productive sectors remain in the foreign private sector. The state insurance company and building societies within the purview of Findeco appear to be treated essentially as private organizations in terms of their investment policies. The Central Bank seeks to play a role in monetary and fiscal policy much as it would in any developed western country. It attempts to regulate the economy primarily through indirect means like cash reserve requirements and exchange control regulations. In 1969 and 1972, for example "credit squeezes" were introduced by the Central Bank in an effort to reduce inflation. These tended to curtail private sector activities--particularly those of the small Zambian firms--with little regard for national investment priorities.[40]

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[39]One example is the continued "deemed distribution" regulation of the Income Tax Department (under section 94 of the Income Tax Law) which exerts pressure on companies to distribute a substantial portion of their profits, rather than reinvest them. This is particularly serious in the case of foreign firms since it encourages them to repatriate their profits, which constitutes both a loss of potential investable surpluses and a balance of payments problem.

[40]The first credit squeeze was introduced because of the generally rising prices induced by the copper price boom, and apparently led to an unnecessary recession in the economy. The second was effected in an attempt to offset the inflationary impact of short-term government borrowing designed to offset budget deficits as copper revenues fall drastically.

It appears that if the government were to attempt to implement a long-term development strategy of the kind here proposed, far closer controls would need to be exercised to ensure the implementation of a financial plan designed to capture all available investable surpluses and direct them to the essential productive sectors.

To summarize, if the government sought to restructure the economy to attain self-reliant development goals, it would be unlikely to rely primarily on policies which might increase its external dependence through further expansion of copper exports. Rather, it would direct a major share of its energies to formulating a long-term plan for developing industrial and agricultural resources in the context of a balanced integrated national economy; and to re-examining the entire inherited institutional structure, over which it has to date exerted only partial control, to ensure that the plan was implemented.

C. The potential advantages of economic integration with neighboring countries

The possibility of benefiting from a long-term development strategy of the type here outlined would be enhanced if Zambia could link up with independent neighboring countries to realize the potential dynamic gains to be attained through larger markets and resource bases. This topic cannot be adequately explored in this brief paper. It is fraught with economic and political obstacles that require intensive study.

One possibility might be mentioned: that of closer integration with Tanzania. Already, Zambia has increased its trade by road and will shortly be linked by its only direct rail outlet in independent Africa through Tanzania to the sea. The governments of both countries have expressed their desire to restructure their economies to achieve a greater degree of self-reliance. Both have initiated at least the beginnings of control over the "commanding heights," which is here asserted as essential if a long-term development strategy is to be implemented.

For Zambia, closer economic integration with Tanzania would broaden its markets from 4 to 16 million people, one of the largest market areas in sub-Saharan Africa. Closer cooperation would increase the two nations' joint resource base; together, they would encompass a land area more than half the size of Europe containing a wide range of the raw materials essential for industrial development. The gains to be made are not simply the static ones of trade based on the limited distorted productive capabilities and markets the two countries have inherited from their colonial past. The real gains lie in the dynamic potential of creating new large-scale industrial complexes as poles-of-growth setting off chains of development throughout all regions of both nations.

D. Pre-requisites for formulating an alternative development strategy

It should be stressed that, if the party and the government decide to move in the direction of formulating and implementing a long-term alternative strategy to reduce dependence on copper, then it will require mobilization of the entire population as well as extensive research. Of the first importance is the crucial requirement that the party and government accept the responsibility for ensuring that a long-term development strategy be developed so that at every level of discussion and activity--from village councils to the ministries--necessary features of the strategy will be considered and specific projects carried out.

It should be acknowledged that, if the government seriously attempts to implement a development strategy to restructure the economy, it is likely to encounter opposition from various elements, particularly those interests benefitting from the present policies. The mining companies may be expected to encourage increased mining investments and reduced tax payments as long as these continue to augment their profitable returns. Anglo-American, for example, reported to its shareholders that, although copper constituted only 6 percent of all its investments, copper produced 21 percent of its total 1971 revenue.[41] Likewise, those Zambians who have attained high government and parastatal salaries or acquired lucrative business or professional status are likely to oppose policies directed to reducing their incomes (either through taxation, reductions of salaries, or requirements that they receive no income over and above that provided by their salaries post).[42]

On the other hand, wage earners and small farmers--who would benefit most from restructuring the economy--are less likely to have the opportunity to express their opinions, assuming they are appraised of the rather complex issues involved. Hence a great deal depends on the stance of the ruling political party, United National Independence party: only if it adopts a determined policy, increasingly creating the necessary institutional channels to involve workers and small farmers in the critical decision-making apparatus of the nation, does it seem possible that a long-term development strategy will be formulated and effectively implemented.

At the same time, research is needed relating to the manifold complex aspects of particular features of the proposed strategy. Information is needed as to the potential resource base for rural pole-of-growth industries and their

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[41] Anglo-American Company, Annual Report, 1972.

[42] The last requirement was recommended at the Kabwe National party convention in 1972, but has not yet been implemented.

potential linkages; the kinds of industries to be built; and alternative available technologies which might maximize employment and use of local inputs. Research is required to determine what kinds of institutional changes are essential to ensure that government control of the "commanding heights" is effectively directed to implementing long-term plans for resource allocation, as well as those needed to encourage people to take initiative in building local industries and increasing agricultural output of raw materials and foodstuffs for the growing industrial sector.

What is required is not simply the hiring of Zambian or non-Zambian "experts" to do the research. The people themselves need to be involved in formulating all aspects of the long-term plan, utilizing their own local knowledge as well as appropriate inputs of technical information by experts. If the government were to set aside, say, 1 percent of its annual budget for this purpose--K3 million--it would be able to mount the necessary broad-gauged effort to bring appropriate technical expertise together with local cadres in all sectors of the economy to formulate and implement a long-term development strategy.

V. Summary and Conclusions

Underdevelopment in Zambia is characterized by an all-pervasive dualism. It may best be explained by the way a dominant set of institutions--giant mining companies and associated trading, banking and insurance companies--shaped a narrow export enclave for the production and sale of copper to the industries of Europe. A major share of the investable surpluses created in the process was shipped out of the country. The remainder of the economy remained stagnant, its traditional features disrupted by the steady drain of tens of thousands of young men seeking an escape from rural poverty--the necessary low-cost labor reserve which assured the continued profitable production of the mines.

In the first years after independence, high world copper prices and new tax policies provided the government of Zambia with large revenues with which it built new social and economic infrastructure in remote rural areas. But the anticipated spread of productive activities through private enterprise failed to materialize. Government acquisition of a majority of the shares of some important sectors of industry and trade at the end of the 1960s created greater potential control of critical sectors of the economy, but as yet this has not been utilized to implement an effective alternative development strategy. Instead government appears to have adopted a policy of increased investment in mining which is likely to leave the economy more, rather than less dependent on the vagaries of the world copper market dominated by a handful of giant copper producing and marketing firms.

If this explanation of underdevelopment in Zambia is valid, it suggests that the solution to the problem lies in the formulation of a long-term development perspective designed to restructure the Zambian economy to reduce its dependence on copper exports. This does not mean that Zambia should ignore its copper mines. Rather it suggests that, instead of expanding copper output, given the constraints simply inherent in world copper demand, it should use the surpluses they already generate to invest in a more appropriate set of industrial and agricultural projects in the context of a carefully considered long-term perspective plan. This presupposes the more direct exercise by the government of its existing potential controls, as well as new ones, particularly in the area of the "commanding heights," to enable it to ensure that critical productive projects are in fact established.

Implementation of this kind of alternative development strategy would, of course, be facilitated by continued efforts to join with other copper exporting countries to stabilize copper prices in order to sustain steady revenues and foreign exchange earnings. It goes without saying, as well, that such a long-term perspective plan would be more effective if Zambia could formulate and implement it by joining its resources, markets, and investments together with like-minded neighbors.

It is not here pretended that the formulation and implementation of such a long-term development perspective, as an alternative to the expansion of copper mining, is easy. It will require extensive research and continual on-going evaluation of progress being made. More fundamentally, it will require the mobilization of the broad masses of the population who stand to gain from the creation of a more balanced, nationally integrated economy. They must be involved at every level in formulating and implementing such a long-term plan if it is to succeed.