Introduction

When copper prices boomed in the early 2000s, Zambia's economy grew at a rate not seen for decades, with an average growth rate of 7.4 per cent between 2004 and 2014 (World Bank 2020a). This moved copper, once again, to the centre of government economic regulation. This also leads to the following questions that animate this chapter. How will copper-driven growth affect the broader economy? Will copper-centric regulation foster or impede local economic development? Will it create opportunities in other sectors, and for small-scale entrepreneurs in association with the copper sector, to establish viable businesses? In this chapter, we shed light on the above questions by investigating the effects of Zambia’s contemporary copper-centric political economy on the copper industry, on selected industries in the country’s second most important sector, agro-industry, and on opportunities for small-scale domestic entrepreneurs to build viable businesses linked to both of these sectors. Following Gereffi (1990), we investigate the ways that Zambia’s industrial structure, specifically, the characteristics of the leading firms and sectors, has shaped the economic regulation of the entire economy and specifically its industrial strategy.

As we show in this chapter, many of the benefits of the copper-oriented economic framework have extended to large firms in other sectors, including to important agro-industrial corporations. However, few smaller firms in any sector, whether tiny informal micro-enterprises or companies with dozens of employees, have similarly benefitted from the copper-centric policy regime. Most struggle to build viable domestic businesses in a highly liberalized and competitive environment, lacking critical government support, such as access to electricity, credit, and banking facilities. It has been left largely to the market – especially to the needs and interests of the sector-leading firms themselves – to determine whether it is in their interests to provide opportunities for Zambia’s small businesses through joint ventures, supply contracts, and subcontracting
relationships, and on what terms. This indicates that the regulatory regime may favour very large transnational corporations to the detriment of small firms and therefore replicate the problem in other sectors of limited local benefits and opportunities, despite economic growth. In other words, what we are seeing in Zambia is economy-wide accumulation by dispossession without corresponding dependent development.

Harvey (2004) used the term “accumulation by dispossession” to refer to the processes by which global capital, in a search of profitable investment opportunities, is able to acquire assets that have been made available, at low cost, by extra-economic processes (primitive accumulation). Opportunities for accumulation by dispossession in Zambia’s copper industry came via a series of structural adjustment agreements designed by the International Monetary Fund (IMF), which required that the state-owned copper mines be sold to transnational investors. Afterwards, maintaining an investor-friendly regime meant the government continued to finance infrastructure to facilitate copper exports; meanwhile, copper workers could be fired, exploited, and physically harmed with impunity, deprived of pensions and other social entitlements alongside wage cuts, their jobs rendered more insecure or eliminated altogether. The tax regime was redesigned to shift the tax burden to others, while regulations intended to ensure local sourcing of inputs were removed. Accumulation by dispossession, therefore, has meant more than privatization: it refers to ongoing processes through which a regulatory regime maintains profitable conditions for transnational firms to invest. Moreover, it has affected more than the copper sector; the Zambian government was required to privatize hundreds of state-owned corporations in all sectors of the economy, deregulate businesses operating in the country, and to liberalize trade, currency, and credit.

After decades of liberalization, deregulation, and privatization, there are few instances of smaller-scale African firms thriving through linkages to transnational corporations that benefitted from structural adjustment policies (AfDB, DAC, and UNDB 2014, 127). As Bienefeld (1988) argued, rarely have liberalization, informalization, and brutally competitive markets led to industrialization and export manufacturing. In countries where local entrepreneurs did thrive by tying their fortunes to transnational business networks as suppliers, service providers, or subcontractors, these opportunities were the result of a strong state that collaborated with, and sometimes led, local and transnational firms to establish mutually beneficial, if unequal, ties. They employed active industrial policies supported by a range of trade, monetary, fiscal, educational, and other policies to cultivate local opportunities and benefits (Wade 1992, 1993; Brautigam 1994). Evans (1979) called this process “dependent development.”

We begin to explore these processes by outlining Zambia’s copper-based regulatory framework, showing how it offers, forecloses, and shapes opportunities for local businesses in the copper commodity chain. We then use sugar
and beef, two of the country’s most important agro-industries, to show that the copper-centric regulatory regime imparts a similar structure on other sectors as well. We have drawn on numerous recent sectoral studies that investigate the challenge of diversifying Zambia’s copper-centred economy and of building domestic capacities and entrepreneurial opportunities, many of them based on extensive field research (for example, studies published through the Zambia Institute for Policy Analysis and Research [ZIPAR], the Making the Most of Commodities Project [MMCP] associated with the University of Cape Town, and the United Nations University World Institute for Development Economics Research). Our goal is to convey a bigger picture: what are the structural effects of copper-centric economic regulation? Our findings suggest that economies that rely heavily on one or a handful of mineral exports, like Zambia, may continually reproduce an economic structure that favours large transnational firms while impeding domestic capital accumulation, especially on the part of small-scale entrepreneurs, regardless of any political imperative to improve local benefits and opportunities (for more on the importance of including local smallholder stakeholders in governance decision-making, see Hamann and colleagues, Chapter 6 in this volume).

Copper is at Zambia’s economic core, accounting for most exports, foreign exchange, and tax revenues. Zambia’s annual growth rate, which had been stagnant from the early 1980s, revived after 2000, in concert with the rise in world copper prices (see Table 7.1).

Higher world copper prices, which coincided with Zambia’s extensive privatization programme, drew transnational investors, notably Chinese firms responding to their country’s growing demand for raw materials and investors from countries like Canada and South Africa, where mining dominates (Kragelund 2009; Haglund 2010, 94). For the first time since colonial rule, a large new copper mine has opened: the Lumwana copper mine in North-Western Province (Negi 2010). This revival in foreign investment has ensured copper remained an overwhelming presence in the government’s economic programme.

The redesign of Zambia’s economic programme after the mid-1970s, via three decades of structural adjustment agreements, allowed for the return of copper-driven economic growth and transnational investment in the sector but without indications of commensurate development. The structural adjustment programme’s short-term objectives were to reduce domestic demand, cut state expenditures, and generate trade surpluses to direct more resources to debt payment, but the programme’s broader objectives were to foster private investment, especially foreign investment, and strengthen market forces (Ghai and Hewitt 1989; Mensah 2006, 5). Privatization played a critical role in Zambia’s IMF-designed efforts to attract investment, turning substantial public resources over to transnational firms. Critics have noted how effectively
Table 7.1. World Copper Prices and Zambian Economic Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Price (US$/metric tonne) - June</th>
<th>GDP Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$1,433.00</td>
<td>1.62</td>
</tr>
<tr>
<td>1990</td>
<td>$2,583.81</td>
<td>−0.48</td>
</tr>
<tr>
<td>1995</td>
<td>$2,987.68</td>
<td>2.9</td>
</tr>
<tr>
<td>2000</td>
<td>$1,752.07</td>
<td>3.9</td>
</tr>
<tr>
<td>2001</td>
<td>$1,610.47</td>
<td>5.32</td>
</tr>
<tr>
<td>2002</td>
<td>$1,650.59</td>
<td>4.51</td>
</tr>
<tr>
<td>2003</td>
<td>$1,685.11</td>
<td>6.94</td>
</tr>
<tr>
<td>2004</td>
<td>$1,689.05</td>
<td>7.03</td>
</tr>
<tr>
<td>2005</td>
<td>$3,529.73</td>
<td>7.24</td>
</tr>
<tr>
<td>2006</td>
<td>$7,222.77</td>
<td>7.90</td>
</tr>
<tr>
<td>2007</td>
<td>$7,514.24</td>
<td>8.35</td>
</tr>
<tr>
<td>2008</td>
<td>$8,292.00</td>
<td>7.77</td>
</tr>
<tr>
<td>2009</td>
<td>$5,013.30</td>
<td>9.22</td>
</tr>
<tr>
<td>2010</td>
<td>$6,501.50</td>
<td>10.30</td>
</tr>
<tr>
<td>2011</td>
<td>$9,066.85</td>
<td>5.57</td>
</tr>
<tr>
<td>2012</td>
<td>$7,428.29</td>
<td>7.60</td>
</tr>
<tr>
<td>2013</td>
<td>$7,000.24</td>
<td>5.06</td>
</tr>
<tr>
<td>2014</td>
<td>$6,821.14</td>
<td>4.70</td>
</tr>
<tr>
<td>2015</td>
<td>$5,833.01</td>
<td>2.92</td>
</tr>
<tr>
<td>2016</td>
<td>$4,641.97</td>
<td>3.77</td>
</tr>
<tr>
<td>2017</td>
<td>$5,719.76</td>
<td>3.50</td>
</tr>
<tr>
<td>2018</td>
<td>$6,965.86</td>
<td>4.04</td>
</tr>
<tr>
<td>2019</td>
<td>$5,882.23</td>
<td>1.71</td>
</tr>
<tr>
<td>2020</td>
<td>$5,754.60</td>
<td>−3.01</td>
</tr>
</tbody>
</table>


Structural adjustment programmes opened African economies to deeper levels of exploitation, without incorporating the kind of structural change necessary for African societies to benefit from export-driven economic growth (Saul and Leys 1999; Arrighi 2002; Taylor 2016).

An accumulation by dispossession dynamic often manifests itself visibly at African mineral extraction sites, “concentrated in [privately] secured enclaves, often with little or no economic benefit to the wider society … normally tightly integrated with the head offices of the multinational corporations and
metropolitan centers, but sharply walled off from their own national societies (often literally walled, with bricks and razor wire)” (Ferguson 2005, 378–9). However, accumulation by dispossession has not been contained to mining compounds; the effects have been society wide. Digging up and exporting copper not only means the mineral is no longer available for future generations of Zambians; the process has damaged more than 10,000 hectares of land that is now riddled with mineral waste, which therefore cannot be used for agriculture, forestry, housing, or ranching (SGAB et al. 2005).

As important as it is to recognize the predatory nature of investment in Africa’s mineral export industries under the structural adjustment regime, the picture is still partial, failing to convey the domestic implications of copper-driven economic growth. We turn now to a detailed discussion of the complex domestic processes underpinning accumulation by dispossession by analysing the implications of the reregulation of Zambia’s copper industry for the wider economy.

A Brief History of Zambia’s Copper Economy

Recent studies of Zambia’s post-2000 period of strong growth have shown many of the benefits have accrued outside the country, or for Zambian elites, while there has been little additional job creation or tax revenue collected and few opportunities for indigenous firms linked to copper (Fessehaie 2012; Kragelund 2017). Instead, copper-led growth has greatly benefitted Zambia’s transnational investors and service providers to the copper industry, notably, shareholders in transnational mineral firms and supporting industries, including global finance, engineering, equipment, construction, and logistics.

This has been due to the specific terms under which Zambia’s state-owned copper firms were privatized in the latter 1990s, in compliance with policy conditions put in place by the IMF (Sandberg and Sabel 2003; Lungu 2008). These terms, which were intended to draw foreign investment, allowed copper mines to freely import machinery, parts, and other needed inputs instead of supporting a local manufacturing industry (for more on the implications of these policies, see Geipel and Nickerson, Chapter 9 in this volume), while paying very low royalties and other corporate taxes. As a result, the benefits of copper-led growth have accrued to copper firms regardless of the implications to Zambian society, aided by the government itself, limiting the dependent development potential of the nation’s mineral wealth.

It was copper that first drew the British to the lands that are now Zambia. Britain placed the territory under the administration of the British South Africa Company (owned by Cecil Rhodes); in 1924, Zambia (then called Northern Rhodesia) was made a British protectorate. The British authorized two firms, Rhodesian Selection Trust (RST) and Anglo-American Corporation, to
establish copper mines to extract and export the increasingly important mineral. The mines drew thousands of European and African workers by offering employees and their families state-like benefits, including housing, education, and health care (Fraser 2010, 3–5). Soon, the region, which was called the Copperbelt, was among the most successful and wealthy regions in all of colonial Africa. Copper exports remained at the core of Zambia’s economy after independence in 1964; responsible for roughly 40 per cent of gross domestic product (GDP) and as much as 90 per cent of foreign exchange earnings (Cheru 1989, 126).

From its early postcolonial years, the new government, led by the United National Independence Party (UNIP) under Kenneth Kaunda, sought to broaden the benefits of Zambia’s copper exports by using tax revenues to fund public education and health care and to diversify the economy through industrialization. However, RST and Anglo-American had negotiated an investment framework with the British colonial government that limited the taxes the new state could assess, making it difficult to embark on a programme of national economic development (Fraser 2010, 6). A new manufacturing programme was particularly import-dependent, highly protected, and capital intensive and, due to a lack of domestic capital, made heavy use of state ownership (Seidman 1979, 101).

Needing to draw more heavily on copper revenues to support the emerging manufacturing sector as well as social needs, the government sought to achieve resource nationalism via indigenization of the industry despite limited domestic capital. The government nationalized the industry in two stages beginning in 1969 (for an in-depth assessment of Zambia’s resource nationalism, the “second wave” of resource nationalism, and more on Zambia’s copper-centric economy, see Caramento, Chapter 9 in this volume), which culminated in the formation of Zambian Consolidated Copper Mines (ZCCM) in 1982 (Fraser 2010, 8; Larmer 2010, 37–41). As part of the indigenization process, the Zambian government required ZCCM to source inputs and services from privately owned Zambian firms, thus opening a new opportunity for domestic entrepreneurs to establish private businesses, albeit ones that relied on state protection to maintain their position in the copper commodity chain (Sandberg and Sabel 2003, 161–2). However, as Ovadia (2012) underscores, local content policies have a dual nature. These policies can produce positive social and economic benefits, such as fostering employment and generating wealth locally; however, they often become a mechanism of inequitable growth and elite accumulation, with little wealth creation reaching the majority (Ovadia 2012, 396). Moreover, once a power imbalance is solidified, the elites hold decision-making influence ensuring their interests are prioritized over the majority (Ovadia 2012, 415). This, unfortunately, has been the situation for Zambia’s copper-centric regulatory regime across sectors.
Copper prices remained relatively high from independence through the early 1970s, and government spending increased on education, health, and infrastructure; the government also bought out a number of transnational firms and established others to promote domestic production to meet local needs. When oil prices rose and copper prices dropped in the mid-1970s, however, Zambia’s tax revenues declined, and the industrialization programme stalled. The government turned to foreign borrowing to maintain the mining and manufacturing sectors, as well as social programmes, anticipating that copper prices would soon recover.

Instead, after a second global oil price rise in 1979, copper prices fell further, and borrowing became the Zambian government’s main strategy to maintain investment, employment, and consumption. This made the country particularly vulnerable to a debt crisis when interest rates rose in 1979. The government was forced to turn to the IMF for a debt restructuring plan and therefore to implement a series of structural adjustment programmes that were marked by ever-harsher neo-liberal policy conditions that began to transform the framework of economic governance (Cheru 1989, 26–33; Sandberg and Sabel 2003). These policy conditions included privatization, liberalization, deregulation, cutting taxes, abolishing production and consumption subsidies, and reducing social protection.

Facing enormous domestic resistance once the impact of these measures became felt, Kaunda declared in 1991 that Zambia would introduce a multiparty electoral system. A coalition of business leaders and trade unionists formed the Movement for Multi-Party Democracy (MMD), which won the national election that year on a platform promising liberalization and privatization (Bartlett 2000). By this time, donors and international creditors were insisting the government privatize its state-owned enterprises; business leaders were particularly keen to see the government divest its non-copper business holdings, many of which were good candidates for local investment.

The new president, former trade union leader Frederick Chiluba, quickly introduced what Larmer (2005) has described as one of the most thoroughgoing economic liberalization programmes yet seen in Africa. In all, about 400 state-owned enterprises were sold, including the copper mines and firms engaged in agricultural processing and marketing, transportation, banking, farming, clothing and textile manufacturing, tourism promotion, construction materials, baking, tires, automobile assembly, brewing, and wholesale and retail trade. Some of these proved to be viable businesses, while many had been running at a loss or required significant capital investment and quickly failed, but all represented significant public investment that now shifted into private hands. Privatization also marked a fundamental shift in the priorities of the economic framework towards favouring very large transnational firms, regardless of ownership, even if that meant worsening the situation of Zambian workers, small and informal businesses, and subsistence farmers.
Copper and Dependent Development in Contemporary Zambia

The next sections explain the limited domestic benefits of copper-driven growth for small domestic suppliers and tiny informal businesses. We are particularly interested in the effects on micro and small-scale domestic businesses because such firms are important generators of employment and entrepreneurial opportunities for local content. Exploring the effects of the copper-oriented economic framework reveals some of the contradictions at the core of mineral-export-led growth and provides an opportunity to understand why it has proven so difficult to translate such growth into local benefits.

The privatization of ZCCM began in 1996, with initial buyers from Canada, South Africa, China, Switzerland, and the United Kingdom; no indigenous buyers had the kind of capital needed. Privatization brought the policy of local sourcing to an end; copper mines were now free to source internationally, leaving it to the mines to determine whether to use local suppliers. Local firms lost their previous protection from foreign competition with no transition programme in place, throwing them into a highly competitive milieu where few could survive. This utterly transformed the copper sector: today, those locally owned small firms linked to Zambia’s copper commodity chain typically offer sales and service, specializing in imported equipment and parts, dramatically cutting local value-added manufacturing and, therefore, the opportunity to build capital (Fessehaie 2011, 2012; Kragelund 2017). This also keeps costs down for the copper firms they supply.

At the time of privatization, copper prices were low, so to tempt buyers, the government offered a range of inducements. For example, the Mines and Mineral Act of 1995 reduced royalties on copper to 3 per cent, later 2 per cent, and most firms negotiated that to 0.6 per cent. The act also allowed firms to deduct investment costs from their income tax, to import machinery duty free, and to reduce their corporate tax by carrying forward losses for periods between fifteen and twenty years. To further sweeten the pot, each purchaser of a major copper mine negotiated its own confidential development agreement (DA) with the government that contained a range of incentives, tax holidays, subsidies, and other provisions (Lungu 2008; Fraser 2010). Not only were royalties reduced to a level believed to be the lowest in the world, but the government declined to monitor practices like transfer pricing that allowed transnational copper firms like Glencore to further reduce their taxes (Haglund 2010, 95; Boyce and Ndikumana 2014, 5).

In addition to low taxes, the Zambian government has maintained and upgraded the public infrastructure used by copper exporters, including roads, railways, and ports, making transnational copper firms the most significant beneficiaries of state spending. Such firms enjoy the support of the Zambian government in a variety of other ways: to protect private property rights; permit
extraction; punish potential physical threats like kidnappers, thieves, and saboteurs (or permit private security firms’ latitude to do so); enforce contracts; and facilitate the movement of money and personnel into and out of the territory (see Ferguson 2006, 204–7).

This has required the Zambian government to dedicate substantial resources to support copper investments. These subsidies and supports soon exceeded the taxes copper firms paid (Fraser and Lungu 2007), which has forced the government to turn to debt financing, including to new sources of borrowing, like international sovereign bonds, less than a decade after having had much of its debt forgiven (Bassett 2017). Debt restructuring remains a central issue; at the end of 2018, Zambia’s external debt rose to US$10.05 billion, with total public and publicly guaranteed (PPG) debt amounting to 78 per cent of GDP (IMF 2019, 2). An IMF convoy arrived in Zambia in 2019 to discuss future borrowing and restructuring, identifying reduced foreign exchanges, infrastructure expansion, and drought to be central causes of economic woes, noting that “public debt under current policies is on an unsustainable path” (IMF 2019, 7). Indeed, it was. External debt – currently over US$11.97 billion – led Zambia to become the first African nation to default on its loans during the COVID-19 pandemic in November 2020. Meanwhile, European banks (and their shareholders), pension funds, and bond-rating agencies have earned fees, commissions, and interest income from financing this infrastructure (another dimension of accumulation by dispossession).

When transnational investors have opposed policies (for example, efforts to raise taxes on the mining firms to increase local benefits of copper-led growth tax), they have been able to convince the government not to adopt them, or to rescind them (Haglund 2010). Moreover, Zambia’s copper firms have been able to escape social and ecological obligations. Privatization-induced restructuring and rationalization led to thousands of lay-offs in the 2000s, accompanied by unpaid wages, pensions, and benefits, which affected whole regions where mine closures took place. The Zambian government allowed investors to further cut their costs by defaulting on their pension obligations and by weakening and failing to enforce worker and environmental protection laws (Fraser 2010; Gewald and Soeters 2010). As mentioned, prior to privatization, ZCCM maintained a “cradle to grave” corporate social responsibility (CSR) welfare programme, providing medical services, sanitation, schools, and social supports to Copper Belt communities (UNECA 2011, 88). These services ceased following privatization without the input of local community members, leading to severe social provision gaps. The exclusion of local community needs and the negative impact stemming from the removal of these services during privatization underscores the importance of participatory discussions for all stakeholders involved in CSR – not just transnational investors but also the state and local
community members impacted (for more analysis, see Hilson, Chapter 4 in this volume).

Few Zambians, including those living near the copper mines, enjoy much social protection, even in situations of unemployment or extreme poverty, forcing growing numbers in the under-supported informal economy to seek a living as farmers, traders, scavengers, or providing personal services. Galabuzi (2014) explains that some turned to subsistence agriculture on unused mine properties despite insecure land tenure (for more on land access governance and gender implications, see Ackah-Baidoo, Collins, and Grant, Chapter 5 in this volume); Mususa (2010) describes efforts by women living in the Copperbelt region to establish informal businesses scavenging copper tailings heaps that would allow them to earn enough income to partially replace lost miners' wages after privatization.

Following privatization, Zambia’s largest copper investors have enjoyed a highly favourable investment climate, albeit not a liberalized one, designed to maintain their profitability and the interests of their shareholders. The new regulatory framework has enabled Zambia’s investors to extract and export copper, labour power, and income from the country, while being effectively shielded from domestic demands for jobs, tax revenues, or accountability. The economic regime has been particularly beneficial to the largest copper mines, which enjoy favourable tax and lax labour and environmental regulations, including the government’s willingness not to enforce certain laws. Additionally, their needs for physical infrastructure have become a government priority, whereas vital roadways and infrastructure to connect rural, smallholder farmers to domestic and export markets have fallen by the wayside.

In contrast to the favourable policy environment enjoyed by transnational copper firms from China and other countries (Alden and Alves 2015, 253), smaller firms operating within Zambia’s copper commodity chain, which offer sales and service of a range of inputs, including machinery and software, as well as business services (such as transportation, security, and temporary workers), face a highly competitive, liberalized, globalized, privatized business environment, lacking needed services and infrastructure. Receiving little government support, one of the most serious barriers for both small formal and tiny informal businesses has been their lack of access to credit. The World Bank’s (2019) Doing Business in 2020 reported only 9.1 per cent of the population were able to receive credit, despite advanced credit systems in the country, underscoring the lack of much-needed, accessible investment capital and loans for those attempting to integrate into the formal economy. Few banks will lend to firms with such marginal operations and no collateral. For example, the Enterprise Survey of 720 Zambian businesses conducted by the World Bank in 2013 found that only 8.8 per cent had a bank loan, while 34.1 per cent said they had been declined. Of the businesses that received a loan, 90.6 per cent required
collateral. Even when small Zambian businesses qualified for a loan, interest rates were too high to make borrowing helpful: banks charged small firms rates as high as 40 per cent (CAFOD 2014). Equally debilitating has been the absence of financial services; a survey of more than 4,000 small Zambian businesses in 2008 found that only 25 per cent generated enough revenue to qualify for basic bank accounts (World Bank 2010).

The challenging environment for small entrepreneurs in the copper sector is illustrated by the fate of the “briefcase traders,” a new kind of informal business seen in Zambia soon after copper privatization. A briefcase trader was a one-person operation importing copper mining equipment and supplies. Needing only a cell phone, use of the regional bus service, and a social network to secure contracts, these low-overhead suppliers soon displaced established copper suppliers by undercutting their prices. Yet they had no prospect to scale up their operations, develop specialized expertise, or accumulate capital, and they did not have enough capital or access to credit to survive even a short-term business downturn. The mines eventually found them to be unreliable suppliers. In 2014, more than 80 per cent of employed Zambians were operating in the informal sector, which was characterised by low levels of productivity, capital investments, and technology, thereby offering limited prospects to contribute to national development and ultimately improving the standard of living of the majority of the people (Ministry of National Development Planning 2017).

When copper prices temporarily fell in 2009 and the copper mines cut back their operations, most were wiped out (Fessehaie 2012, 446). Their brief lifespan highlights the challenges faced by small-scale local firms linked to Zambia’s copper commodity chain, which succeed or fail largely at the behest of the transnational firms, global market prices, and their own self-exploitation. Such enterprises have been unable to serve as a platform for more sustained local capital accumulation. To enable small-scale indigenous firms to thrive, supportive government regulation and programmes must be in place that offers them the possibility to shift into higher-profit, higher-value-added activities. Those countries that succeeded in building clusters of successful small and medium-sized firms, especially ones that supplied transnational firms and foreign markets, did so as a result of a supportive industrial strategy.

Over the past decade, some African governments have embraced a more active industrial strategy that is partially premised on cultivating and supporting privately owned local firms, even finding some backers in the international financial institutions. Ovadia (2013, 2016) has documented renewed government attempts by some of Africa’s commodity exporters to foster domestic accumulation in small- or medium-scale firms through local content policies that force transnational firms to use local suppliers. As he explains, “Local content policies promote indigenous participation in economies otherwise geared for the export of raw materials. They also encourage the development of local
manufacturing and service provision through backward, forward and sideways linkages along the value chain for natural resources” (Ovadia 2016, 21). Local content policies thus require an activist state seeking to encourage productive rather than rentier activities and focused on local business opportunities as well as social outcomes. Unsurprisingly, transnational firms have resisted these policies, claiming small-scale firms are unreliable, too expensive, and lack the requisite technical competency.

Zambia itself has announced it will reimpose local sourcing requirements on the copper mines, in line with local content policy initiatives throughout the region. However, Kragelund (2017) has found that any regulations intended to require copper firms to use local suppliers remain voluntary and without a programme of domestic support in place; therefore, few local suppliers can compete against global suppliers. Moreover, the government’s broader macro-economic policy framework and other policies undercut its local sourcing intentions, tilting the playing field in favour of foreign suppliers, even when copper prices are high and the sector booming, because an inflated Zambian exchange rate makes imports cheaper. Without a strong domestic contingent of small-scale copper-sector suppliers pushing the government to strengthen and enforce local content policies, it remains unlikely that Zambia will put a strong regulatory framework in place capable of fostering small-scale domestic firms linked to copper export, validating Ovadia’s (2012) concern surrounding the dual nature of local content. Should local supply and service firms fail, moreover, copper firms can easily access similar inputs and services from a global marketplace, so they have no incentive to back a strong local sourcing programme.

This section has shown that transnational copper firms operating in Zambia have benefitted from a regulatory framework that has cut its costs, including taxes, transportation, and input costs, and protected it from social and ecological obligations to society. Small firms in the copper sector are subjected to a brutally competitive market environment, where they face a high risk of failure and enjoy little government support, despite the importance of local content to foster dependent development. In the agro-industrial sector, we will see that leading firms are far more affected by the welfare of their suppliers; while they benefit in significant ways from the copper-centric regulatory framework, they are put at unnecessary risk by others.

Beyond Copper: Agro-Industry and Domestic Opportunities

So far, we have suggested that the needs of Zambia’s major copper mine investors, backed by international financial institutions like the IMF, have served as the basis for a framework that regulates the Zambian economy by privileging the needs of transnational investors in the copper sector. In this section,
we will show how this copper-centric framework can affect the prospects for other sectors. The most important among these is the agro-industrial sector. While less prominent than copper, agro-industry is, by many measures, equally important to the economy. For example, a focus of Zambia’s Seventh National Development Plan is to “create a diversified and resilient economy for sustained growth and socioeconomic transformation driven, among others, by agriculture” (Ministry of National Development Planning 2017, 5).

Agricultural exports generate approximately 21 per cent of GDP (World Bank 2017), and while many of these exports are unprocessed, such as fresh fruit and vegetables, or minimally processed, such as cotton or tobacco, the lead firms in sectors like beef and sugar, where we find more complex commodity chains, are important buyers for small local entrepreneurs, including farmers, and provide inputs for local and regional processing operations, such as bakeries. This has made agro-industry the country’s main employer: 70 per cent of Zambia’s workforce is employed in agriculture, agro-industry, or related services, with the majority in self-employment, micro-enterprises, or on small farms. Leading firms in the sector, therefore, are much more reliant on the success of small, independent local businesses, including tiny informal businesses, than are major copper firms, and therefore are more at risk should their suppliers, which operate under the same brutal market conditions prevailing among copper’s briefcase traders, fail.

Like copper, Zambia’s agro-industrial sector is structured around industry-dominating core firms with a transnational presence and small-scale, often informalized, primarily Zambian, suppliers, subcontractors, and distributors operating under conditions of brutal competition. Two examples are the sector-leading firms we discuss below, Zambeef and Zambia Sugar. They, like most Zambia-based transnational firms, have their origins in the 1980s privatizations; now they have transnational owners, investors, or partners. Despite these important allies, Zambia’s agro-industrial firms have not been able to shape the national regulatory regime to their benefit to the same degree as has the copper sector.

The effects of the copper-centric regulatory regime are made more complicated because agro-industry’s exporting and import-competing sectors can be harmed by the tendency of high copper prices to increase the exchange rate, which makes their products more expensive than their competitors, both in domestic and international markets, in a phenomenon called Dutch Disease (Kragelund 2012, 452). The government has failed to take steps to protect price-competitive industries from high exchange rates or currency swings; such measures could include a managed currency regime or holding some higher-than-normal revenues resulting from an elevated exchange rate in an offshore sovereign wealth fund. Instead, when the price of copper began to drop in 2014, Zambia’s central bank took steps to slow the declining value of the
kwacha, undercutting the viability of agro-industry, which had thrived when the kwacha dropped in 2011 (ZIPAR 2015, 2–3). These efforts to maintain the currency value benefit firms in sectors that rely heavily on imported inputs, technology, and services, like copper, while harming those in price-competitive industries linked to agriculture. As such, the central place of the copper sector harms other sectors, threatening to further skew the economy towards favouring mining.

Despite these impediments, both Zambia Sugar and Zambeef have been able to take advantage of certain aspects of the copper-centric regulatory framework, specifically, the government’s willingness to design special tax deals for large transnational companies, turn a blind eye to transfer pricing, and fail to enforce labour or environmental laws. In fact, the two major companies completed a landmark deal together in 2009, when Zambeef sold 85.73 per cent of its holdings in Nanga Farms to Zambia Sugar with funding provided by the Zambia National Commercial Bank (Zanaco) and credit support from Rabobank, a Dutch transnational bank and credit institution (Zambeef 2009). Interestingly, Rabobank owns 49 per cent of shares in Zanaco, which was purchased in 2007, showing how the transnational corporations are afforded supports and benefits in the current regulatory framework. They also benefit from the large informal sector, which keeps their input, distribution, and other costs low. As a whole, however, the sector has not been supported as much as copper from government spending on infrastructure, which affects large and small firms alike.

In the following section, we examine in more detail how the copper-centric regulatory regime has affected Zambia Sugar and Zambeef. In both commodity chains, transnationalized Zambia-based firms supply the domestic market and export into regional and international markets, creating thousands of jobs. As the following section illustrates, however, they exhibit the same pathologies as copper firms, taking advantage of special provisions and taxation loopholes while offering limited opportunities for local entrepreneurs to establish viable businesses capable of scaling up into fully fledged formal firms. Thus, these two examples showcase the power afforded to large transnationalized businesses operating in Zambia and the inherent disadvantages suffered by micro and small enterprises, despite their central role in supporting the agro-industrial sector and their importance in providing employment and entrepreneurial opportunities.

“Oh, Sugar”

Sugar accounted for 4 per cent of Zambia’s GDP and US$188 million in exports in 2013, including associated manufacturing and processing (Fessehaie et al. 2015). The industry grew 85 per cent between 2001 and 2017 (Sikuka 2017), with Zambia’s sugar manufacturers not only selling processed sugar; they
supply a growing confectionary industry, which includes manufacturing and selling candies, cookies, and drinks. The sector’s growth has been bolstered by strong regional trade and an expanding domestic market: between 2009 and 2013, demand for sugar confectionary grew by 32 per cent in Mozambique, 28 per cent in Zimbabwe, 21 per cent in the Democratic Republic of Congo, 15 per cent in Angola, and 14 per cent in South Africa. Zambia Sugar also experienced a 15 per cent year-over-year growth in domestic sales in 2020 (African Financials 2020). Therefore, the sugar sector offers a range of opportunities for small-scale businesses as suppliers, processors, and distributors.

Zambia Sugar, the second-largest sugar-producing company in the world (majority owned by South Africa–based Illovo Sugar Limited, a subsidiary of Associated British Foods, highlighting the company’s transnational character), leads the sector with a 93 per cent market share, producing nearly 380,000 tonnes of refined and unrefined sugar, syrup, and molasses annually (Fessehaie et al. 2015). The firm enjoys a virtual monopoly in the country because of a national regulation that has proven particularly favourable to Zambia Sugar: the government requires sugar sold for household consumption to be fortified with vitamin A, a regulation unique to Zambia. Most other domestic producers lack the capital to purchase the machinery and supplies needed to meet the requirement, and no other manufacturer makes sugar with vitamin A, so this regulation allows Zambia Sugar to maintain its market position.

Zambia’s sugar industry relies on locally grown sugar cane, of which about 40 per cent is grown by smallholders, much of this through contract farming (Kalinda and Chisanga 2014, 8). Sugar cane is the most profitable cash crop for Zambia’s smallholders, yet these farms operate under very basic conditions, vulnerable to the weather as well as the whims of the lead firm. Most have access to irrigation only through their participation in outgrower schemes. This vulnerability resulted in a 35 per cent production decline, following drought during the 2016–18 harvesting seasons (AfDB 2019), impacting subsistence farmers severely.

These farmers also have little access to capital; even when farmers have collateral to borrow, there are few, if any, local private banking services, and no government programme in place. Their low capital, lack of infrastructure, and informality helps keep the industry’s input costs low, including their labour costs (Hartley et al. 2017, 4). Without a more supportive environment, they have little prospect to scale up and may not even survive a major industry shock, such as the elimination of the vitamin A regulation. Government investments in irrigation and other farming technologies would increase the profitability of the small sugar cane farms and might reduce Zambia Sugar’s costs, but such investments would also reduce the vulnerability of small growers to the needs of Zambia Sugar, perhaps allowing them to shift into other agricultural activities.
Zambia Sugar has boosted its profits by taking advantage of tax benefits similar to those designed for copper, as well as avoiding taxes through capital flight and transfer pricing (Freitas 2012). A year-long investigation of Zambia Sugar found the company had engaged in massive capital flight, which was made possible through paper transactions with sister companies in Mauritius, Ireland, and the Netherlands that reduced taxable income to approximately one-third of pre-tax annual profits (Lewis 2013). Also replicating the pattern set in the copper privatization agreements, Zambia Sugar has been able to further reduce its taxes through special deals with the government; most notably, the reclassification of their income as farming instead of manufacturing income, thereby reducing income tax payable from 35 per cent to 15 per cent. As a result of these tactics, Zambia Sugar has paid less than 0.5 per cent of its US$123 million pre-tax profits in tax since 2007; no tax was paid between 2008 and 2010. This amounts to foregone tax revenues of nearly US$18 million.

These examples show how large firms in sectors other than copper have been able to benefit from the government’s copper-centric regulatory regime, which has set a precedent of low taxes, special tax deals, and tolerance of tax evasion while failing to put in place a regulatory regime that would foster viable dynamic local firms or contribute significantly to the national budget. Thus, the advantages of the regulatory framework designed for the copper sector are similar for sugar, an industry that relies much more heavily on smallholder farmers, small-scale manufacturers, and informal sector retailers than copper, contributing little to broad-based development.

Zambia’s beef, dairy, pork, and chicken commodity chains, integrated under lead firm Zambeef, are much more complex and diversified than sugar but similar in many ways. Zambeef has become one of the largest agribusinesses on the African continent. It produces meat, eggs, milk, yogurt, yogurt drinks, and poultry for the consumer market. Products are sold across an impressive retail network: fifty-nine Shoprite butcheries—thirty-one in Zambia, twenty-two in Nigeria, and six in Ghana; seventy-eight retail outlets; nineteen macro stores; two wholesale stores; three fast-food outlets; seventeen Novatek Animal Feeds outlets; and twelve Zamshu (leather goods) outlets (Zambeef 2020a). The company has expanded into animal feed, owns a fleet of refrigerator trucks that distribute food and beverage products throughout the region, produces leather and shoes under another subsidiary, Zamleather, and even operates a fast-food chain, Zamchick Inn. The firm’s subsidiaries thus follow cows, pigs, and chickens through all stages of their lives, beginning before conception, and profiting from each stage in the animal’s life and death through value chain linkages.

Through its complex business networks, Zambeef has created 7,000 jobs in various sectors across Zambia, with a plan to create 1,300 more through national expansions of retail sites and farming operations (Zambeef 2020b). However, like Zambia Sugar, Zambeef relies on local smallholder farming for
its agricultural inputs – but has invested more heavily in supporting its suppliers. In Mbala (Northern Province), for example, Zambeef has taken on many of the tasks once fulfilled by government agricultural extension programmes prior to structural adjustment, including training and transportation support. Yet these private initiatives fall far short of a viable programme of dependent development. The supports Zambeef offers are a double-edged sword, potentially offering smallholder farmers the opportunity to build larger, more profitable businesses but reinforcing their dependence on Zambeef, which is able to set the terms unilaterally. The low bargaining power and growth of micro and smaller firms are a symptom of the monopolistic sectoral design (Cardozo, Masumbu, and Raballand 2014, 44).

Repeating the pattern seen with the copper transnationals and Zambia Sugar, Zambeef nevertheless has benefitted from the copper-centric regulatory framework: the Zambian government has supported Zambeef’s expansion by offering tax incentives, tax loopholes, and other firm-specific special incentives. Leaked tax returns have shown that Zambeef paid only 2.3 per cent of earnings in 2011, far less than the 15 per cent income tax charged to entrepreneurs and small agribusinesses (War on Want 2015, 17). Even when the firm was found guilty of tax evasion, they were able to negotiate a deal to remit less than half what they owed (Zambeef 2016). While tax breaks of this sort may encourage transnational firms to maintain their Zambia operations, they fall far short of a viable industrial strategy fostering significant numbers of well-paying jobs or opportunities to establish profitable, growing affiliated businesses. Another example is that of a past Zambeef subsidiary, ZamPalm. A state-owned enterprise, the Industrial Development Corporation (IDC), purchased the Zambeef subsidiary – ZamPalm, which focuses on palm oil manufacturing – in 2017 for US$16 million (with potential bonuses up to US$2 million dependent on performance milestones that ran until 2020) after only six months of commercial operation (Zambeef 2017). Launched in Muchinga, ZamPalm uses the same outgrower scheme as Zambia Sugar. However, with lack of irrigation access, erratic weather patterns, and the demand for the crop unilaterally determined by ZamPalm, the production model fails to lead to dependent development and enhanced local growth for small-scale suppliers. The overall regulatory framework continues to maintain accumulation by dispossession tendencies, while small-scale suppliers and their workers operate under highly exploitative conditions with few prospects to scale up.

As we have seen through these agro-industrial examples, the Zambian economy has been regulated in a way that reinforces its dualistic nature of its most important industries and sectors, with sectors dominated by extremely large transnational firms, while their small-scale suppliers operate under highly exploitative conditions with little or no prospect to scale up, despite periodic initiatives by the government to support small-business development. The
copper-centric regulatory arrangements concentrate capital, regardless of sector, ensuring large firms have access to inexpensive inputs, services, and distribution networks and pay very little for these opportunities. When lead firms have successfully shifted into more complex activities, as we saw with Zambeef, the initiative has come from the firm, rather than the government, and was premised on continued exploitation of its suppliers. Across all sectors, transnational firms tend to have few local partners; instead, the state is their strongest ally (van Donge 2009).

Conclusion

This chapter has shown that, in recent decades, Zambia’s economy has been reregulated in a manner that puts the success of the copper industry at the centre, despite the government’s acknowledgement that there have been few local beneficiaries of copper-driven growth. One effect of this regulatory framework has been the structural advantages for large transnationalized firms and the viciously competitive markets for the tiny informalized businesses that provide most of the country’s jobs and supply key industries and sectors. Thus, the profitability of large, transnational, frequently foreign-owned firms has been put ahead of the survival of smaller domestic firms, workers, and residents, similar to the effects of structural adjustment. This is evident in explicit measures, such as tax deals and infrastructure programmes, and also in indirect measures, such as not enforcing laws that would impose costs on business, such as environmental regulations, mine safety laws, or tax compliance.

Moreover, there is no viable industrial strategy in place in any of the major sectors, ensuring accumulation by dispossession continues unhampered by regulations and taxes intended to bring about dependent development. Instead, the conditions under which micro, small, or even medium-sized domestic firms operate have been maintained or worsened, impeding their capacity to survive and grow. The challenge in redesigning Zambia’s economy therefore goes beyond ending copper’s enclave nature, so evocatively described by Ferguson (2006), to considering the structural implications of a copper-driven regulatory regime for the entire economy.

Zambia’s policy regime reflects the strong structural position of transnational copper companies, backed by international financial institutions like the IMF, but the regime has proven difficult for Zambia’s political leaders to defend, with destabilizing effects at times. As Nem Singh and Ovadia (2018) highlight, the politics which underscore local growth and development planning is a central factor of the outcomes of policymaking; as we have seen in Zambia, the current policy regime has failed to support the majority of Zambians whilst supporting transnational corporations. This means the government probably cannot ignore local needs for too long. The distribution of the benefits of copper-led
growth has a long history of domestic politicization, a political discourse that was revived at the turn of the century with the rise of the Patriotic Front, especially under Michael Sata. This political dimension to copper economics will continue to impose an obligation on the government to deliver domestic benefits from copper-driven growth, an obligation it can ignore, but probably only at significant political cost. One possible strategy, to dramatically increase the level of repression, has little history in Zambia, though at the time of writing, President Edgar Lungu was experimenting with the approach.

Under Lungu, Zambia saw heightened concerns of corruption and repression, failed inclusive economic growth leading to protests (the flamboyant yellow card protests, for example), and swelling public and external debt, which led to Zambia defaulting on debt repayment in 2020. Declining copper prices (down 14 per cent by May 2020) and global demand further harmed Zambia’s economy; additionally, corrupt political decisions, such as the thunderbolt removal of Denny Kalyalya, the Central Bank governor – who regularly urged the government to reduce the fiscal debt and falling foreign-exchange reserves – has compounded concern from investors and observers. Many believe Kalyalya’s ousting was in response to the government’s failed constitutional amendment (Bill 10), which aimed to remove the responsibility of printing currency from the Bank of Zambia, further raising concerns regarding the independence of the Central Bank under Lungu. A plummet of the kwacha (30 per cent devaluation) and Eurobonds, heightened inflation (16 per cent), and an economic forecast anticipating a 4.2 per cent contraction (Mitiminingi and Hill 2020) is Zambia’s current economic reality, which was alarming prior to and compounded by COVID-19. While the COVID-19 pandemic has had serious socio-economic impacts - highlighted in a survey of 1,602 households where the majority of participants indicated they are experiencing food scarcity, meal skipping, and income loss (Finn and Zadel 2020) – Zambia’s dire macroeconomic situation is attributed to mismanagement, overborrowing, and a copper-centric economic framework. When Zambia headed to the polls for a federal election in August 2021, concerns over corruption and economic mismanagement were at the forefront of public and private conversations taking place country wide.

Meanwhile, the government’s desire to introduce a programme of dependent development, however unfeasible in its design (Kragelund 2017), reflects an important dilemma for the Zambian government. To redesign the economic regime to foster a business environment supportive of small firms might promise to create jobs and diversify the economy, but this would force the government to defy powerful transnational interests, including some based in Zambia, which continue to benefit from Zambia’s inequitable and increasingly unstable policy regime. The government’s unwillingness or incapacity to take further steps to link local business opportunities to transnational activities, for example,
by reintroducing strong local sourcing requirements with credible enforcement mechanisms, shows that dependent development remains a distant dream (or a figment of political rhetoric) in Zambia’s copper economy.

NOTES

1. Government legislation post-privatization encouraged, but did not require, transnational copper mines to use local suppliers and service providers.

2. As a result, in the fiscal year 2005–6, when copper prices and growth were high, Zambia only earned US$10 million in mining royalties. By comparison, Chile, the largest global copper producer, with annual output only eight times larger, earned a total of US$8 billion (800 times as much) (Lungu 2008, 409).

3. The World Bank’s (2019) Doing Business in 2020 ranking found problems with basic infrastructure in Zambia affecting medium, small, and micro-businesses, including poor availability (regular blackouts), high costs, and long timelines to obtain electricity (which forced businesses to have a costly generator or to periodically shut down).

4. Local content typically refers to locally owned firms participating as suppliers, subcontractors, and service providers, but can also mean local inputs, substantial use of local labour, or even staffing rules designed to limit the use of expatriates (Ovadia 2013).

5. The latter strategy has been announced by not implemented in Zambia. It was utilized effectively by Chile, another copper economy that sought to diversify by shielding its agro-industrial sectors (Solimano and Calderón Guajardo 2017).

REFERENCES


