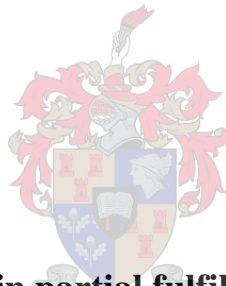


# **THE IMPACT OF SOUTH AFRICAN FIRMS ON THE LIBERALISED ZAMBIAN ECONOMY**

**L.M. MULUSA**



**Assignment presented in partial fulfillment of the requirements for  
the degree MPhil Sustainable Development Planning and  
Management at the University of Stellenbosch**

**Supervisor: Prof. Mark Swilling**

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## DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment/thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature.....Date.....

## **1. ABSTRACT**

While admitting that the ambitious privatization programme embarked on from 1991 to date in Zambia has contributed to unemployment largely due to the closure of privatized parastatal companies, post-privatization business conduct of investors need analyzing in order to understand why the expected economic growth and job creation in the country has never taken place.

In this article the role the local political leadership, globalization and the tendency towards misplaced policy formulation play in driving the state of under development in Zambia will be analysed. The inherent weaknesses in the New Partnership for Africa's Development which may further deny poor African countries such as Zambia, the benefits of a well timed and supported programme to provide home grown solutions for the continent's numerous developmental problems will also be looked at.

The paper will contribute towards resolving Zambia's problems by suggesting the need to formulate policies which create a positive interface between local policies adopted to support and attract investment, and the motives driving the global players to invest in particular countries.

In particular this paper focuses on the absence of good investment policy formulation, and consequently, the absence of the full economic benefit which should be derived by the economy for hosting multinational business enterprises such as the Shoprite Checkers Group.

## 1. OPSOMMING

Die ambisieuse privatiserings program wat sedert 1991 in Zambië gevolg word, het hoofsaaklik as gevolg van die sluiting van geprivatiseerde semistaatsmaatskappye tot werkloosheid bygedra. Die sake-optrede van beleggers ná privatisering moet egter ontleed word ten einde te verstaan waarom die verwagte ekonomiese groei en werkskepping nooit in hierdie land plaasgevind het nie.

In hierdie artikel sal die rol wat die plaaslike politieke leierskap, globalisering en die neiging na misplaaste beleidsformulering in onderontwikkeling in Zambië speel, ondersoek word. Die inherente tekortkominge in die Nuwe Venootskap vir Afrika-ontwikkeling wat arm Afrikalande soos Zambië moontlik die voordele van 'n geleë en ondersteunde program om eie oplossings vir die kontinent se veelvuldige ontwikkelingsprobleme te bied, ontsê, sal ook onder die loep geneem word.

Hierdie artikel sal ter oplossing van Zambië se probleme voorstel dat beleid geformuleer word wat 'n positiewe raakvlak bied tussen plaaslike beleid wat aangeneem is om belegging te lok en te ondersteun, en die beweegredes agter wêreldrospelers se besluite om in spesifieke lande te belê.

Hierdie artikel fokus veral op die afwesigheid van die formulering van goeie beleggingsbeleid en die gevolglike afwesigheid van die volle voordeel wat die ekonomie daaruit kan put om as gasheer vir multinasionale sake-ondernemings soos die Shoprite Checkers Groep op te tree.

## **Acknowledgement**

I am deeply indebted to my supervisor Prof. Mark Swilling whose deep reflection brings out the best guidance in the academic world any one would hope for. He continues to provide thoughtful and invaluable advice coupled with unprecedented levels of patience.

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In addition I would like to thank all my classmates too numerous to mention with whom a bond was formed due to the Sustainability Institute's unique style of class presentation. Our diverse backgrounds made each one of us a source of valuable knowledge to one another.

My children Natasha, Chifunilo, Tukiya, and Lucky (Jr) deserve special mention for having to put up with dad's absence.

## **DEDICATION**

To Astridah, my late mum, whose respect for education and belief in the fact

that ignorance is as good as death continues to inspire

my undying quest for knowledge

May Her Soul Rest In Peace

I miss U mum



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## **1. INTRODUCTION**

In 1991, Zambia adopted an open, private sector-led economy with minimal Government interference. The Government also adopted the Structural Adjustment Programme (SAP) with the intention of creating macro-economic stability in the economy. Measures taken included liberalization of trade, prices, interest and foreign exchange rates, removal of subsidies, privatization, reduction in public expenditure, public sector reforms and liberalization of the marketing and pricing of agriculture inputs and produce (Zambia Census of Population and Housing Characteristic Analytical Report 2000: 1). Subsequent events have shown that the liberalization exercise might have been done in haste for an economy on life support from the donor community.

Zambia's economy has been based largely on Copper and Cobalt mining which accounts for approximately 80 percent of the country's export earnings. The local manufacturing industry's lack of export orientation depended on the copper and cobalt mines' foreign currency earnings for acquisition of inputs. The consequence of this was that the country entered the 1990s with a non-performing economy. There was serious balance of payments disequilibrium, an acute shortage of foreign exchange, galloping inflation, falling production levels, low capacity utilization, high production costs and increased national debt.

Despite the efforts to create macro economic stability in the economy, the country's economy has changed little. Generally, consistent high economic growth has been elusive. Over the 1980 to 1990 period, the country's economic growth was the second lowest in Southern Africa Development Community (SADC) after Mozambique. During the next decade, the economy experienced the smallest average annual growth rate of 1 percent in the SADC region. This was also below the Sub-Saharan Africa rate of 1.4 percent. Consequently, per capita Gross National Product (GNP) has shown a downward trend over the years since attaining independence in 1964 (Zambia Census of Population and Housing Characteristic Analytical Report 2000: 1).

The dawning of independence did not improve matters for most African states, Zambia included. Newly independent states after colonialism were either, socialist and emphasised state ownership of most of the economy, as Zambia was, or capitalist and



allowed extensive private ownership with the role of the state being emphasized in promoting industrialization. Another important aspect of that development stage was an emphasis on import substitution (Dresner, 2002:7). In contrast however, the goal of development in America, which was first enunciated by President Truman in 1949, had involved state-directed industrialization for the first couple of decades (Dresner, 2002:69-70).

Analysing the political changes which took place in Africa, in general, and in Zambia, in particular in the decade from 1990 should perhaps be the departure point for understanding the country's current problems and how it can formulate solutions. The country was one of the first sub-Saharan African states to embrace the wind of change that swept across the continent at the beginning of the last decade. Previously, the country was a one party state with the government having some extensive involvement in the economy through its fifty one percent shareholding in two hundred and eighty four parastatal companies. By the end of 2004, however, a total of two hundred and fifty four parastatal companies had been sold (Times of Zambia, 12<sup>th</sup> Oct, 2004; Bank of Zambia Annual report, 2001:38).

In spite of broad economic reforms, Zambia today confronts the challenge of diversifying its economy and accelerating private-led growth to address the poverty of its people. Economic reforms in the late 1990s brought some tangible benefits, with a greater focus on fiscal discipline, better governance and promoting private-led economic growth. As the new policies were put into effect, the economy responded favorably, producing four consecutive years of solid growth, with real GDP rising 3.7 percent per annum between 1999 and 2002. However, the failure to complete the reform process left the economy vulnerable to circumstances, such as drought and a decline in copper prices, which together slowed the economy (Zambia Investment Climate Assessment Final report 2004: i)

In real terms, it is difficult to put it on record that economic reforms in the late 1990s brought some tangible benefits, with a greater focus on fiscal discipline, better governance and promoting private-led economic growth. The latest evidence from numerous plunder of national resources prosecutions taking place in the country (Zambia Daily Mail, 12 October 2004) shows there was no fiscal discipline, no good governance, and neither was

the promotion of a private led economy done in a manner to benefit the economy and society.

## **2. THE RESEARCH AND CASE STUDY**

The general objective of the research is to examine the extent to which policy formulation has had an effect on the economic development of the country over the period from 1991 to date. The following are the specific objectives of the study:

- To determine the impact of the economic liberalization policies adopted and the economy's ability to sustain such incentives, by assessing the case of South African firms operating in Zambia.
- To determine any benefits flowing from investors in response to the incentives provided.

This study has been motivated by the increasing evidence that South African firms who are increasingly becoming multinational in their operations are selectively observing sustainable practices such as those contained in various South African statutes such as minimum wages or the recommendations of the King Report on Corporate Governance for South Africa (2002)<sup>1</sup> when operating at home (in South Africa) while engaging in highly unsustainable practices in weaker states which are relaxing various protectionist legislation in the hope of attracting foreign investment.

The structure of the article is as follows: Part four dwells on the effects of the interface between globalization and the local economic policies adopted to attract global conglomerates to invest in the country. The country's political leadership is also brought under the spot-light. In part five the role of Africa's commercial sector is brought under review given Nepad's apparent concentration on the political sector of the continent without accompanying deliberate programmes to monitor and direct commercial activities towards more sustainable practices. Part six makes policy recommendations, the adoption of which may result in the country capturing as much wealth as possible for more meaningful development to take place and lastly, Part seven concludes this paper.

Two case studies involving Shop rite Checkers and Sun International were undertaken to look at the role of the South African firms in the liberalized Zambian economy. A total of

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<sup>1</sup> The King Report on Corporate Governance For South Africa will be referred to as The King Report in this article.

seventeen individuals ranging from management of both companies, union representatives, private business persons, Zambian government officials, and private individuals were interviewed<sup>2</sup>.

A total of nine government reports on strategies to alleviate poverty and improve the economy issued by the Ministry of Finance and National Planning, Central Statistics Office, and a statutory instrument on foreign exchange dealings together with several Newspaper articles were reviewed during the study. Publications by the Bank of Zambia, Zambia Investment Centre and a study conducted by the Ministry of Commerce (Zambia Investment Climate Assessment Final report) were also reviewed.

### **3. ECONOMIC LIBERALISATION IN A GLOBAL WORLD**

Africa today faces the daunting task to take responsibility for its own actions and develop home grown solutions to its numerous developmental challenges. The continent possesses numerous opportunities ranging from availability of resources such as capital, technology and human skills that can be harnessed to launch a global war on poverty and underdevelopment. The continent perhaps needs to address the issue of its leadership having misplaced priorities rather than a sustained human development effort and poverty eradication approach before this enormous task can be successfully undertaken (NEPAD, article 6; Chabal, 2002:448; Kanbur, 2002: 90). According to Stiglitz it is the lack of insightful policy thought by the authorities and the inability to view problems in a dispassionate way, to put aside ideology and to look at the evidence before making a decision about what is the best course of action (Stiglitz, 2001: x) which forms the basis of Zambia's lack of economic development, in spite of broad economic reforms in the last fourteen years. Policy formulation has taken little care about maximising the flow of benefits into the local economy from investment by foreign companies. Several foreign investors have found themselves overwhelmed by economic imperatives and taken advantage of the relaxed legislation and weak policies to ensure maximum returns on their investments.

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<sup>2</sup> In view of the high job insecurity noticed during the interviews, names of employees who participated in these case studies will not be mentioned. For the same reason, questions were also unstructured during the interview. Strategically placed individuals were targeted for interviewing for purposes of extracting as much relevant information as possible.

The best case in point is the retailers from South Africa such as Shoprite Checkers and Game Stores to mention a few, who have set up shops in the country to take advantage of the liberalized economy. Gerhard Koen, Game Stores administration manager, disclosed that the Zambian branch of Game Stores was the group's top performer (The Post Newspaper, 24<sup>th</sup> May, 2003), while the Manda Hill branch of Shoprite Checkers in Lusaka is the second most profitable branch in the Group. Shoprite Checkers opened its first shop in Lusaka Zambia, in 1995. Currently, the Group has 18 shops spread throughout the country. The Group's commitment to promoting South African products and job creation in South Africa shows that the Group is in Zambia purely to seek markets and not partners. They are not there with a motive to help create meaningful employment let alone grow the economy. This is evident from a statement attributed to Brian Weyers, general manager marketing of the Shoprite Group, contained in the Group's Annual Report for the year ended June, 2004. This is a commitment made to Proudly South African, a local programme aimed at encouraging the consumption and usage of South African products:

The Shoprite Group shares the fundamental motivation with the Proudly South African Campaign that Shoprite has a strategic role to play in actively promoting a 'buy local' message. This co-operation is crucial to the success of the investment by government and the private sector in protecting South African jobs and creating new employment in South Africa (<http://www.shoprite.co.za/pageID=810154648>).

This evidence shows that economic liberalization and a sustained campaign to woo investors with a string of incentives may not bear the results hoped for if the implication of the policies and the accompanying incentives are not properly analysed and understood. as can be seen in.

The hosting of investors such as Shoprite Checkers shows why despite Zambia being richly endowed with natural resources coupled with democratisation and the liberalization of the economy, the country has not experienced positive results in recent times. Political accountability and good governance which are necessary ingredients to development have not been enhanced either. Former President Chiluba<sup>3</sup> who steered Zambia through political and economical changes in the last decade is currently standing trial for fraud and embezzlement of state funds and assets (Zambia Daily Mail 12 Oct. 2004). According to the Zambia Investment Climate Analytical

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<sup>3</sup> Chiluba ruled Zambia for 10 years from 1991 to 2001. His immunity from prosecution was lifted by parliament to allow for his prosecution in dozens of theft and embezzlement charges (Zambia Daily Mail 12 Oct. 2004)

Final Report (ICA Final Report), the country's future does not lie in the government selecting sectors to promote, but in creating policies and institutions that encourage investors to productively and creatively employ its resources and its people (Zambia, ICA Final Report, 2004: i).

It is therefore clear that questionable leadership and the lack of insightful policy thought by the authorities form the internal basis for Zambia's lack of economic development, in spite of broad economic reforms in the last fourteen years.

This is especially underscored by the fact that the economic boom of the last decade had not been confined to the rich countries of the north alone. Much of the growth actually occurred in the developing nations of Asia and Latin America, where policies were more directed at growing local economies (Dresner, 2002:72; Stiglitz 2001; Flavin and Brown, 2001:6).

A combination of poor leadership and the tendency by the West to create unfavourable trading terms with Africa has resulted in the continent being integrated into the world economy mainly as a supplier of cheap labour and raw materials. This has meant the draining of Africa's resources rather than their use for the continent's development thus resulting in most countries in Africa remaining the poorest despite being some of the most richly endowed regions of the world (Nepad Document, Article 19; Reed, 2001: 15; Goldsmith, and Mander, 2001: 25). According to Chabal, countries like Zambia and Ghana in the 1960's had a GDP per capita equal to their Asian counterparts such as South Korea and Malaysia, and in comparison, the situation today is radically different (Chabal, 2002: 443)

The other negative aspect affecting development in Zambia like in most African states as opposed to the Indian and South Africa's political systems is the system of 'winner takes all'. This system robs the country of the effective participation in governance by the losing parties who are normally driven into oblivion after every election thus leaving the ruling parties with increasing capacities to mismanage (White, 2002: 37 – 38). The lack of resources for the opposition parties leaves them vulnerable to manipulation by the ruling party. Thus competitive elections have not been seen as a means to achieve democratization let alone development but rather as a ritual meant to satisfy the donor community (Chabal, 2002: 449).

Despite the political order (One Party State), and the economic mismanagement coupled with external factors such as dropping copper prices and increase in oil prices bringing misery to the Zambian people as early as the beginning of 1980, Zambia did not initiate change on its own at a suitable time. It is evident that the political changes adopted by Zambia were instigated on the insistence of the donor community as conditionality for the country to continue benefiting from international funding. This therefore was reflected in multiparty elections not achieving the same results as it has not been practiced genuinely with a view to achieve democratic ideals (Chabal, 2002:448 – 449; Manfred, 1991: 55). This is further evidenced by the fact that most leaders who came to replace the leaders from the one party state system vigorously supported a multiparty system of democracy with limited presidential terms but went on to attempt to change the constitution in order to run for more terms when it was time for them to bow out. The third term debate was unsuccessfully waged by Chiluba in Zambia, and Bakilu Muluzi in Malawi, while in Namibia, Nujoma succeeded in changing the constitution and ruled for three terms.

It can further be argued that the wind of change did not only bring with it political change but came as a package with recommended economic reforms (Korten, 1995: 66). It is clear therefore that both political and economic changes were not instigated by Zambia's desire to effect change hence neither the nature of politics nor economic policies in the country make development and good governance easy to achieve (Chabal 2002:449). The fact that economic changes were instigated by the donor community introduces possible lapses in policy formulation which otherwise would have ensured that the economy trapped as many benefits as possible from multinational investors who were coming to take advantage of the liberalisation.

Zambia has created since 1990 a lot of incentives to attract investment. These incentives have ranged from tax havens, tax rebates to several other investment incentives such as loosened foreign exchange controls. Due to lack of monitoring capacity and evaluation of the performance and conduct of the recipients of the incentives, there has been no effective surveillance to reduce cheating and ensure compliance with the result that investors have left upon expiration of tax rebate

periods. Others have traded in a manner which does not promote the local economy by, for instance, stocking foreign goods such as tomatoes and potatoes even when good quality products can be obtained locally.

To achieve economic development with the help of foreign investment, wealth must be retained in local economies. For investors like Shoprite Checkers and Game Stores whose goods are sold in local currency, but restocking done in foreign currency obtained from within the economy their business conduct impacts negatively on Zambia's Balance of Payments, the Current Account, exchange rate and inflation since the money the Group makes does not even play any meaningful role in the economy and merely puts pressure on the foreign exchange reserves (White, 2002: 44). The Member of Parliament for Ndola constituency and the then Chief whip of the ruling party in Zambia, Eric Silwamba could not hide his displeasure at the business conduct of Shoprite Checkers and Game Stores when he said:

The current investment scenario in Zambia where foreign investors are externalising all sales proceeds to their countries has resulted in neo-colonialism. Most companies, especially from South Africa, had breached the Zambian companies' Act in their operations by neglecting to appoint local directors as required by law resulting in these companies being managed and administered from foreign bases. The trend is that general administration including pay slips in some cases is being handled from South Africa. This regrettably meant that even whatever funds were being reaped from local daily sales were immediately being externalised. While the former regime (Chiluba) had liberalised the foreign exchange controls to curb capital flight the current repercussions involving the externalisation of funds had not been foreseen. The ideal situation is where investors are at liberty to remit profit and dividends as opposed to remitting the whole turnover. "I am yet to find a country in the world which permits remittance on turnover on a daily or weekly basis" (The Post Newspaper April 24, 2003).

But Game Stores administration manager Gerhard Koen denied the daily externalisation of funds saying:

We send out money on a weekly basis, every Tuesday which is our trading day after paying all taxes and other obligations. But it is not externalisation for the sake of it. These funds go towards paying our suppliers so that we can have new stock, these payments go to South Africa where the largest portion of the stock is sourced, including places like Hong Kong. As you have observed we offer lower prices and for us to give the customers this incentive we try to do our business on a cash basis with our suppliers.

Giving his personal views on the reported continued externalisation of turn over by investors, Zambia Association of Chambers of Commerce and Industry (ZACCI) chairman Abel Mkandawire advised that:

The money should first circulate in the economy so that banks can also lend it out to create further growth in the economy. It was a fact that the continued, almost daily, externalising of funds was causing a serious strain on the foreign exchange rates.

The claim by Koen that Game Stores offers lower prices and that this can only be done by conducting cash business with their suppliers could not be proven and a simple price comparison on brochures displayed in their shops both in Zambia and South Africa indicated that prices in their Zambian branch are at least 25% higher than the South African prices for the same products. This is cleverly achieved by simply multiplying the South African quoted prices by 1000 to reflect prices in Kwacha. What this method achieves is to blow the exchange rate from K750 to a Rand to K1000 to a Rand thus achieving a 25% increase on gross margin through exchange gains. This is despite the fact that exports out of South Africa enjoy a 14% VAT refund a benefit which further pushes the gross margin to 39% compared to South African quoted prices. It could not be established that Game Stores paid any of their suppliers cash on delivery. In fact they are on at least 30 days credit period with most of their customers contrary to Koen's claim. This trading practice further enhances their earnings through interest income externalised funds earn for the period such funds stay in South African banks before paying suppliers. If they were to conduct cash business with their suppliers, they would only enjoy a 2 to 5 % saving on the prices compared to 8% interest earnings that would be gained through interest income on a fixed deposit hence making the conduct of cash business with suppliers a not so wise business arrangement. Salary disparities between Zambian workers and their South African counterparts also show further ways in which the Zambian branches of both Shoprite and Game Stores enhance their earnings. Casual employees earn as little as K1 350.00 per hour (R1.80) and permanent employees as little as K335,000.00 per month (R440.00). In South Africa there is a minimum wage of R800.00. Given the savings these companies make, it is difficult to understand in what form any of it gets passed on to the Zambian customers as claimed by Koen.

Due to inadequate or misplaced economic policies Zambia has continued experiencing serious economic and social problems. The unemployment level is standing at well above 80%. According to latest statistics, out of about four million Zambians who should be employed, only 416,228 are in formal employment (Post News Paper, 2



Oct, 2004).

The labour market has continued to shrink over the years, mainly due to restructuring in the government service and the harsh economic environment. The situation continues to deteriorate and between December 2004 and March 2005, formal sector employment declined from 418,981 to 416,228. Of the 416,228 people in formal employment, 243,000 are employed by the private sector, 117,041 in central government, 48,399 in parastatals and 7,143 in local government (Post News Paper, 2 Oct, 2004).

Formal sector employment has declined mainly due to the closure of local manufacturing companies and the continued lack of investment in the production sector as most of the goods sold in the country are sourced from outside, a practice which only denies promotion of job creation and economic development in Zambia. Shoprite Checkers puts it more candidly:

The milestone agreement with Proudly South African signifies the start of an innovative sustainable relationship between Proudly South African and Shoprite, which will offer South African consumers a wide range of locally sourced quality goods at the lowest prices and also promote job creation, fair labour practice and environmental responsibility (Annual Report: <http://www.shoprite.co.za/pageID=810154648>).

There is therefore the need to diversify the economy in order to achieve economic growth and employment creation. In July 2002, the Zambian Government officially launched its first Poverty Reduction Strategy Paper<sup>4</sup> for the period 2002 – 2003. The PRSP's objective is to attain sustained and high economic growth, improve access and quality in the provision of social and public services, and mainstream the cross cutting issues of HIV/AIDS, gender and the environment. The strategy correctly recognizes that little can be achieved to reduce poverty unless measures are taken to revive Zambia's economy. Diversifying the economy is considered key to reviving the economy with agriculture and tourism, particularly given priority (PRSP, 2004:1).

In tourism, the programme was mainly directed towards the development of infrastructure in Livingstone as the premier tourist destination in Zambia and creating

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<sup>4</sup> This paper will be referred to as the PRSP paper

linkages with other tourist development areas or zones, tourism promotion and marketing and facilitation of tourism financing through a tourism Development Credit Facility (PRSP, 2004:1).

The East Asian model shows how deliberate home grown policies as opposed to foreign imposed policies can drive development. In the face of globalization a country with an underdeveloped economy such as Zambia needs a great deal of state intervention in the economy coupled to protectionist trade policies to protect its fragile industry to develop out of infancy. Developing countries must build up their economies by wisely and selectively protecting some of their industries until they are strong enough to compete with foreign companies (Stiglitz, 2002:16-17). Stiglitz makes an observation that, neither blanket protectionism nor rapid trade liberalisation has worked for countries that have tried it. He further states that forcing a developing country to open itself up to imported products that would compete with those produced by certain of its industries that were dangerously vulnerable to competition from much stronger counterpart industries in other countries, can have disastrous consequences – socially and economically (Stiglitz, 2002:16-17). In Zambia this has ended up in a systematic destruction of jobs. According to a Lusaka entrepreneur, Mr. T.M Ngoma:

The working class in Zambia is under constant siege (Post News Paper, 2 Oct, 2004).

Evidence has shown in the countries making a transition from communism to the market economy, for instance that globalization and the introduction of a market economy does not automatically produce the promised results that Bretton Wood institutions preach about. Instead, unprecedented levels of poverty are usually recorded (Dresner, 2002:71-72; Stiglitz, 2001:6).

In a country where the working class is virtually under siege, one would expect better treatment from investors and government for the few workers fortunate enough to find employment. The scenario is however different and the fact that there are very few jobs available has made workers vulnerable both to employers' manipulation and to the governments' desire to attract investors. The government in this case is abrogating its duty to protect workers by failing to enact laws which do so and in the worst circumstance actually repealing laws previously meant to enhance workers' interests. The evidence that the country's neoliberal approach is a wrong policy approach is

underlined by the fact that the World Bank in its report called “The State in a Changing World”, reflected that institution’s concern to defend its neo-liberal position within the context of a debate where the trend is in the opposite direction (Swilling, 1999: 20). Neoliberalism calls for the extension of the market to more and more areas of life; the creation of a state unburdened by excessive intervention in the economy and social life; and the curtailment of the power of certain groups (for instance, trade unions) to press their aims and goals (Held & McGrew, 2002:5). Given the above, the country needs to re examine its policy approach to achieve development beneficial to its society.

In a dispute between workers and management at Sun International over the continued payment of a 10 percent service charge, the government issued a statutory instrument partially exempting Sun International from paying the 10 percent service charge due to workers and accepted the Group’s recommendation of 2 and 8 per cent on room charges and food and beverages respectively. The government’s siding with the management in reducing the charge has further reduced the amount of disposable income which workers receive and eliminated any chance of helping create a workforce with bank savings. In this case, even the economy is denied the benefit of the economic spin offs that come with a reasonably well paid working class. Apart from the government not providing good economic policies, they are assisting investors to tamper with the few existing ones by either waiving them in the form of tax rebates and other investment incentives or assisting investors alter them by for instance allowing them to reduce the amounts legally due to staff (Korten, 1995: 129). In an incident concerning complaints about the tendency to employ casual workers for a long time without confirming them into permanent staff, the Republican Vice President and a manager of one of the foreign companies had this to say:

Casual workers are here to stay, but they should not outstrip permanent employees because they are not pensionable (Lupando Mwape, Vice President). This comes after widespread condemnation of the casualisation of labour in the country which surfaced following the accident at BGRIMM Explosives Limited in Chambishi in which 49 workers, most of them employed on casual basis, perished. It emerged that casual workers at BGRIMM were earning between K60,000 and K100,000 per month. Vice-President Mwape had earlier questioned LCM management on why they had more casual workers than permanent ones and why the company could not devise better ways of turning contractual jobs into permanent ones. LCM chief operating officer James Arthur told Vice-President Mwape that he was aware of the statutory limits of how long an employee should be employed on a casual basis and promised to work to solve the problem (Post Newspaper, 7<sup>th</sup> May, 2005).

This scenario correctly reflects Flavin and Brown's view which talks about dangers of opening markets in countries with weak government, inadequate legal system, and rampant corruption (Flavin and Brown, 2001:13). One would expect that given Zambia's choice of a neoliberal approach, values and expectations prevailing in today's industrialized countries would be adopted (Global Environment Outlook 3 Report 2002:xvii). These values and expectations that prevail in today's industrialised countries such as social security arrangements which take care of workers in unforeseen circumstances are conspicuously absent. The working environments are not closely monitored through the enactment of strong environmental working conditions legislation. In countries like South Africa, minimum wages are a legal requirement. In Zambia however, it has been noted that the majority of employees in the private sector could be classified as the working poor because their emoluments are as low as K60,000 (R80) per month in some cases (Post Newspaper, 2<sup>nd</sup> Oct, 2004).

Zambia's misplaced economic policies can be seen from two fronts: firstly, the country adopts austerity measures wholly and without restraint. Stiglitz makes an observation about the more advanced industrial countries declining to open up their markets to the goods of the developing countries – for instance, keeping their quotas on a multitude of goods from textiles to sugar – while insisting that those countries open up their markets to the goods of wealthier nations (Stiglitz 2002: 7).

Secondly, Zambia through privatization has lost its industrial base and replaced it with imports. The lack of corporate wealth and absence of new enterprises, has resulted in massive unemployment, reduced the tax base, and therefore placed a heavy demand on the government's meager resources. This position vindicates Kanbur and other experts and NGO representatives in a multifaceted debate flowing from the protests about globalization that market liberalization and economic growth are insufficient by themselves to reduce poverty (Flavin and Brown, 2001:13). The country is once again depending on copper exports in raw form. With fluctuating copper prices, this scenario has turned the country into one of the poorest countries in Africa despite being one of the most richly endowed in the on the continent.

#### **4. HOPING FOR A NEPAD SOLUTION**

The NEPAD programme clearly identifies the unsustainable manner in which the resources of Africa have been harnessed but falls short of creating a correlation between the commercial and political sectors of the continent. The Nepad programme seems to attach more attention to correcting the political sector of the continent thus creating the impression within the programme that when Africa's political house is put in order, the commercial sector will help develop the continent by thriving in the resulting conducive atmosphere. This scenario ignores the fact that the commercial sector has been and continues to be behind most of the unsustainable exploitation of the continent's natural wealth and have fermented resource wars and therefore needs a well orchestrated programme to ensure meaningful participation in the efforts to develop the continent.

Article 10 of the NEPAD document divides the continent's resources into four components. The first component talks about the rich complex of mineral, oil and gas deposits, its flora and fauna, and its wide unspoiled natural habitat, which provide the basis for mining, agriculture, tourism and industrial development. This component of Africa's resources has been exploited in the most unbeneficial manner to the continent both by indigenous African companies and by foreign multinationals and have often been at the centre of conflicts. The conflicts in the oil rich areas of Nigeria are as a result of locals' sentiments against the manner in which the resources are exploited and the effect on both the environment (pollution) and the lack of benefits accruing to the local society.

The second component talks about the ecological lung provided by the continent's rain forests, and the minimal presence of emissions and effluents that are harmful to the environment – a global public good that benefits mankind. Africa has, however, experienced some of the most unsustainable incidences of commercial practices largely due to poor legislation or a complete lack of it.

Due to the emphasis placed on correcting the political sector of Africa, the commercial sector has been left unchecked and has therefore largely diluted the efforts being applied on correcting the political front by practicing in a highly unsustainable manner. In some cases funding or helping to perpetuate conflicts by providing a ready market for commodities which may be at the centre of conflict.

A good example here is the De Beers Diamond Mining Company which was accused of purchasing some of the diamonds mined by UNITA forces in Angola. Another good example of unsustainable conduct is Vodacom's withdrawal from the Nigerian cellular phone market following a bribery scandal in a country where the political sector is fighting the battle to stop the scourge.

The route taken by the Nepad programme therefore has inbuilt weaknesses in the sense that the commercial sector is one of the major players behind the perpetuation of some of the vicious civil disorders which have retarded development on the continent.

In its present form, NEPAD assumes that the commercial sector comprises ethical investors who will thrive honestly in the enabling environment to be created by democracy and good governance efforts being applied on the political front. It is further hoped that the commercial sector will then help drive Africa's development. The Zambian scenario clearly shows that the business conduct of investors such as Shoprite Checkers and Game Stores will not help fulfill this wish.

## **5. RECOMMENDATIONS**

The direction of the Zambian economy like any other economy has largely been driven by the country's policy approaches which do not have a proper interface with those of world global politics as driven both by developed nations and global institutions such as the World Bank, the International Monetary Fund and the World Trade Organisation on one hand and the adaptation of the global conglomerates to the country's policies on the other (Zoeteman, 2003: 110).

Policy formulation must therefore be analysed in terms of how the nation has and will benefit from the interface of national policies against wider global players' policies or their adaptation to the host nation's policies. There should be intensified effort to negotiate better policy formulation of external players having relationships with the country (Zambia).

The policies formulated should therefore be more towards protecting and promoting local industries and this will ensure maximum retention of capital within the local economy. The present policies put more wealth in countries from which conglomerates originate than in the host nation's (Zambia) economy. The South African Trade mission in Lusaka recently observed that, Zambia's trade imbalance with South Africa currently stands at 1 to 8 in favour of South Africa (Times of Zambia 4<sup>th</sup> Oct, 2004).

For the South African commercial sector to contribute meaningfully to the general development of Africa (outside of South Africa), it must ensure that the recommendations of the King Report are observed in a similar manner both at home and in their operations in weaker states outside of South Africa. They must ensure equity in development, participation of both the rich and the poor, and that global conglomerates act in a more sustainable manner, coupled to a partnership approach (Flavin, 2001: 5; Herderson, 1999: 46).

The government needs to reassess the economic situation in order to understand policy gaps or weaknesses to arrest the downward trend in the economy. Priority should, for instance, go to policies or the absence of which have contributed to high levels of unemployment.

Given the fact that the dismal economic performance was as a result of both internal and external factors, of which unfavourable terms of trade, rising oil prices and the decline in volume and prices of copper formed part of the external causes, it follows that policy formulation should not have been entirely donor driven.

This therefore calls for a serious analysis in economic policy formulation to ensure that the policies are both relevant to the problems at hand and to the stage of development the economy is passing through. Policies must include those that aim at strengthening democratic institutions and legislation which would compel compliance with accepted conduct. This therefore means that policies that allow necessary government intervention and specific policy formulation to direct economic development should be adopted.

In the Market First approach, trust is said to be placed in further globalisation and liberalisation to enhance corporate wealth, create new enterprises, and so help people and

communities to afford to insure against – or pay to fix – social and environmental problems (GEO3, 2002:xvii). The poor salaries and working conditions which have a downward trend engineered both by government and investors will not, in Zambia’s case, enable people and communities to afford to insure against or pay to fix social and environmental problems. This is due to the fact that Zambia is a country with a weak government, inadequate legal system, and rampant corruption in which ethical investors, together with citizen and consumer groups who should try to exercise growing corrective influence get undermined by economic imperatives (GEO3, 2002:xvii; Brown & Flavin, 2001:13; Korten, 1995: 67)).

The solution would therefore lie in adopting a Policy First approach in which, decisive initiatives are taken by governments in an attempt to reach specific social and environmental goals (GEO3, 2002: xvii). The GEO3 Report says that, a coordinated pro-environment and anti-poverty drive balances the momentum for economic development at any cost. Environmental and social costs and gains are factored into policy measures, regulatory frameworks and planning processes (GEO3, 2002: xvii).

The argument to have a policy approach which gives governments the ability to ‘intervene for mitigation purposes is further strengthened by Dresner, when he says that, development involves a progressive transformation of economy and society (Dresner, 2002:67). He further says that, a development path that is sustainable in a physical sense could theoretically be pursued even in a rigid social and political setting. But physical sustainability cannot be secured unless development policies pay attention to such consideration as changes in access to resources and the distribution of costs and benefits (Dresner, 2002:67).

The commercial sector of Africa must be well coordinated by linking all the existing chambers of commerce together under a mother body within NEPAD to which all of them should be accountable. The enhancing of the commercial sector should therefore involve the creation of industries within Africa to add value to Africa’s primary products to increase wealth earned through elimination of under pricing.

A well coordinated commercial sector through the linking of all the chambers of commerce would ensure that products needed in Africa and produced in Africa should be



procured within the continent. This will increase trade between nations and help retain wealth within Africa. This calls for mechanisms which will monitor the business conduct of companies so that there is uniform observance of guidelines such as those issued by the King Report.

Institutional and legal capacity within NEPAD to monitor the commercial sector in Africa must be undertaken as a matter of urgency to avoid indigenous African companies merely replacing imperialist companies which exploited African resources without any benefit accruing to the continent. In its present form, NEPAD assumes that the commercial sector comprises ethical investors who will thrive honestly in the enabling environment to be created by democracy and good governance. It is further hoped that the commercial sector will then help drive Africa's development.

For the Nepad Programme to achieve any meaningful development, therefore, deliberate programmes aimed at driving the political sector simultaneously with the commercial sector should be adopted. The peer review mechanism on the political side should be reformed to be more of a beneficial watch dog and this must be replicated in the commercial sector to ensure that no member country adopts economic policies or allows own conglomerates to conduct business in a manner which in the long run may be unsustainable to the continent.

Deliberate programmes, institutions and legislations must be put in place to ensure that the commercial sector's activities are enhanced, coordinated, monitored and taken advantage of to drive sustainable development on the continent. Institutional and legal capacity within NEPAD to monitor the commercial sector in Africa must be undertaken as a matter of urgency to avoid indigenous African companies merely replacing imperialist companies which exploited African resources without any benefit accruing to the continent.

## **6. CONCLUSION**

Increasingly, the world is one. This is not ideology or a particular political posture. It is an objective fact of the modern world economy. Yet it is also a fact that, as globalization has swept the world, Africa has got poorer (President Thabo Mbeki, The African Union Directory 2002: 9; Zoeteman, 2003: 101).

Interesting to note, is the fact that the latest drivers behind the perpetuation of poverty in Africa, and the cause of lack of development in the local economies are African multinational companies taking advantage of the latest trend in the economic liberalization in African states.

Inadequate policy formulation by African governments and their desperation for foreign investment has provided fertile ground for foreign companies to act in a most unsustainable manner. The practices outside their borders of origin are usually unique and are not practiced in home countries.

Given the above, it becomes imperative that if the commercial sector of Africa, has to develop the continent as it is hoped in the NEPAD programme, South African firms in an instance like this one, must go out seeking partners and not markets. Unless markets they seek are supported, through creation of local partners, they may not be sustainable to the local economies nor in the long run, to the investing companies themselves.

It is also of both economic and social importance that governments enact laws that are not only aimed at attracting investors at all costs. The laws must be aimed at balancing benefits between investors on one hand and the host society on the other.

Through the programme of NEPAD, national governments must co-ordinate policy formulation so that one particular nation does not become more like a hole in the bucket through which fluids can trickle out. With the present complete liberalised financial sector in Zambia, it becomes easier for unethical businesses to externalise funds off shore from South Africa, for instance, through exporting goods to Zambia and then externalising proceeds to other countries other than taking such funds back to South Africa. The

unsustainable nature of policy formulation in one country can therefore be used to the detriment of other well managed economies. If Africa has to retain most of its capital to benefit the continent the issue of policy formulation must be coordinated as a matter of urgency.

To think that peace efforts in the Democratic Republic of Congo, Burundi, and Rwanda, will eventually just provide retail space to South African products makes one wonder whether economic stability and poverty eradication would ever be achieved in these countries with this approach by the South African multinationals.

Shoprite Checkers' reasons for supporting Proudly South African are laudable. Seen in the local context, the local economy (South African) would be buoyed to higher heights if the locally produced goods are supported as this will create and sustain local employment. To state that the same locally (South African) produced goods would be given retail space in the Group's multinational retail chain is defeating to countries like Zambia which have opened up their markets to foreign investment hoping that such acts would result into kick starting the local economy.

African economies would want to develop in pretty much the same way as envisaged locally by Proudly South African and facilitated by Groups such as Shoprite Checkers. To deny host societies of well supported local economies raises questions whether South African firms understand the implication of their actions in terms of a wider frontal approach to Africa's poverty eradication or whether they share the same views of African renaissance as seen by the main drivers of NEPAD such as Thabo Mbeki.

What role then are South African firms playing in the economic development of countries such as Zambia? Are they not simply creating a new form of economic colonisation using doors that are so laboriously being opened by the political sector? Does this not call for a more critical approach to Africa's development? Should leaders not pay more attention to the role the commercial sector is playing just as much as the political sector is being brought to the fore?

The last question that needs answering is: Are Zambia's policies playing an appropriate role for the Zambian economy or for the region? What is the implication for NEPAD when policy formulation by participating countries is neither uniform nor coordinated?

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