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Commodities, Africa and China

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Two conventional wisdoms about Africa have been overturned in recent months – with potentially dramatic implications for continental development and security: The first has to do with commodity prices. The second is the seeming retreat from Africa of investors and entrepreneurs from China, which is surprising.

UNTIL RECENTLY, it appeared that Africa's commodity dependence would not be an obstacle to its economic growth. The continent's growth rates of over five percent for the last few years have been fuelled by the large increases in commodity prices. As late as a few months ago, as oil surged past $140 per barrel, there were confident predictions of a commodity supercycle. In fact, commodities have crashed. Oil is now below $40 per barrel and other commodities have followed. For instance, the price of copper and cobalt are around one-third of their recent peak.

Implications for Africa

The implications for Africa are many.

First, growth is going to be massively slashed. Indeed, the price declines have been so sudden and so brutal that many African leaders, who believed that they were doing what the West recommended, suddenly find their economies to be in tatters, again. Take Zambia. A combination of bad political leadership, a failure to reinvest, and falling prices had seen copper production fall by the early 1990s to less than one-third of its 720,000 tonnes of the 1960s peak. The Zambians finally voted out the old party that had presided over the decline and instituted a controversial privatization programme. Riding on the commodity boom, Zambia has enjoyed a five-year bonanza, with production now at 600,000 tonnes.

It is questionable, however, whether Zambia, like others, has made full use of the boom. In response to the high prices Zambia introduced a 'windfall tax', the result being that some mines were forced to pay tax before they made any profit. The outcome: All new investments stopped, including those which would have given old mines a new lease of life which would additionally have mitigated the impact of the current price downturn. The windfall tax rates meant that as copper prices rose above

US$3 per pound triggering the tax, so the profitability of operations decreased. Unusually it became in companies' financial interests to see prices decline to avoid such taxation.

Now, Zambian mines are closing as many cannot produce at the current cost and unemployment is growing rapidly. The value of the local currency, the Kwacha, fell by three-quarters in just 45 days from the start of November 2008. It may not end here. As Zambia's Finance Minister Situmbeko Musokotwane says: "I suspect there will be further knock-on effects, particularly among the sub-contractors to the mines."

A similar if more desperate story is underway in the neighbouring Democratic Republic of Congo (DRC). Under former president Mobutu Sese Seko's misrule, the annual per capita income of Congo by the mid-1990s was at US$120, two-thirds less than before independence. The commodity boom helped Congo and at least Katanga province, where much of the mining is located, experience an uptick. However, Katanga is now in freefall as many of the mines are closing and may well take the rest of Congo with it. Indeed, the upsurge of violence in Eastern Congo may be due in part to the fact that rebels fighting the Congolese government are aware of the commodity price decline and are deliberately picking a fight against a government that they know has grown weaker.

While the Africans are understandably bitter about the sharp price decline in their export prices, they are not without blame. The commodity boom produced something akin to the proverbial seven fat years for some African countries. But there was very little effort to diversify production while the going was good. In particular, the very old story of underinvestment in agriculture was repeated as Africans listened to those analysts who said that commodity prices would stay high forever. Now they are stuck with low prices for their exports and little else.

In the DRC, like Zambia, opportunistic policy and recalcitrant bureaucracy has not helped. In response to high prices, the Congolese government initiated a 'revisitation process' early in 2007, questioning the tenure of all mines and forcing companies to reapply for licences. Such uncertainty made raising capital more difficult. As a result, big long-term mining projects are now at risk. Indeed, such greed may have ensured the DRC has largely missed out on the metal price bubble.

The China factor and the market

The commodity price decline has also revealed to the Africans something of the nature of their friends.

During the commodity price boom, China invested massively in Africa seeking to lock up as many raw materials as possible. Some spoke confidently of China having a 50- or 100-year strategy toward Africa. But more than 60 Chinese mining companies have left the mineral rich Katanga the last two months, as cobalt and copper prices cratered. Over 100 small Chinese operators are reported to have left Zambian mines for the same reason.

A similar retreat may be occurring at the strategic level.

In 2007, it was announced that China would lend the Congo US$5 billion to modernise its infrastructure and mining sector. Under a draft accord, Beijing earmarked the funds for major road and rail construction projects and for rehabilitation of Congo's mining sector. The repayment terms proposed included mining concessions and toll revenue deals to be given to Chinese companies. In simple terms it meant 13 million tonnes of copper for $5 billion – or (even at today's depressed prices) $40 billion for twenty-times less. Yet the China-Congo deal has gone very quiet as the copper price has plummeted. The market, not grand strategy, is the Chinese motivation in Africa.

No doubt some African countries have benefited on balance from the commodity downturn, as food and fuel prices have declined. Most African countries are, after all, net energy and food importers.

However, the sudden price decline has proven again that African countries are not immune to the effects of the international financial crisis and that they must redouble efforts to reduce their dependence on raw material exports. A review of the actual role of China in Africa and its motivations is also necessary.

Despite the price declines, Africans in southern Africa we speak to remain committed to competing in the international economy and driving their countries forward through better policies. Interestingly, government officials and businessmen in Africa never mention foreign aid as a particularly important driver for growth. This is despite the lavish attention the Western media gives to actors, musicians, and others who continue to promote Africans as helpless victims who need ever-greater handouts.

Today's leaders in Africa know, especially in light of the commodity decline, that they have made mistakes, but they also know that they will determine the fate of their countries. To do so, they will need a recipe of sound bureaucracy, and consistent policy to attract investors.

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