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Tanzania's mining successes

What are the lessons for South Africa?

Africa is a metal and mineral-rich continent. It produces several of the world's important minerals and metals including gold, diamonds, platinum, uranium, nickel, bauxite, copper, cobalt, chromium, manganese, and iron ore. However, even though the continent is the third most important destination for international mining capital after Latin America and Canada, new exploration and mining development have lagged behind the rest of the world. Over the last decade significant mining growth has taken place in only a handful of African countries.

Tanzania has successfully attracted investment into its mining industry through targeted policy reform. The discovery of huge gold deposits around Lake Victoria has motivated companies such as Barrick, AngloGold and Ashanti Goldfields to invest in new mines in Tanzania in recent years. The investments were encouraged by tax breaks and a government that is more stable than most of its neighbours. This has resulted in the country becoming the main destination for gold exploration and development in Africa since 1999. The total capital investment in new gold mines (excluding the exploration costs) is in the region of $600m. Today, Tanzania is the third largest gold producer (together with Mali) in Africa, after South Africa and Ghana.

Although mining's contribution to GDP is still under 3%, this figure is increasing rapidly and the Tanzanian government believes that an increase to 6% is attainable by 2005, rising to at least 10% by 2025.

Speaking at the Cape Town Africa Mining Indaba in February 2004, Tanzania's Minister of Mines & Energy, Daniel Yona, said that since 1999 the country had seen a new mine come into production every year. He attributed the growth in the country's mining sector, which is dominated by gold production, to the introduction of a new fiscal regime for investors in 1997 and a new liberalised mining act in 1998. Both regulations have created a policy environment that is highly attractive to foreign investors. The mining code provides private investors with explicit guarantees against unreasonable government interference and expropriation, allows 100% foreign ownership, and offers unrestricted repatriation of profits and capital. The mining code also stipulates a royalty rate of 3% for gold and 5% for diamonds, as well as a variety of incentives linked to waived taxes, duties or other fiscal benefits on dividends.

Despite the fact that South Africa has a well-developed infrastructure and is Africa's leader in the variety and quantity of minerals produced, foreign investment into the mining industry has been slow. The main concern has been the impending introduction of the new tax regime, the royalty bill, which is revenue rather than profit-based, and also the strengthening of the local currency. In addition, South Africa has the highest production costs in the industry with an average cash cost of $222/oz, compared to other gold producers such as the US's $189/oz and Canada's $169/oz. The higher cost is due to the fact that 95% of South Africa's gold mines are underground operations, reaching depths of over 3.8 km. Investors and mining companies have also expressed concern about security of tenure, excessive ministerial discretion and the possibility of nationalisation. This has affected South Africa's competitiveness as an investment destination, resulting in some mining houses closing mines and shedding jobs.

Some analysts argue that South Africa is losing out against countries such as Tanzania in the

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BRIEFS

South Africa Writes Off Debt

Foreign Affairs Minister Nkosazana Dlamini-Zuma announced on 9 February 2004 that the government is considering the cancellation of some debts granted by the previous government. A total of R80.35m paid out under the Department's Economic Co-operation Promotion Loan fund is still owed. Although the amounts are small, the minister doubts that the money could be recovered. Debtors include the Central African Republic (R4.9m), Comoros (R30.5m), Gabon (R6.3m), Lesotho (R4.4m), Malawi (R14.7m), Mozambique (R8.36m), Paraguay (R852,000) and Swaziland (R10.11m). In 1995, South Africa unconditionally and unilaterally cancelled debt owed to it by Namibia for loans made during the apartheid era to the sum of R1bn. In early 1999, South Africa also cancelled debt owed by Mozambique totalling R40m.

Laroushka Reddy
SAIIA-KAS Intern

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Edited by Neuma Grobbelaar

Chad and Cameroon: Oil and Development

The World Bank has embarked on a bold experiment in West Africa, linking Cameroon and Chad's development to the petroleum pipeline project. Both countries have a chance to prove the skeptics wrong.

For once, Africa is making positive economic headlines. The world's fastest growing economy in 2003 was Chad with 58% GDP growth. This achievement is due to a pipeline project that was launched in 2000. The 25-year project includes the development of 300 oil wells in Southern Chad to be connected to a 1,070 km pipeline that extends from Doba to offshore storage facilities in the Atlantic Ocean off South-West Cameroon. The World Bank has dedicated $3.7 billion to the project, making it the largest private infrastructure investment in Sub-Saharan Africa.

Throughout African history, the exploitation of mineral wealth has often done more harm than good. Natural resources, such as oil, have bred corruption and waste, concentrating political and economic power in the hands of the elite, thus perpetuating inequality. In other instances, oil has been the source of worsening poverty by corrupting democratic development, aggravating civil war and creating economies that benefit foreign investors over local social development.

Despite these controversies, the World Bank believes that Chad will prove to be the exception to the rule.

In 2000, 80% of the population lived on less than a dollar a day in a country that is 90% desert or semi-arid. The World Bank argued that the exploitation of oil reserves was one of the few development options open to Chad and in the light of staunch criticism, promised to focus on poverty alleviation. Chad is expected to receive $2bn in revenues and Cameroon $500m from the pipeline project.

The World Bank has insisted on stringent policy and safeguard guidelines. The government is expected to use the majority of the revenues for poverty reduction, as set out in a revenue management law passed by parliament in 1999. Under this stringent law, 80 % of Chad's proceeds of oil sales are directed into a Development Fund and awarded to education, health and social services, rural development infrastructure and water management projects.

Withdrawals from the Development Fund can only be authorised by an offshore oversight committee compromising members of civil society, parliament and government. To further ensure transparency, the audit of the fund is overseen annually by the World Bank and the results regularly published. In the case of Cameroon, the royalties will provide general budgetary support to the government and be used to meet the country's external debt burden.

Despite the lip service being paid to transparency and good governance, some pitfalls have already become apparent. There has also already been a violation of the government's promise to spend the oil money on social services. Chad's former president, Idriss Déby, spent the first 'signature bonus' of $4,5m in 2000 to buy weapons for use against rebels. Chad also has the authority to unilaterally change the rules in the allocation of oil revenues from 2005. The revenue law applies only to the country's three existing oil fields, but not to future ones, and the criteria used to allocate the profits among companies, government and different regions of the country remain unclear.

Clearly the pipeline provides enormous economic opportunities. Production should peak by 2004 with 250,000 barrels per day, ensuring high growth levels above 40%. Indeed, oil revenue is set to double Chad's fiscal revenue in 2004. However, employment flowing from the exploitation of the oil fields remains limited. Only 3,000 of the 10,000 people working on the project are Chadians and the price of basic goods is escalating with the influx of foreign contractors.

However, the increase of foreign investment could have positive ramifications for the entire sub-region. There is enough evidence that although the oil development comes with pitfalls and potential risks, the Chad-Cameroon pipeline is bound to reap enormous benefits. The success of the pipeline, however, depends largely on the government's commitment to poverty reduction, the World Bank's pledge to monitor transparency and the introduction of policies that ensures the the equitable and sustainable distribution of the oil profits.

Romy Chevallier
SAIIA-KAS Intern

Forecast GDP growth in select African countries

Country	*2004*
Chad	42.7%
Angola	11.4%
Equatorial Guinea	10.2%
Eritrea	8.0%
Mozambique	8.0%

Source: Economist Intelligence Unit, 2003.

Lessons from Mexico

Mexico offers a number of lessons for SACU as FTA negotiations with the US accelerate.

The Mexican experience in negotiating the North American Free Trade Agreement (NAFTA) in 1993, and ten years of interaction with the US, offers SACU the benefit of hindsight – an unique advantage that could strengthen its negotiating position with the US.

Mexico and South Africa share a number of similarities. Both are prominent emerging market economies, which regard themselves not only as leaders of the South but also as catalysts in North-South relations. In both countries the ruling administrations are committed to human development and equitable global integration and these factors influence their domestic, regional and foreign policies.

Before NAFTA, Mexico was a large developing country with a relatively closed trade regime and plagued by financial uncertainty and economic instability. NAFTA helped reform the Mexican economy and was directly responsible for impressive increases in trade and investment inflows.

The Mexican economy grew from \$403bn in 1993 to \$594bn in 2003, climbing in world rankings from 15th to 9th position. Mexican exports have grown by an astronomical 300% and are now responsible for 30% of GDP. In 1993, exports accounted for just 15% of GDP.

Industrial diversification has encouraged the development of alternative manufacturing industries and lessened Mexican dependence on oil. The automotive, electronics and textiles industries have been particularly successful in attracting Foreign Direct Investment (FDI). In 2001, Mexico attracted \$110 bn worth of FDI. The US today accounts for 80% of total FDI into Mexico.

Apart from attracting FDI, manufacturing industries have created jobs, most evident in the border states where the *Maquiladoras* assembly plants are located.

However, the benefits of NAFTA also had some negative consequences. The rushed negotiation process provided little time for the Mexican government to assess the possible impact of the agreement on certain industries and society in general. Ten years on, many analysts have concluded that NAFTA has benefited only a handful of Mexican companies and further polarised the already vastly unequal Mexican society. Per capita income has stagnated (in dollar terms) and maize production has been undermined by US subsidised corn. The debate that has therefore emerged is one that contrasts the empirical success of NAFTA against some of the unfavourable social conditions that the pact has engineered. Critics of NAFTA refer to this as 'reckless globalisation'.

But NAFTA cannot be blamed for all the problems arising in Mexico. A variety of domestic and international factors are to blame. Mexican policies of market liberalisation and economic reform – which included the NAFTA agreement – have exposed Mexico to international fluctuations and speculation. It is therefore important that domestic polices anticipate these possible negative consequences.

South Africa and SACU should not rush headlong into the negotiating process with the US. Careful evaluation is essential. An FTA with the US could have a negative impact on certain industries and some facets of society. This needs to be thoroughly analysed and weighed up in a complete evaluation of the agreement. In this way, SACU could avoid some of the unwelcome surprises that Mexico is experiencing ten years after NAFTA's conclusion.

Lyal White
Senior Researcher: Latin America

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race for exploration dollars, which attracted almost the same exploration spending as South Africa in 2001. This is the case despite the fact that Tanzania's mining industry is fairly small and almost entirely based on five operating gold mines.

The SA Department of Minerals and Energy reports that the total value of the local industry is in the region of US\$75bn, whereas Australia's mining industry is worth only \$45bn and Canada's \$50bn. Consequently, on a proportional basis one would expect South Africa's exploration spending to be over \$530m a year, instead of a mere \$75m.

Although the government argues that the new mining legislation will encourage more exploration spending in the country, South Africa is not regarded as having a regulatory regime that is friendly to explorers. The lesson South Africa can draw from Tanzania is that regulatory frameworks which are designed to minimise risk and ensure a favourable investment climate can and will lead to foreign investment coming back into the country.

Kaemete Tsotetsi
SAIIA Business in Africa Economist

South African Substance Classification and Royalty Rates

Substance	*Royalty Rates %*
Coal	2
Gold and Chromium	3
Platinum	4
Diamonds	8

Source: Mineral and Petroleum Royalty Bill, 10 March 2003.

SA and the DRC: What are the prospects for a closer relationship?

President Thabo Mbeki concluded the first state visit by a South African president to the Democratic Republic of Congo on 13-14 January 2004. The Presidential visit was preceded by two working visits of senior officials from South Africa to the DRC from 16-18 December 2003 and from 5-8 January 2004. It goes without saying that the significance of a peaceful and economically-revived DRC is important to Mbeki's African renaissance and the New Partnership for Africa's Development, but is this all there is to it?

Pretoria's interest in the DRC has manifested itself in the economic and political relations that both countries have pursued since the Mobutu era. The DRC has emerged as a significant export destination for South African goods in Africa resulting in a large trade surplus in favor of South Africa.

Moreover, South Africa's active involvement in hosting and assisting in the brokering of a peace deal between the government and rebel factions is on record. It has been almost a year since the final agreement of the Inter Congolese Political Negotiations was signed on 2 April 2003. The Inter Congolese Dialogue is still holding, although fighting continues in some provinces such as the eastern province of Ituri. South Africa is now eager to move to the second phase of post conflict reconstruction, which it believes will assist the consolidation of peace and further bilateral relations.

President Mbeki and his DRC counterpart, President Joseph Kabila signed a Co-operation Agreement on 14 January 2004, laying the foundation for the establishment of a Joint Bilateral Commission (JBC) between the two countries. The JBC will create a mechanism through which the two governments can regulate political co-operation whilst simultaneously serving as a platform to identify and implement joint co-operation projects covering a wide range of topics, such as political, defence and security, economic, finance and infrastructure as well as social and humanitarian issues. Pretoria's particular interest in the DRC is motivated by the belief that South Africa's successful transition offers many lessons for the DRC. South Africa is keen to offer its expertise in the building of democratic institutions and the integration of the defence force. In general, the DRC has been very receptive to offers of assistance and the Congo has now formed its own Truth and Reconciliation body.

South African business is responding positively, yet cautiously to investment opportunities in the DRC.

However, the Department of Foreign Affairs also acknowledges the important role of business in post conflict reconstruction. The DFA encourages South African businesses to explore market opportunities in the DRC before other non-African companies capture the market. French and Belgian companies are moving into the DRC rapidly, apparently unconcerned about the instability in some parts of the country.

Some South African businesses have tested the waters, looking for investment opportunities in a country rich in diamonds, gold, cobalt and coltan. The latter is used in mobile phones and nuclear reactors. Mvelaphanda Holdings Ltd has signed two deals related to gold, copper and cobalt. Diamond giant De Beers and electricity firm Eskom are also in discussion with the Congolese government. Thus South African business is responding positively, yet cautiously.

This caution is well warranted. The business environment in the DRC remains difficult. However, the bilateral relationship between SA and the DRC is expanding. President Kabila is expected to visit South Africa in the near future for the inauguration of the Joint Bilateral Commission. Kabila, like Mbeki, is expected to bring delegations from government and the private sector. It remains to be seen whether these efforts will bear fruit. However, it is clear that both Presidents are keen to consolidate the two countries' relationship.

Rachel Bambo
SAIIA-KAS Intern

Upcoming Elections in Africa for 2004

Scheduled Dates	*Country*	*Type of Election*
28 March	Guinea-Bissau	Parliamentary
18/25 March	Equatorial Guinea	Parliamentary
14 April	South Africa	Presidential & parliamentary
9 April	Nigeria	Legislative
April	Algeria	Presidential
September	Mauritius	Parliamentary
October	Botswana	Parliamentary
October	Niger	Presidential & Parliamentary
October	Cameroon	Presidential
November	Guinea-Bissau	Presidential
November	Namibia	Presidential & Parliamentary
December	Ghana	Presidential & Parliamentary
December	Mozambique	Presidential & Parliamentary
December	Sudan	Parliamentary

Source: Electorial Institute of Southern Africa and Others