

## Zambian Leadership Change, Chinese Implications

### *Zambia's new president sends a stern warning to China*

New leadership in Zambia could have a direct impact on one of its major investors and renewable energy proponent: China. Zambian opposition leader Michael Sata was sworn in as president on September 23. And one of the major platforms that helped Sata's campaign drive was his promise to share the country's mineral wealth – particularly from its copper mines – with the public within 90 days. Mining firms and investors are concerned with the new leader's promises which will force them to handover 25% interests to local firms, similar to Robert Mugabe's indigenization plan for Zimbabwe.

*Bloomberg* quoted a Citigroup Inc. sub-Saharan Africa strategist that predicted a Sata administration will likely lead to higher taxes for mining companies. During Banda's three-decade tenure, favorable taxes and regulations were implemented to entice copper mining companies and boost production to more than 700,000 metric tons just in the past year.

Chinese involvement in Zambia is nothing new, but it has significantly increased in the past decade from \$100 million in 2000 to \$2.8 billion in 2010. The Asian country's investments even have banks catering to the influx with Lusaka recently becoming the first African city to offer Chinese currency banking services. The Bank of China branch now handles various transactions in Yuan, and it is expected that in the long-term, Chinese businesses operating in the southern African country will begin using currency among themselves to reduce the amount of commission paid when changing from the Zambian kwacha via the US dollar. The Bank's assistant general manager Qi Wang told the *BBC*, "As a bank, we make money through transactions where you change currencies, but we think it is in the best interest of our clients and trade that we remove this additional layer and currency and make it more convenient for our clients."

China established the China-Africa Development Fund (CADFund) in June 2007, aiming to be the first equity investment fund in China solely focusing on African investments as part of the government's alliance, the Sino-African New Strategic Partnership. And Sata recognizes the power that China has held on the country's economy. He made a speech on September 26 saying that while he welcomed Chinese companies and their investment, it was under the premise that these firms follow the law and incorporate more local content into their operations. Zimbabwe tried to maneuver its foreign firms to also hire more locals, but when sanctions were imposed, the southern African nation immediately turned to China with president Robert Mugabe's "Look East" policy. And now the influx of Chinese

to Zimbabwe makes them the second largest ethnic group without any signs of slowing.

The new Zambian president said that even though Chinese firms have injected over \$2 billion into the country's mining sector, they would no longer receive preferential treatment. "It's a law that all investors who are coming to Zambia should bring a limited number of expatriates whom they cannot find in Zambia. My party has taken concern at the unlimited number of people [Chinese] investors are bringing to Zambia," Sata said.

Yet the Chinese aren't only involved in the mining sector, but also in its renewable energy generation. Although getting involved in Zambia's renewable energy is speculated by many to be a ploy to gain more access to the country's Copper Belt, it is necessary that Zambia up its power generation in order to help stimulate its economy. The Zambian government is trying to boost the country's power generating capacity by 1,080 MW, up from its current total power generation of 1,400 MW.

Agreements were signed with two Chinese firms to build the 600 MW Kafue Gorge Lower hydropower plant. And China's aggressive plan to get more involved in Africa has seen China's ExIm Bank and the Development Bank of South Africa (DBSA) financing Zambia's state-owned power utility Zesco Ltd. for the Kariba North Bank hydropower station. In addition the southern African nation is looking to build two new hydropower plants which are expected to add more power to the national grid by 2016. Although the country has received a host of interest – and Chinese companies are expected to be in the mix – it will not announce winners for the projects until the end of this year.

Any African country looking to build a hydrodam is more than likely looking for a helping hand from China. Statistics from *Bloomberg* and International Rivers have the Asian superpower as the largest funding nation for Africa's hydropower sector at \$9.3 billion. Chinese banks are actively supporting Chinese companies like Sinohydro Corp. and Dongfang Electric Corp.

The 74-year old leader of Zambia will need to clearly define foreign direct investment regulations and labor laws; however, Sata's deadline of 90 days to allocate mineral wealth to the public is aggressive to say the least. And the question remains: Will China bow down to the new investment guidelines made by the new leader or will Sata follow in his predecessor's footsteps allowing for easy Chinese access? 