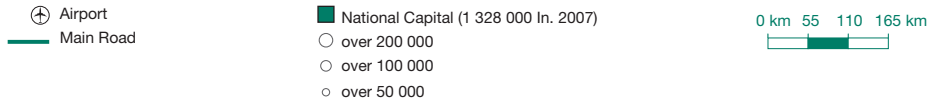


Zambia

2011



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Zambia

Overview

The projected 6.6% growth in Zambia's GDP in 2010 is up from 6.4% in 2009. Agriculture, tourism, construction, manufacturing and mining are driving growth which is expected to expand by 6.5% and 6.7% in 2011 and 2012 respectively.

Overall, primary industries performed well in 2010 with agriculture growing by 7.6%. In 2011 and 2012 agriculture growth is projected at 3.2% and 4.6%, respectively. The largest contribution to 2010 growth came from maize production. The harvest reached 2.8 million tonnes compared to 1.9 million tonnes in the previous season. Zambia is Africa's biggest copper producer and the mining sector's big recovery was due to improved global copper prices. The sector is estimated to have grown by 7.4% in 2010.

Manufacturing, which historically has contributed about 10% of GDP, grew by 2.5% in 2010. The government has made substantial progress in infrastructure construction and has invested in manufacturing through the establishment of Multi Facility Economic Zones. Tourism, which was hard hit by the financial crisis, is expected to rebound strongly with estimated growth of 25% in 2010. Construction was expected to expand by 10% in 2010 and maintain double-digit growth in the next few years.

Monetary policy focused on sustaining stability by maintaining single digit inflation while ensuring adequate liquidity for the growing economy. Annual inflation declined to an estimated 7.9% at the end of 2010, down from 9.9% in December 2009. Annual food inflation declined sharply from 8.0% in December 2009 to 2.8% in September 2010.

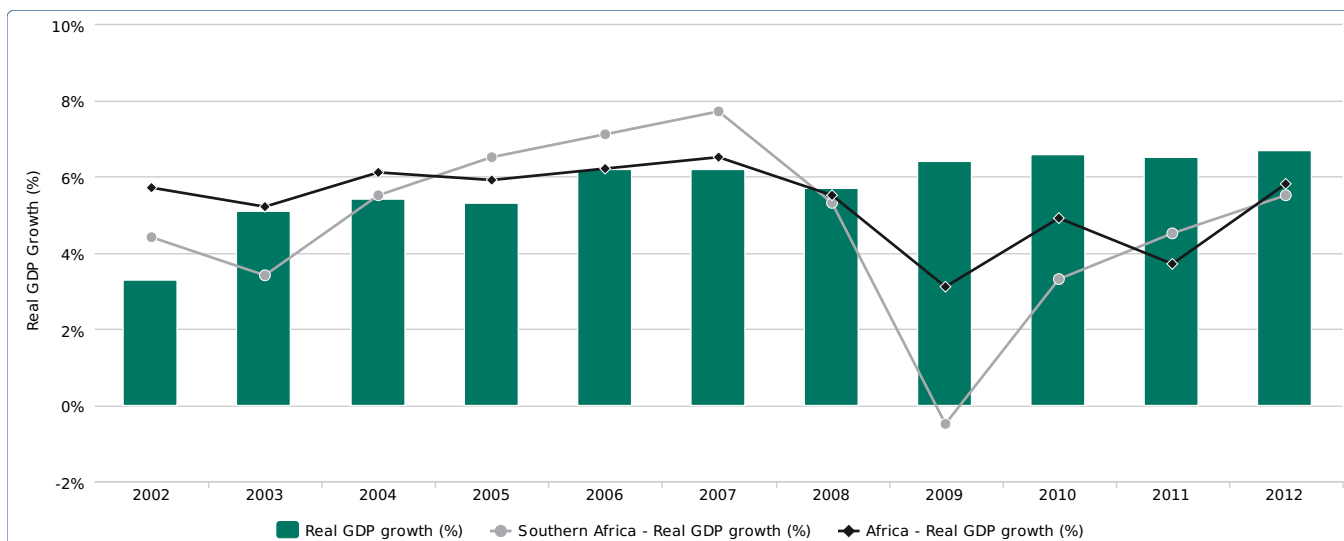
The Zambian government is pursuing aggressive business reforms to encourage increased private investment and reduce business costs. The Private Sector Development Reform Programme is intended to ease private sector development. The barriers include: *i)* limited and high cost credit; *ii)* excessive bureaucratic trade procedures due to the involvement of multiple government agencies and border clearance systems; *iii)* lengthy inspection and certification processes; *iv)* poor border information technology; *v)* outdated customs techniques; *vi)* inadequate skilled personnel; *vii)* inadequate infrastructure.

Progress in improving public financial management has led to the publishing of work plans by government agencies, and the introduction of a Treasury Single Account to improve budget execution and cash management.

In the past few years, donor assistance has shifted from developed countries to emerging economies, especially from Asia. Zambia has built new partnerships with China and India. There is, however, growing concern that the motives of these new powers may not be very different from the traditional partners – all are interested mainly in Zambia's vast mineral and energy resources.

Zambia remains one of the most politically stable countries in the Southern African Development Community (SADC) and Africa as a whole. There has been democracy since 1991 when a two-decade old single party system was ended. The Movement for Multiparty Democracy (MMD) which has been in power since 1991 is likely to face a formidable challenge from a possible merger between the Patriotic Front (PF) and the United Party for National Development (UPND) going into presidential and general elections in 2011. The vote is expected to be peaceful and whatever the outcome, the country is likely to remain stable.

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932404693>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	6.4	6.6	6.5	6.7
CPI inflation	9.9	7.9	7.1	6.2
Budget balance % GDP	-2.1	-3.1	-4.5	-5.9
Current account % GDP	-3.2	-1.5	-1.8	-2.7

Source: National authorities' data; estimates and predictions based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932407049>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	21.4	20.9
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	3.3	1.3
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	10.9	9.3
of which hydrocarbon	-	-
Electricity, gas and water	2.9	2.8
Electricity, water and sewerage	-	-
Construction	11.9	19.4
Wholesale and retail trade, hotels and restaurants	21.5	18
of which hotels and restaurants	2.8	2.3
Transport, storage and communication	4.4	3.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	15.1	14.4
Financial intermediation, real estate services, business and other service activities	-	-
General government services	7.8	9.9
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	0.8	0.4
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department, based on data from Statistics Zambia.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408018>

Zambia's economy is recovering strongly from the financial and economic crisis with 2010 GDP growth

estimated at 6.6%, up from 6.4% in 2009. The economy is expected to grow by 6.5% and 6.7% in 2011 and 2012, respectively. However, some caution over the speed of recovery should be taken into account.

Primary industries, mainly agriculture, are performing well. Agriculture was expected to grow 7.6% in 2010. Growth for 2011 and 2012 is projected at 3.2% and 4.6%, respectively. In 2010, Zambia recorded its largest ever maize harvest of about 2.8 million tonnes, compared with 1.9 million tonnes in the previous season. Major staple food crops such as maize, sorghum, rice, groundnuts, Irish potatoes, mixed beans, sweet potatoes and cassava contributed to higher production in 2010. Although average growth for 2011-13 will slow to about 1.2%, the timely provision of inputs, the Fertilizer Input Support Programme (FISP), and expected stable exchange rates and commodity prices, will sustain positive growth in agriculture.

Mining has recovered from the crisis and was expected to show 7.4% growth for 2010. Production is expected to rise 7.5% and 8.5% higher in 2011 and 2012, respectively. Copper production was projected to increase to 740 000 tonnes in 2010, a level not seen since 1973, and up 8.0% from the 696 900 tonnes in 2009. Much of this growth is expected to come from the Konkola Copper Mines (KCM) and Lumwana Mines as well as the resumption of production at Luanshya and Bwana Mkubwa mines which were closed during the financial crisis. Mining growth benefited substantially from improved copper prices and business environment.

The government used tax and expenditure measures to save jobs in mining and related production sectors. About 8 500 jobs were still lost during the crisis but with these measures some 1 500 jobs were regained in 2009 in mining and other sectors, and more people continue to be re-employed.

Secondary industry plays a big role in the economy and the sector was estimated to have grown by at least 6.6% in 2010. For 2011 and 2012 growth is projected at 9.6% and 10.1%, respectively, with manufacturing, electricity, gas and water and particularly construction making major contributions.

Manufacturing is also key and has benefited from partnerships with emerging economies such as China. Manufacturing was expected to grow by 2.5% in 2010 and the sector is expected to make a big contribution to Zambia's overall growth prospects, reducing dependence on imports with a wider base of locally-produced goods and services. This will depend however on increased agriculture and mining output, and these in turn need stable international commodity prices, exchange rates and climatic conditions.

To revitalise the sector, the government has built infrastructure and made investment easier through the Multi-Facility Economic Zones (MFEZs). At the USD 900 million Chambishi economic zone, 11 manufacturers had begun operations by October 2010 and five more were expected by the end of 2010. For 2011, it is expected that Chambishi will be producing USD 1.5 billion of output per year with an estimated USD 600 million of exports and employing up to 6 000 people. Four more economic zones in other parts of the country are planned to open in 2011-13.

Utilities such as electricity, water and gas were expected to grow by 5.9% in 2010. About 5.33 million megawatts (MW) of power were generated in the first half of 2010 compared to 4.98 million MW in the same period of 2009. The increase was mainly due to the completed rehabilitation of generators at Kafue Gorge power station. For 2012 and 2013, growth of about 2.2% is expected.

The government is seeking to reform the energy sector, increasing tariffs to better recoup costs. There was a 26% price increase in 2009 and a further 35% increase was to be implemented in 2010. The government is also constructing new power stations to augment national output and improve supply. Work is ongoing at the Kariba North Bank Extension Project and Kafue Gorge Lower and Itezhi. To increase access to electricity to the vast majority of people in rural areas, authorities have increased funding to the Rural Electrification Authority and approved its programme to build small hydroelectric generators.

Zambia's key construction sector is expected to maintain double-digit growth in the near future, according to the National Council for Construction (NCC). The sector was forecast to grow by 10% in 2010. Growth is being supported by the new hydro projects, mining developments, housing and commercial property. Sales of domestically produced cement grew by 19.3% in the first half of 2010. The construction boom has seen more cement factories being set up across Zambia. It has also had a spillover effect in the financial sector with loans and advances at a number of commercial banks rising by 17.3%.

Tourists are also returning to the southern African nation as the economic and financial crisis eases. The 2010 football World Cup in South Africa also helped increase bed occupancy rates. The industry was expected to see growth of about 25% in 2010. Preliminary data shows the number of international passengers at Zambia's major airports grew by 17% in the first half of 2010.

The promotion of areas such as the Kafue National Park is expected to boost tourism growth to an annual average of 11.7% in the medium term.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	21.9	21.1	14.7	4.6	6.5	4	1.4	1.9
Public	11.6	3.5	13	30	25	0.6	1.5	1.5
Private	10.3	17.6	15	-0.5	1.8	3.4	-0.1	0.4
Consumption	91.2	76.3	8.2	7.1	7.9	6.8	6	6.6
Public	11.9	19.4	4.9	3.4	3.4	0.9	0.6	0.6
Private	79.4	57	9.1	8.1	9	5.9	5.4	6.1
External sector	-13.1	2.6	-	-	-	-4.2	-0.8	-1.8
Exports	28.5	34.6	6.8	5.6	6	2.7	2.2	2.3
Imports	-41.7	-32	13.7	5.7	7.8	-6.9	-3.1	-4.2
Real GDP growth rate	-	-	-	-	-	6.6	6.5	6.7

Source: Data from the National Bank of Zambia; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408987>

Macroeconomic Policy

To consolidate the improving economy, the Zambian government is directing more resources to stimulating growth and diversifying the economy. The government is seeking to get through the international economic troubles and get growth back to pre-crisis levels.

Under its 2011-13 Macroeconomic Framework, the government will focus on maintaining stability and building on the achievements of the last framework. The Sixth National Development Plan sets out the key economic objectives of: *i*) expanding and diversifying the economy; *ii*) keeping inflation to single digits; *iii*) increasing domestic revenue mobilisation; *iv*) reducing commercial lending rates; *v*) maintaining public debt sustainability; *vi*) and increasing productive employment.

Fiscal Policy

For more than five years, Zambia's fiscal deficit has been strictly managed in a bid to maintain long-term sustainable public debt. To strengthen this prudent fiscal management, the government has sought to increase revenue mobilisation and external financing while better prioritising expenditure. In 2011, for instance, the government intends to seek to improve domestic revenue collection to 18% of GDP, and limit domestic borrowing to 1.4% of GDP. The government plans to commit 50% of its resources to the social sector and infrastructure. However, revenues have not kept with the increased investment and expansionary fiscal policy. Total revenue and grants, including tax revenues, as a percentage of GDP declined from 23% in 2007 to an estimated 19% for 2010.

Macroeconomic policies for 2010 targeted consolidating the recovery of the domestic economic base and protecting key social expenditure – particularly education and health. The government is still seeking to keep its expansionary stance within sustainable fiscal limits. The overall fiscal deficit (including grants) for 2010-13 is expected to increase to an average of 3.5% of GDP compared to 2.5% during 2008-10.

The government also plans a comprehensive reform of the tax system, aiming to broaden the tax base and increase revenues. Of the 2010 national budget of 16.7 trillion Zambian kwacha (ZMK), some ZMK 12.1 trillion is expected to come from domestic revenue collection, about 72% of the total budget. About ZMK 2.42 trillion, or 14.5%, will be raised from grants. About ZMK 2.18 trillion, or 13.1%, is expected to be financed through domestic borrowing. General public services were to take up 32.1% of the national budget, slightly higher than the 31.8% share in 2009. The increased fiscal deficit will be financed primarily through sustainable external borrowing.

To help Zambians living below the poverty line, the government in 2010 implemented new tax bands, increasing the minimum monthly salary for which tax must be paid from ZMK 700 000 to ZMK 800 000. It is expected that this measure will give households an extra ZMK 85 billion in purchasing power. The threshold will be increased to ZMK 1 000 000 a month in the 2011 budget.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	26	23	22.3	20.3	16.4	14.4	13.6
Tax revenue	17.4	17.7	17.5	15	12.4	11	10.4
Oil revenue	-	-	-	-	-	-	-
Grants	8.3	4.6	3.8	4.3	3	2.4	2.3
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	31.7	23.2	24.6	22.4	19.5	18.9	19.5
Current expenditure	19.4	20.3	20.2	17.6	15.4	14.5	14.4
Excluding interest	15.3	18.6	18.5	15.6	13.9	13.1	13.1
Wages and salaries	8	7.6	8.1	8.2	7.4	7.2	7.3
Goods and services	3.6	6	5.1	4.9	4.3	4	3.8
Interest	4	1.7	1.7	2	1.6	1.3	1.3
Capital expenditure	11.8	4	3.6	4.3	3.9	4.4	5.1
Primary balance	-1.6	1.4	-0.5	-0.1	-1.5	-3.2	-4.6
Overall balance	-5.7	-0.2	-2.2	-2.1	-3.1	-4.5	-5.9

a Only major items are reported.

Source: Data from Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409956>

Monetary Policy

Monetary policy in 2010 aimed for stability – maintaining single digit inflation while ensuring adequate levels of liquidity for the growing economy. The financial crisis left little room for monetary manoeuvre. The Bank of Zambia had to shift from strict use of monetary aggregates to short-term interest rates to anchor monetary policy. To help financial markets, the central bank introduced an overnight lending facility for commercial banks. The Bank of Zambia is trying to reduce interest rates. On average, commercial bank lending rates declined from 29.2% in December 2009 to 26.8% in September 2010. Rates remain high however for small and medium enterprises. The Bank of Zambia is trying to find ways to reduce the gap between central bank interest rates and those used by commercial banks for lending.

Annual inflation decreased to an estimated 7.9% at the end of 2010 from 9.9% in December 2009. The major contributing factor was a sharp decrease in food inflation from 8.0% in December 2009 to 2.8% in September 2010 due to bumper yields in maize and other staples. However, non-food inflation rose during the same period, mainly due to fuel and electricity prices for which annual inflation reached a high of 12.5% in September 2010. The weakening of the kwacha against major currencies in the first half of the year contributed significantly to inflationary pressures.

External Position

Although Zambia has a growing trade surplus, turbulent financial markets and a lack of confidence by investors, particularly from the country's traditional partners, remain stumbling blocks. Uncertainty about a full recovery from the financial crisis in developed countries means prices of commodities such as copper remain uncertain though there are signs that copper could reach a record high USD 10 000 per tonne.

The 2010 currency reserves are expected to revolve around four months of imports. Additional revenues from

the sale of raw materials, non-traditional exports and tourism are likely to be boosted by the depreciation of the kwacha and the gradual recovery of the global economy. Additional debt relief funds under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives programme in 2006 will help strengthen Zambia's external position.

Zambia's exports are still heavily dependent on copper. The financial crisis slowed demand for Zambian exports and reduced its trade surplus. New partnerships with China and India are expected to restore and increase demand for Zambia's natural resources and guarantee increasing trade surpluses. However, the additional surplus will not cover the deficits in services and income balances. Additional foreign direct investment is expected from China which has invested heavily in mining and infrastructure such as hydro electricity generation projects.

A strategy to make Zambia a middle-income country by 2030 partly involves reducing dependency on aid. However, this will also require substantial economic growth, prudent export diversification and expansion of the domestic revenue base. The government is seeking to strengthen public financial management and ensure that domestic and external resources are utilised in an accountable, efficient manner.

Despite tighter fiscal management, external borrowing is expected to increase significantly from 2008-13 to finance the economic infrastructure which the government has made a priority. Most of the funds will go to the rehabilitation of roads, bridges, power generation projects, schools and hospitals. About USD 2 billion was expected to be contracted to support the financing of various infrastructure projects in 2010. The contracted figures will increase Zambia's debt to GDP ratio from 9.1% in 2009 to about 14.9% of GDP in 2010.

Zambia reached the HIPC completion point in 2005 and has had about USD 7 billion in debt cancelled. Zambia's external debt in 2010 stood at USD 1.2 billion, up from about USD 500 million in 2005. But the figure is only very slightly up from 2009 (USD 1.16 billion) so Zambia should not fall into another unsustainable debt trap.

Financial assistance from its main partners has been unpredictable since 2008, mainly due to the financial crisis. This uncertainty is expected to continue through 2012 and beyond, until there is a full recovery from the financial meltdown. The lack of assistance has put pressure on the 2010 and 2011 budgets.

The trade balance increased to 13.7% of GDP in 2010 up from 7.1% in 2009. The trade balance is expected to increase to 16.4% in 2011 while the current account balance is expected to improve from -3.2% in 2009 to about -1.5% in 2010.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-5.8	7.8	2.8	7.1	13.7	16.4	14.1
Exports of goods (f.o.b.)	26.7	39.1	33.7	33.7	37.5	39	36.7
Imports of goods (f.o.b.)	32.4	31.3	31	26.7	23.8	22.6	22.6
Services	-6.6	-5.5	-4.2	-3.6	-7.5	-9	-8.2
Factor income	-4	-13.4	-9.5	-10.6	-10.7	-11.5	-10.6
Current transfers	2.8	4.6	3.8	4	3	2.4	2.1
Current account balance	-13.6	-6.5	-7.1	-3.2	-1.5	-1.8	-2.7

Source: Data from the National Bank of Zambia; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.


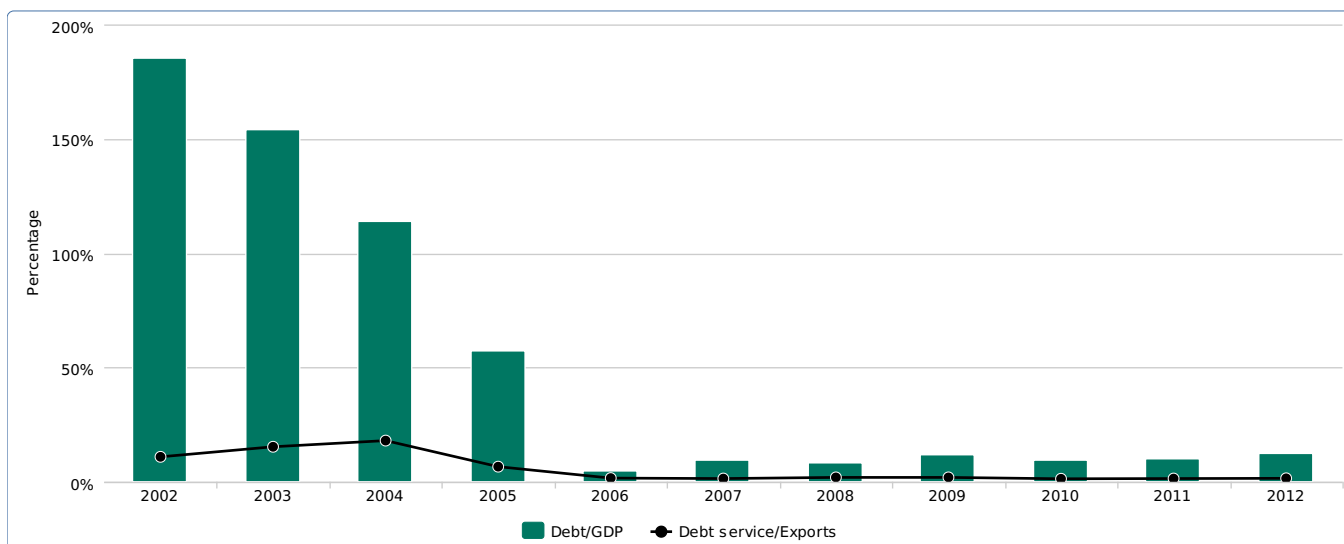
StatLink  <http://dx.doi.org/10.1787/888932410925>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404693>

Structural Issues

Private Sector Development

A good business environment and increased private investment underpinned Zambia's resilience to the financial crisis. The government is committed to accelerating private sector investment to increase and diversify growth. Its Private Sector Development Reform Programme (PSDRP) aims to reduce the cost of doing business and ensure a stable environment for private investment and growth.

To maintain annual economic growth of at least 7.0% still requires a substantial improvement in the business and investment climate. The government's Private Sector Development Programme (PSDP) will focus on improving the business environment and institutions that serve the private sector: regulations and laws; infrastructure development; business facilitation and economic diversification; trade expansion and economic empowerment.

The private sector reform agencies aim to attack limited credit and its high cost, poor infrastructure, excessive bureaucratic trade procedures, especially at frontiers, lengthy inspection and certification processes, poor technology for border checks and customs techniques, and inadequate skilled personnel. The World Bank's 2011 *Doing Business* report ranked Zambia 76th out of 183 countries.

Businesses in Zambia need numerous licenses and have to go through costly and time-consuming procedures. The government set up a business licensing reform study to find ways to cut the number of licenses and unnecessary processes. Some of the moves are already being implemented.

The Patents and Company Registration Agency has cut the time it takes to register a company to one day. Helped by special advisors, the PSDP took steps to simplify the regulatory and licensing framework in key sectors. The Zambian Development Agency is also working to reduce bureaucratic procedures. The agency proposed a "one stop shop" which has brought the operations of five bodies - the Zambia Investment Centre, the Zambia Export Processing Zones Authority, the Export Board of Zambia, the Zambia Privatisation Agency and the Small Enterprise Development Board - under one unit. These reforms have harmonised previously separate functions and helped to reduce the time and cost of doing business.

Other Recent Developments

The government has sought to improve much-criticised public financial management, particularly regarding accountability and transparency. It has published work plans by government agencies and introduced a Treasury Single Account aimed at improving budget execution and management of public finances. The Single Account will help streamline financial management by reducing the hundreds of accounts held at commercial banks. This will reduce unnecessary bank charges. To further improve accountability, the government has increased resources for the ministries responsible for monitoring and evaluating budget execution.

Zambia continues to receive support from donors and international institutions, including the World Bank. The International Finance Corporation (IFC) of the World Bank Group has pledged about USD 115 million to support Zambia's long-term growth and diversification away from mining. The funds will be submitted to the board for approval in 2011. A large amount will go to the agricultural sector for irrigation. The IFC has also been working closely with Zambia's public and private sector, supporting efforts to increase the ease of doing business, strengthening the private sector and diversifying the economy.

The mining sector is expected to grow substantially. Zhonghui Mining Group of China plans to invest more than USD 3 billion in Zambia's Copperbelt and North Western Province. There are various other mining projects awaiting an environmental impact assessment. About USD 1.0 billion of investment at the Konkola Copper Mines (KCM) aims to increase output of processed copper. KCM plans to spend about USD 170 million on a plant with a capacity to process 12 million tonnes of refractory copper ore each year. Vale Mining Company of Brazil and South African-based Rainbow Minerals have jointly agreed to spend more than USD 1 billion over five years to develop the Konkola North copper mine on the Copperbelt. The mine is expected to become operational in 2012, with annual output of about 45 000 tonnes which will help reach a nationwide production target of 1 million tonnes by 2013.

New mines will require energy and the government has allocated large amounts of finance for new energy projects such as the 700-800 MW Kafue Gorge Lower and the 120MW Itezhi-Tezhi. The Kariba North Bank Extension project, which commenced in 2009, is likely to be completed by 2012. Completion of these projects and other private sector initiatives should increase energy generation capacity by more than 1 000 MW a year.

The Lusaka South Multi-Facility Economic Zone is being developed at a cost of about USD 900 million. A master plan for the Lusaka East zone was to be completed by the end of 2010. These zones will help expand Zambia's

manufacturing base and reduce dependency on imports. To support the zones, the European Union handed over modern laboratory equipment worth EUR 5.3 million to Zambia to use to test food, water, beverages and industrial chemical products. Despite these achievements, Zambia faces challenges in the implementation of its programmes. Other challenges remain. The Public Expenditure and Management Financial Accountability programme, the largest public finance management effort, carried out less than 50% of its target workload after five years of operations.

Emerging Economic Partnerships

Zambia, like other African nations, has strengthened co-operation with China, India and Brazil, in line with the shift in global economic power. The change can be seen particularly in infrastructure, mining, manufacturing, and agriculture.

While African nations prefer South-South co-operation for development partnership building, Africa sees the traditional economic giants and the emerging powers as having the same interests: access to the continent's vast energy and raw material resources.

Zambia's exports to the emerging economies are dominated by unprocessed primary products, particularly minerals such as copper. Levels of foreign direct investment (FDI) from emerging economies have significantly increased however compared to those from developed countries.

Zambia has increased co-operation with China since 2005, particularly in mining and commodities. Mining is Zambia's economic backbone and accounts for about 70% of its foreign exchange earnings. However with the global crisis, revenue from copper sales dropped to USD 2.9 billion in 2009 from USD 3.6 billion in 2008, an 18% decline.

During the crisis, investors from developed countries closed or scaled down mining operations in Zambia, which badly hit the economy and opened the door to players from China, Brazil and India who stepped in to reopen some major mines and manufacturing projects. China's Non-Ferrous Metal Mining Company (NFC) won a contract to reopen the Luanshya Copper Mines – and re-employ about 1 700 miners. In 2009, China invested more than USD 400 million in Zambia's mining industry. In addition, Chinese concerns own at least three mining operations in Zambia, including a new 150 000 tonne-a-year copper smelter for new mines in northwest Zambia. Despite these positive developments, there are mixed views regarding China's interest in Zambia's mining industry.

Zambia and India have also strengthened economic ties. In 2010, India offered lines of credit amounting to USD 125 million and the Exim Bank of India and Zambian government signed an agreement on a USD 50 million concessional loan for the Itezhi-Tezhi hydropower project which will generate about 120 MW of power. Another USD 75 million loan has been extended over two years for health, education and other social sectors.

India, like China, has vast mining interests. Vedanta Resources, one of India's big mining companies, has invested about USD 1.5 billion in Konkola Copper Mines (KCM). India has also helped with training. Vedanta Resources has an exchange programme for Zambian engineers and the Indian government has trained more than 2 300 Zambians under the Indian Technical and Economic Cooperation (ITEC) programme which organises short-term courses at Indian institutions.

Zambia and Brazil have signed memorandums of understanding and several agreements to enhance bilateral and economic co-operation. There are major prospects for co-operation in mining. Vale, one of the world's biggest mining companies, started a new mine in August 2010 and the concentrator plant is expected to be commissioned in late 2010 with the mine at full production in 2015. Despite interest by Brazilian investors in Zambian mining, annual trade between the two countries has remained at about USD 10 million for the past five years.

Political Context

Zambia is considered one of the most stable countries in southern Africa.

Multi-party democracy was interrupted in 1972 when Zambia became a single party dictatorship. But democracy returned in 1991. The Movement for Multiparty Democracy (MMD) has been in power since then. One reason for its success has been the rotation of the leadership between ethnic groups.

Zambia went through a special presidential election after the death in September 2008 of President Levy Mwanawasa, two years into his second term of office. The election was won by Rupiah Banda, who was vice president. A legislative election in 2011 and a possible alliance between the Patriotic Front (PF) and the United Party National Development (UPND) is likely to put pressure on the MMD. Whether the opposition parties succeed will depend on their willingness to compromise and agree on power sharing. In addition to the new alliance, tensions have risen in the MMD following President Banda's announcement that he would seek a new term.

Social Context and Human Resource Development

The Zambian government has put a high priority on social investment to reduce poverty. About 85% of people in rural areas and 34% in urban districts live below the poverty line. About 64% of the population of more than 13.5 million people live on less than one dollar a day.

Fifty per cent of the 2011 budget was allocated to social spending and infrastructure – both with the aim of combating poverty. The 2010 budget statement said spending will increase on health, education, water and sanitation. With government intervention, access to health services has significantly improved. There are fewer cases of malaria and maternal, infant and child mortality rates have dropped along with HIV/AIDS prevalence. It is likely that 2011 expenditure will be lower than 2009-10 due to a fall in aid from developed countries as a result of the financial crisis. The government may struggle to keep up with the good intentions it has expressed. The share of health spending in the national budget is likely to increase from 25% in 2010 to 30% in 2011.

Zambia has made mixed progress on achieving the United Nations' eight Millennium Development Goals (MDGs). According to the 2008 MDG Progress Report, targets on hunger, universal primary education, gender equality and HIV/AIDS are likely to be met by 2015. Progress on reducing extreme poverty, child and maternal mortality, malaria and other diseases, and improving water and sanitation has been slow. Zambia has improved primary education enrolment and is firmly on track to meeting the target of universal access to education. The government is also addressing other education issues, including learning standards.

Access to clean water and sanitation in urban and rural areas has increased through the National Rural and Urban Water Supply and Sanitation programmes. The rural programme, in particular, will be scaled up in a bid to attain the MDG on sustainable access to safe drinking water and sanitation.

To improve gender equality, the government put gender components in the Fifth National Development Plan for 2006-10, aiming to improve gender capacity building and to review legislation. Despite these efforts, women's empowerment remains a challenge. Women account for about 70% of the labour in subsistence farming. Gender disparity remains widespread in decision making. Out of 150 members of parliament only 22 are women. Only five of the 26 cabinet ministers are women and only two of them are full cabinet ministers.

Zambia has one of the world's highest HIV/AIDS prevalence rates and is rated seventh among sub-Saharan African nations suffering from the huge burden of HIV epidemic. About 14.3% of the adult population aged between 15 and 49 is estimated to be HIV positive, though this has been reduced from 16%. Between 1980 and 2010, Zambia's Human Development Index (HDI) rose by 0.1% annually and the country was ranked 150th out of 169 countries in the last UN report.