African Security, Commodities and Development

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Cover captions (L to R):
Congolese miners dig at a gold mine in Montgbawalu, Ituri district, eastern Democratic Republic of Congo. REUTERS.

Orapa diamond mine, Botswana. Discovered in 1967, it provided the initial mineral base for Botswana's development.

Control room operations at Orapa mine.

Botswana's Jwaneng diamond mine. This single mine is reputed to be the richest in the world.

A Nigerian soldier serving with the African Union forces in Sudan. REUTERS.

Oil rig awaiting servicing in Cape Town's harbour. Photo by Mike Hutchings/REUTERS.

Comments pertaining to this report are invited and should be forwarded to: Dr Terence McNamee, Director of Publications, Royal United Services Institute, Whitehall, London, SW1A 2ET, United Kingdom, or via email to publications@rusi.org

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Foreword

Robert H Bates*

RUSI, in collaboration with the Johannesburg-based Brenthurst Foundation, have taken the important step of assembling and publishing these excellent papers on the relationship between Africa's production of primary commodities, its security and its development.

In recent years, Africa has experienced an export boom. The sustained growth of the advanced industrial economies helps to explain the high level of demand for Africa's imports. The rapid rise of that demand can better be accounted for by the rapid growth of Asian economies, and in particular the massive economies of India and China.

The export boom has certainly been good for economic growth in Africa. Whereas in the late twentieth century, Africa's economies exhibited low and sometimes negative rates of economic growth, they recently have averaged 4.5 per cent or more. While not sufficient to ensure the welfare of Africa's people, economic growth may well be necessary. The change is certainly welcome.

Several factors will determine whether the export booms will generate higher levels of welfare. To discern them we need only join the authors of these papers in observing how commodity exports have affected Africa in the past.

As Patrick Mazimhaka and Iqbal Jhazbhay note, too often 'political power equals economic domination' in Africa. From this observation flow several points of caution. As stressed by Paul Collier, one is that people will fight for power in order to control the riches that now flow in. As evidenced by Sierra Leone, Sudan, Congo and other nations, conflicts over mineral rights and oilfields mar the histories of countries blessed with natural resources. Erik Solheim highlights a second: the loss of political accountability. If a group uses political power to seize the earnings from precious exports, then its fortunes no longer depend upon the will of those it governs. The elite can use its wealth to purchase the support of those inclined to oppose them or the weapons with which to repress them. Resource wealth does not guarantee good governance. Indeed, history suggests that it can undermine it.

Not only does the past record caution that resource wealth can endanger political order and political liberty; ironically, the record suggests that it can endanger economic welfare as well. Resource booms pose an obvious threat to economic equality; those who benefit might not care to share their earnings with those poorly positioned to benefit from the bonanza. And even when governments seek to spread the wealth, they may simply sew the seeds of further economic challenges. Governments throughout Africa treated the booms of the 1970s as if they were permanent rather than transitory. Many invested in projects that could only pay off if economic conditions remained favourable; and at the end of the boom they were then left with a legacy of inefficient projects and loss-making firms. In addition, the expenditures triggered by the boom often triggered the appreciation of the local currency. The result then is the collapse of other sources of exports. Thus the decline of cocoa and cotton exports from Nigeria, and maize

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exports from Zambia.

The question posed by these papers, then, is whether these mistakes will be made again. As pointed out by Mazimhaka and Jhazbhay, not if governments can learn. Botswana, South Africa and Tanzania, they contend, demonstrate that governments can avoid the mistakes that tend to bedevil resource-rich economies. At one point David Hale seems to suggest that this resource boom may be unlike those of the last century. The growth in demand does not merely reflect the impact of short-term fluctuations in the economies of the West; it results as well from the entrance of two massive new economies into the ranks of the industrial world. As their incomes and population grow, then, so too will the demand for Africa's projects. If this is valid, then the big mistake may be to treat this boom as transitory rather than permanent; it would be a mistake to base policy-making simply on a desire to avoid the mistakes of the past!

Another difference marks this episode from previous ones: the emergence of China. China's development will affect the history of the twenty-first century, and nowhere more importantly than in Africa. Its economy exhibits a voracious appetite for energy and raw materials and the terms on which it is prepared to secure them will shape Africa's economic and political development. China's primary competitor for these resources is the United States. Once again, Africa's resource wealth has placed it amidst rivalries among the great powers. The manner in which they address each other elsewhere in the world will affect the manner in which each comports itself in Africa. The emergence of China introduces new opportunities for Africa, new challenges and new imponderables as well.

Preface

Diamonds and Africa's Development: A Positive Correlation

Patrick Mazimhaka*

Africa's commodities, especially diamonds, have a bad development reputation. But they have also been given a bad rap.

They are all too often judged as reasons behind and a fuel for conflict – articulated in the academic literature as the 'greed versus grievance' argument. But this is a false dichotomy, misrepresenting their real value. With the right ingredients of good governance and careful leadership, commodities have been a tremendous force for continental good.

Africa's diamonds have had a positive impact on the economic development of key producer countries, notably Botswana, Namibia, South Africa and Tanzania. Yet, anxious to find an explanation for conflicts in Liberia, Sierra Leone and, to some extent, the Congo, writers, film-makers and non-governmental organizations continue to blame diamonds. As a result, the term 'blood diamonds' is now enshrined in the literature of such organizations and in our collective psyche.

Yet the negative association that gives rise to this term could be applied to any commodity that supports governments and non-state actors involved in repression and violence. Liberia and Sierra Leone may have used diamond revenue to decimate their populations but Rwanda did not use diamonds to carry out its genocide. It relied on foreign aid and loans.

Contrary to the widespread perception of a business operating outside on the fringes of the law, diamond producers have instead worked together with governments and non-governmental organizations to establish a unique regulatory public-private partnership: the Kimberley Process. This diamond certification scheme cuts out all but a small fraction of blood diamonds, just 0.2 per cent of overall African diamond trade – or $20 million – at last count. Now industry is again leading the way in finding means to regulate the one million African artisanal diamond miners and ensuring a better price for their hard work through the Diamond Development Initiative with the first pilot scheme due to be rolled out in Tanzania.

And why should the Kimberley model not be extended to other commodities including gold and rare metals, and particularly to Africa's $200 billion yearly oil production? This is not the only positive change in the African diamond industry in the past decade. Previously viewed as a monopoly, De Beers is recognized today as being in compliance with the strict competition laws of the European Union and the US. The historical view of the diamond business operating on the fringes of legality benefiting a few at the expense of Africa's citizens is a parody not in line with the contemporary reality of increasingly widespread, mutually beneficial public-private partnerships.

The fortieth anniversary, this September, of its independence reminds Botswana of its exemplary record in this regard. GDP per capita has increased from $70 in 1966 to $9,000 today. This increase owes everything to the productive combination of diamonds, governance and sound leadership. Botswana's government has moved positively in taking charge of diamond production by becoming an important

* Patrick Mazimhaka is the Deputy Chair of the African Union Commission. He writes in his personal capacity.

shareholder in De Beers, the world's leading diamond producer. More than a commercial relationship, this is a symbol of what is possible when government and business co-operate in Africa over commodities.

A positive attitude towards the harvesting of resources in Africa – especially diamonds – by the international community is needed. Today's African governments are more responsible and responsive towards their citizens; so NGOs and other advocacy groups should themselves adjust their view of Africa lest they damage the very people they are trying to assist. Mineral-rich countries including Angola, Botswana, Liberia, Namibia, Sierra Leone, South Africa and Tanzania should be encouraged to work with the mining industry and other development partners, including NGOs which are generally working for the development and the well-being of the people, in order to exploit such luminous resources for the benefit of their people. At the same time, regulatory measures should be enforced to ensure that the exploitation of one of Africa's most precious and valuable commodities is no longer perceived as synonymous with the exploitation – or worse – of African people.

Recent G8 summits including those at Gleneagles and St Petersburg have focused on the emerging partnership between Africa and the international community, of a continent increasingly recognized for its reform efforts. The past of blood diamonds is behind us. We are instead looking forward to the future, focusing on enhancing domestic certification schemes, increasing the number of Africans employed in trading, polishing and cutting, and extending private-public regulatory practices to other sectors. We would prefer it if all our friends in the international community looked in the same direction.

Chapter 1

Security, Governance and Development: The Braided Strands of Future Prosperity in Africa

Patrick Mazimhaka and Iqbal Jhazbhay

Patrick Mazimhaka is the Deputy Chair of the African Union Commission and formerly Senior Presidential Advisor to the President of Rwanda. He writes in his personal capacity. Iqbal Jhazbhay teaches at the University of South Africa, serves on the board of the Institute for Global Dialogue and is a member of the African National Congress (ANC) Commission for Religious Affairs.

Africa is at a pivotal juncture. In the past fifteen years, since the end of the Cold War, the continent has experienced rapid democratization and steady integration. More and more countries are forming governments on the basis of national elections, and peaceful, constitutionally mandated succession is becoming the norm. Africa's eight regional economic communities, meanwhile, are striving to create harmonized customs regulatory regimes and effective, nimble peacekeeping structures. Though imperfect, these efforts reflect a shared vision among African leaders to build a more prosperous future based on collective security, political inclusion and open, market-based economies.

The immediate opportunities suggested by the end of the Cold War for greater stability and self-determination in Africa, however, were short-lived. As East/West proxy wars ebbed, they gave way to bitter ethnic strife and new inter-state African conflicts, making the 1990s the continent's bloodiest decade on record. More ominously, the new century has brought new forms of foreign economic and security intervention in Africa that will likely have long-term consequences. At a time when most African countries are struggling to get a foothold in the global economy, the continent is a key target destination for Asian giants like China and India in their quest for energy and natural resources. Meanwhile, several factors – weak states; proximity to the Middle East, South Asia and Europe; vast oil deposits; and politically frustrated Muslim communities – are attracting Western military and intelligence activity as Africa becomes a point of increasing concern in the post-9/11 transnational terrorism and global security environment.

If managed well, these new forms of engagement could accelerate growth and deepen stability across Africa. Handled poorly, however, Africa may once again find its resource wealth exploited by distant foreign powers with little lasting benefit to its own economies and its security priorities overrun by potentially destabilizing international interests. In short, after an all-too-brief interval, Africa is once again the focus of competing international economic and security interests that do not necessarily reflect its own priorities but nonetheless provide both opportunities and risks.

Several questions thus arise: What is the relationship between security and development in Africa? How can African states manage their natural resources better in this new globalized context to improve its development and security prospects? What can Africa do on its own to improve growth and security, and what forms of external engagement would best promote the interests of African reformers? Put differently, how can Africans maximize the opportunities and minimize the risks of globalization and global security measures to strengthen states and national economies?

A Portrait of African Development

There is an abiding tendency in the West to lump all of Africa into a single classification, to speak of the continent as a single entity rather than a collection of fifty-plus individual states with varying degrees of governance, stability and economic performance. While a few generalities are broadly true – Africa has the greatest number of weak states; all of Africa is unlikely to reach the poverty-reduction targets of the UN Millennium Development Goals by 2015 – these provide little credible guidance either for assessing levels of governance and development or for identifying opportunities for engagement. Nor, strictly speaking, do discreet economic indicators reliably indicate a specific country's overall condition or trajectory.

At the start of this new century, Africa remains the least developed continent on the globe. The average African, meanwhile, is poorer today than in 1970. Overall, the continent attracts less than 1 per cent of global foreign direct investment, and accounts for just 2 per cent of global trade, one-third of the figure at independence.

However, misery and decline are not the universal standard in Africa. While several African states persistently rank at the bottom of annual development indices, several other African states consistently chart the world's highest economic growth rates. Botswana, for example, has maintained roughly 7 per cent economic growth for three decades, while Mozambique, once perennially at the bottom of global rankings, now enjoys annual economic growth exceeding 8 per cent. Behind these figures, however, lie strikingly different economic profiles – and, consequently, lessons both for local policy and external engagement. Botswana is a middle-income country and has maintained its economic growth largely on the basis of consistent exports (i.e., diamonds). Mozambique remains a poor country but it has improved its economic growth through the effective use of foreign aid, which accounts for roughly 60 per cent of gross national income. In both cases, however, governance is key: in the case of Botswana, to managing natural resources; in the case of Mozambique, to create the capacity to absorb large aid infusions effectively. Natural resources are not, as is sometimes cited, a problem to African development; on the contrary, it is the absence of governance which is the problem.

With the right conditions of governance, natural resources are a tremendous development asset, as Tanzania has also shown in the development of its own diamond businesses, or South Africa in its own mineral industry, which has formed the backbone of its modern industrialized economy. We should thus not look at natural resources as a curse; far from it. The same nuanced approach has to be taken with African states *per se*.

The Need for Differentiation

Indeed, far from the common impression, the evidence of the usefulness of natural resources to development is mixed and not uniformly negative. In the same way, we must caution against the overall external view of Africa as one thing or another. It is not, just as not all European states are the same. Governance, geography, political record and economic performance illustrate the degrees of difference between African – and European and Asian – states, and should shape external engagement and assistance strategies.

Based on annual World Bank indicators, Jeffrey Herbst has identified six categories of African states according to their readiness to engage in the global economy, ranging from high performers (characterized by high growth, foreign investment, strong exports and a thriving private sector) to countries in collapse (characterized by poor governance, low growth and failing institutions). Herbst concludes that '[c]ountries in the different categories face very different growth prospects. It is only the countries in the first two categories (high performers or those in an upward trajectory) that have the domestic prerequisites to potentially take advantage of the opportunities offered by the global economy.'[1]

In other words, Africa in the twenty-first century must be differentiated. African states are at widely varying degrees of governance and development. Importantly, several have experienced significant changes of fortune. Some formerly stable and relatively prosperous states, such as Zimbabwe and Côte d'Ivoire, are now in economic and political crisis. Others, such as Uganda and Ghana, while among the stronger performers today, were failing states two decades ago.

Twenty-First Century Security Challenges

This century opened with four major African conflicts: the continent's first multi-state war in the Democratic Republic of the Congo (DRC), which involved at its peak six neighbouring states and some twenty-one militia groups; a cross-border territorial war between Ethiopia and Eritrea; the civil/regional war of Sierra Leone and Liberia; and a civil war in Côte d'Ivoire. The first three were probably anomalies. While spill-over conflicts remain an active risk in both West Africa and the Horn, multi-state wars like the one in DRC – a predictable result of fragmentation, state collapse and opportunism – are not a likely trend in Africa. Gradually, the regional economic communities (particularly ECOWAS in West Africa) and the African Union are building strategic responses to these. The border dispute between Ethiopia and Eritrea, meanwhile, reflects isolated historical causes rather than economic expansion.

Côte d'Ivoire, however, points to the first of two primary security threats that we have to be on the watch for in Africa lest they recur in the coming decades: the battle for control of resources. Certainly, Côte d'Ivoire, like the DRC, and further afield, the former Yugoslavia, reflects a post-authoritarian collapse. But at its core, the enduring conflict in that West African state reflects a dynamic that is too prevalent in Africa: namely that political power equals economic domination. Despite the patient efforts of the UN- and AU-mandated work of President Thabo Mbeki to broker a peace settlement between the warring factions of Côte d'Ivoire, there is little incentive towards peace in a country where a clique controls the country's primary economic assets – cocoa and timber – and the revenues they generate.

This underscores a fundamental challenge to lasting security in Africa, particularly in the highly volatile oil-producing states in an age of increasing competition for access to Africa's hydrocarbon reserves. As oil producers, oil-addicted Western states and rapidly growing China and India shift more attention to the African west coast in an attempt to secure future energy supplies and cut their reliance on the Middle East, political control of those reserves – a recurrent driver of war, corruption, factionalism and select mismanagement in such countries as Angola, Nigeria and Equatorial Guinea – will become ever more contested. This indicates a long-term cause for potential destabilization in Africa as well as an urgent need for transparency, good governance and strong institutions at both the national and international levels.

The second security threat in Africa relates to the role of what the West calls 'ungoverned spaces' in an age of transnation-

[1] Jeffrey Herbst, 'Africa and the Challenge of Globalization', presented at the Conference of Globalization and Economic Success: Policy Option for Africa, 7–8 November 2005, and posted by the Brenthurst Foundation on www.brenthurstfoundation.org, p. 13.

al terrorism. One of Washington's initial conclusions after the 11 September 2001 terrorist attacks against the United States was to identify weak and failing states as a threat to international security. Taliban-ruled Afghanistan, after all, harboured Osama bin Laden and Al-Qa'ida. It was thus assumed that once Kabul fell, Al-Qa'ida would seek to relocate to another failed state – namely Somalia. That assumption has not held over time, but there is growing evidence that factors of state weakness are rendering Africa vulnerable to exploitation by transnational terrorists. Hence the emphasis on 'ungoverned spaces' in the Bush Administration's 2006 National Security Strategy.

The term applies to those remote areas within national boundaries that are beyond the reach and control of the government. There may be several reasons for this: poor infrastructure, insufficient financial resources, geography, legal deficiencies and cultural or ethnic fragmentation. Whichever of these, the inability of states to exercise effective political, security and economic control over remote regions – or, in some cases, *de facto* decisions not to exercise control – renders these zones open to exploitation by a range of non-state actors: foreign terrorists, foreign Islamic charities and organized crime syndicates who smuggle everything from pasta and cigarettes to drugs and guns. Economic activity between these actors and local communities becomes the local articulation of the state's inability or decision not to provide for the basic needs of its citizens.

There are two probable consequences to such interplay between these non-state actors and local communities. The first is increasing criminality and destabilization of marginal communities, particularly along borders and long-established smuggling routes. The second, and less understood, problem is radicalization. Particularly in the Sahelian states – Mali, Niger, Mauritania and Chad – remote Muslim populations are potentially vulnerable to external influence, particularly if they feel either estranged from or abandoned by their national governments. When hearts and minds are lost, recruits are found – and these pose a threat not only to distant Western governments or localized Western targets, but also to national governments themselves. Tanzania knows only too well the cost of such trends, given the 1998 Al-Qa'ida bombings in Dar-es-Salaam and Nairobi, at that time the most devastating attacks by that organization.

The Importance of Governance

The relationship between development and security in Africa should be evident from the above discussion.[2] What both indicate, above all else, is the importance of strong, effective governance. Political stability is the vital requisite of economic growth and social coherence. The critical question, then, is this: What specific institutions, policies and systems are required to build more effective and sustained development and security from within, and what forms of external engagement will do the most to support better governance to ensure long-term economic stability and security in Africa?

Starting on the basis of differentiating African states, foreign governments must prioritize states of regional institutions and bodies, and develop engagement strategies based on the particular circumstances and needs of specific states. Importantly, they must do so on the basis of shared priorities rather than Western-oriented agendas. States must be encouraged and supported to develop economic diversification strategies that reflect both their deficiencies as well as their

[2] See also the article by Chris Landsberg on the link between development and security for a developmental state. 'Toward a Developmental Foreign Policy? Challenges for South Africa's Diplomacy in the Second Decade of Liberation' in *Social Research* (Vol. 72, No. 3), available at<http://www.socres.org/vol72/issue723.htm>.

comparative advantages. Regulatory regimes must be reformed to streamline the passage of goods within states and across borders, minimize the time required to start-up or shut-down companies and harmonize labour relations. Legal mechanisms must be put in place to entrench property rights. Infrastructure – financial, physical and telecommunications – must be extended, modernized and integrated across borders.

While secure borders, effective, community-led police structures and national militaries are vital, the greater extension of the state must be in the provision of basic human needs – health care, education, housing, food security and employment. This latter point remains the Achilles' heel even for Africa's best economic performers. Both Botswana and South Africa, for instance, have jobless rates that persistently hover above 30 per cent. The most effective means for coping with 'ungoverned spaces' – or, rather, *under*governed and less-observed spaces – lies in removing the incentive for alliances of convenience between sometimes lawless non-state actors and local communities.

Other strategies for enhancing governance, development and security in the current context in which Africa finds itself include:

- Tying external engagement to effective and transparent governance, and developing strategies that address the specific context and conditions of individual states. Aid can only be truly effective if the state has the capacity to absorb it. What are the political, legal and systemic obstacles to better governance and how can these be redressed through a combination of inputs and incentives?
- Developing specific sector-by-sector economic reform strategies that encourage diversification and, imperatively, wrest national economic assets and resources from party political control.
- Creating market conditions, removing barriers to investment, improving the skills base and branding the country. What are the legal and political constraints to economic reform? How can they be redressed?
- Subordinating security strategies to economic development plans. Secure borders, effective police forces and strong national armies are vital to stability, but extending the state's reach through the provision of key human needs – health care, housing, utilities, food security, education and employment – will provide a more certain buffer against interference from lawless non-state actors. Eradicating political exclusion is vital to countering and preventing radicalization.
- Identifying and protecting downstream economic benefits. China's demand for African resources is a particularly tempting form of quick cash. But at what cost? Squandering long-term protection of natural resources for short-term gain will undermine future competitiveness and efforts to diversify.

Africa has enjoyed few historical intervals when it has been free to pursue its own course and develop at its own pace without foreign exploitation and interference. The end of the Cold War should have provided one such period, but the rise of China and India, combined with the advent of transnational terrorism, has once again made Africa the playground of competing interests. The rapidity of globalization, meanwhile, means that Africa does not have the luxury of developing at its own pace.

Is an African renaissance possible? Absolutely. Governance is key, not least to make full use of natural resources.

Chapter 2

African Security: What the Statistics Suggest

Paul Collier

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Introduction

Although Africa is currently largely at peace, violent challenges to regimes have been common. Civil wars and coups have been too frequent to regard the present tranquillity as likely to persist. Côte d'Ivoire, Sudan, Chad and Somalia all have active conflicts and the most recent successful coup was September 2005 in Mauritania. Civil wars and coups are costly. I estimate the cost of the typical civil war at around three times the country's annual GDP, so that in a typical low-income African country with a GDP of around $10-20 billion, the avoidance of war is worth in the range $30-60 billion. Coups inflict lower costs. I find that the typical coup costs around 7 per cent of annual GDP, or of the order of $1 billion. However, coups can become very costly since they increase the risk of civil war: the current war and partition in Côte d'Ivoire was the result of a coup.

What causes these civil wars and coups and what can be done to reduce their incidence? Together with Anke Hoeffler, I have studied this question statistically. In our published work[1] we studied the period 1965–1999 and tried to establish which factors appeared to be systematically important in increasing risks. Recently, we have updated our study to include the period through to the end of 2004, and have taken the opportunity to improve the underlying data. We have also studied the causes of coups, and the determinants and effects of military spending. A full list of our recent research is provided at the end of the paper. In combination this analysis has yielded new results that look to be important for policy towards enhancing African security. This short paper cannot report these results in detail. Rather, it summarizes our findings and draws out the likely implications.

Causes Revisited

Civil wars and coups have multiple causes. However, an important distinction is between the political events that 'trigger' violent conflict and the underlying factors that make the same event liable to trigger conflict in one society but not in another. My work focuses exclusively on these underlying factors. This does not mean that I consider triggering events to be unimportant. Clearly, a society with a high degree of underlying proneness to violent conflict would be wise to organize itself in such a way as to avoid triggering events. I focus on underlying factors partly because these are in general more amenable to being changed by external actors, albeit only slowly, and partly because the statistical techniques that I use are better equipped to address this question.

The key distinguishing feature of a civil war is that a large, non-government military force – 'the rebel army' – challenges the army of the government. It is this phenomenon that must be understood if civil war is to be explained. When I say this it is sometimes

[1] Paul Collier and Anke Hoeffler, 'Greed and Grievance in Civil War', *Oxford Economic Papers* (Vol. 56, No. 4, October 2004).

misunderstood: I am accused of 'blaming the rebels'. This is a misunderstanding because my point is not normative. Rather, all governments possess armies on a continuous basis, and even if this force is turned against the civilian population it constitutes a pogrom not a civil war. The defining feature of a civil war is the formation of a rebel army. In understanding why a rebel army forms in some situations but not in others, a central distinction is between motive and opportunity. For a rebel army to form there must be both. The phrase 'greed and grievance', with which I am associated, is a further distinction between two broad groups of motivation. My own sense from having analyzed the data is that motives have been overemphasized relative to opportunities. This is natural in that civil wars generate advocacy groups on each side concerned to *justify* behaviour, and justification is inevitably based on motive. I would certainly not wish to claim that most rebel groups are motivated predominantly by greed. Indeed, I suspect that coherent motivation is one of the first casualties of violent conflict. I tend to think that in the rather rare circumstances in which rebellion is feasible, it will occur, although the motivation of the rebellion, to the extent that it can be established at all, could be almost anything. For example, the Lord's Resistance Army in Uganda has a clearly expressed agenda of wishing to establish rule according to the Ten Commandments. Such organizations may be better understood by analogy with the psychology of groups such as Jonestown and Waco, with the violence turned outwards rather than inwards, than by reference to conventional political movements. Coups obviously differ from rebellions in not requiring material sustenance: a coup uses the government's own military spending to usurp power.

Our key results from our previous work on the causes of civil war continue to hold with the expanded data: the greater the country's dependence upon the export of primary commodities, the higher the risk of conflict. The risk from primary commodities could arise through three distinct mechanisms, reflecting respectively greed, grievance and opportunity. The greed route from primary commodity exports onto the risk of conflict is evident: this trade makes the capture of the state more valuable. In a brilliant paper Jeremy Weinstein[2] has recently demonstrated that in countries in which such exports are important, even if a rebellion starts off as idealistic, the process of rebel recruitment will gradually shift it towards greed. Essentially, volunteers will be disproportionately drawn from the ill-motivated and the rebel leadership will not be able to keep them out. The gradual erosion of the Colombian rebel group FARC from a rural protest movement into a drug barony is an example of such a process. The grievance route from primary commodity exports onto risk is due to the greater detachment of governments from citizens: resource rents reduce the need for governments to tax citizens and it is taxation that has generally provoked citizens into making government accountable. Globally, resource riches significantly reduce the extent to which governments are subject to checks and balances.[3] The opportunity route from primary commodity exports onto risk is due to the finances that rebel groups can get during conflict. Rebellion is expensive and predation of the trade in primary commodities can help sustain it. There is some evidence for each of these routes and since they are not incompatible the safest inference is that they are all of some importance. Increasing the

[2] Jeremy Weinstein, 'Resources and the Information Problem in Rebel Recruitment', *Journal of Conflict Resolution*, (Vol. 49, No. 4, August 2005)

[3] Paul Collier and Anke Hoeffler, 'The Political Economy of Secession', in Hurst Hannum and Eileen Babbitt (eds.) *Negotiating Self-Determination*, (Lanham, Lexington Books, 2005).

accountability of governments for their revenues from primary commodities, as attempted by the *Extractive Industries Transparency Initiative*, would not only reduce legitimate grievances but also reduce the incentive for the ill-motivated to capture the state. Tracking the trade in commodities, as attempted in the *Kimberley Process*, makes it more difficult for rebel groups to sustain themselves.

Recently some terrible African civil wars have been settled. This is a product of careful diplomacy rather than a change in the underlying risks. Indeed, the underlying risks are, if anything, getting more adverse. The importance of primary commodity exports to the region is evidently increasing. The rise in the world prices of commodities directly increases the value of such exports, and this in turn has induced new exploration: most notably, several African countries are in the process of becoming oil exporters.

Africa is not only at risk due to its primary commodity exports. We continue to find that low income and slow growth are both important risk factors: Africa is now the poorest region in the world and despite improvement it still has low growth. We also find that Africa is exposed to civil war because of the small population size of its typical countries. Although a small country is a little less prone to civil war than a large country, the effect is less than proportionate: a region divided into many countries has more civil war than if it were a single country. Ethnic diversity increases risk and Africa is the most diverse region. Finally, we continue to find a powerful 'conflict trap'. That is, once a country has had a civil war, the risk of further conflict increases sharply, fading gradually if the peace is maintained. Hence, post-conflict situations are particularly risky, and Africa's very success in recently settling many wars has elevated these post-conflict problems to the key issue in African security.

Coups have a common core of risk factors with civil wars: low income and slow growth are both important risk factors. There is also a powerful 'coup trap': one coup increases the risk of further coups. Unfortunately, aid seems to increase the risk of a coup, possibly because taking over the state becomes more valuable.

Military Spending

In response to the high risk of civil war, African governments increase their military spending. Spending is particularly high in post-conflict situations, partly because risks of further conflict are very high, but also because of inertia from the inherited high spending during war. African military spending is also increased by emulation and rivalry among neighbours, and by aid: around 11 per cent of development aid inadvertently leaks into military spending so that in Africa around 40 per cent of spending is financed by aid.[4] African governments respond to a high risk of coups in the same way as to a high risk of rebellion: military spending is increased. Evidently, however, the motivation is likely to be different. Governments expand their military in response to a risk of civil war in an attempt to deter, or at least to survive assault. They increase military spending in response to high coup risk in order to buy off the military lobby. These different motivations are in turn likely to lead to different patterns of military spending. For example, by the end of the coup-prone military rule in Nigeria, the navy had more admirals than ships.

What does this military spending do for security? The question is complicated because of the evident interdependence of military spending and the risk of a civil war. High risks cause high spending, and if this is not taken into account causality can easily be misinterpreted: high spending will appear to cause high risk. Once this interdependence is

[4] Paul Collier and Anke Hoeffler, 'Unintended Consequences: Does Aid Promote Arms Races?' *Oxford Bulletin of Economics and Statistics* (forthcoming).

controlled for, we find that outside the context of post-conflict military spending by the government does not have any discernable effect on the risk of rebellion. That is, we cannot find a significant deterrence effect. This does not mean that there is no relationship, but it is consistent with the argument of Fearon and Laitin[5] that counter-insurgency is so difficult that most low-income countries lack the capacity to do it properly. As a result, it provokes and this offsets any deterrence effect, so that it might create as many problems as it solves. Military spending buys off coup risk more effectively than it deters rebellion. For example, the successful coup in Côte d'Ivoire occurred after the president had fobbed off a demand by a group of officers for better conditions for the army. Coup risk is sufficiently high in Africa that the military is a two-edged sword, providing defence from rebels but itself constituting a significant threat. Military establishments appear to be running extortion rackets against their governments on a grand scale. This phenomenon is largely confined to Africa; elsewhere coup risk is generally much lower and governments appear not to respond to these low risks by raising spending.

It is not clear whether the appropriate conclusion from this is that the effectiveness of the military needs to be increased, or whether military spending should simply be reduced. Perhaps governments should rely less on soldiers and more on police.

Post-Conflict Risks

However, in the context of post-conflict we find distinctively different results: military spending by the government is significantly counter-productive, increasing the risk of further conflict. Why should military spending be so distinctively adverse in precisely the context in which civil war is most likely? One possibility is that the choices made by a post-conflict government inadvertently signal to the rest of society its likely intentions. High military spending unavoidably signals the intention to repress dissent if necessary. In turn, this strengthens those voices that oppose peace. The adverse effect of military spending suggests that it should normally be reduced very sharply in post-conflict situations. An example where this worked very well in Africa is Mozambique. Nevertheless, precisely because post-conflict risks are high, it is difficult for governments to take this step. Are there alternative ways of bringing risks down? Together with Anke Hoeffler and Mans Soderbom I am currently trying to answer this question, looking at all post-conflict periods globally. We find that one reliable way of bringing risks down is economic growth. Aid and economic policy reform are both atypically effective in augmenting growth during the post-conflict decade, so accelerated growth is certainly attainable. However, economic recovery evidently takes time; it is a matter of a decade not a couple of years.

Unfortunately, we do not find that particular designs of political institutions significantly lower risks during this decade. Elections in post-conflict situations seem not to have very strong systematic effects, but to the extent that they do have systematic effects they are not notably helpful: risks fall in the year before an election but rise by an equivalent amount after it. This suggests that pulling peacekeeping troops out just after an election, as is currently being debated for the DRC, is understandable but mistaken: the fall in risks in the approach to the election can easily encourage peacekeepers that their work is done, when actually it is merely a lull.

If risks are high, domestic military spending makes them worse, political design is ineffective and economic development is slow, this only leaves external peacekeeping.

We find clear statistical evidence that

[5] James Fearon and David Laitin, 'Ethnicity, Insurgency, and Civil War', *American Political Science Review*, (Vol. 97, No. 1, March 2003).

such peacekeeping is effective in containing risks. Given the very high costs of conflict,[6] it looks to be cost-effective, and there seems to be little choice but to try to make external peacekeeping work as well as possible. Effective peacekeeping, as in Sierra Leone, is a very cost-effective form of development assistance.

Security Guarantees

The recent British experiment in a ten-year 'over-the-horizon' guarantee of military intervention to maintain peace is potentially a very important new policy instrument for development and security. Although it is new and so cannot be directly evaluated, it revives a former policy of the government of France. Until the mid-1990s, when French military intervention in Africa was rethought following Rwanda, France tended to provide implicit security guarantees to most of the governments of its former colonies. The guarantees were made credible by the maintenance of large French military forces in several of these countries. Were these implicit undertakings effective in bringing risks down? In our new work we find a dramatic answer: the former French colonies had a risk of civil war that was less than half what would have been expected given their other characteristics. This massive reduction cannot necessarily be attributed to the French military guarantees; it might, for example, reflect some deep aspect of French cultural influence. Nevertheless, the military interpretation is surely the most plausible. If so, the guarantee strategy looks to have been a highly cost-effective development instrument. French military spending avoided much higher costs of civil war.

The strategy of military guarantees not only reduces the risks of rebellion and coups, but as a result, it curtails government military spending. Since much of this spending is financed by aid, the military guarantee therefore indirectly enhances aid effectiveness. Military and development assistance are complementary.

Potentially, external security guarantees could be conditional upon governments maintaining military spending at a modest level. In most circumstances, such conditionality is likely to be counter-productive, partly because it would be seen as illegitimate interference. Further, in normal circumstances the conditionality is likely to be unnecessary: the government can recognize that the risk is reduced and therefore will realize that it has less need of military spending. The circumstance in which conditionality seems to be advisable is post-conflict. Governments start with high spending, and forces of inertia will tend to make this persistent, especially since aid is generally scaled up very rapidly in these situations. The government is unlikely to recognize that its spending is counter-productive. Hence, there is a strong case for making post-conflict peacekeeping missions and subsequent guarantees conditional upon deep cuts in military spending by the government.

The problem with such an approach – and indeed with military guarantees more generally – is the perceived illegitimacy of European military interventions in Africa. The growing perception of illegitimacy was indeed probably the main reason why the government of France changed its stance, despite the resulting catastrophe in Côte d'Ivoire. France intervened to separate the warring forces but not to put down the coup which gradually spiralled into the civil war. How can external military intervention combined with conditions on military spending be given sufficient legitimacy to make them credible?

I think that in post-conflict situations there may now be scope to use the new Peace-Building Commission of the UN to set standards. Because the Commission is new it

[6] Paul Collier and Anke Hoeffler, 'Conflict', in Bjorn Lomborg (ed.), *Global Crises, Global Solutions*, (Cambridge: Cambridge University Press, 2004).

is unclear how it will develop. However, it is well-suited to be a standards-setting body. What is needed is not yet another agency to intervene in implementing international security and development efforts in post-conflict situations, but rather an authority that co-ordinates all implementing agencies around a common and appropriate agenda. Implementation and co-ordination are alternatives: if the Peace-Building Commission sets itself up as an implementing agency it will inevitably be seen as a rival by the other implementing agencies and its efforts to co-ordinate will be frustrated. Co-ordination is far easier if done by means of a few agreed prior rules around a decade-length strategy, rather than reactive micro-management.

Outside situations of post-conflict there may be scope to forge a partnership between the African Union and the EU. The African Union, unlike its predecessor, the OAU, routinely condemns attempts to change regimes by violence. However, it lacks the hard power to enforce its decisions – only in the case of the coup attempt in tiny São Tomé and Príncipe was it able to force the coup leaders to step down. The EU has the troops and logistics for intervention. It even has the political will, having established an Africa Rapid Reaction Force. What it lacks is an adequate authorizing environment. An alliance between the AU and the EU – with the former authorizing intervention and the latter supplying the bulk of the troops and logistics for a joint force – has some compelling advantages.

Conclusion

Africa needs security in order to develop, and it needs development in order to be secure. This interdependence is liable to frustrate single-instrument external interventions. Aid on its own will usually be insufficient to achieve security. Governments will continue to divert it into military spending that they regard as essential for their security, and private investors may be wary of complementing public investment with their own money because of the fear of insecurity. Conversely, external military provision of security unmatched by direct support for development will face the brute fact that low-income countries with slow growth are *structurally* at risk: the provision would need to be permanent. Interdependence implies that successful intervention requires two distinct instruments: one providing security, the other development. During the 1990s international efforts for Africa were seriously unbalanced: security interventions became more common, but they were largely short-term responses to crises detached from development strategy. There were even budget rivalries between the aid lobby and the military lobby. International provision of security is an important complement to the more conventional forms of assistance. Undoubtedly, the most cost-effective security provision, as long as it is credible, is a security guarantee. It would be ironic if the last disservice of colonialism was to preclude such guarantees through fears of 'neo-colonialism'.

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Chapter 3

The Rise of China and India: Implications for African Growth and Security

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There has been a major change in the character of the global commodity market since 2003 which could have profound implications for both Africa's security and economic position. During the past three years, there has been sustained appreciation of most industrial commodity prices because of booming demand from China and steadily increasing demand from India. By 2004, China displaced the US as the world's leading consumer of most industrial metals and had displaced Japan as the world's second-largest consumer of oil.

China has also emerged as an important new player providing capital for natural resource projects in developing countries as diverse as Nigeria, Ecuador, Angola, Zambia, Kazakhstan and Indonesia. The need for commodities is having a major impact on China's foreign policy as well. Beijing is attempting to negotiate free-trade agreements with important commodity producing countries, including Australia, South Africa and Chile. China is also providing military assistance to potentially important oil-supplying countries such as Sudan and Nigeria.

India is not yet a major factor in the commodity market because her manufacturing sector is much smaller. India's industrial output is worth only about 10 per cent of China's while manufacturing is 27 per cent of the economy. As a result, India accounts for only 2 per cent of global demand for copper, aluminium and nickel, compared to 23 per cent, 22 per cent and 16 per cent, respectively, for China. But with India now poised for several years of 6-8 per cent output growth, her demand for raw materials will also increase and make her a more important factor in global commodity markets.

Africa is well positioned for the new global commodity demand because it has a large endowment of natural resources. Africa has a treasure chest of raw materials which will give it a large share of the global commodity production far into the future. South Africa alone has 88 per cent of global platinum reserves, 72 per cent of chromium, 80 per cent of manganese, 30 per cent of titanium, 40 per cent of gold, 44 per cent of vanadium and 19 per cent of zircon. It also has 10 per cent of the world's coal, 10 per cent of its uranium, 8 per cent of its nickel and 17 per cent of its fluorspar. Guinea has a third of the world's bauxite. Botswana has a quarter of the world's diamonds. Zimbabwe has 12 per cent of the world's chromium as well as large platinum deposits. Niger is the world's third-largest supplier of uranium. The former Belgian Congo has large deposits of copper, cobalt, gold and other raw materials which have not even been measured.

Africa is emerging as an important factor in the global oil market. At present, it is producing 3.4 million barrels per day from fields in Nigeria, Angola, Equatorial Guinea and Gabon. There is a 90 per cent probability that production could exceed 5.3 barrels by

2010, a 50 per cent probability it could exceed 6.4 million barrels and a 10 per cent probability it could exceed 7.4 million barrels. The dominant producers will continue to be Nigeria and Angola, but new production is coming from countries as diverse as Chad and Mauritania. The US has long depended upon commodities from Africa. In 1950, European colonies in Africa supplied the US with 82 per cent of its bauxite, 68 per cent of its cobalt and 23 per cent of its manganese ore. The US is now importing about 15 per cent of its oil from West Africa and this level is expected to rise to 25 per cent during the next few years.

In the past, Africa's dependence upon commodities was often regarded as a liability. The continent was vulnerable to large fluctuations in the price of copper, nickel, oil and other raw materials. Some countries also suffered from declining output because their governments nationalized the natural resource sector. In the former Belgian Congo, copper output declined from a peak of 500,000 tonnes in the mid-1980s to less than 50,000 tonnes by 1993 and has stayed at low levels until recently. General Mobuto looted the mines for cash and did not provide capital for new investment. Zambian copper production peaked at 700,000 tonnes in the mid-1970s and declined to less than 300,000 tonnes by 2000. Output suffered from Kenneth Kaunda's decision to nationalize the mines and turn over management to political appointees.

The Fraser Institute in Vancouver publishes an annual survey of conditions in the global mining industry. It examines, on a country basis, public policies that are important to the mining industry. The survey is based on questionnaires to 1,435 exploration, developing and mining consulting companies around the world. The companies participating in the survey reported exploration spending of $1.83 billion in 2005 compared to a global total of $5.1 billion.

In the survey of current mining potential, some African countries had relatively high scores. The US state of Nevada had the highest score in the survey with a grade of .90. Mali followed with a score of .86, Ghana ranked at .81, Botswana at .73 and Burkina Faso at .71. South Africa was in the middle with a score of .57 followed by Tanzania at .50. The low scores were Zimbabwe at .13, the Democratic Republic of Congo at .25 and Zambia at .27.

There was also a sharp divergence in rankings for political stability. Among the respondents, 81 per cent said they would not invest in Zimbabwe because of political conditions, compared to 71 per cent for the DRC, 17 per cent for Zambia, 13 per cent for Botswana and 7 per cent for South Africa. Concerns about security reflected views about politics. Among the respondents, 73 per cent would not invest in Zimbabwe because of concerns about security, compared to 72 per cent in the DRC, 12 per cent in Botswana and 7 per cent in South Africa. Infrastructure also ranked as a major concern. One third of the respondents would not invest in Zimbabwe because of infrastructure, compared to 45 per cent in the DRC, 10 per cent in Tanzania, and only 4 per cent in South Africa.

The Fraser survey makes it clear that global mining companies have distinct views about Africa on the basis of national economic policies. They are positive on newly emerging countries such as Mali because of good policy while they have turned against Zimbabwe because of the collapse in the rule of law there under President Mugabe. But the mining companies will gamble on even high-risk countries, such as the DRC, because the opportunities are now immense. There are now projects getting underway in the DRC which could boost copper output to 250,000-300,000 tonnes by 2009 unless some new political shock stops the investment. Zambia has also received an influx of new capital from small mining companies and could see copper output exceed the old highs by 2010.

The rise of China as a major consumer

of commodities has produced a significant price rally for many metal prices which could endure for much longer than in previous global business cycles. In 2003, China displaced the US and Europe as the world's largest consumer of most industrial raw materials. China, for example, now consumes 22 per cent of global copper output, compared to 16 per cent for the US. China consumes 21 per cent of global aluminium output, compared to 20 per cent for the US. China's share of seaborne iron ore trade last year was over 30 per cent while China also produced 40 per cent of the world's cement. Despite China's high level of metal demand, its per capita consumption of copper and aluminium is equal to only 20 per cent of US demand. These low per capita consumption ratios suggest that as China develops further, her share of global raw metals consumption could rise to 30–35 per cent.

China displaced Japan last year as the world's second-largest consumer of petroleum. Chinese consumption will probably exceed 7 million barrels per day this year and nearly half of it will be imported, one quarter from Africa. In 2015, China could be importing over 10 million barrels per day of oil.

As a result of China's need for oil and other commodities, she is emerging as a major investor in the natural resource sector for the first time. Between 1990 and 2005, Chinese oil companies invested $7 billion in foreign projects. In 2005, CNOOC launched an $18 billion takeover bid for Unocal in the US but Congress rejected the bid. Since the collapse of the Unocal bid, Chinese oil companies have made $12 billion of other investments in Kazakhstan, Syria, Ecuador and Nigeria. In Syria, they announced a joint venture with the Indian national oil company. In his recent visit to Nigeria, President Hu Jintao announced $4 billion of infrastructure investment in return for China being given attractive new offshore oil leases. During April, President Putin of Russia visited Beijing and announced plans to construct new natural gas pipelines from Russia to China. These projects could set the stage for Chinese companies to invest in the Russian oil and gas sector. Chinese firms are also actively looking for mining deposits. They took over a Zambian copper mine six years ago and are now building a new smelter there. Chinese companies are large investors in the Australian iron ore industry and have plans to spend nearly $1 billion developing a nickel mine in Papua New Guinea.

China's new role in the commodity market is going to have geopolitical consequences, not just economic ones. During the twentieth century, the need for commodities has often played a decisive role shaping American and British foreign policy. When the Royal Navy converted from coal to oil during the first decade of the twentieth century, Britain had a need for oil which encouraged her to obtain oil exploration leases in Iran and the Mesopotamian provinces of Turkey for the government-sponsored Anglo-Iranian Oil Company (now British Petroleum). Britain also turned Kuwait into a protectorate in order to guarantee her security from Turkey. At the Versailles Peace Conference in 1918, Britain then carved out the protectorate of Iraq from the Ottoman Empire and dominated the country's political system until the 1950s. The US formed an alliance with Saudi Arabia in the 1940s to guarantee oil supplies. The US fought a war with Iraq twice in order to guarantee the safety of Middle Eastern oil. The US also maintained a good relationship with South Africa during the apartheid era because of concern about the country's raw materials. China is now also adjusting her foreign policy to reflect an increasing need for raw materials. She is attempting to launch free-trade agreements with South Africa, Chile, Australia, New Zealand and the Persian Gulf countries to improve her access to raw materials. President Hu Jintao recently toured Africa to sign new deals for energy investment. In early 2006, Angola displaced Saudi Arabia to become China's leading oil supplier. China offered a large loan to Angola last year as an alternative to IMF borrowing. China is anxious to enhance its relationship with Angola because of the country's steadily increasing oil output.

An Angolan government minister recently told Reuters that as a result of China winning many large construction contracts, he expects that 4 million Chinese could move to the country during the next few years. It is difficult to imagine such a large-scale migration to a country with only 16 million people. But the fact is Chinatowns are sprouting up in many African countries and the arrival of only 100,000 Chinese in Angola would be a major geopolitical event.

In 2000, Beijing created the Forum on China-Africa Co-operation (FOCAC) as a vehicle for expanding Sino-African economic, trade and political links. The two triennial FOFAC conferences held so far (Beijing in 2000, Addis Abba in 2003) enjoyed high-level representation, including African presidents and deputies, prime ministers and foreign ministers. China's president, vice-president and premier were present at the Beijing meeting. Premier Wen Jiabao attended the Addis Abba conference in December 2003. He also announced that China was cancelling debt of $1.27 billion owed by thirty-one African countries.

China recently issued its first position paper on relations with Africa. The paper was timed to coincide with the fiftieth anniversary of China establishing diplomatic relations with Egypt, the first Arab and African country to recognize the Communist government in Beijing. China now has diplomatic relations with forty-seven out of Africa's fifty-three countries, while Taiwan has only six. This paper takes a very positive view of China's relationship with Africa, pledging more co-operation on many fronts, including trade, investment and sharing experience in governance and development.

The paper hails the FOCAC, saying it has become an effective mechanism for collective dialogue. The paper also encourages more bilateral co-operation, as well as meetings of foreign ministers, trade ministers and experts on science and technology. In 2005, Sino-African trade reached US$37 billion, compared to US$19 billion in 2003 and $10 billion in 2000. China now accounts for a large share of the foreign trade of several African countries, including 68 per cent of Sudan's exports, 36 per cent of Angola's, 32 per cent of Burkina Faso's, 28 per cent of the Congo Republic, 20 per cent of Chad, 9 per cent of South Africa and 6 per cent of DRC. A senior economist at the Chinese Ministry of Commerce predicts Sino-African trade could rise to US$100 billion within five years. China has signed investment protection agreements with twenty-eight African countries. Prior to China's large new energy investments in Nigeria, Chinese firms had invested $1.25 billion in Africa. China is focused primarily on obtaining commodities but its firms are active in many sectors. They are players in the Ethiopian pharmaceutical sector, large construction projects in Mozambique and Botswana, forestry in Equatorial Guinea and retailing in Namibia. Sinopec recently announced plans to acquire a 30 per cent shareholding in Angola's largest oil refinery. In January, CNOOC announced a $2.3 billion investment in Nigeria's offshore oil deposits. Other Chinese firms have announced plans to explore for oil in Madagascar and Ethiopia. In April and June, 2006 both President Hu Jintao and Premier Wen Chen Biao visited several African countries in order to promote better economic relations. In Nigeria, President Hu Jintao announced a $4.5 billion infrastructure program as a quid pro quo for Chinese firms obtaining new oil leases. While China's primary goals in Africa are economic, her investments have had security implications. China has deployed 4,000 military police in Sudan to help protect the oil pipelines it built there. China recently provided arms to the Nigerian government in order to help it contain an insurrection in its eastern oil-producing province. Nigeria complained that the US had been slow in providing it with military assistance. As a result of China's need for commodities, there will be further significant expansion of Sino-African trade. In the past, former European colonial powers such as France and Britain have dominated both foreign investment and trade with Africa. In the future, China will emerge as a rival to their dominance by providing both an immense new market and numerous opportunities for investment in the natural resources sector.

India has enjoyed a rapid expansion of its trade with Africa during recent years, but it is only a fraction of China's trade. India's exports to Africa grew to $5.25 billion during 2005 from $1.91 billion during 2000 and only $327 million during 1990. Indian imports from Africa grew to $4.12 billion in 2005 from $3.05 billion during 2000 but are below the peak of $5.5 billion during 1999. India's major exports to Africa are cotton products, pharmaceuticals, machinery, cereals and mineral fuels. Indian companies have begun to make a variety of investments in Africa but they are not yet as ubiquitous as the Chinese. Between 1996 and 2004, India invested $70 million in Zambia. India is the fifth-largest foreign investor in Ethiopia. The largest Indian investors have been Mittal Steel and Tata Group. Mittal controls South Africa's largest steel company (Iscor). Tata has investments in retailing, auto assembly, steel, hotels and coffee in Zambia, Tanzania, Namibia, Ghana, Uganda, Mozambique and South Africa. It recently announced plans for a $120 million investment in a ferrochrome project at Richards Bay in South Africa and is considering a further investment in chromide mines there. The Indian state oil company, OGNC, proposed a $6 billion deal for industrial investment with Mittal Steel in Nigeria in return for access to oil leases. OGNC also wanted to make a bid for another major set of oil leases but the government rejected the proposal, so the Chinese purchased it for $2.3 billion.

South Africa has the strongest trade links to India of any African country. Bilateral trade is worth $2 billion per annum or more than 20 per cent of the total. South Africa has various co-operation agreements with India for technology, telecommunications and small business. It has also established an India-South Africa commercial alliance and set up a joint ministerial committee to promote government consultations. South Africa recently adopted the New Delhi agenda for Co-operation – a south-south co-operation agreement with India and Brazil. The aim of the government is to expand trade flows between the three countries from $4.6 billion to $10 billion by 2010. In April, 2005 the Indian foreign ministry hosted a trade conference for Africa in New Delhi to promote commercial relations in the power, energy, transport, education and mineral sectors. Indian officials also expressed support for establishing a preferential trade agreement with the South Africa customs union.

As a result of concern about development, India has long provided aid to Africa. India claims to have given $2 billion of aid to Africa since the mid-1960s under the Indian Technical and Economic Co-operation Agreement. Indian companies are running training programs to build up small companies in several commonwealth countries, including Nigeria, Senegal, Zimbabwe, Tanzania, Uganda, Kenya and Ghana. In 2003, India set up the India Africa fund with a goal of disbursing $200 million in credit to various projects in Africa.

Indian firms will focus more attention on Africa because of their perception that the continent has become more stable and growth this year could rise to the highest level in over thirty years. But as India's appetite for commodities is only a small fraction of China's, India will not be as aggressive in promoting trade and investment. *The Indian Express* recently editorialized that 'India is sleep walking in Africa' compared to China's numerous forays.

Can Africa Compete with China?

There is great concern in South Africa and other countries about competing with China, especially in the textile industry. South African textile firms in urban areas have a cost disadvantage with China. They pay workers about $2.17 per hour compared to an average of about $0.70 per hour in China. In the clothing industry, South African firms pay about $1.38 per hour while Chinese firms offer $0.88 per hour. South African textile workers in rural areas earn about $1.30 per hour. South African labour is cheaper than in Mexico but it is more expensive than in India, Egypt and Mauritius, not just China.

The South African government has been protective of the textile and clothing industries. Despite the move to trade liberalization since 1994, the government has retained a 22 per cent tariff on textile imports and a 40 per cent tariff on clothing imports. The goal of government policy has been to give the industry time to restructure. But both the textile and the clothing industries have been shedding jobs despite protection. The textile industry has reduced employment from 75,200 jobs in 1995 to 55,000 jobs in 2000 and 48,000 jobs in 2005. The clothing industry has lost about 37,000 jobs since 2000. It employs 95,000 people in the formal sector and about 40,000 in the informal sector.

There is no simple solution to the competitiveness problems of South Africa's textile and clothing companies. As China is experiencing labour shortages, there is upward pressure on wages. In Guangdong, wages have increased by 30 per cent during the past two years. But as Chinese wages are still only about one third of South Africa's, it will take at least six years of 20 per cent pay growth to eliminate the pay gap. The growth rate of China's labour force is poised to slow sharply in the next ten years. Such a slowdown could reduce the country's supply of surplus labour and further boost real wages. Africa, by contrast, is poised to experience a significant population expansion. The United Nations is projecting that the continent's population will rise from 793 million in 2000 to 2 billion in 2030 while the population of China will rise from 1.275 billion in 2000 to 1.47 billion in 2025 and then begin declining. These demographic trends suggest that Africa could become a magnet for labour intensive industries during the twenty-first century against a backdrop of declining population in Europe and Asia. The problem for Africa in the intermediate term is labour cost differentials in some countries.

South Africa needs to introduce highly flexible labour market policies in order to compete with China during the next ten years. After 2015, Africa's immense supply of excess labour should help to make her more competitive with Asia.

Conclusion

The rise of China as a great economic power now looms as one of the great challenges of the twenty-first century. China has the fourth-largest economy in the world when measured in nominal dollars, and the second-largest when adjusted for differences in purchasing power parity. In 2040, it could have an economy larger than America's. It has already become a larger consumer of most industrial raw materials than the US and its share is likely to rise further, because its manufacturing output could exceed America's within the next five years. It will therefore offer an immense new market for raw materials and other products exported by Africa.

Africa has traditionally had a much closer relationship with Europe than Asia. The Europeans colonized South Africa during the seventeenth century and the rest of Africa during the nineteenth century. Europe has been the dominant market for African exports since the nineteenth century. In 2005, Europe exported $83.6 billion of goods to Africa and imported $97.3 billion, so Europe is still Africa's dominant trade partner. European foreign direct investment in Africa during 2005 was also $13.5 billion, far larger than FDI from any other source. The leading European powers in Africa are France and Britain. France exports $27 billion of goods to Africa and imports $22.5 billion, so its trade exceeds China's. Britain imports $14.6 billion of goods from Africa and exports $10 billion. Japan is also an important trading partner. It exports $7.3 billion of goods and imports $11.8 billion. But whereas the Japanese trade with Africa exceeded China's during the 1990s, it is less than half today. The rise of China now offers an opportunity for shifting the global balance of power eastward. There is great apprehension in Washington about the rise of China, but the Chinese are stressing that they want to become a great power through peaceful means: they do not want to imitate the mistakes of Germany and Japan during the early twentieth century. During the 1960s, China intervened in Africa on behalf of liberation movements in Southern Africa, and it helped to construct the Tan-Zam railway in order to reduce Zambia's dependence upon Rhodesia. In its new role as a global economic power, China has a very different agenda. It has turned to Africa for raw materials and is seeking to promote trade. It has become an investor in Algeria, Egypt, Nigeria, the Sudan, Angola, Zambia, Sierra Leone, South Africa and other countries. It plans to boost trade to $100 billion by 2010 from $10 billion in 2000 and $37 billion last year.

It is clear that China is going to become a rival to European power in Africa. Some African governments welcome China because Beijing is less critical of their human rights policies than governments in Europe and North America. Others welcome China simply because they want new investment and trade opportunities. South Africa is currently negotiating a free trade area with China. President Mbeki should also attempt to enlist China in his New Partnership for Africa's Development (NEPAD) programme to improve political governance in Africa. He should encourage China to favour political regimes that share the goals of NEPAD and to avoid countries that have more authoritarian political agendas, stressing that China's new status as a great power should compel Beijing to adopt a larger vision of its African interests than simply extracting raw materials.

China is now pursuing an active political agenda in South-East and Central Asia. It is proposing the creation of an East Asian free trade zone in order to reassure other Asian countries that it will not threaten their economic interests. As China now has a trade deficit with most Asian countries, they are supportive of Chinese proposals. China has also helped to create the Shanghai Co-operation Council in order to promote better economic and political relations with the countries of Central Asia. It is now buying a great deal more oil from those countries, and is also concerned about the increased American military presence in the region.

China's agenda for Africa is still highly opportunistic. China has signed investment protection agreements with twenty-eight countries and will probably negotiate new ones in the future. China is seeking commodity investment opportunities in many countries but its investments have so far been heavily concentrated in oil-producing countries. China's trade with Africa will soon exceed $40 billion but China is pursuing a free trade area only with South Africa. The US and Britain are concerned that China will support authoritarian and corrupt regimes in return for access to raw materials. China stresses that it has a policy of not interfering in other countries' politics but it cannot overlook the fact that its new great power status will require her to be more sensitive to the political implications of her economic relationships. The decision to support Robert Mugabe is especially troublesome. He has destroyed the Zimbabwean economy and future generations of Zimbabweans could be critical of China for being the only important country to support him. China has to recognize that it has the same self-interest in promoting good governance as America and

Britain.

China is still coming to terms with the consequences of her new status as a global economic power. The natural focus of Chinese foreign policy is the US and East Asia but Africa will loom increasingly large as China's need for raw materials expands. China will initially focus on the economic aspects of its relationship with Africa but in the long term it will not be able to avoid the political issues which concern the US and Europe. China cannot be a global power if it allows commodity needs to be the only factor driving its foreign policy. China will also have to rise to the challenge of addressing issues such as governance. In fact, managing such issues in Africa could emerge as one of the great early tests of how China defines its new role as a global power.

The countries of Africa will enjoy a growth rate of close to 6.0 per cent during 2006 because of the recent improvements in political stability and high commodity prices. The 2006 growth rate could be the highest in thirty years and follows a year of 5.5 per cent output growth during 2005. It is too soon to say whether the recent upturn will be cyclical or structural. The major cyclical factor driving growth is high commodity prices and a surge of investment in raw material producing sectors. The structural change is a trend towards better governance in many countries and Africa's still high rate of population growth. Africa will be the youngest continent of the twenty-first century. Africa's embrace of democracy and the rule of law remain fragile. Many presidents are still amending constitutions to prolong their term of office. Zimbabwe is an economic and humanitarian disaster which has not attracted enough criticism from surrounding countries. It is not yet clear who will succeed President Mbeki of South Africa in 2009.

The risk of political accidents remains high and will continue to make many investors cautious. But the high growth rates of 2005 and 2006 are a reminder that Africa has potential to improve its performance and emerge from four decades of poor leadership. It is also interesting to note that public opinion polls show far more support for globalization in Africa than in countries such as France. Africans recognize that they need engagement with the global economy to escape their poverty and political failures. The challenge will continue to be one of improving governance and providing a stable framework for the private sector to exploit Africa's young population, immense raw materials and new appetite for globalization. The challenge is a daunting one for a continent with Africa's history. But the Africans themselves now know there is no alternative, so they will have to address the challenge of governance or face another half century of increasing poverty.

India and China's economies – a comparison

Figure 1. India has a much smaller economy than China

	India	China
Population	1.1bn	1.3bn
Labour force	482.2m	760.8m
GDP (PPP)	US$3.319tn	US$7.262tn
GDP/capita	US$3,100	US$5,600

Source: Citigroup Investment Research; World Bank, Groningen Growth & Development Centre

Figure 2. Key Commodities Consumption (kg/capita)				
Commodity	India	China	USA	Germany
Steel	33.4	197.9	349.3	451
Stainless	0.6	3.1	7.6	16.5
Copper	0.3	2.8	7.6	12.9
Aluminium	0.7	5.2	21.9	21.4
Zinc	0.3	2.1	3.8	6.2
Energy*	600	1,200	12,000	6,300

Note: * kWh/capita
Source: Citigroup Investment Research

Figure 3. China & India's commodity markets (% of world, 2005)		
Production	China	India
Alumina	13%	5%
Aluminium	23%	3%
Steel	48%	5%
Copper (refined)	14%	3%
Nickel (refined)	8%	0%
Zinc (refined)	26%	3%
Gold	10%	0.1%
Iron ore	19%	12%
Demand		
Alumina	22%	2%
Aluminium	23%	2%
Copper (refined)	22%	2%
Nickel (refined)	16%	2%
Zinc (refined)	25%	3%
Gold	11%	17%

Source: IISI, CRU, WBMS, ILZSG, Citigroup Investment Research.

Chapter 4

The Petroleum Sector in Africa: Between global security, national interest and local governance?

Erik Solheim

His Excellency Erik Solheim is Norway's Minister of International Development

The African Oil Boom

Africa is in the midst of an oil and gas boom as foreign companies pour billions of dollars into the continent for the exploration and production of petroleum. African governments, in turn, are – and increasingly will be – receiving billions of dollars in revenues from this boom. Well above $100 billion will be spent on developing African oil and gas fields between now and the end of the decade.[1]

These activities are not only centred on the hydrocarbon-rich waters of the Gulf of Guinea, but also on North Africa, where Libya is one of the hot-spots in the global oil sector since sanctions were lifted.

Whilst many African countries will benefit from higher revenues from the oil sector, the majority of citizens on the continent are not enjoying their share of it. Many governments without oil and gas resources have to pay a substantially higher bill for importing their energy as a result of the high oil prices. That is a substantial concern, not only to the countries' leaders, but to the whole world.

However, the oil boom will provide an opportunity for many African countries beset by wide-scale poverty. But it is important to remember that it can also be a great peril. On the one hand, revenues available for poverty reduction will be huge, but on the other hand, the dramatic failures that have characterized most oil-dependent countries show that petrodollars may not reduce poverty, but rather exacerbate it.

Africa's oil revenues have for far too long been inserted into governments lacking in transparency and accountability. Despite efforts to combat corruption in Angola, Nigeria, Cameroon and the Republic of Congo, oil wealth has failed to generate development and has instead generated deep-seated corruption that has retarded growth.

The natural resource curse[2] has represented an enormous impediment to development. Lifting the natural resource curse could be like an economic oxygen for developing countries where growing oil revenues are used to improve the lives of the poor through increased investment in education, health, water, roads, agriculture and other vital necessities. But for this to occur, these revenues must be well managed to contribute to alleviating poverty. Without improvement in their democratic institutions and administrative capacity, it is unlikely that African oil exporters will be able to use petrodollars to fuel poverty reduction; instead, oil money could make matters worse for the poor. It is possible to succeed, as evidenced by Chile, Botswana, South

[1] The Norwegian oil foundation's (INTSOK) latest study shows total expenditure of $60 billion in oil and gas sector in Angola and $54 billion in Nigeria in the period 2007–2010.

[2] The term was first used in the formal economic literature in 1993 by professor R M Auty.

Africa and Malaysia, who have managed to build sound institutions and sustained growth while decreasing their dependency on natural resource rents.

We now see a drive for change in many African countries that are taking the first step towards improving their performance by joining the Extractive Industry Transparency Initiative (EITI) launched by Prime Minister Tony Blair in Johannesburg in 2002. Since then some twenty countries have committed themselves to EITI principles and criteria, and to work with oil and mining companies and civil society in a multi-stakeholder dialogue. Fourteen of these countries are African. Nigeria has been a pilot country in implementing the principles and has made impressive steps towards more transparency and accountability in the petroleum sector. EITI supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining.[3]

The Norwegian government is hosting a third plenary conference in Oslo in October, aimed at promoting and consolidating EITI. The main objective is to expand the number of countries participating in the process and improve EITI implementation, building on the experience gained so far from Nigeria and Azerbaijan, where the EITI principles are being implemented. The conference will reflect the initiative's multi-stakeholder character and assemble representatives from national governments, the extractive industries, intergovernmental institutions and civil society. Our aim is to promote the development of the EITI standard from being just an important initiative to becoming a consolidated international norm.

EITI is one of many initiatives. The multilateral development banks need to take the same firm public stance on good governance and anti-corruption as the World Bank. As donors we also need to point the finger at ourselves. The bribing party gets off too easily. Those involved in corruption and crime operate across borders, and we need global tools and international co-operation to solve the problem.

Good governance is critical to successfully addressing the challenges linked to resource-dependency. Good governance should include clear and stable laws and regulations, rule of law, high level of competence in government, fiscal, budgetary and monetary discipline, public-private sector balance in the economy, an open dialogue between government and civil society and a high degree of transparency. Studies have shown that when governance is good, large revenues will be generated to foster economic growth and reduce poverty. However, when governance is weak, they may instead cause poverty and corruption. Unfortunately, many oil-rich developing countries do not yet score well against these governance indicators.

The Changing Petroleum Sector in Africa

Africa has a new strategic relevance for global energy supply and the stability of the global economy as a result of the many large oil and gas discoveries in deep waters.

Africa's oil and gas resources are vital to global energy supplies. Proven oil reserves have doubled in the last twenty years and now hold close to 10 per cent of the world's oil reserves.[4] The continent remains largely unexplored, and governments across the continent are hoping that they too can cash in on the oil and gas bonanza.

African production may double within the next decade as a result of dramatic improvements in exploration and production technologies in deep waters. Two-thousand metre water depth is no longer off limit. The result is that the vast acreage off the African

[3] More on EITI can be found on http://www.eitransparency.org/.

[4] According to IEA estimates.

coast has been opened for exploration.

Angola's oil production grew 26 per cent from 2004 to 2005, whilst Sudan's oil production grew 15.5 per cent in the same period.[5] Both countries have potential for further growth. Nigeria, Africa's largest oil producer, is looking to expand its oil production from 2.5 million barrels per day to 4–4.5 million barrels per day from 2010. The role of natural gas exports will also grow as new countries join Algeria, Egypt and Nigeria as exporters of liquefied natural gas (LNG).

Governments now have a strong bargaining position as international oil companies and foreign governments scramble for access to their resources. African oil-producing nations want more than just the revenues from the oil and gas sector. They want more value creation from the development of the resource potential. They want more jobs. They are looking for technology transfer and investments in the country's infrastructure. And they increasingly turn to the east for financial and political support.

The two largest oil-importing countries in the world, the US and China, are both looking to Africa to diversify their oil supplies and both have an interest in maximizing African oil production. China's presence in Africa is longstanding, with more than fifty years of diplomatic involvement. The country's transformation from energy self-sufficiency to import dependency has led to expanded engagement in Africa. In 1998, China imported a bit more than 100,000 barrels per day from Africa. Last year that figure was higher than 900,000 barrels per day.

But China is not alone. The need to diversify has driven Asian states into Africa, once nearly the sole preserve of the Western oil companies. India, Malaysia and Korea are investing heavily and rapidly in African exploration and production projects. Presidents negotiate strategic deals. They bring with them their national oil companies, in some cases willing to pay far more in signature bonuses for the best acreage than international oil companies. They are willing to invest in projects that host governments have defined as strategic projects: infrastructure, gas pipelines, refineries, railways, and they may even provide soft loans. Angola has for years tried unsuccessfully to get international oil companies to invest in a refinery in the country. The Chinese oil company Sinopec is now committed to building the refinery.

Over the last decade, Chinese companies have also become the dominant players in Sudan. The state oil company, CNPC, entered Sudan in 1996 and has invested some $4 billion since. Sudan has become China's fourth largest overseas oil supplier after Saudi Arabia, Iran and Oman. Sudan is a long-term plan for China, especially since the highly prospective southern region remains virtually unexplored.

The international community is working hard to build a permanent peace in Sudan, and Norway has been able to assist the parties in their painful path towards peace. We believe that we, as a third party with no direct interest in the outcome of a given conflict, can play a role in peace-building, primarily as a facilitator, at times as a mediator. I recently visited Sudan and saw some of the oil operations as well as their positive impacts. Progress on peace will bring stability and increased potential for foreign investments in Sudan. Norway is prepared to be engaged in assisting Sudan, and we will send experts to Sudan to advise the development of a transparent oil regime, environmental policies and how to manage the resources to the benefit of society.

Managing the Oil Wealth

The primary responsibility for managing Africa's oil wealth in a transparent, fair and accountable way lies with Africa's governments. They have the authority to decide priorities, allocate resources and reward some

[5] BP's annual statistical review June 2006.

groups, regions or individuals more than others. But African governments are not the only actors determining the outcome; foreign companies, international financial institutions like the World Bank and IMF, export credit agencies and governments from other parts of the world also have to contribute. Many of these actors acknowledge that improving the distribution of benefits from oil production is an essential ingredient towards a more stable and sustainable world.

Successful management of any mineral-based economy is difficult, but petroleum may be the hardest resource to utilize well. Countries dependent on oil exports seem particularly susceptible to policy failure. The reason seems to lie in the interaction between economic and political power. Only those who control political power can grant the opportunity to make money from oil, and only those who receive this opportunity can provide the revenues to keep regimes in power. Thus a partnership of mutual interest has been created. Contracts between governments and companies have been kept secret, often based on commercial arguments.

We have, however, seen a new trend emerging, breaking with the past. Governments are announcing transparent bidding rounds where international oil companies are told that the best blocks will be awarded to the highest bidders. Brazil, Angola, Nigeria, Libya, Algeria, Venezuela and East Timor have introduced more transparency in their bidding processes. Bids are now open for all to see. In Nigeria, 800 people attended the bidding conference. In Libya, the bidding round was on live television. Production sharing contracts are increasingly becoming standardized and made public. The government's terms are publicly available on the Internet. It changes the relationship between government and international oil companies. It builds trust and removes secrecy.

Managing oil wealth is not easy, not even for my own country, Norway. And it is far more challenging for African countries like Angola and Mauritania, where institutional capacity and competence is weak – or almost non-existent.

The Angolans are about to become even richer with a massive oil windfall gain derived not only from higher international oil prices but also from rapidly growing domestic oil and diamond production. Government revenues from petroleum over the next five to ten years are expected to be very large. Estimates show that they can reach close to $266 billion in present value terms.[6] The present value of that asset, discounting future revenue flows at a 10 per cent rate, results in estimates ranging from $119 billion to $266 billion, depending on the production and price scenarios assumed. These figures translate into per capita petroleum wealth ranging from $8,500 to $19,000, based on an estimated population of 14 million.

The country's petroleum wealth opens up opportunities to address the country's economic, social and developmental goals. With the advent of peace since 2002, the country now faces the daunting challenge of channelling its huge resource endowment into reconstruction of its infrastructure and into poverty reduction activities. However, improvements in the competitiveness of the local industry and efforts to diversify the economy away from the mineral sectors remain hampered by inadequate infrastructure, poor governance indicators and a less-than-adequate business environment.

Provided the serious issues associated with the 'Paradox of Plenty'[7] are adequately addressed, the fiscal gain could go a considerable way towards alleviating Angola's widespread poverty, contribute to growth and economic diversification, and increase the general standard of living. To guarantee the

[6] World Bank report 2005.

[7] The term was developed by professor Terry Karl in her book, *Paradox of Plenty*.

well-being of future generations, part of Angola's oil revenues should be saved.

Angola will need to improve in the areas of governance, transparency and institutional capacity. The presence of weak institutions may invite rent seeking and waste. The level of institutional capacity in Angola is still low, in part because of the effects of the war and in part because of problems associated with the 'Paradox of Plenty' dilemma. The government in Angola is aware of the need to develop institutional capacity to manage the country's oil wealth appropriately, and we clearly see its willingness to become more open and engage in dialogue with Angolan civil society and external actors. The latest licensing round was a clear step in the right direction.

Mauritania is the latest African oil producer. Its resource potential is limited, with an initial production of some 75,000 barrels per day. Mauritania starts from a situation of weak governance, low levels of foreign reserves, the presence of significant arrears and declining execution rates of investment spending, notably in the social sectors. The country's capacity to create wealth is constrained by the legacy of high volumes of aid, possibly causing some 'Dutch disease effects',[8] rural-urban migration and a dependent form of social capital.

In a high price scenario, Mauritania may receive some $18 billion in oil revenues, and the oil sector may represent some 80 per cent of the government's revenues in 2015.[9] The country faces considerable pressure to use the oil revenue to boost social expenditures rapidly, given the need to reduce the country's poverty headcount.

During the previous regime, the country displayed the characteristics of a paternalistic and predatory autocracy – that is, a relatively stable government, with political support gained through the provision of patronage, and a politicized bureaucracy and judicial system. The transition authorities have embarked on a path toward democracy, rule of law and good governance, and initiated a wide range of reforms based on the priorities that emerged from consultations with civil society and political parties.

The authorities have signed the UN Convention Against Corruption and support a World Bank initiative to undertake a comprehensive anti-corruption study. The authorities acknowledge that it is fundamental to foster economic governance and have expressed their commitment to the implementation of EITI and the establishment of transparent mechanisms of managing natural resource wealth.

Building national capacity is an urgent need. It includes training local personnel who are able to put in place a clear legal, regulatory and contractual framework. Such a framework – the cornerstone for private sector involvement in the oil and gas sectors – should emphasize the government's objective in maximizing the positive impact that the oil and gas sector could have on overall economic development. Proper attention will need to be paid to environmental management since fishing represents a sizeable export. It is, however, important to remember that developing oil fields and building pipelines happens faster than the construction of efficient states and good governance.

The Norwegian Oil for Development Strategy

The oil boom comes at a time when foreign aid to Africa from industrialized countries is falling and being replaced by an emphasis from donor nations on trade as a means for African countries to escape poverty. The

[8] The term originated in Holland after the discovery of the giant Groningen field triggered an overvalued currency, excessive government spending, loss of Dutch competitiveness and eventually a sustained process of Dutch de-industrialization.

[9] World Bank report May 2006.

dominance of oil and mining in Africa's trade relationships means that it is especially important that Africa makes the best use of its oil, gas and mining resources.

In Asia, a broad economic development process has lifted more people out of poverty than ever before. In many African countries, poverty increases from one day to the next. There are still around one billion people who are living on less than a dollar a day – most of them are in Africa.

Forty years ago, the situation was quite different. Ghana and South Korea were more or less equally rich – or equally poor. Today, the per capita wealth of South Korea is more than ten times that of Ghana, and the disparity continues to increase.

The Asian countries that have experienced rapid economic growth have undergone a broad process over time, where relatively sensible policies, a reasonably well-functioning state, an open, market-based economy and focus on education and cultural factors have combined to pave the way for progress and the eradication of poverty. China, Vietnam and South Korea are good examples.

What most of us regard as traditional development assistance will undoubtedly continue to be important for many poor developing countries for many years to come. But unless we also pave the way for greater economic activity and value creation in these countries, it will not be possible to meet the overarching target of the UN Millennium Development Goals: to halve the number of people living in extreme poverty by 2015.

In its policy platform, the Norwegian government emphasizes the fight against poverty and the right to economic development and participation in international trade. This means that the development of the business sector will be a high priority focus area for the government in its international development co-operation.

In our development co-operation, we emphasize the importance of strengthening the institutional and macroeconomic frame conditions in our partner countries in the South. Our efforts will be channelled multilaterally via the UN system and the World Bank, and bilaterally through our co-operation with individual countries.

Our bilateral efforts will particularly focus on areas where Norway has a recognized and sought-after expertise, for example in the hydropower, petroleum, fishery, fish-farming and maritime sectors. We also have a high profile in environmental issues and have a strong focus on employees' rights and the rights of women.

We have developed an initiative called Oil for Development. This establishes petroleum management and good governance as a high-priority focus area, and entails a significant increase in the financial support to this field over the development-assistance budget.

The intention behind the Oil for Development initiative is to enable petroleum-producing developing countries to utilize the income from oil and gas resources to reduce poverty and improve the living conditions of their populations. We want Norway to play a clear and key role in the international debate on oil and development. On the basis of Norwegian expertise and experience, the globalization of the Norwegian oil industry and the country's existing involvement in resource management, development, peace and human rights, Norway is in a good position to play such a role. We have the impression that Norway's participation in this field will be welcomed by many.

The increase in direct investments from abroad in many African countries is primarily related to investments in natural resources, especially petroleum. Many of these cases have both positive and negative consequences. We hope to increase the positive consequences through our Oil for Development initiative.

Chapter 5

Diamonds and Development

Jeffrey Herbst and Greg Mills

Professor Jeffrey Herbst is Provost of Miami University. He has served as a consultant for E Oppenheimer & Son (EOS). EOS is owned by the Oppenheimer family, who also have a controlling interest in De Beers. Dr Greg Mills is Director of the Brenthurst Foundation. The Foundation was established by the Oppenheimer family in April 2005 to strengthen African economic performance.

Introduction

There is a fundamental paradox in the discussion regarding diamonds and development. On the one hand, there has been considerable criticism regarding the diamond trade by NGOs such as Global Witness and journalists who believe that diamonds foster war. Fred Bridgland typified the debate of some years ago when he wrote: 'across great swathes of Africa, diamonds fuel wars. Many a diamond ring slipped on to fingers of eager brides-to-be has first been washed in African blood.'[1] The forthcoming movie *Blood Diamonds*, starring Leonardo DiCaprio as a South African mercenary jailed for gem smuggling during Sierra Leone's bloody civil war, which ended in 2002, may only further criticism of the diamond trade. The quantum of blood to licit diamonds is today gauged at just 0.2 per cent[2] (down from an estimated peak of 4 per cent) of a total gross value of African rough diamonds of around $8.5 billion. Some retailers fear that criticism of this tiny aspect of the diamond trade may eventually lead to a boycott that would drive down the price of jewellery with these precious gems.

Yet, at the same time, diamonds are the driver for development for some of Africa's greatest successes. Diamonds were critical, of course, to the development of South Africa. Indeed, Brian Roberts concluded that 'More than any other city can Kimberley claim to be the womb of modern industrial South Africa.'[3] In recent times, Botswana – long regarded as *the* development success in Africa – and Namibia have built, by African standards, flourishing economies on the basis of revenue from diamonds.

A central policy debate is whether countries such as Sierra Leone and Liberia can transform their diamonds into the drivers of development that they were in Botswana and South Africa. In particular, will countries with alluvial deposits that are relatively easy to mine, and therefore divert to unsavoury purposes, be able to duplicate the experiences of the Southern African countries whose diamonds are more concentrated in their distribution, much harder to mine and therefore easier to ring-fence and control? The question is especially pertinent because the so-called Kimberly Process – the international regime established to prevent the use of diamonds to fund conflict – is based on national governments being able to control their own diamonds. The Diamond Development Initiative (DDI) – an international effort by corporations (including De

[1] Fred Bridgland, 'Blood Diamonds are Guerrillas Best Friend', *The Scotsman*, 21 September 2000.

[2] According to the Kimberley Process Working Group on Monitoring in its February 2006 submission. Go to http://www.kimberleyprocess.com

[3] Brian Roberts, Kimberley: *Turbulent City* (Cape Town: David Philip, 1976), p. 391.

Beers), international agencies and non-governmental organizations – also seeks to change the dynamics of alluvial diamond production. If DDI can address the root causes of conflict – poverty and inequality amongst poor miners who live and work outside the formal economies of these previously war-torn countries – by creating the necessary incentives and structures for legal diamond markets, there will be a good chance of cutting the link between alluvial diamonds and conflict. Indeed, the central argument of this paper is that while alluvial diamonds definitely present countries with significant challenges and can fuel conflict, the automatic assumption that easily-mined diamonds leads to war can be challenged.

It is clear that diamonds were not the cause of the conflicts in the Democratic Republic of Congo (DRC), Liberia, Sierra Leone, Angola and elsewhere in Africa. However, diamonds were a relatively easy source of revenue for rebel leaders, and governments, who self-financed their wars in the post-Cold War world when outside support for small wars is limited to non-existent. Bringing these diamonds into the mainstream economy remains difficult. However, in both Angola and Sierra Leone over the last few years, respective governments have succeeded in introducing incremental improvements that are leading to the progressive regularization of diamond flows.[4] The question is whether these will be fast enough and sufficiently effective to enable the revenues to be re-invested to meet development priorities in health and education. Indeed, international experience suggests that simple legalization of small-scale mining is inadequate and several previous attempts at mainstreaming artisanal mining, particularly in the gold sector, have failed because of poor design that failed to understand the wider social impacts and networks at stake. More recent efforts to change the incentives that miners and farmers face through direct purchasing from the producers themselves, reducing the profits made by intermediaries and paying fair prices, may have more promise. Through a top-down approach that addresses the legal framework and a bottom-up approach that addresses sustainable small-scale business models, it may be possible to change 'blood diamonds' into 'development diamonds' for those African economies home to artisanal mining. But the going will not be easy.

Diamonds for Better and Worse

There has been a substantial evolution of the debate about diamonds. Non-government organizations such as Global Witness, which have been central to the debate over diamonds, recognize that in Botswana, diamonds have been an engine of growth, helping it meet development goals.[5] Indeed, that different countries have had varying levels of successes in exploiting their diamonds for development is indisputable. As Table 1 indicates, there are only eight countries in the world, all in Africa, where diamond production is above 3 per cent of total economic activity. South Africa and Russia are very significant producers of diamonds but their economies are also diversified enough that diamond production itself does not now account for a very large share of GDP. All of the other countries (those on the right side of the table) are marginal producers, except for Australia and Canada. Those countries are also rich enough so that their exposure to diamonds is limited. This paper will focus on the role of diamond production in countries on the left side of the table, excluding South Africa and Russia because of their diversified economies.

[4] Sierra Leone has introduced licence reform but not taxation change: *http://www.diamondregistry.com/News/2006/Sierra.htm*

[5] See the excellent report, Global Witness, *Rich Man, Poor Man: Development Diamonds and Poverty Diamonds*, October 2004.

Table 1
Dependence on Diamonds, 2000

High dependence or major producers			*Low dependence*		
Country	Diamond Production ($000)	Diamond Production as Percent of GDP	Country	Diamond Production ($000)	Diamond Production as Percent of GDP
Botswana	2,125,200	40.473	Lesotho	5,000	0.582
Sierra Leone	87,500	13.806	Tanzania	45,965	0.506
DRC	585,000	13.591	Ghana	13,500	0.271
Namibia	419,120	12.278	Guyana	1,700	0.239
Angola	739,662	8.102	Cote d'Ivoire	21,750	0.205
Central African Republic	72,000	7.556	Australia	360,600	0.093
Liberia	27,200	5.023	Canada	453,555	0.064
Guinea	103,500	3.325	Venezuela, RB	45,500	0.039
South Africa	1,109,513	0.835	Brazil	29,250	0.005
Russian Federation	1,595,000	0.614	China	16,480	0.002

Source: *World Diamond Council and World Bank*

Of the countries that are highly dependent on diamonds, Botswana and Namibia have managed their resources well. In Sierra Leone, DRC, Angola, CAR, Liberia and Guinea, governments have not been able to exploit diamonds for public revenue, and in many cases the gems have been used to fund insurgencies.

Botswana and, to a more limited extent, Namibia do have good governance records compared to the other countries. However, the primary distinction between the countries that have done well through diamonds and those that have fared poorly is the way in which they are mined. Botswana and Namibia have *kimberlite* diamond resources that are buried deep in the ground and require capital-intensive machinery to exploit. As a result, companies and governments are able to retain control over the resources because access to and from the diamond-rich grounds can be controlled at the mine entrance. The relatively low number of employees and their higher skill base facilitates control of illegal diamond flows. Global Witness estimates that only 6,000 people are actually employed directly by the diamond industry in Botswana.[6]

In contrast, *alluvial* diamond deposits are spread over hundreds of square miles, within old and new river deposits. They do not require capital equipment to exploit;

[6] *Ibid.*, p. 5.
[7] *Ibid.*, p. 4.
[8] This information was sourced in correspondence with Alyson Warhurst and from her forthcoming paper: 'Corporate Social Responsibility and African Development Diamonds', Draft for discussion, Alyson Warhurst, 13 May 2006 (forthcoming). See also Maplecroft's Map 'Artisanal Mining in Africa and Development Status, 2006', *http://maps.maplecroft.com*.

rather, the deposits are close to the surface and can be mined by artisanal miners with almost no equipment. Indeed, Global Witness estimates that there are approximately one million alluvial diamond miners in Africa[7] concentrated in the following countries:[8]

- The Democratic Republic of Congo (DRC): Some 700,000 artisanal miners produce around 85 per cent of diamonds exported by value, some U$620 million in 2004.
- Angola: The diamond industry is the second most important nationally after oil, with 6.6 million carats (or $763 million) in production in 2004. Some 150,000 artisanal miners produce around 12 per cent of this amount.
- Sierra Leone: Artisanal mining, around 90 per cent of all mining, is the country's main source of foreign exchange, accounting for 60 per cent of total export revenues and offering employment to an estimated 120,000–200,000 miners.
- Guinea: Artisanal and small-scale miners accounted for around 95 per cent of national production of 740,000 carats in 2004.
- Central African Republic (CAR): 40 per cent of total export earnings are sourced from the activities of some 50,000 artisanal miners.
- Ghana: 70,000 miners recover approximately 60-70 per cent of Ghana's diamond production.
- Liberia: There were around 60,000 artisanal diamond miners in Liberia, many of whom shifted their activities into gold mining as a result of UN sanctions. Like the Ivory Coast (which produces some 300,000 carats annually from its mines mainly in the north-west), Liberia – particularly under the regime of Charles Taylor, currently awaiting trial on war crimes in The Hague – has mainly been a conduit for international smuggling operations from other countries, notably Sierra Leone.

Alluvial diamond mines are notoriously difficult to police. Neither colonial nor post-independence African countries developed mechanisms to regulate this type of diamond mining. Extensive smuggling makes it difficult to ensure the accurate prediction of the numbers of miners involved in this sector and their exact output. In Sierra Leone, the level of smuggling may have been as high as 50 per cent of production; and the Angolan government estimates that $375 million in state revenue may be lost annually due to smuggling, mainly to the DRC.[9] Instead, the diamond revenue tends to go to whoever exercises local control over the deposits. As a result, there has been constant conflict over much of the diamond-rich territory in many of these countries. In particular, guerrillas have found control over alluvial deposits to be one of the best ways of funding their insurgencies. In turn, the countries become poorer because guerrillas can be self-financing and a key resource cannot be taxed by governments. Thus, Lujala, Gledtish and Gilmore, in the first systematic survey of lootable and non-lootable diamonds, find 'evidence that secondary [lootable] diamonds are positively related to the incidence of civil war, especially in countries divided along ethnic lines. Primary diamonds, on the other hand, make ethnic war onset and incidence less likely.'[10]

The fundamental question for diamond-fuelled development is if countries with alluvial deposits can reap even a percentage of the gains via mining that Botswana has shown possible for kimberlite deposits. Kimberlite mining will always be more supportive of development, but if

[9] *Ibid*.

[10] Päivi Lujala, Nils Petter Gleditsch, and Elisabeth Gilmore, 'A Diamond Curse? Civil War and a Lootable Resource', *Journal of Conflict Resolution* (Vol. 49, 2005), p. 538.

countries with alluvial deposits could begin to exploit their diamond resources productively and distribute the gains more evenly, they would face a much more optimistic future. Government revenue in what are desperately poor countries would be enhanced, and those who sought to fight against public institutions would not immediately find a way to finance their wars. On the other hand, failure to develop alluvial deposits in a formal way may condemn many of these countries to poverty as they will face continuing conflict and violence over who can control the valuable land. Indeed, as noted above, failure in the alluvial countries may contaminate diamond production everywhere if campaigns against 'conflict diamonds' do begin to change consumer attitudes about a gem which has limited innate value. The stakes in the alluvial countries are therefore high for all concerned.

The Quandaries of Regulating Alluvial Mining

Regulating decentralized mining activities is especially difficult. Hilson and Potter, in their well-titled article ('Why is Illegal Gold Mining Activity so Ubiquitous in Rural Ghana?'), report that there are between eleven to thirteen million alluvial miners worldwide and that perhaps one hundred million rural inhabitants rely on income derived directly or indirectly from artisanal and small-scale mining. Many are driven into these activities because of poverty.[11]

Indeed, evidence from Ghana – recognized as a leader in the promotion of small-scale mining[12] – makes it clear how difficult it is to control alluvial mining. Ghana legalized small-scale mining in 1989 and, in co-operation with many donors, 'has overseen the construction of seven small-scale mining district support centres; orchestrated the implementation of a series of training programs for miners; and has undertaken research looking into possibilities for re-skilling miners with the aim of improving their poverty-stricken lifestyles'.[13] Yet, Hilson and Potter estimate that 85 per cent of the miners in Ghana still operate illegally.[14] They attribute most of the failure of legalization in Ghana to unavailability of land, insufficient institutional support and a licensing system that is still too complicated.[15] Efforts in Sierra Leone to legalize diamond mining have not fully succeeded because, among other reasons, the cost of obtaining a mining license are high, procedures to get a license are very complicated and land is limited.[16] Indeed, many efforts worldwide at legalizing and regularizing alluvial mining have faced substantial obstacles because of expensive and cumbersome licensing practices.[17] More generally, a large percentage of miners work outside of the established laws because of land shortages and because legislation is seen as inappropriate for miners.[18]

[11] Gavin Hilson and Clive Potter, 'Why is Illegal Gold Mining Activity so Ubiquitous in Rural Ghana', *African Development Review* (Vol. 15, 2003), p. 240.
[12] *Ibid*., p. 243.
[13] *Ibid*.
[14] *Ibid*.
[15] *Ibid*., p. 259.
[16] It is estimated that half of the mining in Sierra Leone is still done illegally. See, 'Management Systems International, Mining the "Chaos" in Sierra Leone's Diamond Fields: Policy and Program Implications of the Structure of the Artisanal Mining Sector in Sierra Leone', June 2005, pp. 40–1. Found at: http://www.resourcebeneficiation.org/data/2420313_Mining per cent20the per cent20Chaos per cent20Final per cent20June per cent2014.pdf
[17] Gavin Hilson and Clive Potter, 'Structural Adjustment and Subsistence Industry: Artisanal Gold Mining in Ghana', *Development and Change* (Vol. 36, 2005), p. 115.
[18] Edmund M Bugnosen, 'Small-Scale Mining Legislation: A General Review and an Attempt to Apply Lessons Learned' in Gavin M Hilson (ed.), *The Socio-Economic Impacts of Artisanal and Small-Scale Mining in Developing Countries* (Lisse: A.A. Balkema, 2003), p. 18.

Similarly, international regulation of diamond mining alone will not inevitably prevent the re-emergence of 'conflict diamonds'. The Kimberley Process was an important development because it established a way in which nations could certify that their diamonds were produced without contributing to conflict. However, the Process itself recognizes that the certification of diamond production only has positive effects if governments have established internal schemes to eliminate conflict diamond production.[19] The Process does not guarantee the legality of diamonds *per se*. The problem with artisanal mining activities is that the activities are largely illegal (not licensed), and the diamonds produced therefore have to be sold to intermediaries outside of formal frameworks. They are therefore illicit. Intermediaries then enter these diamonds into formal flows in order to obtain their Kimberley Certificate to demonstrate they are conflict free. Undervaluing often goes on at this stage, as well as at the point of production. They are then exported. Some diamonds (up to 50 per cent in Sierra Leone) do not even enter official flows prior to export but are smuggled across borders and enter formal flows in other Process member countries.[20]

Miner Incentives and Alluvial Mining

The legalization of alluvial mining is probably a necessary step in mainstreaming production from small-scale miners but it seems clear that it is not sufficient. There are too many other obstacles to the legal, transparent trade of diamonds that will not disappear. Bugnosen is undoubtedly right when he argues that 'Government motivation to legislate small-scale mining does not necessarily match the priorities of small-scale miners. It is therefore important to also consider the aspirations and principal priorities of miners.'[21] The fundamental challenge for countries with alluvial deposits is to provide incentives to artisanal miners, which encourage them to remain within the confines of the state-regulated economy, yet not fall prey to government control without reaping basic financial rewards.

There are many obstacles to 'getting prices right' for alluvial diamond miners. One fundamental to the problems of regulating mining is that much of the downstream industry in diamond-mining companies is controlled by a small number of middlemen. It is estimated that in Sierra Leone about three-quarters of exports were controlled by five companies in 2003. Even fewer actors controlled even a larger percentage of the trade the next year.[22] Given the market control that the middlemen have, they are able to pay miners very low prices and receive massive mark-ups. However, there are also many other obstacles to a transparent market. Smillie[23] notes the most important:

- Access to land is often problematic for small producers. This may be an especially important issue because there is often tension between disorganized small-scale producers and larger mining companies.
- Small-scale miners require immediate payment given the desperation of their situation. One of the advantages that the middlemen have now is that they are able to operate on a cash basis.

[19] Corene Crossin, Gaving Hayman and Simon Taylor, 'Where Did It Come From? Commodity Tracking Systems' in Ian Bannon and Paul Collier (eds.), *Natural Resources and Violent Conflict: Options and Actions* (Washington, DC: The World Bank, 2003), p. 147.
[20] Global Witness, 'Making it Work: Why the Kimberley Process must do more to stop the flow of conflict diamonds', November 2005.
[21] Bugnosen, op cit, p. 18.
[22] Ian Smillie, 'Why is the DDI Important at a Micro Level?' August 2005, p. 3. Found at: *http://www.pacweb.org/e/images/stories/documents/ddi-micro per cent20paper per cent202005-08.pdf*
[23] The following points are all from *Ibid*., p. 4.

- Regulations, especially getting a digging license, 'can be enormously time consuming and expensive. In each country there are a dozen or more costly and time-consuming steps required before any mining can officially commence. Bribes are required almost every step of the way.' Such bureaucratic mazes obviously do not encourage small-scale miners to become part of regular markets.

Smillie does a good job in cataloguing the various attempts that have now been made worldwide to address miner incentives. Some appear to be good ideas but fell apart due to very typical implementation problems. For instance, the government of Sierra Leone created a 'Diamond Area Community Development Fund' whereby a portion of the diamond tax was given to local communities where the diamonds were found. This resulted in more than half a million dollars returned to those communities in 2003. Unfortunately, in 2004, this initiative was suspended due to irregularities.[24] Loan programmes to miners, training, improved market and price knowledge, media campaigns and many other initiatives have been attempted. Not surprisingly, when very weak governments attempt to mainstream extremely valuable commodities in outlying areas, there are policy, technical, financial, social and institutional obstacles to all of these attempts.[25]

Smillie is undoubtedly right to put the problem baldly: 'Ultimately the most important issue is the development of free and open access to markets, closing the distance between the digger and the market, and reducing the barriers to digger participation in the formal economy (e.g., the cost and difficulty of entry, access to land, information and capital)'. When even small improvements are made in access to markets, the results can be significant for small countries. For instance, in Sierra Leone the Integrated Diamond Initiative has, among other things, attempted to create a scheme whereby 'diggers… receive the best prices for production from reputable buyers. Prices will be the very best because the buying mechanism will be more competitive than are currently available'. Dr T Alpha-Kpetewama, executive director of the Peace Diamond Alliance, noted that, due in part to the effort to cut out exploitative middlemen, export revenue from legal diamonds increased from $41 million in 2002 to $130 million in 2004.[26]

To be successful, any alternative that seeks to curb abuses (they may never be eliminated) in alluvial mining must do the following:

- Provide more income to miners than they currently receive trading through the current supply chain.
- Offer the miners a marketing system that allows government to observe, regulate and tax diamonds before they are exported, facilitating fair prices to be paid directly to them for the diamonds that they find.

The Diamond Development Initiative (DDI) that was recently formed by De Beers, Global Witness and Partnership Africa Canada clearly recognizes that the problems associated with alluvial diamonds are complex and must be addressed at the level of the miner if diamonds are to move from being a source of insecurity to a driver of development. The focus of the DDI must be to make the legal market for diamonds secure and attractive enough that artisanal miners are incentivized

[24] *Ibid*., p. 5.
[25] *Ibid*., p. 6.
[26] T Alpha-Kpetewama, 'Integrated Diamond Management Scheme in Sierra Leone', October 13, 2004. Presentation at the 4th CASM Annual General Meaning and Learning Event. Found at *http://www.casmsite.org/Documents/15-Colombo-Kpetuwama.pdf*

to sell their diamonds openly to legitimate marketers. Certainly, offering the miners a better price is an important, and probably necessary, step if alluvial mining is to be regularized. However, it is also clear that the obstacles created by land shortages must be addressed. Finally, governments should not confuse the legalization of mining with the regulation of mining. Indeed, legalization seems to have been stifled in some cases because government regulation is so cumbersome that miners revert to illegal markets. These are difficult problems for governments, especially those emerging from civil conflicts, to confront, but they are tractable. Indeed, it is important to finally end the image of diamond smugglers who are impervious to government control. Diamond smuggling emerges and endures because governments are too weak, or not interested enough, to create the basic infrastructure to allow legal trading to occur. The new international emphasis on helping countries legalize and regularize their diamond production is an opportunity to finally break the tie between diamonds and conflict in West and Central Africa.

Chapter 6

The Role of External Tools to Manage African Conflict

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Introduction

Africa remains a turbulent environment. It is perceived as a continent in continuous conflict, although there are countries and regions where destructive instability is absent. Democracy in Africa has not brought an end to conflict. Factors fuelling the continuation of violence are complex and not fully understood by the continent's critics.[1] As has been stated in countless articles, most causes of conflict are domestic; yet closer study reveals that in a majority of cases, the impact extends into adjacent areas. This complicates the simplistic approach of addressing the problem in terms of a 'target' or individual country, or indeed a specific sector within a country. In the process of determining whether to become involved, and if so, what actions should be considered, a comprehensive analysis of the contributory factors will reveal the most appropriate approach.

Factors Contributing to Conflict in Africa

Conflict in Africa is fuelled primarily by competition for resources. In a 'preferred scenario' this would be restricted to two or more groups within a country claiming the resources in question or at least part of them. This is also applicable when neighbouring countries discover a resource that extends either side of the common border. There is a tendency to think of resources only in their primary form, but this is usually not the case. For the purpose of this paper, a resource also connotes political power which permits access to some alternative objective. Contributing to the subject of competition for resources is the excess of demand over supply for arable land and increasingly scarce water and competing historical claims to the same territories.[2] Due to their minimal political influence, local communities neither share in nor derive any benefit from resource exploitation, which leads to growing intolerance of authority and a culture of disobedience based on opposing visions of society and the state.

The influence of external actors further complicates the situation. The presence of external actors is driven primarily by financial interest, and ethics and humanitarian considerations invariably play a secondary role. The local direct beneficiaries of resource exploitation are those in a position to control or regulate access to the resources in question, thereby strengthening the level of co-operation between the two. This creates an internal and external dimension to conflict-resolution initiatives.

Statistics reveal that since 1960 there have been over eighty undemocratic changes of government in Africa.[3] Unfortunately, undemocratic changes are usually accompa-

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[1] J.M. de Jager, *African Defence Challenges in a Global Context*, paper presented at the Land Warfare Conference, Brisbane, September 2005

[2] *Ibid*.

[3] Africa Institute, *Africa at a Glance*, 2002

nied by violence. This is due, in some measure, to the existence of a 'winner takes all' attitude with respect to wealth, resources, patronage, power and prestige, amongst others. The underlying causes of, or reasons for, this attitude are not the subject of further speculation here, save for accepting it is a factor that cannot be ignored – and one that has created its own special set of circumstances, which in turn require a specific approach. What has been evident in the past is an unwillingness to relinquish power after securing it, and scant regard has been given to constitutional legitimacy. More recently, however, there have been more 'democratic' approaches to retaining power, such as amending the constitution to allow further terms of office.

Additionally, there is insufficient accountability of leaders, lack of transparency in regimes, minimal adherence to the rule of law, good governance and the internationally accepted meaning of democratic principles – for example, the transfer of leadership through the ballot box – as well as a general lack of respect for human rights.

This rather depressing picture of the continent has been painted in order to create the environment in which external conflict-management tools can be assessed.

Why the Interest in Managing Conflict in Africa?

The easy answer is that the international community cannot sit back and ignore the human suffering that accompanies conflict. The associated problems of displaced people and refugees, and their effect on neighbouring countries, generate further pressure for intervention and a solution to the causes of the instability. What cannot be ignored are the economic interests of external players. Stability and security will provide the requisite environment to stimulate a concentration on productivity and growth, leading to a greater potential for return on investment and subsequent financial benefit to the investors. Growth, in turn, will generate a bigger market for the external actors' exports.

Africa's extractive industry prices and demand are on an upswing. Oil is emerging as a viable alternative source to the more established producers (The Middle East, in particular) and could 'fuel' the increasing demands of the Chinese and Indian economies. In addition to the growing demands of these two countries, there is also the ongoing search by Western states for alternative sources of oil. President Bush has recently alluded to this when referring to the United States' addiction to Middle Eastern oil. However, there is a probability that the present competitive costs will increase, for a number of reasons, presenting opportunities and challenges that will have to be addressed by the 'client' countries before the initiative is lost. For example, with the increased income derived from the extractive industries comes an increased purchasing power, which translates into a potentially important market as indicated earlier.

Certain key factors need to be addressed to ensure any chance of success:

- Firstly, there is need for the leaders of an affected country to recognize and accept the benefits of change and implement the changes required. If leaders are faced with the prospect of emerging from the exercise in a worse position than before, they have no incentive to change.
- Secondly, a recognition of who will benefit from the change. This includes external and internal actors. These constitute the focal point of the conflict-management effort.
- Thirdly, a careful assessment of what should and what can be changed.

There has been an increased focus on Africa over the last eighteen months. The opportunities for African countries and, by implication, their leaders to benefit from international assistance have improved. More importantly, there is a growing understanding among donor countries that Africa would like to be the architect and executor of any programmes to utilize its resources better in order to improve continental security, thereby giving momentum to its development.

Factors Against External Influence

As indicated above, the beneficiaries will play a role for or against change. On one side are the internal actors: the incumbent leadership and those presently excluded from the decision-making process and therefore not deriving any benefit. The latter could be in open revolt against the state (armed conflict) or suppressed by the state security apparatus.

If the leadership feels threatened or fears losing control of power, it will be less inclined to consider any change. Additionally, if it enjoys accompanying benefits of power – e.g., wealth – there is an added incentive to maintain the status quo. Finally, there is another reason for not entertaining the prospects of change – the possibility that change could bring about punitive action against the previous leadership.

Any form of pressure will be affected by the relative wealth of the country in question. If it controls valuable resources – e.g., oil – it is less likely that it will be exposed to the same level of pressure as a resource-poor country. This is due to the economic interests of the countries initiating the changes. The greater their economic interests in the country in question, the greater the consideration given to their political initiatives – i.e., they will be deterred from applying too much pressure. Should they be insistent in their efforts, they could find themselves excluded from economically beneficial activities in the country in question and lose out to their competitors.

The other actors to be considered are the potential successors to the current leadership. If one only deals with the current leadership during conflict-resolution negotiations and a transfer of power takes place in the meantime, it could result in wasted efforts and a forced return to negotiation. Given the inability of a number of governments in Africa to exercise effective control beyond the capitals, any initiative would have to take this into consideration in favour of some form of multilateral discussions. Additionally, in a situation where more than one group or movement is involved in the conflict, there is a proven ability to form and break coalitions at regular intervals – which should one approach?

A final consideration is the impact of external actors on neighbouring states and their leadership. Inter-state relations can play a major role in Africa, and even though the aim of the programme may be commendable, a reticence may emerge on the part of leaders in the region to support it – e.g., the iconic status of President Mugabe as a liberation leader in Africa.

What Constitutes External Tools?

It is necessary to make a distinction between various categories of conflict:

- Where the nature of the conflict requires military intervention to separate the parties in conflict prior to going to the negotiating table.
- Where there is a cessation of hostilities as a result of military intervention and a process of reconciliation and stability is required.
- Where the armed conflict has reached a situation of stalemate and the parties involved are looking for a way out of the impasse.
- Where there is potential for resolution through negotiation and compromise, either because the parties in conflict have not resorted to armed confrontation or appear unlikely to, for whatever reason.
- To these I would like to add the situation where the actions of the state infringe on the human rights of its citizens, although this is technically not a conflict.

At the risk of being contentious, I suggest that 'influencing is to coercion as regime change is to coup d'état'. The legitimacy of intervention is invariably subjective. The principle of non-intervention in the domestic affairs of sovereign states is endorsed by the United Nations.[4] Furthermore, the UN specifically prohibits intervention by military force.[5] In spite of this, a number of cases can be quoted where military intervention by external forces has occurred – e.g., Grenada (1983), Gulf War (1990/1), Haiti (1993). Traditionally, these have and can be justified in terms of Article 51 (response to an armed attack) and/or Article 42 (authorization by the Security Council to maintain or restore international peace and security) of the Charter. Additionally, it is accepted in international law that certain reasons constitute justification for states, regional and/or international organizations to intervene in the affairs of another state. They are: a state's right to protect its citizens abroad; to assist people in their right to self-determination; as a result of a state formally consenting another party to intervene; and humanitarian intervention.[6] The last reason has been the subject of some controversy as its proponents argue that the interests of humanity outweigh the prohibition on intervention.[7]

Historically, it is perceived that non-military approaches to defusing conflicts and promoting investment have a very limited likelihood of succeeding. A reticence to look past this mindset could jeopardize the use of a potentially effective conflict-management tool.

Much has been written on the first four categories, and much will still be written. In most of these cases there will be some form of direct intervention, supported by the international community and sanctioned by an international or regional institution, like the UN or the AU. In all probability it will include the use of military force. But it is the last category which generates increasing interest. Because of resistance to direct intervention, formal embargoes or punitive sanctions, however, a more subtle approach appears to be favoured.

A Potential Alternative Approach

There are emerging signs that the 'subtle approach' is indeed having an effect. Granted the examples are apparently unrelated, but there are three that can be used to support this statement.

The first is the difficulty being experienced by Coalition forces in Iraq. The strategic premise of removing one leader by military intervention and simply installing a democracy ('regime change vs. coup d'état'), appears more problematic today than it did three years ago and has been compounded by what US Secretary of State Condoleezza Rice referred to as 'thousands of tactical errors'.

The second is the reported feelers put out to the British Government by the Mugabe regime in an effort to find the means to end the politically-manufactured economic crisis that is crippling Zimbabwe. If nothing else, this initiative illustrates the extent to which the 'smart sanctions' implemented by the European Union and the United States against Harare have hurt both the pride and the personal pockets of the ruling elite – and perhaps how much even the most vagrant and autistic regime desires to be accepted by the international community.

The third is the apparent effectiveness of the sanctions regime against the North Korean Government. It is assumed that

[4] UN, *The Charter of the United Nations*, Article 2.

[5] UN, *The Charter of the United Nations*, Article 2(4).

[6] G. Barrie, 'South Africa's forcible intervention in Lesotho', *op cit*. p 47.

[7] R. Gueli, 'Humanitarian Intervention in Africa: Towards a New Posture', *SA Journal of Military Studies* (Vol. 32, No. 1).

Washington, instead of following the path of regime change or military intervention against Pyongyang on account of its nuclear weapons programme, decided to implement a range of financial measures with the objective of closing down the conduits through which Kim Jong-Il's regime finances itself. The threat of blacklisting has influenced financial intermediaries, including a Macau-based bank, to cut off Kim's accounts and access to his network of black-market activities – including heroin trafficking, circulation of counterfeit hundred-dollar bills, sale of missile technology, manufacture of fake cigarettes and Viagra. Japan has reportedly followed this example, affecting activities estimated in excess of $500 million that have a direct result on the regime's inner circle. The effectiveness of this campaign can be determined by Pyongyang's declaration that the lifting of the measures was a precondition for the resumption of the stalled Six-Party Talks.[8]

To these can be added international agreements that seek to achieve the same ends but through formalized co-operation. The Kimberley Process Certification Scheme for Rough Diamonds is an example that binds participants to contribute to measures taken by the UN Security Council under Chapter VII of the Charter to maintain international peace and security. Having accepted that trade in rough diamonds is fuelling certain conflicts – the so-called 'conflict diamonds' – it is directed at the control of trade and processing to 'break the link between certain illicit transactions of rough diamonds and such conflicts.'[9]

The pressure exerted through the threat and application of directed measures to target specific elements, and thereby bring about change or resolve conflict, can be viewed as a Clausewitzian tool towards a wider political end, albeit a non-violent one, where the emphasis is on diplomacy and policing rather than military action. I suggest, however, that such pressure could potentially be highly influential in the resolution of conflict in Africa.

Factors Contributing to Success

Among the many arguments for the successful resolution of conflict in Africa, three can be extracted to afford a high level of confidence in making peace through negotiation:

- Firstly, recognition by the parties involved that more can be gained from finding a mutually beneficial settlement than from continuing the conflict. This normally happens when fighting has reached a stalemate and neither side is able, in the foreseeable future and without unacceptable cost, to achieve a military victory.
- Secondly, recognition of this state of affairs must be shared by the international community, resulting in no other alternative but political negotiation. This was in all probability the case in Zimbabwe circa 1980 and in South Africa a decade later. Additionally, regional states have to be prepared to take decisive action against insurgents and those who would seek to derail the peace process.
- Lastly, and perhaps crucially, it is up to leaders with strategic insight to initiate the moves, backed by competent and capable supporters who can negotiate a future that is acceptable to all the parties involved. The need for external mediation remains a distinct possibility – for example, in Burundi and the Democratic Republic of Congo – but success is premised on the presence of indigenous leadership to carry out the

[8] 'Pocketbook Policing', *Newsweek*, 10–17 April 2006, p 32–34.

[9] Kimberley Process Working Document, *Essential Elements of an International Scheme of Certification for Rough Diamonds*, July 2001

task of political salesmanship and reconciliation.

The need for such prerequisites may help to explain why the process of negotiated political settlement has been so problematic in many African countries and further afield – the Middle East, for example, where the existential questions surrounding the state of Israel remain both problematic and largely unanswered to much of the Arab populations of the region.

Conclusion

With the increasing will of African states to succeed in 'self-help peacekeeping' – i.e. major power funding with African commitment/deployment, under the auspices of the African Union – there is an opportunity to encourage and support any initiative towards good governance and stability. The major powers are prepared to make a financial commitment in order to create a financial benefit. They are generally not prepared to become physically and directly involved in the continent, which should not be seen as a drawback. This approach, combined with the African will to help itself, can contribute to African self-esteem.

A different view must be taken toward Africa. There has been a call for less aid to Africa – the principle of not giving a man food, but rather teaching him to fish – which has been met with mixed responses. At the 2006 World Economic Forum on Africa, held in Cape Town, the Nigerian Governor of the Central Bank, Charles Soludo, stated that 'Foreign aid is simply prolonging the inevitable demise of some unviable African states and the sooner they collapse the quicker the continent's leaders will get together to form sustainable political and economic partnerships.'[10] What is remarkable is that a statement of this kind was made by an African leader in the presence of heads of state and senior cabinet ministers.

The military option will remain for the foreseeable future because of the nature of the problem. However, the role of militaries in getting the conflict to the point of negotiation should not be overlooked. Do conflicts have to reach a tipping point for negotiations to be an effective or viable alternative, or are there key tools that can be employed to make success more likely? I suggest that, given the particular nature of the conflict, certain key tools can be employed to achieve success.

The problem of amnesty is likely to be raised in most negotiations. This is a subject that must be negotiated and agreed to by the parties involved. External guidance should be given with circumspection as no two conflicts are generated by the same causes.

An aspect for consideration is the response given to the African journalist Diana Games when she asked a colleague in Uganda what actions should be taken by the Ugandan Government against the Lord's Resistance Army. The Ugandan Army had been tasked to quell the bandits, giving the rebels a sense that their cause was one of national political importance, carrying some cachet. The response was that sending in the police, rather than the army, would psychologically make it clear that they were common criminals who needed to be arrested and removed from civilized society.[11]

Success is a long-term objective. It is difficult to judge in the short term, as indicators of progress are minimal; patience, understanding and appreciation of the situation are required. But the elements that can contribute to success should be put in place now and encouraged to grow.

[10] Tom Robbins, 'Aid prolongs "death of unviable states"', *Sunday Independent*, 4 June 2006.

[11] Diana Games, *Business Day*, 26 May 2006