

LECTURE
ON THE CO-EXISTENCE
OF UNEQUAL EXCHANGE AND DISPARATE EXCHANGE -
THE EXAMPLE OF COPPER-EXPORTS
BY SOUTHERN ECONOMIES

A. Introduction

In today's lecture I propose to highlight the injustices underlying the ongoing process of globalisation, by focusing on the '*co-existence*' of two types of trading mechanisms in the export of one single raw material from the South, i.e. the mineral copper. I will try to bring out the gravity of the exploitation of Southern countries which companies and financial institutions based in the North engage in, by narrating how copper-exports are a medium of exploitation both through the method of unjust pricing of this raw material on the international market, and through the parallel transfer between copper representing Southern wealth and Northern commodities representing social waste. This lecture thus has been drafted to illustrate the historical interconnection that exists between two different trading mechanisms, which in previous lectures I have already identified as the trading mechanisms of *unequal* and of *disparate exchange* (1).

The country which I have chosen to (primarily) focus on is the Democratic Republic of the Congo (D.R.C.), located in the central part of Africa. This country is known to possess a vast amount and rich variety of mineral resources. Further, for over the last couple of years, the Congo has faced a war which some analysts have not hesitated to characterise as a *world war*, - in view of the large number of foreign parties and countries that are involved on both sides of the war-divide. The Congolese war since 1998, when it was resumed, is stated to have cost close to 2 million human lives, and is also known for having led to a massive displacement of people internally, just like the major wars that have recently raged in Angola and the Sudan. Congo is one of those Least Developed Countries (LDCs) where the extent of impoverishment is severest, even as compared to other LDCs (2).

Now, although Congo does not head the list of copper-exporting countries – this position in fact is held by Congo's immediate neighbour Zambia –, the country for many decades on end has relied heavily on copper-exports as the vehicle for the promotion of domestic growth. Congo's dependence on copper exports is, for instance, reflected in the fact that both in the period preceding, and in the period subsequent to the country's formal political independence from Belgian colonial rule copper has constituted a reported 70 percent of the country's total exports. Even though Congo's soil is known to contain a large variety of other valuable resources – including gold, uranium and oil -, development efforts both by the colonial rulers and by their Congolese successors, up to the decade of the 1980s at least, were largely geared towards the extraction of copper. The incorporation of Congolese copper as a commodity in the trading mechanisms of unequal exchange thus is anchored in colonial history.

In this lecture I propose to do two things. First, I will trace some of the historical roots of the ongoing globalization, by bringing out how the basis for export-oriented industrialization in countries like Congo was laid under colonial rule and by the colonizers themselves. I will further trace the connection between Congo's post-colonial export dependence on the one hand, and the policies of world financial institutions, such as the World Bank and the International Monetary Fund (I.M.F.) on the other. Moreover, I will try to bring out how both the trading mechanism of *unequal exchange* (unjust pricing) and that of *disparate exchange* (parallel transfer of social waste) are part of a historical continuum. Only by projecting them as part of a longstanding project of imperialist dominance over Southern economies can their significance be properly assessed.

B. Belgian Colonialism and Congo's Copper Resources

Let's, to start, record how an export-oriented development strategy originally emerged in Congo's history. The copper belt is located in the country's Southeastern region, in a region which originally was known by the name of *Katanga Province*, but which some thirty years ago has been rebaptised as *Shaba*. Here small-scale extraction of copper existed in pre-colonial times, but extraction was greatly intensified after colonial dominance over Congo had been assigned to Belgium's king Leopold II, via the treaty amongst the European powers, concluded in Berlin in 1885. Exclusive rights to colonise and explore the wealth of Katanga were subsequently granted to a single company, which in turn granted concessionary rights covering fully *a third* of Katanga's territory to the *Compagnie du Katanga* (CDK). These concessionary rights by the CDK were granted for a century period, and they included, amongst others, Katanga's lucrative copper belt (3).

Whereas the *Compagnie du Katanga* was initially engulfed in a dispute over the precise limits of the conceded territory, this dispute was resolved in the first decade of the twentieth century. By this time, the CDK formed a special company entrusted with the task of exploiting Katanga's mineral wealth. This enterprise called *Union Minière du Haut Katanga* (MHK) has left a major imprint on the history of the Congo. The UMHK started copper production in Katanga in 1911. It over the years built a complete 'copper empire' in the province's territory, combining prospecting, mining and processing of copper and cobalt (a mineral around which Congo built a leading position on the world market for raw materials' exports). As recorded in a comprehensive study edited by Guy Gran, *Union Minière* in Katanga built an *enclave*, a *disarticulated* economy, since Congo's copper production singularly served the industrial needs of Belgium and other central economies, while its patrons failed to forge organic links between the copper belt and the rest of Congo's domestic economy (4).

It further needs to be noted that the structure of copper exploitation in Congo was, at least partly, left untouched after the transition towards Congo's formal independence from colonial rule had been completed. In the early 1960s, conflicts erupted once again, first over the attempted secession of Katanga, which attempt was reportedly encouraged by *Union Minière*, and then over new measures which were imposed by Mobutu's central government on the company's copper exploitation. Claims and counter-claims were only

resolved in the year 1967, when an agreement was signed between the government of Congo (renamed *Zaire*) and the marketing agent of *Union Minière*, known by the name of *Société General de Minerais* (SGM). Supervision of mineral extraction was now placed with a national company under state-ownership, but the management of the mines and metallurgical installations in Katanga continued to reside with *Union Minière*, which also continued to control the marketing of the copper (5).

Further, Congo's export-oriented strategy of economic development too was re-confirmed in the 1960s, after the country's formal decolonization. In 1968, mining accounted for as much as 46 percent of value added in the country's primary sector, and 67 percent of value added in the secondary sector. Copper at this point wholly dominated the mining and mineral processing sectors, accounting for over 80 percent of value added in the two sectors combined (6). Around this time also, the Congolese (Zairean) government depended for two-thirds of its exports earnings on copper, which raw material supplied some 7 percent of the overall copper needs of capitalist countries in the world (a significant share, but much lower than the country's share in cobalt supplies, which amounted to 60 percent) (7). Congo's/Zaire's dependence on copper exports through much of the twentieth century has been overwhelming indeed.

C. The Continuation of Export Dependence: Role of the World Bank and of the International Monetary Fund (IMF)

The role of world capitalist institutions such as the World Bank and the International Monetary Fund (IMF) in *accentuating* Zaire's/Congo's export-oriented development strategy has been recorded well by the author Ghifem Katwala. It surely is worth recalling in order to publicly expose the responsibility which these institutions hold for underdevelopment in countries of the South. Thus, in 1967 Zaire in response to IMF-proposals introduced a stabilisation program which alongside the devaluation of the Congolese *franc* also comprised a series of measures designed to raise taxation. According to Katwala, the rates of export duties on copper, cobalt and diamonds were 'raised substantially' (8). Thus, 'the new taxation system was used as an instrument for the expansion of the mining industry, especially the copper industry'. Whereas taxes on mining activities to raise income for the colonial state had existed in the past, the emphasis on the taxation of *export* income from the raw material copper was a specific IMF-WB advice.

Again, the government's investment policies too were anchored in the copper sector as the leading sector of Congo's/Zaire's economy, and here again the support and patronage of the WB/IMF for the policy direction chosen was explicit. The Congolese enterprise *Gecamines* which had emerged as the partner of *Union Minière* undertook a two-part expansion program. During the first phase of the program (1970-1975), copper production was to be increased more than *fourfold*, i.e. from 100 thousand to 460 thousand metric tons (9). With credit backing of international banking institutions including the US Export-Import Bank and the European Investment Bank, there was to be a further expansion in copper production during the second planning phase (1975-1979). Yet, as Katwala explains, this phase, during which new open pit mines were to be opened

in Kolwezi and during which work in treatment plants was to be expanded, was completely overtaken by events, meaning: adverse price changes for copper on the world market (10). In any case, it is not only with regard to the formulation of *taxation* policies around copper exports, but also with regard to copper *investment* policies, that the role of Northern-dominated financial institutions was paramount.

Unfortunately, within the scope of this lecture on copper and international trade, there is no scope to follow the full trajectory of Zairean/Congolese copper production and exports upto today. Let me state unequivocally, however, that the strategy advised by the WB/IMF in the late 1960s bitterly failed. In the decade of the 1970s, several foreign companies and joint ventures stepped in to undertake mineral extraction, alongside the *Gecamines/Union Minière* combine. Nevertheless, the production of copper was to fall very dramatically, and this inspite of the fact that Congo avails of the very largest copper *reserves* in the world. According to Pierre Baracyetse, production amounted to 500 thousand metric tons (mt) in 1978, but by 1995 had decreased to a mere 30 thousand mt (11). According to the same author, two causes were responsible for this disastrous outcome of the 'expansion' scheme, being neglect of maintenance in the principal mine under *Gecamines'* ownership (Kamoto in Kolwezi), - and the fall in copper prices on the international market. WB/IMF calculations drafted in the late 1960s/early 1970s had failed to take the last mentioned possibility into account.

D. Unequal Exchange: Copper and the Changing Terms of Trade of Non-Fuel Primary Commodities

The issue of changing *terms of trade* at the expense of Southern economies, as stated elsewhere (12), is not by any means a new issue. It has for long been a prominent topic in debates on the causes of underdevelopment in the South. Still, it does need to be posed anew within the context of contemporary debates, so as to assess the consequences of the process of globalisation for exporters of mineral primary producers situated in Subsaharan Africa which continue to experience the further impoverishment of their populations. The example of copper which for long has functioned as principal earner of export-income for both Zambia and Zaire/Congo, well illustrates that the mechanism of unequal exchange has not disappeared in the age of globalisation, and that the purchasing power of key mineral commodities at the international level has continued to deteriorate over the last quarter century. This is true for copper as much as for other mineral commodities.

Thus, according to the academic researcher Henk Kox, though copper by 1990 was still the most important single mineral non-fuel export commodity for Subsaharan Africa, its role has 'eroded both in absolute and in relative terms since the 1960s' (13). By 1984, Kox states, the price of copper had fallen to less than 40 percent its level ten years before, and this decrease contributed very considerably to changes in export earnings that occurred for Subsaharan countries: a reported 22 percent of the total decrease for 1978-1980 through 1982/1984. Copper exports were seriously affected by substitution effects in a period when the growth in copper consumption in OECD-countries came to a halt. Again, Kox specifically mentions Zambia and Zaire as examples

of countries that experienced detrimental effects from declining international prices of copper for their national income (14).

Moreover, the effects of changing terms of trade have not come to a halt in the period of the 1990s, when 'free trade' was once again elevated to the position of the hegemonic ideology in the world system by the World Trade Organisation (WTO). In fact, the negative trend for non-fuel commodity exporters located in Sub-Saharan Africa has continued up to today, and the trend has been noticeable also for copper. Thus, the UNCTAD report on poverty in Least Developed Countries published in 2002 contains an index regarding the changes in prices of 'selected primary commodities' of importance to LDCs, covering the years from 1997 to 2001. According to this index, copper alone has lost 27 percent of its value over the given four year period (15). Clearly, the trend noted for the late seventies and early eighties has not been accidental, but is part of a long-term trend hampering the rise of Congo and other copper exporters in the world system. This serves to reinforce my earlier comment on the lack of foresight of Congo's foreign advisors (WB/IMF) who championed copper production to the exclusion of other potential modernization strategies.

The country of the Congo has seen a tremendous increase in misery in consequence of the fact that it has faced war almost continuously since 1997/1998. No doubt, the war itself has contributed enormously to the fact that a high percentage of the population of the country lives below the poverty line and below the line of extreme poverty. Yet the above narrated history of Congo's dependence on copper exports also indicates that the country's underdevelopment *predates* the eruption of war, and that its problems of misery and undernourishment should be related also to the *export-oriented economic strategy*, designed in colonial times so as to serve the interests of colonial masters, and then re-inforced in the post-colonial period through the intervention of international financial institutions, in particular the intervention by the WB/IMF-combine.

E. Copper and the Trading Mechanism of Disparate Exchange: Chili's Planned Acquisition of F-16 Fighter Planes

Within the framework of this lecture it would obviously serve the coherence of my argumentation if I could illustrate the coexistence of unequal exchange with the parallel exchange of waste against wealth through an instance drawn once again from the Congo. Undoubtedly, the exchange of minerals such as coltan and gold against arms forms a central feature of the ongoing international war in the Congo (16). Also, rumours have been floated (August 2001) regarding a proposed *direct* exchange of Congolese copper against arms by a Polish company (17). Still, I have chosen to focus rather on a different Southern country to illustrate the relationship between the dependence on copper exports and disparate exchange. This is legitimate, I believe, since the given country, Chili, like Congo is a key exporter of copper, being one of the four members of IPEC (the Intergovernmental Council of Copper-Exporting Countries) along with Congo, and because the arms' deal at issue is the object of a broad controversy in Latin America today.

In the middle of last year it was announced that Chili plans to buy ten F-16 fighter planes constructed by the US's principal armaments' manufacturer, *Martin Lockheed*. These purchases amounting to \$ 600 Million, would be a part of an even larger arms' deal involving also the sale of refueling tankers and laser bomb targeting devises. The planned deal has raised a storm-like controversy in Latin America and in the United States. For a long period up to 1996, the sale of fighter planes from the US to Latin American countries was banned, and it is widely feared that the F-16 sales to Chili will fuel a new arms' race amongst Latin American countries. Some analysts have argued that the proposed acquisitions by Chili are baseless. They in any case are very costly and would constitute a drain on Chili's foreign currency reserves. Thus, whereas for *Martin Lockheed* the sales would enhance the profitability of F-16 construction at a time when orders from the Pentagon for this plane are no longer forthcoming, for Chili the question is what people's interests are really served by the deal.

Now, as a part of the debate on this deal revelations have been made showing that Chili is a country under the sway of *disparate exchange*. Thus, in an IPS-dispatch of February last year (2001) it was noted that under the constitution written by dictator Augusto Pinochet, Chili's military can use earnings from Chili's copper exports so as to buy weaponry. In yet another dispatch (March 26, 2001), it is noted that the Chilean military receives 10% of the country's copper profits for weapons' acquisitions each year (18). And since the copper profits are reaped from *exports*, and again are channeled towards *imports* of (sophisticated) armament systems, the Chilean case evidently is one of disparate exchange. Moreover, whereas the planned F-16 deal is expected to absorb 90% of Chili's acquisitions budget, this deal too almost certainly will be financed under the mechanism of disparate exchange.

The above data, then, should suffice to illustrate my argument on the *co-existence* of unequal exchange and disparate exchange. They do not suffice to prove in a watertight manner that one and the same country has suffered from the effects of these mechanisms at one and the same time, although this appears to be the case for Chili. But they do certainly prove that both the trading mechanism of unequal exchange and the trading mechanism of disparate exchange have been applied in relation to the export-commodity copper. The data also confirm that both mechanisms have served to drain Southern copper exporters of their indigenous wealth. Hence, there are abundant reasons to include these issues in the world-wide debate on globalisation, which debate so far has only meagerly taken account of the effects of globalisation for the continent of Africa and for Least Developed Countries (LDCs), most of which indeed are located on the African continent.

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 - (15) UNCTAD (2002), op.cit., p.7;
 - (16) see e.g. Jean-Philippe Remy, 'Dans l'Est du Congo, les Belligerants Organisent le Pillage et le Trafic du Coltan' (*Le Monde*, August 29, 20010);
 - (17) Marcin Rybak/Filip Mecner, 'Copper and Arms' (*Warsaw Gazeta Wyborcza*, August 2, 2001).
 - (18) Eric Floder, 'Arms' Trade Insider no.42' (March 26, 2001).
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