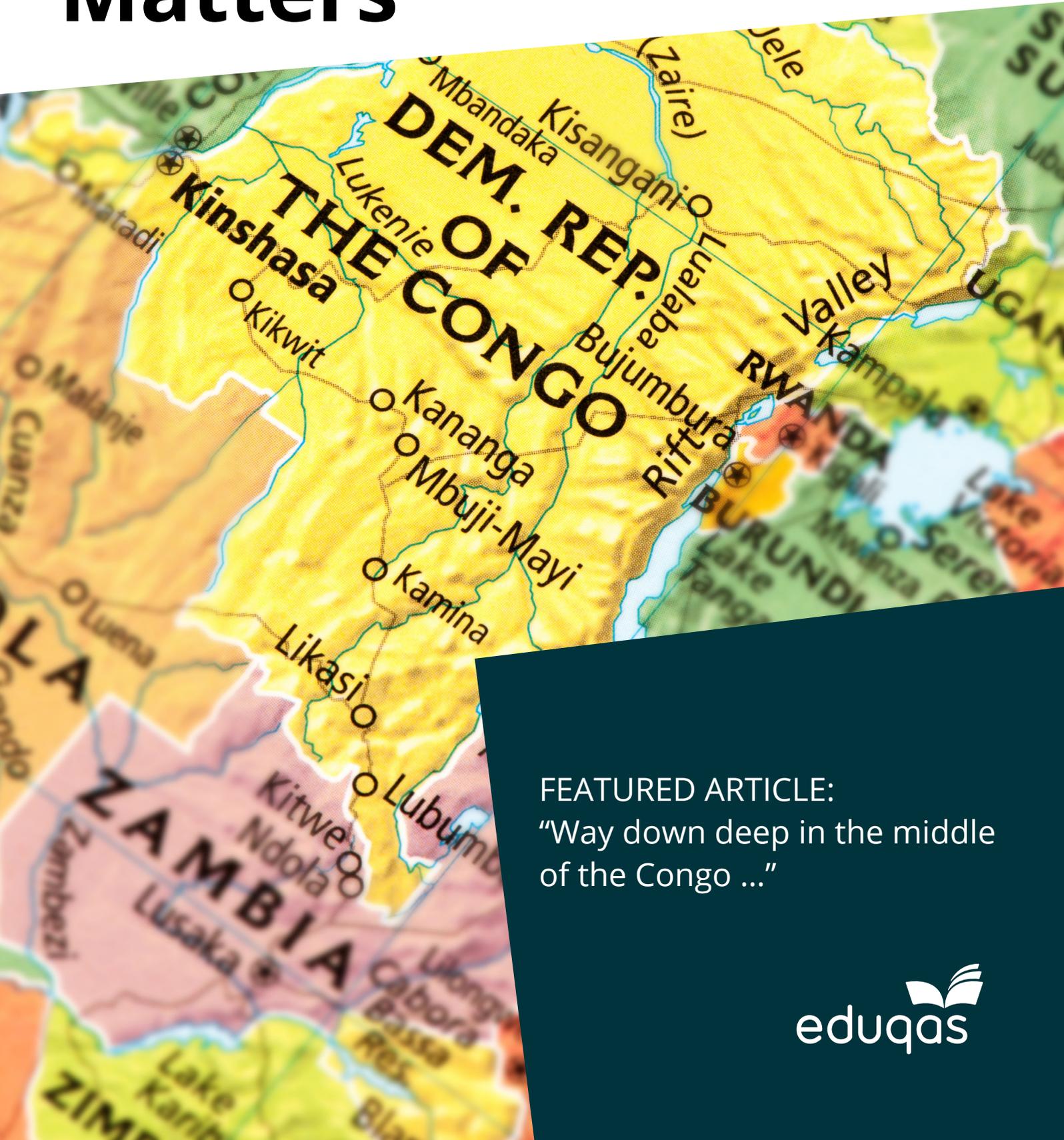


Economics Matters

ISSUE 2



FEATURED ARTICLE:
"Way down deep in the middle
of the Congo ..."

“Way down deep in the middle of the Congo ...”

by George Vlachonikolis

For anyone of a certain age, these words will quickly conjure images of a [brightly coloured animated jungle where the animals drink a fruit juice called “Um Bongo”](#). The real country of the Congo – or, rather, the Democratic Republic of Congo – is quite far removed from that vibrant, happy-go-lucky advert however. The DRC has been called [the worst place in the world to be a woman](#), it is consistently in the twenty lowest-ranked countries on the Corruption Perceptions Index and, as recently as 2011/12, [it was bottom of the UN’s HDI ranking](#) as well as having [the world’s lowest per capita income](#).

The DRC usually features in economics classrooms during the development topic. In the same way that Norway often features at the top of the pile in almost every performance metric, the DRC is often found towards the very bottom. This paper tries to identify some of main obstacles to development facing the DRC in 2016 whilst outlining one potential opportunity for its economy in the near future.

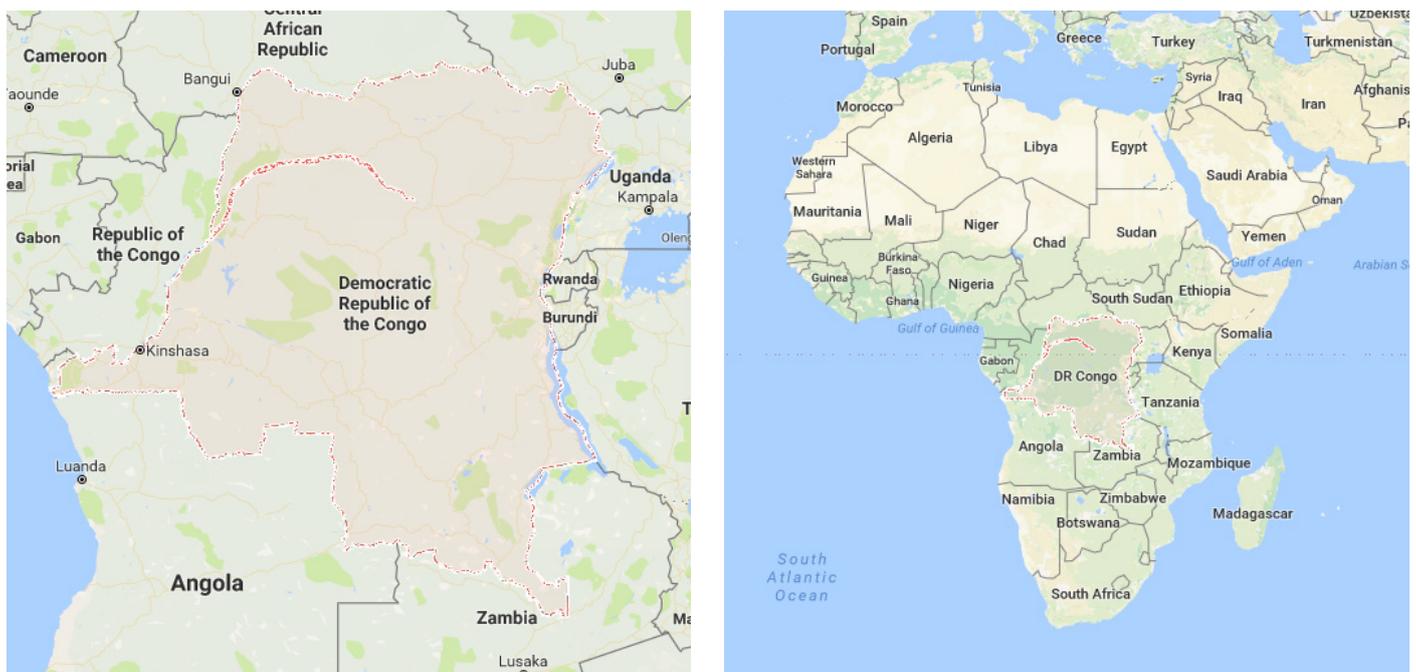


Figure 1 – Maps in general and maps in detail of the DR

Area	
• Total	2,345,409 km ² (11th) 905,355 sq mi
• Water (%)	4.3
Population	
• 2015 estimate	81,680,000 ^[2] (16th)
• Density	34.83/km ² 90.22/sq mi
GDP (PPP)	2016 estimate
• Total	\$68.691 billion ^[3]
• Per capita	\$816 ^[3]
GDP (nominal)	2016 estimate
• Total	\$42.056 billion ^[3]
• Per capita	\$499 ^[3]
Gini (2006)	44.4 ^[4] medium
HDI (2014)	▲ 0.433 ^[5] low • 176th
Currency	Congolese franc (CDF)

Figure 2 – General figures of the DRC

and pumped 25,000 barrels of oil per day. Despite such vast mineral wealth, the economy of the DRC has declined drastically since the late-1960s. Growth rates have fluctuated wildly between +10% and -10% and GDP per capita has shrunk to about 40% of its 1970 value. There are numerous causes for this economic tragedy including the collapse of resource prices in the 1980s, the gross corruption of the Mobutu Government 1971-1997 (when the country was called Zaire) and the large number of civil wars that have ravaged the country and its neighbours since 1996.

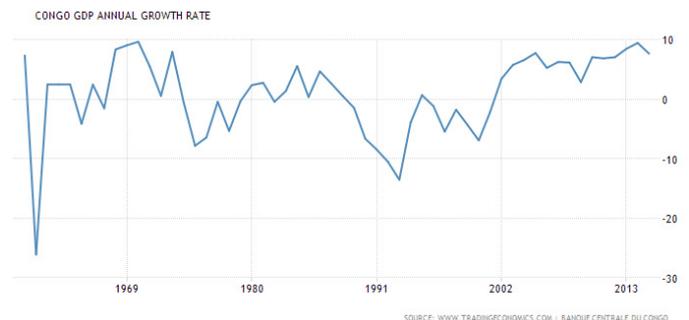


Figure 3 – DRC Annual Growth Rate

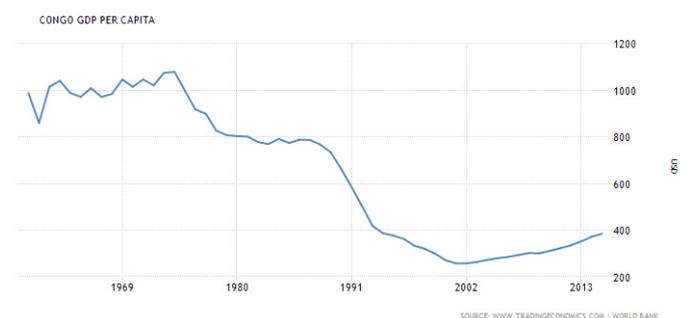


Figure 4 – DCR GDP per Capita (\$)

The DRC: A quick guide

The DRC is located in central sub-Saharan Africa and, in terms of land mass, it is 10 times the size of the UK. Despite its size, the DRC has relatively few all-weather paved highways - a total of just 2250 km - whereas the UK has 46,904km. The figure of 2250 km converts to 35 km of paved road per 1,000,000 of population. Comparative figures for Zambia and Botswana are 721 km and 3427 km respectively.

The DRC is widely considered to be one of the world's richest countries in natural resources; it is believed that the country has 70% of the world's coltan, a third of its cobalt, more than 30% of its diamond reserves, and a tenth of its copper. In 2015, it produced 995,805 tonnes of copper



The DRC: What's happening now?

During the period June – August 2016, the Congolese franc fell by 7% against the dollar and reached a record low (1001 Francs to the dollar). The Congolese franc is pegged to the dollar in order to try and improve competitiveness as well as build investor confidence. In 2016, however, the central bank has twice had to sell dollars to meet demand from the banking industry (and, as a consequence, its foreign-exchange reserves have dropped from \$1.5bn to \$1.2bn).



Figure 5 – Exchange Rate (Congolese franc per 1 US dollar)

The collapse in the price of copper – the country's biggest export – and other natural resources like cobalt and oil continue to put downwards pressure on the franc.

The Government is busy dealing with other crises too. In June 2016, [an outbreak of yellow fever hit the DRC](#). A total of 400 fatal cases were recorded by the end of July, whilst it was estimated that up to 6000 people may have been infected. At great expense, the Government vaccinated

7.7m in one month in the “high-risk” capital of Kinshasa along with a further 1.5m people in other regions. But they have been warned by the WHO that [“they are not out of the woods yet”](#) as intense population movements before the rainy season across the border to neighbouring Republic of Congo pose a risk of further spread. At the time of writing, a cholera epidemic which has already killed 517 is now sweeping the country too.

Further problems come from the East of the country where a complex assortment of illegal armed groupings operate. In Virunga National Park, these groups [are destroying forest land for valuable charcoal](#); according to one report, the country's illegal charcoal trade is worth an estimated \$35m a year. Not only is it fuelling the widespread deforestation of Africa's oldest national park but it is helping to fund an appalling insurgency. The vast majority of civilians in eastern DRC fear militias more than anything else. Militia members often forcibly take local “wives,” coerce landowners to conduct menial labour and steal harvests from local farmers.

Worse still, in South Kivu province, just below Viruna National Park, [it is gold rather than charcoal that the rebel groups are profiteering from](#). The UN estimates that 400kg of illegal gold leaves the province every month – equating to roughly \$174m in 2015. This not only deprives the state of valuable tax revenue but, again, it helps to fund the armed groups which pose a significant threat to the Government of the DRC, its neighbours and its own people.



Figure 6 – DRC GDP

The DRC: A solution?

Prime Minister Augustin Matata Ponyo was elected in 2012. In a country that has been plagued by corruption in the past, Ponyo has presided over a period of almost unprecedented economic growth (achieving 8.5% GDP growth in 2013 and 9.5% in 2014).

Ponyo's plan has been to diversify the economy away from the extractive sector by investing in energy and agro-industry in order to create sustainable development. He has also introduced widespread economic reforms such as pegging the exchange rate to the dollar, taking a leading role in the fight against crime and corruption and forcing through opportunities for foreign investors through public-

private partnerships. This has led to a significant improvement in the business climate and increased investor confidence. One such enterprise is a \$12 billion Inga III dam hydroelectric project, which has the potential to produce 4,800 MW and should go some way to satisfying the country's increasing demand for energy.

The DRC is a country that has great hydroelectric potential. The Congo River system occupies nearly the entire country and an area of nearly 1,000,000 km² (390,000 sq mi). In fact, water transport has been the dominant means of moving around in approximately two-thirds of the country. It goes without saying then that there are other numerous sites that exist throughout the country where the private sector, in partnership with the Government, can invest in the production of hydropower in a profitable manner. As a result, the Inga III project is without a doubt the most likely project to shape the DRC during the 21st century. If it is successful, it will be the key strategic pillar in the aim to help liberate the economy and consistently reduce poverty.

Sources / Acknowledgements

Cover : [omersukrugoksu/gettyimages](#)

Figure 1: [Maps of the DRC; Google maps](#)

Figure 2: [General Figures for DRC; Wikipedia Creative Commons](#)

Figure 3: [Trading Economics](#)

Figure 4: [Trading Economics](#)

Figure 5: [Exchange Rate](#)

Figure 6: [Trading Economics](#)