The difficult transition: patterns of growth and change in the Mozambican economy.

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ABSTRACT

The paper discusses persistent problems in the Mozambican economy against the background of the growth process that the country has experienced since the late Nineties. The emphasis on the 'green revolution' in government policy has not yet produced the upgrading of technology in small scale, household farming. Mozambique's agricultural exports remain concentrated in a few primary goods, and an export driven manufacturing sector has not yet emerged; the largest quota of the value of exports is provided by aluminium, electricity and natural gas. The country is developing along a pattern of specialization based on low productivity agriculture and on foreign direct investment in aluminium, electricity and mining, with low spillovers to other industries. In case of increasing rural exodus, the younger generation will fail to find stable urban employment, with risks of social polarization. On a long-term horizon, the country should cut dependency from foreign aid, freeing the State apparatus from the symbiosis between public tasks and foreign aid. Gradual emancipation from foreign aid and poverty reduction require entering the path of diversification and changing specialization in world trade. Opinions diverge on the policies to be adopted, the focus being either on the institutional framework and removing the obstacles to doing business in Mozambique, or on national strategies for developing national industries by integrating logistics, training and services[1].

1. MOZAMBIQUE: A STORY OF SUCCESS AND SHADOWS

In recent years, the evolution of Mozambique after the peace agreements in 1992 has been frequently quoted as a success story in Sub-Saharan Africa: success in

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transition from war to peace, a process often difficult or frail, as so many episodes of recurrent conflicts show; success in the transition from a centralized, almost totalitarian regime (an example of symbiosis between a single political party and the State), towards a reasonably stable democracy; success in sustained growth along more than ten years of relatively high rates of growth, after the disastrous Eighties and early Nineties when national income was collapsing (see Figures 1 and 2 in the Appendix)[2].

On a number of occasions, donors and international institutions have emphasized the Mozambican success story during and after the post-war transition, a transformation involving economic, political and institutional change. Large flows of aid funding have been injected into the country for many years, the aid flows being explained both by the poverty and sufferings of the majority of the Mozambican people, and by political and diplomatic reasons. In a region still threatened by conflict, post-war Mozambique offered the opportunity to create an island of political stability in conditions relatively favourable to democracy. The manifold interests of Western donors, Bretton Woods and other international aid institutions, and last but not least of the Mozambican ruling elites converged on the continuation of large aid inflows to the country. In 2005 the *Country Economic Memorandum* on Mozambique published by the World Bank draw a basically optimistic picture of the recent trends in the Mozambican economy and the outlook for the near future. Growth was estimated as having been 'broad based', only partially due to unique events such as post-war recovery, and largely to be continued in the coming years, effectively promoted by public intervention, notwithstanding a number of residual shortcomings in the institutional framework that the report did not fail to illustrate and underline [World Bank, 2005: 28]. In a recent book on Mozambique edited by the FMI, Clément e Peiris underline again that post-war Mozambique has been a success story, standing out in comparison to a number of persistent crises in Sub-Saharan Africa. They evaluated that today the country is in a good position to achieve the *Millennium Development Goals* and that the Mozambican successful experience of institutional and macroeconomic stabilization should be taken as a source of insights to other States in the region. «*Mozambique is a success story in sub-Saharan Africa. It has benefited from sustained large foreign aid inflows, strong and broad-based growth, and deep poverty reduction.* (...) *This remarkable growth performance was made possible by prudent macroeconomic policies, structural reform, and substantial donor assistance. On the political side, Mozambique has succeeded in bringing about*

[2] According to Francisco, ten years after independence the real GDP in dollars had fallen at one third the level reached in 1973, that was at the time the peak level achieved in the country's history; the fall estimated at purchasing power parity was to half the peak level achieved in 1973 [Da Silva Francisco, 2002: 31]. The same source estimates that in 1984 real GDP per capita had fallen at around 35% the level in 1973 and reached a minimum in 1987, to recover somewhat in the following years [Da Silva Francisco, 2002: 32-33]. See also Figure 1 in the Appendix.

reconciliation and solidifying its nascent democracy through general and presidential elections» [Clément and Peiris, 2008: 11].

Success is undeniable in a young State that only conquered independence in 1975, building its national identity and institutional framework in little more than three decades and coming out a devastating war in 1992. The country is undergoing change, after terrible years when the population's welfare had dropped to a minimum in its whole history in the twentieth century. In a long-term perspective, real GDP was falling starting in the mid Seventies until the early Nineties; a dramatic drop was undergoing also in per capita GDP [Da Silva Francisco, 2002]. According to existing evaluations, real GDP went on declining, with some ups and down, since 1974 and until 1992 or 1993 [Da Silva Francisco, 2002; Jones, 2006]. The country reached again the GDP level touched in 1973 (the historical peak in the second half of the twentieth century) only at the beginning of the new century. According to other estimates (dollars at constant prices, base year 2000), Mozambique's real GDP dropped to its minimum in 1986, and in 1992 still stayed below its 1980 level [World Bank, 2010]. For almost twenty years the economy of the country suffered a process of serious decline, from which it began to emerge after the peace agreements and the first post-war recovery, to resume growth only after political stabilization was achieved. Mozambique, however, is still a country in transition, an open, complex transition whose successful outcome is not guaranteed. Should the transition not come off, new political and social crises might arise in the country, though hopefully not of the extreme severity of those experienced along the Eighties in the last century.

Today, at some distance from the initial peace building years, the economy having already gone through the post-war recovery during the Nineties, international institutions seem to express more nuanced evaluation on the future prospects for the country. Prudent evaluation is expressed on the Mozambican economic outlook. Doubts are raised that the economy be firmly established on a path of sustainable growth. Recent data on child malnutrition caused perplexities on how far the estimated poverty reduction rates went on, and how much the poorest population's welfare did really improve [World Bank, 2008: 155-159]. A debate ensued in civil society and between donors and the government. Recent low ratings on the business climate in Doing Business raised additional perplexities and worries in the donors' community, much as in the government cabinet, because of the negative impact they potentially have on foreign investors, putting at risk the flows of foreign investment that the government might wish to capture, flows that also donors generally think to be a growth promoting engine.

These perplexities have been nurtured, in the background, by the international literature emphasizing that along the years many African economies went through ups and downs, with phases of growth followed by phases of decline, without consolidating at long term effective change in their productive structure and stable productivity and welfare gains [Arbache and Page, 2007a; 2007b; Arbache, Go and Page, 2008]. The experience is well known of countries whose post-war recovery did not turn into stable economic change and productivity gains. Economic growth may abruptly interrupt because of failed specialization or absence of new opportunities for comparative advantages. It is legitimate to ask if the growth Mozambique went through in the last fifteen years or so was due primarily to the coming out from conditions of extreme decline during the war and to the productivity gains due to the post war recovery; or if it has been promoted primarily by the large investment in reconstruction fuelled by foreign aid flows.

Jones, in attempting estimates on growth accounting for Mozambique, underlined that the growth period was not just a volatile phase of post-war recovery; but he expressed reasonable doubts about the long-term sustainability of recent productivity gains and the uncertain prospects for potential productivity gains in the near future. «*In summary, post-war growth in Mozambique has been founded on robust (unbiased) contributions from all principal growth drivers. Solid improvement in the quality of the human capital stock has accompanied significant capital deepening and residual TFP growth. Even so, the sustainability of observed productivity gains remains in doubt. Evidence suggests that during the civil war Mozambique was producing at a point well within its production-possibilities frontier. Post-war growth in residual TFP appears to have been dominated by movement toward this hypothetical frontier rather than outwards movements of the frontier itself. Although recovery of this nature is a necessary foundation for future productivity gains, maintaining growth rates at their recent high levels may become increasingly difficult as easy gains from post-war recovery diminish.*» [Jones, 2008: 102-103].

At present, the worries expressed by international donors and Bretton Woods institutions, are focusing on the consolidation of the growth outlook at medium term. Are indeed change and expansion in productive capacity going on in the country’s economy that may be a sound basis for further sustainable growth? Which entrepreneurial skills are emerging to innovate technologies also in rural areas? Is convergence in per capita income increasing among the provinces of the Mozambican State, with wider opportunities for improving productivity and employment all over the country? Are the traditional patterns of specialization of the Mozambican economy in the international division of labour changing? There is some agreement on the relevance of these crucial issues among executives in the international institutions for aid, independent economists and even stern critics of IMF and the World Bank [Castel-Branco, 2008a; Hanlon and Smart, 2008; Jones 2008].

Available economic data indicate persistent problems in the economy, against the background of the growth process that went on since the late Nineties. Hope and confidence on the future prospects for Mozambique require looking against the light at critical issues dealing with the way the three transitions have been crossed through, since institutional framework, social reality and economic policies go together and interact.

The first transition (from war to peace) has been successfully consolidated; there is today no risk of a new civil war in Mozambique. At present, no organized forces exist in the region, be they domestic or foreign political movements, able to mobilize economic resources and create military organization to revolt against the established power of the Mozambican State. No foreign State might promote or support an armed revolt in Mozambique, trying to downturn the government in power, since the international environment that fuelled civil war in the Eighties of the past century no longer exists. Within the country no political movement or military group seems capable, today, of mobilizing people towards armed rebellion. However, in the present environment of political stability, serious political crises are still possible, and local episodes of revolt and violence have indeed happened in the country on the occasion of acute social crises. Some of those episodes have taken the form not so much of political rebellion, but of mass protest or of uncontrolled social violence (such as lynching)[3]. African countries have been exposed to the spreading of extreme Islamic movements (Somalia, Kenya), but the risk does not seem acute or incumbent in Mozambique, due to the long historical tradition of peaceful interaction with Islamic communities that live in the country. More serious is the risk of international criminal organizations (mafia like) taking grasp in local business activities or managing locally networks of illegal international business (from arms or drugs to illegal export of wood and deforestation).

The second transition has not yet been fully achieved, notwithstanding the building of democratic institutions and the new climate of political liberty. As regards the third transition, economic development does not yet seem to have acquired endogenous dynamics. It is not yet clear how the position of the Mozambican economy in international trade might change, and which new profile of international trade specialization might consolidate in the medium term. It is not yet clear which are the existing opportunities for the growth of new industries, which might both spur a stable increase of GDP and guarantee advances in terms of diffuse welfare and prospects for increased employment. In the Mozambican economy innovative productive capacity has not yet been built to compete in international trade through effective and profitable value chains with comparative advantages.

Diversification and the growth of exports involve core questions for the country's future prospects. Development is a process of change in productive specialization accompanied by intertwined change in social and institutional environment, the change involving investment in both physical and human capital along a traverse, with gains in productivity and innovation in market structure and technologies in a network of industries [Ingrao, 2008]. A sustainable growth

[3] Let us remind the mass protest in Maputo after the local system of coach transport (so called *chapa cem*) increased the price of tickets. Carlos Serra [2005; 2008] called attention to episodes of violence that express social malaise.

process at medium term, including the development of a wider range of industries in the country and further productivity gains in agriculture, is necessary not for the purpose of growth per se, but to reduce poverty further and to promote the *Millennium Development Goals*.

2. THE UNACHIEVED TRANSITION

After independence, the new nation State was built adopting the institutional framework of a single party regime. The young State's structure was centralised, the government was authoritarian (almost a dictatorship in some period), and political life was dominated by the authoritarian charisma of high-level leaders with strong populist tones. The institutional transition from the single party regime to the new democratic constitution, based on the open competition in the political arena of elected representatives belonging to various political parties, has not yet been fully achieved, de facto, if not in a written constitution. Indeed, there has never been a change in power at the central State level, still dominated by FRELIMO, and no reliable political opposition emerged in the country able to defy at the general elections the ruling political elite firmly staying in power[4]. No stable political movements arose, which could mobilize a large constituency, with consensus and votes, to defy the policies pursued by the FRELIMO elite in power, to represent contrasting interests or to suggest alternatives. The problem is even more severe after the virtual collapse of the RENAMO opposition in the local elections in November 2008.

The historical, ramified roots of the State-party regime seem to be persistent; in current management, there still is a wide sphere of interference and overlapping between the FRELIMO party's activities and public affairs. Some observers suggest that the FRELIMO party's mobilization in public life expanded under President Guebusa, going back to the deeper roots of the FRELIMO's presence in public life and the State apparatus. The question is still open on how effectively democracy works in a social environment marked by illiteracy and absolute poverty, and whether and to what extent the majority of the population living in severe poverty has access to the exercise of political rights [Gentili, 2002; 2005].

Moreover, Mozambique is highly dependent on foreign aid inflows supporting the State budget. It has been estimated that the country depends on aid for up to 50% of the public budget; foreign aid inflows are up to about 20% to 25% of Mozambique's GDP (see Figure 8 and Table 2)[5]. A number of scholars signalled aid dependency as a chronic problem in Mozambique [Hodges and Tibana, 2005;

[4] For this aspect of the political evolution in Mozambique, see Carbone [2005: 58].

[5] The sources of these data are from the World Bank; the precise estimates are controversial, considering the sources of aid flows and their final destination, but no one denies that Mozambique is highly dependent on foreign aid in its public budget. For an analysis of aid procedures and the channelling of aid flows, see Fischer et al. [2008]; on the macroeconomic effects of aid flows, see Peiris [2008].

Castel-Branco, 2008a; Hanlon and de Renzio, 2007]. Prof. Castel-Branco argued that the growth process might be aid-dependent, both economically and politically [Castel-Branco, 2008a]. He conjectured that current growth might be structurally dependent on foreign aid, because the national ruling elites try to attract foreign financial flows to somewhat improve the population welfare conditions (supporting e.g. public services in health and schooling), to compensate for the failure of government policies in promoting broad-based growth in a variety of industries.

Since the reforms of the late Eighties in the last century, for more than twenty years now, the State of Mozambique has been built in its daily functioning and in its political legitimacy, based on the peculiar symbiosis of the ruling political elites with foreign donors. The provision of public services (such as health care or education, roads' building and maintenance or other public works), which are essential public tasks and warrant State's legitimacy in the eyes of the public, depends on financial flows channelled from abroad in a variety of ways, through debt or grants provided by foreign governments joined in the main group of donors, by official Aid organisations (FAO, UNDP, World Bank, World Food Program, etc.), or by international NGOs. The daily functioning of the State apparatus depends in various ways on aid flows, much as a number of activities involving the training of public servants.

The symbiosis has to do not with specific areas of intervention, but with a plurality of public functions. Aid flows that are negotiated and agreed upon through complex procedures, are channelled into the national institutions in order to contribute to paying salaries to professors and nurses, doctors and policemen. At various levels of government, public servants and executives channel foreign funds into the economy in more or less effective or transparent ways, managing distributive tasks through the quotas of aid going to local areas, regional or family groups, or even private persons. Through a variety of channels, involving local NGOs or local contracting within international aid programmes, flows of income arise from aid: sometimes small, some time relevant amounts.

Along the years, the interchange between the international donors and the national political elites has seen times of open confrontation, such as the frontal disagreement on the policies by the World Bank that called attention exclusively to primary education at the cost of investment in higher education. Disagreements emerged in discussing the liberalization of the cashew market, and are still open on the legislation on land property, as on other hot issues involving appropriate institutional change. Contrary to the widespread view lamenting an excessive control of Bretton Woods institutions over public policies in Mozambique, the political leaders of the country voiced their viewpoints and made their points. They were and they are acting in full responsibility for their choices, as their office and position in the national government require. The strategy of the first plan to fight poverty (the so called PARPA I programme) was not imposed by international institutions, but was conceived within a group of scholars and government executives, and then discussed and agreed on with international donors[6]. Along the transition to the market economy, the FRELIMO party and Mozambican government played an active role in the policy of privatization that cannot be considered a unilateral imposition by the FMI and the World Bank or by the community of international donors [Pitcher, 2002; Mosca, 2005].

The fruitful interaction with foreign donors, on which flows of funds depend, is a stable pillar of public authority in Mozambique, since it allows the effective operation of the public machinery and a number of redistributive policies. The hypothetical abrupt interruption of foreign aid flows (a risk the country is not presently facing) might end up in serious collapse for the Mozambican State.

Such relevant financial flows in relation to GDP and to public expenditure create asymmetries in the relationship between the government and international donors, on one side, and the government and its own citizens on the other side. In dealing with its own citizens, the government does not face a constituency that carries the burden of taxes necessary to finance public expenditures. On the other side, government representatives and executives, or their Mozambican consultants, play an active role in negotiating with donors, and are to be considered independent players, acting with bargaining ability and pursuing their own or their government objectives. Both they and the international donors well know the risks and costs involved in the possibility of failed negotiations, when they meet to discuss conditionality on foreign aid. On the donors' side restraints are stringent, because of constraints imposed by strategic reasons in matter of foreign policy, or because of expediency and diplomacy. High aid dependency per se is a warning to donors against the risk of a major humanitarian crisis in case funds were denied. In international aid organizations, as in other organizations, executives are judged by their success in bargaining and in facilitating partnership with other players. A break in negotiations is not easy even on the donors' side[7].

Managing the relationships with donors is time and resource consuming in the Mozambican administration, where there is a relative scarcity of well trained staff, often overburdened by the amount of meetings, procedures and reporting imposed by foreign donors. Donors are aware of these costs, but a lighter management has not yet been achieved[8]. If the administration has to meet donors' requirements in terms of calculating indexes, drawing reports, scheduling meetings, in more substantial terms the government risks losing freedom of action in pursuing the

[6] I wish to thank Dr. Pedro Couto, who called my attention to this point. Moreover, intellectual elites all over the world share sophisticated cultural background from the universities where they were trained; the younger Mozambican elites are no exception. They are no more the political leaders of the older generation trained in Frelimo's schools in Tanzania or in the Soviet-bloc countries.

[7] When a major break happens, as with countries exposed to sanctions, it bears the mark of a diplomatic and strategic rupture, with all associated costs.

[8] The new techniques of direct budget support have been introduced also to this purpose.

perceived national interest. It may be obliged to a defensive position in front of donors, when trying to affirm its strategic vision of the national interest. On the other side, the symbiosis with donors obliges the political elite to pay careful attention to the climate of opinion about the country on the international scene, for it affects both relationship with donors and with international investors. Among national executives and consultants, there is a clear perception that negative data in international indexes of good governance or facility in doing business, will dismay foreign investors considering to invest in the country in the near future. Thus, recent data in Doing Business 2008 by the World Bank were perceived as a negative signal to the international community and raised worries for foreign direct investment in Mozambique.

At present, the much lamented aid-dependency is a structural, both economic and political datum, which it is necessary to face: the country depends on donors' conditionality almost beyond the good intentions of donors, the authoritative voice of national leaders and the bargaining ability of their executives, since the Mozambican economy is not yet sustainable and stable at medium term independently of donors' support. To achieve emancipation in terms of national agency and to limit donors' patronage, it would be advisable to devise a medium term plan to gradually reduce the quota of aid both in the State budget and on national income.

On a long-term horizon, the country should cut dependency from foreign aid flows, freeing the State apparatus from the symbiosis between public tasks and foreign aid. How long such a long-term horizon should be is unclear both in the national agenda and in the donors' plans. Emancipation from aid dependency is possible only fortifying the country's economy along the classical path to the 'wealth of nations'. At medium term, in five or ten years from now, the gradual emancipation from foreign aid as much as the reduction of poverty require stable growth in national income, expanding both the export capacity and the scope of goods produced for domestic consumption or investment.

The opening to international trade was obliged in a 'small' country, as Mozambique is in terms of natural resources and population, if not in terms of geographic extension. Mozambique is technically small in macroeconomic definition, its income being irrelevant for international business cycles; moreover, the extension of its domestic markets in terms of purchasing power does not allow for gains through economies of scale in domestic industries, if not connected to foreign markets. Small countries depend on their geopolitical position; they flourish participating in integrated nets of exchanges, or because of the strategic alliances they are able to build[9]. When thinking about aid dependency and future prospects for growth, Mozambique should neither be considered as if located in a

[9] Italy, a high income country with three times the population of Mozambique, is also a 'small' country according to the macroeconomic definition much as in a geopolitical or strategic perspective.

limbo, nor as if it were a regional power or a strategic player on the international scene comparable to China, Russia and India.

3. STRUCTURAL CHANGE AND REGIONAL IMBALANCES

A number of scholars have outlined the evolution of the Mozambican economy since 1975 to the early Nineties [Da Silva Francisco, 2002; Mosca, 2005; Jones, 2006; 2008]. After independence, in 1975, the country was heavily impoverished by the massive fly abroad of trained staff (professionals, farmers, technicians, civil servants) of Indian or Portuguese origin, and even the exodus of some of the trained black work force and elite (a thin minority of the black population in the country). «*The immediate effect of independence was to plunge Mozambique into a deep recession*» [Newitt, 1995: 551].

The country's economy was heavily shocked by the political strategy adopted by FRELIMO. It was a package of legislation and government practices aimed at undermining private entrepreneurship, centralizing control over resources, nationalising firms and commercial activities, gathering rural families in collective villages (*aldeias communais*) both to extract agricultural surpluses and to politically control the rural populations, who were the vast majority of new Mozambican citizens. By 1982, the State controlled more than 80% of transport and construction, more than 60% of industrial production and an extended system of State farms and cooperatives[10]. The civil war supported along the years by Rhodesia and apartheid South Africa, devastated and paralysed the economy for around fifteen years. In large areas of the country transport was paralysed, crops were destroyed and farming lands were mined. Large numbers of people were dislocated because of the war, and scarce infrastructure, school buildings and health facilities were destroyed. Since 1987, so-called PRE (*Programa de reabilitação económica*) started the institutional transition from the substantially centralised economy towards a market economy in Mozambique. After the signature of the general peace agreements in Rome in 1992, the economy recovered thanks to political stability and the flow of foreign aid into the country.

After the peace agreements, the process of economic growth arose out of large investment in road building, ports and other infrastructure supported by foreign funding, of public works for welfare such as reconstruction and new building in health and education, and - last but not least - out of the recovery in farming production that went on in rural areas, previously disrupted by the war or abandoned by dislocated population. In later years a significant contribution to growth came from foreign direct investment and especially from the rehabilitation of the Cahora Bassa dam and the so called 'mega-projects', that is major investment projects financed by foreign capital, the first of which was the giant aluminium smelter factory located in Matola, in Maputo province. Other mega

[10] For more detailed information, see Newitt [1995]. See also Pitcher [2002: 44] and Mosca [2005: 170].

projects were negotiated to open the economy to major foreign direct investment in mineral extraction. Another relevant component of growth came from the expansion of the private financial sector, which was extremely thin in previous years and virtually not existent during the phase of the centralised economy. Construction was active both in infrastructure and in private building, mainly in the city capital, with a significant component also in the informal economy, in answer to the urgent need of the less advantaged groups to improve their precarious housing facilities. In the last ten years the offer of health care services and the rate of attendance at school greatly improved, with correspondent expansion of the service sector. It is thus appropriate to underline that in the last fifteen years growth has been broad-based, involving different industries (from energy to aluminium, to electricity, to public services, finance and construction and, last but not least, agriculture).

Let us look at the patterns of change in the Mozambican economy, looking at national accounts up to 2006 and other statistical sources[11]. National accounts data reveal a substantial change in the composition of real GDP between 1996 and 2006. The change was in favour of new industries against the reduced incidence of agriculture in the generation of income, as one should expect in a developing economy and especially in a poorly diversified economy, as the Mozambican economy had for years been. On the whole, real GDP had fairly stable growth at an average yearly rate around 8% since 2002 and up to 2006. GDP per capita at constant prices reached 330 dollars in 2006 (see Table 1 in the Appendix). It is still an extremely low value in the national average[12]. In 2006, a wide gap persisted between the maximum values of real GDP per capita in Maputo city (913.9 dollars) and in Maputo province (820.8 dollars), and the minimum values of 174.7 and 178.3 dollars in Zambezia and Cabo Delgado respectively, the poorer provinces in the country. Sofala and Inhambane follow the Maputo province in the list of the richer regions, with 392.5 and 255.9 dollars per capita respectively [Dias, Esposito, 2010]. A partial process of convergence between the richer South and the poorer Central and Northern provinces went on, since in the last six years the Northern provinces, the poorest ones in the country, were growing at rates higher than the national average. In 2006 the spreads were still very high; the GDP per capita produced in the Zambezia province was around 21% of the GDP per capita produced in the Maputo province, and around 33% the average for the whole Southern region. Similar values may be estimated for the Cabo Delgado province. In between 2001 and 2006 real GDP per capita in the North region has grown from 79.8% to 85.4% the real GDP per capita in the Centre region; yet even in 2006 the gap in real per capita income was still very high between the North (200.1 constant

[11] Dias and Esposito [2010] present a data set on structural change in the Mozambican economy based on available national accounts statistics both at the national and the provincial level.

[12] For a statistical analysis of regional convergence, see Dias and Esposito [2010].

USD) and Centre (234.2 constant USD), on one side, and the South (521.2 constant USD) on the other side. Maputo province brings up the average income in the South, and a notable gap is evident even within the Southern richest area. In 2006 the GDP per capita in the Sofala province (392.5 constant USD), the richest one in the Centre, was still 47.8% the GDP per capita produced in the Maputo province, and 75.3% the average for the Southern area. Given these trends, the distinction in three macro-areas (North, Centre, South) looses importance in favour of a finer distinction of provinces and districts in the national territory. Sofala, Tete and Inhambane (in such order) are relatively prosperous provinces. On the same statistical evidence, in 2006 Gaza, Manica and Niassa had more or less similar levels of per capita GDP, though quite lower ones than those estimated for the more prosperous provinces mentioned above. Zambezia and Cabo Delgado were still at the bottom of the list.

These estimates are somewhat controversial, because the informal economy may not be fully registered, notwithstanding the effort to include it into the picture by INE (the National Institute for Statistics). Also the illegal or criminal economy is not properly taken into account. Moreover, mega projects such as the giant Mozal aluminium smelter in the Maputo province, rise the value of the GDP registered in the area where they are localized, though they may not contribute equivalent values to the distributed income, because of profits going back abroad to foreign investors.

The indexes of persisting regional imbalances do not create worries, if the pace and stability of growth promise both increasing average income and rapid convergence towards more balanced levels of income in the different districts of the country. According to Hirschman's 'tunnel effect', when a country is on speed pace of growth in national income, even the bottom millions may hope that their turn is approaching to share into the general welfare improvement. Let us check whether, on other statistical evidence, the rural millions in Mozambique or the urban poor risk being disappointed by the future prospects of their country's economy.

The decomposition of aggregate GDP by industries show that from 1996 to 2001 the incidence on GDP of agriculture (including forestry and livestock) fell by more than 5 points, and since 2002 the share is oscillating around 23%. The contribution to real GDP of agriculture properly fell by 22.5% in 1996 to 18% in 2001, and since 2002 it is fairly stable at around 18% of GDP. However, population is still largely concentrated in rural areas and moreover it is still largely employed primarily in agriculture. According to the available data [INE, 2006; INFTRAB, 2004-2005], in 2004-2005 (the period in which the survey was conducted) in the national average around 77% of employed persons were classified as primarily employed in agriculture and fishing [INFTRAB, 2004-2005: 25]. The figure rose to 91.6% in rural areas and fell to 39.1% in urban ones. According to other data in the same survey, 78.5% of the employed persons had their primary employment in agriculture[13], fishing, breeding, hunting, or forestry. The percentage was remarkably higher in the Centre (83.5%) and in the North (86.6%) than in the South, where still more than half the employed persons worked in these sectors (58.6%) [INFTRAB, 2004-2005: 28]. Employment in manufacturing industry (*industria transformadora*) involved only 3.1% of employed persons.

On the whole, these data indicate a persistent, structural gap between the daily labour effort of the rural farmers and the value of their produce: while more than 75% of the population has the primary employment in agriculture, the contribution of agriculture to GDP is below 20%. Approximate estimates indicate that increases in agricultural productivity have been slow and that substantial, further increases are not to be hoped for in the near future, with the exclusion perhaps of some sections of the agribusiness [Jones, 2008: 101]. According to the available estimates by the World Bank, in 2003-2005 the value added per employed person in the Mozambican agricultural sector (153 constant dollar 2000) was low, as compared to Vietnam (305) or China (401) [World Bank, 2009: 356-357]. Although at short term no spectacular change is to be hoped for, it is clear that even a steady, gradual improvement of agricultural productivity would provide substantial welfare gains to that part of the population that has no easy access to other sources of income and is the most vulnerable section of the Mozambican society.

4. AGRICULTURE AND RURAL EXODUS

The first national problem the country has to address is the transformation of its agricultural sector based on rural households. The farming activities of independent rural households are widespread all over the country, and generate income that is crucial to food security in the whole country. In plots managed by independent rural households, cultivation is of low productivity, with limited access to irrigated land. It suffers from scarcity of capital and the risks associated to variable climatic conditions, cultivated soils being exposed to drought or floods. Farmers have limited or no access at all to updated technological information, agricultural machinery, and high quality seed adapted to local conditions. Although the rural families usually produce also to sell in the local markets to which they have access, in many regions of the country there is a dramatic shortage of transport and logistics to facilitate the commercialization of agricultural products, or a chronic shortage of saving and credit capital for the rural family to take advantage of the existing facilities.

The emphasis on the 'green revolution' in government policies has not yet produced the upgrading of technologies in small scale, household farming. The

[13] In rural areas families may complement their meagre or volatile income from farming with income from occasional or temporary work in town, in services or petty commerce, or with temporary income from migration.

rural families have trouble entering onto a path of productivity gains and radical change in their customary procedures. Households in rural areas have trouble in adopting more productive technologies or in innovating farming practice for lack of capital to invest, poor or none access to complementary services, and the lack of the most basic means of production necessary for improving their farming systems, such as regular water supplies, silos to stock the produce, electricity supply or refrigerated trucks. At short term some productivity gains may be achieved in this section of the economy by the extension of cultivated areas, by the consolidation of good agronomic practices, by better storage facilities, by gradual improvement in market access, electrification, easier water supplies and logistics.

This section of the Mozambican economy, which still offers the basis for generating income and for subsistence consumption in the majority of households (with the variable proportions we mentioned above), is captured in a poverty trap, more or less stringent depending on land location nearer or farther to larger consumer markets, the ability of farmer households to rise income from other sources, the network of facilities in transport and communication to which they have access. It should be underlined that in the last fifty years at least, it was never true that rural societies in Mozambique were isolated from other sectors of the economy, as if they were operating within totally independent patterns of production. Rural economies have systematically been integrated to the national economy in networks linking subsistence agriculture with incomes from migration or from commercial and service activities, with wage incomes in commercial agriculture, or wage incomes in the thin formal economy in the cities[14].

At long term, along a path of sustainable development, the economic and social role of low productivity, household agriculture should decrease in the Mozambican society, not only in favour of large scale agribusiness, but in the gradual upgrading of techniques in household farms, a substantially larger share of their production going to the market. However, change in the agricultural sector is going on at a slow pace. Official available data - from The Ministry of Agriculture National Agricultural Surveys 2002 to 2008 - are not encouraging in terms of results achieved. The percentage of rural households using chemicals fertilizers is exceedingly low, much as the percentage of households using chemical pesticides. Only a slim minority of rural households have access to extension services (less than 10% in 2008) or are using animal traction (less than 15% in 2008). Irrigation is still the privilege of a minority of farmers. The overwhelming majority of rural households are not able to irrigate their fields, with the consequence that agricultural production is heavily dependent on good or bad weather and exposed to volatility because of drought or excessive rainfalls. Moreover, there seems to be no evidence of a stable path towards the wider diffusion of improved techniques

[14] See Castel-Branco, [2008b]. For an anthropological analysis of the complex relation between urban and rural life in contemporary Africa, see among other literature the now classic book by James Ferguson on the Zambian copperbelt [Ferguson, 1999].

and best agronomic practices among small farmers. In many rural districts, the lack of storage facilities exposes crops to losses after harvest. The limited diffusion of agro-processing technologies, because of the absence or shortage of electricity supplies, is another cause of lost opportunities for conservation in times of abundance or lost opportunities for more profitable value chains, from which the rural household might extract additional income.

The pace of transformation in rural household farming being slow, substantial increase of agricultural productivity is to be expected by the extension of commercial agriculture. While a lot of discussion went on to explain the failure in the processed cashew industry, quite good results were achieved in tobacco and cotton cultivation[15]. Further results are expected on extending sugar and tea production, or on extending sales of fresh vegetables and fruit to the South African market, given the advantage of vicinity. There are opportunities for innovative agribusiness, but the experiences thus far successful are just a few, such as some successful business emerging in the production of niche fresh vegetables and fruit for European export markets. Some investment is going on to implant crops for biofuels (*jatrofa*) and to expand profitable crops on irrigated lands (mainly rice). A few, medium size firms are active in chicken farming, exposed to the international competition of poultry industries in Brazil or South Africa selling frozen chicken in Mozambique.

Notwithstanding the emphasis on the green revolution, it is not easy to decipher which are the investment priorities in government policies and by which measures they have to be supported. It is clear that agribusiness is crucial to the prospects for growth in Mozambique, but innovative change requires not only better infrastructure and energy supplies, but also the building of an advanced service network to assist farmers and stockbreeders in research on soils and seeds, assistance in technological information and repair of machinery, veterinary services and biological research, not to speak of the appropriate marketing connections with foreign markets[16]. Finance is often mentioned as another crucial issues in agriculture, since agribusiness requires specific credit contracts, adapted to the timing of cultivation and marketing of the crops.

Forestry is a major natural resource for Mozambique. The current legislation impedes or severely regulates the export of rough logs; but rough logs go away in illegal shipment from Mozambican ports. Illegal cuts damage natural forests by depletion or by cutting procedures that devastate forestry resources. Certification is

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[15] In the ongoing debate, such failure has most often been attributed to the World Bank pressing for the abrupt liberalization of the cashew market in the nineties. Today the processed cashew industry has somewhat recovered from the shock of liberalization; but it is estimated that the cashew industry is not yet in good condition because trees are old and their productivity is declining. Major investment is required to plant younger trees.

[16] Prof. Castel-Branco pointed out to me the role of logistics and advanced services for success in agribusiness.

doubtful and difficult; illegal exports often escape controls. Most of the *madereiros* who illegally cut the wood come from abroad, but they quite often work with the consensus or the connivance of Mozambican citizens, who cut out their share of profits in the illegal business. Such business may involve forms of cooperation with corrupt staff and civil servants at local district level, with the local police or in the provincial administration[17]. Often illegal cuts and the related export business of logs are operated on demand by foreign merchants, mostly to provide the Asian markets that are accustomed to work on cutting standards and regulations less stringent than the European ones.

Notwithstanding the role and extension of the rural society in Mozambique, the balance between urban and rural residents mentioned in the data above is changing[18]. In the near future, the balance is certainly pending towards a rural exodus, and the rural exodus will probably be the fly to the cities of the younger groups in the population when reaching their prime. According to the only survey available [INFTRAB, 2004-2005], only 50% of population were more than fifteen years old in the reference period (2004-2005), with a rate of activity of around 92% in the national average. The rate of activity in the population over fifteen years reached 95.8% in the rural areas, and it was higher in the North and Centre of the country, when compared to the Southern area [INFTRAB, 2004-2005: 18].

In the short term, due to the high rates of demographic increase in recent years, a new generation of young people will enter the labour market. The younger generation entering the labour market is better educated thanks to the improved supply of educational services after the end of the war and the increasing number of children enrolled at school, results that are listed among the successes in improving human development in the growth years after 1992. In rural areas the young generation, and especially so among the better educated, will look for better opportunities in employment, in the effort of escaping rural poverty and the hardship of household farming. These age groups will probably be a major component of rural exodus, trying to fly to the cities to look for employment in construction, in services, in public administration or in any opportunity for work outside agriculture. Their search for employment outside the agricultural sector might be frustrated by the lack of formal employment, forcing a large number of newly urbanized, young labour force to look for income in migration or in marginal employment in the informal economy.

It is a difficult task to evaluate how the balance will move in the slippery mix of rural and urban incomes, considering the complex interaction between rural and urban societies and the uncertain scenarios in the future evolution of the Mozambican economy. Some relevant groups of young people might get trapped in volatile work and income patterns, their life oscillating between transitory

[17] See Prof. Serra’s letter in *Noticias* on the 22nd of October 2008.

[18] The quota of urban population is increasing according to the last census data (30.4% in 2007).

migration, urban life and the periodical going back to their rural roots. Creating new opportunities for the younger labour force to be employed and rise stable wage incomes, to be trained, to enter into marriage and stable family life, is a primary need in Mozambique, both to accompany the natural process of rural exodus and to integrate the young generation in society, without killing their hopes for 'bettering' their condition.

5. THE FRAILTY OF THE MANUFACTURING SECTOR AND THE EXPORT CONCENTRATION

Another information that comes out from national accounts is the thinness of the manufacturing sector in the national economy; the frailty of the manufacturing sector is confirmed by other sources. Finer subdivisions in manufacturing industries available in national accounting are not published in the data sets accessible to the large public and were not obtained from INE on request[19]. All sources (including published data and qualified opinion from experts) confirm that the manufacturing firms did not perform well; the economy still lacks a network of manufacturing firms competing in international markets, and even a core of reasonably competitive firms in some segment of manufacturing.

Looking at national accounts, in between 1996 and 2001 the contribution of manufacturing to real GDP increased by 5.9 points from 7.8% to 13.7% in 2001; later on it increased marginally with some oscillations to reach 14.5 % in 2006. In the same years the contribution to GDP of water, electricity and gas rose substantially from 0.7 in 1996 to 5.5 in 2006. In the period 1996-2006 the recorded increase in manufacturing is to be attributed mostly to metals (including the contribution to GDP of Mozal aluminium) and to a minor extent to food, beverages and tobacco[20]. With the quoted exceptions, since 2001 the quotas on GDP of other industries in manufacturing were substantially stable or declining. When excluding Mozal that contributes to gross domestic produce more than to national income due to repatriated profits, manufacturing is thin in Mozambique; it includes a number of firms in the beverages and food industry, but textile industry is weak and

[19] National accounting is based on a classification including 151 products aggregated in 43 activities (*actividades*). The 43 finer activities are aggregated in the national accounting on the production side (PIB) in 16 larger activities (*actividades*) or sectors, according to the international standards. The published data cover only the 16 sectors; the detailed information on the 151 products and the 43 activities, though obviously available in the database, are disclosed only for specific purposes and on request, at the discretion of INE. The classification has undergone various changes in the course of time; the latest revision, with the subdivision of products and activities currently in use, was adopted in 2003. National accounting data based on the updated classification are available for the whole period 2002-2006, since revised data for year 2002 have been calculated; but they are not published, as mentioned above.

[20] The giant aluminium smelter localised in Matola promoted only a limited amount of surrounding activities to locally provide services and supplies.

declining in variety of products [De Chichava Pita and Mangate, 2007]. Mozambique has failed to take advantage of the opportunities offered by the AGOA agreements. In 2006 the textile industry contributed only a meagre 1% to GDP. Plans were announced to revive the apparel industry attracting foreign investment to be localized in the province of Maputo by offering fiscal rebates[21].

The investment should be localized in the so-called *Zonas Económicas Especiais*, among which the industrial area of Beluluane in Maputo province, Nacala in Nampula and Dondo in Sofala; it should be offered especially tailored fiscal incentives.

A very large proportion of the consumer goods sold all over the country, from shoes to clothes, from cleansers to plastic chairs, from tiles to electronics, from packed food to bikes or furniture, are imported either from South Africa or from Asian countries. The poorer groups of the population (and not only them) wear the so-called *calamidades* that is second hands clothes that arrive in large bales in the ports. Chinese low priced consumer products seem to displace from the local markets even the few hand made products offered in the informal sector (e.g. hand made leather sandals cut and sewn by street cobblers), also because local consumers are becoming more exacting in terms of quality and design.

An updated source of further data on industry is offered by the 2006 survey on the firms operating in Mozambique [INE, *Inquérito anual às empresas*, 2006] that offers the most reliable data base available at the moment on the private sector in Mozambique, outside agriculture and fishing, and especially on the industrial sector in the country[22]. The data show that the vast majority of firms worked in Commerce or Repair activities (63.2%); the second largest quota of firms (22.4%) supplied Hotel and Restaurant services. All other firms, including all those in the manufacturing sector properly (6.6), counted for just 14.4% of the total number of firms.

In 2006, in terms of their legal status, almost 90% of the firms (88.5%) were unincorporated, individual firms. The joint-stock companies and stock companies were just 11.2%; the residual, very low quota included cooperatives, and State companies. While individual firms only provided 31,7% of total employment and 40% of sales, the joint stock and stock companies covered 62,4% of employment and 57,4% of sales. The universe of firms is thus highly polarized into a large population of individual firms, with low numbers of workers and low sales per worker, as against a small group of companies offering the bulk of employment

[21] In October 2008 the government announced the proposal to launch a strategy of free zones for the localization of textile and apparel factories [Noticias, 15 October 2008].

[22] The survey does not include firms in agriculture and fishing. It covers extensively all firms with 30 employees or over and by sample firms under 30 employees, for an estimated population of more than 24.300 firms. The survey 2006 includes data up to 2 digits Nace. A similar survey was conducted in 2004; but there are problems in comparing the two surveys, due to some change of samples and methodology.

and producing more than half the total value. A large differential is recorded in the wage levels paid in these two groups (INE, 2009: 9). A more detailed analysis shows that more than 82% of the firms had less that 5 workers, but this group offered only around 20% of the employment and produced little more than 36% of the value sold. At the opposite extreme, the firms with more than 100 employees were a meagre 1%, but they supplied almost half the employment (47.4) and a quarter of the value sold (25.5). Even more interesting is to observe how thin was the group of firms with 30 to 99 employees: no more than 2.2% of the population in the survey.

The population of firms outside the agricultural sector is largely fragmented into small units, with few workers and low value added per worker, mostly active in commerce and repair or hotel services. Micro-firms with less than 5 workers contribute 32.3% of gross VA and 36.2 of sales, while small firms with 5 to 29 workers contribute 20.3% of gross VA and 14.1 of sales. Only 9.1% of gross VA was generated in firms with 30 to 99 employees, while gross VA is to be attributed for 38,3% to firms with more than 100 employees [INE, 2009: 11]. The intermediate group of medium size firms (30 to 99 employees) does indeed exist, but it is thin both in terms of employment (13.3%) and sales (11.3%). The population of firms is thus polarized into an overwhelming majority (96.7%) of micro and small firms (under 30 workers) that generate more than 63% of sales, and an absolute minority (1.1%) of relatively large firms (more than 100 workers) that produce another, substantial 25.5% of sales [INE, 2009: 7]. In terms of composition, the data show that gross VA produced in manufacturing is produced mainly in food and beverages (23.2%) and in metals[23] (62.5%), but in terms of number the bulk of firms active in manufacturing are in beverage and foods (63.7%). Textiles represent no more than 1% of total gross VA and similar quotas concern chemical products (1%), wood industries (1.2%) or furniture (1.4%). Clothing firms are very few (0.2% of VA, 0.4% of firms). Firms producing rubber and plastic products play a more relevant role (4.9% gross VA).

In summary, the path of change along which the economy developed in now almost two decades of growth did not include the spreading of medium size manufacturing firms creating income and employment along a curve of learning by doing, while expanding their export markets (as suggested by the so called Kaldor-Verdoorn law). An export driven, manufacturing sector has not yet emerged in the national economy; considering the existing population of firms, it does not seem to be emerging at short term.

Both the thinness of high productivity agribusiness and the absence of an export oriented manufacturing sector are visible in the composition of exports. In international trade, Mozambique's exports are highly concentrated in a few primary products in agriculture and fishing; but by far the largest quota of the value of exports is provided by aluminium, electricity and natural gas, that were around

[23] We aggregate here metallurgical industry and metal products.

70% of total exports in 2006 [Clemént and Peiris, 2008: 21]. Mozal's aluminium provides more than 50% the value of exports and the export performance of the traditional products has not been brisk[24]. The recovery in the traditional exports of primary products has been limited, contributing, according to some estimates, less than 1% on average to real growth in the period after 1999 [Saxegaard, 2008: 361]. In the ten years from 1995 to 2005, the percentage on GDP of the exports not due to the mega projects financed by foreign capital has been flat or even decreasing; the quota in world trade of the traditional Mozambican exports of primary products, such as crustaceans, cotton, fruit and sugar, remained fairly stable with a modest increase in tobacco [Saxegaard, 2008: 361-363]. The detailed study of foreign trade in Mozambique from which we quote these evaluations and data, underlines that the few primary products in which the value of exports is concentrated (excluding aluminium, energy and other invoices due to the mega projects) do not sell on dynamic segments of world markets and are exposed to the vagaries of foreign demand that is highly price and income elastic [Saxegaard, 2008: 369-370].

Looking at these data in a long term, development perspective, what preoccupies the most is not the volatility of foreign demand for the products of the traditional specialization (such as cashew nuts or shrimps), but the almost complete absence of new export capacity beyond aluminium and hydroelectric energy. Neither manufactured goods nor innovative agribusiness exports are supplied by domestic firms exporting in new niches of the world market. It does not seem, however, that Mozambique went back, as some scholars suggested, to the specialization model of the later colonial times, based on the supply of port services and the export of migrant labour to South Africa, combined with a few, highly concentrated, agricultural exports going to the world markets. At present, migrant labour to South Africa has to face the difficulties of South African labour markets. In South African townships, violent riots exploded against immigrant labour from near countries that is supposed to spoil the market for the national work force. Migrant workers and their families have been exposed to bloody attacks. Moreover, the harbour traffic in Mozambican ports has to face the competition from South African ports, and the modernization of the main harbours (especially Beira) has not yet been completed, while the bureaucracy of customs' formalities remains heavy and exposed to corruption.

As regards tourism, it is developing at a rather good pace with new investment all over the country and new entrepreneurs entering the local market. The supply is still mainly concentrated on services to the higher segment of the market. The country lacks a widespread network of tourist facilities (hotels, bed and breakfast, restaurants, etc.) such as that available e.g. in South Africa. Moreover, it has not yet developed its capacity to supply packages to be sold on international markets,

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[24] Saxegaard [2008: 360] analysed the 'comparatively lacklustre performance of Mozambique traditional export sector'.

due to a number of difficulties, such as the distance from final consumers joined to the high costs of transport, the poor conditions of roads, the health risks from tropical diseases, or the weak marketing connections to international partners that may market the packages abroad. Thus, the wonderful natural environment - a most precious asset for the country - has not yet been transformed into economic resources at the quick pace that might open better opportunities of employment and income for the population. There is the risk that meanwhile the environmental resources for tourism might be spoiled by large investment in mining and oil extraction, with conflicts of difficult solution[25].

In manufacturing Mozambique, as other low-income African economies, has to face the competition of Asian economies, which are covering the market niches in which the country might reasonably find some comparative advantage. The Asian competition (and primarily the Chinese one) is already damaging the potential growth of African textile and apparel exports to the world markets, and especially to the United States' large market; Asian competition is damaging also national manufacturing firms in their local, African markets, since their selling prices are undercut by the lower prices of Chinese consumer products [Kaplinsky and Morris, 2007]. However, some scholars suggest that well designed trade preferences might encourage the localization in low income African countries of some manufacturing segments in textile and apparel, if the institutional and political conditions are sufficiently favourable to attract foreign direct investment and the local government is ready to provide the appropriate incentives [Collier and Venables, 2007].

A large literature has debated the overall advantages and costs arising by China expanding both business and aid investment in Africa [Fiamingo, 2008]. As for other African countries, evaluating the impact of China's active presence in Mozambique is difficult. It requires to balance the positive impact on the economy from direct Chinese investment or Chinese aid in exchange for primary products' supplies, with the probably negative impact deriving from the direct competition of Chinese products in local markets, the lower requirements of transparency in governance, the rough exploitation of natural resources, or the opportunities lost in improving manufacturing exports to world markets. Exchanges with developing economies in Latin America may offer opportunities for improvement, as president Lula underlined in his visit to Mozambique in 2008, emphasising in his public speech the need to strengthen the connections linking African countries to Brazil. In Mozambique foreign investment or aid and cooperation from Brazil are already playing a significant role. Moreover, in the relationship with Brazilian partners resentment or diffidence do not arise that might easily arise in the relationships

[25] The risks have been signalled as regards off shore oil prospecting in the sea not far from the archipelago of Quirimbas (Cabo Delgado), a zone that is protected as a national park. The same geographical area is especially rich in fishing that is also at risk.

with South African or Western partners, or even with Chinese ones[26]. Sharing the language and common African roots might favour an easier connection to Brazilian partners.

6. THE MINING OPTION: A NEW PATTERN OF SPECIALIZATION?

At present, the path of specialization towards which the economy seems to be moving according to the declared intentions of the government and the ongoing foreign investment that has already been approved by the central administration is mineral extraction and energy, especially gas and oil production[27]. As regards gas, beyond the production of natural gas at Pande (Vilanculos, Inhambane), new production of natural gas is planned at Temane (Inhassoro, Inhambane). As regards oil production, oil prospecting is planned in the basin of the Rovuma river (Cabo Delgado) and off shore in the sea area in front of the coast near Pemba and the archipelago of the Quirimbas (Cabo Delgado). Contracts have been signed for oil prospecting in Zambezia and at the border between Sofala and Manica. A new dam for hydroelectric generation is planned in the province of Tete. In the same province, a large investment for the mining of coal is in the construction phase at Moatize. A large investment for the extraction of titan from mineral sands has been planned at Moma (Nampula); an investment for the exploitation of mineral sands is planned at Chibuto (Gaza). In two areas of the country prospecting in search for uranium fields have already begun.

The strategic option to which the FRELIMO government gave priority seems, thus, to be the promotion of foreign direct investment in mining, offering rights of prospecting and exploitation to large foreign firms, having in view the expansion of capacity in mining, oil or energy resources at large. Initially, the so called mega projects (the first one was the Mozal aluminium smelter at Matola) aimed also at reinforcing the image of the country in the eyes of foreign investors, an image that the long war in the Eighties and early Nineties had much deteriorated. It was necessary to show that Mozambique was a reliable country, where foreign investors could safely invest their funds. At present, the main purpose in attracting large foreign investment seems to be that of rising long-term rents from mining and energy resources, in the hope of major further discovery of mineral or oil fields.

Along the transition path to higher income levels, Mozambique should become a producer of coal, chromium, titanium, hydro-electric energy, natural gas, oil, answering to the increasing demand for minerals and oil in world markets, or for energy in the surrounding region. Before the financial crisis curbed down the price of oil and the world growth rate, the rising prices of oil, the favourable position of the country facing the Indian Ocean, stable relationships with South Africa (the strongest economy in the Southern area and indeed all over Africa), diplomatic

[26] On popular resentment towards Chinese business in Namibia, see Dobler [2008].

[27] Notice that not all planned foreign investment projects have already been completed or started.

relationships and prospects for cooperation with Brazil and with China, the hope for partnership with other emerging Asian countries or Japan, were all elements justifying the clear preference expressed for this option. For a low income country, as still Mozambique is, it was both a reasonable choice and possibly an unavoidable one, an option that bears, however, a number of serious risks.

All sources underline that there is a considerable gap between the estimated contribution of the mega projects to GDP and their effective contribution to GNI, because of the too generous tax exemptions or tax rebates offered to foreign investors. The question of reaching a more favourable solution in future contracts on mineral or oil exploitation or rights for prospecting is on the table. In future contracts or in future revisions of the signed contracts, a better balancing should be devised between the fiscal incentives to attract foreign investment and the return in terms of fiscal revenue from the mega projects and thus their contribution to national income. The issue is well known both at FMI and at the World Bank, and it has been explicitly mentioned in the documents produced by these institutions, perhaps having in view the risk that the only national return to large investment exploiting Mozambique's natural resources, be the rents paid to the minority participation of Mozambican private capitals in the joint ventures with foreign investors.

The participation of Mozambican capitals in the mining or oil business should be a subject for further study. In public opinion it is a common perception that insiders in the government apparatus or in powerful family networks monopolize the right of entry into the joint ventures with foreign investors. The sources converge in indicating that the mega projects have generated little increase of employment, and are expected to have limited multiplier or diffusion effects extending to upstream or downstream industries[28]. This type of investment is highly capital intensive, with limited spillovers to local suppliers, or just transitory employment spillovers in the construction phase.

The literature has signalled the risk that in the African economies foreign direct investment in mineral resources, managed by foreign staff and localized in secluded enclaves protected by special police forces, have low or none spillovers to the local economy [Ferguson, 2006]. The mineral or oil enclaves may create social tensions in the region where they are localized, because the local population perceives that the natural resources from their land have been expropriated by the central government or by foreigners, with no returns in terms of welfare.

In Mozambique, the strategic option of investing in mineral resources that seems prevailing in the outlook for future growth, does not offer any additional opportunities to that 50% or 60% of the population, which is still living in rural

[28] «*Megaproject spillovers to the rest of the economy remain subdued because of their capital-intensive nature, profit-repatriation patterns, limited vertical integration and horizontal linkages to the economy, and reduced fiscal contribution*.» [Clemens and Peiris, 2008: 21].

areas on low productivity agriculture. The mega projects per se, if not localized in a economic environment where other industries develop, offer no opportunities to diversify rural incomes, increase urban employment at large, or expand stable employment in the formal sector substantially. It is a path to development that offer no additional employment, vocational training and learning by doing to the younger generation entering the labour market. It does not favour the growth of national firms and new entrepreneurs, if not for the limited number of local managers and investors who acquire experience in the mega projects or in their financing. It is thus to be expected that it may be associated to persistent dualism in the economy, cutting out the growth process the low income, rural areas. Along this path there is a relevant risk that young people escaping from rural poverty and looking for employment in towns will be deceived in their hopes for social advancement and better lives. The emphasis on the 'green revolution' revived in government declarations and official documents testifies that there is a perception of these risks among politicians and government staff, and some preoccupation for the social cohesion and the political stability of the country.

There is residual uncertainty about the realization of some planned investment and the success of oil prospecting. The lack of regular energy supplies, still a chronic problem in the economy, is blocking some further investment. The enlargement of the Mozal's plant has been stopped because of the impossibility to guarantee a regular, non-stop flow of electric energy in a productive process that does not admit of stoppages due to blackouts. According to press news, the investment for exploiting heavy sands (titanium and chromium) in Chibuto has been temporarily stopped for lack of energy supplies, since it requires high temperature blast furnaces; the timing of its realization is uncertain. The planned port in Macine and the railway to connect the mining area have not yet been built; meanwhile, news is spreading of illegal export of some quantities of the rough sands, and the inhabitants of the area have been denied access to the land reserved for the mining project. Around 900 hundred families, not yet displaced to new residence, have been prohibited to build and invest on that land.

The risk is that the country will stay trapped into a pattern of specialization combining mega projects with modest (if none) spillovers to the rest of the economy and moderate growth in agriculture with modest productivity gains. In this perspective, the coastal position of the country as an easy access point to Asian penetration in Africa might play a non-favourable role. Through its ports, Mozambique is exposed to commercial penetration by Asian low costs imports and to illegal trafficking, illegal business being the source of income and employment that cannot be found in the legal economy. The country would be at risk of persistent divergence in social welfare between the urban strata who are bettering their condition, because they are earning income in advanced services, in public administration with privileged position, or in connection to flows of foreign aid, and the majority of people continuing to earn their lives in low productivity agriculture, in the informal economy or in marginal employment, with highly unstable incomes and probably modest gains in productivity and welfare through their economic activities. This future scenario should be carefully considered, since it could create social polarization or horizontal inequalities changing also the political outlook.

Many scholars have underlined political or institutional degeneration in countries, where oil or mineral resources' rents are appropriated by the ruling elite, who does not allow the emergence of competitive entrepreneurs and independent middle classes, who could voice protest or political opposition. In Mozambique, it is difficult to evaluate the money flows that at medium term might be gained or managed by the political elite thanks to investment in mining and oil, since the rents officially allocated to the government through rights or taxes depend on the contracts to be signed and the materialization of the investment is still uncertain in its amount. The international crisis adds further uncertainty, because the shortage of liquidity, the fall in international prices for energy products, or gloomy prospects on world markets might scale down foreign direct investment.

7. THE DIAGNOSES ON DIFFICULTIES IN DOING BUSINESS IN MOZAMBIQUE

In all future scenarios, a crucial question is how and when a stronger club of national entrepreneurs, having the capability to innovate and to manage viable business, especially in agribusiness, in manufacturing and tourism, will enter the scene. It is quite paradoxical that there have been so many complaints about unregulated capitalism in Mozambique, a complaint so often voiced having regard to privatization policies in the early Nineties [Mosca, 2005: 416], while the country is indeed facing a shortage of entrepreneurs and investment capital, and is in urgent need to favour the growth of medium size, competitive firms in the national market. Contrary to the widely held opinion, in the economy there is comparatively little private entrepreneurship and a still heavy influence of politics on business[29].

Looking at the *Doing Business* indexes by the World Bank, Mozambique is at the eighteenth place among African States, below the index by Kenya, Ghana, Zambia, Tanzania or Malawi. Among low-income countries, Mozambique occupies the 22nd place, below Vietnam, Bangladesh, Nepal, Cambodia, among others. Corruption at all levels is still a primary problem in the country, as it is signalled by the international transparency index[30]. In the 2008 Report by *Transparency International*, Mozambique was at place 126 among the 180 States

[29] On the genesis of a group of national entrepreneurs and on the role of the national political elite versus the international donors in the privatization process, see Pitcher [2002] and Mosca [2005] both quoting ample references.

[30] The perception of high levels of corruption in public administration is widespread in Mozambique; corruption is frequently mentioned in conversation with Mozambican citizens in the most diverse professional positions.

for which the index of perceived corruption is estimated, having scored an index of 2,6 signalling a high level of corruption, according to the methodology adopted[31].

Some of the difficulties faced by private entrepreneurs in Mozambique are the same ones that are extensively studied for low-income countries in regions where the density of economic activity is low [World Bank, 2009]. Low-income countries lack the advantages offered by the concentration of extended networks of specialized firms localized in the same area, with the positive externalities that the density of economic activity offers[32]. The developing African country that is entering into the growth process at a low-income level lacks a dense network of firms supplying complementary goods and services much as it lacks basic infrastructure. These are the shared difficulties that make so hard for low-income, African economies to win a competitive position in world markets [World Bank, 2009].

After the peace agreements, in Mozambique public policies were oriented to investment in infrastructure, education and health on the idea that to reach threshold levels in infrastructure, education and health was the national priority both for growth and poverty reduction. Investment in health and education has been estimated to offer welfare gains to the poor avoiding the impossible task to discriminate among poor families by distributing subsidies in a country where more than half the population lived below the poverty line. The choice was clearly formulated in the first plan for the reduction of poverty (PARPA I), within a reasonable framework for going back to macroeconomic equilibrium and financial stability. In the Nineties, the reconstruction of destroyed infrastructure in transport, communication and energy has been financed by large aid flows, but the lack of infrastructure is still negatively affecting the possibility of the Mozambican economy to compete successfully with Asian countries [Lledó, 2008: 351]. Beyond the energy shortage and the frailty of infrastructure, the recent debate has called attention to the institutional framework that may block or discourage the rise of national entrepreneurs .

A major national issue is the slippery boundary between the sphere under the control of the public hand and the sphere under the legitimate play of private interests, when comparing what is stated in law versus what is widespread practice, or the formally legal procedures with the de facto procedures in daily business. In

[31] «*The Transparency International CPI measures the perceived levels of public-sector corruption in a given country and is a composite index, drawing on different expert and business surveys. The 2008 CPI scores 180 countries (the same number as the 2007 CPI) on a scale from zero (highly corrupt) to ten (highly clean*)». See the document available at: http://www.transparency.org/news_room/latest_news/press_releases/2008/2008_09_23_cpi_2008_en].

[32] In contemporary jargon, the reference is to agglomeration theory as developed by Krugman or to geography and growth. The issue has indeed a long history, dating back to Adam Smith's reference to division of labour and the extension of the market or later to Marshall's analysis of industrial districts.

doing business, in acquiring land rights, in building private houses, in selling on informal markets, in a large number of dealings, there is a kind of schizophrenia between what is formally stated in law and the procedures adopted in real life that people perceive as customary, shared practices in transactions. The issue impinges on the distribution of incomes and the private accumulation of wealth. In Mozambique, the public opinion has repeatedly voiced a malaise or protest on the power public charges confer over economic resources and the accumulation of wealth, not only because of the private, illegal appropriation of public goods or incomes (as a number of recent scandals brought to court have shown), but because of the easier entry into profitable business that politicians are assumed to have. Politicians or executives in the public administration are perceived as powerful insiders; they have the power of bargaining and of credible threat that give them priority access to opportunities to accumulate private wealth. The opinion is widespread that private capitals have been mainly accumulated thanks to political control and political networks, when they were not the gains obtained by corruption or by theft of public funds [Mosca, 2005: 385-386]. New financial holdings are managed, directly or indirectly, by family networks, backed by outstanding politicians.

Having access to the land is crucial to independent entrepreneurship, but lack of transparency in the distribution of land rights of use has been signalled in historical studies [Mosca, 2005: 319]. Informal markets for agricultural land exist and have been mentioned in various studies. In the irrigated area of Chokwè, Mosca [2005] observed both the practice of rent contracts for the use of arable land, and informal transactions, where people exchange the rights of use to arable land against preparatory cultivation labour, or other forms of participation to cultivation.

Since private property of the land is forbidden by legislation, the selling of a piece of land between two private persons is not formally possible. However, people do informally sell the land on which they have legitimate right of use in private transactions against the payment of money. These transactions are formalized with the authorities in charge, as if they dealt with the selling of some property on the land, or as voluntary concessions. In these informal passages of hand, the local authorities or other intermediaries may gain some fees, again not a legal practice, but a common one. Similarly, it seems to be common practice to pay some covered fee (or other forms of remuneration) to the public servants in charge, to speed up the procedures to get the right of use for some piece of land. Public servants, at the provincial levels, may have some influence on the distribution of land rights thanks to their role in intermediation with higher levels of the administration. Moreover, it is a widely held opinion that acquiring the rights of use for good land or for large portions of land depends on bargaining abilities, connections, or political influence. According to the law in force, land concessions may be obtained rather quickly; in practice, the procedure pass through the filter of the public servants in charge, and it is widely held that good land has to be paid in money or good offices to at least some of them. Another hot issue are the land concessions that have been allocated, but the soils have not been put to productive use, arising the suspicion that the rights were acquired having in view future speculation by privately reselling the rights.

In urban peripheries, the local public authority (*chefe do quarteirão*) may de facto function as a real estate agent and informal, real estates agents favour the encounter of supply and demand in the informal market for housing and estate. These real estate agents gain fees for their intermediation, and the buyer and seller may pay the *chefe do quarteirão* to have their informal transaction registered as contract according to the law, although the money changing hands may have no correspondence with what has been regularly registered. Land is sold under the excuse of selling the trees or the barrack that occupy the soil. It is not unusual that the same portion of land be sold to different buyers with long controversies; conflicts arise on land rights of use also for the lack of reliable estates registers. Controversies on property have arisen in housing either in connection with the complex selling of previous public property or in the absence of updated, cadastral register. Some knowledge on the informal markets for land and housing, notwithstanding the law prohibiting the private property of land, is part of the common experience of most urban dwellers in Mozambique[33].

Many economists and executives agree that the credit market lacks depth and presents a number of malfunctioning. The access to finance by households was estimated as lower than 20% just a few years ago [Honohan and Beck, 2007: 60]. It is quickly improving, but rural households have as yet little or none facilities for banking services, also because the basic conditions to open counters are lacking in those rural locations, where there is no regular coverage by electric energy or communication networks. Notwithstanding liberalization, in the credit market access to credit is difficult and conditioned to a number of restrictive requirements; credit is rationed both for private people and for companies. It is a widespread complaint that the procedures to ask for financing are heavy and the required collateral is high, even when the debt is of relatively modest import. The concession is discretionary and may easily be denied. The cost of credit is usually perceived as high. According to a sound suggestion, the absence of a well functioning credit market shortens the investment horizon of national entrepreneurs and encourages investment at short term having in view quick returns on capital. Lack of credit is a major obstacle to investment with delayed returns, such as investment in manufacturing plants that have longer times of design and construction, or investment in markets that require longer effort to conquer a market niche. From the perspective of banking firms, credit is severely conditioned

[33] A very low-income lady told me, almost weeping, that in her *bairro* she could never get a piece of land to build a house (a barrack, indeed) because all available portions of estate were reserved for women active in the OMM, the political organization of women connected to FRELIMO. I do not know, in truth, the soundness of her complaint.

and discretionary, since it is believed that debtors are often not reliable payers. Moreover, bankers do not thrust Law Courts in case of failure to repay. The judiciary procedures in controversies over non-repayment are estimated by banking firms as being cumbersome, costly and slow, with uncertain result. It is difficult to recover the value of credit, since it is difficult to recover the assets used as collateral, because of the slow procedures to sell them in public auctions, or for the risk of pressure or corruption that delay the sale. Banks follow credit policies inspired by prudence after the frauds and subsequent collapse in primary banking institutions around the turn of the century. As a consequence, the choice to offer credit facilities to a firm asking for credit is attentively evaluated in term of risks and rewards, and the number of medium size firms finally having access to financing is correspondingly reduced, considering also the collateral or other guarantees that banks require to their clients to have access to financing.

Sources converge in pointing out to the oligopolistic structure of the credit market; it is suggested that the prices of financial services are high also because of collusive behaviour practiced by the limited number of large banking firms, whose main offices are located in Maputo, where their managers are easily in contact with each other. There is the conjecture that major banks are indeed functioning as a cartel, despite competing in capturing new clients or offering diversified services. There is reasonable evidence that their high managers meet periodically to check their respective policies on some crucial issues and decide jointly on the appropriate reactions to deliberate. In the banking sector profits are reported as especially high, and the high level of profits is also considered a signal of collusion in the banking oligopoly.

The rapid expansion of financial services in the country's economy has accompanied the rebound of growth, considering that until 1992 and still soon after the end of the war the financial sector was exceedingly thin in the Mozambican economy and highly concentrated in the city capital Maputo. At present, there are still in the country severe difficulties in the access to financial services, especially severe for the rural population. In many rural areas, no counters of banks or saving institutions are available to assist the local population and supply credit. The only financial facilities are offered by development projects managed by NGOs, by local government financing in specific political campaigns launched and financed by the central government, or by institutions such as GAPI. A hot national debate has involved credit to agriculture whose expansion is crucial to modernization in agriculture, access to world markets, successful investment in agri-business, or - last but not least - the gradual transformation of household farms into market oriented micro-enterprises selling on the market with substantial productivity gains. The evaluations differ in weighting how much new firms in innovative agri-business, or small and medium size manufacturing firms are negatively affected or blocked by credit rationing, as compared with the negative constraints arising because of failures in transport and logistics, energy scarcity, or the biases in institutional regulations and access to land's rights that do not facilitate private business. Credit rationing is not affecting big business and the so called mega-projects, since multinational firms get their financing from internal sources or in international markets, or major investment is financed through specific financial agreements dealt with in bargaining involving government and international institutions.

A legitimate doubt may arise on whether the rapid expansion of the financial sector registered in national accounts captures also the laundering of money in illegal or criminal business. The conjecture has been advanced in the press and is debated by informed public opinion that a parallel, 'black' economy might exists in the country, generating substantial flows of income from capital accumulation in illegal or criminal economic activity, including unregulated exploitation of natural resources (especially wood and semi-precious stones), the drug business, criminal dealings in arms and the like. The evidence has been reinforced by the periodical spreading of news on criminal cases reported in the media with ample resonance in the country, or by the difficulty to detect how the accumulation and concentration of wealth took place in private hands. However, on the dimension of the 'black' economy no reliable statistical estimates are thus far available.

8. THE CURRENT DEBATE ON THE OPTIONS AT MEDIUM TERM

It is interesting to note that uneasiness with the results achieved so far and emphasis on the urgent need to promote entrepreneurship and the building of productive capacity in a larger spectrum of industries, has recently been shared by Mozambican economists in academic and research institutions, by executives in the international organizations and by foreign economists who are stern critics of the international donors[34]. In the current debate on the state of the Mozambican economy, various diagnosis have been advanced to explain the persistent lack of competitive advantages in all segments of manufacturing, the still weak development of the agribusiness industry or the slow pace of growth in tourism more than fifteen years after the end of the war. Depending on the diagnosis, the emphasis is on different institutional or economic aspects, and the evaluation is more o less optimistic about how they will affect future prospects for growth.

At the local branch of the World Bank the focus of recommendations has shifted on opening a new phase of growth by encouraging foreign investment and domestic entrepreneurship in agribusiness, tourism and labour intensive, export oriented manufacturing in the apparel industry. A number of economists have suggested that it is impossible for the Mozambican economy to enter into a long-term process of development, betting only on the sustainable growth of agriculture, as important as it might be in all future scenarios for Mozambique.

[34] There are, however, disagreements. A qualified economist voiced to me his radical skepticism on the possibility for Mozambique to enter the manufacturing specialization, and acquiring some comparative advantage, due to the persistent lag in the training and productivity of the national labour force, as compared with workers in the more advanced Asian countries.

Notwithstanding the difficulties in building comparative advantage in manufacturing, a broad based development process should include expanded exports from the agribusiness much as from some sub-sectors in manufacturing, tourism or the expansion of harbour traffic. The technological change required for sustainable, long-term development requires the learning by doing process, and building human capital in a variety of intertwined industries, including manufacturing and advanced services. Even the agribusiness, to have any chance of success, requires joint investment in fields such as biological research, technological information, marketing in world markets, financial services and so on.

Castel-Branco noticed that diversified growth requires the building of complex value chains and complementary investment in transport, logistics, finance or other advanced services. This scholar underlined the good results achieved in the recovery of the cotton and tobacco industries, as compared to the failure in the cashew industry. He explained the success with the presence of well-placed international firms in the cotton and tobacco markets, which were able to reorganize the value chain and rebuilt a commercial network connecting small producers or local work force to international markets. In various contributions, Castel-Branco underlined persistent difficulties arising from the absence in Mozambique of productive networks (from logistics to commercial networks, from expertise on foreign markets to scientific information, from transport to maintenance), which may support value chains competitive in international markets. He recently underlined that change in the rural economy should not be understood as a specific sectoral change, but rather as being at the core of development policies in the whole country [Castel-Branco, 2008b].

Hanlon e Smart, in their controversial book attacking the policies pursued by the IMF and the World Bank in Mozambique, lamented the absence of a coherent strategy by the government to improve productive capacity in the rural areas, support farmers in their entrepreneurial activities, promote the rebuilding of national industries through credit and industrial policies engineered by the Mozambican State [Hanlon and Smart, 2008]. They end up invoking a decisive turn in public policies, claiming that the national government should actively support national entrepreneurs and promote the birth of viable private firms both in the agribusiness and in a variety of industries. They seem to hope for some sort of developmental capitalism that should be supported by the far-sighted national elite. The goal is not so discordant, after all, with the focus in the policy recommendations of Bretton Woods institutions, but the authors place exclusive emphasis on interventionist policies pursued by the government, paying minor attention (as compared with the FMI or the World Bank) to the institutional framework that might encourage (or displace) ‘doing business’ in Mozambique.

Da Silva Francisco [2008] argued that since its very beginning the political project of FRELIMO was built aiming at limiting private property rights, to avoid the emergence of independent entrepreneurial elites having their own resources protected by legal property rights. According to this scholar, the poor definition and protection of property rights is still a major issue in the country. Legal rights to land property do not exist and the judiciary poorly safeguards property rights. While official ideology is still anchored to public property and the dominant role of the State, in the Mozambican economy the space of illegal and informal markets is growing, and private accumulation is going on based on informal transactions or even criminal activities. A variety of titles on resources are appropriated and exchanged in parallel markets that are only partially admitted by the law or are plainly outside the law. To describe such a complex net of markets, dominated by commercial capital and influenced by political, familial or ethnic connections, this economist coined the term bazaar-economy of Mozambique (*bazarconomia de Moçambique*).

The possibility of modifying the law on land's property and land's rights is today part of the national debate. In the near future the issue will certainly be raised, with more or less emphasis, in the negotiations between the national government and the World Bank. However, both in the national government and in ample public opinion in the country, there is a strong resistance to any suggestion to modify the law on land currently in force. Such resistance is partly due to ideological reasons, because of FRELIMO's cultural heritage still rooted in the early collectivist policies. While FRELIMO's political language remains imbued with some old phraseology, notwithstanding the U turn towards the market economy in the Nineties, in more practical terms the government's control on access to land is a powerful political instrument in the hands of the central government and the political elite. The uneven transformation the economy is going through, the differentiation of incomes and standards of life, the high percentage of the population living in absolute poverty, the unachieved transition to democracy, all require the bargaining and consolidation of the legitimacy of the political elite, when dealing with rural constituencies or those strata of urban society, whose welfare crucially depends on free access to some plot of arable soil and a lot for housing. There is the legitimate preoccupation that even a prudent privatization of land's property may favour the concentration of agrarian wealth in few hands, depriving of their means of subsistence the families living on micro farming for household consumption in rural areas. Even in urban areas, a modest plot of land to farm for direct consumption or for marketing a few crops is a guarantee of subsistence in the old age or facing volatile, low wage earnings.

Economists advocating at least a partial privatization of land underline that land is the primary wealth asset in the country and that to block its mobilization by private people is a severe violation of freedom of enterprise and private property rights. The possibility to attract foreign capital or to promote domestic investment is obviously linked to security of land's rights of use in the long term. Paradoxically, it is not known in available statistical data how much land's property has already been concentrated in few hands by the allocation of rights of use, a phenomenon that has certainly occurred to some extent and perhaps already to a substantial extent. The private appropriation of land's rights of use is not evenly distributed in contemporary Mozambique. The private "property" of large extensions of first quality soils does indeed exist. If not by legal private property properly, access to land is already differentiated by uneven distribution, including micro farms managed by rural families much as large estates in the hands of major investors.

Opinions diverge rather drastically on the policies to be adopted to enter the path of diversification and gain a change of specialization in world trade in the coming years. The focus is now on the institutional framework and removing the obstacles to doing business in Mozambique, as it seems the prevailing preoccupation at the World Bank, now on defining national strategies to promote growth in priority industries, now on the contrary on the urgency to free the economy from the costly intrusiveness of the public hand that is the heritage of FRELIMO's early ideology, and on the imperfect functioning of democracy. On the development strategies that the State of Mozambique should promote, the debate is ongoing. Two options seem to have been overlooked in policy recommendations that might be worth further analysis.

The first option is the public support to investment in private construction that is going on at quick pace in the country, whose increasing population is desperately looking for better housing condition. Construction is an industry where capable national entrepreneurs may more easily arise, and specialized workers may be trained in shorter time, the handicap being the high import content because of the need to import materials from abroad. However, major plans of investment in construction of affordable private housing are most needed to avoid at short term the degradation of the urban environment for lack of sanitation or over-crowding, to protect the population against weather shocks such as floods, to favour the improved distribution of electricity and water. For rural people the opportunity of upgrading their homes might be an important incentive to saving and a major welfare gain. To overcome the high import content and to reduce the costs of housing, making them affordable to the middle or low-income families in the country, innovative construction modules should be designed, and urban planning should be carefully developed. As regards construction of private houses, there is an open space to complement public intervention in urban planning, in supporting innovative research and in offering financing for construction, with an emerging private sector where new entrepreneurship may arise.

The second option is the manufacturing option conceived in more creative terms than the development of some segment of the apparel industry, if China were to leave some market space to emerging African producers. In all aspects of life, low-income African consumers need to have access to new consumption baskets helping them to better their standards of life, and to share the advantages of contemporary technologies with citizens of high-income countries. Whenever opportunities arise, African consumers are quick to respond, as it happens with the diffusion of cellular phones, nowadays as radios an object of widespread consumption even in low-income families. There is an ample space open to creativity and innovation to design and manufacture new goods that may become mass consumption goods for low-income consumers, answering to their needs and opening new markets[35]. Though most Mozambican firms lack, for the moment, the manufacturing experience to design and successfully produce inventive goods tailored to satisfy the needs of low income consumers, investment in research and joint ventures with foreign firms might hopefully open the way to innovative manufacturing opportunities, betting on which the country will gain experience and sustain broad based growth.

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[35] Soon after the end of World War II, the now legendary Vespa scooter was carefully designed by Piaggio to enter the light mobility business with a low cost vehicle that could have mass diffusion because of its efficiency, attractiveness and low price.

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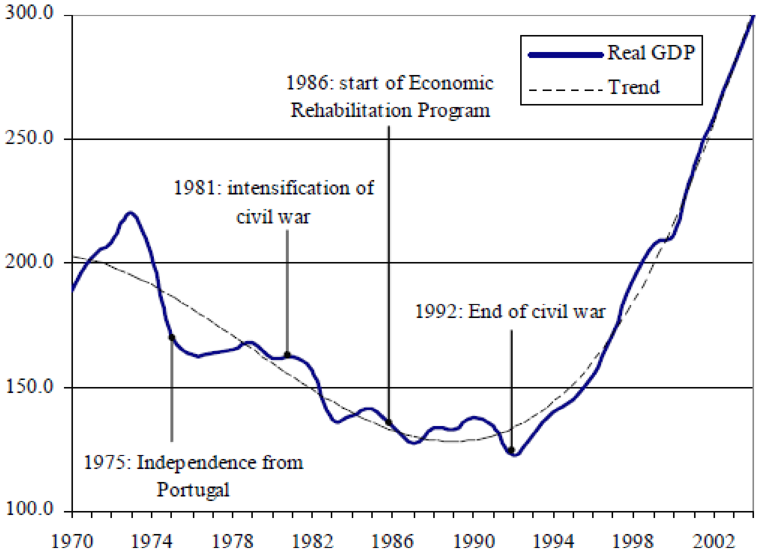
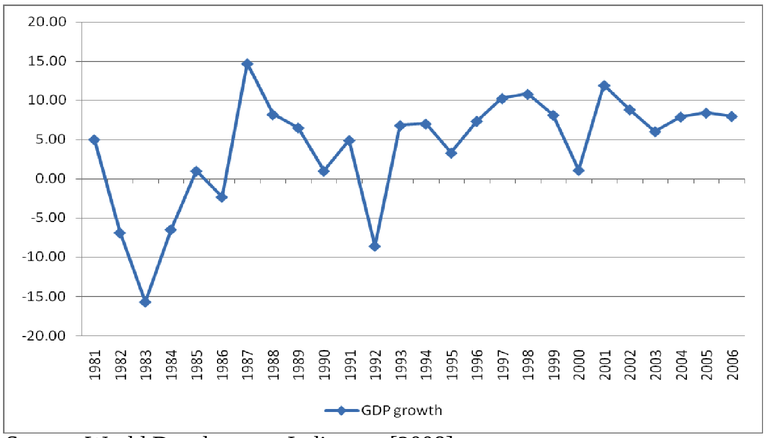
APPENDIX

Fig. 1 - Mozambican real GDP (1970 -2004), in billion of Metical at constant 1980 prices.



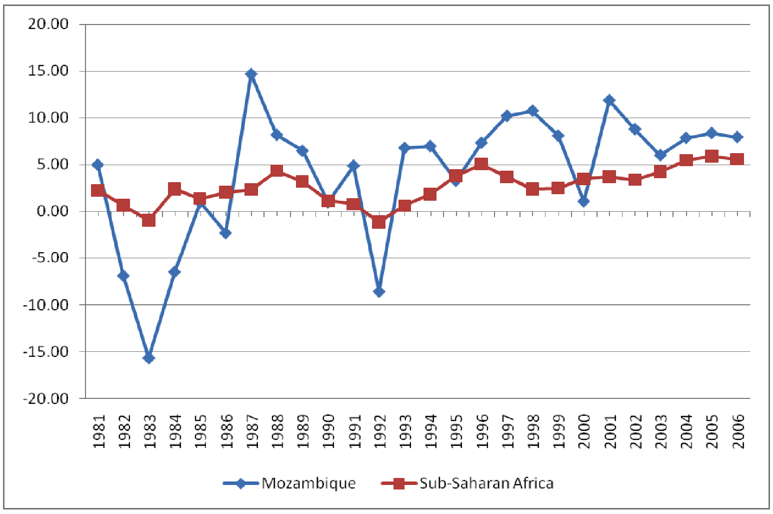
Source: Jones [2006]

Fig. 2 - Mozambican real GDP growth. Annual %.



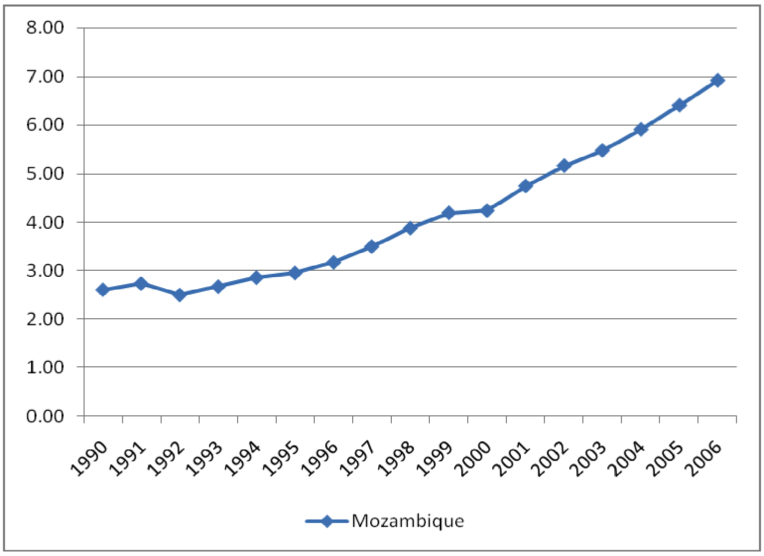
Source: World Development Indicators [2008].

Fig. 3 - Mozambican and Sub-Saharan Africa real GDP growth. Annual %.



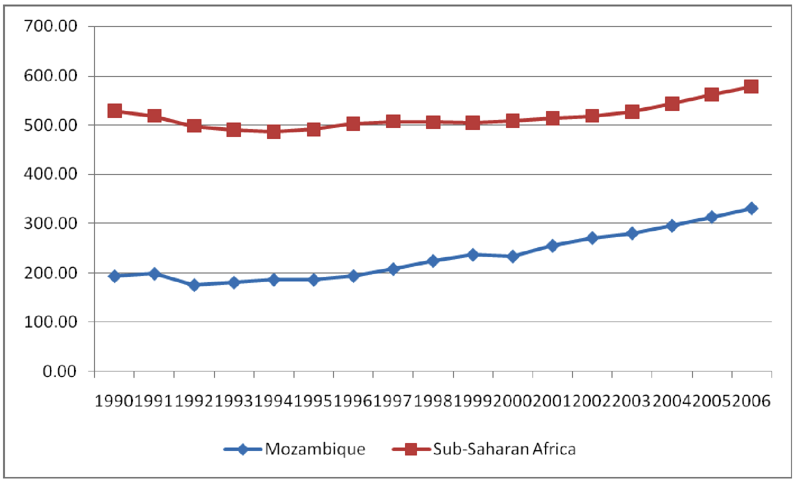
Source: World Development Indicators [2008].

Fig. 4 - GDP at constant 2000 (in billion of US$).



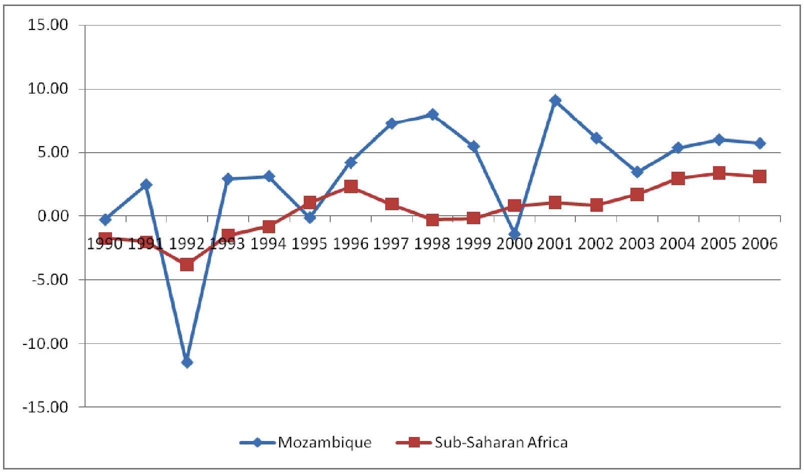
Source: World Development Indicators [2008].

Fig. 5 - GDP per capita (constant 2000 US$).



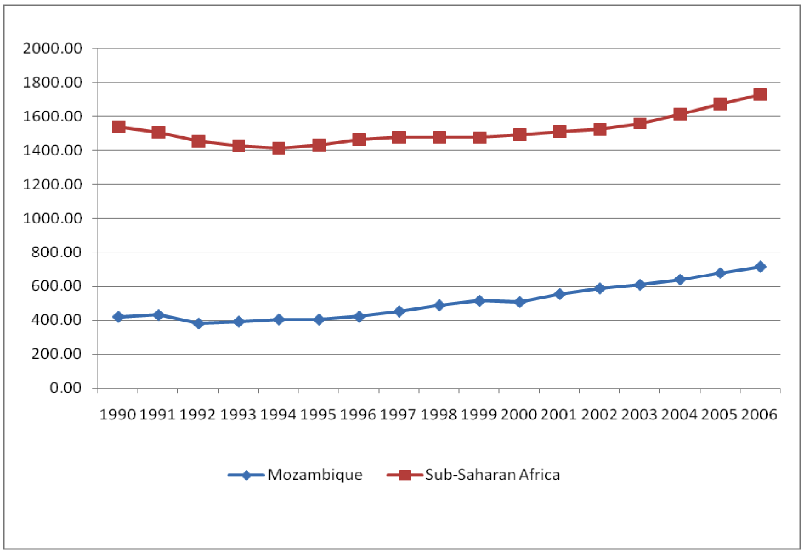
Source: World Development Indicators [2008].

Fig. 6 - Real GDP per capita growth. Annual %.



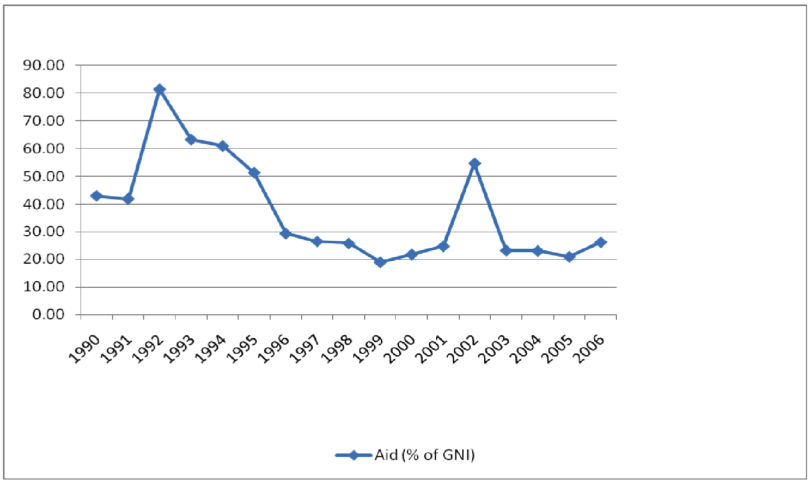
Source: World Development Indicators [2008].

Fig. - 7 GDP per capita, PPP, (constant 2005 international $).



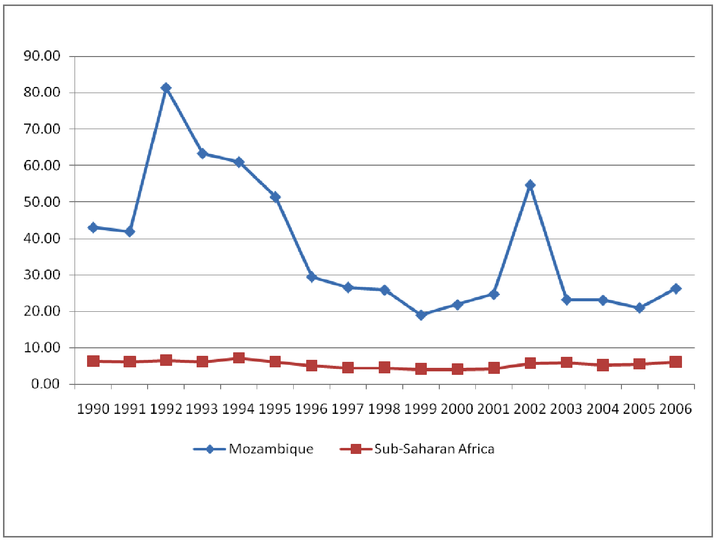
Source: World Development Indicators [2008].

Fig. - 8 Mozambique Aid (% of GNI).



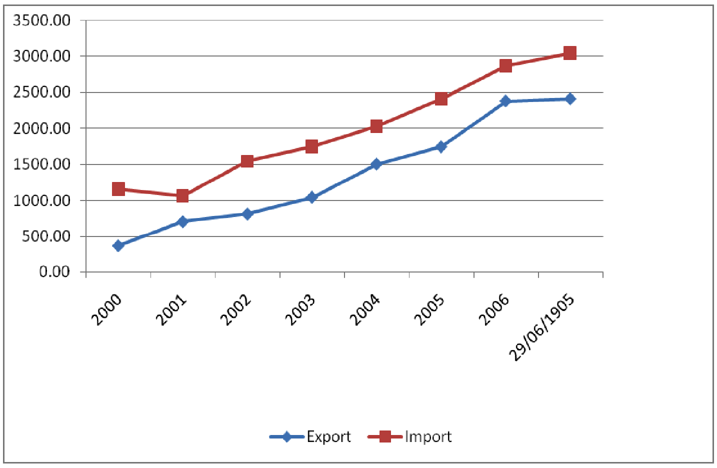
Source: World Development Indicators [2008].

Fig. - 9 Mozambican and Sub-Saharan Africa Aid (% of GNI).



Source: World Development Indicators [2008].

Fig. - 10 Mozambican import and export in million of US$.



Source: World Development Indicators [2008].

Tab. - 1 Main economic indicators for Mozambique and Sub-Saran Africa: 1992-2006.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	-8,6	6,8	7,0	3,3	7,4	10,2	10,8	8,1	1,1	11,9	8,8	6,0	7,88	8,39	7,97
2	-1,2	0,6	1,9	3,8	5,1	3,7	2,4	2,5	3,5	3,7	3,4	4,3	5,49	5,92	5,60
3	-11,5	2,9	3,1	-0,1	4,2	7,3	8,0	5,5	-1,4	9,1	6,1	3,5	5,37	5,99	5,71
4	-3,9	-1,6	-0,8	1,0	2,3	0,9	-0,3	-0,2	0,8	1,1	0,8	1,7	2,93	3,34	3,04
5	2,5	2,7	2,9	3,0	3,2	3,5	3,9	4,2	4,3	4,8	5,2	5,5	5,92	6,41	6,92
6	272,3	273,8	278,9	289,5	304,2	315,4	322,9	331,0	342,6	355,2	367,2	382,8	403,82	427,73	451,69
7	175,4	180,6	186,2	186,0	193,8	207,9	224,6	236,9	233,5	254,8	270,4	279,7	294,73	312,38	330,21
8	498,4	490,7	486,6	491,6	502,8	507,5	505,9	504,8	508,8	514,1	518,5	527,1	542,57	560,68	577,74
9	380,3	391,5	403,7	403,2	420,2	450,8	486,9	513,5	506,3	552,4	586,2	606,5	639,00	677,26	715,92
10	1454,6	1430,1	1414,2	1431,6	1464,9	1480,5	1477,3	1476,4	1491,8	1511,4	1525,8	1559,1	1611,38	1672,31	1727,33

1 Real GDP growth (annual %) - Moz
2 Real GDP growth (annual %) – SSA
3 Real GDP per capita growth (annual %) - Moz
4 Real GDP per capita growth (annual %) – SSA
5 GDP at constant 2000 prices (in Bln of US$) – Moz
Where: Moz=Mozambique. SSA=Sub-Saharan Africa. Bln=billion.

6 GDP at constant 2000 prices (in Bln of US$) – SSA
7 GDP per capita (constant 2000 US$) - Moz
8 GDP per capita (constant 2000 US$) – SSA
9 GDP per capita, PPP (const 2005 international $) – Moz
10 GDP per capita, PPP (const 2005 international $) - SSA

Source: World Development Indicators [2008].

Tab. - 2 Mozambican and Sub-Saharan Africa Aid (% of GNI).

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Mozambique	42,99	41,89	81,29	63,23	60,90	51,36	29,42	26,54	25,82	18,98	21,81	24,69	54,63	23,20	23,05	20,94	26,23
Sub-Saharan Africa	6,34	6,13	6,52	6,20	7,15	6,08	5,04	4,40	4,56	4,17	4,07	4,38	5,67	5,92	5,21	5,49	6,05

Source: World Development Indicators [2008].