

A stylized world map composed of a grid of dots in various shades of gray, with several dots highlighted in red. The map is centered behind the title text.

Economic Transformation in Mozambique

Implications for Human Security

KATHARINA HOFMANN
August 2013

- Mozambique is currently experiencing an important stage in its economic development that will have a crucial impact on the social and political environment and well-being of its citizens. This is due to high growth rates (7.5 per cent for GDP in 2012, according to the IMF) and the discovery of resources (mainly coal and gas) accompanied by growing regional and international business interests. Mozambique ranks among the five best GDP performers in Africa, albeit starting at a very low level.
- So far Mozambique's economy has not undergone any significant structural change. There has been no economic transformation despite more than a decade of sustained economic growth. Recent discoveries of resources may alter the development path and lead to an economic transformation if revenue from these natural resources and foreign direct investments (FDIs) lead to investment in job-creating industries.
- One obstacle in this positive scenario is the lack of transparency and deficient communication by political elites about the dynamics of economic transition combined with a lack of opportunity for political participation by Mozambican citizens that is tending to create a potential for political and social conflict.
- The aim of the paper is to identify opportunities and risks in the current economic transformation and its impact on human security. A purely GDP-based analysis of current economic growth in Mozambique feeds into the »Aspiring Africa«-debate¹ but only creates a »myth of Africa's rise«² if it is not underpinned by political developments that improve the situation of the majority of the population still living in poverty.



Content

1. Human security and post-GDP growth as indicators for sustainable development	2
2. The challenge of economic transformation in Mozambique.	3
3. Phases in Mozambique`s economic development: exploitation and dependency .	3
4. The vision of an independent economy	4
5. The wartime economy.	5
6. The aid-based economy	5
7. From aid to business: natural resources and growing investment.	6
8. South-South trade as a key driver in economic change.	7
9. Resource earnings as an opportunity for growth and risk to good governance ..	8
10. The shadow economy is undermining growth and governance.	9
11. Outlook: conflict lines and possible fields of intervention	10
12. Chances for a successful economic transformation and increased human security	10

1. Human security and post-GDP growth as indicators for sustainable development

»The security of people and their goods is one of the basic democratic principles recognized all over the world« (Nzongola-Ntalaja 1997:12).

The following observations seek to overcome a narrow concept of security that is exclusively based on the interests of state actors. If security is defined as survival in the face of existential threats, it is no longer the survival of the state alone, but also the economic well-being of societies and the proper functioning of their political institutions that would appear to be at stake. The strategy of analysing development above and beyond mere economic growth rates should be a logical conclusion given the dynamics of globalisation: the loss of state sovereignty relative to supra-, trans- or subnational regimes in the financial, political and social order.

The »post-GDP debate« hence posits that societies should not only be measuring their development in terms of growth rates, but also take into account other indicators that measure the well-being of its citizens. LDCs and MDCs could avoid making the same mistakes as the industrialized countries and BRIC states. The debate is seeking a development path beyond economic transformation that leads to an environmental crisis and unsustainable patterns of growth that do not lead to wealth distribution, but rather »jobless growth« accompanied by inequality, social unrest and thus a divided society. The economic and financial crisis has been demonstrating since 2008 that even European and Asian countries face severe social and ecological constraints. As Joseph E. Stiglitz concludes: »Much development economics previously asked how developing countries could successfully make the transition towards market-oriented policy frameworks (...) the global financial crisis has now raised questions about that model even for developed countries« (Stiglitz 2011:230).

The concept of »buen vivir« (living well or well-being) largely inspired by the Latin American Left argues that quality of life for citizens in a state and therefore the evaluation of its leaders' performance and political strategies should include long-term measurements of

the role of the state in regulating income distribution, decent work and environmental protection. Equity, democracy, participation, protection of bio-diversity and natural resources, and respect for ethnic-cultural diversity are key elements of the political framework. Cross-sectional areas of well-being are a just distribution of wealth within society and sustainable exploitation of available resources (Krell 2001: 6).

In a post-nation-state world, positive development has become much more complex to measure and influence since political actors are losing the power to regulate relative to the market forces. Actors in international relations are much more varied than twenty years ago. The fact that the state is no longer the central reference point for political and economic decision-making has led to a post-nation-state conflict that is marked by a parallel commercial economy that is not based on production patterns but rather the control of existing resources and commodities. This process in which economic processes are assuming an informal nature and being criminalized is not only a by-product of warfare and violent conflicts, but is rather tending to become a constant in many societies with weak governance. The so-called »shadow economy« has become part of regular and informal economies, interlinking them in such a manner as to blur and obfuscate difference between the two sectors i.e. in trade with weapons or natural resources.

The Human Security approach by the United Nations Human Development Report of 1994 has been an important milestone in analyzing the status of a society and its developmental approach towards the well-being of its citizens as a guiding framework of democratic governance. The point of reference is the individual and not the state: »In the final analysis, human security is a child who did not die, a disease that did not spread, a job that was not cut, an ethnic tension that did not explode in violence, a dissident who was not silenced.« (UNDP 1994:22). The concept is more up-to-date than ever: due to globalization many threats to human security are increasingly transnational in their origins and their effects. These threats, particularly environmental ones, are on the rise.

1. Special report by the Economist, March 2nd-8th, 2013.

2. See: Foreign Policy (FP), January 4th 2013.

2. The challenge of economic transformation in Mozambique

Rapid economic growth has been registered by several African countries since 2003: their GDPs have grown by an average of 5 per cent. In analyzing these high GDP growth at a deeper level, it is important to note that this growth has not yet led to an economic transformation of most African states. Rapid economic growth has yet to result in substantial structural changes within these economies.

In analyzing the current state of Mozambique's economy, one cannot speak of economic transformation in terms of the traditional definition³ since in spite of economic growth no structural change has taken place yet. So far it has only created »jobless growth« through mega-projects carried out mainly by foreign companies. Poverty reduction is not moving forward. Mozambique still has not undergone the economic transformation from subsistence to an industrial or any post-industrial economy. The economic transition⁴ from a centrally planned economy with a socialist government after independence to a free-market model through the Structural Adjustment Programs (SAPs) in 1986 has been the only real structural change of the Mozambican economy to date.

Recent discoveries of resources may alter the development path and lead to an economic transformation if earnings from natural resources trigger investment in job-creating industries. As a recent (May 2013) OECD African Economic Outlook puts it: »Despite more than a decade of sustained economic growth, Mozambique's economy did not undergo any significant structural change, limiting its capacity to sustainably reduce poverty« (African Economic Outlook 2013:259).

The low level of its economic development is the main reason for low levels in the quality of life for the majority of its population. Mozambique is categorized as one of the worst human (in)security performers worldwide,

ranking 12th out of 209 countries analyzed (Werthes/Heaven/Vollnhals 2011:39). To properly understand the background of the dramatic economic and human security situation in Mozambique, one needs to examine the history of the country.

3. Phases in Mozambique's economic development: exploitation and dependency

Mozambique has always been integrated into global trade via the Indian Ocean. The first involvement in an international economic system was the Swahili trade, which dominated the entire East African coast for centuries, the coast of Mozambique forming the southern extension of the African-Arabian trading network. Down to the present Indian traders have dominated important parts of the present-day economy, further stimulated by India as a global power and one of the fastest-growing economies in the world.

Contacts between Portugal and what is today called Mozambique can be traced back to the end of the fifteenth century. In 1884-5 the African continent was divided up by colonial powers at the Berlin Conference, with Portugal officially acquiring power over Mozambique. The Mozambican economy during the Portuguese colonial era was outwardly orientated on a permanent basis and like all colonies skewed through the exploitation of local natural and human resources. Portugal was not able to effectively organize the economic exploitation of the colony due to its own internal economic weakness, however. This is why a concessionary company system was established between 1889 and 1892. Commercial enterprises, relying partly on Portuguese but largely on foreign capital, rented Mozambican territory and acted like »a state in a state« by elaborating economic policy as well as performing administrative functions in some regions of Mozambique. Plantations and farms were introduced as new forms of production, with Mozambican peasants frequently being expropriated and exploited as migrant or seasonal labor.

Only in 1926 did Portugal start to align its »overseas provinces« closer to its own goal of national industrialization. This was done by introducing coercive cultivation of cotton, sugar, and rice for Mozambican peasants. The products of this coercive policy were transported

3. Economic transformation is defined as »the change in the structure of an economy over time from a subsistence economy, through industrialization, to an industrial or even post-industrial society« (Oxford Dictionary of Geography, 2004).

4. Economic transition is the process of transition from one economic system to another. There are three economic systems: centrally planned economies, liberal market economies, and mixed economies.

to Portugal and used, for example, in the textile sector. In the 1960s Portugal started to expand the strategy of plantation and settler agriculture, mainly producing cash crops for export. The system of plantation and settler agriculture remained predominant until the end of the colonial era. Mozambican peasants received very little in the way of support from the colonial administration and therefore had a hard time competing with the large-scale production of Portuguese plantations and farms. An additional shack tax forced many local peasants out of subsistence farming and into selling their labor for a low price. The exploitation of labor was actually the most crucial resource in the colony because at the time there were no other valuable resources to be exploited.

Under colonialism the economy was developed a lasting and immense trade deficit, with expenditures on far outpacing earnings from exports. In the face of a large structural trade deficit, Mozambique depended on other sources of foreign exchange in order to be able to pay for its imports, such as port and railway facilities for neighboring countries as well as money transferred by Mozambican migrant laborers employed outside the country. These sources of foreign exchange were mostly related to the South African economy. One can conclude that Mozambique's external colonial relations reflected its orientation towards the economic development of Portugal, its structural dependency on South Africa as well as its relative exclusion from trading networks of other countries.

The Mozambican economy, crippled by its failed economic model, witnessed capital flight, reduced production, and distribution difficulties in the pre-war years. In fear of a future that was uncertain at best in Mozambique, 185,000 out of a total of 200,000 Portuguese left the country shortly after the revolution in Portugal in 1975 put an end to the colonial wars. Due to the sudden flight of the white colonial minority regime, Mozambique lost almost its entire skilled workforce. All skilled and semi-skilled workers in the colonial economy returned to the mother country, where they added to the pressure on unemployment there. In 1975 around 95 per cent of the Mozambican population was still illiterate.

4. The vision of an independent economy

After 10 years of armed struggle by the Frente de Libertação de Moçambique (FRELIMO) against the colonial regime, Mozambique finally achieved its independence in 1975 after the Carnation Revolution in Portugal put an end to the colonial wars. The newly independent Mozambican government, led by President Samora Máchel, set out as its main objective the creation of an independently administrated national economy which was to foster the country's development. At this historical juncture Mozambique sought to become a developing state.⁵ The government assigned priority to achieving development for the well-being of its citizens. The ruling party developed a concept of national identity for Mozambicans, the so-called ideology of the »homem novo« (new human). This new image of men and women was supposed to forge national unity and was perceived as being essential to economic development. FRELIMO adapted a socialist development ideology in which the state played a decisive role in economic affairs.

Even though Mozambique is a country with agricultural potential, FRELIMO took over an economy heavily dependent on the import of basic foodstuffs (rice, maize and wheat). The government assigned priority to food production over the production of export products. Three priorities marked the »national economic project«: Increase in food production, industrial processing of raw materials such as cotton, cashew, tinned vegetables and meat, cooking oil/fat. Emphasis was put on the agricultural sector, where the state sought to intervene and increase productivity by promoting »aldeias comunais« (communal villages), cooperative trade and collective fields. The second form of organizing the agricultural sector was by building state-owned farms. Private-capitalist enterprises still were allowed as long as they served national interests. The notion of a socialist central state and communal villages were accompanied by resettlements of the population to enhance supply and control by the state. Mass organizations and »dinamizadores« (associations of citizens belonging to FRELIMO) were established to propagate the new economic and political model. The failure of the socialist economic model was a cumulative

5. According to Mkandawire, a developmental state is a state »whose policies are based on an ideology of development and one who is seriously attempting to deploy its administrative and political resources, to the task of economic development, whatever the outcomes of these attempts« (Mkandawire 2001:291).

factor leading to the civil war, as the socialist strategy disrupted the economic structure at local community level. In 1978, only three years after independence, the national economy was in a precarious state. Fifty percent of the export revenues were spent on imports of foodstuffs, and Mozambique's economy was suffering from soaring trade deficits, just like in colonial times.

5. The wartime economy

The Mozambican intra-state war 1977-1992⁶ is often referred to as a regional war of destabilization embedded in the broader context of the Cold War since both conflict parties, FRELIMO and RENAMO (Resistência Nacional Moçambicana), were backed by the main Cold War antagonists, but were at the same time greatly influenced by regional developments. The war was exacerbated by FRELIMO allowing Mozambique territory to be used to support the ZANU liberation movement. When Zimbabwe became independent in 1980, South Africa began providing financial support to RENAMO.

The most obvious cost imposed by the war on the Mozambican economy was the destruction and erosion of capital goods as well as human capital: Civil war is development in reverse: it has been found to reduce growth by around 2.3 per cent per year (Collier 2007:27). All possible ways of generating income are negatively affected by war. The cash-crop export sector suffered enormous losses, contracting to 2/3 of its pre-war productivity level. Cattle production as well as the railway system and the manufacturing sector were more or less completely destroyed during the war; many people were forced to return to subsistence agriculture. Besides capital destruction, the long-term development potential of Mozambique's economy was saddled with constraints due to an increasing fiscal deficit, uncertainty, and economic inefficiency.

An important change in the Mozambican economy took place when the government joined the International Monetary Fund (IMF) and the World Bank (WB) in 1984 – still during the war – subsequently adopting Structural

Adjustment Programs (SAPs) to bring about a transition to a liberal market economy after independence. The main focus of the SAPs was to reduce the state's role to a minimum, with state intervention only occurring in the face of market failures. Privatization, liberalization and deregulation were expected to increase economic efficiency and productivity as well as the international investment rate. The integration of Mozambique into global capitalism was moreover predicted to help alleviate inequality and poverty. Another element in the SAPs was that the Mozambican government had to introduce fiscal cuts in government spending. As a consequence of these adjustments, government salaries fell.

The Mozambican civil war had immense implications for human security. In the course of the war, a quarter of all local residents were displaced internally or fled the country (4 to 5 million). These intense migration flows reflected high levels of insecurity and economic concerns. Human security during the war was not only threatened by high mortality rates of soldiers and civilians (up to one million deaths) – it was further eroded by war strategies of intentionally destroying government facilities such as schools, hospitals or health clinics as well as all other infrastructure. Aid from Western and Eastern Europe played a key part in keeping Mozambicans alive during the war; this led to dependence on aid, which reached US\$1 billion at the end of the war in 1992, a level equivalent to almost 75 percent of the GDP (Hanlon 2007:7).

6. The aid-based economy

Mozambique's relationship with donors and the international community has changed in each of the three post-independence decades:

- During the socialist project 1975-1985, Mozambique was basically supported by the socialist bloc, the Nordic countries and Italy. With re-alignment towards the US during the mid-1980s it allowed NGOs to enter the country. In 1984, Mozambique joined the Bretton Wood Institutions, the IMF and the World Bank. It furthermore received funds from the Structural Adjustment Facility (SAF) in 1986/1987, which was followed by an enhanced SAF in 1990. With the implementation of the Washington Consensus, the USA became (and still is) the major donor.

6. After the implementation of the Rome General Peace Accords agreed upon by Joaquim Chissano (FRELIMO) and Afonso Dhlakama (RENAMO), a UN peace mission (UNUMOZ) was established in December 1992 and terminated in January 1995. ONUMOZ's mandate was to monitor and verify the ceasefire, the separation and concentration of forces, their demobilization and the collection, storage, and destruction of weapons.

- After the civil war the country continued to depend on foreign aid, which shifted from humanitarian emergency aid to long-term development policies.
- Mozambique became a »donor darling« since it had made the crucial step from war to free elections in 1994. The hope of the international community was that Mozambique could serve as a positive example of post-conflict African democratic state formation. According to the OECD-DAC, net Official Development Assistance (ODA) to Mozambique in 2004 amounted to around US\$1.2 billion. The World Bank, the European Commission, and the US accounted for the biggest donations, followed by Norway, Sweden, Denmark, the Netherlands and the UK. According to IMF figures, aid was 48 per cent of the government budget in 2004.
- At present aid is estimated to contribute around 35 per cent to the government budget. Commitments made by Mozambique's development partners (G19) for 2014 to date total US\$580 million. Four countries – Norway, Finland, the United Kingdom and Portugal – have yet to announce the amount of aid they plan to provide. Of the amount pledged so far, US\$310 million will be in direct budgetary aid, and the remaining US\$270 million will be channeled as aid for specific sectors of the economy. If the total contribution from the remaining four countries remained the same as in 2013, the Mozambican government could expect to receive an additional US\$90 million. Despite the financial crisis, aid to Mozambique has increased in total numbers by around 10 per cent compared to 2012.

These funds were and are mainly channelled through the state. FRELIMO has been in control of all state institutions since independence and there has been no opposition to challenge it down to the present. RENAMO is reverting to a »rejectionist force«, torpedoing constructive policy proposals while losing members to a breakaway party, the Mozambique Democratic Movement (MDM), which was established in 2009. So far the MDM only has eight seats in Parliament as well as two municipal cities and is therefore not able to put pressure on the ruling party. While RENAMO is currently turning back into an armed rebel group, there is basically no political force to challenge FRELIMO.

Given this politically biased situation, the donor community serves as a powerful counter-balance to the rul-

ing party, demanding good governance and structural changes within the political system. Most of the donors do not have direct access to power politics, instead operating via state institutions that are responsible in the administrative sense. Donor countries want to see tangible results. Distressing realities on the ground and the mismatch in communication is leading to frustration, however – on both sides. In Mozambique these came to the surface after the elections in 2009 in the form of a »donor strike«, with payments being temporarily suspended to put pressure on the government. Although the »donor darling« era seems to be over, western donors still contribute large amounts of money to the country (see above). Aid has been cut or reduced by many European countries because of a lack of progress in good governance and growing domestic pressure due to the financial crisis in Europe. The Danish ambassador to Mozambique recently emphasized that efforts need to be made by the Mozambican government to improve transparency in the public sector and promote inclusive growth. This is due to the fact that several civil society organizations have been reporting involvement of government officials in illegal business activities e.g. illegal shipment of timber to China.⁷ Within the FRELIMO party there is a faction aligned neither with the current head of government Armando Guebuza or the group supporting former president Joaquim Chissano and one must admit that certain groups of FRELIMO are calling for good governance as well.

7. From aid to business: natural resources and growing investment

The present development of the economy is marked by steady real GDP growth rates averaging 8 per cent annually up until 2011 and forecasted to sustain 7.5 per cent until 2017; this is being fuelled by the discovery of large deposits of natural resources – mainly coal and gas – and an increase in FDIs due to the discovery and expected growing earnings from natural resources. This could lead to a real transformation in Mozambique's economic structure if the revenues from the mining sector become substantially larger than aid. According to the Economist Intelligence Unit, this could be the case by 2017. The positive economic trend is reflected in the

7. See: »First class connections. Log Smuggling, Illegal Logging, and Corruption in Mozambique«. Environmental Investigation Agency (EIA) 2013, www.eia-international.org

net private flows to Mozambique, which increased significantly from US\$43 million in 2009 to US\$568 million in 2011 (Vollmer 2013:3). The government predicts independence from aid at current levels in the next ten years.

According to current estimates (May 2013), Mozambique is set to become one of the biggest coal and gas producers in the world. It could become one of the 10 largest producers of coal and one of the world's top producers of natural gas. The gas reserves in the Rovuma Basin are estimated at 70 trillion cubic feet, which would be the fourth greatest reserve in the world. International companies like Anardako (USA) and ENI (Italy) are active in the exploration of the Rovuma basin off the East coast of Mozambique in Cabo Delgado. Anardako plans to invest US\$18 billion before the expected production of liquid natural gas (LNG) begins in 2018.

Investments in extractive industries jumped from US\$184 million in 2005 to over US\$2.5 billion in 2012. It is predicted to reach US\$4 billion per annum by 2018, according to the Ministry for Mineral Resources (aim News 2013). The Minister for Natural Resources, Esperança Bias, expects that the percentage of GDP accounted for by the gas sector will grow from 1.7 per cent to 13 per cent in the next six years. Thus internal consumption is expected to grow by 40 per cent. According to these figures, Mozambique could become one of the African countries with the highest FDIs (The Economist 2013).

The exploration of the coal in the province Tête has already begun, but is stagnating because of a lack of infrastructure, especially functioning railways and harbours to ship it mainly to India, China and Brazil. Nevertheless the scale of coal production is forecasted to grow tenfold in the next ten years. Vale do Rio Dolce (Vale, Brazil) and Rio Tinto (Australia), two of the biggest mining companies in the world, are active in Mozambique. Thanks to these discoveries, state revenue only by the extractive sector could reach the level of the current national budget.

In spite of these promising economic prospects, Mozambique has not managed to put forward a comprehensive, national development strategy based on a strong vision of future needs and policy priorities which are not dominated by external forces. Down to the present, the economic development strategy has been based on the

»Poverty Reduction Action Plan (PARP) 2011 – 2014«, that is reviewed jointly by the WB and the IMF. The fifth review states that »Mozambique's macroeconomic performance remains strong and program implementation satisfactory. Economic growth in 2012 was buoyant and inflation fell sharply, and the start-up of coal exports is expected to push growth higher despite risks from the weak global economy. High levels of poverty call for a swift implementation of the updated PARP to generate more inclusive growth« (IMF 2013:1).

Parallel to this positive economic outlook by the IMF, the latest Human Development Index (HDI)⁸ ranks Mozambique right at the bottom of the list – only two countries, Niger and the Democratic Republic of Congo, have an HDI lower than Mozambique. Mozambique's score this year is at 0.327. Mozambique's HDI has shown an accumulated growth of 51 per cent since 1980. Still, it remains one of the lowest in the world, with 54 per cent of the Mozambican population living in poverty. The PARP 2011-2014 aims at reducing poverty from 54.7 per cent in 2012 to 42 per cent by 2014.

8. South-South trade as a key driver in economic change

Mozambique's economic growth tends to be driven more by international developments than by national policy: growing South-South trade and an increase in South-South development cooperation will have a strong impact on the national economy. The so-called »BRICS« are crucial in shaping this development. While European donors are slowly rethinking their commitment in Mozambique – still one of the poorest countries in the world⁹, – the so-called new powers are keen to be present during the scramble for natural resources and land as well as business opportunities of a new market. The demand for resources to nourish their national in-

8. The Human Development Index (HDI) is a composite measure which looks at what the UNDP regards as the three fundamental dimensions of human development – life expectancy, educational attainment and a decent standard of living. Each of these is given a weighting of one-third in calculating the index. A country's score can range in theory from zero to one. Some developed countries come close to one – at the top of the index is Norway, with a score of 0.955.

9. The Western donor community (the so-called G19) is slowly withdrawing from classical aid support instruments, especially budget aid. This is due to a growing concern about good governance and corruption in the resource sector as well as domestic pressure created by the financial crisis in southern European countries (mainly Portugal and Spain).

dustries is one of the main reasons for Africa's economic success over the last ten years. China is the main driver in this development. In the Southern African region, China can re-establish old political ties with the former liberation movements. The combination of ideological rhetoric based on South-South cooperation and an African-Chinese alliance in the struggle for liberation from the former colonial countries feeds into the discourse among ruling African elites who have not managed to legitimise their dominance beyond liberation rhetoric. In addition to the demand for resources, Africa is also a potential market for Chinese products: Chinese-African trade has been growing in the last ten years at an average of 30 per cent annually, reaching US\$200 billion at present. Mozambique is not yet in the focus compared to countries like Angola and Sudan that already supply oil, but the groundwork for future closer cooperation is being prepared in the form of infrastructure projects and political cooperation.¹⁰ Trade between China and Mozambique was estimated at US\$1 billion in 2012.

Chinese development cooperation with Mozambique is still small compared to loans by the World Bank. The main cooperation is organized via commercial loans granted by the state-owned China Export Import Bank. These loans are covered by natural resources from African governments for infrastructure projects that are being implemented by Chinese construction companies (Grassi 2013:3). Despite considerable criticism from the West regarding this resource-based relationship, China's poverty reduction work is impressive and more closely geared to Africa's search for development models than the Western history of development.¹¹ The Asian development model is interesting for Mozambique since the authoritarian development model justifies its politics of »stability« and »national unity« – both principals of the ruling FRELIMO party. Looking for new allies in a changing world order, Brazil is the fourth largest trading partner besides Portugal, South Africa and China. The luso-

phone connection is an advantage, and it is no accident that ex-President Lula has visited the country several times. India is present through the Indian Ocean trade and infrastructure projects. South Africa, the fourth B(R) ICS from the Mozambique perspective (as Russia is not relevant to the Mozambican economy) remains the biggest bilateral trading partner in the region.

The geopolitical setting for Mozambique is the main advantage for the growing South-South trade; the Indian Ocean is an important strategic port to global trade and thereby geopolitical power. Half of all containers shipped in the world as well as 70 per cent of oil traded in the world are shipped via the Indian Ocean. The security interests of the new as well as the old powers in the Indian Ocean include: piracy, human as well as drug trafficking and a lack of control over resource management by African states. From an African perspective the Indian Ocean is of overwhelming importance: according to the African Union (AU), Africa depends on the sea for 90 per cent of all exports and imports traded. Furthermore, fish is the main source of protein for the majority of the population as well as an important source of income. Illegal fishery, environmental pollution and climate change will create enormous challenges for maritime security and trade in the near future.

9. Resource earnings as an opportunity for growth and risk to good governance

Resource earnings have not fostered democratic development in recent African history. Growing revenue in the extractive sector has in the majority of resource-rich countries led to economic dependency on mining or fuel production and thus neglect of diversification of the economy and too little investment in human resources. This is explained by the fact that the political elite become largely independent of elections by citizens since rulers can simply buy political power through corrupt institutions and powerful individuals. Besides corruption, the lack of administrative capacity is the main challenge to governments in monitoring enterprises and their contractual agreements. Due to historical factors, Mozambique lacks lawyers, engineers, technicians in mining and other relevant fields. It is therefore dependent on foreign skilled labour in almost all sectors.

10. President Guebuza declared at his latest visit to China in May 2013 that the aim was »to boost existing ties of friendship, solidarity and cooperation between the two countries«. The outcome produced by the last visit in 2012 was loan agreements from the China Export Import Bank for the construction of the Maputo ring road (US\$315 million) and the Catembe bridge (US\$725 million). AIM news online, May 13th, 2013.

11. The search for alliances based on the Asian development models is not limited to China: Mozambique's President Guebuza has recently met with the leaders of Mongolia and Myanmar for talks on common strategies. What do they have in common? Huge resources, a post-socialist political system and neighboring BRICS. See: »This Alliance is brought to you by the letter 'M'« In: Foreign Policy, May 2013.

The key question is whether Mozambique will be able to avoid a rent-seeking upper class elite on top of staggering poverty and hence growing inequalities and rampant insecurity. The risk is high that Mozambique will relive the »resource curse«, as its institutions are run by the governing party without any »checks and balances«. Members of the government are still stakeholders in private companies, although this has been restricted by new legislation, the »código de ética« (code of ethics), that went into force in 2013. As a consequence, some higher government officials have either stepped down from office or given up their business positions.

A lack of transparency in negotiations and contracts signed by the government and companies is criticised by civil society organisations such as the Centro de Integridade Pública (CIP) and the media. There has been a call for renegotiation of some concessions in mega-projects and especially their taxation. But civil society in Mozambique is still funded by donors, so agenda-setting is often »donor driven« and located in the capital city of Maputo. Only some NGOs address the poor living in rural Mozambique – in the areas where resources are being extracted. There is however a positive belief that in the field of transparency and environmental protection Mozambican NGOs are gaining power in public discourse and providing access to information (see CIP 2013).

The social cost of extractive industries is well known: the local population hardly ever profits from resource extraction. The relocation of residents of areas of exploration and the selling of land holds out the potential for conflict in Mozambique. Whereas by law the government and companies are obliged to provide prior information and compensation, this often only happens after consultation between the government and enterprises. Communities therefore have little influence on their fate. At best they are informed about the consequences of mega-projects, but have no ways of becoming part of the decision-making process. Public resistance is often suppressed by government forces.

The urban population is also affected by this looming »resource curse«: rising prices in real estate as well as gasoline and groceries is one side-effect of the growing inflow of »fast cash« from international companies and their staff. Since salaries are not growing apace, the living standard is declining for the poor urban popula-

tion. At the same time an elite is growing and feeding a bubble economy. This can be witnessed in the form of luxury cars and the construction of lavish apartments and houses as well as a respective service sector.

Mozambique is demographically a very young nation: the majority of the population is under the age of 35. The younger generation does not identify with the liberation movement anymore, but expectations by the young urban population to »be part of boom game« are growing. The inability to deliver jobs could become, similar to developments in the Republic of South Africa, a major conflict, since there are no means to express visions or fears through political participation. One positive development is an increase in the budget for social welfare programs to meet some expectations and mitigate social unrest. Nevertheless growing food insecurity and rising costs of living are undermining sustainable growth for the stagnant 54 per cent of the population living in poverty.

10. The shadow economy is undermining growth and governance

The illegal economy is also growing due to an intensification of globalised maritime trade. Mozambique has been used as a corridor by drug traffickers since the mid-1990s. According to international experts, the value of illegal drugs passing through Mozambique is probably more than all legal foreign trade combined. It is assumed that drug money is one factor in Mozambique's record growth in recent years (UNODC 2013:8, 28, 34). In addition to maritime trafficking, Mozambique has several land corridors that serve as pathways for trafficking of children for sexual exploitation and forced labour. Mozambique is a country of origin, transit, and destination, a large proportion of southern African cocaine trafficking occurs in Mozambique, where the drug arrives via Brazil from Latin American producer countries (Hübschle 2010:27; Reismann/Lalá 2012:24).

In a post-war society the proliferation of small arms is often high, and this also holds true for Mozambique: although successful disarmament programs have been implemented, small arms are still widely available and mismanaged. The government does not know what quantity of arms is used by the uniform forces. If a gov-

ernment cannot even control the movement and use of small arms within its own institutions, it clearly cannot control the illicit proliferation and misuse of small arms in the country. Police inefficiency and corruption have led to an alarming trend of vigilantism in Mozambique: Human rights organizations have cited increases in extrajudicial killings and »death squads« of which 78 were reported in 2009 (Reismann/Lalá 2012:29).

Combatting organized crime and its negative impacts on democratic governance would require police reform, enhanced border controls, training of security forces and government officials at the nexus between corruption and organized crime. Above and beyond improving police law enforcement capacities, it is also necessary to harmonise criminal laws within the Southern African region to respond to networks operating transnationally by coordinated intelligence work. At present Mozambican crime statistics do not even list organized crime as a special category, nor does the Criminal Investigation Department have any specialized unit dealing with organized crime.

11. Outlook: conflict lines and possible fields of intervention

The potential for conflict in times of slow political (and institutional), but rapid economic and societal transformations, is high. Change like the on-going economic transformation nurtures conflict between different interest groups. Nevertheless conflicts do not have to be violent in nature, and can even bring about positive change if identified and confronted.

The main lines of conflict to be addressed in Mozambique at present are:

- The anticipated revenue from the resource boom has so far given rise to many expectations but made little real contribution to the state budget. But cash inflow from FDIs and illegal business and corruption is visible and is increasing greed and expectations.
- This is leading to a conflict over wealth distribution between major interest groups: the ruling party FRELIMO and the party and rebel group RENAMO; within the ruling party and government (fractions within FRELIMO);

between the latter and multinational companies and local communities, especially with regard to access to resource exploitation licenses and land. This poses a major challenge to peace and security.

- The latest violence perpetrated by RENAMO is due to growing greed and distribution conflicts within the ruling party and between the ruling party and the opposition/former rebel group. Expectations regarding economic growth are higher than social and political capacities to absorb the economic transformation and its social and political impact in the current stage of the country's transformation.
- Inequality and stagnation in poverty reduction: a young urban generation will be demanding more rights to participate in political and economic life; the gap between the urban and rural population will most probably continue to widen in the coming years. This could lead to new social unrest as in 2010 and increasing levels of crime.
- The lack of sovereignty of the Mozambican state: a lack of institutional capacities at all levels is hindering economic and social development. In the long term, revenue from FDI and resource extraction could free Mozambique from external aid dependency. Until then its institutions need to develop to be able to act independently from external donor support (budget and experts).

12. Chances for a successful economic transformation and increased human security

The so-called »resource curse« must be actively counter-balanced by building local chains for manufacturing, thereby creating jobs connected to the extractive industries. The economy should not rely solely on the extractive industry. Other sectors need to be diversified; the most promising parts of the economy for Mozambique are agriculture and tourism. Incentives for small and medium-scale enterprises could be enhanced by a more liberal labour code and further development of micro-loans. Often criticised by small and medium-scale entrepreneurs is the high interest rate, which is currently at 25 per cent. The high interest rate is one the reasons why the main portion of business investment comes from



external investors and hence leaves the country again before being reinvested and diversified.

Access to the global market via the sea will remain a precondition and create great opportunities for the Mozambican economy to grow. Resource management and environmental protection have to be actively approached at a regional as well as continental level to cope with the increase in oil and liquid natural gas discoveries. This would require integration of the AU as well as SADC in developing strategies above and beyond bilateral military assistance for progressive maritime security strategies that focus on coastal communities and human security.

The high demand for Mozambique's resources and land by rising powers could offer an opportunity if business enterprises also invest in human resources by training Mozambicans, improving their professional education in the long term. Some enterprises have started to do so as part of their Cooperate Social Responsibility (CSR) programs. The role of the new powers will most probably shape the future of Mozambique much more than European countries in the coming decade: besides business and trade interests, their development models should be

scrutinized to develop a national development strategy for Mozambique that adopts the successful strategies of poverty reduction from China, India and Brazil, but tries to integrate these into a more sustainable pattern of growth and avoids the inequality gap that the transformation countries are suffering from. A new focus on job-creation, improvements in agricultural productivity and economic diversification hold the key to more inclusive growth in the period ahead.

The quality of life for Mozambican citizens and therefore the evaluation of performance by its leaders and political strategies will be measured in the long term by the capacity of the government to regulate income distribution, create decent work and protect the environment within the on-going process of economic transformation to enhance the human security of its citizens. Only if parties and trade unions as well as civil society organizations are able to make it possible for citizens to participate and create some regulating competence vis-à-vis national and international business will Mozambique be able to act as a sovereign nation that is actively shaping the well-being of its people instead of exchanging one form of dependency for another.



References

- African Economic Outlook (2013):** Structural Transformation and Natural Resources. OECD Development Centre/United Nations Development Programme.
- Aim news,** Agência de Informação de Moçambique (2013) Brighton.
- Breisinger, Clemens (2008):** Economic transformation in theory and practice: What are the messages for Africa? International Food Policy Research Institute.
- Brück, Tilman (1997):** Macroeconomic effects of the war in Mozambique. QEH Working Paper Series. Oxford: University of Oxford.
- Castel-Branco, Carlos; Christopher Cramer; Degol Hailu (2001):** Privatization and economic strategy in Mozambique, Helsinki: United Nations University, World Institute for Development Economics Research.
- CIP, Centro de Integridade Pública Moçambique (2013):** Serviço de Partilha de Informação, monthly edition at: www.cip.org.mz
- Collier, Paul (2007):** The Bottom Billion. Oxford: Oxford University Press.
- Gasper, D (2008):** The Idea of Human Security, GARNET Working Paper, 28/08, Institute for Social Studies, The Hague, viewed 10 September 2012, http://www.unhistory.org/reviews/Garnet_HumanSecurity.pdf.
- Hanlon, Joseph (1984):** Mosambik. Revolution im Kreuzfeuer, Bonn: Edition südliches Afrika 21.
- Hout, Will (2012):** The Anti-Politics of Development: donor agencies and the political economy of governance, *Third World Quarterly* 33.3 (2012): 405-422, London: Routledge.
- Hübschle, Annette (2010):** Organized Crime in Southern Africa. Institute for Security Studies (ISS), Pretoria.
- International Monetary Fund (2013):** IMF Country Report No. 13/1 Republic of Mozambique. Fifth Review under the Policy Support Instrument and Request for Modification of Assessment Criteria, Washington DC.
- Jung, Dietrich (2009):** Security: Some Critical Observations about Concepts and Policies. In: Cawthra, Gavin (ed.): African Security Governance, Johannesburg: Wits University Press.
- Krell, Christian (2011):** Wie wollen wir zukünftig leben? Internationale Erfahrungen bei der Neuvermessung von Fortschritt und Wohlergehen. Berlin: Friedrich-Ebert-Stiftung
- Mills, Greg; Herbst, Jeffrey (2012):** Africa's Third Liberation. Johannesburg: SA Penguin.
- Owen, Taylor (2004):** Are we really secure? Challenges and opportunities for defining and measuring human security, *Disarmament Forum*, 2, pp.15-24, viewed 13 September <http://www.unidir.org/pdf/articles/pdf-art2138.pdf> <http://www.unidir.org/pdf/articles/pdf-art2138.pdf>
- Oxford Dictionary of Geography (2004):** Oxford University Press.
- Reismann, Lainie; Lalá, Aly (2012):** Assessment of Crime and Violence in Mozambique, Johannesburg: Open Society Institute Southern Africa (OSISA).
- Stiglitz, Joseph (2011):** Rethinking Development Economics. In: *The World Bank Research Observer* N.26: 230-236. Oxford: Oxford University Press.
- The Economist (2013):** A Hopeful Continent, Special Report Emerging Africa, March 2nd: 3-20.
- The Economist (2013):** Aspiring Africa, March 2nd – 8th: 9.
- United Nations Office on Drugs and Crime (UNODC) (2013):** World Drug Report 2013. New York: United Nations publication, Sales No. E.13.XI.6).
- Vines, Alex (1991):** RENAMO Terrorism in Mozambique. New York: Centre for Southern African Studies University, University of York.
- Vollmer, Frank (2013):** Mozambique's Economic Transformation. Are efforts to streamline the fragmented aid landscape undermined for good? DIE: German Development Institute, Bonn.
- Walsh, Catherine (2001):** Development as Buen Vivir: Institutional arrangements and (de)colonial entanglements. In: *Development*, 53 (1), 15-21.
- Werthes, Sascha; Heaven, Corinna; Vollnhals, Sven (2011):** Assessing Human Insecurity Worldwide. The Way to a Human (In)Security Index, Institute for Development and Peace (INEF) University of Duisburg-Essen.
- Wilkinson, Richard G.; Kate Pickett (2011):** The spirit level. Why equality matters. London: Bloomsbury Press.



About the author

Katharina Hoffmann is head of FES Maputo, Mozambique. Previous to this she worked at the Latin American desk of the FES and in the FES Shanghai office.

Imprint

Friedrich-Ebert-Stiftung | Africa Department
Hiroshimastraße 17 | 10785 Berlin | Germany

Responsible:
Manfred Öhm, Head of Africa Department

Tel.: ++49-30-26935-7435 | Fax: ++49-30-26935-9217
<http://www.fes.de/afrika>

To order publication
blanka.balfer@fes.de

The sale or commercial use of all media published by the Friedrich-Ebert-Stiftung (FES) is prohibited without the written consent of the FES.

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung.



ISBN 978-3-86498-632-1