

**THE POLITICAL ECONOMY OF SOUTH AFRICAN FOREIGN DIRECT
INVESTMENT IN MOZAMBIQUE: A CASE STUDY OF MOZAL AND
ITS IMPLICATIONS FOR DEVELOPMENT IN MOZAMBIQUE AND
SOUTHERN AFRICA**

Leon Gilbert Pretorius

(SOG, PhD candidate)



UNIVERSITY of the
WESTERN CAPE

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ABSTRACT

POLITICAL ECONOMY OF SOUTH AFRICAN FOREIGN DIRECT INVESTMENT IN MOZAMBIQUE:

A case study of MOZAL and its implications for development in Mozambique and Southern Africa

L.G. Pretorius

PhD thesis, School of Government, University of the Western Cape (UWC).

The MOZAL aluminium smelter in Maputo is the largest-ever foreign direct investment in Mozambique. South Africa's state-owned Industrial Development Corporation (IDC) owns 24% shares in MOZAL and the Development Bank of South Africa (DBSA) and Eskom provided road and power supply infrastructure to ensure the success of the smelter. BHP Billiton is the majority shareholder, the other being Mitsubishi. MOZAL is the flagship of South Africa's foreign policy for regional integration in southern Africa and economic reconstruction in Mozambique: a practical manifestation of the African Renaissance. This thesis is a case study of MOZAL as an example of cross-border industrial development and its implications for development in Mozambique. Using an eclectic multidisciplinary Critical Global Political Economy (critical GPE) theoretical framework, a survey of relevant literature and a series of selected open interviews, it examines how development based on the assumptions of industrialisation and neo-modernisation espoused by the governments and private sector champions of MOZAL impact on class, gender, environmental and social justice in Mozambique. The research identifies the socio-economic development dimensions of MOZAL for Mozambique and how the cost and benefits are distributed among the various social groups and actors directly and/or indirectly involved with the MOZAL aluminium smelter. The main findings are that MOZAL as a private sector FDI project is a qualified success. On the positive side, it contributes to economic growth. However, the benefits to Mozambique are exaggerated and are not broadly distributed. On the negative side, it contributes to increasing the economic dependence of Mozambique on the South African economy. Instead of narrowing the development gap, the smelter has contributed to increased differentiation between companies in South Africa and Mozambique and, within Mozambique, between the Northern and Southern regions, as well as among MOZAL employees and the majority of the population in Maputo. The implications are that the development benefits from foreign direct investment cross-border industrial development projects may, at least in the short-term, lead to uneven regional integration and development enjoyed by a few.

July 2005

DECLARATION

I declare that **Political economy of South African foreign direct investment in Mozambique: A case study of MOZAL and its implications for development in Mozambique and southern Africa** is my own work, that it has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.



UNIVERSITY of the
WESTERN CAPE

Leon Gilbert Pretorius....

Date.....July 2005.....

Signed

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LIST OF ABBREVIATIONS

AA	Aluminium Association (American)
AfDB	African Development Bank
CPI	Centre for the Promotion of Investment
CTA	Confederation of Business Associations in Mozambique
DBSA	Development Bank of South Africa
EDM	Electricidade de Moçambique
ESKOM	Electricity Supply Commission of South Africa
FDI	Foreign Direct Investment
FRELIMO	Frente de Libertacao de Moçambique
GDP	Gross Domestic Product
GoM	Government of Moçambique
HCB	Hidro-electric de Cahora Bassa
IDC	Industrial Development Corporation of South Africa
IDZ	Industrial Development Zones
IFC	International Finance Corporation
IMF	International Monetary Fund
INE	Institute of National Statistics
IPE	International Political Economy
MDC	Maputo Development Corridor
MNCs	multinational companies
MNHDR	Mozambique National Human Development Report
MOTRACO	Mozambique Transmission Company Sarl
MOZAL	Mozambique Aluminium Smelter SARM

NEPAD	New Economic Partnership for Africa's Development
NGO	Non-governmental organisation
NIC	Newly Industrialised Country
NPE	New Political Economy
OTM	Organisation of Mozambican Workers
PE	Political Economy
PoDE	Programme for Enterprise Development
PRE	Economic Recovery Programme
SADC	Southern African Development Community
SDI	Spatial Development Initiatives
SINTICIM	Construction, Wood and Mine Workers Union
SINTIME	National Engineering Workers Union
SMEELP	Small and Medium Enterprise Empowerment and Linkages Programme
TNCs	Transnational corporations
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Programme
WDR	World Development Report
WIR	World Investment Report

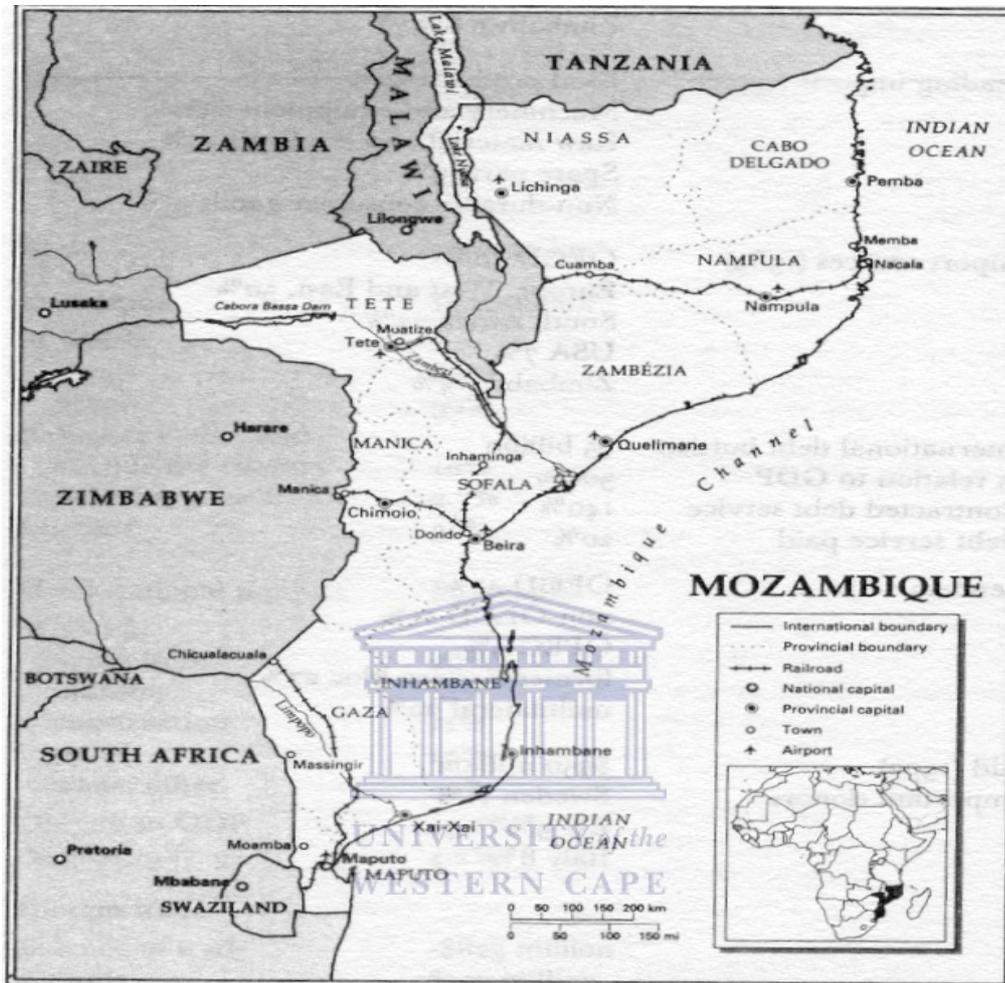
Figure 1: Map of the Southern African Development Community (SADC)¹



Source: <http://www.sadc.int>

¹ The SADC was formed in Windhoek 1992 and currently comprises 15 member countries: Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

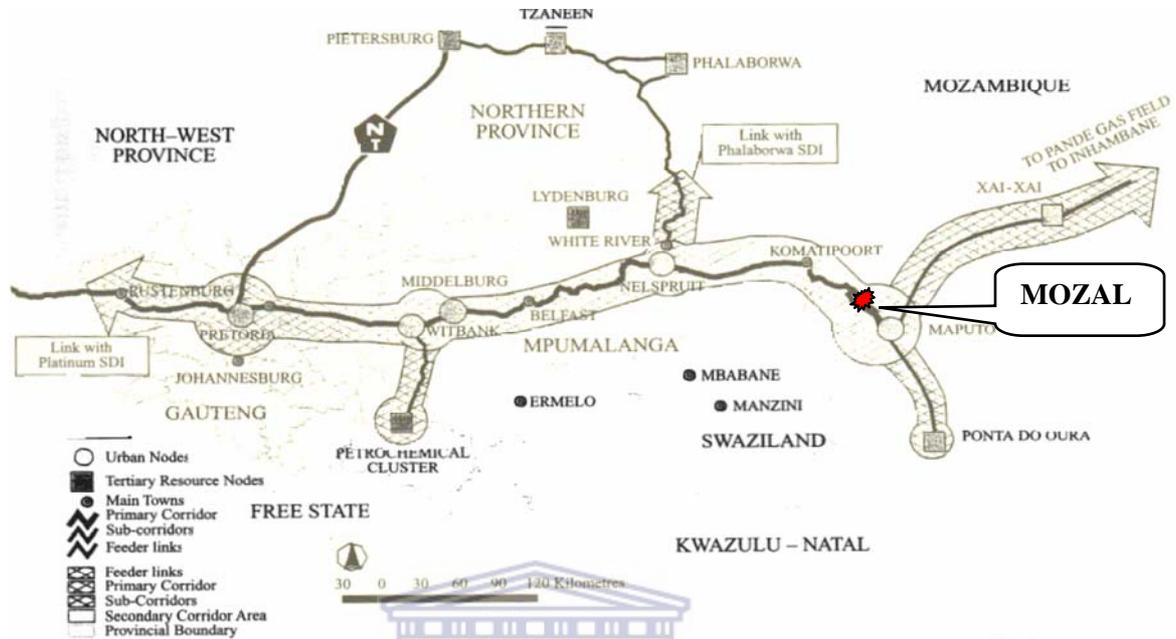
Figure 2: Map of Mozambique



Source: Abrahamsson and Nilsson Anders. 1995. Mozambique² the troubled transition: From socialist construction to free market capitalism. (p.xiv). Zed Book: London.

² The Republic of Mozambique (hereafter Mozambique) covers a total area of 801 590 km² and has a population of 17.6 million (estimated July 2003). Maputo city is the capital. Mozambique is a unitary republic. Administratively the country is divided into three regions: the Northern, Central and Southern regions. The country is further divided into 10 administrative provinces. These include Niassa, Carbo Delgado and Nampula in the Northern region; Zambezia, Tete, Manica, and Sofala in the Central region, while the Southern region comprises Inhambane, Gaza and Maputo province. Maputo City located in the Southern region, is economically prominent and is the main centre of political administration. It is usually included among the statistics as an eleventh province.

Figure 3: Map of MOZAL's location in the Maputo Development Corridor



Map I. The Maputo Development Corridor and its sub-corridors. Source: *The Mpumalanga Report*, 4th Quarter, 1998, p. 7

Source: The Mpumalanga Report 4th Quarter 1998³

³ The map in Figure 3 indicates the location of the MOZAL aluminium smelter on the Mozambican side of the Maputo Development Corridor (MDC), 17km south of Maputo. MOZAL is the anchor industrial project on the Mozambique side of the MDC, which is a road linking the Johannesburg (Gauteng) industrial heartland in South Africa with the port city of Maputo in Mozambique.

CHAPTER 1: INTRODUCTION AND ORGANISATION OF THE THESIS

“The construction of MOZAL is an example of our commitment to the development and prosperity of our country and southern Africa.”

[Joaquim Chissano, President of Mozambique, Mozal News, November 2000, No 9]

“MOZAL is the most often quoted example but what Southern Africa needs are many more MOZALS that demonstrate efficient public/private partnerships.”

[The Southern Africa Economic Summit Report 2000: 4]

1.1. INTRODUCTION

The investment-led development path (IDP) has become the path of choice of international financial organisations, and indeed of many states in developing countries. The thesis challenges the premises on which this approach is grounded and in particular it challenges the view that IDP will lead to poverty reduction in economically underdeveloped countries. This thesis is a political economy assessment of the developmental impact of MOZAL SARL, a cross-border industrial development project on the people of Mozambique.⁴ Chapter One begins with the objectives of the thesis and a discussion on its background and motivation. It then lists the main research questions that frame the thesis. The methodology employed to gather information, interpret the data and evaluate the MOZAL experience, as well as the scope and limitations of the study, are set out thereafter. The chapter ends with an outline and structure of the dissertation, highlighting some of the main issues that each of the following chapters focus on.

⁴ MOZAL SARL-sociedade Anonima denotes the full legal name and type of registered company from here onwards reference is simply made to MOZAL. MOZAL is an aluminium smelter that manufactures aluminium ingots from alumina. A limited liability joint stock company with the Registrar of Companies at Maputo under number 10522 of register C122, with registered office at Beluluane-Boane, Maputo.

As illustrated by the above quote, the President of Mozambique declared in 2000 that MOZAL was a testimony to the government's commitment to economic reconstruction, development and regional integration. The MOZAL project provides an opportunity to examine the content of the development and integration to which the Government of Mozambique (GoM) alludes.

The MOZAL project is the largest foreign direct investment (FDI) ever undertaken in Mozambique and the largest investment by the International Finance Corporation (the private sector arm of the World Bank) in Africa. According to the World Investment Report (WIR) (2003: xviii), how various states and social actors define FDI is important because it determines the scope and reach of the substantive provisions of any regulatory framework and investment agreements that countries may enter into with firms or other countries.

The WIR (2003: 231) defines foreign direct investment (FDI)⁵ as:

“an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate.) FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy.”

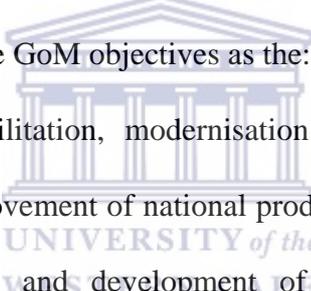
There are differences among countries with regard to the minimum percentage of

⁵ In some countries an equity stake other than that of 10% is still used. In the United Kingdom (UK), for example, a stake of 20% or more was the threshold used until 1997. This general definition of FDI is based on OECD, Detailed Benchmark Definition of Foreign Direct

equity ownership required to qualify as FDI, as distinguished from a ‘portfolio investment’ (Caves 1995: 139-140).⁶ In Mozambique, the Law of Investment (Law No 3/93)⁷ defines foreign direct investment (FDI) as:

“..any form of foreign capital contribution, valuable in monetary terms which constitutes own equity capital or resources at the own account and risk of foreign investor, brought from external sources and to be used in an investment project for carrying out an economic activity, through a company registered in Mozambique and operating in Mozambique territory.”

The FDI definition used by the GoM indicated above is broader than the conventional United Nations Conference for Trade and Development (UNCTAD) definition. Article 7 of the Law on Investment (No. 3/93, hereafter the Law on Investment) also outlines the GoM objectives as the:

- 
- development, rehabilitation, modernisation or expansion of economic infrastructure ;
 - expansion and improvement of national production capacity or capacity to render services;
 - training, expansion, and development of national entrepreneurs and Mozambican business partners;
 - creation of jobs for national workers and the raising of professional skill levels of the Mozambican labour force;
 - technological development and the improvement of entrepreneurial productivity and efficiency;
 - increase diversification of exports and reduction and substitution of imports as well as generating foreign currency;
 - improving the supply of domestic markets; and
 - direct or indirect contribution towards improving the balance of payments and government budget revenue.

Investment, third edition (Paris, OECD 1996) and International Monetary Fund (IMF), Balance of Payments Manual, fifth edition (Washington D.C., IMF 1993).

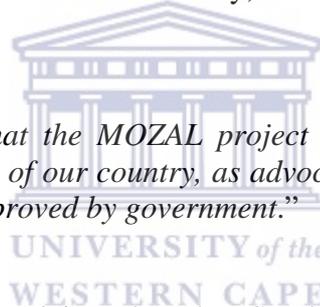
⁶ As used here the difference appears to be essentially quantitative, indicating that equity may also become FDI. Theoretically, a shareholder may progress from holding equity shares below the threshold to an amount above it that qualifies as FDI. There are, however, qualitative differences in the features of FDI and speculative equity or shares.

⁷ Data on FDI are collected by Bank of Mozambique and the Centro de Promocao de Investimentos (CPI). The IMF also reports the country’s FDI flow data in its balance of payments statistics.

These objectives are used to discuss and gauge the performance of the GoM and the development impact of the MOZAL project.

The MOZAL aluminium smelter is an international cross-border FDI project involving investors from Mozambique, South Africa, Britain and Japan, and technology and equipment from France, Germany, Canada and Australia (Billiton World 1998: 4, Billiton Annual Report 2000: 5). Brian Gilbertson, Chairman and CEO of Billiton, praised MOZAL as an illustration of industrial development in Mozambique and in Africa (Mozal News, November 2000, No 9). Oldemiro Baloi, the Mozambican Minister of Industry, Trade and Tourism said (Mozal News, May 1999, No 3):

“There is no doubt that the MOZAL project is the model for the industrial development of our country, as advocated in the industrial policy and strategy approved by government.”



This thesis examines the claims by the South African and Mozambican governments, policy-makers, the IFC, World Bank and the private sector about the development impact of MOZAL. These sources trumpet the virtues of FDI for employment creation, knowledge and technology transfer, for increasing national competitiveness and for combating poverty and promoting regional integration. For example, Billiton’s Brian Gilbertson said that (Mozal News November 2000: No 9):

“Measured along any dimension –economic, social or environmental –Mozal will stand as an industry benchmark for many years to come.”

The notion of development referred to above is the process by which an economically ‘backward’ country modernises and transforms itself into an advanced, industrialised country with a high standard of living. In the light of the quote above, the thesis investigates such claims in terms of the socio-economic development dimensions of the MOZAL project for the people of Mozambique.

1.1.1. Objectives of the thesis

The objective of the thesis is to use the MOZAL aluminium smelter as a case study to:

- Critically examine the political economy of MOZAL as an example of FDI-driven, large-scale, capital-intensive aluminium industrial production and trade and its development implications for Mozambique.
- Illustrate that the idea of development giving rise to MOZAL is based on the neo-classical political economy industrialisation and neo-modernisation paradigms, and to subject the assumptions behind this model of development to critique.
- Provide an overview of the FDI inflows and identify major investment trends associated with such FDI flows into Mozambique, and survey the investment regulatory environment and supply-side policies that shape the investment climate in Mozambique.

- Analyse the developmental impacts and implications of the MOZAL cross-border FDI activities for Mozambique and for southern Africa.

1.1.2. Background and motivation

Before Mozambique became independent in 1975, the South African government and companies in collaboration with the Portuguese colonisers played a major role in shaping the country's economy (Abrahamsson and Nilsson 1995, Hanlon 1986 and 1990, Saul 1985). A good example of this is South African state corporations' involvement in the development of hydroelectric plants in Mozambique, such as Cahora Bassa dam (Ngaruka 1992: 105 and Hanlon 1986). More than 20 years later South African companies are once again returning to Africa and Mozambique as agents of economic development and bearers of the African Renaissance and the New Economic Partnership for Africa's Development (NEPAD) (Financial Mail 27 Sept. 2002; Financial Mail 7 Feb. 2003; Kapelus and Diaho 2003: 27; Daniel, Lutchman and Naidu 2004 and Daniel, Naidoo and Naidu 2003). In the words of BusinessMap (1998: 1):

“Foreign Direct Investment (FDI) into Mozambique is growing and diversifying. Leading the way are South African companies and financial institutions whose Mozambican presence is growing despite a downturn in foreign investor interest in South Africa itself.”

Hirst and Thompson (1998: 51) argue that Transnational Corporations (TNCs) are the agents responsible for FDI. Transnational corporations are defined as enterprises that own or control value-added activities and manage production establishments—plants—located in at least two countries (Caves 1995: 139, Dunning 1995a: 1). According to Dunning (1995a: vii), by their very nature TNCs

integrate production at the international level. Responding to the growing influence of FDI in developing countries, Lall (1997: 169 and 179) questions the neo-classical presumption that TNCs are the bearers and new custodians of development.⁸ Lall (1997: 183) concludes that, because of the high preponderance of market failure in developing countries, government intervention is required to speed up technological development. Governments rather than TNCs are the custodians of development (Lall 1997: 189). Whereas FDI is primarily an activity of companies, development is primarily an activity of government. Having stated this Lall and Latsch (1998: 461-462) acknowledge that government failure is as much a reality as market failure and conclude that there is a need to examine both the potential and limitations of government policy within a historical and institutional perspective.



Via the MOZAL project, Billiton plc and the Industrial Development Corporation (IDC) are investing in Mozambique as a way of enhancing their international competitiveness in the global economy.⁹ According to BusinessMap (1998) South Africans have replaced the Portuguese as the largest foreign investors in Mozambique. Consequently Hanlon (1991, 1996), Saul (1993) and Miller (2000:

⁸ In UNCTAD's World Investment Reports, TNCs are defined as comprising parent enterprises and their foreign affiliates: a parent enterprise is defined as one that controls the assets of another entity or entities in a country or countries other than its home country, usually by owning a capital stake. An equity capital stake of at least 10% is normally considered as a threshold for the control of assets in this context.

⁹ Billiton plc, referred to here as Billiton, is an international mining and mineral (base metal) resources group based in London and also listed in the Johannesburg Stock Exchange (JSE). The company was formed in 1997 following the restructuring of South African-based GENCOR investment. Billiton has aluminium smelters in South Africa, Mozambique, Brazil, Suriname and Australia. The IDC of South Africa is 100% state-owned. Since 1997, the IDC's mandate has been extended to include establishing internationally competitive, large resource-based projects in

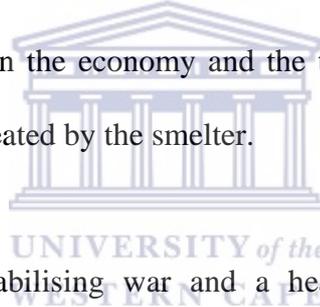
14) have referred to this new surge by South African corporations as the re-colonisation of Mozambique. Daniel, Lutchman and Naidu (2004) and Daniel, Naidoo and Naidu (2003) observe that some have referred to this process as the South Africanisation of Africa. From a business perspective, the return of companies to Mozambique is primarily driven by the quest for profits and improving the human condition is merely an assumed consequence. An examination of the MOZAL project will clarify the development potential of this FDI for Mozambique and the southern African region.

In contrast to South Africa, which is the largest and most wealthy economy in the Southern African Development Community (SADC), Mozambique is one of the poorest countries in the region and in the world (AIM July 1997: 13 and WDR 1998/9). The capitalisation of the MOZAL project, estimated at US \$1,3billion, is more than half of the estimated Mozambican GDP of US \$2.8 billion in 1998 (World Development Report WDR 1998/9). Furthermore, the WDR revealed that Mozambique had a GNP per capita of US \$217.5 and ranked 133 (last of the countries listed). In the same report, South Africa, with a GNP per capita of US \$3,400, was ranked 45th. The Mozambican GDP per capita is also lower than the estimated US \$500 average GDP per capita for sub-Saharan Africa.¹⁰

According to the World Bank's (2000) Mozambican Common County Assessment Report, more than two-thirds (69.4%) of the population continue to

support of spatial development initiatives, as well as to act as a catalyst to attract FDI to the SADC region.

live below the poverty line, set at US \$0.40 per day. The Mozambican Human Development Report (UNDP 2000: 15) observed that Mozambique also has the lowest social and human indicators in SADC.¹¹ According to the 2003 Human Development Report, Mozambique's Human Development Index (HDI) ranking in 2001 was 170 out of 175 countries.¹² With more than 50% of the population living on less than a US \$1 per day, the Human Poverty Index is the highest in the SADC region. Against the background of such poverty the MOZAL project is seen by many of its champions as a major contributor to the battle against poverty and underdevelopment. This thesis examines the socio-economic development dimensions of MOZAL and its contribution to reducing poverty in Mozambique by looking at the impact on the economy and the type and number of jobs and businesses opportunities created by the smelter.



Despite 17 years of destabilising war and a heavy foreign debt repayment burden¹³ that depletes the GoM's economic resources, since 1992 the economy has experienced an average annual growth rate of 8%.¹⁴ At its growth peak in 1998 Mozambique was one of the fastest growing countries in the world.

¹⁰ GDP per capita is expressed in current US dollars per person. Data can be derived by dividing GDP by the total population.

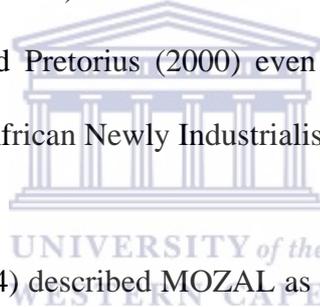
¹¹ These indicators include life expectancy, access to public health services, access to clean water, access to education and adult literacy.

¹² Where 1 = most developed and 175 = least developed.

¹³ See WDR (1998/9), which revealed that foreign debt in 1998 was estimated at US \$6.1 billion and its debt service ratio (capital and interest payments as % of exports) was estimated 33.2%. Since 2000 Mozambique has been included under the World Bank Heavily Indebted Poor Country (HIPC) initiative. The UNDP 2000 estimated that in 1998, external debt as a percentage of GDP was 223%. The real impact of the HIPC is, however, controversial: whereas the World Bank claims that it writes off debt, Hanlon argued that it only postponed the payment of the debt. In 1999 debt as a percentage of GDP was estimated at 187%. Nevertheless, the stock of debt remains high.

¹⁴ Even though the economic growth rates is expected to decline slightly as a result of the floods Mozambique experienced in 2000 and 2001, the annual average growth rate is nevertheless

According to Sachs (1998) the African Competitiveness Report (ACR) of 1998 ranked Mozambique among the leading countries in the region in terms of economic improvement and optimism. The World Investment Report (1999: 24) ranked it among the top ten business-friendly countries in Africa. These positive achievements have prompted commentators to use phrases such as ‘economic turnaround’, ‘African renaissance’, ‘revival’, ‘renewal’, ‘star performer’, and ‘success story’ in describing it (Qureshi 1999, Gilbertson in Mozal News November 2000 No 9, BusinessMap 1998: 1; WDR 1998, The Economist Intelligence Unit 27 March 2003 and AfDB/OECD 2004: 235). The Economic Intelligence Unit (EIU 1999: 5) referred to Mozambique as a ‘miracle in the making’, while Nordas and Pretorius (2000) even asked whether Mozambique was in fact a sub-Saharan African Newly Industrialised Country (NIC).



The Billiton World (1998: 4) described MOZAL as the most successful project in the history of the industry, claiming that it would create an industrial renaissance in Mozambique. By examining the MOZAL project as an expression of the level of investor confidence in Mozambique this thesis seeks to shed light on the sustainability of the Mozambican and South African governments’ ‘public-private-partnership’ and investor-friendly development strategy. Through a case study of MOZAL it is possible to examine how a relatively less-developed country like Mozambique can link up with South Africa, the strongest country in the SADC region and highlight how the costs and benefits are shared in this model of development and integration. The thesis speculates on the contribution

expected to remain higher than most African states.

the MOZAL project would make to reducing some of the regional economic disparities. In other words, could such a relationship close the development gap between Mozambique and South Africa?

MOZAL is an important aspect of the industrial development strategy of the Mozambican government and is seen as an anchor project around which Mozambican manufacturing enterprises could be built and capacity enhanced.¹⁵ In 1999 Oldemiro Baloi, the Mozambican Minister of Industry, Trade and Tourism declared (Mozal News, May 1999, No 3):

“There is no doubt that the MOZAL project is the model for the industrial development of our country, as advocated in the industrial policy and strategy approved by our government.”

The MOZAL aluminium smelter is the industrial hub of the Maputo Development Corridor and is also the most advanced Spatial Development Initiative (SDI) in southern Africa (BusinessMap 1999: 38, 40 and 42). Haarlov (1997) and Castel-Branco (2002: 128-129) examined Mozambique policy framework papers and concluded that these dominant policy documents do not reflect a coherent, systematic or consistent industrial policy or manufacturing sector strategy. However, if the Mozambican government succeeds with its plan of developing local industry around MOZAL the experience would hold important lessons for

¹⁵ A new industrial and trade policy and strategy has only recently replaced ad-hoc policies driven by World Bank (IFC) funded projects to expand private and financial sector development. For example, the World Bank has supported governments' endeavours through the Industrial Enterprise Restructuring Project (IERP), which came to an end, and through Private Enterprise Development (PODE). The objective is to build private sector capacity and participation including annual government private sector conferences. The new industrial policy comprises VAT and taxes on business profits, an investment code for NDI and FDI and, in 2000, the IFZ regulations.

other similar projects within Mozambique and other southern African countries (BusinessMap 1998: 42).¹⁶

This thesis seeks to make explicit and interrogate the assumptions underlying the MOZAL project. These assumptions include:

- Foreign direct investment (FDI) leads to industrialisation and consequently development and integration. Modernisation and development are desirable and good for all.
- FDI provides access to TNCs, and via them access to capital, employment and technology leading to modernisation and progress. In other words, increased openings to the world FDI market will pave the road to development.
- The government (or state) acts in the interest of the whole of society and through creating an investor-friendly environment will attract investment, create jobs, generate wealth and reduce poverty in a win-win scenario in which everyone benefits.

This begs the question of whether FDI is good or bad for development and whether development generated by FDI and TNC's is a 'loadstar' or an 'illusion'. Ngaruka (1992: 108) argues that South African and overseas capital has together provided a legacy which has significantly constrained development policy at the

¹⁶ Plans for building other corridors are the Beira and Nacala Development Corridors inside Mozambique and the Lubombo Spatial Development Initiative involving Mozambique, South

level of nation-states in the periphery of southern Africa. Hanlon (1999: 31) argues that the apparent economic miracle in Mozambique presents only a facade. NALEDI and the African Research Labour Network (October 2003: 8) ask a similar question: is investment by South African companies contributing to development in Africa? While the report acknowledges that more research is required, it suggests that tentative indications are that South African companies are not contributing to development. These perspectives of the contribution of FDI to development reflect normative assumptions of what may be the optimal patterns of production but are inappropriate to the circumstances of LDCs like Mozambique.



An examination of the development literature on FDI, industrialisation, modernisation and new institutionalism shows heterodox opinions which reveal mixed results. Scholarship aligned to the discipline of economics, such as Dunning (1997 and 1998), Dunning and Narula (1996), Dunning, Van Hoesel and Narula (from here on Dunning et al 1998), Lall (1997), and Gundlach and Nunnekamp (1998) and WIR (2001 and 2002) suggest that the above-mentioned assumptions are more or less correct. According to Gundlach and Nunnekamp (1998: 153) globalisation improves the prospects for developing countries to ‘catch up’ economically with industrialised countries. This approach argues that, depending on economic policies with respect to openness and factor accumulation, globalisation may increase capital and technology flows to

Africa and Swaziland.

developing countries thereby generating a higher rate of income growth than would be possible in a less integrated world economy.

The catch-up thesis is contradicted by the evidence provided by Sala-i-Martin (1996: 1034) and Quah (1996: 1074). Convergence could occur but the speed with which this happens is extremely slow. They estimate that it would take about 35 years to close only half the gap between rich and poor OECD countries. A heterodox critical political economy scholarship questions the assumptions that massive FDI in economically 'backward' countries such as Mozambique would enable them to 'catch up' with developed countries, and argues that it is a developmentalist illusion (Arrighi 1990: 11-12 and 16, 18, Wallerstein 1994, Sklair 1994, Martin 1990: 206, Mauffe 1989, Esteva 1992, Escobar 1995 and Rist 1997: 239). The approaches point out that capitalism generates a distorted form of development, which, at best, consists of only partially solving the problems of developing countries. According to Arrighi (1990: 22) the illusion of development is a consequence of taking relatively short periods (approximately 20-25 years) as the unit of analysis for studies of development and mistaking for generalised economic advancement what is in fact just a temporary upswing in a pendulum-like movement. Furthermore, Arrighi (1990: 24) argues that the relocation of firms (i.e. the spread of industrialisation) to developing countries is not necessarily development of these countries but rather the 'peripheralisation of industrial activities. As Mendes (1996: 50) argues, development is left behind at the construction site of modernisation and progress. The EIU (28 August 2001) says:

“MOZAL is one of the most modern smelters in the world, relying on only 750 people to operate its advanced technology. But the sense of modernity stops abruptly at its boundary fence. The suburbs of Maputo and the scrubland small holdings leave little doubt that this is one of the world’s poorest countries.”

A critical global political economy (GPE) approach is used as a framework of analysis throughout the thesis. The following section discusses the methodology used to gather information and examine these assumptions.

1.1.3. Methodological design

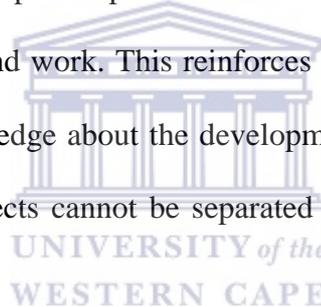
The case study method is used as the main research strategy because it is best suited to developing a reasonably detailed description of MOZAL and people’s experiences with it, as well as responses to the smelter. The distinctive need for the case study arises out of the desire to understand complex real-life social phenomena and this approach lends itself well to the examination of contemporary events. Another important feature is the relation between events and their context. Yin (1994: 13) states:

“...[t]he case study – is an empirical enquiry that investigates the establishment of a contemporary phenomenon within a real life context, especially when the boundaries between the phenomenon and context are not clearly evident.”

Huysamen (1994: 168) suggests that case studies are directed at understanding the uniqueness and idiosyncrasies of a particular phenomenon in all its complexity. There is no doubt that the contextual conditions are highly pertinent to the establishment of the MOZAL smelter. The thesis is not a positivist attempt to isolate and reduce the number of variables that can be identified as determinants

of FDI. Instead of following a narrow economic perspective, the investigation examines a broader context including social relations, organisation, corporate and development strategies as well as the regulatory framework. A broader understanding of the specific context is important in order to go beyond merely universalised economic generalisations.

Although the thesis is not an empiricist study it is nevertheless based on empirical work. The case study method also lends itself to the use of a combination of quantitative and qualitative evidence. Lukacs (1990: 162) remarks that the rejection of empiricism as a philosophical stance does not mean the abandonment of empirical information and work. This reinforces the notion that the process of developing concrete knowledge about the developmental and integration impacts of FDI and industrial projects cannot be separated from their social history and context.



The methodology employed in the thesis provides a historically sensitive case study that seeks to explain the interrelations among politics, economics, institutions and choices at societal level. The point of departure is that there exists a dialectic or reciprocal relationship between institutions that structure political and economic activity and the simultaneous attempts of society (through reflective responses) to influence (and sometimes redesign) these institutions to serve their interests.

Other technical reasons for choosing the case study method include the fact that it

lends itself to dealing with a wide variety of evidence: documents, interviews and observations. Case studies rely on many different types of variables, both qualitative and quantitative sources of evidence. This methodology makes it possible to triangulate quantitative and qualitative data in order to validate various assertions.

The case study method relies on both close and distant observation of the MOZAL project and workers' struggles in and around Maputo. Theoretically, the geographic area of the case study is Mozambique and the SADC region. More specifically, the case study is limited to the Maputo province in Mozambique. The bulk of the fieldwork for the case study was conducted in Maputo over two three-week periods in November 2000 and October 2001. The process of gathering information entailed visits to MOZAL, government departments (such as the Department of Labour, the Centre for the Promotion of Investments (CPI), National Institute for Statistics (INE), the offices of the World Bank and UNDP, offices of trade unions, the South African Embassy in Mozambique and various non-governmental organisations (NGOs), including the Canadian University Students Organisation (CUSO), as part of the target group. In South Africa interviews were conducted with the organiser and shop steward at the National Union of Metal Workers of South Africa (NUMSA) and a representative of the Mozambican Embassy in Cape Town and Mozambican.

The majority of the interviewees were representatives of the organisations mentioned above. In many instances new interviewees were identified by means

of purposive or snowball sampling (i.e. suggested by those already interviewed). Unstructured individual and group interviews were combined with open-ended discussions. These interactions were also used as opportunities to gather secondary data such as reports and statistics.¹⁷ The main purpose was to allow the interviewees the opportunity to put forward their experiences and interpret the meaning of the MOZAL project. Furthermore, information was gathered with the purpose of illuminating the role and implications of the MOZAL FDI project in the development of Mozambique and its implications for integration between Mozambique and South Africa in southern Africa.

Information gathered included descriptive statistics¹⁸ and reports on FDI inflows, exports and imports, particularly their contribution to Gross GDP and its trends. During the information-gathering process particular attention was paid to the contribution made by MOZAL in stimulating economic growth and reducing poverty. Another focus of information gathering focused on MOZAL's linkages (or lack thereof) to the Mozambican domestic economy, as well as the economic integration between South African and Mozambican social agents (e.g. businesses, workers and government officials). In addition, crucial issues were the number of jobs directly and indirectly created directly and indirectly, wages, industrial action, improvement in living standards, community responses to MOZAL's social responsibility programme, the impact on the environment and

¹⁷ In an unstructured interview the interviewer suggests the general theme of discussion and poses further questions as these come up in the spontaneous development of the interaction between interviewer and research participant.

¹⁸ Statistics are not neutral (value free) data. Statistics-gathering has been the used by the state and other developmental organisations to monitor, maintain control and exert influence over society.

the contribution of the MOZAL project to community well-being.

1.1.3.1. The quality, availability and reliability of the data

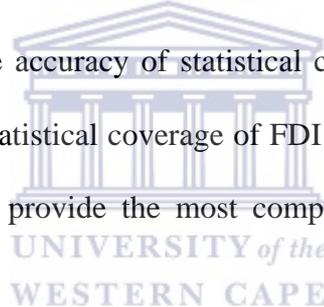
Statistics were gathered from the World Bank, International IMF, United Nations Council of Trade and Development (UNCTAD), EIU, BusinessMap, the Mozambican Investor Promotion Centre, companies such as Billiton and the IDC, as well as from government departments.¹⁹ Notwithstanding the difficulty of gaining access to specific and hard information on the operations about of companies like MOZAL, Billiton and Mitsubishi, they do public general information which is used as the basis for making broad and general statements concerning the influence of these firms in the production, trade and finance structures of FDI in Mozambique. This information is used to illuminate methods of entry into Mozambique, the extent of local equity holdings, outputs, export earnings and profitability, according to published sources.

The existing official data on Mozambique is old and, unless otherwise stated, relies on the National Census of 1997 conducted by the Mozambican Institute of National Statistics (INE). Institutions that provide more current national data and research are the World Bank and United Nations agencies, such as the United Nations Development Programme (UNDP), based in Mozambique. But the INE has accused the World Bank of overestimating population figures, leading to exaggerated income and poverty statistics (Harrison 1998: 124-125). This is

¹⁹ This refers to the problems and opportunity costs or strengths and weaknesses of the various statistics. The statistical limitations and bias in data was, it is hoped, compensated for to some extent by cross referencing scarce data sources and from knowing the practice and lacunae of data

reminiscent of Ferguson's (1990: 66) point about how aid organisations provided a particular representation of Lesotho in their reports to justify their activities in the country.

The statistics are used to reveal FDI trends in Mozambique across regions and industrial sectors and across southern Africa. Furthermore causal relationships between the FDI spatial locations and investment incentives are explored. Caution needs to be advised when interpreting the statistical data, as recent, precise data is very difficult to obtain in Mozambique. The multiple and conflicting data sources and constant redefinition of the indicators is confusing. The EIU (2004: 36) argues that historically, the accuracy of statistical coverage in Mozambique has been uneven. Even if the statistical coverage of FDI data is incomplete, however, these sources nevertheless provide the most comprehensive body of statistical information available.



Bundy (1992: 25) argues that no matter how useful statistics are, they do not convey the full reality. While they are essential in providing a measure of inequality, and valuable in their ability to describe many of its different aspects and trends, by their nature statistics deal with averages. They present generalisations, tendencies and the broad shape of poverty and inequality. They cannot reveal its texture: the tensions generated in struggle, despair, hope, resentment and fury. They do not convey the pain of hunger and the anger of striking workers against practices that discriminate against them. These can be

collection through formal and informal discussions.

gleaned from the stories and interviews of striking, employed and unemployed workers as well as frustrated small business owners. The scholarly works of John Saul, Joseph Hanlon,²⁰ who have expert knowledge about Mozambique and Maputo, were consulted. Information gleaned from these documents was used to fill in where information was not obtained orally and at other times was used to corroborate and augment evidence gleaned from interviews and other sources. In addition to the interviews, another important source of information and data gathering included surveying the literature on MOZAL and company records accessed through the internet. The lack of availability of detailed, specific and recent information concerning the operations is a limitation and means that the real impact of MOZAL on the welfare of Mozambique is difficult to ascertain. It does, however, mean that it is difficult to generalise from the specific case study and prove or disprove general propositions about FDI and its development implications.

1.1.3.2. Acknowledging local business, workers and community experiences

Bowen (2000: 3) in her study on the relationship between the state and peasantry in Mozambique criticises the methodology used by earlier researchers of post-independence Mozambique. The early scholarship on the post-independence period focused on FRELIMO's development and stressed internal fissures, political and ideological struggles. Senior party and government authorities heavily informed the analyses and the research method was largely dependent on official speeches and sources. As a result, more attention was given to the

²⁰ All of whom lived and worked in Mozambique.

intentions of the central government than to actual events and to the interplay of social forces. Most analyses focused directly on the state without examining local politics and their relations to the state, leaving a great need for empirically-grounded studies to strengthen our theoretical understanding of policy changes in both Mozambique and the African sub-continent. However, there is also a need to ground such political economy analysis in the experiences of non-elite 'collectivities', even if it means observing how they are excluded to their detriment from major policy decisions. Such a study provides a stronger basis on which to evaluate what policy-makers said they were doing and the effects of government action or interaction with popular responses. It represents a more nuanced analysis of bargaining, struggles and contradictions within civil society as well as between state and society.²¹ It is hoped that, by contrasting the comments of academics, workers and NGOs on their experiences with those of official statements and the documents of government and investors, this thesis will make a modest contribution towards filling that void.

1.1.4. A word on terminologies and their use

Terms such as 'third world', 'underdeveloped', 'developing' and 'developed countries', 'industrial' and 'industrialising countries' have entered the lexicon of political economy to describe particular groups of countries at different stages of development. The Third World or developing countries, as with the rest of the world, is not homogenous and this suggests that any generalisation and theories about the development of developing countries be treated with caution and

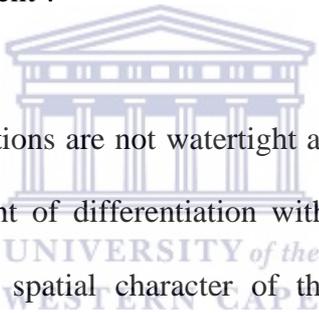
²¹ Other variations of the struggle theme referred to are negotiations and conflict-resolution.

circumspect (Martinussen 1999: 9).

The context and period in which these terms gained popularity is crucial to grasping the semantic history and meaning of these terms. Foucault (1989: 135) argues that the book language (i.e. representation via grammar) becomes the herbarium of living structures. Emphasising the role of grammar in theory and representation Foucault (1989: 136) argues that representation and language impose structure. Simultaneously, structure governs their passage from representation into language. Theory cannot be dissociated from language because it concerns a fundamental arrangement of knowledge, which orders the knowledge of beings to make it possible to represent them in a system of names (Foucault 1989: 157). For Foucault (1989: 295-296) language is a form of knowing and knowing is automatically discourse. This language occupies a fundamental situation in relation to all knowledge and it is through the medium of language that the things of the world can be known.

In the thesis the term 'third world' is avoided because it emerged during the late 1940s and early 1950s, after the second World War and in the context of the experience of the Cold War, to refer to a group of countries that were neither 'first world' (belonging to the capitalist West) nor 'second world' (belonging to the socialist East). The term 'third world' thus received its identity and came to be understood in negative terms as belonging to neither of these categories. During the same period countries that belonged to the first world were generally seen as developed while countries that belonged to the third world were seen as

undeveloped or less developed (Harris 1990: 7). The terms ‘developed countries’ and ‘developing countries’ are not used in this thesis because they suggest that those categorised by the former term have reached an end state that those categorised by the latter term have yet to achieve: the terms ‘first world’ and ‘developed country’ are often used interchangeably. The terms ‘industrial’ and ‘industrialising’ are the preferred terms used in this thesis because they provide a description of the level of economic development. However, as Harris (1990: 8-9) explains, the nomenclature used to categorize countries is arbitrary and problematic. Arrighi (1990: 11) questions the assumption that industrialisation is the equivalent of ‘development’.



These categories and definitions are not watertight and reflect different purposes. There is also a vast amount of differentiation within them. Crush (1995: xiii) reasserts the fundamentally spatial character of the language, disciplines and practices of development and anti-development. “The language of development constantly visualises landscape, territory, area, location, distance, boundary and situation: “...one of the primary elements in the development narrative is the setting of the geographical stage” (Crush 1995: 14, Thompson and Tapscott 2000: 76). At various periods prior to the ending of the Cold War, Mozambique was aligned either to the West or to the Eastern Bloc. Since the ending of the Cold War Mozambique is located among the ‘least developed country’ category, which is a sub-set of the ‘less developed’ or ‘industrialising’ country category in the development literature. The contemporary Mozambican economy is more accurately described as rural than industrial, despite the GoM’s policy emphasis

on attracting FDI and encouraging industrialisation.

Meiksins Wood (1991: 161) argues that there still remains a strong conviction that in the course of history certain advances just go naturally together and in an unambiguously unilinear direction. There remains a strong belief in the old ensemble of progressive development and any problems that arise are regarded as being the collateral damage of modernisation. The Western concept of progress in society remains resilient and the only conceivable alternative appears to be the post-modernist denial of history altogether. Meiksins Wood (1991: 163) questions whether capitalism is an unambiguously progressive force because, for her, progress means catching up with capitalism.

The inherent logic of capitalism is not just to produce in general, but more specifically, a drive to produce capital (Meiksins Wood 1991: 164). The impulse to improve production is not necessarily driven by a compulsion to alleviate toil and poverty but rather to decrease dependence on paid labour. This means that the nature and scale of production, to the extent that they answer to the specific imperatives of capital, will be determined not by human needs, social responsibility or the requirements of the state, but by their direct contribution to the production and reproduction of capital. The dominant imperative in the context of an international competitive system is profit maximisation. This means that while capitalism has produced unprecedented advances in material well-being, it has also generated deprivation and ecological destruction as products emanating from the same systemic imperatives. Once set in motion the dynamic

of capital accumulation was bound to transform production but only in ways that were profitable to individuals or groups of capitalists (Meiksins Wood 1991: 165).

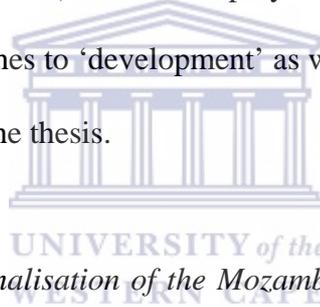
Postmodernists such as Laclou and Mouffe (1990), Mouffe (1989) and Foucault (1989 and 1992) question the rationality and universality of the enlightenment's concept of progress as advocated by Hegel and Marx, sustained by its belief in necessity and in the shape of a teleological 'idea' of history. Mouffe (1989: 31) questions the usefulness of invoking the enlightenment ideals that lay behind the project of the transformation of society. The very idea of progress that is bound up with the project of modernity is queried. Postmodernist authors such as these advocate the abandonment of the universal propositions that provide the ground for the enlightenment idea of politics and social transformation. For them, there is no common content and no overall guarantee of a progressive outcome. Everything is contestable, nothing is off-limits and no outcomes are guaranteed. Conceived of as a discourse, development is seen to manifest a set of languages and practices which reflect relations of power as much as they attempt to address poverty and economic growth (Thompson and Tapscott 2000: 75).

Cognisant of the above, terms and concepts such as 'developing' or 'developed' and 'industrializing' or 'industrialized' countries, which are not neutral or value free, are deployed throughout this investigation in their historical context. The thesis seeks to make explicit the contested nature and the manner in which terms such as 'developing', 'underdeveloped', 'developed', 'economic growth' and 'progress' are used to gain dominance or resist subordination by different interest

groups (e.g. government, investors and labourers) in their quest to extract privileges and realise their varying claims.

1.1.5. Structure and outline

The thesis comprises eight chapters. **Chapter 1** provides an overall context for the thesis and problematises the topic to be researched. **Chapter 2**, entitled a *political economy framework and approaches to development*, surveys and reviews the literature on political economy from which an eclectic Critical GPE analytic framework is extracted (i.e. drawing on neo-Marxist, constructivist and post-modernist theoretical arguments) which is deployed both to critique the dominant neo-modernisation approaches to ‘development’ as well as to provide a theoretical framework for analysis of the thesis.



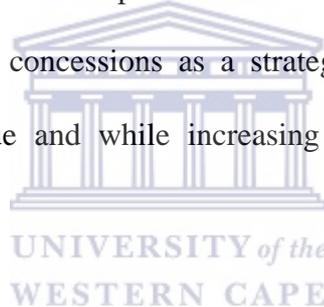
Chapter 3, *The Internationalisation of the Mozambican state-society nexus* uses the eclectic critical GPE framework developed in chapter 2 to analyse the internationalisation of the Mozambican development state form and its changing development strategy. It tracks the development of post-independence Mozambique from a Marxist state-planned economy to its current status as a mixed capitalist economy. In making the shift from a socialist state and in meeting the demands of international funding agencies and TNCs, it is maintained, the state under FRELIMO reoriented its relations with workers, peasants and the poor in general. The chapter concludes that the attempts to accommodate the needs of the TNCs and to align the economy globally, has ultimately benefited the elites at the expense of the poor majority. Furthermore the chapter concludes that the

developmental state model cannot easily be applied to it. The shift in the Government of Mozambique's (GoM's) development strategy is a consequence of the change in the alliances comprising the ruling bloc. The current discourse pertaining to FDI and investment-led development strategies in Mozambique is a re-emergence of neo-modernisation and new-institutionalism approaches, dominated by the country's structural adjustment agreements with international financial agencies.

Chapter 4, On *Global aluminium industrial restructuring and production*, provides a discussion of the political economy of the aluminium industry and production processes globally and in southern Africa and Mozambique. The chapter discusses the configuration of external and internal factors that presented an opportunity for locating MOZAL in Mozambique, a southern African developing country. The chapter argues that large international aluminium companies are able to restructure the global economy in their favour and reduce the investment risks associated with developing economies such as Mozambique's. The MOZAL case study begins by providing a brief empirical overview of the MOZAL aluminium smelter, its employment creation and production capacity and its financial structure.

Chapter 5, On *Foreign investment: Financing of aluminium production and development*, provides an analysis of the FDI inflows into Mozambique and discusses how the public-private partnerships initiated in the industrial free zone could serve to stimulate economic growth. It describes the key political economic

features of the finance structure by focusing on FDI inflows into Mozambique, indicating the salient investment statistics and trends. The MOZAL project is located as a dominant feature of FDI in Mozambique and shows the relationship of South African and Mozambican domestic capital to international capital. Furthermore, an overview of the GoM's efforts to attract and successfully consolidate negotiations pertaining to mega project-based FDI, such as MOZAL, illustrates the developing partnership between government and private sector. The public-private partnership is further discussed with reference to the FDI legislation and regulatory framework in Mozambique. The chapter illustrates how agreements between the public and private sectors concerning the industrial free zone (IFZ) and electricity concessions as a strategy can enhance the location advantages of Mozambique and while increasing the competitive advantages enjoyed by the company.



Chapter 6, *Entitled Economic impacts and implications for business* and **Chapter 7**, *Social impacts and implications for labour, community and environment* discusses the implications of MOZAL for the business sector in Mozambique and its inability to promote forward and backward linkages in the economy. It discusses the socio-economic development dimensions of the MOZAL project for different sectors of Mozambican and South African society. The chapter focuses on the impact of the MOZAL project for economic growth, foreign exchange earnings, trade, balance of payments, credit rating, investor confidence, competitiveness, infrastructure, small business development, income distribution, employment creation community development and environmental

protection. The social responsibility programme of the MOZAL project is discussed and the cultural sensitivity with which the project was implemented is acknowledged. The chapter seeks to go beyond a mere cost benefit analysis, seen only in strictly pecuniary terms, to include the nature of social arrangements and quality of life.

Chapter 8, *The Conclusion*, revisits the major arguments of the thesis and concludes the debate. It is extrapolated from the above-mentioned chapters and confirms that the GoM (implicitly or explicitly) adopted a neo-modernisation and neo-structuralist approach to development and pinned its hope on FDI and industrial projects like MOZAL for development. However, the investigation reveals that the development impacts of FDI such as MOZAL attracted to Mozambique through the SDIs like the Maputo Development Corridor (MDC) is very limited. While MOZAL expanded Mozambique's manufacturing industrial base the country's industry remains small and production is highly concentrated in a few sectors. The main source of export earnings is dependent on a few manufacturing commodities from the extractive sector, such as aluminium, and electricity, which is vulnerable to price fluctuations. The small number of permanent jobs created and the consequent increase in income disparities, combined with the increased consumption of non-renewable resources such as electricity and water, suggests that Mozambique's economic growth strategy is not environmentally-friendly and sustainable.

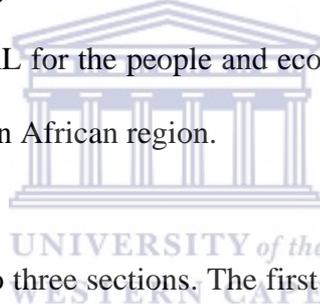
CHAPTER 2: A POLITICAL ECONOMY FRAMEWORK AND APPROACHES TO DEVELOPMENT

2.1. INTRODUCTION

Political economy (PE) examines the relationship of individuals to society, the economy, and the state (Oxford Dictionary 2001: 663). According to Foucault (1989: 168), “the analysis of wealth is to political economy as general grammar is to philosophy and natural history is to biology”. Cox (1995: 32) argues that PE is concerned with structures within which political and economic activities takes place. Strange (1988: 18) defines international political economy (IPE) as being concerned with the social, political and economic arrangements affecting the global systems of production, exchange and distribution and the mix of values reflected therein. In addition to Cox’s focuses on the social forces in production, Strange (1988: 26) identifies finance, trade, security and knowledge as important elements of a PE analytical framework. Mamdani (1996: 294) argues that PE is limited because of its emphasis on the supply of cheap labour as central to capital accumulation, but the extra-economic coercion and control of labour illustrates that PE is also about the mode of control because it is about how power is exercised and resources distributed. The bargaining process between governments, companies and worker organisations is ultimately determined by the relative power of the agents involved. Political economy is arguably more about politics than about economics.

The PE approach has been used and applied in different ways to an analysis of

Africa. Mkandawire (1999: 24-26), Blumenfeld (1991) and Tsi (2001) have applied a PE framework to southern Africa. More specifically, Leysens (2001) presents an argument for the application of a Coxian IPE analytic framework for analyzing southern Africa. Other scholars have applied a PE approach to individual southern African countries for example Mandaza (1986) to Zimbabwe and Tsi (2001) to Botswana. Gelb (1997) has applied the approach to post-apartheid South Africa. Wuyts (1980) has written on the PE of Portuguese colonialism in Mozambique. Abrahamsson (1997) has applied a Coxian IPE analytical framework to post-independent Mozambique. This suggests that it is possible to use a GPE analytical framework to discuss the developmental impact of FDI projects like MOZAL for the people and economy of Mozambique and its implications for the southern African region.

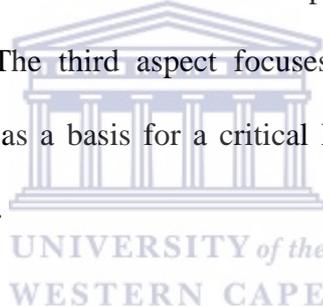


Chapter 2 is organised into three sections. The first section provides an overview of classical and new trends in political economy. A number of themes are identified and used as heuristic tools and as a framework of analysis for the rest of the chapter and chapters that follow. The second section highlights the modernisation and new institutionalism analytical frameworks as dominant paradigms in ‘development’ literature. The section argues that the current new institutional economic discourse on FDI and investment-led development strategies is a neo-modernisation approach to development. The section draws on an eclectic mix of critical IPE including neo-Marxism, constructivism and postmodernism theoretical arguments to interrogate and critique the dominant neo-modernisation approach. The third section discusses the experience of the

East Asian developmental state as an alternative development model and its application to Africa.

2.2. CLASSICAL AND NEW POLITICAL ECONOMY TRENDS

This section discusses three aspects concerning the utility of PE as an analytic framework for understanding and guiding the investigation into the development potential of the MOZAL aluminium smelter in Mozambique. The first aspect focuses on the preoccupation of classical PE with the value being embodied in the production cost and exchange and prices. The second aspect highlights the critique of classical PE and focuses on the social production and distribution of wealth under capitalism. The third aspect focuses on new trends in PE and highlights selected themes as a basis for a critical PE analytic framework to be used in the rest of the study.



2.2.1. Classical political economy of value, production and exchange

Francois Quesnay and the French physiocrats²² were among the first to apply the problématique of political economy to agriculture (Rubin 1979: 372; Strange 1988: 20 and Rima 1996: 66, 69-73). However Adam Smith²³ and David

²² The term 'physiocrats' is applied to a group who came onto the scene in the 1760s, primarily in France. The head of the school was Francois Quesnay and his views on political economy are recorded in *Tableau économique*. The 'physiocrats' economic programme corresponded to the interests of the rural (agricultural) bourgeoisie and was directed against the feudal gentry. Quesnay made an attempt to uncover the mechanism of capitalist reproduction as a whole—an attempt that earns him the right to be called the father of contemporary political economy.

²³ Adam Smith is considered the founding father of the Classical School, based in England. Smith is referred to as the economist of the large-scale manufacturing and division of labour. The Classical School's economic programme corresponded to the interest of the urban (industrial) bourgeoisie and was directed against the agricultural bourgeoisie. In *Wealth of Nations*, Smith provides a critique of the mercantilists' and the 'physiocrats' systems of PE.

Ricardo²⁴ from the English Classical School, who represented the interests of the industrial capitalists, first applied trade and industry to the problématique of PE (Rubin 1979: 373-381). Smith envisaged trade and industry as the basis for national wealth and its management as the subject of political economy:

“... [a] branch of science of a statesman or legislator, which proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.” (Raphael 1985: 80-81)

Ricardo focuses more on the search for the principle underlying the relative prices of different commodities in the market. According to Rubin (1979: 14, 365, 388 and Althusser and Balibar 1987: 160) the objective of classical PE was to explain the mechanism of production and exchange (or trade) of commodities within the capitalist system. In classical PE and neo-classical economic theory the creation of value and consequently wealth is focused around a theory of relative inanimate value-free prices, but prices are also socially and subjectively determined (Desai 1974: 7).²⁵ Suggesting that a focus only on the input cost of producing aluminium and the prices at which the aluminium is traded and consumed would be a very narrow economic approach to MOZAL, which is a more complex phenomenon with wide-ranging development implications for the people of Mozambique.

²⁴ Ricardo is referred to as the economist of the age of the industrial revolution. He is credited with having made a contribution towards resolving the quantitative problem of value, although, with his vision limited to capitalist economy, he ignored the quantitative or social nature of value as the external expression of a determined type of production relations between people.

²⁵ In the classical labour theory of value, prices of all goods are derived from the current labour inputs and the labour input embodied in materials of production. The role of value theory in

2.2.2. Critique of classical political economy of value and exchange

In response to the classical PE of Smith and Ricardo, Karl Marx developed a critique of PE (Rubin 1979 and Hettne 1995: 8). Marx rejected the idea that the price of the commodity is equal to the value of the commodity. For him the value of commodities is determined not by exchange but the amount of socially necessary labour time incorporated in them. Marx's original contribution is the exposé of class exploitation based on surplus labour time and the private appropriation of the surplus value. Desai (1974: 4 and 10) observes that value is a social relationship and not just another name for production price.

The significance of the Marxist theory of value is that the prices of individual commodities are mere appearances and make the exploitation of labour behind the exchange less visible. Classical political economy has transformed what is essentially a social relationship between people into a commodity relationship between things. This gives the economics of things in capitalist society the appearance of trade (exchange) among equals because contracts are seemingly entered into under the free will of parties' concerned (Marx 1977: 14). However, markets are not neutral places or value-free institutions but rather institutions within which social co-operation is organised and power is contested. Markets and firms are networks of more or less relational contracts between individuals and or groups and, like states, they are also organisations and social constructs (Furubotn and Richter 2000: 266). According to Strange (1988: 24-25) power is used to

classical and neo-classical economics is to provide an explanation of the structure of observed prices and quantities.

shape the political economy (global as well as local) and determine the way in which it distributes costs, benefits, risks and opportunities to social groups, enterprises and organisations within the system. Power structures configure and shape frameworks within which states relate to each other, to corporate enterprises and to people. This suggests that the investigation needs to make explicit the power of agents that are currently directing global markets for the production, financing and trade in aluminium.

In his critique of Proudhon's conception of the exchange value of money, Marx (1996: 76) argued that "money is not a thing, it is a social relation". Money is not 'neutral', it cannot be understood and analysed detached from the actual mode of production as a whole or from social existence: it is a social medium (Marx 1973: 107; Marx 1967: 23-29; Marx 1977: 8-9, 14 and Lukacs 1990: 93). Foucault (1989: 171-172) argues that money is a social agreement. The circulation of wealth is an institution created by men and also controlled by them and is linked throughout to politics (Foucault 1989: 205).

In an analysis of the role of FDI within the NEPAD socio economic programme, Tandon (2002: 12) advances similar arguments about FDI being more than merely money. Tandon argues that FDI is a package of capital, technological know-how and management specific to a particular type of production of goods and services, market knowledge and access contacts. For Tandon an important point about FDI is that it is proprietary and owned by a corporation or a bank, and it carries a premium. This also corroborates Marx's (1973: 102) argument that possession is a

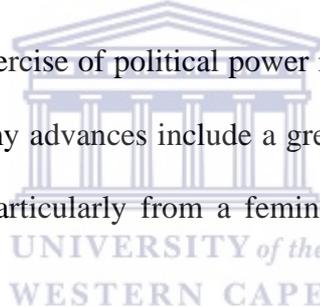
not just a legal relationship but also a social process. This suggests that the investigation clarifies the flows of ownership and flows of money in the form of FDI, loans, foreign exchange and development aid.

Many of the insights provided by classical political economy and its critique can be used to deconstruct and unpack what FDI such as the MOZAL project represents. This suggests that the investigation discusses MOZAL as an example of FDI and the global post-fordist production of aluminium for trade and maximising profits. This means interrogating and making explicit issues pertaining to, first, the export-oriented production structure, in particular who decides what shall be produced, by whom, by what means and with what combination of land, labour, capital and technology (Leysens and Thompson 1999: 22); and second, the conditions under which FDI entered Mozambique and the contractual arrangements of various parties including government, business enterprises and labour organisations involved in MOZAL during the project's construction and production phase. What is required is to unveil the potentially exploitative and/or development content of the processes at the core of the MOZAL aluminium smelter. In sum, the discussion highlights important theoretical themes for the thesis, taken from classical political economy. However, new trends and approaches to political economy have emerged, to which the discussion below turns.

2.2.3. New trends and features in political economy approaches

New trends in political economy arose as a response and in succession to the old

neo-Marxist political economy approach to development (Toye 1995: 330). These new approaches and trends in political economy include IPE²⁶ and GPE, among others (Palan 2000: xiii). Hettne (1995: 2) defines IPE as the connection between politics and economics in international relations. According to Strange (1988: 25) the goal of study in IPE is about ways in which costs, benefits and risks and opportunities are distributed among social groups, enterprises and organisations. GPE, however, privileges the global arena over the international. GPE comprises heterodox and diverse political economic theories and perspectives. In response to neo-liberal political economy Toye (1995) and Payne (1998) argue in favour of a critical GPE framework that focuses on the connection between the economic and social structures and the exercise of political power in the capitalist system. Other theoretical political economy advances include a greater sensitivity to gender and the influence of culture, particularly from a feminist perspective (Steans 1998: 133-134).²⁷



The discussion that follows is not intended to focus on any specific theory in detail but rather to continue to extrapolate selected themes from a heterodox

²⁶ There are different approaches to IPE, for example, Robert Keohane and Joseph Nye focus on trade and investment from a neo-liberal perspective, whereas Robert Cox focuses on the role of production and social forces in configuring the form of state from a neo-Marxist perspective. Susan Strange advocates the inseparability of politics and economics from an IR and not an IPE perspective. The exact definition of IPE and GPE is under dispute and the terms are used interchangeably. GPE is generally preferred and is used throughout this text.

²⁷ Some African intellectuals have rejected the colonial and imperialist ideology and experience. In contrast, they advocate an African perspective of history but do not romanticise African cultural nationalism as universal (Hountondji 1983: 53). Some, like Cheik Anta Diop, go further and suggests that evidence can be found of the African influence (Egyptian) on historical development in Europe. Europe is a distillation of cultures, including African cultures. According to Hountondji (1983: 22), Diop proposes a wider perspective from which to view the course of human development, a perspective that throws a new light upon Africa. His ideological projection consists of projecting a vision of universal history in which Africa is profoundly involved.

critical GPE framework with a view to contrasting the old and new trends in political economy approaches.

2.2.3.1. Beyond structuralism, methodological individualism and rationalism

The critical GPE is an attempt to break free from the analytically constraints of classical political economy and Marxist structuralism. According to Toye (1995: 321, 324) mainstream new political economy is an economic theory of politics. Public choice theory and new institutionalism have become central to mainstream research in GPE (Leys 1996: 80, Palan 2000: 184).²⁸ New institutionalism rest on the assumptions of neo-classical micro-economic methodological individualism and rational utility maximisation in which institutions and macro-level governance structures are reducible to the calculations and behaviour of rational individuals (Martinussen 1999: 251, Furubotn and Richter 2000: 436 and 440, Palan 2000: 15 and Spruyt 2000: 131). In response to the constraints of neo-Marxist structuralism and positivist methodological individualism of neo-classical political economy, Toye (1995) and Payne (1998) argue for a non-rationalist critical GPE. An example of such a critical GPE approach is the anti-positivist and non-determinist explanations for the working of capitalist society outlined by Robert Cox (Cox 1995: 31-32).²⁹

2.2.3.2. Non-determinist and non-teleological historicised social constructs

²⁸ See Robert Keohane (1984), *International Regime*, for an application of transaction costs and public choice theory to international relations.

²⁹ Anti-positivists believe that the differences between the social world and the natural world are so fundamental that there can be no basis for using the same methods and techniques in the human

The new trends in PE reject the classical and neo-Marxist PE as rationalist, economic-determinism, reductionism and teleological constructs implicit in structuralism (Hettne 1995: 10 and Palan 2000). Critical GPE argues against the separation of politics and economics and embraces the importance of agency and historical contingency (Cox 1987: 4 and Strange 1988: 14-15).³⁰ It rejects the instrumentalist approach to analysing social forces: for example, the state is not merely the direct instrument of the dominant class but is an arena of struggle (Cox 1987: 19 and 389, 1995: 33). Similarly Payne (1998: 269) and Palan (2000: 225) argue that the capitalist state may advance the interests of capital, but such a relationship is contingent, not inevitable and is a matter for empirical investigation, not theoretical assertion. Fieldhouse (1995: 165) argues that without looking at specific cases it is impossible to know in general whether TNCs will benefit or harm a host country. Within critical GPE, a social constructivist tendency holds that actions of various agents are products of formal and/or informal institutions and rules, historical narratives and social constructs, in which outcomes are open-ended and not inevitable but negotiated and contested (Payne 1998: 269). Amoore (2000: 56, 60 and 62) highlights the need to historicise the agency-structure problematic to reveal how structures are constructed by human practice.

2.2.3.3. Structures and agency are internally and externally constitutive of each other

sciences. Anti-positivists would include, inter alia, constructivists, interpretivists and phenomenologists.

³⁰ Historical structures as persistent social practices, made by collective human activity.

Strange (1988) suggests that the critical GPE focuses on the power structures or institutions of production, trade and finance markets which are shaped by the agents involved. Toye (1995: 332) argues that a new trend and consensus is that agentless structure versus structureless agency is a false dilemma, and that this long-standing dualism has to be set aside in favour of theories that permit reciprocal interaction between the individual and the social setting. Structures and agency are not opposite binaries or material-ideational dichotomies but rather a co-constitutive didactic unity (Amoore et al 2000: 67). This non-determinist and agency-oriented body of theory needs to at least give equal weight to structure and agency as internal to and constitutive of each other, rather than privileging one to the exclusion of the other (Cox 1987: 5-6 and Payne 1998: 266). The endeavour to restore historicity and agency to the subject has been the cutting edge of a variety of critiques of structuralism. However Mamdani (1996: 10-11) argues that if structuralism tended to straitjacket agency, a strong tendency in post-structuralism or post-rationalism is to diminish the significance of historical constraints in the name of salvaging existential agency. The eclectic critical GPE framework recognises that agents have a history which is both enabling and constrained by circumstances to which they may or may not have contributed.

2.2.3.4. Integrating local, national and international spheres of influence

In contrast to classical PE, a new trend is a conceptual shift from the national to the international, indicating how countries, cities or communities are unevenly

and differentially integrated into the global community.³¹ GPE approaches recognise that global, national and local political economic activity are shaped and transformed by interactive processes. A feature is the internationalisation of social forces or transnationalisation of agencies such as states, TNCs, labour organisations and other NGOs of various sorts. Paul (2002: 472) argues that in the constitution of the transnational capitalist class the sub-national states are also sites of regulation for processes which are simultaneously global and local. Mediated by transnational networks of TNCs, state elites, officials and bureaucrats, globally mobile capital circulates through particular local places (Paul 2002: 476). Paul (2002: 483) concludes that as the circulation of capital becomes more global, the responsibility for affecting and controlling production becomes more local. As global and local institutions are important organisers of FDI and other complex forms of global capitalism, this necessitates a conceptual re-scaling of GPE premises, not only upwards to the global level but also downwards to local cities. Swyngedouw (1997: 140, 161) rejects global and local discourses as they are constitutive of each other and suggests that sociospatial power relations are contested and compromises are negotiated as outcomes of social struggles for power and control.

2.2.3.5. State, market and society a complex intertwining relationship

The new trends in PE view historical structure not merely as the product of the state or government policy but rather as the dynamic interaction between various

³¹ Unevenly and differentially integrated into global community refers, for example, the manner in which certain parts of Maputo and Mozambique are integrated into global community at the expense of others.

social forces or agencies such as investors, TNCs community and worker organisations. From this perspective provision is made to give voice, also, to non-elite ‘collectivities’ such as workers and community residents. Classical PE polarises state and society into distinct binaries and ignores the extent to which the state has penetrated society and society has exerted influence over the state (Mamdani 1995: 605). Critical GPE theorist argues that there is a need to go beyond the state-market (firm) or state-society dichotomy and embrace the notion of the state-society complex or state-society nexus (Cox: 1987: 1, Hettne 1995: 5, Palan 2000: 2-4, Payne 1998: 266, Strange 1988: 22, and Toye 1995: 321 and 324).

Strange (1992: 1, 1994: 107) argues that in the era of globalisation private actors, including firms, play a crucial role in determining economic and political issues and that states increasingly have to bargain and negotiate with private sector companies around investment, trade and taxation regulations. Worker and other civil society organisations also bargain with the state and corporations around minimum wages and social grants, as well as environmental protection. The development impact of FDI depends significantly on how well the host economy bargains with international investors. The capability of developing countries to negotiate with TNCs is influenced by endogenous (domestic) and exogenous (international) factors (Simms 2002: 164; Tarzi 1995: 154).³²

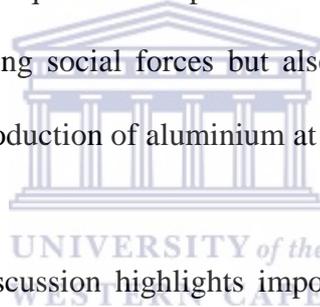
³² Endogenous (domestic) factors such as governments’ expertise, capacity and management skills and exogenous (international) factors such as the degree of competition among TNCs, the type of

2.2.3.6. Contradictions, diachronic social tensions and transformation

As indicated above, the relationship among various social agents can be co-operative but it could also be antagonistic. Critical GPE analysis also focuses on the contradictions and tensions because it contains the embryo for transforming the socially constructed historical structure, such as, for example, community life in Maputo. Strategies adopted by various subjects influence and shape institutions (Payne 1998: 268). The subject is conceived of as both producer and product of the experience. This means a recognition that scientific enquiry is a social practice involving the inter-subjective aspects of social agents that hold particular values and assumptions (Cox 1987: 17, 1995: 33-34).³³ On one hand, successfully attracting FDI suggests the extension of the state's hegemony, the expansion of markets and enhanced global reach. On the other hand, contradictions in, for example, the market, involve adversarial labour relations, conflict, diachronic tension and refutations. Contradictions of modernity, such as the increase in social inequity, suggest a lack of sustainable development and a breakdown in legitimacy and political hegemony. An example would be society's response to disembedded or unfettered markets in Polanyi's double movement (Hettne 1995: 11). According to Cox (1987: 1, 1995: 35) and Hettne (1995: 22) contradictions and tensions between and within social forces in capitalist society are the motor force in the configuration and transformation of specifically different historical structures.

FDI and the degree of prevailing predictability and uncertainty, influence the bargaining power of host governments relative to TNCs.

Fine and Rustomjee (1996) and Castel-Branco (2002) in their analysis of industrial policy in South Africa and Mozambique, argue that state and markets (society) are intertwined power structures that are simultaneously internally and externally constitutive of each other in an integrated and dialectical synthesis. The implication for this investigation is to regard the form of state in Mozambique and the nature of aluminium markets as power structures produced overtime under specific conditions by the interaction of various social agents in southern Africa, to focus attention on areas of cooperation and tensions which arise between government, investors and labour in negotiating FDI and implementing the MOZAL project in Mozambique. This implies making explicit the contradictions and tensions not only among social forces but also within a social group with reference to FDI and the production of aluminium at the MOZAL smelter.



In summary, the above discussion highlights important theoretical assumptions and themes for the investigation taken from classical political economy and the new trends and critical GPE approaches. These include:

- that political economy is the study of how wealth is socially produced, financed, exchanged (traded) and distributed;
- that FDI is not merely money but is negotiated power structures and a social arrangement. This means that markets are not neutral and value free institutions but are constructed by individuals and social groups contesting power, resources and their distribution;

³³ Intersubjective content is defined as the common understandings shared by the people embraced by the mode in respect to the relationships and purposes in which they are involved.

- an analysis that goes beyond the constraints of methodological individualism and structuralism, and in a non-teleological and non-deterministic manner, would analyse MOZAL as a historically contingent social construct;
- investigation into how the activities and spheres of influence of various transnational social forces involved in MOZAL are unevenly integrated across the local, national, regional and international levels by globalisation processes; and
- an approach that investigates the contradictions and diachronic social tensions that arise from the establishment and impact of the MOZAL project on Mozambican society, as well as the potential areas for social transformation.

These themes are the building blocks of the analytical framework for investigating the relationships that social actors entered into in order to secure FDI and produce aluminium at the MOZAL smelter. The themes are useful for theoretical clarity but in reality they overlap and are linked to one another, cutting across the political economy structures of production, trade, finance and human security.

The themes referred to above manifest with varying degrees of emphasis in different theoretical approaches to development. The quarrel that critical GPE frameworks have with dominant approaches to development like neo-modernisation and new institutionalism is that the latter privilege the state as the main referent or social actor and gives primacy to economic growth concerns. Neo-modernisation and public choice theory led to a political economy that

stresses the technocratic or managerial aspects of politics, reducing it to what is economically rational. Despite new institutionalism, attempts to adapt it do not sufficiently question the premises of utilitarian rationality and ignore the concept of how power deployed. There is little to distinguish the new institutional economics from contemporary neo-classical economics (Furubotn and Richter 2000: 439, 440). Critical GPE is sceptical about the applicability of a universal developmental state model to different developing country contexts and raises concerns about the state or society as homogenous actors to which an *a priori* coherent internal logic is ascribed. The next section draws on the above-mentioned themes and critical GPE framework in a discussion of selected development approaches.



2.3. POLITICAL ECONOMY OF DEVELOPMENT APPROACHES

Hyden (1994: 309) demonstrates that shifts in development ideology more or less result in corresponding shifts in development theory and paradigms. The idea that development is dependent on attracting FDI and industrialising is a re-emergence of the modernisation approach to development, re-dressed in the garb of current day globalisation. Modernisation is the process by which traditional (read agriculture-based) developing countries, such as Mozambique, use foreign investment to modernise, imitate and catch up economically with the industrialised countries in Europe (Chambua 1994: 38). This is also known as the 'big push' theory of development which holds that all that LDCs require to 'take off' into a period of self-sustaining economic growth is a massive investment program designed to promote rapid industrialisation and the building up of

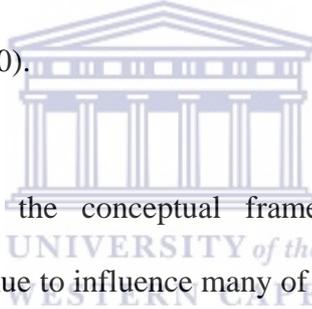
economic infrastructure (Todaro 1986: 575). The investment-led development path (IDP) theory is located within the framework of new institutional economics. New institutional economics is perceived as extended neo-classical theory (Furubotn and Richter 2000: 439). Like neo-modernisation, new institutionalism stresses the primacy of market institutions, facilitated by the state attracting FDI, as the main development strategy to address the challenges of economic growth, unemployment and poverty.

There is a large and heterodox development literature with varying perspectives of development. Present in this literature is a variety of development definitions and prescriptions for achieving the desired objective. These range from more orthodox definitions equating development with economic growth and progress, to human-centred sustainable development. The varying interpretations of what is meant by development suggest that the concept of 'development' remains a fungible and normative concept (Crush 1995: 3 and Martinussen 1999: 14).

Reflecting on the themes extracted from critical GPE, this section addresses four aspects of development. The first aspect is the emergence of neo-modernisation by O'Dowd (1996). The second aspect is the IDP advocated by Dunning (1997) as an example of an eclectic development framework within the new institutionalism. The third aspect that is discussed briefly is the sustainable development approach. The fourth aspect relates to the critique of neo-modernisation, new institutionalism and dependency theory by post-development and people-centred alternative development approaches.

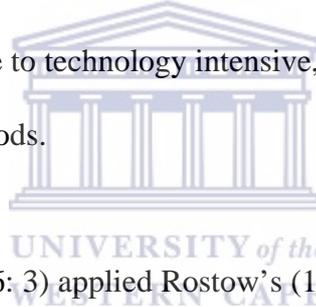
2.3.1. The re-emergence of the modernisation approach to development

During the 1940s and 1950s there emerged a widespread conception of development as a process of modernisation, by which 'traditional' and underdeveloped countries move towards greater similarity with the Western, more industrialised world (Martinussen 1999: 38-39). Modernisation is defined by Sardar (1999: 52) as the process by which a society comes to be characterised by a belief in the rational and scientific control of man's physical and social environment and the application of technology to that end. Modernisation theory was intended as an alternative to Marxist theories of modern history (Martinussen 1999: 65 and Meier 1995: 70).



In the 1990s and today the conceptual framework and methodology of modernisation theory continue to influence many of the basic notions of economic development (Martinussen 1999: 61, Munck 1999: 197-198, Rist 1997: 103 and O'Hearn 1999: 115). According to Gardner and Lewis (1996: 12) the World Bank's support for globalisation continues within the dominant paradigm of neo-modernisation. The FDI and trade activities of TNCs are a major thrust of globalisation processes. The modernising abilities of FDI and TNCs are advanced by Dunning (1997), Dunning and Narula (1996) and the World Investment Reports (WIRs 1999, 2000, 2001 and 2002). However, Chambua (1994: 38) and O'Hearn (1999: 117) argues that globalisation is little more than a repackaging of development as industrial modernisation, indicating that by attracting TNC and FDI countries can attain upward mobility.

The rationale of neo-modernisation and new institutionalism underpins the thinking of MOZAL as a development project. The object is to transform the Mozambican economy from being agriculture-based, with high levels of unemployment and poverty and low levels of economic growth, income, education and health care, to a modern industrial economy. The country's poor performance is due to a lack of appropriate and effective institutions (e.g. transport infrastructure and the rule of law), all of which is a consequence of a lack of productive capital and inappropriate government policies. Productive investment, it is assumed, will modernise and transform Mozambique's economic institutions from agriculture to technology intensive, manufacture-based industries engaged in the export of goods.



In the 1990s O'Dowd (1996: 3) applied Rostow's (1960) general five-stage theory of economic growth and modernisation to South Africa. O'Dowd (1996: viii) argues that the fastest route to overcoming poverty and obstacles to democracy was by capitalist economic development. In the stylized country model, the first stage of development precedes the point which Rostow terms 'take-off' and is necessary to make 'take-off' possible. During the 'pre-take-off' period the focus is on building infrastructure and creating the basic institutions necessary for a modern state. According to O'Dowd (1996: 5), the transition to 'take-off' is not inevitable, but when countries continue with industrialisation they may enter the take-off stage. During the 'take-off' stage interest groups determined to pursue industrialisation strongly influence the development of society and give rise to

growing discontent among those who ‘have not’ with those who ‘have’ access to resources. Industrialisation may occur if the ruling group is more efficient, but in the short-term this means enduring harsh conditions as industrialisation requires the restriction of consumption in order to allow for investment (O’Dowd 1996: 6).

According to Meier (1995: 69, 87, 327-328) the ‘take-off’ stage or ‘big push’ a critical minimum level of resources and effort believed necessary to break out of the constraints of underdevelopment is defined as requiring all three of the following related conditions:

- a rise in the rate of productive investment from, say, 5% or less to over 10% of national income;
- the development of one or more substantial manufacturing sectors, combined with a high rate of growth; and
- The existence or quick emergence of a political, social, and institutional framework that exploits the impulse of FDI to expand the modern sector.

With the MOZAL investment project Mozambique meets all of the above criteria, suggesting that the country has reached or entered the ‘take-off’ stage.

2.3.2. The investment-led development path: An eclectic approach

The new institutional economics is an eclectic framework that explains economic performance from the way in which different institutionalised rules affect the behaviour of rationally choosing individuals (agents) seeking to maximize their welfare (Leys 1996: 84-85 and Furubotn and Richter 2000: 441). For example, in the bargaining process host governments seeks to encourage firms to locate their

operations within the host governments' countries on the best terms possible, while TNCs want to minimize the conditions and restrictions the host government is able to impose on their operations (Tarzi 1995: 154). The new institutional economic framework is of particular significance for Mozambique because with the MOZAL project the country has embarked on an IDP.

According to Dunning (1997 and 1998) and Dunning and Narula (1996), the theory of the IDP holds that the outward and inward direct investment of a country is systematically related to the country's stage of economic and industrial development, relative to the rest of the world.³⁴ In the IDP, Dunning and Narula (1996: 1-12) suggest that countries progress through five main stages of economic development.³⁵ During the first stage of the IDP, the location-specific advantages are presumed to be insufficient to attract inward direct investment with the exception of those arising from its possession of natural assets. Government intervention during this stage focuses on providing basic infrastructure and upgrading human capital (via education and training), as well as the provision of economic and social policies (e.g. export subsidies) designed to influence the structure of the market. As inward FDI increases, the country precedes to stages two, three, four and five, which advanced industrial nations are now approaching.

According to Dunning and Narula (1996: 7), the IDP schema represents a natural

³⁴ The IDP takes into account three main factors. These include: the ownership-specific advantages of the firms; location-bound resources; and the ability of these firms to internalize the cross-border market for these advantages. In addition the extent of natural and created assets is also likely to affect location advantages.

³⁵ See also Zamen's (1998: 239-240) discussion on Dunning's five stages of the IDP.

and predictable progression of the internationalisation of firms and economies. This natural progression from a 'backward' stage to an 'advanced' industrial stage is a distinguishing feature of modernisation theories. Similarly to modernisation theory, in terms of the IDP approach all countries more or less traverse this universal investment development path, which suggests that a country's development is path dependent.

According to the IDP theory, it appears Mozambique may currently be located between stages one and two of the IDP. Dunning and Narula (1996: 13) suggests that a country at the earlier stages of economic development will experience inward FDI which is largely resource driven. In countries that are late to industrialise, government policies can play a large role in creating and manipulating conditions to attract FDI and accumulate capital (Dunning et al 1998: 257 and 276). Lall (1996: 426-427) suggests this necessitates the use of policies to overcome market failures and constraint to growing a national industry.

The IDP theory is used to discuss and analyze factors influencing FDI inflows that gave rise to MOZAL and the GoM's policy decisions to improve the investment climate and, as a consequence, the human condition in Mozambique. The ideas of neo-modernisation and new institutionalism permeate the GoM strategies to enhance the country's investment institutions and attract FDI inflows and are discussed in Chapter 5. The discussion now turns to the critique of the neo-modernisation and new institutionalism development framework.

2.3.3. People-centred sustainable development approaches

Modernisation, dependency and new institutionalism development approaches privilege the agency of the state in their analytical framework. In contrast, sustainable development approaches like critical GPE are more human-centred and recognise as important the agency of other social forces. The significance of the WCED (1987), also known as the Brundtland Commission's Report, was that it focused the debate on economic development not only on growth but also on the impact of the social and physical environment (Martinussen 1999: 43).

Sustainable development is defined as a process that

“ fulfils or satisfies present human needs without endangering the opportunities of future generations to fulfil or satisfy their needs.”

This approach focuses the discussion on human needs as being closely related to problems of poverty, especially in developing countries. The sustainable development approach argues for a mutual balance between economic growth, socio-economic equity and the physical environment. According to Sen (1999: xii) sustainable human development is about the enlargement of people's choices and human capacity. Free agency and freedoms is a constitutive part of the ends and means of development.

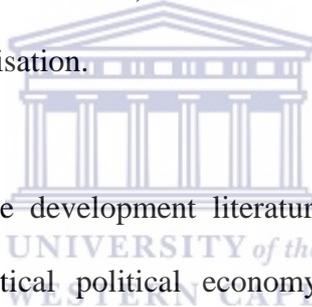
Sen (1999: 1) argues that, while growth in GDP or income industrialisation, technological progress and/or social modernisation can substantially contribute to expanding human freedoms, social and political arrangements can strongly enhance or constrain human freedom. According to Sen (1999: 7) a lack of freedom and capability to participate in the labour market and other institutional

arrangements is one of the ways of keeping people in bondage and captivity. This suggests that in addition to access to education, health and labour institutions, political variables such as democracy and social justice should also be factored into a conception of sustainable human development. Sustainable development requires three types of investment: investment in human capital development (i.e. good health, education and training); investment in natural capital development (i.e. environmental resource protection and conservation); and investment in clean technologies leading to growth (Meier 1995: 231).

2.3.4. Critiquing the different development approaches

Ferguson (1990) and Tapscott (1995: 186) argue that the concept of development is not neutral because its language and institutions are appropriated by social groups with vested interests. For example, Esteva (1992: 9) argues that the concept of development is a metaphor employed and applied by politicians to almost everything humans do. The development discourse dominated by the IMF, World Bank and UNDP comprises a web of key concepts such as poverty, production, progress, state and wealth. Development, Ferguson (1990: xiii) argues, is a dominant problematic or interpretative grid not restricted to national boundaries. Pieterse (2000: xii, 197 and 2001: 7) argues that development is a multilevel negotiation and struggle among different stakeholders over the shape of the future. Crush (1995: 6) suggests that these struggles are about mapping transnational spatial reaches of power and the control and management of other people's territories, environments and places.

In contrast to the optimism of modernisation or new institutionalism, individual scholars have described development in different ways. Tucker (1999), for example, describes it as a myth and fairytale, while for Rist (1997), development is an illusion. For Arrighi (1990: 11-12, 18), Illich (1997), O'Hearn (1999: 131), Sklair (1994: 181) and Wallerstein (1994: 19), development is capitalist accumulation and masks class control, while Escobar (1992b: and 1997: 92), Estava (1992), Sachs (1992), and Rahnema and Bawtree (1997: x) regard development as discourse analysis, a deceitful mirage, 'ideological icing', cultural imperialism and planned poverty. Rist (1997: 6) concludes that development has gradually been drained of its content, so that it is now a mere residue used to justify the process of globalisation.



Scholarship reflected in the development literature has coalesced into several groups, including the 'critical political economy of development grouping' represented in Crush (1995), Cooper and Packard (1997), as well as Munck and O'Hearn (1999) and the 'anti-development' or 'post-development' grouping represented by Sachs (1992) and Rahnema and Bawtree (1997), among others. With the exception of the post-development cohorts, these groupings represent different paradigms in the sense to which Kuhn (1962) referred.³⁶ This implies that the investigation into the kind of development that MOZAL represents for the people of Mozambique needs to take into account its constructivist nature and make explicit the claims and counter claims from the different locations of

³⁶ Individual scholars have shifted paradigms but the majority faithfully adheres to the values and assumptions that epitomise their particular research and academic network.

individuals and social groups in relation to the project. From the critical GPE framework perspective it means recognising the diversity of agency.

The 1960s was designated as the United Nations Development Decade by the General Assembly of the United Nations (UN). But the hope of closing the development gap between rich and poor countries faded away in the 1970s and 1980s. After the Cuban revolution in 1950, dependency theory emerged as a powerful critique of various forms of unilinear evolutionism. The dependency school challenged the Eurocentric view that TNCs are a catalyst for development. In contrast to neo-modernisation and new institutionalism, dependency theory holds that the practice of TNCs and FDI reinforces the underdevelopment of developing countries. This view also resonated with post and anti-development perspectives, which hold that the development agenda is about the 'Westernization of the world' (Sachs 1992: 4 and Munck 1999: 198). Modernisation holds up European history and society as a mirror in which to gauge the significance of all other human development (Mamdani 1995: 609). A critical GPE perspective critiques such a 'Westernised' or 'Europeanised' construction and framing of African realities and development challenges.

Escobar (1997: 86) critiques the idea that industrialisation and urbanisation (in which capital investment is the most important ingredient in economic growth and development) was inevitable, and assumed a teleological, necessarily progressive route to modernisation. Dependency theory also emphasises the role of TNC-dominated production, trade and finance in subjugating developing countries to

industrial countries. Underdevelopment and dependency in developing countries was historically produced as a creation of imperialism and industrial capitalism. Rahnema and Bawtree (1997: xv) and Latouche (1997: 37) critique the modernisation paradigm for envisaging development as the trickle-down effect of industrial growth. Critical GPE critiques the trickle-down approach of neo-classical economics and makes explicit how and what benefits, if any, trickle down to whom.

A number of other scholars, namely Chambua (1994: 34), Gardner and Lewis (1996: 19), Cooper and Packard (1997: 2), Payne (1998: 262) and Pieterse (2000: 199), as well as Munck and O'Hearn (1999: xiv), have critiqued modernisation and dependency theory as opposite sides of the same coin. They argue that dependency theory mirrors modernisation because it shares a common goal of national accumulation and emphasises overcoming the constraints which prevent developing countries becoming like the developed countries. Modernisation and dependency theory analytically perpetuate artificial binaries between the nation state and international spheres of influence.

According to Mamdani (1996: 9), the modernisation and dependency theory paradigms were both the outcome of accumulation processes on a world scale. He (1996: 9-10) argues that a unilinear perspective of social evolution is doubly problematic because it caricatures the experience of the 'underdeveloped' country while simultaneously mythologising the experience of the 'developed' country. If the former is a-historical, the latter is a super-historical trajectory of development

and a necessary path whose main line of development is unaffected by struggles that happened along the way. Classical and modern development thinking is fundamentally structuralist and void of historical specificity. The shift from modernisation to new institutionalism is an attempt to avoid the structuralist constraints and accommodate agency-oriented views (Pieterse 2000: 204).

Critical GPE holds that the question of institutional efficiency cannot be separated from that of redistributive change. The dominant theoretical paradigms overstress capital accumulation without giving due consideration to needed social and institutional change. However new institutionalism has not succeeded in shedding the methodological assumption of rational choice theory and treats states and other institutions in the same way as individuals in neo-classical theory (Fine 1999: 4, Spruyt 2000: 132-133). Constructivist and post-structuralist critical GPE argues that individual preferences and interests are social constructs informed by the social context in which individuals are embedded (Spruyt 2000: 140). Choices and preferences are socially contingent (Spruyt 2000: 141). Leys (1996: 66-67) and Pieterse (2000: 209) recognise that neo-modernisation is adjusting by incorporating a more complex understanding of modernity and a re-evaluation of the traditional, no longer as an obstacle, but as a resource. Fine (1999: 2) argues that the adjustment results in a pale version of 'welfarism' or modernisation based on correcting micro-imperfections in economic and non-economic relations, void of class and power.

The concept of sustainable development is, however, met with a mixed reception

from various scholars. Post-development or anti-development scholars, such as Sachs (1992), argue that the introduction of the environment into the definition of sustainable development is smoke and mirrors because the main basis still remains economic growth as measured by GDP. Pieterse (1998: 344-345) questions how the critique of the dominant or mainstream development paradigm has been constructed. The basic question for Pieterse (1998: 358) is whether alternative development is an alternative way of achieving development, while still broadly sharing the same goals as mainstream development but using different means.³⁷ Since the 1990s the UNDP's Human Development Reports (HDRs), for example, have factored in health, education and gender as part of sustainable human development. Another example is the World Bank's World Development Reports (WDRs), which traditionally emphasised GDP and economic growth as the mainstay of development but have, since the World Summit on Sustainable Development (WSSD) 2002 conference, also focused on sustainable development. The hiatus in development may no longer be between mainstream and alternative paradigms but within mainstream development paradigms (Pieterse 1998: 360).

In summary, the concept of development is an evolving and much contested notion especially because the goals of development are normative issues. The

³⁷ In response to the criticism from alternative development, mainstream development has gradually been moving away from its preoccupation with economic growth towards a people-centered definition of development, for instance including human development. Development is no longer simply viewed as GDP growth and human development is seen as a more appropriate measure of development. This means that in the 1990s alternative development has become less distinct from conventional development discourse and practice, since alternatives have been absorbed into mainstream development. Even the World Bank has incorporated the notion of

modernisation, dependency and institutionalism approaches focus on the constraints of capital accumulation and inappropriate institutions as major reasons for the lack of development. Sustainable development represents a critique and an alternative approach to that of neo-modernisation. The sustainable development approach implies that the investigation into the impacts of FDI and MOZAL on the people of Mozambique is to indicate not only the project's contribution to economic growth but also to the reduction of social inequity and poverty without harming the natural environment. This also means making explicit how MOZAL and the increase in FDI have contributed to building institutions and improving the capacity of government in addressing Mozambique's development challenges.

Deliberate and purposeful state invention is needed to shape and direct efficient institutions that will facilitate the type of development envisaged by the various development approaches discussed above. The next section discusses the developmental state society complex as a model in which states successfully bargain with firms and efficiently implement FDI-led development.

2.4. POLITICAL ECONOMY OF THE DEVELOPMENTAL STATE

Based on the relatively successful experience of East Asian governments in encouraging development in their respective countries, the East Asian developmental state represents a model for governments of other developing countries facing the many challenges of development. The developmental state is characterised by an efficient and capable government making resolute and

social capital and sustainable development into its framework.

purposive government policy interventions to encourage economic growth and development. This chapter discusses the usefulness of the developmental state for understanding how state intervention in African countries can encourage development.

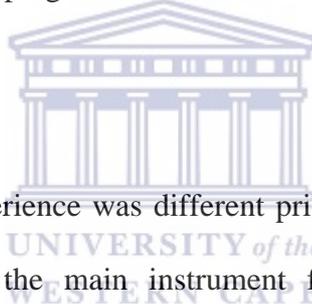
Reflecting on the East Asian experiences and the themes extracted from critical NPE, this section addresses three aspects of the developmental state. First, it highlights the definition and features of developmental states. Second, it discusses the critique of developmental states. Third, it looks at whether the developmental state can be replicated in southern Africa.

2.4.1. Definition and features of the developmental state

The developmental state is a transitional form of the modern state which has emerged in late-developing societies, from the 19th century to the present. Leftwich (2001: 152) argues that although developmental states are not restricted to capitalist market economies, they are mainly associated with them. According to Mhone (Feb 2003), a developmental state is one whose *raison d'être* is an obsession with emulating and catching up with the investment-driven development demonstrated by the NICs. The main aim is to attract foreign and domestic investment in a manner that contributes to the modernisation of the country's indigenous technology and industrial development. Developmental

states are commonly associated with a high degree of political nationalism and economic competitiveness.³⁸

The developmental state emerged during the 1970s and 1980s as the paradigm in which efficient East Asian governments successfully bargained with TNCs and intervened to shape market conditions, attract FDI and sustain high levels of economic growth. The East Asian developing economies were transformed from being agriculture-based into dynamic, newly industrialised economies. The significance of the developmental state-led transformation is that it demonstrates that it is possible for developing countries to break out of underdevelopment and dependency.



In southern Africa the experience was different prior to 1970s: the post-colonial African state sector was the main instrument for developing industry and achieving economic independence (UNITAR 1987: 162 and 204).³⁹ By the end of the 1970s and early 1980s, the failure to industrialise meant that the credibility of the state sector declined and government intervention in the economy was discouraged. The World Bank argues that state intervention in economic

³⁸ According to Van Hensbroek (date: 111-112), the ‘developmental state’ that arose in Africa during the 1960s had the task of implementing a co-ordinated programme of modernisation that dominated developmentalist policy design for the past 40 years. This indicates the presence of the (idea) of the ‘developmental state’ in Africa prior to its emergence in Asia in the 1970s. In order to implement the national development plans, which was the necessary institutional mechanism to guarantee effective control of state power, was put in place in co-operation with the West by using foreign investment and development aid. The ‘developmental state’ would unite society in a crash programme of industrial modernisation and nation building.

³⁹ By the state sector is meant government and state-owned enterprises irrespective of whether the political administration is a socialist planned state economy or a capitalist mixed-market economy.

development often created more problems than intended and advocated state withdrawal from market intervention.⁴⁰

The developmental state's form is an important agent and product of the dialectical interaction between transnational, national and local social forces. This means that an analysis of the development state's form and its role should not privilege the agency of the state at the expense of other social agents, such as investors, business, and worker organisations. In response to the idea of a minimalist state, Evans (1985), Amsden (1997), Wade (1996: 5-8), Evans, Rueshemeyer and Skocpol (1989) and Panitch (2000: 8) argue for bringing the state back in and for refocusing on state-society relations. Put differently, in the words of Strange (1988: 22), for an authority-market and market-authority nexus. Instead of polarising or seeing the relation between the state and society as mutually exclusive binaries, Evans et al (1985: 353), Amsden (1997: 25) and others, such as Panitch (2000), argue that a dialectical relationship exists between state institutions that seek to shape society and societal groups that seek to influence the state.⁴¹ Powerful social actors, such as private sector companies, may supplement and increase the capacity of the state to successfully intervene and undertake tasks in society through the provision of access to finance, technology and much-needed skills.

⁴⁰ For World Bank arguments on state withdrawal see the WDR (1980s) on "*Structural Adjustment in Sub-Saharan Africa*", followed by WDR (1989), "*Sub-Saharan Africa from crisis to sustainable growth*", conceding to a minimalist perspective in both size and role for the state.

Stiglitz (1996:155) argues that the appropriate question to ask is not whether government should play a role, but what role and how it can be performed most effectively. According to Martinussen (1999: 252) and Standing (2000: 739), Stiglitz's approach to development is associated with the new institutionalism framework. Stiglitz (1996: 156, 1998a: 3) argues that since markets and information are imperfect, market mechanisms cannot be relied on to address development challenges, especially in developing countries. Government could devise interventions that compensate for market imperfections and create an enabling, business-friendly environment.⁴² Fine (1999: 14) argues that the new politics of bringing the state back in and the theory of the developmental state have become tied to a much less radical critique of mainstream economic theory.

In this critique the debate shifted away from the size or amount of state intervention to more substantive issues, such as possessing a critical mass of competent, trained and independent administrators, as well as the efficacy of state intervention. The ability and efficiency to attract FDI and persuade TNCs to contribute to national development depend on the expertise and management capacity of host governments (Tarzi 1995: 156). The WDR (1997: 1) defines an effective state as one that is able to harnesses the energy of private business and

⁴¹ According to Mamdani (1995: 602), the solution to the state-versus-civil society-centred development is not to choose sides and defend an entrenched position but to historicise the state-society nexus.

⁴² According to Schneider (1998), business-state relations were crucial in explaining patterns of development and variations in economic performance in the late 20th century. The pace and content of economic development was dependent on the nature of the changing relations between the state and various capitalist coalitions.

individuals as its partner in catalysing development.⁴³ A key characteristic of this type of state is its determination and ability to stimulate, direct, shape and co-operate with the domestic private sector and manage mutually acceptable deals with foreign interests.

The hegemony of the developmental state is based on political legitimacy and more synchronic (co-operative) rather than diachronic (adversarial) dialectic interactions among states and other social agents. The developmental state's effectiveness depends on the capacity of democratic regimes to secure sustained and equitable socio-economic development. Embedded autonomy is for Evans (1985) the key to the developmental state's effectiveness. A private sector-friendly and effective management of non-state economic interests build the credibility of the state to elicit co-operation and trust in joint endeavours (Huff, Dewit and Oughton 2001: 150 and Leftwich 2001: 152). The legitimacy or credibility of the developmental state is explained by the support that different civil society organisations such as business and labour groups give to state initiated development projects (Castells 1992: 56-57 and Huff, Dewit and Oughton 2001: 147-150). According to Moon and Prasad (1994: 364) and Castells (1992: 64), the fundamental element in the ability of developmental states to fulfil their projects is their political capacity to impose and internalise their logic on civil society.

⁴³ World Bank documents reintroduce the state back into the development paradigm? In the WDR (1993), *East Asian Miracle: Economic growth and public policy*, the World Bank concludes that industrial targeting along with heavy investment in education and solid macroeconomic management, was, indeed, most helpful in promoting economic growth with equity (Wade 1996:23).

2.4.2. Critique of the developmental state and globalisation

During the late 1980s and the first half of the 1990s a critique emerged of the East Asian and African developmental state (Mkandawire 1999: 26-27 and Moon and Prasad 1994: 364-370). The developmental state demands support from society for its development endeavours, narrowly defined as growth in per capita incomes. Krugman (1994: 64, 76 and 77) argues that the rapid growth rates of the NIC of East Asia was less a consequence of productive efficiencies than that it was of increases in, and high rates of inputs of, machinery, infrastructure and education, which makes the Asian miracle a myth and may yield diminishing returns. The Asian financial contagion of 1996/7 alludes to fundamental contradictions in the financial market system (Stiglitz 1996:172-173 and Stiglitz 1998a: 5).⁴⁴ In contrast to new institutionalism emphasis on the properties of the markets and their allocative efficiency, critical GPE stresses the contradictions inherent in these markets which may give rise to institutional change. This suggests a need for new forms of state market societal relationships which push beyond the constraints of both the laissez-faire and developmental states.

Developmental states are influenced by interactive processes that unevenly integrate local, national, regional and international spheres of activity and influences, incorporating only the most profitable parts while neglecting large parts to underdevelopment and dependency. Globalisation ostensibly reduces the

⁴⁴ The East Asian economies proved that governments that use markets and help create markets are likely to be more successful in promoting growth than governments that try to replace markets.

bargaining power of nation states and worker organisations. Panitch (1997: 85-88 and 2000:5, 6 and 7) argues that scholars like Marcussen and Torp (1982) and Held (1995), who call for a strong developmental state as an antidote to global market processes weakening the sovereignty of the state, are under an illusion. Far from being independent of global capital, the contemporary state had become an integral element in its development and reproduction (Panitch 1997: 83, 85 and 2000: 5, 14). The internationalisation of the state and capital is an opportunity to design industrial policies that promote the growth and international expansion of indigenous capital by linking it with foreign capital (Panitch 1997: 88).

According to Cox (1994: 49) the impact of globalisation on national governments is to convert the state into an agency for adjusting national economic practices and policies to the perceived exigencies of the global economy. However, Panitch (1997: 95) argues that the role of the state is not given, once and for all, by capital relations, nor is it only a transmission belt for conveying the interests of capital from the global to the national economy. The development potential of TNCs and the internationalisation of capital through FDI are not foregone conclusions. Strange (1988: 77) observed that the relationship between the state and corporations may be co-operative when governments facilitate business and adversarial when they raise taxes and increase regulation.

The relationship between TNCs and domestic capital is not always positive in terms of their development potential. Some local enterprises perceive TNCs as growth engines and seek some co-operative arrangement with them. Fanon (1967:

122) argued long ago that “the African national bourgeoisie is a weak, rent-seeking, unproductive, bureaucratic bourgeoisie, content with being junior agents of the Western Bourgeoisie.”⁴⁵ Dependency theory critiques this arrangement as neo-colonialism. However, some local business and worker organisations perceive TNCs as adversaries and protest against the dominance of international agents. Such anti-systemic social forces suggest the need to transform the state form.

The developmental state paradigm depicts the state as an internally cohesive, unitary actor and does not explain the complex and dynamic internal workings of the state structure. Moon and Prasad (1994: 377) and Spruyt (2000: 140) argue that the state is a political arena composed of several competing and often conflicting entities.⁴⁶ Panitch (1997: 92) argues that globalisation coincides with a shift in power inside the state away from those agencies most closely tied to domestic social forces towards those in closest touch with powerful transnational companies. Power within the state becomes concentrated in those departments like the presidency, treasury, trade and industry, as well as central banks connected closest to the global economy, while departments such as labour and welfare become subordinated (Cox 1994: 49).

⁴⁵ Jack Woddis (1977: 268) argues that “the African bourgeoisie-comprador’s functioned as middlemen for the large foreign trading firms; indigenous entrepreneurs; a bureaucracy emerging from the nationalist elites, and include both new political leaderships and former state functionaries; local planters; and feudal landlords. In some cases, these groups merge and become a single capitalist class. But such a class, he argues, cannot be regarded as a productive ‘national bourgeoisie’ in the sense of a social force capable of producing a high level of development.

⁴⁶ They suggest that factions exist within capital and the political ruling party which compete with each other around creating the best conditions for them to accumulate wealth. Rulers are political animals choosing and evaluating alternative policies in the light of their political survival needs.

The crafting of industrial and trade policy, for example, reflects the bargaining power or relative strengths and weaknesses of different fractions of capital and worker movements as well as the particular coalition configuration (Moon and Prasad 1994: 378). This explains the seemingly contradictory policies pursued by states and why trade and industrial policies have not always resulted in employment creation (Moon and Prasad 1994: 368-369). Critical GPE suggests that the current social relations of post-fordist production are an institutional impediment to development for peasants and workers.

In summary, the expansion of the state's role has not meant the exclusion of transnational capital or the abolition of the market; on the contrary, the influence of TNCs and markets has increased. The state and TNCs remain integrally involved in joint ventures or public-private sector partnerships. Whereas dependency theory perceives TNCs as problematic, the developmental state form perceives TNCs and FDI as catalysts to, and partners in, the development process. Internationally, the power of TNCs remains largely unchallenged. States that bargain with TNCs place their governments in the position of mediating relations between local private capital, labour and the international economy. The neo-modernisation form that developmental states pursue has intensified the impact of globalisation and integrated people differently into the national and global economy.

Policy choice and implementation cannot be separated from the rulers' strategies to enhance legitimacy, to consolidate power, and to ensure regime survival.

The discussion below turns to the question of whether the developmental state model can be replicated in southern Africa.

2.4.3. Replicating the developmental state in southern Africa

The developmental state is based on the Asian experiences. The Asian developmental state experience cannot merely be transposed into the context of the African state. Mkandawire, in his article “Thinking about developmental states in Africa” argues that despite Africa's post-colonial history, the ‘developmental states’ is possible in Africa: examples are Botswana and post-Apartheid South Africa. However, the experience of post-colonial Africa with foreign investment and development has not always been positive.

Moon and Prasad (1994: 367) argue that the replication of the East Asian developmental state in Africa is difficult because of the unique institutional and organisational configuration. Most of the policy instruments used by the East Asian regimes are illegal in terms of the World Trade Organisation (WTO) and are thus no longer available to African governments in the 21st century. Nor do African states possess the bureaucratic skills and capacity of East Asian governments. The World Bank, in WDR (1997), describes an efficient state as one that has administrative capacity. Clapham (1996) argues that few African states have the requisite political or administrative capacity. Gordon (1996:121-122) suggests that the African state cannot insulate itself from society or mobilise resources efficiently.

In addition to administrative and bureaucratic skills, the WDR (1997) argues that the state's capability to implement its goals is dependent on its access to revenues and finance. However, the economic crisis of the 1970s and 1980s and the lack of finance or savings have forced many African states to turn to external sources, such as debt or FDI, in order to finance national development. The dependency on external sources for finance and skills circumscribes the ability of African states to autonomously shape their development goals or strategies. White (1998:42-43) argues that democratic developmental states are the exception rather than the rule and the lack of success is attributed to elites pursuing their own interests.

Ake (1996: 7) argues that by creating the impression that development is dependent on attracting foreign investment, the African elite makes token gestures to development and simultaneously tries to pass on the responsibility for development to foreign patrons. For example, Ake (1996: 9) states:

“In the post-colonial period the new African nationalist leaders looked to foreign powers to finance their aspirations and thereby reintroduced in the economic context some of the issues of dependence that they had settled in the political context. Development is the ideology by which the political elite hoped to survive and reproduce its domination.”

Ake (1991: 320) concludes that where development is pursued at all, its pursuit is full of ambiguities and contradictions because it threatens the leaders' political control and their ability to accumulate wealth.

Ake (1986: 154, 1991: 316, 1996: vii and 1) and (Cramer 1999: 1247-1248) argue that it is not technical or economic constraints but political conditions that are the

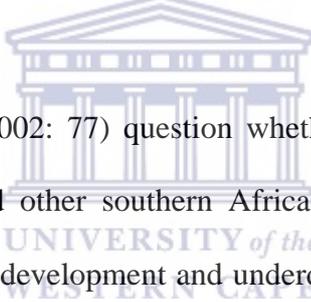
greatest obstacle to industrialisation and development in Africa. Similarly, Ferguson (1990: xv) argues that the development discourse acts as an ‘anti-politics machine’, depoliticising everything it touches, everywhere whisking political reality out of sight, all the while performing almost unnoticed its own pre-eminently political operation of expanding bureaucratic state power. The political and structural causes of poverty are systematically erased and replaced with technical ones and concealed (Ferguson 1990: 66).

The anti-politics machine can be observed in the technical, dispassionate, and seemingly neutral manner in which UNCTAD’s World Investment Reports (WIR 1999 and 2001) discuss FDI, TNCs and development.⁴⁷ Senarclens (1997: 195 and 198) argue that the provision of seemingly ideologically-free technical assistance to developing countries by the UNDP, World Bank and the IMF experts is political and perpetuates the dominant development problematic. When the politics is removed, the impediments to development are located in lack of roads, markets, lack of education and training, poor administrative capacity as well as a lack of finance or credit.

By reducing poverty to technical problems and by advocating technical solutions to the sufferings of people, the hegemonic problematic of development is the principle means through which questions of poverty are depoliticised. As Ferguson (1990: 255-256) observes, development is not the machine for

⁴⁷ John H Dunning, Professor of International Business, has worked for UNCTAD as editor and advisor on matters concerning FDI, TNCs and development.

eliminating poverty: it is a machine for reinforcing and expanding the exercise of bureaucratic state power, which incidentally takes ‘poverty’ as its point of entry – thus launching an intervention that may have no effect on poverty but does, in fact, have other concrete effects. Development is the pretext for expanding the realm of the commodity (Rist 1997: 227). This effect is the entrenching of a particular institutional form of state power and the production of a particular kind of structural change. The state is an integral part of the development problematic and it may expand its bureaucratic reach without necessarily enhancing its capability. Fergusson (1997: 237) observes that for critical observers, the real purpose of development is to aid capitalist penetration into developing countries.



Thompson and Tapscott (2002: 77) question whether the governments in post-apartheid South Africa and other southern African countries have sufficiently critiqued the old notions of development and underdevelopment. Development in South Africa, they argue, is increasingly externally derived and continues to perpetuate the essential dualism inherent in South African society: according to them, the gaps between the ‘haves’ and the ‘have nots’ and the subject and object of development remain. Thompson and Tapscott (2000: 93) conclude that many of the precepts about ‘development’ from the South African old order were carried over to the new. They suggest that a substantial number of policy-makers, academics and theorists continue to write about ‘development’ in the same technicist way as they did in the 1980s. As Sachs (1992: 3) argues, “it is not the failure of development which has to be feared but its success”.

2.5. CONCLUSION

This chapter discussed key themes and approaches for building a political economy framework in order to analyse the role of FDI in contributing to development. In this framework, political economy is defined as the study of how wealth is socially produced, financed, exchanged (traded) and distributed. FDI is perceived as not merely money, but as negotiated power structures and social arrangements. The state, markets and companies are not neutral and value-free institutions but are socially constructed by individuals and social groups contesting power, resources and its distribution.

The first section focused on the state of the art in political economy and observed new trends and critical GPE approaches that take into account the changing global environment. The critical GPE analytical framework rejects methodological individualism and structuralism in favour of a non-teleological and non-deterministic analysis of MOZAL as a historically contingent social construct. These trends include not artificially dividing foreign from domestic, and international from national or local, and not separating structure from agency. A critical GPE approach necessitates investigating the contradictions and diachronic social tensions that arise from the establishment and impact of the MOZAL project on the Mozambican society, and indicating the potential areas for social transformation. The main conclusions are that FDI and development projects such as MOZAL are not neutral phenomena; instead, they are about ownership of capital and the social relationships of production in which power and resources are contested and negotiated. A critical GPE analytic framework suggests that the

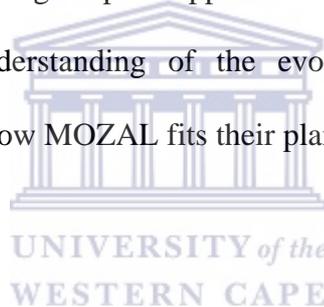
investigation should regard the MOZAL smelter as a multilevel power structure resulting from the interaction of social agents and processes that are historically contingent.

The second section focused on the different approaches to the political economy of development. The main conclusions are that the concept of development means different things to different people and is evolving and contested by different interest groups. Modernisation and new institutionalism development approaches focused on inadequate institutions as the main constraints to capital accumulation and development. Notwithstanding criticism by the underdevelopment, dependency and sustainable human development approaches, neo-modernisation approaches continue to influence government's development thinking today. The eclectic IDP is an example of the new institutionalism and neo-modernisation approach. Preliminary indications are that mega-FDI projects such as MOZAL meet the criteria suggested by neo-modernisation theorists for the country to enter the economic development 'take-off' stage. The IDP provides a framework to explain the behaviour of TNCs, investors and governments' decisions that influence FDI inflows and development projects such as MOZAL. Sustainable human development suggests that an assessment of the impacts of FDI and MOZAL on the people of Mozambique must go beyond notions of economic growth and must include the reduction of social inequity and poverty without harming the natural environment.

The main conclusion is that the state and society influence each other. The

capitalist developmental state form presents itself as a model for developing countries struggling to overcome the constraints of underdevelopment. In contrast to the neo-modernisation and new institutionalism frameworks, which place emphasis on 'fixing' the properties of the market, critical political economy frameworks stress the co-operation and contradictions between various social agents involved in the market economy. The state is not a homogenous entity and is an arena of conflict over political and economic control between different interest groups, which also find expression in society.

The next chapter and following chapters applies the analytic framework discussed above to develop an understanding of the evolution of GoM's big push development strategy and how MOZAL fits their plans.



CHAPTER 3: INTERNATIONALISATION OF THE MOZAMBIKAN STATE-SOCIETY NEXUS

3.1. INTRODUCTION

This chapter discusses the state of development in Mozambique prior to the commencement of the MOZAL project. Many of the developmental challenges and economic structural problems experienced by contemporary Mozambique can be traced back to its colonial history and are related to the implementation of the socialist state's planned economy, the war of destabilisation and the structural adjustment programme (SAP) for economic recovery, all of which are a product of the interaction between internal and external factors and bargaining among agents at the local, national, regional and international levels.⁴⁸ These struggles provide insight into how power arises, is used and negotiated in international relations.

Despite being rich in natural resources, Mozambique emerged from the war in 1992 as a least developed country and one of the poorest nations in the world. This chapter argues that in the process of addressing the legacy of colonialism, the state planned economy and the war of destabilisation, FRELIMO's development strategy has shifted from a 'third way' strategy to the current neo-liberal market economy.⁴⁹ The ideological and policy shift to an open, poorly regulated capitalist economy provides the context for the establishment of investment projects like

⁴⁸ The chapter does not discuss FRELIMO's post-independence planned economy but acknowledges that the war of destabilisation was part of the Cold War and a response to its socialist development strategy.

MOZAL.

Information in this chapter is organised in to three sections. Section one discusses the changing character of the Mozambican state form and state-societal relations prior to MOZAL. In particular, it discusses FRELIMO's changing development strategy. Section two focuses on the social tensions and contradictions of the Mozambican capitalist market economy. Section three provides a brief socio-economic description and overview of Mozambique's development prior to the start of the MOZAL project.

3.2. THE MOZAMBICAN STATE AND DEVELOPMENT STRATEGIES

This section identifies the features of, and role played by, the Mozambican post-colonial state and its development strategy. The Mozambican state has been variously characterised as a shopkeeper colonialist state, a Marxist-Leninist socialist state, a developmental state, a patrimonial state, a centralised despotic state and a neo-liberal free market state, and these state forms and their accompanying developmental approaches are discussed below. The discussion simultaneously highlights the social configurations and agents that dominate and which are privileged and disadvantaged by the various development strategies and state forms.

⁴⁹ Third way: a middle path between a socialist planned economy and free market economy

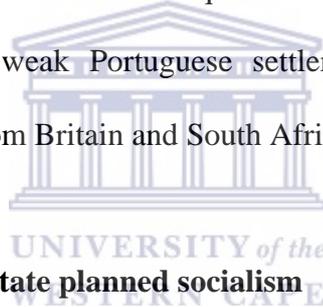
3.2.1. The different Mozambican state forms

The FRELIMO government has radically changed from a Marxist-Leninist vanguard party directing a socialist state-planned economy to a bourgeois democratic party managing a neo-liberal capitalist economy. This shift represents changes in the social forces that comprise the ruling group and the pursuit of different institutionalised objectives. Pitcher (2002) argues that Mozambique's present political economy is a heterogeneous blend of ideological and institutional continuities and ruptures.

According to Hountondji (1983: 11) African intellectual thought on development, as a counter to colonial ideology, is shaped by the experience of colonialism and imperialism. Mamdani (1999: 189) argues that what emerged in the struggle against colonialism and the later post-colonial developments was not shaped primarily in that struggle itself, but rather by the preceding patterns of colonial rule. More specifically, Saul (1985: 18 and 36; 1995: 61) argues that the starting point for understanding the nature of the Mozambican state must be the manner in which Mozambique, through its colonial past, has been incorporated into the world capitalist economy prior to the ending of the Cold War and the subsequent re-subordination of Mozambique to South Africa and the global capitalist economy. According to Abrahamsson and Nilsson (1995: 4), global changes in reciprocal interaction with sub-national, national and regional factors have affected the formulation of Mozambique's development.

3.2.1.1. Shopkeeper colonialism

Several scholars (Hanlon 1990: 15 and 22; 1996: 10 and 83, Abrahamsson and Nilsson 1995: 15) describe the Mozambican state form under Portuguese colonialism as 'shopkeeper colonialism' because the settlers were not industrialists and had no economic control. Instead, they managed foreign enterprises and were owners of retail and other small enterprises. Saul (1985: 40) argues that the Portuguese bourgeoisie was weak, lacked capacity, technology and know-how and relied on foreign capital. Saul (1985: 63), Hanlon (1990: 17) and Andersson (1992: 6) indicate that more than half of the larger industrial projects operating and trading in colonial Mozambique were British or South African. The ruling bloc comprised a weak Portuguese settler's regime in alliance with governments and capital from Britain and South Africa.



3.2.1.2. Marxist-Leninist state planned socialism

Mozambique became independent in 1975 under a united front of national movements driven by Marxist ideology and which adhered to the underdevelopment and dependency school of thought.⁵⁰ Guided by a Marxist-Leninist philosophy, FRELIMO established a socialist state-planned economy (Abrahamsson and Nilsson 1995: 28).⁵¹ The ruling bloc was a national liberation movement, a united front comprising the middle class, peasants, workers and a transnational amorphous group comprising social democratic and socialist sympathisers. Whereas Braathen and Orre (2001: 203-4) characterised the

⁵⁰ See, for example, Nkrumah's book *Consciencism Philosophy and Ideology of Decolonisation and Development, with particular reference to the African Revolution* (the 1964 subtitle).

⁵¹ Even though FRELIMO only officially adopted Marxism-Leninism at its third congress in 1977.

Mozambican state form immediately after independence as radical-despotic centralism,⁵² Mamdani (1996) characterises it as moving from radical nationalism to centralised despotism. This state form met with resistance from Portuguese elites and South African-funded surrogate groups such as RENAMO. However, increasing tensions within Mozambique (e.g. RENAMO) and outside it (South Africa, USA and UK) led to the state-planned economy being officially abandoned in 1989 at FRELIMO's fifth congress (Hanlon 1990: xviii). At the congress, FRELIMO adopted a mixed market economy and dropped the term 'Marxist-Leninist vanguard party' from its statute documents (Mittleman and Pasha 1997: 211). In 1990 Mozambique's legislature approved a new constitution, clearing the way for the first multi-party general elections in October 1994.⁵³

3.2.1.3. The patrimonial, developmental or centralised despotic state form?

By the fourth congress in 1985 it became clear that FRELIMO's leadership was becoming increasingly alienated from its original constituency. The tendency towards increasing centralisation of state power became a feature of the changing character of the Mozambican state and is described variously by Mittleman and Pasha (1997) and Saul (1985: 94) as forced collectivism, and by Bowen (2000) as the state having turned against the peasantry. Braathen and Orre (2001: 224) and Mamdani (1996) describe it as centralised despotism. After the 1989 congress Braathen and Orre (2001: 201-202)⁵⁴ characterise the Mozambican state as a

⁵² This is a term borrowed from Mamdani (1996).

⁵³ The second multi-party general elections were held in December 1999

⁵⁴ Donor agencies tend to regard Mozambique's subsequent political and economic development as one of sub-Saharan Africa's rare successes during the 1990s. However, Braathen and Orre (2001: 200) challenge the view that Mozambique's development has been a success.

‘patrimonial democracy’. By this is meant that Mozambique’s institutions are weak and inefficient, they lack skilled competent staff and function along patrimonial lines (i.e. patronage to powerful senior party political individuals).

Saul (1993: 71 and 74) agrees and argues that the FRELIMO state had become a ‘left developmental dictatorship,’ considerably weakened by the increasing centralisation of state power. Saul suggests that the ‘left-wing developmental dictatorship’ could degenerate into a ‘right-wing developmental dictatorship,’ suggesting that different forms of developmental states could be identified on a spectrum ranging from radical to conservative and dictatorial.

Braathen and Orre (2001: 204-5) identify the state in Mozambique after 1994 as ‘repatrimonialisation,’ which continues in a new form in a new political economic context. A strong feature is the commercialisation (privatisation) of national property. They argue that during this stage the local state-based elites exposed their patrimonial practices more openly and shamelessly. This mode of politics is based on the personalisation of power, privatisation of the state and commercialisation of politics and can be sustained only as long as the state can ensure a steady increase of financial inflows, including development aid and foreign investments.

In contrast to Saul (1993), Mamdani (1996) and Braathen and Orre (2001), who provide one label for the whole of the Mozambican state, Hanlon (2002:71-72) argues that the Mozambican state is not a homogenous entity and that there are

ongoing struggles with varying and competing perspectives inside its elites.⁵⁵ Hanlon's analysis illustrates that the state is also a site of contestation for power and resources. He (2002: 56) indicates that "the struggle is between the proponents of the 'predatory state', placed closely to President Joaquim Chissano, and the proponents of the 'developmental state', who tend to dominate the Ministry of Finance and the central bank (BdM).⁵⁶ The developmental state advocates also include a number of people who played important roles under Samora Machel and tend to retain from the socialist era a stricter set of ethics." Although the proponents of the developmental state have important positions in the government and private sector, they are not a coherently organised group.

Hanlon (2002: 62) argues that the World Bank and IMF backed proponents of the predatory state in FRELIMO, and close to the President, who wanted to take money from the banking system. With the move to capitalism in Mozambique the banks were used to support a new national bourgeoisie. Some who support the predatory state faction argue that a new black bourgeoisie needs space for primitive accumulation and that the development group are led by people of white

⁵⁵ The state, consisting of different forces and interests, did not always act as a coherent institution. State officials often relied on diverse alliances and practices that reflect the exigencies of survival and control, even when these contradicted official state policy. The bourgeois is not homogenous: contradictions are generated by fierce competition between various factions within this class to further their own narrow sectarian interests.

⁵⁶ Evans (2002: 44-8) writes of the 'predatory state,' which is characterised by total marketisation, where everything is for sale, including judges. It is based on a patrimonial bureaucratic system, with state power controlled by personally connected individuals. And it tends to disorganise civil society. The 'developmental state', he says, "foster[s] long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments and lowering the risks". This, Hanlon (2002: 56) argues, is not about capitalism versus socialism, but rather between capitalist roads - between visions of developmental social democracy and of primitive capitalism. Evans also notes that neo-liberalism is not necessarily antithetical to the predatory state.

or Asian ancestry, who accumulated assets during the colonial era and so can afford to have ethics now (Hanlon 2002: 114). Those who support a developmental state have opposed the plunder of the Mozambican banking system by those who support a predatory state.

3.2.2. Changing development strategies and approaches

After independence in the 1970s the GoM adopted a modernisation development approach. The Marxist-Leninist government encouraged investment in large-scale farming and industrial projects. The modernisation of agriculture and foreign-financed industrialisation were supposed to lift the country out of its state of underdevelopment and dependency, but failed to do so (Abrahamsson and Nilsson 1995: 2). Modernisation has an urban bias and post-war reconstruction has not reached the more remote rural areas, where most of the people live. In Mozambique modernisation and economic growth is mainly a technical process even though there are attempts to integrate the vision of modernisation with the prevailing cultural and traditional values (Abrahamsson and Nilsson 1995: 170).

The attitude and ideological disposition of the ruling elite influence the confidence of foreign investors. The ideological stance that is antagonistic to private investors will weaken governments bargaining power. In response to both internal and external factors the Mozambican state changed its development strategy from a state-planned to a capitalist market economy. This was a consequence of changes in the ruling bloc or alliance and its ideology. It also coincides with events during the period 1983-87, when FRELIMO turned to the

West for financial assistance because its membership of the Eastern Bloc Co-operation Organisation (COMECON) was refused. This period also saw the signing of the Nkomati Agreement in 1984 (Mittleman and Pasha 1997: 194; Hermele 1993: 169; Abrahamsson and Nilsson 1995: 230, Abrahamsson 1997: 194-5 and Legum 1984: B671).⁵⁷ In exchange for foreign aid and financial assistance from the IMF and the World Bank, in 1987 Mozambique signed the Structural Adjustment Programme - Economic Rehabilitation Programme (PRE), renamed the Social Rehabilitation Programme (PRES) in 1991.⁵⁸ The PRES consolidated the change in FRELIMO's development strategy and marked a shift away from the centralised socialist planning of the early 1980s towards a much greater reliance on market forces (Bowen 2000: 185).

After abandoning the state-planned economy the GoM first attempted a development strategy that was an alternative to both the Stalinist centrally administered economy, on one hand, and the IMF's and World Bank's untrammelled free market' economy, on the other. This 'third way' strategy

⁵⁷ According to Abrahamson (1997: 194-5) the 1984 Nkomati agreement was understood in Washington as evidence that Dr Chester Crocker's policy of constructive engagement (i.e. that of the Regan regime) had some merit. South Africa was pushing back the Frontline States' support for the ANC. The USA would refrain from giving official support to RENAMO and South Africa in their bid to occupy the southern part of Mozambique in order to create a buffer zone. In return, the GoM would refrain from asking the Cubans and the USSR for assistance and from providing bases for the ANC. According to the agreement, the ANC would only be allowed to keep a minor diplomatic representation in Mozambique. The Nkomati Agreement was a turning point in the realignment of international forces and power. It received much support from US and British businesses operating in the SADCC region. Also see Hanlon, *Beggar Your Neighbour* (1986: 35), for more detail on Mozambique's turn to the West and to new allies.

⁵⁸ On 30th January 1984, Mozambique defaulted on its debt (Abrahamsson 1997: 210). Creditors refused to reschedule without agreement from the World Bank and IMF (Hanlon 1991 113). In order to get access to new credits and foreign investments, the heavily indebted country decided the same year to apply for membership of the Bretton Woods institutions. In 1984 Mozambique agreed to an Economic Action Programme and implemented the PRE in 1987. Abrahamsson

envisaged charting a development path between rigid central planning and unrestrained capitalism (Hanlon 1991: 166, 170, 239; Abrahamsson and Nilsson 1995: 1, 2, 7, 35 and 147). Its significance was that it was a serious attempt on the part of the GoM to intervene, direct and regulate the market economy; however, it could not be sustained and succumbed to the influence of the financial agencies. The political and ideological acquiescence of the GoM to neo-liberal capitalism is an important prerequisite to encouraging potential foreign investors.

The IMF- and World Bank-imposed PRE and PRES were directed mainly at influencing macroeconomic and trade and industry policies (Haarlov 1997: 138, 177). The World Bank continued financial and technical support to the GoM through the programme set out in the Country Assistance Strategy (CAS), which is contingent on GoM implementing reforms under IMF and World Bank tutelage.⁵⁹ The World Bank (Feb 2001: i) describes the Mozambican state as a democratic regime that is becoming increasingly politically stable and reliant on market mechanisms underpinned by private property. According to the IMF (Nov 2003: 3), Mozambique satisfactorily completed four IMF-supported programmes during the period 1987-2003. These were instrumental in helping the country

(1997: 210) indicates that up until 1996 the SAPs were entirely written and designed by Bretton Woods officials in Washington, with limited participation by the GoM.

⁵⁹ The Country Assistance Strategy document describes the World Bank's strategy, based on an assessment of priorities in the country, and indicates the level and composition of assistance to be provided, based on the country's portfolio performance. The most recent CAS (1997 and 2000) documents indicate support for the GoM's poverty reduction strategy. The World Bank extended its first loan to Mozambique in 1986. A key feature of the CAS programmes from 1987 until the end of the war is the shift from a centrally-planned economy to a market-oriented economy and initiation of the liberalisation of import controls and the price regime. From 1992-1997 the focus was on privatising production, commercial and financial activities and on increased government expenditure on the social and infrastructure sectors. During this period many legislative and

move from a centrally planned to a market based economy and achieving macroeconomic stability. Political stability and the authorities' strong commitment to structural reform were essential factors in the process. The IMF (Nov 2003: 4) observed that Mozambique's good record of economic policies and structural reform earned the country generous support from the donor community, as well as debt relief. Mozambique remains highly dependent on external aid and faces challenges of addressing a reform agenda with broad and sustained growth.

In summary, the above discussion demonstrates that a change in the ruling bloc and a change in ideology coincided with a change in development strategy. Furthermore, it illustrates how the IMF and World Bank policies are designed to encourage a particular kind of capitalist development path (Hanlon 1996: 107). An important political economy conclusion is that the finance and development aid provided by the IMF, the World Bank and other financial agencies in support of SAPs such as the PRE is political and is used to promote the private sector via neo-liberal deregulation and privatisation programmes (Hanlon 1991: 168 Abrahamsson and Nilsson (1995: 160).

3.2.3. Market- and private sector-driven development

The change in the GoM's development strategy, and the shift in thinking to the idea that it is essentially private entrepreneurs and not governments or 'public-sector' enterprises that produce and move goods and services, was also mirrored

regulatory reforms (e.g. tax and investment laws) were initiated. From 1998- 2000 the strategy targeted GDP growth.

in the southern African region (Haarlov 1998: 63). The 1987 SADCC Annual Consultative Conference and the document entitled *Investment in Production* represent a turning point in the evolution of SADCC (Mandaza and Tostensen 1994: 65-67, Hanlon 1989: 9).⁶⁰ The 1988 and 1989 SADCC annual consultative conferences, on the 'Development of Infrastructure and Enterprise' and 'The Productive Sector: Engine of Growth and Development', reinforced the shift away from the state towards the business sector as the more prominent actor in the regional integration process. These conferences recommended an institutional framework to strengthen regional co-operation in the productive sectors. Hanlon (1989: 2) argues that the shift represented a new openness to foreign investment, which involved pressurising member governments to improve their investment climates and place more emphasis on projects that attracted the business sector.⁶¹ Development aid provided is given by international financial agencies to support and influence the states' intervention in creating an investment-friendly environment. This means placing emphasis on policy and administrative reforms that open up the economy and make foreign investment easier and more profitable.

Lambrechts (2001: 45) observes that SDIs, such as the MDC of which MOZAL is part, are part of the effort to enhance cross-border investment and trade initiatives.

⁶⁰ By the mid-1980s all the SADCC states had mixed economies. Even the socialist states, such as Angola, were persuaded to give more prominence to local and foreign private businesses. Malawi, Tanzania, Zambia received funds from the IMF and in return implemented their home-grown SAPs.

⁶¹ Prior to 1987 the main sources of investment and capital flows came from governments and international foreign assistance. The 1987 document inserted the private sector into the SADC discourse on regional integration.

Such cross-border joint ventures are expected to kick-start the economies through building regional industrial capacity and development. The MOZAL project, as a model for regional integration in SADC, suggests a shift towards a more ‘open integration’. According to Gelb (2001):

“The issue of open versus closed regionalism is the central debate today on the question of regional integration, rather than the earlier concern with the distinction between trade and development integration that is shallow versus deep integration. Closed regionalism refers to efforts to integrate in which the regional market is seen more or less as an end in itself, in the sense the growth is expected to take place on the basis of the (enlarged) regional markets. Open regionalism is seen as a stepping stone to more effective linkages with the global economy and involves establishing trade and co-operation linkages not restricted solely to the immediate geographic region.”

Hawkins (2000: 28) has described MOZAL as an excellent example of open, outward-looking regional integration. He is an advocate of ‘deep’ integration along the lines of the evolving Mozambican ‘model’, driven by cross-border investments and trade flows, growing invisible and service exports and closer linkages between companies in neighbouring countries. In Hawkins (2000: 76) perspective the region must globalise and regionalise by opening markets and must follow a policy of open regionalism by eliminating external tariffs. The basis for a regional industrial strategy involves processes of integrated manufacturing platforms from which the region can derive greater benefits. This entails using southern Africa as an integral part of the supply chain for globally competitive manufacturing processes, thus enhancing competition in the global economy.

Open integration requires policies that will increase the role of the market and the private sector in Mozambique's development strategy but FRELIMO recognised that there are weakness in the country's state and market institutions. While the state was required to support the growth of a market, it lacked the necessary financial and technical capacity to do so (Abrahamsson and Nilsson 1995: 148).

The weaknesses in Mozambican institutions include:

- A lack of appropriately skilled and competent state administrators to manage the market economy. According to Wells and Bueher (2000: 98), there are indications that with the MOZAL experience the Mozambican state was beginning to develop a core of competent administrators.
- The structural weaknesses of Mozambique's market prevent it from functioning efficiently (Hanlon 1991: 168, 169). According to Abrahamsson and Nilsson (1995) and Hanlon (1991: 245, 1996: 105) Mozambique has a weak nationalist (indigenous) domestic capitalist and entrepreneurial class and a lack of technical know-how. Hanlon (1991: 245) argues that Mozambicans are fronting for foreign-owned companies.

Most Mozambicans argue that the state should play a stronger and bigger role in creating conditions in which the private sector can thrive (Hanlon 1996: 101).

Mozambican entrepreneurs lack experience, so they need more support from the state than those in more developed countries (Hanlon 1996: 102). The state must take responsibility for constructing the framework of rules and institutions required for a market economy to be able to function. The limited bureaucratic

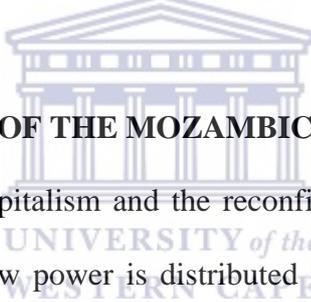
capacity and weak institutions mean that the state also lacks institutional control (Hanlon 1996: 126). In contrast, the PRE policies give greater administrative and financial autonomy to private economic agents (Hanlon 1991: 241).

In summary, this section has discussed different understandings of the GoM and noted that the historical period, societal context and the international environment contributed significantly to shaping the character, role and policies of the Mozambican state. It demonstrates that the state is not a homogenous entity and is subjected to different influences with varying notions of what is developmental. The examples of the IMF and World Bank influence suggest the internationalisation of the Mozambican state. The change in the alliance that constituted the Mozambican ruling bloc, from the FRELIMO united front of peasants, workers and socialists to FRELIMO, international financial agencies, and the capitalist groups, coincided with a change in the development strategy from a state-planned socialist economy to a private sector driven market economy. Internationally the Cold War was ending.

Mozambique signed the Nkomati agreement with South Africa and a structural adjustment agreement with the IMF. The new alliance between the FRELIMO government and international capitalist and financial agencies meant that the state increasing endorsed policy that encouraged and privileged an elite group with access to capital and political power. Through the privatisation programme the state was restructured and further weakened as foreigners and elites connected to the FRELIMO party took over ownership of state-owned enterprises. The

restructuring of the state also meant that power shifted from the state to the international agencies and the private sector at a time when the GoM institutions were weak and lacked financial and technical capacity. As a consequence of PRE and PRES, the path to economic reconstruction was to liberalise, open up to and integrate into the regional and global economy. This further reduced the bargaining capacity and power of the GoM relative to international investors and TNCs.

The next section discusses the social tensions and seeming contradictions of the current Mozambican capitalist market economy.



3.3. CONTRADICTIONS OF THE MOZAMBIKAN MARKET ECONOMY

The transition to market capitalism and the reconfigured alliances among social agents have reorganised how power is distributed in the Mozambican economy and brought to the fore many synchronic and diachronic contradictions and social tensions. This section discusses the tensions and contradictions in three respects. The first relates to the modernisation of the Mozambican states. The second is a discussion of the contradictions associated with the IMF and World Bank policies in Mozambique. The third relates to the increasing foreign economic control.

3.3.1. 'Wild West'-type capitalism and increasing corruption

Hermele (1993: 169 and 174) describes the Mozambican state as nascent capitalism and Abrahamsson and Nilsson (1995) as free market capitalism. Hermele (1993: 181) argues that 'wild capitalism' – a kind of unfettered,

uncontrolled, short-sighted speculative form of capitalism, where the weakened state loses more and more of its direct power – has come into being with an apparent random and uncontrolled expansion of economic activity by administrative and political leaders. Abrahamsson and Nilsson (1995: 156 and 158) argues that ‘Wild West’-type capitalism indicates an increase in illegality, corruption and opportunities for the strong to line their pockets at the expense of the weak.

Relying on FDI to fund economic growth is a trickle-down approach (Hanlon 1996: 105). This tends to benefit modernising elites at the expense of the rest of the population. The trickle-down approach increases inequality and is contrary to sustainable development. Hanlon (1996: 107) argues that the IMF and World Bank policies are widening wealth differentials. The market economy exacerbated social class differentiation and contributed to more social injustice – these were the prices to be paid for progress (Bowen 2000: 199).

3.3.2. State restructuring, privatisation and increased social differentiation

Harrison (1999: 331) and Bowen (2000: 186) argue that the World Bank, through selective financing of programmes with different government departments, contributed to the restructuring of the Mozambican state and increasing differentiation within the FRELIMO government.⁶² Pitcher (2002) argues that the

⁶² According to Bowen (2000: 186) the reforms called for by Mozambique’s austerity programme also reshape the power and privileges of the government and others directly dependent upon the state. The dominant internal political force shifted from the modernising state bureaucracy to the private sector. She argued that the privatisation of state assets saw these state farms and factories sold to foreign and national investors, transferred to their former owners, or become joint ventures

politics, process and outcomes of privatisation have not eliminated state power, but rather redirected it and altered state institutions. The marriage between the roles of business and politicians in Mozambique facilitated the new emphasis on emerging markets and investment. Privatisation is an intensely political phenomenon and process, and reform is not merely a technical and administrative exercise.

The privatisation programme has rapidly increased the differentiation among rich and poor Mozambicans and between native and foreign-owned enterprises. Cramer (2001: 91 and 97-98) found that the overwhelming number of enterprises that were privatised were sold to elite Mozambican nationals or companies with close connections to the FRELIMO party. For example, a common mechanism of accumulation for party members has been through membership of the board of administration of large privatised enterprises.⁶³ Privatisation bids that did not come from party veterans or did not include strong partnership with veterans were excluded from party and state support (Bowen 2000: 203-204).

companies (enterprises owned jointly by state and domestic or foreign capital). FRELIMO aligned itself with private capital (foreign and domestic) and large-scale private farmers. The state supported many Mozambican entrepreneurs, enabling them to buy companies and land, thus creating clientele and patronage networks. In this way, Bowen (2000: 188) suggests FRELIMO cultivated a new constituency. The FRELIMO regime increasingly relied on the support of international capital and multilateral organisations with which they have integrated themselves.

⁶³ Former ministers and other senior FRELIMO figures who have benefited included Octavio Muthemba (on the board of Banco Austral), and Armando Guezebuza (one of the more renowned beneficiaries of privatisation, who, among other things, leads the Mozambican component of the consortium bidding to manage the ports and has acquired substantial personal interests during the wholesale selling-off of state-owned assets over the past 15 years) (The Africa Report May 2005: 147).

Whereas Mozambicans took ownership of more but less profitable concerns, foreign investors bought a few but the most valuable and largest concerns (Harrison's 1999: 326). Hanlon (1996; 77-78) argues that although most official buyers of privatised companies are Mozambicans, the real owners are foreigners, particularly South Africans, investing under the cover of Mozambicans. The big businesses are not Mozambican: they are only registered in Mozambique. With only a few exceptions, most of the top directors and their subordinates are foreigners – and they all transfer money out of Mozambique.

The privatisation programme has contributed to the creation of a small elite who have done well out of the IMF and donor-driven adjustment programmes – they are a comprador group who carry out the wishes of international agencies and foreign companies for personal gain (Hanlon 1996, Marshall 1990, Haarlov 1997: 174-176 and Cramer (2001: 100). Lundin (2000: 86) and Castel-Branco (2002: 18) argue that the processes described above were part of the attempt to create a Mozambican domestic bourgeoisie. Mozambique's peasants and workers were not only excluded from the benefits of the privatisation process, but workers were negatively affected by retrenchments and job losses.

3.3.3. Re-colonisation increased foreign economic control and dependency

Whereas de Bragança (1988) has used the phrase 'independence without decolonisation', Hanlon (1991: 1, 243-244 and 1996: 83) and Saul (1993: x) coined the term 'decolonisation' to describe Mozambique. Pitcher (1996) argues that the privatisation programme constrains the government's capacity to shape

the economy but offers opportunities for it to seek legitimacy at the national and local level. Pitcher (1996) observed that joint venture cotton companies in northern Mozambique reproduce production patterns of the colonial era. According to Hanlon (1991: 1, 1996: 83) and Saul (1993: x), the neo-colonial state in Mozambique has undergone a process of decolonisation with the World Bank, the IMF and South Africa dominating the economy and the Portuguese taking back traditional shopkeeper colonial roles, running small businesses in a similar way to how they did in the colonial era. In the Mozambique United Nations System Common Country Assessment (Mozambique UNSCCA 2000: 34), the Mozambican writer Ungulani Ba Ka Khosa expresses himself as follows

“...South was and continues to be a free zone of South Africa. Maputo port and the idyllic beaches are still the great attractions. The Maputo Witbank motorway is an exponential example of dependence. This road will not only allow the rapid circulation of goods but also, in the medium term, it will allow cultural dependence to become effective and strong. I mean: the rules of the game dictated in the South African capital will rapidly be accepted in Mozambique. In my view this is an updating to our era of the constellation of states, by other means. On the surface, the southern zone will be at an advantage in relation to the centre and north when it comes to finance. But, on the other hand, under the surface, our way of seeing, being and thinking will be totally subordinate to the economic and cultural dictates emanate from the South African centre of power.”

This increasing dependency on, and subordination of, the Mozambican economy to South Africa has prompted Hanlon (1996: 1) to argue that it has gone from one form of colonialism to a much stronger one – economic colonialism, whose main aim is to integrate Africa into a system of economic neo-colonialism.

The modernisations strategy of the Bretton Woods Institutions and the GoM described above put a lot of stress on the role of foreign investment in modernising the economy (Hanlon 1996: 77). Such a strategy encourages the development of institutions and regulations that favour foreign entrepreneurs at the expense of local Mozambicans (Abrahamsson and Nilsson 1995: 171). The IMF and World Bank claims that it supports the private business sector but it is forcing the GoM to pursue a policy which is stifling the independent development of Mozambican entrepreneurs (Hanlon 1996: 8). Haarlov (1997: 178 and 204-205) argues that the Policy Framework Papers (PFP) indicate a lack of a coherent industrialisation development strategy. Mozambique has developed comprador capitalism as a junior partner dominated by South Africa. Saul (1993: 76, 80) and Martin (1992: 74) offer the prognosis that a likely future for the country is a weak and dependent form of capitalism, which will essentially serve the South African economy with labour, transport routes, markets and raw materials. Bangura and Gibbon (1993: 38) suggest that the strategic objective of the US and the World Bank was to reintegrate Mozambique into the southern African economy as an extension of the South African service sector.

In summary, the GoM changed its development strategy from a socialist state-planned economy to a capitalist mixed market economy state. In the process the state was restructured and state services as well as enterprises were privatised. This coincided with an increase socio-economic differentiation within the Mozambican society. However, weak institutions and a lack of bureaucratic capacity combined with a weak indigenous capitalist class gave way to neo-liberal

‘Wild West’-type capitalism and increased dependency on foreign sources of capital and technical knowledge. This gives credibility to Cramer’s (1999: 1263) conclusion that in Mozambique, the state is in disarray, confused by a half-hearted ideological transformation and by being pulled in different directions by donors’ interests, and lacks the capacity or will to produce a coherent industrial policy.

The next section provides a political economy survey and discussion of the various development indicators used to portray the state of development in Mozambique at the start of the MOZAL project.

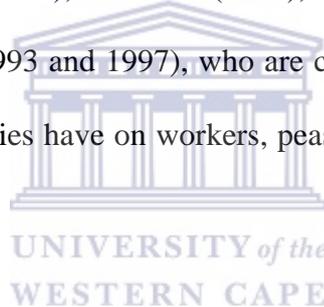
3.4. OVERVIEW OF MOZAMBIQUE’S DEVELOPMENT INDICATORS

The indicators discussed below demonstrate and reflect the consequences of the modernisation development strategy and contradictions such as the increasing socio-economic differentiation and underdevelopment alluded to in the previous section. This section is divided into three parts. The first briefly demonstrates the social contestation of power by various social agents in shaping and determining the nature of development and policies in Mozambique. The second discusses and critiques Mozambique’s economic growth (GDP per capita) as a development indicator. The third discusses and critiques Mozambique Human Development Index.

3.4.1. Contesting development in Mozambique

In Mozambique what constitutes development is an evolving concept and the subject of debates and contestation by different interest groups. The evolution of

the concept is illustrated by the introduction of the National Human Development Report for Mozambique into mainstream development analysis and paradigms (MHDR 1998, 1999, 2000 and 2001).⁶⁴ The contestation over the path of development and appropriate policies in Mozambique can, for example, be illustrated in two areas: one is the advocacy differences between the UN agencies such as the IMF, World Bank, and UNDP. Another area concerns differences between scholars like Wells and Buehrer (2000), who support IMF and World Bank economic reforms, and scholars like Abrahamsson (1997, 1995), Bowen (2000), Cramer (1999 and 2001), Hanlon (1990, 1991, 1996, 2000 and 2002), Hermele (1993), Lundin (2001), Marshall (1990), Mittleman and Pasha (1997), Pitcher (2002) and Saul (1993 and 1997), who are critical of the negative impact IMF and World Bank policies have on workers, peasants and unemployed people in Mozambique.



Another example of the development problematic is illustrated by the struggles of various social groups to influence industrial policy in Mozambique. Scholars like Cramer (1999: 1252-1253) and Hanlon (2000: 36-39) point to the struggles by Mozambican civil society organisations (e.g. the trade unions, the press and the local cashew manufacturers) against the IMF and World Bank-imposed privatisation and liberalisation of the Mozambican cashew nut industry (MHDR 1998: 71-74).⁶⁵ These policies, instead of attracting FDI into Mozambique in

⁶⁴ The theme of the MHDR 1998 was peace and economic growth. The MHDR 1999 deals with economic growth and development, while the MHDR 2000 focuses on education and human development and the MHDR 2001 focuses on gender.

⁶⁵ The UNDP stance was sympathetic to the Mozambican government and domestic industry, advocating the adoption of infant agricultural policies for the affected cashew nut industry: some

order to modernise the country's industry, had the opposite effect and destroyed the cashew nut and cotton industry (Cramer 1999, Hanlon 2000: 41-42 and Pitcher 1996). Highlighting such contradictions is pertinent to an IPE investigation of development in Mozambique.

Table 1: Development indicators Mozambique (1995 and 2001)

Indicators	1995	2001
Total population size (millions)	16.1 ^b	18.6
Total labour force size (millions)	-	9.7 ^d
Unemployment	-	-
Adult literacy rate (% aged 15 and above)	-	45.2
Life expectancy at birth		39.2
HDI levels	0.325	0.356
Poverty levels	-	69.4 ^e
GDP (US\$ billions)	2.2 ^a	3.6
GDP per capita US\$	139 ^a	220
FDI inflows (US\$ millions)	45	225
Net FDI inflows as % of GDP	-	13.3
Exports value (US\$ millions)	-	703.1
Exports as % of GDP	-	22
Imports value US\$	-	1063.4
Imports as % of GDP	-	44
Current account balance % of GDP (deficit)	-	-23.6
Current account balance (deficit US\$ millions)	-	-850
Budget balance before grants (deficit as % of GDP)	-13 ^c	-19.3 ^c
Budget balance after grants (deficit as % of GDP)	-3.1 ^c	-4.9 ^c

Sources: Mozambique Human Development Indicators (2003); FDI in Least Developed Countries at a Glance: (2002);

^a Standard Bank Economic Division Mozambique (January 2003);

^b Mozambique Census 1997

^c World Bank (December 2001) - the 2000 figures

^d INE estimate - 2000 figures

^e World Bank (2000) Mozambican Common County Assessment Report

The various representations of what constitutes development in Mozambique are

form of limited protectionist policies and support in the form of low interest credit and training for workers.

reflected in the development indicators marshalled as evidence of development. What follows is a survey and discussion of these indicators from which inferences are made. The survey is intended to provide a socio-economic description of Mozambique at approximately the start of the MOZAL project against which the contribution or impact of MOZAL could later be assessed. References to the table above are made in the discussion that follows.

3.4.2. Economic growth, GDP per capita and critique

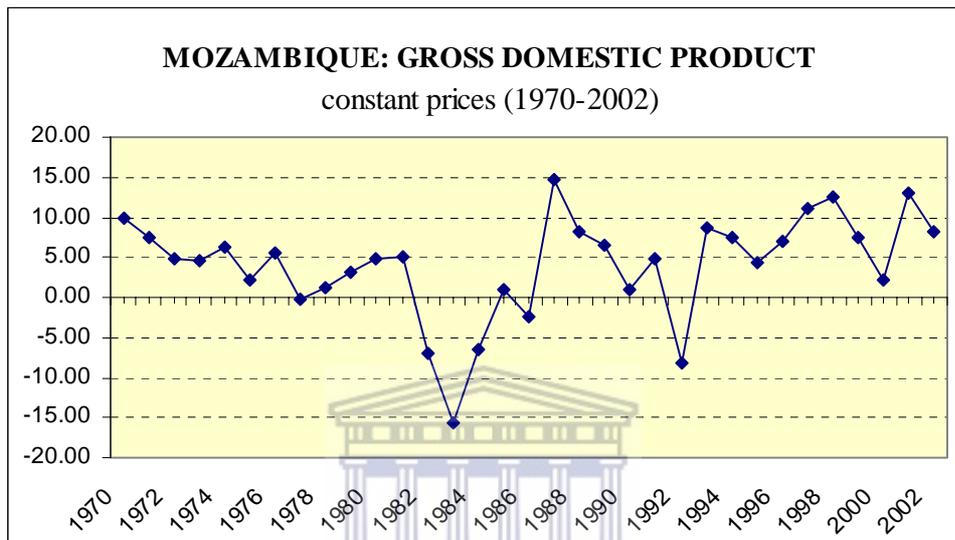
Though there are differences between the UNDP, on one hand, and the IMF and INE, on the other, about the estimation and calculation of Mozambique's statistical data, such as population size, they agree that GDP is the main element and indicator of human development (MHDR 1999: 35).⁶⁶ In particular, the IMF and the World Bank, in their interaction with Mozambique, stress as GDP or GNP per capita as indicators of economic growth and well-being or of the standard of living. Such institutions continue to make economic growth the mainstay in the ideology of modern society (although not exclusively). The GDP or GNP per capita is the preferred development indicator of advocates of the modernisation and neo-modernisation approach to development.

Graph 1 below indicates the economic growth pattern in Mozambique during the period 1970-2002. Real GDP declined during the period from 1970 up to

⁶⁶ The INE and IMF accuse the UNDP of underestimating GDP and overestimating the size of the population (UNDP HDI 1999: 13 and see also Aim Report, Mozambique file etc). This illustrates the point made by Ferguson (1990: 66) and Escobar (1997:89) about how agencies use statistics to create a representation of underdevelopment that does not resemble the real state of the country.

independence in 1975. For a brief period (1976-82) the country enjoyed real GDP growth, as FRELIMO's restructuring and fiscal policies appeared to be working.

Graph 1: Mozambique: Gross Domestic Product at constant prices (1970-2002)



Source: International Monetary Fund World Economic Outlook data base

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During the period 1982-84, drought and an increase in the price of oil sent the balance of payments in deficit and GDP declined rapidly. Real GDP increased rapidly during the period 1984-88 rapidly but was donor-driven, as FRELIMO joined the IMF and the World Bank in 1984 and signed a structural adjustment agreement (PRE) in 1987. During the period 1987-92, real GDP declined. The period 1992-2000 saw an increase in real GDP which coincided with the signing of the peace treaty in 1992. In general, the trend indicates a decrease in the overall real GDP growth during the period 1970-84 and an increase in real GDP during the period 1985-2000. During 1997-98 Mozambique was one of the fastest growing economies in southern Africa. The sharp decline in growth thereafter is a

consequence of the floods during 2000 and 2001. According to the IMF (2004: 6), the changes in real GDP during 2001 and 2002 were 13.0% and 8.3% respectively.

According to Grobbelaar (2004: 11) the per capita income has nearly doubled from US \$139 in 1990 to US \$220 in 2001, suggesting a general increase in welfare and implying that Mozambique stands a good chance of reducing poverty. However, GDP per capita only indicates that the average income has increased and says nothing about the distribution of the income or wealth. A comparison of the different GDP per capita per province with the national average may illustrate some disparities at an aggregated level. According to the UNDP (2000: 89), Mozambique's real per capita GDP increased from US \$165 in 1996 to US \$237 in 1998; however, the real per capita GDP of Maputo increased from US \$879 to US \$1340 in the same period. This means that the per capita GDP of Maputo is six times greater than the national average and 11 to 12 times greater than that of Zambezia, Tete, Manica and Niassa (UNDP 2000: 89). This may indicate disparities among provinces but does not indicate disparities within provinces.

3.4.2.1. A critique of GDP and GDP per capita approach

Latouche (1997: 135) cautions against the tendency by the IMF and World Bank to reduce social reality to a few economic indicators. Not only is growth a means to an end but for some important ends such as reducing inequality and poverty it is not a very efficient means either. Kibritcioglu and Dibooglu (2 May 2001) argues that economic growth is a complex process that calls for a synthesis of

various disciplines in social sciences. According to the UNDP (2000: 7-8), GDP has lost its hegemony as the main indicator of progress: it is now generally accepted that there is no automatic link between economic growth and development. It is no longer assumed that if growth occurs at a particular rate, trickle-down development will take place through the multiplier effect because growth in total output does not necessarily mean growth in welfare and quality of living. Latouche (1997: 136 and 141) argues that economic growth is paradoxical because to solve inequality and poverty, one must increase economic growth, which in turn increases inequality and differentiation. The Kuznets curve is an empirical development pattern and indications are that inequality retards growth in poor countries (Barro 1999: 32).⁶⁷ Todaro (1986: 69-70) states:

“It would be peculiar to talk of ‘development’ if during a lengthy period of sustained economic growth, the poverty, unemployment and inequalities had worsened, particularly in the cases where all these dimensions had undergone deterioration, even if in statistical terms per capita income had doubled over the period”.

Arrighi (1990: 12) suggests that growth is progressive if it closes or narrows the development gap between the wealth, power and welfare of the wealthy and poor. In order to close the development gap Sklair (1994: 165) suggests that it includes everything that is already included in economic growth plus criteria of distribution of the social product, democratic politics and the elimination of class, gender and ethnic privileges. Lundin (2000: 80) raises similar questions about the unequal distribution of economic growth in Mozambique. Pitcher (2002) argues that implementing reform that leads to growth without equity cannot be called success.

⁶⁷ The Kuznet curve is reference to the pattern by which inequality first increases and later

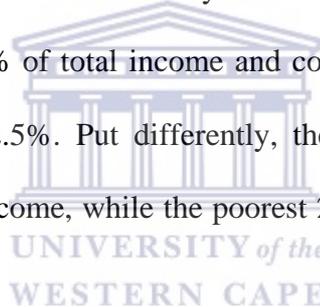
The MHDR (1999: 23-28) provides information on the geographical and sector disparities with regard to GDP and HDI in Mozambique. The GDP (i.e. economic) and HDI (i.e. human) development indicators are the highest in Maputo City and decrease the further north one proceeds. The disparities in geographical and provincial contribution to the Mozambican national GDP in 1998 is illustrated in the MHDR (1999: 39 and 89) as follows: at the regional level the northern region contributed 21%, the central region contributed 31.4% while the southern region contributed 47.6%. Maputo City alone contributes 34.3% of the Southern region's 47.6%. At the level of provinces the contribution made by Maputo is 34% of the entire Mozambican GDP, followed by the provinces of Nampula with 13% and Sofala and Zambezia with 11% each. The remaining seven provinces contributed between 2% and 5%. According to the MHDR (1999: 89), this meant that the 6% of the population who lived in Maputo City in 1998 contributed as much to GDP as 52% of the total Mozambican population.

Prior to 1997, economic growth was driven by development aid. The UNDP (MHDR 1998: 61) revealed that between 1990 and 1995 official aid to growth was on average three to four times greater than export revenue and net direct foreign investment combined. According to the IMF (2002), the disparities in economic growth (GDP) among Mozambique's industrial sectors in 1997 were as follows: the main sector contributing to GDP is the services sector at 48.5%

decreases in the process of economic development.

followed by agriculture at 30.2 and industry at 17.4%. The services sector is driven by commerce (22.5%) and the industry is driven by manufacturing and construction (9.7% and 6.7% respectively).

According to the Human Development Report (2003: 285), a survey conducted during 1996-97 measured inequality in income and consumption in Mozambique. The HDR (2003: 284-285) survey revealed the following: Mozambique had an estimated Gini index of 39.6. This suggests that in 1996-97 Mozambican society, although not as unequal as South African society, was still very unequal.⁶⁸ Inequality in Mozambique is illustrated by the fact that the richest 10% of its people accounted for 31.7% of total income and consumption, while the poorest 10% only accounted for 2.5%. Put differently, the richest 20% accounted for 46.5%, nearly half of all income, while the poorest 20% accounted for 6.5%, less than 10% of all income.



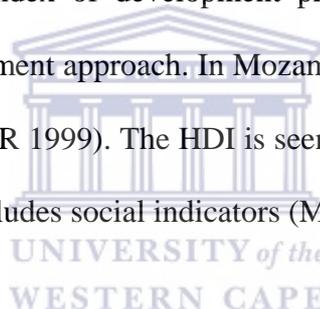
The formal economy in Mozambique is small which means that most people work in the informal sector or subsistence economy, or are unemployed. Although unemployment statistics were difficult to obtain there is consensus among trade union representatives that unemployment is very high. Worker representatives also expressed concern about the perceived growing inequality. According to the Mozambican Common County Assessment Report produced by the World Bank (2000), more than two-thirds (69.4%) of the population continues to live below

⁶⁸ The HDR urges caution in the interpretation because the underlying households differ in methodology and in the type of data collected; the distribution data are not comparable across countries.

the poverty line (US \$0.40 per day). With more than 50% of the people living on less than a US \$1 per day, the Human Poverty Index in Mozambique is the highest in the SADC region. The IMF and GoM aim to reduce the incidence of absolute poverty from 70% in 1997 to less than 60% in 2005 and less than 50% by 2010. According to the INE, poverty in Mozambique declined from 69% in 1997 to 54% in 2003. Hence the UNDP (2000: iii) argument for the need to encourage pro-poor growth or poverty reducing growth.

3.4.3. The Human Development Index alternative and its critique

The HDI is a universal index of development preferred by advocates of the sustainable human development approach. In Mozambique the MHDR is the main advocate of the HDI (MHDR 1999). The HDI is seen as an alternative to GDP per capita and, importantly, includes social indicators (MHDR 1999).

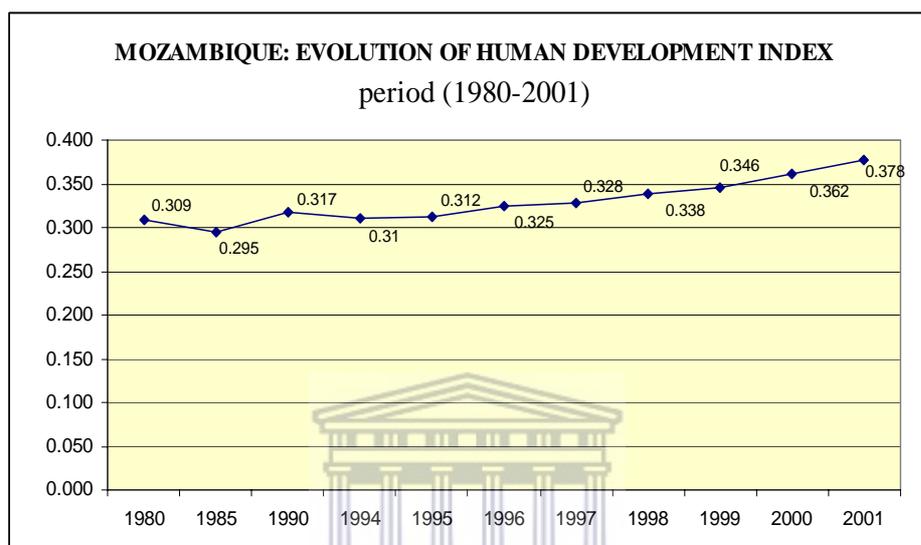


Rather than concentrating on economic measures (e.g. GDP per capita), human development involves an examination of information about how people live in society and includes, for example, the state of education, health and political freedoms, among other variables. The HDI uses the living conditions of human beings as a barometer to measure their prosperity (MHDR 1999: 10). It goes beyond the traditional macroeconomic indicators and integrates variables such as life expectancy at birth, adult literacy, school enrolment and real per capita GDP.⁶⁹ The HDI index begins to indicate whether economic growth represent

⁶⁹ The HDI is a composite index that measuring averages achieved in three basic dimensions of human development – a long and healthy life, education and a decent standard of living.

equitable growth or the inhuman deepening of inequalities between the sexes and between social, ethnic and racial groups.

Graph 2: Mozambique: Evolution of HDI (1980-2001)



Source: MHDR (2001: 20) and HDR (2003: 244)

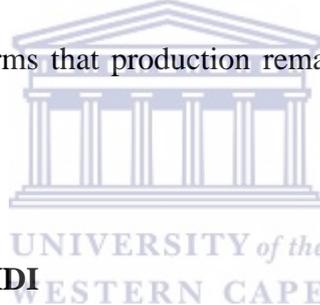
Graph 2 above shows Mozambique's HDI trends for the period (1980-2001). The general pattern suggests a slight but steady improvement in Mozambique HDI. Table 1 above confirms the increasing trend in the Mozambique's HDI, from 0.325 in 1995 to 0.356 in 2001 (HDR 2003). The HDR (2003) indicates that despite the increasing HDI trend, Mozambique ranked 170 out of 175 countries in the 2001 HDI, which is still very low. The increase in the HDI suggests a slight improvement in the general well-being of Mozambicans during the period 1995-2001. However, the improvement is from a very low base and still remains very low.

The HDI levels vary across the provinces of Mozambique, reflecting the uneven and combined nature of development (MHDR 1999: iii). In 1998 the HDI for Mozambique as a whole was estimated at 0.343 while the HDI for Maputo City was 0.605 (MHDR 1999:88). According to the MHDR (1999: 88) in 1998 Maputo City was the only part of Mozambique with an HDI of between 0.500 and 0.799, which positioned it in the category of medium human development while the rest of the country was located in the low human development category.⁷⁰ The differences in the overall HDI level between Mozambique as a whole and Maputo City are also replicated within the city itself, as a substantial strata of its population experience similar livings standards to those in the rest of the country.

With regard to access to and distribution in education, the MHDR (2000: 82) indicates vast regional disparities between the centre, north and the south, between the urban centres and the countryside, as well as between men and women. Even within the southern region or the Maputo province, there are disparities between the city and the province. Only about 50% of population living in the city and province is literate. The incidence of illiteracy remains particularly acute among women, where the rate is 74.1%. Among peasant women it is even higher.

⁷⁰ According to UNDP (2000: iii), despite the persistence of asymmetries the variation in human development indices around the national average is decreasing. This means that geographic inequalities in the distribution of the benefits of development may therefore be declining even though the country as a whole remains poor.

According to the HDR (2003: 239-240), life expectancy at birth is 39.2 years, which is very low.⁷¹ The HDR (2003: 265) suggests that the average life expectancy at birth for the period 1995-2001 is 38.1 and is lower than the period 1970-1975 before independence and the wars of destabilisation. In Mozambique life expectancy is below the averages of 64.4 for developing countries, 50.4 for LDCs and 46.5 for sub-Saharan Africa.⁷² A life expectancy of 49.4 and below reflects a low level of human development (HDR 2003: 240). This incongruence between increasing economic growth and low, as well as declining, life expectancy at birth suggests that the increase in GDP (per capita income) component is the primary reason for the overall increase in the HDI index over the past five years. This confirms that production remains a major influence on the HDI.



3.4.3.1. A critique of the HDI

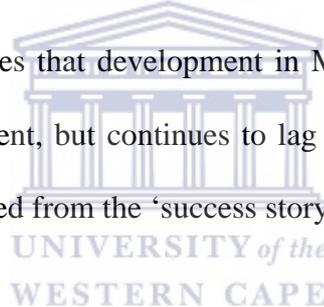
Latouche (1997: 136) argues that despite the introduction of the HDI by the UNDP, development ultimately and effectively depends on economic growth and its trickle-down effects. Sachs (1997: 10) critiques the UNDP for assuming the innocence of economic growth, whereas growth is not neutral but rather a system whose continued pursuit under certain circumstances begins to systematically undermine human development. The statistical evidence provided above suggests

⁷¹ Life expectancy at birth is the number of years a newborn infant would live if prevailing patterns of age-specific mortality rates at the time of birth were to stay the same throughout the child's life.

⁷² It is lower than the life expectancy in countries such as South Africa, Namibia, Botswana and the Democratic Republic of the Congo, but slightly better than those of Lesotho, Malawi, Zimbabwe and Zambia (see annex 2).

that the main contradiction of modernity is within the mainstream development approach.

The HDI statistics provided do not reveal disparities in the national averages (MHDR 2001: 10). The MHDR (2001:15) concludes that aggregate statistics disguise the marginalisation and exclusion of groups such as women, which, in the long term, can undermine development. In order to capture the gender disparities in development the Gender-related Development Index (GDI) was developed. According to MHDR (2001: 14-15) the average level of illiteracy was 60.5% in 1997, but for women it was 74% and while for men it was 44.6%. Lundin (2000: 87) concludes that development in Mozambique is at present not inclusive human development, but continues to lag behind. Certain regions such as the north are also excluded from the 'success story'.



The critical GPE framework rejects the reduction of development to a number crunching exercise and a preoccupation with data indicating economic growth. The development and use of HDI indicators attempt to go beyond a narrow economic reading of the development of Mozambique and include its social context. The statistical indicators allow some insight into the discrepancy between Mozambique's economic and social development. The aggregated nature of these statistics allows only general observations and does not permit detailed and more precise insight into the distribution of economic and social benefits. Nor do the statistics provided allow insight into the nature of the relations in which the different social agents are engaged, or how power is used to influence policy.

3.5. CONCLUSION

This chapter discussed the political economy and different understandings of the Mozambican state form and noted that the historical period, societal context and the international environment contributed significantly to shaping the character, role and policies of the Mozambican state. It demonstrates that the state is not a homogenous entity and is subjected to different influences with varying notions of what is developmental. The chapter illustrates that financial support in the form of official assistance by the IMF and the World Bank is not merely money, but is a part of networks that seek to influence the ideological and development strategy of governments. Financial support and assistance is not inevitable and has to be negotiated under conditions specific to the strengths and weakness of the GoM at the specific time. Accessing financial assistance is part of the process of bargaining with different social agents over control of the development strategy. In the process, old alliances are broken and new alliances and networks are formed. These changes necessitate changes in ideological stances.

The example of the IMF and World Bank influence suggests the internationalisation of the Mozambican state. The change in the alliance that constituted the Mozambican ruling bloc from FRELIMO's united front of peasants, workers and socialists to its partnership with international financial agencies and capitalist groups coincided with a change in the development strategy from a state-planned socialist economy to a private sector driven market economy. The new alliance between the FRELIMO government and international

capitalist and financial agencies meant that the Mozambican state increasingly endorsed policy that encouraged and privileged an elite group with access to capital and political power. The privatisation programme contributed to the restructuring and weakening of the state, as foreigners and elites connected to the FRELIMO party became more powerful than those without such connections. The restructuring of the state also meant that power shifted from the state to international agencies and the private sector, at a time when the GoM institutions were weak and lacked financial and technical capacity. As a consequence of PRE and PRES, the Mozambican economy has been opened and liberalised.

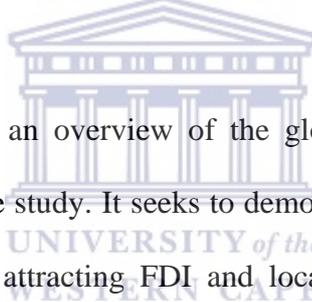
The shift to a capitalist market economy and the implementation of the privatisation programme exacerbated social tensions and contradictions. These include an increase in socio-economic differentiation within the Mozambican society. The development of neo-liberal 'Wild West'-type capitalism, characterised by powerful elites who dominate the state and have centralised power, was combined with widespread corruption. There has been an increase in dependency on foreigners for resources such as capital and the technical knowledge needed for development. The Mozambican state is weak, and is resigned to the influence of financially well-resourced and technically skilled organisations and agencies. This has further reduced the bargaining power and capacity of the GoM relative to international investors and TNCs. This indicates the contradictions and diachronic social tensions that arise from the adoption of the new market economy development strategy, as well as the potential areas for social transformation.

The chapter discussed Mozambique's development indicators such as GDP, GDP per capita and HDI. A critical GPE framework rejects the reduction of development to a number crunching exercise and a preoccupation with data indicating economic growth. The statistics obscure and make Mozambican peasants and workers less visible. The main conclusions are that there is a need to disaggregate national economic growth and GDP per capita statistics to take into account the quality and distribution of growth. The HDI goes some way towards reflecting the quality of human development by, in addition to income, taking into account factors such as health and education. However, the statistical indicators reveal some discrepancy between Mozambique's economic and social development. The indicators suggest that in 1997, when MOZAL was initiated, economic growth in Mozambique began to increase but the wealth was unevenly distributed among the provinces and between men and women. Despite the increase in economic growth and HDI, the quality of life and standard of living of the majority of the people in Mozambique remain very low and represent a potential source of diachronic tension between social agents.

In Mozambique the trickle down is fastest for those closest to the government and the ruling party and very slow, almost negligible, for the majority of peasants and workers. The real beneficiaries of the neo-modernism driven by neo-classical economic growth and privatisation are those with the power to formulate development policies. The strategy of industrialisation serves the accumulation needs of local elites and the profit margins of TNCs (Boyle 1997: 749). From a

critical GPE perspective, trickle down economic development is experienced by peasants and workers as a means of division, of exclusion and discrimination rather than of integration and liberation of any kind (Rahnema and Bawtree 1997: x). The statistics provided do not allow insight into the nature of the relations in which the different social agents are engaged, nor into how power is used to influence policy. However, the discussion on the GoM's change in development strategy provides this insight and concludes that the type of development being implemented is an elitist, crony capitalist market economy. Such development helps to improve the lot of a privileged few while doing little to meet the development challenges faced by the poor.

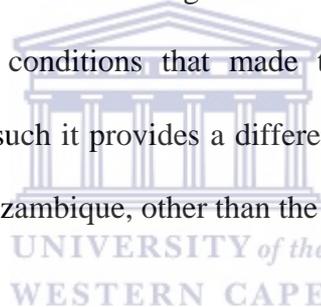
The next chapter provides an overview of the global aluminium industry and elaborates the MOZAL case study. It seeks to demonstrate the influence of TNCs and government policy in attracting FDI and locating the MOZAL project in Mozambique.



CHAPTER 4: GLOBAL ALUMINIUM INDUSTRIAL RESTRUCTURING AND PRODUCTION

4.1. INTRODUCTION

The previous chapter discussed the role of the state societal interventions in shaping development paradigms. It reveals that the Mozambican state form and policies were influenced by the ending of the Cold War, political changes in southern Africa and the need to finance post-war reconstruction and development. This chapter takes further the discussion about how international political and economic changes coincided with the global restructuring of the aluminium industry, these being the conditions that made the building of MOZAL in Mozambique possible. As such it provides a different perspective on the motives for locating MOZAL in Mozambique, other than the motive of development.

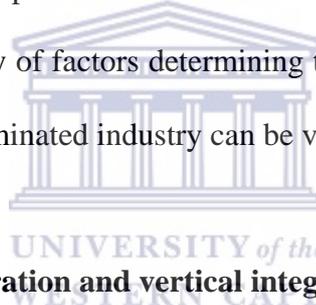


This chapter is organised into three sections. The first section discusses the global character of the aluminium industry in terms of ownership, production, trade, the supply and consumption of aluminium and the industry's restructuring.⁷³ The second section discusses the conditions under which the production of aluminium is increasingly relocating to developing countries. The discussion illustrates the bargaining power of TNCs in deciding on the size and direction of FDI flows and where to locate production. The third section locates MOZAL in southern Africa among the developing countries in which aluminium is produced.

⁷³ The aluminium industry is segmented into Standard Industrial Classifications (SICs) based on the type of processing route used and the final products generated. See definition of Major Aluminium Industry SICs.

4.2. GLOBAL ALUMINIUM PRODUCTION AND INDUSTRY

The production of and trade in aluminium is a global industry. A feature of the industry is the very high concentration of ownership by a few, vertically integrated TNCs (Yachir 1988: 32).⁷⁴ The aluminium industry is a melting pot of international, national and local activity between foreign and domestic social forces of production. Strange (1988: 63) describes this phenomenon as the increasing internationalisation of production, involving not only developed but also developing countries. As Jenkins (1987: 106) illustrates, the international bauxite/aluminium industry provides an excellent window through which power, bargaining and the interplay of factors determining the location of production and accumulation in a TNC-dominated industry can be viewed.



4.2.1. Ownership concentration and vertical integration

Yachir (1988: 32-33) indicates that five or six powerful, vertically integrated international companies have dominated the capitalist world's aluminium production and trading markets throughout the 20th century. These companies include the US-based Alcoa,⁷⁵ Reynolds and Kaiser, the Canadian-based Alcan⁷⁶

⁷⁴ Vertically integrated production processes involve accessing raw materials in intermediate stages from a number of different locations to produce the final product.

⁷⁵ Alcoa is the world's largest producer of primary aluminium, fabricated aluminium and alumina and is active in all major aspects of the industry: technology, mining, refining, smelting, fabricating and recycling. Aluminium and alumina represents approximately two-thirds of Alcoa's revenues. Alcoa's 2003 alumina production increased 6.2% to approximately 14 millions metric tonnes. Alcoa is a global company (TNC) operating in 41 countries. See Alcoa Annual Report (2003: 23-25).

⁷⁶ Alcan is the second- largest producer of primary aluminium in the world as well as the number one global producer and marketer of rolled aluminium products. Alcan operates in 63 countries and employs 88 000 people, making it the world's most global aluminium company <http://www.alcan.com/web/publishing.nsf/Content/Alcan+Files+2003+Annual+Report>

and European-based Pechiney and Alusuisse⁷⁷ and more recently BHP Billiton⁷⁸ (Campbell 1991: 30). According to the EIU (Oct 2003), the largest companies operating in the industry today, in the order of largest to smallest, are Alcoa, Alcan, Russian Aluminium, Hydro Aluminium and Pechiney. These companies control 52% of capacity outside China and former communist-bloc countries. The top ten companies control almost three-quarters of the Western capacity (Turton 2002: viii). Ownership is even more highly concentrated in major aluminium producing countries, where Alcoa and Alcan control around 40% of production.

Since the mid-1990s ownership concentration has increased as mergers and acquisitions have been a constant feature of industrial restructuring. Some of these corporate changes include mergers and acquisitions between Alcoa and Reynolds (EIU 10 April 2001), between Alcan and Alusuisse (EIU 24 July 2001) and Alcan and Pechiney. According to the EIU (8 February 2000), the Alcoa and Alcan groups control 41% of the West's aluminium production. The mergers in Russia have created Russian Aluminium, making it the third largest smelting group. The Russian industry is now dominated by Russian Aluminium and the (SUAL) Siberian-Urals Aluminium group (EIU 4 August 2000). BHP Billiton is itself a product of the restructuring of Gencor and the merger between South Africa's Billiton and the Australian firm BHP in 2001, and subsequent acquisitions (for example, Worsley Bauxite in Australia).

⁷⁷ Alusuisse and more recently, Pechiney, intended amalgamating or merging with Alcan.

⁷⁸ Billiton is the fourth largest aluminium producer in the world (see I-Net bridge 10/14/2003).

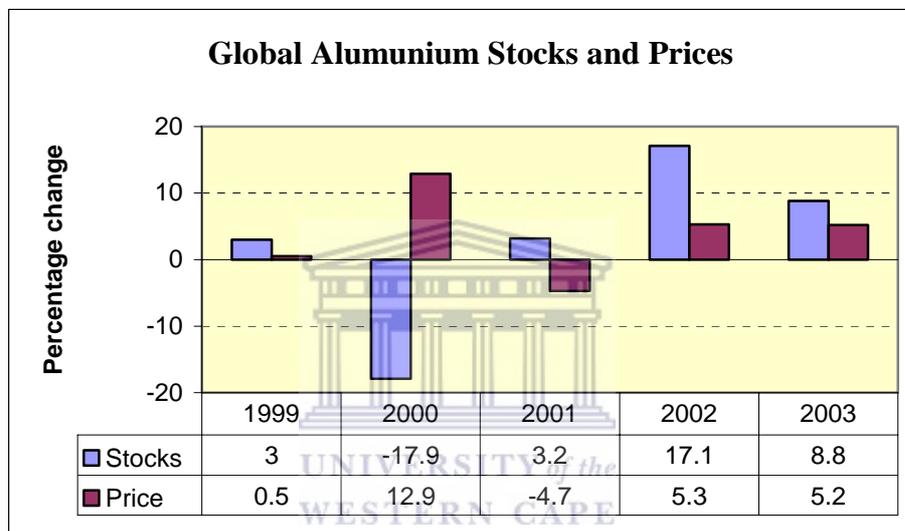
In addition to mergers and acquisitions there are joint ventures between large and smaller aluminium companies, such as those between Alcan and Chinese aluminium companies. MOZAL, for example, is a joint venture between BHP Billiton, Mitsubishi, the Industrial Development Corporation of South Africa and the Mozambican Government. Another distinctive feature of the restructuring undertaken by the main aluminium companies, such as Alcoa, Alcan and BHP Billiton, is that they have become more fully integrated groups that own or have a controlling interest in companies involved in the aluminium production chain, including in electric power companies, bauxite, aluminium and downstream plants. This high concentration of ownership in the aluminium industry is also characterised by a high degree of vertical integration (Jenkins 1987, Yachir 1988: 33, Campbell 1991: 30 and Caves 1995: 146). According to Caves (1995: 148) another feature of the industry is the existence of a network of long-term contracts and joint ventures.

4.2.2. Aluminium as a globally traded commodity

Aluminium is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. The price is set not by individual aluminium producing companies, but on the global/world market and fluctuations in the price of aluminium affects the companies' operating profits. Graph 3 below suggests that even though companies may not have a direct influence in setting the price, they nevertheless exert some influence through changing their operating strategies, for example, by increasing or reducing production (supply) in line with demand they influence the inventory stocks.

Another example is that when the price of electricity increases, making operations expensive, affected aluminium producing companies restructure by temporary shut-downs or by divesting some aluminium producing plants, leading to asset write-offs and retrenchments.

Graph 3: Global aluminium stocks and prices



Source: EIU (22 Oct 2001) Aluminum outlook

Despite the increase in energy costs and the fluctuations in the price of aluminium, strategic restructuring of operations through selected divestitures and mergers and acquisitions enabled Alcoa, to increase income from continuing operations while at the same time reducing the number of employees from 129 000 in 2001 to 120 000 in 2003 (Alcoa Annual Report 2003: 24, 25 and 63). The introduction of newer technology and workplace restructuring has resulted in greater production efficiency as more aluminium per unit of electricity is produced. According to the Aluminium Association (AA 1997), the number of

man-hours to produce a ton of primary aluminium has decreased by 5-10% during the last 10 years. The effect is increasing the surplus labour time that is extracted from workers in the industry. According to Yachir (1988: 85), the estimation of the theoretical gains of local processing based on value added difference between the world system price and the cost of labour technology and market structure can be as high as 90% for aluminium.

4.2.3. Global organisation of production, supply and consumption

During the 1950s and 1960s a small percentage of aluminum production (less than 15%) took place in developing countries (Jenkins 1987: 107). In the 1960s and 1970s forward and backward linkages in aluminium production were very limited. However, Jenkins (1987: 108) argues that the relocation of aluminium producing TNCs to developing countries has increased and consequently, the percentage share of aluminium production by developing countries also increased during the 1970s, 1980s and 1990s.

Aluminium production has increased by a factor of 13 since 1950, making aluminium the most widely used non-ferrous metal. In 1998 world-wide production of primary aluminium was about 22 million tonnes per year for the installed capacity of 24.8 million tonnes. Since mid-2001 there has been a global oversupply of alumina. The main aluminium producing regions are North America, Europe, Africa, Australia, CIS, central and South America and the Middle East. Table 2 below indicates that global production of primary aluminium

has increased rapidly since 2001, when the industry experienced negative production growth.⁷⁹

Table 2: World primary aluminium production

World primary aluminium production (‘000 tonnes unless otherwise indicated)								
	1997 ^a	1998 ^a	1999 ^a	2000 ^a	2001 ^b	2002 ^b	2003 ^b	2004 ^b
Northern America	5,931	6,087	6,158	6,274	5,220	5,414	5,524	5,637
Europe	3,515	3,759	3,927	3,958	4,263	4,349	4,472	4,649
Asia	1,750	1,688	1,819	2,058	2,043	2,060	2,258	2,489
Other Western	5,010	5,055	5,221	5,467	5,450	5,772	5,923	6,362
Total Western	16,205	16,589	17,125	17,757	16,976	17,595	18,177	19,137
% Change	4.1	2.4	3.2	3.7	-3.7	3.6	3.3	5.3
Total non-Western	5,609	6,133	6,334	6,379	7,554	8,515	9,654	10,569
Overall total	21,814	22,721	23,459	24,136	24,530	26,110	27,831	29,706
% Change	4,6	4,2	3,2	2,9	-0,4	6,4	6,6	6,7

Source: ^a Economist Intelligence Unit (2002)

^b Economist Intelligence Unit (20 Oct 2003). This is taken from Metallgesellschaft, WBMS and IPAI.

Until 2002 the US was the largest global producer of primary aluminium. Within the US, domestic companies are the majority producers of primary aluminium. The largest aluminium producers are multinational companies with production, fabricating and distribution facilities around the world. In recent years, the base of the alumina industry has shifted from Europe, the US and Japan to Australia. The six Australian plants are the largest alumina refineries in the world, processing an estimated one-third of total alumina production (Annex 3). These plants are, however, still owned by the major producers of aluminium including Alcan, Alcoa and BHP Billiton.

⁷⁹ In 2001 the industry produced much less than in the previous years and registered a negative percentage change.

Table 3: Electrical power per metric ton of primary aluminium produced

Reported electrical power used per metric ton of primary aluminium produced (Kilowatt hours)								
Year	Africa ^a	North America	Latin America	East Asia	South Asia	Europe	Oceania	Weighted average
1980	16,487	17,477	17,348	14,948	17,829	16,669	16,678	16,951
1981	16,348	17,151	17,396	14,848	17,517	16,550	16,094	16,776
1982	16,022	17,009	17,135	15,255	17,237	16,375	16,468	16,694
1983	15,655	17,264	16,905	15,830	17,435	16,356	16,647	16,825
1984	15,880	17,325	16,357	15,499	16,929	16,151	15,867	16,676
1985	16,393	16,955	16,284	15,925	17,125	16,290	15,902	16,580
1986	15,933	16,713	16,463	15,812	16,693	16,219	15,936	16,419
1987	15,870	16,839	15,922	16,599		16,034	15,670	16,328
1988	15,608	16,640	16,067	16,527		16,157	15,702	16,298
1989	15,763	16,856	15,867	16,264		15,990	15,265	16,253
1990	15,590	16,443	16,067	16,080		15,897	15,397	16,083
1991	15,483	16,273	15,947	16,140		15,732	15,550	15,984
1992	15,424	16,164	15,755	16,216		15,402	15,448	15,841
1993	15,754	16,015	15,465	15,838		15,339	15,297	15,689
1994	15,760	15,987	15,636	15,964		15,563	15,180	15,747
1995	15,817	16,048	15,607	16,114		15,603	15,238	15,800
1996	15,238	15,984	15,678	15,821		15,440	15,231	15,679
1997	15,132	15,985	15,654	15,765		15,619	15,187	15,692
1998	15,084	15,940	15,958	15,831		15,548	15,259	15,708
1999	15,024	15,371	15,340	15,323		15,193	14,852	15,232
2000	15,068	15,772	15,357	15,348		15,242	14,679	15,365
2001	14,916	15,201	15,275	15,387		15,258	14,791	15,170
2002	14,597	15,224	15,307	15,366		15,351	14,506	15,141

Source: International Aluminium Institute (20 November 2003)

^a Africa includes Cameroon, Egypt, Ghana, Mozambique (1/2000–present), Nigeria (10/1999–present) and South Africa.

Table 3 above indicates that Africa used the least amount of electrical⁸⁰ power to produce a metric ton of primary aluminium per kilowatt hour. The production of aluminium is highly electricity-intensive and provides some indication of the electrical power used in primary aluminium production from the period of 1980–2002). According to the AA, energy represents about one-third of the total production cost of primary aluminium. Electricity is essential to primary

⁸⁰ Electric power used in primary aluminium production includes power used for electrolysis by the Hall-Héroult processes up to the point where the liquid aluminium is tapped from pots.

aluminium production. These factors make energy efficiency and energy management prime objectives for the industry. In the past two decades the energy efficiency of the production of metal has improved by 20%. In the last 50 years the average amount of electricity needed to make a pound of aluminium has been slashed from 12 kilowatt hours to about 7 kilowatt hours. The latest technology employed by the industry is aluminium more efficient and energy saving.

Table 4: Electrical power used in primary aluminium production 2002

Reported electrical power used (Gigawatt hours)								
Energy Source (2002)	Africa	North America	Latin America	Asia	Europe	Oceania	Total	% of grand total
Hydro	6,444	50,312	32,207	3,030	29,969	7,380	129,342	49.9
Coal	13,443	27,248	0	10,080	15,773	24,120	90,664	35.0
Oil	0	93	0	109	1,279	0	1,481	0.6
Natural gas	38	351	1,343	16,336	6,199	0	24,267	9.3
Nuclear	189	678	0	0	12,672	0	13,539	5.2
Total	20,114	78,682	33,550	29,555	65,892	31,500	259,293	100.0

Source: International Aluminium Institute Statistical Report (20 November 2003).

Table 4 above indicates that the main sources of energy used to produce aluminium in Africa are coal and hydro-electric energy, second only to Asia. The largest aluminium markets are North America, Europe and East Asia. The US is the world's largest consumer of aluminium, followed by China.⁸¹ According to the EIU (Oct 2003) China's consumption of aluminium has increased from 1.4m tones in 1993 to 4.6m tones in 2003. The increase in the demand for aluminium in China has led to an increase in demand from Asia. Transportation, beverage cans

and other packaging, followed by construction, are the largest aluminium sector consumer markets. Access to ports and infrastructure that facilitate imports and exports and access to large markets are main considerations in decisions about where to locate production. However, production is increasingly being transferred to developing countries under certain conditions, to which the discussion now turns.

4.3. SOUTHERN AFRICAN ALUMINIUM PRODUCTION

Chapter 3 indicated that Mozambique had politically acquiesced to the influence of the West and accepted a capitalist market economy as its new development strategy. This was followed by the 1984 and 1992 peace agreements that ended the war and implemented multiparty democracy, creating greater political stability. The PRE and PRES liberalised and integrated the Mozambican economy into the southern African region and global economy. The spillover effects of the SAPs facilitated macroeconomic, industrial and trade policy convergence and stability in the region, creating an investor-friendly environment in which governments from countries within the region could cooperate and exploit their natural endowments and comparative advantages. Clearly, hydroelectric power presented itself as an opportunity to attract aluminium-producing FDI.

This section discusses two aspects of aluminium production in the developing countries of the South. The first relates to increasing aluminium production and

⁸¹ Since 2002 China has become the largest producer and the US the second largest producer of primary aluminium.

the second focuses on the conditions conducive to attracting aluminium-producing FDI in developing countries.

4.3.1. Aluminium production in developing countries

At a time when production of aluminium in other parts of the world, such as the US north-west (EIU 24 July 2001)⁸², California (EIU 10 April 2001)⁸³ and Brazil⁸⁴ (EIU 22 October 2001) is in decline because of increasing cost of electricity, the share of developing countries (LDCs) in the world production of aluminium has increased as low cost and electric energy supply became available (EIU 12 April 2002). According to Campbell (1991: 31), in 1982 developing countries accounted for 55% of all bauxite mined in the world but for only 23% of alumina production and 19% of all aluminium metal production. The share of southern Africa in global aluminium production increased from 3% in 1999 to 5% in 2002 and 7% in 2004. According to *Business Day* (6 February 2004), 7% of the total global aluminium now comes from southern Africa, namely Hillside and Bayside in South Africa and MOZAL in Mozambique. Table 5 below illustrates that primary aluminium production capacity in southern Africa at the Hillside plant in South Africa and at the MOZAL plant in Mozambique has increased (EIU 20 Oct 2003 World Economy Commodity analysis).

⁸² Smelters in the north-west have suffered problems with electricity supply. Production by companies in the states of Oregon, Washington and Montana has declined.

⁸³ High electricity prices force companies in California to accept voluntary cuts in production.

⁸⁴ Smelters in Brazil have had to cut production because of national power shortages and the cutbacks have been extended to the large export smelters in northern Brazil.

The industry in southern Africa reflects similar features to the global aluminium industry. Table 5 below illustrates the high concentration of ownership in aluminium production in southern Africa.

Table 5: Aluminium production in southern Africa

Comparison of annual production capacity and number of employees			
	Hillside	Bayside	MOZAL 1 and 11
Location	Richards Bay, South Africa	Richards Bay, South Africa	Maputo, Mozambique
Shareholders	100% BHP Billiton	100% BHP Billiton	47% BHP Billiton 25% Mitsubishi 24% IDC 4% Mozambique
First metal produced	June 1995	May 1971	June 2000
Annual output 2002 ⁸⁵	502 000 tons	180 000 tons	270 000 tons
Annual output 2004	650 000 tons		520 000 tons
Annual electricity consumption	7200 Gigawatt/hrs	2900 Gigawatt/hrs	3600 Gigawatt/hrs
Number of employees	1014	981	776
Markets	Far East Europe USA India	Southern Africa Saudi Arabia Israel Taiwan	Europe

Source: <http://aluminium.bhpbilliton.co.za/about.html>

BHP Billiton is the sole owner of the plants in South Africa and is the major shareholder in MOZAL.⁸⁶ While BHP Billiton locates its production in southern Africa, the company has relocated its headquarters to Britain when in 1997 it listed on the London Stock Exchange. Furthermore, Table 5 also indicates that the MOZAL aluminium smelter is more efficient than the Hillside and Bayside smelters in terms of its energy consumption, production capacity and permanent labour ratio.

⁸⁵ Production capacity at both Hillside and MOZAL is in the process of expanding.

⁸⁶ The expansion of MOZAL 11 and Hillside 3 is on a joint venture shareholder basis, with BHP Billiton maintaining the largest share.

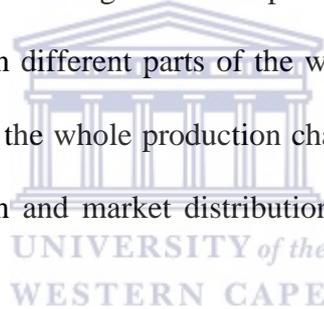
4.3.2. What developing countries can offer TNCs

In general there are two main reasons that explain the lack of linkages from TNCs to developing countries. One explanation (a popular view) is expressed by Jenkins (1987: 108), namely, that developing countries initially lacked the infrastructure and capacity to supply cheap electricity (a major input \pm 30% into aluminium production). Another explanation provided by Campbell (1991: 27) is that TNCs operating in the aluminium industry have traditionally preferred to locate production in countries with a proximity to large markets.

Campbell (1991: 29-30) argues that the restructuring undertaken by TNCs in the aluminium industry is a response to the technological revolution, making transport cheaper and reducing the cost of production in developing countries. By the end of the 1980s both the international environment and the industry had undergone important structural changes. This development reflects new forms of integration in the internationalisation of capital rather than the comparative costs of factors of production (Campbell 1991: 32). The point about where the aluminium industry locates production is a consequence of the evolving international conditions in the industry itself and related to this, the distribution of power in bargaining and negotiations between the TNCs and governments as well as other social agents (eg financial agencies and worker organisations) in developing countries.

As developing countries such as Guinea, South Africa and Mozambique developed the capacity for hydroelectric energy supply, the relocation of industry

became a possibility. However, even though a cheap energy supply is essential, it is not sufficient to explain the relocation of the industry. A key feature is that it is possible today to mine and source bauxite and alumina from a variety of countries, produce aluminum in a totally different country and sell the finished aluminium in other markets. Thus, even while bauxite and alumina is sourced from the Worsley mines in Australia and the process of manufacturing aluminium occurs in South Africa (ie Hillside and Bayside) and Mozambique (MOZAL), where electricity is supplied by Eskom and MOTRACO, the end product is exported and sold mainly to European and Asian markets. This reflects new kinds of integration, in which even though different parts of the production chain are decentralised and located in different parts of the world, the financial ownership and effective control along the whole production chain, from accessing resources to manufactured production and market distribution, remain centralised (Yachir 1988: 82).



The two explanations highlights different factors. The first stresses internal factors while the second stresses other external factors that enable TNCs to reduce the overall costs of producing aluminium. While these explanations may suggest reasons for the relocation of production and for increased competitiveness, they do not explain the lack of linkage formation. Two major factors can explain the lack of linkages in aluminium production in developing countries. First, indigenous enterprises lack the capacity to supply products of an internationally accepted standard to the aluminium smelter company. Second, the lack of purchasing power and domestic markets to absorb the supply of aluminium which

is, instead, produced overwhelmingly for export to wealthier markets in Europe, Asia and the US. In other words, the production structure is geared primarily to serve a world market. Locating production in developing countries' economies and selling production in richer and larger European, Asian and American markets enables the TNCs to reap the benefits of economies of scale.

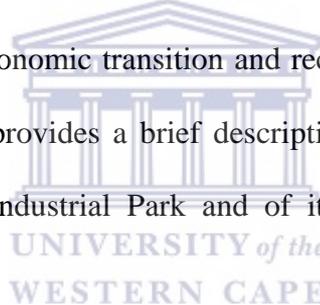
Tarzi (1995: 155) argues that the vertically integrated characters of the TNCs and the lack of competition among TNCs in the industry weakens the bargaining power of the host country but strengthens the bargaining power of TNCs. The high degree of concentration of ownership has long drawn criticism from African political economy analysts, such as Nkrumah (1968: 187-188 and 196), who criticised the aluminium companies and other giant metal corporations for draining the mineral energy resources of Africa. Furthermore, Nkrumah (1968: x) argued that these large, foreign companies were used for the exploitation rather than the development of newly independent African countries and the less developed parts of the world. Nkrumah maintained that foreign capital and investment under neo-colonialism increased rather than decreased the gap between rich and poor countries.

To sum up, the restructuring of the post-war Mozambican mixed market economy and post-apartheid South Africa offered Billiton the opportunity to access cheap factor costs (i.e. skilled and semi-skilled labour, hydro-electric energy and relative good infrastructure) to enjoy economies of scale while at the same time producing for exports to richer and larger global markets. Neither the presence of cheap

electricity energy supply nor a liberal economic environment were sufficient on their own to attract aluminium-producing FDI. MOZAL was contingent on both. MOZAL demonstrates how privately-owned (eg BHP Billiton and Mitsubishi) and state-owned (eg IDC) enterprises are engaged in directing production and selling to a world market as a global strategy. The production and ownership features are illustrated in the description of the MOZAL aluminium smelter project in the following section.

4.4. THE MOZAL ALUMINIUM SMELTER PROJECT

According to Ian Reid, MOZAL's Director, the MOZAL project fits in with Mozambique's post-war economic transition and reconstruction that began in the early 1990s. This section provides a brief description of the MOZAL smelter's location in the Belulane Industrial Park and of its production and ownership structure.



4.4.1. Location of MOZAL in Beluluane Industrial Park

The N4 national road is the spine of the Maputo MDC, with MOZAL located at the Maputo end (Map 3). On 12th October 1999 the GoM, represented by the CPI, and Chiefton Management (Pty) Ltd.⁸⁷ approved the establishment of the IFZ inside the Beluluane Industrial Park. The Beluluane Industrial Park is located in the Matola District and is approximately 16-17 km south of Maputo's city centre. MOZAL is based in the IFZ, which occupies 80% of the space in the Beluluane Industrial Park. The smelter alone occupies 140 hectares out of the Park's 660

hectares. The smelter project is the largest investment in the IFZ and is the engine that drives the Park. The Park is the first, largest and potentially the most successful IFZ in Mozambique.

At the time of writing, only two companies have IFZ status: MOZAL and the Mozambique Transmission Company Sarl (MOTRACO). MOTRACO is a joint-venture company comprising the Mozambican, Swazi and South African electricity utility agencies, for supplying electricity to MOZAL and Gauteng via two power lines, one of which passes through Swaziland. Other companies seeking IFZ status include the SASOL gas pipeline and Corridor Mineral Sands.

These companies represent huge financial investments and are all capital intensive.



4.4.2. MOZAL I and II and the production of aluminium

MOZAL was built in two phases. MOZAL I was built during the period 1998-2000 while MOZAL II was started in 2001 and completed in 2003. Both MOZAL I and II were built and reached full production in record-breaking time, enabling substantial savings in cost. MOZAL I was completed six months ahead of schedule and about US \$100 million under budget. MOZAL II was completed seven months ahead of schedule and about US \$195 million (or 20%) below the initial budget of US \$860 million (Aim Reports No 260, 3 September 2003).⁸⁸

⁸⁷ Chiefton Management (Pty) Ltd is an Australian-based facilities management company.

⁸⁸ See <http://www.mozal.com/news.htm> or <http://www.poptel.org.uk/mozambique-news/newsletter/aim260.html>

The smelter produced the first ingot of aluminium in June 2000. The bauxite and pitch are imported from Australia to South Africa and then to Mozambique, where these raw materials are put through an electrolytic process using the Pechiney AP30S⁸⁹ technology and converted into unalloyed primary aluminium ingots. These ingots or aluminium bars are then exported from the port of Maputo via sea transport to international markets in Europe. As mentioned above, the price of aluminium is determined on the international market, co-ordinated by the London Metal Exchange. Since individual investors and producers do not have direct control over the price of aluminium, profit margins are maintained by keeping cost to a minimum. The location of MOZAL in the EPZ of Mozambique is calculated to reap the benefits of accessing the low cost of inputs and the investment incentives provided by the Mozambican government. As a consequence of reducing cost, MOZAL is able to produce primary aluminium more cheaply than most of its international competitors in developed economies such as Canada, Europe and Australia. According to Ian Reid, the operational efficiencies achieved resulted in MOZAL's smelting pots having the highest productivity of all AP30 potlines deployed around the world. In particular, MOZAL's anode effect is 0.04 per pot per day, which is about half that of other similar smelters.⁹⁰ According to Peter Wilshaw (MOZAL General Manager)

⁸⁹ French Pechiney AP30 (to be taken over by Alcan) is considered one of the most advanced and environmentally-friendly technologies.

⁹⁰ Ian Reid (MOZAL's managing director before 2000), speaking at Mozambique investment forum in Paris, October 2003.

MOZAL II is one of the world lowest-cost aluminium producers and the capital invested per tonne of added capacity is among the lowest in the western world.

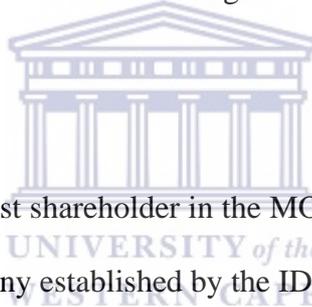
4.4.3. Distribution of MOZAL shareholders

The key investors in the IFZ are the shareholders of the MOZAL smelter. Foreign capital, especially South African private and public corporations, are the major sources of support for MOZAL. The shareholders of MOZAL SARL are Billiton Plc (47%), Mitsubishi Corporation of Japan (25%), the Industrial Development Corporation (IDC) of South Africa (24%) and the GoM (4%). Billiton is thus the largest shareholder or investor in the MOZAL project. In 2001, an additional \$860 million was invested into the second phase of the smelter. The shareholders for MOZAL II are the same as in MOZAL I and the distribution of shares among the shareholders for MOZAL II follows the same pattern as in MOZAL I. Some brief background information about the shareholders of MOZAL is provided in the paragraphs that follow.

Although foreigners now hold more than half of Billiton's issued capital, the biggest individual shareholders were South African (Billiton Annual Report 2000: 11)⁹¹. Since July 2000 the IDC is the second largest shareholder in Billiton. South African banks and insurance companies also feature significantly among Billiton's fifteen largest shareholders. As a company, Billiton emerged as part of

⁹¹ See Annex 5 or Pretorius (2001) for a detailed discussion of the top 15 Billiton shareholders at 31 July 2000.

the unbundling of the South African mining company, Gencor.⁹² Hence Gencor, through its 100%-owned subsidiary, Alusaf Ltd., conducted the initial negotiations concerning MOZAL. Gencor believed that the South African IDC would offer low-cost finance and guarantees for investors in Mozambique. Billiton at first wanted to limit its exposure to Mozambique and insisted that the IDC contribute a substantial initial portion to financing the project. In 1994 Gencor acquired Billiton, a minerals company that had previously been owned by Royal Dutch Shell. In 1997 Gencor restructured to combine its base metals operations, including aluminium and registered under the name of Billiton on the London Stock Exchange. Billiton is also registered on the Johannesburg Stock Exchange (JSE).



The IDC is the second largest shareholder in the MOZAL project (25%). The IDC is a registered public company established by the IDC Act (Act No. 22 of 1940) in 1940. The Board of Directors is appointed by the South African Government, which also determines the Board's powers and obligations. The South African Government is the only shareholder in the IDC. However, the IDC is financially independent and does not rely solely on government funds for its operations. The

⁹² Alusaf is a wholly owned subsidiary of Billiton and has been in operation for the past 25 years as the only producer of high quality primary aluminium products in southern Africa. Alusaf was formed in 1967 when the IDC, with Alusuisse as partner, constructed the Bayside aluminium smelter in Richards Bay. In August 1989 Gencor purchased the controlling shareholding of Alusaf and in 1992 Alusaf started the construction of the Hillside smelter, which was completed in 1996. The two smelters are no longer linked at the top by a joint corporate management structure. They operate separately, but in close co-operation as members of the Billiton group (Billiton World 1998: 4). Billiton also has a 60% interest in Samancor, the worlds leading integrated producer of ferro-chrome and ferromanganese. Billiton produces aluminium at the lowest, or close to the lowest, cost in the industry. The aluminium business segment within the Billiton group is the largest contributor to turnover, assets and profits. Most of the Billiton group's turnover and profits

government delegates the IDC's mandate to the Board of Directors and management. The IDC mandate in SADC is to act as a catalyst for development in mining and the manufacturing sectors. To date, the MOZAL project is the largest SADC project outside South Africa in which the IDC is involved.

The third largest shareholder in MOZAL is the Mitsubishi Corporation, a Japanese general trading company. Its investment in MOZAL is the biggest on the African continent (Mozal News, December 1998, No. 1). MOZAL is the largest nonferrous metal business of the Mitsubishi Corporation and is the first investment in an aluminium smelter in Africa by a Japanese company. Mitsubishi's top ten shareholders are mainly Japanese finance houses and banks.

The fourth shareholder in the MOZAL project is the GoM, which paid for its 4% share cash from financial assistance received from the European Investment Bank (EIB).⁹³

4.4.3.1. Government, financial and lending agencies' support

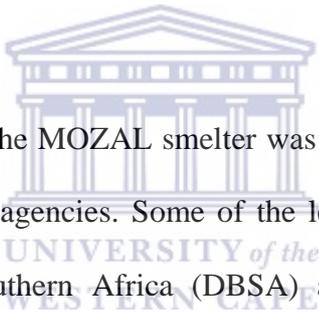
Since the International Finance Corporation (IFC) started funding ventures in Mozambique in 1987, it has invested US \$136 million in the country. Most—US\$120 million—has gone into just one project: the MOZAL aluminium smelter.⁹⁴

on ordinary activities before taxation is located in southern Africa, followed by Latin America and Australia.

⁹³ The Treaty of Rome that established the European Union (EU) created the EIB in 1985. The EIB shareholders are the EU's 15 member states. The Bank started operating in Mozambique in 1987, under the Lome Convention, where it is now active in important sectors such as cotton, cashew nuts, sugar, fishing, cement, electricity and mining.

⁹⁴ The IFC is the agency of the World Bank that lends to the private sector.

In October 1998 the IFC signed agreements to invest in MOZAL, under which it IFC would provide a subordinate loan of US \$65 million and a senior loan of US \$55 million. This amounts to 9% of total investment in MOZAL. This is the IFC's largest-ever own account investment in Africa and reflects its confidence in Mozambique's compliance with World Bank standards. The IFC will co-ordinate all the lenders for the approximate US \$600 million debt package, ensure that the project meets IFC's environmental and social policies and guidelines, encourage SME development around the project, and, through its continued investment in the country, provide reassurance to potential investors in other Mozambican projects.



The rest of the finance for the MOZAL smelter was raised by loans from foreign and South African lending agencies. Some of the lending agencies, such as the Development Bank of Southern Africa (DBSA) and Britain's Export Credit Guarantee Department (ECGD), are linked to their respective governments and provide export credit finance and guarantees.⁹⁵ The ECGD provides Billiton with overseas investment insurance against political risks in South Africa that could lead to non-payment. The MOZAL project is among the capital projects of the IDC that have benefited from South Africa's Department of Trade and Industry (DTI) Credit Guarantee Investment Corporation (CGIC). Others multilateral institutions, such as the IFC, the Commonwealth Development Corporation

⁹⁵ Export credit refers to the system of selling exports on credit rather than for cash payment. Many countries promote their exports by providing either subsidised export credit or guarantees on more favourable terms than can be commercially obtained.

(CDC) and France's Coface, also provided loans to the MOZAL project. The list of agencies that provided loans to the MOZAL project includes:

- IFC
- PROPARCO (France)
- Deutsche Investitions und Entwicklungsgesellschaft (Germany)
- Development Bank of Southern Africa (South Africa)
- Commonwealth Development Corporation (UK)
- COFACE, which covered French Export Finance (Paribas)
- The Credit Guarantee Insurance Corporation (CGIC), which covered South African Export Finance (IDC and ABSA)
- European Investment Bank (EIB)

Source: <http://www.mozal.com>

The DBSA loan to MOZAL is the largest in the SADC region outside of South Africa. The DBSA contributed a further \$40 million to the expansion of MOZAL II. The DBSA's only shareholder is the South African Government. The DBSA's core business is to create an infrastructure that serves both South Africa and other SADC countries' infrastructure investment needs. This includes addressing socio-economic imbalances, providing financial and facilitative support and helping to improve the quality of life of SADC citizens. The loans approved by the DBSA in SADC countries appear to be predominantly commercially viable projects, such as MOZAL, which often generate cash flows in strong foreign currencies, while the profile of the projects approved within South Africa itself appear to be more typically developmentally-orientated projects, such as the backing for the Maputo Corridor infrastructure.

South African Government officials, policymakers and businesses regard South Africa's contribution to the MOZAL project as evidence of the government's

commitment to economic integration in the region. The South African Trade and Industry Minister, Alec Erwin, encourages public-private partnerships as a new strategy to co-ordinate SADC's finance and investment sector and infrastructure projects. The Department of Trade and Industry (DTI) of the Republic of South Africa underwrites and guarantees many of the projects involving South African companies. The South African Government provides reinsurance against repayment and political risk for the private investor. The DTI elicits the assistance of the Amalgamated Banks of South Africa (ABSA) and the IDC to provide export credit finance for capital projects. The MOZAL smelter is among the capital projects that have benefited from the DTI's Credit Guarantee Investment Corporation, which insures exporters against risks. These include both the risk of default on the part of export customers, and the risk of loss through the imposition of import licensing or exchange controls by importers' governments. The risk to investors is further reduced since profits and foreign exchange can easily be taken out of the country. Accordingly, the investors in MOZAL have assessed and identified the risks and dealt with them appropriately (Qureshi 1999: 5).

4.5. CONCLUSION

In conclusion this chapter provided an overview of the global aluminium industry and concludes as follows about how wealth is socially produced, financed, exchanged (traded) and distributed in the global aluminium industry: the industry is dominated by a few very large and powerful vertically integrated TNCs with their headquarters in the developed countries, which decide what is produced, where it is produced and how it is to be produced or organised. The location of

production in developing countries is a consequence of global restructuring in the industry and the weakened bargaining power of governments in developing countries. The TNCs are supported in their endeavors by international finance and development agencies and their governments. Globalisation and the restructuring of the global aluminium industry have shifted the bargaining power in favour of foreign investors, TNCs, financial and donor agencies, rather than the governments of developing countries.

Globalisation has made it possible to restructure the organisation of aluminium production. Aluminium is increasingly produced in developing countries in the South. Globalisation enables a TNC to source inputs and place production in different locations and export to larger consumer markets in other parts of the world. The largest markets for aluminium consumption are in the developed countries of the US, Europe and Asia and thus even though processing may take place in developing countries such as Mozambique and South Africa, the industry and processing in these countries are essentially export oriented. Global production strategies and access to large consumer markets enables investors to reap the benefits of economies of scale and larger profits. This outcome is the product of bargaining influenced by a combination of international and domestic factors.

The presence of abundant natural resources, such as bauxite, and created assets, such as low cost energy (e.g. cheap hydro-electricity), is necessary but not sufficient to persuade investors to invest in the aluminium industry in developing

countries such as Mozambique. This means that FDI inflows are not inevitable. Mozambique's ability to provide created assets and a predictable and non-restrictive business environment have made it possible for MOZAL to locate itself there. In addition, investors require stable macroeconomic policies, a predictable and non-restrictive investment regulatory environment and the right to engage in export oriented production.

MOZAL's financial structure and the way in which aluminium production is organised illustrates that the smelter is truly a global company. Aluminium production is part of an integrated cross-border regional and internationally-integrated production system. The aluminium producing company is typically a vertically integrated TNC company, for example the same company that owns the bauxite mines, as is the case with BHP Billiton. Consequently, a large proportion of the investment and trade in the global aluminium industry is intra-firm. The restrictive market structure of the aluminium industry and the high ownership concentration structure of companies operating it, as well as the capital-intensive nature of aluminium production, impinge on and limit the developmental potential of FDI in this industry. The aluminium industry is one of the more difficult industries from which to expect huge employment creation and technology transfer or backward and forward linkage benefits for the host economy.

The case study also illuminates the various roles played by different social actors with varying strengths that participate in the global/local exercise that created MOZAL. The above description of the MOZAL smelter illustrates the dominant

role played by private sector investors supported by their respective governments, the public sector and financial agencies, relative to the almost complete exclusion of workers and community representatives. It demonstrates how government co-operation and support to big investors through public private partnerships have been particularly critical to the success of these projects.

The next chapter focuses on the finance structure, such as the FDI inflows to Mozambique, and the regulatory investment regime with reference to MOZAL.



CHAPTER 5: FOREIGN INVESTMENT AND ALUMINIUM PRODUCTION

5.1. INTRODUCTION

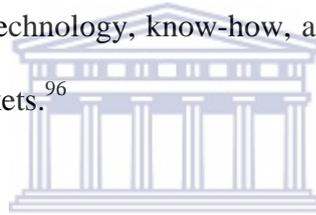
The previous chapter provided a description of the MOZAL project. This chapter focuses on the MOZAL's financial structure. Specifically, it deals with the flows of money in the form of FDI, which is generally considered the most benign form of capital. FDI is a product of negotiations between TNCs and governments of the host country about the terms of entry, conditions of performance and duration of investment (Meier 1995: 259). While host governments seek to encourage firms to locate within their countries on the best terms possible, TNCs want to minimise the conditions and restrictions the host government is able to impose on their operations (Tarzi 1995: 154). The bargaining power or negotiating ability of a host country depends to a large extent on the type of FDI and the character of the FDI project (Tarzi 1995: 156 and 158-9).

This chapter illuminates the bargaining and negotiations process between foreign investors and managers of MOZAL and the GoM. It demonstrates how the GoM consciously or unconsciously used new institutional economics and an investment-led development path to enhance its location advantages and attract FDI. The focus is on the objectives of the GoM's investment laws and regulatory framework outlined Article 7 of the Law on Investment No 3/93. The GoM policy endeavors to improve the investment climate, creating an investment-friendly regulatory environment by providing supply-side measures such as import tax and

fiscal concessions and cheap electricity, as well as reducing red tape. Carlos Morgado, the GoM's Minister of Industry and Commerce, said at the Commonwealth-Mozambique Investment Conference in Maputo (25-27 February 2002):

“The main direction of Government policy has been to encourage mega projects and export-oriented investments with the primary objectives being sustainable industrial development, SME development and development access to regional and international markets.”

The strategy is based on the assumptions of the ‘big push’ theory that a minimum quantum of FDI is important for development because it can introduce much needed additional capital, technology, know-how, and spillover effects as well as access to international markets.⁹⁶



This chapter is organised into three sections. The first provides a descriptive overview of investment flows into Mozambique. The nature of the FDI flows and its salient features in terms of size, industrial sector and source country are discussed briefly. MOZAL is identified as the largest FDI project within these investment inflows. The second section provides an overview of the FDI legislative and regulatory framework in Mozambique. The third section discusses the non-legislative concessions and supply measures, such as cheap electricity and sources of energy, in contributing to MOZAL competitiveness.

⁹⁶ There are a number of studies conducted by a variety of organisations that monitor the investment climate in Mozambique. These include the UNCTAD (Sept 2001), the IFC (August 2003), UNCTAD World Investment Reports, IMF and World Bank Reports, BusinessMap Reports and information available on the CPI and GoM websites. In addition, there are studies by

5.2. FOREIGN INVESTMENT INFLOWS INTO MOZAMBIQUE

This section provides an overview of FDI inflows into Mozambique for the period 1985-2002. The MOZAL smelter is identified as the most significant of these FDI inflows during the period 1997-2002. This section also identifies the salient features of these recent investment inflows.

5.2.1. Overview of FDI inflows for the period 1985-2002

Investment in Africa is concentrated in a few countries and sectors. Over the past eight years less than 2% of global FDI has gone to Africa. According to KPMG (2002: 24), Mozambique ranked third in attracting foreign investment in 2001 among the LDCs worldwide, surpassed only by Angola and the Sudan, and was ranked tenth in Africa. In recent years Mozambique has emerged as one of the leading FDI recipient countries in southern and eastern Africa. According to BusinessMap (2002: 3), Mozambique attracted more than US \$400million in FDI during 2002, the highest in SADC (excluding South Africa).

5.2.1.1. FDI inflows as a share of GDP

According to Schmidt-Hebbel et al (1996: 85), growth and development theory have long regarded the accumulation of physical capital as the engine of growth. There is consensus that increasing the investment rate plays an important role in generating long-run growth. Schmidt-Hebbel et al (1996: 87-88 and 89-90) observed that there is evidence of a strong positive correlation between investment and growth but the evidence about the direction of causation is less

individual academics such as Castel-Branco.

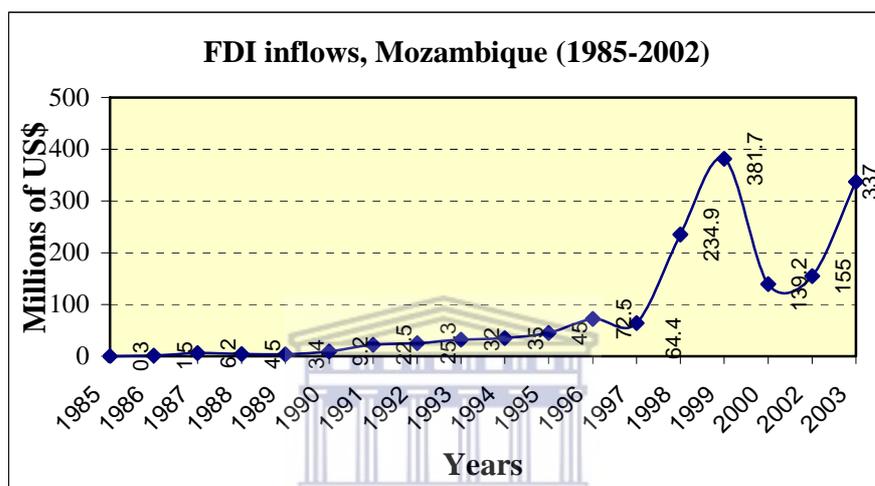
robust. It is possible that the causal relationship between investment and growth may run in both directions, suggesting that investment may not be the only determinant of growth, but nonetheless it remains a significant ingredient of the development engine and growth process (Schmidt-Hebbel et al 1996: 105). In Mozambique large flows of official development aid have been used for investment and for maintaining economic activity (Nordas and Pretorius 2000: 2). Nordas and Pretorius (2000: 24) argue FDI in Mozambique is attracted by the low cost of inputs, which is driving the growth process. Market size in Mozambique is not the determining factor in attracting the FDI that became MOZAL.

Foreign direct investment as a share of GDP is an indicator of government's ability to mobilise foreign savings for the purposes of wealth creation and long-run economic growth. Duvenage (March 2001) observed that investment as a share of GDP in Mozambique increased from 18% in 1997 to 32.6% in 1999 and according to WIR (2003: 281) further increased from 37.4% in 2001 to 44.8% in 2002. The FDI as a percentage share of GDP is well above the recommended 25-30% to stimulate growth. The IMF (2002: 4) suggests that the private sector component has increased faster than the public sector investment component as a percentage share of GDP. In 1996 the contribution of the private and public sector were roughly equal but by 2001 the private sector contributed slightly more than two-thirds to the gross investment in Mozambique.

Graph 4 below indicates that it is only after 1997/1998 that foreign investment inflows into Mozambique increased rapidly. The World Bank (Feb 2001: 6)

suggests that until 1996, FDI inflow figures largely reflected investment in medium-scale, recently privatised firms in industry, tourism and the banking sector.

Graph 4: FDI inflows, Mozambique (1985-2002)



Source: UNCTAD, FDI in Least Developed Countries at a Glance 2002: Mozambique⁹⁷, 2002^a UNCTAD, WIR (2003: 250), The Africa Report (May 2005: 148)

According to UNCTAD (Sept 2001: 23), 1997 was a crucial year in Mozambique, because of the approval of mega-FDI projects and the start of the implementation of the MOZAL project. Foreign direct investment flows to Mozambique increased to US \$235 million in 1998 and US \$382 million in 1999 respectively, compared to the US \$73 million in 1996 and US \$64 million in 1997.

A few mega projects were responsible for the FDI inflow into Mozambique during the period 1997-99 and MOZAL alone accounted for 86.4% of the total

FDI undertaken in this period.⁹⁸ Despite the dip in FDI during the period 1999-2000, FDI again increased by about 80% during 2000-2001. The rapid increase in FDI during the period 2001-2002 is a consequence of the construction of MOZAL II and the SASOL gas pipeline which, according to the EIU (16 April 2002), account for US \$1.5 billion of FDI in the period 2002-2003. In 1999 largely as a result of MOZAL the dominant nature of FDI into Mozambique was Greenfield FDI investment (BusinessMap 1999: 58). However, BusinessMap (2002: 7) observed that since 2000 the dominant mode of investment was in brown field activities. This took two forms. In 2001 expansion was the dominant feature, because of investment into phase two of MOZAL, and in 2002 the dominant features of FDI were mergers and acquisitions, mainly in mining.⁹⁹ Another feature of the FDI flowing into Mozambique is that it is a cause and consequence of the privatisation of, for example, the Maputo Port, the customs regulatory service and the EDM electricity utility supply services.

5.2.1.2. FDI as a share of stock and fixed capital formation

Graph 5 below indicates a rapid increase in inward FDI stock from 1995, attributed mainly to investments in MOZAL I and II and later in the SASOL pipeline. According to UNCTAD (WID 2003: 4), inward FDI stock has increased rapidly from an estimate of US \$42 million in 1990 to over US \$1.5 billion in

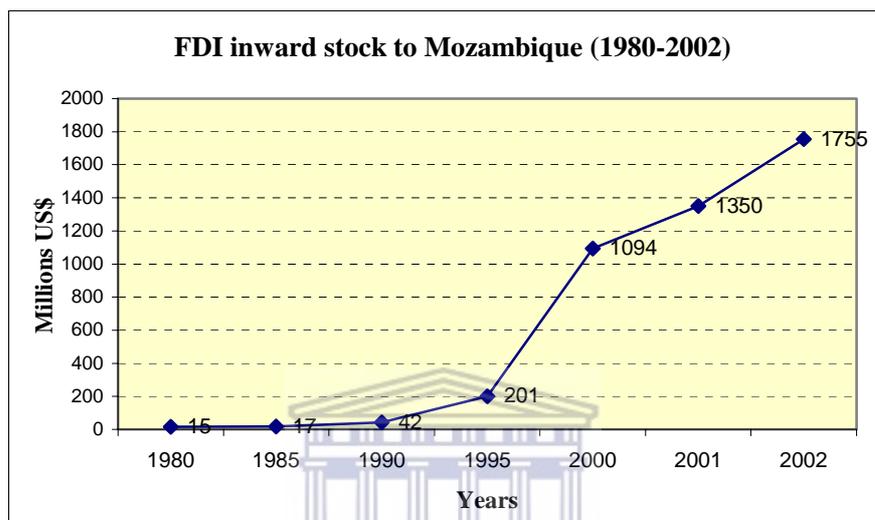
⁹⁷ This data also coincides with that of the World Bank and is used by the KPMG's 100 Big business in Mozambique (2002) and BusinessMap Foundation Report (2002).

⁹⁸ The figures provided by different researchers and institutes depicting South Africa's share as a percentage of total investment in Mozambique varies, but they are all 60% and above.

⁹⁹ Investment data for the same period (1998-2002) issued by the Mozambican CPI and used by the South African DFA and the BusinessMap of South Africa are much higher, since intentions or

2002. FDI stock as a percentage of GDP grew from 2% in 1990 to 38.4% in 2002.¹⁰⁰

Graph 5: FDI inward stock (1980-2002)



Source: World Investment Report (2003: 258)

The gross fixed capital (GFC) formation is a proxy used for measuring immovable investments, such as factories and infrastructure (e.g. roads, ports and power lines etc), that facilitate production, income generation and wealth creation.¹⁰¹

Graph 6 above indicates that the (GFC) formation increased rapidly during the period 1997-1999. This coincides with the initial MDC and MOZAL investments and decreased during the period 1999-2000 because of infrastructure destruction

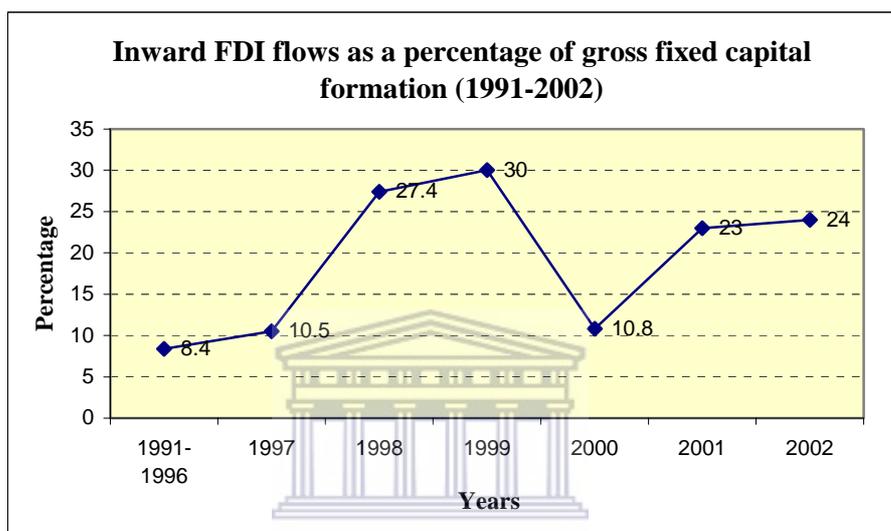
notification to invest, even though some of these may not have as yet been realised, are also included See www.gov.za (27 March 2003). They nevertheless display the same trend.

¹⁰⁰ Figures provided by the WIR (2003: 281) are higher and indicate FDI stock as percentage of GDP increases from 1.7% in 1990 to 44.8% in 2002. The trend nevertheless remains the same and confirms a rapid increase in FDI stock.

¹⁰¹ Some of this fixed capital formation would have been financed by development aid, for example, repairing roads and electricity lines damaged by floods etc.

by floods. The increase since 2002 can be attributed to the rebuilding of the roads and bridges, SASOL investment in the Pande and Temane Gas fields, as well as the further expansion of MOZAL II.

Graph 6: Inward FDI as a percentage of GFC formation (1991-2002)



Source: World Investment Report (2003: 272)

The large share of GFC in infrastructure and large-scale projects with a long gestation period may contribute to increased growth as the new projects come into operation (Nordas and Pretorius 2000: 5).

Foreign investment inflows as a percentage of GFC fluctuated from an estimate of 8.4% in 1996 to reach an estimated 24% in 2002. The UNCTAD (WID 2003: 4) estimates FDI flows as an annual average percentage of GFC 1998-2002 at 18.8%. According to the AfDB/OECD (2004: 238), GFC rose from 41.5% of

GDP in 2001 to 44.7% in 2002, mainly as a consequence of the increase in foreign investment.¹⁰²

5.2.2. Foreign investment ownership by country of origin

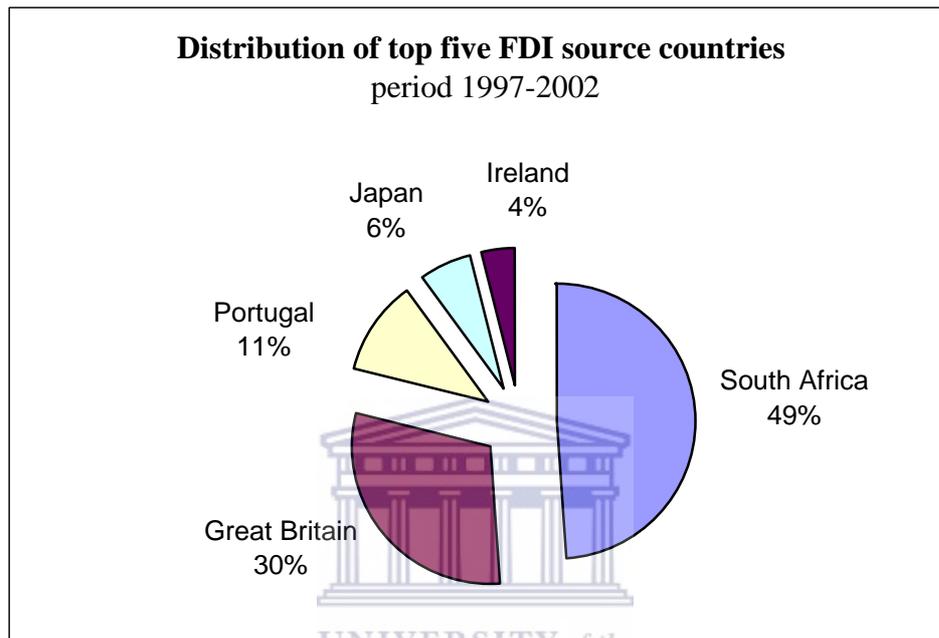
Foreign investment from South African, British and Portuguese firms into Mozambique is growing (EIU 10 January 1997). South Africa is the largest and leading investor in SADC and within SADC, Mozambique is the largest recipient of South African FDI (BusinessMap 1998: 1, 1999: 61, *Financial Mail* 27 Sept. 2002; *Financial Mail* 7 Feb. 2003; Daniel, Lutchman and Naidu 2004 and Daniel, Naidoo and Naidu 2003).¹⁰³ The evidence of FDI inflows into Mozambique reflect recent international FDI trends, namely that increasing numbers of developing countries are engaging in FDI (Dunning, et al 1998: 4). According to Dunning et al (1998: 255), these developing countries are increasingly investing in neighbouring and other developing countries. Furthermore, Dunning et al (1998: 363) also suggest that this trend is a direct result of the lack of international experience of companies from developing countries. Events such as the ending of the Cold War internationally and the ending of apartheid domestically contributed towards creating an environment that intensified competition within which South

¹⁰² Figures provided by the WIR (2003: 270) are significantly lower and indicate as percentage GFC an increase from 8.4% for the period 1991-96 to 24% in 2002. The trend nevertheless remains the same and confirms a rapid increase in GFC.

¹⁰³ In Mozambique, Shoprite-Checkers supermarkets and Supermercado LM are run by South Africans and Cervejas de Moçambique (CDM) is 65% owned by South African Breweries. Many of these were acquired when FRELIMO, the government of Mozambique, implemented its privatisation programme. Other more recent South African FDI in Mozambique includes SASOL, Vodacom, Ressano Garcia Railway Company, Jordan Properties, Moatize coalfield/Sena railway, Cerveja de Moçambique, and South Africa's Absa group invested in Mozambique's Banco Austral and Illovo Sugar.

African companies were forced to compete strategically (for example, with the US Kaiser aluminium company) in a rapidly globalising environment.

Graph 7: Distribution of FDI among top five countries



Source: Rafique Jacobs CPI (INE 2002)

Against this background BusinessMap (2002: 4) and Jenkins and Wilkinson (2002: 43) argue that the overall pattern of inward investment reflects patterns similar than those before independence, with the balance of dominance shifting from the Portuguese colonial state to South Africa. BusinessMap (2003: 75) estimates that 51% of South African private sector investment into Southern Africa went into Mozambique during the period 1994-2003 (see Annex 6 and 7). Graph 7 above indicates that South Africa became the largest foreign investor in Mozambique, which is a former Portugese colony (see CPI 2004 data, Castel-

Branco 2004 and Grobbelaar 2004).¹⁰⁴ By the end of 2003 more than 262 South African projects have been registered by the CPI since its establishment in 1985 (Grobbelaar 2004: 21).¹⁰⁵ Billiton's participation in MOZAL makes Britain the second largest source of FDI in Mozambique.

According to the WIR (2003) countries seek FDI to help them grow and develop. In this regard their national policies are key to attracting FDI. One such means is for countries to enter into international investment (bilateral, regional and multilateral) agreements to negotiate favourable tariffs and increased access to technology and markets, thereby improving their country's competitive advantage (Dunning and Narula 1996: 13-14). On 6 May 1997, the Republic of Mozambique and the Republic of South Africa signed a Bilateral Agreement for the promotion of investment (ratified by Resolution no. 48/98 of 28 July).¹⁰⁶ Other international agreements from which Mozambique is able to leverage preferential tariffs include the international African Growth and Opportunity Agreement (AGOA)¹⁰⁷ and the Cotonou Agreement,¹⁰⁸ from which Mozambique, as a LDC, is granted a 6% tariff reduction on its exports to European markets. These preferential tariffs agreements have the effect of reducing the cost of commodities produced and

¹⁰⁴ BusinessMap calculations include actual deals and intentions expressed to invest and may be inflated as not all investment is consolidated and negotiated successfully. Portugal remains a key investor contributing an average of 41% of the inward FDI flows in 1998 and 1999. Two of the largest affiliates of foreign TNCs in the finance and insurance sector were from Portugal.

¹⁰⁵ The South African Department of Foreign Affairs indicates that by 2003 there were about 250 South African companies operating in Mozambique.

¹⁰⁶ In 1997 an Agreement for the Promotion and Reciprocal Protection of Investments was signed between South Africa and Mozambique, followed by a bilateral trade agreement.

¹⁰⁷ A unilateral trade agreement in which the USA encourages and rewards countries such as South Africa, Mozambique and Uganda for implementing good governance policies and increasingly integrating into the international trading system.

exported from Mozambique, giving TNCs involved in the production of goods within the national borders of Mozambique a comparative advantage over its competitors.

The WIR (2003: xvi) suggests that host countries such as Mozambique enter investment agreements mainly to attract FDI, whereas home countries such as South Africa mainly want to make the regulatory framework for FDI in host countries more transparent, stable, predictable and secure – and to reduce obstacles to future FDI flows. Since the signing of these treaties South African business has increasingly invested in Mozambique. While these treaties may not be the cause of increased investment inflows, they are, at the very least, an attempt to ensure and maintain conditions favourable for investors.

Grobbelaar (2004: 4) observes that government co-operation and support (from both the Mozambican and South African side) of big investors through Public Private Partnerships (PPPs) have been particularly critical to the success of these projects. South African FDI entry into the African continent and the SADC region, including Mozambique, was facilitated by the South African Ministry of Finance's relaxation of foreign exchange restrictions on investment flows to African countries. For example, the exchange control allowance for South African firms for FDI in other Africa economies was increased to R750 million in 2001 and again from R750 million to R2 billion in 2003, in line with South Africa's commitment to NEPAD (Budget Review 2001: 39 and 2003: 28). Reducing the

¹⁰⁸ Formerly, the LoméIV Convention granted preferential tariffs to African, Caribbean and Pacific

constraints of capital exports and regional regulations restrictions have contributed to greater cross-border capital flows and were practical expressions of the South African Government's commitment to the philosophy of African revival, namely the African Renaissance, and the social development programme for African recovery through NEPAD.

Table 6: Number and value of FDI projects approved 2000

Foreign Direct Investment on an approval basis (Number of projects and millions of dollars)			
Position	Economy	No of projects (current)	Approved investment (Cumulative from 1985-2000)
1	South Africa	278	447
2	United Kingdom	85	352
3	Portugal	364	305
4	Japan	2	130
5	Mauritius	21	80
6	United States	19	40
7	Australia	15	34
8	Netherlands	12	26
9	Hong Kong, China	3	26
10	France	14	19
	Sub-Total	813	1459
Others		270	136
Total		1083	1595

Source: UNCTAD (Sept 2001: 22), information provided by the Investment Promotion Centre of Mozambique

MOZAL has also helped to improve the perception of Mozambique in international markets, which, in turn, has positively influenced the trend of international investment flows to Mozambique. According to BusinessMap (2000: 35), South Africa is involved in five out of ten of the top FDI deals for the period 1995-2000 in Mozambique. Table 6 above indicates that for the period 1985-2000 Portugal may have the largest number of projects but South Africa has the largest

(ACP) members.

cumulative value of approved investment. The expansion of MOZAL and the development of the SASOL pipeline mean that since 2000, the number of South African projects and the value of approved investments have continued to increase.

5.2.2.1. Where FDI is deployed and distribution in industrial sectors

Foreign direct investment as a share of manufacturing is an indication of the sectors from which wealth is created. In terms of financial value, MOZAL is the largest South African investment in Mozambique. South African investment in MOZAL is associated with the expansion of the minerals-energy complex (MEC) or the mining-industrial complex (Nordas and Pretorius 2000: 13-14, Castel-Branco 2004: 1 and Grobbelaar April 2004: 4, 21 and 24-25). Castel-Branco (2004: 4-5) argues that the driving force behind the country's FDI inflows is the mining and some mineral processing industries, which have replaced migrant labour and transport services.

“Under the economic expansion and globalization of South African large corporations FDI and unidirectional trade have replaced labour migration and services as dominant vectors of economic linkages between Mozambique and South Africa. South Africa has become the main trading partner of Mozambique and the main driving force for FDI. The mineral and energy complex (MEC) of South Africa drives FDI in Mozambique.” (Castel-Branco 2004: 8)

Nevertheless, UNCTAD (Sept 2001: 21) observes that South African investments in Mozambique are fairly diversified. Even though greater stress is still placed on partnership in large investment projects, there are also investments in small- and medium-scale projects, especially in industry and tourism.

Table 7: South African top ten FDI in Mozambique during the 1990s

Project (SA investor)	Year commenced	Sector	Total project value US \$m
MOZAL (IDC)	1997	Industry - metals	1300.0
Motraco (Eskom)	1998	Energy	130.5
Mondi Florestal (Mondi)	1997	Forestry and agriculture	86.4
Maragara Sugar (illovo, Hulett)	1997	Forestry and agriculture	70.0
Macmahaon Brewery (SAB)	1994	Food and beverages	25.0
Matola Industrial (Nam. Mills)	1995	Industry	23.2
Mosa Florestal (Sappi)	1991	Forestry and agriculture	22.6
Profurn Moza (Proferm)	1998	Retail and wholesale	15.5
Hotel Polana (Karos)	1990	Hotels and tourism	15.3
Casino Palana (Karos)	1995	Hotels and tourism	15.0

Source: BusinessMap (1998: 3), CPI and BusinessMap SADC FDI Database

South Africa provides the anchor economy. Its government and investors also have the capacity to mobilise TNCs like Billiton and Mitsubishi to invest in the Mozambican economy (Grobblaar 2004: 4, Castel-Branco 2004: 18).¹⁰⁹ The South African Government provides political and commercial guarantees to South African banks that fund MOZAL under the Export Credit finance arrangement. The South African Government played a crucial role in convincing other investors to risk investing in MOZAL. According to BusinessMap (1998: 2):

“...the project [MOZAL] was sold to international investors and financiers as a South African development, which happened to be located in Mozambique.”

¹⁰⁹ For example, Gilbertson (21 September 2000) praised the South African Government for its support for the creation of Billiton Plc as a UK-domiciled company and for sharing the company’s vision of gaining access to international capital. MOZAL was the first major investment Billiton made after its international fund-raising and listing on the London Stock Exchange.

The large projects, such as MOZAL and later SASOL, have acted as a magnet to attract other foreign investments to Mozambique (especially those coming from South Africa), among them many small- and medium-sized enterprises (Jenkins and Thomas 2002: 25, South African Foundation 2004: 18).¹¹⁰

Table 8: Investment approved by province in Mozambique 1999¹¹¹

Province	No of projects	Value (US \$)		Total	
		FDI	NDI	Value	%
Cabo Delgado	8	2.211.833	167.513	10.156.625	1.32
Niassa	3	0	2.307.532	9.507.600	1.24
Nampula	13	407.613	5.625.334	21.408.448	2.79
Zambezia	14	5.184.535	5.938.949	31.758.839	4.14
Tete	6	1.160.000	35.157	68.450.182	8.92
Manica	6	3828.580	285.606	28.790.091	3.75
Sofala	18	11.151.121	4.706.209	33.941.321	4.42
Inhambane	13	1.592.166	1.696.416	13.075.772	1.70
Gaza	15	2.402.885	1792.017	16.687.222	2.17
Maputo (province and city)	137	94.016.680	78.026.799	528.496.486	68.87
Zambezi Valley	1	0	5.120.000	5.120.000	0.67
TOTAL	234	121.955.413	105.701.532	767.392.586	100

Source: CPI Mozambique Means Business-

www.Mozbusiness.gov.mz/invflows/province.htm

The growth in FDI projects and economic growth generally is not visible outside Maputo (EIU 26 June 1997). According to the CPI and BusinessMap (2000: 36), the overwhelming majority of the FDI projects to Mozambique are concentrated in Maputo Province and the city of Maputo. This is largely due to its proximity to South Africa, which facilitates cross-border developments like the MDC. Table 8

¹¹⁰ MOZAL is spending \$80 million on local small- and medium-sized enterprises. MOZAL Small and Medium Enterprises Empowerment and Linkages Programme (SMEELP) awards contract to local companies. Some companies have been awarded more than one contract. Agro Alfa, Soradio, Kanés and Padiha Construcoes are already working on site

¹¹¹ Estimates of investment expenditure differ widely, depending on the source of data. Currently four statistical data bases exist: the International Monetary Fund (IMF); the World Bank; the United Nations Council for Trade and Development (UNCTAD); and Mozambican government-

above indicates that statistics on investments collected by the CPI approved by Province in 1999 estimated that 68% of FDI nationally was located in Maputo Province and in the capital. By 2001 the CPI estimated that 66 out of 127 investment projects approved nationally had increased to 84% of the total FDI value, and were based in Maputo.¹¹² Within Maputo the FDI is mainly concentrated in the manufacturing and industrial sector (see Annex 8).

In summary, this section indicates that FDI inflows into Mozambique have increased rapidly, particularly during the period 1998-2002. These investment inflows comprise increasingly and mainly (although not exclusively) private sector flows. These investors are mainly from South Africa and/or its international partners, such as Britain and Japan. Although the bulk of these investments are allocated to the resource and manufacturing, mineral and mining sectors, some investments are allocated to tourism. Another feature of this investment is that it is highly concentrated in the capital i.e. the south of Mozambique.

The next section discusses the efforts of the GoM to create and provide an institutional and regulatory environment that encourages domestic and foreign direct investment.

sponsored Investment Promotion Centre (CPI). A fifth set of statistics provided by BusinessMap, a South African private concern, is also useful.

¹¹² For more information see <http://www.mozbusiness.gov.mz/inv.htm>.

5.3. INVESTMENT INSTITUTIONS AND REGULATORY FRAMEWORK

The previous section identified the major trends and features of investment inflows into Mozambique. This section illustrates the use of the eclectic new institutional economics influence on government policy and interventions (discussed in chapter 2) to enhance Mozambique as an attractive location for foreign investment. It highlights both the direct and indirect policy interventions, including tax incentives and investment protection written into law as an integral part of the regulatory institutions. It illustrates a point made in chapter 3, that financial and donor agencies use financial aid to support the building of institutions that facilitate large FDI projects like MOZAL.

5.3.1. Indirect government policy interventions

Indirect government policy interventions include the maintenance of macro-economic stability, the development and maintenance of competent bureaucrats and efficient institutions and the reduction of bureaucratic red-tape.

Economic uncertainty reduces the bargaining power of the government of the host country. Stable macroeconomic policies provide investors with a measure of predictability. The main macroeconomic indicators include economic growth (i.e. GDP), reduced or low inflation (CPIX and PPI) and reduced or low levels of debts and deficits. Since the implementation of the PRE in 1987 the surveillance and maintenance of macro-economic policies in Mozambique is a consequence of agreements with the IMF and the World Bank (UNCTAD 2001: 10). The surveillance ensures that the GoM's development strategy relies on markets and

private entrepreneurs to sustain stable economic growth.

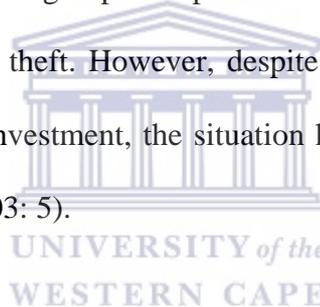
5.3.1.1. Institutional efficiency and eliminating bureaucratic red-tape

The CPI, Central Bank and the customs officials are among the more important institutions (eg laws, customs, taxes etc.) and organisations responsible for facilitating domestic and foreign investments. The quality of these institutions is reflected by competent personnel and efficient institutions capable of delivering services of high quality in as short a time as possible. In the mid-1990s, the GoM realised that its efforts to attract FDI were being frustrated by a shortage of trained and competent administrators, as well as red-tape that negatively affected the country's image abroad. These institutional weaknesses discouraged investors and reduced the bargaining power of the GoM. Currently the GoM policy interventions aim to reduce bureaucratic procedures and develop bureaucrats' capacity to negotiate, and improve service delivery to investors as well as meet the demands of the global economy (UNCTAD Sept. 2001: 2).

Under the tutelage of international agencies like the World Bank and IFC, which provide financial support, the GoM has introduced reforms of its investments laws and has reduced bureaucratic red-tape to make it easier to do business in Mozambique. The time and money required to start a new business are indicators of the bureaucratic burden of the country's investment climate. The IFC (2003: 5 and 26) estimated that the median time to register a company in Mozambique was

138 days and 153 days, according to Mozambiquefile (Oct 2004: 16).¹¹³ Rated with 74 other countries on the time and cost of entry for a start-up firm, Mozambique came second to last (EIU 2004: 42-43).

To facilitate the MOZAL investment the GoM was persuaded by the investors and the IFC to privatise the port, customs and electricity supply services. The IFC (2003: 5-6 and 27-28) survey suggests that the median time it took to clear goods after they arrived at the port of entry was 7-12 days. During an interview Peter Cowie mentioned that one of MOZAL's priorities was to get cleared within 24 hours.¹¹⁴ Reasons for expediting import/export clearance related to production and delivery time and to avoid theft. However, despite the GoM's efforts to reduce administrative barriers to investment, the situation has not improved much since 1996 (World Bank Feb. 2003: 5).



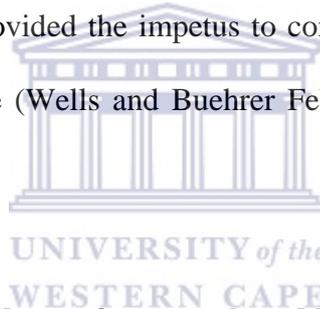
Mega-projects such as MOZAL have a large influence in shaping Mozambique's investment policy and its regulatory environment and thus improving the investment climate (Grobbelaar 2004: 6 and AIM 2004: 16). In Mozambique foreign investors wishing to invest more than US \$50 000 can also qualify for government incentives and for assistance from the CPI. However, for investors like MOZAL it is easier to invest US \$100 million and more because large

¹¹³ The World Bank Group's Regional Program on Enterprise Development (RPED), the Confederation of Business Associations of Mozambique (CTA), PoDE, and the CPI conducted a survey in 2002 among 193 manufacturing firms operating in Mozambique in order to assess the country's industrial performance and investment climate (IFC August 2003: 5). They observed that experienced consultants are able to register a new firm anywhere from three and a half to five months, depending on the nature of the business, how politically connected a firm is and how much it is willing to pay.

investors have more bargaining power and can, to a large extent, dictate the terms for making the investment (Castel-Branco and Goldin 2003: 21 and Castel-Branco 2004: 43).¹¹⁵ As a Public-Private Partnership the relationship between MOZAL and the GoM is complex, being simultaneously adversarial and co-operative. According to Wells and Bueher (February 2000):

“This is a success story, with important lessons for other countries that are trying to attract foreign investment. In it, the government of Mozambique, one of the world’s poorest countries, works with managers from a multinational minerals company to improve the countries investment climate.”

Firms like MOZAL both benefited from the reduction of red-tape to investments but also simultaneously provided the impetus to continue to simplify investment procedures in Mozambique (Wells and Bueher Feb 2000). It is to this that the discussion now turns.



5.3.2. FDI legislation, regulatory framework and EPZ strategy

In practice, securing and consolidating the MOZAL investment and facilitating its production needs assisted significantly in reforming the legislative and regulatory investment environment in Mozambique. As a consequence of the bargaining process with MOZAL the GoM amended many of the reforms to the investment laws. This section outlines the main laws that make up the regulatory framework for foreign and domestic investments in Mozambique. It deals with institutions that were authorised to administer these laws, such as the Council of Ministers

¹¹⁴ Interview conducted in MOZAL office, Maputo, 2000.

¹¹⁵ This was also communicated in personal conversation and presentation in HRSC conference, March 2004, Pretoria.

(CoM), the Center for Investment Promotion (CPI) and the IFZ Company, and their capacity to enforce them.¹¹⁶

5.3.2.1. Laws regulating investments in Mozambique

The two laws that directly regulate national and foreign private investment into Mozambique are the Law on Investment,¹¹⁷ approved on 24 June 1993 and the Regulation of Investment Law (No 14/93), approved on 21 July 1993 (hereafter the Regulation of Investment Law) with changes approved by Decree no. 36/95. Article 7 of the Law on Investment No 3/93 outlines the GoM's objectives for establishing laws and attracting investments as the:

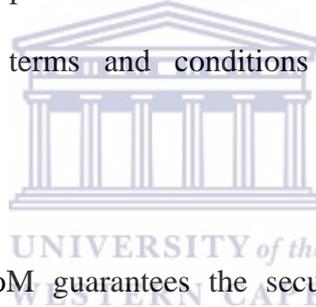
- development, rehabilitation, modernisation or expansion of economic infrastructure;
- expansion and improvement of national production capacity or capacity to render services;
- training, expansion, and development of national entrepreneurs and Mozambican business partners;
- creation of jobs for national workers and the raising of professional skill levels of the Mozambican labour force;
- technological development and the improvement of entrepreneurial productivity and efficiency;
- increased diversification of exports;
- generation of foreign currency;
- reduction and substitution of imports;
- improvement of the supply of domestic markets; and
- direct or indirect or indirect contribution towards improving the balance of payments and government budget revenue.

¹¹⁶ EPZs are fenced-in industrial estates specialising in manufacturing for export and offering their residential firms free trade conditions and a liberal regulatory environment. They are industrial zones with special incentives, set up to attract foreign investors, in which imported materials undergo some degree of processing before being re-exported (ILO 1998)

¹¹⁷ Replacing Law No 4/84 (18 August 1984) and Law No 5/87 (19 January 1987).

The need for these objectives arose out of the circumstances described by the contradictions and development indicators indicated and discussed in chapter 3. The extent to which they are met is assessed and discussed in chapter 6 and 7.

The Law on Investment makes provision for a framework where national and foreign private investments qualify for the guarantees and incentives schemes offered by the GoM.¹¹⁸ The law deals with non-discrimination between foreign and domestic investors and the protection and guarantee of investments. Foreign investors, employers and workers are subject to the same duties and obligations applicable to nationals. Companies involved in FDI are entitled to access domestic borrowing on the same terms and conditions applicable to Mozambican companies.



Under Chapter 11 the GoM guarantees the security and legal protection of property rights. It also provides for just and equitable compensation as protection against nationalisation or expropriation of property and goods. The GoM also guarantees the remittance abroad of funds such as royalties and exportable profits. Investors who comply with the law can transfer 100% of their profits into the foreign currency of their choice and repatriate them abroad.

The GoM furthermore guarantees the concession of tax and customs incentives granted in the Code of Fiscal Benefits for investors complying with the law. In the

¹¹⁸ See http://www.mozbusiness.gov.mz/inv_leg.htm for a copy of the Law on Investment. It does not apply to investments made in the areas of prospecting, research and production of petroleum

event of a dispute between the GoM and foreign investors concerning existing investment projects in Mozambique, the International Convention for the Settlement of Investment Disputes (ICSID) between States and Nationals of other States, adopted in Washington on 15 March 1965, will arbitrate the matter. Mozambique is also a signatory to the World Bank's Multilateral Investment Guarantee Agreement (MIGA) that guarantees foreign investments against political risks.

As part of the GoM's commitment to encouraging sustainable investment projects, all investors are compelled to carry out and submit environmental impact assessment (EIA) studies pertaining to the impact their investment will have on the natural and physical environment. However, the responsibility rests with the investor or company to undertake appropriate measures for the prevention and mitigation of any negative environmental effects identified by the EIA.

5.3.2.2. Council of Ministers and the Investment Promotion Agency

The Regulations of Investment Law and Decree No. 36/95 of 8 August deal with the Council of Ministers (CoM).¹¹⁹ The CoM determines the minimum value of direct national and foreign investment. The CoM is responsible for the co-ordination of the investment processes and the creation of the Investment Promotion Agency (CPI). Under the supervision of the Minister of Planning and

and gas and in mineral resources extraction. Nor does it cover public investments financed by funds from the State Budget.

¹¹⁹ The CoM comprises the Minister of Planning and Finance (CoM President), the Minister of Industry, Commerce and Tourism (CoM Vice-President), the Minister of Public Works and

Finance the CPI is responsible for the promotion of investment and provides advisory service to Government bodies on investment matters.¹²⁰ The CPI's mandate is to encourage and facilitate FDI into Mozambique and it provides important linkages between Mozambique and other governments, trade commissions, industry organisations and investments entities. The CoM is also responsible for the IFZ regime and has the final say on granting IFZ status. The co-ordination and operations of the IFZ are managed by the IFZ Council (established on 21 September 1999) with the CPI being responsible for issuing certificates to companies that intend to operate in the IFZ.

The CoM also supervises the Code of Fiscal Benefits for investments provided for in law No. 16/2002, approved on 27 June 2002.¹²¹ This law seeks to rationalise the concessions of fiscal incentives so that the regime may be more efficient and effective as an instrument of economic policy. It deals with the right to tax and customs benefits and the procedures that are to be followed to obtain fiscal benefits and the kinds of sanctions imposed for violating or not complying with the law and the suspension and cancellation of fiscal benefits. For example,

Housing, the Minister of Agriculture and Fishing and the Minister of Environmental Co-ordination.

¹²⁰ See <http://www.cpi.co.mz> for more on CPI. As for inter-institutional co-ordination, the CPI works closely with the Provincial government and the Municipal Council of the City of Maputo to facilitate the speedy implementation of investment projects. The CPI represents the government in the Beluluane Industrial Park.

¹²¹ Fiscal benefits are defined as tax measures that reduce the amount of taxes payable in order to benefit activities having a recognised public social or cultural interest as well as promoting the nation's economic development. These include tax and customs incentives, deductions from taxable income, accelerated depreciation, tax credits, exemption from tax, reduction of the rate of taxes and deferment of the payment of taxes. It replaces past laws (No. 12/93 of 21 July, No. 37/95) of 8 August and No. 45/96 of 22 October). See http://www.mozbusiness.gov.mz/inv_leg_code.htm for a copy of this legislation.

investors like MOZAL can claim fiscal benefits for the modernisation and introduction of new technology as well as for professional training.

5.3.3. Industrial free zone legislation and fiscal benefits

The current legislative framework for Industrial Free Zone (IFZ) management and regulation comprises several laws passed during 1999, replacing the 1993 IFZ laws.¹²² These laws also explain the customs, taxation and labour laws. Within the IFZ at least 500 permanent jobs should be created for Mozambican workers. Each company operating inside the IFZ must employ at least 20 workers although Article 5 of the IFZ regulations makes provision for the approval of projects that employ fewer workers than this.¹²³



The Industrial Free Zone Expatriate Labour Regime (Decree No. 75/99 of 12 October), drafted by the Ministry of Labour, complements the labour laws and regulates the terms of employment of foreigners and expatriates in the IFZ. This law also regulates collective labour relations (including the right to strike) inside the IFZ. According to Article 9 of the Industrial Free Zone Expatriate Labour Regime strikes within IFZs are subject to seven days prior notice. A strike may

¹²² These laws include the Industrial Free Zone Council (No. 61/99), the Industrial Free Zone Regulations (No. 62/99 of 21 September), and the Industrial Free Zone Expatriate Labour Regime (No. 75/99). The Industrial Free Zone Regulations were again amended by law No. 35/2000, of 17 October and law No. 16/2002 of 27 June. These laws explain how the IFZ is to be managed and regulated. See http://www.mozbusiness.gov.mz/ifzs_regul.htm for a copy of the Industrial Free Zone Regulation incorporating the changes approved in 2000 and 2002.

¹²³ Exemptions are granted where companies carry out their production using advanced technology such as for the production of medicines, medical surgical materials, electronics, computer technology, measuring devices, instrumentation, and technology for the aeronautic and space industry. Research and development centres are also exempted.

only be called by the national or provincial labour union after confirmation by the IFZ Council with regard to the guarantee of minimum services.

As long as the law does not prohibit the goods, any amount can be imported into the IFZ.¹²⁴ Almost every type of industrial activity is allowed.¹²⁵ The law requires that at least 85% of the company's production is exported. The IFZ regulation permits up to 15% of the company's previous year's production to be sold on the local market in accordance with the relevant customs regulations. The tax and fiscal regime that applies in the IFZ is noted under chapter IV of the Industrial Free Zone Regulation. Both developers and enterprises in the IFZ are entitled to exemptions from customs duties on the importation of construction materials, machinery, equipment, accessories, spare parts and other goods used in the IFZ. These exemptions also include Value Added Tax (VAT) and the Specific Consumption Tax (SCT).

The developers and companies operating in the IFZ shall, for a period of ten years, benefit from a 60% reduction in the rate of Corporate Income Tax on the profits. Developers and companies are also exempted from real property transfer

¹²⁴ However the processing of alcoholic beverages or tobacco and its derivatives are allowed only if a minimum of 50% of the raw materials to be used in the final product that comes from Mozambique. Similarly the processing of gold, silver, precious stones, skins firearms, munitions, pyrotechnic articles and explosives are allowed only when at least 25% of the raw materials used to make the final product come from Mozambique.

¹²⁵ With the exception of the exploration of natural resources, processing of rough cashew nuts and national seafood, including prawns or activity that is reserved for the State with or without the private sector Cashew nuts and seafood are regarded among the main export products of Mozambique and many people are dependent on these for subsistence.

tax (SISA) payable on the acquisition and use of immovable assets. They are also allowed to open and maintain foreign exchange accounts within Mozambique and abroad. Furthermore, transfer of profits and dividends is permitted.¹²⁶ Repatriation of capital is also permitted, subject to compliance with the above provisions.

The IFZ legislation precedes MOZAL but despite the approval of the IFZ law (No. 18/93) in 1993, the country attracted very little FDI. A large proportion of the FDI inflow was contingent on MOZAL being granted IFZ status. In other words, it was only since the approval of MOZAL in 1997 that the IFZ became a reality and was put into practice as negotiations around the MOZAL project unfolded. The IFZ status of the MOZAL project was agreed to at the Heads of Agreement (Council of Ministers) meeting in March 1997.¹²⁷ The managing directors of MOZAL, MOTRACO and the South African Government (given its economic interest in the IDC and Eskom) supported making the investment conditional on receiving IFZ status. Peter Cowie, the General Manager of the

¹²⁶ Subject to documentation certifying registration of imported capital, proof of having met tax obligations and confirmation of the Ministry of Planning and Finance of the exportable amount

¹²⁷ The trade unions were not involved in the negotiations when the IFZ was approved between the government and MOZAL. During these negotiations differences emerged among the negotiating parties concerning the IFZ policy. At first there were disagreements between the Mozambican Government departments concerning the granting of IFZ status. Initially resistance came from the Customs and Tax Department. The usual practice is that the exporting firm (MOZAL) would have to pay duties on its imports and then apply for a rebate upon export of the finished product. But the MOZAL managers argued that following this procedure would tie up working capital in duties. They insisted that procedures for obtaining duty refunds were notoriously slow and bureaucratic in Mozambique, and that the value of imported raw materials in the instance of the MOZAL was large. Therefore, the ability to import free of duty was extremely important. However the customs officials and the tax office were reluctant to forego such a potentially large source of tax revenue. These concerns were also expressed by the Central Bank. In order to convince customs officials that such a system could work, and to learn more about how other countries dealt with the problems associated with free trade zones the Investment Promotion Centre (CPI) sponsored visits to EPZs in Mauritius, Malaysia, the Philippines and the Dominican Republic.

MOZAL project in Mozambique, also confirmed that an important factor in locating the MOZAL project in Mozambique was the existence of the IFZ – seen as clear proof of the GoM’s intention to encourage and retain commercial interest. Rob Barbour, Chairman of MOZAL, Mozal News December 1998, No. 1, explains the importance of granting MOZAL IFZ status:

“It is important that I place due emphasis on the role played by the Mozambican government in encouraging a massive capital investment of this kind. When this project first came under examination, what stood out was its status as an “Industrial Free Zone”, which conferred generous tax advantages and benefits on capital providers.”

Companies such as MOZAL and MOTRACO located in the EPZ also gain access to import duties exemptions. This reduces the cost of producing the product and enhancing their competitiveness. At the Southern African Economic Summit in 2003, Morgado (the Mozambican Minister of Industry and Trade), emphasised the importance of duty free zones as a means of attracting FDI.

Lall (1997: 169) argues that a favourable investment climate is a strong factor in attracting TNCs, but often the response to more liberal terms in developing countries is overstated because FDI inflows are not inevitable. The WIR (1999: 154-55 and 2002: 244) also cautions against competing for FDI on the basis of IFZs or EPZs and concludes that there is a risk of intense competition for exports-oriented FDI translating into a race to the bottom in social and environmental standards and a race to the top in incentives. For this reason, the successful EPZs should not be judged solely on their capacity to attract FDI or increase exports and foreign earnings but also on the extent to which they help meet broader economic and social objectives. According to the WIR (2003: xvii, 86), experience shows

that the best way of attracting FDI and drawing more benefits from it is not passive liberalisation alone. Liberalisation can help get more FDI but it is not enough to get the most from it. Attracting types of FDI with greater potential for benefiting host countries is a more demanding task than just liberalising FDI entry and operations. Once countries succeed in attracting foreign investors national policies are crucial to ensure that FDI brings more benefits. The challenge for developing countries is to find a development-oriented balance.

In summary, Mozambique's investment laws employ a combination of non-discrimination, investment protection, IFZ institutions and very liberal fiscal incentives to create an investment-friendly environment that encourages domestic and foreign investment. Favourable fiscal tax agreements and duty free import incentives under IFZ regulations were decisive factors in attracting FDI and successfully consolidating the MOZAL aluminium smelter. This has contributed to the creation of an improved and a more predictable investment climate in Mozambique, which, in turn, reduces the transaction costs of doing business. The evidence suggests that the GoM's interaction with MOZAL and other international agencies such as the IMF and the World Bank's IFC contributed significantly to shaping the relatively liberal and open investment regime, further reducing risks to MOZAL investors.

The next section discusses further efforts by the GoM to provide supply-side measures not included in legislation but which nevertheless encourage productive investment.

5.4. FACTOR COST INCENTIVES AND CONCESSIONS

The previous section discussed some of the direct government interventions embodied in the legislation, such as the import duty, taxation and other fiscal incentives currently enjoyed by MOZAL and other companies that qualify for IFZ status. In this section the focus is on cost incentives that are not included in the legislative or institutional framework but that are nevertheless crucial to MOZAL's production process. In particular, the cost of electric energy supply and the concessions granted to MOZAL by the governments of South Africa and Mozambique are discussed. The section concludes with a discussion on Mozambique's competitiveness and performance in attracting FDI.

5.4.1. Cheap electricity central to international competitiveness

The electricity deal with MOZAL is an example of how the GoM use its created assets to enhance its country location advantages to attract resource-seeking foreign investments. Electricity is an essential ingredient in primary aluminium production and Mozambique produces the cheapest hydroelectric energy in the world.¹²⁸ The GoM used its abundant, cheap and reliable supply of electric energy as a bargaining lever in negotiations with MOZAL.

In the mid-1990s Gencor (Alusaf-cum-Billiton) predicted that the demand and price for aluminium would increase. Since its southern African aluminium

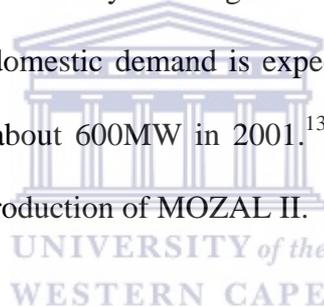
¹²⁸ About two-thirds of the total energy input to the aluminium industry is consumed during the electrolytic reduction of aluminium oxide also known as alumina to aluminium. Electricity is used to power casting and rolling mills as well as to heat, light and cool facilities.

subsidiaries, Bayside and Hillside, had reached maximum capacity, the company looked towards expanding aluminium production elsewhere. The relatively cheap electricity and labour costs as well as Maputo's proximity to ports made Mozambique an attractive location. Also encouraging was the GoM's attack on bureaucratic red-tape, which included fast-tracking immigration, visas, work permits and customs clearance of goods, as well as reducing the financial drawing procedures.¹²⁹

Electricity accounts for a major proportion of the costs of aluminium production (between 25% and 33%)(Qureshi 1999: 3). The price MOZAL pays for electric power is a key factor in determining the smelter's output or production cost and competitive edge in the world aluminium market. MOZAL thus has a comparative advantage because it has the lowest electricity costs per unit of any smelter in the world. According to the Electricity Association Services Limited, International Electricity Prices (issue 27), Eskom produced electricity at a lower cost price per kilowatt-hour (kWh) than Canada, New Zealand, Australia, France, USA, Portugal, Israel, Germany, UK and Japan. Access to low cost electricity is particularly important because the price at which aluminium is sold on the world market is determined by the London Metal Exchange (LME) and not by MOZAL. When the price of aluminium sold on the LME decreased, as it did during the period 1998-2000, operating profits decline.

¹²⁹ Fast-tracking immigration and visa work permits by permitting group applications instead of individual applications. Customs clearance of goods was reduced from just less than 6 weeks to 24 hours and the time for financial drawing to be approved within 30 days.

An agreement between Cahora Bassa Hydroelectric (HCB) and Eskom gives Eskom the right to buy the entire current output of 2000MW. The Mozambican energy supplier, EDM, produces little of its own power and purchases an amount of 200MW from Eskom (FISCU 1998/9). Since the electricity from HCB is rerouted through the South African Power Pool, the EDM pays Eskom a transit charge for use of its power lines (EIU 2004: 33). However, EDM pays HCB a concessional rate equivalent to domestic prices and it is payable in local currency. MOZAL's power consumption is currently 450MW – more than double the total consumption of the whole of Mozambique. The smelter's power needs increases with full production (Business Day 17 August 2000). According to Armando Rodrigues (a consultant), domestic demand is expected to increase substantially from 235MW in 1999 to about 600MW in 2001.¹³⁰ The demand for electricity will increase further with production of MOZAL II.



The power supply into the IFZ is sourced from the Eskom power grid and is distributed through MOTRACO, which was also granted IFZ status and was formed to supply the power needs of MOZAL in Mozambique. MOTRACO energised two of the major 400kV electricity supply lines into Maputo. Eskom secured a maintenance contract with MOTRACO in which Eskom has a 33% effective holding (Eskom Annual Report 2000:22, 119). Castel-Branco (2001: 3) suggests that MOTRACO is part of the movement to integrate power networks in the region under the control of Eskom. Castel-Branco (2004: 14) argues that the

¹³⁰ Power point presentation Titled Can the poor pay? Will the private sector participate? The case of low cost electrification in Mozambique. During the period 1997-2000 Rodrigues worked for the

integration is an example of how the South African mineral and energy complex (MEC) is driving economic and industrial development in Mozambique.

According to Brian Gilbertson, the former Chairman of Billiton, Billiton was able to negotiate a favourable contract with Eskom that will make MOZAL the most modern and the lowest cost smelter in the world. Billiton aluminium is Eskom's largest industrial customer and has negotiated a highly competitive electricity price with Eskom (Business Report 22 March 2001). Eskom has entered into a number of long-term pricing agreements to supply electricity to electricity-intensive industries, such as the aluminium and ferrochrome industry (Annual Report 2000:107). These agreements are linked to an international commodity price. The revenue risks associated with commodity-linked agreements are typically hedged via a financial institution by means of floors and caps on the electricity price. The duration of the agreements varies from five to 20 years and typically coincides with the business cycles of the industries concerned. This was corroborated in an interview with Peter Cowie.¹³¹

Figure 4 below is a visual representation of the agreement between MOZAL and Eskom. An agreement was entered into that makes provision for electricity to be supplied to MOZAL by Eskom at below cost in two patches over a 12-year period. David Munro, head of aluminium at Billiton states:

“MOZAL would have a very competitive cash price in the first six years of the project as the cost of electricity would be fixed at a low

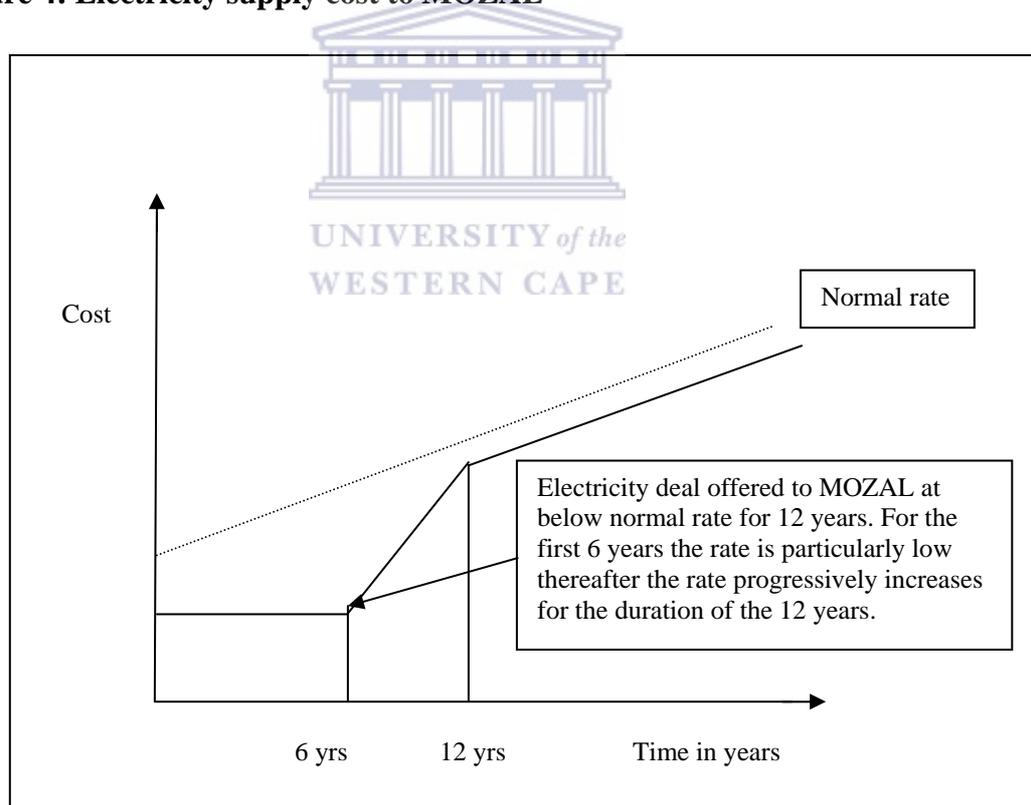
national directorate of energy in Mozambique as Project Coordinator of a World Bank co-financed household energy project.

¹³¹ Peter Cowie interviewed at MOZAL office Maputo 2000.

level. In the six years thereafter the power cost would be somewhat higher, but still very attractive. After 12 years the deal on power will be similar to the preferential rates at the Hillside smelter in South Africa. Hillside has the cost linked to the value of aluminium on the London Metal Exchange (LME). If the price falls so does the cost of Hillside's power."

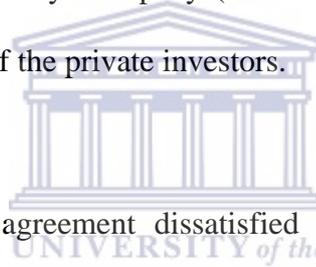
A particularly low price will be charged for the first six years. Thereafter the smelter will be locked into a competitive electricity contract for the following six years. The agreement gives MOZAL a cash flow advantage by reducing the cost of doing business and enhances the company's international competitiveness.

Figure 4: Electricity supply cost to MOZAL



Source: Interview with Peter Cowie (Maputo 2000)

The aluminium companies in South Africa and Mozambique are Eskom's largest largest customers. The aluminium companies benefit from arrangements in which the greater the consumption of electricity, the lower the cost to the companies. In contrast, individual consumers pay more per unit of electricity consumed than large aluminium companies. Eskom also guaranteed the debt raised by MOTRACO (which stood at R683 million at 31 December 2000), and provided collateral security in the form of letters of credit from banks in respect of the cross-border lease transactions (Annual Report 2000: 104-105). The special electricity rates Eskom charges MOZAL and the guarantee of MOTRACO's debt illustrate how the Public Utility Company (Government) subsidises and secures the activities and interests of the private investors.



After the signing of the agreement dissatisfied Portuguese partners and the managers of Cahora Bassa challenged the cost at which electricity was sold to Eskom. The dispute did not alter the MOZAL agreement period but it changed the price that Eskom now pays for its electricity. Under the new agreement, Eskom agreed to pay market-related electricity prices. According to EIU (2004: 34), the price paid by Eskom for Cahora Bassa power doubled from the 2003 figure of 5US cents/ kwh, to 10US cents/kwh,¹³² and increased again to 16US cents/kwh in

¹³² Elsewhere allAfrica.com 10 February 2004 quotes a figure of 7.26c/kWh (see Business Day). This is significantly higher than the 2c/kWh (AIM April 1998: 20) that Eskom was paying in terms of the 1988 agreement and 3.7 (AIM January 2002: 23) South African cents according to the 2000 agreement. The permanent joint committee has also agreed to cap the increase at 10,25c/kWh for the period 2007-2025. This long term price scheme would allow for inflation adjustments.

2007.¹³³ This means that the margin at which Eskom is subsidising electricity supply to MOZAL has increased in comparison to when the agreement was made.

Under Article 2 of the general principles of SADC's 'Protocol on Energy' (1996: 6), governments are urged to not only use energy to support economic growth and development but also to alleviate poverty and improve the standard and quality of life throughout the region. They are also urged to take cognisance of gender realities and encourage the development and transfer of science and technology related to energy via research and development. However, the supply of electricity to MOZAL further entrenches inequality among the manufacturers in Mozambique. An IFC (2003: 6, 8 and 31) survey ranks electricity as the most serious infrastructure problem for the Mozambican manufacturing sector, with nearly 64% of respondents ranking it as the most severe problem. The median firm in the sample suffered power interruptions about five times a month in 2002 and the median loss to production from power outages was 2% of sales.

According to Nordas and Pretorius (2000: 4) the low level of consumption of electricity by Mozambicans does not reflect the country's power generation capacity, but is instead an expression of the low level of per capita income. This unequal distribution of electricity to MOZAL takes on greater proportions of inequality when viewed against the background that many Mozambicans (and to a

¹³³ Cahora Bassa Can be profitable –Simao, Agencia de informacaode Mocambique (Maputo) news 10 February 2004. <http://allafrica.com/stories/printable/2004021100668.html> .

lesser extent, South Africans), still do not have access to electricity.¹³⁴ Armando Rodrigues (a Consultant), estimates that only 5% of the population has access to electricity services, while UNCTAD (2001: 49) puts the figure at less than 3%, of whom most are in urban areas and half are in Maputo. MOZAL consumes double the amount of electricity than the rest of Maputo and more than the whole of Mozambique.

5.4.2. Increased investor confidence and FDI competitive performance

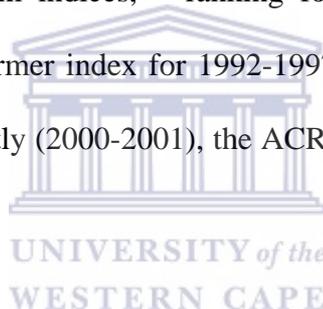
Evidence that investors generally approve of the GoM investment and trade policies can be found in Mozambique's much-improved performance in international competitiveness rankings.



According UNCTAD (2003), UNCTAD's Inward FDI Performance Index for the period 1999-2001 put Mozambique at 24th place, higher than the United Kingdom which ranked 28th. This index is the ratio of a country's share in global FDI flows to its share in global GDP. The data indicate that from the mid-1990s to the present, Mozambique has consistently scored higher in FDI performance index values than, for example, the United Kingdom. From the perspective of the amount of FDI relative to the size of GDP, Mozambique's economy appears to be more open and integrated into the global economy than that of the United Kingdom.

¹³⁴ Many South Africans live in the rural areas where electricity infrastructure is in short supply, still more people in South Africa live in urban areas and stay in squatter or informal settlements

According to a SADC Investor Survey conducted by BusinessMap (2000: 35 and 38), the business community rated Mozambique as ‘fair’ (62.2%), with a reasonable risk 60%-66%. The GoM ability to attract FDI like MOZAL is registered in two other independent empirical studies: the Africa Competitive Report’s (ACR’s) Improvement Index” and Optimism Index, by the World Economic Forum (WEF), and UNCTAD’s Inward FDI Performance Index.¹³⁵ The ACR (1998) ranked Mozambique 18th out of 23 countries participating in its Competitiveness Index (1998). Although Mozambique featured among the poorly performing countries in this index, it performed much better in the ACR’s Improvement and Optimism indices,¹³⁶ ranking fourth out of 20 participating African countries in the former index for 1992-1997 and first in the latter index for 1997-1999. More recently (2000-2001), the ACR ranked Mozambique third in both these indices.



In relation to Mozambique’s performance the results, analysis and conclusions of the WEF and ACR are also corroborated by the UNCTAD WIR studies. According to the WIR (2002: 26), Mozambique’s ratings in the Inward FDI

and/or are unemployed and cannot access electricity even though the infrastructure exist.

¹³⁵ The WEF, produce the Africa Competitiveness Report (ACR) that includes the “Improvement index” and “Optimism index” generated from surveys conducted among the business community in Africa. These indices rank participating African countries in terms of their competitiveness. The UNCTAD produce the World Investment Report (WIR) and include the “Inward FDI Performance Index” (based on FDI inflows) a ratio of a country’s share in global FDI flows to its share in global GDP and the “Inward FDI Potential Index” (based on structural factors) ranks countries according to their potential for attracting FDI. [Factors taken into account are the size of the FDI inflows relative to the size of the economy as measured by GDP. Including questions about infrastructure, market size, natural resource endowments, FDI environment and legislative framework, finance, labour, governance and openness.]

¹³⁶ Angola Nigeria and Zimbabwe also feature among this group of poorly performing countries the impact and political turmoil of lengthy civil war.

Performance Index¹³⁷ stood at 0.3 during the period 1988-1990 and at 1.8 during the period 1998-2000. Its ranking thus improved from 109 to 23, which was Africa's second best rating after Angola with has a rating of 5.1 and which ranked 3. The WIR (2002: 31) placed Mozambique along with other countries with a similar GDP (a proxy for economic size) in the low FDI potential category and observed that, during the period 1988-1990, the country featured among the under-performers but shifted during the period 1998-2000 to the group of countries with an above-potential performance.¹³⁸

Even though Mozambique has ranked among the top performing African countries since 1998 and has consistently maintained or improved its ranking, caution is required when interpreting the meaning of these indexes as the country's credit ratings, although improving, remain low. Mindful that credit ratings are subjective, they nevertheless provide some indication to investors about the level of risks involved. The responses from investors and their organisations are mixed. The International Country Risk Guide (ICRG) suggests an increase in Mozambique's country risks, although from a very low base in the 1980s (Qureshi 1999: 15).

The KPMG (2002: 24), an international private sector auditing company operating in Mozambique, suggests that the increase in Mozambique's ratings has been substantial. In July 2003 the international Fitch Ratings agency assigned long-

¹³⁷ Countries with an index value of 1 receive FDI exactly in line with their relative economic size (an index value greater than 1 attract more FDI than expected).

term foreign and local currency ratings to Mozambique of 'B' and 'B+' respectively (EIU October 2003: 23 and Hanlon 15 July 2003 email notes). However, Mozambique is unrated by leading international credited rating agencies, such as Standard & Poor and Moody's, suggesting that they still consider investments in the country to be risky. This has not prevented Standard & Poor and Moody's from granting BHP Billiton an 'A' rating on the basis of its earnings before interest and tax (EBIT), indicating to potential investors that, even though the company is investing in Mozambique, investments in BHP Billiton are considered secure.¹³⁹ The MOZAL experience, illustrates that under certain circumstances "investing in risky geographies" can be turned into opportunities.

The involvement of the World Bank's IFC¹⁴⁰ and MIGA¹⁴¹ also serve as a vote of confidence in the GoM, protecting investors by diminishing their exposure to political risk. The formidable power and prestige of these institutions strengthen the bargaining power of MOZAL relative to the GoM. According to Qureshi (1999: 9), a country's risk ratings change following IFC investment in high-risk countries and provide evidence of the IFC's role as a catalyst for future investment. The IFC track record in mitigating risks has persuaded agencies like

¹³⁸ The group of above potential economies comprises mainly countries with strong capabilities that have done well in attracting FDI. Most are relatively poor and lack a strong industrial base.

¹³⁹ Moody's rating agency looks at Sovereign (eg Finance Ministry Guarantees), Political Cover, Borrowers/Guarantors with rated/Traded cross border (hard currency) debts.

¹⁴⁰ According to Solomon Asamoah (IFC Country Manager for Mozambique speaking at a conference of investors in October 2003) the IFC is active in Mozambique and likely to further increase IFC activities in the short and medium-term

¹⁴¹ According to Christopher Bellinger (October 2003) the Multi lateral investment Guarantee Agency (MIGA) protect investors and financial institutions from non-commercial risks. MIGA currently underwrites 4 projects in Mozambique (total coverage \$ 100 million). Mozambique is MIGA's 4th largest host country overall and MIGA's largest in Africa. MIGA Guarantee has facilitated \$2.8 billion in FDI into the country.

Standard & Poor to consider favourably, at least, the projects in which IFC is involved.

The investors and managers of MOZAL have also structured the investment project in a way that substantially spreads and reduces their risk. This includes:

- organising the project into a joint venture, spreading the equity over a number of companies (ie BHP Billiton, Mitsubishi, IDC etc);
- making use of structured project financing (a combination of debt and equity), and the commissioning of different tasks among the various subcontractors already well known in the BHP Billiton's global network;¹⁴²
- sourcing electricity energy supplied by South Africa's Eskom via a privatised MOTRACO, and sourcing bauxite and alumina from Australia via a BHP Billiton sister company (Worsley);¹⁴³
- employing the latest technology (Pechiney) from France;
- using experienced South African (and global) management; and
- keeping the proceeds of aluminium sold abroad safe in foreign bank accounts, which serves to decrease the dependency on the GoM and reduces operational and financial risks.

¹⁴² Sharing the ownership of MOZAL with other shareholders by not placing all their eggs in one basket investors are sharing the gains but also the risks. Furthermore the project is broken into

5.5. CONCLUSION

This chapter has discussed the political economy of how production is financed by FDI inflows into Mozambique. Foreign direct investment inflows to Mozambique increased rapidly during the period 1998-2002. They increasingly comprise capital that is owned by the private sector, with some that is owned by the public sector. Foreign direct investment is not merely money but is owned and is the product of a social process involving negotiations between social groups, such as investors and governments of host countries. The MOZAL FDI is a joint venture and partnership between the private and public sector. The investors are mainly from South Africa, a more advanced neighbouring developing country, and/or its international partners such as Britain and Japan, which are developed countries. The bulk of these investments are in the mineral and energy complex and resources sector. Another feature is that investments are highly concentrated in Maputo (i.e. the south of Mozambique).

The salient features and patterns of FDI inflow to Mozambique are atypical of FDI into other developing African countries in a similar income category. The specific sector and location of MOZAL is an indication that FDI inflows to developing countries like Mozambique are not inevitable but are contingent on the bargaining process. The pattern of FDI suggests that the main determinants of FDI in Mozambique are access to resources, cheap factor input costs and a non-restrictive investment-friendly regulatory framework, combined with lucrative

smaller projects and does not rely on one single contractor for delivery and implementation; this is another way in which risks are minimised.

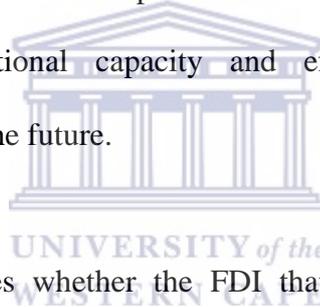
¹⁴³ Such vertical integration makes internal pricing practices a possibility

incentive and tax concessions. The evidence suggests that MOZAL is resource seeking. Electricity is the major created resource asset and is estimated as a third of the cost of production. MOZAL pays less for its electricity than its competitors. The concession on the supply of electricity substantially reduces MOZAL's cost of producing aluminium and increases its international competitiveness relative to its competitors.

The GoMs interaction with MOZAL managers to formulate investment legislation conducive to attracting FDI inflows to Mozambique demonstrates how the activities and spheres of influence of various social forces interact across the local, national, regional and international levels through globalisation processes. The GoM's indirect policy intervention focused on the institutional framework and multilateral and bilateral treaties and trade agreements with MIGA, SADC and South Africa. The evidence suggests that the GoM's interaction with international agencies such as the IMF and the World Bank's IFC contributed significantly to shaping the relatively liberal and open investment regime and reducing the risks to investors. This has contributed to the creation of an improved and predictable investment climate in Mozambique, which reduces the transactions costs of doing business in the country. Through the provision of infrastructure (e.g. ports and EPZ) the GoM has enhanced the country's location advantages for attracting FDI and TNCs.

Mozambique's international competitiveness and index has improved.. Investors

are optimistic about Mozambique as an investment location. Fitch Rating has given Mozambique a B⁺ credit rating. The involvement of the IFC, IMF and MIGA has helped to generate confidence that investments are protected. On balance, the GoM's policies have succeeded in creating an investment-friendly environment and attracting FDI. However, a liberal regulatory framework is not enough: the capacity and institutional efficiency are as important. The provision of the supply-side measures runs the risk of encouraging rent-seeking activity and highlights the contradictions and diachronic social tensions from local investors, indicating potential areas for social transformation. Attracting investment is one thing: realising the potential development benefits from the FDI is another. Building ongoing institutional capacity and efficiency remains a major institutional challenge for the future.



The next chapter examines whether the FDI that has been consolidated has provided the desired developmental socio-economic impact.

CHAPTER 6: ECONOMIC IMPACTS AND IMPLICATIONS FOR LOCAL BUSINESS

6.1. INTRODUCTION

The previous chapters established who owns the FDI, how production is organised and what influenced decisions on where it is located. It also established that relative to the size of the Mozambican economy, the GoM has succeeded in attracting FDI to the country. The investment in MOZAL II and a possible MOZAL III, as well as the investment by SASOL into the Mozambique South Africa gas pipeline, suggest that FDI inflows continue. Since FDI is a product of bargaining between MOZAL investors and the GoM, this chapter focuses on the impact and implications of the outcome of negotiations for Mozambique and its people.



The GoM may have succeeded in attracting FDI but its declared intention to grow national development, increase revenue and finance the provision of public goods and services may not be the priority for the investors. In contrast, Billiton and the other MOZAL shareholders seek to optimise their competitiveness advantages and ensure returns high enough to compensate for the risks associated with investing in a developing country. The aluminium industry has averaged an annual return of 11% for the period 1987-1997.¹⁴⁴ The IFC, a major development lender to the MOZAL project, has a 9% median financial rate of return and a 10%

¹⁴⁴ Power point input to seminar on Billiton Aluminium October 1998.

economic rate of return after investment in Africa for the period 1978-1995 (Qureshi 22 November 1999: 19). This makes FDI expensive for Mozambique.¹⁴⁵

Jenkins and Thomas (2002: iii, 11), in a study of FDI into SADC countries, listed the possible developmental benefits of FDI to include employment creation, the promotion of forward and backward linkages in the host economy (Mozambique), the development of human capital, the implementation of internationally acceptable codes of employment practices, improving access of the host economy to world markets and augmenting corporate tax revenues. These are also the benefits that MOZAL purports to bring to Mozambique.

The information in this chapter is organised into three sections. The first section discusses how FDI and MOZAL will be assessed. The second discusses the macroeconomic impacts of MOZAL on the Mozambican economy. These include the impact on GDP economic growth, manufacturing and the balance of payments. The third section discusses the implications of MOZAL for developing business linkages with Mozambican companies.

6.2. APPROACHES TO ASSESSING THE IMPACT OF FDI

The development outcome of FDI depends significantly on how well the GoM bargains with international investors in project such as MOZAL. However, the

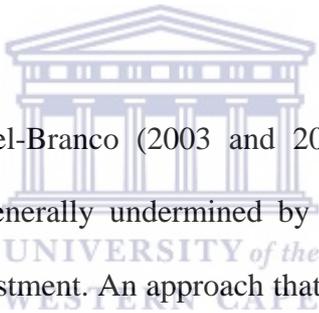
¹⁴⁵ UNCTAD (Sept 2001: 11) also observed that the rates of return on FDI in LDCs such as Mozambique are much higher than on investment in developed or even developing countries. Between 1995-1998 companies from United States registered returns of almost 23 percent on their investments in African LDCs. Ultimately profits is an important consideration in influencing TNC choices of where to locate their production activities.

capacity of developing countries to negotiate with TNCs is limited. Weak bargaining can result in an unequal distribution of benefits or abuse of market power by large and powerful companies (Simms 2001: 164).

In addition, the WIR (1999: 28 and 2003: 86) also suggests that the private interests of investors may differ from the objectives and interests of host countries. The FDI may thus not have the desired developmental effect. Jenkins and Thomas (2002) argues that the developmental benefits of FDI are not automatic and policy mechanisms are required to ensure that the expected benefits of FDI are equitably distributed in order to make a positive impact on poverty. As Strange (1988: 209) observes, a perennial question in political economy at any level is: how much welfare is derived from the working of the market and how much is allocated by the political intervention of the state? Chapter 3 illustrated that the crucial issue is the content and form that the intervention takes. Critical GPE suggests that the state and market cannot be clearly separated and the views about the development and social welfare impacts are normative.

In the introduction the question raised was whether FDI in general and South African FDI in particular, is good or bad for Mozambique's development and whether the development generated by FDI and firms such as Billiton and MOZAL are a 'loadstar' or an 'illusion'. In general, the consensus is that FDI may not be a panacea for development because evidence of its welfare benefits is mixed. Similarly, views concerning the contribution of South African companies to the development of Africa are also mixed. Strange (1988: 209) suggests that

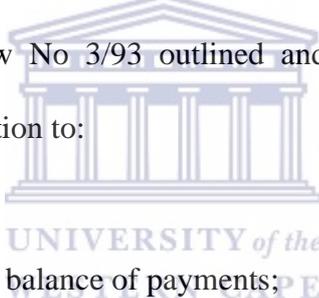
when examining the welfare (or development) benefits, preconceived ideas that policy intervention is always progressive (distributing from the rich to the poor) must be discarded because the effects could also be regressive (distributing from the poor to the rich). NALEDI and African Research Labour Network (October 2003: 8) are of the view that more research is required but tentatively conclude that South African companies are not contributing to development. In contrast, Grobbelaar (2004: 3 and 5) from the South Africa Institute of International Affairs conducted a survey among South African businesses in Mozambique and concluded that the experiences of South Africa businesses were generally benevolent and positive.



Pretorius (2001) and Castel-Branco (2003 and 2004) argue that the positive impacts of MOZAL are generally undermined by conditions demanded by its managers to secure the investment. An approach that asks whether FDI is good or bad is problematic because it envisages the answer in terms of mutually exclusive opposing poles, whereas in reality it may be various combinations and configurations of both (Castel Branco 2004: 44).¹⁴⁶ For example, Cockcroft (1992: 345-346 and 364) argues that the pattern generally characteristic of FDI in Africa is that investment can have a positive and significant contribution to GDP (economic growth), and simultaneously have a negative impact on the balance of payments. Furthermore, different social actors may make very different qualitative assessments of similar patterns of growth in investment and trade. An alternative approach employed in this thesis and chapter is to ask: “What kind of

development does MOZAL generate?” cognisant that it could be a combination of both.

This chapter seeks to unpack the kind of development generated by MOZAL by examining the pros and cons, the costs and benefits, or who is privileged and who is disadvantaged by such investment. Any such assessment is constrained by the absence of a comprehensive analytical model for measuring the response of the economy and consequent changes in household living standards arising from changes in FDI (Jenkins and Thomas 2002: 11 and 17). However, the assessment can examine and discuss MOZAL’s impact against the GoM’s FDI objectives for establishing Investment law No 3/93 outlined and noted in chapter 5. These include MOZAL’s contribution to:

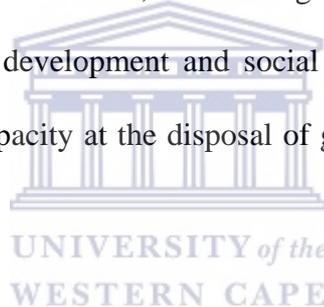
- 
- economic growth;
 - exports, imports and balance of payments;
 - foreign exchange earnings and reserves;
 - backward and forward linkages;
 - local accumulation;
 - technology diffusion and transfer;
 - human capital development and training and skills development;
 - job creation; employment and labour relations;
 - community development; and
 - the environment.

¹⁴⁶ Presentation to conference HSRC (March 2004) Pretoria

Since MOZAL is a relatively new project its full impact cannot be fully known at this stage.

6.3. PRODUCTION, TRADE AND ECONOMIC GROWTH IMPACTS

This section discusses the impact of MOZAL on production, trade and economic growth in Mozambique. The positive impact of FDI lies in the fact that it is a foreign saving that is alternatively spent on production and that contributes to fixed capital formation and wealth generation. The positive impact of exports lies in the fact that they earn foreign currency to pay for imports, further production and wealth creation. In both instances, income is generated that could be used to finance future production, development and social spending. Economic growth implies greater resource capacity at the disposal of government to provide for its citizenry.

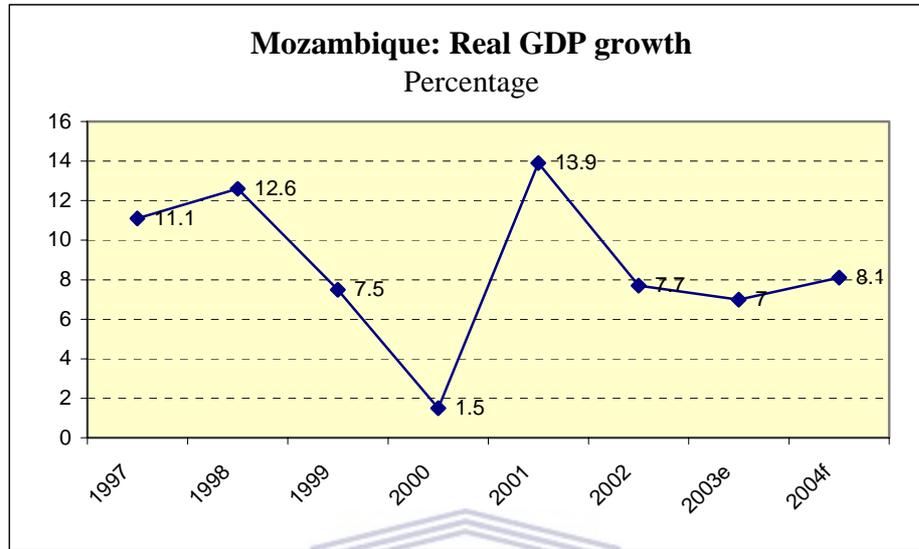


6.3.1. Production, output and economic growth

The expansion of MOZAL will double aluminium (production capacity) output by an additional 253 000 tons a year to 506 000 tons.¹⁴⁷ Graph 8 below indicates that Mozambique has consistently achieved real GDP growth since 1994. GDP peaked in 1998 and again in 2001, coinciding with huge FDI injections from MOZAL I, MOZAL II and SASOL into the economy. Foreign investment and exports are the main drivers of business expansion and output in the Mozambican economy (EIU 19 January 2001, Bunyi 2004: 3).

¹⁴⁷ This is still less than the total production capacity of Hillside which is currently 510 000 tonnes per annum and will be increased to 640 000 tonnes per annum.

Graph 8: Real GDP growth (percentage)



Source: IMF Report and (Bunyi 2004: 3)

According to Wells and Buehrer (2000: 109) and the Business Report (20 September 2000), MOZAL is expected to contribute $\pm 7\%$ to Mozambique's GDP¹⁴⁸. According to Ian Reid, in 2002 it contributed an estimated 25% (i.e. 2.1%) of Mozambique's 8% GDP growth. According to Castel-Branco and Goldin (2003: 6), GDP would have been between 3.2% and 5% smaller in the absence of MOZAL. While estimates differ, the consensus is that MOZAL contributed significantly to economic growth. Mozambique is now one of Africa's fastest-growing economies, albeit from a very low base.

To obtain a better picture of the sectors responsible for attracting FDI and generating or driving the current GDP growth, it is necessary to provide a

¹⁴⁸ see also <http://www.mozal.com/overview.htm> for further details

breakdown of the sector contribution to GDP in Mozambique. Table 9 below indicates that the contribution to GDP of traditional sectors such as agriculture and fisheries has declined (IFC 2003: 12 and EIU 7 November 2003) (although they are still important employers).

Table 9: Sector contribution to Mozambican GDP (1996-2002)

Mozambique: Composition of GDP (1996-2002) (in percentage of GDP)							
	1996	1997	1998	1999	2000	2001	2002*
Agriculture	30.5	30.2	27.2	25.5	21.7	21.9	19.5
Fishing	4.0	3.9	3.0	2.5	2.4	2.3	1.6
Industry	16.0	17.4	21.5	22.2	23.9	24.9	30.6
- Mining	0.2	0.3	0.3	0.1	0.4	0.4	0.3
- Manufacturing	8.7	9.6	10.9	11.5	12.0	13.8	11.4
- Electricity and water	0.5	0.8	2.0	2.8	2.2	2.1	3.1
- Construction	6.6	6.7	8.3	7.7	9.3	8.7	15.9
Services	49.5	48.5	48.3	49.8	52.0	50.9	48.2
- Commerce	23.2	22.5	21.5	21.2	20.8	21.0	18.0
- Repair services	0.6	0.6	0.8	0.8	0.9	0.2	0.7
- Restaurants and hotels	0.8	1.2	1.1	1.2	1.4	1.2	1.0
- Transport and communication	8.6	8.9	9.2	9.5	9.3	9.6	11.1
- Financial services	3.7	3.2	2.7	2.0	3.9	3.9	3.5
- Real estate rentals	2.7	2.6	2.3	2.2	1.9	2.4	1.5
- Corporate services	1.3	1.1	1.3	0.9	0.8
- Government services	4.4	4.5	5.1	6.9	7.4	7.7	6.3
- Other services	4.1	3.7	4.3	5.1	5.5	4.9	6.2
GDP	100.0						

Source: IMF Republic of Mozambique, Statistical Appendix June 2002, IMF Country Report No 02/139 (July 2002) Republic of Mozambique: Statistical Appendix; IFC Report on investment climate in Mozambique. (August 2003: 13). "Mozambique industrial Performance & Investment Climate 2003." and *Mozambique: IMF Country Report No 04/51 (March 2004: 5)

The IMF (2002) observed that the main sectors contributing to GDP in 1997, when MOZAL first started investing, were the service sector (48.5%), followed by agriculture (30.2%) and industry (17.4%). The service sector is driven by

commerce (22.5%) and the industrial sector is driven by manufacturing and construction with contributions of 9.7% and 6.7% respectively. However, this changed by 2001 and 2002. The service sector initially increased to 50.9% in 2001 and then stabilised at 48.2% in 2002. The agriculture sector continued to decline to 19.5% in 2002. In contrast, the industry's contribution increased to 30.6% in 2002. Within the service sector the contribution by commerce decreased to 18.5% in 2002 and within the industrial sector manufacturing construction increased to 13.8% in 2001 and 11.4% in 2002 respectively.

Strong growth in the industrial sector has coincided with an increase in construction's contribution to GDP from 6.7% in 1997 to 15.9% in 2002 (IFC 2003: 11 and Grobbelaar 2004: 16). The surge in construction is a direct consequence of the increase in FDI inflows, particularly that of MOZAL and its expansion and the subsequent SASOL pipeline, and of a domestic upswing in residential housing and aid-funded reconstruction projects, such as the road-building programmes. According to the EIU (2003: 47 and 2004: 53), more than 40 construction companies (predominantly from South Africa and Portugal) have operated in the country since 1998. The mega-project of MOZAL and its related construction has increased the stock of public infrastructure by building a new residential complex, roads, bridges, sewage plants, water supply, and telecommunication systems in the area of Beluluane. Another consequence of the MDC is that the port of Maputo was upgraded and a new port was built at Matola. However, the surge in construction is dependent on these mega projects and may fade as their construction is completed. The IMF's (May 2004: 41) review of the

economic and social plan for 2003 indicates that in the construction and fitting sector there was a fall of -7.6% in construction levels as a result of lower levels of construction expenditure on mega projects such as MOZAL II and the SASOL pipeline, which are now past the construction phase and are in the production and operational phase.

The data suggests that industry was the main driver of economic growth in 2002 and within this sector, growth was mainly concentrated in manufacturing and construction. This implies that there is some modernisation of the Mozambican economy. According to Castel-Branco and Goldin (2003: 8), the expected impact of MOZAL on the manufacturing sector is almost ten times as great as on the whole economy. Due to MOZAL, the manufacture value added (MVA) is approximately US \$160million higher than it would otherwise have been. MOZAL represents 49% of total manufacturing output and 29% of total MVA, which makes aluminium by far the most significant industry in Mozambique.

Since the mid-1990s manufacturing's share has remained relatively constant at about 10% (Castel- Branco 2004) or 11% (Bunyi January 2004: 3) of GDP, which is small. Production is highly concentrated (World Bank Feb 2001:11). The food and the beverage sector alone accounts for over 38% of manufacturing production. Aluminium production by MOZAL is another 23%. Thus, food and beverages, along with metallurgy and minerals, make up close to 73% of manufacturing output. According to the IFC (2003: 12), Mozambique's manufacturing sector has the potential for strong growth, but it remains only a

small part of the economy and highly concentrated in the south of Mozambique. Instead of changing the territorial spread of FDI and economic growth, MOZAL has reinforced the geographic disparities observed in chapter 5. The above is corroborated by the IMF's (May 2004: 41) "Review of the economic and social plan for 2003", for example, states that without aluminium the growth experienced in the metallurgic sector would indicate negative growth and decline significantly. The evidence suggests a relatively strong but dependent growth pattern, which may not be sustainable in the long-term.

The EIU (6 August 2002 and 2004: 38) argues that despite large inflows of FDI and opportunities for catch-up growth, there is evidence that economic activity in a range of areas is being seriously constrained. The robust economic growth disguises serious supply side constraints in the economy. These include weak competition, low sale volumes, a generally adverse domestic operating environment, infrastructural constraints, an acute shortage of information technology (IT) skills and bureaucratic obstruction, contributing to high transaction and unit costs (EIU 16 April 2002). These weaknesses are acknowledged, hence the GoM and the financial agencies, have embarked on a programme to reduce or remove red-tape and combat a legacy of bureaucracy to facilitate and enhance companies' investments in Mozambique.

In summary, MOZAL makes a significant positive contribution to economic growth. However, this growth is highly concentrated in the industrial and construction sectors. The IFC (2003: 12) study concludes that the rapid growth

observed in recent years, even if it is maintained, is highly concentrated in capital-intensive sectors and limited to Maputo, which reinforces the pattern of growth observed in chapter 3.

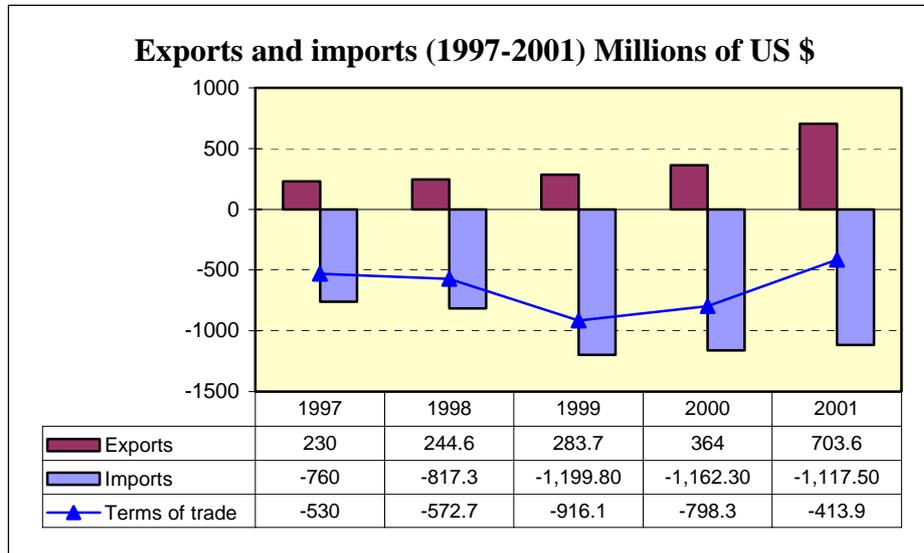
6.3.2. Export, import trade and balance of payments

The presence of foreign firms such as Billiton, Mitsubishi and MOZAL facilitated and improved the access of Mozambique to international markets in Europe and Asia. Foreign direct investment as a share of exports and imports indicates the extent to which the economy is integrated into the global economy. In 1999 investment represented 11.7% of exports and 37.6% of imports (Duvenage March 2001).



One of the GoM objectives stated in the investment laws is to increase and diversify Mozambique's exports. Has FDI, and MOZAL, more specifically, increased and diversified Mozambique's exports? The evidence indicates that it has. The main destinations of Mozambique exports are markets in Spain, South Africa, the EU, USA, Japan, Portugal, Malawi, Zimbabwe and India. MOZAL has significantly increased Mozambique's exports. According to Ian Reid (MOZAL Director), in 2002 MOZAL contributed about 53% of exports and 28% of imports.¹⁴⁹ The EIU (April 2004: 26) estimates that aluminium accounted for 53% of total exports in 2003 and that MOZAL accounted for 65% of exports (2004: 59). Exports are expected to increase by 40% in 2004 (EIU 2004: 59).

Graph 9: Exports and imports (1997-2001)



Source: IMF Country Report No 02/139 (July 2002: 33) Republic of Mozambique: Statistical Appendix

Aluminium is by far the largest export, followed by electricity and shrimps. The composition of exports is changing: aluminium, electricity and gas have become the main exports, replacing more traditional exports such as agriculture and fisheries (IFC 2003: 12-13). According to EIU (27 March 2003 and April 2003: 26) and Castel-Branco (2004: 11), in 2002 the introduction of aluminium exports was the single most important factor explaining the change in the pattern and composition of exports. Agricultural goods that once dominated Mozambique's exports declined in both absolute and percentage terms from 99.4 to 94.7 million euros and from 58% to 18%. Put together, exports of goods from fishing, agriculture and all other industries (except aluminium) add to no more than two-

¹⁴⁹ Power point presentation

thirds of the aluminium total. This suggests the modernisation of exports from traditional agriculture to manufactured exports.

In terms of the GoM objectives, has FDI, and MOZAL, more specifically, reduced imports and provided substitutes? The evidence indicates that MOZAL has not done so. Mozambique's main imports are from South Africa, Portugal, USA, Japan and France. In 2002 the mega projects, MOZAL I, II and SASOL, were significant importers of goods and services into the Mozambican economy. Imports for the MOZAL smelter by value is estimated to be around 90% (EIU October 2003: 20). The cost of services imported for MOZAL and the gas pipeline are high (EIU April 2004: 12). The more significant products imported include consumers goods, primary materials, capital goods (e.g. machinery etc.) followed by petroleum products, non-food products and electricity. Alumina and electricity alone contribute an estimated two-thirds of MOZAL's imports from South Africa and Australia respectively.¹⁵⁰ A large portion of the remaining third is sophisticated equipment and spares that cannot be produced locally.

In terms of the GoM objectives, has FDI, and MOZAL more specifically, generated foreign currency? The evidence indicates that MOZAL has done so. Peter Wilshaw (General Manager), suggests that at the time of start-up in 2000, the US \$860 million to expand and build MOZAL II would increase the country's exports earnings to more than US \$1billion from a mere US \$220 million. The project (MOZAL II) would have a significant development impact, as

Mozambique's net foreign exchange earnings would increase by over US \$100 million, increasing GDP by an estimated 3.5%. Business Day (23 April 2003) and Castel-Branco and Goldin (2003: 11-12) estimate that MOZAL can generate net external trade gains or foreign exchange earnings of about US \$400million per year. The Mining Africa Review (2003) suggests optimistic export earnings of US \$600 million a year.

In terms of the GoM objectives, has FDI, and MOZAL, more specifically, directly or indirectly contributed towards improving the balance of payments and government budget revenue? The evidence is mixed and suggests a qualified 'yes' because the impact is undermined by the right of the company to repatriate earnings. Ian Reid suggests that MOZAL will have a net positive impact on the balance of payments, estimated at around US \$100million at steady state. Rafique Jacobs (CPI), using INE 2002 data, argues that exports accounted for US \$703 million and imports for US \$1063 million. Evidence by the IFC (2003: 11) survey provides support for a positive correlation between the mega projects and the increase in exports and imports. This is corroborated by Graph 9 above, which indicates that total imports increased from US \$760 million in 1997 to US \$1,117.5million in 2001, whereas total exports increased from US \$230 million in 1997 to US\$703.6 million in 2001. While both imports and exports have increased, imports have increased faster than exports, resulting in a sustained deficit. There are, however, indications that the deficit is decreasing. The graph indicates that the trade deficit increased from US \$530 million in 1997 to US

¹⁵⁰ Australia is one of Mozambique's biggest trading partners with an agreement \$ 200m pa.

\$798.3 million in 2000 and then decreased to US \$413.9 million in 2001. The trade deficit peaked in 1999 as a consequence of an increase in the import of materials and capital equipment for the MOZAL aluminium smelter. In 2003 MOZAL's net trade gains alone may reduce Mozambique's trade deficit by about one quarter. This is the most significant impact of MOZAL on the economy and the largest-ever positive impact on the trade balance of the Mozambican economy. This suggests an increase in the GoM's revenue capacity.

South Africa is Mozambique's largest FDI and trade partner. Castel-Branco (2004: 12) observed that in 2002, Mozambique's trade deficit vis-à-vis South Africa reached US \$500million, the equivalent of two-thirds of Mozambique's global trade deficit and eight times the value of goods exported from Mozambique to South Africa. Trade between South Africa and Mozambique has increased, with 57% of Mozambique's imports coming from South Africa. About 26% of Mozambique's exports are destined for South Africa. Current investment by South Africa in Mozambique totals approximately US \$4 billion. Mozambique's trade deficit with South Africa indicates an increasing trend over the last decade and is associated with the increasing role of South African FDI in Mozambique.

Aluminium exports to the European Union (EU) are having a major impact on Mozambique's patterns of trade. According to the EIU (2004: 59), the EU is rapidly becoming the main export market for Mozambican exports, with demand for aluminium coming mainly from Belgium, Germany and Spain. In 1999, Mozambique exports to the EU only covered about 42% of its imports with the

EU but by 2001 Mozambique's balance of trade with the EU had improved dramatically from a deficit until 2000 to a surplus in 2001.¹⁵¹ According to Aim Report (31 July 2002), Mozambique's exports to the EU more than tripled in 2001.¹⁵² In 2001 aluminium accounted for 73.7% of Mozambique's exports to the EU (EIU 2004: 59). European Union countries imported Mozambican aluminium worth 22.1 million euros in 2000, which figure increased to 391.6 million euros in 2001 (an increase of 1,672%).

Table 10 below corroborates Graph 9, suggesting that the overall balance on Mozambique's BOP is in deficit and during the period 1997-2002 this deficit has increased. The table also indicates that even though the trade balance is in deficit, it has decreased since 2001. However, these positive aspects of the declining trade deficit balance are more than offset by the increase in Mozambique's payments for net foreign services. The EIU (27 March 2003) suggests that the cost of services imported for MOZAL (and the gas pipeline) also remains high and argues that a large proportion of imports is due to an increase in the country's industrial mega projects. The IMF's (May 2004: 48-49) review of economic and social plans for 2003, however, suggests that exports may increase and imports may fall because of the completion of the construction phases of MOZAL II and the SASOL pipeline, resulting in a more favourable current account balance. Another caveat is that the costs of imports and the competitiveness of exports are influenced by the devaluation of the Mozambican currency (the Meticais).

¹⁵¹ For the EU trade with Mozambique still remains an insignificant less than 1%.

¹⁵² see also <http://www.mozal.com/news/htm> for further details

Table 10: Mozambique balance of payments (1997-2001)

Mozambique balance of payments (1997-2001) (in millions of US Dollars)					
	1997	1998	1999	2001	2002
Trade Balance	-530.0	-572.7	-916.1	-798.3	-413.9
Exports (fob)	230.0	244.6	283.7	3664.0	703.6
Import (cif)	-760.0	-817.3	-1,199.8	-1,162.3	-1,117.5
Services (net)	-80.8	-176.3	-236.0	-243.3	-435.7
Receipts	342.3	332.5	355.6	405.1	347.9
Expenditures	-423.1	-508.8	-591.6	-648.4	-783.6
interest on public debt	-140.2	-150.2	-161.6	-160.8	-146.8
Current account, excluding grants	0.0	0.0	-1,152.1	-1,041.6	-849.5
Unrequited official grants	312.9	313.2	434.1	563.9	469.3
Current account, including grants	312.9	313.2	-718.0	-477.7	-380.2
Capital account	180.8	262.8	613.4	278.9	-0.1
Foreign borrowing	316.3	299.5	472.0	483.8	209.7
Public	226.3	218.1	111.7	161.7	103.9
Private	90.0	81.4	360.3	322.1	105.8
Amortisation	-201.0	-249.4	-240.3	-344.0	-392.3
Public	-180.0	-211.2	-200.7	-306.5	-305.9
Private	-21.0	-38.3	-39.6	-37.5	-86.4
Direct investment (net)	64.4	212.7	381.7	139.1	182.5
Overall balance	-97.6	-204.4	-235.9	-351.3	-418.7

Source: IMF Republic of Mozambique Statistical Appendix June 2002, and IMF Country Report No 02/139 (July 2002: 33) Republic of Mozambique: Statistical Appendix

Critics such as Hanlon (23 July 2003) and Castel-Branco (23 July 2003) warn that Mozambique's economy is becoming increasingly narrow and based on aluminium, gas and titanium mega projects. According to Castel-Branco (2003), production and export patterns have narrowed down, rather than diversified as the

IMF claimed. The only new product that has been introduced in industry in Mozambique is aluminium from MOZAL (Hanlon 23 July 2003).

“Aluminium alone represents almost 50% of the industrial exports and about one third of the total exports of goods. Mozambique has never before had such one single product as dominant as aluminum in both production and export patterns.”¹⁵³

Castel-Branco (23 July 2003) also warns that the GoM’s revenues are derived from large ‘royalty’ payments by a small number of TNCs. Public revenues from mega projects are very small. As such projects are export oriented, they generate massive foreign exchange revenue, but are import intensive as well. This means that net foreign exchange gains are small relative to the scale of the project, but still huge relative to overall export revenue in Mozambique. Whatever foreign currency these projects may earn belongs to the companies and not the economy as a whole. Given that they pay little taxes and can repatriate their profits, it is not clear that the economy is going to have more uncommitted foreign exchange to further invest in other areas, unless mega projects start to invest in other areas, in which case the dependency of the economy on mega projects of the mineral-energy complex will expand.

Any profits that accrue to MOZAL are privately owned by the company and its shareholders. The inclusion of MOZAL under the IFZ agreement means that the company gets considerable tax reductions. This minimises the potential for fiscal revenues. Furthermore, the IFC’s (2003: 11) survey and Castel-Branco and Goldin (2003: 13) suggest that the net effect or the overall impact of MOZAL on the BOP

is far less impressive than on the balance of trade. Inflows of FDI and foreign exchange earnings on the positive side are offset on the negative side by the costs of FDI, profit repatriation, debt service repayments and investment and management services. Granted, its EPZ status means MOZAL has the right to freely repatriate profits but this also means that the larger the profits, the bigger the amount of foreign exchange that can be expatriated. However, on a declining trend the trade deficit also suggests that in the absence of maintaining high FDI and other capital inflows, Mozambique is dependent on foreign aid and grants.

In 2002 aluminium was Mozambique's largest export commodity, followed by electricity. Electricity comprises a substantial cost of aluminium, hence the export of aluminium can be interpreted as the export of low cost electricity from Mozambique to developing countries (the terms of the agreement between the South African and Mozambican governments amounts to a *de facto* government subsidy of the cost of electricity to MOZAL). It suggests that access to electricity in Mozambique is reserved for, and enjoyed only by, an elite minority. The *de facto* electricity subsidy is used to subsidise cheap aluminium for consumers in Europe. The profits derived from the sale of aluminium is accrued to the shareholders of MOZAL, while the majority of Mozambicans cannot afford and do not have access to electricity.

The trickle down approach to development hold that benefits of increased economic growth and improved balance of payments will trickle down to the

people of Mozambique. In other words, more resources will become available to the GoM to finance poverty reduction and development programmes. However, at this stage the information available is insufficient and does not allow for any conclusions in this regard.

In summary this section illustrated that it is TNCs such as MOZAL that are responsible for a significant proportion of the increase in manufacturing, and the volumes and values of export and imports and of economic growth. This section also suggests that because the liberalisation of the trade and capital accounts on the BOP undermine the net effects of FDI and foreign exchange earnings, the overall impact is much more modest than stated by the company and by government officials. Furthermore, the liberalisation of trade and capital flows in Mozambique suggests a trend to increasing integration of the Mozambique economy into the global economy. However, the pattern of integration is one in which Mozambique is mainly adjusting to change rather than initiating it. As case in point is the growing reliance on foreign, capital-intensive mega projects to drive economic growth and development, instead of on labour-intensive domestic firms.

Mozambique's integration into the global economy raises the issue of the nature of backward and forward linkages to local companies and other sectors of the Mozambican economy. The creation of external economies elsewhere in the economy, beyond the investment project itself, is discussed in the next section.

6.4. BACKWARD AND FORWARD BUSINESS LINKAGES

This section focuses on the question: “Does the MOZAL project contribute to the development of forward and backward linkages to the Mozambican economy?” The discussion focuses on the development potential of post-Fordist production or world-wide sourcing and sub-contracting as it relates to the MOZAL aluminium smelter. The first aspect discusses why forward and backward linkages are important for development. The second aspect discusses the efforts by MOZAL and the GoM to encourage linkages. The third aspect is an assessment of these linkages and highlights issues concerning the security of Mozambican investors.

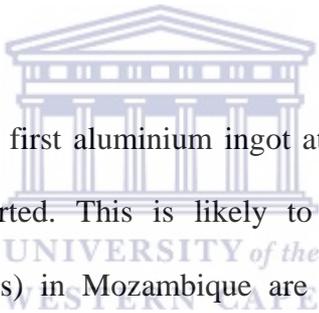
6.4.1. Local and small business linkages and development

Training, expansion and development of national entrepreneurs and Mozambican business partners and improving the capacity of companies to supply domestic markets are among the GoM’s investment law objectives. The GoM planned to use a few large foreign investor projects, such as MOZAL, as anchors around which Mozambican enterprises could be built. Fernando Sumbana, Director of Mozambique’s Investment Promotion Centre (CPI) stated the GoM position in the following way:

“We are aiming at using foreigners to create new national entrepreneurs through joint ventures.”

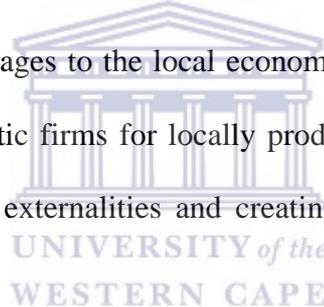
Sklair (1994: 169) defines linkages as the share of imports and exports of TNC production that come from and go to the host economy. In general, the greater the backward linkages (i.e. the use of raw materials, local components and content, and services) and forward (i.e. sales to intermediate goods industries) linkages

with the host economy, the more likely are the creation of positive development impacts. The WIR (2001: iii, xx and 124 and 2003: 40) agrees that the strongest channel for diffusing skills, knowledge, information and technology from foreign investments is the linkages they strike with local firms and institutions. Such linkages contribute to the growth of a vibrant domestic enterprise sector, which, according to WIR, is the bedrock of economic development. For developing countries, the formation of backward linkages from foreign to domestic firms are important channels through which both intangible assets, such as knowledge and know-how, and tangible assets can be passed on from the investor to the host country.



Since the production of the first aluminium ingot at MOZAL in 2000, 100% of MOZAL's output is exported. This is likely to continue until downstream industries (forward linkages) in Mozambique are developed that can provide continuous demand for aluminium at a competitive price (Castel-Branco and Goldin 2003: 3). The increase in imports for MOZAL observed in the previous section also highlight the lack of strong linkages between these mega projects and other sectors of the Mozambican economy, since most construction materials and intermediate goods are imported from South Africa and abroad (EIU April 2003). MOZAL needs to develop linkages with domestic business to improve the capacity of domestic firms and also needs to establish networks of suppliers as well as industrial consumers of aluminium in Mozambique if the FDI is to have a developmental impact on the domestic economy.

According to the EIU (2004: 38) MOZAL has few backward or forward linkages with other sectors of the Mozambican economy. In terms of the backward linkages, the existing suppliers of key raw materials, goods and services to MOZAL include Western Australia (alumina), world markets, where petroleum coke is bought, South Africa, which supplies offshore liquid pitch. Other suppliers and service providers to MOZAL include MOTRACO, Eskom, Maputo Port Developing Company and CFM.¹⁵⁴ In terms of forward linkages, local Mozambique companies do not have the capacity to use aluminium ingots to produce other manufactured aluminium products such as cans and pans. Realising the potential developmental benefits of the IFZ is thus not inevitable, but contingent on building linkages to the local economy such as increasing demand and purchases from domestic firms for locally produced goods, employing local workers, creating learning externalities and creating access to world marketing networks.

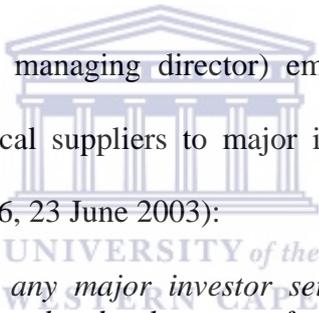


However, many Mozambican enterprises were still recovering from the effects of the economic crisis and war Hanlon (2003) and Castel-Branco (2003: 14) observed that over the last four to five years about 40% of small- and medium-sized industrial firms have closed down. This means that many of the local companies that survived were not able to take advantage of opportunities in the domestic market as the local suppliers' range and quality of service remained limited. The smaller local companies are inconsistent suppliers and have a poor

¹⁵⁴ The transport company responsible for bringing the alumina ships up to the dedicated berth at Matola and for dispatching the aluminium ingot laden vessels to Europe

record of compliance with international standards. A CPI survey conducted in 1998 and 1999 among 370 Mozambican firms to identify those SMEs with potential to linkup with MOZAL as suppliers found that more than 90% had serious constraints regarding production standards and quality, lack of profile and experience and lack of or outdated technology (Castel-Branco and Goldin 2003: 24). The survey found that if Mozambican SMEs were to derive any benefit from opportunities created by MOZAL, they required assistance from government's CPI linkage programme in acquiring technology, machinery and skills to allow them to act as suppliers to MOZAL. .

Peter Wilshaw (MOZAL's managing director) emphasised the importance of building the capacity of local suppliers to major investments in Mozambique. Wilshaw states (AIM No 256, 23 June 2003):



“In the long term for any major investor setting up a business venture in Mozambique, the development of a stable, responsive, high quality supply chain in the local market is of utmost importance.”

In addressing some of the concerns expressed by Wilshaw above, Antonio Macamo¹⁵⁵ describes the efforts to provide supply-side support to local businesses and establish linkages as follows:

“MOZAL presents a significant opportunity for SMEs. The amount of business available to SMEs is estimated at US\$10 million and APDF and its partners hope to build about 20 local SMEs in Mozambique into MOZAL contractors by offering them an 18-month training and mentorship programme. Training efforts will focus on helping the SMEs meet required performance and business

¹⁵⁵ Linkage Head for the Centre for Promotion of Investment, speaking as the Master of Ceremonies at the MOZAL 2 Launch Programme held in Maputo in July.

standards and mobilise financing. The mentorship component will ensure that problems in the co-operation between MOZAL and the SMEs can be identified quickly and given appropriate responses. Mentors from lead sponsor Billiton will be made available to SME staff upon demand and can also meet any further training needs required by the SME contractors. APDF will second a mentor to provide business advice and support. The programme which is funded by APDF, Billiton and IFC's SME Capacity Building Facility, is seen as mutually beneficial to both SMEs and the MOZAL project sponsors. It has been shown that the participation of the local business community and the strengthening of local supply chains are crucial to the long-term success and sustainability of large private investments in development countries."

[Improving SME access to business opportunities, http://apdf.ifc.org/annual_improving_sme.htm IFC visited 2/20/2004]

According to Macamo, Mozambican businesses were consciously encouraged to form joint ventures with international companies to improve competitiveness.¹⁵⁶

Furthermore, local businesses had to enter into arrangements with other companies to obtain skills, know-how and ICS standards, as well as finance. Joint ventures with South African companies were the most logical option considering their proximity and experience in working with similar companies to MOZAL, such as Hillside and Bayside.

Many South African companies established subsidiaries, sleeping and active partnerships, office facilities or invested in workshops and warehouses that stock parts and make small repairs employing a very small number of workers in Mozambique (Castel-Branco 2004: 22 and Grobbelaar 2004: 28).¹⁵⁷ Interviews with workers indicate that companies that service MOZAL are mostly owned by

¹⁵⁶ Interviewed in Maputo 2000 and 2001

¹⁵⁷ Ngaruka (1992: 107) argued that many of the big corporations investing in South Africa operate in the region at large without having to establish a significant direct presence in the form of a

foreigners.¹⁵⁸ Workers name GENREC Joint Venture Company as an example of the more visible of these companies. These are South African companies that opened in Maputo by renting closed plants and taking over their workers. Workers claim that some plants closed and opened under new management but still paid workers in the name of the old company. Many of these companies employed about five to ten technicians from South Africa, the rest of the workforce comprising cheap Mozambican labour.

6.4.2. Strategies to encourage linkages

When the MOZAL project was negotiated, the GoM and MOZAL envisaged several strategies to realise their developmental vision and establish linkages. The GoM engaged the assistance of the World Bank's Programme on Development Enterprise (PoDE) around the business development project. This project aimed at providing support to local small- and medium-sized Mozambican firms to improve their competitiveness and their capacity to supply goods and services to large projects. The PoDE became more commonly known as the 'Linkage programme'. Some of the services it provides include training of staff and managers, technical learning, support in looking for partners and markets, and finance and capacity building links with big projects (PSC4 1998: 73).

Another GoM strategy included co-operating with South African government departments to facilitate "the RSA-Mozambican Linkage Programme". This

subsidiary in the latter. And even when they do their headquarters remain in South Africa, where their investment is not limited to the primary sector as is mostly the case in the rest of the region.

¹⁵⁸ Interviews conducted in Maputo 2000

aimed to link South African small businesses with their Mozambican counterparts around MOZAL and other mega projects such as MOTRACO. The overall aim was for Mozambican businesses to benefit from opportunities from outsourcing some of the operational and downstream activities of MOZAL. With MOZAL I the CPI identified up to 200 business opportunities around the plant. Furthermore, the programme aimed to develop a triangular linkages programme between South Africa, Mozambique and Australia to facilitate skills transfer and technical know-how (DTI November 1999).

The BHP Billiton Report (2003) claims that the Small and Medium Enterprise Empowerment and Linkages Programme (SMEELP) launched in July 2001 to service MOZAL II was developed based on the lessons learned from the experience of MOZAL I.¹⁵⁹ The SMEELP aimed to encourage the participation of local companies and improve their performance, so that local SMEs would be able to bid for and fulfil contracts as suppliers of goods and services to the expansion of MOZAL (AIM reports No 256, 23rd June 2003).

The SMEELP revised linkage strategy draws on the recommendation contained in the WIR (2001), “Promoting Linkages”, and a commitment was made to:

- maximise the use of local labour (i.e. more than 65% of labour employed should be Mozambican);
- provide skills training for local labour;
- actively encourage the use of local contractors;
- actively encourage the establishment of joint ventures between international and local contractors;

¹⁵⁹ These lessons include: a gap between the standards of MOZAL and those of Mozambique; the need to package the contracts appropriately and the need for ongoing support.

- allocate selected work packages solely for execution by local SMEs;
- promote SME training programmes to enable local SMEs to become competitive and successful; and
- establish systems for monitoring and reporting on the projects' empowerment progress.

In order to empower local Mozambican people and companies, MOZAL and the governments of Mozambique and South Africa have encouraged joint ventures between local and South African, as well as identifying local sources of equipment and services for the expansion. The potential contractors undergo training to teach them the tender process and help in the drawing up of tender documents.¹⁶⁰ Further training will be provided to teach them how to fulfil contracts once they are awarded. A series of mentors with experience in various areas will make regular visits to local contractors and give assistance in the carrying out of the contract. The methodology has been designed to be suitable for any company wanting to successfully utilise local SMEs. Some of the areas on which they focus include technical support, reducing costs, financial management, accounting and procurement. (EIU 18 April 2002).

6.4.3. An examination and assessment of linkage programmes

Theoretically the purchasing and procurement programme of large TNCs have the potential to make a substantial economic impact on developing and emerging markets. The sheer purchasing power of large corporations, such as MOZAL, can

¹⁶⁰ Training includes: Tender training (pre-tender) how to tender; induction training (post-award) how to execute contracts; on demand training quality assurance (QA), Quality Control (QC), business management. This also requires that training modules written and presented in local language, periodically updated. The plan also include Custom-made mentorship plan for each SME, business mentorship: financing/commercial assistance as well as technical mentorship: on/off-site technical assistance including safety, QA/QC and industrial relations.

create opportunities to leverage change in behaviour patterns and business practices of SMEs. However, an early examination of MOZAL's claims of creating opportunities for Mozambican SMEs through its policy of outsourcing all non-core activities to local companies indicates a gap between such claims and practice.

According to Aim (No 160, 22nd June 1999), Macamo of the CPI suggests that contracts for Mozambican companies involved in the construction of the smelter have risen to US \$47 million. This, however, remains a very small percentage of the total US \$2billion that was invested in the smelter. This was confirmed in conversations with Macamo in Maputo 2000, when he stated that the objective of the linkage programme was to maximise the MOZAL companies' spending in Mozambique. Even MOZAL recognised that the involvement of Mozambican companies in phase one had been unsatisfactory (AIM No 256, 23rd June 2003). A BHP Billiton Report (2003) acknowledged that during the original MOZAL project the use of local Mozambican SMEs contractors was limited and only partially successful.

In the case of MOZAL I, few to no forward linkages inside Mozambique have been identified. Pretorius (2000 and 2001) argued that few linkages have been created to the rest of the Mozambican economy and about 70% of suppliers to MOZAL I are South African companies. Taylor (1999: 16) observed that virtually all the companies working on infrastructure projects are non-Mozambican. The construction companies are almost exclusively South African. Even then, most

local South African and some Mozambican businesses are simply providing the raw materials and necessary services for multinational companies such as Billiton and Mitsubishi, which do the manufacturing and reap the benefits of exporting. Where Mozambican companies were used they supplied mainly catering, gardening and building accommodation for workers, while South African companies supplied the more sophisticated engineering, computer software and maintenance services. More than half of the total value of the MOZAL I project was supplied from South Africa, with the bulk of the manufactured and fabricated components originating from Johannesburg (Gauteng).

South African businesses and other foreign investors also dominate the SME sector in Mozambique. According to BusinessMap (2003) and Grobbelaar (2004: 5), South African firms undertook more than 60% of all construction on the MOZAL project. The EIU (6 October 1998) observes that 60% of the capital spending will take place in South Africa in the form of importing materials, contracts to South African companies and on South African expatriates. The main beneficiaries were South Africa's largest construction and engineering companies. For example, Murray & Roberts and LTA and its subsidiary, McConnel-Dowell, were involved with the construction of the smelter and electrical and instrumentation installation at the Matola harbour. Other South African companies involved in MOZAL's construction MOZAL included Basil Read (Pty) Ltd., Grinaker Concrete Construction and Genrec Engineering. These companies generate a considerable proportion of their revenue outside of South Africa. According to the Financial Mail (September 2002), over the three-year

construction phase of MOZAL I, South African companies bought home about R1.5 billion per year from exports of construction materials and services.

For MOZAL II exports from South Africa are estimated at R530 million per year. South African exports of raw materials for the combined MOZAL project are estimated to be R980 million per year. About 150 South African companies provided goods and services to MOZAL I and II (Financial Mail 27 September 2002). According to Stanbic's Africa corporate business development manager, there are more than 250 South Africa companies engaged in over 320 projects and partnerships in Mozambique (Common Wealth Business Council February 2002 and Financial Mail 7 February 2003).

The SMEELP also embraced the concept of SME participation. In this regard the creation of SME packages is claimed to be an important innovation.¹⁶¹ Some of the South African SME companies that were contracted into the expansion of MOZAL include, for example, the South African East Rand contractors, Eddcor E & I Projects, which is a subsidiary of Skelton & Plummer Investment Holdings. The firm is made of most of the original team's engineers, technician and artisans who were responsible for a similar contract for MOZAL I. The goods and services Eddcor E & I Projects provide to MOZAL involve the installation of electrical fittings and power conductors. On MOZAL II this company employed many of

¹⁶¹ These were packages solely dedicated to SMEs, Capable SME's were recommended to the SMEELP project by the CPI and a database was established and periodically updated. The SME's financial/technical capabilities were also pre-assessed. The tender contracts were designed to be realistic in terms of size and complexity and ensure sufficient back-up time in case of failure. Whenever possible SME's were also included for standards packages.

the same semi-skilled Mozambican workers that it hired for the MOZAL I contract. Another South African company, Keops Isis Industrial Information Systems (Keops Isis), also won several contracts to deliver a real-time system (RTS) supervisory control and data acquisition solution as well as a manufacturing execution system (MES). Similarly, DSE was awarded the contract to design and construct the two 14,000 ton fresh steel silos (Africa Mining Review 2003). Other companies that received contracts include IST Industrial and BCP Engineers.

The same group that was responsible for the engineering procurement and construction management (EPCM) of MOZAL I, namely the Canadian engineering construction company, SNC Lavalin EMS, and South Africa's Murray & Roberts Engineering Solutions, were also responsible for MOZAL II. In the main they hired the same group of companies that were involved in the construction of Hillside and MOZAL I. Clearly, these were old, tried and tested companies that proved reliable. They were nevertheless mostly South African. This corroborates Jenkins' (1991: 104-105) and Sklair's (1994: 169) argument that the logic of the specific institutional form of the TNC, especially those that are vertically integrated, also militates against the creation of further domestic linkages because they already have well-developed networks of procurement, either in-house or through subcontracting arrangements.

The SMEELP was established as a collaborative joint venture between MOZAL, the African Project Development Facility (APDF) of the International Finance

Corporation (IFC) and the Centre for Promotion of Investment (CPI) of the GoM.¹⁶² SMEELP had a planned execution period of 24 months. It was intended that after the expansion of the MOZAL project the CPI would take over management of the programme to ensure its sustainability. On the 18th June 2003, MOZAL handed SMEELP over to the CPI.

In the same month, AIM (No 256, 23rd June 2003) reported an announcement by Peter Wilshaw that MOZAL was setting up a new linkage programme, called MOZLINK to run for another 12 months with a budget of US \$200 000. Its aim is to ensure continued local business inputs into the smelter's operations. MOZLINK is seen as servicing only those linked to MOZAL, whereas SMEELP, having started with MOZAL, now provides assistance to the broader Mozambican local business and SME community. MOZLINK is a modified version of SMEELP and aims to connect more new SMEs to MOZAL. In addition, MOZLINK will be supported by a capacity building programme that will train consultants in areas such as quality, safety and production. MOZLINK and NovoBanco (initiated by Internationale Projekte Consult GmbH) will receive much support from the IFC. NovoBanco will provide financial services to SMEs in the MOZAL linkages programme. The consultants supported by the IFC are foreigners, including the German international human resource development organisation InWent.

¹⁶² The APDF was established by donors in 1986 to bridge the communication and capacity gap between African entrepreneurs, development and private sector financiers.

In contrast to MOZAL I, BHP Billiton claims that the SMEELP programme achieved significantly increased participation during the construction of MOZAL II. The SMEELP has been recognised as a successful SME development programme and has been adopted as model by the IFC and the World Bank. Some of the successes include:

- the establishment of a separate budget for mentorship and training of SMEs;
- achievement of the objective of awarding more than 25 contract packages to SMEs; and
- the transfer of know-how to SMEs through the training and mentorship program, resulting in a small pool of trained SMEs that are available for MOZAL operations, future projects and other local requirements.

According to Castel-Branco and Goldin (2003: 27), interviews conducted among these SMEs indicate that the most important positive impact mentioned by 75% of the firms is related to the experience acquired in working at a high level of demand and pressure, to strict quality and delivery timing standards and the experience acquired in working with a more demanding corporate culture, as well as management training.

Despite the SMEELP successes, MOZAL still has only a few backward and forward linkages with other sectors of the economy and may remain an economic enclave (EIU 23 October 2000). The experience of MOZAL I and II revealed that stronger backward linkages exists with the South African and Australian economy than with the Mozambican economy. This is indicative of the limited capacity of

the Mozambican economy and the relative strength of its southern African neighbour. Similarly, stronger forward linkages exist with South Africa and European countries than with Mozambique, a consequence of Mozambique's limited capacity to manufacture and sell value-added products in the domestic market because of the inexperienced domestic companies and the small size of the domestic market.

The MOZAL managers claim that MOZAL II provided more contracts for local businesses than MOZAL I. According to AIM (No 256, 23 June 2003), SMEELP was initially designed to ensure that at least 25 contracts for the MOZAL II expansion would be allocated to local companies. This was expanded to 28 contracts, valued at more than US \$5million, all of which were successfully concluded. However, these successes should be seen in the context that only 36 companies benefited from training and only 16 SMEs benefited from the 28 contracts.¹⁶³ Some companies received more than one contract, for example, Agro Alfa, Soradio, Kanés and Padiha Construções, which were already working on site. Furthermore, the 28 sub-contracting companies have to be seen against a total of 270 contracts packages for MOZAL II (Mining Review Africa issue 5 2003). Ian Reid, MOZAL's Director, claims that as a consequence of MOZAL II about US \$95 million was spent in Mozambique (AIM No. 256, 23 June 2003). The expanded MOZAL operation accounted for spending of US \$3.5m per month on goods and services in the local economy from 170 active small local suppliers, of

¹⁶³ There are differences concerning this figure the IMR report puts it at 16 and the Castel-Branco and Goldin puts it at 33. Grobbelaar 2004: 45 suggests 12 companies with access to 21 contracts.

which 30 were added in the last 12 months. This needs to be seen against the more than US \$860 million it took to build MOZAL II. Furthermore, it is not only a question of the quantity of linkages but also a question of their quality.

6.4.3.1. Reasons for the failure of existing linkage programmes

According to the EIU (10 Jan 2000), supply-side constraints remain impediments to the growth of linkages. The project has few potential linkages to local suppliers of inputs – beyond energy – while local value-added processing is not expected to develop in any significant way. Castel-Branco and Goldin (2003: 23-24) document some of the reasons for the failure to establish linkages and point to constraints such as the limited number of local firms, the shortage of capital, an information gap regarding available suppliers, and lack of skills and experience. Furthermore, Castel-Branco (2003: 14-15) also suggests that apart from the wish to use FDI to establish and develop local SMEs, the GoM had no clear industrial strategy as to how this was going to be implemented or unfold in practice. In many instances, these linkages occurred in spite of, and not because of, government's intervention, or else they were driven by MOZAL managers.

6.4.3.2. Foreign and not domestic investors receive preferential attention

According to Castel-Branco (2004: 8-9), the fact that the major portion of South African FDI is invested in capital-intensive mega projects is associated with the South African MEC, while the lack of dynamism in other sectors prevents any further development of the linkages from domestic companies. Grobbelaar's (2004: 5) conclusion that linkages with domestic business are sector-dependent,

but generally limited, corroborates Castel-Branco's findings. This trend may even reinforce the deep-rooted, unequal integration between the two economies in the areas of interest for large South African corporations. This means that many of the hoped-for forward linkages in the form of the establishment of downstream processing plants may not materialise for companies in Mozambique but many of the backward linkages may accrue to South African exporters.

The drive to increase private foreign investment at all costs is not popular with many Mozambicans, especially as the bulk of foreign investment is coming from South Africa or Portugal (EIU 26 June 1997). Local business is resentful of the preferential treatment offered to foreign firms (EIU 15 December 1998). According to Castel-Branco and Goldin (2003: 21), the attention MOZAL received from the GoM has a negative crowding out effect because it relegated other issues to the back burner. Grobbelaar (2004: 46) indicates that there is a perception that South African companies have been singled out as responsible for the crowding out of local business. The responsiveness developed for MOZAL is not necessarily institutionalised in the general work ethic, nor is it sustainable from the view of existing institutional capacities. This is corroborated by AIM (1997: 9), citing as an example:

“Pacheco Faria of the company ENACOMO, protested that the government preferred to deal with foreign businesses rather than Mozambican ones. Addressing the foreigners in the room, he said we are jealous of you – you get immediate access to ministers, but we write letters and six months later we have no reply.”

Furthermore, AIM (1999:11) reports that Mozambican businesses repeatedly complained that they had been left out of the mega projects and that the government was only interested in foreign investment. However, Grobbelaar (2004: 27) provides evidence suggesting that the differential treatment including political access and receptivity seem to be more strongly correlated to differences in size than to differences in nationality and ownership.

The larger companies such as MOZAL and SASOL are, however, all foreign owned.¹⁶⁴ In general, smaller South African companies do not receive preferential treatment from the Mozambican government but their advantage is derived from support provided by the South African government and its agencies. Smaller companies are more adversely affected by corruption, bureaucratic red tape and inefficiency than the larger companies. The linkage project encouraged building linkages between MOZAL and local businesses, which was initially seen as foreign companies taking opportunities away from local companies, but this perception appears to have changed into seeing foreign investors as providing opportunities and being more welcome. This does not mean that suspicions towards foreign companies have completely disappeared (Wells and Buehrer 2000: 158).

¹⁶⁴ Such as MOZAL and SASOL have been granted special import arrangements with regard to customs and permits etc

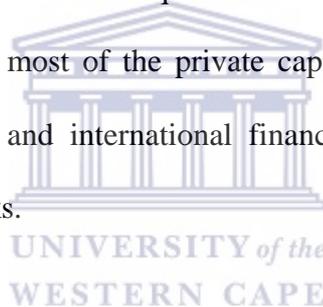
6.4.3.3. Inadequate access and high cost of finance

There is very little term finance available in Mozambique and what there is, is allocated to the largest - usually foreign-owned - firms. According to the IFC's (2003: 4 and 8, 17-19) survey, 78% of the respondents cited the lack of access to finance, its inadequacy and high cost as a severe constraint on doing business in Mozambique. The IFC (August 2003: 38) states that:

“[i]t is clear that the level of investment by a firm in Mozambique is linked to its access to finance: firms which are unable to get access to bank loans are also unable to take advantage of investment opportunities.”

The EIU (April 2003) also indicates that local businesses are faced with prohibitively high bank lending rates and are burdened by heavy regulations, a lack of predictability in time or outcome for routine administrative matters and they have difficulty in accessing credit. Finance in South Africa is much cheaper than in Mozambique. Domestic Mozambican businesses are limited by their access to credit and finance. Even when local Mozambican subcontractors are involved and their participation in MOZAL is limited to building the initial housing for workers, they still face restrictive conditions that foreign companies do not. For example, local entrepreneurs cannot export capital freely, nor can they compete with the huge, well organised and financed South African construction companies. Castel-Branco (2002: 138) observed that the GoM is prepared to use public finance to provide incentives such as IFZ status and the recapitalisation of banks while it refuses to commit public resources to support domestic firms.

In addition, the finance received from international credit agencies usually only facilitates contracts for companies that have ties to the countries from which the funds originated. For example, the Commonwealth Development Corporation (CDC) contributed US \$55m to MOZAL in equity-related investment. This money has helped create contracts for CETA, a Mozambican construction company with ties to CDC (Mozal News, April 2000, No 6). Similarly, the DBSA's private sector infrastructure programmes have been awarded to South African construction and engineering firms. South African financial agencies and businesses (e.g. ABSA, Nedbank and Standard Bank) have also followed South African businesses trading in Mozambique. This is confirmed by Castel-Branco's (2004: 24) suggestion that most of the private capital invested in Mozambique comes from South Africa and international financial institutions and operates through South African banks.



6.4.3.4. Inadequate technology transfer and diffusion

In terms of the GoM objective for FDI, has MOZAL contributed to the technological development and the improvement of entrepreneurial productivity and efficiency? The balance of evidence suggests a qualified 'yes', because those who received training and mentoring may have benefited, but they are few and the skills transferred are fairly rudimentary. MOZAL relies on South Africa and its international partners for more sophisticated technology capacity. Kumar (1998: 9 and 199) argues that FDI is a major channel of international technology transfer and the bulk of technology transfers take place on an intra-firm basis. Technology is a crucial input in industrialisation and in development but even though FDI

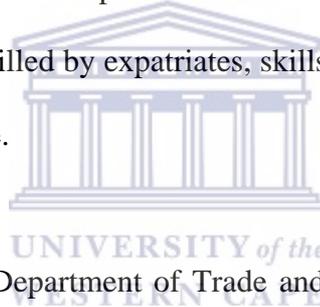
inflows increase, as is the case in Mozambique, technology transfer cannot automatically be assumed (Kumar 1998: 11-12). Kumar (1998: 14 and 199) concludes that in many developing countries, the expansion of FDI inflows has not been accompanied by technology flows in the same proportion. The experience with MOZAL shows a similar phenomenon of low levels of technology transfer.

Castel-Branco and Goldin (2003: 19) explain that building linkages are not costless externalities and smaller firms need to make initial investments in learning, upgrading technology, seeking contracts and developing networks in order to take advantage of opportunities and to benefit from technology transfers. MOZAL facilitates SME linkage partners' access to finance in that it guarantees the loans for working capital or investment by the bank for those SMEs that are successful in winning MOZAL contracts (Castel-Branco 2003: 26-27). In this way, many of the Mozambican firms that service MOZAL were started directly as a result of MOZAL. In some cases they introduced entirely new services into Mozambique, such as waste removal and employee transport. This increased the companies' dependency and the continuation of these services (which may be short-term contracts), on MOZAL and its management, who dictate the terms. This may lead to the loss of longer-term traditional markets.¹⁶⁵ Even the consultants that advised and mentored the SMEs in building links with the mega projects are foreigners, many of whom come from South Africa (IFC 2003: 38).

¹⁶⁵ This however is also contingent on the kind of service delivered for example the future of skilled engineering work may be more stable and secure than cleaning and gardening.

This process fits Castel-Branco's (2004: 21 and 23) description of dependent industrialisation linked to the MEC complex. As a consequence, these SME linkage companies are concentrated in the city and province of Maputo around the larger investments like MOZAL. This has skewed the regional industrial distribution in Mozambique.

The fact that the overwhelming majority of these linkages are with South African and other foreign companies undermines the potential for technology transfer from MOZAL to Mozambican domestic companies. In other words, there aren't many learning linkages that are possible to develop with domestic firms. If management positions are filled by expatriates, skills diffusion to Mozambicans is also less likely to take place.



Within the South African Department of Trade and Industry, the Enterprise and Industry Development Programme is responsible for South Africa's industrial development, enhancing global competitiveness, regional economic integration production systems, special economic zones and co-ordinating and managing SDIs (Estimate of National Expenditure 2001:672-673). The parastatals DBSA, IDC and Eskom represent South African public and taxpayers' money. These parastatals are used to bolster and create an environment in the region that is conducive to business for South African companies. While the profitability of mainly South African enterprises is enhanced, the trickle-down effect to Mozambican enterprises is weak. Mozambican domestic enterprises remain

insecure. The evidence provided appears to confirm the re-colonisation thesis alluded to in chapter 3.

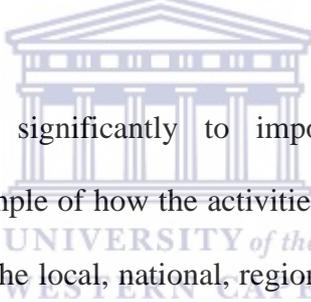
6.5. CONCLUSION

This chapter examined the political economy of MOZAL's contribution to the quantity, quality and distribution of economic wealth and its growth. The investigation concludes that MOZAL contributes significantly to the quantity of economic growth and less significantly to its quality. A limiting factor is that the distribution of economic wealth and growth is concentrated in the capital-intensive and highly skills-intensive minerals and energy industrial and manufacturing sector. Mozambique has experienced sustained economic growth, which is largely dependent on FDI in a few enclave mega projects. The mega projects and traditional agriculture and fisheries sectors of the Mozambique economy are stagnating, or growing slowly. This distribution pattern has not changed the colonial spatial distribution of wealth.¹⁶⁶

The investigation illustrates the enormous bargaining power that MOZAL has relative to the GoM, because even though the GoM succeeded in attracting FDI to Mozambique, the cost to the GoM threatens to undermine the developmental benefits the country can derive from MOZAL. It is arguable that the company's international competitiveness relative to other aluminium smelters has increased and that MOZAL has benefited more than the GoM (though this would be

¹⁶⁶ The spatial distribution may change in future as more FDI projects like SASOL are located outside of Maputo in the central and northern regions of Mozambique.

difficult to quantify). However, MOZAL and other mega projects have been responsible for the rapid increase in manufacturing productivity and exports. As a consequence of the increase in productivity and output, Mozambique has experienced increased economic growth. The development impact derived from MOZAL is not inevitably progressive: the evidence suggests that impact is a combination of positives and negatives. For example, in terms of the impact on the balance of payments, MOZAL is progressive in terms of increased exports but regressive in terms of increased import and service dependency. On balance the economic outcomes of MOZAL are positive but they do not automatically trickle down into growth of domestic SMEs, whose productive capacity remains weak.



MOZAL has contributed significantly to imports, exports and trade in Mozambique and is an example of how the activities and spheres of influence are unevenly integrated across the local, national, regional and international levels by globalisation processes. MOZAL-related trade is mainly concerned with imports from Australia and South Africa and exports to Europe. The increase in imports has increased the trade deficit with South Africa and offset the increase in exports so that the net effect of trade is less but it nevertheless reflects an improved trade balance. A particular weakness is that Mozambique remains dependent on importing services. Increased economic growth and an improved balance of payments suggests an increase in GoM revenue capacity. More research is required to discuss how this increased financial capacity is used. Another area acknowledged but not discussed is the influence of currency exchange rates on the

costs and export competitiveness of production at MOZAL, which requires further research.

A key reason used by governments and investors to justify MOZAL was its potential as a catalyst for establishing backward (upstream) and forward (downstream) linkages with local companies and the domestic economy. However, MOZAL's contribution to establishing backward and forward linkages with Mozambican companies is limited and weak. The distribution of benefits from linkages is asymmetrical and heavily skewed in favour of South African companies and involves only a few Mozambican companies. A feature of these linkages is that the core South African investment is both knowledge and capital intensive and very little transfer of technology to Mozambique is evident. The weak knowledge diffusion and technology transfer from MOZAL to Mozambican companies perpetuates the country's dependency on South African and other foreign companies. Thus, a feature of the industrialisation process is its increasing dependency on the MEC sectors in the South African economy and through them, with global investors. The sheer size and extent of South African influence in Mozambique is a source of some anxiety for the weaker local private sector and institutions (EIU 2004: 20). This illustrates the contradictions and diachronic social tensions that arise and pinpoints the areas in need of social transformation.

The next chapter discusses human capital development as an important prerequisite for quality development.

CHAPTER 7: SOCIAL IMPACTS AND IMPLICATIONS FOR LABOUR, COMMUNITY AND ENVIRONMENT

7.1. INTRODUCTION

This chapter focuses on the socioeconomic impacts of MOZAL on the workers, communities and environment surrounding MOZAL. These include the impacts on job creation, employment, community and environment. The focus is on human security and how welfare benefits have trickled down to non-elite groups or individuals such as workers. The focus is on bargaining and power struggles between corporations and workers and local communities. The discussion looks at how the differentiation observed in chapter 3 is reduced or exacerbated.

The chapter is organized into three sections. The first focuses on the labour market and discusses MOZAL's contribution to the development of human capital in Mozambique. The second section discusses the impact of MOZAL on the community, focusing particularly on MOZAL's social responsibility programme. The third section discusses the project's impact on the natural environment.

7.2. LABOUR MARKET IMPACTS

This section focuses on the labour market and discusses MOZAL's contribution to the development of human capital in Mozambique. Such contributions include dynamic created assets, such as well-trained personnel, the transfer of knowledge concerning the use of technology and the development of skilled managers. In other words, the chapter discusses the creation of jobs for national workers and

the raising of professional skill levels of the Mozambican labour force. It is also concerned with whether GoM and MOZAL have implemented and adhered to internationally acceptable employment practices which are non-discriminatory, occupationally safe and environmentally friendly.

7.2.1. Employment, job opportunities and income generation

As indicated in chapter 3, South African businesses (based at home or in the Mozambican host economy) have historically had a huge impact on the Mozambican labour market. The South African government had an agreement with the colonial and post-colonial, independent Mozambican government to employ Mozambican migrants on the mines in South Africa. In return the workers' remittances were sent to their families via the GoM. This agreement was affected by the political relationship between the countries' governments towards the end of apartheid, when many Mozambican miners were repatriated. Under the first national democratic South African government, workers' remittances were sent directly to their families and not via the GoM. As discussed in the previous chapters, the democratic South African government has, as part of its reconstruction commitment, encouraged South African businesses to invest in the post-war Mozambican economy and many of these concerns employ Mozambican workers.

Table 11 below provides a break down of the FDI inflow into Mozambique, its value, the number of projects and jobs created for 1999. It suggests that more FDI

may have gone into the fishing, industry, agriculture and agro-industry and construction sectors, where FDI created the largest number of jobs. Agriculture and agro-industry, followed by industry and construction, are the largest contributors to job creation and the Mozambican labour market in terms of percentage.

Table 11: Job creation by sector in 1999

Sector	No of projects	Value (US \$)		Total		Job creation	
		FDI	NDI	Value	%	No	%
Agriculture and agro –industry	55	10.192.614	7.485.629	238.871.039	31,13	8.040	33.54
Transport and communication	20	698.655	2.646.880	23.655.950	3,08	778	3.73
Tourism	20	8.426.400	7.143.115	103.180.866	13,45	1,406	6.74
Fishing	12	62.004.964	54.870.939	148.314.940	19,33	730	3.50
Industry	65	18.079.190	17.239.886	170.903.377	22,27	4.846	23.23
Construction	21	8.179.780	3.215.563	34.796.513	4,53	2.161	10.36
Mineral resources	1	0	10.250	582.324	0,08	16	0.08
Banking, insurance and leasing	5	310.056	7.017.185	8.087.393	0,05	75	0.36
Others	35	14.063.754	6.072.084	39.000.183	5,08	2.811	13.47
Total	234	121.955.413	105.701.532	767.392.586	100	20.863	100

Source: CPI Mozambique Means Business,
www.Mozbusiness.gov.mz/invflows/province.htm

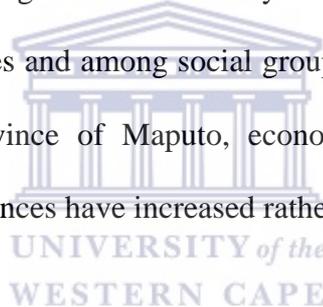
According to a KMPG (2000: 32-33) report on the ranking of the hundred biggest companies in Mozambique, the insurance sector registered the highest growth in revenues in 1999. All companies in the insurance sector achieved growth rates of more than 50% in 1999 when compared with 1998. The construction industry also achieved a high growth rate of 31%. Foreign companies, especially from South Africa, dominate this segment. National companies are disadvantaged in terms of financial resources, technology and availability of qualified, skilled workers.

Despite the increase in revenue, the number of workers in this segment decreased by 10%.¹⁶⁷ For example, as a result of privatisation and restructuring of the CMC Estero and CETA (the biggest group of construction companies), about 60% of their workers were retrenched. However, during the period 1998-1999, the ratio of revenue per employee for the top hundred companies increased by 23%. This means that workers were more productive in 1998-1999 than in 1997-1998. On balance, the total number of workers employed by the top hundred companies in Mozambique decreased by 1.6% in 1999 (KPMG 2000 33, 36).

The MOZAL smelter is by far the largest company in Mozambique, according to a KPMG report ranking Mozambique's hundred largest companies by revenue for the year 2001. The EIU (April 2003) report indicates that, despite an increase of 34% in the total revenue generated, the total number of employees in the top hundred companies declined by 2.5% compared with 2000. This is corroborated by the IMF's (May 2004: 68) observation that by the end of 2003 the number of unemployed people reporting to the employment centres increased by 5%, compared with 2002. The increase in poverty in Maputo is corroborated by the results of a survey on the consumption of households conducted between 2002 and 2003 (IMF Country Report No. 04/135, May 2004: 20).

¹⁶⁷ The General Commerce and Services and the Food and Beverage sector registered an increase in employment levels with growth rates of 12.3% and 6.1% respectively. Companies such as Coco-Cola and Cervejas de Mozambique dominate the food and beverage segment. Similarly the hotel and tourist industry has expanded. The hotel segment is dominated by South African and Portuguese investors and is also concentrated in Maputo City. Although the banking sector achieved an average of 6% growth in profits the majority of the jobs lost were in the Industry and

Castel-Branco (2004: 6) estimates that South African capital participating in the minerals and energy complex (MEC) employed about 40% of the industrial workforce in Mozambique. Grobbelaar (2004: 41) suggests that during the period 1998-2002, South African capital employed an estimated 24 355 people in Mozambique (CPI 2004). Despite the number of jobs created by South African capital, unemployment in Mozambique has increased. This raises questions about the quality of economic growth indicated in the previous chapter, and suggests that the economic growth encouraged by the GoM is not sustainable. Instead of leading to more equitable growth of human development, evidence suggests that the job-deficient economic growth of recent years has led to a deepening of inequality between the sexes and among social groups. Since economic growth is localised in city and province of Maputo, economic disparities between the southern and northern provinces have increased rather than decreased.



The next section discusses the impact of MOZAL on the quantity and quality of jobs created. The discussion examines the conditions of employment, such as wages and income, occupational health and safety and education and training of workers.

7.2.2. Impact of MOZAL on job creation and unemployment

The creation of jobs and employment opportunities, income generation and training are the human face of MOZAL's investment. But the consensus is that

Banking sectors, each with a total workforce reduction of 13.2%. Banco Comercial de Mocambique (BCM) dominates this sector.

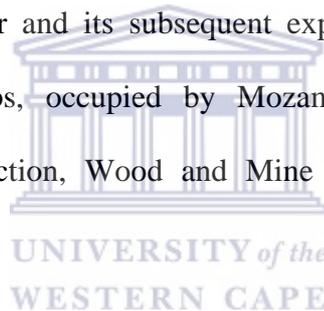
such mega projects create little in the way of new jobs for ordinary Mozambicans. Pretorius (2000 and 2001), Castel-Branco and Goldin (2003), Castel-Branco (2004), IFC (2003) and Grobbelaar (2004: 40) indicate that, because of the capital- and skill-intensive nature of aluminium production, the employment creation potential is undermined, fairly limited and short-term. Even where production at MOZAL has increased, it is a consequence of more investment in machines and technology rather than the result of employing more workers. Castel-Branco and Goldin (2003: 16) go further and suggests that of all the positive impacts of the MOZAL, its contributions to employment and income generation are the weakest.

The capital-to-labour ratio of the MOZAL smelter and other mega projects, such as the MISP and the SASOL pipeline, is high.¹⁶⁸ The IFC (2003: 11) suggests that on average, mega projects such as MOZAL create one job per US \$1 million, whereas the average cost of capital per worker in Mozambique is US \$15 000. An average firm in Mozambique could thus create a hundred times as many jobs as the mega projects. However, the same report also indicates that the productivity of most of these average firms is very low in comparison with mega projects (IFC 2003: 35).

¹⁶⁸ Similarly the operations of the MISP and Corridor Mineral Sands are capital intensive. The Corridor Mineral Sands is estimated to cost ± US\$500 million and will generate 200 to 300 new jobs during the construction phase and 1 000 jobs during the production phase (Mozambiquefile August 2000:22). The SASOL gas project is the creation of a pipeline that conveys natural gas from the Pande fields north of Maputo to SASOL in South Africa. The gas will provide a substitute for coal in the production of petroleum and other petrochemical products.

The jobs and employment opportunities created by the MOZAL I and II can be divided into three categories. These include short-term contracts and temporary employment created during the construction phase of both MOZAL I and II; permanent employment created during the production phase of MOZAL I and II, and indirect employment as a consequence of the SMEs' supply of goods and services to MOZAL I and II.

The temporary employment created during the construction phase has come to an end. A combined estimate of 6 000 temporary jobs were created during the initial construction of the smelter and its subsequent expansion. Most of these were unskilled construction jobs, occupied by Mozambicans. The workers were organised by the Construction, Wood and Mine Workers (SINTICIM) trade union.



The production phase of MOZAL I and II have created a combined estimate of 1 050 permanent skilled workers. Initially, this group of workers comprised a larger proportion of skilled expatriate foreign workers and a smaller proportion of semi-skilled and skilled Mozambican workers. The foreigners are mostly South Africans employed as supervisors, managers and directors among the upper level of the employment hierarchy. However, the composition of the permanent workers has changed and skilled Mozambicans now comprise the majority. Now more than 75% of the operations staff of MOZAL II are Mozambican nationals.

These workers are organised by the metal industry workers trade union, SINTIME.

An estimated further 2 500 jobs would be created indirectly by contractors supplying the MOZAL plant during the second phase. In addition the Mozal Community Development Trust (MCDT) also created a limited number of jobs. According to Castel-Branco and Goldin (2003: 32), an estimate of 204 permanent and 202 temporary new jobs created in the Belulane area can be attributed to the MCDT construction of schools, clinics and a police station. However, it is difficult to estimate the number and composition of people indirectly employed as a consequence of MOZAL. Many Mozambicans were employed by the South African- and Mozambican-owned SMEs that supplied goods and services to MOZAL. Some of the SMEs' contracts have been terminated and the jobs no longer exist, while others continue to provide these services. However, their contracts may also expire and it is not certain whether the Mozambican workers will retain their jobs. It can reasonably be expected that these jobs may also cease when these contracts terminate.

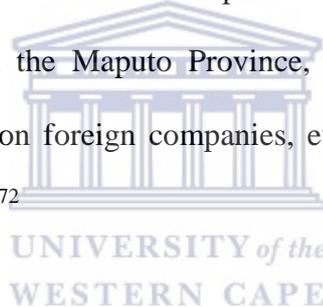
The contribution of MOZAL cannot be assessed by only discussing the quantity of jobs created because their quality must also be factored in when discussing conditions of employment. Sklair (1994: 172) argues that the more favourable the day-to-day conditions of work are for the labour force (wages, job security, hours, workplace facilities) in relation to prevailing conditions in the rest of the host

society, the more likely is the creation of positive development effects. Here again there is broad consensus that MOZAL has created better quality jobs than in the rest of the Mozambican economy. In the sections that follow the focus is on the conditions and quality of jobs.

7.2.2.1. Labour laws and conditions of employment

The MOZAL project involved outsourcing contracts and brought together workers from different countries. The Labour Laws of 1995 were amended in 1998 to make provision for freedom of association and for the right of workers to organise themselves. In an interview conducted in Maputo 2000, Mario Sevene the Minister of Labour, suggested that the Mozambican Department of Labour's (DoL's) experience with IFZ is new. Inspection is the main instrument for enforcing compliance with labour laws. However, the capacity of the inspectorate is undermined by the lack of personnel and finance. Transport facilities in rural areas are a big problem. In general this is a constraint on the ability of the DoL and the provincial directorate to enforce the minimum wage. This is corroborated by Webster and Wood (2004: 51), who surveyed 177 companies, based in Maputo and Beira and concluded that what exists is an attempt to establish coherence at the national level with very little impact at the enterprise level. Although the DoL has difficulty monitoring and administering different kinds of companies that do not pay the minimum wage, this is not the case with MOZAL.

The trade unions that organised the workers at the MOZAL project are the SINTICIM¹⁶⁹ and the SINTIME,¹⁷⁰ affiliates of the Mozambican labour federations.¹⁷¹ Both these trade unions were established at the MOZAL plant with the assistance of MOZAL's management. The SINTICIM organised the workers employed during the construction phase of the MOZAL plant. AEPREMO is the employers' association organising in the manufacturing sector. Within the association are organisations such as CETA, the biggest group of construction companies. The union is weakest and most vulnerable to membership changes in the smaller construction companies and strongest in terms of shopsteward representation in the larger construction companies. According to Manuel Tovela, secretary of SINTICIM in the Maputo Province, relations with the GoM are difficult because it is soft on foreign companies, even when the companies are registered in Mozambique.¹⁷²



¹⁶⁹ The Construction, Wood and Mine Workers (SINTICIM) organised the workers employed during the construction phase of the MOZAL plant. Within SINTICIM the construction segment is the largest and most active group. SINTICIM is the largest affiliate of the Confederation of Independent and Free Unions of Mozambique (CONSILMO) a new union confederation established on 23 January 1998. The two other main national trade unions affiliated to CONSILMO include the Transport and Technical Assistance (SINTRAT) and the Hotel and Tourism Workers (SINTIHOTS). These unions left the Organisation of Mozambican Workers (OTM) in 1992 after accusing the OTM of not being able to represent members' interest because of its affiliation to the governing party – Front for the Liberation of Mozambique (FRELIMO).

¹⁷⁰ Established in July 1987 the SINTIME organises the workers employed during the production phase at the MOZAL plant. SINTIME is an affiliate of the Organisation of the Mozambican Workers (OTM) and is still an affiliate of the ruling party. Since SINTIME's second Congress in May 1994 the union has worked at the provincial level. SINTIME is also an affiliate of international organisations such as International Metalworkers Federation.

¹⁷¹ Today there are two labour centres in Mozambique namely the old OTM, and a group that broke away from the OTM to form the Confederation of Free and Independent Unions in Mozambique (CONSILMO). Although both trade union federations are organisationally independent from the FRELIMO party the majority of the leadership of both confederations remain loyal to FRELIMO.

¹⁷² Since 2000 Tovela is also responsible for the national coordination the education activities of SINTICIM. Interview conducted Maputo 2001.

The relationship between the GoM (FRELIMO) and the Mozambican Workers Organisation (OTM) or labour movement is a long one. Many of the trade union leadership swear allegiance to FRELIMO. There is an uneasy consensus among government and trade unions leaders that the current investment strategy will lead to economic development and generate much-needed jobs and improvements in the living standards of Mozambicans. Joaquim Chissano (the then-President of the Republic of Mozambique) stated, during his keynote address to the fourth conference on removing private sector administrative barriers to investment in Mozambique in 1998, that:

“Both private sector and government have interest to defend. The private sector’s interest is to prosper, grow and consolidate itself while the Government in turn is interested in protecting the private sector as one of the key instruments for resolving the problems of society. The Government in performing its role as facilitator of the activities of the business class, will continue its support and study ways of increasing it, so that the private sector can participate significantly in reducing unemployment by creating more jobs, and can generate more wealth – in short, so that the private sector can serve as the lever with which to raise our people’s living standards and eradicate poverty. In this undertaking the workers are partners of the business class, and must be seen as such, not as adversaries.”

In an interview (Maputo 2000) Mr Jeremia Timana, Secretary-General of CONSILMO, described the relationship in the following way:

“We try as a union to assure those investors that the union is interested to develop the country, to be a part of the development of the country, but this doesn’t mean we have to give up our demands for our rights. We are trying to use dialogue as a main key to bring together all the issues all the problems that is important to the workers, the company and the government. That’s why we use this kind of instrument or process to make sure that as a union we are not enemies.”

On 27 July 1998 a Project Labour Agreement (PLA) was signed between the MOZAL SARL and SNC LAVALIN-EMS, on one hand, and the South African Federation of Civil Engineering Contractors (SAFCEC), Constructional Engineering Association of South Africa (CEA), Construction Services Contractors (Village Management and Site Security), EMPREMO Representing Local Civil, Building and MEI Contractors, and the Construction, Wood and Mineworkers Union of Mozambique (SINTICIM), on the other. The PLA is an industrial relations framework, ratified by the GoM for the project.

The PLA regulates the conditions of employment at the MOZAL project and is informed by Mozambican labour law. The PLA makes provision for the rights and responsibilities of site (shop) stewards, a Contractors Consultative Forum (CCF), a Site Labour Forum (SLF) and the settlement of disputes. The PLA also makes provision for industrial action, subject to certain conditions. These include:

“The parties to the PLA re-affirm their fundamental belief in consultation and negotiation as the preferred method for conducting their relationship and agree that industrial action should only be engaged in at the last resort. The parties recognise that they may implement and participate in industrial action, consistent with this Agreement, and the provisions of the legislation. Nothing contained in this sub-clause shall prevent any party from seeking recourse available to it in law.”

The contractors made a commitment to abide by the PLA. The elected representatives of the workforce, in association with officials of SINTICIM, are encouraged to make use of this PLA to raise their issues.

As the production phase commenced, MOZAL and SINTIME signed a Labour Agreement on 19 February 1999. This Agreement regulates the working relationship between MOZAL SARL and SINTIME. Article 42 dealing with continuous operation states:

“...the Union and the Company agrees to resolve all issues in dispute through a process of discussion and negotiation. The Company undertakes not to lock-out its employees as a measure of recourse and prohibits any form of strike action. The union and the employees undertake not to participate in any form of strike action. It is to be understood that this no-strike condition is a condition of employment and any form of participation in any form of strike action may well lead to the summary dismissal of any participating employee.”

The Labour Agreement was an attempt to pre-empt strike action and was lodged with the Ministry of Labour. However, despite these efforts the relations between the GoM, MOZAL and the labour unions were marred by the fact that trade unions and worker organisations were excluded and not consulted when government and investors agreed on establishing the IFZ. Different understandings and interpretations of workers' rights in the IFZ would surface in disputes over agreements concerning MOZAL.

7.2.2.2. Income, wages, working conditions

The impact of workers spending wages and salaries in the Mozambican economy is expected to be positive. Wages in Mozambique are generally very low. Table 12 below indicates a declining trend in real wages during the first eight years following the introduction of the Economic Recovery Programme (PRE) in 1987.

The real value of wages was heavily eroded by high inflation during the late 1980s and early 1990s.

Table 12: Evolution of the Mozambican real national wage

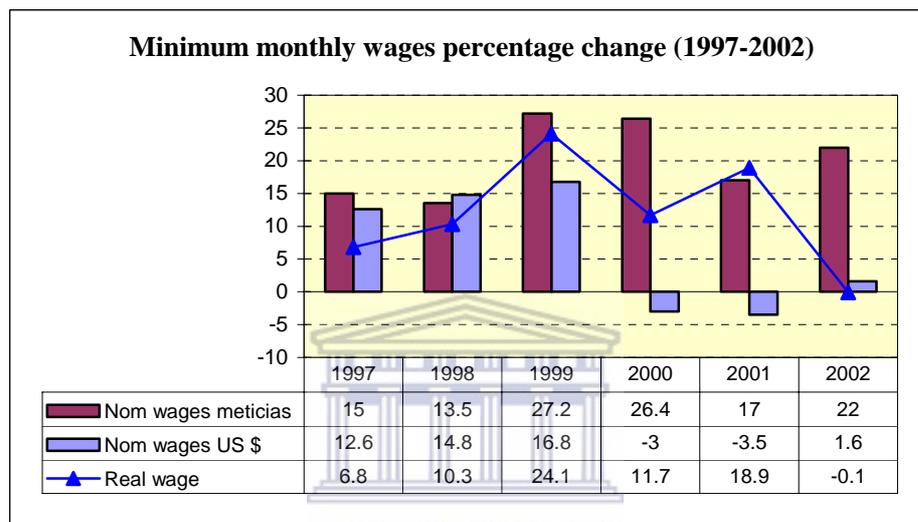
Year	Inflation	Wages (Mt)	Increase nominal	Variation real	US\$ equivalent
1987	175,8	7,500	50,0	-125,8	37,50
1988	55,0	17,000	103,4	48,4	29,30
1989	40,0	22,500	32,4	-8,0	32,05
1990	47,1	32,175	39,3	-7,8	27,34
1991	35,2	40,000	24,3	-10,9	24,64
1992	54,5	58,800	47,0	-7,5	19,50
1993	43,6	70,600	20,0	-23,6	17,77
1994	79,1	117,500	66,4	-12,7	19,60
1995	54,9	218,650	72,5	12,6	19,60
1996	16,6	271,126	30,0	13,4	23,54
1997	1,2	311,795	15,0	13,8	26,89
1998	-1,7	354,000	13,5	15,2	29,82
1999		450,000	27,0		36,00
2000					37,00

SOURCE: UNDP 2000:66; Planning and Finance Ministry (1999); Friedrich Ebert Foundation (1997).^a Labour and salaries,¹⁷³ Cost of factors in Mozambique (CPI) August 2000:12

Graph 10 below indicates that, despite the substantial increase in the nominal wages in meticias from 1994-1999, currency devaluation meant that wages decreased in nominal US \$ terms. In real wage terms the increase is marginal and remains below the value it was before the PRE started. The EIU (April 2003) corroborates that, apart from 2001 when the minimum wage increased at the same rate as inflation, the minimum wage has been increasing steadily in real terms since 1995. From this perspective, the suggestion by Rafique Jacobs (INE 2002) from CPI that during the past decade Mozambican incomes have nearly doubled,

must be seen in the context of its prior, very low, level. According to Qureshi (1999: 3), the low cost of labour in Mozambique meant that MOZAL's labour cost would be one-fifth that of a typical smelter in the West.

Graph 10: Minimum monthly wages percentage change (1997-2002)



Source: IMF Country Report No 02/139 (July 2002: 21)
 Republic of Mozambique: Statistical Appendix

Workers, however, insist that despite the improvements of the last five years, the minimum wages still only cover a limited percentage of their basic requirements. The OTM estimates that the minimum wage decreed for 1998 only covered 35% of the basic needs of a family of five – an average Mozambican household in Maputo (UNDP 2000:66). Furthermore, the OTM suggests that disparities exist in the payment of wages between people living in the north and south, particularly

¹⁷³ Other minimum salaries such as that paid by MOZAL for instance are defined in accordance with categories specified in the professional collective agreements. These salaries also depend on the profitability, economic and financial situation of each company.

those living in Maputo.¹⁷⁴ The average household income in the south is nearly twice as high as in the centre and north. The contribution of wage labour to total income in the south is in the order of 29.2%, while in the centre and north it accounts for 14.6% and 9.8% respectively (UNDP 2000: 52 and 64). There is also a marked disparity between the population income in urban and rural areas.

MOZAL has contributed to the increasing differentiation and inequality in wages and income among the Mozambican workforce. Against this background there is consensus that workers at MOZAL are the highest-paid labour group in Mozambique. Business Report (20 September 2000) suggests that MOZAL wages are better than in any other Mozambican industry. MOZAL pays its workers (many of whom have received some industrial skills and training) much more than the Mozambican minimum wages (Pretorius 2000 and 2001). Business Report (2 October 2001) says that in 2001, the minimum wage at MOZAL was 8 million meticaís (slightly more than R3 000) a month. According to AIM (No 199 23 January 2001) and Grobbelaar (2004: 41), the lowest wage paid to a smelter workers is US \$4 000 per annum (or US \$4 per month, more than R28 000 a year). The EIU (April 2002: 17) estimates that that the lowest-paid workers at MOZAL receive salaries that are 950% higher than the official minimum wage. This is almost ten times the statutory minimum wage.

¹⁷⁴ The real per capita GDP is entered into the HDI as an indicator of a decent standard of living. The cost of living in Maputo is higher than in the rest of the country. A person who lives in Maputo needs to spend 2.5 times more on daily consumption than someone living in rural Nampula (UNDP 2000: 29).

According to Castel-Branco and Goldin (2003: 16) the total wages and salaries of MOZAL's Mozambican workers in 2003 are expected to reach US \$10million and increase to about US \$17million by 2008. Castel Branco (2002: 144) also observes that the productivity per worker at MOZAL is 18 times higher than in the average Mozambican firm. Furthermore, Castel-Branco (2004: 27) argues that with the initial capital cost per direct job equivalent to 26 direct jobs elsewhere in the manufacturing sector, each worker in MOZAL produces as much as 30 workers and exports as much as 200 workers from the average manufacturing firm. In absolute terms MOZAL is far more productive than any other firm in Mozambique. This suggests that the benefits accrued to MOZAL by far outweigh the higher wages paid to Mozambican workers.

Although MOZAL pays its workers considerably higher wages than Mozambican workers earn elsewhere, MOZAL workers wages are lower than their counterparts in South Africa (Pretorius 2000). In Mozambique the statutory minimum monthly wage is 450 000 meticaais, slightly more than US \$36 and approximately R225 per month (using May 1999 exchange rates). South Africa does not have a statutory minimum wage but the average monthly wage in 1999 across all sectors was estimated to be R1 241, 37.¹⁷⁵ Whereas workers in MOZAL get less pay for doing similar jobs those done in South Africa, in terms of aluminium produced per worker they are more productive than those at Hillside or Bayside.

¹⁷⁵ Calculated in real wage terms –the information on “wage trends 1999: minimum wage across sectors” was obtained from the Labour Research Services (LRS) via a personal communication.

7.2.2.3. Working conditions, health and safety at MOZAL

A shop steward working at the MOZAL smelter described his working conditions as follows:¹⁷⁶

“Although 2 million meticaais is relatively good for a Mozambican salary I had no idea how hard the work was going to be. At MOZAL the job is very hard, risky. The pressure I feel at the job is high and the compensation is not corresponding to the pressure we are working under. I used to do corrective maintenance on the machinery that breaks down. I’m forced to fix the machinery in short time because the production line is stopping when the machinery is breaking down. ...everybody is standing around the machinery to see what I have to do, if I can fix it or not. I have no chance to relax and then I am forced to work under high temperature. The gas inside the potline is unhealthy and the strong magnetic field from the machines is also not good.

The pressure under which we work at MOZAL is higher than that at Hillside. At MOZAL the majority of jobs we do ourselves, even the job at Hillside which is being done by contractors we are doing ourselves. That’s why the job at MOZAL is harder than at Hillside. At MOZAL we do more work for less money. The shift allowance at MOZAL is much lower than at Hillside. At Hillside workers can make a lot of money working shifts in a short time. The decision to work shifts is also voluntary but at MOZAL you are forced to work shifts. We are working shifts not because we want to, it’s a pressure, and it’s an obligation to work on shift.”

Most of the Mozambican workers also complained that the South African workers have brought ‘apartheid’ racial discrimination with them to Mozambique. In the interviews the SINTIME shopstewards acknowledged that not all of the expatriates are the same. Some of the expatriates are not happy about the discrimination in salaries and covertly offered Mozambican workers information from the finance department. The expatriates come from many countries, such as

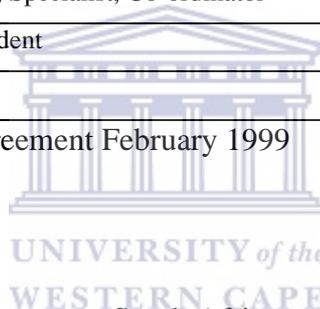
¹⁷⁶ Unless otherwise indicated, quotes from workers and officials in this report are from personal interviews conducted by the author. A complete list of interviews appears in the references section of the report.

Canada, Australia, Germany, India and Zimbabwe. South African expatriates are in the majority at levels one and two (referred to in Table 13), the lower levels that comprise people working in the smelter potlines as operators and maintainers.¹⁷⁷

Table 13: Salary levels of MOZAL workers

Level	Position	Meticais
Level 1	Operator	32 622 660. 00
Level 2	Maintainer	44 627 799. 00
Level 3	Administrator	71 421877. 00
Level 4	Supervisor, Specialist, Co-ordinator	272 990 946. 00
Level 5	Superintendent	449 012 078. 00
Level 6	Manager	633 215 151. 00

Source: Labour Agreement February 1999



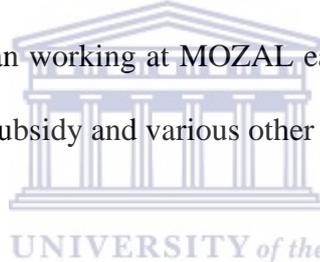
Mozambican workers say that most South African expatriates are “*boers*” and are problematic, while most of the European expatriates have developed friendships with Mozambican workers. Mozambican workers complained about the discrimination in the working environment from their white colleagues.

¹⁷⁷ The overwhelming majority of SINTIME members are located at Levels 1, 2 and 3.

Although Mozambican labour law prescribes how deductions for taxes and/or contributions from workers wages must be applied, some MOZAL workers still claimed that they did not know what their deductions were.¹⁷⁸

“At MOZAL we have MOZAL Expatriate and the MOZAL Mozambicans workers. Mozambicans workers are not allowed to know MOZAL Expatriate remuneration table.”

Some MOZAL workers complained that South Africans employed on the site also received much higher wages than Mozambicans doing similar work at the smelter. South Africans earn a minimum of R5 000 per month, whereas Mozambican workers earn R800 per month. In 1998 Mozambiquefile (November 1998:19) claimed that a South African working at MOZAL earned R75 (about US \$16) an hour, plus a weekly meals subsidy and various other privileges.



In addition to basic salaries^S and R expatriate^E allowances covering their accommodation, the MOZAL expatriates also received an amount of ± US \$500 as a health allowance for anti-malaria medicine and treatment. This allowance was not offered to MOZAL Mozambican workers and they feel that this is unfair. One SINTIME MOZAL shopsteward angrily asked:

“Now can you tell me that the mosquitoes can see that the expatriate is not Mozambican.”

¹⁷⁸ No other deductions may be made from an employee’s wages unless the person concerned has given written approval. Such approval must allow for the cancellation of such deductions with at least one pay-period notice, unless such deductions are in accordance with legislation.

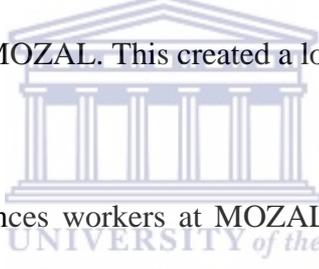
While there are statistics for expatriate malaria-related deaths, data for locals are unavailable. According to Bate (2000) and BusinessMap (2000: 38), by early 2000, the project had reported 12 deaths of which 10 were malaria related. It is increasingly difficult to keep expert staff from western countries in a location where they and their families are at serious risk from malaria. Bate (2000) points out that Mozambican locals have built up some tolerance to the malaria parasite and can work even when affected, although productivity may be low, whereas the experience with the expatriates (mainly British or South Africans) who have never built up tolerance to the parasite is that working is impossible. So, as mentioned earlier, MOZAL is training locals to replace expatriates as permanent workers as a less expensive and more reliable option.¹⁷⁹ More than 75% of the permanent workforce during the production phase now comprises Mozambicans, who received training at MOZAL's expense. In the longer term the initial outlay is small in comparison to the advantage MOZAL gains from having permanent, skilled local employees rather than contracting expensive, skilled expatriates.

In summary, having discussed the conditions of employment at MOZAL consensus is that they are among the best in Mozambique; nevertheless, there are some aspects about which workers are unhappy. The next section examines the responses of the Mozambican workers and their organisations to some of these grievances and focuses on industrial and labour relations at MOZAL.

¹⁷⁹ Donor agencies have also put pressure on Mozambique to desist and prohibit the use of the banned chemical substance DDT as subtle condition for accessing financial assistance.

7.2.2.4. Tensions, strikes and industrial action – social compact (1998-2002)

According to Elias Cosa (FES interview in Maputo 2001), there have been big debates about EPZs in Mozambique, including a seminar organised by Freidrich Ebert Stichtung several years ago. The Workers' Committee observed (interview Maputo 2000) that the unions and workers were not involved in the process of negotiating the IFZ policy or granting such status to MOZAL. Workers argue that the labour laws are selectively applied in the EPZ, to their disadvantage. The trade unions in Mozambique were not adequately prepared for the complexities these projects entail. Also, there was no discipline in the labour movement because at both national and provincial levels, SINTIME and OTM were competing with each other to bargain with MOZAL. This created a lot of confusion.



In response to their grievances workers at MOZAL have participated in strikes during both the construction and production phase of the MOZAL project. AIM (November 1998:19) reports that during the period 28 September 1998–1 October 1998, about 800 workers who were hired by contractors building the smelter went on strike. The workers demanded a 600% pay rise. The workers objected to the standard MOZAL wage of 2 840 meticaïs an hour (about US 24 cents), and wanted it increased to 20 000 meticaïs an hour. Mozambican workers complained that South Africans employed on the site earned R800 per month - much higher wages than the Mozambican workers.

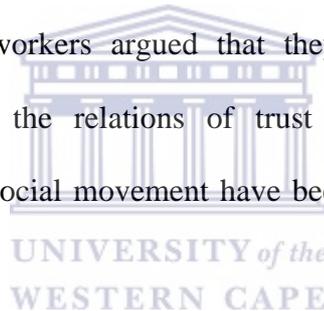
Industrial conflict and protest also surfaced six months after MOZAL was opened. In June 2000 discontent among Mozambican workers focused on the better conditions offered to expatriate staff (EIU 26 January 2001). On 13th and 14th February 2001, during the production phase, about 200 dayshift workers came out on strike over a wage dispute, which was a consequence of their unhappiness at the larger pay packets of expatriate workers. Mozambican workers demanded a 700% increase to bring their wages on par with those of expatriate workers from the UK and South Africa. The demands raised by the striking workers included increased hazard pay, shift bonuses and subsidies to cover rent and children's education. The strikers also wanted to be paid in US dollars rather than in the local currency as a hedge against currency devaluation (EIU 20 October 2001). Management offered an increase of 17–35% on a sliding scale. Management argued that the strike was illegal as worker grievances were to be taken through a process of negotiation, mediation and arbitration. In addition, the due processes of providing minimum services (referred to in the IFZ laws and the MOZAL PLA agreement) had not been carried out.

From 1-23 October 2001, about 470 of 750 Mozambican workers from the smelter again embarked on strike action, demanding higher wages, more benefits and payment of salaries in US dollars. This time MOZAL's management initially fired 468 workers but later reinstated all apart from 40 employees, including many trade union representatives (EIU 16 Jan 2002).¹⁸⁰

The GoM also came out against the strike. The Billiton management and GoM officials argued that the strike might discourage further international investment in Mozambique. To reassure nervous investors President Joaquim Chissano condemned the strike, stating:

“Mozal employees were not the poorest people in the country and that MOZAL is a means to attract further investment and employment into the country, and this should not be jeopardised”.

According to Tovela (interview in Maputo 2001), the government is soft on foreign companies because they want to attract more foreign investment and government officials want to build the country’s reputation as foreign investor-friendly.¹⁸¹ The striking workers argued that they were abandoned by their government officials and the relations of trust that once existed between FRELIMO and the broad social movement have been replaced by suspicion and mistrust.



Osborne Galeni (National Organiser for NUMSA interviewed in Gauteng 2000) indicates that NUMSA’s experience of Billiton is that it is anti-union (unlike its predecessor SAMANCOR, which had good labour relations with NUMSA).. Workers complain that since Billiton has taken over management, their conditions

¹⁸⁰ Personal conversation with workers and Sintime trade union officials

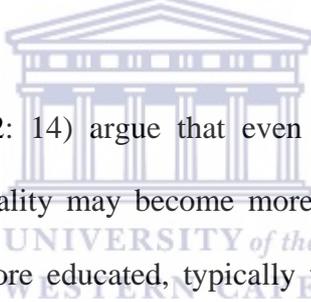
¹⁸¹ Despite being a recent (since the late 1980s) convert to the mixed market economy the Mozambican government has gained much experience in cooperating with the private sector. The Mozambican Government has hosted the Annual Public Sector Conferences (PSC) since 1995. The objectives include initiating a dialogue between Government and the private sector. At first donors financed the PSC but increasingly the private sector started to finance the PSC. The responsibilities for chairing of the sessions at the PSC were shared between government and the private sector. According to Bell (4th PSC 1998: 39) the government and the private sector are now talking on a regular basis; the private sector is accompanying government delegations abroad and is being consulted on major policy issues and legislation before enactment.

of service, salaries and benefits have been reduced and most negotiations end in strike action. MOZAL used workers from South Africa as scab labour to defeat strike action by Mozambican workers. The experience of Jose Isac Nhacocome, President of the SINTIME Trade Union Committee at MOZAL (interviewed in Maputo 2001) of the manner in which MOZAL dealt with striking workers in Maputo, corroborates Galeni's experience. SINTIME accused the MOZAL management of attempting to control the union and the flow of information inside the plant from the beginning. They accused MOZAL's management of complaining to the government about the unions' aggressiveness.

7.2.2.5. Labour skills and training

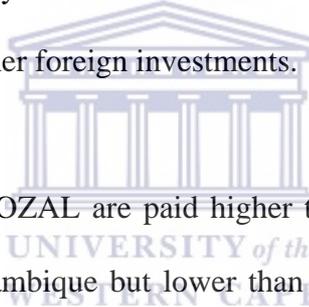
In addition to the creation of job opportunities, MOZAL has also made provision for training facilities to upgrade the skills of local labour. Many of the contractors used by MOZAL in the construction phase of the project were South African contractors involved in the construction of the Alusaf Hillside smelter. Since Mozambicans generally lacked the skills and experience required to build the smelter, they were mostly (although not exclusively) employed to do menial tasks such as bricklaying. Even for this, some training was necessary. Due to time constraints placed on subcontractors which required them to complete their contracts by an agreed time or continue at their own cost, some contractors employed foreign workers who did not need training. In the interviews conducted in Maputo 2000, a trade unionist indicated, for example, that one South African contractor employed workers from Thailand to build potshells.

According to Castel-Branco and Goldin (2003: 35), MOZAL has made a large investment in training people in civil engineering, electrical, instrumentation, mechanical, pipe fitting, refractory bricking and structural steelwork. However, some of this training cost will ultimately be offset by its recuperation of outlay through deductions in royalty payments (not to exceed 5% of those payments per annum). However, they argue that the impact of MOZAL's training for the Mozambican economy is dependent on whether the country's economy can grow and absorb these skilled workers. Otherwise, skilled workers trained in Mozambique but seek work elsewhere, which would then constitute a training subsidy for other countries and not for Mozambique.



Jenkins and Thomas (2002: 14) argue that even if FDI succeeds in creating employment income, inequality may become more skewed: where employment and training is given to more educated, typically wealthy elites, or there is an urban emphasis, wage differentials between income groups will be exacerbated and inequality between groups may worsen. This is most likely to occur where foreign investment is found in enclaves in an otherwise underdeveloped economy. Large corporations like MOZAL have the ability to pay higher wages and absorb the high costs of vocational training and improving the technical skills of Mozambican workers, while many of the smaller local companies cannot. The MOZAL project recruited most of the skilled workers and engineers from existent Mozambican firms because it could pay much higher wages and salaries and also because skilled labour is very scarce in Mozambique.

MOZAL has the ability to attract a significant proportion of the limited pool of skilled labour in Mozambique at the expense of smaller companies, thus crowding out smaller Mozambican companies. In some instances, skilled workers from these smaller companies have been poached by MOZAL. According to Castel-Branco (2004: 31), MOZAL is reported to be successfully recruiting skilled workers from many other firms because it can pay higher wages. The EIU (26 January 2001) observed that the skills gaps have widened and the price of qualified local management is increasing to well above regional levels, including those of South Africa. The shortages of skilled workers means that wages can be expected to increase quickly in future. To this extent, these projects crowd out domestic firms and even other foreign investments.



In summary, workers at MOZAL are paid higher than the national minimum or any other industry in Mozambique but lower than their counterparts working in similar companies in South Africa. Despite the company's attempts to control and stage manage the participation of workers, the trade unions' experience suggests otherwise. Accusations of discriminatory practices, controlling information and the media and a lack of transparency reveal a narrow and superficial approach to social dialogue. The manner in which the company dealt with industrial action and strikes suggests that if it cannot control the process it could easily change its attitude from union-friendly to anti-union.

7.3. COMMUNITY IMPACTS

According to Ian Reid, the MOZAL Community Development Trust (MCDT) was established in 2001 and has a budget of \$2m per annum. MOZAL's social responsibility programme's geographical focus is in the immediate vicinity of the IFZ and within a 10km radius of the smelter. The projects receiving support relate to community infrastructure, health, small enterprises development, education, sport and culture. In order to qualify for support, these projects must include among their objectives contributing to sustainability, poverty relief and addressing identified social impacts. The MCDT hopes to accomplish this through a partnership approach with NGOs and other donor agencies. The challenge, according to Peter Cowie (General Manager of MOZAL), is to implement socio-economic developments that will position and portray MOZAL as a responsible citizen and secure the support of the community.¹⁸² In order to do this, MOZAL needs dedicated, full-time staff who understands the community and structures of governance, because it is necessary to establish good working relationships with local authorities and leaders. The company's social responsibility efforts were confirmed by many workers in interviews conducted in Maputo during 2000 and 2001. However, they observed that, unlike in South Africa, the trade unions in Mozambique were not directly involved as a partner in the social responsibility programme.

7.3.1. Community infrastructure and local economic development

The MOZAL project has modernised, developed and rehabilitated infrastructure in the IFZ and Beluluane vicinity. For example, the MOZAL Community Development Trust (MCDT) built a new police station in Beluluane and renovated the Matola Police Headquarters. Four new vehicles were donated to assist the Beluluane police in performance of their duties. Specifically, the MCDT has also financed a clinic and new maternity/midwife facility.

MOZAL built the new Matola port, installed and improved the sewerage and water supply systems in the vicinity of the smelter, installed electric power and telecommunications cables. MOZAL also built roads linking the Maputo Corridor and the Matola harbour, as well as a new bridge over the Matola River (AIM February 2000: 23). Five boreholes were drilled and water tanks were installed to facilitate the local community's water access. In addition, MOZAL built houses and these developments sparked off real estate growth in Maputo and Matola.

A number of small local businesses, such as poultry farming, cookery training courses and bakeries, carpet-making and embroidery, cashew tree cropping, brick-making factories and new fuel stations have emerged in the area around the IFZ. The MCDT financed the construction of the Beluluane Market and also sponsored the vendors from it. The market has 100 stands and more than 100 families depend on the income it generates. Another example of building SME capacity is

¹⁸² Interview conducted in Maputo 2000 offices of MOZAL

the donation of a block-making machine to local small business (Rumney and Pingo).

National and provincial officials of SINTIME (an affiliate of OTM) described MOZAL as a little city, “a city within Maputo City”.¹⁸³ This is because MOZAL has developed its own infrastructure, such as a clinic for the treatment of malaria and HIV/Aids, has fixed and built new roads and bridges, repaired and expanded schools and supermarket buildings. Within Maputo this infrastructure is very visible but it has little significant impact given the lack of infrastructure in the country as whole.

The MOZAL investment also coincides with the privatisation of many of the services previously provided by the state. The new infrastructure was developed primarily to serve the needs of the smelter and to facilitate business in the IFZ Park, rather than with the needs of the people living in the area in mind. Some of the infrastructure and facilities, such as the police station, schools, clinic and roads, are public goods that, by definition, have externalities from which the public benefits. The MOZAL has brought modernisation to the Matola district. For example, Martins Matsolo, a traditional leader of Beluluane village, states:

“Before there was hardly a road here, and now there are so many cars that drive past. It is just unbelievable.”

The development of modernity suggested by the increased motor vehicles brings with it contradictions such increased motor traffic and noise pollution.

Most of the infrastructure relating to the MOZAL production processes is highly specific and limited to the immediate surrounding of MOZAL and its activities. Castel Branco (2002: 132-133) argues that the bulk of the infrastructure that is being developed consolidates the subordination of the Mozambican economy to the stronger interests of the South African mineral-energy complex and its corporations.

Jenkins (2000: 214) argues that the decision-making with regard to infrastructure and MOZAL was unilateral. He points to the new alignment of the MDC road from just within the Mozambican border into Maputo, which decision was taken unilaterally under much pressure from TRAC (the South African-based consortium). The original road, for example, passes through the urban area of Machava to the middle of Maputo but the new road is rerouted to pass Machava. The implication is a different configuration and distribution of urban transport that is peripheral to the existing urban areas but reduces the distance to the port by a few kilometres. Jenkins (2000: 214) indicates that central government did not consult with local government institutions in making decisions around the toll gates between Maputo and Matola. The newly elected municipal authorities in Maputo and Matola only discovered these decisions when the agreement was assigned and construction commenced.

¹⁸³ Group interviews conducted in Maputo 2001

7.3.2. Community education and training

One of the focus areas of the MOZAL's social responsibility programme is education and training. According to Rumney and Pingo (AIM March 2000: 22), during the period 2000 and 2003 the MCDT has built 25 classrooms in six different primary schools. These primary schools are all within a 10km radius of the smelter and have in excess of 4 500 children in attendance. In addition the MCDT has completed three secondary school projects, including a fully stocked library, a computer facility housing 20 workstations connected to the internet and the donation of welding equipment to a school offering training in technical fields. The MCDT also provides bursaries to students studying various courses at the Eduardo Mondlane University. Modern equipment, such as copying machines, was also donated to the schools and the university. Teachers have undergone training in computer skills, education technology and HIV/Aids. In addition, the Beluluane Primary School received new premises and the Djuba School received electricity and educational materials, as well as money for teacher training. Other social responsibility programmes include information campaigns about malaria and HIV/Aids.

However, not everyone is optimistic about MOZAL. A contrary view is expressed in a study conducted by Oleg Popov (Umea University Sweden), into how the construction of the high-tech MOZAL plant has influenced attitudes towards and understandings about science, technology and environment in the neighbouring rural community in Mozambique. Interviews were conducted with students, teachers and parents at the Jonasse Upper Primary school, situated about five

kilometres from MOZAL. The interviews show that people did not experience any changes in community life as a consequence of the MOZAL construction. Interviewees had heard about aluminium but knew nothing about its use, its production technology or its environmental effects. Teachers did not notice any changes in motivation or interest in studying science and technology among students. No-one saw an opportunity to get employment in MOZAL. The plant is in general perceived as an alien object that does not affect local life. Popov concludes that MOZAL is just a landscape mark of sophisticated engineering on the 140-hectare site. It is not part of the local socio-cultural context and therefore does not overtly influence formal and informal learning about science and technology.



7.3.3. Impact on the fiscus or national budget

The positive impact of MOZAL to the fiscus lies in its contribution to broadening the tax revenue base and augmenting the revenue of the Mozambican national budget. Increased growth and decreased debts should mean increased revenue available for the national budget. However, on the revenue collection side the size of MOZAL's contribution is undermined, as shown in the section on investment laws and regulation in Chapter 4, in terms of which fiscal benefits are granted to foreign investors and IFZ status holders. Other advantages to the fiscus were the off-budget financing of some of the investment in infrastructure initiated and provided by MOZAL. However, as Castel-Branco and Goldin (2003: 33) observed, MOZAL is not a donor offering free infrastructure to the Mozambican economy. The short-term advantages of off-budget financing may be short-lived

because these costs up to US \$15million and will be paid back via amortised deductions in royalty payments to the state over eight years. Furthermore, the continued maintenance and operation of these new installations will be the financial and administrative responsibility of the Mozambican government and constitutes additional pressure to the fiscus.

Castel-Branco and Goldin (2003: 38) argue that MOZAL's impact on public revenue is insignificant. Nevertheless, the revenue the GoM derives from company tax and economic growth should ideally be channelled back to the public through the national budget and public expenditure finance to fund further poverty reducing social expenditure and economic reconstruction programmes (capital projects). However, it is not easy to ascertain how the revenue derived from FDI is distributed because the GoM public finance is artificially bolstered by development aid. The GoM receives financial assistance from donor agencies, of which about 80% are in grants and 20% are loans (EIU January 2002: 16). The high national budget deficit before grants suggests that a large part of the budget expenditure is still financed through aid rather than revenue collection derived from economic growth.

Mozambique ranked 19 out of 53 African countries in terms of good governance (da Costa 2005: 133). The GoM lack a credible and efficient public financial accounting and management system (World Bank December 2002: 3-4). Corruption in Mozambique is endemic: the country scored 2.7 out of 10 and

ranked 106 out of 133 countries on the 2003 Corruption Perception Index.¹⁸⁴ Mozambique performed only slightly better in the ACR 2003-2004 survey and obtained an average score of 3.78 out of 10 and ranked 13 out of 21 African countries with regard to the Public Institutions Index. In terms of transparency, Mozambique ranked low relative to South Africa. According to The Africa Report Africa Survey 2005 (May 2005: 147), some in the ruling elite have grown into the habit of plundering at will (and assassinating anyone who dares to expose their activities).¹⁸⁵ There is a need to improve revenue collection capacity, institutional efficiency and the efficiency of social spending.

In summary the GoM's strategy relies too heavily on FDI for development, even though there is still no clarity in the understanding of the mechanism concerning the workings of the link between infrastructure and development. Despite the positive externalities that accrue to other firms and sectors of the economy, this infrastructure reinforces dependency on South African investors. Infrastructure (such as roads, ports and MOTRACO) is being developed by big business because of the needs and requirements associated with the mega projects and this consolidates MOZAL's economic power and influence.

¹⁸⁴ Where 10 is 'highly clean' and 0 is 'highly corrupt'. 133 countries surveyed 1= least corrupt and 133 = most corrupt. The survey reflects the perceptions of business people academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys (source transparency international)

7.4. ENVIRONMENTAL IMPACTS

An investment is sustainable if it does not damage the physical and social environment. This means that MOZAL should have no negative impact on the natural environment and furthermore, it should contribute to reducing, not enhancing, social differentiation and tensions. Broad social participation is one means of ensuring sustainable objectives and mitigating negative impacts. MOZAL claims to meet world class environmental standards.

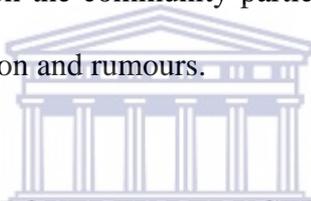
The South African Centre for Science and Industrial Research (CSIR) conducted the MOZAL environmental impact assessment (EIA). The EIA was conducted in accordance with the requirements of the Mozambican Ministry for Co-ordination of Environmental Affairs and the principles of the World Bank. Every six months public consultation meetings were held and people were given the opportunity to express their concerns and comment on the proceedings of MOZAL (AIM June 1999: 6).

However, the speed at which the smelter was built (in 25 months – six months ahead of schedule) raised concerns that corners may have been cut, particularly during the EIA process. For example, it was agreed that there was insufficient time for a full oceanographic and biological survey. Secondly, even though the trade unions attended, experts dominated the discussions at these meetings. The literacy level of ordinary Mozambicans is low and it is doubtful that they could participate effectively in these discussions. The monitoring of the EIA over a

¹⁸⁵ The assassination of Carlos Cardoso in 2000 is an example.

longer period is going to be costly and will require expertise that the local government does not have, leaving it up to the company to regulate itself. Despite efforts by MOZAL to educate the Mozambican public and community, rumours about the negative impact of the smelter on the environment still persist.

In summary, MOZAL has met all the legal procedural and minimum requirements with regard to the production of the environmental impact assessment study. The EIA identified the areas in which the smelter could negatively affect the environment and MOZAL has embarked on measures to mitigate these negative impacts. The extent to which the community participated in the EIA is disputed and has given rise to suspicion and rumours.



7.5. IMPLICATION FOR POVERTY REDUCTION

This section discusses MOZAL's implications for reducing poverty in Mozambique. It also provides a synthesis of the responses of different interest groups such as academics, foreign investors and donor agencies, business enterprises and workers to the IFZ and investment policies pursued by the GoM. The response, although generally favourable, is mixed. The first section focuses on the need for pro-poor or poverty reducing growth. The second discusses the supporters of the reform process and the MOZAL project. The third section relates to the critics of the reform process and the MOZAL project.

7.5.1. A need for pro-poor or poverty reducing growth

At the official opening of the smelter in September 2000, President Chissano

(Ndhlopfu September/October 2000: 5-6) stated:

“We Mozambicans are aware that MOZAL is not the solution to our economic and social problems (poverty, unemployment etc), but it is an instrument that we should use, to stimulate the development of small and medium sustainable Mozambican initiatives, with the purpose of our economic integration in the region and the world, at medium and long term.”

The quote reflects a realisation that MOZAL is no panacea but may make a positive contribution to poverty-reducing growth and narrowing the disparity gap within Mozambique and between SADC member states.

Dollar and Kraay (2001) argue that growth is good for the poor but pro-poor or poverty-reducing growth is not merely a question of quantity but also a matter of the quality of economic growth. Sustained economic growth in excess of 8% may start to create significant employment opportunities and reduce unemployment and poverty (EIU 27 March 2003 and April 2004: 8). MOZAL may improve the standards of living of the few who have been employed or contracted in, but the growth (per capita income) has not necessarily contributed to reducing the number of people living below the poverty line.¹⁸⁶ Jenkins and Wilkinson (2002: 46) conclude that there is evidence of growing differentiation between a minority of ‘haves’, who find a niche in the changing local economy, and a majority of ‘have-nots’ who slip further away from this possibility (or who never even conceived of it). According to Klasen (2003), an indicator of pro-poor growth is when the poor benefit disproportionately more from growth than the non-poor. This is not the

¹⁸⁶ This means that GDP growth by itself is a poor measure of human welfare and needs to be complemented with high quality household surveys that allow measurement of poverty, inequality

case with MOZAL. In Mozambique and the rest of SADC, the majority of the people work in the agriculture sector and investment in this sector has a greater impact on poverty reduction than in the capital and skills-intensive aluminium sector. People employed in the aluminum sector are relatively better educated and privileged than those in the agriculture sector.

Insofar as MOZAL is able to integrate Mozambique into the global economy, poverty may be reduced in the long term (Bardhan 2003). However, integration into the global economy is not inevitably progressive: it can also be regressive. On one hand, trade integration and cross-border investment by TNCs can help countries grow faster, create jobs and reduce poverty. On the other hand, globalisation can perpetuate inequalities and economic disparities. Instead of being an antidote to the negative effects of globalisation, regional cross-border investment integration initiatives such as MOZAL can exacerbate the growing gap between the rich and the poor among and within the respective countries. According to The Africa Report (May 2005: 148), there are strong indications that the amount of inequality has been increasing. Moreover, there is concern that the modern economy is developing quite separately from the traditional, more subsistence-level economy, which has been almost entirely left behind.

FDI in Mozambique and in the region is generally located in or around the already relatively wealthy industrial cities with access to ports. In Mozambique the

and social outcomes such as literacy and health status. Currently these instruments and surveys are not well developed at the national level and do not exist at a regional level.

provinces north of Maputo remain rural and relatively poor. According to the EIU (4 January 1999), there is a polarisation and growing inequality between north and south and within the south, between the relatively few 'haves' in the city of Maputo and the mass of the population in the rural areas. Grobbelaar (2004: 5) argues that South African FDI has not caused but has contributed to the distortion of the Mozambican economy. These distortions reach across wage and income levels and manifest themselves in a geographic divide between the more affluent south versus the poor centre and north, and between the rural and urban areas. It is not the whole of Mozambique and South Africa that are integrated but rather the strengthening of trade bonds between Maputo and Gauteng.

Neo-classical economic theory predicts convergence in GDP because poorer countries like Mozambique and others in SADC grow faster than rich countries and eventually catch up with richer countries. In practice, the international experience is mixed and there is no *a priori* reason to expect that the SADC economies can converge over time.¹⁸⁷ In an independent study, CREFSA (July 1996: 3 and 4) observes that no convergence in per capita incomes between SADC countries has occurred in the past 30 years: on the contrary, slight divergence may have taken place. The location of FDI inflows to the southern African region, such as, for example, the recent FDI mega projects in Mozambique, may change the economic power dynamics in the region. As a consequence of MOZAL and SASOL, Mozambique may now become

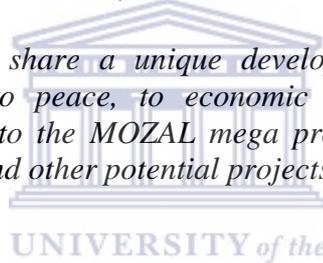
¹⁸⁷ In an empirical study involving OECD countries Sala-i-Martin (1996: 1034) and Quah (1996: 1047) observed that economic convergence could occur, but the speed with which this happens is

economically stronger than countries such as Zimbabwe and Swaziland. To discuss dependency and changing dynamics within the region further research is required.

7.5.2. Supporters of the reform process

Foreign investors such as MOZAL and major multilateral research institutions have recognised the efforts made by the GoM to liberalise and rationalise the investment laws. They hail Mozambique's reform process as the star performer in southern Africa, from which other African countries have much to learn (Wells and Beuher 2000). Brain Gilbertson (Mozal News October 1999, No 4)¹⁸⁸ states:

“Mozambique could share a unique development model that evolved from war to peace, to economic reconstruction, to investor confidence, to the MOZAL mega project, to industrial Park developments and other potential projects - all in 10 years.”



The managers and directors of MOZAL are among the strongest supporters of the Mozambican reform process. David Munro, CEO of Billiton Aluminium, (Mozal News, May 1999, No. 3) states:

“I want to pay tribute to the Government of Mozambique for the policies they have developed and implemented, which lie behind the dramatic increase in foreign interest in this country. MOZAL has played an important role in affirming Mozambique as a country open for business. In a very real sense I believe that the Government's farsighted involvement in this project – and unwavering support it has given to MOZAL from its inception – have been vindicated. They have been model hosts and quite rightly other major investments have followed.”

very slow. They estimate that it would take about 35 years to close only half the gap between rich and poor OECD countries.

¹⁸⁸ Then Chairman of Billiton Plc but has since left

In his speech at the MOZAL inauguration in Maputo on 21 September 2000, Brian Gilbertson, Chairman of Billiton, stated that:

“MOZAL is now widely viewed as one of Billiton’s best investments”.

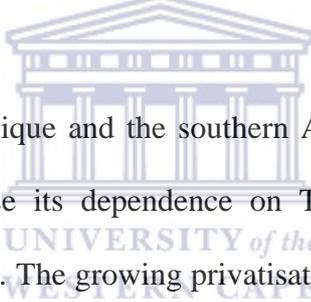
Heads of states and shareholders alike were convinced that success would breed success. *“The best thing for making investors comfortable is a success story.”* President Chissano declared that a benefit to his country from MOZAL *“is that it shows something on this scale is possible in Mozambique, using Mozambican labour”*. He stressed the importance of MOZAL as a beacon that could attract further FDI to Mozambique and to southern Africa. Furthermore, Fernando Sumbana, Director of Mozambique’s Investment Promotion Centre (CPI), (Mozal News, October 1999, No 4), suggests that:

“MOZAL will be used as a model for all other projects which the CPI is negotiating, such as the iron and steel plants in Maputo and Beira, Industrial Free Zones in Beira and projects planned for the port of Nacala.”

7.5.3. Critics of the reform process

On the other hand, academics, worker organisations and political commentators on Mozambique, such as Hanlon (1996), Soderbaum and Taylor (2001), and Castel-Branco (2004) criticise the GoM for relying on markets and foreign investments to generate development. Similarly, some national companies lamented that the liberal reforms outlined in Chapter 5 served mainly outside interests, as foreign products are imported at lower prices than they could be produced locally, crowding them out of a market.

Beck and Taylor (2001) and Soderbaum and Taylor (2001) have questioned the methodology and assumption underlying the SDI development strategy of which MOZAL is a part. The assumption is that by pursuing economic growth via implementing mega projects, mainly in infrastructure and aluminium manufacturing, development will automatically trickle down to the community. They argue that the development strategy is based on a 'big bang' approach, built around short-term, capital-intensive and large investment projects. They question the wisdom and appropriateness of pursuing a capital-intensive mineral extraction and manufacturing project such as MOZAL in labour surplus economies, where agriculture is dominant (Soderbaum and Taylor 2001: 685, Soderbaum 2001: 16).



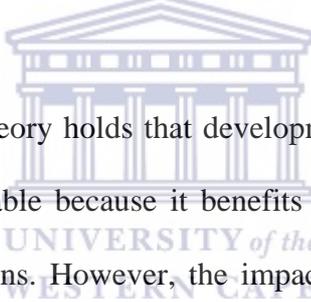
The integration of Mozambique and the southern African region into the global economy may also increase its dependence on TNCs and the more wealthy countries (Bayart 2000:238). The growing privatisation of state-owned companies and services and the reliance on foreign investors and development finance are indicative of a dependency relationship. The experience of Mozambique with development finance further entrenched the power of the MOZAL smelter investors over the GoM. This makes the Mozambican growth strategy questionable in terms of sustainable accumulation processes because the GoM's gamble on foreign capital as the engine of growth means orienting the country's economy to external agents and influences, over which the country has little control. This means that production and policy are directed primarily at exporting to global markets rather than focusing on meeting basic needs of the people.

7.6. CONCLUSION

This chapter discussed the political economy of the social development impact and distribution of MOZAL on the people of Mozambique, on their community and on their environment. The capital- and knowledge-intensive nature of MOZAL's production processes mean that direct employment benefits are limited and appear insignificant relative to the high unemployment level that currently exists. Again, the evidence suggests that MOZAL does not inevitably result in employment and the limited number of jobs created need to be examined to determine the nature and impacts of these jobs. MOZAL employers generally earn the highest wages in industry, but Mozambican workers employed at lower levels in the company have complained about discriminatory employment practices. The distribution of the benefits of MOZAL to the lower skilled workers is insignificant. Skilled labours are in short supply and MOZAL while has contributed to the development of human resources through training, in the short term these skills are likely to stay in MOZAL because of the higher wages offered.

MOZAL makes an effort through its corporate social responsibility fund and programme to fund community local economic development and empowerment activities. Notwithstanding this, the welfare effects of FDI and the developmental benefits of increased economic growth are weak. This may be improved through increasing the financial contribution and making participation in the governance of the fund more representative and transparent.

The GoM's development strategy relies too heavily on FDI for development, even though there is no clarity on how the link between infrastructure and development works. Despite the positive externalities that accrue to other firms and sectors of the economy, this infrastructure reinforces dependency on South African investors. Infrastructure (such as roads and ports) is being developed by big business because of the needs and requirements associated with the mega projects and result in consolidating MOZAL's economic power and influence. The location of MOZAL in the IFZ infrastructure provided by the GoM frames the social relations between workers and employers involved in MOZAL activity at the local, national, regional and international levels.



Sustainable development theory holds that development which harms the natural environment is not sustainable because it benefits the present generation at the expense of future generations. However, the impact of MOZAL on the present generation is not equally shared as people were resettled, transport routes were restructured and rerouted and toll road fees are charged. In addition, the amount of water and electricity energy MOZAL consumes is disproportionate to the rest of the Mozambican community and may be a problem for future generations. Its impact is yet to be seen. Legally MOZAL has met all the procedural and minimum legislative requirements in the production of an EIA study. This identified the areas in which the smelter could negatively affect the environment and MOZAL has embarked on measures to mitigate these negative impacts. The extent to which the community participated in the EIA is a matter of dispute and has given rise to suspicion and rumours among workers.

Another feature of sustainable development is the pro-poor poverty-reducing aspect of growth. The main beneficiaries of MOZAL are the major advocates of its success and the performance of the GoM. However, the critics argue that the internationalisation of the Mozambican state has changed the development strategy and focus from serving the interests of workers and ordinary people of Mozambique to serving those of a powerful elite with international and party connections. FDI increases dependency on foreign investors and diverts the focus from the development of the domestic economy and production for meeting the basic needs of Mozambican citizens. These contradictions and diachronic social tensions indicate the potential areas for social transformation.



However, there are structural constraints in the Mozambican economy which limits the absorption of more FDI. FDI is distorting the Mozambican economy and increasing the differentiation among those who benefit and those who are not involved. The case study of MOZAL demonstrates that FDI is privately-owned funds looking for profit. Developing countries like Mozambique, which are looking for FDI as a means to assist their economic development, may have difficulty in harnessing and maximising these benefits.

CHAPTER 8: CONCLUSIONS AND RECOMMENDATIONS

8.1. INTRODUCTION

The conclusion of the investigation must, from the outset, be integrally related to and demonstrate whether the objective and methodology of the thesis as set in chapter 1 were successfully accomplished. Secondly, the analysis and findings of the investigation have to speak to the various sections set out in the assumptions and objectives. Thirdly, the main findings and conclusions as they relate to these sections are outlined. From these inferences are made and omissions as well as areas for further investigation are noted before making final conclusions.

8.2. OBJECTIVES AND ASSUMPTIONS RESTATED

As a matter of convenience, the restated objectives of the thesis or investigation were to provide a case study of the MOZAL aluminium smelter and to use the case study to:

- Examine critically the political economy of MOZAL as an example of FDI-driven, large-scale, capital-intensive aluminium industrial production and trade and its development implications for Mozambique.
- Illustrate that the idea of development that gave rise to MOZAL is based on the neo-classical political economy industrialisation and modernisation paradigm and to subject the assumptions behind this model of development to critique.
- Provide an overview of the FDI inflows and identify major investment trends associated with such FDI flows into Mozambique, as well as survey the

investment regulatory environment and supply-side policies that shape the investment climate in Mozambique.

- Analyse the developmental impacts and implications of the MOZAL cross-border FDI activities for Mozambique and southern Africa. and how this process relates to the phenomenon of globalisation.

Furthermore, the thesis sought to make explicit and interrogate the assumptions underlying the MOZAL project. These assumptions include:

- Foreign direct investment (FDI) leads to modernisation, industrialisation and consequently development and integration and is desirable.
- FDI provides access to TNCs, and via them to capital, employment and technology leading to progress, hence increased integration with global economy is the road to development.
- The government acts in the interest of the whole of society and through creating an investor-friendly environment will attract investment, generate wealth and reduce poverty and this will result in a win-win scenario in which every one benefits.

Furthermore, the thesis sought to pronounce on the question of whether FDI is good or bad for development and whether development generated by FDI and TNCs, of which MOZAL is an example, is a 'loadstar' or an 'illusion'.

To do the above the thesis has provided a description of the MOZAL aluminium smelter as a case study. The heart of this case study is located and briefly discussed in chapter 4 but the case study is further elaborated, discussed and

analysed throughout the thesis in chapters 5, 6 and 7. Information about MOZAL and its activities are increasingly becoming known and easy to access. This was not the case when the investigation was initiated and MOZAL first started production in 2001. In the process of the investigation spanning many years, more information and studies referred to in the body of the thesis have become available, to which this thesis contributes as a study dedicated to understanding the political economy of MOZAL and its development dimensions. The investigation set out to examine the development implications of FDI that gave rise to MOZAL, for both Mozambique and southern Africa. The objectives of the GoM's investment framework are stated in Article 7 of the Law on Investment. The investigation discusses the extent to which these objectives were partially or completely achieved. It appears that the GoM was more successful in terms of achieving its economic objectives than its social objectives, about which there are important reservations. In this exercise, attention was directed to the role of South Africa and the neo-modernisation and new institutionalist framework which underpins the development thinking and policy behind MOZAL. The main findings and conclusions of this investigation are discussed below.

8.3. EVIDENCE AND INFERENCES

The evidences from the various chapters are summarised below and from them inferences are made in terms of the above-mentioned objectives and assumptions.

8.3.1. Political economy framework and approaches to development

Chapter 2 discussed the relevance of political economy of FDI (including the

new trends) and selected development approaches as well as the developmental state model as elements of an analytical framework for assessing the impact of MOZAL. The discussion focused on the social relationships different agents enter into in order to produce, finance and trade in aluminium. The bargaining and production process is observed through the lens of the new trends in critical new political economy (Critical GPE). These themes include: taking into account the global environment; being non-determinist and non-teleological; not having a rigid and artificial divide between structure and agency or foreign and domestic; acknowledge that international, regional, national and local level events and activities influence each other; and a strong focus on the state-society nexus. The main conclusions from chapter 2 are that FDI and MOZAL are not a neutral phenomenon: instead, they are about ownership of capital and relationships of production in which power and resources are negotiated and contested at multiple levels. A critical GPE framework suggests that the investigation regards the MOZAL smelter as a historical structure, which results from historically contingent social processes. The analysis of FDI and MOZAL must take into account the global context within which multiple agents, such as states, foreign investors, financial agencies and workers, operate, influence and affect events at multiple levels, such as the international, national and local levels.

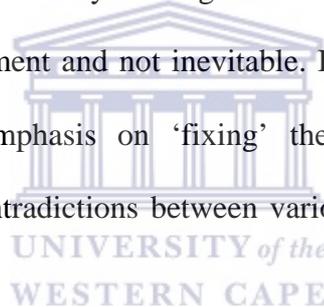
In relation to the selected development approaches, the main conclusions are that the concept of development means different things to different people and is evolving and contested by different interest groups. Neo-modernisation thinking still influences development strategies in Mozambique today. The state-of-the-art

investment-led development path (IDP) theory is an eclectic new institutionalism framework prevalent in neo-liberal political economy today. Its primary preoccupation with the properties of the market is a sophisticated rehashing of modernisation and structuralist theory, which accommodates the state and social capital. Indications are that with the MOZAL project Mozambique meets the criteria suggested by neo-modernisation theorists for the country to enter the 'take-off' stage of development. The application of the IDP theory is used to elucidate the factors influencing FDI inflows that gave rise to MOZAL and to understand the GoM's policies and actions in its attempt to enhance the country's investment institutions and attract FDI inflows.

The modernisation and dependency development approaches focus on the constraints of capital and inadequate institutions as major reasons for the lack of development. Apart from the recognition that MOZAL may increase Mozambique's dependency on FDI, TNCs and asymmetrical trade, the dependency approach does not provide a viable alternative development framework. The current state-of-the-art in development thinking is the sustainable development approach, which suggests that an assessment of the impacts of FDI and MOZAL on the people of Mozambique must go beyond notions of economic growth and must include the reduction of social inequity and poverty, while simultaneously protecting the natural environment. The benefits of growth must be distributed among various agents in Mozambique and South Africa in a manner that would reduce socioeconomic disparities and poverty if it is to be sustainable. Indicators such as human development, environmental impact assessments to

protect the natural environment and the use of clean technology must be part of this assessment.

The third aspect discussed was the political economy of state societal relations with reference to the developmental state form. The main conclusions are that the state should not be discussed separately from society because they influence each other. The developmental state form offered an alternative to the underdevelopment/dependency development approach, but was a neo-modernisation approach to development. The developmental state form is a capitalist state which is historically contingent on investors agreeing to invest in areas identified by government and not inevitable. In contrast to the structuralist approach, which place emphasis on 'fixing' the market, the Critical GPE framework stresses the contradictions between various social agents involved in the market economy.



8.3.2. The internationalisation of the Mozambican state-society nexus

Chapter 3 discussed different understandings of the Mozambican state form and noted that the period, societal context and the international environment contributed significantly to shaping the character, role and policies of the Mozambican state. The chapter concluded that the state in Mozambique is not a homogenous entity and the usefulness of concepts like the developmental state when applied to the GoM is limited, and conflicts with other clientalist and patrimonial concepts. It concludes that the GoM is a hybrid of developmental and patrimonial-inspired conflicting tendencies within the state. The state is an arena

of conflict over political and economic control between different factions, which also find expression in society.

The Mozambican state, led by the FRELIMO ruling party, has transformed itself from a Marxist state-planned economy to a capitalist mixed-market economy. State intervention and mediation within the economy is firmly located within the paradigm of a neo-liberal capitalist development framework. In the process of mediating policies to access international financial aid and FDI, the Mozambican state restructured its relationship with other social agents, such as workers. The GoM acquiesced to more powerful financial agents such as TNCs and international financial agencies that advocated integrating into the global economy. The main findings of the chapter are that the influences of international financial actors such as the IMF and World Bank are evident in the GoM's policy choices and signal the internationalisation of the Mozambican state.

The change in the alliance that constituted the Mozambican ruling bloc from FRELIMO's united front of peasants, workers and socialists to FRELIMO's partnership with international financial agencies and capitalist groups coincided with a change in the country's development strategy from a state-planned socialist economy to a private sector-driven market economy. The new alliance between the FRELIMO government and international capitalist and financial agencies meant that the Mozambican state increasingly endorsed policy that encouraged and privileged an elite group with access to capital and political power. The privatisation programme contributed to the restructuring and weakening of the

state as foreigners and elites connected to the FRELIMO party became more wealthy and powerful. The restructuring of the state also meant that power has shifted from the state to the international agencies and the private sector at a time when the GoM's institutions are weak and financial and technical capacity are lacking. As a consequence of PRE and PRES the Mozambican economy has been opened and liberalised.

The shift to a capitalist market economy and the implementation of the privatisation programme has exacerbated social tensions and contradictions. These include an increase in socioeconomic differentiation within Mozambican society. The development of neo-liberal 'Wild West'-type capitalism in Mozambique is, characterised by powerful elites who dominate the state and have centralised power combined with widespread corruption. The development resulted in an increase in the dependency on foreigners for sources such as capital and technical knowledge. The Mozambican state is weak and resigned to the influence of financially well-resourced and technically skilled organisations and agencies. This has further reduced the bargaining capacity and power of the GoM relative to international investors and TNCs.

The chapter discussed Mozambique's development indicators such as GDP, GDP per capita and HDI. The main conclusions are that there is a need to disaggregate national economic growth and GDP per capita statistics to take into account the quality and distribution of the growth. The HDI goes some way towards reflecting the quality of human development by taking into account factors such as health

and education in addition to income. The indicators suggest that in 1997, when MOZAL was initiated, economic growth in Mozambique began to increase but the wealth was unevenly distributed among the provinces and between men and women. Despite the increase in economic growth and HDI, the quality of life and standard of living of the majority of the people in Mozambique remain very low and this is a potential source of diachronic tension between social agents.

8.3.4. Global aluminium industrial restructuring and production

Chapter 4 provided an overview of the global aluminium industry and the main findings are that it is dominated by a few very large and powerful vertically integrated TNCs with headquarters in the developed countries. The largest markets for aluminium consumption are in the developed countries of the US, Europe and Asia and so, even though processing may take place in developing countries such as Mozambique and South Africa, the industry and processing in these countries is essentially export-oriented.

Globalisation has made it possible to restructure the production and organisation of the aluminium industry. Aluminium is increasingly produced in developing countries in the South. This process is facilitated by globalisation, which makes it possible to source inputs and place production in different locations and export to larger consumer markets in other parts of the world. Access to large consumer markets is crucial to enable investors to reap the benefits of economies of scale production strategies. Aluminium production at MOZAL is a global or

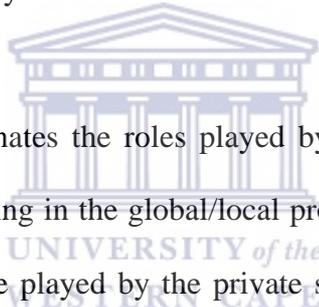
internationally integrated production system, which integrates Mozambique into a global production network.

The presence of abundant natural resources, such as bauxite, and created assets, such as low cost energy (e.g. cheap hydro-electricity), is necessary but not sufficient to persuade aluminium industrial investors to invest in developing countries such as Mozambique. Nor is an open and very liberal investment and business environment sufficient. Investors in the aluminium industry require both natural resources and created assets combined with a non-restrictive investment regulatory environment as well as a stable macroeconomic and predictable climate with the right to engage in export-oriented production.

Globalisation and the restructuring of the global aluminium industry have shifted the balance of power in favour of external social forces such as foreign investors, TNCs, financial and donor agencies rather than governments of developing countries like Mozambique. The ability to provide created assets such as cheap electricity and a predictable and open non-restrictive investment and business environment has reduced the cost of production, significantly diminished the investments risks and made it possible for MOZAL to locate itself in Mozambique.

The financial structure and the way in which aluminium production at MOZAL is organised illustrate that the smelter is truly a global company. Aluminium production at MOZAL is part of an internationally integrated production system.

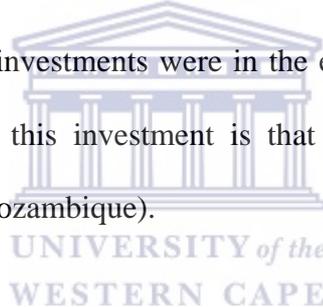
The aluminium producing company is typically a vertically integrated TNC, for example, the same company that owns the bauxite mines, as is the case with BHP Billiton. Consequently, a large proportion of the investment and trade in the global aluminium industry is intra-firm. The restrictive market structure of the aluminium industry, the highly concentrated ownership structure of companies as well as the capital-intensive nature of aluminium production impinge on and limit the potential development dimension of FDI emanating from this industry. In short, it is one of the more difficult industries from which to expect huge employment creation, technology transfer or backward and forward linkage benefits for the host economy.



The case study also illuminates the roles played by different social actors with varying strengths participating in the global/local project that created MOZAL. It illustrates the dominant role played by the private sector investors supported by their respective governments, the public sector and financial agencies almost to the exclusion of local businesses, workers and community representatives. It demonstrates how the co-operation and support given by governments (both Mozambican and South African) to big investors through public/private partnership have been particularly critical to the success of these projects. This demonstrates how the government used the public sector to minimise the risk to the private sector.

8.3.5. Foreign investment financing of aluminium production and development

Chapter 5 provided an overview of FDI inflows into Mozambique and a survey of the salient features of this FDI for the Mozambican economy. The GoM's efforts to create an investor-friendly investment regulatory environment were outlined and the relevant supply-side measures and incentives were discussed. The main conclusions are that FDI inflows into Mozambique during the period 1998-2002 increased rapidly. The FDI inflows increasingly (though not exclusively) comprise private sector capital. However, the MOZAL FDI is a joint venture between the private and public sectors. The investors are mainly from South Africa and/or their international partners, such as Britain. These investors are typically from both the more advanced developing country and developed countries. The bulk of the investments were in the energy and mineral resources sector. Another feature of this investment is that it is highly concentrated in Maputo (i.e. the south of Mozambique).



The salient features and pattern of FDI inflow to Mozambique are atypical of FDI into African developing countries with a similar income category as Mozambique. The evidence suggests that MOZAL is resource-seeking FDI motivated by the need to access cheap factor input costs. Electricity is the major created resource asset and is estimated as a third of the cost of production. MOZAL pays less for its electricity than its competitors do. The concessions it receives in the supply and provision of cheap electricity reduces MOZAL's cost of producing aluminium. This increases the competitiveness of the smelter relative to its competitors. The patterns of FDI confirms that access to resources, cheap factor input costs and a non-restrictive investment-friendly regulatory framework, as

well as lucrative incentive and tax concessions, are the main variables and determinants of FDI in Mozambique.

The non-legislated incentives i.e. cheap electricity gives the smelter an international advantage over its competitors. MOZAL consumes twice the amount of electricity than the country as a whole. The country's low consumption of electricity does not reflect the productive capacity of the Mozambican economy. Many local businesses and people in Mozambique cannot afford the cost of electricity. Despite this, Mozambique's international competitiveness has increased and its index has improved. Investors are optimistic about Mozambique as an investment location. Fitch Rating has given Mozambique a B⁺ credit rating. The involvement of the IFC, IMF and MIGA has helped to generate confidence that investments are protected and secure.



Indirect policy intervention focused on the institutional framework and determinants of investments, namely macro-economic stability and the availability of human capital development. Some examples of such interventions were the signing of multilateral and bilateral treaties and trade agreements with MIGA, SADC and South Africa. The evidence suggests that the GoM's interaction with MOZAL and other international agencies such as the IMF and the World Bank's IFC contributed significantly to shaping the relatively liberal and open investment regime and to further reducing risks to investors. This has contributed to the creation of an improved and more predictable investment

climate in Mozambique, which, in turn, reduces the transactions costs of business. Through the provision of infrastructure (e.g. roads, ports and EPZ) the GoM has enhanced the country's location advantages for attracting FDI and TNCS. While these supply-side measures have the effect of reducing the cost of production and may enhance Mozambique as an attractive location for FDI, they also run the risk of encouraging rent-seeking activity.

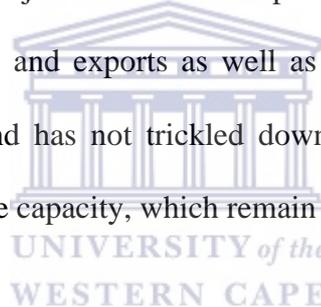
The combined effects of these policy interventions give the investment regulatory regime for MOZAL a relatively open and liberal character. On balance, indications are that GoM policies have been successful in achieving the objectives of creating an investment-friendly environment and attracting FDI. However, creating a positive investment climate is not enough: institutional capacity and efficiency are as important. Attracting investment is one thing but realising the potential development benefits from the FDI is another. Building ongoing institutional capacity and efficiency remain major institutional challenges for the future.

8.3.6. Economic impacts and implications for business

Chapter 6 examined MOZAL's contribution to the quantity and quality of economic growth and concludes that while it contributes significantly to the quantity, its contribution to the quality of economic growth is less significant. A limiting factor is that the growth is concentrated in the minerals and energy complex industrial and manufacturing sector, which is typically capital- and skills-intensive. Mozambique has experienced persistent economic growth which

is largely dependent on FDI in a few enclave mega-projects. The mega-projects or modern economy are growing rapidly while the traditional agriculture and fisheries sectors of the Mozambique economy are stagnating or growing slowly.

Although much of the GoM's efforts to increase its international competitiveness have succeeded in attracting FDI to Mozambique, the developmental benefits have also been undermined. It is arguable that the company's international competitiveness relative to other aluminium smelters has increased and MOZAL has benefited more (though this would be difficult to quantify) than the GoM. MOZAL and other mega-projects have been responsible for the rapid increase in manufacturing productivity and exports as well as economic growth. However, this growth is not even and has not trickled down into strong, domestic SME development and productive capacity, which remain weak.



Through SADC cross-border industrial production schemes in aluminium Mozambique and South Africa are increasingly participating in global trade and investment. MOZAL has contributed significantly to imports, exports and trade in Mozambique. MOZAL-related trade is mainly concerned with imports from Australia and South Africa and exports to Europe. The increase in imports have increased the trade deficit with South Africa and offset the increase in exports so that the net effect of trade is less but nevertheless reflects an improved trade balance. A particular weakness is that Mozambique remains dependent on importing services. Increased economic growth and improved BOP balances suggests an increase in GoM's revenue capacity. More research is required to

establish how this increased financial capacity is used. Another area acknowledged but not discussed is the influence of currency exchange rates on the costs and export competitiveness of production at MOZAL. This requires further research.

A key reason used by governments and investors to justify MOZAL was its potential as a catalyst for establishing backward (upstream) and forward (downstream) linkages with local companies and the domestic economy. However, MOZAL's contribution in this regard is limited and weak. The distribution of benefits from linkages is asymmetrical and heavily skewed in favour of South African companies and involves only a few Mozambican companies. A feature of these linkages is that the core South African investment is knowledge and capital-intensive and very little transfer of technology to Mozambique is evident. The weak knowledge diffusion and technology transfer from MOZAL to the Mozambican companies perpetuates the country's dependency on South African and other foreign companies. Consequently, a feature of the industrialisation processes is its increasing dependency on the South African MEC economic sector and through them on global investors. The sheer size and extent of South African influence in Mozambique is a source of anxiety for the weaker local private sector and institutions (EIU 2004: 20). Mozambique's acquisition of technological capability is important if the county is to develop and maintain its location advantage status.

8.3.7. Social impacts and implications for labour, community and environment

Chapter 7 concludes that the capital- and knowledge-intensive nature of MOZAL's production processes mean that the direct employment benefits from the smelter are limited and insignificant relative to the high unemployment level that currently exists. A more detailed study of the impacts is needed to assess the quality of the economic growth in terms of the multiplier effects and the social contribution the jobs created will make to poverty reduction. MOZAL employers generally earn the highest wages in industry but Mozambican workers employed at lower levels in the company have complained about discriminatory employment practices. MOZAL employers are paid higher than the national minimum or any other industry in Mozambique but lower than their counterparts working in similar companies in South Africa. Skilled labourers are in short supply and MOZAL has contributed to the development of human resources through training in the short-term. These skills are likely to stay in MOZAL because of the higher wages offered.

MOZAL finances local economic development and community empowerment activities through its corporate social responsibility fund and programme. Despite the company's attempts to portray good corporate social responsibility, its attempts to control and stage-manage the participation of workers and trade unions suggest otherwise. Accusations of discriminatory practices, controlling information and the media and a lack of transparency reveal a narrow and superficial approach to social dialogue and corporate responsibility. The manner in which the company

dealt with industrial action and strikes suggests that if it cannot control the process, it could easily change its attitude from union friendly to anti-union. The welfare effects of FDI and the developmental benefits of increased economic growth in the case of Mozambique are weak. This may be improved through increasing the financial contribution and making participation in the governance of the fund more representative and transparent.

The GoM's development strategy relies heavily on FDI for development, even though the understanding of the mechanism of how the link between infrastructure and development works is still unclear. Despite the positive externalities that accrue to other firms and sectors of the economy, the infrastructure reinforces dependency on South African investors. Infrastructure (such as roads, ports, and MOTRACO etc.) is being developed by big business because of the needs and requirements associated with the mega-projects and this consolidates MOZAL's economic power and influence.

Sustainable development theory holds that development which harms the natural environment is not sustainable because it benefits the present generation at the expense of future generations. However, even the impact of MOZAL on the present generation is not equally shared as people were resettled, transport routes were restructured and rerouted and toll road fees are charged. In addition, the amount of water and electricity energy MOZAL consumes is disproportionate to the rest of the Mozambican community and may be a problem for future generations, the impact of which is yet to be seen. Legally MOZAL has met all

the procedural and minimum legislative requirements in the production of an environmental impact assessment study. The study has identified the areas in which the smelter could negatively affect the environment and the company has embarked on measures to mitigate these negative impacts. The extent to which the community participated in the EIA is disputed and has given rise to suspicion and rumours.

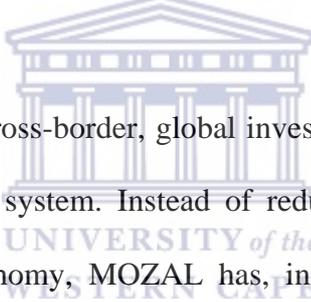
Another feature of sustainable development is the pro-poor poverty reducing aspect of growth. The main beneficiaries of MOZAL are the major advocates of its success and of the performance of the GoM. However, critics argue that the internationalisation of the Mozambican state has changed its development strategy and focus from serving the interests of workers and ordinary people in Mozambique to serving those of a powerful elite with international and party connections. Foreign direct investment increases dependency on foreign investors and diverts the focus from the development of the domestic economy and production for meeting the basic needs of Mozambican citizens. There are structural constraints to the Mozambican economy which limit the absorption of more FDI. Foreign direct investment is distorting the Mozambican economy and increasing the differentiation among those who benefit and those not involved. The case study of MOZAL demonstrates that FDI is privately-owned funds looking for profit. Developing countries like Mozambique, which are looking for FDI as a means of assisting their economic development, may have difficulty in harnessing and maximising these benefits.

8.4. CONCLUSION

In conclusion the evidence presented in this thesis affirms that the goal of attracting FDI such as that in MOZAL is a qualified success. MOZAL has modernised and expanded Mozambique's manufacturing industrial base but industry still remains small and production is highly concentrated in a few sectors. Today, export earnings are dependent on a few manufacturing commodities from the extractive sector, such as aluminium, electricity and gas, which is different from the primary exports of agriculture and fish in the past. However, the export-oriented and enclave nature of aluminium manufacturing means that few linkages are formed with other sectors in Mozambique. Furthermore, the production of aluminium is import-intensive and Mozambique currently lacks the skills and capacity to engage in export-oriented production, which means that the country is heavily dependent on importing these services. The small numbers of jobs created and the consequent increase in disparities, combined with the increased consumption of electricity and water, suggest that Mozambique's economic growth strategy is not sustainable.

The task of growing local industry around MOZAL is the more difficult challenge and is crucial to the further development of Mozambique. However, no significant progress has been made in this area. The absence of significant linkages from MOZAL to the local industry means that relaxing legislative and fiscal controls amounts to the liberalisation and exposure of a weak economy, with weak industrial companies, to globalisation and the greed of foreign investors. Furthermore, the adoption of IFZ policies and the further liberalisation of

regulations to encourage economic growth are increasing instead of reducing the economic disparities between the north and south in Mozambique. Development in Maputo is integrally tied to the fortunes of South African companies based in Gauteng. The MOZAL case study raises questions about whether the granting of IFZ status and the provision of incentives in order to attract FDI undermines the social and developmental potential of such investment. The experience of Mozambique with MOZAL suggests that it is not enough to be open to inward FDI: if FDI is to contribute to reducing poverty it needs to be embedded in a comprehensive development strategy. Mozambique's development strategy is determined by international finance agencies and foreign investors.



The MOZAL project is a cross-border, global investment project and is part of a global production network system. Instead of reducing the dependency of the country on the global economy, MOZAL has, in terms of the manufacturing industrial growth path, increasingly integrated the country into the global economy. Participation in the global economy is based on processes such as international competitiveness, which produces winners and losers. The winners are the MOZAL international investors. Inside Mozambique those that benefit are small elites with business and government connections. The losers are the domestic SMEs and the vast majority of the people in whose name development projects are implemented. The elite nature of the MOZAL project means that it is a weak attempt at addressing the development challenges of Mozambique and unless other alternatives are developed unemployment and poverty are likely to persist.

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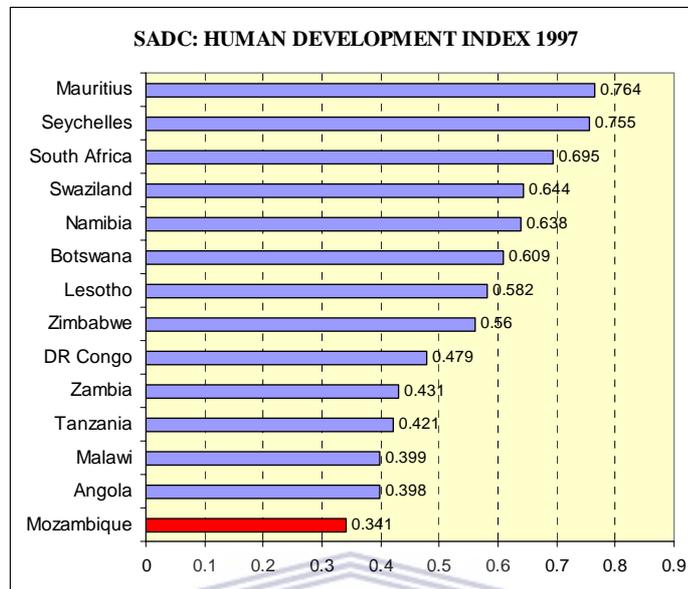
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ANNEXES

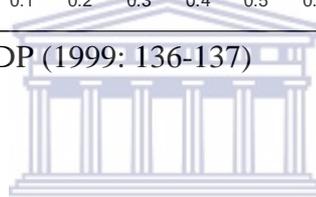
Annex 1: List of people interviewed, position, place and year

AMINDO UBISSE,	Ministry of Finance National Accounting, Republic of Mozambique, Maputo 2000 and 2001
ANTONIO LUIS MACAMO,	MOZAL Linkage Division Head. Maputo 2000
ASTRID BECKER,	Friedrich Ebert Stiftung, Maputo 2000
Dr MARIO LAMPPIO SEVENE,	Minister of Labor (Maputo 2000)
ELIAS COSSA,	Friedrich Ebert Stiftung. Maputo 2001
EMMY BOSTON,	MOZAL Communications Consultant. Maputo 2000
GEORGE MONYMANGENA,	First secretary South African Embassy, Diplomat in Mozambique, Maputo 2000 and 2001.
HLOKOZA MOTAU,	NUMSA, International Relations Officer, Maputo 2001
JEREMIA TIMANA,	Secretary-General of the Union of Mine, Wood and Construction Workers
JOAO CHAMUSSE,	Acting editor of Media Fax and Journalist, Maputo 2000
JOAO MOIANE,	OTM Maputo 2001
JOSE ISAC,	Chairperson of MOZAL Shop Steward Workers Committee affiliated to SINTIME
MANUEL TOVELA,	SINTICIM Maputo 2000 and 2001
NETO MATESSAUE,	Labour Lawyer at the time working in the Ministry of Tourism, Republic of Mozambique, Maputo 2000
NORMAN, MXUMALO,	NUMSA Shop Steward Hillside. Maputo 2001
OMAR MULLIMA,	MOZAL Shop Steward Workers Committee affiliated to SINTIME, Maputo 2000
OSBORNE GALENI,	National Union of Metal Workers of South Africa (NUMSA), Johannesburg 2000
PETER COWIE,	General Manager MOZAL. Maputo 2000
ROSA PIREZ.	Cooperative working with Canadian University Students Organization (CUSO), Maputo 2000 and 2001
SATTIE ROHIT,	Investment Promotion Centre (CPI) Economist. Maputo 2000
SERGIO MACAMA,	Mozambican government Finance Ministry and Official representative to MOZAL Maputo 2000 and 2001
SIMIAO NHANTUMBO,	Secretary General, SINTIME National, Maputo 2001
TRADE UNION OFFICIALS	National Provincial officials of SINTIME affiliate of OTM Maputo 2000

Annex 2: Mozambique's HDI in relation to other SADC countries

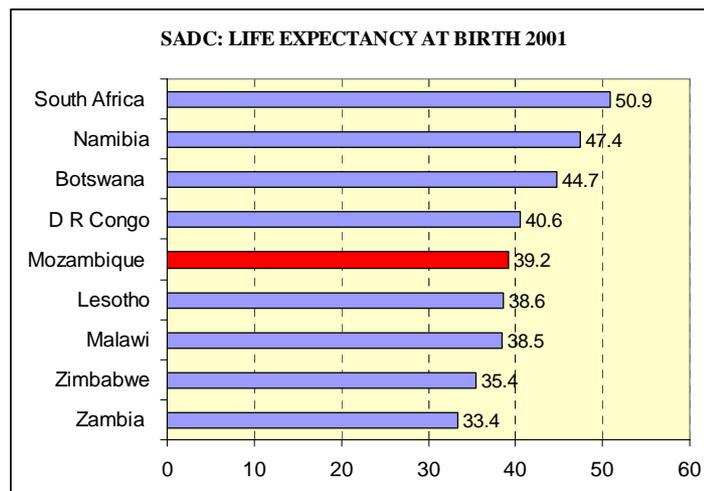


Source: UNDP (1999: 136-137)



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Annex 3: Mozambique's Life Expectancy compared to other SADC countries 2001



Source: HDR (2003:239-240)

Annex 4: Reported primary aluminium production

Reported primary aluminium production (thousands of metric tons)									
Year	Africa^a	North America	Latin America	East Asia	South Asia	West Europe	East / Central Europe	Oceania	Total
1973	249	5,039	229	1,149	290	2,757		324	10,037
1974	278	5,454	256	1,167	296	3,150		330	10,931
1975	272	4,400	275	1,061	329	3,062		323	9,722
1976	337	4,485	316	963	402	3,150		372	10,025
1977	367	5,093	358	1,235	379	3,292		393	11,117
1978	336	5,409	413	1,126	385	3,345		414	11,428
1979	401	5,421	668	1,084	376	3,425		425	11,800
1980	437	5,726	821	1,168	399	3,595		460	12,606
1981	483	5,603	793	817	513	3,551		536	12,296
1982	501	4,343	795	376	627	3,306		548	10,496
1983	436	4,448	942	270	717	3,322		700	10,835
1984	413	5,327	1,035	304	878	3,502		998	12,457
1985	472	4,781	1,160	245	918	3,327		1,091	11,994
1986	556	4,402	1,397	158	916	3,399		1,119	11,947
1987	572	4,889	1,486	927		3,462		1,273	12,609
1988	597	5,475	1,553	981		3,488		1,407	13,501
1989	603	5,587	1,698	1,093		3,580		1,501	14,062
1990	602	5,617	1,790	1,118		3,561		1,498	14,186
1991	612	5,947	1,996	1,223		3,505		1,495	14,778
1992	617	6,016	1,949	1,379		3,319		1,483	14,763
1993	616	6,000	1,949	1,530		3,236		1,653	14,984
1994	576	5,554	1,976	1,585		3,961		1,583	15,235
1995	631	5,546	2,058	1,656		5,885		1,566	17,342
1996	1,015	5,860	2,107	1,624		3,192	3,185	1,656	18,639
1997	1,106	5,930	2,116	1,910		3,297	3,316	1,804	19,479
1998	1,043	6,086	2,075	1,843		3,549	3,419	1,934	19,949
1999	1,095	6,169	2,093	1,966		3,720	3,584	2,028	20,655
2000	1,178	6,041	2,167	2,221		3,801	3,689	2,094	21,191
2001	1,369	5,222	1,991	2,234		3,885	3,728	2,122	20,551
2002	1,372	5,413	2,230	2,261		3,928	3,825	2,170	21,199
2003	1,428	5,495	2,275	2,475		4,068	3,996	2,198	21,935

Source: International Aluminium Institute.

^a Africa includes Cameroon, Egypt (12/1975 – Present), Ghana, Mozambique (7/2000 – Present), Nigeria (10/1997 – Present) and South Africa.

Annex 5: Major aluminium industrial SICs

SIC	Major products
Industry inorganic materials	Alumina
Primary Production of Aluminum	Primary aluminum ingots, pigs slabs
Secondary smelting and refining of nonferrous metals	Secondary aluminium extrusion ingot, smelting and refining
Aluminium sheet, plate and foil	Aluminium sheet coils welded tubes
Aluminium extruded products	Aluminium- extruded bars, rod, and pipe.
Aluminium rolling and drawing, Nec	Aluminium cable, rails slugs wire, products made in rolling mills

Source: Aluminum SIC <http://www.eia.doe.gov/emeu/mecs/iab/aluminum/sic.html>

Annex 6: Fifteen largest Billiton shareholders at 31 July 2000

No.	Name of shareholder	No. of shares	% of issued capital
1	Tegniese Mynbeleggings Bpk	189,975,198	8,89
2	Industrial Development Corporation of South Africa Ltd	180,500,000	8,44
3	Chase Nominees Ltd	138,713,299	6,49
4	Standard Bank Nominees Tvl (Pty) Ltd	124,224,716	5,81
5	CMB Nominees (Pty) Ltd	90,641,565	4,24
6	RBSTB Nominees Ltd	82,191,994	3,84
7	Nedcor Bank Nominees	79,023,253	3,70
8	First National Nominees (Pty) Ltd	56,469,775	2,64
9	Stanlife Nominees Ltd	55,421,792	2,59
10	Strand Investment Holdings Limited	53,884,402	2,52
11	Nutraco Nominees Ltd	47,099,211	2,20
12	Prudential Client HSBC GIS Nominees/UK/Ltd A/c PAC	40,598,610	1,90
13	HSBC Global Custody Nominee/UK/Ltd A/c 357206	38,370,750	1,75
14	ABSA Nominees (Pty) Ltd	29,613,680	1,39
15	Old Mutual Nominees (Pty) Ltd	28,377,194	1,33

Source: Billiton Annual Report (2000:110).

Annex 7: Countries in order of largest investors in Mozambique

Countries	FDI in US\$
South Africa	1,164,399,211.35
Great Britain	717,845,843.56
Portugal	253,458,655.69
Japan	130,882,200.00
Ireland	103,000,000.00

Source: Rafique Jacobs CPI (INE 2002)

Annex 8: FDI in Mozambique top six source countries

Country	1994	1995	1996	1997	Cumulative 1985-1998 No. Projects / Total value	
South Africa	21.7	18.6	5.1	671.2	167	758.6
Portugal	37.3	6.7	17.8	12.5	205	126.3
UK	4.5	3.0	8.0	1.9	54	46.7
Hong Kong	0	0	25.5	0.0	3	25.6
Netherlands	0	0	0.7	0.0	7	23.6
USA	0.7	0	14.6	0.7	12	22.3

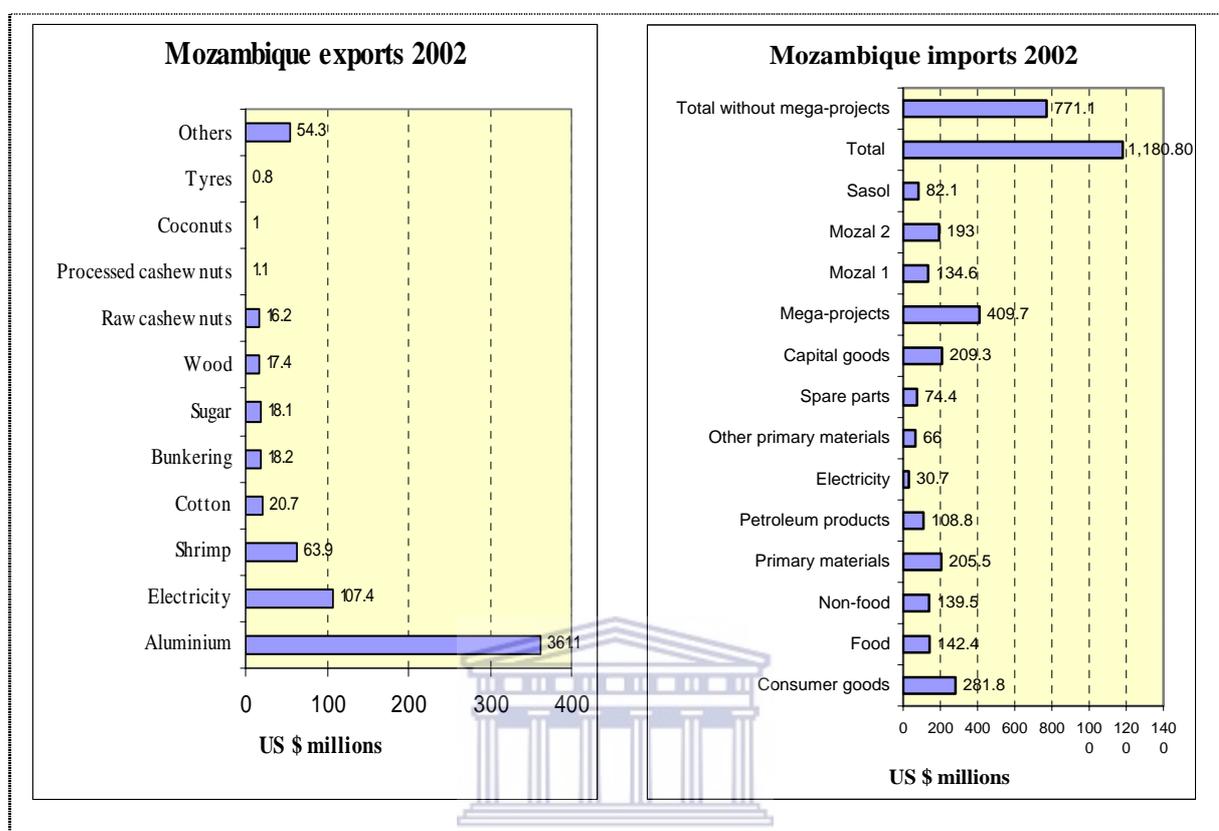
Source: BusinessMap (1998) and CPI (1998)

Annex 9: Ten largest companies in Mozambique 2001

Ten largest companies in Mozambique, 2001					
(Ranked by revenue)	2002	2000	2001		
	Rank	Rank	Revenue (MT)	% change from 2000	Sector
Mozal	1	3	9,647,911	586	Industry
Hidroelectrica de Cahora Bassa	2	1	7,454,860	176.5	Energy
Telecomunicacoes de Mozambique	3	2	2,507,866	40	Telecoms
Petromoc	4	4	1,999,567	73.4	Energy
Caminhos de Ferro de Mozambique	5	5	1,751,879	48.1	Transport
Banco Internacional de Mozambique/Banco Comercial de Mozambique	6	14	1,515,759	248.1	Banking
Cervejas de Mozambique	7	7	1,425,092	46.6	Industry
Electricidade de Mozambique	8	6	1,259,069	22.2	Energy
BP Mozambique	9	8	1,124,645	21.7	Energy
Linhas Areas de Mozambique	10	9	981,087	29.6	Transport

Source: Economist Intelligence Unit (EIU) 2003, KPMG, Survey of the 100 Biggest Companies in Mozambique, 2002.

Annex 10: Composition of exports and imports



Source: Economist Intelligence Unit (2003)

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Annex 11: Investment per sector in Maputo Province and City (1995-99)

Sector	1995	1996	1997	1998	1999	Total
Agriculture & Agro-industry	8.852.746	24.343.221	55.672.266	15.224.430	178.331.529,05	282.424.192,05
Transport & communication	18.099.382	25.014.217	31.294.402	31.107.841	18.366.289,24	123.882.131,24
Tourism	27.476.326	31.117.334	37.008.904	31.123.901	23.974.290	150.728.231
Fisheries	0	0	507.036	2.006.308	123.089.012	125.602.356
Industry	83.993641	106.803.661	1.348.086.061	352.584.936	119.462.649,78	2.010.930.948,78
Mineral Resources	0	0	0	1.232.000	582.324	1.814.324
Construction	7.136.637	62.625.822	8.841.200	29.859.663	29.452.686,20	137.916.008,20
Banking, Insurance, Leasing	488.584	2.621.889	1.557.093	71.254.507	7.967.393,20	75.922.080,20
Others	5.186.716	18.178.200	48.892.748	31.763.083	35.499.595,35	139.530.342,35
Total	151.234.032	270.704.344	1.531.859.710	566.156.669	536.725.768,82	3.048.750.613,82

Source: CPI www.Mozbusiness.gov.mz/invflows/province.htm