

Mozambique: Economic pragmatism *A.C. 19/8*

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The Mozambique government is pursuing a much more open approach towards the West than Frelimo's Third Congress, with its Marxist-Leninist rhetoric and heavy representation from pro-Moscow communist parties, might have suggested.

● There is still little firm evidence to show that the USSR is providing military hardware to Mozambique on a massive scale, despite the frequent Rhodesian border attacks. It is, of course, extremely difficult to monitor movements of arms or foreign personnel into

the country. There have, however, been reliable reports over the past eight months of up to 1000 Russians and East Europeans passing through the port of Nacala, though in exactly what capacity is unknown. But it remains probable that Mozambique has almost no air-defence system, though it has received a few obsolete MiG-17 jets from the USSR. The missiles in its arsenal are believed to be of Tanzanian origin. The lack of an effective air defence system has left Mozambique virtually at the mercy of raiding Rhodesian jets and helicopters. Mozambique also has practically no helicopters of its own with which to move troops to intercept invading Rhodesian troops. The USSR's failure so far to provide sufficient military equipment for Mozambique's defence contrasts sharply with Article 4 of the USSR-Mozambique Treaty of Friendship and Co-operation (signed on 31 March 1977 during Nikolai Podgorny's visit to Mozambique) which pledged that "in the interests of reinforcing the defence potentials of the high contracting parties, they will continue developing co-operation in the military sphere on the basis of appropriate agreements."

● It is equally striking that in economic fields the Soviet bloc countries are providing far less economic aid than the West (despite, in view of its own development needs, the remarkably large-scale aid coming from Cuba). Britain, the US and the Scandinavian countries are all major aid sources for Mozambique. These countries are providing loans and grants to support diplomatic initiatives in view of Maputo's key role in a Rhodesian settlement.

— On 18 October Judith Hart, Britain's Minister for Overseas Development, signed a £5m interest-free loan for the purchase of British goods. This follows a £10m loan offered in 1976 to assist energy supply and road construction projects.

— On 2 December, the US signed an agreement in Maputo to provide food aid worth \$8.7m.

— Sweden has allocated 750m. escudos for aid to Mozambique in 1977-78, compared to 500m escudos in its 1976-77 budget, while direct aid from Norway rose from 15m kronor in 1976 to 20m kronor in 1977. On 2 December, the Nordic Council of Ministers voted a massive, 3-year \$50m agricultural aid programme for Mozambique which, according to one Scandinavian official in Maputo, is "the biggest Nordic support to any country in the history of Nordic aid."

— Despite its protestations of Marxist faith, Frelimo has not carried out a blanket nationalisation programme and the regime is guaranteeing an important place for foreign, private investment. But there have been three important nationalisation measures in the past few months:

1. On 11 January 1977, the three major private insurance companies were merged into a new state-owned insurance company, EMOSE.

2. On 2 May, the SONAREP oil refinery at Maputo and its distribution subsidiary SONAP were nationalised and a state petroleum company, PETROMOC, which is now assisted by

Rumanian oil technicians, was founded.

3. On 4 January 1978, the government nationalised five of the six private banks and set up a second state bank, the People's Development Bank. As was the case with SONAREP, compensation was promised. The one remaining private bank is the *Banco Standard Totta de Moçambique*, in which Standard Chartered has a 30% interest and the Portuguese group, *Banco Totta e Açores*, a 40% interest. But it is significant that the government has also tried to attract foreign investment. Last May, under decree-law 17/1977 (article 12), Maputo lifted the blanket ban on profit repatriation that had been imposed by the Portuguese in 1972. There are no plans to take over the important privately-owned coal mines at Moatize. A Swedish company, LKAB International, announced in December that it would start prospecting for iron ore deposits which are known to exist at Honde in Manica Province and which the government hopes one day will provide the basis for a steel industry.

— In the past year, President Machel has made two major overseas tours to Western countries to improve economic relations, one to Sweden and Denmark in April-May 1977, the other last October to the United States, where he met President Carter on 4 October. Carter and Machel declared the advent of a "new era" in US-Mozambican relations, while Mario Machungo, the Mozambican Minister of Industry, who accompanied Machel, held discussions with several American businessmen on investment openings.

— In this context, it is notable that President Machel has adopted an approach which has been remarkably friendly to the British and American governments over the Anglo-American diplomatic initiatives for Rhodesia, a stance encouraged by Frelimo's pressing economic interest in a settlement (see below). Indeed, senior British diplomats have privately expressed to us their preference for Machel to Nyerere or Kaunda when it comes to dealing with this most intractable of problems.

— In essence, the Frelimo government is following the relatively non-aligned policy to which the government has always given allegiance (and which was reaffirmed at the Third Congress) in order to attract aid from all quarters. This is why, despite the notable absence of the Chinese ambassador from Maputo since January 1976 (even though it was on Peking, not Moscow, that Frelimo relied during its drawn-out independence struggle), the Mozambican government is also keen to restore co-operative relations with China. We understand that Peking decided to send its ambassador back to Maputo only after the successful visit to Peking on 12-17 September 1977 of Marcelino dos Santos, Minister of Development and Economic Planning. Finally, Maputo will maintain its policy of peaceful co-existence with South Africa. With its economy battered by the departure of almost all its 250,000

Portuguese settlers since independence; by the closure of the Rhodesian border in March 1976; by widespread flooding in February 1976, in February 1977 and again this spring; and by mounting trade deficits, Mozambique remains totally dependent on Pretoria to keep its head above water economically. South Africa is now the source of about 80% of Mozambique's foreign exchange.

The apartheid connection

South African export prospects in Mozambique have been reported to be growing, with the Frelimo government well aware that South Africa is its nearest and cheapest source of manufactured goods. In addition, Mozambique is still receiving gold at the very low official rate (\$42.22 an ounce) in part-payment for its miners in South Africa in accord with the Mozambique Convention. So, although the number of Mozambican miners in South Africa has fallen markedly (from over 100,000 in November 1975 to around 40,000 now), Mozambique is still making a major windfall profit from having the South African Reserve Bank sell its bullion at the free-market price, now around \$185 an ounce, compared to only \$120 an ounce in the second half of 1976.

Though the volume of SA exports shipped via Maputo fell after independence, this appears to have stabilised at around 17,000 tons per day. Moreover, Maputo harbour rates were increased last July, so the value of this trade may not have fallen much since independence. In any case, the South African government has been encouraging exporters to use the Maputo route, in order to increase its political leverage over Mozambique, and South African Railways have been completing a R70m improvements programme on the line from Witbank to Komatipoort on the Mozambique border to increase its capacity from 28,000 tons to 40,000 tons a day.

Last March, after a 20-month delay, the *Companhia Hidroeléctrica de Cabora Bassa* (HCB), in which the

Portuguese government has a 90% shareholding, switched on commercial power supplies to the Electricity Supply Commission of South African (ESCOM), following ESCOM's agreement to raise the tariff agreed in the original 1976 contract (0.3 SA cents per KWh) by 66.66%. Cabora Bassa, the largest hydroelectric scheme in Africa, would be a white elephant without electricity sales to South Africa, though all revenue for many years will have to be spent on repaying the £500m debt incurred in the scheme's construction.

With Mozambique's payments deficit reckoned to have widened from \$30m in 1975 to \$280m in 1977, the importance of South Africa's contribution to Mozambique's foreign exchange earnings, even if marginally reduced since independence, cannot be underestimated. This dependence has been astutely exploited by South Africa to ensure that Frelimo minimises its active material support for South African nationalist movements. For instance, it was widely expected that the ANC would set up its 'forward' headquarters in Maputo. That has not happened. Instead, Luanda is now playing the role of chief black African host.

The gravity of the economic crisis facing the Frelimo regime is acutely evident. The country is painfully short of skilled manpower because of the flight of the settlers after independence — though recently Portugal agreed to send 5,000 aid workers. Consequently, industrial and cash-crop production remain far below pre-independence levels. Agricultural production was hit too in 1977 by serious flooding in Gaza which washed away \$10m worth of crops. In 1977, the country's commercial maize crop was expected to be only 40,000 tons, compared to consumption needs (outside the subsistence sector) of 150,000 tons. At times there have been very serious food shortages in the cities, though nothing like as permanent as Rhodesian and South African newspaper reports have suggested. But it is little wonder that Machiel badly needs a settlement in Rhodesia ●