

Machel visit improves climate for UK investment

BY ANTONIO JOHALA

PRESIDENT Machel visited London from 19-21 October on a wave of charm and goodwill which generated considerable business interest. But serious financial questions remain (AED 21:10:83; 14:10:83; 7:10:83).

Machel's European tour has been aimed at helping the country break out of two downward spirals. First, lack of foreign exchange prevents it importing items essential for local production. This leads eventually to imports of goods which could be produced locally. Second, Mozambique feels companies are reluctant to invest because of the insecurity caused by South Africa's destabilisation efforts. They invest in South Africa instead, emboldening it to further destabilisation.

The answer to both problems, the Mozambicans feel, is Western private investment, with political backing from governments. In a press conference at the end of the London visit, Foreign Affairs Minister Joaquim Chissano acknowledged that Western governments were not prepared to impose sanctions against South Africa — or even to encourage disinvestment. Faced with this reality, Chissano said, Mozambique and the other Southern African Development Co-ordination Conference (SADCC) states are telling Western governments: "Stop making new investment in South Africa and invest in our countries instead. We believe this would create a new situation in southern Africa. It would decrease the arrogance of South Africa."

Machel told more than 100 businessmen at Painters' Hall in London that: "The participation of British firms in SADCC is a factor for peace and stability in the region. Economic development requires peace, but economic co-operation strengthens peace."

Minister in the president's office for economic affairs Jacinto Veloso admitted that many of Mozambique's troubles had been caused by Frelimo's own mistakes. But, he added, "we deeply believe that our difficulties are primarily caused by South Africa."

This point was underlined when a representative of the Confederation of British Industry complained about problems with Mozambique's ports and railways. Machel replied that these problems were caused by South African attacks, made precisely "so it will be possible to say that the railways are not safe and reliable. . . . You have become intoxicated with this propaganda."



Central bank governor Prakash Ratilal signing new aid agreements with UK Overseas Development Minister Timothy Raison

For this reason the UK's agreement to go ahead with rehabilitation of the railway from Maputo to Zimbabwe was the sort of political and economic backing Machel was looking for. The UK had promised £10 million (\$15 million) for the project at the 1980 Zimcord donors' conference but the money has not been used because the line — which runs close to the South African border for 300 kilometres — is subject to repeated attacks. UK consultant Mott, Hay & Anderson (MHA) was, however, commissioned to do a feasibility study on the line in late 1981 (AED 8:1:82, page 25).

A letter of intent for the project was signed during Machel's visit. The UK's Overseas Development Administration is now 'drawing up a project agreement, with the aim that work should go ahead early in the new year.

The Mozambicans were also pleased by promises of British military help, even if it is on a small scale — uniforms, two places at the Sandhurst military academy and further discussions about British officers training Mozambicans in Zimbabwe.

Mozambique is making a big push for private investment. The foreign investment code, now being drawn up, was mentioned repeatedly during the tour. And, in Brussels, Machel said that the country would join the Lome Convention. Both have been sticking points with Western governments and firms.

Machel said a decision on opening talks with the IMF would be taken soon after his return to Maputo; in practice the negotiating team has already been selected. Mozambican observers attended the recent IMF meeting in Washington.

Mozambique has always said it is open to investment but the mood on both sides has clearly changed recently. Both the business community and government officials in the UK are now talking more warmly about Mozambique. Veloso argued that the climate for investment had improved. In the past two years, he said, local private companies had been given stronger backing. This experience made it easier to work with foreign companies.

Mozambique is now discussing ways of guaranteeing investors their right to profits. There has been no evidence of any major company being allowed to repatriate profits since independence. This seems unlikely to change for those left from pre-independence days and serving only the local market. But for new investments which generate exports — particularly for coal, minerals and agriculture — the model set for oil exploration seems likely to be followed (AED 14:10:83; 10:6:83; 21:1:83). The foreign partner must provide all the capital and is given part of the product to sell to recoup investment and produce a profit.

Two UK firms already active seem likely to expand. Lonrho, which owns the oil pipeline to Zimbabwe, is known to be

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interested in replacing the BP oil tanks in Beira destroyed in a South African raid last December. It is expected to make other investments as well. And Tate & Lyle, after some reluctance, may now take over one of the nationalised sugar estates.

Other firms can be expected to follow, albeit more slowly. Money is the big problem. The new Portuguese credit of \$85 million and longer standing French and Italian credits will be used for investment; so far no such money has been forthcoming from the UK (AED 14:10:83).

But most British business interest comes from exporters, and there the financial problems are grave. Mozambique has not been paying its bills on time for the first time this year. Nor was it able to clear all the back debts before the visit, which cast a cloud over some of the talks. Two orders are now blocked because of outstanding debts. Pilots sent to the UK to collect four aircraft from Isle of Wight-based Pilatus-Britten-Norman had to return without them. And the Tate & Lyle sugar rehabilitation is also being held up.

Still under negotiation is a project to rebuild Land-Rovers in Mozambique. After more than six months Mozambique has still not been able to find the £110,000 (\$165,000) downpayment for what it regards as a high priority project.

Land-Rover has also been pursuing major sales of new vehicles to Mozambique. Export Credits Guarantee Department (ECGD) cover is available for Land-Rover purchases but Mozambique has yet to take this up. AED understands that problems with the initial downpayment are again the reason. It was hoped that Machel's talks with the UK government would ease the way to Mozambique taking up its option on the vehicles — many of which would be for military use.

Machel told exporters that contracts "depend entirely on credit conditions and the guarantee of stable supply." This is one thing the Mozambicans did not get on their visit. To their disappointment they were unable to arrange further ECGD cover.

Mozambique's short-term financial squeeze has become serious. The worst drought on record and raids on economic targets have sharply cut production of both food and export crops. Vital foreign exchange, instead of being used to repay debts, is being diverted to buy grain, so the UK's agreement to give an extra 11,500 tonnes of food aid was welcome.

In the end, the Mozambicans achieved the main purpose of the visit, "to create a better atmosphere and to give a better understanding of the problems of southern Africa," in Chissano's words. Now they will be waiting for the understanding to be turned into investment.

(\$700,425) a year in interest charges. State-controlled *Industrial Development Corporation* has also agreed to subscribe for preference shares totalling Z\$500,000 (\$473,260).

In addition, the impact of the recent increase in electricity charges — which now total Z\$15,000 (\$14,200) a month — will be lessened by the offer of an interest-free loan by the Industry & Energy Development Ministry.

Zimbabwe Spinners is only one of the textile companies facing difficulties. Overall, textile manufacturers are expecting sales to be down by Z\$25 million (\$23.7 million) in 1983 as a result of drought and world recession which have reduced local purchasing power and the availability of certain inputs like dyes and chemicals. Other factors leading to the industry's malaise, according to Central African Textile Manufacturers' Association chairman Jurich Goldwater are increased raw material prices, import surcharges and the devaluation of the Zimbabwe dollar.

After rapid growth of 46.8 per cent in 1980/81, the industry was at a virtual standstill in 1981/82. Production this year is down by 25 per cent, compared with 18 months ago and shows little sign of an upturn.

Increased imports from Botswana have been a major contributor to the industry's problems. Although the government has acted recently to curb the growth, fabrics worth Z\$12 million (\$11.2 million) came in in 1982, almost 85 per cent up on 1981.

Tobacco auctions end on brighter note

The tobacco industry is expected to earn Z\$200 million (\$189.3 million) in 1983. The estimate, by the Zimbabwe Tobacco Association (ZTA), follows the 14 October closure of the Harare auction floors, marking the end of the selling season. At that time sales had topped Z\$177.7 million (\$168.2 million), representing an average price of almost Z\$1.90 (\$1.80) a kilo.

Over 94.2 million kilos were sold during the 1982/83 season, ZTA president Tuppy Wrench said. This was only 1.7 per cent down on the expected crop, and above earlier estimates, which put sales at about 90 million kilos (AED 14:10:83).

What was described as the driest growing season on record had opened disappointingly, Wrench said, with the 33 million kilos sold between April and the end of June fetching an average of only Z\$1.60 (\$1.50) a kilo. In the subsequent three months they recovered to reach an average of Z\$2.20 (\$2), a kilo, with highs of almost Z\$2.30 (\$2.10).

IN BRIEF

• *Zimbabwe Mass Media Trust* is negotiating to buy a 60 per cent controlling interest in

stationer and bookseller *Kingstons* from South African-owned *CNA Gallo*. Trust subsidiary *Zimbabwe Newspapers (1980)* already has a 10 per cent interest in Kingstons. If the bid is successful the trust will extend a similar offer to the remaining shareholders.

• East Germany has signed a \$30 million agreement covering co-operation in trade, industry, technology, education and agriculture. The agreement was signed in Harare on 21 October at the end of a four-day visit by East German Finance Minister Ernst Hoefner.

• The African Development Fund has agreed loans totalling Z\$14 million (\$13.2 million) for rural clinics, water supplies and a resettlement scheme. Finance, Economic Planning & Development Minister Bernard Chidzero announced on 20 October.

• US Secretary of State George Shultz is reported to have rejected proposals for a 50 per cent cut in the US Agency for International Development's (USAID's) \$75 million 1983/84 allocation to Zimbabwe. The cut had been proposed by USAID head Peter McPherson and other officials as a response to Zimbabwe's abstention in the UN vote on the shooting down of the South Korean airliner (AED 21:10:83). Shultz is reported to have preferred a verbal stressing of the US government's disapproval of the abstention.

• *Stone Development*, local associate of Ireland's *John Sisk & Sons*, has the contract for the second stage of the £7 million (\$10.4 million) Heroes' Acre monument. The project is due for completion by the December 1984 Heroes' Day celebrations.