

Country economic  
analysis mozambique  
economics essay



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## **Historical Background**

Mozambique has been always the captive princess of sub-Saharan Africa which has been ruled and dominated by foreign powers for an extended period of time. Arab merchants were attracted to the coast of Mozambique as early as 8th century for trades and business. Few of them were even settled there for convenient trade junction with Africans mostly for slave, gold and ivory trades. The name of the country “ Mozambique” originally derived from “ Musa Al Biq” the name of an Arab Sheikh (Tribe leader) who used to rule the region[1]. Portuguese navigator Vasco da Gama reached the land on 1498 while exploring the short passage to India from Europe. Within a decade after Vasco da Gama first stepped his foot in Mozambique the Portuguese managed to outnumbered and overthrown the Muslim rulers of the region and established their colony which remain intact for almost next five centuries. That colonization finally came to an end on 25 June 1975 when the country earned its independence from Portugal which signifies as the end of struggle and suffering as a colony nation for almost five centuries.

Front for the Liberation of Mozambique (FRELIMO) was the driving force  
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behind the liberation of free Mozambique which had a long history of involving in guerrilla warfare against Portuguese colonist[2]. FRELIMO leader Samora Moises Machel, a former spear head of the freedom fighters of Mozambique became the first President of the newly freed sub-Saharan African nation. He took charge of the capital Maputo along with rest of the nation.

## People

According to an estimate made by CIA the current population of Mozambique are approximately 21, 669, 278 with a 1. 8% population growth rate for year 2010. Life expectancy is really low, lies around lower 40's mostly due to the AIDS and other infectious disease[3]. Mozambique has a large number of HIV/AIDS infected population; currently the number is close to 1. 5 million according to an estimation of WHO. Each year over 80, 000 people die for AIDS and over 12% of the population is prevalent for the risk of getting infected with HIV/AIDS which is 8th in the world ranking.[4]

Emakhuwa 26. 1%, Xichangana 11. 3%, Portuguese 8. 8% (official; spoken by 27% of population as a second language), Elomwe 7. 6%, Cisena 6. 8%, Echuwabo 5. 8%, other Mozambican languages 32%, other foreign languages 0. 3%, unspecified 1. 3% (1997 census)

According to the census data of the nation during 1997, slightly over quarter of the population was known to have Emakhuwa as their spoken language. The next one was Xichangana which was spoken by about 12% of the population. Surprisingly 27% of the population were claimed Portuguese as their second language. Beside these there are other Mozambican and other

foreign languages those are being spoken by the rest of the population. Little over 40% of the population is able to read and write in their native languages and this ratio is highly varied among male and female population. In male the rate is over 60% where on the other hand in females the rate of literacy is almost 30%.[5]

## **Geography**

This sub-Saharan country of our interest called Mozambique located on south-east of the continent of Africa. More specifically, it could be said that Mozambique located at 18° 15' South and 35° East on the globe. South Africa and Swaziland located on the south-west of Mozambique where Zimbabwe on the west side of the country. Malawi and Tanzania are the two other neighbors of Mozambique who are located on the north of the country. Only one open access it has is on the east side where Indian Ocean connects Mozambique to the rest of the open world. The coast-line is about 2,470 km long. The total area of Mozambique is 799,380 sq km, which is twice as big as the state of California. In other comparison, the total area of the Mozambique is larger than the combine area of England, France and Portugal.[6] The country's majority of the region falls under the classical coastal lowlands, in the west there are vast mountains and uplands in center. Mozambique is known for its tropical (usually ranging from the month of October to April) with wet and dry seasons. The southern region of the country is more prone to draught and floods where the climate is quite unpredictable. Maputo is the capital located on the south of the country and there are total of ten provinces there in the country. Gaza, Inhambane, Sofala, Manica, Zambezia, Nampula, Cabo Delgado and Niassa are the other

provinces of the country. Each of the above provinces is unique in their own characteristics Culture, ethnicity, languages and landscapes. Lake Nayasa is the major source of fresh water supply in Mozambique which often causes devastating floods and catastrophes. Mozambique was strategically very important for Portuguese mostly due to the ports of the eastern parts of the nation. Beside the capital city Maputo there are other port cities which are crucial for the country's economy and trade. Xai-Xai, Inhambane, Beira, Pemba, Nacala and Quelimane are the other major ports of Mozambique.

### Economy

According to the estimation on year 2009, the real growth rate GDP was 6.3%. the per capita GDP (PPP) of Mozambique during 2009 was \$900, which put the country almost on the bottom of the lists of all other countries of the globe. Mozambique's per capita GDP is 217th in the world. Soon after the independence from Portugal, Mozambique follows Marxist ideologies to lead the path of the nation's economy[7]. But that ideology didn't last that much after the independence and civil war ruptured the country's economy so bad that it lies on the bottom of the world economy. Mozambique was always being a vital point of interest for foreign traders and always attracted businesses from all over the globe; most specifically from Indian sub-continent, middle-east and Europe. But after the independence from colonist ruler native leadership of Mozambique failed to cash on the potential of the country's economic growth. Currently, the export commodities of Mozambique includes aluminum, prawns, cashews, cotton, sugar, citrus, timber; bulk electricity and Holland is the major partners (about 50%) along with South Africa[8]. The amount of export in U. S. dollars was little less than <https://assignbuster.com/country-economic-analysis-mozambique-economics-essay/>

2 billion for year 2009. On the other hand, Mozambique imported over \$3 billion worth of commodities which including machinery and equipment, vehicles, fuel, chemicals, metal products, foodstuffs, textiles. The major import partners of Mozambique are South Africa (33.54%), Netherlands (8.42%), India (5.93%), and China (4.24%)[9]. The currency of Mozambique is meticals (MZM) which exchanges a rate of 27.4 per US dollar. The currency has been depreciated over last 5 years against U. S. dollars. The major source of external debt of the country is foreign imports. The national debt of Mozambique was estimated around \$4.159 billion during year increased from that of year 2008, which was around \$3.826 billion. The GDP public debt of Mozambique during 2009 was estimated as 3.7% of GDP in comparison with 3.4% of 2008[10].

## **Government**

At the national independence on June 25, 1975, constitution created a single-party state consisted of Marxist-Leninist movement known as Front for the Liberation of Mozambique. Then in 1984 president of Frelimo chaired council of ministers which took controlled the domestic and foreign affairs. Frelimo had 226 deputies members elected to meet semiannually and ratify the actions of government. There were 10 provinces, and administrators were on 112 districts and 894 localities. Now the current constitution of November 1990 is enacted[11]. There are branches: Executive–President, Council of Ministers. Legislative–National Assembly, municipal assemblies. Judicial–Supreme Court, provincial, district, and municipal courts. Administrative subdivisions: 10 provinces, 224 districts, and 33 municipalities, of which Maputo City is the largest. The Political

parties: Front for the Liberation of Mozambique (FRELIMO); Mozambican National Resistance (RENAMO); Democratic Movement of Mozambique (MDM); numerous small parties. The suffrage: Universal adult, 18 years and older[12].

## **Major Economic and political Challenges**

Mozambique was colonized by Portuguese and in the period of 15 years Mozambique was engaged in the struggle for independence from 1962; a gradual removal of racially discriminating legislation such as the labor laws; a continued inflow of settlers; and an increase in foreign investments. In particular, Portugal was for the first time making available substantial financial resources. This benefited especially industries such as food processing, textiles and machinery and equipment, oriented towards the domestic settler community. This period was basically brought growth and capital accumulation. But after the independence of Mozambique almost 90% of Portuguese, skilled, semi skilled, professionals and administrators, followed by the reduction in external help and tourist reduction by South Africa migrant's labor and tourist. There was lost of transit services because of the application of United Nations Resolutions against Zimbabwe and support to the Patriotic Front, did lost potential revenue for progress for Mozambique.[13]

The government came into play for the progress of economic situation of the newly independent country. The focus for economic progress was based on increase in saving, investment, and production and trade, and growth rate of at least 17 per cent per year of GDP and for enforcement of these plans was

launched the Ten Year Perspective Plan in December(Government of  
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Mozambique, 1981) and which was reaffirmed by the Third Congress of FRELIMO of 1977[14]. But the government was unable to fulfill its plans due to the lack of human capital to achieve growth rates of that high level. Investment didn't turn to give the economic profit that was expected; as a result, critical foreign debt burden started accumulating.

To counteract the economic collapse, the Government of Mozambique introduced in 1987 a comprehensive Economic Rehabilitation Program (ERP) the stated intention of the program was to lay the foundation for economic growth through a shift to a more market based economy. The diagnosis was of an economy which failed to maintain monetary control, consumed beyond its means, focused production excessively on non-traded goods, and relied on inefficient and inflexible microeconomic structures[15]. Moreover, the ESRP included a series of standard stabilization measures such as fiscal adjustment, monetary restraint, and devaluation of the exchange rate. The goal became to enhance microeconomic efficiency and to stabilize the economy in terms of external shocks, substantial price and trade liberalization.[16]The responsibility was undertaken by World Bank and IMF for implementing and formulating the program. They focused on humanitarian, reconstruction, and development projects at field level in a large number of localities throughout Mozambique, which caused price liberalization for the three years following the initiation of the reforms. Fixed prices consisted of 30% of GDP in 1989, previously by 1986 the proportion was 70% GDP . Over all at domestic level price liberalization, brought close the fulfillment of the intentions mentioned in ESRP. To achieve it government took steps to liberalize the prices of major food products such as cooking oil,



rice and maize meal, and also food crop minimum prices were changed to inductive prices in 1997.[17]

The struggle for stable economy was still far though. But there was achievement of recommendations of the liberal reform program but long way was ahead to achieve the economic recovery. In Mozambique, the negligence by government and weak circumstances lead to struggle and underdevelopment of economic growth, physical infrastructure, government administration, and human and dependency on foreign aid. GDP share of consumption was reduced by 1992, also foreign trade improved. But recently Mozambique had a recovery, as it became the sixth nation be relieved from IFM and HIPC debt, and U. S also relived the bilateral debt of Mozambique. So the GDP grew by 8% between 1994 and 2006, but as there was a flood in 2000 which slowed the growth by 2. 1% so by 2008 the growth rate 6. 5% and according to Bank of Mozambique of 2009 and 2010 were 4. 5% and 5. 5%[18]. Private consumption was based on the consumption of home products. So improvement would require fiscal and administrative changes and a decrease in the imports of consumer goods. Recovery of agriculture sector effected to the import substitution, following the 1992 drought and the stop of hostilities[19]. There is still for the investment for the imports and limit the spending on imports. There is focus on the improvement trading ability of the domestic products produce, and being competitive in international markets. This recovery has help the economy to be stable in last few years. There are constraints in real development and situation seems to be similar as before, and The underlying real development constraints remain much the same, and while market forces have been set

free, the government is caught with little capacity and ability to act.

[20]Custom duties have have been reduced and government has introduced value-added tax in 1999 to improve domestic revenues. The SADC trade protocol,, and in December 1999 was created a free trade zone among 200 million consumers in SADC region and country also joined World trade organization (WTO).[21]The lessen of widespread poverty will remain an hard goal unless institutional requirements, such as an effective regulatory framework, and the promotion of agricultural production and food security, beyond mere market liberalization, are put at the top of the list of priorities for the future. In fact, the more difficult development challenges lie ahead[22].

Since its independence from Portugal in 1975, Mozambique established a single party state where all the power was occupied by the ruling FRELIMO party which was famous for the Marxist ideologies. Afterward, the form of the government replaced by a multi-party involvement and proven to be more effective than that of earlier Soviet model of government in Mozambique[23]. The Political tension was always being a part of the country's history as Mozambique had a rough relationship with its neighbors; South Africa and Zimbabwe. Newly independent Mozambique was aiding and sheltering to South African (ANC) and Zimbabwean (ZANU-PF) liberation movements where on the other hand both South Africa and former Rhodesia (Current Zimbabwe) governments were financed an arm rebel movement in central Mozambique called the Mozambican National Resistance (RENAMO) [24]. The international pressure succeeded to bring the two struggling parties FRELIMO and RENAMO in the peace talk and negotiation. IMF and

World Bank were sponsored a economic package during 1987, known as the Economic Recovery Plan (PRE) which finally constituted the economic growth of Mozambique by strength public finance and deformed the socialized economic structures. Even though, the Economic Recovery Plan reduced inflation of the country's economy but it incremented the public discontent simultaneously in Mozambique. With changing economic direction the FRELIMO adopted a multiparty democratic system of government on August of 1990. Soon after that dramatic change in political operational process in Mozambique the new constitution was approved and came to an effect on November 13, 1990 which has no liaison with Marxist-Leninist ideologies[25]. The decade long civil war between RENAMO and FRELIMO came to an end on October 1992 with the Rome General Peace Accords. Within next 3 years, over 1. 7 million Mozambican refugees were returned to their motherland from neighboring countries where they had sought asylum during the civil war era. Mozambique had its refugees in all of its neighboring countries which include Malawi, Zimbabwe, Swaziland, Zambia, Tanzania, and South Africa. Soon after the civil war in 1994, Mozambique had its first democratic elections and Joaquim Chissano was elected as president with majority of the vote, and a National Assembly was voted in with 129 FRELIMO deputies, 112 RENAMO deputies, and 9 representatives of three smaller parties; which made it a 250 member assembly.[26]President Joaquim Chissano reclaimed his presidency for another term during 1999 general election and ruled since 2000 for his 5 year term. FRELIMO gain more seats in the national assembly on that election but the opposition party denied the result of the general election and drag the decision to the Supreme Court where their claim got rejected after a month. During the third general election, Armando Emílio <https://assignbuster.com/country-economic-analysis-mozambique-economics-essay/>

Guebuza, the FRELIMO candidate became the president of Mozambique with a massive support of 63% vote during the general election which was held on December of 2004[27]. He reclaimed his power again on October 28, 2009 election when he made a clean sweep of over 75% of the presidential votes. In present days the most prevailing issue of the country is corruption which held back the growth and progress in many dimension according to many Non-Government Organizations (NGOs) currently operating in Mozambique[28].

### Analysis

The collapse of USSR during early 90's caused a huge blow to the basis of the fundamentals of Mozambique. That made the fate of the country dependent on the west, United States and other European countries in particular. Like other third world countries, Mozambique was greatly depended on foreign aid and donations. During the soviet Russian era the funds were pumped from the east, but that scenario flipped overnight after the fall of USSR. Just to made the western world happy Mozambique had to adopt a more secular and democratic approach towards its governing system and economy. Moreover, it also adopted an economic environment (Suggested by IMF, World Bank and other donating nations) which is more welcoming and friendly for the foreign investors. Free market economy suddenly became the new law of the land in Mozambique and capitalism replaced the socialist ideologies based upon which the country was liberated from its colonist. Because of its geographical location and open access to the Indian Ocean Mozambique was the one of the most strategically important outpost for any foreign entities who had some interest in the region. During <https://assignbuster.com/country-economic-analysis-mozambique-economics-essay/>

the time when both South Africa and Zimbabwe were struggling for their internal issues then Mozambique became the key point to dominate both of its neighbors. Any nation which is used to import more than they export usually gets them into debt over time and Mozambique was no exception of that general equation. Slightly over 20% of the capable work force of Mozambique is out of work. Infectious disease such as HIV/AIDS devastated the public health measure of the country along with the long lasted civil war. The average life expectancy reduced to 41 years which is terribly low in comparison with any developed countries. One of the leading causes of the country's fragile economy not to flourish as expected is corruption. The ruling party of Mozambique controlled the government with the same old manner like when they were struggling against the Portuguese for independence. Freedom of speech, freedom of expression and freedom of press is quite suppressed like many other sub-Saharan African nations. Lack of proper education, backwardness and blind beliefs holding the progress of economy and public health in a great deal. Inadequate expenditure by the government and affiliated organizations of aid monies damage the general economic growth of the country. Due to its high foreign debt and a good track record on economic reform, Mozambique was the first African nation to qualify for debt relief under the World Bank and International Monetary Fund (IMF) initial HIPC (Heavily Indebted Poor Countries) Initiative. There are only six countries worldwide holding that status. That was one of the initiative measures taken internationally to alternating the poverty of Mozambique. The current GDP per capita in Mozambique raised almost four times than that of its per capita GDP of 1980's. Rebounding growth and Low inflation are the two major components of the stability and sustainability of the country.

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Improving trade imbalance, extensive economic reform and renewing trust in foreign relations helping Mozambique in its struggle to overcome the economic struggle. For example, privatization of state owned business, encouragement for free market enterprise and foreign investment helping the economy to get into the somewhat desired shape. Mozambique is no difference than it's any other sub-Saharan African counterparts where poverty, corruption, natural calamity and civil war are just a part of their life. In spite of so many different obstacles, Mozambique is getting stronger and stronger every day but current changing global economy might affect the dream of Mozambique soon.