Abstract

Africa continues to show high economic growth and market potential in terms of access to natural resources and new consumers, Korea needs to start thinking about strengthening its engagement with Africa. Unlike Korea, Portugal has been a strong trade partner of Africa, particularly through its investments in two of the fastest growing economies in the continent, Angola and Mozambique. Historical, political, economic, educational, and cultural ties as well as language have played a crucial role in nurturing trade relations. The current economic and financial crisis in the European Union is pushing Portuguese companies to strengthen their presence in booming Portuguese-speaking African countries. Due to Korea’s weak links with the continent, this paper will attempt to critically analyse the opportunities and challenges for Korean businesses in building partnerships with Portuguese companies to enhance their entry into fast-growing African markets. The paper will focus on Mozambique as a case study.
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The main fields of investigation are the development economics, international economy, sociology of development, African history and the social issues related to the development. From a geographical point of view the sub-Saharan Africa; Latin America; East, South and Southeast Asia as well as the systemic transition process of the Eastern European countries constitute our objects of study.

Several members of the CEsA are Professors of the Masters in Development and International Cooperation lectured at ISEG/"Economics”. Most of them also have work experience in different fields, in Africa and in Latin America.

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1. INTRODUCTION

Africa is now, as The Economist recently put it, the “hopeful continent”. With remarkable economic output since 2000 - annual average growth close to 5 percent, improved trade revenues, reduced macroeconomic imbalances, stronger consumer markets and enhanced business productivity, Africa is attracting the attention of many markets and investors. The Republic of Korea is a latecomer development aid and trade partner of the African continent. The Korea Africa Forum for Economic Cooperation (KOAFEC) is the main instrument through which Korea is building cooperation ties with Africa. It includes both overseas development aid (ODA) and economic cooperation programmes that are implemented via Action Plans approved during these forums. Africa is now Korea’s second largest recipient of ODA. Yet, Africa remains a marginal trade partner for Korea. As the continent continues to show high economic growth and market potential in terms of access to natural resources and new consumers, Korea needs to start thinking about strengthening its engagement with Africa. Unlike Korea, Portugal has been a strong trade partner of Africa, particularly through its investments in two of the fastest growing economies in the continent, Angola and Mozambique. Historical, political, economic, educational, and cultural ties as well as language have played a crucial role in nurturing trade relations. The current economic and financial crisis in the European Union is pushing Portuguese companies to strengthen their presence in booming Portuguese-speaking African countries. Due to Korea’s weak links with the continent, this paper will attempt to critically analyse the opportunities and challenges for Korean businesses in building partnerships with Portuguese companies to enhance their entry into fast-growing African markets. The paper will focus on Mozambique as a case study.

2. FROM “HOPELESS” TO “HOPEFUL” CONTINENT: THE RISE OF SUB-SAHARAN AFRICA

During the second half of the 20th century, Sub-Saharan Africa’s path to liberation and independence from colonial domination brought a new sense of confidence and political will to foster economic and social progress to the continent’s nations. But the collective aspirations of Sub-Sahara African populations for better lives would soon be challenged by the violence and disorder brought by domestic conflicts, border disputes and Cold War-related power games in the region. As most of the region descended into crisis, it became increasingly difficult to address weak governance, state-building dilemmas as well as fragilities in political, economic and social policy that were not unusual to newly independent nations. By submitting to conditions of becoming beneficiaries of external

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aid many of the region’s nations, while politically independent, lost much of their economic autonomy and capacity to define their own development.

However, since 2000, and despite the slow rate of reduction in poverty and inequality reductions, Sub-Saharan African countries have achieved remarkable results economically: annual average growth close to 5 per cent, improved trade revenues, reduced macroeconomic imbalances, stronger consumer markets and enhanced business productivity. This contrasts with a disappointing performance between 1960 and 2000: low growth rates, decreasing real incomes and productivity, diminishing capital inflows and a decreased share of the world exports. The transformation from a “hopeless” continent to a “hopeful” Africa is the latest mantra of multilateral organisations such as the World Bank or the International Monetary Fund, global banks, leading think tanks, consultancy firms and media.

### 2.1. Sub-Saharan African Economic and Development Trends: The Debate

Sub-Saharan Africa has managed to escape the slowdown of the global economy and economic growth in the region continued to be strong at 4.6% in 2012. The estimates for the region are even better for the coming years with economic growth expected to average 5 per cent over the period of 2013-2015 (World Bank, 2013). Growth in 2012 was helped mainly by robust domestic demand, increasing remittance and foreign capital flows, high commodity prices and enhanced export volumes (World Bank, 2013).

Consumer spending has grown rapidly in recent years, supported by real per capita income growth of an average 2.3 per cent for the past decade. Consequently, as of 2012, 21 Sub-Saharan African countries began to be classified as middle-income economies, compared to only nine a decade ago (World Bank, 2013). In the World Bank’s definition, a country classifies as a middle-income economy (or MIC) when it crosses the USD 1000 GDP per capita threshold (Fengler & Devarajan, 2012). The MIC status does not mean that the country stopped having high levels of poverty and low human development indicators but it opens up membership in a club of countries such as Malaysia, Thailand, Indonesia, Brazil or China that have access to financial resources from global capital markets. This economic tendency has already offered new perspectives on African markets with the emergence of a debate on an African middle class or the rise of the African consumer. In April 2011, the African Development Bank (AfDB) published a market brief entitled “The Middle of the Pyramid: Dynamics of the Middle Class in Africa” (AfDB, 2011). The brief presented the results of a study undertaken by the multilateral institution revealing that by 2010, the African middle class had risen to 34.3% of the population – nearly 326 million people – up from about 115 million or 26.2 per cent in 1980, 157 million or 27 per cent in 1990 and 204 million or 27.2 per cent in 2000 (AfDB, 2011). But the study also made it clear that among the three sub-types it defined as “middle class”, the one at the bottom could easily fall into poverty again. These latter ranks are also called the floating class, i.e., a middle-class sub-category with per capita consumption levels of between USD 2-4 per day and that remain vulnerable to slipping back to poverty in case of some exogenous shocks; it represents about 216 million people. Using a stricter definition of middle class by considering a minimum threshold of USD 4 per day would put the continent’s middle class at about 138 million people. The study
also showed that the majority of the African middle class is likely to obtain its income from salaried jobs or small business rather than from agricultural and rural economic activities. Finally, the authors noted that the growth of the middle class in the continent contributed to the growing domestic consumption in many African countries. This is widely expected to nurture local private sector growth as “a key source of effective demands for goods and services supplied by private sector entities” (AfDB, 2011). They, however, also stressed that income inequality continued to be very high with about only 100,000 Africans holding a net worth of USD 800 billion in 2008 (about 80% of the total for Sub-Saharan Africa).

The private sector seems to have noticed these changing social patterns in Africa, with McKinsey Company launching a report in October 2012 titled “The rise of the African consumer” (McKinsey & Company, 2012). For David Fine, the director of McKinsey & Company and who leads McKinsey’s office in South Africa, “the continent’s consumer industries are expected to grow a further USD 410 billion by 2020 –more than half the total revenue increase that all businesses are expected to generate in Africa by the end of the decade” (Fine, 2012). The World Bank points out in its Global Economic Prospects of January 2013 that although consumer data for most of Sub-Saharan Africa is scarce, available indicators point out strong consumer demand in the region supported by better access to credit, decreasing inflation rates and lower interest rates, higher rural income due to weather conditions and robust remittance flows (World Bank, 2013).

The strength of domestic demand is expected to be supported further by the growth of remittances (to reach about USD 27 billion by 2014) and investments in infra-structures (through new external sources of finance) that will increase productive capacity (Chuhan-Pole, Angwafro, Buitano, Dennis, Korman & Sanoh, 2012). Export growth was relatively strong in 2012 and it was supported by earlier export investments and diversification of trade partners beyond Europe and the US to include Asian countries, in particular (World Bank, 2013). Additionally, the value of the exports increased due to high commodity prices.

But this narrative of success is not without a competing view that states that Africa’s growth is a mere product of high commodity prices with African exports highly concentrated in primary commodities. The share of the manufacturing sector has not increased and as Rick Rowden stresses “the bulk of African countries are either stagnating or moving backwards when it comes to industrialization” (Rowden, 2013). Despite improvements since 2000, the continent, as whole, continues to deliver the lowest human development indicators in the world. The last Africa Human Development Report 2012 shows how the continent, with ample agricultural land, plenty of water and good climate to grow food, is failing to feed its population with one in four Africans undernourished and food insecurity remaining an issue: “the spectre of famine, which has virtually disappeared elsewhere in the world, continues to haunt parts of Sub-Saharan Africa. Famines grab headlines, but chronic food insecurity and malnutrition are more insidious, often silent, daily calamities for millions of Africans”(UNDP, 2012). Corruption remains rampant in many African countries as highlighted every year by the Corruption Perceptions Index released by Transparency International (Transparency International, 2012).

Shantayanan Devarajan and Wolfgang Fengler, leading economists from the World Bank, have tried to explain these diverging views of an Africa that is simultaneously growing fast and reducing poverty gradually but failing to create jobs, invest in infrastructure and
human capital. They point out that: “the growth and poverty reduction of the last decade were the result of improvements in the macroeconomic policy environment and political stability. The remaining challenges of infrastructure, employment and human development also have their roots in weak policies and institutions – what we call “government failures”” (Devarajan & Fengler, 2012). Devarajan and Fengler argue that despite these government failures, there are signs that allow us to maintain an optimistic view of the future of Africa, resulting from deep changes in African societies. The authors claim that democratization, demographic changes, rapid urbanisation, higher levels of education and the widespread use of cell phones opening more areas to free information sharing have had an impact on the African policymaking process (Devarajan & Fengler, 2012). Finally, Morten Jerven from Simon Fraser University writing in This is Africa, a sister publication of The Financial Times, argues that African GDP statistics “tell us less than we would like to think about income, poverty and growth” (Jerven, 2012). He provides the example of Ghana that became overnight a middle-income country in 2010 after the country’s Statistical Services revised its GDP estimates upwards by over 60% suggesting that about USD 13 billion of economic activities had been previously missed. The reason rested in the fact that 1993 was the previous baseline data used to measure Ghana’s economic growth. Since this year, the structure of the economy has transformed rapidly with the introduction of new technologies, the continued liberalisation of the economy and emergence of a thriving private sector.

As Richard Dowden, the well-known Director of the Royal African Society states: “Africa- as I have always thought – is a lot richer than is generally assumed. However, at the bottom of the pyramid, people can become vulnerable quite quickly especially when there is war. So expect to see those horrifying pictures of starving children from time to time as well as lots of cool young Africans in fashionable clothes driving flashy cars. Both are real. Both are Africa (Dowden, 2013).”

3. GO AFRICA? KOREA’S ENGAGEMENT WITH THE EMERGING CONTINENT

As with other so-called late-comers to Africa, Korea has also sought to build ties with the continent in the past years. The Korea Africa Forum for Economic Cooperation (KOAFEC) is the main instrument through which Korea is building cooperation ties with Africa. It includes both development aid and economic cooperation programmes that are implemented via Action Plans approved during these forums (KOAFEC, 2013). The first KOAFEC was held in 2006, followed by two others in 2008 and 2010. They were all hosted in Korea. The Korean International Co-operation Agency (KOICA) is the country’s agency in charge of implementing its bilateral aid grants and technical cooperation policies, with focus on: education, health, agriculture, forestry and fisheries, ICT, industry and energy, the environment, disaster relief, climate change and MDGs. As the most recent member (24th) of the OECD/DAC, Korea is now a donor country. Regarded as the main institutional arrangement by traditional donor countries, the DAC conducts research on best practices and themes of interest for aid effectiveness and reviews its member’s development cooperation programs approximately every four years.
Africa, in particular Sub-Saharan Africa, is the second largest and one of the fastest growing recipients of Korean ODA. Its share has sharply increased since 2005, from around 1% in 2004 to 19.1% in 2009, with a total of USD 53.31 million (KOICA, 2013).

Additionally, at the last KOAFEC, the Korean government announced that Seoul intended to increase the Economic Development and Cooperation Fund (EDCF) administered by the Korea Export-Import Bank (Korea Eximbank) almost twofold to USD 1.1 billion by 2015, compared to USD 590 million for the period 2005-2009 (Kang, 2011). A recent report from the Standard Bank of South Africa has showed that Korea has succeeded in tapping into the growing African consumer markets (Freemantle & Stevens, 2012). Since 2008, Korea (+48%), India (+45%) and China (+38%), along with Malaysia, have been the leaders in consumer imports into Africa. In contrast, the major European economies have struggled to compete with the new Asian competitors in the African market: Italy (-14.2%), Spain (-3.3%), Germany (-2.3%) and the U.K (-2.2%) have all lost consumer market share since 2008. Among the exceptions among European economies that have managed to increase their share of African consumer markets are the Netherlands (7%) and Portugal (8%).

Sub-Saharan Africa remains a marginal trade partner for Korea. Though having an economy that has already succeed in surpassing the USD 1 trillion trade mark in 2011, Korea’s volume of trade with Africa was only slightly over USD 15 billion in 2012 (KITA, 2013, Kim, 2011). While Korea imports essentially primary commodities from Africa, its exports to Africa are dominated by machinery and transport equipment, manufactured goods and chemical products. In 2012, Korea’s exports to Africa were concentrated in three main countries: Liberia, South Africa and Nigeria (KITA, 2013). Liberia’s large share of trade with Korea results from vessels registered in that country but not owned by Liberians (Kang, 2011). Imports from Africa in 2012 were led by South Africa, Nigeria and Equatorial Guinea (KITA, 2013).

In face of the current economic scenario for the African continent, Korea cannot shy away from building stronger ties with the continent as it would mean not only access to an important supply of natural resources but also new business deals in a booming infrastructure drive and a new consumer market totalling hundreds of millions. While lacking the capacity to fully engage all 53 African countries, Korea could focus on a particular set of countries. Despite weak trade relations, one of those countries could be Mozambique (KITA, 2013). The best argument lay in the fact that this is the country in which Korea achieved one of its greatest successes overseas in terms of access to natural resources: the discovery of offshore natural gas. The opportunities are many but the challenges are also many.
4. THE POLITICAL ECONOMY OF MOZAMBICAN GROWTH AND DEVELOPMENT

Mozambique is usually regarded by donor countries as one of the few successes in Africa with a story of peace, political stability and economic growth since the conclusion of the General Peace Agreement and the ending of its civil war in 1992. It is also the only country among the fastest growing African economies, where there has been political leadership transitions over the past 20 years without negatively affecting the country’s economic growth, unlike most of Sub-Saharan African countries. This political leadership transition occurred, however, under the continuing dominance of the liberation party Frente de Libertação de Moçambique (FRELIMO) since the independence from Portugal in 1975. Consequently, donors, in particular European countries, have provided significant financial aid resources to support the country’s economic, social and political performance (de Renzio & Hanlon, 2007).

The country remains highly dependent on foreign aid but is considered as a model by the World Bank and the International Monetary Fund (IMF), having consistently met most donor demands. In the past, the international donor community has helped Mozambique to adopt one of the most detailed budget support initiatives, with annual aid flows averaging almost a quarter of its annual gross national income and direct budget support accounting for more than half (51.4%) of the national budget until 2010. Budget support is a leading development aid innovation to finance the recipient country’s economic and social reforms through the transfer of financial resources from donor countries to the recipient’s national budget. The financial resources that are transferred are managed in accordance with the recipient country’s budgetary procedures. This is different from what has been the dominant development aid practice of financing specific programmes or projects. However, since 2010, the national budget has begun to be financed by growing domestic revenues derived mainly from the exploration of natural resources and the donor’s share of the budget has fallen significantly to 39.6% in 2012 and is projected to drop further to 33% in 2013 (Malin, 2012).

According to the African Economic Outlook 2012, the country’s GDP real growth rate reached 7.2% in 2011 as a result of the first overseas export of coal from the first mega coal mining projects in the province of Tete together with a strong performance in the financial services sector, transport, communications and construction (African Development Bank, OECD, UNDP & UNECA, 2012). Private sector investment surpassed USD 1.9 billion in 2011 and a total of 30,000 jobs were created by 285 new projects. In 2012 and 2013, economic growth is expected to hit 7.5% and 7.9%, respectively, as new foreign direct investment (FDI), mostly in extractive industries, continue to enter the country. Strong investments have also been welcomed in the agricultural sector and for infrastructure-building. The boom in infrastructure-building is centred around the country’s 3 main logistic corridors (Maputo, Beira and Nacala) with the cement industry expected to triple production by 2013. Five new companies (the Chinese Africa Great Wall Cement Manufacturer, China International Fund, GS cimento, and Bill Wood and the South African Pretoria Portland Cement) are to enter the market with an expected overall investment of USD 450 million (African Development Bank, OECD, UNDP & UNECA, 2012).
The most relevant economic development and news of 2011, however, was the discovery in September of extensive off-shore natural gas reserves in the Rovuma Bay in the province of Cabo Delgado, northern Mozambique. The estimates for cumulative natural gas reserves, if proven correct, will position Mozambique in the 4th place in the world in terms of natural gas reserves behind Russia, Iran and Qatar. Due to expectations concerning the reserves, a liquefied natural gas (LNG) plant is to be built in Mozambique. During the last decade, Mozambique achieved an average 7.2% GDP growth to make it one of the fast growing economies in the African continent (African Development Bank, OECD, UNDP & UNECA, 2012).

The most recent IMF Fifth Review Under the Policy Support of Mozambique released in early January 2013 states that: “Economic growth remained buoyant and macroeconomic stability was maintained, building on a track record of strong macroeconomic policies that effectively supported growth while bringing down inflation and strengthening international reserves” (IMF, 2013). The growing international confidence in the economic conditions of Mozambique, in particular for 2013, has been further highlighted by Fitch Ratings that has placed the country in a positive outlook leading to a possible sovereign rating upgrade. Yet, to win the upgrade Mozambique would have to improve physical and social infrastructure while keeping a prudent fiscal policy (Whitehead, 2012).

a. The Paradox of Mozambican Rapid Economic Growth: Low Human Development Indicators

At the same time, while growing rapidly during the last decade, Mozambique’s growth rates have been largely driven by a few enclaves and strong capital-intensive mega projects in the extractive industries that have not had a relevant impact in terms of job creation, better distribution of economic wealth or poverty reduction. The statistical growth of manufacturing as a share of GDP is essentially due to MOZAL’s output, the country’s largest aluminium producer. Getting a formal job in Mozambique continues to be difficult and the estimated annual entrance of 300,000 new job-seekers in the labour market poses difficult challenges for the government. Overall unemployment rate stands at 27% and formal jobs are mostly in the cities and accounts only for 32% of all employment. In consequence, new job-seekers tend to enter the urban and rural informal economy, with little opportunity to find stable employment (de Paepe, 2012).

While unemployment remains high in the country, there have been significant improvements in terms of human and social development. The Human Development Report 2011 “Sustainability and Equity: A Better Future for All” shows that from 1990 to 2011, the value of Mozambique’s Human Development Indicators (HDI) increased from 0.200 to 0.322, an average annual increase of 2.28%. These figures are higher than the average for Sub-Saharan Africa in the same period (0.90%) as well as low human development countries (1.31%). From 2000 to 2011, the average annual increase in HDI value grew further to 2.49%. During this period, Mozambique was one of the top 5 performers in the world. Yet, Mozambique continues to be ranked at the bottom of the UNDP index. In 2011, Mozambique ranked 184 of a total of 187 countries in terms of HDI (Kring, 2011).
As aid flows, which have been crucial to sustaining human and social improvements, are expected to decrease in the coming years, the diversification and the strengthening of the revenue base, in particular through higher and better taxation of the extractive sector, becomes crucial to promoting and sustaining a growth agenda based on the creation of jobs and tackling persistent poverty issues. Mozambique, like several other African countries in similar conditions, is facing the need to transform its current economic model based on the “extractive economy” focused on exports of raw commodities; into an economy that raises agricultural productivity along with the development of new, labour-intensive and more productive sectors such as manufacturing and agro-business.

Despite the fact that 60-70% of the Mozambican population live in rural areas and depend on agriculture for employment or livelihood, Mozambique’s agricultural development has failed to become a driver of poverty reduction despite the government’s stated intentions for the past decade. As Cabral, Shankland, Locke and Duran point out: “Food insecurity and malnutrition continue to affect the Mozambican population and rural poverty has, at best, been marginally reduced, although increasing in central regions. Mozambique’s crop output has remained stagnant over the last decade. Sorghum and cassava, the main crops produced by the predominant smallholder sector, continue to have poorly developed value chains. Productivity remains low across the board and most growth recorded by the sector is explained by farmed land expansions rather than efficiency gains” (Cabral, Shankland, Locke and Duran, 2012).

This is even more striking, when in 2010, less than 14% of the 36 million hectares of arable land had been farmed, mostly by smallholders, and of these only 2% had been irrigated. For Cabral, Shankland, Locke and Duran there is a three-tier causational explanation for the current condition of the sector. First, the sector has suffered from inadequate technology and extension services, poor infrastructure and absence of markets for inputs, services and outputs (for example, even during times of good food production, surpluses from rural areas failed to reach potential urban consumers). Second, these causes are the result of a series of factors such as the legacy of a civil war, ill-fitted public policies, feeble governance, development aid squandering and lack of private capital. Finally, politics can be said to be the ultimate explanation for the sector’s poor performance as policies have tended to discriminate against the majority of smallholders (Cabral, Shankland, Locke and Duran).

This seems to be particularly evident in the most recent mega agribusiness project in the country, ProSavana. Led by Brazil, ProSavana has raised expectations that it could answer some of the recurring issues affecting Mozambique’s agricultural sector. The project aims at transforming 14 million hectares of the savannah along the country’s northern Nacala Corridor into highly productive agricultural land that will be explored by large firms and smallholders. Based on the Brazilian experience, the promoters of the project claim that smallholders will be supported through locally-fitted technology (improved seeds suitable for Mozambican soils) and environmentally-friendly farming techniques. Additionally, the smallholders will be able to join an export-oriented agriculture value chains through contract farming and the promotion of cooperatives (Cabral, Shankland, Locke and Duran, 2012).

But local leaders from the National Peasant’s Union (UNAC) after meeting in Nampula in October 2012 to discuss ProSavana released a declaration stating that they were concerned with the lack of information and transparency from the participating
governments in the project (Mozambique, Brazil and Japan) as well as the lack of involvement of civil society in the process. They also condemned any attempt of land resettlement and expropriation to give place to mega agribusiness and arrival of Brazilian agribusiness transforming Mozambican farmers into their employees and rural workers (UNAC, 2012).

In addition, another issue that is expected to pose a growing threat to agricultural development and productivity in Mozambique is climate change. A 2010 World Bank Report entitled “Economics of Adaptation to Climate Change: Mozambique” argues that over the coming 40 years, the impact of climate change will lead to a decrease of 2-4% in yields of major crops, especially in the central region. Combined with frequent flooding of rural roads, this could result in an agricultural GDP loss of 4.5% (optimist scenario) or 9.8% (pessimist scenario) (The World Bank, 2010).

b. From Policy Dependence to Growing Policy Space

The discovery of vast reserves of mineral resources in Mozambique is expected to reduce the leverage donor countries have had on the country’s governance. This will open an opportunity for the government to gain more policy space, i.e., more autonomy in designing and implementing public policies. This has led to a growing debate in the country on the role of the state and how to avoid the “resource curse”, a common feature in poor but resources-rich developing countries (Hofmann & Souza Martins, 2012). Mozambican authorities are now facing the need to enhance their natural resources management to guarantee environmentally and intergenerational sustainability. The authorities seem to be aware of the paramount need to update and strengthen the legal, regulatory and institutional frameworks as the country begins to benefit from the natural resources windfall and have to enter into new forms of engagement with the private sector, particularly large multinationals.

The challenges are many as pointed out by the Norwegian Anti-Corruption Resource Center U4: “In Mozambique prevalence of corruption remains an area of concern for both the public as well as donors, who support almost half of the state’s budget. Corruption manifests itself through various forms, including political, petty and grand corruption, embezzlement of public funds, and a deeply embedded patronage system. Checks and balances are weak, as the executive exercises strong influence over the legislative and the judiciary. Corruption also affects several sectors in the country, such as the police, public administration, judiciary, and public financial management” (Anti-Corruption Resources Center U4, 2012). The latest Transparency International Corruption Perceptions Index of 2012 ranked Mozambique 123rd out of 174 countries (Transparency International, 2012).

The declaration in October 2012 that Mozambique had become fully compliant with the Extractive Industries Transparency Initiative (EITI) reveals that the country’s authorities are making significant steps to address criticisms for failing to offer more transparency and accountability on issues related to revenues from the exploration of its natural resources (EITI, 2012). But as important as the legal, regulatory and institutional framework is the way in which the authorities will engage communities in the areas where the exploration of the natural resources will take place in the coming
years. The recent conflicts between the Brazilian mining company, Vale do Rio Doce, and the resettled villagers from Cateme, in the region of Tete shows that there is still much work to be done on this issue (Polgreen, 2012 and Mosca & Selemane, 2011).

The Mozambique government needs to build the capacity to wisely use the revenues from the extractive industries as a platform to diversify the country’s productive base, fortify their human capital and ultimately create an internal market. This necessarily requires a better holding of the rents derived from natural resources by the authorities in order to effect these structural changes over time and reduce the country’s ongoing dependency on external financing. A joint report released on December 2012 by non-governmental organizations Friends of the Earth Mozambique, Jubilee Debt Campaign and Tax Justice Network, with new information in the public domain and released under the UK Freedom of Information Act, shows clearly how the single biggest private sector project ever made in Mozambique, the Mozal aluminium smelter, pays only 1 percent tax on gross revenue from aluminium sales to the Mozambican government. With an average revenue of USD 1.2 billion, 1% tax would raise USD 12 million in taxes per year. Mozal pays no tax on profit, or any sales, customs or circulation taxes. The report estimates that for every USD 1 paid to the Mozambican government, USD 21 left the country in profit or interest to foreign governments and investors (Friends of the Earth Mozambique, Jubilee Debt Campaign & Tax Justice Network, 2012).

Only now does the Mozambican government seems to be acting on this issue. The current Minister of Finance, Manuel Chang, has confirmed in late December 2012 that a governmental technical team will renegotiate the megaproject contracts, in particular the tax benefits and other concessions. The megaprojects most likely to be affected are Mozal, exploration of natural gas (Sasol), heavy sands (Kenmare) and coal (Rio Tinto and Vale do Rio Doce) (Rádio Moçambique, 2012). Mozambique is in a critical juncture and ultimately whether or not the country will positively transform its economic structure will depend on the role of the state in managing sustainably the windfalls from the exploration of the country’s natural resources.

As Isabelle Ramdoo states: “the new architecture that is setting in place calls for new forms of coalition between the Government, the extractive industries and the donor community. As much as it is an opportunity for donors to re-think and redefine their engagement with Mozambique, it calls for the Government to adopt an inclusive approach in order to generate synergies and complementarities with these actors that have so far played a crucial role or are expected to do so in the future. On the operational side, there has been little coherence and alignment with what the industries attempt to do on their side to contribute to development, with what the donors and government agree to achieve together at the national or sub-national level, in particular to promote transparency and domestic resource mobilization. Mozambique will need to bring all its partners to the table to engage constructively on concrete development outcomes if it wants to tap into the value added of each partner” (Ramdo, 2012).

As important as good policies to nurture the country’s economic growth and development is the capacity of the political system to adapt to the rapid changes in the economy as a result of the newfound wealth from its natural resources. The ruling party FRELIMO is set to remain the dominant political power for the foreseeable future, with good organisation and widespread support in the country (Hanlon, 2012). But patronage seems to remain relevant in the workings of FRELIMO and government with complaints that membership in the party was becoming a requirement for promotion in
the civil service, for access to loans, scholarships, housing, licences, etc from governmental sources and institutions (Hanlon, 2012). Since 2003 the previous tendency following the first multiparty elections in 1994 to separate party and State seems to have been reversed with the current Presidency of Armando Guebuza. As Marc de Tollenaere stresses: “the split between party and state was seen as the cause of a near electoral loss in 1999 and had to be reversed. Guebuza revitalized the party structures from top to bottom and made it no secret that the State was the principal instrument to reproduce the power of the party” (de Tollenaere, 2012). De Tollenaere highlights that membership in the party increased from 1.6 million in 2003 to 3.6 million in 2012. Despite some successes of the opposition (like the victory in the municipal elections in the country’s second and fourth major cities, Beira and Quelimane, respectively) and the high electoral abstention, FRELIMO holds a qualified majority in the parliament, controls most of provincial assemblies, governs 41 out of 43 municipalities and won the presidency with ¾ of the votes.

4.3. The Return of the State?

Since the 1990s, the State has been pushed aside as the country undertook a vast programme of privatisations that benefit military and political leaders (Pitcher, 1996). This was what Hanlon called the time of “savage capitalism” (Hanlon, 2009). A group of new domestic elite business groups, most with strong ties to FRELIMO, has since then emerged to play an increasing role in the country’s economy, in particular in building the infrastructures and logistics supporting the extractive sector (ports, railways, roads and bridges). A good example is Insitec that recently became the country’s largest business group with interests in the second largest bank (BCI), the northern railway and port system and the company that holds the concession for the Mpanda Nkuwa dam. In June 2011, it bought CETA, Mozambique’s largest building and engineering company (Hanlon, 2012). The importance of these political-business ties in Mozambique and the potential conflict of interests has led the country’s main anti-corruption non-governmental organisation, the Centro de Integridade Pública (Center for Public Integrity), to start a database on who’s who in the business sector in Mozambique (CIP, 2012). De Tollenaere, again, offers an interpretation behind its economic rationale: “this produced an economic model that was increasingly driven by the need to control access to the national economy and the drive to seek rent. One of the characteristics is the preference for large investments and for business that guarantees a quick return. FRELIMO old-hands will argue that there was no other option. If not, by mere lack of cash when liberalization started, the economy would have been entirely in foreign hands. Rent seeking was required to feed the ever-widening network of patronage. If not based on ideological conviction, loyalty and allegiance need to be bought. The point is not that FRELIMO intentionally tries to keep a majority of the Mozambicans poor. The point is rather that there are stronger political incentives than poverty reduction that have shaped the political economy of Mozambique and an emergent property of that political economy is that it does not produce inclusive growth” (de Tollenaere, 2012).

This may explain why in the latest report on Mozambique (December 2012), the Economist Intelligence Unit argues that despite reforms to improve business conditions
in the country, progress have been slow “owing largely to political resistance to the removal of controls that benefit the state elite” (EIU, 2012). Mozambique continues, in fact, to achieve low rankings in international comparisons as shown by the Ease of Doing Business and Global Competitiveness Indexes. In the 2013 Ease of Doing Business Index, Mozambique came in 146th place out of 185 countries, dropping seven places from a year before, and below the average for Sub-Saharan Africa (140th place) (The World Bank, 2012). In the Global Competitiveness Index for 2011-2012, Mozambique got the 133rd position out of 142 countries. In the previous index, Mozambique was in 131st within a group of 139 countries evaluated by the World Economic Forum (WEF, 2012). Recent news provide some evidence that under President Guebuza, the Mozambican State is trying to reassert, after the period of privatisations in the 1990s, its role in economy.

First, in December 2012, the Mozambique state reacquired through purchase control over the Banco Nacional de Investimento or BNI (National Investment Bank) by acquiring the 50.5% owned by Portuguese shareholders (Hanlon, Newsletter 2012). The bank was originally set in 2010 by the Mozambican and Portuguese governments as a development and investment bank. It aimed in particular to finance large projects such as Cesul, the new central-south power line and Cahora Bassa north bank power station. Portuguese state bank Caixa Geral de Depósitos (CGD) owned 49.5%, Maputo-based Banco Comercial e de Investimentos (BCI), and itself under CGD, owned 1% and the remaining 49.5% was held by the Mozambican state’s holding company Instituto de Gestão das Participações do Estado (IGEPE) (Lusa, 2012). The President has already stated that it intends to transform BNI into a national development and agriculture bank, eight years after being rejected by donors (O País, 2012). The country’s Minister of Finance, Manuel Chang said that the state-owned BNI would in the future finance riskier sectors such as agriculture, infrastructure and development, sectors with more difficulties in terms of access to private capital (Hanlon, Newsletter 2012).

Second, the takeover of BNI reveals a government-led acquisitions drive as it followed two other major purchases, the Cahora Bassa dam and Águas de Moçambique (Mozambique Waters). The Mozambican state already owned 85% of Cahora Bassa but decided to increase its share to 92.5% in 2012 after buying 7.5% to the Portuguese government. Águas de Moçambique was also held by the Portuguese Águas de Portugal (Portugal Waters) that controlled 73% of the company. In 2011, the Mozambican government acquired the control from Águas de Portugal for EUR 6 million. For the national newspaper O País, this shows a country where the State continues to be the main economic agent and player (O País, 2012).

Third, President Guebuza in his state of the nation address on 12th December 2012, announced that the government had already created the Empresa Nacional de Hidrocarbonetos-Logística (National Hydrocarbon Logistics Company) to provide services in the natural gas sector. In an interview for the special issue from Great Insights on Mozambique, President Guebuza made clear that the Empresa Nacional de Hidrocarbonetos-Logística was expected to encourage the private sector in Mozambique to develop around the gas sector and that his government would also attract foreign investment to invest in the industry in conjunction with domestic firms (ECDPM, 2012). A similar company is also soon to be set up for the mining sector, the Empresa Moçambicana de Exploração Mineira- Logística e Serviços (Mozambican Mining Exploration and Logistics Company) (Hanlon, Newsletter 2012). A new mining
law, already approved by the government on 18th December 2012 will require mining firms to go through Mozambique-based procurement of goods and services as a way to boost the number of contracts gained by Mozambican companies (Hanlon, Newsletter 2012). The main goal is to ensure that these state-owned companies will deal with developing upstream and downstream links to the megaprojects.

Finally, the signs leading to the enhancement of the role of the state in the economy are also patent in its desire to foster stronger social and human development. In its letter of intent to the IMF in early December 2012, the Mozambican government vowed to accelerate poverty reduction through more inclusive growth with the implementation of the country’s Action Plan for Reducing Poverty –PARP (2011-2014). It will be focused on three main pillars: 1) enhancement of production and productivity in agriculture (aiming at an annual growth of agricultural output by 7 percent to double production by 2020 through higher productivity and expansion of cultivated land); 2) creation of jobs (around 200,000 jobs in the public and private sector each year but with a strong emphasis on commercial and industrial sectors) and 3) enhancement of social and human development (with improvement of access to, and the quality of, social services and infrastructure (IMF, 2012).

5. PORTUGAL AS A BUSINESS PARTNER FOR KOREA IN MOZAMBIQUE

Unlike Korea, Portugal has been a prominent trade partner in Africa, particularly through its investments in two of the fastest growing African economies for the past 10 years, Angola and Mozambique. The country’s ongoing financial woes that coincided with the economic crisis in its main market, the European Union, is pushing Portuguese companies to enhance their markets, business opportunities in these two countries. Despite the colonial past, political, economic, educational, cultural and linguistic ties continue to play a crucial role in nurturing bilateral relations. As Angola is already regarded as a mature market for Portuguese companies that have maintained presence there for an extensive period, Mozambique has become a target (EUI, 2012).

In the case of Mozambique, Lisbon and Maputo have established regular bilateral summits in 2011 as a way to strengthen the political and institutional ties between the two countries. From an economic and trade perspective, bilateral trade has intensified with Portugal playing an increasing role as a trade partner of Mozambique. In 2011, Portugal was the sixth main supplier for Mozambique accounting for 4.40% of the foreign import totals (though its position did not change, its market share increased from 3.85% in 2010) and it was the 11th largest Mozambican client representing 1.44% of the latter’s national exports (from the 17th position and 1.08% a year before) (AICEP, 2013). The data for 2012 does not include the position as a trade partner but Portugal exported goods totalling EUR 262.5 million, an increase of 36% relative to 2011 while total imported goods were valued at EUR 15.447 million, less 59% than a year before. This can probably be explained by the strong economic contraction of Portugal following the austerity measures (AICEP, 2013). In 2011, more than 2000 Portuguese firms exported to the Mozambican market, compared to 1520 in 2010, and they sold mainly machinery and equipment, metals, vehicles and other transportation materials, food products, wood pulp and paper and chemicals.

Portuguese companies are actively involved in the construction sector as Mozambique undertakes major infrastructure projects throughout the country. The energy and the offshore natural gas exploration are also expected to lead to major Portuguese investments. Portugal’s oil and gas company, GALP Energia, will boost its investments following the discoveries (with ENI, Korea Gas Corp and Mozambique’s state-owned ENH) of natural gas fields in the northern region of the country. Portuguese power grid company Redes Energéticas Nacionais (REN) and China State Grid plan to go ahead with their first joint venture for the African market precisely in Mozambique. State Grid will join the consortium in charge of building the power transmission between Tete and Maputo. This project is part of the strategic partnership set during REN’s privatisation in which State Grid acquired a 25% stake of the Portuguese firm (Gonçalves, 2012). The paper and pulp sector has also attracted the interests of a leading Portuguese company. Portugal’s Portucel has won the land rights for approximately 360,000 ha in Mozambique and will build an export-oriented paper and pulp factory (Silva, 2010).

Finally, the country’s economic growth has started to attract flows of Portuguese emigrants as they escape lack of jobs in Portugal. According to the Portuguese consulate in Maputo, there are 20,000 Portuguese citizens in the country (England, 2011). Since registration is not compulsory, the numbers do not offer an accurate picture of the total number of Portuguese in Mozambique. However, the Portuguese consul-general, quoted by the Financial Times, said that the registrations had increased by about 10 percent in the past two years providing an idea of the trend. This situation has already led the Mozambican authorities to announce that they will become stricter with concession of visas granted at arrival in the country (Lusa, 2013).


In the field of development cooperation, triangular cooperation is a new modality that has been gaining international attention: “Triangular cooperation consists mainly of technical cooperation aimed at capacity building and takes place mostly in the same region where both the emerging donors and beneficiary countries are located. It is often based on previous cooperation between traditional and emerging donors, that is considered successful and worth transferring to third countries” (Ashoo, 2010). In its current practice, triangular cooperation has not involved the private sector. Yet, its important role in driving economic growth and development remains “tangential to mainstream development policy and practice” (Davis, 2012).

For Peter Davis, the private sector can be a strong contributor for development: “Companies often have good access to finance and can invest in a scale that others cannot: they may have expert skills and knowledge, even the ability to develop their own technology, taking advantage of their scale. Because they are interested in market growth, they may help to encourage pro-growth policy outcomes and associated
governance improvements. They are usually visible to the public and their leaders and they may feel, especially when foreign to the country in which they operate, the need to behave within moral norms that may be more demanding than legislation requires in their treatment of staff, in limiting any environmental harm and in being seen to contribute to the common good” (Davis, 2012). The potential to harness the contribution of the private sector for a country’s development can be, as Davis points out, optimised when there is a “genuinely symbiotic relationship between the actions taken by the state and corporate actors” (Davis, 2012).

Mozambique’s Action Plan for Reducing Poverty for 2011-2014 has offered wider opportunities for an innovative triangular business partnership between Korean, Portuguese and Mozambican private firms to help the development of two of the country’s most important economic sectors needed to tackle poverty and unemployment: agriculture and manufacturing. A local partner is fundamental in making the partnership work because it will show publicly the commitment to national growth and development in a country with a relatively weak private sector.

The government has put in place PEDSA, the country’s Strategic Agriculture Plan for the period 2011-2020, and approved on 3rd May 2011 (PEDSA, 2013). The plan is clearly seeking to address the country’s agricultural challenges: 1) low agricultural productivity, weak production and competitiveness of the sector; 2) limited access to markets due to poor infrastructure and supporting services; 3) land and forests mismanagement; 4) fragile institutions and incentives in the operationalization of strategic plans, programs and projects for the sector. According to the last agriculture census (2009/2010), there were 3.8 million farms in the country but the average farm was only between one and two ha, less than four percent of the total farms used fertilizer, only two percent had access to credit and around five percent used irrigation (INE, 2011). The PEDSA has 5 main goals: 1) a cumulative agricultural growth of at least seven percent annually; 2) double the agricultural production through productivity increase and expansion of cultivated land; 3) intensify cattle breeding and genetic improvement; 4) increase the production of poultry and 5) sustainable management of natural resources. While PEDSA gives a much more interventionist role to the government as a regulator and facilitator in the country’s process of agricultural development it also intends to promote, attract and protect private investments in the whole value chain of the sector (PEDSA, 2013). The government is expected to: 1) increase expansion of rural extension services and agriculture research; 2) provide inputs needed for production and supply (like fertilizers); 3) offer technological packages, animal traction and mechanisation; 4) increase access to water, electricity and agro-processing; 5) guarantee credit for farmers, traders and suppliers; 6) invest in the provision of insurance; 7) expand contract farming and 8) return the country’s marketing board, the Mozambique Cereals Institute (Instituto de Cereais de Moçambique) to its role of buyer of last resort (Hanlon, 2012). Korean firms, jointly with its Portuguese and Mozambican partners, could share technical and technological expertise following the country’s successful agricultural development and management within a context dominated by small-sized farms. Some major challenges that need to be taken into
account in this sector. First, the issue of landgrabs and potential conflict with local communities that can easily emerge in mega agribusiness projects such as in the case of the Brazilian-Japanese-Mozambican funded ProSavana. And second, the need to carefully assess the political and bureaucratic interests of the ruling party in supporting de facto productive initiatives in this sector (Buur, Baloi and Tembe, 2012).

The government is also very interested in building a stronger domestic industry as a way to create jobs for the annual 300,000 job-seekers that enter the labour market. Despite the low rankings in the latest Ease of Doing Business and Global Competitiveness indexes, the Mozambican government continues to show signs that the expansion of the private sector, and in particular of export-oriented agro-industrial and labour-intensive industrial activities, is fundamental for the country’s future development (Macauhub.com, 2013). As with the agricultural sector, the industrial sector is not free from problems. The Confederation of Mozambican Business Associations (CTA), together with the National Directorate for Studies and Policy Analysis (DNEAP) at the Ministry of Planning and Development and the National Statistics Office (INE), conducted an industrial survey covering 800 manufacturing SMEs in 7 provinces. While a final paper on this research is not available, John Rand and Soren Schou anticipate results (Rand & Schou, 2012). The main conclusion is that the most serious constraints to growth in Mozambican manufacturing are credit, access to land and corruption. An additional constraint that the authors highlight is the absence of skilled workers. Rand and Schou also mention the difficulties in expanding an export-oriented manufacturing sector: “Most manufacturers source inputs from abroad, and the industrial sector in Mozambique is generally characterized by having a relatively low degree of sector linkages. Excluding megaproject exports, the contribution of the export sector to the Mozambican economy has been modest. The lack of diversity in manufacturing exports therefore raises concern about whether potential learning effects from exports (if present) have the necessary conditions for “spilling over” to the remaining economy” (Rand & Schou, 2012).

This analysis opens precisely the opportunity for Korean firms to offer their experiences in building, together with Portuguese and Mozambican firms, a successful export-oriented manufacturing sector; to the Mozambique government. Needless to say, that experience required overcoming many international obstacles. At the same time, Korean and Portuguese firms can be the vehicles to open markets for Mozambican manufactured products in Europe and Asia. For example, Mozambique already exports cotton and intends to increase its production under PEDSA. The existence of this abundant raw material could easily serve the needs of an infant textile manufacturing sector in Mozambique producing for the local, regional and global market. Recently, a consortium of Mozambican and Portuguese firms has bought the assets of the textile company Riopele in Marracuene (30kms northern Maputo) and that had been inactive for 20 years. The new owners, Mozambican Intelec Holdings and Portuguese Mundotextil, Mundifios and Crispim Abreu, formed a new company called Mozambique Cotton Manufacturers (MCM) and announced an investment of USD 40 million for the next three years to revive textile production (Responsify.org, 2012). Also, Ethiopia can be a model for
Mozambique. An increasing number of major global retailers such as H&M, Tesco or Primark have already started to source textiles and clothing from the country and the expansion of the industry has been due to increasing volume of cotton produced in the country (Textilesupdate.com, 2012). Finally, on the issue of lack of labour skills, the government has invested heavily in the past years in technical and vocational training to answer the needs of the market (AfDB, OECD, UNDP and UNECA, 2012).

This innovative triangular business partnership between Korean, Portuguese and Mozambican firms is essentially a “learning-by-doing” initiative. In order to operate effectively, a crucial point that needs to be addressed from the beginning is the identification of common interests, ethics, business standards and complementarities of the business actors involved in the face of particular Mozambican political, economic and social context.

6. CONCLUSION

The challenges for investment in Mozambique are not few, which this paper has tried to highlight several times, but the rewards can be plentiful as revealed by the successful partnership between ENI (Italy), Galp (Portugal), Korea Gas Corp. (Korea) and state-owned oil company Empresas Nacional de Hidrocarbonetos ENH in discovering natural gas fields in the northern part of the country (oilreviewafrica.com, 2012). Apart from natural gas, Mozambique holds other abundant natural resources such as hydroelectric energy (that already exports to the region, in particular South Africa), coal, gold, titanium, bauxite and other minerals. It is one of the top ten countries with more land available for agriculture and its 2500 km coastline is known for the vast sea resources (McKinsey & Company, 2011).

Additionally, it is necessary to look at Mozambique beyond its wealth in natural resources. The country is responsible for 70% of goods transits of the Southern African Development Community (SADC). Its three logistic corridors connect neighbouring landlocked countries to the world through the deep water coastal ports of Maputo, Beira and Nacala. Benefitting from a strategic location in the continent, Mozambique can be regarded as a base for entering a regional market (SADC) of 250 million potential consumers. SADC has been pushing for further trade and economic liberalisation in the sub-region and has put in place a Regional Indicative Strategic Development Plan (RISDP). This plan lays down a roadmap for SADC integration in several steps: a free trade area in 2008, a customs union in 2010, a common market by 2015, a monetary union by 2016, and an economic union with a single currency in 2018 (Kalenga, 2012). The volume of intraregional trade remains low at 19% of GDP but the prospects are positive following the consolidation of SADC free trade tariffs which began in 2008 (AfDB,
OECD, UNDP and UNECA, 2012). Furthermore, Mozambique enjoys preferential access to European markets under the European Union/SADC Economic Partnership Agreement signed in 2009 as well as to the US market through AGOA. The adoption of a single electronic window “Janela Única Electrónica”, the electronic taxing system “e-tributação” and other internal electronic applications are expected to ameliorate customs performance and trade facilitation. Finally, World Bank’s Fengler states that the country is well place to be one of the next middle-income African countries by 2025 if it continues on its current economic trajectory.

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