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REGIONAL INTEGRATION IN SOUTHERN AFRICA: MOZAMBIQUE AND ZIMBABWE

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This is the third and final paper in a series which examines the question of regional integration, looking specifically at selected Southern African states, in this case Mozambique and Zimbabwe. In doing so, it highlights both the difficulties of and opportunities for normalisation of regional trade relations.

MOZAMBIQUE

Mozambique is currently in a process of regeneration after many years of civil and social dislocation. It has suffered over the past century from a fairly brutal colonial regime followed by a prolonged civil war that ravaged every corner of the already underdeveloped country.

The Frelimo government, installed in 1990, implemented an Economic Recovery Programme (PRE) in conjunction with the internationally-mediated Rome Peace Accord between Renamo and Frelimo, ultimately signed in 1992. Since 1990, the economy has begun to edge its way towards normality. Following the 1994 election, the state commenced with reform of government bureaucracies and there have been substantial changes within the government's economic management teams. Forward-thinking, younger cadres have been brought in to implement World Bank and other internationally serviced fiscal and monetary changes. However, one must remember that Mozambique had reached the absolute nadir for a sovereign state, with a scant resemblance to a normal government. Mozambique has to not only resurrect many of the physical structures that comprise a state such as roads, railways and sanitation, but it must also re-activate services, eliminate endemic corruption and inspire the citizenry to observe the conceptual norms of civil society.

Any effective economic analysis is made difficult by the nature of Mozambican society and the absence of adequate and reliable statistics found in other societies. However, it is essential to examine and to attempt a comparative analysis of all aspects of the country's economy if an honest assessment of Mozambique's potential and future role in the Southern African region is to be offered.

The fundamental problem in examining Mozambican economic indicators is that the currency must first be converted from the confusing array of metacal values to a more stable one such as the US dollar. (As a foreign visitor finds, in Maputo itself, there basically exists a parallel dollar market for all goods and services. This market is reflected in official statistics.)

Economic Indicators

The latest *Boletim Estatístico* shows that the country has been recording positive GDP growth since the beginning of the 1990s, coinciding with the winding down of the civil war between Renamo and Frelimo. According to Tomas Oliveira at the Mozambique Institute of Export Promotion, since 1992 GDP has recorded growth between 1.8% and 19%. The figure of 19% growth reflects the restructuring of the accounting system to incorporate the informal sector more accurately and was further inflated by a large influx of refugees from Zimbabwe and Malawi. What is more important than the absolute rate of growth, however, is the return of the economy to more normalised conditions for doing business. The devaluation of the metacal, overseen by the Central Bank, is crucial to future economic performance. As we will see later, the Bank of Mozambique has had its hands tied somewhat in its fight to control money supply, halt inflation and the resulting slide of the metacal. The 1990s so far represent a return

to accepted accounting and statistical methods. Given political stability, these systems should gradually improve, thus lending more credibility to the data provided.

Fiscal and Monetary Indicators

With these reservations in mind, it is clear that Mozambique is in a fiscal crisis. The government's current account deficit is absolutely massive as expenditure heavily outstrips revenue. Coupled to this overspending, the budget deficit is exacerbated by the size of the debt-servicing interest payment the government must make every year. Looking at the figures, the size of both the current account deficit and the budget deficit seems to have fluctuated wildly during the early 1990s, but the relative devaluation of the metacal can be blamed for these inconsistencies. Of rather more import is the fact that the budget deficit is heavily financed by external aid and that expenditures continue to outstrip receipts by almost two to one. Certainly Mozambique is entering a period of major reconstruction, almost all physical infrastructures in the country, but this expenditure is not sustainable even on conservative projections. The Central Bank, in its fight to regain monetary stability, has its back to the wall as the money supply is expanded to meet government expenditures. The Central Bank's current target for 1996 is to limit the Budget deficit to 18% of GDP. The result is a continuous slide in the value of the metacal. However, the Bank is proud of its achievement in linking the official rate of exchange to the black market rates, thus removing the additional speculative pressures that previously hampered monetary policy.

In terms of trade, the Central Bank's room for manoeuvre is severely hampered because of the enormous trade imbalance. The trade and services balance is projected to exceed US\$1 billion for 1994. The inflow of capital has resulted in an adjusted current account deficit of only US\$300 million or so, but has also fuelled the budget deficit even though large amounts of the foreign capital are given on a concessionaire or straight grant basis. Mozambique must begin to gear up its domestic production in order to boost its export sales. Unfortunately, according to the ex-Governor of the Bank of Mozambique, Prakash Ratilal, corrupt practices and smuggling particularly in the area of border customs controls, both in terms of goods and currency, are robbing the state of export revenues, as well as crippling the possible expansion of exports. Under the colonial administration, Mozambique ran a net trade surplus, but the intervening years of war have all

but destroyed Mozambique's productive capacity.

Currently, Mozambique exports only slightly more than it did in 1983, reflecting the devastating effect of the civil war on the economy. The structure of Mozambique's exports is mainly of unprocessed primary goods with prawns, cashews and sugar representing the largest share. Yet Mozambique has immense potential in other agricultural products such as citrus, tea, coffee, coconuts, native hard woods, as well as a range of mineral deposits and the Pande natural gas field. Mozambican exporters and producers face numerous difficulties starting with the poor conditions of the transportation and communications network. Coupled to this is the general lawlessness in the country including extremely high levels of corruption previously mentioned. Mozambique is trying to restructure its foreign investment laws but the restrictions on the ownership of property by foreigners remain a serious drawback: all ventures must be undertaken in conjunction with a Mozambican partner, which can be a painfully slow and convoluted process and often dissuades prospective foreign investors. Repatriating capital and profits is also difficult and when the corruption is considered it is an increasingly risky undertaking - one which is often undertaken illegally. Unfortunately for the Mozambican economy it is more profitable for foreign firms to import into Mozambique than it is to export goods from Mozambique, a situation which reinforces the trade imbalance.

In terms of the region, Mozambican exports are not of great significance even with her largest regional trading partner, South Africa, which took roughly 15% of Mozambique's exports by value. Unfortunately there are no reliable statistics for the countries of origin of Mozambique's imports, making analysis impossible. One may speculate that South Africa is a major source of consumer durables due to its proximity and relative price competitiveness, but again exact figures are difficult to quantify. improve the situation.

In conclusion, it can be said that Mozambique is currently on the road to recovery, exemplified by the upgrading of the Maputo-Komatipoort road from impassable to acceptable in recent months. The situation is normalising as the threat of renewed civil war recedes but the government and people will continue to struggle for the foreseeable future. Even when the basics are back in place, Mozambique will be faced with daunting problems, such as too-high birth-rates, Aids, chronic unemployment of 50% or more and apparently terminal government-induced economic woes in both fiscal and monetary management. While the future looks bleak for Mozambique the end of the

war has brought new hope. Roads are being re-paved, the electricity grid is being restored, public services are being re-implemented, the burnt-out car wrecks have been removed from the streets of Maputo. Generally, life is improving in Mozambique as reconstruction slowly progresses.

ZIMBABWE

Zimbabwe differs fundamentally from the other states of the region examined in the past issues of *International Update*. Both its economic development and political history have served to create considerably different social and economic conditions from those found in any of the other states previously examined.

In looking at Zimbabwe it is important to consider the potential forms of integration that may occur in the region over the short to medium term, as the Zimbabwean polity and its relatively developed economy will play a considerable role in influencing their direction. Right or wrong, Zimbabwe and its government have certain beliefs about the future shape of regional economic and political interaction and appear determined to see that their agenda is taken seriously by the other regional states.

This examination will begin by looking at Zimbabwe's macro-economic conditions, followed by an analysis of the government's current fiscal and monetary policies and will end by assessing Zimbabwe's trade potential. Having considered the economic conditions, the Zimbabwean impact on regional integration can be better understood and some perspective on the Zimbabwean viewpoint gained.

Macro-Economic Conditions

Zimbabwe is now well into the process of restructuring its economy away from the command economy of Ian Smith's UDI governments and the centrally planned economy introduced by Robert Mugabe in pursuance of his Marxist-Socialist convictions. The World Bank's structural adjustment programme has been running since the beginning of the 1990s with some limited success. However Zimbabwe finds itself at a critical juncture in the Economic Structural Adjustment Programme (ESAP). The ESAP is causing severe social dislocation as the government attempts to both approach the new as well as to hold onto the old. The government cannot afford to perpetuate the systems of protection developed over many years and the economy is facing difficult times as

Zimbabwean industry is being exposed to external competition. Coupled to these difficulties, Zimbabwe's large agricultural sector is suffering the effects of a prolonged drought - a further brake on the economy at a time when growth is badly needed. The GDP has not achieved steady growth but has fluctuated as a result of the agricultural slump. Given the diversity of enterprises, Zimbabwe has the potential to increase its economic performance, but this requires consistent and concerted government policy.

Fiscal and Monetary Figures

Fiscally, as well as monetarily, Zimbabwe suffers from inadequate public management. Zimbabwe, like Mozambique, has severe monetary problems resulting from lack of fiscal discipline. Even implementation of the ESAP under World Bank auspices has yet to address the problems in Zimbabwean fiscal planning. In terms of the budget, Zimbabwe has been running a major deficit since the late 1980s. The deficit as a percentage of GDP has never fallen below 6%, which is itself considered high. Current projections for the coming fiscal year put the deficit, as a percentage of GDP, at a figure in the mid-teens. (Estimates range from 13% to 18% depending upon the source.) The budgetary problems have been compounded by the vacancy in the Minister of Finance's position for an extended period. There have been complaints by the World Bank that President Mugabe is using this absence to delay difficult ESAP decisions, and the IMF has suspended payment of ESAP funds. The government, the World Bank contends, has not shown enough determination to cut expenditure and the World Bank will not continue to fund a debt dependent economic system. Related to the budgetary problems, Zimbabwe has been suffering from difficult monetary problems. Monetarily the government of Zimbabwe has been fuelling a devaluation of the Zimbabwe dollar through a rapid expansion in money supply. Essentially the process has been backed up by the expansion of public debt to cover the budgetary shortfall. M3 broad money supply expanded at rates up to 46% in 1993-94 but has recently come to more acceptable sub-20% levels. As in Mozambique, liberalisation of the banking system has been more successful than fiscal control, yet the lack of a fully independent Central Bank is still a major drawback to reform. Hence stabilisation of the Zimbabwe dollar is difficult with ongoing budget deficit and debt expansion, but the Bank is currently applying itself as best it can.

Trade

Zimbabwe's fiscal and monetary woes are closely linked to and exacerbated by the trade balance situation. In terms of trade, Zimbabwe is running a large current account deficit. This is not by itself a major problem but when coupled to the budget deficit and the need to import capital, it has severe implications. Zimbabwe's current account deficit has in recent years expanded quite rapidly, particularly in response to increasing levels of trade with South Africa. (South Africa has increased its export trade with Zimbabwe almost tenfold since 1989, exporting Z\$690 million in 1989 and almost Z\$6 billion in 1994.) In 1989 Zimbabwe's current account deficit represented about 1% of GDP, which then expanded in response to the World Bank reforms to almost 20% in 1993. Since 1993, Zimbabwe has increased its own level of exports and the deficit has begun to fall back again, down to 7% in 1994. Whether this trend will be prolonged depends on the resolution of current trade wrangles with the Republic of South Africa and SACU.

In terms of trade, Zimbabwe represents the most developed import market as well as the most diversified exporter in the region beside South Africa. Manufacturing, while hard hit by the non-renewal of the 1964 preferential trade deal with South Africa has maintained a level of about 20% of GDP. Mining has also shown a slight increase from 6-7% of GDP while the climate-driven agricultural sector has fluctuated between 9% and 13.5% of GDP over the past three years. Zimbabwe must deal with its debt and deficit problem if capital expansion and the flow of Foreign Direct Investment are to be harnessed to reap greater export gains. Hopefully Zimbabwe will be able to redress its current account deficit, even though the overall capital balance will continue to be hampered by interest payments on outstanding debt, currently running at about 65% of GDP.

Having examined the economic conditions in Zimbabwe, that country's desires for regional integration can be understood. Zimbabwe finds itself in a contradictory situation. Prior to the South African transition it was the political leader of SADC but, as we have seen, was economically hobbled by inadequate public management. Zimbabwe grew accustomed to occupying a leadership position amongst the front-line states and has struggled to adapt to the realities of the new economic conditions now dominated by a post-apartheid South Africa. This is all too clear from the tone of the trade squabbles between Zimbabwe and South Africa. Furthermore, Zimbabwe's own internal difficulties stemming from the ESAP show

that the political leadership is hesitant to make the necessary difficult choices. Such choices may be unpopular in the short to medium term but are absolutely necessary for the future generations of Zimbabweans.

In terms of regional integration, Zimbabwe wishes to see a revamped SADC assuming trade responsibilities, but the smaller SACU nations are wary of Zimbabwe's fiscal laxity and high levels of government intervention. SACU is becoming the *de facto* trade organisation in Southern Africa, by virtue of the much higher level of trade and the greater efficiency and competence with which they operate. The SADC states may all be African brethren, but they do not want to import inflation in excess of 20%, be subjected to anti-export tariff regimes and the whims of personal politics. Zimbabwe will be closely scrutinised as to its own performance before any other nations are willing to follow its lead.

Zimbabwe will have to put its own house in order before it can begin to develop grand schemes for the Southern African sub-continent. South Africa in particular is a clear example of the need for states to re-organise internally before embarking on ambitious regional schemes. Zimbabwe must therefore address its woeful budgetary position and restructure its trading regime to emphasise export competitiveness, neither of which will be easily achieved by the ruling ZANU-PF. Regional integration will depend to a large extent on whether Zimbabwe gets this right.

Robin Birchall's short series on countries in the Southern African region exemplifies in microcosm the ills afflicting Africa as a whole. Setting aside the fundamental need for professional and technical skills, it seems apparent that the woes of the region and the continent at large, will only be diminished when the means are found in the West to relieve the debt-servicing burden on the one hand and by African states - and their ruling bureaucracies on the other hand - to stay with the IMF/World Bank structural adjustment programmes (SAP). As a cynical observer pointed out, since the bureaucrats were the only real beneficiaries of the largesse, their objections to implementation of the SAPs ring somewhat hollow. Only by such compromise on both sides will the region - and Africa - develop into mature states worthy of their peoples.

STATEMENT OF PURPOSE

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