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The Economy

Mozambique

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NATIONAL INTELLIGENCE SURVEY

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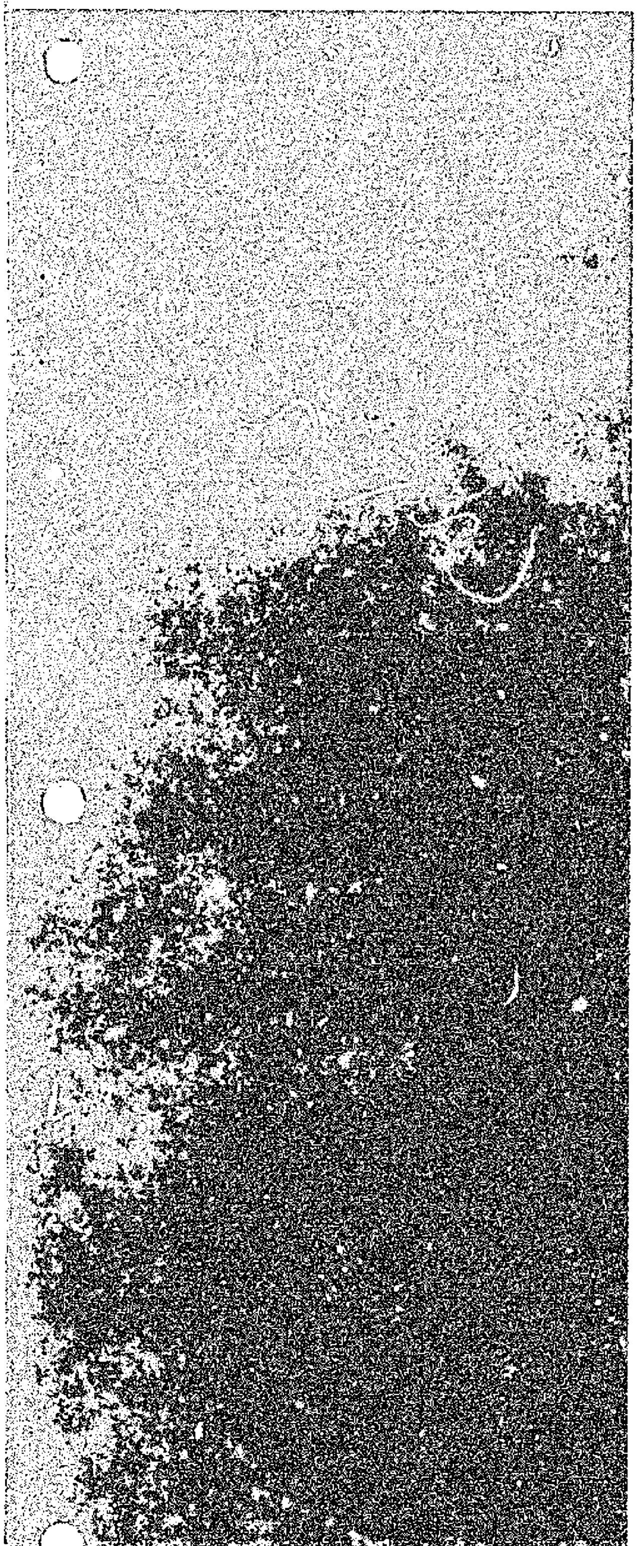

MOZAMBIQUE

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This chapter supersedes the economic coverage in the General Survey dated August 1967.

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The Economy

A. Economic appraisal (U/OU)

The economy of Mozambique is dominated by Portugal, which formulates Mozambican economic policy. Portuguese companies own the major manufacturing and transportation facilities and conduct the bulk of the external trade as well as the most important domestic business. As an overseas state of Portugal, Mozambique is a member of the escudo monetary zone, through which it shares monetary and payments systems and development plans with Portugal and its other overseas states. About one-third of Mozambique's trade is with metropolitan Portugal, consisting largely of exports of raw materials and imports of manufactured goods.

Emigration of metropolitan Portuguese to their African states is encouraged by Portugal, both to relieve shortages of skilled labor in those states and to ease population pressure in Portugal. The white Portuguese in Mozambique currently number about 200,000, an 80% increase since 1960. They constitute about 2% of the population and represent the fourth largest white population in sub-Saharan Africa.

Like virtually all other African countries, Mozambique is heavily dependent on agriculture, which supplies most of the food for the domestic market, is the principal means of livelihood, and furnishes the bulk of exports. Cashews, cotton, and sugar are the most important commercial crops, while subsistence-type farming consists largely of the production of grains and other food crops.

Mozambique relies on imports for machinery and equipment and for a variety of consumer goods. The value of exports, mostly agricultural goods and mineral products, has traditionally failed to cover the value of imports. The annual trade deficits are partially covered by earnings from invisibles, particularly transit trade and tourism. Mozambique's railroads and ports form an integral part of the transport network of south-central Africa, and charges on goods carried between the interior countries—Zambia, Rhodesia, Malawi—and Mozambique's ports of Lourenco Marques,[1] Beira, and Nacala provide one-fourth to one-third of total foreign exchange earnings.

Manufacturing is of growing importance. Industrial production increased by 9% in 1971 and now accounts for 20% of the gross national product (GNP). It includes the processing of agricultural products, the manufacture of textiles and other consumer goods, and the production of cement and other construction materials. Mozambique has a wide variety of mineral resources, and mining will no doubt grow in importance. Coal is currently the leading mineral produced in the country. Although Mozambique produces no oil, it does have a substantial refining industry to fill local demand and provide exports

Mozambique's economy has grown steadily at about 5% a year in real terms over the past decade. In 1972, GNP was roughly $2 billion, or about $240 per capita. Prospects for continued growth are good, particularly in mining, manufacturing, and transportation. In recent years, Portugal has placed greater emphasis on economic development of the state. The Third Six-Year Development Plan (1968-73), funded by Portuguese, state, and private investment, calls for growth in GNP of 7% a year and an aggregate investment of $586 million. Investment under the plan covers major projects only and does not include small-scale industry or agriculture.

Living standards of Mozambique's 2% European population contrast sharply with those of its 98% black majority. The Europeans occupy most of the managerial, technical, and professional positions in the economy, and their living standards are roughly comparable to those of metropolitan Portugal. The blacks are mainly subsistence farmers tied to local market areas or are unskilled and semiskilled workers in the more urbanized manufacturing, mining, and transportation sectors. About 250,000 of Mozambique's blacks work in the mines or on the farms of

[1] For diacritics on place names see the list of names on the apron of the Summary Map in the Country Profile chapter, the map itself, and maps in the text.

South Africa and Rhodesia. Living standards among the blacks are roughly comparable to those of the majority of the inhabitants of sub-Saharan Africa.

Portugal is a relatively poor country as compared with other Western European countries, and its maintenance of a 50,000-man defense force in Mozambique is especially burdensome, constraining its ability to foster economic progress in Mozambique.

B. Structure of the economy

1. Agriculture, fisheries, and forestry (U/OU)

a. Soils and climate

About twice the size of California, Mozambique is 1,220 miles long and varies in width from 50 to 718 miles. The state can be roughly divided into three geographic zones: the coastal belt, the central plateau, and the highlands. The coastal belt, which covers about 40% of the total area, is quite narrow in the north but widens until it includes most of the country south of Beira. The central plateau, covering 30% of the total area, is a transitional zone of hills and low plateaus ranging from 500 to 2,000 feet in elevation. The highland region, which has an average elevation of 3,000 feet, extends across most of the northern part of the country, but it becomes only a narrow strip along the border in the south. The Zambezi, southern Africa's fourth longest river, divides Mozambique in half.

Climate varies from tropical to subtropical in all areas except the high plateau and mountainous areas. The rainy season, extending from October to March, is well defined and is warmer than the dry season. Rainfall is irregular, and some districts, particularly in the south, are subject to severe droughts and floods. Rainfall often exceeds 40 inches a year in the north and normally exceeds 20 inches in all parts of the country. Soils throughout Mozambique are generally poor and sandy, although rich alluvial soils are located in the many river valleys. Almost one-third of Mozambique's land area is suitable for crop production, but only about 6% is actually farmland and only 2% of the land is cultivated (Figure 1).

b. Agriculture

Mozambique is heavily dependent on agriculture, which provides about 65% of its exports and employs more than 80% of its population—largely in subsistence agriculture. Most of the foreign exchange is derived from exports of cotton and cashews, which are harvested by Africans from wild trees. Sugar and tea are also valuable export crops. Sisal and copra are

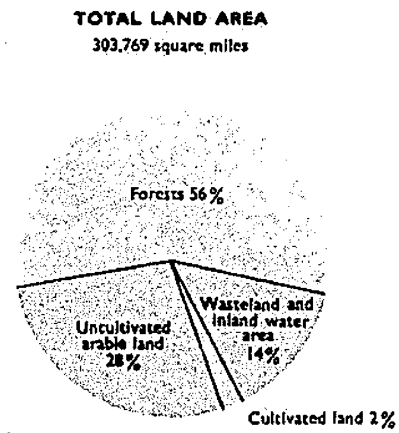

FIGURE 1. Estimated land use (U/OU)

exported, but their prices have declined sharply in world markets. About half of the agricultural exports go to Portugal. The United States, the United Kingdom, and South Africa are also important customers. Agricultural commodities, mainly wine and wheat, account for about 20% of Mozambique's imports.

Agriculture is of three types: African subsistence farming, small- and medium-scale European-type farming, and large-scale plantation or estate farming. Over 1 million African farm families are engaged in traditional agriculture, producing mainly cassava, corn, peanuts, rice, and a variety of vegetables and fruits for subsistence; most of them also grow crops for the market economy, and they produce the bulk of the commercial cotton and rice. Their share of the commercial crop output has been decreasing, however, because of the growth of plantation farming, increasing numbers of non-African farmers, and inadequate extension and educational services. About half of the farmland is controlled by individuals of European extraction, who constitute less than 1% of the farm population.

Of the more than 3,000 European-owned farms, 15% are company estates and plantations, about a dozen of which are very large. Sugar, sisal, copra, tea, and cashew nuts are the principal plantation crops. Small-scale European farmers produce rice, tea, tobacco, corn, and kenaf.

The government has formulated elaborate plans to increase agricultural production through irrigation and settlement schemes and through plantation and "outgrower" projects. Of the $82.1 million earmarked for agricultural development under the third development plan, $63.6 million is scheduled for the development of irrigation and settlement schemes. The plan calls for financing the settlement of about 4,000 metropolitan Portuguese farming families in Mozambique during 1968-73. (At present about 300 such families are entering Mozambique each year.) The schemes, patterned after Portuguese peasant communities, encourage small- and medium-scale production of livestock and such crops as rice, tobacco, corn, and kenaf. Each settler is provided with a house, land, tools, seeds, and other basic items. Government expenditures total about $10,000 per family, and in return, the state receives one-sixth of the produce from each farm. The projects also include cooperatives, which market the crops and provide a variety of other services. The largest settlement programs are located around irrigation projects on the Limpopo River and on the Revue River near Vila Pery, but current emphasis is on colonies at Lioma in Zambezia, Vila de Montepuez in Cabo Delgado, and Mandimba in Niassa. Despite the emphasis given to these settlement schemes, their return on investment has been quite low. Less costly than settlement schemes, "outgrower" projects consist of independently owned and operated farms situated around a processing facility. The farms supply produce to the processing plant, which in turn provides technical and financial assistance to the farms.

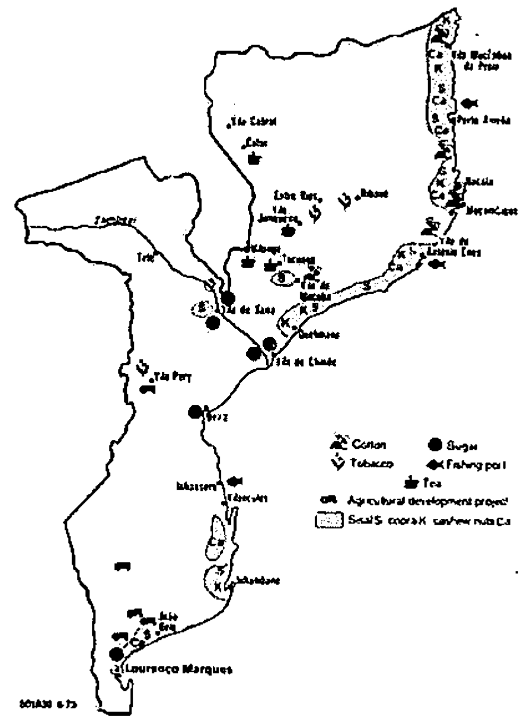

FIGURE 3. Major crop areas and fishing ports (U/OU)

(1) *Cashew nuts*—Mozambique is by far the world's leading producer of cashew nuts, with output of about 185,000 tons in 1972 (Figure 2). Exports of cashew nuts, valued more than $35 million in 1971, are the leading commodity export. Originally brought from Brazil in the 16th and 17th centuries, cashew trees now grow wild in the dense forests along the Mozambique coast (Figure 3). The bulk of the crop is still gathered by Africans from wild trees and sold through country stores to Indian traders and to cashew shelling plants. The cultivation of cashew trees on European-owned plantations has been increasing in recent years.

Prior to the mid-1960's, almost all of the cashew crop was sent to India for shelling and eventual reexport, mostly to the United States. Modern cashew shelling plants now mechanically shell a sizable portion of the nuts prior to export. Cashew kernels are used domestically as food, and the fruit is used in the production of a fermented beverage. Cashew nut shell oil, which is used in paints, varnishes, resins, and

FIGURE 2. Estimated production of major cash crops (U/OU)
(Thousand metric tons)

	1961–65 (AVERAGE)	1966	1967	1968	1969	1970	1971	1972 (EST.)
Cotton lint..........	35	38	45	42	43	46	26	*na*
Raw sugar*..........	169	176	200	214	250	286	325	365
Cashew nuts..........	119	100	170	120	115	150	182	185
Copra...............	56	55	57	60	54	60	62	*na*
Sisal................	30	31	31	32	30	28	24	*na*
Tea (dried)..........	9	14	13	14	16	17	19	*na*

na Data not available.
*Includes small amounts of refined sugar.

electrical insulation, is the most important byproduct of the shelling process.

(2) *Cotton*—Yearly cotton output varies with local weather conditions, averaging 35,000 to 45,000 tons of lint a year. Cotton has traditionally been one of Mozambique's largest foreign exchange earners. Exports of raw cotton were valued at $24 million in 1971. The cotton harvest in 1972 was estimated at 147,000 tons (seed basis). More than 500,000 African farmers, mostly in the northern part of the country, cultivate cotton using traditional, low-yield methods. These farmers produce only about 40% of the total crop. The rest is produced by Europeans and Africans using modern methods. Prior to 1961, the farmers worked for concessionaires and were forced to plant specified acreages, for which they received fixed prices. The government-operated Cotton Institute replaced this system and now markets the crop and provides technical assistance to the farmers.

(3) *Sugar*—Production of raw sugar has more than doubled between 1966 and 1972, and sugar has become an important foreign exchange earner, with exports totaling $21 million in 1971. Sugar milling capacity has been increased to about 395,000 tons. Domestic consumption is about 120,000 tons; the balance of the output is exported to Portugal. Five large estates dominate sugar production. The largest is the British-owned Sena Sugar Estates Ltd., located near the mouth of the Zambezi River. The four other large estates—*Sociedade Agricola do Incomati, Acucareira de Mocambique, Marracuene Agricola Acucareira*, and *Companhia do Buzi*—are Portuguese owned. New investments by *Acucareira de Mocambique* to increase its annual production by 200,000 tons, plus slight annual increases forecast for the other companies, are expected to boost Mozambique's sugar production to about 600,000 tons by 1976.

(4) *Tea*—Mozambique ranks third (after Kenya and Malawi) among African producers of tea. Most of the crop, a standard-quality Indian type similar to other east African tea, is grown in the Zambezia hills and mountains close to the Malawi border. Exports, valued at $10 million in 1971, go mainly to the United Kingdom. Although the government encourages small-scale Portuguese farmers to cultivate tea, the bulk of the production comes from large plantations that employ over 40,000 African workers.

(5) *Sisal*—Most of the sisal is grown on large plantations scattered along the coast in Mocambique and Zambezia Districts. Production averaged about 30,000 tons a year during the last decade, but the crop declined in importance because of low world prices. About half of the exports, valued at $4 million in 1970, go to Portugal.

(6) *Copra*—Large European-owned plantations along the coastal plain in Zambezia and Mocambique Districts produce most of Mozambique's commercial copra. Smaller farmers also produce copra for their own use. Increased domestic consumption of coconut oil has reduced copra exports, which totaled about $9 million in 1971.

(7) *Other crops*—Corn is produced both on European-owned plantations and by native Africans. Most of the crop is consumed domestically, particularly in the south. Supplementary imports of corn are often required, but in good years some exports are possible. Africans grow most of Mozambique's rice on a subsistence basis, although 4,000 to 5,000 tons were to be exported in 1972. Peanuts are grown by Africans throughout Mozambique, with production averaging about 75,000 tons of shelled nuts annually. Most of the crop is consumed locally, but some peanut oil and cake are exported to Portugal. About 6,000 tons of kenaf, a substitute for jute, are produced annually for use mainly by the local weaving industry. Tobacco has been grown in Mozambique since the 1920's. Marketing problems have limited exports, and production is largely for the domestic market. Cassava and yams are other important African subsistence crops. Mozambique has a continuing shortage of wheat; production is about 10,000 tons a year, and imports total about 100,000 to 110,000 tons annually. Production of major food crops is summarized in Figure 4.

(8) *Livestock*—The raising of livestock has been limited by the presence of the tsetse fly in over two-thirds of the country, water shortages, a lack of natural pasturage, an unsatisfactory grading system, and the African tradition of holding cattle as a form of wealth. African farmers own most of the livestock, but a few large European cattle ranches around Lourenco Marques provide that city with meat and dairy products. Meat production totaled only 16,500 tons in 1972.

In recent years the government has made significant efforts to increase the livestock population, largely through the Mozambique Veterinary Services Department, which is responsible for livestock development. The department has been giving free technical assistance, increasing the number of watering points, broadening credit facilities, and seeking new markets. Through the Livestock Development Fund, the government guarantees a

FIGURE 4. Estimated production of major food crops (U/OU)
(Thousand metric tons)

	1961-65 (AVERAGE)	1966	1967	1968	1969	1970	1971
Cassava	2,030	2,040	2,050	2,000	2,100	2,100	2,100
Corn	361	500	500	560	500	350	410
Rice	94	100	100	130	150	150	160
Sweet potatoes and yams	31	31	32	32	32	32	33
Wheat	9	8	7	10	10	10	10

minimum price to farmers for livestock and subsidizes the cost of animals bought by poorer farmers. In September 1972 the government introduced excise taxes on certain dairy products, the proceeds of which were to be used by the development fund to provide bonuses for improving quality and productivity, help build milking sheds, and reduce transport and delivery costs of dairy products. The gradual increase in the livestock population is shown in Figure 5.

c. *Fisheries*

Despite Mozambique's long coastline and extensive river network, fishing remains a small industry that does not meet even the domestic demand for fishery products. Although some shrimp are exported, the bulk of the catch, estimated at 10,000 tons in 1971, is consumed locally. Imports of fresh and dried fish, valued at about $4 million, are the third ranking food import, after wine and wheat.

A number of companies are involved in Mozambique's commercial fishing. Our Lady of Fatima Fish Company (INOS), a subsidiary of the South African Anglo American Corporation, is the largest fishery company. It was forced to transfer part of its capital to Portuguese interests in 1966, when a law was passed allowing only Portuguese companies operating Portuguese-built vessels to fish in Mozambique territorial waters. In 1966, Portuguese and Angolan capitalists formed the other large fishing company, Mozambique Fish Canning Company (ARPEM). Fishing employs more than 20,000 people, mostly Africans working for the Portuguese.

FIGURE 5. Livestock population (U/OU)
(1,000 head)

	1962	1964	1966	1969	1970
Cattle	1,142	1,144	1,208	1,260	1,338
Goats	418	419	490	522	670
Sheep	100	104	120	118	150
Hogs	82	110	140	129	210
Total*	1,742	1,777	1,958	2,029	2,360

*Figures may not add to totals because of rounding.

d. *Forestry*

Although more than half of the country is forested, only 10% of Mozambique's total area has commercially exploitable forests. The state owns almost all the forests and issues licenses to concessionaires for their exploitation. Licensing is designed to avoid indiscriminate cutting and to protect certain species.

Domestic consumption of wood—chiefly for carpentry and for use as charcoal and fuelwood for cooking—is very small. About 90% of production, which consists entirely of hardwoods, is exported. Exports of wood products, valued at $7 million, were the country's seventh most valuable export in 1971.

2. Fuels and power (C)

Mozambique's energy resources include a hydroelectric potential that is sufficient to meet the economy's need for many years, fuelwood for the subsistence sector, and coal for both domestic use and export. Several companies hold concessions for oil exploration, but after investments of over $50 million, no oil was found and drilling ceased. Reserves of natural gas, estimated at over 3 billion cubic meters, have been discovered at Pande. South Africa offers a potential market for the gas, but its exportation would require construction of a 250-mile pipeline, and this does not seem feasible in the near future.

The refinery at Matola-Rio fills almost all domestic needs for petroleum products through the processing of imported crude. The refinery, owned by National Petroleum Refinery Company (SONAREP), has a capacity of 18,000 barrels per day (b.p.d.). In 1971, its output averaged 14,500 b.p.d. with a value of $26 million for the year. Imported crude petroleum—all from Iraq and Iran—was valued at $19 million in 1971. Except for some highly specialized petroleum products, the refinery's output exceeds domestic requirements. About two-thirds of the output is exported, primarily to South Africa, Malawi, Swaziland, and Portugal. This refinery is to be expanded, and the building of another, much larger, refinery at Nacala to provide additional exports is being considered.

Mozambique-Rhodesia Pipeline Company, a joint British, Portuguese, and Rhodesian firm, completed a petroleum pipeline from Beira to Rhodesia's Feruka refinery in 1965. Almost 200 miles long, it has a throughput capacity of 24,000 b.p.d. of crude oil. The pipeline has never been used because of the U.N. embargo on oil shipments to Rhodesia.

The small electric power industry meets the demands of the major cities, although in the last decade there has been virtually no increase in generating capacity. Upon completion of the first three stages of the Cabora Bassa hydroelectric powerplant in 1979, however, Mozambique will rank third on the continent of Africa in installed power capacity. At the end of 1971, estimated installed capacity was 232,000 kilowatts (kw.). Electric power production in 1971 was approximately 550 million kilowatt hours (kw.-hr.)—68 kw.-hr. per capita—or about 25% of capacity.

Although about 70% of the national power capacity is in thermal installations, the largest single facility is the 64,900-kw. Revue hydroelectric powerplant, which contains almost 30% of Mozambique's total capacity. In addition to supplying power to Vila Pery and to Beira, 140 million kw.-hrs. are exported annually from Revue to Umtali in Rhodesia. In Lourenco Marques the National Company for the Study and Financing of Overseas Undertakings (SONEFE) has thermal (steam) generators with a total capacity of 57,500 kw. and a 17,500-kw. reserve gas turbine plant. A new 36,600-kw. gas turbine unit is scheduled for completion by the end of 1973. Smaller plants form an important component of the electric power base by supplying remote localities and isolated industries.

The electricity transmission system consists of 110-kilovolt (kv.) and 66-kv. lines. The main transmission system serves the Lourenco Marques and Beira areas. A 275-kv. transmission line links the SONEFE and South African power networks. A 22-kv. distribution system and lower voltage lines provide power to several towns. Consumer current is 1- and 3-phase, 50 cycles, at 220/380 volts.

Power development focuses on construction of the Cabora Bassa dam, located 86 miles from Tete on the Zambezi River. The project, for which a contract has been awarded to an international consortium, is designed to provide abundant and inexpensive electricity to Mozambique and South Africa. It will also serve as the cornerstone of a plan for agricultural, mineral, and industrial development in the surrounding region. South Africa has agreed to purchase most of the initial output of electricity, because Mozambique's present needs are small. Revenue from the sale of electricity during the first 15 years will be used to repay foreign loans used to finance the dam. Thereafter, foreign exchange earnings of at least $25 million annually will accrue to Mozambique.

The first stage of the project, scheduled for completion in early 1975, consists of the installation of generators with a capacity of 1.2 million kw., the main dam, and a portion of the South Bank Powerplant. The second stage will increase the capacity to 1.6 million kw. in 1977, and the third stage will further raise it to 2 million kw. in 1979. The final phase, not yet tendered for bids, would provide a total capacity of 4 million kw., nearly twice that of the Aswan High Dam, currently the largest in Africa.

Two parallel, 850-mile powerlines will link the dam with the Republic of South Africa. Militant black African nationalists have attempted to block the construction of the powerplant and dam. An underground coaxial cable is being installed along the entire 850-mile route as an auxiliary in the event of disruption of the surface lines. In sections of the transmission line route, unfavorable terrain, including mountainous areas, makes construction, maintenance, and defense of transmission facilities especially difficult. Guerrilla harassment could lead to lengthy delays in construction. Construction has also reportedly begun on the long-awaited hydroelectric/river control dam at Massingir on a tributary of the Limpopo River that is to be the focal point of a large-scale Limpopo valley development program.

3. Metals and minerals (U/OU)

Mozambique has an extensive variety of mineral resources, but their exploitation has been limited by inadequate transportation facilities and generally low ore concentrations. Mineral production was valued at less than $7 million in 1971. Mozambique is divided into three main areas of mineral wealth: the Vila de Manica area near Vila Pery, an extension of the Rhodesian mineral zone; Tete District; and an area extending north from Quelimane to Porto Amelia and up the Cabo Delgado District to Tanzania. The Zambezi River valley in Tete District—containing iron ore, tantalite, fluorite, and extensive coal deposits—is the most promising area for mineral exploitation.

Other important iron ore deposits are at Vila Pery near the Rhodesian border and at Namapa near the coast. Pegmatite deposits containing beryl, and columbite-tantalite, are located near Alto Ligonha, and copper deposits are found in the Vila Pery District. Deposits of nickel, ilmenite, manganese, uranium, asbestos, gold, and diamonds occur throughout the country.

Coal is by far the largest item in Mozambique's limited mineral production. The Mozambique Coal Company extracts 300,000 tons of coal a year from the Vila Moatize coalfields, most of which is sold to local railroads and the remainder is exported; production has been limited by high transportation costs. Production of columbite-tantalite, which is used as an alloy in heat resistant metals, has declined in the last 10 years and was valued at only $600,000 in 1971. Small quantities of other minerals are mined (Figure 6).

Prospects are good for increased iron ore production. The Sumitomo Group of Japan plans to develop iron ore deposits near Namapa estimated at 360 million tons. The project includes the construction of a railroad to the port of Nacala for transporting the ore. The Uranium Company of Mozambique will exploit the other large iron ore deposit near Vila Pery, which contains an estimated 100 million tons of high-grade ore. Plans call for the construction of a 250,000 ton-per-year steel mill in Lourenco Marques, to be completed in 1975-76, that will utilize domestic iron ore and scrap iron.

Most minerals, except for coal and iron ore, are exploited by small private mining operations. Government policy calls for improving the inspection of concessionary enterprises in order to reduce uneconomic exploitation. Construction of the Cabora Bassa dam will facilitate the exploitation of the Zambezi valley's considerable mineral wealth.

4. Manufacturing and construction (U/OU)

Mozambique's industrial sector has expanded rapidly in the last decade and now accounts for about 20% of GNP. Industrial production reached $420 million in 1971, a 9% increase over that of the preceding year. In the first half of 1972 production increased 12% over the corresponding period of 1971. Europeans own and operate most of the plants and employ Africans as unskilled laborers.

FIGURE 6. Production of principal minerals (U/OU)
(Metric tons)

	1960	1965	1971
Coal	260,626	237,500	322,973
Columbite-tantalite	152	51	60
Microlite	8	85	54
Bauxite	4,840	5,660	5,516

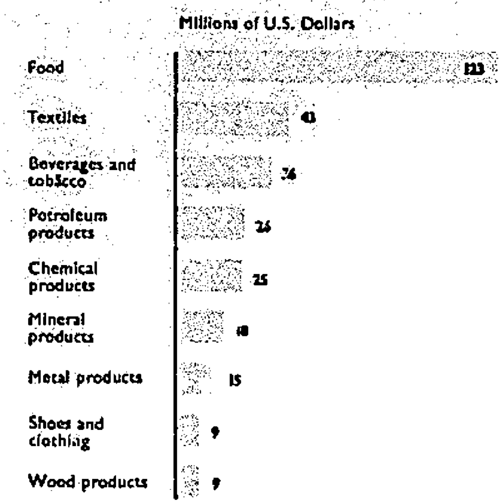

FIGURE 7. Output of major manufacturing industries, 1971 (U/OU)

Industrial activity consists largely of agricultural processing and consumer goods production (Figure 7). Food processing accounts for the largest portion of industrial output. Sugar refining, the processing of cashew nuts, and the milling of rice and wheat are prominent industries. Soft drinks and beer are the main beverages produced. Other major manufactured items include cotton and jute textiles, petroleum products (from imported crude oil), vegetable oils, and cement. Other manufactures, produced largely for local consumption, include cigarettes, bottles, tin cans, paint, soap, metal furniture, and pottery; in addition, bicycles, refrigerators, and radios are assembled, and there is some metalwork, including the manufacture of railway cars for local use and export.

Government policies that discourage imports and encourage local investment in order to promote industrial development are having some success. In addition to older industries, such as textiles and food processing, new ventures are expanding in such fields as chemicals, pulp and paper, storage batteries, rubber tires, and various types of machinery and equipment assembly. In mid-1972, 150 applications, representing a total investment of $140 million, were pending for the establishment or expansion of industrial projects. The major centers of industrial development to date have been in Lourenco Marques and Beira (Figure 8).

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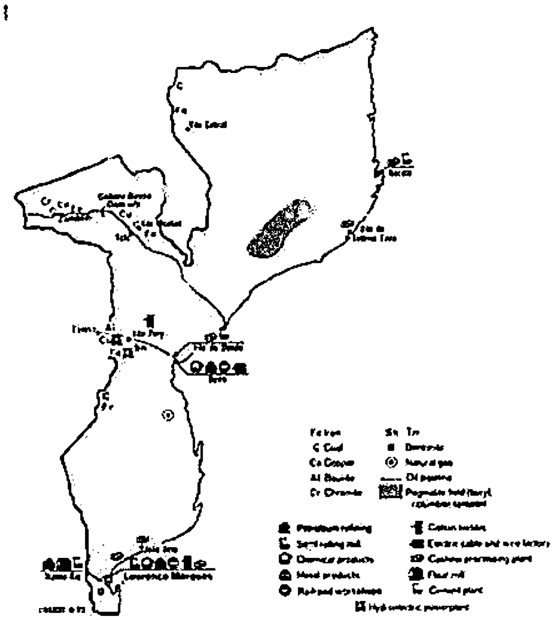

FIGURE 8. Major industrial and mining centers (U/OU)

Local production supplies light construction materials. Hardwoods are abundant, and there are large sawmills in the Beira and Lourenco Marques Districts. Granite and other hard rock are available in the north, and limestone, sand, and gravel exist in most areas. Cement, lime, precast concrete products, asbestos, bricks, and tiles are manufactured locally. Cement production has risen rapidly in recent years, totaling 420,900 tons in 1971. A new cement plant under construction at Matola-Rio will have an annual capacity of 600,000 tons. There is no basic steel industry, but steel reinforcing bars, wire, and wire products are produced from scrap and imported materials. Manufacturers in the principal towns produce a narrow range of structural steel, sheet-metal, and foundry castings. Asphalt, paint, welding electrodes, industrial gases, electric cable, and cordage also are made locally. Government engineering departments and contractors increasingly are using earth-moving and general civil engineering equipment, much of which has been imported for development projects such as the Cabora Bassa dam. There are good workshop facilities in the principal towns.

5. Domestic trade (U/OU)

Mozambique's commercial system is oriented more to the transit trade serving its landlocked neighbors than to purely domestic trade. Most railroads and roads extend from east to west, linking the developed areas of the interior countries with the coast. Those transportation facilities that serve Mozambique exclusively are inadequate and have hindered the expansion of domestic commercial activity. A major effort is now underway, however, to link the main population and industrial centers through a comprehensive system of hard-surfaced roads and improved air transport. The first north – south asphalt road from Lourenco Marques to Beira is now complete, as is an asphalt road from Vila Pery to Tete and Cabora Bassa. New feeder roads and rail links are also planned. Mozambique will be linked to Luanda (Angola) and Lisbon by a daily jet service when the international airport at Lourenco Marques is expanded and modernized (by June 1973).

Trade in the modern sector of the economy has grown along with the expansion of GNP and is centered in the urban areas; Lourenco Marques alone accounts for about half of gross sales. The gross commercial sales index for Lourenco Marques increased from 219 in 1969 to 258 in 1970 and 295 in 1971 (1959=100). New consumption taxes and customs clearance charges have hampered trade growth, as have restrictions on imports of consumer goods. Europeans own the large import-export houses and also control most domestic trade. Indians and Chinese operate many of the general merchandise stores and trading houses.

Most of Mozambicans live in rural areas, where trade is carried on through barter. There is some commerce between Africans and European rural merchants, who purchase livestock, cashew nuts, and other farm products. The government is expanding the monetary sector by establishing more than a thousand trading posts throughout the country for the benefit of the local population. In addition, cooperatives and commodity boards provide advice to Africans on the marketing of their own goods.

C. Economic policy and development (U/OU)

1. Policy

a. Government finance

Portugal maintains close control of Mozambique's finances through inspection and annual review of accounts by the Ministry of Overseas and the National Assembly. Annual budgets must be submitted to the Legislative Assembly for approval. Mozambique has two budgets: the ordinary budget covers recurring items, and the extraordinary budget deals chiefly with

FIGURE 9. State government budget, 1968–1972 (U/OU)
(Millions of U.S. dollars)

	1968	1969	1970	1971 (EST.)	1972 (EST.)
Ordinary revenue	251	281	306	288	315
Direct taxes	39	47	50	48	55
Indirect taxes	34	35	40	37	40
Excise taxes	17	24	26	28	26
Other taxes	14	15	19	18	18
Receipts of autonomous agencies and funds	134	146	157	142	160
Other	12	13	13	16	15
Extraordinary revenue	26	33	36	43	69
Total revenue	276	314	342	331	385
Ordinary expenditure	239	264	290	288	315
Debt servicing	11	12	14	19	21
Development	113	124	132	115	128
Defense	29	32	33	35	38
General administration	44	48	57	62	69
Other	41	48	54	58	59
Extraordinary expenditure	26	34	36	43	69
Total expenditure*	265	298	326	331	385
Surplus	11	17	16	0	0

*Figures may not add to totals because of rounding.

nonrecurring items such as public development expenditures. Deficits in the ordinary budget are prohibited, but the state may use all revenues collected from domestic sources to meet expenditures in that budget. Deficits are permitted in domestic financing of the extraordinary budget, which are balanced by loans from Portugal.

Ordinary budget revenues and expenditures increased steadily during the last 5 years (Figure 9). Actual revenues and expenditures for 1971 and 1972 are probably greater than those shown, since budget forecasts are usually underestimated. About half of the annual ordinary budget revenue comes from government-owned enterprises, particularly the railroads and the ports administration. Indirect taxes, including excise taxes, are the second most important source of income. Direct taxes, such as the head tax and taxes on individual and corporate incomes, provide less than 20% of the total. Development expenditures accounted for about 40% of the total estimated ordinary expenditures during 1972.

Extraordinary receipts and expenditures more than doubled between 1968 and 1972. Budgetary surpluses, coinage profits, and sale of bonds provided extraordinary receipts, and loans from Portugal financed the deficit. Almost 80% of the extraordinary expenditure in 1970 was for financing the third development plan.

b. Money and banking

Mozambique is a member of the escudo monetary zone, which is composed of Portugal and its overseas territories. Each member's escudo currency is on a par—but not interchangeable—with those of others. Discount procedures usually reduce the buying power of the territorial currencies relative to that of Portugal. The Overseas National Bank (BNU) acts as Mozambique's central bank and issues the Mozambique escudo. The early 1973 exchange rate was US$1 = 27.25 escudos.

Mozambique makes payments to other territories of the escudo zone either directly through commercial banks or through special reserve accounts maintained for each overseas state by the Bank of Portugal, the reserve bank for the escudo zone. Payments are subject to service charges. Payments between Mozambique and foreign countries are made either through authorized banks in Mozambique or through the interterritorial clearing system.

The BNU provides most of the commercial banking services in Mozambique. In 1971, the BNU accounted for over half of the bank loans outstanding. There are four other commercial banks: Commercial Bank of Angola, Commercial and Industrial Credit Bank, Pinto and Sotto Mayor Bank, and Standard Totta Bank of Mozambique. Specialized institutions include a mutual savings bank and a cooperative bank.

Two banks provide development loans. The National Development Bank (BFN), a Portuguese government agency, provides long-term loans for selected major projects. Except for foreign investment, almost all financing for private enterprises comes from the BFN. The Mozambique Credit Institute provides short- and medium-term loans and guarantees for both private and government borrowers. Government agencies must deposit their funds in the institute, which in 1972 absorbed the Mozambique Agricultural Credit Bank.

2. Development

Portugal formulates Mozambique's long-term development programs as part of a plan for the entire escudo zone. The initial long-term program was the First Six-Year National Development Plan (1953-58). Investments—mainly in the transportation and agricultural sectors—totaled about $55 million under that plan. Almost all funds to support the plan came from within Mozambique. Under the Second Six-Year Development Plan (1959-64) grants and loans from Portugal accounted for about half of the development expenditures, which rose to $125 million. In the Three-Year Transitional Program (1965-67), expenditures increased to $186 million; Portugal, the domestic private sector, and private foreign investors provided funds in about equal amounts. This program gave top priority to the development of transportation and harbor facilities and also stressed increased agricultural and industrial production.

The Third Six-Year Development Plan (1968-73) called for a 7% annual growth rate in GDP and envisioned total investments of $586 million. Government interest in this plan focused on infrastructure and agriculture. About two-thirds of the investment was to come from internal sources—one-third from the Mozambican and Portuguese administrations and one-third from the private sector. Private foreign sources were scheduled to provide the remaining one-third. In addition, investments of over $300 million—not included in the development plan—will be made during construction of the giant Cabora Bassa dam. Work on the first stage of the dam, one of the largest in the world, is on schedule for the 1975 completion date. External loans and export credits are to provide the necessary financing.

Under a new program announced in 1972, the Governor General promulgated a Four-Year Governmental Action Plan (1972-75) to take advantage of the greater autonomy now accorded Mozambique. The plan calls for an annual growth rate of 10% in GDP, but this goal will be difficult to meet.

Until recently, Portugal exercised tight government control over the operation of private enterprises, and there was little foreign investment. At the present time, however, Portuguese policy favors foreign investment in Mozambique. Opportunities are likely to be greater when foreign firms enter in association with Portuguese or Mozambican firms. Liberal tax concessions and other benefits are available, especially for investments that provide import substitutes or increase exports. There are few restrictions on repatriation of profits or capital. Nevertheless, political uncertainties and the effects of government efforts to improve the balance of payments will continue to hamper growth in investments.

3. Manpower

Only 10% to 15% of Mozambique's population are wage earners. Almost all sectors of the economy suffer from a shortage of skilled and semiskilled manpower. Unemployment and underemployment are serious problems among unskilled laborers who have been migrating to the cities from rural areas. Mozambique has begun an ambitious new program to expand vocational training and establish official employment agencies. In addition, it is attempting to increase work incentives by improving social services available to workers and by raising wages. Immigration of high-level manpower and technicians is also encouraged.

Black Africans hold an inferior position in the labor market. Although government and many private employers ostensibly hire with little or no racial discrimination, black workers are usually relegated to lower level jobs by their lack of training and experience compared to nonblacks. Except for teachers and nurses, the professions are almost devoid of blacks, as are the upper echelons of the civil service. Black Africans are increasingly being trained for, and are obtaining, better jobs in both the industrial and public sectors, but the numbers are still small. In the past as many as 400,000 blacks a year worked in South Africa or Rhodesia, but this number has been reduced sharply by improved working conditions and salaries in Mozambique and by adverse conditions in Rhodesia since its unilateral declaration of independence. The annual remittance from these workers currently does not exceed 2% of GNP.

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Although a spirit of entrepreneurship is found among small-scale artisans, there is a shortage of local people willing and able to innovate in medium-scale enterprises. This is due in part to a lack of capital and of sources of loans. Except within a small number of white-dominated corporate ventures in commercial agriculture, mining, industry, and transportation, experience in organizing and operating large-scale business is also lacking. The shortage of entrepreneurs and the dependence of the economy on efficient operation of the transportation sector have stimulated the government to assume responsibilities in this area.

Certain categories of workers—such as office workers, construction workers, and truck drivers—are organized into syndicates or labor unions. Membership is small because of the educational and skill requirements, as well as the lack of power of the unions. The unions are state controlled, and although they may negotiate increased benefits for their members, they may not strike. Politically, the labor force is passive and apathetic, and there has been little important labor unrest in recent years. The only labor groups displaying any militancy are the dockworkers and stevedores, who have mounted a few short-term wildcat strikes, demonstrations, and slowdowns.

D. International economic relations (U/OU)

1. Foreign trade

Mozambique is heavily dependent on foreign trade. Imports supply most capital goods and a variety of consumer goods, while much of the domestic agricultural and industrial output is exported. Imports have consistently exceeded exports, and the trade deficit has increased considerably in recent years (Figure 10).

The value of all imports increased by more than one-third from 1968 to 1970, but slackened in 1971 as the result of tightened restrictions favoring imports for development. Textiles were the principal consumer goods imported in 1971, valued at $27 million. Other major imports consisted of consumer goods and products required for developing infrastructure and industry. In 1971, nearly half of such development imports consisted of metals and metal products, transportation materials, and machinery and electrical equipment.

Agriculture provides most of Mozambique's exports, the most important of which are cashews, cotton, sugar, tea, copra, refined petroleum, and timber (Figure 11). In 1971, cashews, cotton, and sugar accounted for almost half of all exports. Cashews have shown the largest increase in export value because they are now shelled prior to shipment. Prospects for increased mineral exports are good. Coal, columbite-tantalite, and microlite are now the principal mineral exports.

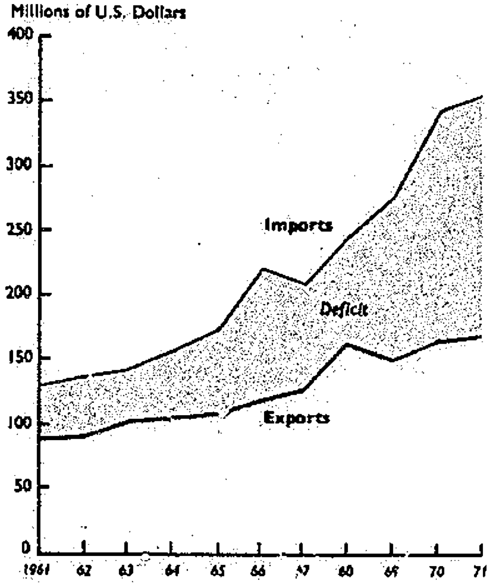

FIGURE 10. External trade, 1961–71 (U/OU)

Portugal is Mozambique's most important trading partner, taking 37% of its exports and providing 26% of its imports in 1971 (Figure 12). Cotton and sugar are the most important exports to Portugal.

The United States and South Africa are also major trading partners. Cashews, valued at $15 million in 1971, are by far the leading export to the United

FIGURE 11. *Major exports* (U/OU)
(Millions of U.S. dollars)

	1966	1968	1970	1971
Total	$118	$162	$165	$169
Of which:				
Cashews	22	30	32	38
Cotton	20	25	30	24
Sugar	17	15	21	21
Tea	9	11	8	10
Copra	9	13	13	9
Timber	8	6	7	7
Fuel oil	na	na	4	6

na Data not available.

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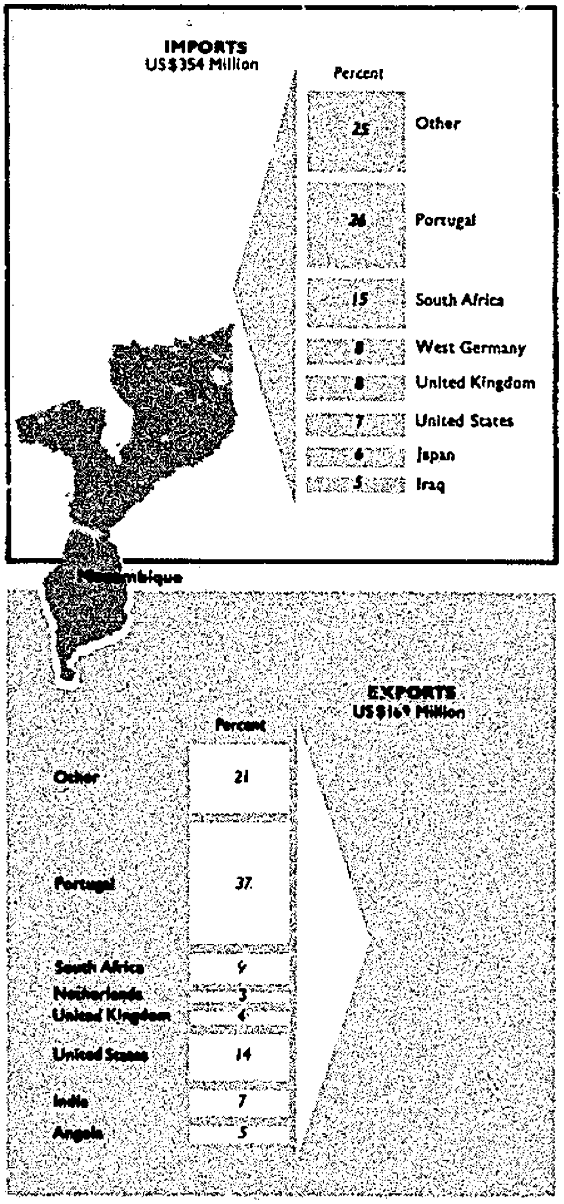

FIGURE 12. Direction of trade, 1971 (U/OU)

States. U.S. exports to Mozambique in 1971 included aviation equipment and parts ($7.4 million), tractors ($1.8 million), and wheat ($1.8 million). South Africa imports agricultural and refined petroleum products from Mozambique and supplies agricultural commodities and iron and steel products.

Mozambique's imports are authorized on the basis of a system of priorities set by Lisbon. The priorities are designed to encourage investment, limit consumption to essential products, and encourage and protect local industries. Total exchange authorizations are limited by a global ceiling, which is fixed by the level of exchange receipts. In 1973 import quotas were made universal by the removal of the distinction between imports from within and without the escudo zone. Except for protected products such as wine and olive oil, goods from Portugal no longer enjoy a preference over goods from other parts of the world. All imports are subject to a surcharge of 5%, and additional import taxes are levied on certain luxury items.

Mozambique benefits indirectly from Portugal's membership in the International Monetary Fund (IMF), the European Free Trade Association (EFTA), the International Bank for Reconstruction and Development (IBRD), the General Agreement on Tariffs and Trade (GATT), and U.N. economic organizations.

2. Balance of payments

Net earnings from invisibles, mostly from the transit trade, have only partially offset annual trade deficits (on a settlement basis; Figure 13). Receipts for transit services are the largest source of invisible earnings, traditionally supplying one-fourth to one-third of total earnings. In 1971 the trade deficit (settlement basis) narrowed slightly as the rate of growth in imports declined, while net receipts from invisibles increased almost 20% above 1970, causing a substantial reduction in the current account deficit. Total reserves rose from $13.6 million at the end of 1970 to $24.8 million at the end of 1971. The rerouting of Zambian trade from Mozambique ports to Tanzania following a dispute with Rhodesia in January 1973 threatens to significantly reduce transport revenues.

Mozambique normally records large deficits in its commodity trade with Portugal, causing increasing arrears in payments to Portugal. A comparison of balance of payments and trade data consequently shows discrepancies because the timing of settlements is very different from the timing of trade flows. By late 1971 the delay in settling payments to Portugal was 510 days, and by the end of the year the accumulated backlog of payments was $146 million. If the payments to Portugal had been made when they were due, the deficit in the balance of payments would have reached $98.5 million in 1970 and $39.6 million in 1971.

3. Foreign aid

Mozambique depends on Portugal for external financial assistance, which consists largely of loans for

FIGURE 13. Balance of payments (U/OU)
(Millions of U.S. dollars)

	1968	1969	1970	1971
Current transactions	4.1	−39.1	−47.7	−24.6
Merchandise	−67.0	−108.9	−138.9	−133.4
Invisibles	71.1	69.7	91.2	108.8
Of which:				
Tourism	(3.5)	(3.5)	(6.0)	(3.7)
Transportation	(69.7)	(67.2)	(69.8)	(82.9)
Capital returns	(−14.2)	(−11.0)	(−10.1)	(−5.3)
Capital transactions	−15.3	−5.9	−7.4	9.1
Short term	−4.5	1.5	5.1	15.4
Medium and long term	−10.7	−7.4	−12.5	−5.5
Personal	0	0	0	−0.8
Overall balance*	−11.2	−45.1	−55.1	−15.5

*Balance-of-payments statistics are shown on a settlement basis and do not reflect arrears in payments to Portugal. Totals may not add because of rounding.

development. About $75 million was to have been provided for the 1968-73 development plan. Official loans from Portugal balance the extraordinary budget, which reflects largely expenditures to finance the development plan. In recent years these loans, which totaled $6 million in 1970, provided 15% to 20% of extraordinary receipts. In addition, Portugal extends Mozambique long-term loans for major projects through the National Development Bank and guarantees investments from Portuguese and foreign sources.