

Trade in services and sustainable development in Africa: the distributive issue¹

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This article discusses the challenges faced by African countries in the distribution of benefits resulting from trade and investments liberalization. With special attention to infrastructure projects in Mozambique, the article concludes that the associated social and environmental costs can be reduced through the institutional strengthening of the State.

The traditional clash between developed and developing countries over the liberalization of international trade in services seems to be gaining ground in the current race for investment in Africa.

This process is beneficial if it results in greater internal competition, in order to stimulate the prices reduction and increase the quality of goods or services transacted. In the case of the entry of service providers there are additional benefits to the value chain through increased efficiency, access to new knowledge and technologies and higher foreign direct investment. Thus, if well done, trade in services liberalization leverages the comparative advantages of relatively less developed countries, widening access to the international market.

It is undeniable that trade in services acceptance of international capital has leveraged the economic growth of African countries, which are recovering from a recent history of social conflict and underdevelopment. On the other hand, like any capital reallocation process, there are costs involved: even though offering attractive conditions for investment inflows, the maturity of local markets, institutional fragility and low social fabric impose challenges on the regulation of these flows and the mitigation of its side effects.

¹ Originally published in Portuguese at ITCSD/ Bridges website. Available at: <https://www.ictsd.org/bridges-news/pontes/news/com%C3%A9rcio-de-servi%C3%A7os-e-desenvolvimento-sustent%C3%A1vel-na-%C3%A1frica-a-quest%C3%A3o>

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In this context, it's worth questioning if such rapid growth has contributed to development. How are costs and benefits being distributed? These investments have generated development for whom? Taking these questions as a starting point, this article explores the case of Mozambique's infrastructure investments and current development dilemmas of a changing nation.

Mozambique: the new frontier of growth

Situated in the southern portion of the East African coast, Mozambique has its history in international trade initiated as a Portuguese colonial warehouse between the West and the Indies, on the maritime trade route between Europe, the Middle East and Asia. Today, the independent country, with 23.9 million inhabitants, is experiencing an investment boom, enabled by the relative political stability achieved through a national reconciliation after four decades of armed conflict.

In the last decade, Mozambique experienced an impressive economic boost, with average gross domestic product (GDP) growth of 7.2% per year, summing up US \$ 9.6 billion in 2010.

With the objective of increasing economic dynamism and leveraging its fiscal revenues, the Mozambican government recently decided to place the exploitation of natural resources for export as a platform for growth at the center of its public policies and political agenda. In this regard, it wishes to place Mozambique as a net exporter of agricultural and energy commodities, with a focus on the neighboring countries of southern Africa, Europe and Asia. The extensive savanna areas in the north of the country become the new frontier of growth not only in Mozambique, but also traditional suppliers of goods and services, such as Portugal and Japan and especially the emerging countries such as Brazil, China and India.

This strategy of utilizing the natural capital base was retake in 2011, with important milestones achieved. In August, the national government offered 6 million hectares - an area equivalent to 1.5 times the territory of Switzerland - for Brazilian farmers to plant soy, cotton and corn in the provinces of Niassa, Cabo Delgado, Nampula and Zambézia, in the north of the country³. Under the condition of employing 90% of Mozambican labor, the entrepreneurs will be allowed to use the land for 50 years, for a modest US\$ 1/hectare tax. By offering savannah areas - populated by smallholder's family farmers and pastoralist groups - to foreigners under concessions and with subsidies to obtain machinery, the government contributes to the consolidation of a large-scale monoculture agricultural policy for export.

On September 14th of the same year, for the first time in twenty years, 35,000 tons of coal were exported from the port of Beira. With reserves little explored, the coal basin of Tete province, also in the north of the country, is considered one of the largest in the world, well positioned to supply soaring markets in Brazil, China and India. In 2012, production is expected to reach 5.93 million tons, distributed among the 1,165 mining titles. Among the main projects are the mines of Moatize (25 million tons in 2014) owned by the Brazilian company Vale; Riversdale, Benga and Zambeze (25 million tons in 2016) of a partnership between Anglo-Australian Rio Tinto and India's Tata Steel; and JSPL (10 million tons) from India's Jindal Steel & Power.

Exports of energy commodities are also expected to grow rapidly, boosted by the exploration of the hydroelectric potential of the lower Zambezi basin. In November 2011, the national

³ <http://noticias.terra.com.br/mocambique-oferece-terras-baratas-para-brasileiros-plantarem,5d48adb2075fa310VgnCLD200000bbcceb0aRCRD.html>

government launched an ambitious electric transmission project - Power Transmission Backbone - linking the producing regions of the province of Tete to the southern consumer centers of the country and its southern African neighbors. Currently, 85% of the electricity generated comes from the Cahora Bassa hydroelectric power plant (2,075 Mw), which distributes 1,350 Mw to South Africa, 400 Mw to Mozambique, 200 Mw to Zimbabwe and the remaining to Botswana and Malawi. The new transmission line will allow the power supply of the ongoing projects Cahora Bassa North (1,245 Mw) and Mpanda Nkuwa (1,500 Mw), 60 km downstream of the first dam. Considered one of the largest infrastructure projects in Africa, Mpanda Nkuwa awaits the definitions of the construction of the transmission line and the contract of energy supply for South Africa.

From the economic point of view, Mozambique's biggest challenge for sustaining the investment boom lies in the logistics flow of agricultural and energy commodities. The three main logistics corridors (Maputo, Beira and Nacala) are obsolete in their outflow capacity. New investments are planned in railways, such as Tete-Nacala (500km) and the expansion of ports, airports and the communication network. According to the Minister of Mineral Resources, Esperança Bias, "new transportation routes, electricity transmission lines, water supply systems, communication systems and other means created for the development of these structures will serve to develop other economic activities and benefit the population in general, contributing to the socioeconomic development of the country"⁴.

Although the economic growth generated by mega-developments is evident, the impact on poverty reduction and sustainable development in Mozambique must be questioned. Does the export of natural capital wealth as a growth platform generates development? What are the costs involved and what have been the benefits created by this new frontier?

The dilemmas of growth and development

While Mozambique is on the frontier of growth - as a result of high investment flows - it paradoxically continues to trail when it comes to economic and social development. According to the United Nations Development Program (UNDP), Mozambique has one of the worst Human Development Indexes (HDI) in the world, ranking 184th out of 187 countries analyzed. Still taking social indicators, 60% of the population is below poverty line, with income lower than US\$ 1.25 per day (see Table 1) - a situation directly linked to access to basic goods, such as food.

Table 1 - Development and energy inclusion in Southern Africa							
	HDI	Population below the poverty line (PP\$ 1,25/day)	Electrical installed capacity (Mw)	Energy sufficiency (%)	Renewable electricity generation (%)	Rate of access to electricity (%)	% of population using solid fuels
Mozambique	0.32	60.0	2.248	122,0	99,9	11,7	>95
Zimbabwe	0.37	-	2.099	89,7	35,9	41,5	71
Malawi	0.40	73.9	315	89,1	92,0	9,0	>95
Zambia	0.43	64.3	1.680	92,2	99,5	18,8	86
South Africa	0.61	18.7	44.100	111,0	1,5	75,0	17

Source: IRENA; UNDP Development Data, 2011

⁴ <https://macauhub.com.mo/pt/2012/08/06/mocambique-precisa-de-garantir-solucoes-logisticas-para-escoamento-e-exportacao-de-recursos-naturais/%3E>

The strategic option of high growth based on commodities exports appears to be vulnerable in a context of underdevelopment and endemic poverty. The granting of land to large-scale agricultural monoculture, for example, little supports the production and provision of food. Quite the opposite, it weakens family farming by competing for scarce capital available - whether land, labour or financial resources. Therefore, the model of exploitation of extensive areas of savannah to meet the demands of external markets little contributes to the improvement of social welfare. The interest of foreign investors does not seem to be in local sustainable development either. As the president of the Brazilian Mato Grosso Association of Cotton Producers summed up, "Mozambique is a Mato Grosso [Brazilian large-scale soybean producing province] in the middle of Africa, with free land, without so much environmental impediment and much cheaper freight to China [as for Brazilian standards]"⁵.

Similarly, the benefits of exploiting energy commodities must be evaluated from a development perspective. This cautious approach is based on the understanding that energy is a basic good and its quality and tariff affordability are fundamental to the development and poverty reduction. Concerning energy access and inclusion, the country generates 2,248 Mw in renewable sources and its current self-sufficiency in electricity (122%) is reinforced by new ventures⁶. However, this energy does not reach the population. With an electricity access rate of 11.7%, more than 95% of the population ends up using traditional low-performance solid fuels such as firewood and charcoal.

While those who have the privilege of access, suffer from the poor quality of the service. In the city of Tete, for example, electricity peaks and shortages are usual, requiring the use of oil generators. In this context, it's natural the lack of trust of local population in the potential benefits of new ventures. In Tete city, the sound question is well known: "If Cahora Bassa does not provide us good energy, why should we believe that Mpanda Nkuwa will offer?"⁷. Thus, exporting energy to southern Africa may contribute to the fiscal balance, but it seems to contribute little to local development.

Beyond the distribution of benefits, the discomfort in relation to large infrastructure projects has its origin in the high social and environmental costs. Despite being considered key elements for Mozambique's development, large-scale ventures impose risks to environmental integrity and to local communities. If, on one hand, the arrival of the enterprise strengthens and eases a new economic dynamism to the local economy – bringing labour and income – on the other hand, it brings new challenges such as the breakdown of social stability, loss of local knowledge, cultural shocks with international migrants and increase of social pathologies (crime, drugs, etc.), besides the major changes in the physical and biotic environment. Therefore, it's clear that the disjunction between costs and benefits – or, rather, between winners and losers – is the element of potential conflicts brought about by new investment flows.

⁵<http://noticias.terra.com.br/mocambique-oferece-terras-baratas-para-brasileiros-plantarem,5d48adb2075fa310VgnCLD200000bbcceb0aRCRD.html>

⁶Renewable Energy Country Profiles – Africa. Available at:
<http://www.irena.org/REmaps/africamap.aspx>

⁷ Site research occurred in may 2011. It was assessed discourses of Tete city stakeholders in relation to the construction of Mpanda Nkuwa dam.

The new operating mode

The distributive question presented in this article does not challenge the relevance of the foreign investments inflows. In the context of investment in infrastructure in Mozambique, it's not a matter of denying a progressive vision of growth, but rather **how** the enterprises are planned and implemented and **who** they will benefit.

Once the option of large projects is chosen, it is necessary to establish a new operating model, based on transparent and long-term relationships with local agents. The benefits of technology transfer and capacity building should be added to the concern to share benefits at the local level. Moreover, the associated social and environmental costs can be mitigated with the strengthening of State institutions through its agents and civil society. By empowering government and society as agents of their own development, large-scale enterprises are more likely to become a true platforms for sustainable development.