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China in Mozambique: A Cautious Approach Country Case Study

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A 'China-Africa Toolkit' is being developed to serve African policymakers as an information database, a source of capacity building and a guide to policy formulation.

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ABSTRACT

China's engagement in Africa is becoming increasingly multilayered, as provinces are stepping up efforts to expand their presence in Africa. This paper provides a general picture of how Chinese provinces feature in the overall Chinese foreign policy system. Specifically, the article identifies Chinese provinces' role in Africa as traders, project builders, investors, aid providers and intergovernmental actors. It also discusses how African countries and China itself should cope with China's new multilayered engagement in Africa.

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INTRODUCTION

China's engagement with Africa has taken a different form in its relations with Mozambique, which are characterised by caution and compromise. In direct contrast with the position in Angola, where the centralised planning system is clearly in government hands, the participatory approach in Mozambique has allowed Bretton Woods institutions, western donors and non-governmental organisations (NGOs) a strong part in influencing government decision making on macroeconomic policy. Indeed, Maputo's established relationship with traditional donors and their presence in the country — foreign aid from traditional donors contributed to 51% of the 2008 national budget of \$3.2 billion — adds an important structural dimension to Beijing's and the Mozambican government's bilateral relations not present in China's ties with other resource-rich countries. A second factor is the relatively strong — especially pronounced in Maputo — western NGO presence and, with that, the fostering of a local civil society. The third is the role of FRELIMO,¹ the governing party since independence, as a cohesive source of policy formulation and implementation in the country. Notwithstanding the well-founded accusations of profiteering by some of the party elite, FRELIMO has proven its ability to manage an array of external actors under the direst circumstances and, in the current climate of growing prosperity, continues to demonstrate this capacity. All of these factors have meant that China's approach in Mozambique, while emphasising the now familiar focus on resources and infrastructure, nonetheless has been far less significant than perhaps Beijing's aspirations would have it. This is despite the fact that, in the words of one Mozambican analyst, 'China appears in this setting when generations and generations of Mozambicans have witnessed cooperation with Europe but are yet to reap or see the benefits'.²

HISTORICAL OVERVIEW OF SINO-MOZAMBICAN RELATIONS

The last 30 years have witnessed considerable change in Mozambique. After a lengthy armed struggle against the colonial power, Portugal, the country achieved independence in June 1975 and FRELIMO, the liberation movement, created a one-party state guided by socialist economic principles. Sino-Mozambican relations date back to the 1960s, when China provided important diplomatic and limited military support for FRELIMO. The liberation movement, under the leadership of Eduardo Mondlane, received aid from both China and the Soviet Union, a strategy it pursued to avoiding getting involved in the Sino-Soviet ideological split and as part of its campaign to be internationally recognised as the legitimate representative of the Mozambican people.³ The pragmatism demonstrated at that time when FRELIMO strived to balance foreign influence over its activities would later be seen again in its approach with international donors and development partners during the post-independence period.

At the height of the Cold War, Mozambique became embroiled in a lengthy civil war in which the socialist FRELIMO fought against the counterinsurgency movement RENAMO,⁴ which was supported by the minority governments of South Africa and Rhodesia. China provided FRELIMO with important military support and guerilla training, a fact recognised by the first president, Samora Machel, in 1978. However, in the late 1970s Maputo drew

closer to the Soviet Union and in 1977 declared itself a Marxist-Leninist state. Despite this, relations with China remained friendly and consistent, with an approach made after China provided Mozambique with important aid and assistance to deal with the effects of a disastrous famine in 1983.

In 1987 Mozambique began its economic reform designed to stabilise the economy with the adoption of a market-oriented economy, marking a departure from ineffective socialist policies. Despite dramatic improvements in the country's growth rate following these reforms, Mozambique remains highly dependent on foreign assistance. Following on this was the opening of direct negotiations between the Mozambican government and RENAMO, culminating in peace talks in Rome and the promulgation of the Comprehensive Peace Agreement in October 1992. Over a two-year period, the UN oversaw the transition from civil war, which had killed over a million Mozambicans, to democratic elections. The economic recovery that followed was owed in part to the reactivation of several sectors, the acceleration of agricultural production, and macroeconomic stability.

During the 1990s, with the onset of peace, Mozambique became a model of co-operation with western countries and donors, after having adhered to the conditions and programmes presented by the Bretton Woods institutions in 1984. Due to its economic reforms and good track record, Mozambique became the first African country to benefit from the Heavily Indebted Poor Country Initiative when it began receiving debt relief. After adopting the World Bank's structural adjustment programmes, international investment began pouring into the country, which in turn began its sweeping privatisation of formerly state-owned enterprises. Aid from western institutions has played a significant role in Mozambique's economic and social recovery, but has also been influenced by donor priorities and, as argued by some,⁵ has reduced the capacity of the government to govern itself. Official development assistance continues to finance over 50% of government expenditure, mainly in the form of budget support. Although poverty dropped 22 percentage points between 1997 and 2003,⁶ Mozambique remains one of the poorest countries in the world, occupying 172nd position in the 2005 Human Development Index, marked by very low socioeconomic indicators. Over 70% of the population lives on less than \$2 a day. The country struggles to achieve significant development in its formal sector, export capacity, agricultural production, industrialisation process, development of small and medium-sized enterprises, banking system and integration with the Southern African Development Community (SADC). In the last decade, Mozambique has witnessed an average 8% growth rate, one of the highest in Southern Africa, driven mainly by foreign-funded mega projects and large aid inflows. Since 2006 economic growth has also been driven by large investments in mineral extraction, the agro-industry, services, the construction sector and other industries.

It is in this context that China is operating in Mozambique, but, because of particular factors, has had to follow a cautious approach. The relationship between China and Mozambique was gradually rebuilt in 1997/98 with the establishment of a \$20 million fund to provide incentives for Chinese companies to start doing business in Mozambique. In 2001 the two countries set up a Joint Economic and Trade Commission after signing several agreements on trade and the protection of investment. Since 2004 China and Mozambique have signed various co-operation agreements strengthening economic, political and historical links. Agreements on debt cancellation were signed for loans dating back to the 1980s worth \$20 million. In 2006 Mozambique was added to China's official

list of tourism destinations, making it the thirteenth African country to be given such a status. Bilateral co-operation was further cemented with President Hu Jintao's visit to Mozambique in 2007, when he pledged further support, in the form of \$170 million in loans, and co-operation in the areas of agriculture, technology, education, health, the economy and the exploration of natural resources. Finally, in late 2007, a military assistance protocol was signed in Beijing between the chiefs of staff of the Mozambican and Chinese armed forces that stressed the importance of creating mechanisms to increase military co-operation and helping Mozambique meet future security and defence challenges. As part of this agreement, the Chinese government granted Mozambique a total of \$1.5 million towards the refurbishment of several departments of the Mozambican armed forces.

At the same time, while bonds of revolutionary solidarity exist between the Mozambicans and the Chinese, the new FRELIMO leadership has not managed to establish the same close connection as its predecessors did during the era of ideological solidarity. Even within the old party cadres, Maputo struggles to recognise itself in relation to this new China and its new ambitions. This has led, according to some analysts in Mozambique, to an inconsistent dialogue between Beijing and Maputo, where neither can truly capitalise on their historical ties and past co-operation. The terms of Sino-Mozambican engagement are still being drawn and the level of co-operation, development assistance, trade and investment will redefine a new era for both China's engagement in Africa (because of its interaction with other donors operating in the country) and Mozambique's ability to run its affairs in an independent and responsible manner (given that donor budget support will decrease in the medium term).

OVERVIEW OF CONTEMPORARY SINO-MOZAMBICAN FINANCIAL AND ECONOMIC CO-OPERATION

Sino-Mozambican co-operation has for the last ten years centered around high-level diplomatic visits and exchanges of legislative bodies, political parties and government agencies; foreign policy co-ordination in regional and international affairs; and the development of economic and trade co-operation in infrastructure, agriculture and natural resource extraction. Chinese foreign direct investment in Mozambique has risen considerably in the last two years, having reached \$60 million in 2007, from \$10 million in 2003, placing China as the sixth largest investor in the country.⁷ China has already invested in 69 major projects and is also the only foreign investor to create an investment promotion centre in Maputo.

Infrastructure

The widespread destruction of infrastructure during the civil war has hindered development in the country. Donor-funded infrastructure rehabilitation projects have therefore played an important role in fostering Mozambique's economic development and contributing to the county's growth. In this regard, China's explicit interest and track record in supporting infrastructure projects across the continent have made it a particularly appealing development partner. Beijing has played an important role in the

construction of an array of public buildings and proposed hydropower facilities, and the rehabilitation of roads.

China has funded several public infrastructure projects in Mozambique since 1999 with the construction of the parliament buildings. From 2001 to 2004 concessional loans amounting to \$15.6 million, to be repaid between 2013 and 2025, were assigned to several public works projects, including the purchase of police equipment and the construction of the Joaquim Chissano Conference Centre, the new Foreign Ministry and low-income housing in Zimpeto on the outskirts of Maputo.⁸ A new national stadium, seating over 45 000, is also being built by the Chinese ahead of the 2010 FIFA World Cup to be held in South Africa to provide logistical support to the host country as a training facility.

Chinese construction companies are playing an important role in the rebuilding of national roads, where a third of all road construction in Mozambique, amounting to 600 km of roads,⁹ is being carried out by Chinese road contractors. The China Henan International Co-operation Group has, for example, built a 154 km road between Muxungwe and Inchope that provides an important transportation link between the north and south of the country. Over 30 Chinese construction companies currently have offices in Maputo and normally outbid South African and other foreign construction companies in international tenders put out by the government or the World Bank. The next step for the government will be to seek funding to develop roads and railways from the interior to the coastal areas, but also linking South Africa–Swaziland–Mozambique, Beira–Malawi–Zambia and Nacala–Lichinga–Malawi. Chinese construction companies are also involved in rehabilitating urban water supply systems in Maputo (\$30 million), Beira and Quelimane (\$25 million in total) through international tender procedures, and are looking at further tender opportunities in the road and bridge construction sectors.¹⁰ The interesting aspect to note here is the participation of China and Chinese companies in international tenders launched by the Mozambican government, where they lose their bargaining position and the ability to impose certain conditions like labour requirements (as is the case when agreements are made bilaterally on donations or soft loans).

The Ministry of Public Works and Housing is finalising details with China's Export and Import (Exim) Bank on the construction of a \$300 million hydroelectric dam in Maputo that will supply both water and electricity to the capital. The Moamba Major dam will provide the city with crucial infrastructure, destroyed during the civil war, which will extend drinking water to 60% of the population by 2015 and will also decrease Maputo's reliance of Cahora Bassa for its power supply. Exim Bank is set to become the largest financier of Mozambique's biggest infrastructure project, the construction of the Mpanda Nkua dam, worth \$2.3 billion, and a 1.5 MW hydroelectric plant. In cases like these, Chinese construction companies are normally awarded the project when Chinese investment is concerned, but in this case, the construction of the dam has been awarded to Camargo Correia, a Brazilian engineering company, and to its Mozambican partner group Insitec.¹¹ A distinctive feature of the Mpanda Nkua dam project has been the level of co-operation reached among different development partners. This project comes at a time when the region is facing a debilitating energy crisis. Recent media reports also suggest that China has offered to finance three other dams on the Zambezi and Limpopo rivers, in addition to the Mpanda Nkua dam.

The Mpanda Nkua project has proved to be controversial among environmentalists, who believe that an additional dam on the Zambezi River will add to the damage caused by

the gigantic Cahora Bassa dam,¹² one of the biggest hydroelectric schemes in Africa. The new dam will be built 60 km downstream from Cahora Bassa. Some of the problems raised are the displacement of 1 400 rural farmers, and that the new dam would require that Cahora Bassa continue operating at its current destructive rate, which would, as a result, make downstream restoration even harder. In order to counter these negative effects, strategies for water management would have to be devised through prevention measures and irrigation, but this would reduce the dam's power generation by 15%. Further possible impacts on the environment include the recurrence of flooding that will destroy the capacity of subsistence farming downstream, and the degradation of fisheries. Moreover, the project has produced great debate within Mozambican civil society. The results of the feasibility study conducted in 2001 by the Technical Unit for the Implementation of Hydroelectric Power Projects, Mozambique highlighted several technical risks and negative impacts on the livelihoods of the communities directly affected and the environment. This is thought to be the reason why western funders like the World Bank are not getting involved. The dam will also be located in an area considered risky due to the probability of seismic activity.

Energy and mining

Mozambique has since the 1990s concentrated on attracting foreign investment into large projects in order to jump-start economic recovery. Investments into the country's natural resources have seen the creation of mega projects like the MOZAL aluminum smelter, the Kenmare mineral sands project, the Sasol natural gas pipeline, the Moatize coal mines¹³ and the Corridor Sands Titanium project. Foreign trade has therefore, in addition to the Cahora Bassa hydroelectric facility, been dominated by these projects. Mozambique has also begun discussing the possibility of China investing into its energy sector, mainly natural gas and coal reserves,¹⁴ but so far no agreement has been reached.

Foreign companies are currently prospecting for oil in the Rovuma Basin, near the Tanzanian border, which is believed to have both onshore and offshore deposits. The Canadian oil exploration firm Artumas has invested \$20 million in seismic studies and a deep exploratory well to verify if the existent oil deposits in 'one of the last undrilled Tertiary delta systems in the world'¹⁵ are commercially viable. In terms of other hydrocarbon exploration, there are already four proven gas fields in Mozambique, the Pande, Temane, Buzi and Inhassoro fields, and Sasol is currently conducting the exploration of the first two. The hydrocarbon potential of Mozambique has yet to be fully established and requires further studies and reconnaissance investment, an area where China may choose to become involved.

Forestry and fisheries

According to the Chinese Ministry of Commerce, bilateral trade between the two countries reached \$284.11 million in 2007, an eight-fold increase from 2001 and up from \$120 million in 2006. These trade flows have also been facilitated by China giving free access to 442 products from Mozambique. China is currently Mozambique's third largest trading partner after South Africa and Portugal, accounting for 5% of China's imports (mainly agricultural and fisheries products) and 4.7% of its exports (mainly machinery and other

manufactured goods). Although China does not currently import a significant amount of other Mozambican raw materials, it has become the largest buyer of Mozambican timber. In the province of Zambezia alone an estimated 94 000 m³ of logs were exported to China in 2006.¹⁶ Chinese logging companies are also operating in the provinces of Nampula, Cabo Delgado, Niassa and Inhambane.

Mozambique's forests are one of the country's greatest resources, with 19 million hectares of productive woodland where highly valuable slow-growing tropical hardwoods like umbila, jambirre, chantfuta and African sandalwood are found. According to the *SADC Review 2007*,¹⁷ the country's logging capacity is estimated at around 500 000 m³ per year. But experts and environmentalists are warning of the problem that the rate at which these trees are being cut will render unsustainable the continued production of hardwood resources and the rejuvenation of the forests in the next decade. Desertification and soil erosion are already becoming a reality in some areas.

China's logging activities have become one of the most controversial aspects of its engagement with Mozambique in terms of how it relates to sustainable development and environmental policies. Mozambique is currently China's lead supplier of wood in East Africa, although most of the timber is illegally exported as unprocessed logs, a strategy pursued with the assistance of locals. The partnership between local communities and Chinese timber buyers begins with the acquisition by a Mozambican national of a simple licence that allows logging to take place in small quantities in determined areas. The cost of these licences, estimated at \$15,000, is covered by the Chinese partner. The local partner then transports the logs to ports, where the Chinese buyer is waiting with either ships or smaller vessels that will transport the merchandise to cargo ships that wait in international waters. Authorities lack the capacity to effectively patrol the 2 500 km of coastline.

Several policies and programmes have been adopted by the government that aim at sustainable forest management and the development of industries in the forestry sector in order to combat poverty. Mozambique joined the African Forest Law Enforcement and Governance Initiative in 2004 as a commitment to tackle illegal logging, trade and corruption. Several national institutions have also been created to handle this problem. However, the local media continue to view this problem as one where Chinese companies involved in the illegal extraction of timber are associated with groups of powerful Mozambicans and senior government officials that have concessions and are becoming partners in several of these private companies.

Local regulations regarding the unprocessed export of logs aim to compel foreign investors to set up processing facilities in the country and promote community-based enterprises. Legislation protecting the export of the main commercial species of timber therefore exists, but has been undermined by the passing of a special regulation — the Ministerial Diploma — that reclassified commercial timber to permit its export as logs.¹⁸ Having a licence does not therefore guarantee responsible exploitation and the enforcement of regulations. Concessions — the second type of logging licence — can be awarded to foreigners where a large area of land can be exploited in accordance with sustainability and assessment plans. These types of licences are easier to regulate because of the bureaucratic and legal procedures required for a company to become a concession holder. The lack of incentives to follow these processes leads to many loggers opting to operate using simple licences, and they therefore avoid detection.

The problem is aggravated by the lack of monitoring mechanisms; as a result, reporting is rare, as are inspections and the ability to enforce quotas. Forest regulations are manipulated, bribes are common, and the falsifying of information and statistics facilitates illegal logging. In January 2008, 750 containers of logs were abandoned in the port of Nacala in the north after inspection teams began investigating allegations of corruption among customs officials. The containers belonging to Chinese companies were seized and the customs tribunal issued to eight of these companies a fine of \$556,000. The Chinese buyers were allowed to export the wood, worth \$7 million, after paying the fine and processing the logs. The companies opted for the cheaper option, which was to abandon the containers. This was the first fine ever imposed, an indication of greater law enforcement and that the government is becoming more responsive. Recent developments also saw the arrest of two forestry officials in the Zambezia province accused of conniving with TTTimber, a Chinese company, for the illegal export of 30 containers of unprocessed wood. When the containers were seized, a public auction was held and the logs were sold for more than \$16,600.¹⁹ Despite these encouraging events, illegal logging continues through poorly controlled ports in the central and northern provinces.

According to the Ministry of the Environment, what is also lacking is an adequate and updated inventory of the forests, which should be conducted every five years so that there is a way of registering which areas are being explored and the quantities of trees being cut. This would allow the ministry a greater ability to monitor each of the concession areas. Unfortunately, the last survey was done ten years ago, and the government lacks the resources to conduct these studies, which in the past were carried out by co-operation partners.²⁰ As noted above, the local press has become very aggressive regarding this issue and the average Mozambican has started to view the Chinese as a danger and as conducting illegal activities.²¹ What has emerged because of this is a large national campaign against illegal logging, and pressure is mounting on the government to take action in this regard. Negative reactions have become widespread, because this sort of practice further undermines the possibility of activating local industries and the creation of employment and is depriving the country of potential tax revenues. The growing public pressure on the government has resulted in the seizure of 900 m³ of precious unprocessed hardwood at a small port in Cabo Delgado, destined for illegal export to China, in October 2008.²² This followed on the detention of two provincial officials allegedly involved in undervaluing and disguising timber exports.

Fisheries is also a sector that provides Mozambique with significant foreign exchange earnings, but has the potential to have a greater impact on the country's gross domestic product (GDP) by the development of shrimp, oyster, mussels, algae and pearl aquaculture. The commercial fishing of seafood, mainly shrimp, accounts for 3% of the country's GDP. Mozambique currently has a potential annual catch of 300 000 tonnes, mainly harvested by a number of direct licensing schemes and joint ventures with companies from Japan, South Africa and Portugal.²³ The sector also employs nearly 100 000 people, most of whom are artisan fisherman. The Chinese have been accused of illegal fishing by using methods that catch turtles and sharks, like long liners and gill nets, and contributing to the degradation of coastal areas.²⁴ Civil society groups claim that Chinese fishing vessels are involved in large-scale poaching of shrimp and lobster and other species of fish.²⁵ Mozambican authorities struggle to patrol the coastline with just ten patrol boats and enforce the law stipulating that industrial fishing can only occur 12 miles from the coast.

Banking and investment from Macau

In early 2008 it was announced that a new bank would be opening in Mozambique with capital from China's Administrative Region of Macau and Portugal. The majority shareholder is Geocapital, a company created as an investment vehicle in lusophone Africa, set up by the billionaire Stanley Ho from Macau. Moza Banco will have initial capital of \$10 million and will initially concentrate on investment banking, although it has been given a licence to operate as a general bank.²⁶ There are in total 150 investors, most of whom are Mozambican individuals who will control 51% of the bank. The former governor of the Bank of Mozambique, Prakash Ratilal, has been appointed chairperson of Moza Bank, which will open later in 2008.

The banking sector in lusophone Africa is entering a very dynamic phase with new acquisitions, expansion and co-operation projects in Mozambique, Angola, Guinea-Bissau and Cape Verde, with investors from Portugal and Macau giving it a major impulse. Geocapital's ambition is to use Macau as a privileged structure to attract Asian businesspeople interested in big projects being launched in Portuguese-speaking Africa.²⁷ The Bank of China has also been reported to have approached the Brazilians to start banking and brokerage operations. Future developments in this sector might witness the development of partnerships between Portuguese-speaking countries and China's Exim Bank with the objective of creating a financial platform that would facilitate the provision of loans for large projects and the joint financing of projects.²⁸

DEVELOPMENT ASSISTANCE AND AREAS FOR FUTURE CO-OPERATION

While calling for further collaboration with China, Mozambican President Armando Guebuza is quoted as stating that while the current agreements between the two countries are valuable in complementing the efforts of the Mozambican people, they will not address all the challenges faced in the struggle against poverty.²⁹ The Mozambican government, together with donors and international financial institutions, has vowed to take action and implement policies and programmes aimed at poverty alleviation. These include the Action Plan for the Reduction of Absolute Poverty, the National Agricultural Programme, and the passing of several recent laws and regulations citing sustainable forest management and the development of forest industries as fundamental steps towards combating poverty. China has expressed interest in promoting investment and development in such areas as the country's agricultural sector, the production of biofuels, and the provision of technical expertise and capital in the creation of special economic zones.

Agriculture

With an estimated 36 million hectares of arable land, a network of 60 rivers, and a wide diversity of soil types and climatic conditions, the agricultural potential of Mozambique is massive. The majority of the population depends on agriculture for subsistence and employment, but this underdeveloped sector is not yet contributing to rural development and poverty reduction. The agricultural sector, which accounts for 90% of the cultivated

land (an estimated 10% of the total available land) and includes 2.5 million households, is therefore dominated by the family subsector, which uses non-irrigated farming methods and, because of its out-dated techniques, produces low yields.³⁰ However, due to the country's propensity for natural disasters like floods and drought, and the fact that most of the farming done is rain fed, the outlook for success in improving agricultural productivity is uncertain.

In order for Mozambique to develop its agricultural sector, it must first create favourable conditions for investment in this sector and design a national strategy, like the creation of agro-ecological zones through the mapping of the territory to identify which areas are better suited to different types of farming.³¹ Investors also value land that has infrastructure, access and irrigation systems. The creation of fundamental infrastructure strategies — roads, rails and bridges — to increase product output and the development of processing facilities are pivotal if the country is to best utilise a valuable resource. China can play an important role in realising these aims.

Both the Chinese and the Mozambican government agree that the large-scale production of rice in this region would be mutually beneficial in terms of helping China address its food insecurity problem and improving Mozambique's ability to tap into an underdeveloped source of wealth. Beijing is reported to have pledged to invest \$800 million towards the modernisation of the Mozambican agricultural sector, with the immediate objective of increasing the production of rice from 100 000 tons to 500 000 tons yearly in the next five years.³² The consumption of rice in China has doubled in the last 20 years to 50 kg per person per year, while the consumption of other crops, like sugar, soya and cereals, has seen a 30% increase. Access to arable lands is therefore a matter of priority for Beijing. China's involvement in the agricultural sector will bring several benefits for the country in terms of its export capacity (given that 90% of the Mozambican diet is comprised of cassava and maize); rural development, with the rehabilitation of infrastructures; and the transfer of skills, technology and expertise.

The highly fertile Zambezi Valley, located in Mozambique's central provinces, is being identified by foreign investors as a region where commercial farming can eventually take place. A memorandum of understanding was apparently signed in 2006 between the two governments regarding the creation of a large agricultural project that would run by China and would involve a settler community of 20 000 Chinese,³³ although there is as yet no evidence of it being operationalised. Joint ventures in the agriculture sector are also being developed, a case in point being the joint project between Mozambique and the China Grains and Oils Group for a soya-processing plant in Beira, worth \$10 million. This model, combining a Mozambican partner to supply the natural resources (fertile land or mineral-rich land) and the Chinese partner to provide the capital, technology, knowledge and the construction, is likely to be repeated in the future.³⁴

In terms of technical assistance, an agreement was signed in September 2007 with the Eduardo Mondlane University to conduct research on rural development and agriculture. Subsequent to the Forum on China-Africa Co-operation in Beijing in 2006, China created the first pilot project in agricultural technology co-operation — the Umbeluzi Institute of Agricultural Research — in Maputo. In addition to the Umbeluzi centre, there is also the possibility of building a pilot centre for agricultural technology in the province of Nampula in the north of the country. A group of 100 Chinese experts is also reported to have arrived in Mozambique to assist with an irrigation channel networks project, in

addition to a team from the Hunan Hybrid Rice Institute.³⁵ China has also funded several other smaller agricultural schools nationwide.

In order for Mozambique to fully leverage the potential of its agriculture sector and achieve agricultural growth, it will need the expertise and investment of countries like China that have past experience of setting up agricultural research and extension systems and can also offer a market for African exports. Strong pro-poor policies should therefore stem from boosting agricultural and rural development so that large numbers of unskilled labor can be absorbed into small farms. China can again play an important role here, with its expertise in mechanisation and improved seeds, fertilisers and irrigation systems.

Production of biofuels

Another area that is currently being looked into for future development is the bioenergy sector, because of suitable climatic and ecological conditions for the production of energy crops like sugar, jatropha and tree crops; the abundance of arable land; and a large rural population needing employment. The recent rise in fuel prices has negatively impacted Mozambique development, forcing Maputo to negotiate with the International Monetary Fund and World Bank for additional funding to allow it to import refined fuels. The production of biofuels would decrease the government's dependence on external fuel and would provide an important source of income for farmers nationwide. Brazil, Portugal and China (via Macau) are reported to be assisting Mozambique in crafting a policy relating to this.³⁶ According to an agriculture specialist, the problem facing the government is how to use the thousands of hectares of land targeted without creating conflict with the communities that inhabit them. The government is trying to find ways of limiting the rights of such communities in order to legally liberate huge areas for the production of biofuels.³⁷

Brazil and China are establishing a strategic co-operation project in the field by joining the agronomic expertise of EMBRAPA (the leading tropical agricultural research institute in Brazil) with the large investment required to develop infrastructures (an area where China has already made significant investments). In this context, Mozambique could greatly benefit from a trilateral approach to development, something that the country is already pursuing in other energy areas, like the Mpanda Nkua dam. However, for this sector to be developed, investment and expertise in agronomy, infrastructure and production plants are necessary. It has been estimated that Mozambique has the capacity to produce 7 exajoules of liquid biofuels, which equates to around 3 million barrels of oil equivalent per day.³⁸ Other studies have shown that the country will be capable of producing 40 million litres of biodiesel (using Jatropha, ricin, palm and coconuts) and 21 million litres of bioethanol (using sugarcane, cassava and maize) per year.³⁹ Given these numbers and the renewable nature of these fuels, plus the fact that they are an environmentally sustainable energy source, the production of biofuels is very attractive to foreign investment and co-operation among donors. A new biofuel law is reportedly being drawn up by government.

Special economic zones

In terms of expertise transfer, Mozambique has taken active steps in learning about China's special economic zones (SEZs) and using this blueprint to attract foreign investment.

Several industrial estates and scientific and technology parks are being considered, with at least one already being built. In March 2007 a delegation from the Mozambican Ministry of Agriculture, Finance and Development and the Central Bank spent several weeks in China learning about SEZs. The concept was approved by the Council of Ministers in March 2007, and the first SEZ will be established in Nacala. This SEZ aims to create triangular corridors (development corridors), with assistance from Japan and Vietnam, connecting to Zambia and Tanzania aimed at maximising the potential of the coastal areas. Nacala will have an oil refinery and other processing plants, where the main objective will be to import raw materials and then process them and do the value adding in Mozambique. An additional oil refinery will be built in the deep-sea port of Ponta do Bela in the south, which has also been approved by the Council of Ministers. Chinese companies like the information technology giant Lenovo have expressed interest in the creation of these industrial parks so that they can have greater representation in Mozambique with more computer assembly plants and factories.

GOVERNANCE AND CO-OPERATION AMONG DONORS

In terms of governance, Mozambique has been quite active in trying to regulate the actions of Chinese state-owned enterprises in terms of legislation, the watchful eye of the media, the active participation in national dialogue forums of civil society, and in details like the translation of Mozambican labour law into the Chinese language. This is a legacy of the activist civil society that developed alongside the strong presence of western NGOs from the 1980s onwards. The country's ability to regulate the actions of smaller Chinese firms, acting in collusion with Mozambicans, in the forestry and fisheries sector has already been demonstrated to be weak.

Areas for potential co-operation among donors are increasing, but it is up to the government to devise an integrated approach. Mozambique must be able to negotiate within a national development strategy where each ministry provides input into this strategy by identifying which areas have to be developed. What remains to be seen is whether policies and activities in China itself support the development goals and reforms that the Mozambique government is pursuing. The government has a well-defined development strategy aimed at poverty reduction and reaching the Millennium Development Goals that is being assisted by its collaboration with donors and development partners. In order to pursue these goals, the government requires more external financing and additional efforts aimed at further activating and increasing domestically mobilised resources. In this regard, it attempts to promote the processing of natural resources locally and the development of labour-intensive export-oriented manufacturing activities. China has responded to several funding requests, making Exim Bank one of the top official development aid providers to the country operating in non-traditional sectors such as public infrastructure.

In terms of the safeguarding and use of natural resources, both national institutions and development actors in Mozambique are working together to find a way to preserve the natural resources of the country and protect the environment. The government is trying to prioritise environmentally sound projects and territorial planning, and is working towards the prevention of land degradation, the sound management of resources and keeping pollution levels low. Legislation has been passed and is being applied in this respect, as

are actions towards institutional capacity building. What has been witnessed so far among Chinese private companies is a disregard for environmental considerations, especially in the timber industry, while efforts are being made by the Chinese government to promote the principles of corporate social responsibility and sustainable development to state-owned enterprises in Africa.

Mozambique claims not to have any preferential procurement policies, but because national institutions are influenced by donors who normally want to give preference to their own companies, the government is unable to prevent this type of practice. However, the most recent case of Mpanda Nkua being built by the Brazilians, yet funded by the Chinese, is an example indicating that certain regulations are being respected. Many tenders are in fact funded by the World Bank. This highlights another aspect that relates to the co-ordination of aid policies by donors and the pursuit of the principles of the Paris Declaration aimed at harmonising aid delivery. Chinese aid is not conditioned by any conditionalities regarding governance, transparency and macroeconomic performance, but China believes instead that economic equality and social justice are achieved through public investment and the development of human capital. The problem here is that the relatively easy access to large funds and the freedom to choose how to allocate these can undermine governance because of existing institutional weaknesses and monitoring mechanisms. This can also lead to a rise in corruption levels and the misuse of resources.⁴⁰ In addition, the Mozambican parliament does not participate in any of these decisions, whether in terms of assessing which projects have to be prioritised or determining the funding needs of the country, because these issues are considered administrative and therefore to be addressed by the executive and not the legislative branch of government.

The lack of serious involvement by civil society in public planning and development issues is slowly being addressed by measures like the creation of the Broad Council of Ministers. President Guebuza has created this forum to bring together ministers, provincial governors, academics, influential members of the party, etc. It has already met three times, and in one of those meetings the issue of creating conditions for community development was addressed.

CONCLUSION

China is operating in Mozambique using a different approach to that seen in its engagement with other African countries, because of Mozambique's long-term geostrategic value in East and Southern Africa. Mozambique is strategically located to provide its neighbouring landlocked countries of Malawi, Zambia and Zimbabwe with the benefits of a 2 000 km coastline and several deepwater ports, making the country an important transport provider and trade conduit for its hinterland. Mozambique is therefore an entry point for maritime access from the Maputo corridor to the Walvis Bay corridor. Several of Mozambique's ports are currently being refurbished and upgraded, with the expectation that they will become a shipping gateway for East Africa. The port of Pemba could come to compete with Dar es Salaam and Mombasa, because of its deep harbour that does not require dredging and allows it to handle large cargo ships.⁴¹ The rehabilitation of the harbour infrastructure of Quelimane in the province of Zambezia and that of Nacala in Nampula province are also potential projects that could be financed and constructed by the Chinese.

According to the Ministry of Planning, the China Development Bank, currently financing several projects in Southern Africa, is said to want to base its regional office in Maputo, with the objective of subsequently going into Zambia, Zimbabwe and Malawi. The idea is to create a centre for financial decision making and regional integration by securing funds for the construction of railways to the interior and into other countries. China is perceived to be using Mozambique as an entry platform into SADC, because of its geographic location, ports, resources and infrastructure necessary to ensure the flow of commodities for export.

Mozambique also has to gain from its engagement with China. Chinese development assistance has been beneficial and has reduced Maputo's dependence on traditional donors. Unlike the West, China does not tie its development assistance to assessment frameworks that evaluate the country's performance in terms of governance, transparency, human rights and democracy. So far, China has adapted to the multilateral international setting in Mozambique and Maputo's pragmatic diplomatic approach to foreign partners, but its investment practices have already given rise to some problems, in particular regarding labour standards, and relatively weak institutions and enforcement agencies.

Mozambique will face several challenges in the future regarding its development strategy, conditionality compliance regarding its traditional donors and its ability to make sound economic policy options. This scenario will become a reality when Mozambique begins extracting its hydrocarbon reserves and further exploring its natural resources. The country runs the risk of becoming a resource-dependent and resource-driven economy with the rapid development of the aluminum, natural gas, coal and forestry sectors, and with the eventuality that deposits of oil in the Rovuma Basin prove to be viable. In order to avoid this, it is important that the country take steps to develop other areas of its economy, like agriculture, services, manufacturing and tourism. However, if Maputo decides to continue its development path as defined by its engagement with international funders like the World Bank, then China's ability to operate as a more attractive development partner will be reduced. The case of the Mpanda Nkua project shows that the Mozambican government's economic diplomacy is becoming more refined and, in so doing, is having an impact upon the way in which China operates on the continent. The involvement of another partner, Brazil, in an agreement that would normally be a bilateral arrangement between governments is indicative of China's willingness to adapt to the specific context of Mozambique and work under different circumstances.

ENDNOTES

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