

# *Introduction*

This volume includes some of the papers presented at the Inaugural Conference of the Institute for Social and Economic Studies (IESE), which took place on 19 September, 2007, in Maputo. The articles contained in this volume were selected from two Conference panels, on “Macroeconomic themes” and “Social and economic development and poverty”. The topics of the Conference, on “Challenges for social and economic research in Mozambique”, and of the panels were broad and dependent on papers submitted. Hence, the current selection of papers does not address a common problematic nor follow a common approach. The only common element in all papers is that they all deal with economic issues, although following different methodologies and approaches.

The sequence of the articles in this collection does not reflect any hierarchy, although Carlos Pimenta’s article, the first, sets the tone of the debate with an epistemological discussion about the nature of inter-disciplinarity and heterodoxy in social and economic analysis, with an application to the analysis of globalization and development in Africa. The remaining six articles discuss different macroeconomic issues and the final article is the only one, in this collection, that is specifically focused on one sector, transport. Not all the articles are about Mozambique, nor are those that discuss Mozambique exclusively applicable to this country. But all of them are relevant for the development debate in Mozambique.

The first article, “*Heterodox reflections about development and globalization in Africa*”, by Carlos Pimenta, begins by drawing attention to the importance of heterodoxy and of inter-disciplinarity in economic analysis. It then analyzes and

deconstructs current orthodox theory. After some statistical references to Africa, it focuses on globalization. Making a distinction between “globalization” and “internationalization”, the analysis of the former concentrates on the importance of financial markets and fictitious capital. It then highlights the existence of an indissoluble relationship between globalization and the underground economy, between the former and the intensification of socio-economic inequalities. This is the context for an analysis of the false dichotomy of “co-operation and development”, integral parts of imperialism’s strategy, ways of rent seeking by the dominant economies and of further displacing the periphery. Pointing out that there is no relationship between cooperation and development, as the former can be the denial of the latter, it presents an alternative view of development based on the characteristics of under-developed economies, not international comparisons. It concludes with some critical observations on the fashion for “rent seeking economics/economies”.

The second article, “*Discretion and Heterogeneity in Mozambican Rural Labour Markets*”, is authored by Carlos Oya, Chris Cramer and John Sender. This paper presents some results from the largest rural labour market survey yet conducted in Mozambique. Evidence from three provinces shows that labour markets have a significant impact on the lives of a large number of poor people and that employers exercise considerable discretion in setting wages and conditions of casual, seasonal and permanent wage employment. The evidence presented comes from a combination of a quantitative survey based on purposive sampling with other techniques, including interviews with large farmers. The findings contrast with ideas that rural labour markets are irrelevant to poverty reduction policy formulation in Africa and the paper concludes with methodological, analytical and policy recommendations. The paper addresses major shortcomings of many rural household surveys and it also addresses the lack of empirical understanding of labour markets in developing countries, a gap that development economists and agencies have increasingly acknowledged.

The third article, by Aldo Caliarì, is entitled “*Is a good investment climate relevant to the African development experience?*”. The past few years have seen investment climate reform take center stage in the World Bank Group operations, and other donor-led initiatives. While the drive to reform the investment climate is not new, the new approach places emphasis on tools for diagnostic, measurement and policy advice (such as the Doing Business indicators), rather than policy-based lending. This article describes the latest World Bank efforts and unpacks what it means by “good” investment

climate. It argues that the analytical and diagnostic work relies on assumptions that are far from sound, based on a critique of the process and content of the analysis. Due to its biases, and its suspicious attitude towards any form of state intervention, the Bank's investment climate reform agenda may undermine the very capabilities that states in Africa need to nurture in order to embed, as they craft their optimal investment climate, responses to confront the specific market failures they face.

The fourth article, co-authored by Aurélio Bucuane and Peter Mulder, discusses another key topic related to current challenges for development in Mozambique, “*Expanding the Exploitation of Natural Resources in Mozambique: will it be a blessing or a curse?*” Mozambique has considerable natural resources, the greater part of which have yet to be exploited. The Government of Mozambique is determined to extract and export its natural resource potential as fast as possible, supposing that this will positively contribute to economic growth and poverty reduction. However, many resource rich countries are among the poorest nations in the world, in spite of decades-long exploitation of their natural wealth. This so-called ‘paradox of plenty’ or ‘resource curse’ raises the question of whether the foreseen exploitation of natural resources in Mozambique will pose a threat rather than a blessing to its economic development. In this paper, we first estimate the potential resource wealth of Mozambique in comparison to other countries. Next, we briefly review the growing body of literature on the existence and determinants of a natural resource curse. Then we evaluate the risk of a resource curse occurring in Mozambique in the (near) future. Finally, we try to come up with suggestions to avert a Mozambican resource curse.

The fifth article, “*Budget Reforms in Mozambique: Towards a Political Economy Approach*”, by Paolo de Renzio, looks at the progress achieved by Public Finance Management reforms in Mozambique in the period 2001-7, using consolidated data from HIPC and PEFA assessments. The results show that there have been improvements, especially with regard to budget coverage and transparency, and to the role played by the Administrative Tribunal and by Parliament. Important weaknesses persist, however, in the area of internal controls, despite recent improvements. Traditionally, capacity constraints and a generally conceived ‘lack of political will’ have been blamed for slow and uneven reform efforts. Taking politics seriously, however, implies a much more careful approach to the political economy dynamics shaping reform initiatives and efforts, including the role of donors. Some basic questions and hypotheses have been put forward to outline what a political economy approach could look like.

*“Exchange Rate and Consumer Prices in Mozambique: A Cointegration Approach”* is the sixth article, authored by Carlos Vicente. Using monthly data from 2001:M1 to 2006:M12, this paper applies the cointegration approach and the associated error correction model to study the importance of money, exchange rate and South African prices in explaining consumer price changes in Mozambique, focusing on the estimation of the long-run pass-through coefficient. Consistent with previous research, the paper finds that money, the exchange rate and inflation are important determinants of inflation in Mozambique. In particular, one per cent exchange rate depreciation leads to 0.15 per cent increase in the price level. In addition, money and South African prices are the most important variables in explaining the variation in prices. Compared with the exchange rate, money explains a relatively larger variation in prices.

The last article, by Pauline Dibben, *“Transport, Trade and Economic Development in Mozambique: An Agenda for Change”*, is the only one that focuses on one specific sector of social and economic activity. This chapter assesses whether transport infrastructure and provision in Mozambique adequately addresses the country’s need for trade and employment, poverty reduction and broader economic development. Transport is conceptualised within the political and economic context, reflecting the country’s internal dynamics, and its close linkages with South Africa. Mozambique is seeking to recover from a history that has been marked by colonial rule, war, and a heavy reliance on international institutions. Moreover, structural adjustment and privatisation have been followed by the leasing of transport infrastructure, which has had mixed results. It is also heavily reliant on inward investment from countries such as South Africa, and although contributing to high levels of GDP, investors have tended to receive very favourable taxation concessions. Changes to the tax regime and institutionalised linkages with local firms might yield greater long term benefits for the country as a whole. There appears to have been some growth in small scale development, agriculture and tourism. However, the lack of rural roads, and low maintenance of roads in both the North and even the South of the country is likely to inhibit further development. An agenda for future research on transport for trade in Mozambique might include: the historical process of the leasing of transport infrastructure; a longitudinal study of foreign direct investment in transport and evaluation of new taxation regimes; and a comprehensive mapping of railways, waterways and roads in both urban and rural Mozambique.

In brief, the seven articles that form part of this volume deal with many different aspects of social and economic development that are relevant for Mozambique, applying different methods and approaches. Although they do not form a coherent whole, they illustrate two fundamental points. First, the challenges of social and economic research for Mozambique that involve the debate of method and approach, the choices of topics, seeking the use of research done in other contexts and countries but that is relevant for Mozambique and the implications of all of these differences for policy debate. Second, as the Mozambican economy and development process can be analyzed and discussed in many different ways, policy debate needs to be well located in history and context, and well informed, to be of any relevance.

In short the seven articles in this volume deal with a variety of aspects of the Mozambican economy, using a range of theoretical method and approaches.

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