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1. Introduction

Mozambique's recent development has been influenced by successive and simultaneous events bound to create abrupt and major changes in the productive capacity of the economy and in the behaviour of the economic agents. These include the disruptions brought about by the decolonization process, a permanent state of war\(^1\), a series of severe natural disasters, and swings in international commodity prices of both major exports and imports. In addition, the country has been subjected to radical regime changes. In the 1970s, this took the form of a wholehearted adherence to a socialist development strategy that failed to generate the expected results. Since the mid-1980s the government has been moving away from socialism and adopting the free-market economy.

The analysis of this paper covers the period between the accession to independence throughout the socialist experiment, and discusses some of the major events leading to the economic crisis and the subsequent adoption in 1987 of a stabilization and adjustment program with the support of the international Monetary Fund and the World Bank. In particular, the paper deals with the commodity boom and the socialist experiment and their interactions, and assesses how these operated to generate some of the macroeconomic imbalances that continue to hamper the economic restructuring and development of Mozambique.

The country gained its independence from Portugal in 1975, after ten years of nationalist war of liberation. The decolonization process was accompanied by a massive exodus of expatriate owners and managers of enterprises, as well as illegal exportation of capital (physical and financial), resulting in the disorganization of economic activity and massive losses of output.

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\(^1\)The war of destabilization conducted by the former settlers' government of Rhodesia started in 1976 in retaliation against Mozambique's decision to adhere to the sanctions mandated by the Security Council of the United Nations and cut all links with that country, and to counter Mozambique's support to the nationalist movement. In addition to direct acts of war by its army, the regime used its intelligence services to support the creation, training, arming, and logistical support to RENAMO (Resistencia Nacional Mocambicana) which then operated as a surrogate guerrilla force. When the former settlers' regime in Rhodesia was abolished and the nationalist movement took power in Zimbabwe, RENAMO was inherited by the government of Apartheid South Africa and used to destabilize Mozambique as part of the regional war strategy of the South African Defence Force. In 1984 the governments of Mozambique and South Africa signed the 'Nkomati Agreement' to end this war, but RENAMO continued to operate on a more or less independent basis. The RENAMO war escalated until eventually ending October 1992 with the signing of the 'Rome Peace Agreement' with the government on Mozambique. This agreement paved the way for the still going political transition.
During the late 1970s through the early 1980s a consumption boom related to the populist policies of the period immediately after independence combined with the investment boom related to the socialist 'big-push' development strategy adopted in 1977 to put strong pressures on the current account and the government budget. During this period, major increases in export prices of primary commodities generated terms of trade improvements and a corresponding income windfall that concealed the underlying decline in export volumes resulting from the economic crisis that followed the decolonization process. These terms of trade gains improved the country's creditworthiness allowing the government to borrow abroad to finance consumption investment expenditure.

The coincidence in 1982 of a negative terms of trade shock and restricted access to international credit markets added to the intensification of the war to bring further decline in primary commodity production and exports, eventually sending the economy into a downwards spiral that undermined the socialist 'big-push' and forced the enactment in 1987 of a stabilization and adjustment programme under the auspices of the International Monetary Fund and the World Bank.

This paper presents the preliminary results of a larger research project dealing with the economics of stabilization and structural adjustment in Mozambique. It covers the results of the first phase focusing on the impact of commodity shocks experienced by the economy of Mozambique during the period between 1975 and 1986. The paper presents a periodization and taxonomy of these shocks, the measures of their size, and discusses the responses to them by both the government and private economic agents.

The main argument in this paper is that the investment boom and the fiscal and current account imbalances that occurred in Mozambique in the late 1970s and early 1980s were a joint product of both the commodity boom and the socialist 'big-push', and they cannot be understood without a thorough investigation of each of these shocks as well as their interaction.

Coming in the wake of the populist policies of the early years after independence, the socialist 'big-push' was conspicuous for its investment drive, generating resource requirements out of line with domestic income and propensities to save. In this context,

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2 The analytical approach of this study follows the methodology deployed by Bevan, Collier and Gunning (June 1991): The Kenyan Coffee Boom of 1976-79, and expands it to deal with specific requirements of the Mozambique case study.
the commodity price shock had a substantial effect on the investment boom. It did so by enhancing the creditworthiness of the country and thus enabling the government to borrow abroad to finance the investment boom. Thus the commodity shock made the socialist 'big-push' look like a feasible strategy.

The Government intervened in a way that created a highly inefficient transmission mechanism of the commodity boom. Fiscal policies were not specifically targeted to windfall incomes, and aimed at generating revenue required to finance the boom in public investment and consumption. Due to the ideological drive behind the socialist 'big-push', policies became irresponsive to changing circumstances. The private sector was driven out of the mainstream of the economy, forced to de-accumulate physical assets and to engage in unproductive rent-seeking activities. The investments initiated by the government were of long gestation periods, and imposed severe sacrifices on consumption. Further, before the investments made could generate any returns, they were disrupted by the war and natural disasters. The net accumulation of public assets was very low relative to resources manipulated through government revenue and spending polices.

1.1. The scope of the study

The commodity shocks analyzed in this paper represent only one set of the shock events that affected the economy of Mozambique in the period covered by the study. Others will be analyzed in the subsequent stages of the research. Amongst these are the shocks caused by major natural disasters (such as the 1977-78 floods, and the 1981-83 and the 1991-92 droughts), the war of destabilization conducted by RENAMO and South Africa, the aid boom that started in the late 1980s, and the policy shock originating from the adoption of a radical stabilization and adjustment programme in 1987.

The war constituted probably the most devastating shock to the economy. It generated random, successive, and widespread knockout effects on physical capital stock. Through its targeting of civilians and social infrastructure, it had also devastating effects on human and institutional capital formation. Because the war tended to induce or reinforce the case for the establishment of controls and rationing, to create new sources of risk to investment, to disrupt the enforcement of contracts, law and order, and to distort
the patterns of savings and consumption, its effects reverberate beyond the capital stock knockout. The impact of the war on Mozambique’s recent past (and future) development deserves major attention and while it will frequently be mentioned as a qualification to the findings presented in this paper, the war-shock in itself shall be the subject of further and specific study.

1.2. Summary of the recent performance of the economy of Mozambique

Between 1974 and 1976 the economy of Mozambique experienced its most severe decline in nearly three decades, reflecting the impact of the decolonization process. Real Gross Domestic Product at factor costs (at 1975 prices) which in 1973 grew at 5.3%, successively fell by 6%, 22% and 17% in each of the three years between 1974 and 1976. Positive growth finally occurred in 1980 (most of it reflecting a major investment blip) but that was short lived (Table 1). By 1986 real GDP was just below 60% of its level in 1980\(^3\), the year it had fallen to only 80% its 1975 level. In 1986 GDP was less than 50% of its level in 1975. This decline in output was led by the collapse of exports. In the two years 1976 and 1977 current export earnings in Dollar terms fell by around 31% and 25% respectively, despite increases in commodity export prices that generated substantial gains in the terms of trade. The second half of the 1980s is characterized by major losses in export earnings.

Starting in 1987 with encouragement from the International Monetary Fund and the World Bank the government of Mozambique initiated the implementation of a radical programme of macroeconomic stabilization and structural adjustment of the economy. The programme aimed to restore macroeconomic balance, and reverse the persistent economic decline that the economy has undergone since 1974/75.

\(^3\) World Bank: (1990): Mozambique - Restoring Rural Production and Trade, Table 2.b.ii, p. 9.
<table>
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<th>YEAR</th>
<th>GDP%c</th>
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<th>EXPORTS</th>
<th>IMPORTS</th>
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Notes: Data in Meticais as in World Bank (1984) has been converted by the official nominal exchange rate of the corresponding years. No corrections have been made for the overvaluation of the domestic currency. GDP and GDInvestment series from World Bank (1984) and World Bank (1990) have been linked by using the annual growth rates from World Bank (1990) to expand the World Bank (1984) series. The latter cover the period 1971-1981.