

Scientific Journal of Applied Social and Clinical Science

Acceptance date: 25/09/2024

CONTRIBUTION OF FOREIGN DIRECT INVESTMENT TO ECONOMIC DEVELOPMENT IN MOZAMBIQUE

Renata Inésia Rafael

Master's student in Business Administration and Management, Catholic University of Mozambique - Faculty of Forestry and Wildlife Resources Management

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Abstract: Investment is the investment of resources in a particular activity with the aim of making a profit in the future. There are various types of investment, including Foreign Direct Investment. The purpose of this investment is to contribute to the economic, technological and social development of a country through the injection of capital, allowing the investor to expand its activities, with future economic benefits for both the investor and the recipient country. To this end, the recipient country needs to adopt favorable socio-economic policies in order to attract investment. Mozambique is no exception, and in order to attract FDI, it has created a political, economic and legal framework with laws that are favorable to investment. This work was therefore carried out with the aim of assessing the contribution of Foreign Direct Investment to economic development in Mozambique, during the presidencies of Presidents Armando Emílio Guebuza and Filipe Jacinto Nyusi, through a descriptive approach, and using bibliographical and documentary consultations, it was possible to collect data on the main economic development indicators, among others. The work was based on a qualitative approach, which resulted from collecting data by observing phenomena, recording and analyzing aspects, without altering them. During these mandates, strategic measures were introduced into the country's socio-economic policy in order to attract foreign direct investment. Comparing the two mandates, the mandate of President Armando Emílio Guebuza (2005 to 2014) had a lower volume of FDI, compared to the mandate of President Filipe Jacinto Nyusi (2015 to 2024), but with a better performance of the Mozambican economy.

Keyword: Investments, Resources, Economic Development, Presidential Mandate

INTRODUCTION

Investing means allocating necessary and indispensable resources to production in the hope of obtaining satisfactory results for the well-being of the near future. For there to be economic development, there needs to be an accumulation of capital aimed at enabling productivity to improve the living standards of societies, as a result of economic growth. The production chain needs to grow in order to create capital and wealth. Successful investment generates wealth. It is necessary to create a favorable environment for foreign direct investment, in order to give investors confidence so that investments are not risky. However, it is the responsibility of governments to create these policies.

It was with this in mind that Mozambique, with the support of the International Monetary Fund (IMF) and the World Bank, introduced the Economic Rehabilitation Program in 1987, with significant changes in economic policy in order to boost the already devastated national economy towards development. It adopted measures attractive to Foreign Direct Investment, creating a political, economic and legal framework favorable to foreign investment, such as Law No. 3/93, of June 24, on the legal regime for national and foreign investment, the regulation of the investment law, established by Decree No. 43/2009, the tax benefits code, and Law No. 8/2023, of May 18, on the Legal Regime for Public-Private Partnerships, Business Concessions and State Business Holdings.

In Mozambique, the presidential term lasts five years and can be extended for a second consecutive term, according to the constitution, as long as he meets the electoral requirements and faces the election process. It begins with the inauguration, which takes place shortly after the official proclamation of the election results. It is in this context that the need arises to carry out this study, to answer

the following question: *what is the contribution of Foreign Direct Investment to economic development in Mozambique, from 2005 to 2014 and 2015 to 2024, during the terms of presidents Armando Emilio Guebuza and Filipe Jacinto Nyusi respectively?* In a descriptive way, the study aims in general to evaluate the contribution of Foreign Direct Investment to economic development in Mozambique, in the period 2005 to 2014 and 2015 to 2024, in the presidential terms of Presidents Armando Emilio Guebuza and Filipe Jacinto Nyusi respectively, and specifically, it was intended to discuss the implementation strategies of FDI on the one hand, compare the contribution of FDI in Mozambique to economic development on the other hand, and finally find the period with the best performance of FDI in the economy, in the terms of office of each President. The study was the result of an analysis of official Mozambican economic data and a bibliographical and documentary review, and it is hoped that it will contribute to broadening knowledge about the contribution of foreign direct investment to economic development in Mozambique, and that it can thus constitute a consultation tool for further studies or projects aimed at the Mozambican economy. In these terms, it was based on a qualitative approach, which resulted from collecting data by observing phenomena, recording and analyzing aspects without, however, altering them.

LITERATURE REVIEW

INVESTMENT

Society has shown itself to be dynamic, with various factors contributing to its well-being. In order to respond to this dynamism and maintain human stability, it is necessary to take measures that look to the future, from saving existing assets for use in situations where future needs may arise, to investment,

which means applying the amount saved in other activities that may bring returns in the form of income in the future. According to Marques (2014), investment is associated with the accumulation of means of production, either directly or indirectly, whose return is to boost economic activity. This differentiation between direct and indirect is responsible for the division between real investment and financial investment.

Investing means investing available resources (often financial) in an activity with the aim of obtaining a return, whether public or private. Soares et. al (2015, p. 22), says that “financial investments have a purely financial aspect of investing savings in order to obtain an income”, while defining real investment as creating the conditions for production or the provision of services, i.e. as an agent for obtaining profit through the execution of activities.

Investing is rationalizing current resources in order to apply them and obtain a positive return so as to guarantee future sustainability. A financial investment is related to the deprivation of present consumption or pleasure with the aim of building something with greater value for future use (BERNSTEIN; DAMODARAN, 2000). Assaf Neto (2014, p. 33), on the other hand, says that investment represents an increase in capital and the generation of wealth. Thus bringing a more economic view to the subject.

Financial investments are the most notable in modern society, translated into monetary values. Reilly and Brown (2003) point out that an investment is the commitment of money over a period of time, with a view to future payments that will compensate for the elapsed process; investments can be made by an individual, government entity, pension fund or organization. When making a financial investment, it is necessary to identify some goals, such as: the time over which the

capital will be invested, the objective of the investment, the risk to be taken, the current economic scenario, the type of investment, among other aspects (HALFELD, 2007).

FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) occurs when a foreign entity or organization establishes a long-term investment relationship with a national entity or organization. According to the OECD (2008, p. 3), Foreign Direct Investment (FDI) is considered one of the “main drivers of international economic integration”.

Investing abroad means that the entity has the economic power to obtain property rights and transfer knowledge or technology. This idea defended by Bourguinat (1992) reinforces the fact that FDI in its different forms allows for the mobility of capital and dividends over a long-term period. FDI promotes access to new technologies, increased competition, increased domestic investment, economies of scale, increased productivity and a reduction in the scarcity of capital in the destination country (Arshad Khan & Samad, 2010).

According to Graham and Spaulding (2004), FDI can take various forms of penetration, whether through the direct acquisition of a local company, the construction of an infrastructure called a turnkey project, strategic partnerships with local companies - joint ventures, licensing of intellectual property. According to them, these different forms of penetration allow, in addition to entering new markets, access to new marketing and distribution channels, cheaper production as well as access to new technologies and products, management skills and financing.

FOREIGN DIRECT INVESTMENT IN MOZAMBIQUE

Interaction with foreign companies can positively influence the productive efficiency of destination companies (Bengoa & Sanchez-Robles, 2003). Both technology transfer and know-how are some of the factors that lead recipient countries to attract FDI, as they stimulate economic growth and productivity (Iamsiraroj, 2016).

A favorable business environment is the key element for FDI. For this environment to exist, it means opening up the market, reducing corruption and crime rates, guaranteeing political stability, creating solid infrastructure, human and technological capital, fiscal policy, credit and the financial market, controlling inflation, among others.

Under a favorable political environment, FDI can serve as an important vehicle for development, contributing to financial stability (OECD, 2008).

The impact of Foreign Direct Investment (FDI) in Mozambique is already noticeable, with the mobilization of resources to invest in the areas of natural resources (natural gas, coal, minerals), infrastructure, fertile land for agriculture, among others. This investment plays a fundamental role in bringing foreign capital into the country for economic development. However, despite the great expectations surrounding FDI in Mozambique, particularly with the discovery and exploitation of natural resources that promise to boost the country's economy, such as natural gas, several challenges still need to be resolved in order to increase and stimulate investor confidence, such as improving governance, strengthening infrastructure, security, a stable business environment and transparency.

ECONOMIC DEVELOPMENT

Development, in any conception, must result from economic growth accompanied by an improvement in the quality of life, i.e. it must include “changes in the composition of the product and the allocation of resources by the different sectors of the economy, in order to improve the indicators of economic and social well-being (poverty, unemployment, inequality, health conditions, food, education and housing)” (VASCONCELLOS and GARCIA, 1998, p. 205).

Sandroni (1994), “considers economic development as economic growth (positive increases in output) accompanied by improvements in the standard of living of citizens and structural changes in the economy. For him, development depends on the characteristics of each country or region. In other words, it depends on its historical past, geographical position and extent, demographic conditions, culture and the natural resources it possesses”.

According to Furtado (2000), the first ideas about economic development, which defined it as a mere increase in the flow of goods and services, were progressively replaced by ideas that referred to transformations in a society as a whole, linking this flow of goods and services to the satisfaction of human needs.

BRUE, 2005, presents economic development as a process of “creative destruction”: new products, processes or markets displace old ones, causing company closures and unemployment, while capital and labor are attracted to the new productive segments.

Bresser-Pereira (2014, p. 36) adds that the forms of development “are associated with access to health, education, basic material needs and participation in community life”, so distinguishing economic development and/or economic growth from human development means giving a clear meaning to the concepts and political objectives of democratic societies.

This means that economic development is the change in people’s standard of living, i.e. the improvement in quality of life resulting from the distribution of income from productivity and characterized by good levels of education and health, i.e. the increase in human capital, and the technical skills of workers.

MAIN ECONOMIC DEVELOPMENT INDICATORS

Economic indicators are statistical data that reflect a country’s economic situation over a given period of time. They are extremely important when making investment decisions, and allow for an assessment of countries’ economies. In the case of Mozambique, the main economic indicators are: Nominal GDP; Real GDP; GDP per capita; Real growth rate (%); Average annual inflation (%); Average annual exchange rate (%); Exports excluding mega projects (% of GDP); Imports excluding mega projects (% of GDP); Trade balance excluding mega projects (% of GDP); Foreign Direct Investment (FDI) as a percentage of GDP; Primary Balance.

DATA ANALYSIS AND INTERPRETATION

Investment is a determining factor in the development and economic growth of any society. It provides the necessary resources to leverage economies on the basis of production and profitability. Investing is the same as allocating the resources necessary for production in the expectation of obtaining satisfactory results for the well-being of society.

| Implementation of FDI in Mozambique by presidential mandate | |
|--|---|
| Armando Emílio Guebuza (2005 to 2014) | Filipe Jacinto Nyusi (2015 to 2024) |
| In order to accelerate the country's economic development, improve the living conditions of the population, ensure employability, sustainable growth and diversification of the economy during the term of President Armando Emilio Guebuza (2005 and 2014), Mozambique adopted several strategic measures in its economic policy aimed at attracting Foreign Direct Investment, such as: Legal and Regulatory Reforms; Creation of Special Economic Zones (SEZs) and Industrial Free Zones; Infrastructure Development; Exploration of Natural Resources; Promotion and Facilitation of Investment; Improvement of the Business Environment. During this period, FDI amounted to around USD 35.85 - 44.2 billion. | In order to continue this process of the country's sustainable development, the mandate of President Filipe Jacinto Nyusi (2015 to 2024), like that of his predecessor, was characterized by maintaining the implementation of the strategic investment measures already defined, and introducing new approaches in line with the emerging realities in the areas of Natural Resources; Economic Diversification; Infrastructure and Development Corridors; Improving the Business Environment; International Promotion and Economic Diplomacy; Public-Private Partnerships (PPP); Sustainable Development and Corporate Social Responsibility; Challenges and Adaptation; Capacity Building Initiatives and Human Development, which saw FDI of USD 52.2 - 69 billion. |
| Performance of FDI in the Mozambican economy by presidential term | |
| Armando Emílio Guebuza (2005 to 2014) | Filipe Jacinto Nyusi (2015 to 2024) |
| These mandates were characterized by the discovery of large natural gas reserves in the Rovuma Basin in 2010, in the province of Cabo Delgado, and the start of coal mining in Tete in 2011, at a time when FDI investment was diversified. The Mozambican economy tended to be robust, with GDP growth averaging between 7 and 8% a year, driven by investments made by megaprojects, specifically in the natural resources sector, and due to the relatively calm political situation and the country's economic liberalization. Despite the investments that led to this growth, poverty and social inequalities remained evident in society. | Its focus continued to be on capitalizing on the country's natural resources, but the country's political and economic climate had a negative influence on investment and consequently on Mozambique's economic growth, such as: Hidden Debts; Insurgency in Cabo Delgado (2017); COVID-19 Pandemic (2020-2022); Fluctuation; Inflation and Currency Devaluation; Corruption and Governance; Kidnappings - causing the Business Environment to deteriorate. GDP in President Filipe Jacinto Nyusi's term slowed from 6.3% in 2015 to 5% in 2024, reaching 1.3% in 2020 due to the COVI-19 pandemic. |

Table 1: Implementation Performance of FDI in Mozambique by presidential term

FDI IMPLEMENTATION STRATEGIES IN MOZAMBIQUE

Due to the scarcity of domestic resources for investment, Mozambique adopted a set of institutional measures aimed at attracting Foreign Direct Investment and enabling economic growth by exploiting the wide range of its resources. To this end, it introduced the Economic Rehabilitation Program in 1987 and the Constitution of the Republic in 1990. With these instruments, the country began to implement a series of attractive measures for foreign investment, such as Law No. 3/93, of June 24, on the legal regime for national and foreign investment, the regulation of the investment law, established by Decree No. 43/2009, the tax benefits code, and Law No. 8/2023, of May 18, on the Legal Regime for Public-Private Partnerships, Business Concessions and State Business Holdings.

Based on this data, it can be concluded that President Armando Emílio Guebuza's terms in office (2005 - 2014) were characterized by the discovery of large natural gas reserves in the Rovuma Basin in 2010, in the province of Cabo Delgado, and the start of coal mining in Tete in 2011, at a time when FDI investment was very limited. Driven by investments made by megaprojects, the Mozambican economy began to rise, with GDP averaging between 7 and 8% growth per year, motivated by the exploitation of natural resources, the opening up of the market and the country's stability. Meanwhile, President Filipe Jacinto Nyusi's term was characterized by a slowdown in FDI performance, with GDP reaching a maximum of 6.3% in 2015 due to the hidden debt crisis and other influential factors in the following years, reaching as low as 1.3% in 2020 due to the covid-19 pandemic.

This means that the term of President Armando Emílio Guebuza (2005 to 2014) had a better FDI performance in the Mozambican economy than the term of President Filipe Jacinto Nyusi (2015 to 2024).

FINAL CONSIDERATIONS

Investment is a determining factor in the development and economic growth of any country. It is from investment that indispensable resources for production are provided, allowing the economy to be leveraged. Economic development aims to change people's standard of living, i.e. the well-being of the population as a result of income distribution. Interaction with foreign investors has created positive foundations for the country's economic development and its integration into the global economy, with the prospect of long-term benefits for the population.

The adoption of a set of institutional measures and the creation of a favorable business environment to boost the economy was a determining factor for Strategic Direct Investment in Mozambique, a country in the throes of a shortage of resources to invest.

The mandates were characterized by the discovery of large reserves of natural gas in the Rovuma Basin, in the province of Cabo Delgado, the start of its exploration and the start of coal mining in Tete at a time when FDI investment was at an all-time high.

During the term of President Armando Emilio Guebuza (2005 to 2014), Mozambique adopted strategic measures in its economic policy aimed at attracting foreign direct investment, such as: legal and regulatory reforms, special economic zones and industrial free zones, natural resources, investment promotion and facilitation, infrastructure development, investment promotion and facilitation and improving the business environment, among other measures.

Meanwhile, his successor, President Filipe Jacinto Nyusi (2015 to 2024), was characterized by continuity in attracting Foreign Direct Investment, maintaining the implementation of previously defined investment strategies, and introducing new approaches in line with new emerging realities.

The Mozambican economy tended to grow until 2014, with GDP averaging between 7 and 8% a year, driven by investments in megaprojects. It slowed down at the start of President Filipe Jacinto Nyusi's first term, tending towards poor FDI performance, with a maximum of 6.3% being reached in 2015 due to the hidden debt crisis and other factors combined, down to 1.3% in 2020 due to the COVID-19 pandemic. President Armando Emílio Guebuza's term in office (2005 to 2014) had a better FDI performance in the Mozambican economy than President Filipe Jacinto Nyusi's term in office (2015 to 2024).

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