Contemporary Mozambique: ‘Miracle’ or ‘Failed State’?
From a Political Economy Perspective, Neither!

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Structure of Presentation

• ‘Miracle’ or ‘Failed State’? Economic arguments and critique
• Demystifying the ‘miracle’ and the ‘failed State’: primitive capital accumulation under specific historical conditions
• Conclusions
• Useful data
‘Miracle’ or ‘Failed State’? Economic arguments and critique

• Miracle:
  • Move away from the dynamics of crisis of the 1980, that saw real GDP fall by almost 45% in 6 years, and inflation reach 160%.
  • Sustained economic boom, measured by GDP growth, inflation and investment, since the late 1980s
  • In the 2000, foreign capital inflows became determinant of investment and GDP growth

• Failed State:
  • Failure to perform with respect to certain socio-economic functions (example: poverty reduction, equality, diversification of the economy, inclusiveness)
  • Ineffectiveness/inefficiency: for example, substantial collapse of the elasticity of poverty reduction with respect to economic growth
  • Legitimacy: social failure of economic boom
‘Miracle’ or ‘Failed State’? Economic arguments and critique

‘Miracle’

- Rate of growth of real GDP is high and sustained over two decades (7.2% pa.), accelerating in the last decade (7.8% pa.), after half of a decade of very sharp collapse (1982-1986).
- Relatively low inflation (one digit for more than a decade).
- One of the top three Sub-Saharan African countries with respect to inflows of international, commercial finance (private investment) (US$ 18 billion in the last decade, two thirds of which in the last three years).

‘Failed State’

- Poverty head count index:
  - 1996/2002: from 69% to 54% (pa GDP growth rate at 6.9%, Gini = 0.41)
  - 2003/2010: stagnated at 54% (pa GDP growth rate at 7.8%, Gini = 0.42)
- Food for domestic market (2003/10):
  - Production fell by 9%,
  - Yields per hectare fell by 37% (increase in labour quantity and decline of labour productivity)
  - Prices increased at an pa. average of 11.3%, almost 50% higher than average CPI
- Deterioration of quality of public services (infrastructure coverage increased but services provided deteriorated; increased commoditization)
- Narrowsness of production/trade/investment basis and tendency for speculative expansion (economic bubble)
- Acceleration of public debt, commercial and domestic
Critique of the ‘miracle’ and ‘state failure’ characterization of Mozambique:

There are no such things as ‘miracles’, and this is particularly true with respect to socio-economic development and transformation. Anything that can be explained logically and consistently with a single, coherent narrative, that is historically sound and contextualised, and identifies the social and economic forces and conflicts that make things happen, is not a ‘miracle’. Obviously.

States cannot be properly analysed without consideration for the social system of accumulation and social struggles about the state, which define what the State is and becomes and how it changes (including the perception of its roles, functions and priorities, its alliances and its forms of organization). States as political entities and political expression of struggles in society, with their own historical dynamics, cannot be defined/analysed/categorized according to fixed, normative institutional configurations, or be studied as individuals with a methodological individualism approach.

Linkages (economic pressures and challenges) and agents and their historical context and dynamic relationship, provide a better basis for the discussion of the State in social and economic development.

The Mozambican State has become quite successful with respect to certain functions and socio-economic alliances and goals. Which ones and why?
Demystifying the ‘miracle’ and the ‘failed State’ – primitive capital accumulation

Contemporary Capitalism

Global & Uneven & Historically Unequal

Subordination of State and public policy to financial capital

Financial

Monopolistic

Historical specificity of Mozambique

Where do they come from? Political and financial/speculative elites

Dependency on inflows of foreign capital

Primitive capital accumulation

Narrowness of production basis and emergence of the financial business

Socialization of costs – labour reserves and public debt – and new profit opportunities

Growing commoditization of public resources and services

Cheap access to natural resources – expropriation of the State

Socialization of costs – labour reserves and public debt – and new profit opportunities
Demystifying the ‘miracle’ and the ‘failed State’ – primitive capital accumulation

Dependency on foreign private capital
- Keeping expectations high – public debt
- Lowering of risk – large territorial/resource control for speculation

Strategic resources and locational advantages
- Lowering of investment costs – cheap expropriation

Linkage and leakage to domestic capital
- Economic porosity
  - Commoditization of public resources, infrastructures and services
  - Cheap and privileged access to natural resources
  - Fiscal subsidies for shares
  - Public investment and debt

Commoditization of public resources, infrastructures and services
- Public investment and debt
Demystifying the ‘miracle’ and the ‘failed State’ – primitive capital accumulation

Debt, finance and public services

- Public investment as business opportunity and enclave development
- Public debt as a mechanism of accumulation – the IMF and debt reserves
- Austerity as business opportunity – commoditization of services
- Speculative financial system and expensive capital
- Shrink opportunities for SMEs, diversification and domestic market dynamics

Overall economic implications

- Economic bubble
- Economic transformation without labour
- Narrow basis for production, trade and investment
- Expansion based on expectations – new resources and debt

Overall economic implications

Economic bubble
Conclusions

• ‘Miracle’ or ‘failed State’ are no longer – they can be explained as part of the logic and tensions within a system of accumulation, that has historical specificities.

• Many tensions in this system point to vulnerabilities and crisis of accumulation:
  - Potential for a speculative bubble that might implode, if expectations of capital are not fed, or explode through a debt crisis
  - Exposure and vulnerability to external commodity and financial markets
  - Inconsistencies of fiscal and monetary policy that exacerbate the speculative incentive of financial markets
  - Inability to reproduce the system of absolute surplus value extraction, labour rigidities and the potential for social and political unrest
  - Conflicts between factions of capital – small that cannot grow and large that becomes more speculative
  - Is there any space for further social austerity to adjust and squeeze surplus value out of the working classes?
  - Revolution or a state that provides public goods and services to restructure capitalist accumulation?
USEFUL DATA

• Poverty elasticity to real GDP growth
• Extractive model of the economy
• Narrow export and import base
• Export coverage of imports (goods)
• Commercial and current account of mega projects
• External balances
• Public debt: total, external, domestic, concessional and commercial, and debt service
• Structure of lending by commercial banks
• Net sales of foreign currency in the domestic market
### Poverty elasticity to real GDP growth

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<tbody>
<tr>
<td>Cumulative GDP growth (%)</td>
<td>55</td>
<td>66</td>
<td>156</td>
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<tr>
<td>Cumulative poverty reduction (HC) (%)</td>
<td>-15,3</td>
<td>0,6</td>
<td>-14,7</td>
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<td>Average annual real GDP growth (%)</td>
<td>6,5</td>
<td>7,8</td>
<td>7,2</td>
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<tr>
<td>Average annual real per capita real GDP growth (%)</td>
<td>4,2</td>
<td>5,5</td>
<td>4,9</td>
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<td>Taxa média anual de redução da pobreza (%) [7]</td>
<td>-2</td>
<td>0,1</td>
<td>-1</td>
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<td>People under the poverty line (%)</td>
<td>69,4</td>
<td>54,1</td>
<td>69,4</td>
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<tr>
<td></td>
<td>54,1</td>
<td>54,7</td>
<td>54,7</td>
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<tr>
<td>Gini coefficient</td>
<td>0,41</td>
<td>0,42</td>
<td>0,42</td>
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<tr>
<td>Poverty elasticity to GDP growth</td>
<td>-0,31</td>
<td>0,013</td>
<td>-0,14</td>
</tr>
<tr>
<td>CPI(food) – CPI(non-food)</td>
<td>1,6</td>
<td>3,8</td>
<td>2,7</td>
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Extractive model of the economy

Finance
[FDI, commercial loans, PPP]
5% of GDP growth rate

Assembly industries based on imports
5% of private investment
5% of GDP growth rate

Infrastructures, services and real estate
15% of private investment, 5% of exports, 15% of GDP growth rate

Extractive core of the economy
[minerals, energy and agro commodities for export]
75% of private investment, 90% of exports, 50% of GDP growth rate
Narrow export base

Exports of goods (2005-2012)

- Minerals-Energy complex: 72%
- Agro-industries: 18%
- Others: 10%

Exports of goods (2005-2012), by products

- Aluminium: 35%
- Coal: 13%
- Mineral sands: 7%
- Energy: 7%
- Natural gas: 6%
- Tobacco: 5%
- Banana: 5%
- Sugar: 4%
- Wood: 4%
- Others: 10%
Narrow import base

Imports of goods (2005-2012):
- Machinery and spare parts: 21%
- Food: 17%
- Metal products: 18%
- Vehicles: 11%
- Fuel: 11%
- Construction materials: 9%
- Minerals: 7%
- Others: 6%

Imports of services (2005-2012):
- Transports: 35%
- Construction: 37%
- Enterprise services: 20%
- Others: 8%
Export coverage of imports (goods)

Coverage of Imports of Goods by Exports of Goods, with and without mega projects (in %)

- Aluminium prices down
- Food prices up
- Fuel prices up
- Investment in minerals up

War (16 years), from 1976 to 1992

- Ratio Total Exports/Total Imports of goods
- Ratio Exports/Imports of goods without mega projects
Commercial and current account of mega projects

Source: Banco de Moçambique (annual reports)
External public debt stock and growing commercial debt
Lending by commercial banks

Structure of Lending by Commercial Banks (in % of total lending)
Net sales of foreign currency in the domestic market

Source: BdM: Série Taxas de Juro
(www.bancomoc.mz)