

Political economy of resource extraction and taxation in Mozambique

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From minerals-energy to industrialization

- Resource-based accumulation is not an end in itself, but a means or stage(s) within a dynamic process of industrialization and economic transformation
- How can resource-based accumulation translate into industrialization and economic transformation? Economic and industrial strategy
 - Productive articulation within the economy – articulation around minerals-energy, or narrow articulation
 - Diversification of productive capacities – moving away from resource-dependence, or broader articulation
 - Macroeconomic sustainability of the process of accumulation (balances within the economy, including the fundamental balance between accumulation and consumption), broadest articulation
- The role of appropriation of resources, surplus and rents in accumulation

Brief picture of minerals-energy dynamics in Mozambique

- Data
 - Two thirds of private investment over the last decade on minerals, energy and associated infra-structure
 - Three quarters of industrial output and two thirds of total exports of goods and services, and rising
 - Minor employment and input-output linkages domestically
 - Demand pressures: energy, logistics, qualified labour, top of the income scale (ex., housing) and bottom of the income scale (ex., food)
 - Fiscal revenue accruing from minerals-energy broadly represents 2% of the GDP share of minerals-energy
- Driving forces
 - Capital intensity and large markets – hence: multinationals – hence: focus on exports (and logistics for exports: hence, construction and operation of large scale logistics systems).

Brief picture of minerals-energy dynamics in Mozambique

- Dynamics of accumulation
 - Bases for accumulation: resource, rents and logistics
 - Strong interaction between the formation of emerging domestic capitalist classes and multinationals developed around expropriation and access to basic resources (land, water, minerals), share of rents and deployment of rents
 - Mechanisms: privatization of all rents; state demands on shareholdings for national entrepreneurs; shares accruing from property of basic resources; reinvestment of rents on logistics for minerals-energy

Brief picture of minerals-energy dynamics in Mozambique

- How the economy gets stuck around resource-based accumulation and external dependency?
 - Driving interest of multinational, resource-based capital seen as opportunity for fast and large resource-based primitive accumulation by national, emerging capitalist classes
 - Privatisation of rents from resources as a key element in translating multinational accumulation into domestic fast capitalist accumulation;
 - Only narrow articulation occurs, within the minerals-energy dynamics, and even this is seriously limited (concentration on unprocessed exports and relatively small size of rents);
 - Close association between political elite and private accumulation – the role of the state is focused on facilitating private accumulation; broader social balances are driven by political need of keeping power, practical need of capital accumulation and social crisis.

Brief picture of minerals-energy dynamics in Mozambique

- Strategy of state financing reflects these political and economic processes and dynamics:
 - External aid ($\pm 60\%$ of public expenditure) enables the state to finance some of the required social balances and practical needs, whilst keeping resource-based rents private. Without aid, full privatisation of rents would not be sustainable. However, aid is stagnating and general budget support may start to decline fast.
 - Domestic public debt (government bonds) increases the costs of capital for everybody and induce financial speculation rather than creative interactions between finance and production (investment and operation of capacity). Diversification of production is hampered; linkages opportunities and articulation occur in narrow sense, since multinationals are not mobilising resources domestically.
 - External debt (non-concessional loans) and PPPs are business opportunities by linking private commercial interest with public expenditure. Due to commercial nature of this debt, there is a tendency of government policy to focus on investment with short turn, high financial rates of return. Hence, focus on logistics for minerals-energy, huge public works and no interest in broader articulations.

Brief picture of minerals-energy dynamics in Mozambique

- Social crisis, the role of consumer good inflation and fiscal space:
 - Fiscal revenue ($\pm 60\%$ of which comes from indirect taxes) and current dynamics of increasing tax revenue (improving of tax administration, only) result in limited space to raise tax revenue. Increases in external aid are unlikely. Commercial loans cannot pay for broader articulation or consumption subsidies. Resource-based growth is not taxed.
 - Hence,
 - Pressures to change mode of accumulation and resource mobilization, or...
 - ...expenditure cuts and targeted subsidies (are they implementable? Are they part of a strategy of change? Are the underlying causes being addressed – ex., balance between consumption and growth?), or...
 - ...macroeconomic, political and social framework is unsustainable.

Hence...

- Challenges for articulation
 - Dynamics of accumulation are not geared towards articulation outside the minerals-energy complex; and inside, articulation is geared towards exports only
 - The dynamics of minerals-energy may be crowding out, rather than crowding in, options for diversification, broad base development and fundamental macroeconomic balances (share of resources, financial system, policy, politics of hiding behind figures,...)
 - The “sell out” of non-renewable resources
 - Group interest that develop may prevent broader articulation

Taxation and financing policy

- Current dynamics of state financing in Mozambique
 - External aid ($\pm 60\%$ of overall public expenditure): tendency for reduction, particularly of general budget support
 - Public debt (including PPPs) as public expenditure financing and an incentive for private accumulation – what type of private accumulation and what type of state policy emerges from public debt (depending, of course, on magnitude of the debt and debt conditions)

So....

- Industrial strategy and its financing; in particular, the financing of the state and of state promoted articulation:
 - Socialization of rents
 - State investment as an incentive for articulated and diversified private investment;
 - State investment and financing of the State viewed as tools of broader monetary policy
- Various, related articulations within the economy
 - Around fundamental macroeconomic balances with strong distributional impact
 - Around minerals-energy: construction of an industrial base
 - Diversification of productive capacities: moving away from resource-dependence
- Could minerals-energy dynamics help this?
 - Socialization of rents
 - Demand pressures
 - Some, but limited, supply