



CEsAM | Centro de Estudos sobre
África, Ásia e América Latina



Limits of Dependent Capitalism? Economic Crises and their place in the Mozambican Economy

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Workshop “Political Economy of the Crisis and Economic Reestructuring – History, Dynamics, Implications and Lessons”

Lisbon, 12-13, October, 2017

Structure of the presentation

- Mozambican economic crises over time, and how they are explained
- Common and particular characteristics
- Why do they reproduce and repeat themselves, over time

Economic crisis in Mozambique over the years

- Over the last 60 years, the Mozambican economy has faced a number of crises, defined as ruptures or interruptions of the process of economic reproduction and capital accumulation, reflected by negative growth rates of GDP, investment and employment, and associated with significant fiscal and balance of payment deficits.
- Such crises have varied with respect to severity and duration, took place under radically different historical conditions domestically and internationally. However, all of them followed relatively brief periods of acceleration of economic growth (with exception of the 2015 crisis, which followed a very long period of high economic growth) and attempts at pursuing some level of economic transformation.

Economic crises in the second half of the XX century

	1959- 63	1963- 65	1965- 70	1970- 72	1972- 74	1974- 77	1980s crisis			1991- 93
							1977- 82	1982- 87	1987- 91	
Average anual real rate of growth of GDP	5%	-4%	6%	-4%	6%	-7%	3%	-9%	5%	-4%
Real rate of growth of GDP for the whole period	22%	-8%	34%	-8%	12%	-23%	14%	-51%	22%	-8%
GDP index, 1950=100	122	112	150	138	155	119	136	67	82	75
GDP index, 1975=100	81	75	101	93	104	80	91	45	55	51

How are these crises explained? The common structural factors

- Exports of commodities (low price and income elasticities of demand → slow growth of demand and tendency for terms of trade to decline; conditions of production + market speculation → price volatility and uncertainty) finance import dependent GDP expansion and structural transformation.
- The economy is import dependent with respect to capital, intermediate and consumer goods and services → more challenges associated with balance between investment on new capacity, operating such capacity and guaranteeing labour.
- Dependency trap sets in when each crisis creates an urgency, which is answered by expansion of investment in the commodity export sector, which cannot expand fast and sustainably because of the production/trade conditions set above.

How are these crises explained? The common structural factors

- The base of profitability of import dependent industries and commodity export industries is the extraction of absolute surplus value from labour – extended hours, casual and seasonal jobs, precarious working conditions and labour contracts, and low wages.
- Non-commodity export agriculture is squeezed to deliver cheap food – which would lower the reproduction costs of labour – and cheap raw materials for the emerging infant industry [keeping labour linked with household production and land guarantees a stream/flow of finance – wage transfers – to household production of tradable goods (food and raw materials) and transfer a significant part labour reproduction costs to the household].

How are these crises explained? The common structural factors

- Jobs and income are as deeply uncertain as the volatility of the commodity export markets.
- Mass domestic markets develop only slowly, apparently leaving no option but to surrender to the fundamental external dynamics of economic expansion. Given the primary nature of exports and the structural limitations of the production basis (mentioned above), everytime production expands fast (faster than export markets at a reasonable price level), the economy goes into a downward spiral of adjustment.
- The process of adjustment clears the market of “inefficient producers”, enabling some concentration and centralization of capital to take place, but also corrects the speed of expansion of the economy to what can be sustained by the rigid export base.

How are these crises explained? Specific issues associated with each crises

- Particular

- The war for national liberation (1964-1974) aggravated these structural dynamics, by squeezing the economy's fiscal and foreign exchange capacity, increasing demands and reducing availability of much needed government finance and foreign exchange.
- The period of transition and early years of Independence → new challenges: desinvestment, loss of administrative and technical capacity

How are these crises explained? Specific issues associated with each crises

- The paradigmatic case of the 1980s crisis:
 - State driven, accelerated expansion and economic transformation, involving massive increase in investment. The idea was to remove the structural obstacles to a balanced and harmonious process of fast and sustained economic growth with social transformation
 - The change in structure was thought from the perspective of the technical advancement of productive forces only, without addressing the social organization of production and even the fundamental links in the fabric of the economy → so, massive investment in some of the same activities, with the aim of increasing the scale, concentration, rationalization and modernization, under the aegis of the state.

How are these crises explained? Specific issues associated with each crises

- The paradigmatic case of the 1980s crisis:
 - No clear idea of transition – what was supposed to happen with the existing capacities? Apart from those generating the bulk of foreign exchange and fiscal revenue, the others were squeezed of resources through the administrative planning process, which focused on the large projects and traditional sources of much needed and scarce foreign exchange, and slowly started to disappear.
 - How was this project to be financed? Traditional forex sources (primary commodities for export), traditional sources of fiscal revenue and expected massive support (which never materialised at the necessary scale) from the COMECON block, lead by the USSR, and from the People's Republic of China.

How are these crises explained? Specific issues associated with each crises

- The paradigmatic case of the 1980s crisis:
 - Hence, the structural constraints and pressures arising from fast, dependent expansion were magnified, rather than removed, as demands increased many fold. This left the Mozambican economy even more vulnerable to external shocks, and the oil and commodity price crises of the late 1970s early 1980s put the last nail on the coffin of the “big forward push.”
 - As the project died, the economy was left with the “sweepings” of the failed transformation experiment: the new, large projects were not in operation yet and had no finance to develop; the old infant industry was seriously wounded by underinvestment; the commodity exporting sector was started to be seriously hit by the destabilisation war and had been seriously hit by the fast declining terms of trade; the scarcer forex was not enough to buy fuel.

Crisis of the 1980s – rates of change of some key economic indicators

	Rates of Change			
	1979-1982	1982-1983	1983-1984	1979-1984
Gross Domestic Product (GDP)	9%	-12%	-9%	-13%
Gross investment	270%	-64%	-25%	0
Exports of goods and services	7%	-27%	-32%	-46%
Imports of goods and services	47%	-25%	-30%	-23%
Export/Import ratio	-44%	-20%	-10%	-60%

How are these crises explained? Specific issues associated with each crises

- The paradigmatic case of the 1980s crisis:
 - The big transformation project aimed to making the state the main centre of accumulation, but the state was the loser in the battle for accumulation, in favour of trading and financial capital. The government/central bank money printing policy to finance increasingly bankrupt companies aggravated the crisis.
 - So, the big transformation project was surrendered to the dictates of the Bretton Woods consensus.
 - What followed was two and half decades of structural adjustment and stabilisation, heavily financed by external, development aid, conditional to the acceptance and implementation of a neo-liberal program of economic and social restructuring (the discussion of this program is not going to take place in this presentation).

How are these crises explained? Specific issues associated with each crises

- What have we learned from these processes (if anything at all)?
 - First, it is often, and strongly, argued that the failure of the transformative project of the late 1970s, early 1980s, was mostly due to the war, deteriorating terms of trade of Mozambique's exports and the oil crisis. Now, the data shows that
 - The seeds of the crisis were sown very early on this process such that, by the time the war was starting to become a serious problem, the crises was already ripe and ready for harvest. The war aggravated it, but most likely did not create it.
 - With respect to external shocks, insofar as we reproduce the same social and economic structures of production the economy is going to be increasingly more vulnerable to "external shocks". Thus, external shocks became partially endogenous to the debate, analysis and policy making.

How are these crises explained? Specific issues associated with each crises

- What have we learned from these processes (if anything at all)?
 - Second, path dependency and the dependency trap are very real issues, useful not only to analyse and describe the colonial economy and tendencies and economic cycles, but also to identify challenges and alternative options and real possibilities and limits.
 - Third, fast expansion within the same socioeconomic structures magnifies structural problems, rather than removing them, leading to severe crises. It is not possible to do away with the dialectics between expansion and instability and crisis by overrunning the crisis – expanding and changing so fast that when the crisis hit we are no longer there.
 - Fourth, the importance of understanding and utilising what exist to support change, making sure that a transition is possible. Burning the reserves before the new harvest leads to famine.
 - Fifth, while a small country cannot change the world to suit itself, it can change the way it interacts with the world to improve its chances.

The crisis of the second decade of the XXI century

- The next table apparently shows a healthy economy, growing fast and for a long period of time, with nothing similar to that of the 1980s.
- However, there are two indicators that catch our attention.
 - The scale of foreign investment (how is it attracted and why, what does it do, and what are the implications?)
 - And the low elasticity of poverty reduction with respect to economic growth

Key economic indicators – 2000-2015

	GDP		Imports	Exports	Foreign Investment	Poverty	
	Billions of Meticais	Billions of USD	Billions of USD	Billions of USD	Billions of USD	Head Count Index	Elasticity with respect to growth of GDP
Value at the end of the period (2015)	425	15.5	5.2	3.4	28	46.1%	-
Cumulative change over the period (2000-2015)	213% (GDP trebled)		658%	513%	-	-12.7%	-0.07
Average annual rate of change (2000-2015)	7.4%		13%	12%	-	-0.8%	-0.11

What happens to investment?

	Domestic	Foreign	Total
Direct Investment	6%	37%	43%
Bank commercial loans	18%	39%	57%
Total	24%	76%	100%

Dependência externa do investimento privado

	Nacional	Estrangeiro	Total
Investimento directo	6%	37%	43%
Empréstimos bancários	18%	39%	57%
Total	24%	76%	100%

Why the dependency?

	In Domestic currency (Billions Meticais) (4)	USD Equivalent (Billions of USD) (5)	In foreign Exchange (billions meticais) (6)	USD equivalente (billions USD) (7)	Total (8) = (4)+(6) (billions meticais)	USD equivalente (billions USD) (9)
Current accounts (1)	116	1,7	87	1,3	203	3
Savings accounts (2)	100	1,5	26	0,4	126	1,9
Total (3) = (1) + (2)	216	3,2	113	1,7	329	4,9
(1) as % of (3)	54%	-	77%	-	62%	-
(2) as % of (3)	46%	-	23%	-	38%	-

Meteoric acceleration of investment, as in 1979-82

	2000-04	2005-09	2010-14	2015	2000-15
Real inflows of foreign investment (millions of USD)	1 324	2 188	20 566	3 868	27 946
Annual average (millions of USD)	265	438	4 131	3 868	1 747

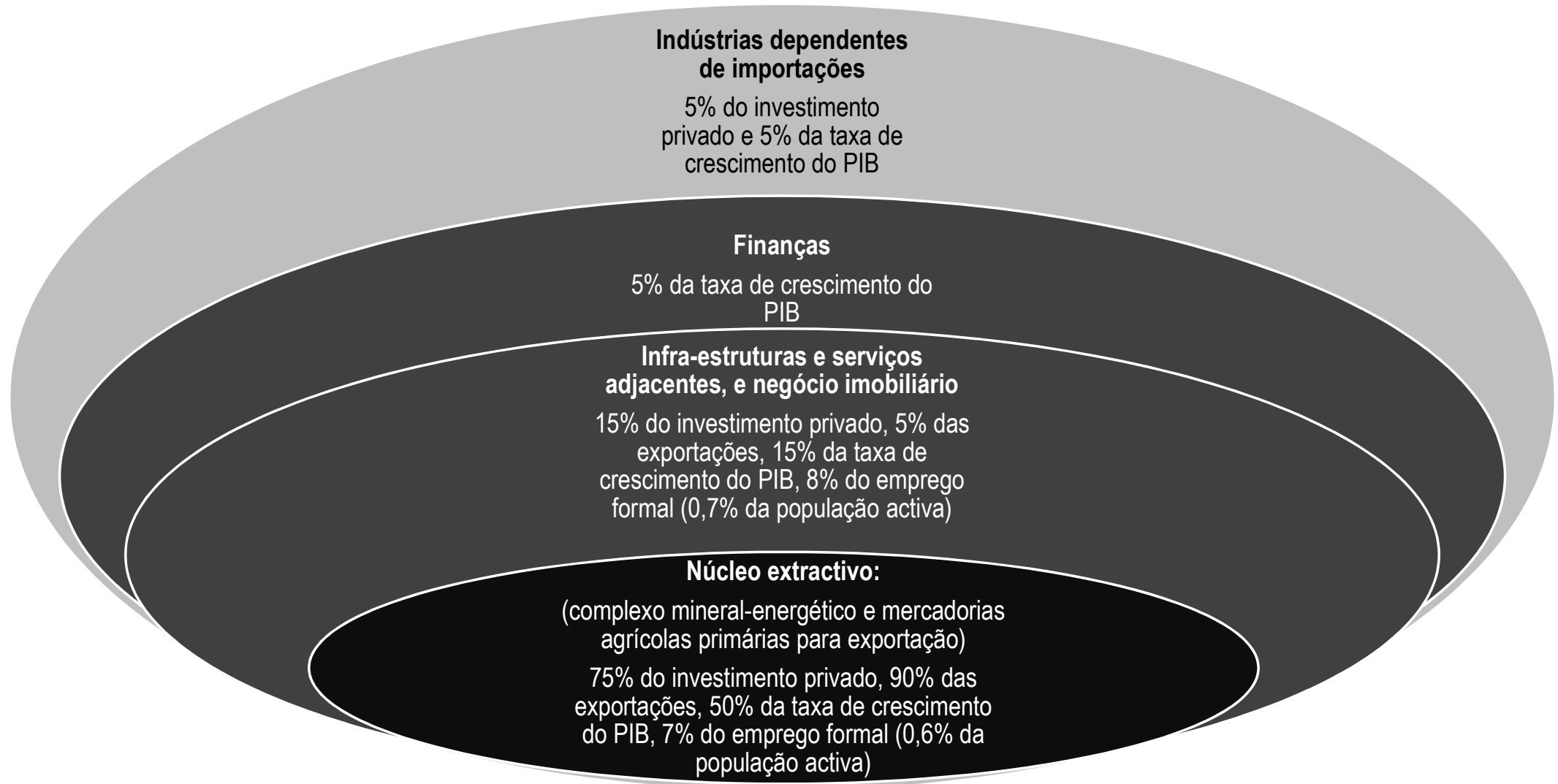
What attracts capital and where is it going

	Economia extractiva					Outros sectores: (*) (a)
	Núcleo extractivo da economia (*)	% do financiamento da fonte que vai para o núcleo extractivo	Serviços e infra-estruturas adjacentes ou associados ao núcleo extractivo (*)	% do financiamento que vai para os serviços e infra-estruturas adjacentes	% do financiamento que vai para a economia extractiva	
IDE	31%	83%	5%	13%	96%	1%
Empréstimos externos	29%	73%	9%	23%	96%	2%
IDN	3%	58%	2%	27%	85%	1%
Empréstimos internos	12%	66%	4%	22%	88%	2%
Total (c)	75%	-	20%	-	95%	6%

Como saber se é “bom” ou “mau”? (2) Estrutura produtiva resultante?

	PIB	Indústria extractiva	Transportes e comunicações	Construção	Serviços financeiros	Agricultura e florestas	Energia	Água	Indústria Transformadora	
									Incluindo alumínio e gás natural	Excluindo alumínio e gás natural
Taxa de crescimento real média anual no período 2005-2015 (em percentagem)	7,4%	21%	12%	11%	10%	8%	6%	6%	4,3%	2,8%
Diferença em relação à taxa de crescimento real média anual do PIB (em pontos percentuais) (a)	-	13,6	4,6	3,6	2,6	0,6	-1,4	-1,4	-3,1	-4,6

Estrutura produtiva resultante – a grande imagem da estrutura da economia nacional



Como saber se é “bom” ou “mau”? (3) Outros “incentivos” e o uso do espaço de endividamento do Estado (2006-15)

	Variação do stock da dívida pública			Variação do PIB	Variação da dívida comercial			A dívida comercial por tipo de despesa (peso na dívida comercial total)		
	Interna	Externa	Total		Variação	Peso 2006	Peso 2015	Infra-estruturas	Garantias à dívida privada	Serviço da dívida
Variação acumulada no período 2006-2015	900%	223%	264%	97%	1.300%	8%	49%	31%	39%	30%
Média anual de variação	26%	13%	15%	7%	37%	-	-	-	-	-

Como saber se é “bom” ou “mau”? (4) Implicações no sistema financeiro, canal de ligação com o resto da economia

	Sector produtivo (a)		Comércio		Consumo particular de bens duráveis		Títulos do Governo	
	Peso no portefólio total (em %)	Taxa de variação do peso no portefólio total (%)	Peso no portefólio total (em %)	Taxa de variação do peso no portefólio total (%)	Peso no portefólio total (em %)	Taxa de variação do peso no portefólio total (%)	Peso no portefólio total (em %)	Taxa de variação do peso no portefólio total (%)
2010	41	-	16	-	17	-	26	-
2011	38	-7	16	0	20	18	26	0
2012	37	-3	13	-19	22	10	28	8
2013	36	-3	12	-8	23	5	29	4
2014	36	0	11	-8	21	9	32	10
Média do período	38	-	14	-	21	-	28	-
Acumulado no período	-	-12	-	-31	-	24	-	23

Why do crises with similar characteristics and triggers keep on coming?

- It is not that difficult to study and understand each crisis, even if there are disagreements about the questions, approaches, answers and conclusions. So, why don't we seem to learn enough, and why do the crises reproduce and repeat themselves, sometimes in very familiar shape, as it happens with the 1980s and the 2010s?
- At the end of the day, this might be because each crisis is the social costs of unequal expansion and restructuring of capitalism, which are paid unequally by different social groups and sectors of the economy.
- The specific form the expansion and restructuring of capitalism that takes place in Mozambique – dependent on foreign inflows of capital that, through the state, lead to finance a historically specific form of primitive accumulation by domestic capital –, under conditions of regional dominance by South African capital and global financialization, may explain the shape, structure and dynamics of expansion and instability of the Mozambican mode of capitalist development.

Why do crises with similar characteristics and triggers keep on coming?

- The formation of the new capitalist classes in Mozambique depends on access to foreign capital. In order to attract foreign capital, the state made available to them the strategic natural resources (minerals-energy + land + forestry), at low cost, and its own debt capacity (capacity to accumulate debt).
- This strategy was accomplished through three waves of expropriation of the state (privatization of the state's resources and policy tools and initiatives, at a huge social costs):
 - Massive, and massively subsidized privatisation of state assets, in the late 1980s and the 1990s.
 - Massive privatization, at low costs, of the strategic natural resources and related infrastructures and services; and
 - Large scale, high speed public indebtment in order to lower costs and risks to capital and, also, directly finance domestic companies.

Why do crises with similar characteristics and triggers keep on coming?

- In face of the crisis, the official policy answer, obviously supported by the Bretton Woods institutions, is social austerity, reflected through monetary policy (significantly more restrictive and less adequate to support changes in the key structures of the economy) and through fiscal policy (cuts in social spending). Social austerity, a tool to socialise the costs of expansion and restructuring of capital, is the fourth wave of state expropriation.
- Social austerity is unjust, ineffective at correcting the problems they say it aims to correct (restart balanced and broad based growth), reinforces the structures of instability and only protects financial capital.
- Of course, there are international dynamics that affect the dynamics of crisis in Mozambique, not least the financialization of global capitalism, but the Mozambican economy became severely exposed to that because of its own options.

