The Costs of Economic Liberalization in Mozambique

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1. **Map of Mozambique**[1]

[1] Nations Online Project (2020)

2. List of Abbreviations

BWIs	Bretton Woods Institutions
CDP	Committee for Development Policy
FDI	Foreign Direct Investment
FRELIMO	Frente de Libertaçao de Moçambique / Mozambican Liberation Front
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
INE	Instituto Nacional de Estatística / National Institute of Statistics
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MDM	Movimento Democrático de Moçambique / Democratic Movement of Mozambique
ODA	Official Development Assistance (AID)
OECD	Organization of Economic Co-operation and Development
PARPA	Plano de Acção para a Redução da Pobreza Absoluta / Poverty reduction strategy
PRE	Programa de Restruturação Econômica / Economic Rehabilitation Program
RENAMO	Resistencia Nacional de Moçambique / Mozambican National Resistance
SAP	Structural Adjustment Program
SMEs	Small to Medium-sized Enterprises
SSA	Sub-Saharan Africa
UN	United Nations
WTO	World Trade Organization

3. Introduction

The global economy today is defined by extremes, consisting of highly developed, developing, and underdeveloped countries. This international socio-economic division has often been depicted through the North-South divide, although the highly nuanced nature of the global economy makes this dichotomous representation increasingly inaccurate. A substantial number of countries are now considered 'newly-industrialized'. The number of highly developed countries associated with the Organization of Economic Co-operation and Development (OECD), however, has changed very little over the past century. Beyond these two sets of countries, a large number of low-income countries, also referred to as least-developed countries (LDCs), remain notably underdeveloped. They are heavily concentrated in sub-Saharan Africa (SSA), and besides the exportation of raw materials to the industry-oriented economies contribute minimally to the global economy. They are also marked by high levels of poverty, high ratios of unskilled labourers, low labour productivity and severe deficiencies in physical and human capital.[2] In spite of the economic disadvantages, a number of them continue to post very high levels of growth, with Mozambique being a notable example.

From 1992 to 2013, Mozambique's economy grew at an average of almost 8% per year, making it one of the world's fastest growing economies.[3] Despite the sustained growth, it continues to rank among the poorest countries in the world, with high levels of poverty, low labour productivity and a negligible manufacturing sector. Considering this, this thesis seeks to assess the ideas of dependency theory in explaining Mozambique's development outcome since its embrace of neoliberalism in the late 1980s. The dependency theory model explains that the nature of global capitalism is such that poor countries are unable to develop because they are integrated into a global economy which facilitates the transfer of resources from these countries to the industrialized countries. The theory considers low-income countries as part of the 'periphery' of global capitalism, with their development being prevented by the interests of the 'core' countries within the West. The mechanisms by which this occurs will be explained in the methodological and theoretical chapters. While the credibility of dependency theory has been seriously questioned in the past, an

[2] Smith (2003)
[3] Castel-Branco (2015)

understanding of its implications remains pertinent in any contemporary study on underdevelopment. Furthermore, its relevance is arguably making a revival to the scholarly discussion on underdevelopment. This is because the impact of neoliberalism, associated with the implementation of free-market liberalization, has led to mixed results in dependent countries. Mozambique's transition to a market-drive economy was officially acknowledged in 1987 through the implementation of the structural adjustment program (SAP), known locally as the Programa de Restruturação Econômica (PRE), or economic rehabilitation program. While it renewed economic growth in a country devastated by a civil war, its long term benefit remains a contentious issue. The manufacturing sector continues to play a negligible role in the economy, characterized mostly by mega-projects which contribute minimally to public revenue. The country also continues to have a high structural dependency on donor aid. While a highly concentrated and small elite has benefitted from this transition, the majority of Mozambicans remain disenfranchised and poverty-stricken. Thus, the following research question guides this paper; to what degree can dependency theory account for Mozambique's developmental challenges since its transition to neoliberalism? In order to adequately address the issue a brief history of Mozambique is required.

3.1 Brief History of Mozambique

Located in south-east Africa, Mozambique is a country of approximately 29 million inhabitants. It has a coastline of over 2,500 km and shares land borders with Swaziland, South Africa, Zimbabwe, Zambia, Malawi and Tanzania. It remained a Portuguese colony until 1975, following a protracted independence struggle waged by the Frente de Libertaçao de Moçambique (Frelimo), or Mozambican Liberation Front. As in many African colonies, non-whites were regarded as second-class citizens. Apart from a small class of *'assimilados',* barely any social services were provided to black Africans. In 1974, 97% of black adults were illiterate, with only fifty ethnic Mozambicans having a secondary school education.[4] The economy at the time was dominated by large agricultural companies which exported cotton and other cash crops, with these businesses being controlled by the Portuguese and a small

[4] Harrison (1999); Mouzinho & Nandja (2005)

Asian commercial class.[5] Plank writes that "*Frelimo thus inherited a desperately poor country, with very few educated people, much of whose infrastructure had been damaged or demolished during the long struggle against the Portuguese.*"[6] A mass Portuguese exodus between 1974 and 1977 further left a dire shortage of personnel capable of carrying out the duties of the state. Frelimo subsequently converted to a Marxist-Leninist party in 1977, implementing a wide-ranging collectivization of the economy and society.[7] By 1981, the state controlled 65 per cent of industrial production, 85 per cent of transport, and 90 per cent of construction.[8] Large state farms replaced the vacated agricultural programs of the colonial-era. Harrison states that Frelimo's version of socialism was defined by "*state-directed development; indicative planning; modernisation through large-scale technologies...* [and] *an emphasis on national identity and against 'tribalism'.*"[9] The state apparatus was effectively concerned with centralizing its control over the country, both politically and economically, in order to implement the desired developmental changes. However, its shift to Marxist-Leninism was not widely embraced. Former soldiers of the independence war and ex-Frelimo members, discontent with the political ambitions, established the Resistencia Nacional de Moçambique (Renamo), or Mozambican National Resistance, subsequently seeking to destabilize the government through guerilla tactics. At first, the group had little internal or external backing. Frelimo's gradual delegitimization of traditional and religious authorities, however, gradually increased the populace's support for Renamo, particularly in the central and northern provinces.

Frelimo's actions also disturbed the white minority governments of Rhodesia and South Africa. It had supported the independence movement in neighbouring Zimbabwe (formerly Rhodesia) by harbouring some of its guerilla fighters, to which the Rhodesian secret service responded by training and arming Renamo. What was initially a low-level resistance as a result escalated into a civil war by 1977.[10] Following the downfall of the Rhodesian state in 1980, white-ruled South Africa significantly increased its support for Renamo. With US

[5] Plank (1993)
[6] Ibid. – p.410
[7] Poppe (2009)
[8] Harrison, (1999)
[9] Ibid. – p.539
[10] Plank (1993)

approval in 1981, the South African government started supplying a large number of weapons to Renamo.[11] The polarization of Cold War politics further escalated the conflict into a large-scale proxy war, with the USSR providing support to Frelimo. By 1984 the war encompassed all national provinces and by its end in 1992 would cost an estimated one million lives.[12] The destruction of roads and railways by Renamo severely disrupted economic production, leading to an economic collapse in the early 1980s, with the country's gross domestic product (GDP) shrinking by 30 per cent between 1982 and 1985.[13] This was compounded with the political and economic collapse of the USSR, which had substantially reduced its support to the Mozambican state by the mid-1980s. The loss of aid from the Soviet Union was estimated at $150 million per year, which was approximately 10 per cent of Mozambique's GDP at the time. Facing internal pressure, the Mozambican government agreed on a SAP with the international monetary fund (IMF) in 1987, introducing neoliberal reforms and fundamentally changing the country's economic agenda.[14] The state formally abandoned its Marxist ideology at the 5th Party Congress in 1989 and private capital investments started to flow in from South Africa, Zimbabwe and Portugal.[15] However, a large balance of trade deficit continued, with 1990 exports valued at $126 million and imports valued at $878 million. The foreign exchange gap of 57% of GDP thus had to be financed through aid, making Mozambique one of the world's most aid dependent countries.[16] This dependency on aid is shown in table 1.

Table 1 - Foreign Assistance to Mozambique, 1987-1992[17]

	1987	1988	1989	1990	1991
Net ODA to Mozambique (US $ million)	*651*	*893*	*772*	*946*	*920*
As % of GDP					
Mozambique	*43.7*	*81.2*	*70.2*	*71.7*	*69.2*
Sub-Saharan Africa	*8.3*	*8.8*	*7.9*	*9.6*	*10.0*

[11] Hanlon (2007)
[12] Harrison (1999)
[13] Plank (1993)
[14] Ibid.
[15] Nugent (2012)
[16] Plank (1993)
[17] Ibid. – p.408

Per capita (US $)					
Mozambique	*45*	*59*	*49*	*60*	*57*
Sub-Saharan Africa	*26*	*29*	*28*	*34*	*33*

International pressure as well as political concessions made by Frelimo, which abandoned the one-party system, eventually led to a peace accord with Renamo in October 1992.[18] Both sides agreed to hold national elections and established a national army, incorporating both factions. UN-monitored multi-party elections were held in 1994 with Frelimo convincingly beating Renamo.[19] Elections have been held every 5 years since, and Frelimo remains undefeated. Since the end of the civil war, Mozambique is considered a *"flagship of neoliberal principles."*[20] It continues to be highly aid dependent, but is considered a model for SSA by the Bretton Woods institutions (BWIs), having consistently met donor demands.[21] Despite consistent growth and its status as a 'donor's darling', Mozambique continues to rank as one of the world's least developed countries. Its human development index, which takes into account life expectancy, average years of schooling, and gross national income per capita, places it among the ten poorest countries on the planet.[22] Its population remains highly agrarian, with 73% of the population engaged in agriculture, mostly in the form of traditional subsistence farming.[23] The World Bank's 2018 poverty assessment noted that 46% of the population continues to be poor in a monetary and non-monetary sense, 85% of whom live in rural areas.[24] The Gini index, which measures a country's distribution of income, also noted a large increase in wealth inequality from 2008 to 2014.[25] Furthermore, industrial production remains negligible, with economic production primarily made up of commodity exports, as shown in figure 1. Structural unemployment also remains high with exceptionally low labour productivity. As such, despite the high growth figures, Mozambique remains highly underdeveloped.

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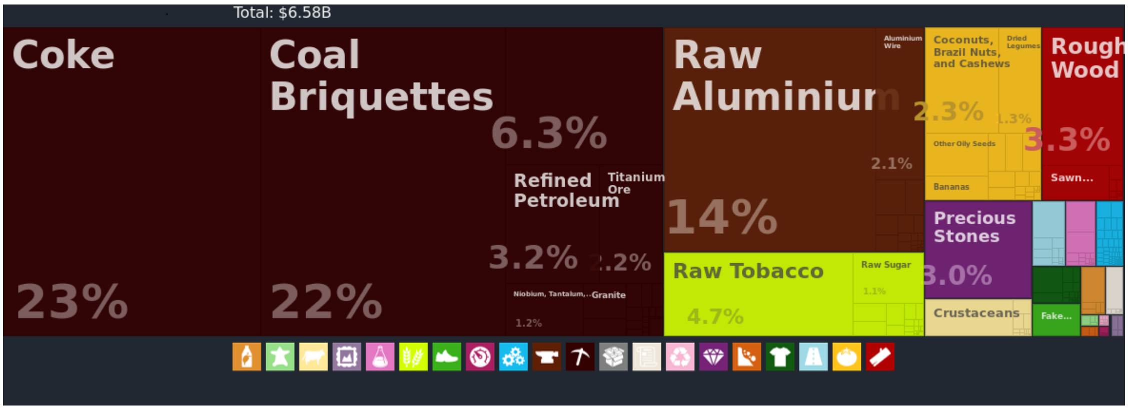
[18] Plank (1993)
[19] Hanlon (2007)
[20] Dinerman (2009) – p.19-20
[21] Hanlon (2007)
[22] UNDP (2019)
[23] Roser, M. (2013)
[24] World Bank (2018a)
[25] Ibid.

Figure 1 – Mozambique exports, 2017



4. Existing Explanations of Mozambique's Development Challenges

Mozambique's position as an aid-dependent and economically underdeveloped country has attracted substantial academic interest. However, critics tend to emphasize its developmental challenges differently. Joseph Hanlon remains perhaps the most cited English-speaking critic writing on the country. In a paper he co-authored with Paolo de Renzio, part of a wider global discourse on 'sovereignty' in aid relationships, Hanlon is notably critical of the role of the BWIs and international donors. He writes of an eroding national sovereignty amidst Mozambique's high dependency on foreign aid. Its national interests have been undermined both by external actors and the internal political dynamics of the governing party, Frelimo. Western donors have been exceedingly inflexible in their imposition of required policy prescriptions.[26] Despite minor resistance to certain donor-imposed policies, the Mozambican government remains largely incapable of questioning the neo-liberal development paradigm, prioritizing rather a stable flow of aid.[27] It's political establishment, dominated by a single party since its independence in 1975, has failed to commit to a national campaign for development. Hanlon argues that a small minority of Frelimo officials have continually refrained from rent-seeking activities while being opposed to the prescriptions of the BWIs.[28] Their objectives and ambitions for development, however, are suppressed by the established political elite which have profited immensely from privatization and corruption. Hanlon refers to a 'pathological equilibrium', whereby

[26] De Renzio & Hanlon (2007)
[27] Ibid.
[28] Hanlon & Smart (2008)

donors are keen to promote Mozambique as a success story and in doing so continue to support a dysfunctional and rent-seeking elite. In his words, *"large-scale corruption went largely unchecked as long as political stability was maintained and the neo-liberal economic policies of the IFIs and the other main donors were implemented."*[29] Intent on achieving quick success after the devastation of the civil war, donors actively supported those within Frelimo who accepted the neo-liberal policies. This was to the detriment of those Frelimo officials who envisioned a more coherent national project based on the Nordic model of capitalism, but who's influence has gradually dwindled over the years. Hanlon thus compares the events that transpired between 1995-2005 to the 'state capture' model in post-soviet states, as numerous Frelimo officials amassed considerable wealth through the privatization of state assets and the channelling of donor funds.[30] This rent-seeking behaviour has been to the detriment of the Mozambican people, a large percentage of which continue to live in abject poverty. While Hanlon does not explicitly mention the dependency theory model, his reasoning for Mozambique's lack of development does resemble some of its implications

Castel-Branco similarly argues that Mozambique's economic growth is characterized by private gains and social losses. He sees its political economy as being defined by three underlying and interrelated processes. The first is the maximization of inflows of foreign capital, either through foreign direct investment (FDI) or loans. The second process is the development of linkages between these capital inflows and the domestic accumulation of capital. The domestic process of accumulation in this regard refers to the expropriation of the state for private gain. The third process is the continued reproduction of a labour system wherein the workforce is compensated at below its cost of subsistence. The emergence of a national capitalist class was facilitated in 1987 through the introduction of the PRE, led by the IMF and the World Bank. It was aimed at reversing economic decline, promoting market liberalization and overseeing the privatization of state-owned assets.[31] In the period that followed more than one thousand state companies were sold to private investors. Larger firms were sold to foreign companies. Smaller firms, forming approximately 80% of the total, were sold to emerging Mozambican entrepreneurs. These

[29] De Renzio & Hanlon (2007) – p.5
[30] Ibid.
[31] Castel-Branco (2015)

companies were sold at under 20% of their value, mostly to managers of the previously state-owned companies, and veterans of the liberation struggle.[32] However, there were no mechanisms in place to support these businesses. Consequently, almost half of them went bankrupt within five years of privatization. Castel-Branco argues that this was a result of increased competition with goods from post-apartheid South Africa, coupled with a lack of industrial and managerial expertise on the part of the new political and economic elite in Mozambique.[33] The privatization of companies which had originally belonged to the country, at remunerations far below market value, resulted in almost no benefit to the public and effectively constituted an expropriation of the state, by the state, for private gain. Castel-Branco further writes that existing linkages between domestic and foreign capital in Mozambique are deepened by what he terms 'economic porosity'. He describes this as an *"inefficiency in retaining uncommitted surplus that could be utilised for the reproduction of the economy as a whole."*[34] Economic porosity manifests itself as outflows of surplus that could have been used for the development of the domestic economy, but instead favour foreign capital. It can also function as a mechanism for transferring public income to promote both domestic and global private capital accumulation. This expropriation of the Mozambican state and society requires that public policy be subordinated to market interests. The ensuing loss of economic surplus to the state becomes a private gain to the domestic elite, in the form of profits, interests and rents. Hence, porosity also has substantially detrimental impacts on fiscal and monetary conditions and reduces the capacity of the state to implement broad social and economic change. The new domestic oligarchy, however, remains dependent on foreign capital for a "*continuous expansion of areas for commoditization and generation of private profits."*[35] Castel-Branco thus argues that economic porosity not only continues to contribute to the uneven development of capitalism within Mozambique, but also between Mozambique and countries whence foreign capital is injected.

Virtanen and Ehrenpreis are more optimistic of the possibilities for development. They conclude that Mozambique suffers from three crucial impediments. Firstly, domestic savings

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[32] Castel-Branco (2015)
[33] Ibid.
[34] Ibid. – p.28
[35] Ibid. – p.28

and investment are low, exacerbated by inefficient financial institutions. Second, sparse population, poor infrastructure and high transport costs hamper market-oriented agricultural production. This is worsened by a monopsonist market which keeps producer prices low. Thirdly, human development levels remain extremely low. They find that absolute poverty has fallen rapidly since the mid-1990s, largely a result of increased agricultural output.[36] However, this growth is merely a 'bounce-back' to pre-war levels of production, and not a result of increased productivity, which remains substantially low when compared to regional standards. While commodity exports have been the main driver behind Mozambique's impressive economic growth, it is limited to a small number of mega-projects which have thus far created few jobs while generating marginal public revenue when compared to their output.[37] As an example, Castel-Branco notes that between 2008 and 2012, three large multinational companies, Mozal (aluminium smelting plant), Sasol (liquefied gas plant), and Kenmare (heavy mineral sands) contributed to more than 20% of GDP, yet accounted for less than 2% of government revenue.[38] Virtanen and Ehrenpreis further contend that these new industries rely heavily on imported inputs and are inextricably linked to the South African mining and energy complex. They write that the few mega-projects *"are exploited by very large South African-based multinational corporations in collaboration with international capital and IFIs."*[39] Not only do they generate marginal public revenue, but there has also been a minimal transfer of technological know-how and skills. Historically, southern Mozambique has been integrated into South Africa's economy, acting as a labour reserve and transport corridor to its mining and energy industries. While these linkages deteriorated following its independence and particularly during the civil war, they have been re-established since the 1990s. However, the process of globalization has meant that access to cheap migrant labour has become less important than regional control over production, trade and capital flows.[40] Trade and FDI have thus become South Africa's key instruments for regional dominance. Because FDI has replaced the importance of migrant labour, and tax contributions from mega-projects continue to be limited, Virtanen and Ehrenpreis find that the mega projects in the south of Mozambique have effectively led

[36] Virtanen, P. & Ehrenpreis, D. (2007)
[37] Ibid.
[38] Castel-Branco, C. (2015)
[39] Virtanen, P. & Ehrenpreis, D. (2007) – p.9
[40] Ibid.

to more harm than benefit. Private and public financing in capital-intensive projects also comes at a cost of decreased available funds for poverty-reducing projects, such as rural infrastructure.[41] Southern Mozambique's proximity to South Africa has historically also provided it more economic opportunities than other regions in the country, resulting in substantial inter-regional disparities. In their assessment of aid, Virtanen and Ehrenpreis are less pessimistic, particularly when compared to Hanlon, finding that it has actually had a positive effect on growth. Given that aid-funded investments in social infrastructure tend to generate pressures on recurrent expenditures, however, they argue that it remains crucial that these investments are used to boost the most productive sectors. Thus, aid should be channelled more effectively into the capacity of agricultural production to ensure that it becomes more competitive in the global market.[42]

Cunguara also argues that donors should increase the proportion of aid going into the agricultural sector. He contends that effective development policies require a good understanding of development failures, setting out to discuss these shortcomings while providing alternatives to overcome them. He sees the underperformance of the agricultural sector as one of the fundamental causes of persistent poverty levels. Like Virtanen and Ehrenpreis, he finds that while agricultural production increased between 1996 and 2002, this was a result of an increase in cropped areas and not higher productivity.[43] While the Mozambican ministry of planning and development sees agriculture as one of the primary engines of poverty reduction, the highly liberal policies imposed by the foreign donors and the IFIs, and implemented by the state, continue to support the principle of non-intervention in the agricultural sector. Thus, Cunguara argues that there is a need for a change in agricultural policy, which requires an interventionist government.[44] In a paper he authored with Hanlon, Cunguara states that the international community remains committed to the Millennium Development Goals (MDGs) related to education, gender and health, and are less concerned with areas related to economic productivity. Thus, *"the bias toward human capital has been pushed by the donors."*[45] He also writes of the paradox of

[41] Virtanen, P. & Ehrenpreis, D. (2007)
[42] Ibid.
[43] Cunguara, B. (2012)
[44] Ibid.
[45] Cunguara & Hanlon (2010) – p.14

rising poverty and food insecurity amidst such high levels of economic growth. Like others, he attributes this growth to a few mega projects which create few jobs, have almost no domestic linkages, benefit from massive tax exemptions and rely heavily on imported goods.[46] Furthermore, there continues to be significant distrust between the government and ordinary Mozambicans, and corruption remains a major obstacle to development.

The existing literature has different implications for Mozambique's developmental challenges. Some see a continued dependence on aid, coupled with a self-serving political elite, as the main causes of stagnant economic development since the end of the civil war. Others observe high-levels of growth, driven by foreign capital, as providing a false sentiment of success, while poverty and joblessness remain endemic. This study looks at the case of Mozambique to assess whether there are still grounds to believe in the tenets of dependency theory in the 21st century. This is particularly interesting given that the rise of neoliberalism occurred in conjunction with the demise of dependency theory. Considering Mozambique's status as a *"flagship of neoliberal principles"*, can its developmental challenges signify a resurgence of dependency theory? [47]

5. Design and Methodology

The research objective for this study is to assess the strength of dependency theory in explaining Mozambique's development experience. It will do so by using qualitative observations to conduct a congruence analysis. The use of this method in a within-case study allows for the inference of the compatibility of a given prediction with an observable outcome.[48] The principal goal of a case study using congruence analysis is to contribute to the scholarly discourse on the relevance and importance of specific theories or paradigms. In this application it can either strengthen the position of a theory in comparison to other theories or decrease its capacity to account for a given phenomenon. Given that empirical findings can be influenced by the theoretical lenses employed, the objective is not to verify nor falsify dependency theory. Rather, the aim is to provide substantial evidence for the capacity of dependency theory to account for Mozambique's continued

[46] Cunguara (2012)
[47] Dinerman (2009) - p.19-20
[48] Mills, Durepos & Wiebe (2010)

underdevelopment.[49] This qualitative research necessitates a proper deduction of the propositions and observable implications of dependency theory. It also requires a broad and accurate assessment of the mechanisms that have impacted Mozambique's economic development. This allows one to answer the following question: If Mozambique continues to be underdeveloped, how well can the mechanisms of dependency theory account for the observable outcome (i.e. are there other explanations?)

5.1 Observable Implications

Congruence analysis requires an understanding of the mechanisms of dependency theory, its observable implications, and how these implications relate to rival theories. The mechanisms refer to the processes by which dependency continues to occur in countries on the periphery of global capitalism (i.e. LDCs). The key explanatory variable in the dependency theory model is the structure of the global economy. Andre Gunder Frank argues that because capitalism has been the dominant mode of production and distribution throughout modern history, any understanding of a country's development requires an understanding of its relationship with other countries.[50] While capitalism has created unprecedented wealth in some countries, it has created underdevelopment in others. Poor countries are integrated into the periphery of the global economy as suppliers of raw materials and cheap labour to industrialized countries.[51] The developed countries control industrial capital and the means for generating technology. Given their low levels of industrial capital and minimal technological know-how, poor countries become dependent on foreign capital. Through the control of economic sectors in dependent countries, foreign actors are able to repatriate a high volume of profit. Thus, the amount of capital entering the dependent country is much smaller than the capital being repatriated. The capital accounts in peripheral countries, or the ownership of national assets, are as a result highly skewed in favour of industrialized countries. Theotonio dos Santos argues that, resultantly, industrialized countries use foreign capital and aid to remedy the problems that they

[49] Blatter (2012)
[50] Frank (1966)
[51] Ferraro (2008)

themselves have created.[52] This aid, however, is indirectly paid for by dependent countries. It remains tied to restrictive terms, either subsidizing foreign imports or investing in low-priority sectors of dependent economies. However, it is not used to boost economic productivity growth in dependent countries, as the industrialized economies maintain a monopoly over technological inputs. This leads to a situation whereby peripheral countries have little choice but to facilitate the entry of foreign capital, in order to supply the already restricted national markets.[53]

Thus, a central tenet is that impoverished countries are underdeveloped as a result of their continued dependence on foreign capital and aid. Part of the dependency theory paradigm explains the emergence of a national bourgeois within peripheral countries. This local elite, comprising individuals in politics and business, are tied to foreign companies and institutions, depending on them for their social reproduction. They strengthen their position through policies that restrict industrialization and thus, economic development. Their aim is not to promote national development, but rather to sustain their own power and wealth. Furthermore, the interests of the elite coincide with the interests of the industrialized states. In relation to this case study, the tentative conclusion is that Mozambique's transition to a market economy in the late 1980s has played a major role in its continued economic underdevelopment. The case analysis section will examine three key mechanisms of the dependency theory paradigm as they relate to Mozambique. These are domestic industry and foreign investment, aid dependency, and the formation of a national elite.

6. Theoretical Framework

Before proceeding to the case analysis, a theoretical framework is required. Given that the primary aim is to assess the strength of dependency theory in explaining a lack of development in Mozambique, a framework of competing theories remains important. The following sections provide an overview of modernization theory, dependency theory, and the developmental state model.

[52] Santos, T. (1970)
[53] Santos, T. (1970)

6.1 Modernization Theory

The general consensus is that modernization theory first appeared in the 1950s and 1960s, amidst the ideological polarization of the cold war and the emergence of numerous nation-states from the dissolution of the European colonial empires.[54] The US, at least in a materialist sense, emerged as the preeminent power in the post-war period, effectively becoming the emblem of a modernized and politically liberal state. American social scientists, with support from government and private entities, sought to address the issues of economic development, political stability, and sociocultural change in those 'traditional' countries which had yet to be transformed.[55] The application of modernization theory was notably multidisciplinary, with contributions from the fields of sociology, economics, political science, and anthropology. The approach also had different levels of analysis, from micro-level elements such as urbanization, technological innovation, education and bureaucracy, to the macro-level implications, referring to the actual modernization of societies and economies. A key aspect of modernization theory was that the transition from a 'traditional' to 'modern' society was a gradual process.[56] The economically industrialized and politically liberal countries of the West were not formed in an empty space, but transformed over time, by way of political, economic and cultural evolution, to the modern states that they are today. In order for underdeveloped countries to modernize, their traditional structures and values ought to be replaced by those same values adopted by Western countries.[57] One of the early contributions to this perspective came from American sociologist Talcott Parsons.

Parsons compared social change to the biological transformations of organisms adapting to changes in their environment.[58] This approach resembled the theory of evolution in that the growth of a society was seen as a unidirectional, linear progress. However, only those societies which possess 'evolutionary universals' would truly be capable of becoming 'modern'.[59] Parsons identifies these 'evolutionary universals' as social stratification, cultural

[54] Reyes-Ortiz (2001); Tipps (1973)
[55] Tipps (1973)
[56] Hout (2016)
[57] Reyes-Ortiz (2001)
[58] Parsons (1964)
[59] Hout (2016)

legitimation, bureaucratic organisation, money and markets, a universalistic legal system, and democratic association in both government and private forms.[60] Just as certain biological adaptations such as a human's hands or brain have allowed for greater adaptive capacity, these evolutionary universals have allowed Western societies to adapt to such transformative events as the Industrial and French revolutions.

Another important contribution came from Walt Rostow, who conceptualized the path from a traditional to fully modernized society through five key stages of growth. The first stage, a *traditional society*, is dominated by subsistence agrarian lifestyles and limited productivity, with at least 75 per cent of the workforce involved in agricultural production[61] This is followed by the *preconditions for take-off*, in which scientific innovations lead to surpluses which can be re-invested. The *take-off* stage marks a period of self-sustained growth which is led by an entrepreneurial class. In the *drive to maturity* further innovations are made, leading to a higher degree of industrialization and preparing societies for the last stage of Rostow's model, the *age of high mass consumption.* This marks the consumerist society that defines developed countries today. By this reasoning, poor countries remained underdeveloped because they were highly traditional, primarily agrarian societies. The modernization theory perspective was criticized for a number of reasons. From an ideological standpoint, it was considered highly ethnocentric as it approached the issue of development from a Western perspective. It came to represent underdeveloped nations that had yet to be modernized as rather simple, whereas Western social, political and economic structures were characterized as highly modern and complex.[62] However, there was no clear delineation as to what constituted 'traditional' values, which were simply generalized as the antithesis to modernity. As argued by Tipps, traditional societies have not always been static, yet *"appeared changeless only because they were defined in a manner that allowed no differences between traditions and recognized no significant change save that in the direction of the Western experience."*[63] The modernization perspective also eliminated other possibilities for development, a feature which would be empirically

[60] Parsons (1964)
[61] Rostow (1959)
[62] Hout (2016)
[63] Tipps (1973) – p.212-213

challenged by the rapid development of a handful of countries in East Asia, albeit under very different socio-political organization.[64] Yet, perhaps the main and lasting critique against modernization theory was that it overlooked the lasting legacy of colonialism and the continuing role and position of developing countries in the global system.[65] Economic development was not simply an internal affair, and external constraints needed to be accounted for in any adequate judgment. It is this criticism which would form basis of dependency theory as it emerged in the 1960s.

6.2 Dependency Theory

Dependency theory has its origins in the work of Raul Prebisch and his colleagues at the Economic Commission for Latin America and the Caribbean. According to Prebisch, considerable inequalities emerged as a result of undeveloped countries' main economic role being exporters of primary goods to advanced industrialized countries. Crucial to this formulation was a hypothesis developed by Prebisch and Hans Singer which asserted that the price of primary commodities falls relative to the price of manufactured goods in the long-run.[66] As a result, those underdeveloped countries with no or minimal industrial capacities could never earn enough foreign exchange reserves from their exports to pay for their imports. It remains important to clarify that proponents of dependency theory hypothesized the implications of dependency in different ways, and consequently also interpreted the possibilities for development differently. These schools are loosely divided into the *neo-Marxists* and *reformers.*[67] They generally share the assumption that the international system comprises two sets of states. The core states that form the OECD are those defined by advanced technology, high wages, and diversified production. Peripheral states are characterized by low technology, low gross domestic products, and low levels of economic diversification.[68] Oppurtunities for development are limited by the exploitative nature of relations between core and peripheral states. The possibility of semi-peripheral states as advocated by the *reformists* is discussed later in this chapter. The *neo-Marxist*

[64] Reyes-Ortiz (2001)
[65] Hout (2016)
[66] Bloch & Sapsford (2000)
[67] Ferraro (2008)
[68] Wallerstein (1976)

school, also referred to as *dependentistas*, initially focused on underdevelopment in Latin America, but would in later years apply more generally to the African and Asian contexts. Some of their most well-known proponents were Andre Gunder Frank, Samir Amin, and Theotonio dos Santos.

Frank asserted that the structure of the global capitalist economy not only limited development, but actually created under-development.[69] Accordingly, "*neither the past nor the present of the underdeveloped countries resembles in any important respect the past of the now developed countries.*"[70] While early traditional European states could experience economic development, the logic of global capitalist accumulation precludes any possibility for development of the periphery. According to Frank, development and underdevelopment are two products of the same system, and global capitalism has been a system of exploitation since its inception in the 15th century. The West, which remains the center of capital accumulation, developed and industrialized as a result of its ability to syphon off economic surpluses from the periphery. While the methods of surplus extraction have changed over time, the links between the core and periphery continue to be characterized by unequal trade, investment and labour relations.[71] Correspondingly, Samir Amin noted that significant disparities in productivity exist between sectors in peripheral countries. This, as well as the fact that these sectors are oriented towards the needs of core countries, leads to the disarticulation or lack of linkages between these sectors. Additionally, a highly unequal international division of labour persists, reflected in wage gaps and the dependence on foreign capital.[72] Crucial to the transformation of developing countries is that they need to 'delink' from the global economic system by shifting from primary-product exports to the production of goods for domestic consumption.[73] Similarly to Amin and Frank, Theotonio dos Santos defined dependence as "*a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected.*"[74] He points out that the capacity for peripheral countries to generate new

[69] Frank (1971)
[70] Frank (1966) - p.18
[71] Hout (2016)
[72] Amin (1974)
[73] Amin (1990)
[74] Santos (1970) – p.231

investments and industrialize is dependent on their earnings from the export sector. This is because financial resources in the form of foreign currency, which are needed to buy industrial inputs, can only be acquired through the generation of export-led economic surpluses. This means that traditional export sectors need to be maintained, which dos Santos says limits the economic development of the internal market through a preservation of backward relations of production. In some cases, this leads to a continued control by traditional oligarchies. In others, where export sectors are controlled by foreign capital, it means the continued remittance abroad of a large portion of profits.[75] Hence, dos Santos states that a continued dependence in underdeveloped countries *"cannot be overcome without a qualitative change in their internal structures and external relations."*[76] The *neo-Marxists* thus advocated for the implementation of socialist, command-centered economies. Others within the dependency theory paradigm, however, argued differently.

The *reformist* position within dependency theory emphasized a shift away from perpetuated underdevelopment, arguing that certain levels of development could be achieved through targeted policy prescriptions. Prebisch himself became a part of this camp, as did former Brazilian president and sociologist Fernando Cardoso. Prebisch formulated a number of prescriptions which commodity-oriented countries needed to follow in order to develop and escape their position as suppliers of primary resources. This emphasized the role of the government as one prioritizing the goal of national development. Governments needed to focus on fiscal rather than monetary policies in order to influence their exchange rates. Internal demand needed to be stimulated by increasing the wages of domestic workers, as well as more effective spending on all social sectors in order to increase their competitiveness. Furthermore, in order to develop a platform for investments, national capital required preferential treatment. Thus, national development strategies needed to be oriented around promoting domestic industrialization. This meant protecting nascent industries through a model of import substitution, by establishing quotas and tariffs on external markets.[77] Cardoso similarly argued that dependency could no longer be understood solely by the logic of external capital accumulation, and that internal dynamics

[75] Ibid.
[76] Ibid. – p.231
[77] Bodenheimer (1970)

within the periphery were fundamental in shaping relations between the core and the periphery.[78] A simple core-periphery framework did not adequately explain all the development outcomes within the global system. Countries like Brazil, Argentina, Turkey and South Africa, among others, have managed to industrialize and accordingly resemble a form of development, although not as advanced as the West. They have developed because a certain degree of local production of consumption goods has been facilitated. However, they remain dependent because the means of production, in the form of technological inputs, are controlled by foreign capital.[79] While a capitalist class emerges within dependent countries, managing new industrial sectors on behalf of core capitalist interests, they are too weak for their own social reproduction and are unable to develop a unified internal market. Cardoso writes that in these countries, *"an internal structural fragmentation* [emerged], *connecting the most 'advanced' parts of their economies to the international capitalist system."*[80] He argued that this sort of development depended on the willingness of local politicians to work with foreign capital. Thus, the *Reformists* held that each country had its own local dynamics which influenced its position within the global economy. The *Marxists,* on the other hand, emphasized the continued subjugation of peripheral countries to the global capitalist system. Hout notes that the *Marxist* approach would maintain the dominant position within dependency theory, applying more broadly to the issues of dependency in Africa and Asia.[81] Indeed, the only country in SSA which arguably represents the model of development articulated in the *reformists'* position is South Africa. This motivates the focus on the *neo-Marxist* implications of the dependency paradigm.

Since the 1980s, the relevance of dependency theory has been seriously questioned. One of the criticisms levelled at the approach is its overemphasis on economic issues. Non-economic issues could also contribute to underdevelopment, with perspectives such as postcolonial theory stressing the lasting social, political and cultural legacies of colonialism and neo-colonialism, which dependency theory pays scant attention to.[82] Critics also point at the fact that dependency theory does not provide enough empirical proof to underpin its implications, and through its deterministic approach might actually overemphasize the

[78] Cardoso (1972)
[79] Ibid.
[80] Ibid. - p.90
[81] Hout (2016)
[82] Biswas (2013)

barriers to development.[83] It also unconditionally sees ties with multinational corporations in a negative light, whereas it is argued these ties could actually serve important functions in the transferring of technology from core to peripheral states.[84] Furthermore, as in the case with modernization theory, dependency theory was ill-equipped to account for the rapid development of a handful of development-oriented countries in East Asia. These countries were not condemned to underdevelopment, nor the status of semi-peripheral entities as argued by Fernando Cardoso, but instead rose rapidly out of underdevelopment to the advanced industrialized countries that they are today. This form of development came to be represented as a product of the 'developmental state.'

6.3 Developmental State

The developmental state is associated with the model of development pursued in a number of East Asian countries, including Japan, South Korea, Taiwan, Singapore and Hong Kong. Following the second world war, these states implemented a set of policies, including tariffs, subsidies and controls which targeted specific sectors that were subsequently used to drive industrialization. Amsden explains that technology has remained the most important factor for developing countries to industrialize. Because foreign investors do not stimulate technological transfers from developed to developing states, it cannot be expected that free-market capitalism will promote industrialization in developing countries. Thus, states have had to implement policies which are development-oriented and promote growth in domestic sectors.[85] Hillblom notes that these states are "*centred on a selective industrial strategy whereby industries that are deemed essential for national growth and development are targeted with investments and supported by import substitution policies.*"[86] The term 'developmental state' was first introduced by Chalmers Johnson, who recognized a prioritization on economic development, defined in terms of growth, productivity, and competitiveness, as forming the core purpose of these states. He looked in particular at the role of the Japanese Ministry of Trade and Industry, formed in 1949, in promoting Japan's

[83] Hout (2016)
[84] Reyes-Ortiz (2001)
[85] Amsden (2001)
[86] Hillbom (2012) - p.69

phenomenal growth.[87] The ministry accelerated Japan's development by implementing a series of crucial import controls to protect domestic industries, while stimulating exports through its control of the foreign exchange budget.[88] It also nurtured domestic investment by facilitating access to credit and forming the Japan Development Bank. Japan's strong private sector and extensive industrialization have been credited to its capacity to channel investments into high growth sectors while attracting FDI. This model of development was similarly adopted in Singapore, Korea, Taiwan and Hong Kong. These states implemented strategic industrial policies which led to a societal and industrial transformation that brought about high levels of labour productivity, savings and investment. While developing countries in Africa and Latin America were succumbing to the woes of the 1980s debt crisis, the East Asian developmental states were able to avoid this entirely.[89] Amidst the ideological split of the Cold War, these states were neither characterized by the free market nor the planned economy, but rather as a mix of plan-rationalist capitalism. Crucial to their success was what Johnson referred to as a harmony between private ownership and state guidance.[90]

Kunal Sen attributes the success of developmental states to politics, more specifically the balance of power between elite groups within society. In his words, *"the underlying political settlement within countries too often provides political elites with insufficient incentives to enact the institutional reforms needed for further growth and structural transformation."*[91] Beyond the requirement for a suitable political landscape, the applicability of the developmental state model for developing countries is arguably further limited in the contemporary era. Amidst the spread of globalization and a surge of neoliberal policies, governments no longer have the capacity to implement the required industrial and technological policies to achieve the kind of transformation experienced by early developmental states. As stated by Wade, *"the rules being written into multilateral and bilateral agreements actively prevent developing countries from pursuing the kinds of*

[87] Johnson (1985)
[88] Caldentey (2008)
[89] Husain (1991)
[90] Johnson (1985
[91] Sen. K. (2017)

industrial and technology policies adopted by the newly developed countries of East Asia".[92] State capacities to accelerate growth have diminished, with industrial development now increasingly linked to the ability to attract FDI. Furthermore, aid-dependent countries are arguably restricted from creating developmental states. When a state raises a large portion of its revenue through aid contributions, national control of policy-making can be severely undermined. It can also create perverse incentives which prevent developmental progress, as the state can become less accountable to its own citizens.[93] A tentative conclusion is that underdeveloped, and particularly aid-dependent countries are increasingly restricted from implementing the policies required for industrialization. Furthermore, just because developmental states were successful in circumventing underdevelopment, this does not mean that dependency traps never existed in other developing countries.

7. Case Analysis

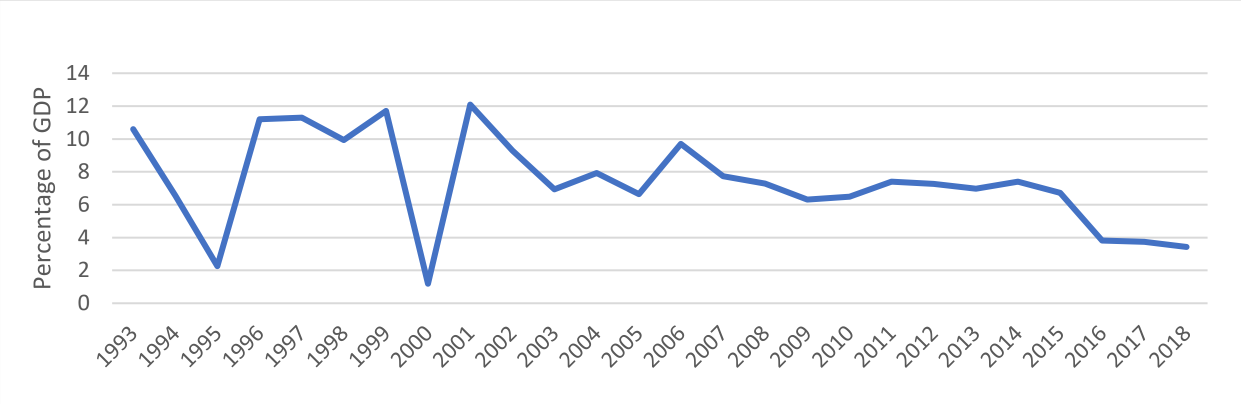
This paper will proceed by explaining Mozambique's development outcome. This is needed to confirm that the predicted outcome of dependency theory corroborates with the development outcome for Mozambique. This is followed by an assessment of three key features of Mozambique's political economy. The first is the impact of domestic industries and foreign investment in the economy. The second revolves around a continued dependence on foreign aid and its implications for economic development. The third refers to the motivations and impact of a national capitalist elite. After this, a theoretical discussion will address the underpinnings of dependency theory in accounting for Mozambique's development outcome.

Mozambique has often been described as a model for other low-income countries in SSA, due to its high levels of growth and macroeconomic stability. A report by the IMF in 2014 notes Mozambique's post-war growth experience as having two distinct periods. The first period (1992-2002) marked the reconstruction of the economy following the destructive civil war, in which there was extensive privatization and market liberalization. This period was defined predominantly by traditional exports including prawns, cotton, timber, cashew

[92] Wade, R. (2003) – p.622
[93] Moss, Pettersson & van de Walle (2006)

nuts, and sugar. While characterized by a strong economic performance, it was more volatile than the second period (2002-2014), owing to severe floods in 1995 and 2000.

Graph 1 – Mozambique annual GDP growth, 1993-2018 (%)[94]



Growth in the second period was largely driven by investments in megaprojects, particularly the Mozal aluminium smelter, which was completed in 2003. Other major projects included the reparation of transmission lines to the Cahora Bassa dam in the north and the Vale and Rio Tinto coal mines.[95] The export sector during this period consequently saw a shift to the exportation of aluminium, electricity and coal. Between 1992 and 2014, Mozambique averaged a growth of 7.4% per year, placing it amongst the fastest growing economies in the world. This growth, however, has been accompanied by mixed results in poverty reduction. While the percentage of people living under the nationally defined poverty line decreased from 69% in 1996 to 46% in 2015, significant disparities continue between provinces, as shown in table 2.[96]

Table 2 - Poverty rates by province (%)[97]

Province	2002/03	2008/09	2014/15
Niassa	48.3	33	60.6
Nampula	49.1	51.4	57.1
Zambezia	49.7	67.2	56.5

[94] World Bank (2018)
[95] Ross (2013)
[96] Ministry of Economy and Finance (2015) – p.16
[97] Ibid.

Cabo Delgado	60.3	39	44.8
Sofala	41.3	54.4	44.2
Gaza	55.4	61	51.2
Tete	60.5	41	31.8
Manica	44.7	52.8	41.0
Inhambane	78.1	54.6	48.6
Maputo Province	59	55.9	18.9
Maputo City	42.9	29.9	11.6

While poverty reduction has been successful in certain provinces, there are significant disparities between regions. This is partly attributed to higher levels of urbanization and investment in the south, despite the majority of the population living in the north. Perhaps more worrisome than the inconsistent reduction of poverty, however, is the absence of any structural transformation within the economy. The majority of Mozambique's growing labour force, 73% in 2017, remains employed in low-productivity agriculture. This sector, however, has not seen any real improvement over the years, and is still characterized by highly traditional modes of production. In 2017, the average output per agricultural worker was just US$ 486.[98] Mozambique also continues to be a net importer of food, required primarily to supply the urban centers. The overwhelming majority of farmers are subsistence farmers, employing low-productivity, traditional means of agriculture. In rural areas, yearly increases in production of maize and cassava, staple foods for most rural households, are barely enough to keep up with population growth. Mozambique also remains on the list of 47 LDCs as determined by the UN's Committee for Development Policy (CDP), as well as ranking 180th out of 189 countries in the 2019 human development index.[99] The CDP describes it as having particularly poor levels of gross national income, low levels of human assets and a high degree of vulnerability to economic shocks.[100] By any known measures, the Mozambican economy remains highly underdeveloped, with its growth largely driven by megaprojects funded by foreign investment. This growth, however, has not been broadly shared.

[98] Roser, M. (2013)
[99] UNDP (2019)
[100] United Nations (2020)

7.1 Domestic Industries and Foreign Investment

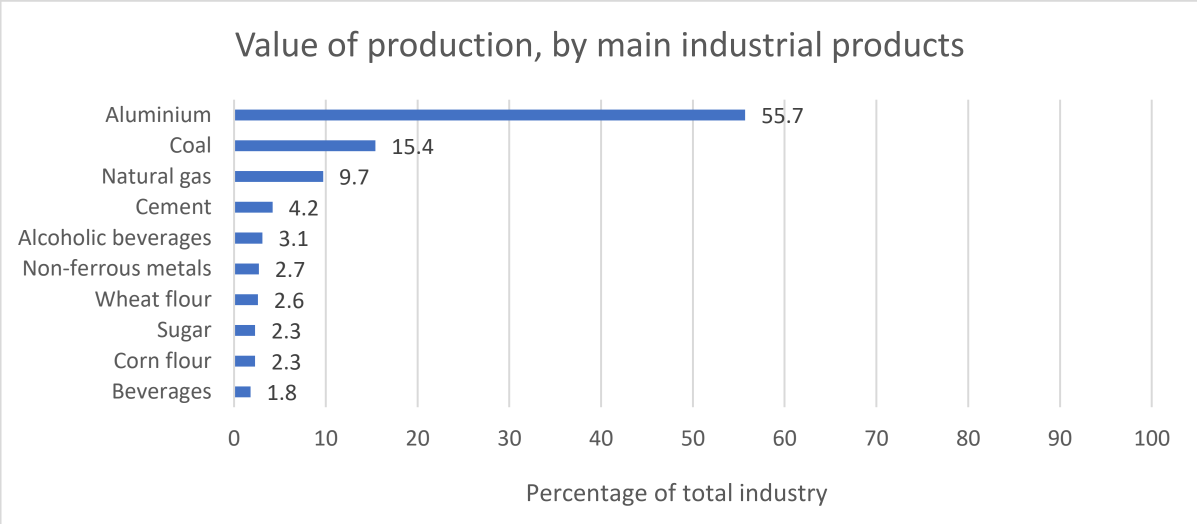
Low total-factor productivity remains a key factor in persistent poverty levels. Productivity growth is thus essential for increasing standards of living, promoting economic development, and achieving competitiveness in the globalised economy. While the private sector remains the main driver of economic growth, governments can implement industrial policies to accelerate transformations from low-productivity agriculture to knowledge- and technology-intensive production. This can reduce dependence on commodity exports by providing a dynamic source of income and foreign exchange that is crucial for a country's development.[101] Krause and Kaufmann distinguish between *selective* and *functional* industrial policies. Selective policies refer to subsidies, tariffs, taxes, and tax exemptions to specific industries or sectors, while functional industrial policies refer to efforts to improve the conditions of the manufacturing sector as a whole. This can be achieved through general infrastructure projects, such as electricity lines and road networks, or by improving the legal framework for doing business, such as the reduction of excessive bureaucracy.[102] Such policies, however, tend to require strong institutions as well as political checks and balances, which leaves doubt as to whether they can be implemented efficiently in lower income countries. The Mozambican government, at least on paper, has acknowledged the importance of industrial growth for the country's economic development. According to its 1997 industrial strategy policy, *"industry's potential for technological links and externalities as well as for internal and inter-sectoral linkages is the underlying premise for ascribing a key role to industry in the economy."*[103] It recognized industrial growth as a key contributor to the overall output and productivity of the economy. Yet, the contribution of the manufacturing sector has continually decreased since the industrial strategy policy was first published, from 20% of GDP in 2000 to 9.6% of GDP in 2017. This is attributed to a poor performance by small to medium-sized enterprises (SMEs), as well as the expansion of other sectors in the economy.[104]

[101] Castel-Branco (2002)
[102] Kaufmann & Krause (2011)
[103] Republic of Mozambique (1997)
[104] African Development Bank (2018)

The manufacturing sector employs a mere 3% of the total workforce. It is comprised mainly of small firms with low levels of technology, which have struggled to compete with competition from South African imports. According to the World Economic Forum's 2019 Global Competitiveness Index, which ranks countries based on the set of institutions, policies and factors that determine their level of productivity, Mozambique ranks 137th out of 141 evaluated countries.[105] Unreliable electricity and excessive bureaucracy continue to be major obstacles for industrial growth. High interest rates and inflexible financial services are also seen as barriers to development for SMEs.[106] This is despite the government's earlier commitment to establishing appropriate mechanisms to facilitate access to financing for SMEs. The industrial sector continues to be dominated by large, foreign companies, with the Mozal aluminium smelter making up more than half of industrial production in 2016, as shown in graph 2. Located just outside of the capital city, Mozal is a joint venture between BHP Billiton, Mitsubishi Corporation of Japan and the Industrial Development Corporation of South Africa and became fully operational by 2003. As the first megaproject, the Mozambican government attracted investors by granting them 50 years of tax exemptions, as well as cheap access to electricity.[107] Other corporations, including Vale (coal) and Sasol (liquefied gas), have been given 25 and 35 year tax exemptions, respectively.[108] While tax exemptions can incentivize foreign investment, they also restrict the generation of public revenue required to invest in social infrastructure and policies that improve the overall manufacturing capacity. [109]

[105] Schwab (2019)
[106] Machado & Macome (2017)
[107] Ross (2013)
[108] APRM (2009)
[109] Kaufmann & Krause (2011)

Graph 2 - Value of production, by industrial sector, 2016 (%)[110]



In addition to generating marginal tax revenue, the mega projects have contributed little in the form of domestic employment. They are characterized as capital-intensive and have provided only modest employment, mostly in the early construction phases.[111] Under the Investment Project Authorization, signed by the government of Mozambique, Mozal was also granted the right to free profit and capital repatriation.[112] The project has thus not established any significant linkages with local enterprises, resulting in minimal spillover of technological know-how. It effectively constitutes an enclave within the economy, and, while contributing significantly to the growth figures, has not led to an increase in overall productivity within the economy. In sum, the government has emphasized a priority in foreign investment over the promotion of local manufacturing capacities.

A number of structural deficits continue to limit industrial policy in Mozambique. This includes a lack of management knowledge, coupled with ineffective public administration personnel and rampant corruption, which distorts the incentives of doing business. Further challenges include a lack of adequate access to credit, high costs of capital, high costs of transport, and a lack of coordination between different state institutions promoting industrial development. Additionally, the labour force has an extremely poor level of

[110] National Institute of Statistics (2016)
[111] Billiton Plc. (2001)
[112] Castel-Branco & Goldin (2003)

training and skills, with Mozambique's overall illiteracy rate at 47%.[113] Besides these factors, donors and IFIs continue to have considerable influence in economic policy, given Mozambique's continued dependency on aid.[114] According to free-market thinking, liberal economic policies lead to an efficient allocation of resources which over time promote industrialization. Thus, the donor community tends to see the promotion or acceleration of industries by the state as an inefficient allocation of resources.[115] While the highly liberal approach to the industrial sector has expanded some manufacturing processes, including beverages, sugar, tobacco, cement and tyres, it has also led to considerable deindustrialization of the cashew, food processing, textile, construction, chemical and metallurgical industries.[116] In this regard, the liberalization of the economy has had detrimental impacts. The government's approach towards industrial policy is characterized more by a tendency to react to donor interests than a strategic national vision. This is based on the reasoning that policy measures have favoured the interests of large-scale FDI investments and projects. This is in contrast to the industrial policies required for the development of domestic manufacturing capacities. Government pledges to promote SMEs exist only on paper, with little being done to expand the functions of financial institutions and facilitating investment platforms that would benefit domestic companies. This is partly due to the low technical capacity of the state administration, the weak formal organisation of the domestic private sector and a continued dependency on aid.

7.2 Aid Dependency

Aid remains a key component of political and economic relations between most underdeveloped countries and the industrialized countries of the OECD. In the last 50 years, Africa has received more than US$1 trillion in development-related aid.[117] The effects of this, however, have been varied. On the one hand, poverty has been reduced. On the other, dependency on aid has created new challenges for African countries, often through a framework of neo-colonialism. Aid tends to target poverty-alleviation schemes rather than

[113] USAID (2019)
[114] Kaufmann & Krause (2011)
[115] Castel-Branco (2002)
[116] Cruz, Guambe, Marrengula & Ubisse (2016)
[117] Kabonga (2017)

being used to promote economic productivity and is often only provided with a set of conditions. In the case of Mozambique, aid has played a particularly dominant role since the late 1980s. Facing growing debt and an economy crippled by the civil war, the Mozambican government first requested aid in the early 1980s.[118] This was refused by the IMF and World Bank as the government had declined to the stipulated conditions of the BWIs. Further difficulties forced the government to give in to the demands of the BWIs, finally signing an agreement in 1987 which transformed Mozambique into a market-based economy. The ensuing SAP led to a liberalization of trade and interest rates, reforms in import tariffs, eliminated price controls, and privatized over 1000 state enterprises.[119] To address the current account deficit and growing debt, the IMF imposed budget cuts on the state, which substantially reduced expenditure on education and health. The government has since played a minor role in social sector spending, with donor aid essentially replacing this function of the state. According to OECD figures, Mozambique received US$ 2,019 million in official development assistance (ODA) in 2017, making it the 9th largest recipient of OECD aid in Africa.[120] While this is down from the US$2,118 million disbursed in 2014, it still represents 14% of its gross national income, considerably higher than the sub-Saharan African average of 3%.[121] The OECD defines ODA as *"government aid that promotes and specifically targets the economic development and welfare of developing countries."*[122] In the case of LDCs, 45% of bilateral ODA is required to be in the form of grants. In Mozambique's case, between 1992 and 2018, 76% of total ODA was in the form of grants, as shown in table 3.

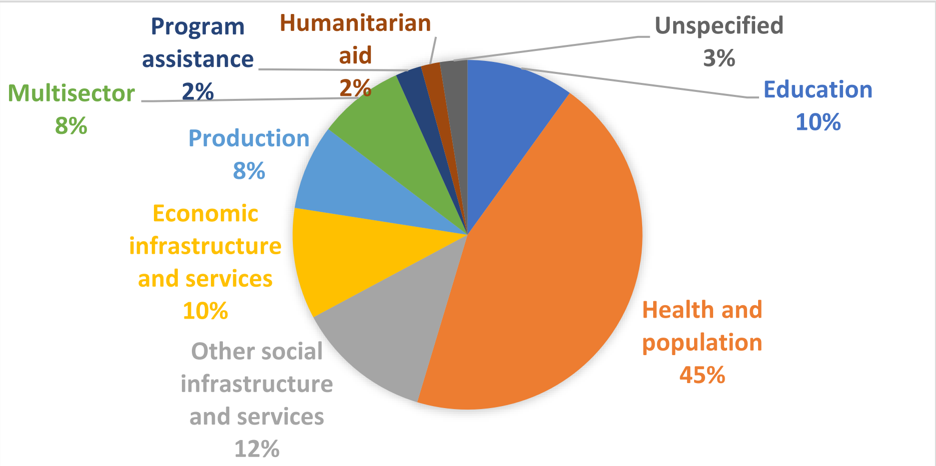
Table 3 – Aid to Mozambique, 1992-2018[123]

	US$ billions	**% of total ODA**
Total ODA	53.6	
Of which		
Grants	40.7	76%
Loans	12.9	24%

[118] Beste & Pfeiffer (2016)
[119] Ibid.
[120] OECD (2019a)
[121] World Bank (2019); OECD (2016)
[122] OECD (2019b)
[123] OECD (2018a)

The sectoral contribution of aid, illustrated in figure 2, shows that over 65% of aid went to social sector spending in 2017.

Figure 2 – Aid to Mozambique, by sector, 2017[124]



While aid has contributed to the post-war economic growth in Mozambique, there have been some drawbacks. The high structural dependency on aid has fragmented government planning and budgeting and weakened the national capacity for policy decisions. Given that the Mozambican parliament remains relatively weak compared to the executive, the national budget process essentially only involves the executive and foreign donors.[125] While tax revenue has slightly increased since 2007, the tax base remains very small. Foreign aid forms a large portion of the state's budget, representing an average of 45% of the government's expenditure since Mozambique's independence.[126] This effectively means that the government is more accountable to donors than it is to Mozambican society. On a positive note, a high percentage of aid is in the form of grants, meaning that the government has been able to finance a considerable expansion of public infrastructure and services, while restoring fiscal stability. However, this is not sustainable in the long-run. Reducing aid dependency in Mozambique remains a difficult process. Besides inefficiencies in government spending, there are no easily identifiable areas for expenditure cuts. The country already has very minimal military expenditure, and any further spending cuts would

[124] OECD (2018b)
[125] Hodges & Tibana (2006)
[126] Orre & Rønning (2017)

impact capital expenditures, such as the building of roads, schools and hospitals. While internal revenue covers recurrent expenditures, the country remains dependent on aid and loans for capital expenditures. The government consequently has little choice but to accept donor-imposed policies, or risk aid being withheld. This is certainly not a positive sign, given that more than thirty years have passed since Mozambique first requested aid.[127] On paper, the government has highlighted its commitment to economic development and reducing poverty. Through its emphasis on PARPA, the poverty reduction strategy, it showed its commitment to reducing poverty and achieving the MDGs. However, this appears more a commitment to donors than to the Mozambican people. Moreover, the fragmentation of aid (Given the more than thirty donor agencies in Mozambique) means that policy discussions often occur at sectoral, provincial or local levels. As stated by Hanlon, this undermines the coherence of the government's development policy, *"promoting a piecemeal approach to addressing development problems."*[128] Krause and Kaufmann further note that high levels of aid incentivize the government to prioritize the maintenance of these levels of aid in order to secure political legitimacy through significant social sector spending. Relating to the previous chapter, this has reduced the government's interest in industrial policy.[129] Mozambican officials, particularly those within Frelimo, have become experts at managing relations with the many donor agencies active in the country. The ruling class has quite effectively managed to juggle the priorities and demands of donors while preserving the support of important domestic constituencies.

7.3 Formation of a National Elite

Although it remains in essence a multi-party democracy, Mozambique has been ruled by a single party since its independence in 1975. In the years following independence, there was widespread optimism in the transformative, socialist project that was meant to develop and modernize the country. Beyond the intellectual ambitions for such a project, however, there was little capacity to implement it at the local level. Soon after adopting Marxist-Leninism in 1977, the state became embroiled in a civil war that quickly consumed the already scarce

[127] De Renzio & Hanlon (2009)
[128] De Renzio & Hanlon (2009) - p.4
[129] Kaufmann & Krause (2011)

distribution of resources. The internal economic collapse that followed, coupled with external events such as the fall of the Soviet Union, subsequently led to the abandonment of the party's defining ideology. The period between 1984 and 1994 saw an institutional transformation which opened the country up to the West, liberalized politics and the economy, and formally separated party from state.[130] Frelimo now had to compete for control through multiparty elections, with the 1999 presidential election in particular posing a serious challenge to the party's rule. However, through its continued control of the state, weak political opposition and a lack of collective action by the civil society, Frelimo has effectively managed to turn Mozambique into a dominant-party system. The party holds a significant majority in the national parliament, with 184 seats, compared with 60 seats for Renamo, and 6 seats for Movimento Democrático de Moçambique (MDM), the Democratic Movement of Mozambique. Formal institutions and checks and balances within the state and society are very weak in regard to the executive, with the party also dominating the appointment of staff to the central and local state apparatus, as well as to most public institutions. Through the state, Frelimo maintains a practical monopoly on the distribution and management of state resources, including the donor-funded budget. As stated by Orre and Rønning, *"the Frelimo party is the main hub for negotiating access to the principal source of enrichment in the country, state resources and privileges, making it the principal arena for rent seeking."*[131] Not only have the lines between state and party been blurred, but the atmosphere is one where party loyalists are rewarded with jobs and privileges, with no independent capitalist or business class existing outside party lines. Whereas its origins lie in an egalitarian project of social order and progression, Mozambique's reality today is one of social exclusion, where abject poverty co-exists with the ostentatious lifestyles of the politically connected few.

By the late 1980s, there was no middle-class to speak of, with privileged positions being attached to one's status within the party. This was augmented by the fact that the Portuguese colonial period and Frelimo's Marxist-Leninism had left little space for autonomous social organization.[132] Instead, the leadership of the Frelimo party was

[130] De Tollenaere (2012)
[131] Orre & Rønning (2017) - p.10
[132] Harrison (1999)

composed mostly of former *assimilados*. These were ethnic Mozambicans during the colonial era who had to *"swear loyalty to the colonial state, speak only Portuguese at home* [and] *adopt 'European' habits"*[133] Out of an estimated 8,500,000 ethnic Mozambicans in 1960, approximately 5000 gained the benefits of being assimilados, which included exemption from forced labour, jurisdiction under civil law, better education and better oppurtunities for employment. However, they were still regarded as second-class citizens and subject to systematic discrimination, and consequently were not opposed to change. During the liberation struggle this class of educated revolutionaries would form the inner core of Frelimo's leadership. Following the widespread privatization of the PRE in 1987, it appeared only logical that these individuals would take center stage.[134] A small number of families within Frelimo's political sphere consequently managed to accumulate considerable wealth through large scale privatization, access to bank credit, and in certain cases through blatant corruption.[135] In a number of cases, privatized companies were bought with donor-funded loans that were never repaid.[136] Senior officials within the party were also able to acquire state-owned houses either for free or at very low prices. This provided them with a quick source of revenue with the influx of aid workers and international companies.[137] Others have profited off of privileged access to land and mining licences, with land use either being traded for money or a share in the business, when foreign investments are proposed.[138] Besides the rent-seeking associated with the privatization of state property/public resources, further rents have been acquired through banking fraud, the state budget, aid money, and business schemes. Throughout the 90s, an amount totalling US$ 400 million simply disappeared from the banking system through unserviced loans, fraud and theft.[139] When journalist Carlos Cardoso and economomist Antonío Siba-Siba Macuacua sought to investigate the theft, they were assassinated. These murder cases would later be linked to Nyimpine Chissano, son of former president Joaquim Chissano. Rather than using their financial power to pressure the Mozambican government to investigate the murders, donors simply gave an uncommitted insistence that the justice

[133] Sumich (2008) - p.6
[134] Harrison (1999)
[135] Hodges & Tibana (2006)
[136] De Renzio & Hanlon (2009)
[137] De Tollenaere (2012)
[138] Ibid.
[139] Hanlon (2001)

system needed reform. They then pledged more aid than the Mozambican government had requested, in order to recapitalize the looted banks. According to Hanlon, this *"strengthened the impression that donors were willing to turn a blind eye on corruption in order to safeguard Mozambique's reputation as a 'success story'"*[140]

In Mozambique's biggest corruption scandal to date, a total of US$2.2 billion was illegally loaned in 2012 from Credit Suisse and VTB bank, which the government hid until 2016. These loans were borrowed by semi-public entities within Frelimo and were backed by officials within the government, without having gone through the country's parliament as required by the Mozambican constitution. The loans were associated with EMATUM (Empresa Moçambicana de Atum), the Mozambican Tuna Company, and were intended for purchasing a fleet of ships for the state-owned fishing company as well as maritime security operations. The loan was taken out illegally and without public knowledge but added to the country's debt because it had been signed by the Mozambican finance minister. A report by Kroll Associates U.K. subsequently established that the companies paid US$713 million more for the deal than it was actually worth. According to Nuvunga, many Mozambicans suspect former president Armando Guebuza, as well as the current president Filipe Nyusi (minister of defense at the time) of having received payments for their part in guaranteeing the loan.[141]

The elite have also set up an intricate network of companies which continue to enable their accumulation of wealth. Holding companies which function as entry points for large-scale FDI facilitate the decision-making and legalization process by circumventing the labyrinth of red tape which characterizes the state's administration. These companies are indirectly linked to former presidents and their families. One particular company, Intelec Holdings, associated with former president Guebuza, has interests as diverse as banking, electricity, construction, agribusiness and the emerging gas industry.[142] Additionally, de Tollenaere refers to "grab all" companies, which obtain a broad range of licenses, either waiting for foreign companies to invest, or eventually targeting public tenders. The business

[140] De Renzio & Hanlon (2009)
[141] Nuvunga (2020)
[142] De Tollenaere (2012); Intelec Holdings (2020)

environment is consequently one that continues to hamper the progress of SMEs, while mega-projects and foreign investors are able to strike favourable deals with the government. Elites have little interest in promoting the domestic manufacturing capacities precisely because they have rent-seeking mechanisms in place that guarantee their social reproduction. SMEs provide no visible benefit towards the social promotion of the top decision-makers, and as a result have not been a practical priority for the state. In sum, Mozambique's development continues to rely on external capital, from with the local elite is able to extract rents. In justifying the development of this capitalist class, politicians have argued that the country risked falling into the hands of foreign capital without the formation of a national elite. Thus, Mozambique needed an elite class of entrepreneurs to maintain its economic sovereignty, and the only way to accomplish this was by appropriating state resources. The donor community and IFIs, in their quest for a rapid economic turnaround, were quick to support those within Frelimo who supported the neo-liberal line. While a sizeable number of Frelimo officials opted for a more interventionist transition towards a market economy, they were gradually marginalized from the political process. Hanlon states that *"donors were pushing for quick change and used both policy and financial incentives to make the rapid shift to capitalism personally worthwhile to members of the elite"*[143] The underlying premise was that it was tolerable for people to get rich because trickle-down economics would lead to a distribution of wealth. However, this has not been the case. A small number of individuals within the capital city continue to live according to 'Western' standards. As noted by Sumich, they justify their lifestyles by observing that their high levels of education and 'modern values' make them different to the rest of the population, being *"a claim to sophistication and power."*[144]

7.4 Theoretical implications

While it is evident that Mozambique has all the attributes of an underdeveloped country, to what extent can its relations with the industrialized economies be faulted for this? The mechanisms of dependency theory are certainly different in today's global economy than they were at the height of its popularity in the 1960s and 1970s. Today's global economy is

[143] De Renzio & Hanlon (2009) – p.7
[144] Sumich (2008)

guided not only by the fully industrialized nations that form the ‘core’ of the dependency theory model, but also those newly-industrialized economies which have growing political and economic influence. Mozambique’s economic relations with foreign capital are not only limited to the industrialized countries of the West but are evidently also tied to these ‘newly-industrialized’ countries. South Africa continues to be Mozambique’s largest trading partner, while trade relations with Brazil, China and India have also increased significantly.[145] Hence, the core-periphery model does not adequately explain Mozambique’s economic relations with foreign capital. Its links to global capitalism were reinforced when the government first agreed to the policies of the BWIs, transforming the country into a market economy. The implementation of these policies has not yielded positive results for most of the country’s population. It has led to a fundamental shift in the ambitions of the national elite. While initially rooted in a national vision for development, pressure and encouragement from donors and the BWIs have effectively turned this group into a predatory elite. Granted, the dire state of the Mozambican economy in the midst of a civil war meant that the government had little choice but to give in to the demands of the BWIs. Yet, these institutions, historically associated with the interests of the West, actively supported those who were eager to implement rapid privatization and liberalization, while a group who envisioned a more pragmatic capitalist model were increasingly marginalized. As a result, a predatory elite has emerged which, through its political control, continues to engage in rent-seeking behaviour while showing little interest in improving domestic productivity. This has been to the benefit of foreign goods and capital.

Importantly, the early proponents of *neo-Marxist* dependency theory did not distinguish between developmental or predatory elites in contributing to the development of the periphery. Rather, in conjunction with the centers of capital accumulation, the antagonist was the capitalist system itself. In this view it would matter little if Mozambique’s political elite remained committed to national development, as its position within the global economy would prevent development, nonetheless. Dependency theory appears to be highly deterministic in this manner, as it emphasizes the barriers to development as arising exclusively from relations with external forces. Yet, Mozambique’s development continues to be hampered by an era of neopatrimonialism, as its political leaders have relied on rent-

[145] EXPORT.GOV (2019)

seeking mechanisms and the appropriation of state resources to accumulate wealth and maintain political control. This clientelism established by the elite, which remains well insulated from Mozambican society, has been to the detriment of SMEs and the domestic manufacturing sector. Hence, the internal barriers to development ought not to be overlooked. Furthermore, the current state of the manufacturing sector in Mozambique not only reflects the ambitions of its political leadership, but also reveals the impact of a colonial legacy and the centrally planned economy in Mozambique's post-independence years. In 1975, Mozambique was the eighth largest industrial producer in SSA. A mass exodus of skilled labourers following independence, however, led to dire shortage of personnel capable of maintaining industrial production. Decreased demand for its final goods coupled with reduced efficiency in export sectors had serious consequences on economic output. Its economic woes were further compounded by the sabotage of infrastructure and road networks during the civil war.[146] Thus, when the PRE was implemented in 1987, industry was already in the process of collapsing. While the highly liberal approach has led to further deindustrialization of certain sectors, these sectors were already experiencing difficulties before Mozambique's transition to a market economy. Mozambique's ties to countries not considered part of the core group of industrialized economies, coupled with the detrimental impact of a predatory elite and a lasting colonial legacy, challenges the capacity of dependency theory to account for the negative impact of the country's transition to neoliberalism.

Despite this, the essence of dependency theory continues to be experienced in other ways. The implications of this theory dictate that governments in underdeveloped countries should maintain interventionist roles in order to promote domestic economic sectors. According to the *neo-Marxists*, this should be done through a centrally planned economy, which Mozambique has already attempted, albeit unsuccessfully. *Reformists*, on the other hand, advocate for targeted policies that governments can focus on to promote development. In aid-dependent countries where government revenues depend for a large part on contributions from the international community, however, states become less accountable to their citizens, reducing incentives for promoting development.[147] Aid

[146] Cruz, Guambe, Marrengula & Ubisse (2016)
[147] Moss, Pettersson & van de Walle (2006)

essentially becomes an unearned revenue which accrues to governments. Although aid to Mozambique has predominantly been in the form of grants, there are still indirect costs associated with it. The primary cost is a loss of national sovereignty concerning national development policies. A secondary cost is the continuing lack of the state's accountability to civil society.[148] Crucially, the implementation of development-oriented policies requires the motives of the political leadership to be subordinated to internal societal demands. In the case of Mozambique, however, the political leadership remains more accountable to foreign interests than to its own society. The interests of the highly concentrated group of elites have become contingent with anti-developmental policies, creating a perverse incentive structure within the political leadership.[149] While aid continues to be spent on pro-poor policies, it has not benefitted Mozambique's economic productivity, effectively prolonging its dependence on aid. Hence, while the 'resource curse' has become a popular term used to describe Africa's problems, the impact of the 'aid curse' can be similarly harmful. Higher dependency on aid is also found to deteriorate the effectiveness of democratic institutions, as concluded by Djankov et al.[150] In this respect, there are grounds to be believe that aid has contributed to the 'development of underdevelopment' in Mozambique.

In addition, the process of globalization has severely restricted the capacity of governments to effectively manage their economies. For under-resourced states such as Mozambique, this effect has been more pronounced. The speed and ease with which financial capital is transferred internationally means that states are already disadvantaged in attracting foreign capital. Without an established basis of industrial capital and technological know-how, and limited by low levels of human capital, the Mozambican government remains restricted in its ability to stimulate investment. As a result, it has had to incentivize foreign-owned mega projects through very generous terms, including tax exemptions and the ability to repatriate capital. Consequently, most of the economic surpluses associated with these projects favour foreign capital. This, in combination with the private accumulation of wealth by a domestic elite, has resulted in the inability to retain surpluses that could be used for the reproduction

[148] Macuane (2012)
[149] Fritz & Rocha-Menocal (2007)
[150] Djankov, Montalvo & Reynal-Querol (2008)

of the domestic economy. Castel-Branco has referred to this as economic porosity.[151] This has had notable negative impacts on the economy. Firstly, government policies and overall oppurtunities within the economy are subordinated to the interests of foreign capital and the individuals comprising the elite. The consolidation of power within this oligarchic elite further prevents the equitable distribution of income through the economy, while distorting labour relations. Secondly, it has made it challenging to mobilize resources for comprehensive social and economic development, even when investments are increasing. This had led to an uneven development of industries within Mozambique, evident in the fact that few domestic firms have established linkages with the various mega-projects in the country. A paradox exists, whereby the political elite within Mozambique has been unable to govern effectively but continues to be able to channel resources to dominant groups within the country, cementing its control.[152] The effect of this has been an unequal development of capitalism both within Mozambique and between Mozambique and the sources of foreign capital. The Mozambican populace has not benefitted from these developments. As such, while the claims of dependency theory might have been discredited in the past, the effects of globalization in prolonging underdevelopment suggests that its implications are still visible today.

8. Conclusion

This paper set out to examine the capacity of the dependency paradigm to explain the conditions and challenges of Mozambique's economic development since its transition to a market-driven economy. It found that dependency theory is highly deterministic in its assertion that capitalism has caused underdevelopment in poor countries. It overemphasizes underdevelopment as being caused by external economic factors, while paying little attention to the internal social and political dynamics of LDCs. The interests of Mozambique's political leadership do not correspond with the needs of the majority of the country's population. While the country's shift towards neoliberalism has contributed to this contradiction, the blame cannot be laid completely on external factors. Furthermore, the

[151] Castel-Branco (2015)
[152] Kabonga (2017)

core-periphery model within *neo-Marxist* dependency theory does not accurately represent Mozambique's relations with foreign capital, given that its largest trading partners are not historically associated with the centers of capital accumulation. However, the nature of the global economy today is fundamentally different than it was in the 60s and 70s, when dependency theory was popularized. Any contemporary assessment of the theory ought to take this into account. The inadequacy of the core-periphery model, however, does not completely invalidate the theory, rather suggesting that it needs to be adjusted to describe the contemporary global economy.

The implications of dependency theory in Mozambique are remarkably evident in other ways. Two diametrically opposed systems have characterized Mozambique's political economy since it gained its independence in 1975. The first was a socialist project of national modernization, rooted in the state's control over political and economic decision-making. The second, which continues to define it today, is a neoliberal project based on free-market principles, which has opened Mozambique up to foreign investment. While a national elite continues to have considerable political control, its influence on economic decision-making has effectively been subordinated to the interests of foreign capital. Consequently, the state remains incapable of questioning the neoliberal paradigm. This is both a result of a lacking capacity to otherwise generate investments and a high dependence on foreign aid, which challenges its national sovereignty. While the country has experienced high levels of growth since its embrace of neoliberalism, the prospect for long-term development has been hampered by a lack of structural transformation in the economy. This is augmented by an inability to retain economic surplus that could benefit the economy as a whole, rooted in the minimal contributions to public revenue resulting from the repatriation of surplus to foreign capital. Foreign-owned investments in the country are characterized as enclaves within the country. They contribute minimally to domestic employment and prevent the establishment of domestic linkages, leading to a disarticulated economy whereby its most productive sectors primarily benefit industrialized countries. In this respect, Mozambique continues to be on the periphery of the global economy, continually underdeveloped as a result of its relations with foreign interests.

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