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**An Investigation Into
the Political Economy of Industrial Policy:
the Case of Mozambique**

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List of Acronyms and Abbreviations

- ADB – African development bank
- BCM – Banco comercial de Moçambique (Mozambican commercial bank)
- BCI – Banco comercial e de investimentos (commercial and investment bank)
- BIM – Banco internacional de Moçambique (international bank of Mozambique)
- BM – Banco de Moçambique (Mozambican central bank)
- BPD – Banco popular de desenvolvimento (people’s development bank – replaced by Banco Austral)
- BSTM – Banco Standard Totta de Moçambique
- BVM – Bolsa de valores de Moçambique (Mozambican stock exchange)
- COMECON – former community of economic cooperation of the socialist countries
- CPI – Centro de promoção de investimentos (investment promotion centre)
- DDI – Domestic direct investment
- DNI – Direcção nacional de indústria (national directorate for industry)
- DRC – Domestic resource cost
- EDM – Electricidade de Moçambique (Mozambican electricity corporation)
- EOI – Export oriented industrialisation
- ESCOM – South African electricity corporation
- FARE – Fundo de apoio à reabilitação empresarial (enterprise rehabilitation support fund)
- FDI – Foreign direct investment
- FFPI – Fundo de fomento para a pequena indústria (small enterprise support fund)
- FIZ – Free industrial zone
- Frelimo – Mozambican political party that currently holds majority in Parliament and governs; originally was the national liberation front against Portuguese colonialism.
- GDP – Gross domestic product
- GOM – Government of Mozambique
- GREICT – Gabinete de reestruturação de empresas da indústria, comércio e turismo (unit for privatisation of industrial, trading and tourism enterprises)
- IDC – Investment development corporation (South Africa)
- IDIL – Instituto de desenvolvimento da indústria local (local industry development institute)
- IFC – International financial corporation (member of the World Bank group)
- IMF – International monetary Fund
- INA – Instituto nacional do açúcar (national sugar institute)
- INCAJU – Instituto do caju (national cashew institute)

INE – Instituto nacional de estatística (national statistics institute)

INNOQ – Instituto nacional de normalização e qualidade (standards and quality institute)

IP – Integrated industrial programme (of private enterprise development)

IPEX – Instituto de promoção de exportações (export promotion institute)

ISI – Import substitution industry

ISIC – International standards of industrial classification

ISP – Industrial strategy project

KPMG – international business consultancy company

MCC – Maputo corridor company

MEC – Minerals-energy complex

MIC – Ministério da indústria e comércio (Ministry of industry and trade)

MICTUR – Ministério da Indústria, Comércio e Turismo (Ministry of industry, trade and tourism – replaced by MIC)

MPF – Ministério do Plano e Finanças (Ministry of planning and finance)

MVA – Manufacturing value added

OTM-Central Sindical – Organização dos Trabalhadores de Moçambique (one, of two, main workers organisation in Mozambique)

PFP – Policy framework paper

PoDE – Enterprise development programme

PPI – Plano prospectivo indicativo (prospective indicative plan)

PRE – Programa de reabilitação económica (economic rehabilitation programme)

PRSP – Poverty reduction strategy paper

R&D – Research and development

RPED – Regional program for enterprise development

SAB – South African breweries

SADC – Southern African development cooperation

SAP – Structural adjustment programme

SASOL – South African fuel (coal and gas to liquid) corporation

SDI – Spatial development initiative

SEB – Swaziland electricity board

SME – Small and medium enterprise

SSA – Sub-Saharan Africa

TFP – Total factor productivity

UNCTAD – United Nations conference on trade and development

UNDP – United Nations development programme

UNIDO – United Nations industrial development organization

UTRE – Unidade técnica de reestruturação de empresas (central technical unit in charge of the privatisation programme)

WB – (The) World Bank

Chapter 1

Introduction

Over the past fourteen years, Mozambique has been following a classical Washington consensus type of economic reform, primarily aimed at stabilisation and liberalisation of the economy. These reforms have also been expected to bring about economic growth and change, and industrialisation of the economy is, theoretically, a crucial component of such a process. The government has formulated general and industry specific industrial policy documents and legislation that, with rare exceptions, have not been implemented. Furthermore, fundamental socio-economic pressures and forces that act upon the state, the markets and the direction of industrialisation and economic development are only marginally discussed or covered in the policy documents and legislation. Moreover, although industrial output has grown quickly in the last five years, the dominant patterns of industrialisation and allocation of investment have not changed significantly and, if anything, have become narrower. Finally, industrial policy has been a marginal activity of the government when compared with other areas such as monetary and fiscal policies, general system of investment incentives, trade, agriculture, infrastructures and education.

The debate about, and analysis of, industrial policy in Mozambique are closely associated with the general ongoing debate about the role of the state and industrial policy in late development.¹ On the one hand, the Bretton Woods institutions and mainstream researchers claim that industrial development is a natural outcome of a sound economic and business environment based upon economic stability, liberalised markets and prices, private ownership and control over productive assets, public provision of social capital and minimal red-tape. Hence, industrial policies and strategies are not only not very important, but could even be damaging if they lead to outcomes that differ from the hypothetical optimum that markets would be able to achieve in the absence of imperfections.² On the other hand, heterodox organizations and researchers claim that the state has a fundamental role to play to promote industrialisation, and this role is not determined by the presence of market imperfections but

¹ See, for example, Amsden 2001 and 1992.

² See, for example, Biggs, Nasir and Fisman 1999, and World Bank 1999, 1995b and 1990b.

by the need to provide a strategy and build the institutions of development.³ Despite fundamental differences between and within each of these groups, their analyses have in common: (i) the study the manufacturing sector in isolation from the rest of the economy; (ii) the focus on linkages and the need to increase aggregate capital formation, with little or no attention paid to the analysis of direction and patterns of development; (iii) the fact that the models are heavily dependent upon strong assumptions about the agencies they intend to develop, be it the state or the private sector, without any detailed analysis of such agents in the context of the Mozambican economy; (iv) the lack of analysis of the conditions of competition or market structures and dynamics; (v) the concentration on the “national dimension” of industrial policy while simultaneously seeing foreign direct investment (FDI) and the Southern African region solely as opportunities or threats; and (vi) the inadequate use of available data (and effort put into producing data) about the structure of manufacturing output and trade and its dependence upon imports for purposes of policy making. At the end of the day, these analyses are mainly concerned with whether manufacturing output, exports and employment expand or contract.

This idea for this thesis was borne against this background. The critique of the terms of analysis and debates, of the little use made of long-term data or effort put into producing it, and of the inconsistency between the analyses and the available evidence initially led to the idea of researching the role and meaning of economic and industrial policy and in the case of Mozambique under stabilisation and structural adjustment programs. This research very quickly demonstrated the need to study the fundamental economic dynamics that are relevant to understanding industrialisation in Mozambique, and how these dynamics could be explained. Moreover, it became obvious that the study of industrial policy is not only about its potential, or lack of it, in promoting linkages, but fundamentally it is about how its goals are established, and how industrial policy is defined, determined and implemented in specific conditions of industrialisation. General literature research in the field of industrial policy showed that the dynamics of accumulation are determined by linkages, by agents and by the dynamic relationship between them. Moreover, trying to understand linkages and agents in isolation from each other would obscure the analysis instead of simplifying and focusing it. This thesis is the outcome of this critical stance.

³ See, for example, GOM and UNIDO 1993, UNIDO 1999 and 1987, and Weiss 1992.

1.1 Research approach

Aim and analytical framework of the thesis

The general aim of this thesis is the application of the linkages-agents analytical framework to the study of the process of industrialisation in Mozambique. More specifically, the thesis will discuss the role of industrial policy in the Mozambican economy, and how to address the task of developing coherent industrial policies and strategies that take into account the structural characteristics and the dynamic socio-economic pressures that shape industrial progress. Thus, rather than recommending a specific policy programme, the thesis will try to identify the dynamics of industrial accumulation and its implications for industrial policy, so that policies can be based upon the understanding of the socio-economic relations and pressures that characterise the process of industrialisation in Mozambique.

The linkages-agents analytical framework addresses socio-economic development processes by focusing upon the study of linkages, agents and the dynamic relationship between the two. Linkages refer to the process by which one economic activity or pressure leads to another activity or pressure and, in doing so, generates economic growth, change and development. Agents are those who perceive and anticipate linkage opportunities and implement them, be it the state, firms, entrepreneurs or any other market and non-market organisation and institution that is in the position of making economic processes happen. Whether resulting directly from economic pressures or from strategy and planning, for the implementation of potential linkages it is necessary that agents have the ability to anticipate the linkage opportunity, and the entrepreneurial capacity (managerial, organizational and financial) and political will to take advantage of the perceived opportunity.

The linkages-agents framework adopted in this thesis is different from the mainstream analysis of linkages and agents – be it from the neo-classical, institutionalist or from the developmental state points of view – in various ways. First, it recognises the socio-economic and political context in which agents and linkages emerge and operate. Agencies reflect social interests, often conflicting and not necessarily coherently articulated, which may determine not only whether linkages are implemented but also the perception and definition of the important linkages to materialise and how to do it. Second, it introduces the analysis of the dynamic relationship between agents and linkages and how they influence each other. Therefore, this framework consists of three components: agents, linkages and their dynamic relationship. Third, it acknowledges that not only are agents and linkages dynamically related

with each other, but also they cannot be adequately understood if studied separately. This means that agents are not, cannot and need not be autonomous from economic conditions and pressures, which in turn are not independent of social and political interests. This analysis also reveals the inadequacy of the “state versus markets” debates about public policy by showing that states work through markets and both states and markets are similarly subject to socio-economic pressures and interests.

Methodologies

The thesis focuses on the analyses of economic pressures and processes, agencies and the dynamic relationship between them, as far as they are relevant for the understanding of the process of industrialisation and industrial policy determination in Mozambique. The analysis is pursued through a combination of qualitative and quantitative methods.

First, an empirical analysis is made of the patterns of growth of gross domestic product (GDP) and manufacturing valued added (MVA), the composition of GDP and MVA, trends and composition of manufacturing exports, and the relationship between investment, growth, trade balance and finance of investment (Chapter 3). This analysis is based upon long-term, consistent data series covering periods between 20 and 40 years (according to availability of data), and which were specifically constructed, out of fragmented and inconsistent series, for the purpose of this thesis. This analysis shows the pattern of industrial accumulation in Mozambique, how it relates to the economy as a whole, why it is highly unstable and the relationship between output growth and diversification of production. It also provides evidence that is used to argue that economic processes, or linkages, and agencies are not independent of each other, industrial outcomes are not only influenced by agencies and by public policies, and that official policies are not the only policies, and may not even be the dominant policies, in place.

Second, an empirical analysis is made of the patterns of allocation of investment and sources of investment finance over the past decade. The cross-section data sets utilised were produced specifically for this thesis from the study of 1,300 investment projects approved between 1990 and 1999. This analysis shows the link between three factors: current investment decisions; established capacities, structures, agencies and dynamics of economic accumulation in Mozambique; and the role of the South African economy, particularly through FDI, in shaping manufacturing development in Mozambique. It provides evidence

about dominant forces in the Mozambican economy and expected future patterns of accumulation on the basis of current allocation and origin of investment.

The descriptive statistical analysis using time series and cross-section data sets is a fundamental foundation of the critique of industrial studies and official industrial policies (chapters 4 and 5), and provides the empirical basis upon which policy conclusions of the thesis rest (chapter 6).

Third, a critical study is undertaken of the industrial policies and analyses and their relationship with the core and dominant stabilisation and liberalisation programmes in Mozambique. This study is based upon interviews in public institutions, international, bilateral and multilateral agencies, firms, banks, as well as reports, legislation, and in loco data collection about different aspects discussed. The analysis makes extensive use of examples of firms and industries, and selects crucial areas of linkage and policy (namely the acquisition of industrial capabilities, finance and conditions of competition, within the context of dominant FDI and South African capitalism) for more detailed discussion. This analysis provides information about the direction and relevance of existing, official industrial policies, as well as about other factors (namely established linkages, agencies and their dynamic relationship) that influence the pattern of industrial development and the practice, if not the rhetoric, of industrial policy.

Original contribution of the thesis

The linkages-agents analytical framework adopted is not an original contribution of this thesis, as its fundamental bases have been discussed in the literature that addresses socio-economic development and change. The original contribution of the thesis consists of, firstly, the extension and application of the framework to the analysis of the Mozambican case of industrialisation. A central argument of this thesis is that the definition, role, relevance, content, implementation and outcome of industrial policies and strategies depend upon the specific socio-economic conditions that shape the process of industrialisation, and the economic pressures and interests that act upon it and upon the state and the market. In other words, industrial policy is better understood from the study of the underlying socio-economic relationships and pressures that govern the process of industrialisation upon which policy is expected to act. Therefore, the application of the linkages-agents framework to a country-case study is relevant insofar as it raises general questions related to industrialisation, generates new ways of understanding the dynamics of industrial accumulation in a specific reality and

helps to produce the relevant information. The application of this framework to the study of industrial policy differs significantly from the available studies of the manufacturing sector and policy documents in Mozambique, which are focused on linkages and, after very strong assumptions, take agents – the state or the private sector – for granted. Furthermore, these studies and policy documents cannot explain how the interests and action of the agents develop in relation with economic conditions, nor have they an explanation for the empirical fact that long-term patterns and dynamics of manufacturing development have not been particularly sensitive to radical changes in ideology and policy orientation.

The second original aspect of the thesis is related to the production of consistent, long-run time series for the analysis of the role of the manufacturing sector in the Mozambican economy, the sectoral composition of output and exports of manufactures and the relationship between manufacturing and macroeconomic conditions. These series, which cover between 20 and 40 years, according to data available, were constructed out of fragmented and inconsistent data in order to support the analysis of long-term patterns. Original data were also created for cross-section analysis of allocation of investment over the past decade, based on a list of 1,300 investment projects approved between 1990 and 1999. These data are explained and analysed in chapter 3.

The third element of originality is associated with the way industrial policy in Mozambique is discussed in chapters 4 and 5. On the one hand, there is systematic reference to the patterns of production, trade and long-term sustainability of industrial accumulation, as well as to the patterns of investment. Thus, the discussion is based upon a sound empirical basis, with long-term data. On the other hand, industrial policy is discussed in the context of the dynamics of industrialisation and economic development in Mozambique, and industry is analysed in the context of the economy as a whole. One of the various original points, in the context of Mozambique, that emerges from this type of analysis is the clear relationship between the narrow pattern of specialisation of production and trade and long-term instability of output and trade. These trends are derived from the fact that manufacturing expansion, under the current conditions of import dependence and low export drive, exerts unsustainable pressures over the balance of trade. Finally, the dynamics of manufacturing development and policy formation are discussed with reference to two central and observable facts, namely the key influence of South African capitalism in the economy as a whole, and the dominant role that FDI, mainly originated from, or linked with, South African corporations, has been playing in the determination of structure of manufacturing in Mozambique.

Comments about the direction of the thesis

Before undergoing a more thorough presentation of the structure of the thesis, it is important to make some comments regarding some of the choices about the direction of the thesis. First of all, and most important, the reasons behind what has been done in the thesis have already been explained. However, there are five issues that could have been followed in the thesis but have not, and this requires some explanation.

The first of these issues is that if the thesis tries to relate economic and political conditions of accumulation, why has it not undergone a detailed study of corruption and party member privileges, and how these affect socio-economic development? There are four main reasons why this analysis was not done. Corruption and the use of political positions for acquisition of economic advantages, which are not uncommon throughout the world, are factors that usually can be explained through the analysis of the patterns of accumulation and the associated political and institutional settings. These factors, by themselves, are usually not explanatory variables of the patterns of accumulation, but explained variables.

When the stabilisation and liberalisation economic reforms were initiated in Mozambique, in mid-1980s, fast privatisation soon became one of three core objectives of economic policy. There were only two Mozambican groups with enough power to compete for access to public assets: those with political positions, and traders and speculators that had financial power, business experience but little interest in manufacturing. Very few Mozambicans had the capital and experience to successfully acquire and manage industrial firms. In the same period, many Frelimo veterans had lost their positions in the army and the party because of modernization. Thus, the association of political and economic power was initiated as part of a process to create a domestic capitalist class and to minimise internal tensions that could have risen out of demobilisation of veterans. Corruption started in the context of economic scarcities and also as part of transfer of resources from the public sector to private hands to finance the development of a broader domestic capitalist group. It is true that corruption has spread everywhere and very fast, that a lot of it is associated with the relationship between economic and political power, and that the current level of corruption affects negatively the socio-economic environment and political stability. Nonetheless, it is also true that the fundamental dynamics influencing the path of economic development in Mozambique are not dominated by, even if receiving influence from, political corruption. It is infuriating to see how corrupt and arrogant some Ministers and other politicians and public servants can be, but this is not the same as saying that corruption and arrogance of holders of public office are the

central factors determining what happens to an economy dominated by its interaction with the Southern African region and inflows of foreign capital.

The thesis demonstrates that the long-term patterns, shape and direction of industrialisation of the Mozambican economy are determined by fundamental dynamic factors, which cannot be mainly explained by corruption and the association between political and economic privilege at national level. Moreover, there is significant heterogeneity and differentiation between party members and holders of public office, so that generalisations concerning their individual role in policy decisions and privileges are greatly exaggerated. Finally, as argued throughout this thesis, the state, party members, or owners of private companies are not autonomous entities capable of pursuing their interests independently of the other agents and of the overall economic conditions. In brief, for the purpose of this thesis the analysis of corruption and the association between political and economic power were not considered a fundamentally relevant direction of research.

Another issue, which is associated with the one just discussed, is that if this thesis investigates the political economy of industrial policy in Mozambique, why not focus on the analysis of the internal agents and their conflicts, rather than paying so much attention to foreign capital? The thesis criticises the restriction of industrial policy and politics to what is called the “national dimension” because capitalist accumulation is hardly a national factor and is far better understood through its global connections, and also because of the very strong impact of the Southern African region and dominant role of FDI in the Mozambican economy. The power of the region and of FDI is demonstrated empirically (see chapter 3). Hence, it would not make much sense to analyse domestic class formation and conflict in isolation from what happens in the region that affects Mozambique. Finally, the thesis is concerned not with a specific group located somewhere in the economy, but with the identification of the fundamental dynamics of industrialisation.

The third issue to explain is that, if the thesis also aims at making a relevant contribution to industrial policy in Mozambique, should it not recommend more detailed policies and policy directions? If, as the thesis argues, industrial policies result from the underlying socio-economic conditions that govern the process of economic development and industrialisation, it seems more sensible to focus on understanding such conditions rather than producing detailed policy programmes. Moreover, why would a policy programme produced outside the process of negotiation between different interest groups and under specific economic pressures be accepted, not to speak of successfully implemented, by the different agents involved in the process of industrial development? However, it should be noted that in each

chapter of the thesis there is a discussion of the implication of the analysis for policy. Such discussions are revisited in the final chapter, which goes further and tries to develop, with some detail, what the thesis shows are the main concerns for industrial policy formation and implementation in Mozambique.

The fourth issue is associated with the fact that the empirical work done in this thesis does not involve the application of rigorous econometric techniques, which could be open to questioning and criticism. The answer to this point is detailed in section 3.1, chapter 3. In brief, the explanation for not using econometrics in the analysis is based on four points: (i) the data sets have been constructed and used for descriptive, statistical analysis as the basis for clarifying the structure and dynamics of the Mozambican economy and the main lines of enquire for this thesis; (ii) the data sets, even if they are the best available for the length of the period cover, are not as reliable and accurate as it would be necessary for the results of rigorous econometric analysis to be trusted; (iii) more generally, modelling was considered inadequate because of the absence of stable structural equations and parametric values; and (iv) in some of the cases, econometric analysis would not add explanatory power give the line of enquire followed, as well as the characteristics of the economic processes. For example, panel data econometrics could have been used to study allocation of investment over time. However, apart from practical difficulties in pinpointing the precise period of implementation of each investment project, two thirds of investment in the period was approved in the last three years of the decade, and three quarters of it was allocated to Mozal (an aluminium smelter). Given this level of concentration of investment in the last period of the decade and in one project, the use of panel data would not add much more information or analytical power to the descriptive analysis made in chapter 3.

Finally, the fact that the thesis does not contain at least one full and detailed case study (of one industry or branch) may also be questioned. However, it should be emphasised that the thesis researches fundamental dynamics of industrialisation in Mozambique. Therefore, it would have been very difficult to find one case study that could illustrate all fundamental aspects related to industrial policy in Mozambique that are discussed. Even more difficult, if at all realistic, would be trying to develop three or more case studies in order to illustrate such points. The main points made in the thesis are illustrated through descriptive statistics and/or reasonably detailed examples of different industries, mainly sugar, basic metals, metal engineering and cashew processing.

1.2 Structure of the thesis

The arguments of the thesis are developed over five chapters. Chapter 2 discusses critical issues in industrial policy and provides the theoretical background and the analytical basis upon which the thesis is developed. This chapter includes an overview of the literature about industrial policy and industrialisation, a discussion of definitions of industrial policy and an extensive comparison of opposing views about industrialisation and industrial policy. The chapter makes four main arguments that are particularly relevant for this thesis: (i) industrial policy is intrinsic to any process of industrialisation, irrespective of its coherence and degree of success; (ii) industrial policy is better understood, and more likely to succeed, if it is drawn from the underlying economic and political relations upon which the process of industrialisation depends; (iii) therefore, the focus on linkages, agencies and their dynamic relationship is a powerful analytical framework for the study of industrial policy; and (iv) in this connection, the “state versus markets” debate between “orthodox” and “developmental state” scholars is mostly inadequate as state and markets are similarly subject to socio-economic and political pressures and forces, and states operate through the market.

Chapter 3 presents and discusses patterns of industrialisation and investment, mainly from a historical and empirical point of view. This chapter provides the main empirical basis upon which the thesis is supported. Apart from a section entirely devoted to explaining and discussing the process of generating the data, this chapter includes a brief periodization of the process of formation and development of the manufacturing sector in Mozambique, a structural characterisation of the manufacturing sector, an analysis of the dynamic links between manufacturing and macroeconomic conditions, and a study of the patterns of investment in the economy and the manufacturing sector over the past decade. The chapter argues that the productive capacity of the manufacturing sector is excessively narrow, which results in weak intra- and inter-sectoral linkages, strong import dependence of production, unstable and weak export capacity, and periodic crisis of accumulation associated with the fact that expansion of the manufacturing sector and trade balance are inversely related. It is also argued that this structural and dynamic characteristics of the manufacturing sector have been consolidated through the patterns of investment.

Chapter 4 describes the socio-economic pressures that influence the direction and pace of manufacturing development in Mozambique, discusses how the core and dominant stabilisation and liberalisation programmes influence the role of industrial policy in Mozambique and analyses critically the most influential studies and reports about the manufacturing sector and whether they respond to the pressures and characteristics of the

sector and of the economy as a whole. Chapter 5 moves into the detailed analysis of the official industrial policies. It also includes a discussion of five crucial areas of policy, in which policy practice and dynamic developments are contrasted with official policies. These two chapters argue that the more influential studies of the manufacturing sector and the official industrial policies adopted fail to understand the actual dynamics of industrial accumulation. They also argue that a relevant and coherent industrial policy should be based upon the actual conditions of industrialisation and respond to the pressures identified in a way that is consistent with the overall goal of industrialisation of the Mozambican economy.

Chapter 6 summarises the findings and debates already outlined and identifies and explores, in a systematic way, fundamental concerns and possible directions of policy formulation and implementation, taking into consideration the process of building the relevant capabilities.