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SOME CRITICAL ISSUES IN THE INDUSTRIALISATION OF ZIMBABWE

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Some Critical Issues in the Industrialisation of Zimbabwe

Introduction

The underlying theme of this paper is that economic restructuring must be an on-going process (rather than a one-off event) designed to achieve sustainable economic growth consistent with high levels of employment and rising living standards for the majority of the population. In particular this paper argues for a strong role of the state in planning industrial development and in guiding accumulation generally. This is in contrast to stabilisation and structural adjustment programmes of the international financial organisations whose general recommendation is to reduce the role of the state or to redefine the state role so as to make the state more accountable, not to the general public but to the international financial institutions. The state's role in our view cannot be limited only to the provision of traditional services but must involve participation in direct production and the conditions under which investment and growth occur. Furthermore, planning industrialisation in the context to be discussed in this paper will need to address the issue of the transformation of colonial labour processes. Although some recognition is given to it, transforming the labour process is generally seen as being outside the domain of planning. The argument of 'preserving the productive forces' which has been strong in post-independence Zimbabwe, is an argument for preserving those labour processes that fuelled colonial industrialisation. At present the employment relation in public enterprises is structured along similar lines to that of the private sector. In this paper we argue that a start in restructuring the colonial labour process could and should be made in the numerous parastatals and in those enterprises where the government has a sizeable equity, for example, the many companies wholly or partially owned by the Industrial Development Corporation. The real issue in other words is

not merely one of seizing the commanding heights of the economy through further nationalisation but, more crucially, of reorganising production and labour processes.

Secondly, our approach is not necessarily hostile to the private sector. On the contrary, a strong directing state should strengthen, not weaken the contribution of the private sector.

Thirdly, arguing for a strong role of the state and of planning is not necessarily an argument against the market or market forces. The question is not one of planning vs he market but of ensuring that market forces operate in a context set by conscious planning.[1] As well as structuring the market, planned state intervention could strengthen market forces.

Finally a word about industrial strategies. The focus of structural adjustment programmes has been strongly in favour of export-oriented industrialisation (EOI) and against import substitution industrialisation (ISI). The latter strategy is thought to have been the root cause of the malaise of African economies. We will argue that export success will certainly help a country's development but to view export promotion as a panacea is misconceived; that EOI and ISI are not mutually exclusive but should be seen as options that can be put in a variety of combinations at different stages of industrialisation. Colonial Zimbabwe's experience is instructive in this respect.

The remainder of the paper is organised as follows: in section I we give a brief historical outline of the growth and development of the industrial sector while section II will examine the sector's structure and performance since independence as well as the variety of policy recommendations that have been made to revitalise the sector. In section III we provide some alternative ideas which expand on our introductory remarks.

I. Growth and Performance of the Industrial sector before Independence

The development of the industrial sector began in the 1930s but three major events - the Second World War, the formation of the Federation of Rhodesia and Nyasaland, and the Unilateral Declaration of Independence (UDI) - provided the stimuli to subsequent phases of industrialisation. War time shortages of previously imported goods created demand for local industries, whereas world demand for the colony's mineral and agricultural products stimulated the development of those sectors. In particular, chrome and asbestos assumed strategic importance during the war, providing the colony with much needed foreign currency. The establishment by the British of an air training scheme in the colony at the start of the war provided "an almost insatiable market" for farmers and industrial firms in construction and other services. The reason why this explosion in demand did not lead merely to inflation as it did in many other underdeveloped countries has been attributed to the national character of the white bourgeoisie and white workers who controlled the government (Arrighi, 1967). The government of Southern Rhodesia not only intervened through anti-inflationary controls but also participated in direct production in strategic sectors by, for example, setting up the iron and steel plant at Kwekwe and the cotton spinning plant at Kadoma, both of which stimulated the growth of secondary industry.

The establishment of the Federation of Rhodesia and Nyasaland resulted in the elimination of all trade barriers and tariffs between the three territories which created a common external tariff. This provided a captive market for Southern Rhodesia and effectively enabled it to replace South Africa as the main supplier of industrial goods to Zambia and Malawi. Southern Rhodesia effectively became the Federation's industrial centre with the manufacturing sector producing nearly 80 per cent of the Federal total. Perhaps one of the major reasons for the break up of the Federation in 1963 was that increasingly, Southern Rhodesia became identified as the main beneficiary from the arrangement - taking the lion's share of Zambian copper

revenues for the development of physical and social infrastructure, and cheap labour from Malawi.

The censuses of industrial production show that the number of manufacturing establishments increased from 299 in 1938 to 962 in 1960. GDP growth was estimated at 16.5 per cent per annum during the period 1945 to 1953 and at above 9 per cent during the Federal boom period 1953 to 1960. The contribution of the manufacturing sector to GDP increased from 12.5 per cent in 1945 to 16.0 per cent in 1960. The high rates of growth were made possible by high rates of investment in the economy. A measure of this is that GFCF averaged roughly 30 per cent per annum over the period 1953-60.

Two more factors need to be mentioned in Southern Rhodesia's war and post-war industrial development. One was the large inflow of foreign capital. Foreign investment which was estimated to be around £13,5 million in 1947 had reached £50,7 million by 1951. Much of this was British capital channelled directly to Southern Rhodesia or indirectly via South Africa by British investors fearful of nationalisation after the Afrikaners won political power in the 1948 elections. Some of the foreign investment was direct South African capital of giant multinational corporations like the Anglo American Corporation and others.[2] A second factor was the inflow of European immigrants, again largely from the U.K. and South Africa, who brought much needed skills for industrialisation. Analysts like Arrighi have highlighted the national character of the early European immigrants: they came to settle permanently and had an interest in the development of the colony.[3]

Finally, mention should be made of the forging of trade relations with South Africa with the conclusion of a trade agreement as early as 1949. This secured a vital market for Southern Rhodesian clothing and textiles as well as other manufactured goods. This South African connection was absolutely critical for the survival of UDI for fifteen years.

The UDI Period

Economic growth slowed down during the period 1961 to 1966 due first to the uncertainty about the future of the Federation (which broke up in 1963) and, second, to the Unilateral Declaration of Independence in November 1965 which was followed by the imposition of the UN economic sanctions in 1966. Rhodesia's imports and exports were cut by more than one third in the first year of economic sanctions and the rebel colony had to erect costly sanctions-busting deals with foreign traders who bought at a discount and sold at a premium. But from 1967 the colony grew rapidly until 1974 - the phase of easy import substitution industrialisation - during which a GDP annual growth rate of around 8.5 per cent was achieved. These seven years in fact achieved the fastest growth rates in any seven year period in the country's history. The decline of the economy from 1975 has been attributed to at least three factors: the intensification of the war of liberation, the rise in oil prices of the early 1970s and the ensuing world recession, and colonial neglect of rural development which, coupled with low wages for black workers, combined to restrict the size of the domestic market.

During the years 1967-74 the manufacturing sector grew at a rate of around 8 per cent per annum. The squeeze on imports through rationing led to expanded production for the domestic market. The contraction of export markets and the squeeze on imports enabled manufacturing industries to concentrate on supplying the domestic market. Orientation of manufacturing production towards the domestic market was a key feature of the UDI economy. In other words domestic demand provided the main impetus to manufacturing sector growth. Table 1 shows the structure of the manufacturing industry. The sector was divided into eleven sub-sectors which were further sub-divided into some thirty-three sub-groups. The metals and metal products sub-sector was the fastest growing branch during UDI, increasing its share of gross output from 16,2 per cent in 1965 to 25,1 per cent in 1975. Thereafter its percentage share declined but stood above 24 per cent in 1979. The high rates of growth during the seven year period were partially

explained by the high rates of investment. At the aggregate level GFCF rose from 13 per cent of GDP in 1967 to 23,4 per cent in 1975 but subsequently declined. Investment in manufacturing also increased up to 1975 but fell thereafter. The metals and metal products sub-sector received relatively more investment than other sub-sectors. While in 1967 the sub-sector accounted for 29,1 per cent of the GFCF in manufacturing, its share had risen to 64,3 per cent in 1973 but declined to a low of 27,1 per cent in 1976. Commenting on the spectacular growth of the metals and metal products - sub-sector, Wield (1981), says, "not only was Rhodesia able to process all of its chrome into ferro chrome for export, but also the iron and steel industry increased its capacity to one million tons a year. This fed a huge metal-products industry with links to other sectors of the economy, including construction agriculture and mining" (p.155).

Table 1

Gross Output of Manufacturing Industries: % share by Subgroup for Selected Years

	1965	1970	1975	1979
Foodstuffs	25,6	22,4	19,7	23,5
Drink and tobacco	9,6	8.0	7,0	7,5
Textiles, including cotton ginning	7,4	9,3	10,4	11,2
Clothing and footwear	7,0	7,5	6,7	6,1
Wood and furniture	3,4	3,6	2,8	3,1
Paper and Printing and Publishing	5,4	5,5	5,7	4,7
Chemical and Petroleum Products	13,8	13,4	14,0	13,3
Non-metallic mineral products	2,4	3,9	3,7	2,6
Metals and Metal Products	16,2	21,9	25,1	24,1
Transport equipment	8,3	3,3	3,9	2,7
Other manufacturing groups	0,7	1,1	1,0	1,2
All Manufacturing	100,0	100,0	100,0	100,0

Source: Calculated from MD of Stats, March 1982.

The UDI state played a critical role in the promotion of industry. Successive colonial governments accepted the responsibility of establishing the basic conditions of stability and of developing infrastructure. In

addition, however, direct assistance was given to private industry in the form of tariff protection and through tax concessions. Up to UDI tariff protection of local industry was relatively limited and there was little import substitution. Applications for assistance through the tariff were examined by the Industrial Tariff Committee. The Committee took a more active role after UDI. The assistance given by the Committee took the form of:

i) increasing the tariff against competing imported articles;
ii) reducing the customs or excise duty on materials used in manufacturing;
iii) allowing a drawback of duty originally paid on materials contained in manufactured exports.[4]

Direct state participation in industry was spearheaded by the Industrial Development Corporation (IDC) set up in 1963 by an Act of Parliament, with the government as its principle shareholder, "to facilitate, promote, guide and assist in the financing of new and existing industries and industrial undertakings".[5] As well as providing finance and managerial expertise the IDC was instrumental to the rationalisation of many enterprises in which it was involved.

After a year or two of difficult adjustment following UDI, the policy of import substitution began to bear fruit. The UDI Minister of Commerce and Industry was able to say in 1969 that, "Rhodesia is now manufacturing commodities which, a few years ago, would have been thought beyond the bounds of possibility; items of heavy industrial plant, farming equipment and a wide range of consumer goods. Old buying habits have been broken and, although there have inevitably been initial complaints regarding quality and price, many brand names are establishing for themselves excellent reputations for value for money not only in Rhodesia but in export markets." (Mussett, 1969, p.11).

The need to conserve scarce foreign exchange resources led the UDI government to introduce import control and "a degree of control over industrial development and expansion which had hitherto been foreign to our economic philosophy" (Musset, p.11). The Industrial Projects Committee was set up to consider the granting or otherwise of import allocations for new manufacturing enterprises or the expansion of existing ones. A number of criteria were used to judge projects, for example, the net foreign exchange contribution of the project, its profitability and benefit to the economy, the competence and technical knowledge of the management, direct or indirect employment effects, the extent of the use of local raw materials, plant and services, etc. Import control lasted the whole of the UDI period although it had been intended to be temporary. The customs tariff was viewed as the principal means of protecting industry. This was expressed by the Minister of Finance to Parliament in February, 1967, when he said, "assistance by the government will include protection by means of import control for selected industries for specified periods of time, greater use of the customs tariff and in special circumstances the securing of local markets for one or more producers for specified periods." (Quoted from Mussett, p.12)

Import control and tariff protection at the same time helped to shelter a large number of inefficient, high cost and uncompetitive UDI industries which Zimbabwe inherited. Other weaknesses of the UDI industrial structure included, to quote Wield (1981), "the lack of a paper industry based on local timber; chemical products are not well integrated and depend on imports of basic raw materials; electrical products and electrical engineering are weak; the local motor vehicle industry does little more than assemble vehicles from kits ..." (p.158-59).

As long as the communal lands remained in a state of underdevelopment the full potential of industrial development could not be realised. The UDI government, while recognising this, continued to pay lip service to the development of the peasant sector. Minister Mussett said, "In a very real sense Rhodesia is two nations ... the task of increasing the productivity of

the Tribal Trust Lands and bring the mass of people who live there into the money economy is the greatest economic challenge facing us today. These people represent a great national resource, at present largely unused." (p.13)

To summarise:

During UDI the government took several economic measures that continue to exert profound influence on Zimbabwe's economic life today. One such measure was the introduction of a system of import quotas and administrative allocation of foreign exchange that remains in place today with minor modifications.

There is no doubt that those industries that are essential to economic growth and industrialisation - infrastructure industries such as steel making and steel using ones, and industries essential to construction - were strengthened during UDI through state intervention.

There are, however, a few question marks about the UDI industries. One relates to increasing monopoly production. In 1971, Dickenson showed that 2,472, or 65% of products were monopoly products: only one firm produced each of them. The real problem (which faces Zimbabwe's policy-makers today) is that the UDI monopolies were too small for economies of scale, were high-cost, as well as being potential high-price sellers. The question is will these small scale monopolies survive real competition in a regime of import liberalisation being advocated by the WB and others? Should they continue to be protected? How should they be restructured?

The second question mark is about the employment potential of the industrial sector. There is evidence that the UDI industries increasingly became capital rather than labour-intensive, meaning that less and less jobs were forthcoming in a country with a large and rapidly growing labour force.

II. Economic Development since Independence

Zimbabwe achieved its independence in April 1980 after a protracted armed struggle. In 1980 and 1981 the economy grew very rapidly, achieving GDP growth rates of 11 per cent and 13 per cent respectively in real terms. Several factors were responsible for this unprecedented growth: liberalised foreign exchange allocations, favourable terms of trade, increased investment rates and good rainfall leading to two bumper agricultural seasons. Capacity utilisation in the industrial sector was at an all time high in 1981.

But the rapid growth in 1980 and 1981 was short-lived as the economy went into decline in the period 1982-84 due to a combination of the worst drought, international recession and declining terms of trade resulting in severe balance of payments problems. With a balance of payments current account deficit approaching 15 per cent of GDP and a government budget deficit of nearly 10 per cent of GDP, and heavy cuts in foreign exchange allocations to industry, the government was forced to embark on a stabilisation programme involving cuts in domestic demand through higher taxes, cuts in government expenditure, standstill in government employment, a general wage freeze and tight control over domestic credit. The expenditure cutting and demand management measures were followed in December 1982 by a formal devaluation of the Z$ by 20 per cent. Thereafter the currency was managed flexibly and allowed to depreciate gradually against the major currencies. In addition to the devaluation of the Z$ other direct measures were taken to help exports: the export credit terms for industrial products were extended from three to six months; an export revolving fund (ERF) was established with the help of the World Bank. By easing the import of raw materials and other inputs needed in the production of exports the ERF has effectively removed the foreign exchange constraint in production for exports.

From 1982, government economic policy came to focus more on achieving external balance, with negative consequences on growth, employment and income distribution. The positive compound growth rate of about 3,9 per cent for the period 1980-84 was due largely to the pull of high growth rates in 1980 and 1981. GDP growth was actually negative (-3,4 per cent) in 1983 while there was virtually no growth in 1982 and 1984

The end of 1984 saw the beginning of recovery with a good agricultural season while 1985 was a very good year with a GDP growth rate of about 10 per cent. But this was short-lived as the economy dived into recession again in 1986 with little real growth in 1987. A major feature of the post independence period is that while the material sectors of the economy such as agriculture, mining, manufacturing, transport and communication achieved little or slow growth, the non-material sectors especially education, health, defence and public administration have expanded significantly.

Growth and Performance of the Manufacturing sector since Independence

At independence the black majority government inherited a manufacturing industry which was highly developed and diversified by African standards. The industry is highly diversified in the sense that manufacturing production covers not only a wide range of consumer goods, but there is also a sizeable intermediate goods industry (including iron and steel) and a significant capital goods sub-sector. Manufacturing industry contributes nearly one quarter to GDP and accounts for nearly 17 per cent of formal employment, making it second only to agriculture as the most important source of wage employment. The sector is viewed as key to the development of productive employment in the future.[6]

Table 2
Selected Economic Indicators 1975-85

Indicator	1975	1980	1984	1985
Manufacturing GDP (million Z$ at constant (1980) prices)	729	802	809	902
Share in total GDP (%)	23,5	24,9	22,8	23,2
Employment (thousand)	156	159	166	170
Share in total employment (%)	14,9	15,8	16,0	16,2

Average Annual Growth Rates (%)

	1975-80	1980-85
Manufacturing GDP	1,9	1,1
Employment	0,4	1,2

Source: CSO: Quarterly Digest of Statistics, March, 1988 and World Bank, Zimbabwe: An Industrial Sector Memorandum, May, 1987.

The sector has strong forward and backward linkages with other sectors. In 1986, for example, it was estimated that the manufacturing sector provided nearly 66 per cent of the agricultural sector's intermediate inputs and about 47 per cent of the mining sector's inputs. The sector also sourced roughly 59 per cent of its inputs from agriculture and 17,5 per cent from the mining sector.[7] Furthermore, nearly one quarter of the value of gross manufacturing output represents input purchases from other manufacturing firms. These linkages with other productive sectors give rise to significant foreign currency savings to the economy as a whole. In addition, the manufacturing sector contributes over 40% of the country's export earnings.

Table 3 gives the gross output by manufacturing industrial groups and by area for selected years.

Table 3
Gross Output of the Manufacturing Industries: Per Cent Share by Industrial Groups and by Area

	1975	1979	1980	1982	1984
By Industrial Groups					
Foodstuffs	19,7	23,5	22,0	25,0	23,5
Drink and tobacco	7,0	7,5	7,0	7,4	12,0
Textiles incl. Cotton Ginning	10,4	11,2	11,0	9,4	11,5
Clothing and Footwear	6,7	6,1	6,2	6,7	5,6
Wood and Furniture	2,8	3,1	3,6	3,2	2,7
Paper and Printing and Publishing	5,7	4,7	5,0	5,2	5,1
Chemical and Petroleum Products	14,0	13,3	14,6	14,8	15,4
Non-Metallic Mineral Products	3,7	2,6	2,7	3,0	2,6
Metals and Metal Products	25,1	24,1	24,1	21,1	16,6
Transport Equipment	3,9	2,7	2,5	3,1	3,9
Other Manufacturing Groups	1,0	1,2	1,3	1,2	1,1
All Manufacturing Groups	100,0	100,0	100,0	100,0	100,0
By Area					
Harare	48,0	46,9	48,8	51,6	47,8
Bulawayo	23,6	22,5	22,0	23,1	24,4
Kwekwe & Redcliff	8,8	10,1	9,7	7,1	5,8
Other Areas	19,6	20,4	19,5	18,2	22,0
Total	100,0	100,0	100,0	100,0	100,0

Source: Calculated from Quarterly Digest of Statistics (CSO), March, 1988.

The foodstuffs, metals and metal products, and the chemicals and petroleum products subsectors stand out as the largest, contributing nearly 60 per cent of gross manufacturing output. The three subsectors contribute differentially to value added: The value added of the foodstuffs subsector is relatively small (less than 30 per cent of gross output) due to the fact that the subsector is based largely on the processing of agricultural products.

On the other hand the value added for the metals and metal products subsector is high in relation to gross output. The proportions of net output to gross output for the subsector's two main branches - basic metals

and metal fabrication industries - are roughly 35 per cent and 50 per cent respectively. The value added for the chemicals and petroleum products subsector is close to 40% of the gross output for the subsector.

Table 3 also shows that industrial activity is heavily concentrated in the three urban centres - Harare, Bulawayo and Kwekwe and Redcliff. The capital city, Harare accounts for nearly 50% of manufacturing gross output while Bulawayo and Kwekwe and Redcliff account for about 25% and 7% respectively. The three centres together account for over 80% of the gross output of manufacturing industries. It is worth noting that nearly 80% of manufacturing employment is also concentrated in the three centres.

A 1985 UNIDO study of Zimbabwe's manufacturing sector provided some indicators of capital intensity and productivity by sub-sector. The figures showed that the chemicals subsector had the highest capital per worker ($39200) and the highest productivity per worker ($30500) , and an about average output-capital ratio (31 per cent). The non-metallic mineral products and metals and metal products subsectors which come second and third in terms of capital intensity ($31100 and $28900 respectively) had below average productivity per worker ($12100 and $15100) and the lowest output/capital ratios (23% and 24% respectively). The drinks and tobacco and foodstuffs subsectors had relatively high capital per worker ($25800 and $21700 respectively) but labour productivity was substantially higher in foodstuffs ($29900) than in drinks and tobacco ($17400). The output/capital ratios were 40% for drinks and tobacco and 35% for foodstuffs.

The UNIDO study also made estimates of the use of imported inputs by the manufacturing sector for 1982. The study showed that in 1982 25% of inputs into manufacturing were imported. Two subsectors - the transport and equipment and the chemicals and petroleum subsectors - imported over half (60% and 52% respectively) of their inputs. The other sectors were shown as follows: metals and metal products (41%), clothing and footwear (39%), paper, printing and publishing (24%), textiles and ginning (23%). The

subsectors to have the lowest share of imported inputs were wood and furniture (14%) and foodstuffs (2,4%). These characteristics show Zimbabwe's manufacturing sector to use relatively less foreign exchange per unit of output compared to manufacturing sectors of other developing countries in Africa. The sector nevertheless still requires a critical minimum of imported inputs in areas with limited possibilities of substitution. Secondly, and despite the existence of a significant capital goods industry, the sector is still dependent on imported capital equipment which as yet cannot be produced locally. For the latter reasons Zimbabwe needs to stimulate export expansion.

The First Five Year NDP envisaged the growth rate of exports to average 7 per cent over the Plan period. While government policy would continue to support exports of primary commodities in agriculture and mining, which constitute more han 70 per cent of exports, greater emphasis would be given, over the Plan period, to supporting and promoting non-traditional exports based on locally produced raw materials and intermediate goods. Much focus has therefore been put on the performance of manufactured goods exports.

The growth rate of manufactured exports has fluctuated markedly since independence (Table 4). A major part of the problem has been the shortage of foreign exchange. But the manufactured export base is strong and diversified. The 1985 UNIDO study showed the exported share of output to be greatest in the following manufacturing subsectors: metals and metal products (23%), textiles and ginning (19,1%) and, lower down, wood and furniture (9,6%), clothing and footwear (5,1%).

With appropriate incentives, and given a favourable international economic environment, the structure and level of manufactured exports could be increased.

Table 4

STRUCTURE OF EXPORTS BY SITC SECTIONS
EXPORTS ($ MILLION)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Food and Live Animals	105.8	109.8	103.0	130.9	130.2	151.1	167.5	250	300
(% Share)	17.4	15.2	11.4	13.6	13.7	13.0	11.7	15.3	18.1
Beverage and Tobacco	102.8	85.6	123.0	224.6	194.8	232.7	287.6	366.2	424.2
(% Share)	16.9	11.8	13.6	23.3	20.6	20.0	20.1	22.4	25.5
Crude Materials Except Fuel	125.7	147.3	170.3	106.6	141.9	185.5	243.3	318.8	300.6
(% Share)	20.7	20.4	18.9	17.3	15.0	15.9	17.0	19.5	18.1
Mineral Fuels Related Materials and Electricity	7.9	9.5	11.6	10.4	12.3	16.5	16.6	13.9	18.8
(% Share)	1.3	1.3	1.3	1.1	1.3	1.4	1.2	0.9	1.1
Animal and Vegetable Oils and Fats	5.8	6.1	2.2	1.0	0.9	0.6	1.7	4.1	3.9
(% Share)	1.0	0.8	0.2	0.1	0.1	0.1	0.1	0.3	0.2
Chemicals and related Products	4.6	5.5	7.7	11.7	12.2	11.5	23.9	24.1	21.3
(% Share)	0.8	0.8	0.9	1.2	1.3	1.0	1.7	1.4	1.3
Manufactured products classified by materials	168.3	216.3	288.6	238.8	230.5	327.7	418.8	565.5	499.3
(% Share)	27.7	29.9	32.0	24.8	24.3	32.4	29.3	15,3	30.0
Machinery, Transport, TV and Electrical Equipment	14.1	14.7	15.2	19.2	12.5	11.9	22.4	24.8	26.4
(% Share)	2.3	2.0	1.7	2.0	1.3	1.0	1.6	1.5	1.6
Miscellaneous Manufactured articles and Commodities NEC	23.3	24.5	29.1	31.2	20.9	24.1	37.6	66.3	67.4
(% Share)	3.8	3.4	3.2	3.2	2.2	2.1	2.6	4.1	4.1
Gold Sales	46.1	66.6	115.2	76.3	140.5	104.3	159.6	199.1	413.0
(% Share)	8.2	10.9	12.8	7.9	14.8	8.9	11.2	12.2	24.9
Migrants Effect	-	25.7	36.9	53.8	50.8	50.1	50.3	n.a.	n.a.
	-	3.6	4.1	5.6	5.4	4.3	3.5		
Total	604.4	711.6	902.8	964.5	947.6	1116.0	1429.3	1633.7	1661.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Socio-Economic Review 1980-85 and CSO: Quarterly Digest of Statistics, December 1987.

Overall the performance of the sector since 1980 has fluctuated markedly. For example in 1980/81 manufacturing value added rose by 9,4% while in the following three years growth in manufacturing output was negative due to the prolonged drought and the international economic recession. In 1984/85 an impressive growth rate of 11,4% was recorded whilst for the years 1985/86 and 1986/87 manufacturing output grew by an estimated 2,9% and 2,3% respectively. For the period 1980 to 1987 the average growth rate of manufacturing value added was barely 1% which gives cause for concern particularly when the FFYNDP target for 1986 to 1990 is an annual growth rate of 6,5%. Employment growth in the period 1980-87 was also barely 1% per annum compared to the plan target of 3% per annum.

Policy Recommendations of the International Financial Organisations

While not questioning the financial viability of many of Zimbabwe's manufacturing firms a number of studies by the World Bank have focused critically on the efficiency of the sector. The 1983 study by Doris Jansen was the first major analysis of the efficiency of the manufacturing sector using the domestic resource cost (DRC) methodology.[8] On the basis of her calculations Jansen recommended the closure of some of Zimbabwe's leading industries, notably the Zisco steel plant, on the grounds that it was not an efficient operation since it showed a DRC of 4.4. The Jansen calculations were however extremely crude. For example, they did not indicate whether there was any variance among products, whether the four product lines of Zisco were equally inefficient, or whether sales to the domestic market could be economically justified. A later World Bank mission which undertook a more detailed examination of Zisco's economic efficiency in fact came to an opposite conclusion! Not only did they find that the very low DRCs in domestic sales more than compensated the DRC on export sales but the weighted average for the plant was then slightly below one, "implying that the plant makes economic sense to operate.[9] The Jansen study was based solely on static comparative advantage which does not take into account productivity and technical change. This measure is therefore of limited use

in helping policy-makers to make choices of industries and products to be supported or otherwise.

As a second measure of efficiency the World Bank mission used the effective protection coefficient (EPC) which measures protection on value added. They found the correlation between DRCs (as recalculated) and EPCs to be 76 per cent, "strongly suggesting that the more efficient firms are those being the least protected" (p.63). The lesson is clear: Zimbabwe should move away from protection and rely more on the market system.

Thirdly, the World Bank mission made rough estimations of capital-output and labour-output ratios for the leading manufacturing sub-sectors.[10] By these measures they concluded that non-metallic mineral products, metals and metal products, and textiles (including ginning), were less efficient than other subsectors in using capital and labour to generate value added.

The trouble with the World Bank approach is their insistence on the efficiency criterion for each individual firm. Their entire strategy is based on efficiency and competitiveness for all firms. Surely this cannot be right nor is it desirable. Enterprise efficiency should, in our view, be understood only in the context of a wider industrial strategy.

The Policy Environment

The studies by international financial organisations have basically come down to saying that the industrial policy environment is anti-exports and needs to be changed in fundamental ways. This comprises three basic instruments: the foreign exchange allocation system and its attendant exchange rate management system, the price control system, and the investment control system. To a lesser extent taxation and labour laws also affect industrial structure and growth. The policy environment has a number of side effects:

(1) it affords industrial firms too high a degree of protection;
(2) it creates incentives to direct resources to particular sectors in the economy and to particular sectors within the industrial sector;
(3) it has introduced an anti-export bias;
(4) by insulating Zimbabwe managers from outside competition, it has fostered a managerial orientation towards production and a neglect of marketing;
(5) it tends to overprotect established firms against domestic competitors giving little chance to emergent bussinessmen.[11]

Proceeding from the view that foreign exchange would be the country's main constraint to growth the World Bank reports recommend that manufacturing exports should be expanded as a matter of priority to promote the growth not only of the industrial sector but of the economy as a whole. This requires:
(a) changes in exchange rate policy;
(b) import liberalisation involving a move from a system of protection based on import quotas to a tariff-based system;
(c) liberalisation of the price control system;
(d) deregulation of investment controls.

Furthermore, other complementary measures would be needed. In particular,
(a) reduction of the public sector deficit through reduction of low priority expenditure rather than increased taxation;
(b) encouragement of a more competitive financial market with a view to increasing lending to small-scale and emergent businessmen, and
(c) liberalisation of labour laws to facilitate lay-offs and hiring.

In addition to the above measures direct export incentives should be maintained and/or expanded. At present these include:
(1) the duty drawback scheme;
(2) the 9 per cent export subsidy scheme under which a tax-free cash payment may be made equivalent on a taxed basis to an 18 per cent increase in the f.o.b. price;
(3) the export revolving fund.

Some of these measures are clearly needed and relevant. But are structural adjustment programmes right to focus exclusively on export promotion and to regard import substitution industrialisation as a disaster? Surely export promotion and import substitution industrialisation must be seen as options that can be put in a variety of combinations at different stages of industrial development.

The above approach places great importance on the role of the market mechanism and price incentives in getting the economy moving again. It says it is prices that govern the allocation of resources and hence economic performance. The task facing the Zimbabwean government is, therefore, to 'get the prices right'. Not only will the right prices reflect the real cost to society of the use of available resources but will enable Zimbabwe to benefit from participating in world trade. For sure prices are not irrelevant. Yet it will not be enough simply to get prices right. More will have to be done as we shall discuss in the next section.

III. Industrial Restructuring: Some critical issues

In our view it is important to distinguish between fundamental structural weakness of a sector which is an objective condition, from structural malfunctioning which is a result of economic mismanagement or poor policy environment. The former can place severe limits to what is achievable while the latter can prevent the economy or sector from moving to its production possibility frontier given the fundamental constraints. This distinction is important for defining a possible range of corrective action in view of the objective limits imposed by the structural weakness of the economy or sector. The WB recommendations appear to us to address primarily the latter problem, i.e. the problem of moving the industrial sector to its achievable frontier through policy adjustments including getting the prices right. Clearly it would be foolish to reject World Bank recommendations out of hand. Without doubt decisions regarding industries and products in the

export sector will have to be made. These choices are extremely difficult however. the Zimbabwe government takes a fairly pragmatic approach to economic policy. For example concerned about the extent of the efficiency of the existing import allocation system and its impact on industry the government has recently appointed a team to study the whole question of trade liberalisation.[12]

Going by the Finance Minister's Budget Statement 1988, it is clear that government's general thinking is that trade liberalisation would have to be introduced "with caution". Industrialists are likewise cautious. While they also talk of "selective" and "phased" liberalisation, they view the introduction of a new system of foreign exchange allocations as urgent. Basically, they want schemes which link performance to allocations both before liberalisation and during the process. Such schemes are viewed as extremely important tools in the development of new export-oriented industries.[13]

Similarly it is recognised that it is necessary to provide realistic incentives to producers through positive pricing policy. Yet dismantling price control is neither practicable nor desirable. Some prices will have to be controlled. Otherwise it would be difficult to justify restraints on wages and other incomes.

Another issue of concern to the international financial organisations and the Zimbabwe policy-makers is the continuing low level of investment especially in the productive areas including the industry sector. Real capital formation in the post-independence period has been barely sufficient for the replacement of the existing capital stock. In other words there has been hardly any net additions to the stock of physical capital. While manufacturing GFCF rose sharply in 1980 and 1981, albeit from a very low level in 1979, it fell sharply in the period 1982-1984. Overall, after rising as a percentage of GDP in the period 1980-81, private investment has fallen to the pre-1980 levels of approximately 9-10 per cent of GDP.

What is intriguing in the Zimbabwean case is that inspite of high levels of enterprise profitability[14] of recent years businessmen are not investing. The World Bank sees two major reasons for this:

(1) the shortage of foreign exchange, and
(2) that businessmen attach an increased risk premium on private investment.

According to the World Bank "private investment has been depressed partly due to lack of essential imported raw materials and capital goods and partly due to increasing uncertainty over the course of macro-economic policy, the availability of foreign exchange and the situation in South Africa." (p.15)

In the Zimbabwean case it is argued that the real interest rate on bank loans is only <u>one</u> component of the cost of capital; that although real interest rates have been low, the cost of capital goods has been very high due to foreign exchange controls. This does not however hold water because if we were to remove controls and devalue the Z$, the cost of capital goods would go up. Supposing we were to accept that these controls do depress private investment, is this an argument for abolishing controls including forex controls, controls on private investment and labour regulations? This is questionable. The reason is that there are deep-rooted structural constraints in the economy -transport constraints, shortage of manufactured consumer goods that can be exchanged for agricultural produce, management problems and, indeed, forex shortages. Abolishing these constraints (if at all that was possible) would not leave us with an unconstrained economy.[15] The crux of the matter is that we do not have a theory of what determines private investment in Zimbabwe. As for private foreign investment everybody agrees that little new foreign investment has come to Zimbabwe since independence. But this is true of the whole Southern African region. Even the World Bank admits that "while a more favourable investment could help, it is unlikely that there will be significant direct investment flows into any countries in the region". "For this reason", the World Bank advises,

"it is important for Zimbabwe to be highly focussed in its objectives for foreign investment". (p.18)

The FFYNDP views the manufacturing industry as "the key sector for changing the structure of the Zimbabwean economy and for achieving rapid and sustained overall economic growth and development (p.30). According to the Plan, industrial strategy will be based on the objective of using locally produced raw materials; the government is to play an important role in "guiding and encouraging the necessary structural changes". "Government will increase its participation in the manufacturing industry" and "government intends to control industries which are deemed strategic to socio-economic development." "Priority will be given to the establishment of new industries in the intermediate and capital goods sectors because they are crucial in the establishment of an integrated industrial base". In addition, "the private sector will be encouraged to increase local control in the manufacturing sector". At the same time foreign investment will be encouraged "in those sectors where national sources of capital or skill are in short supply" or "to provide technology which local industry cannot develop on its own, to provide scarce management skills as well as technical know-how and to achieve market access for some of Zimbabwe's manufactured goods and processed commodities ..."

The above sentiments correctly address the more long-term issues of industrial development. Unfortunately, the reality is often fundamentally different. It is perhaps not necessary to make the obvious point that rich countries are also those that are industrially advanced. As Stoneman, et al (1988) correctly observe :"The reason for his emphasis on industry historically has been that only in industry is it possible to make large productivity gains by investment in improved technology and organisation" (p.329). A more controversial issue is the extent of state involvement in direct production to which we will return.

The longer term issues of structural transformation have also been addressed by Robinson (1988) who after acknowledging the need for short term policies to maintain output and employment goes further to say the real question "is whether the structure can be changed so as to create more room for manoeuvre and open up the possibility of widespread development in terms of a high level of employment, high and evenly distributed incomes and widespread and equitable access to social services" (p.46). Robinson then distinguishes "two conflicting approaches to structural change":

(1) full integration into the world capitalist system which is essentially the import liberalisation-manufacturing exports promotion policy package which the WB/IMF are currently advocating for Zimbabwe, or
(2) semi-autarchy which, through redistribution of assets and income "would alter the pattern of demand and subsequently production to a more indigenous resource-based structure, less dependent on imports and thus less subject to the vagaries of the world economy."

In presenting his "alternative strategy" Robinson unfortunately moves away from focusing on needed structural changes within the industrial sector so that this sector could serve the mass of the people of Zimbabwe through creation of productive employment, high incomes and skill, etc., to emphasising "agriculture and rural development" or achieving "meaningful development in the communal areas". Elsewhere Robinson says, "... at this particular juncture the country should not over-expose itself by an emphasis on industrialisation to the exclusion of other sectors ..., that such a strategy would do little in the short run to create employment or alleviate economic conditions for the mass of the population" (p.351). Clearly, more effective measures and policies are needed to raise rural productivity and incomes. Some of Robinson's remarks are therefore very relevant. But neglect of industrial reform implicit in Robinson's strategy would be short-sighted. As he himself and Stoneman and Pakkiri have said, and correctly, what is needed in the Zimbabwean case is an industrialisation of agriculture: "that is, there is not, and cannot be, an agricultural

alternative to industrialisation, for the latter is a condition for the success of the former" (p.330).

We need to focus attention on the future growth and long-term structural change in the manufacturing industry. The WB strategy, as has been indicated, emphasizes import liberalisation and export promotion. They do not question the structure of industry that was inherited from UDI. For example, the distorted industrial structure designed to serve the taste for luxury goods of a white minority. Commenting on the UDI industrial structure Stoneman says, "resources where transferred from supplying Zambians with cheap clothing and consumer goods into supplying white Rhodesians with previously imported 'essentials' such as cornflakes and fashionable clothes" (p.49). On the other hand UDI developed a small capital goods sector which would have long-term benefits to the economy as a whole.

Similarly, the trend towards increasing monopoly production calls for the rationalisation of the industrial structure. The UNIDO study showed that of the 6000 identifiable products in 1982, one half were being manufactured under monopoly condition, i.e. only one firm produced each of them, and four-fifths (80 per cent) under oligopoly conditions (at most three firms). Monopoly production has some dangers - high prices, declining quality, poor service and above normal profits for the entrepreneurs. Under these conditions price control is ineffective particularly at the retail end of the market. The trouble is most of the monopolies may be too small for economies of scale and are consequently high-cost producers. Under these circumstances rationalisation may be called for. Earlier we also indicated the concentration of production in the main urban centres particularly Zimbabwe's two big cities. Spatial deconcentration would obviously broaden the development impact of industrialisation.

Finally, a number of analysts have commented on the capital-intensity of the industries inherited from UDI. This in a country with a large pool of

relatively low-cost labour, and with tremendous problems of capital formation. Answering the question "are the new (i.e. UDI) industries labour intensive" Dickenson (1971) said, "until 1968 the answer was uncertain. The value of plant and machines per employee did not change significantly in real terms between 1963 and 1968. The rate of growth of output was also very close to the rate of increase in employment in that time. Since then there has been evidence of increasing capital intensity ..." The phenomenon of capital intensity and less labour usage has been the main feature of post-independence industrial development. The WB mission in a detailed study of the choice of technology on the textiles subsector since independence concluded that the equipment purchased "has been remarkably modern and labour-saving". Representing the relevant technologies that can be employed in spinning and weaving in a continuum ranging from conventional to very modern they said that "almost all of Zimbabwe's recently installed capacity in spinning and weaving falls into the category 'very modern'". They added, "Such modern equipment generates considerably less employment per dollar than does conventional machinery. Indeed, much of this equipment has not been widely adopted until recently in developed country textile mills despite their much higher wage rates ..." (p.34). The mission study however does not admit entrepeneurial mistakes in the choice of technology. "Other explanations", they say, "would include clever purchases of second hand equipment, labour laws, or foreign exchange shortage"!

This leads us to the issue of the role of the state in industrial development. Implicitly or explicitly, the WB approach seeks to reduce the involvement of the state in direct production. They are not concerned solely with government economic management (or mismanagement) and policies. The private sector in Zimbabwe also takes a dim view of direct state participation in industry.

The FFYNDP promises increased state involvement in productive activities. Government has, for example, continued to buy up foreign companies that wanted to disinvest. Local authorities have also been encouraged to

participate in manufacturing activities. In its recent reports the WB has advised against state purchase of companies. On the other hand the government has no choice if foreign companies want to sell and there are no local buyers. The guiding principle should be to purchase companies in strategic sectors and that would have an impact on future economic growth and employment. So far state equity ownership has had little or no impact on the inherited production relations.

Zimbabwe is being advised to follow the example of the NICs who are supposed to have used prices and market mechanisms to achieve their phenomenal development. But the more informed analysts of these countries do not agree that prices and market mechanisms have played the critical role suggested by the advocates of the market system. Fransman (1988) says of South Korea, " studies of the South Korean economy have revealed that effective price incentives and market processes are at best only a part of this country's economic success story. More specifically, a number of important sectors of the economy have received high effective rates of protection" (p.212). With respect to the role of the state, Fransman says in Taiwan, large public enterprises tended to play a relatively more important role, while government enterprise was virtually non-existent in Hong Kong. In South Korea, on the other hand, large local firms dominate the industrial structure, "a domination that was established and maintained by state intervention"[16] These examples show that there is not a single solution such as privatisation of all economic activity, or "getting the prices right" that will ensure faster economic growth and development. It is not enough for the state simply to increase the quantum of its ownership of industry. What is needed is state intervention of a strategic type, to plan and guide industrial development including participation in direct production especially in creating a base in new technology industries. Secondly, there is a need to reorganise and restructure state enterprises so as to increase their productivity, and overall contribution to social and economic development. It will be necessary, as indeed the Plan envisages, to decentralise economic activity to cooperatives and other popular local

groups. But a central authority is needed to create space within market forces for these new types of enterprises. So far the state has failed to provide effective support for cooperatives which not only could create employment but could also offer an alternative way of organising production.

The experience of African States does not, in my view, show that state centred accumulation is necessarily a disaster or is intrinsically an obstacle to economic development. What is important is the nature or type of state intervention and not the size or volume of intervention. Many African states have erred on the side of the latter thus 'overextending' themselves. In his criticism of the ultra-left Lenin stressed the need to keep a balance between the simple task of 'expropriating the expropriators' and the more difficult one of introducing and consolidating 'country-wide accounting and control' of production and distribution in the expropriated or nationalised enterprises (Lenin, 1982).

The point is what was inherited was not just technologies and people with varying skill levels, but capitalist labour processes set within capitalist relations of production which themselves are situated in varying concrete contexts - colonial settler-based capitalism in Zimbabwe with, however, strong dominance of foreign capital. The transformation of colonial capitalist labour processes should be placed on the agenda of industrial restructuring. State enterprises could be used to try new and better ways of reorganising production, to try less authoritarian, higher productivity and participatory ways of organising work. It will be necessary to eliminate the sorts of mistakes unearthed by the Committee of Inquiry into Parastatals in their investigations of the National Railways of Zimbabwe, Air Zimbabwe and Zisco Steel. These investigations showed excessive and reactionary Ministerial interference in the day to day running of those parastatals. Public enterprise needs to be guaranteed autonomy within the defined objectives. The Reports showed that there was need for collective management and democratic leadership which encouraged worker participation

in the running of those industries, for strict financial management and material resource management.[17]

Finally there is the very important area of industrial research and development in which the state needs to provide leadership. Unlike commercial agriculture which has an extensive research establishment created during the colonial period, industrial research and development in Zimbabwe is rudimentary. The country spends little on industrial research and technological development and market research. Likewise, there is little on the development of industrial skills to ensure widespread participation in the potential benefits of technical change or rapid adjustment to market opportunities. The diffusion and spread of new technologies depends as much on the amount of R and D as on the circulation of ideas and information and the mobility of skilled labour. Industrial skills and the reorganisation of traditional methods will be critical in the restructuring process. The country needs to redouble efforts in the above fields to ensure that the industrial sector becomes the lead sector in output and employment creation. In this key area of research and development the private sector could be required to finance the greater part of R and D expenditures as is the case in industrialised countries.

Concluding Remarks

The question for Zimbabwe "is not simply whether it has a manufacturing base, but what its composition will be and what potential for growth it embodies".[18] Some industrial restructuring and reorganisation is needed. It can for example be asked whether the industries which were inherited from UDI are using protection to establish themselves more firmly in domestic, regional or international markets? Unless this is the case protection only serves to perpetuate high-cost inefficient industries or firms. Supplying new equipment through the allocation of foreign exchange may not ensure faster productivity growth and enhance the competitiveness of these industries.

One disturbing feature is that the recent pattern of industrialisation does not seem to have been associated with increases in employment. The prevailing view is that there has been little investment and therefore little industrial growth and employment. The solution, it has been argued, is to re-establish the old virtuous cycle in which increased investment brings about greater production efficiencies, lower production costs, and increased employment. Zimbabwe's post-industrial experience (and indeed the experience of some industrialised countries) should lead us to question whether investment, growth, productivity and employment are still tied in traditional ways as orthodox economic theory teaches us. The common pattern seems to have broken down. Not only have increases in productivity been slow but they have come, it seems, at the expense of jobs. This suggests that the issues of transfer of technology and technological choice are important issues which should not be left entirely to individual entrepreneurs. This is illustrated by the textile industry where, as the World Bank industrial sector study showed, some firms decided to go for 'very modern' and capital-intensive technology in weaving and spinning when they could have chosen conventional and labour-using technology.

Under the FFYNDP a number of industries - including textiles, clothing, footwear and leather - will receive priority support for export promotion. Within these broad industry groups clearer choices will need to be made of specific products to be promoted. But as Fransman has suggested, "of far greater importance will be a knowledge and sensitivity regarding world market conditions, domestic technological capabilities, and future trends of technological change. In addition, analysis is required of the determinants of technical and productivity change in the domestic industries concerned" (p. 217).

A long term industrial strategy will need to be supported by trade arrangements and priorities which emphasise economic cooperation among developing countries and especially cooperation within the SADCC and PTA. This is especially important for Zimbabwe which has a significant capital goods industry and requires export outlets in developing regions as penetration of the markets of the industrialised countries of Western Europe and North America will be phenomenally difficult. Exporting to the PTA and SADCC markets will require that Zimbabwe establish as a matter of priority a strong Export Credit Guarantee Scheme.

There is finally a need to increase (or build) the interconnections between sectors. One connection is that industries buy from and sell to each other. Industrial planning must identify and strengthen those critical interrelations in sectors of the economy. In other words, the strategic policy issue in industrial planning is to identify those industrial nodes which are vital and ought to be supported. For example, the machine tool industry is one well known 'carrier' of knowledge about how to manufacture. Such industries must be given protection and priority in the allocation of foreign exchange for replacement machinery as well as upgrading of techniques and products.

NOTES

1. See "Introduction" by E.V.K. FitzGerald and M. Wuyts in The Journal of Development Studies, Vol 24, No.4, July, 1988.
2. For a detailed discussion of the development and structure of foreign ownership of the Rhodesian economy see Stoneman (1976).
3. Contrast this with, for example, British settlers in other parts of Africa who went as part of the civil service bureaucracy and had little real interest in the long-term development of the colonies they served.
4. See Mussett, B.H. (1969)
5. Mussett, ibid.
6. First Five-Year National Development Plan (FFYNDP) 1986-1990, Vol.1, April, 1986.
7. S. Geza (1988) discusses critically WB trade liberalisation proposals for Zimbabwe by drawing on the Zambian experience. He thinks that a trade liberalisation programme would need to be strictly controlled, with its timing, pace and direction firmly determined by the government rather than being controlled from outside. But he asks whether we really have to wait for trade liberalisation to discover the solutions to Zimbabwe's structural problems. He believes Zimbabwe has numerous options, including combinations of sector-specific policies linked to broad macro-economic policies.
8. The DRC measures the ratio of domestic resources used per unit of foreign exchange earned or saved.
9. World Bank (1987), Zimbabwe: An Industrial Sector Memorandum, p. 113.
10. According to these measures an inefficient subsector tends to use more inputs to produce the same output than a more efficient one.
11. World Bank (1987), op.cit.
12. The team has been charged to study:
    i) the historical background to the present trade regime and its impact on the economy;
    ii) the present system of foreign exchange allocations, its strengths and weaknesses, its impact on the economy and the possible need for liberalisation;
    iii) the experiences of other countries in relation to liberalisation;
    iv) the various liberalisation options which could be adopted in Zimbabwe, including the timing, sequencing and financing, needs which are entailed, and the various complementary economic policies implied;
    v) the institutional requirements necessitated by the adoption of liberalisation, including monitoring and evaluation.
13. See Zimbabwe Association of Bussiness Organisations (ZABO), "The Zimbabwe Economy: A Unified Approach by the Enterprise Sector", April, 1988.
14. The World Bank calculations indicate that the real growth rate of operating profits averaged 4,3 per cent per annum in the 1980-84 period, which was very much higher than the real interest rate of the same period.
15. Talk by L. Harris on 'Why Zimbabwe need not reduce its Budget Deficit' delivered at the Zimbabwe Economic Society monthly meeting, April 1988.

16. See Fransman (1988), "What has Zimbabwe to learn from the Asian Newly-Industrialised countries"?
17. See reports of the Committee of Inquiry into Parastatals.
18. S.S. Cohen and J. Zysman (1987), Manufacturing Matters, discuss thisissue with respect to the US industrial sector.

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