CHAPTER 4

CONTEXT OF INDUSTRIALISATION AND INDUSTRIAL POLICY ANALYSIS IN MOZAMBIQUE

The previous two chapters set the main theoretical and empirical framework for the analysis of industrialisation and industrial policy in Mozambique. This chapter initiates the analysis of how influential research and core economic policies respond to the fundamental political and socio-economic pressures that affect the development of the manufacturing sector. The first section discusses the main pressures that influence and shape the pattern of economic and industrial development in Mozambique. It argues that these pressures are not being adequately addressed by formal and official industrial policy and strategies. The second section summarises the current core economic programs – classical, Washington consensus type of stabilisation and liberalisation programs – and discusses their implications for industrial policy. The third section discusses the main studies on industrial development in Mozambique and how they address the problems of industrialisation and the interaction between industrial development and macroeconomic stabilisation and economic liberalisation. The conclusion summarises the main points to be drawn from this analysis for industrial policy formation in Mozambique.

4.1 Pressures that influence industrialisation in Mozambique

The pattern, pace and direction of development of the manufacturing sector in Mozambique have been influenced and shaped by several socio-economic pressures. First, the existing manufacturing sector is generally uncompetitive, old, worn out and outdated. As a result, productivity and quality standards are generally low, and so are profits, investment and wages. Recent productivity growth in manufacturing, which has been concentrated in large and foreign owned firms, has been driven by the recovery of the rate of capacity utilization and significant downward adjustment in the level of manufacturing employment. With rare exceptions, only FDI driven projects have invested in new technology and improved management and organization, In order to respond to mounting pressures to increase wages, capital accumulation and investment, firms will have to find initial finance to be able to upgrade standards and increase productivity in a cumulative and sustained basis.

Second, most domestic firms have serious management deficiencies with respect to business strategy, planning and financial management, and domestic entrepreneurs are generally inexperienced and unskilled. Additionally, formal training schemes are almost non-existent and skilled workers with the ability to adjust to new technologies and production practices, adapt and innovate are very scarce.

It should be noted, however, that these two characteristics of the manufacturing sector are shared mostly by small and medium, domestically owned firms, but not by new FDI driven projects. Large, foreign owned projects are usually capital and skill intensive (with the exception of sugar) and some of them operate with internationally competitive technology and levels of productivity (such as Mozal, an aluminium smelter). As a result, in most of these projects investment, profits and wages are significantly higher than in the majority of manufacturing firms.

Third, the productive and export capacity of the manufacturing sector is narrowly specialised, and have become narrower over the past decade. Therefore, intra- and inter-industry linkages are weak and the sector is heavily import-dependent so that expansion of manufacturing investment and output, under current conditions, results in very significant balance of payment pressures. Hence, there is an inverse relationship between economic stability and sustainable growth of manufacturing output. In the short run, the relationship between expansion of output and economic stability depends upon the level of aid inflows. In the long run, manufacturing output and exports have to diversify and intra- and inter-industry and sectoral linkages have to be strengthened.

Fourth, the output of the manufacturing sector has been highly volatile. This reflects the fact that production and exports are narrowly based, and therefore susceptible to changes in demand conditions for any one particular industry. This volatility also results from balance of payment pressures that manufacturing expansion, under current conditions, creates, such that each period of expansion is followed by a period of contraction that is due to import dependence and inability to sustain imports.

Fifth, the overall economic activity and direction, at more global or at sectoral, industry and firm levels, are constrained and shaped by the core macroeconomic stabilisation and liberalisation policies, which affect aggregate demand, access to and cost of finance, industrial and other socio-economic relations, business confidence, patterns of investment and opportunities for economic change. The manufacturing sector in Mozambique, which does not have knowledge and technology advantages, needs access to cheap finance for capital equipment, working capital and trade. However, it also needs a strategy to allocate financial resources and to tie financial incentives with performance targets. Core macroeconomic and liberalisation policies have not helped to provide financial resources or a strategy.

Sixth, FDI has been selectively acquiring and dominating entire existing industries (beverages, sugar, cereal milling, cement, textiles) and introducing new ones (aluminium, steel and iron). This process is driven by corporate strategies, and has had little impact upon the development of vertical and horizontal relationships, linkages and complementarities with other firms and industries in Mozambique. On the whole, FDI has been very narrowly specialised, and most recently has been dominated by the expansion of the minerals-energy complex of South Africa. FDI has become the single most important source of finance of investment in the economy, particularly in the manufacturing sector, and its share of investment is still increasing. Additionally, a very large share of DDI and loans, other sources of finance, have been allocated to FDI driven projects. Quite apart from the power that FDI is acquiring in the Mozambican economy, a FDI driven investment strategy may not be sustainable because Southern African is a very marginal destination of FDI from outside the region. From inside the region, inflows of FDI into Mozambique depend of globalisation strategies of South African corporations, particularly of those associated with the minerals and energy complex, which are also affected by the world's economic environment.[1]

Related to this, seventh, economic dynamics in the Southern Africa region, particularly associated with the restructuring of capital in South Africa, affect the pattern of investment, structure and direction of production and trade, employment opportunities, and division of labour. The economy continues to be dominated by services, one of two traditional dynamic links between the Mozambican economy and South African capitalism, but FDI is showing signs of being capable of becoming the dominant channel by which the Mozambican economy is integrated within the SDI and other processes of expansion of South African capitalism through the Southern Africa region.

These pressures are important starting points in the analysis of manufacturing and formulation of policy, but they have not been adequately addressed in the studies of the sector or official policy documents. There is an implicit institutional assumption that not very much can be

[1] See Fine 1997b, Fine and Rustomjee 1996 and Roberts 2000 for a discussion of the globalisation strategies of the South African corporations. Castel-Branco 2001 presents data on the potential impact of increasing globalisation of the minerals-energy complex on the direction of FDI inflows into the Mozambican economy.

done about these pressures in terms of policy making. Therefore, the best strategy is assumed to be having no strategy that interferes with individual decisions and actions.

Current core economic programs have driven industrial policy and other forms of investment policy and strategy to the margin of economic policy. This is because of their assumption that growth and economic change are natural outcomes of market allocation of resources, which is made efficient through economic stabilisation and liberalisation of goods and factor markets. Therefore, sectoral policies that interfere with "free market" allocation are either undesirable, second best or play a marginal role. In reality, this results in a state that responds defensively to domestic lobbies while trying to compensate for its inability to face up to the power of the Bretton Woods institutions, large foreign corporations and powerful and fragmented domestic pressures. The combination of external and domestic pressure and defensive reaction by the state has weakened the capability and willingness of public institutions to develop and implement coherent and relevant industrial polices that go beyond the simplest forms of coordination, facilitation and provision of incentives for capital accumulation.

Additionally, the debate and analysis of industrial policy, whenever it comes about, is almost exclusively focused on incentives and on facilitation of the process of private capital accumulation with little concern for the direction and patterns of accumulation. This direction of the debate is associated with real and fundamental problems: pressing needs for capital investment, interests of the growing national entrepreneurial bourgeoisie, and the influence of owners of capital upon institutions and processes of policy analysis, formulation and implementation. However, the focus of the debate on capital accumulation reinforces the marginalization of industrial policy because whenever capital accumulation is in conflict with the core stabilisation and liberalisation objectives the latter prevail.

As a result, the concept of industrial policy is not at the top of the economic agenda. The dominant policy documents, the Policy Framework Paper (PFP) and the Poverty Reduction Strategy Paper (PRSP), do not mention industrial policy or any specific policies and strategies for the manufacturing sector.[2] The official industrial policy documents (general or industry

[2] See GOM 2000a, 2000b and 2000c, and GOM, IMF and WB from 1988 to 1999. The PFP is formulated by the government and approved by the International Monetary Fund (IMF) and the World Bank (WB), which sets the direction of economic policy and priorities for a period typically of 2 years. It is focused on macroeconomic stabilisation and trade liberalisation, but also incorporates sectoral policies associated with the provision of human capital and infrastructures. It sets the conditionality attached to multilateral finance. The PFP provides useful information about the government's commitments with respect to money supply, including credit ceilings, obligatory reserve ratios, public borrowing and interest rates, and also about public expenditure and deficit before grants, taxes, aid and multilateral credit and the expected business environment and constraints. The PRSP replaced the PFP,

specific) are known only by a few public and private institutions, firms, unions and individuals (scholars, consultants or others) and are considered inadequate or irrelevant by most.[3] The exception to this rule is the sugar industry, where the three main components of industrial policy and strategies – investment priorities, pricing policy and inter-firm coordination of exports – are core determinants of investors' interest in the industry.[4]

By contrast, almost all agents know about, and many have studied in detail, the official documents concerning investment incentives, free industrial zones, exchange rate and credit mechanisms and policies, tax legislation and policies (including customs import and export duties), labour laws, licensing legislation, etc.[5] They all have some interest in the official statistics[6] and strong interest in, although not always access to, the PFP and PRSP.

4.2 Current economic programs and implications for industrial policy

The definition of and role played by industrial policy depend upon interpretations of how the economy functions, linkages happen and agents operate. Pure neo-classical approaches envisage the market being the link between producers and consumers in a world of atomistic, rational agents that seek individual welfare maximisation and face no rigidities. Sectoral policies are not necessary and may even be undesirable if they lead to outcomes that are not market conforming. Public policy is required only to establish the rules for voluntary contracts and exchange, enforce contracts and property rights, control money supply, ensure low taxation and guarantee law and order. Revisionist neo-classical economics, associated with endogenous growth models, information and new institutional economics, acknowledges that there might be systemic market failure associated with externalities in production and trade, differences in human and social capital and in technology and knowledge, information

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when the G-7 approved the principle of making debt cancellation for heavily indebted poor countries conditional to resources thus made available being used to finance poverty reduction programs.

[3] See GOM 2000e. The documents mentioned are GOM 1999j, 1998a, 1997a, 1996b and 1995.

[4] GOM 1999e, 1999f, 1996b and 1993. The National Sugar Institute (INA) formulated these policies largely in response to demands from potential foreign investors during the process of privatisation of the sugar estates in order to attract bidders.

[5] GOM 1999a, 1999k, 1999l, 1998e.

[6] GOM/Statistics 1995-1999 and 1975-1994. Official statistics provide useful demographic information and economic data. However, quite apart from the quality of data, official statistics take so long to be published that businesses cannot use them for planning. The latest Statistics Yearbook, published in the second semester of 2001, reports on 1999 data. Businesses utilise official statistics for consultancy reports; to increase the weight of lobbying activity; and to convince potential financial partners, mostly foreign investors, to invest in particular firms or projects.

imperfections and inappropriate institutional and legal settings. Public policy is called upon to manage externalities and information failure that may prevent agents from distinguishing right from wrong market signals, and from identifying the magnitude and direction of distortion and required adjustment. These two approaches are combined in the Washington consensus that underlies the nature of current economic programs in Mozambique.

Fundamental components of economic programs

Current economic policy in Mozambique is formulated in series of government memoranda, reports, plans and policy agreements with the Bretton Woods institutions.[7] In the most recent documents, poverty reduction is defined as the main socio-economic goal of economic policy in the medium and long run.[8] Poverty reduction, it is argued, is achieved through accelerated economic growth and social justice. None of the documents elaborates further on the meaning of and path to social justice in any significant way, apart from mentioning it, such that it can be argued that according to current policies poverty reduction is directly and positively correlated with economic growth irrespective of the patterns of growth that may develop.[9]

The documents identify eight growth-enhancing areas of policy. First and foremost is macroeconomic stabilisation, which is pursued through tight monetary and fiscal policies,[10] more efficient tax collection and more effective customs control and financial reform.[11] It is argued that macroeconomic stability increases productivity and competitiveness by providing a dynamic business environment, reducing uncertainty, and improving the performance of the financial sector. There is no mention of how investment, technology change, acquisition of technical and managerial skills, industrial relations and labour conditions are affected by, and

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[7] See GOM 2000a, 2000b and 2000c, GOM, IMF and WB from 1988 to 1999, IMF 2000.

[8] GOM 2000a, 2000b and 2000c, GOM, IMF and WB 1998 and 1999, IMF 2000.

[9] To be more precise, the documents argue that social justice is achieved through development of human and social capital and an improved legal system. These factors are also incorporated into the growth function, so that social justice and poverty alleviation are highly correlated with, and determined by, economic growth. To alleviate poverty, the state plays two functions: provides unfortunate individuals with endowments (human capital) that they can exchange for income in the market place; and ensures that the market operation is smooth in order for all possible trade to take place at the right price so that each individual’s state of welfare is optimised.

[10] These include tight targets for increase in money supply that are to be achieved through high real interest rates, tight credit ceilings and high obligatory reserve ratios, as well as negative public borrowing from domestic banks and a gradual reduction of overall state deficit before grants.

[11] Financial reform, later discussed as a growth enhancing measure on its own right, is also important for monetary stabilisation because it is assumed to be linked with improved financial supervision, reduction of political loans and increased confidence in the system.

affect, macroeconomic stability, and how the tension between short term stability and economic change and innovation could be addressed. In other words, the documents do not mention how stabilisation policies affect the factors that are directly linked to productivity and competitiveness. The presumption is that an enabling business environment, supposedly provided through macroeconomic stability, is sufficient condition for the economic potential to be materialised as optimising and atomistic agents perceive and take market opportunities.

Trade liberalisation[12] is the second growth enhancing area of policy, and it is expected to provide larger markets for domestic production, incentives to export, capacity to compete, cheaper capital, intermediate and consumer goods and access to the world stock of knowledge and experience. The documents do not discuss the impact of quick and across the board trade liberalisation on the market share, size and business expectations of domestic firms in an infant economy. Equally, there is no discussion of the factors that directly affect export capabilities – production experience, productive capacity at international standards, business networks – and how to acquire them. No policy implications are drawn from the fact that the expected price effects of trade liberalisation are one-off and depend upon trade balance and the exchange rate.[13]

Financial reform, the third growth enhancing policy, consists of privatisation, liberalisation and development of financial markets and its institutions, as well as improving banking supervision. Financial reform is expected to lead the development of the real side of the economy through financial deepening, increase in savings and improvement of the quality of investment.[14] It is acknowledged that information failure may prevent the expected outcomes of financial reform from materialising,[15] but there is no systematic and serious discussion of the structure and dynamics of the financial system, how it interacts with the rest of the economy and is influenced by patterns of economic development.

It is argued that these three areas create the fundamental market conditions that, in the absence of externalities, deliver optimal allocation of resources towards high growth sectors

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[12] Pursued through elimination of quantitative barriers, reduction of tariff levels and dispersion, liberalisation of domestic price systems, valuation of factors at prevailing market prices, simplification of administrative barriers to trade and establishment of businesses, and negotiation of regional trade agreements within SADC.

[13] GOM 2000e and 1999i and interviews with Luís Sitoe and Alfredo Sitoe (MIC).

[14] See GOM, IMF and WB (various PFP series). For a more general theoretical approach, see McKinnon 1973 and Shaw 1973.

[15] See Biggs, Nasir and Fisman 1999. For a theoretical discussion, see Sing 1982 and Stiglitz and Weiss 1981.

at minimal cost. However, human capital and infrastructures are two areas of social externality that create market failure. This is because of their public good and merit good characteristics, which typically yield higher social than private returns, so that if left to market forces alone would suffer from under-investment. Thus, public investment in human capital and infrastructures, understood to crowd-in private investment, are the fourth and fifth areas of policy for poverty reducing economic growth.

Beyond general statements about the role of education in human capital formation, the policy documents make no attempt to be specific about what kind of skills should be developed more intensively and extensively, how such skills could be developed and universal education achieved, and in what manner are these skills in line with the overall pattern of economic and industrial development. Knowledge is assumed to be a flexible commodity, easily and readily available and transferable, so that people can shop around for packages of knowledge as relative returns on different types of knowledge change. The programs assume that it suffices to guarantee a certain level of investment in the education for people to attend school and training schemes, acquire knowledge and be able to use it, and that industrial experience and capabilities are simply learned through education. The possibility that a boom in education may create an educated unemployed work force and the subsequent brain drain if education is not in line with economic and industrial expansion and modernisation is not addressed.

Labour reproduction, organization, wages, skills and productivity are not understood as forming part of industrial and other socio-economic relations, such that, unlike machines, workers can change the organization of production, their role in the process of production and distribution, and can bargain about wages, profits, use of public funds, etc. Thus, "returns" on "capital" labour are not given by any technically fixed rate of return on human capital, but result from the dynamics of industrial and other socio-economic relations associated with the relative organization and power of labour and capital and their interaction with the state.

The issue of infrastructures raises some interesting questions for industrial policy. On the one hand, there is strong emphasis on private-public partnerships, and even total privatisation of the provision of many infrastructures and associated services, which seems to be at odds with the notion that market forces under-perform in the provision of infrastructures. This tension is not mentioned, let alone addressed.

On the other hand, the bulk of infrastructures being developed consolidates the subordination of the Mozambican economy to stronger economic interests, such as the minerals-energy complex (MEC) of South Africa and plantations. For example the number one objective of the Maputo corridor is to develop infrastructure: Witbank-Maputo toll road, port of Maputo, railway network of Maputo, the Ressano Garcia/Komatipoort border posts and Mepanda-Uncua hydro-electricity project. These are associated with the MEC, form part of the spatial development initiatives (SDI) that envisage the spatial expansion of South African capitalism, and are financed and managed by large private corporations.[16] The rehabilitation of roads and railways in other areas is associated with special economic zones developed around cotton, copra, sugar and coal, and depends on financing from the private corporations that also own, and/or control, the productive facilities for these commodities.

There is a tension, not discussed or mentioned in the policy documents, between economic infrastructures being developed by and for big business, and official policy documents claiming that the development of competitive markets and local, small enterprises are the central goals of the development and poverty reduction policy. This issue is not about the relative and hypothetical (de)merits of big and small businesses but about inconsistencies between policy rhetoric and practice. The existence of dominant economic agents and interests are not acknowledged, let alone discussed, in any of the policy documents. Yet, large infrastructure projects promoted by big business have far bigger impact on the shape of the economy than any document about the alleged virtues of small labour intensive projects. If this reality is acknowledged, tit is, then, possible to take advantage of big business to strengthen economic linkages, tackle unemployment and poverty, and diversify the sources of political and socio-economic influence upon policy-making.

Infrastructures are not neutral with respect to patterns of productive investment and capital accumulation, technologies available and financing. Large trading infrastructures (like ports) are more likely to favour imports and the provision of services to landlocked, hinterland countries if the ability to import and export differs in favour of imports[17] and trade is liberalised. This may affect negatively the balance of trade while improving the balance of services, and it is not obvious that it will favour manufacturing production by domestic firms. A large dam is less likely to be used for local, small irrigation schemes than it is for generating energy; and a sophisticated industrial estate developed around a top-tech mega project is unlikely to be the springboard for small, local and low technology processing firms

[16] See MCC 1998. In ISP 1998: pp. 12, SDIs are described as *"(…) programs of strategic initiatives undertaken by the South African government aimed at generating long-term, internationally competitive growth and development, and at restructuring the apartheid space economy.* The infrastructure projects mentioned are valued at US$ 900 million, which exceeds the total sum of deposits in the entire banking sector in Mozambique (MCC 1998).

[17] Because the ability to import is financed by international aid and the ability to export is not helped by the absence of specific investment and production policies and strategies.

that the economic program claims to support. Thus, the provision of infrastructures is more likely to enable the achievement of specific socio-economic goals, for example a specific pattern of industrialisation, if the infrastructure is developed with such goals in mind, rather than as a general provision of physical capital that may be wasteful.[18]

According to this analysis, the Washington consensus approach to infrastructures may yield one of three possible outcomes: (i) the state develops the infrastructure and, by doing so, partly determines the pattern of productive investment and industrialisation – therefore, the state would do well to have an industrial policy, and does so at least implicitly; (ii) the state waits for private entrepreneurs to decide which patterns of investment should be followed, but because they are atomistic individuals operating in a competitive environment, as neo-classical economics claims, entrepreneurs fail to coordinate without state intervention,[19] infrastructures are not built and new private investment does not materialise; or (iii) the private sector develops the infrastructures that shape the economy, coordination is achieved because of dominance of large corporations and oligopolies, and the state provides investment incentives. Mozambique has experimented with the third of these outcomes.

For example, the development of a large aluminium smelter in Maputo, Mozal, required a secondary road, one bridge, the entire rehabilitation and modernisation of the port of Matola and the building of a power station (Motraco) that generates twice as much energy as the entire consumption of the country without Mozal. It was not the presence of such infrastructures that attracted investment in Mozal, but the other way around. Without Mozal, none of these infrastructures would have been created or become financially viable.[20] The presence of Motraco may stabilise the supply of energy for the existing manufacturing sector and for new investment in manufacturing, and this externality justifies public intervention. However, Motraco is not the result of market-friendly state intervention but of the pressures associated with a monopolistic mega-project. These infrastructures consolidate Mozal's economic and political power even if there are positive externalities that accrue to other firms and sectors of the economy. This is not a critique of Mozal or the infrastructures built for it, but of the fundamental inconsistencies between rhetoric and practice of policy. In a way, this

[18] See Hirschman 1958, 1992 (Chapters 1 and 3) and 1995 (Chapter 3).

[19] See Chang 1996 for a transaction cost analysis of why atomistic individuals fail to coordinate.

[20] Ian Reid and Peter Cowie (from Mozal) argue that Mozal also enhances the viability of the Witbank-Maputo toll road and the entire Maputo corridor project based upon the SDI philosophy, because it intensifies the road traffic in association with imports of material inputs, spares and equipment and exports of aluminium.

case is an example of "winners picking the state" as opposed to the "state creating and picking winners".[21]

The sixth and seventh areas of policy are public administration and legal system reform, and elimination of red-tape and bureaucracy. These are aimed at establishing transparent and stable rules for voluntary contracts and exchange, enforcing the rules and property rights, and reducing transaction costs. Civil servants benefited from the establishment of careers and training schemes, as well as improved salaries. However, the impact of these incentives upon the effectiveness of the state is questionable because policy-making and implementation is fragmented, and government departments are becoming donor driven because of the combination of financial constraints and donor design and financing of support projects in crucial areas of activity of the departments. Activities that are not donor supported often do not materialise even if they are important.[22]

Additionally, the government is losing, or giving away instruments of policy through the process of accelerated and non-selective liberalisation and simplification. There is evidence that part of what is branded "red-tape" and selected for "simplification" results from lack of resources to implement important instruments of policy. This is, for example, the case for industrial licensing: MIC does not have the resources to implement the law, which has already been simplified. Production units have been established without proper inspection, and delays in the issuing of licences have led to calls for even further and deeper simplification of the law to the point where licensing becomes symbolic or disappears altogether.[23]

The eighth area of policy is called domestic production policy and comprises what used to be, in earlier programs, sectoral policies (excluding manufacturing) and the business environment

[21] The notion of "creating and picking winners" was first used in the analysis of East Asia's industrial policy to clearly opposed the neo-liberal assumption of market-created winners, while showing that industrial policy can be an effective way of creating efficiency. See, for example, Amsden 1989, Chang 1996 and Wade 1990.

[22] See GOM 2000e, where interviewees specifically make the point that in most government departments and support services, only donor supported activities function. This is because donor support is tied and cannot be diverted to other activities, even if these are complementary. Donor dependence for formal and informal financing of current activities is also associated with a policy of tight current expenditure. GOM 1997c argues that, as much as 35%-40% of public investment expenditure is actually disguised public current expenditure. This happens because tight limits on growth of current expenditure strangulate the very basic functionality of many state organizations. Many donor-financed programs (for example, all programs financed by the system of the United Nations, many programs financed by multilateral organizations – such as the private sector development assistance – and some programs financed by bilateral donors – such as the regional planning support program) are not included in the state budget and therefore are not counted as current or investment expenditure.

[23] GOM 2000e and 1998e, and interview with Olga Gomes (MIC).

and development policies. It is an amalgamated set of goals, intentions and activities, including the following: (i) support to the rural peasant economy through land distribution and provision of extension services; (ii) stimulate production by domestic firms; (iii) adoption of labour intensive technologies; (iv) improve decision making processes associated with the approval and implementation of investment projects; (v) attract mega projects; and (vi) introduce standards of quality. In the documents, none of these activities is elaborated with enough detail such that discussion of substance would be a matter of speculation. Nonetheless, the lack of consistency and of detail may be a signal of limited ability to formulate and implement these policies, if not an indication of how marginal they have become within the economic policy framework in Mozambique.

Implications for industrial policy

None of the current, core economic policy documents mentions the manufacturing industry in any form or detail, although other sectors of the real economy are included.[24] This signals a slight change from earlier economic policy documents,[25] which used to refer to the role of manufacturing in job creation and import substitution. Manufacturing was strategic also in terms of the penetration and development of the private sector because of the very large number of manufacturing firms to be privatised. However, even in these earlier programs it was argued that the development of the manufacturing sector would be the result of the combination of an enabling business environment and private sector initiatives. The business environment would be delivered through macroeconomic stabilisation, trade liberalisation and reduction of red tape, and private sector development would be the result of a massive privatisation program. For almost a decade, since 1987, privatisation was the dominant and almost exclusive form of policy for the manufacturing sector.[26]

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[24] Roads, water, sanitation, energy and electricity, transports (mainly ports and railways) and communications are part of the package of infrastructures and facilities covered by the program. These areas have acquired another degree of importance because their markets have been liberalised and assets privatised. Therefore, they are important not only because of market failure but also because they are important targets for the penetration of the private sector. Agriculture and rural development are part of the program because poverty is more pronounced in the rural areas, the land issue is still a very controversial matter and a potential future asset market, domestic entrepreneurship is more dominant in the agriculture sector, agriculture absorbs a the majority of the working people, and food security is a central issue in Mozambique. The fishery sector was introduced in this list because of the dominant role of shellfish in exports of goods and the role of fishing as a source of income in the rural areas.

[25] See, for example, GOM, IMF and WB 1988, World Bank 1990a and 1985.

[26] Castel-Branco 1996 and 1994b, Castel-Branco and Cramer (forthcoming), Cramer 2001 and 1999.

Moreover, rather than benefiting from an enabling environment, manufacturing development is constrained by the policy commitments to stabilisation and liberalisation adopted by the government. On the one hand, these policies have their own targets – control of aggregate demand and money supply, and liberalisation of the goods and factors markets such that prices reflect prevailing market conditions. These targets are exogenously determined with respect to manufacturing development, which creates policy rigidities and inefficiency in the manufacturing sector. On the other hand, whenever capital accumulation and growth are in conflict with the core stabilisation and liberalisation targets, the latter prevail. Therefore, core stabilisation and liberalisation strategies are growth enhancing insofar as economic growth is consistent with tight monetary and fiscal polices and prevailing market factor prices. In other words, given core economic policies, the only option open to economic growth is the expansion of the existing, underdeveloped economic structure.[27] This conclusion is consistent with evidence discussed in chapter 3.

An important implication of the marginalization of the manufacturing industry in the process of policy making is that little is coherently defined about any of the fundamental pressures that influence and shape the pattern, pace and direction of industrialisation in Mozambique. One particularly acute problem is what to do about FDI that is selectively acquiring control over some industries and creating some new ones, but without developing significant linkages and complementarities with domestic firms. There is little evidence that foreign investors are competing across the manufacturing sector against domestic firms, except in the case of demand for skilled workers: they usually operate in different industries, branches or market niches, and foreign investors borrow mainly from foreign banks where they have access to cheaper finance for working capital, equipment, machinery and trade related credit facilities.[28] Thus, foreign investors are significantly less constrained by the stabilisation commitments of the government.[29] Domestic investors feel that they operate at a disadvantage relative to foreign investors[30] because they are less experienced and skilled,[31] the assets they own are of

[27] Castel-Branco 1996 and 1994b, Haarlov 1997 and Weiss 1992. For a more general debate, see Amsden 1997, 1994 and 1993, Fine 1997e, Mkandawire 1999, Tarp 1993 and Weeks 1994.

[28] See Banco de Moçambique (various yearly reports), Cramer 2001 and KPMG 1999. See Agosin and Mayer 2000, Aitken and Harrison 1999 and Leahy and Momtagna 2000 for a more general discussion of this point, in particular with respect to linkages (positive and negative) between foreign and domestic firms in various markets, including capital markets, and implications for policy.

[29] See UNCTAD 1999a, 1999d, and 1997a for a more general analysis of this point.

[30] See GOM 2000e.

[31] See Biggs, Nasir and Fisman 1999.

inferior quality,[32] they rarely benefit from corporate networks that provide finance, technology and marketing connections, and they do not have access to the same financial facilities abroad.[33] Foreign firms tend to pay higher wages and salaries to skilled workers, so that domestic firms are at a disadvantage to compete for scarce local, skilled labour.[34]

Even if foreign firms do not compete against domestic firms in the financial and goods markets, domestic investors claim that the state is more receptive to pressure from large foreign firms because of their economic power.[35] Common examples of this are the contrasting fates of the sugar and cashew industries; the magnitude of incentives received by large corporations with FIZ status; and the government's commitment to use public money to re-capitalise two large, foreign owned commercial banks while it refuses to commit public resources to support domestic manufacturing firms.[36]

The inability of the state to face up to different pressures and define strategies that change the composition and direction of pressure groups towards more progressive industrial development results in the emergence of a defensive, reactive state and fragmented policies and competition for rents. The defensive, reactive state has become fragmented because different parts of its executive and legislative bodies have become more sensitive to particular interest groups and economic pressures in the absence of an overall strategy.[37]

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[32] See Cramer 2001 and Castel-Branco and Cramer (forthcoming) for an analysis of the privatisation process in Mozambique, which also discusses differential access to assets between foreign and domestic investors.

[33] See Kumar 1998, 1996a and 1996b, and UNCTAD 1997a for a more general analysis of the corporate structure under which subsidiaries of international corporations operate and the advantages (for the subsidiary) that such structure can provide.

[34] See Leahy and Momtagna 2000 for a theoretical discussion of wage bargaining and policies under different foreign direct investment conditions.

[35] See, for example, Blomström, Kokko and Zejan 2000, Ganesan 1998 and Weiss 1998, for an analysis of the relationship between host states and international corporations, the power of the latter and the alternative strategies available to the former.

[36] See GOM 2000e.

[37] Examples of this fragmentation are abundant and some are discussed in detail elsewhere in this thesis. Amongst others, a good recent example is the conflict between fractions of the government over labour law. The new law reflects the demand of businesses for more flexible labour management rules, including the simplification of the process of retrenching unskilled labour and the reduction of the power of trade unions. However, the law also reflects the demand of the small, elitist pool of educated nationals, so that it is stringent with respect to recruitment of skilled labour abroad, allegedly to protect the jobs for national skilled labour. In practice, this is depriving firms of access to skilled workers or making it so difficult to recruit skilled workers that the law is becoming a major target for private sector criticism of incoherent government policies.

The fragmentation of state policy and interests is exacerbated by the tutelage system whereby government departments formulate policy and supervise investment and other decisions by businesses in a particular sector. For example, the Ministry of Agriculture and Rural Development supervises the sugar industry and formulates its policy, whereas the cement industry works under the Ministry of Public Works and Housing. Therefore, there is no centre for industrial policy formulation, and policies and strategies for specific industries are fragmented and are defensive responses to lobbies by dominant firms in the industry. As a result, there are ongoing conflicts between the fragments of industrial policy, such as, for example, the one that exists between sugar and soft-drink producers about the protected domestic price of sugar. These conflicts are not more generalised only because of weak inter-industry linkages. Where linkages are stronger, such as between Mozal and Motraco, monopolistic power and vertical integration by one of the firms ensures coordination, while the state is a passive observer of corporate strategy.

The absence of coherent strategies creates competition for rents that results in rent seeking.[38] However, larger and more influential firms and investors are in position to appropriate most of the rents, such that the competition for rents may become gradually limited to a smaller group of large firms and economic groups, at least in some of the most dynamic industries. This would certainly weaken even more the state’s ability to pursue policies that are not simply a defensive response to powerful economic groups.[39]

The economic policy documents include a lot more detail about macroeconomic policy and trade and financial reform than they do for all of the remaining areas. This reflects the priority that has been given to these core policies at the expense of the other areas, such that policy capabilities have been asymmetrically developed across different sectors of the government. Over 14 years of implementation of stabilisation and structural adjustment programs, the

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[38] See the case of the cashew industry, and the comparison between cashew and the sugar industry, in chapter 5.

[39] Castel-Branco 2001 and Castel-Branco and Cramer (forthcoming) provide evidence of increasing concentration of economic power in Mozambique, mainly through foreign direct investment associated with the South African minerals-energy complex. The costs of 6 mega projects (all associated with the MEC) already approved (two implemented, four in the pipeline) is more than twice as large as Mozambique’s current GDP, and forty times bigger than current manufacturing value added (MVA). When, and if, all of these projects are implemented, they will produce three quarters of Mozambique’s MVA and exports of goods, and two fifths of Mozambique’s GDP. Together, Mozal and Motraco, the two implemented mega projects, account for 90% of foreign direct investment and 57% of total investment in the manufacturing sector between 1990-1999. Prior to Mozal, 68% of all FDI inflows to Mozambique between 1990 and 1998 were invested in two beer factories by South African Breweries, one cereal milling company by Namib Management Services, spent by CIMPOR to buy the Mozambique cement company whose control of Mozambique’s market subsequently increased from one third to four fifths (World Bank 1996b), and used to acquire and rehabilitate four sugar estates.

Ministry of Planning and Finance (MPF) and the central bank (Banco de Moçambique, BM) have acquired the capacity to formulate macroeconomic policies within the parameters of the Washington consensus, whereas MIC have very little experience, capacity and resources to formulate industrial policies of any significant consequence.

MIC is one of the smallest Ministries of the Mozambican government. The directorate in charge of manufacturing (DNI) has been particularly neglected. By the time this research was undertaken, DNI had two recently trained economists and one lawyer, almost no computers, had been stripped of its rights and resources to produce meaningful industrial and trade statistics and a record of industrial firms,[40] and was only implementing routine, administrative tasks.[41] The Minister for Industry and Trade had one special advisor to help him negotiate with mega investment projects, the most active and complex area of the manufacturing industry. This advisor had no qualified supporting staff or access to a database and information system. Since 1987, of all government departments MIC has received the smallest share of the current and investment state budget.[42] By contrast, the Investment Promotion Centre (CPI) has several engineers and economists in all its divisions and each of them has access to modern information technology; in the MPF and BM almost all senior staff and several in lower ranks have received university training; and the National Statistics Institute (INE) has more university-trained staff than all the manufacturing support institutes and agencies put together.

The government's attempt, over the years, to provide services for the manufacturing sector has led to the creation of support institutes, such as IDIL (small and local industry), IPEX (export promotion), INNOQ (standards and quality control), FFPI (fund for financing of local industry) but without the ability to make them operational. The weakness of the domestic manufacturing sector does not allow these institutions to become financially viable in the short and medium term without strong financial backing from the state. However, the rules of macroeconomic stabilization prevent public finance from supporting such institutions in a significant manner, such that these support institutions will only eventually operate properly

[40] This problem arises from the interpretation and application of the law of national system of statistics that centralises all production of statistics in INE. BM is in charge of producing monetary data, but no other department can produce sectoral data. Thus, the quality of sectoral statistics has declined, MIC and other sectoral government departments find it very difficult to mobilise donor support to develop their statistics capacity, and lack of reliable and timely data affects MIC's ability to develop and monitor the implementation and effects of policies and to negotiate investment projects and incentives. INE, on the other hand, is a target for several donor-supported programs including UNDP, the European Union and various bilateral and multilateral agencies.

[41] See GOM 2000d and 2000e.

[42] GOM 1997c.

when a donor decides that the time has come to invest in them.[43] FFPI has made an attempt to become financially viable by lending 60% of its funds to small commercial activities rather than local industry.[44] Although the fund has so far survived thanks to expedients like this, it has failed to achieve its main goals. Therefore, creating organizations is not sufficient to develop institutional capabilities for manufacturing development, nor it is a substitute for strategy, policy and allocation of resources.

4.3 Studies about industrialisation and industrial policy in Mozambique

The previous section argues that industrial policy has been marginalized from core economic policies because the reference to manufacturing in any of the core economic analysis and policy documents does not go beyond the notion of a dynamic business environment that is expected to result from stabilisation and liberalisation. Nonetheless, several studies about the manufacturing sector have been done, and they reflect the orthodox analysis of spontaneous adjustment through market forces, or heterodox views that are concerned with patterns of accumulation, linkages, agents and institutions of industrialisation.

World Bank studies – quest for an enabling business environment

The World Bank produced or commissioned three major studies of the manufacturing sector, namely the industrial sector study (World Bank 1990b), impediments to industrial sector recovery (World Bank 1995b) and a manufacturing survey (Biggs, Nasir and Fisman 1999).

The first two studies attempted to develop long-term and short-term strategies to accelerate growth of manufacturing production and exports. The third was defined as a survey to identify the characteristics and sources of growth of manufacturing in order to support the development of adequate policies.

The three studies shared a central aim: to demonstrate that manufacturing development is compatible with, and dependent upon, economic stabilisation, liberalisation and privatisation policies. In addition to this, each study pursued specific objectives. World Bank (1990b) was a study for the period of transition from “central planning” to a “market economy”. It

[43] See GOM 2000e.

[44] Interview with Luís Sitoe.

acknowledged that markets were underdeveloped and distorted, and therefore efficient allocation of resources required state intervention that, in order to be efficient, had to be guided by methodologies that simulate “free markets”, namely domestic resource costs (DRC). World Bank (1995b) was concerned wit the identification of the causes of low supply response to economic reforms. It made short-term recommendations for further trade liberalisation, customs control, export promotion and liberalisation of the business environment. Biggs, Nasir and Fisman (1999) provided useful information about the characteristics of the manufacturing sector, sources of growth and problems faced by businesses, and tried, unsuccessfully, to base the case for further liberalisation upon this data.

The industrial study – first market-friendly “strategy” for manufacturing

World Bank (1990b) was the first attempt by the Bank to produce a coherent strategy for rehabilitation and development of the manufacturing sector within the framework provided by macroeconomic stabilisation and liberalisation. This study was produced at the end of the initial three years of the program of economic rehabilitation (PRE), a Washington consensus based program of economic stabilisation and rehabilitation.[45]

Between 1987 and 1989, the manufacturing sector had benefited from the best of two worlds: multilateral and bilateral import support programs had provided the foreign currency to import raw materials, fuel and spare parts; and an administrative system of allocation of foreign currency inherited from central planning mechanisms had ensured that manufacturing firms had access to foreign currency at affordable costs. During this period, manufacturing value added (which had fallen dramatically between 1982 and 1986) increased significantly. However, the adjustment program was still limited to tax, interest rate, exchange rate and price reforms, and the partial reform of the central planning based system of finance.[46] Additionally, there was no clear strategy for rehabilitation of manufacturing. Rehabilitation was defined as a process aimed at stopping economic decline and recovering the productive capacity of existing assets within existing structural constraints. Rehabilitation was separated from restructuring, upgrading and modernisation.

[45] See GOM 1988, GOM, IMF and WB 1988 and World Bank 1985.

[46] During the period of centralised planning and financing, the economy was financed through the public budget (around 45% of public investment was enterprise financing) and the central bank. Enterprises and projects included in the central plan had open accounts in the central bank and their investment requirements and deficits were automatically covered either through public finances or the central bank. The larger the size of the firm and its losses the more finance it received through these mechanisms. See Castel-Branco 1996 and 1994b, GOM 1997c and Wuyts 1989.

The industrial study claimed that the manufacturing sector in Mozambique was import dependent, inward oriented, did not contribute to exports, suffered from lack of incentives for the private sector and had an ageing and outdated capital stock, although it was larger and more diversified than in other Sub-Saharan African (SSA) countries. In this context, the strategy recommended by the study was to create an enabling environment for the private sector to blossom. The study – also know as the "business environment study" due to its subtitle and focus – linked manufacturing development and change with incentives to the private sector; and these incentives with the degree of liberalisation. Therefore, manufacturing development became a matter of deepening and expanding the process of liberalisation of the economy. The study defined four areas of policy to enhance manufacturing development: (i) *reform of the trade regime and pricing system;* (ii) *reform of the tax system*, in order to reduce the weight of direct (corporate and income) taxes and increase the weight of indirect (consumption and other trade related) taxes; (iii) *reform of the financial system* through gradual liberalisation, in order to capture excess liquidity and increase domestic savings, increase the availability of financial resources and improve the quality of investment projects; and (iv) *privatisation* of the state-owned and state-managed enterprises.

The report acknowledged that during the period of transition, resources could not be allocated purely through market forces due to existing market distortions. However, it recommended that decisions concerning policies and strategies that influence resource allocation should be based upon domestic resource costs analysis (DRC).[47] The report argues that the state had a role to play in three areas, namely: macroeconomic stabilization, management of transition from central planning to market economy and provision of public goods – infrastructures, training and basic services.

There are some important errors and inconsistencies in this report. First, it failed to acknowledge the main characteristics of manufacturing exports. During the period of analysis, the 1980s, the manufacturing sector was responsible for about half of the exports of goods.

[47] DRC is a static methodology to measure the benefit-cost of producing a good domestically instead of importing it. It is a ratio of social domestic costs to the foreign currency earnings or savings in producing a particular good. This method is criticised because of: (i) its lack of accuracy due to measurement problems, exchange rate conversions, estimation of shadow prices, etc; (ii) its static analysis and inability to explain DRC inefficiency and to identify opportunities were static comparative advantages have not yet been established; and, most importantly (iii) the fact that the entire DRC analysis is based upon assumptions of perfect competition (shadow prices, marginal returns of factors equalling their marginal costs, etc.) which are exactly non-existent under protection and non-market allocation of resources. In other words, DRC is an attempt to compare real projects with fake market conditions. See Edwards 1993, 1993, 1990 and 1985, Fine 1997d, Greenway 1988 and Weiss 1991 for detailed presentations and critiques of the DRC and other associated methodologies.

These exports were mainly based on semi-processing of primary goods, but nonetheless involved some degree of processing. Most importantly, export oriented manufacturing production represented more than 30% of total manufacturing value added. Therefore, the problem of manufacturing exports cannot be solved mainly through openness and liberalisation of the economy, as recommended in the report. It is necessary to create industrial capabilities that increase output, diversify and increase the standards of production and accelerate and diversify export growth.

Second, the report criticised lack of incentives for the private sector and argue that this was a major are of policy to promote manufacturing growth. However, nowhere in the report was any serious analysis of the private sector in Mozambique carried out. There was no analysis of the dynamics of private accumulation, structure of ownership and control and conditions of competition. No distinction was made about small, local firms and large, foreign owned corporations, and there was no serious discussion about fundamental factors that affect the performance of firms and industries, such as access to finance, the process of acquisition of industrial capabilities and modernisation of the productive assets. The report simply assumed that once the state had withdrawn from managing the economy and incentives were introduced, the private sector would, spontaneously, emerge. And this new private sector would be, from the start, efficient.

The report presented no serious study of the state-owned enterprises, apart from assessing their efficiency by output and profit results, and therefore concluded that these enterprises were inefficient because of being state-owned. Yet, quite apart from the fact that the domestic private sector inherited from colonialism was very weak, private and state-owned firms alike were affected by the same problems listed in the report: an ageing and outdated capital stock, import dependency with respect to inputs and equipment, inward orientation of almost 70% of the manufacturing production, lack of managerial and technical skills. It was this ability to assume that the private sector is the natural way of doing things, is inherently efficient and that it lies dormant waiting to be unleashed by the removal of the state from managing enterprises, that allows the Bank to recommend accelerated privatisation and trade liberalisation as panaceas.

Fourth, apart from assumptions regarding efficiency gains due to liberalisation of the financial sector, the report did not address the issue of finance for the industry, which is a particularly important aspect if the capital stock is old, worn out and outdated. Nor does the study relate financing of the industry with the basic and central goal of economic stabilisation, and how macroeconomic policies constrain the options for industrial finance. Fifth, the report provided no way forward in terms of restructuring the existing industrial fabric and building new industrial capacities. All it says is that DRC analysis should be used to select the priority sectors while markets are still too distorted to be fully trusted. The study produced a preliminary DRC analysis of the manufacturing sector and concluded that all but two branches were inefficient. Therefore, according to the report Mozambique had no comparative advantages in manufacturing production.[48]

The industrial study was received with mixed feelings by the government and the private sector.[49] On the one hand, it addressed some of the demands of the emerging and established private sector – by emphasising the need to remove bureaucratic command of the economy, to privatise state owned and managed productive assets, to reform corporate taxes, to liberalise imports of equipment and material inputs and the labour market, and to facilitate trade in general. On the other hand, it did not address more fundamental issues – access to finance and technology, formation of business networks and learning and support institutions, coordination of competing and complementary investment, and other forms of nurturing the development of the domestic private sector during the infancy of the economy. Thus, the report did not provide a vision of industrial strategy.

Impediments – a study of the causes of low supply response to reforms

World Bank (1995b) was another major study that tried to answer the following question: why has industrial output fallen significantly between 1990 and 1994, despite the fact that fundamental macroeconomic and trade reforms had been successfully implemented? In other words, why was the manufacturing sector not responding to a better business environment? The focus of the report was on short term problems associated with ownership, management, technology and policy. The macroeconomic and trade environment were assumed as given, and long-term problems of the manufacturing sector were not discussed.[50]

The report concluded that low supply response of manufacturing to fundamental economic policy reforms was due to three factors. First, all manufacturing firms suffered from unfair

[48] See Haarlov 1997, who confirms that this was the opinion of the Bank's field staff.

[49] See, for example, GOM 1992 and GOM and UNIDO 1993.

[50] The report does not explain why ownership, management, technology and policy are short-term problems. It does not define which are the long-term problems not discussed and why not. It makes, however, a clear reference to an exogenously determined, relative to the analysis of manufacturing, macroeconomic and trade environment.

competition, illegal imports, limited access to finance and foreign exchange and excessive regulation and red-tape associated with government bureaucracy. In addition, state-owned and state-managed firms were also affected by poor management and low credit worthiness, the latter being associated with high indebtness and unclear and unstable allocation of property rights. According to the report, the continuous deterioration of state firms reflected the slow pace of privatisation.

Second, the expansion of inward oriented industries was constrained by the high import content (50% to 80% of material inputs) of their activities and the cascade effect of the turnover tax on increasing the prices of domestically produced goods. Third, exporting firms did not have access to short-term finance nor benefited from import tariff exemptions on imported equipment and material inputs utilised to produce for export.

The study recommended the following three sets of policies: (i) lowering import tariffs to discourage tariff evasion and reform of the customs administration, including the possibility of privatisation of customs management, to eliminate illegal imports; (ii) promotion of manufacturing exports by guaranteeing tax free imports of inputs to established exports, fixed import tariff drawbacks to occasional exporters, and short-term trade related finance, and by reforming the investment code and approving legislation concerning FIZ to attract FDI; and (iii) improving the business environment through reform of the investment code with respect to simplification and clarification about capital repatriation, restructuring the labour market by introducing flexible wages and contracts, and speeding up the process of privatisation.

This report also made strong assumptions about the quality and efficiency of the private sector without an investigation being done in order to understand it. In the report, there is no reference to the heterogeneity of the domestic private sector, not only in terms of size, scale, capacity, experience and skills, but also in terms of dynamics of accumulation. For example, by the time privatisation of manufacturing assets was well underway, long term established traders were the only domestic capitalist with business experience and capital to buy productive assets, and yet many of them found manufacturing too complex and risky to bother investing in it.[51] This lack of research about the private sector might be the reason why the report claims that state-owned or managed firms were the only badly managed firms.

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[51] See, for example, Castel-Branco and Cramer (forthcoming), Cramer 2001 and 1999 and Haarlov 1997. Mackintosh 1987 and 1986 presents an interesting analysis and evidence for processes of capital accumulation that favoured rural traders over other potential domestic capitalists.

Additionally, the study does not discuss how import dependency, which is a fundamental constraint for the expansion of the manufacturing sector, could be realistically addressed without the implementation of an infant industry strategy.[52] Furthermore, the report did not discuss how the trade reform could help to reduce import dependency, nor how trade-related finance and tax reforms would square with stringent economic stabilisation and liberalisation.

Survey of industrial firms – understanding the manufacturing sector?

Since 1995, the manufacturing sector's output, capacity utilisation and labour productivity have been increasing again. Biggs, Nasir and Fisman (1999) survey of manufacturing firms in Mozambique, for the World Bank's regional program on enterprise development (RPED), attempted to produce information on the manufacturing sector as a whole, particularly at firm level, because:

> *"In order to design policies to sustain (…) growth (…) it is first necessary to understand the nature of the manufacturing sector and its problems. While there is a great deal of information available on the economy, almost all of it is aggregate data from government statistics. There is very little information available on the manufacturing sector as a whole and almost no firm level data."* (pp. 1).

The study provided information about characteristics of the manufacturing sector, sources of growth, business problems identified by entrepreneurs, finance and privatisation. The last two themes will be discussed in chapter 5. The study also provided important evidence of significant levels of differentiation of the private sector in manufacturing, which adds to the critique of previous World Bank reports.

Before continuing with the analysis of this study, two points should be made. First, it is remarkable that it took 12 years of stabilisation and structural adjustment policies, and two World Bank reports about, and programs for the development of manufacturing in Mozambique, before a survey of the sector and its constituent firms was undertaken.

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[52] Hirschman 1992: Chapter 1 argues that a fundamental development linkage emerges when an economy acquires comparative advantages in what it imports. The fatter the imports of a particular good the greater is the likelihood that they would be swallowed by a newly established domestic industry. Amsden 2001 and 1992, and Leahy and Neary 1999 argue that late industrialising economies, which do not benefit from technological advantages, require infant industry type strategies for firms to acquire first mover advantages and benefit from market and linkages opportunities.

Second, the study was not only a survey, but also an attempt to provide a descriptive analysis of the aspects of the manufacturing sector that were investigated. What is remarkable is that a significant part of the study consisted of interpretations of the basic data without these interpretations being based on sound data or knowledge of the processes involved. For example, the report argued that market friendly reforms had already been successful in concentrating the manufacturing sector around more efficient industries (pp. 20 and 26). Data were presented about concentration of manufacturing in food and beverages (table 2.1, pp. 9), but there were no data showing that beer, soft drinks, sugar and cereal milling (the fastest growing branches in the food industry) are more efficient than other industries. The report did not present information about the reasons why investors were operating in these industries. The interpretation of the phenomenon "concentration" seemed to be an ex-post rationalisation based upon the belief that market-led allocation of resources is inherently optimal.

A. General characteristics of the manufacturing sector

The study was initiated with an account of the history of the manufacturing sector in Mozambique, arguing that manufacturing activity started in the 1930s with small firms producing for the domestic colonial market, and that along the way the sector somehow diversified (pp. 8-9). The existing evidence contradicts this account.[53] First, manufacturing activity in Mozambique started before the first world war with semi-processing of agricultural products for export, namely sugar, cotton, copra, sisal and vegetable oils, and most of these activities were carried out by large, non-Portuguese foreign owned firms. Second, the sector did not "somehow" diversify, as the survey suggests. It diversified into activities that produced for the domestic, colonial market to satisfy the most pressing demand; that could be developed with capital, technology and skill available; and that would not compete with Portuguese industries. Along the way, Portuguese industrial policies changed due to different political and socio-economic pressures, and this had an obvious and observable impact on the structure of manufacturing. It has been widely recognised that the integration of the Mozambican economy into the Southern African capitalist system led by large capital in South Africa was, and continuous to be, a powerful driving force shaping the Mozambican economy, including the manufacturing sector.[54] Therefore, the neo-classical account of the history of manufacturing in Mozambique is factually inaccurate.

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[53] See chapter 3.

[54] See Brum 1976, Castel-Branco 1994b, First 1983, O'Laughlin 1981, Pereira Leite 1989, Wield 1977a and 1977b and Wuyts 1989, 1984, 1980a and 1981. For a brief periodization, see chapter 3.

On page 10, the report argued that the manufacturing sector was small, highly concentrated in a few sectors, exhibited a low degree of intra-sectoral linkages, most producers sourced their material inputs from abroad, and few firms exported a significant share of their output. According to this report, these characteristics showed that the manufacturing sector in Mozambique was underdeveloped, which, it is argued, was due to Mozambique's recent history of central planning, civil war, natural disasters and international shocks. This argument was made in spite of the report's own data showing that the manufacturing sector was less concentrated before the liberal economic reforms were initiated than it was at the end of the colonial period, and significantly more concentrated and unbalanced 10 years after the economic reform program started. Additionally, the manufacturing output share of industries more likely to contribute to intra and inter sectoral linkages (metal engineering and industrial chemicals) declined sharply since the reforms started (Table 2.1, pp. 9). Therefore, if anything, the manufacturing sector has become more underdeveloped after the reforms.

However, on pages 20 and 26, the report argued that current concentration of manufacturing reflected improvements in resource allocation driven by market-friendly reforms that have revealed the most efficient sectors. Quite apart from the fact that no information was presented to support the argument that current concentration reflected efficiency gains, it was remarkable how characteristics that had initially been used to define and describe an underdeveloped manufacturing sector suddenly were turned into evidence of successful market-friendly reform.

The report's data confirmed the dominant role of the food, beverages and tobacco industry, which employed almost half of the work force in manufacturing and produced about 70% of manufacturing output. It also confirmed that the manufacturing sector was dominantly concentrated in Maputo: 60% of the firms, 50% of the work force and 70% of the sales.

B. Sources of growth and specialisation

The report showed that output and employment growth in manufacturing was due mainly to large firms and new entrants, and that on the whole output increased significantly and employment declined sharply. While output grew in all industries, wood and wood products is the only industry where employment also increased. Small firms and privatised firms performed worse than all other firms (public, foreign owned, large, always private and new firms) with respect to growth in output, employment, investment and technical efficiency.[55]

The study identified three sources of manufacturing growth: increase in capacity utilisation, investment, and improvements in productivity and technical efficiency (pp. 15). Capacity utilisation in manufacturing firms doubled to an average of 48% because of three factors: availability of foreign exchange through import support schemes, increase in domestic demand and the deflationary effect of trade liberalisation on the prices of imported material inputs (pp. 15-6). No quantitative or qualitative information was given in the report about the three factor that are assumed to explain increase in capacity utilisation, or to support the existence of the links between these three factors and capacity utilisation.

Investment in new equipment and technology was made mostly by large, foreign owned firms: three quarters of such firms made significant investment, compared with less than 50% of the other firms; and two thirds of total investment was made by foreign firms. Because the report's data covered a period prior to the implementation of Mozal's mega investment, it showed that more than 50% of total investment was made in the food, beverages and tobacco industry, particularly in fours sugar estates, two beer factories, a few subsidiaries of coca-cola and one cereal milling plant.

The report argued that the increase in labour productivity was due to increase in capacity utilisation and retrenchment of labour. Very few firms had increased productivity by improving technology, skills, organization, labour relations and management, and those few who did so were, usually, large and foreign owned. Technical efficiency of Mozambican firms was one of the lowest in Sub-Saharan Africa: one third of the best practice in Africa and half of the average technical efficiency in Zimbabwe, Zambia and Kenya. Additionally, the inter-firm variation with respect to technical efficiency was twice as high in Mozambique as in Zimbabwe. For labour, the implication of these low levels of technical efficiency was that on average Mozambican real wages had to be half of real wages in equivalent industries in Zimbabwe, Zambia or Kenya for Mozambican firms to achieve equivalent rates of profits.

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[55] The report defines technical efficiency as the ability to obtain the largest value of output from a given bundle of capital, labour and material inputs (page 22). This measure in rooted in the traditional neo-classical production function, and therefore is subject to the same criticisms: static, exogenous treatment of technology, skills, processes of production, labour organization and management methods, and insensitive to the social relationships amongst workers and between labour and capital. Additionally, the method is flawed because of being based upon assumptions of perfect competition, needing assumptions about effective protection and being closely influenced by the "capital controversy". See Fine 1997d, Sraffa 1972 and Edwards 1985.

The determinants of low productivity and technical efficiency, argues the report, were low levels of education and skills, lack of managerial training, experience and capabilities, and the utilisation of old, worn out and outdated equipment. In a footnote in page 27, the report also mentioned other causes of low labour productivity, namely: dissimilar, small orders that reduce workers efficiency; decline in output due to competing imports associated with trade liberalisation; decline in demand due to lowering of incomes and retrenchment of labour; and labour market rigidities in face of the above problems. There were significant inconsistencies in this analysis. In pages 15-6 the report claimed that trade liberalisation and expanded domestic demand contributed to increase capacity utilisation, and labour retrenchment helped to increase productivity. However, in page 27 it said that domestic demand was contracted because of trade liberalisation and retrenchment of labour!

The study also argued that firms from the textile, clothing and leather industries, foreign owned firms, very large firms and exporting firms had the highest level of technical efficiency with less inter-firm variation. This conclusion is not surprising since the most important exporting firms were foreign owned and large, and to succeed as exporters firms had to attain a minimum threshold of standards of quality and productivity that varied by industry, but did not vary much by firm. When compared to African best practices, textile firms were the least competitive in Mozambique (meaning that the best practice was very high), whereas firms from the wood and wood products industry were the closest to the best practice levels of technical efficiency (because the best practice in this industry was low). Therefore, the report concluded, a technical efficiency analysis of Mozambican manufacturing recommended that resources should be re-allocated, through privatisation and trade liberalisation, towards saw milling and wood furniture, as well as exporting textile firms (pp. 25-8). It is interesting to notice that the report recommended concentration of resources in industries other than food, beverages and tobacco, which was the industry around which manufacturing activity had been concentrated. Thus, if anything, technical efficiency analysis rejected the report’s earlier argument that existing allocation of resources, allegedly market conforming, was efficient.

Apart from recommending further concentration of the manufacturing sector and of the export base of the economy, the report suggested two other sets of policies to increase technical efficiency and labour productivity: (i) abolition of barriers to true market competition, through the provision of infrastructures and access to finance; and (ii) abolition of bureaucratic and trade barriers so that domestic firms can have access to larger markets and to an information and learning rich environment (pp. 25-8). These policies do not address the problems that were identified in the report as the causes of low productivity and technical efficiency (low education and skills, old and outdated equipment, dissimilar orders, decline in domestic demand, low investment levels, etc.). Additionally, trade liberalisation, which was recommended as a productivity improving policy, was also identified by the report as a contributor to low productivity by reducing demand levels faced by domestic firms. It is, therefore, unlikely that trade liberalisation would expand the market for domestic firms. Given the low level of education, skill and experience of the working force and management alike, it is unlikely that the simple exposure of Mozambican firms to international competition would be a significantly positive learning experience, even assuming that somehow the firms survive the experience. Finally, the report mentioned the pressing need for firms to have access to finance but it did not discuss how to do it within the tight boundaries defined by macroeconomic stabilisation.

C. Problems faced by businesses

The study discussed and ranked the most important problems identified by businesses that affected the performance of the manufacturing sector. The analysis was based on a list of eight major categories of potential problems: finance, government, competition, demand, skilled labour, business support, infrastructures and shortage of inputs. “Government” comprised three sub-categories (enforcement, policy and bureaucratic burden), and 20 items. All of the other categories included only between one and five items (table 4.2a, pp. 34).

The study indicated that 33% of the surveyed firms refer to “government” as their first problem, whereas 27% elected “finance”. Finance becomes clearly the number one problem when the category “government” is broken down into its constituent sub-categories. Small, medium and domestic firms rank finance as their first problem twice as frequently they rank “government”. Only in the case of large and foreign owned firms are government policy and bureaucratic burden ranked first problems almost as frequently as finance. This is understandable because foreign firms borrow finance abroad and large, established firms receive preferential treatment by banks.

There is considerable overlap between “government policy” and “bureaucratic burden”. Two of many examples are “customs delays” and “unfair competition”, which are sometimes classified as policy and other times as bureaucracy. The distinction between the two classifications is so muddled that it is quite possible that “double counting” and “arbitrary classification” occur as frequently as the problems are mentioned.

Less than 2% of the firms mentioned business support services as their first problem, and this category is ranked as the least important of the business problems. The report argued that this is because firms did not know what they did not know and the help they needed, and many firms had no information about the business support services available in Mozambique. This analysis raises further scepticism about domestic firms being able to learn significantly from simple exposure to international competition. It also confirms how weak the manufacturing support services in Mozambique are.

On the whole, the major problems identified by firms were: finance (27% of the cases); government policy – with most important items being unfair competition, smuggling, customs delays and labour market rigidities (16%); demand faced by domestic firms (14%); bureaucratic burden – with most important items being unfair competition, smuggling, and customs delays (11%); and infrastructures (8%).

UNIDO studies – institutions and infant industry

Since the beginning of the economic reforms in 1987, UNIDO was involved in to major studies of the manufacturing sector in Mozambique, namely UNIDO (1987) and GOM and UNIDO (1993). These studies were intended to provide the foundations of industrial policy and strategy in Mozambique from a point of view significantly different than the World Bank studies. Both studies were focused on the institutions and networks necessary to promote industrialisation, as well as on the national dimension of industrial policy. They recommended policies to develop domestic linkages, utilise more natural resources, and develop small and medium domestic firms.

GOM and UNIDO (1993) became the base for the current legislation on industrial policy. Official industrial policy is discussed in chapter 5, such that in this chapter only UNIDO (1987) will be analysed.

The first large investigation into the manufacturing sector in Mozambique, undertaken at the time when economic reforms were initiated, was the two-volume[56] study by UNIDO (1987), which was requested by the Mozambican government. The main goals of the study were to analyse the development of the manufacturing sector and to recommend policies and a

[56] Volume one includes the analysis of the manufacturing sector and policy recommendations. Volume two includes descriptive economic data and studies of 20 industries within the manufacturing sector.

program for rehabilitation of the manufacturing sector within the context of the approved program of economic rehabilitation (PRE) supported by the Bretton Woods institutions.[57]

The study adopted an *institutional* approach to industrial policy, by focusing on the institutional framework within which manufacturing in Mozambique operated at the time. This included: (i) the macroeconomic institutional framework of the manufacturing sector (how finance is mobilised and deployed, how prices and wages are defined, how exchange rate is allocated, the institutional form taken by the labour market); (ii) support services; (iii) legislation concerning the manufacturing sector; (iv) organization of state's supervision of the manufacturing sector and management of state owned assets and shares; (v) production, management and use of information (statistics, accounting).

The report recommended a three-stage rehabilitation, diversification and development program for the manufacturing sector. In the short-run, priorities would include basic needs, consumer industries, and industries that are important from the point of view of foreign exchange earnings and savings, tax revenue, provision of basic tools, packaging and building materials. In the medium-run, these industries should be further diversified and modernised, and specialisation should occur in line with developments in Southern Africa. In the long run, capital-intensive industries could be developed (steel and iron, equipment, gas, fertiliser).

In order to achieve these goals, the study recommended several institutional reforms: the consolidation of all manufacturing and industrial policy under the same Ministry and an end to the cumbersome system of tutelage; establishment of holdings to manage state owned shares in private companies; introduction of greater flexibility in the labour market and price formation; establishment of systems and organizations for quality and standards, information and documentation, statistics, training, support to small and medium enterprises and export promotion. The study also recommended the reform of the financial system, namely: the end to automatic financing of unprofitable and unviable projects; the introduction of cost-benefit analysis to determine allocation of financial resources in the manufacturing sector; and the establishment of an industrial development bank.

This study was interesting mainly because it provided a significant amount of data, tried to address essential institutional issues and its recommendations were consistent with its analysis. However, the study also had important weaknesses. For example, it failed to

[57] This study would later become the springboard for the UNIDO project on industrial policy in Mozambique, which took place between 1989 and 1993 (GOM and UNIDO 1993). This project provided the background analysis for the current, official industrial policy documents (GOM 1997a).

understand the dynamics of accumulation of capital in Mozambique and in the Southern Africa region, how they influence each other and affect the structure and patterns of development of the manufacturing sector. Four examples will illustrate this point. First, in the study, the link between manufacturing and the economy, industries and firms, and the domestic and regional economy sector were essentially technical. No account was taken of the agents of this process, how they related to socio-economic pressures and opportunities and what their interests and actions might be. Therefore, industrial planning became an exercise in building linkages that could be materialised through institutional reforms. Second, the study suggested a strategy for industrial development but failed to analyse the consistency between this strategy and core stabilisation and liberalisation programs. By failing to address the issue of finance, acquisition of industrial capabilities and trade policy in the context of ongoing neo-liberal reforms, the study condemned its recommended strategies to not being implemented. Third, the complexity of transition from a predominantly state-owned and managed manufacturing sector to another developed around the private sector was restricted to rules, transfer of property rights and the definition of how the state could manage its shares. Very little information was gathered about the process of developing and industrial domestic private sector. Fourth, the SADC context was also restricted to vertical and horizontal integration, economies of scale, market size, and access to capital. No account was taken of the nature of economic processes and relations in the region, and how corporations and corporate strategy are influenced by, but also influence, government policy and economic pressures and linkages.

Academic studies – two alternative views

Amongst various academic studies of different aspects of the manufacturing sector in Mozambique, Weiss (1992) and Haarlov (1997) were chosen for discussion because of the following reasons. First, they were focused on industrial policy after economic reforms started, and their studies, in a way or another, discussed implications of economic reforms for industrial policy. Second, they analysed the manufacturing sector as a whole. Third, each one introduced new and interesting issues into the debate about manufacturing in Mozambique.
Weiss (1992), based on a clear appreciation of patterns of industrialisation and the cycles of boom and bust that characterise industrial accumulation in Mozambique, made three points about the economic and industrial process in Mozambique.

First, Weiss rejected the myth that the crisis of the Mozambican economy in the 1980s was largely due to central planning, because, he argued, in reality the Mozambican economy was not centrally planned. This argument was supported by four observations: (i) peasant production, which was still dominant, was not possible to plan, although it was responsive to indirect planned actions (such as those that affected demand and prices for wage labour and wage goods, infrastructures, marketing, provision of finance, investment and consumer goods, technical extension, etc);[58] (ii) external economic shocks could not be planned for by a small economy, and the Mozambican economy was particularly sensitive and vulnerable to them; (iii) the impact of the war could not be planned for either, and the war was a major determinant of the political and economic developments in Mozambique in the 1980s; and (iv) resources available for central planning were very scarce, and investment in large, centrally planned projects was short lived.[59]

This critique of the central planning-based analysis called attention to the fact that institutions (whether the state or the market) were not enough to determine the outcome of socio-economic processes. Reforms of mechanisms and institutions (for example, towards liberalisation and de-regulation) had to pay attention to agents, economic linkages and their dynamic relationship because these were the central components that shaped the socio-economic process of accumulation. Thus, a simple move from planning to a liberalised economy may not unleash the expected economic potential and competition, nor dynamic and enterprising private agents.

For example, despite the rhetoric of central planning, the 1980s was a period of fast capital accumulation mostly by rural traders and urban speculators that benefited from scarcities and fragmentation created by economic crisis and the war.[60] The extent of this process was one significant pressure to justify the process of economic reform initiated in 1987.[61] So, the planning process may have affected the pattern of private accumulation, but did not ensure state-centred, nor prevent private-based accumulation. On the other hand, by 1987 rural traders and urban speculators were the only domestic private agents with enough capital to acquire state-owned productive assets, but many of them had no interest in consolidating a

[58] See Mackintosh 1987 and 1986, O'Laughlin 1981, Wuyts 1989 for a similar argument. Bowen 2000 develops this argument in a broader study of the relationships between the state and the peasantry in Mozambique. Wuyts 1997 develops this point in a more theoretical way.

[59] See Chapter 3, and also Castel-Branco 1996 and 1994b, and Wuyts 1989 for a similar argument. According to these studies, public investment in large, centrally planned projects more than doubled between 1979 and 1980, and again between 1980 and 1981. In 1982, public investment increased marginally, by 4%, and in 1983 declined by 21%. The declining trend was only reversed from 1986-87. Therefore, the large project-based, centrally planned public investment boom lasted for two years.

[60] See Castel-Branco 1996 and 1994a, and, most importantly, Mackintosh 1987 and 1986 for a discussion of this process of accumulation.

[61] Castel-Branco 1996, Castel-Branco and Cramer (forthcoming), Mackintosh 1986 and Wuyts 1989.

business in manufacturing because of the complexity, risks and costs associated with the sector.[62] Thus, a simple move from planning to privatisation and liberalisation may not have, spontaneously, unleashed private entrepreneurial capabilities in manufacturing.

Second, Weiss referred that bureaucratic procedures and inept mechanisms of control of imports, exports and investment, unlimited financing of unviable projects and un-necessary rigidities in price formation had a much stronger impact in the economy than central planning itself. The basic point was that central planning was not very operational, but bureaucratic and inept management, partly inherited from colonial administration, was a serious problem. Therefore, inefficient public management, associated with limited capacities, motivation, experience and type of organization, may not be solved through liberalisation and may constitute a serious constraint for the liberalisation and privatisation of the economy. Besides, as argued by Cramer (2001), the World Bank and the Mozambican government seriously underestimated the difficulties to administer the complex system of reforms, in particular massive privatisation of public owned assets.

Third, because the Mozambican economy does not produce a large surplus, investment resources are scarce; this is not a creation of central planning, but part of the pattern of development of the Mozambican economy and its structure. Hence, when economic reforms started, the level of investment resources increased sharply because of direct action by donors and multilateral financial institutions combined with a very low level of capacity utilisation in Mozambique. However, as the economy recovered and the demand for investment resources increased, scarcities were again revealed and reinforced. This partly explains the cycles of boom and bust of the manufacturing sector prior to, and after economic reforms took place.

Weiss argued that industrial policy and protection, justified on the grounds of an infant economy, were necessary to allocate scarce surplus efficiently and mobilise more resources. He also emphasised the need to base strategic investment decisions upon cost-benefit analysis of the projects and rigorous performance targets for the supported firms and industries. In other words, the generation of more economic surplus needed to be an endogenous component of the development strategy.[63] The paper also argued that industrial policy should be based upon three pillars: (i) gradual modernisation of, and introduction of quality standards upon, a largely non-tradable sector that generates employment and produces for a low income segment of the market; (ii) increase in the manufacturing share of production of material

[62] Castel-Branco and Cramer (forthcoming), Haarlov 1997.

[63] See Doriye and Wuyts 1993 for a similar argument with respect to Tanzania.

inputs and capital goods that could be produced with the skill and capital available; and (iii) the development of an export oriented and import substitution industrial base that is competitive with international technology and standards.

In spite of its strengths, this paper faces three major problems. First, it avoided the discussion of agents beyond some general points, and therefore its suggestions for policy are not rooted in anything beyond linkages and institutions. This led to an oversimplification of the processes by which “one thing leads to another”, as the three-pillar industrial policy exemplifies. Second, it did not discuss the regional determinant of linkages and policy in Mozambique, as the region is seen more like an externality or shock, rather than a symbiotic part of the dynamics of capital accumulation in Mozambique. Third, the study recommended strategies for the manufacturing sector that were largely incompatible with core stabilisation and liberalisation policies, and yet it did not discuss how to address this incompatibility. By avoiding this issue, it eliminated the chances of being taken more seriously.

Haarlov (1997) wrote from the perspective of Southern African regional dynamics and integration. In addition to a general discussion of approaches to regional integration and cooperation, he focused on the relationships between trade and industry in Southern Africa, World Bank policies towards regional cooperation and the impact of national structural adjustment policies on industry, trade and prospect for the region. Mozambique provided the national case study of structural adjustment, with emphasis on the manufacturing sector.

He argued that World Bank policies affect the regional prospects of the Mozambican manufacturing sector in two ways. First, Bank officials in the field were not supportive of regional cooperation and integration and the related ongoing discussions of policy because they feared that trade would be diverted rather than created, and they supported nothing less than market and trade liberalisation.[64] Second, the Bank did not believe in promoted trade and industrialisation, nor in the Mozambican capability to do more than some semi-processing in low value end agro-industries (pp. 178). Under these policies, it was unlikely that

[64] This is so in spite of, and maybe because of, the ambiguous official position of the Bank with respect to regional integration and cooperation. World Bank 1989 is supportive of regional cooperation as a stage towards the world market; but World Bank 1991 is critical of regional cooperation and integration and argues for little less that integration of world, as opposed to regional, markets as a fundamental feature of trade liberalisation (Haarlov 1997). The Bank’s ambiguity and lack of support for the regional project, and pressures for further trade liberalisation are reflected in SADC 1999 and 1996 and ISP 1998 studies, which take trade liberalisation as granted and try to work around it with different suggestions of how industrial strategy can resolve the problems crated by trade liberalisation.

Mozambique's manufacturing sector would benefit from regional integration, without which the prospects of profound change in the structure and dynamics of the sector were limited.[65]

The study argued that this was particularly problematic for Mozambique because South Africa is Mozambique's largest single trading partner and source of foreign direct investment, and Mozambique's annual trade deficit vis-à-vis South Africa exceeds, by twofold, its total exports to South Africa.[66] Therefore, if regional integration did not become a process of creating new productive capacities to improve the position of the poorer economies, it would likely be confronted by lack of cooperation and even strong resistance from the state and other organised interest groups of each country.[67] Thus the prospects for regional integration and cooperation were dependent on the ability to develop and implement industrial policies and strategies that could bring everybody on board and correct regional economic imbalances. The Mozambican economy on its own could not support a complex process of industrialisation because the market is small, finances are donor dependent, firms face strong liquidity constraints and do not have the expertise and skill to upgrade quickly. The region, on the other hand, offered the possibility of regional vertical integration, cross investment, joint ventures and sub-contracting.

This relationship between manufacturing development in Mozambique and the region was simultaneously the strength and weakness of this study. The strength came from the significantly greater realism that the relationship between the national and regional processes

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[65] In more general terms, ISP 1998 argues that regional industrial strategy is a tool that could help to avoid entrapping specialisation of national economies in Southern Africa, which could result from trade liberalisation. The argument is that given differences in comparative advantages, trade liberalisation without industrial strategy could lead to South Africa specialising in high productivity industries and losing unskilled jobs as a result, and the remaining members states specialising in low value end industries and missing opportunities to upgrade their productive capacities.

[66] South African FDI to Mozambique is very concentrated in a few large industries for the domestic market (beer, soft-drinks, cereals and sugar), and a few mega projects associated with the minerals-energy complex for export generating little domestic linkages in the Mozambican economy. Thus, South African FDI in Mozambique may not necessarily contribute to narrow the trade gap between the two economies (Castel-Branco 2001).

[67] This point has been critical in three other studies, namely ISP 1998 and SADC 1999 and 1996. They consider industrialisation as a way to bring everybody on board because it resolves the intra-regional imbalances in industrial development, productivity, employment and wages; as a result, it coordinated industrialisation minimises the negative distributional impact of trade liberalisation. This is an interesting approach to regional industrial strategy and policy, because what it says is that given market imperfections associated with South African economic power and other intra-regional imbalances, an industrial policy is necessary to redistribute wealth and capital. In SADC 1999: pp 2, this point is clearly emphasised: "*SADC Trade Protocol (…) provides for the need to complement trade liberalisation programs in SADC countries with regional industrialisation policy in order to forestall potential polarisation effects as a result of trade imbalances amongst member states. In order to achieve this, there is need to encourage cross border corporate investments, such as sub-contracting and joint venture, linking enterprise sector partners from different member states.*"

of accumulation brought into policy analysis and definition of policy goals in Mozambique. The weakness resulted from three factors. The regional context was analysed mostly in terms of countries, with not enough attention being given to the analysis of corporate and labour interests and how they interact with each other, with policy formation and with socio-economic pressures they face. Thus, capital and labour strategies and interests were not part of the analysis of policy, apart from superficial reference in the context of nation-states.[68]

The relationships between Mozambique and the region were fundamentally treated as a matter of economic linkages – markets, technology, capital, expertise, trade, patterns of specialisation, vertical integration – with little analysis of how existing patterns of accumulation and interest groups influenced decisions taken about the linkages that actually have been materialised. In this connection, the Southern Africa region was perceived as a threat[69] and an opportunity,[70] rather than as a dynamic process of accumulation whereby linkages and agents interact to form specific patterns of development and division of labour. Thus, industrial policy became a tool to protect national interest and acquire national advantages with little consideration being given to the fact that industrial policy resulted from the interaction between governments, corporations and labour, none of which can be described as a country or nation. Roberts (2000) emphasised the importance of understanding policy formulation as part of a two-way interaction between government policy and corporate strategy in the restructuring of capitalism in South Africa, such that the power of largely international and globalizing corporations also forced the globalisation of policy in the sense that government and corporate policy and strategy were set in a global scenario.[71]

Finally, the integration of the region into policy analysis was restricted, in Haarlov (1997), to its institutional and formal context: SADC, regional cooperation and integration. However, irrespective of SADC and the existence of a formal regional integration project, the economies of the region form a system of capitalist accumulation that was historically constructed around the minerals and energy complex of South Africa and of the process by which capital organised access to migrant labour across the region. Mozambique's service

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[68] In SADC 1999 and 1996, ISP 1998, countries and the region are treated as individuals. Therefore, their argument about policy is very much about transferring wealth from one individual, South Africa, to the others such that a plain market field is created for successful trade liberalisation.

[69] That would result from entrapping specialisation and negative distributional impact of trade liberalisation, given very large intra-regional differences in income, productivity, wages, infrastructures and economic power.

[70] That results from potential linkages – access to capital, entrepreneurial capabilities, technology, skilled labour and markets.

[71] See, also, Fine 2001d and 1997b, and First 1989 for similar arguments.

economy is closely associated with this process.[72] The political organization, capacities and resources of the state have been used to organise this process of formal and informal integration, which has not been driven by "nations" but by forces of capital and labour operating with and through the state.[73] This critique does not mean that SADC is irrelevant, but that its dynamics are more adequately understood if the analysis is focused on the interaction between real agents and linkages rather than on countries and organizations alone.

4.4 Conclusions

This chapter argued that economic development and industrialisation in Mozambique are influenced and shaped by several major pressures, which are not adequately addressed by the studies about and policies for the manufacturing sector. This is because core economic programs prioritise stabilisation and liberalisation over growth and economic change. Also, most debates and lobbies concerning the manufacturing sector are focused on simplest forms of coordination, facilitation and incentives for aggregate capital accumulation with no concern for patterns and directions of industrial transformation. Finally, the state reacts defensively to different pressures and lobbies, thus preventing coherence in policy making. In other words, the manufacturing sector struggles to survive at any cost, rather than to change.

Orthodox studies of the manufacturing sector take macroeconomic stabilisation targets and economic liberalisation as given, and emphasise, in their policy recommendations, the need for further withdrawal of the state from economic strategy and management. Heterodox studies are far more complex in their analysis of the manufacturing sector, focusing on institutions, patterns of capital accumulation, development linkages and the influence of the Southern African region in the direction of development in Mozambique. However, most studies tend to discuss manufacturing in isolation of the rest of the economic patterns, avoid the discussion of how to integrate macroeconomic and sectoral strategies, and fail to analyse the dynamic relationships between agents and linkages and how they affect the opportunities, patterns and direction of development. The next chapter will discuss how these pressures and studies affect policy making in Mozambique, and whether official policies respond, in a coherent way, to such pressures.

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[72] See CEA 1979a, First 1983, O'Laughlin 1981 and Wuyts 1989, 1981 and 1980a.

[73] See, for example, CEA 1979a, Fine 1997b, Fine and Rustomjee 1996, and First 1983. An example of these points is the spatial development initiatives adopted by the South African government to expand South African type of capitalism in the region (MCC 1999 and ISP 1998).