Chapter 6

Conclusions

This chapter summarises and brings together the main conclusions of the thesis based upon the analysis of chapters 2 through 5. In addition, it explores possible directions and future conditions of policy. The first section presents the aim of the thesis and the analytical framework adopted. This section, thus, provides a research direction and methodology or, in other words, defines what main aspects should be investigated in the process of analysis, formulation and implementation of industrial policy. It argues that the more adequate analytical focus for understanding industrial policy is the dynamics of linkages, agents and their relationship. Furthermore, it is also argued that industrial policy, which is an intrinsic part of any process of industrialisation, no matter how successful, is better understood in the context of the analysis of the fundamental socio-economic processes that affect industrial development and performance. Thus, the analysis of industrial policy should go beyond the mainstream discussion of protection and subsidies directed at selected targets.

The second section presents the main conclusions for industrial policy analysis in Mozambique, as well as a very brief outline of future directions for research and perspectives. These include a critique of the more influential studies of the manufacturing sector, as well as of the official industrial policy documents. This critique is intended to develop new lines of thought, debate and policy action that take into consideration the real dynamics of economic and industrial development in Mozambique, and that articulate the various elements of policy around the achievement of goals of socio-economic development. Another set of conclusions is concerned with addressing critical issues in industrial development in Mozambique, namely those associated with the acquisition of industrial capabilities, finance and the Southern African context of industrialisation.

6.1 Aim and analytical framework of the thesis

The general aim of this thesis has been the application of the linkages-agents analytical framework to the study of the process of industrialisation in Mozambique. More specifically, the thesis has discussed the role of industrial policy in the Mozambican economy, and how to

address the task of developing coherent industrial policies and strategies that take into account the structural characteristics and the dynamic socio-economic pressures that shape industrial progress. Thus, rather than recommending specific policies the thesis has tried to identify the dynamics of industrial accumulation and its implications for industrial policy. In other words, the thesis has tried to explain how the Mozambican manufacturing sector functions within the economy as a whole, and why it functions as it does, so that policies can be based upon the understanding of the socio-economic relations and pressures that characterise the process of industrialisation in Mozambique.

The linkages-agents framework analyses socio-economic development processes by focusing upon the study of linkages, agents and the dynamic relationship between the two (see chapter 2). Linkages refer to the process by which one economic activity or pressure (for example, the creation of large and systematic domestic demand for a given imported consumer or investment good) leads to another activity or pressure (for example, substitution of imports by establishing local productive capacities). Agents are those who make, or not, linkages happen. Linkages may result directly from economic pressures or from strategy and planning. In either case, it is necessary that agents have the ability to anticipate the linkage opportunity and the entrepreneurial capacity (managerial, organizational and financial capacities) and political will to take advantage of the perceived opportunity.

This has all been well documented in the development literature, including the literature focused specifically on industrialisation and industrial policy. As discussed in chapter 2, most of this literature, despite the very wide variety of themes that it discusses, can be organised into the economics (or linkages) or the political (or agents) literature. The first, which takes agents for granted, is concerned with the analysis of how and which economic processes lead to new pressures and activities and in so doing generate growth and change. The second, which takes linkages for granted, is focused on the analysis of the agencies, namely market mechanisms, individuals, firms, and the state and other non-market institutions. Hirschman (1958 and 1981) discusses both agents and linkages and, in doing so, makes agencies and linkages to relate through a process by which pressures resulting from unbalanced growth necessarily result in agencies to develop and linkages to happen. He acknowledges that social structures may constraint the development of agencies and linkages but, in his work, agencies and linkages have no political and social content – they are either adequate or not, but do not involve social and economic interests. In his discussion of the relationship between linkages and agents, the latter become another linkage that emerges from developmental pressures, in line with his assumption that the demand for agencies resulting from the need to take advantage of linkages creates its supply.

The linkages-agents framework adopted in this thesis is different from the mainstream analysis of linkages and agents in various ways. First, it recognises the socio-economic and political context in which agents and linkages emerge and operate. Agencies reflect social interests, often conflicting and not necessarily coherently articulated, which may determine not only whether linkages are implemented but also the perception and definition of the important linkages to materialise and how to do it. Second, it introduces the analysis of the dynamic relationship between agents and linkages and how they influence each other. Therefore, this framework consists of three components: agents, linkages and their dynamic relationship. Third, it acknowledges that not only are agents and linkages dynamically related with each other, but also they cannot be adequately understood if studied separately. This means that agents are not, cannot and need not be autonomous from economic conditions and pressures, which in turn are not independent of social and political interests. This analysis also reveals the inadequacy of the "state versus markets" debates about public policy by showing that states work through markets and both states and markets are subject to similar socio-economic pressures and interests.

The adoption of this analytical framework is not the original contribution of this thesis. The fundamental basis of the framework is discussed in the literature and can be traced back as far as Marx's discussion of the symbiotic and dynamic relationship between productive forces and relations of production in the process of socio-economic and political change and development. A more applied and recent linkages-agents analysis in Fine and Rustomjee (1996) discusses the political economy of South African industrialisation (in which they also apply the method to the analysis of the South Korean experience of fast industrialisation). The original contribution of this thesis is to extend the application of this method to the analysis of industrialisation in Mozambique.

The linkages-agents framework has several major implications for policy analysis. First, it provides a research method to understand why the economy functions in a particular way through the analysis of the fundamental aspects of economic development, namely agents, linkages and their dynamic relationship. As a result, second, the framework does not have to take agents or linkages for granted as, on the contrary, it can and needs to explain them in relation to each other. Third, it puts policy analysis and advice in the context of the political and socio-economic forces and pressures that shape the process of development and, therefore, draws policy conclusions from the underlying political and economic relationships that govern specific processes of industrialisation. Thus, contrary to neo-classical and "developmental state" approaches, this thesis does not need to make claims about an inherent

superiority of markets or states in the process of development to analyse the relevance and effectiveness of industrial policy. The analysis of industrial policy involves research into how development goals, which reflects the relationship between interest groups and socio-economic pressures, are defined and implemented. Thus, in order to be effective and relevant industrial policy cannot be and does not need to be autonomous from interest groups and economic pressures, and has to be implemented through the market.

In addition to, and as a result of, the application of the general analytical framework, the thesis also argues that irrespective of its degree of coherence, industrial policy is an intrinsic part of any experience of industrialisation no matter how successful it is (see chapter 2). This results not from any inherently hypothetical comparative advantage or disadvantage of the state or markets, or from market imperfections, but from the fact that economic development affects and is affected by socio-economic structures and conditions of accumulation which, in turn, reflect interests of groups and agencies that act through and influence both governments and markets. Therefore, the relevant issue are not whether industrial policy should be adopted or whether it is, or can be, superior to markets, but who drives industrial policy, in which direction, how coherent it is with the goals of industrialisation and broader socio-economic development, and how efficiently it deals with existing socio-economic pressures and interests. This implies that there is no rationale for or against industrial policy outside specific political and socio-economic conditions and pressures. The thesis, therefore, focuses upon the research of the fundamental relationships that shape industrialisation in Mozambique and how they are influenced by, and influence, industrial policy, and avoids being trapped in an abstract attempt to demonstrate whether state policy or the market are more efficient.

The intrinsic role of industrial policy in any economic process is better understood through the analysis of the underlying political and economic processes involved in industrial development. This implies that the analysis of industrial policy needs to go beyond the level of protection of domestic markets and subsidisation of individual firms and activities, to include long-lasting state businesses relationships; allocation of property rights, control and competition regulation; the organization of finance; the interaction between the state and corporate strategy; industrial organization and vertical and horizontal relationships between firms and industries as part of general competitive conditions; investment codes; private sector development programs; labour market policies; technology policies; and other aspects of economic policy that affect directly the process of industrialisation.[1] Beyond general and

[1] See Aybar and Lapavitsas 2001, Amsden 2001, 1997 and 1992, Bayliss and Cramer 2001, Cramer 2001 and 1999, Fine 1998a, 1997a and 1997b, Fine and Rustomjee 1996, and Roberts 2000.

abstract concepts, the definition, content and role played by industrial policy depend fundamentally on the specific socio-economic context and the interests and pressures that act upon the state and the process of industrialisation.[2]

The thesis does not suggest that all policies should be classified as industrial policies as long as they have some, no matter how remote, impact on industrial development. However, the thesis suggests that policies adopted with the specific purpose of affecting industrial development, or that have a significant impact upon industrial performance, are better identified and understood when they are analysed within the context of capital accumulation and economic policy as a whole.

For example, it has been argued, by businesses and analysts alike, that in Mozambique there is no public industrial policy apart from reactive and fragmented measures that respond to conflicting pressures from different groups of capital (see chapter 4 and 5).[3] This argument is based upon the observation that official policy and specific government support to industry are not strategically based, are almost always determined by how strong the agents involved in individual industries are, and are not in line with the actual developments that occur in the economy as a whole, and the manufacturing sector in particular. However accurate this argument might be in describing the inadequacy of the official policies and actions of the government towards industry, it fails in two aspects. On the one hand, the argument seems to imply that "good" industrial policy does not result from pressure and influence exerted by different interest groups upon the state; in other words, the state would have to be "autonomous" from social interests, or "developmental", in order to formulate and implement adequate policies. This is a peculiar idea since what businesses are complaining about, when they criticise the defensive and reactive nature of state intervention, is that the state does not react equally well to all interest group pressures, including theirs. On the other hand, the argument does not explain why the state is defensive and reactive, and why it reacts differently to various industries, markets and industrial conditions. In this context, the argument misses three fundamental points.

First, the government has adopted legislation that sets principles and intentions of industrial policies and strategies. The fact that these policies and strategies are inadequate and largely irrelevant is not mainly a signal of absence of policy and strategy but rather an indication of other problems, such as: (i) the dominance of stabilisation and liberalisation policies,

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[2] See Fine and Rustomjee 1996.

[3] For example, GOM 2000d and 2000e, and interviews in Cometal-Mometal, Kanes and BCI.

particularly their impact upon finance and industrial organisation, and the inability of the state to coordinate intra- and inter-sectoral strategies and to respond strategically to the main economic pressures; (ii) the combination of the conflict between fractions of capital, economic pressures and the defensive response by the state; (iii) the pressure exerted by larger foreign corporations, which are also seen as alternatives sources of finance and industrial capabilities; (iv) conflicts between different fragments of the international, multilateral system of technical assistance – for example, UNIDO recommends interventionist public policies to support small and medium firms, and the World Bank and the IMF pressurise to keep the focus of policy on stabilisation and liberalisation; and (v) the huge limitations in the capabilities of the state. Thus, the issue is not whether there is a strategy or not, but whether the strategy responds to the major development processes and pressures.

Second, the content and direction, relevance and effectiveness of public policies and strategies have varied significantly between industries, largely because of: differences in industrial structures and dynamics; corporate organisation, strategy, and influence; conditions of competition; conditions in the labour market; economic importance of the industry; state's leverage in policy determination and sensitivity of the industry to state policy; capital and technology requirements; and sources of finance. In each industry, the state has responded to short-term industrial and other pressures. When the pressure from the industry is fragmented (as in the case of the cashew industry), the state's response may be inconsistent with the goal of industrial development, but is almost certainly consistent with the interest of the stronger interest group in the industry (in the cashew case, large traders) and short-term interests of accumulation. When the pressure from the industry is coordinated and strategic (such as in the cases of sugar and aluminium industries), the state's response is consistent with the development of that particular industry. However, policies adopted under these circumstances may be coherent with the conditions of a specific industry and/or interests of powerful interest group, but are unlikely to be consistent with each other and with the overall goal of industrialisation and development.

Third, the government's perception that industrialisation is a matter for the private sector has been pursued in a more or less consistent manner. Although this perception of the government reflects the dominant neo-liberal paradigm applied to economic policy reform in Mozambique, it does not mean that the government does not implement polices aimed at affecting, directly, the performance of industry. The dominant forms of effective industrial policy pursued by the state over the past decade have been privatisation of productive assets, financial liberalisation, labour market de-regulation, adoption of a liberal and very generous investment code that has been reinforced by the approval of FIZ legislation, and introduction

of liberal entry, exit and licensing legislation. It might be that these policies have not led to the achievement of the main goals established by the legislation on industrial policy. However, these policies have been coherent with the core economic stabilisation and liberalisation programme and reflect the pressures and interests that act upon the government and shape its political will and ability. This does not mean that there are no alternatives, but it rather emphasises that alternatives have to be drawn from the accurate understanding of the conditions of industrial accumulation and interests and pressures that influence policy. The critique of current industrial policies requires a more general critique of the process of economic development in Mozambique.

Besides, the goals defined by the legislation on industrial policy are inconsistent with the actual dynamics of economic and industrial accumulation. Real pressures that act upon actual practices of economic policy have played a far more important role in shaping industrial development than the official industrial policy documents, no matter how well intentioned they are. These documents are removed from reality, and therefore largely irrelevant, to the point that not even public officials, not to speak of private entrepreneurs, care much for what they say.

Thus, the issue is not whether the government has a strategy or not, but which strategy, how it is determined, how consistent and coherent it is, and how the socio-economic pressures and forces (agents, linkages and their dynamic relationship) are taken into consideration and incorporated into the framework of a development strategy. The merits of industrial policy cannot be evaluated only according to whether it selects specific firms and technologies for public support, or by its degree of neutrality with respect to factor intensity and trade orientation. More important are how the economy is organized to promote and nurture industrialisation, how industrial progress is shaped for the entire economy to benefit. This requires that industrial polices are internally coherent, and consistent with each other, with overall economic policy and with the goal of industrialisation. It also requires that industrial policy is not only formulated but that it is viable, credible, adopted, implemented and monitored, which needs account be taken of the different socio-economic pressures and interests that influence policy decisions and implementation, as well as of the practical details and data demands for adequate implementation, evaluation and learning.

6.2 Critical issues in industrial policy in Mozambique

This section summarises the main analytical and policy conclusions that have resulted from the study of the characteristics of the manufacturing sector in Mozambique (chapter 3) and of the recent experience of industrial policy (chapters 4 and 5). It also discusses possible future directions and conditions of industrialisation. The section is organised in five parts: a critical discussion of studies about the manufacturing sector; an assessment of official industrial policies in place; a discussion of the pattern of industrialisation and the role and limits of a FDI driven strategy; a summary of the main steps and issues to consider in the process of addressing the critical problems of industrialisation in Mozambique; and a brief discussion of future directions for research and speculative view into the future.

Approaches to the manufacturing sector in Mozambique

The analysis of industrialisation and industrial policy in Mozambique, particularly over the past decade, has been focused on linkages and has moved too easily into detailed policy recommendations, while paying very little attention to agencies, the dynamic relationship between agencies and linkages, and the overall economic context of industrialisation (see chapter 4). Most studies lack deep knowledge and understanding of the historical processes of economic and industrial development in Mozambique, of the pressures and forces that shape the manufacturing sector, and how the sector is integrated into the economy as a whole (see chapters 3, 4 and 5). Moreover, the main studies are often based upon very partial or short-term data and, therefore, fail to capture the dynamic characteristics of the manufacturing sector and how it relates with the economy as a whole.

The more influential of such studies are the World Bank trio and the UNIDO duo (see chapter 4). The World Bank studies attempt to make manufacturing growth and change not only consistent with, but also dependent upon, privatisation, liberalisation and stabilisation. Their policy conclusions, which are centred on the need for deeper and further liberalisation and privatisation, are often inconsistent with the data they present, are not supported by evidence or by a detailed analysis of the private sector and of how manufacturing and the economy as a whole work. Furthermore, their analytical framework is often based upon static and flawed methodologies, such as domestic resource cost (DRC), technical efficiency and total factor

productivity (TFP).[4] The UNIDO studies are focused on institutions and policies to nurture the development of infant industry based upon small and medium enterprises and domestic resources, without any serious discussion concerning the very entrepreneurship they expect to be supporting, nor an analysis about the implications of the policies they advocate for the dominant, core stabilisation and liberalisation economic programme. Both sets of studies also abstract from the impact of the dynamics of capitalist accumulation in Southern African, particularly in South Africa, upon the Mozambican economy. They refer to the region as a market opportunity and/or a threat, rather than as a process of accumulation that has the power to shape and reshape the patterns of development in Mozambique. Whether market or institution oriented, these studies are limited to the national dimension of policy, which is inadequate and contributes to making policy irrelevant for dealing with the real dynamics of investment, growth and change, particularly when these are so closely associated with regional economic processes and inflows of FDI. In brief, the mainstream studies of the manufacturing sector in Mozambique are based on inadequate analytical frameworks and, although influential, provide ill advice to public policy.

The linkages-agents framework has allowed for a different type of approach to the manufacturing sector. By drawing conclusions for industrial policy from the underlying relationships and characteristics of industrialisation in Mozambique, the thesis has argued that industrial policy should be developed in such a way as to utilise the knowledge about the existing socio-economic characteristics, pressures, forces and conflicts in order to influence the direction of industrialisation, and the shape of the relationship between agents and linkages, the state and the market and the manufacturing sector and the economy as a whole. Therefore, the policy conclusions in this chapter are based upon the characteristics of, and pressures that act upon, the manufacturing sector in Mozambique, which are discussed in chapters 3, 4 and 5.

Official policy, industrial conditions and policy disarticulations

The official, general industrial policy legislation reflects the conflicting and inadequate lines of thought mentioned above. On the one hand, the legislation prioritises the development of domestically owned, small and medium private enterprises, emphasises the importance of diversification of production and exports, and refers the need of import substitution of

[4] See Chapter 4 for a critique of these methodologies and for the inconsistency of the results and interpretations that arise in this type of analysis.

intermediate and capital goods and use of natural resources. On the other hand, in the legislation it is defined that the implementation of industrial policy is a matter for the private sector, and no implementation and monitoring mechanisms are established. The role of the state is to facilitate and not interfere with private sector decisions, in practice being restricted to announcing what the state wishes would happen. Therefore, the objectives and targets defined in the legislation would be implemented if the private sector (not well defined, let alone discussed) so decides.

Industrial policy legislation has also been drafted and/or approved for individual industries, namely sugar, textiles and paper.[5] The legislation for textiles and paper industries are copies of the general legislation and operate within the same principles and limitations. Therefore, there has not been any significant progress in implementation. The policy legislation for the sugar industry differs from the previous ones in that it is based upon an analysis of the conditions for industrial rehabilitation, takes into consideration the competitive conditions in the industry, and responds to direct demands of private investors. Apart from ideological opposition by the World Bank and the IMF, and difficulties in controlling smuggling of cheaper sugar from neighbouring countries, there have not been other very significant obstacles to implementing the sugar policy.

With respect to sugar, the state has mainly performed static coordination, namely: coordinating competing investment, production and exports; helping the development of an association of sugar producers that is replacing the state as the coordination mechanism; transforming static private investors' demands (for instance, the sugar price policy) into legislation; and participating in the negotiation of the sugar regime within SADC. This industry has an oligopolistic structure, and is dominated by international sugar corporations that compete for market power in the Southern African region but are willing to cooperate at national level once investment decisions have been made. These characteristics of the industry have been key elements in guaranteeing that the sugar industrial policy is consistent with the interests of private investors.

Given the way the state operates in the economy at the moment, the coherence of its policies depends very strongly upon the power and coherence of private sector interests at industry level. This was demonstrated by comparing the different fates of the sugar and cashew

[5] By the time research for this thesis was concluded, attempts were being initiated to produce industrial policy legislation for the cashew and the cooking oil industries. A detailed study of the cashew sector was under way, but no fundamental strategies had yet been developed or implemented. Meanwhile, the cashew processing industry collapsed and the cooking oil industry was on the verge of not being able to restart production.

industries (chapter 5) – the fragmented private sector interests in the cashew industry were associated with very incoherent policies from the point of view of the industry as a whole; as opposed to the conditions in the sugar industry.

On the other hand, the fundamental forces and processes that are shaping significant segments and the whole structure of the manufacturing sector in Mozambique are not even discussed or mentioned in the official industrial policy documents. The most evident of these forces and processes is the increasingly dominant role of FDI, mega projects and impact of restructuring and expansion of South African capitalism upon the structure and dynamics of manufacturing in Mozambique (see chapters 3, 4 and 5).

Finally, many fundamental elements of active public policy with direct and substantial impact on industry are not integrated in, or made consistent with, official industrial policy documents. Amongst others, these elements include investment codes and incentives, free industrial zone (FIZ) norms and incentives, legislation that govern the establishment and licensing of businesses, patents, standards and metrology, research, organisation of the financial system, management of trade negotiations, as well as labour and industrial relations legislation. There is a high degree of disarticulation between these activities and the goals and priorities defined in industrial policy documents. This is due to several factors, the most important of which seem to be: (i) the fact that official industrial policy is way out of line with reality; (ii) the impact of adoption of liberalisation as a panacea; (iii) institutional capability constraints that partly result from the marginalization of industrial strategy and policy in economic policy making; and (iv) the different pressures and interest groups that act upon different government departments and contribute to increase policy fragmentation.

Patterns of industrial development and FDI in Mozambique

This section focuses on two fundamental characteristics of the development of the manufacturing sector in Mozambique – its increasingly narrow specialisation and long-term instability; and the weight that FDI is acquiring as one of the dominant forces shaping the pattern of development of manufacturing. Apart from the fact that these two issues have emerged very clearly from the evidence presented in chapters 3 and the debates in chapters 4 and 5, they also capture the fundamental dynamics of the pattern of economic growth and industrialisation in Mozambique. These two issues are also an effective and more focused way of discussing the major themes in industrial policy in Mozambique, namely linkages,

domestic private sector development, market structure and competitive conditions, corporate capabilities and strategies, incentives and finance.

Narrow specialisation, long-term sustainability of industrial growth and FDI

The output and exports of the existing manufacturing sector are narrowly specialised and very unstable. These two characteristics are linked in two ways. On the one hand, narrow specialisation increases the chances of boom and bust in output and exports because of the reduced ability to even out businesses and product cycles. It also minimises the opportunities for innovation and acquisition of competitive capabilities, particularly when output and exports are concentrated in low value end industries and semi-processing of primary products for export, which restricts the possibilities of sustaining periods of positive growth. In this connection, narrow specialisation increases the vulnerability of the entire economy to variations in economic conditions of particular industries, and also increases the volatility of exports earnings. On the other hand, narrow specialisation is associated with weak intra- and inter-industrial linkages and high import dependence of production, such that expansion of output results in unsustainable (in the absence of foreign aid) balance of payment pressures that lead to periodic and significant downward adjustments of the level of output and employment. Thus, industrial policy in Mozambique has to address the problem of narrow specialisation and long-term sustainability of industrial growth and transformation.

Current industrial policy documents refer to these problems but say very little about how to solve them, apart from suggesting that implementation of policy is a matter for the private sector. The documents do not discuss why the private sector has not addressed these problems, apart from implying that the business environment needs to be still more liberalised, and red tape eliminated. However, the evidence, which is not discussed in the mainstream studies and policy documents, shows that liberalisation has not helped to reduce import dependence of production or to diversify investment, output and exports (chapter 3). Besides, liberalisation could only have helped diversification and strengthening of economic linkages if: (i) narrow specialisation and weak linkages were the result of market imperfections created by repressed markets; and (ii) liberalisation was to lead to perfectly competitive markets. Because none of these two conditions holds, liberalisation has reinforced the dominant economic dynamics rather than change it (see chapters 3, 4 and 5).

Increasingly narrow specialisation of production and exports cannot be argued to be the result of improved market driven efficiency in resource allocation. With the exception of sugar,

industrial output and investment are concentrated in industries that are not particularly labour intensive relative to other industries in Mozambique, or resource based. Biggs, Nasir and Fisman (1999), one of the World Bank studies, argue that the industries around which output and investment are becoming increasingly concentrated are not the ones with relatively higher technical efficiency and/or facing better market opportunities (see discussion in chapter 4).

Businesses have indicated that lack of access to cheap investment and trade related finance, unfair competition and low level and volatility of demand are the most important problems faced by small and medium, domestically owned firms. These problems, which constrain the ability to acquire new industrial capabilities and diversify the production and export base of manufacturing, have partially been created or reinforced by liberalisation of the financial system and goods markets (Biggs, Nasir and Fisman 1999).

On the other hand, foreign owned and large firms, which have market power and privileged access to finance, argue that their major problems are poor provision of industrial services and infra-structures, red tape and the need to ensure that a basically non-interventionist government (made to be so through liberalisation) is responsive to business demands.

The evidence suggests that the direction of industrial policy in Mozambique – with its focus on privatisation, liberalisation, investment incentives and FIZ code – is more in line with the needs and demands of foreign corporations than with the conditions for the development of a linked industrial network in the domestic economy. The facts that international firms are more powerful, have stronger connections with the financial world (including international, multilateral financial institutions) and exert more influence upon the host government may partly explain the direction of industrial policy.

However, there are other, at least equally important, factors at play. One is the overall direction of the economy which, in addition to being dominated by stabilisation and liberalisation programs inspired by the Washington consensus, has combined with the low surplus and levels of skill and worn out capital stock to create two fundamental pressures for manufacturing development: (i) the need to cheapen investment and trade related finance; and (ii) acquisition of industrial capabilities – production skills, technology, ability to adapt and innovate, managerial capabilities, access to markets, etc. (chapters 3 through 5). A simple increase in aid inflows would, at best, address the issue of finance if aid were made available for financing industrial programmes and strategies. However, industrial capabilities result from industrial experience, as well as education and training. FDI inflows seem to be an alternative that addresses both problems by bringing finance for investment and industrial

capabilities, which come together with foreign corporations and investment. Moreover, most FDI projects are not dependent upon significant financial support from the Mozambican government. Also, they either do not need protection (or other "anti-liberalisation" type of policies),[6] or can argue for protection on the basis of world market imperfections directly with the major multilateral organisations without necessarily compromising the official, pro-Washington consensus position of the Mozambican government.[7] Therefore, FDI not only seems to solve the financial and capabilities constraints, but also seems to be compatible with liberalisation and stabilisation policies and, when it is not, foreign corporations are strong enough to negotiate specific agreements within the overall program.

Another factor that explains the direction of industrial policy is the integration of Mozambique within the area of influence of South African capitalism. Most FDI inflows in Mozambique are derived from, or associated with, the expansion of dominant capitalist interests in the region – these are, for example, the cases of the minerals-energy complex, sugar, cereal milling and beverages. In essence, regional economic dynamics have been adjusted to incorporate significantly less migrant labour and significantly more FDI. A finance and capability starved economy, like the Mozambican, would try to benefit from this change in regional economic dynamics.

The financial system in Mozambique discriminates in favour of large projects with market power and access to finance elsewhere, because these projects are more likely to succeed and generate positive financial returns. Even if they do not succeed, these projects are more likely to be rescued by foreign banks and being covered by international insurance schemes.

How adequate is the FDI driven growth strategy?

The pertinent question now is whether a FDI driven growth strategy in Mozambique is likely to successfully address the problems of narrow specialisation, weak linkages, import dependence of production and long-term sustainability of fast industrial growth and diversification. Empirical evidence, presented and discussed in chapter 3, shows that inflows of FDI to Mozambique have been largely narrowly focused – 94% of FDI inflows into manufacturing have been allocated to Mozal and Motraco (more than four fifths), sugar, cement, beer, soft drinks, cereal milling and textiles. With the exception of sugar and cement,

[6] For example, Mozal, steel and iron.

[7] For example, sugar, beer, soft drinks.

which are supplied with cane sugar and some of the basic minerals, respectively, from domestic sources, these industries are heavily dependent upon imports of material inputs. With the exception of Mozal, which exports all of its output, the remaining industries listed produce mainly for the domestic market. With the exception of Mozal, with its considerable positive net contribution to the balance of trade, and Motraco, which supplies energy to Mozal, the industries mentioned have not developed particularly strong positive links within the Mozambican economy, even though sugar and cement have also been utilised by other industries as inputs.

A case-by-case analysis of each FDI driven project would reveal a wide variety of characteristics.[8] However, it can be safely concluded that on the whole the bulk of FDI projects is concentrated in low value added, end product industries, has not helped diversification and import substitution in the sense of linkages developing from final consumer goods into intermediate and capital goods, diversified and better quality goods, industrial services, etc. As a result, FDI has not intensified intra- and inter-industry linkages nor reduced import dependence of manufacturing production.

It should be noticed, however, that Mozal is making a significant contribution to exports and to reducing the huge trade balance deficit (see discussion in chapter 5 and tables 5.5 and 5.6). Other mega projects of the same type, in the pipeline,[9] may have a similar impact. Thus, FDI driven mega projects may be an alternative to increase exports quickly and help to sustain industrial development.

However, concerning exports there are three fundamental problems with the mega project strategy. First, exports may increase very quickly but they will also become even more narrowly based. On its own, operating at close to full capacity, Mozal (aluminium) will generate approximately two thirds of Mozambique's total exports of goods, and five sixths of

[8] For example, Salvador Caetano, a subsidiary of a Portuguese group, is a plant established and expanded over the past decade. It assembles motor vehicles for the domestic market and exports to neighbouring countries as well. The parent company is considering moving part of the business to South Africa because this market is significantly larger and South African based firms enjoy huge scale and industrial policy related advantages. Despite the fact that this company introduced some diversification into the manufacturing sector in Mozambique, it is too small to make a significant difference. Metal engineering, which incorporates motor vehicles industries, has received less than 3% of FDI and approximately 5% of total investment in manufacturing over the past decade, and its share of MVA and manufacturing exports is small and declining.

[9] For example, Maputo Iron and Steel Project (valued at US$ 2 billion); Sands corridor (heavy sands to produce metals of the platinum group, valued at US$ 1.4 billion); Pande, Temane and Beira natural gas reserves and refinery (valued at over US$ 2 billion). All of these projects are associated with the minerals-energy complex of South Africa.

manufacturing exports. Thus, the sustainability of economic and industrial expansion may come to rely upon what happens in the world aluminium market, in particular the Asian car industry, which will make the Mozambican economy highly vulnerable to changes in the world economy that affect the demand of one product, aluminium. Second, high fixed costs and economies of scale associated with Mozal and other mega projects do not allow for easy adjustment of output according to changes in demand without generating job losses and significant reductions in export earnings. Third, very large, international corporations, such as Billiton and Mitsubishi (the two major partners in Mozal), follow worldwide, rather than national, corporate strategies. Billiton, for example, is the world's largest aluminium producer and owns alumina mines and smelters all over the world. The decisions this corporation takes about closing down mines and smelters, expanding production, prices and markets, vertical integration, horizontal diversification, research, innovation, etc, reflect their capabilities and corporate strategies; strategic behaviour of competitors, countries of origin and host countries; as well as global economic conditions. Such decisions may have little to do with what individual host economies expect and need, and yet they have strong impact on those economies and are taken by corporations that may hold significant economic power and political influence in host countries. Thus, the long-term prospects of a FDI driven export strategy depend upon agencies, capabilities, strategies and conditions largely situated outside government influence and not necessarily determined by national characteristics.

There are other problems with a FDI driven growth strategy in Mozambique. First, such strategy may not be sustainable in the medium and long run because FDI inflows may start to slow down. Southern Africa is a very marginal location for FDI from outside the region, and evidence shows that the FDI boom of the mid 1990s has run out of steam. Downward adjustments in FDI inflows to developing countries are affecting LDCs more severely than other countries.[10] FDI inflows into Mozambique are mainly determined by, or associated with, South African corporations and groups, and their capabilities and strategies. These corporations and groups operate in partnership with investors from outside the region, which often finance most of the investment. The intention of South African based corporations to globalise makes them more sensitive to what happens in the global economy. Therefore, it is likely that the global pattern of South African FDI outflows is increasingly influenced by the global FDI pattern. This may imply that some of the pipeline mega projects may not be

[10] See, for example, UNCTAD 2001, 2000a, 1999a and 1999d for data on the evolution of FDI inflows. The argument from these publications is that the slow down of inflows of FDI to LDCs, more pronounced than to other regions, is explained by the conclusion of the process of privatisation of large corporations, as well as uncompetitive infrastructure and human capital, overall lower production efficiency and labour productivity, small markets, institutional inefficiency and shortage of adequate local partners and investment opportunities.

implemented. In addition to slow down of FDI inflows, the absorptive capacity of the Mozambican economy is very limited – as a matter of comparison, the total sum of expected investment associated with recently implemented and pipeline projects for the next five years is more than two times larger than current Mozambique's GDP.

Second, the FDI dependent strategy has concentrated financial resources around FDI driven projects. Although most of these projects obtain their finance from the parent firm or international financial institutions, they have attracted most of the resources made available by other sources of investment finance, DDI and loans. DDI associated with FDI is mainly from large public utilities, government and one large private firm, Coca-Cola. Therefore, although three quarters of DDI are invested in FDI driven projects, the links between foreign and domestic private investors are very weak. This allocation of financial resources is explained not only by the power of FDI projects but also by the interests of the financial system. The fact that only 19% of total investment approved in the past decade has been applied in non-FDI projects indicates how limited the opportunities and capabilities are to broaden the productive base of the Mozambican economy.

Third, FDI driven projects, with the exception of sugar, have been generally not labour intensive. In Mozal, for example, the initial capital costs per direct job is 20 times more expensive than the average for the manufacturing industry. This project has absorbed about 47% of total investment and less than 2% of labour in manufacture. In all other major FDI projects, the initial investment strategy has involved modernisation and labour rationalisation, because these projects have to acquire competitive advantages and capabilities well above the average level of the Mozambican industrial firm. Here, the point made is not that FDI should be more (or less) labour intensive, but that to address the growing unemployment crisis in Mozambique a much broader development strategy, relative to what is on offer, is required.

Fourth, the potentially positive role played by FDI depends not only on the amount of FDI inflows, but also on a series of other factors. These are: (i) investment complementarities with domestic firms, such that gross investment increases not only by the amount of FDI but also by the amount of domestic investment encouraged by the presence of FDI projects; (ii) linkages with domestic firms, which is one of the basic condition for investment complementarities to occur on a systematic basis; (iii) increase in export revenue beyond what domestic and other established firms would be capable of doing, which is another condition for investment complementarities; (iv) introduction of new technologies, capabilities and industries, or improvement of existing activities beyond what could have been done in the absence of FDI; (v) minimisation of entry in already competitive industries in order to avoid

displacement of existing businesses and jobs; (vi) provision of finance and industrial capabilities not available without FDI.[11] Each of these factors depends not only on what foreign firms do, but also on the established capabilities in the economy. Furthermore, FDI's contribution to innovation and productivity growth is usually internalised by FDI driven projects – the firm or industry developed through FDI may benefit from innovation via productivity increases but this may not be passed on to other firms in the economy unless strong vertical and horizontal linkages are developed. Thus, the development of domestic capabilities over and above what FDI may do is crucial to maximise FDI's contribution to economic growth and transformation. This means that FDI cannot be used as a substitute for a broader development strategy and action, but should rather be part of it.

Finally, to attract FDI the Mozambican government has introduced an extremely generous and liberal investment code, which has been reinforced by the FIZ legislation (see chapters 4 and 5). The code is implemented irrespective of market conditions, and capabilities and strategies of participating foreign corporations. Mozambican officials believe that inflows of FDI are mainly associated with the degree of incentives, despite strong evidence that FDI has been essentially driven by the capabilities and strategies of the investing corporations and often benefits from incentives given by the country of origin. Thus, investment incentives may be unnecessarily expensive for the Mozambican economy, so that it renders FDI excessively costly and minimises its net positive contribution.

This section has attempted to emphasise the limits of an FDI driven growth strategy and to explain why it may not be sustainable and effective in the absence of a broader and coherent development strategy. The main critique regards the fact that policies and government practice seem to be more concerned with attracting larger amounts of FDI than with the social costs and structural and dynamic impact of FDI. The section has not denied the important role FDI may be able to play in the development strategy, particularly because of strong industrial capability and financial constraints faced by the Mozambican economy. Moreover, given Mozambique's integration in the area of economic influence of South African capitalism, it is very likely that the shape, pace and direction of development of the Mozambican manufacturing industry (and economy as a whole) would be strongly influenced by the operation of international corporations in the region (South African based or associated with South African corporations) irrespective of Mozambique's degree of openness to FDI. Thus,

[11] See, for example, Agosin and Mayer 2000, Aitken and Harrison 1999, Borensztein, Gregório and Lee 1995, Chang 1998b, Chuang and Lin 1999, Weiss 1980.

the issue is not whether FDI has a central role to play, but how to maximise the net socio-economic benefits of FDI in the process of industrialisation.

It is understandable that the Mozambican authorities would prefer unguided and narrowly focused FDI to no investment at all. It is also clear that Mozambique cannot wait until a perfect development strategy is developed before it starts accepting FDI. Besides, since this thesis argues that strategies and policies emerge from the underlying socio-economic processes and relationships that exist, it does not make sense to think about a stable and perfect strategy in isolation of the different problems to be solved and influential forces. However, the question remains that the positive role played by FDI depends on how it helps to increase investment rather than substitute for, or displace it; create new capabilities; diversify the production and export basis and strengthen the links in the economy, within the context of regional economic dynamics.

Addressing critical issues in industrial policy and industrialisation

This section is concerned with the fundamental issues to address in the development and implementation of industrial policies in Mozambique. It is organised into four parts: propositions, role of industrial policy, directions in industrial policy and final considerations.

Propositions for industrial policy

There are three initial propositions that play a central role in the process of developing and implementing relevant industrial policies and strategies. The first proposition is that given the current dynamics of the Mozambican economy, economic and industrial expansion and economic stability are not consistent with each other. As a result, economic expansion is not sustainable and stabilisation is growth constraining, unless significant increases in aid inflows take place.

The second proposition, which is closely related with the first, is that the dynamics and direction of growth, not only the rate of growth, matter for sustainability and long term socio-economic development. Therefore, the process of resource mobilisation, the allocation of investment and the coherence with which investment strategies are developed and coordinated are important determinants of long-term growth patterns and prospects.

The third proposition is that the dynamics and direction of growth, including public policy and strategy, are strongly influenced by economic conditions, capabilities, interests and strategies of agents, and the dynamic relationship between economic conditions and agents. Therefore, public policy is not the only influence acting upon the development of industry, nor is it autonomous from other sources of influence as the same forces and pressures that act upon the market influence public policy. To be relevant, public policy has to be related with, and be able to coherently and strategically respond to, those forces and pressures, rather than autonomously designed by a team of efficient technocrats.

Once these propositions are acknowledged,[12] the relevance and role of industrial policy begin to be revealed.

Role of industrial policy

The analysis suggests that the general role of industrial policy and strategy is to guarantee that the knowledge of the economic and competitive conditions, the negotiation between different interests and intended strategies, and the mobilisation of different capabilities and resources, combine to result in coherent development goals and industrial and investment decisions and actions, which are consistent with the overall goal of rapid and sustainable industrialisation of the Mozambican economy.

More specifically, industrial policy and strategies may help to achieve several concrete objectives. First, they may help to mobilise resources in the domestic economy by providing clear targets, enhancing the viability of investment projects and providing incentives for commercial banks to participate collectively in the financing of a broader development strategy. Second, they may help to maximise the economic benefits from FDI, namely by promoting exports and setting priorities for the productive investment of trade gains accruing to the economy, as well as by intensifying the links between FDI projects and the rest of the economy. Public policy and strategies may provide the framework that helps to choose the FDI projects that are desirable for the economy, to select the projects that should develop through joint ventures, technical assistance or should be allowed to develop on their own, and to identify how to make potential positive externalities from FDI (like indirect job creation, multiplier effect on domestic investment, etc.) materialise.

[12] See data and debates in chapters 3, 4 and 5 for the derivation of these propositions.

Third, industrial policies and strategies may also work as a device to coordinate a wide range of policies and policy instruments that have significant and direct impact upon industrial performance, and to make them consistent with defined development goals. In the case of Mozambique, these include the investment incentives code, legislation on FIZ, licensing and establishment of businesses, standards and metrology, patenting, export promotion activities, regional trade negotiations, local industry support programs, private sector development programs, legislation concerning the labour market and industrial relations, training, special funds for industrial development, general financing of investment and other industrial support services and activities. At the moment, these different policies, instruments of policy and activities are developed in a fragmented and uncoordinated way – each one follows its own priorities and direction depending on the pressures that act upon the respective agencies and how much aid or multilateral support they receive (see chapter 4). However, they form part of a network of agencies, policies and activities that constitute the fundamental building blocks of an active industrial policy.

Fourth, industrial policy may be a catalyst for improving government capabilities, efficiency and coordination, and to overcome the burden of fragmented tutelage of different industries.

In this connection, fifth, industrial policy and strategies could be a dynamic factor that accelerates capacity building through training, experience, monitoring and evaluation and establishment of information systems that provide the data necessary for improving the process and quality of policy making.

Sixth, industrial policy and strategies may also perform a fundamental role in helping to coordinate inter-industry and inter-sectoral strategies that help to maximise existing and new industrial capabilities. For example, the agricultural strategic program and/or a large rehabilitation program for an industry may be coordinated in such a way as to maximise domestic linkages that may trigger or support the rehabilitation and development of other industries. Such coordination would involve not only input-output linkages but also investment complementarities.

Seventh, industrial policy and strategies could also help to minimise rent seeking, reduce the defensive character of state intervention and facilitate and guide the negotiation of contracts with investors.

Directions in industrial policy

The analysis of the characteristics and patterns of industrial development in Mozambique calls attention to the fact that rapid and sustainable, long-term industrialisation requires not only inter- and intra-industry horizontal diversification, but it mainly demands a process that explicitly substitutes imports through linkages and increases exports (see chapter 3). The evidence suggests that if investment decisions do not prioritise efficient import substitution through and export growth, the long run prospects of industrial growth would be jeopardised by short run macroeconomic pressures. Import substitution is also required to diversify the export base (see debate in chapter 2).

There are different ways and activities through which import substitution and export growth can be pursued. It is important to collect and analyse data, on a systematic basis, about external trade, existing industrial capabilities, prospects for, and characteristics of, large investment projects (associated with sectoral or industry strategies, or individual mega projects), existing competing firms in the region and their standards (level of output, quality, costs, reliability, finance, incentives, etc.). These data could provide information about opportunities for import substitution and the standards that have to be achieved, as well as short term opportunities for export growth. It should be noted, however, that export incentives in the short run operate at the margin – only when productive capacities expand and diversify, and standards improve significantly will it be possible to expand and diversify exports rapidly and in a sustainable way. Efficient import substitution and export performance are associated.

Other agencies, policies and activities can be called upon and coordinated through industrial policy to help to achieve efficient import substitution and faster export growth. FDI may be encouraged to invest mainly in exporting industries, or in industries that provide quality and cheap inputs and technology for exporting industries. Export and other trade related financial arrangements could be negotiated with the banking system to help expand and diversify exports in a sustainable way and encourage investment in new capabilities that strengthen linkages and substitute imports. Special funds can be created to facilitate export operations in an automatic basis. Incentives could be used to discriminate between degrees of priority in resource allocation and impose standards and performance targets. Quality, standards, metrology and certification would have to be a central component of the policy and strategies and requirement for licensing. The performance and relevance of private sector development programmes could be significantly improved if the support is focused according to policy and strategies of industrial development, rather than based on loose criteria and entirely on what individual firms may be capable of doing. Research agencies and capabilities could also be

called upon to accelerate and support technological change and development of the productive capacities. Business networks and associations could be helped to develop in order to improve the quality of strategy and management, reinforce standards, minimise information asymmetries, and look for, and negotiate with, potential foreign, mainly regional, partners that may be able to bring new finance and industrial capabilities and experience.

Considerations about industrial policy in Mozambique

The formulation and implementation of industrial policy is also a process of capacity building. In Mozambique, the capabilities of public institutions in charge of industrial policy formulation are low, partly because there is no significant and relevant experience of industrial policy. Therefore, it is important to balance the degree of pressure that such agencies can take – on the one hand their capabilities are limited, but on the other hand it is only through experience that their capabilities could improve significantly. There are various ways in which this problem could be addressed. Perhaps focusing on a small set of issues at a time might be one of the more practical solutions. For example, MIC could try to identify all actual and potential, established and occasional exporters of manufacturing good, assess what is necessary to do to improve their export performance, and negotiate, with the banking system, the establishment of special support funds for exporters. MIC could also coordinate with CPI, INNOQ and the banking system, and re-direct the private sector development programs to develop and implement a strategy to rapidly upgrade domestic firms that may be able to supply Mozal and other mega projects with inputs, or to develop a selective import substitution strategy to take advantage of opportunities identified through the analysis of external trade. Given the standards required by Mozal and the fact that all of its output is exported, linkages with this corporation would qualify as import substitution (thus increasing the positive net contribution of Mozal to the balance of trade) and export growth. These are only examples of ways of starting to build industrial policy capabilities. They do not cover everything and do not add up to a complete vision and strategy for industrial development. However, they are a starting point to achieve some results, create capabilities and increase the confidence of the organizations and personnel involved.

No matter what the state does to begin its industrial policy project, there are several issues that have to be addressed. The first is the development of a database system and capabilities to collect and analyse information that is necessary to formulate, implement and monitor industrial policy, and evaluate and guide the patterns of industrialisation. These would involve not only periodical and static industrial surveys and census, but also continuous

collection and analysis of data about patterns of production, trade and investment, financing of investment, existing capabilities, technology development, ownership and competitive conditions, impact on the trade balance, industrial relations and labour market dynamics, etc. Above all, it is necessary to know what is going on in each industry and in the manufacturing sector as a whole, because this knowledge forms the basis for industrial policy. Information collection and analysis should also be extended to the region, international corporations operating in the region and worldwide economic and technological conditions in each industry. For public policy to play any relevant role in promoting economic and industrial development, the state cannot be blinded by ignorance due to lack of data.

The development of the ability to produce and use data at this level will take time, as capabilities have to be created, information systems constructed, sources identified, civil servants have to learn how to collect and use the data, management mechanisms have to be developed that take decisions based on the best information available rather than only on individual wish or instinct. Data work must serve an analytical and/or policy purpose, and has to be at the very top of the priorities in the construction of policy capabilities.

Second, it is important to coordinate the various agencies, polices and activities that have a significant role to play with respect to industrial performance. This does not have to involve the construction of a super-bureaucracy. Most important is the coordination of approaches, objectives and priorities around the central goals of industrial policy. In this connection, it is also important to revise the mechanism of tutelage of different sectors by government departments, which was inherited from bureaucratic planning and fundamentally reinforces the fragmentation of policy and state activity.

Third, it should be acknowledge that there are very significant differences between the various regions of the country with respect to industrial opportunities. These differences are influenced by the state of the infrastructure, established productive and services capabilities and the size, integration and competitive conditions of local markets. They are also strongly determined by the economic dynamics in Southern Africa. Nacala and Beira corridors (mainly associated with Malawi and Zimbabwe) are far less dynamic than Maputo corridor (mainly associated with South Africa). Most FDI accruing to Mozambique is intra-regional rather than flowing from outside Southern Africa; hence, Maputo is much more likely to benefit from large investment projects than any of the other provinces because of the influence of South Africa. Access to finance, import and export markets provided by the South African economy (which is larger than the rest of Southern Africa put together) are very important for Mozambican industries; but significantly more difficult and expensive for industries located

in the Centre and North of the country. Therefore, the pressures, needs and opportunities faced by industries and firms differ significantly also according to territorial location. These differences, which should be considered in industrial policy, have long-term influence in the pattern of industrial and regional development and differentiation.

Fourth, industrial policy also has to address the issue of finance on a systematic way to be able to act as a catalyst of resource mobilisation. Banks are more likely to finance investment if the viability of the projects is enhanced through policy, if there are clear priorities for investment and simple but effective and relevant performance targets and standards, and if development strategies of firms and industries are oriented at the modernisation of their capabilities rather than simple rehabilitation of existing, outdated and worn-out capital stock, technology and methods of production and management.[13] A viable and credible growth strategy is likely to attract the interest of the financial system.[14]

Fifth, industrial policies, to be relevant and viable, have to take into consideration the conditions of different industries and the capabilities and strategies of the firms. On the one hand, polices and strategies operate through the market and are influenced by, and should address, the pressures that act upon the market. It is not enough to react defensively to private sector lobbies, as this makes policy entirely dependent upon how strong the lobbies are.[15] It is important that competitive conditions, industrial capabilities, access to finance and trade opportunities are properly assessed to provide the basis for policy. On the other hand, investment and other decisions by firms depend strongly on their capabilities, the competitive conditions they face and their strategies. Thus, in order to influence corporate decisions positively, industrial policies and strategies should also be based upon as much knowledge as possible about the participating corporations and potential investors. Incentives and other aspects of policy may be made redundant and socially costly by inadequate evaluation and knowledge about corporations and industries.[16]

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[13] See GOM 2000e. The same point of view was discussed in an interview with Manuel Figueira (BCI).

[14] See Harris 1997.

[15] See the comparative study of cashew and sugar industries in chapter 5.

[16] See the discussion about Mozal and corporate strategy in chapter 5.

Future directions for research and perspectives

Generally, most studies about industrialisation and official industrial policy in Mozambique are based upon an inaccurate specification of the Mozambican economy and manufacturing sector with respect to their structures and dynamics, as well as the class relations that develop around, and constitute the basis of, such structures and dynamics. This is partly associated with an inadequate empirical analysis of the Mozambican economy, but also with a misunderstanding of the relations between and within capital and labour and how they evolve and change over time.[17] The proposition that a particular strategy (e.g., mega projects or SMEs; export or inward oriented) is good or bad for different fractions of capital and/or labour depends on one's empirical knowledge about the dynamic and structures of the economy and the manufacturing sector, but also on how one understands the relationships between and within capital and labour, and how these relationships and associated interests change and are likely to change under specific political and economic pressures. This analysis opens a few directions for further research and future perspectives.

Research about industrialisation and industrial policy in Mozambique is embryonic with respect to its empirical and theoretical foundations. Socio-economic studies are mainly focused on agriculture and rural development, monetary and fiscal dimension of macroeconomic policy and poverty. Irrespective of the merits or demerits of these studies, it is important that industrialisation and industrial policy become a central focus of analysis in addressing issues like rural development, poverty reduction and macroeconomic policy. The Mozambican economy as a whole has been organised around three dynamic "poles" of accumulation: semi-processing of primary products for export, limited diversification of internationally uncompetitive production for the domestic market, and providing the Southern African region with transport services and migrant labour. Over the last decade or so, migrant labour, which had been declining since the late 1970s, has been replaced by inflows of FDI as a new form by which the South African MEC shapes the Mozambican economy and manufacturing sector. The sectoral organization of production and trade, labour market conditions and dominant forms of capital are associated with these "poles".

This simplified characterisation of the centres of accumulation of the Mozambican economy may provide a useful initial structure for further research about the manufacturing sector. Empirically, it is necessary to construct longer-term time series and cross-section data sets that are more accurate, comprehensive and structured. It is also necessary to attempt different

[17] See Fine and Rustomjee 1996 for s similar analysis with respect to South African industrialisation.

directions in terms of organization and analysis of the data. For example, instead of using the structure provided by the ISIC methodology, as in this thesis, it could be useful to organise the data and analysis around the centres of industrial accumulation – semi-processing for export and limited diversification for the domestic market – and around the impact of the MEC on the structure, dynamics and class relations in the manufacturing sector.

This overall picture of the manufacturing sector should be combined with a more profound and detailed knowledge of what is going on in each industry and different firms. Two possible directions of sectoral research would be the agro-industry and the metal-engineering industry. Agro-industry is important from the point of view of rural industrialisation, inter-sectoral linkages, employment, diversification of production and trade, and balance of the class interests that influence the manufacturing sector. Metal-engineering is important because of inter-sectoral linkages, productivity growth, starting the development of domestic technological capabilities and also taking advantage of potential linkages with mega projects and strategies of sectoral rehabilitation.

Some of the fundamental research themes associated with the two sectors mentioned are technological change and acquisition of industrial capabilities; labour market characteristics and conditions, how they have been established and change, and how they affect overall performance of the industry; motivations, characteristics and role of FDI (and other forms of participation of, and cooperation with, foreign capital), and its inter- and intra-sectoral linkages; impact of internationalisation of firms and processes of production; cross firm and industry linkages. Other fundamental, more general, research themes are the organization of the financial system from the point of view of financing of industrial investment; the development of domestic economic groups, their relationship with the financial system and foreign capital, and diversification and expansion (horizontal and vertical) strategies; a detailed and accurate analysis of what has happened to firms that have been privatised; and the dynamics of industrial restructuring in Southern Africa and how its affects the Mozambican industry.

It is one argument of this thesis that the linkages-agencies analytical framework provides a more adequate basis upon which to investigate the structures, dynamics and associated class relations that characterise the process of industrialisation in Mozambique. This framework can be applied to the analysis of any of the research themes and directions already outlined. Nonetheless, in each area of research there is a large literature that should, itself, be studied in more detail with a view to illuminating the analysis. The point is to benefit from the ongoing international research, keep in touch with it and improve the quality and soundness of the

debates and studies about Mozambique, rather than imposing theories and frameworks that are ill suited to the characteristics of the Mozambican economy.

Future perspectives are dependent upon what happens to FDI and other inflows of foreign capital that sustain current investment rates and levels of imports. In Mozambique, FDI is narrowly focused and inflows are likely to slow down soon. The precise characteristics and life-time of current high rates of FDI inflows depend on the capabilities and strategies of South African MEC corporations and associated international firms. Other inflows of foreign capital (e.g., aid, commercial loans) are not likely to increase so that the Mozambican economy may start to stagnate because of financial and industrial capabilities constraints.

Mozambique needs to address this issue in various ways: diversify the sources of FDI, develop domestic capabilities and mobilise the domestic financial system. This will require industrial policies and strategies that promote diversification, linkages and creation of new capabilities. The experience shows that FDI dissociated from South African corporations and MEC can be more diversified and willing to invest in areas that promote technological development, import substitution and linkages, such as metal-engineering.[18] This also results from the fact that South African FDI has pushed other foreign investors away from the traditional MEC sectors and other associated industries (e.g., sugar and beer). The experience also shows that the banking system is more willing to finance policy-targeted projects that area credible, and domestic firms have capabilities that have not been developed and adequately explored.[19] The development of adequate strategies and policies, that respond to political and socio-economic pressures, take account of conflicting interests, but provides a coherent working framework requires a close relationship between policy-making and systematic and quality research.

The more acute problem that the formulation and successful implementation of any industrial policy and strategies will face is the formation of the political, social and institutional capacity to carry it out. The solution to this problem has to be endogenous to the process of policy formulation and implementation, as it results from the political and socio-economic pressures and interests that act upon the state and the market.

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[18] For example, Cometal-Mometal, whose main shareholder is the Indian international corporation Tata. This firm produces a variety of metal products, including industrial metal structures and smelting furnaces. Another example is Salvador Caetano, owned by a Portuguese firm of the same name, which assembles motor vehicles mainly, but not exclusively, for collective transport of passengers.

[19] See, for example, the case of Kanes (chapter 5).