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Abstract:

Not only the financial and economic crises but also the social unrests in Mozambique revealed the vulnerability and sensitivity of the Mozambican economy. Moreover, the crises lead to a growing understanding that the state should play a decisive role in the economy. Yet, we argue that Mozambique does not yet count with a political-economic system that allows for effective state intervention in the economy and includes the majority of the population in economic growth.

The paper therefore analyses if the concept of the Social Market Economy could be a political-economic model for Mozambique. Given the political and economic situation in Mozambique, the paper holds that Mozambique does not yet fulfil the prerequisites for the concept to work. We identify two main conditions that would need to be met: a much broader productive base and a more open political-economic system. We argue that selective industrial policies are an option in order to increase the productive base but political capture is a real threat. Therefore, Mozambique needs to become a society in which citizens have more access to political decision-making and are able to hold the government responsible for its actions.

We conclude that the model of the Social Market Economy is not yet suitable as a political-economic system for Mozambique. However, it could serve as a “development vision” since it addresses many of the challenges Mozambique is facing today. Thus the model could serve as a discussion point in the public debate about finding a way to sustain economic growth while ensuring just distribution of the wealth.

0. Introduction

Mozambique has an impressive growth record, which, combined with peaceful reconstruction and a stable political system after decades of war, make Mozambique one of the African success stories. Yet, social inequality is very high and around half of the population still lives below the national poverty line (The World Bank, 2012). This raises the question if a different political-economic model could be more successful in sustaining the economic growth rates, while ensuring that the vast majority of the society benefits from increased living standards. The paper takes a closer look at the model of the Social Market Economy and argues that, to date, Mozambique lacks the basic preconditions for the model to work, which are a broad productive

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base and an open political system. The paper questions if selective industrial policies could be an option for increasing the productive base, and concludes that designing them is not easy for the government, as will be shown with the example of special economic zones. Besides limited capacity, political capture is a real threat for industrial policies in Mozambique. The paper argues that it is therefore necessary to look at the political economy of Mozambique. Using the classification of different stages of political-economic development by North et al. (2007), the paper comes to the conclusion that Mozambique is currently a so-called “limited access order”, meaning that access to high-profile political and economic functions and resources are limited to some circles of the society. The transformation of the political-economic system to a more open access order is, however, only likely when it becomes more profitable for the government to include the population than exclude it. Social unrests, as have happened in 2008 and 2010, can be a motive for the government to allow more participation and better distribution of wealth.

The paper is organized as follows: First, it outlines the Social Market Economy model and its pivotal elements and principles. It then goes on to analyse it against the background of Mozambique, considering its potential and the preconditions the country would need to fulfil. Chapter 2 looks at the industrial base and economic possibilities of Mozambique. It evaluates the potentials and risks of selective industrial policies illustrated by the example of special economic zones. Third, the paper discusses the current stage of the political-economic system in Mozambique and looks at possibilities for Mozambique to become a more open access order, using the framework developed by North et al. (2007). Chapter 4 concludes.

1. The Social Market Economy Model

Not only the financial and economic crises but also the social unrests in Mozambique revealed the vulnerability and sensitivity of the Mozambican economy. This leads to question if the economic model of Mozambique responds to the challenges the country presently faces. The model of the Social Market Economy (Eucken, 1952/90) – which has formed the basis of the West German economic policy – could serve as a vision for economic and social development in Mozambique ensuring that the vast majority of the population participates in economic progress and that poverty is reduced in a sustainable way. The model has proven to be a successful framework for economic development and growth in Germany. The Social Market Economy has been the basis for reforms that accomplished to increase competitiveness and growth, which, in

turn, allowed Germany to meet the challenges of reunification, increased globalization and the recent financial crisis with little social unrest. It represents a set of basic values, shared by most Germans, which combines free market with social principles (Benecke, 2008).

The Social Market Economy consists of the two pivotal elements *markets* and *social*. It is a comprehensive system, which guarantees social security services based on the principles of justice of achievement and social compensation (Quaas, 2008). Thus, the Social Market Economy system assures high levels of competition, while at the same time making sure that the weaker members of the society are being cared for in the interest of the society as a whole. In short, the concept focuses both on achieving economic growth and on ensuring a just distribution of wealth within the society (Benecke, 2008). This concept was elaborated after World War II by economists like Eucken, Müller-Armack, Röpke and others but has mostly been driven by politicians (Watrin, 1979). For example, former German economic minister Ludwig Erhard, who made the concept famous with the slogan “welfare for all” (Erhard, 1957). Contrary to socialism or communism, Social Market Economy does not mean that all citizens should necessarily be at the same level of welfare but that the vast majority of people are able to participate in the wealth of the nation. In this respect, social justice does not stand for equal standards of living but for equal opportunities, and people who make a greater effort should obtain more benefits. Thus, for the concept to work it is crucial to guarantee open access to education and vocational training for all. Basic needs like food, housing, and healthcare have to be satisfied at a minimum level in order to ensure a minimum standard of living for the society as a whole. This has proven to be an important aspect regarding the prevention of social unrest. In conclusion, Social Market Economy can be defined as an economic order based on open market competition with built-in social security (Ebner, 2006).

The model cannot be simply implemented by a governing body, but has to be based on basic values and principles shared by the vast majority of the population. Those principles are *solidarity* and *subsidiarity*. In this concept, solidarity means that the more capable and wealthier members of the society have to contribute more in order to ensure a basic standard of living also for those whose capacities do not suffice to achieve it on their own. Typical instruments helping to attain solidarity are a progressive tax system, social insurances, freedom to form trade unions, associations, cooperatives, etc. Subsidiarity, on the other hand, refers to the personal responsibility of the citizens. Independent of their abilities, people must make the same effort in order to obtain good education, to provide for their pension and health insurance, and to contribute to

the national product. The government's task in this system is to provide a framework that combines the two principles in the most efficient way. That includes a system of social transfer payments that does not discourage efforts of people who are able to take care of themselves, the provision of a high quality education system, and the regulation of the labour market (Benecke, 2008).

The concept allows specific and active government interventions if the market does not produce the desired results. However, since the model is based on free market principles, those interventions should be limited to times of recession with high rates of unemployment and business collapses, aging society or to stimulate innovation, which opens space for industrial policy.

For the concept to work, the government has to provide a framework of adequate laws and an independent judicial system, based on constitutional as well as regulatory principles (Eucken, 1992). The constitutional principles of the Social Market Economy consist of

- a functioning price system with competition,
- the guarantee of property rights,
- price stability,
- open (accessible) markets,
- freedom of contract and association,
- liabilities⁴ of the actors, and
- the consistency of economic policy.

Nevertheless, even with those principles in place, there is still a need for regulating principles that prevent unfavourable outcomes. Amongst those principles, which are responsibilities of the state, are:

- monopoly control, as private property might lead to the wish to prevent competition in order to achieve higher profits,
- redistribution of national wealth,

⁴ A principle which is under severe threat during financial crises.

- regulation of external effects in order to minimize market failure (e.g. for environment, protection of intellectual property etc.), and
- minimum wages⁵ that guarantee a dignified living standard and prevent exploitation and abuse (Eucken, 1952/90).

The combination of these constitutional and regulating principles have proved successful in order to incentivize savings and investment in the economy, as well as ensure social peace, itself a main precondition for economic growth and stability.

Nevertheless, the concept is not a blue print for success, but rather a trial and error process in which the dialogue between state, trade unions, companies and consumers is crucial. It needs to be supported by a critical mass of the society, a vital entrepreneurship and a strong political leadership in order to be successful. Depending on this process and different cultural backgrounds of societies, there are different designs of social market economies with different emphases on the market or social elements within the concept (e.g. the Nordic European model stresses social security more than the continental European model, which allows more freedom for markets). Thus, while the concept has been developed in Germany after World War II, it is still very much valid today and could provide answers to questions many emerging or developing countries are facing today.

1.1. The Social Market Economy as a vision for Mozambique?

Given the growing social disparities on the one hand and the economic potential on the other, the concept and the vision of the Social Market Economy can be seen as an interesting option for Mozambique. Implemented as a “national project,” it could help the Mozambican economy to prosper while considering political and social aspects. It could contribute to poverty reduction, balancing the growing disequilibria and unrest, handling the “resource curse”, unleashing productivity potentials and sustaining economic growth, to name just a few issues that are being discussed (Castel-Branco & Ossemane, 2010; APRM, 2009; IMF, 2011b).

⁵ The introduction of minimum wages is still being discussed in Germany.

Mozambique has the potential and fulfils various preconditions for a prosperous future (OECD, 2011):

- stable macro-economy,
- positive growth outlook,
- abundant natural resources,
- excellent geo-political location (including transport logistics),
- high potential for tourism and services, and
- attractive conditions for foreign direct investment.

Yet, it needs a framework that ensures that the society as a whole benefits from the potentials and improves its living standards. Nevertheless it seems that the economic as well as the political system is not yet ready to embark on a model such as the Social Market Economy. A number of deficits and shortcomings would have to be tackled and preconditions to be met for the concept to work.

1.2. Preconditions

First, Mozambique is still a so-called “developing” country (Republic of Mozambique/Program Aid Partners, 2010; APRM, 2009). Even though real growth rates have continued around 7 per cent for years now and forecasts predict that its growth rates will remain high (EIU, 2011; IMF, 2011a), GDP per capita is still on a low absolute level ranging around 1.000 US\$ at PPP in 2011 (EIU, 2011). Furthermore, a GINI coefficient with values well above 0.40 indicates that the distribution of income is problematic. The tendency of inequity rises, especially in cities (IMF, 2011b; BTI, 2012), and the number of the population living below the national poverty line is high and not declining. The inflation rate is being kept in check by the central bank, but is still worrying with a Consumer Price Index (CPI) averaging around 10 per cent during the last decade and peaking with more than 12 per cent in 2010 (IMF, 2011a; EIU, 2011). Exports are growing but are constantly lower than imports and not well diversified. The current account balance deficit has been more than 10 per cent of GDP since 2004 (IMF, 2011a; EIU, 2011). The industrial base and the economy are still fragmented and not producing enough value-added in the country (Castel-Branco & Ossemane, 2010). Bureaucracy, criminality, a lack of skilled workers and insufficient infrastructure are among the main complaints of the private sector (KPMG,

2010). Public administration capacities are often insufficient and corruption⁶ is a serious problem (Transparency International, 2012). The UNDP Human development Index rank (184 of 187) shows that social conditions are still weak as the bigger part of the society has no sufficient access to infrastructure and schooling (UNDP, 2011). This is a disappointing performance given the potential of the economy and the official development assistance (ODA) flowing into the country for around 20 years now.

In order to start tackling these complex problems and to create the necessary basis for a Social Market Economy two requirements seem to be inevitable:

- First, a broader productive base of the national economy with higher productivity and better linkages between growth poles, FDI and the national economy (Castel-Branco & Ossemane, 2010), and
- a political system that allows for better access to all kind of resources for bigger parts of the society.

Hence we argue that Mozambique needs industrial policy, and move towards a more accessible political-economic system which enables a Social Market Economy.

Building up these preconditions is neither a separated nor a sequential process. It is a complex and integrated development, which needs a strong and clear vision and has to be a “national project”, that is to say, government, civil society, and the private sector have to have strong ownership of it. It is obvious that the German model of a Social Market Economy as described above cannot be introduced as such in Mozambique since underlying conditions are different and many requirements are not yet met. For example:

- a) 95 per cent of the active population⁷ is working in the informal sector or is unemployed, and is thus outside formal structures (BTI, 2012). With only a little more than 30.000 formalized and operational enterprises (INE, 2004) (circa 0,15 per cent per capita in comparison to more than 4 per cent per capita in Germany), the productivity base (including export capacity) is far too small in order to fulfil the solidarity principle of a Social Market Economy through the distribution of income.
- b) Regulating principles are quite weak. With the lack of an anti-trust institution and a trend to megaprojects, monopolistic tendencies are given and there is no anti-monopoly legis-

⁶Corruption Perception Index of 2.7.

⁷ Total population is ca. 23.4 Mio. (BTI, 2012).

lation in place. Local and independent small and medium-sized enterprises (SMEs) do not have the same opportunities as big and foreign investments, which often benefit from generous tax exemptions and/or political protection. The willingness to control external effects and other market distortions is small, which seems to be, at least partly, be due to the fact that political and economic actors are not well separated. (BTI, 2012; APRM, 2009).

- c) The rule of law and independence of actors are still weak and corruption hinders fair and efficient administrative processes (The World Bank, 2011; APRM, 2009). Capacity and strategic action of the state are still limited. This is a crucial point, since the state plays an important role in a Social Market Economy.
- d) Although the constitutional principles of a Social Market Economy as described above are broadly matched (Simons-Kaufmann, 2003), a variety of prices is still regulated by the government (BTI, 2012): Private property of land is not given, and market access is limited as the long license processes and other bureaucratic obstacles show⁸.

Non-transparent processes, the intermixture between economics and politics, the dependency on donors and international capital, the weak educational system and the non trustworthy juridical system still prevent the market forces from working in an efficient way.

Yet, even if all of these requirements would be met, the mere imitation of the model would not guarantee the same success as in Germany. The instruments might be the same but their application would differ according to the structural and cultural characteristics as well as the underlying preconditions. One necessary requirement is a sufficiently broad productive base and a growth rate which feeds the system. Another precondition is a political system, which enables and promotes a Social Market Economy, for example an “open access order” according to North. Both preconditions will be discussed in the following section.

2. Industrial Base and Policy

The structure of the Mozambican economy has been largely stable over the past four decades, even though the performance of specific sectors and industries, as well as of overall GDP has experienced great changes (Braun, 2010). The economy is largely characterized by subsistence

⁸ See for example the KPMG Business Confidence Index of KPMG (KPMG, 2010) or the Doing Business reports.

farming absorbing most of the labour force, few and concentrated manufacturing activities, low diversity of exports, uncompetitive small and medium-sized firms, which are often informal, high import dependence and a burdensome bureaucracy (Castel-Branco, 2002; Pitcher, 2002; Krause & Kaufmann, 2011)⁹. The recent discovery of large amounts of mineral resources is expected to further concentrate the economy, and the already good GDP growth performance is likely to remain high in the foreseeable future. In conclusion, the productive base of Mozambique is anything but broad (CIP, 2011; Brito de, Castel-Branco, Chichava, & Francisco, 2010).

The above mentioned reasons contribute to the fact that Mozambique's high GDP growth rates have not translated into improved living standards of the population as a whole with more than half of the population still living under the national poverty line (The World Bank, 2012). Therefore, the understanding is growing that the liberalization agenda, which the country has followed for the past 20 years, is not succeeding in increasing income per capita or in diversifying the economic structure of the country. Yet, it has been showed that more diversified and sophisticated economies are more likely to sustain GDP growth (Rodrik, 2004; Page, 2011). This calls for a transformation of the economic structure away from the export of raw material and towards industrialization. For instance, industrial production allowed Germany not only to sustain the Social Market Economy but enabled the social processes needed to build such a political-economic model in the first place. Whereas the advantages of industrialization seem not controversial, the dispute is about how to induce the necessary structural transformation (Wells & Thirlwall, 2003). In the following section, this paper argues that intelligently designed and implemented industrial policies could help transforming the economy.

2.1. Industrial Policy

After being banned from the development agenda for several years, Industrial Policy¹⁰ is now becoming an option as a policy tool for economic transformation again. The strongest argument against industrial policy is that market failure is not the biggest risk, since governments can fail as well. This is a very real threat to effective industrial policies. Whereas developing countries might need industrial policies more than developed ones, the threat of failure is also bigger due

⁹ Over 90 per cent of all registered companies in Mozambique are small and medium-sized enterprises. Yet, almost 60 per cent of the overall sales are done by the 1.4 per cent of Mozambique's large firms (INE, 2004).

¹⁰ Definitions for industrial policy vary significantly, but for this study we follow the definition of Krause & Kaufmann (2011: 1): "We define 'industrial policy' as any government measure, or set of measures, to promote or prevent structural change in ways that the government views as desirable."

to lower government capacity and an often not merit-based public administration. However, the recent economic and financial crises have led to the insight that free markets are not necessarily the best and only way to sustain economic growth, which calls for a greater involvement of the state. Moreover, the new interest in industrial policy is also driven by the understanding that poverty can only be fought effectively if the factor productivity increases and a structural transformation away from low productivity and low value-added sectors will be pursued. As history has demonstrated, liberalizing markets does not necessarily lead to sustainable economic growth. It is worth mentioning that participation in global markets is not necessarily synonymous with economic development. In fact, it is also possible that despite more output and more employment, returns to economic activity are decreasing (so-called ‘immiserizing growth’) (Kaplinsky, 2001, p. 120) . This can be explained by the fact that different links in global value chains yield different returns and that the links with the highest value added more often than not remain in the developed countries.¹¹ Empirical support for industrial policy stems mostly from the so-called East Asian Miracle, that is to say the great growth catch up of South Korea, Taiwan and Singapore (Chang, 2003; Lall, 2003; Putzel, 2002). The success of East Asian industrial policies raises the question about its replicability. Even though the literature on industrial policy in Africa is quite limited in scope, there is some recent research showing that industrial policies can be relatively effective in Africa as well, for example in Mauritius (Bräutigam, 2008) and Ethiopia (Altenburg, 2010; Altenburg, 2011)¹².

2.2. Industrial Policy as an option for Mozambique?

So far, Mozambican economic policy was mostly focused on creating a conducive business environment through its “Strategy for the Improvement of the Business Environment in Mozambique, 2008 – 2012” (República de Moçambique / MIC, 2008). Whereas those policies are clearly necessary, more interventionist industrial policies, targeting specific sectors or economic activities could help accelerate the diversification and the industrialization process as well as overcome the fragmentation of the economic structure of the economy. Yet, specific industrial policies are – without question - more demanding and risky. A study on industrial policy in Mozambique analysed the capacity of the Mozambican government in four respects (Krause &

¹¹ See for example the case study of the textile industry in Torreon, Mexico (Bair, J.& Gereffi, G., 2001).

¹² There is a broad literature on the arguments for and against industrial policy, and depends largely on whether one believes market failure is the greater evil compared to government failure. For further reading on industrial policy see: (Pack & Saggi, 2006), (Wood, 2003), (Rodrik, 2004).

Kaufmann, 2011): (1) the capacity of the country to negotiate industrial policies with the civil society, private sector and others, (2) the capacity and will to establish clear rules of the game for industrial policies and effectively enforce them against monopolies, cartels, etc., (3) the human resource capacity for the necessary administration, and (4) the capacity to effectively protect and promote selected sectors or regions without being captured by private interests. The study came to mixed results concerning checks and balances, state capacity, and strategy. It concluded that given the political-economic context and conditions, the successful implementation of efficient industrial policies is not very likely. Looking at the few industrial policies already in place confirms the scepticism.

The example of special economic zones (SEZ) illustrates the difficulty of applying industrial policy instruments in Mozambique. SEZ played an important role in the East Asian Miracle and were also an important factor in the success story of Mauritius (Bräutigam, 2008), granting fiscal incentives and providing infrastructure. More recently, John Page, former World Bank economist, made an appealing case for the role of SEZ in the industrialization process in Africa. He argues that infrastructure, skills and regional integration are the crucial points for industrialization and that the regulatory framework is important but not enough to “reverse Africa’s increasing marginalization in global manufacturing” (Page, 2011, p. 11). In order to lessen the complex tasks that industrial policies represent for the government, he suggests that efforts should be concentrated in spatial zones (for example SEZ), which would help making the policy tasks of selective policies more manageable. He calls this “spatial industrial policy” (Page, 2012).

Yet, the implementation of over 16 SEZ in Mozambique (Wide, 2010, p. 22) did not result in any tangible impacts in terms of employment creation or revenue generation for the Mozambican government (Krause & Kaufmann, 2011). In fact, it seems that the government’s “Industrial Policy and Strategy” (República de Moçambique / MIC, 2007) lacks vision and most of all coherence and stamina in the implementation. The SEZ are a point in case showing that industrial policy is largely driven by the interests of mega-projects¹³, which are more capital- than labour-intensive, and rely heavily on foreign based supply chains. For example, it has been estimated that MOZAL only directly created 1,100 fulltime jobs, and 2,500 jobs were created through linkages and another 15,000 temporary jobs were created in the construction and expansion phases (Krause & Kaufmann, 2011, p. 52) . Compared to the initial investment of USD 2.4 bil-

¹³ Apart from MOZAL, the coal exploration company Vale Moçambique, the sand exploration project run by KEN-MARE, and the gas exploration by SASOL have the status of a SEZ.

lion, this figure is more than modest (ibid). Thus, so far, they have not managed to create manufacturing hubs with strong forward and backward linkages, which historically proved to be an important driver of GDP growth and poverty reduction (Chang, 1996).

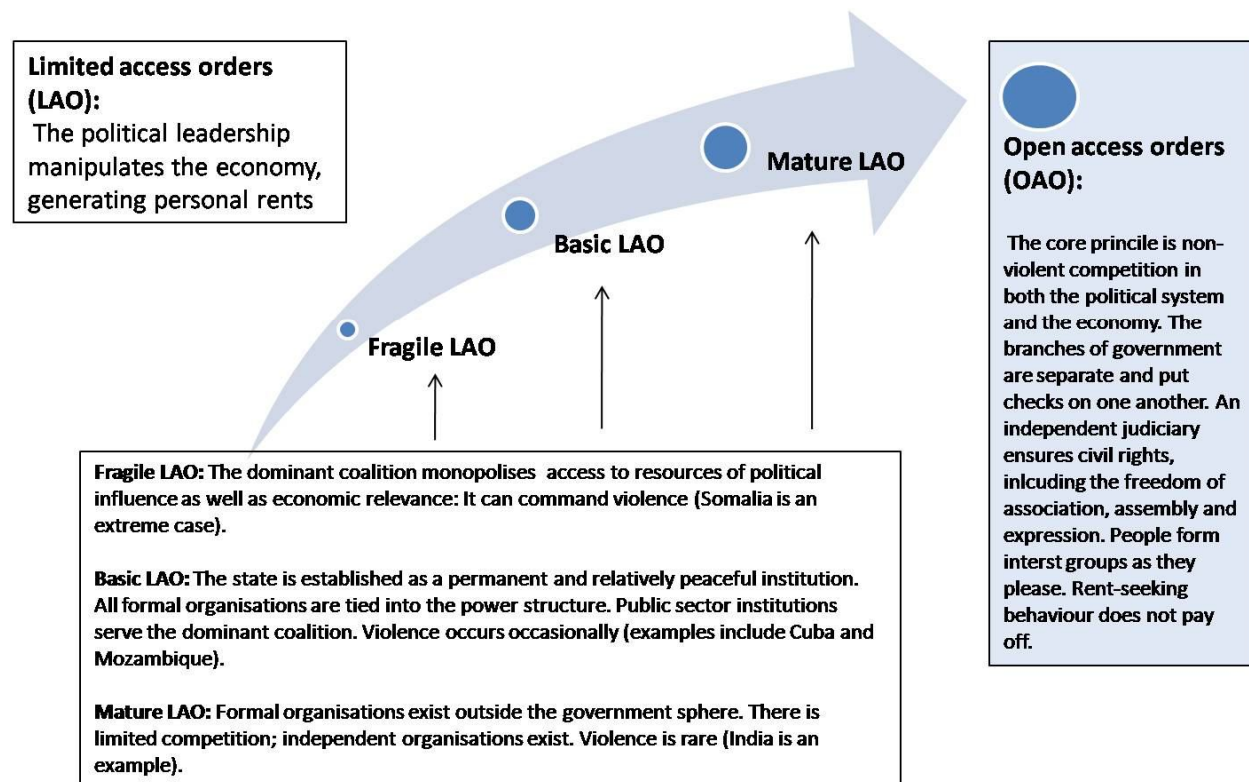
This demonstrates how difficult the implementation of effective industrial policies really is. There are serious threats such as widespread corruption, weak checks and balances, little transparency, and conflicts of interest where public office holders are simultaneously businessman (Krause & Kaufmann, 2011, pp. 20-22). The situation is described quite accurately by Tilman Altenburg (2011: 1): “Hence, latecomer countries face a dilemma. They need industrial policies more urgently than mature economies do, but they are also the most likely candidates for political capture.” If you take the concerns seriously, we have to look in more detail at the political economy of the country.

3. Opening the political-economic system as a pre-condition for industrial policy and a Social Market Economy

Thus, the question is what kind of transformation Mozambique would need in order to be able to pursue efficient industrial policies and aim for a Social Market Economy? In 2007, North et al. introduced a new way to categorize the developing world (North D. , Wallis, Webb, & Weingast, 2007; North, Wallis, & Weingast, 2009), which allows for a more realistic understanding of how societies behave and of the incentives that drive them. They distinguish between so-called limited access orders (LAO) and open access orders (OAO). The limited access orders create limits on access to high-profile political and economic functions and resources as a way of generating rents and maintaining power. At stake are constellations of power that deliver high returns, power and a high degree of stability to the elites who monopolize access to political and economic resources. Such settings, of course, keep a large number of people marginalized. A certain elite shares the economic values and resources as well as the political power and keeps the system relatively stable. Depending on the degree of limitedness and the percentage of citizen having access to resources and rights one distinguishes between different levels like fragile, basic or mature limited access orders.

Graph: Limited and open access orders: Stages of political-economic development

Stages of political-economic development according to North et al.



Source: (Borowczak & Kaufmann, 2011).

The open access order relies on competition, open access to organisations – also outside the state and its control – and on the rule of law to hold societies together. The institutions behind that are not personalized but neutral and accessible to most of the citizens and not only to a limited circle of society. Open access orders seem to be sustainable when a society is able to produce three outcomes (North et al. 2007, p. 17):

- 1) Entry into economic, political, religious and educational activities is open to all citizens without restraint.
- 2) Support is given for organisational forms in each of those activities (see 1).
- 3) Rule of law is enforced impartially for and against all citizens.

Neither of those outcomes can be enforced for 100 per cent of the citizens, but it is certainly not enough if it holds for, let us say, 5 per cent, as that would classify as a limited access order. The majority of rich nations fit the description of an “open access order” characterized by competition, which thrives as individuals and groups are free to craft coalitions and professional relationships to their own benefit. In the case of disputes, the justice system helps to enforce people’s rights; the courts will prosecute even high-ranking individuals. It is also important to recognize that not only formal but also informal institutions are decisive. An open access order needs informal rules shared and accepted by a majority of the population. However, in most cases, such openness is not natural but the result of a long and often conflict-ridden process.

3.1 The political-economic system in Mozambique

Against this background we try to characterize Mozambique and analyse what it could do in order to move towards an order that allows for more economic development and social inclusion, like a Social Market Economy. As the economic and political spheres are not separated, discussing conditions for economic and hence industrial policies means also discussing political issues. It cannot be neglected that so far donors, their projects and budget support to Mozambique as well as their “development policy” dominated the political discussion. Accordingly, the social contract was and still is between donors and the ruling party rather than between government and citizens. The theorem of “limited access orders” helps to understand the low success rate of many development programmes. Mozambique is a typical country where a ruling party guards its privileges in accessing resources of political and economic power. In countries of this kind, donors are at risk of perpetuating the rule of small but powerful elites.

We characterize Mozambique currently as a basic Limited Access Order (LAO – see graph above). According to the classifications state and government are stable, the administration is operational, and violence is contained. The government and the ruling party Frelimo are striving to consolidate their influence, party unity and their ruling coalition, and they do not subject themselves to competition and more openness (Hanlon & Smart, 2008).

Thus, essential social and political steps must still be taken before Mozambique becomes an open access order. Mozambique is a country without free access to resources and institutions and a tendency of only granting a self-appointed elite access to political and economic re-

sources with few checks and balances. The ruling elite, however, has little incentives for establishing an open access order. The lacking interest in establishing an open society becomes evident in its less than half-hearted fight against corruption as well as in the judiciary's ineffectiveness (The World Bank, 2011). There is very little progress in matters like good governance, devolution of government powers, land ownership or judicial matters, whereas improvements have been made in areas like primary education, roads or health care, where political interests of power holders are not at stake in the same way. As the Mozambican economy depends to a large extent on official development assistance (ODA), donors play an important role in the overall discussion. We argue that especially private-sector entrepreneurship is given too little scope.

Donors need to face the fact that this disparity is systemic. They have to take into account Mozambique's specific balance of political and economic power. Otherwise, their standard interventions will continue to fail to deliver results. For the time being, ODA is reinforcing the established socio-political order. Donors should be prepared better to tackle these issues and to act in a consequential and coherent manner. Together with the civil society and the private sector, they should insist on reforms that lead to a mature limited access order with the vision of an open access.

Only within limits the power elite is prepared to tolerate, protect or even promote independent organisations outside its sphere of influence. There is some civil-society activism, but its outreach is weak (Fiege, 2011). Examples include churches, a handful of independent national organisations and – at a limited level – the press. Such liberty is tolerated either because the party and the government lack means of control or because they want to uphold the appearance of democracy. Mozambique's authorities generally try to co-opt or neutralize institutions and organisations they consider adversarial or dangerous. Trade unions are not really independent and institutions like the parliament lack capacity and independence (Hodges & Tibana, 2005).

In such conditions, there is little scope for a dynamic private sector as the driver of the economy. Dialogue between the private sector and the state is largely monopolized by the Confederação das Associações Económicas (CTA), the national business umbrella organisation. The voices of other organisations in the private sector drowned out. These organisations generally suffer from low acceptance and hardly get access to policymakers. Moreover, government and corporate interests often overlap since state agencies are by far the most important contractors in the country, and leading politicians hold many important businesses in the country (Hanlon &

Smart, 2008). Furthermore, political opposition remains weak. New opposition parties¹⁴ are blocked as far as possible, especially if they might become influential or win local elections (Brito de, 2011).

In summary, the road to a free and competitive socio-economic and political system in Mozambique is still long. The ruling elite continue to rely on the fragile consensus of a majority of the citizens, which still gives the government credit for achieving independence. However, that consensus is increasingly fragmenting, as became evident during the violent protests against rising food prices in early 2008 and September 2010.

3.2 The way forward to a Social Market Economy in Mozambique

In order to create a more open society, Mozambique needs a strong private sector, which is independent from the government and capable of driving the national economy based on market-based competition principles. Only with such a private sector in place, industrial policy seems possible and recommendable. We argue that the distinction business and politics has to be enforced in order to establish an open society with free market competition and a state run by separate branches of government. This includes clear rules, transparency and sanctions regarding “conflict of interests” issues.

Classified as a basic limited access order, this paper suggests that Mozambique should concentrate on two elements, which are part of North’s framework (North D. , Wallis, Webb, & Weingast, 2007). First, the development of institutional arrangements that enable the existence and strengthening of impersonal exchanges within the elites.¹⁵ Even without equal access for all, it is important that among the elite impersonal exchanges becomes possible and more frequent. Second, increasing public access by incentivizing the expansion of impersonal exchanges. Only when the dominant coalition finds it in its own interest to increase access to po-

¹⁴ For instance the party MDM that won local elections (autarquias) in the cities of Beira (Sofala) and Quelimane (Zambezia).

¹⁵ For example through company stocks instead of personal exchange.

litical and economic power to broader parts of the society, the transition process promises being successful.¹⁶

These are the doorstep conditions to an open access order. History shows that (a) rule of law for the elites, (b) support for perpetually lived (not personalized) elite organisations, and (c) centralized and consolidated control of violence are essential.

It is important for basic limited access orders to focus on creating the conditions that can foster and sustain private organisations outside the state. Yet, Mozambique faces specific problems in this regard, since it consists of a kind of dualistic economy. That is to say, there is a domestic economy governed by domestic rules and (formal and informal) institutions, within a limited access order; and international “islands” governed by a different set of rules, institutions and security for organisations and contracts. Typically the elite, as well as the international investors, gain from this duality (benefitting from the access to international capital, contract enforcement, security) without the need to alter the domestic setting.

This means that the needed initiatives and the drive for change have to come from “inside”, from broad-based participation. In Europe, especially in its north-western parts, movements by workers, farmers as well as small businesspeople and the organisations working on their behalf successfully fought for this broad public participation in the second half of the 19th and the first half of the 20th century. These events tended to be accompanied by unrest, and setbacks were frequent (Borowczak & Kaufmann, 2009). But the process of formation of such diverse and independent organisations was crucial for the development of a political-economic system in a more open access order. This is indeed a daunting and long-term agenda. But development is about long-term visions and always requires some adaption to new conditions and new insights.

4. Final Comment

The paper has argued that the political and economic system in place in Mozambique does not succeed in reducing poverty and socio-economic inequality. It has thus questioned if a different political-economic model would be needed and a system, such as the model of the Social Mar-

¹⁶For example when it becomes profitable to sell a plot of land to someone outside the elite who is willing to pay a higher price because he has the means to maximize the value of the asset through entrepreneurial activities.

ket Economy would be more suitable for addressing these challenges. Yet, as has been showed, there are several preconditions necessary for the model to work. The paper discussed a variety of challenges and shortcomings and concludes that – at present – a Social Market Economy is not in reach for Mozambique. First, the economic prerequisites are not met: the productive base is very concentrated, there are few value-adding economic activities, not enough formal employment, and recent discoveries of natural resources are more likely to strengthen this trend than to revoke it. Second and possibly more important are, however, the socio-political shortcomings: the political system does not allow the broader society to participate in economic and political life, and there is a systemic overlap between business people and politicians. Political and economic power is thus concentrated in the hands of a small part of the society. Intelligent industrial policies could help to broaden the economic structure, but are quite risky, given the current political structure of the country and the limitations in terms of designing, implementing and enforcing capacity of the government.

Nevertheless, although Mozambique still lacks the basic preconditions in order to move towards an open access society under, for example, a Social Market Economy, we hold that Mozambique needs to develop a vision. The model of the Social Market Economy would address most of the challenges and problems Mozambique is facing. However, such a transformation process has to be driven from inside the country. That is to say, a vast majority of the population has to call for reforms and have to hold the government responsible for their actions. Those transformations processes are often provoked by crises of some kind. Whereas it is of course desirable for Mozambique to embark on a peaceful transformation process, it also shows that crises can be an opportunity that is beneficial for the society in the long run.

Although we suggest not to over-estimate the influence of donors on public policy, they clearly play an important role in the political and economic policy discussions and the cooperation with the civil society. A capable and transparent, merit-based public administration is essential for a Social Market Economy to work. This becomes specifically apparent in the case of implementation of industrial policies. In this regard, there is scope for donors to push for public sector reforms and assist the government in the transformation process. However, to date, donors appear to not always have a clear and coherent picture of the political-economic situation and seem to lack a clear vision of how such a transformation process could be provoked. We argue that the political and economic spheres in Mozambique are too interlinked and that accepting this fact should be a starting point for any reform discussion.

The paper concludes that the Social Market Economy can serve as a development vision for the stakeholders in Mozambique. Adjusted to the socio-economic and cultural structure of the economy, the concept of a Social Market Economy could serve as a starting point for dialogue between the civil society, government, the private sector, and donors. The transformation towards a Social Market Economy is a dynamic process that needs a strong trial and error approach. An actively involved civil society as well as academic institutions and think tanks would need to build ownership for such a “national project”. While discussing and analysing what works for Mozambique and what does not, the society as a whole would need to hold the government responsible for reforms that become necessary during the process. We suggest that a model such as the Social Market Economy could serve as a vision in the discussion and transformation process, in which Mozambique would need to find its own way of overcoming the present obstacles.

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