



# **The Political Economy of Industrial Policy in Mozambique**

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***SC3***

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# 1. Introduction

- ❑ 'Africa Rising' narrative **VS** Premature de-industrialisation scenario in most African countries;
- ❑ The case of Mozambique: rapid economic growth with inability to reduce poverty;
  - **Calls for urgent rethinking of the role of industrial policies (IPs)**
- ❑ Studies on the political economy of IPs in Africa: narrow focus on specific factors either economic, political or institutional → **need for a comprehensive approach** investigating how the market, economic structures and agents interact and influence each other;



# 1. Introduction

## Main objectives:

- Analyze how the productive base of the Mozambican economy has evolved, focusing on industrial dynamics;
- Use a political economy approach to interpret the current state of the industry, emphasizing on factors shaping orientation, implementation and outcomes of IP in Mozambique;

The research is based on a desk-study and secondary data research, surveying existing academic publications (including IESE's own primary research), databases, documents and reports.

# 2. Theoretical Framework

## 2.1 Structural transformation and the role of industrial policy

**How to trigger structural transformation in Africa with industrial, particularly manufacturing development?**

- IPs to facilitate exploitation of latent comparative advantage (Lin, 2013);

**VS**

- IPs to accelerate learning and technological capabilities accumulation – the distinctive feature between developing and developed economies (Amsden, 2001, 2009; Chang, 2013; Khan, 2013; Lall, 2004);

**IPs in developing countries:**

- Correcting market imperfections;

**VS**

- Generating decent employment, improve skills, qualifications and wages across all socio-economic strata;

# 2. Theoretical Framework

## 2.2 Conditions for successful industrial policies

- ❑ Developmental State (Evans 1995; 1997);
- ❑ Business-state relations – Embedded autonomy (Rodrik, 2007);
- ❑ Reciprocal control mechanism – rent management (Amsden, 2001);

Yet, whether the state can act as developmental, ensure embedded autonomy or enforce reciprocal control mechanisms depends on the **political economy context**;

## 2. Theoretical Framework

### 2.2 Conditions for successful industrial policies

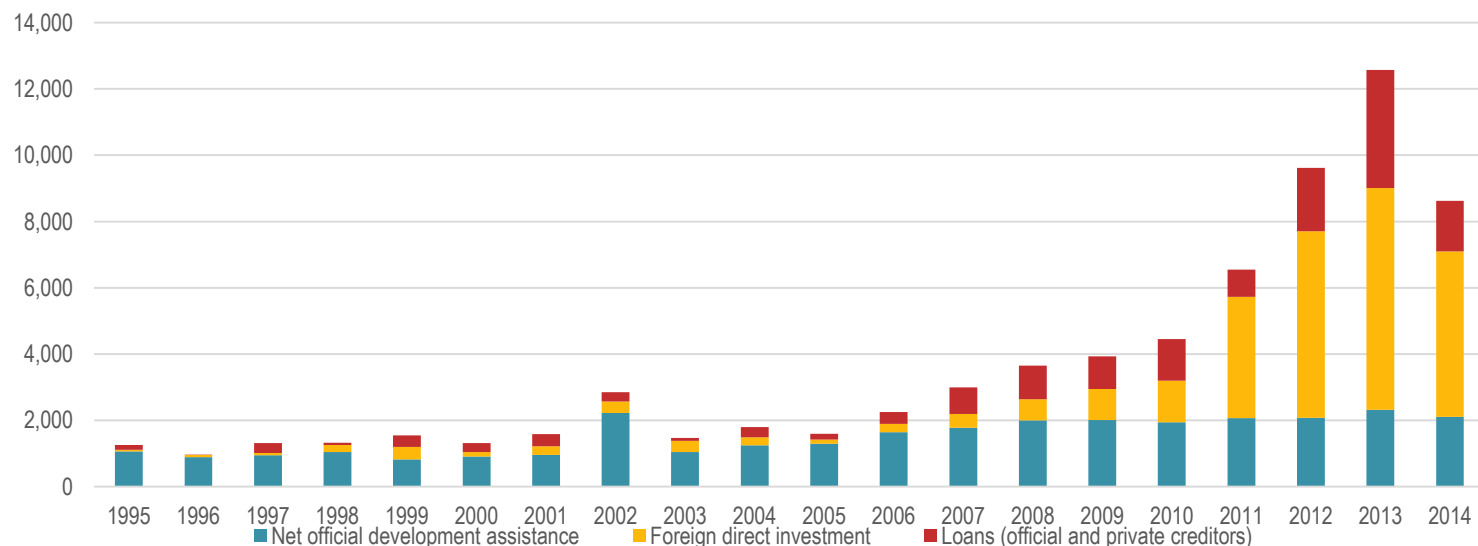
Politics matter: implementation of IPs involves allocative and institutional changes affecting the current distribution of economic benefits (Khan, 2010);

- ❑ Overcoming social contestation with different degrees of distribution of power within and outside the ruling coalition;
- ❑ Formation of new social classes and underlying interests;

### 3. The Mozambican economy and its industrial sector

Rapid economic growth (average annual real GDP growth between 1995 and 2014 of 7%) driven by large inflows of foreign capital (ODA, FDI and loans)

Graph 1: Evolution of resource flows to Mozambique 1995-2014, current millions US\$

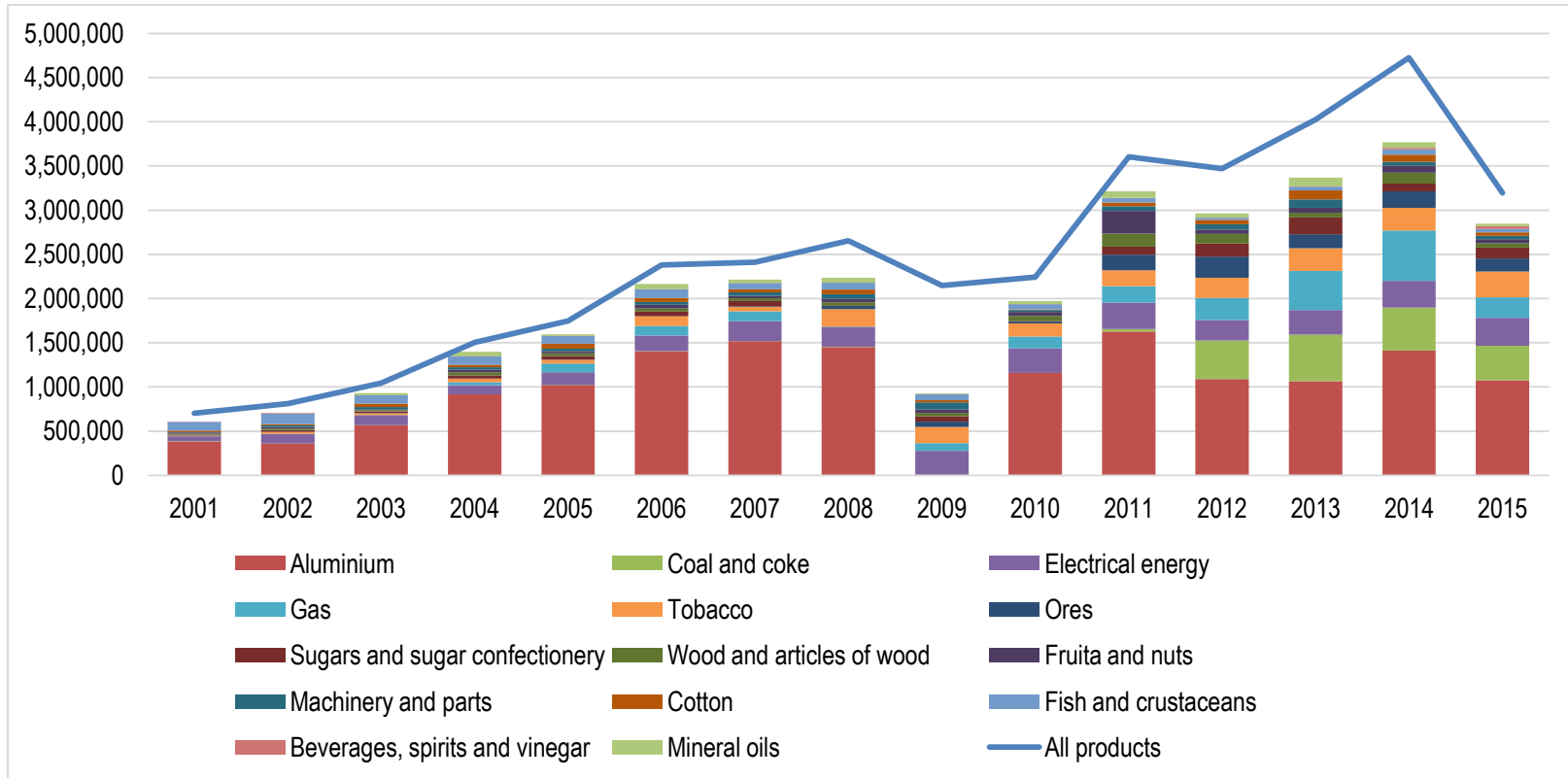


Source: WDI, 2017

### 3. The Mozambican economy and its industrial sector

**Concentrated and extractive productive base: primary commodities dependence**  
**Discoveries of large reserves of oil will increase concentration**

**Graph 2: Mozambique's export structure 2001-2015, US 000'**



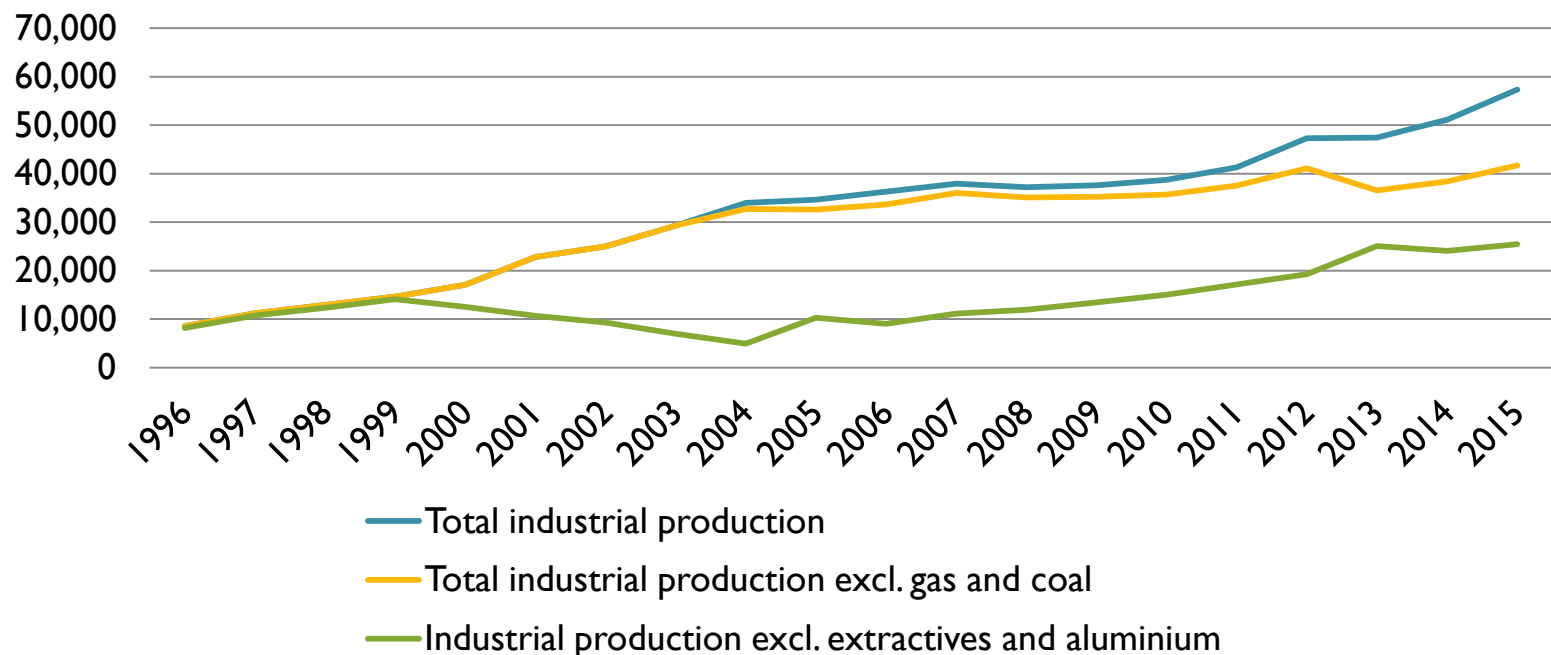
Source: Trademap



### 3. The Mozambican Economy and its industrial sector

#### Small and stagnated industrial production excluding FDI megaprojects

Graph 3: Mozambique's industrial production in 1996-2015, constant 2009, millions LCU



Source: National Institute of Statistics

### 3. The Mozambican Economy and its industrial sector

#### Concentrated industrial production excluding FDI megaprojects

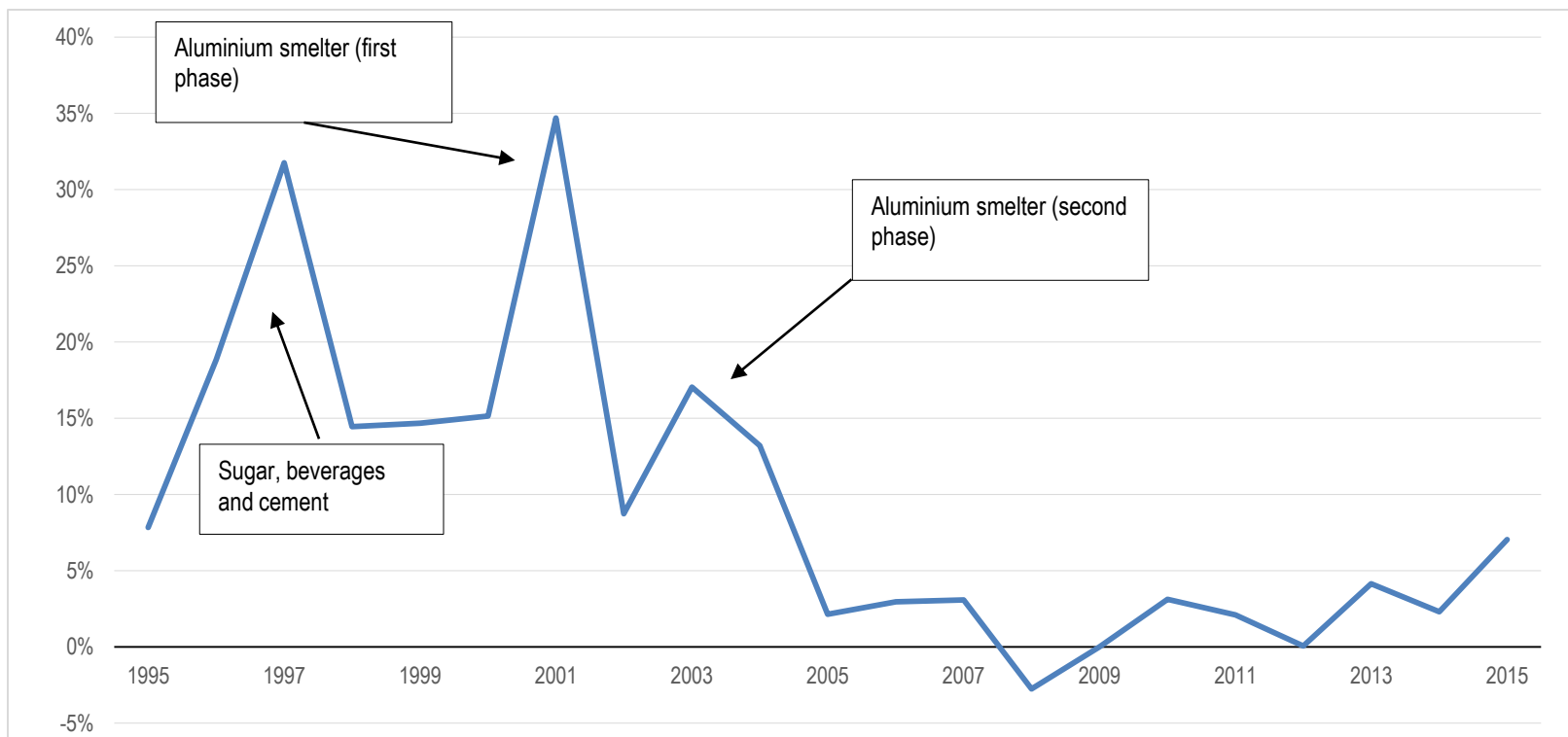
Table 1: Main industrial products share on sub-sector and on total manufacturing output

	Share on sub-sector		
	1997	2006	2015
<b>Cement</b>	63%	87%	96%
<b>Beer and Soft Drinks</b>	64%	96%	68%
<b>Sugar and Wheat</b>	54%	71%	47%
<b>Tobacco</b>	29%	100%	72%
<b>Share on total manufacturing</b>	<b>44%</b>	<b>75%</b>	<b>60%</b>

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### 3. The Mozambican economy and its industrial sector

Graph 4: Manufacturing sector value-added in Mozambique 1995-2015 (% annual growth)



Source: WDI

### **3. The Mozambican economy and its industrial sector**

#### **Premature de-industrialisation in Mozambique:**

- ❑ Manufacturing production increasingly concentrated: shrinkage of the variety of existing products and industries, and new products are not emerging (Castel-Branco, 2010);
- ❑ On-going technological obsolescence combined with simplification of productive processes (Cruz et al, 2014; Warren-Rodriguez, 2008)

#### **Consequently, backward linkages between SME and FDI megaprojects (Langa & Mandlate, 2015):**

- ❑ Are short-term and limited to basic services provision;
- ❑ Reproduce the same patterns of concentration, fragmentation and instability;
- ❑ Business growth for domestic firms is sustained through diversification but with loss of industrial specialization, undermining structural transformation;

## 4. Understanding industrial policy dynamics in Mozambique

### IP orientation restricted to:

- ❑ Macroeconomic stability and business environment improvement;
- ❑ 'Horizontal' interventions ;

## 4. Understanding industrial policy dynamics in Mozambique

**Fragmentation and lack of coordination of instruments of IP and between sectors, government levels and different actors:**

- ❑ Donors diverging interests and discoordination → Outcomes are limited in scope and short-term (ex. Fragmented intervention around linkage promotion) (Krause & Kaufmann, 2011; Langa 2015);
- ❑ Power fragmentation within the national ruling elite → Effective enforcement of policies requires high political support to overcome internal contestation (ex. sugar industry) (Whitfield et al, 2015);

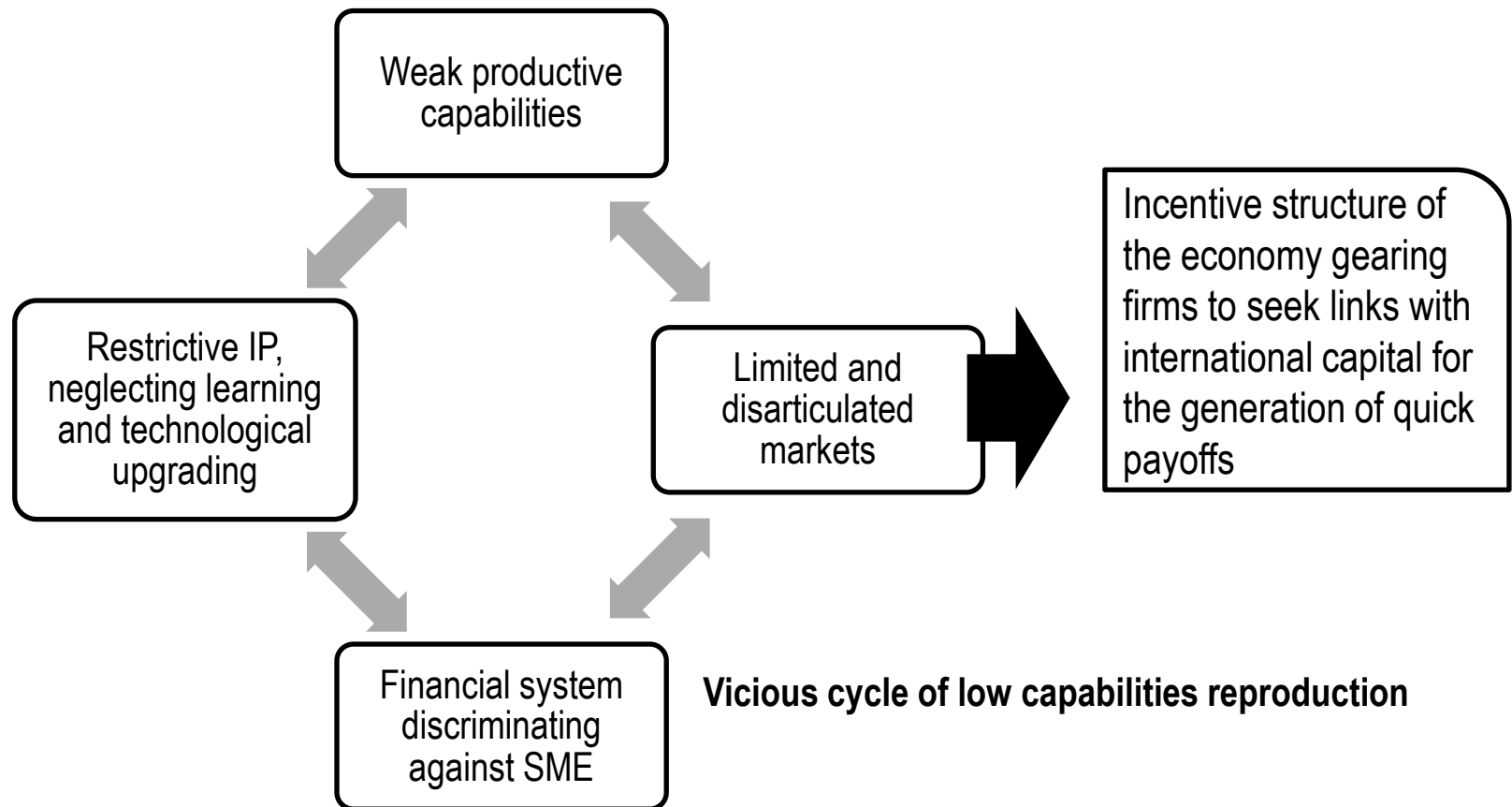
## 4. Understanding industrial policy dynamics in Mozambique

### Small, weak and emerging domestic private sector

- ❑ Earlier emergence of a black domestic private sector prevented before independence and by state-led development adopted after;
- ❑ Emerged from the privatization process in the 1990s;
- ❑ Weak capabilities and absent firm rehabilitation and development mechanisms → Most firms traded, turned into warehouses or became bankrupt within five years after privatization (Cramer, 2001; Castel-Branco et al, 2001);

## 4. Understanding industrial policy dynamics in Mozambique

### Emerging domestic private sector dynamics





## 5. Final Remarks

- ❑ Reverting premature de-industrialisation trend in most African economies, including Mozambique, requires IP shift from reliance on comparative advantage to effectively ensuring learning and technological capabilities accumulation;
- ❑ Key drivers of IP outcomes in Mozambique: the interplay between dominant policy orientation, degree of attainable strategic coordination and power dynamics, and the characteristics of the domestic private sector;