



The Political Economy of Industrial Policy in Mozambique

By Epifania Langa

Day 2 Paper

SC3

Presented at REPOA's 22nd Annual Research Workshop
held at the Ledger Plaza Bahari Beach Hotel, Dar es Salaam, Tanzania;
March 29 - 30, 2017

This preliminary material / interim, or draft research report is being disseminated to encourage discussion and critical comment amongst the participants of REPOA's Annual Research Workshop. It is not for general distribution.

This paper has not undergone REPOA's formal review and editing process. Any views expressed are of the author(s) and do not necessarily represent the views of REPOA or any other organization

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

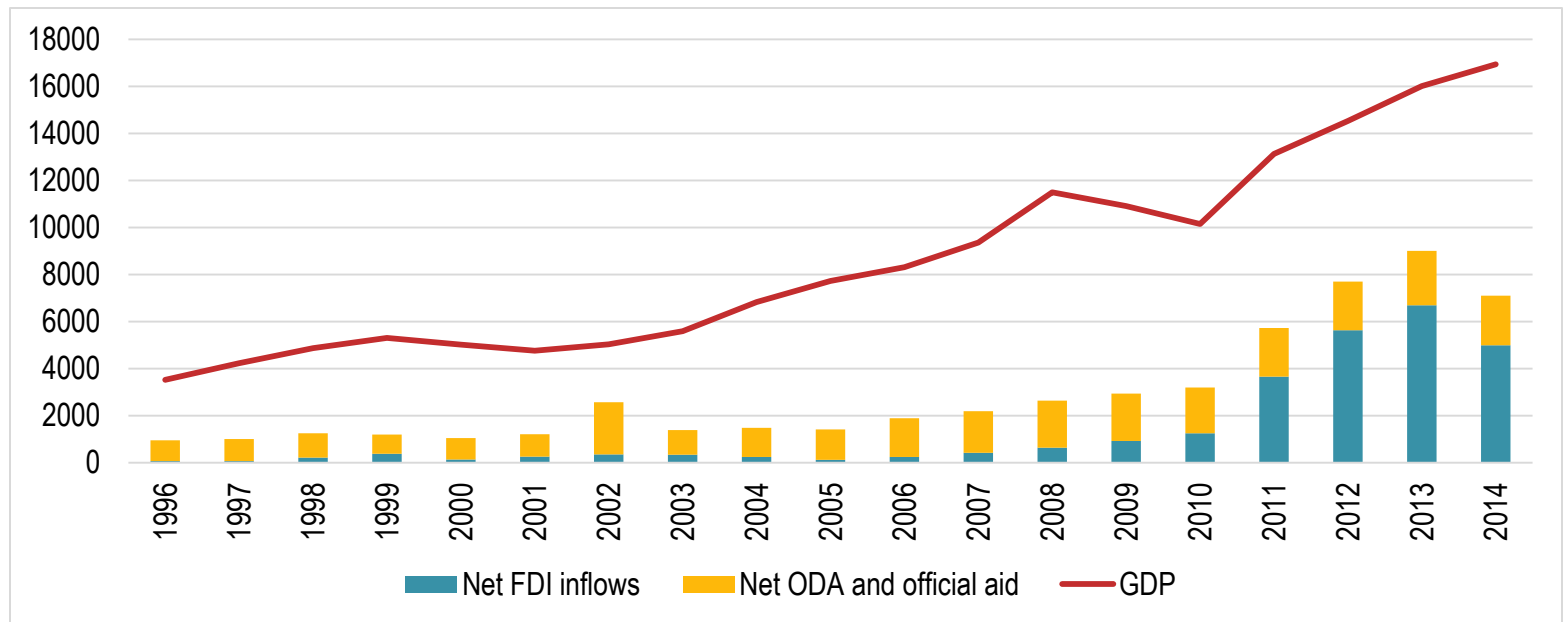
Politics matter: implementation of IPs involves allocative and institutional changes affecting the current distribution of economic benefits (Khan, 2010);

- ❑ 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 and FDI)

Graph 1: Evolution of resource flows and GDP in Mozambique 1996-2015 (current millions US\$)

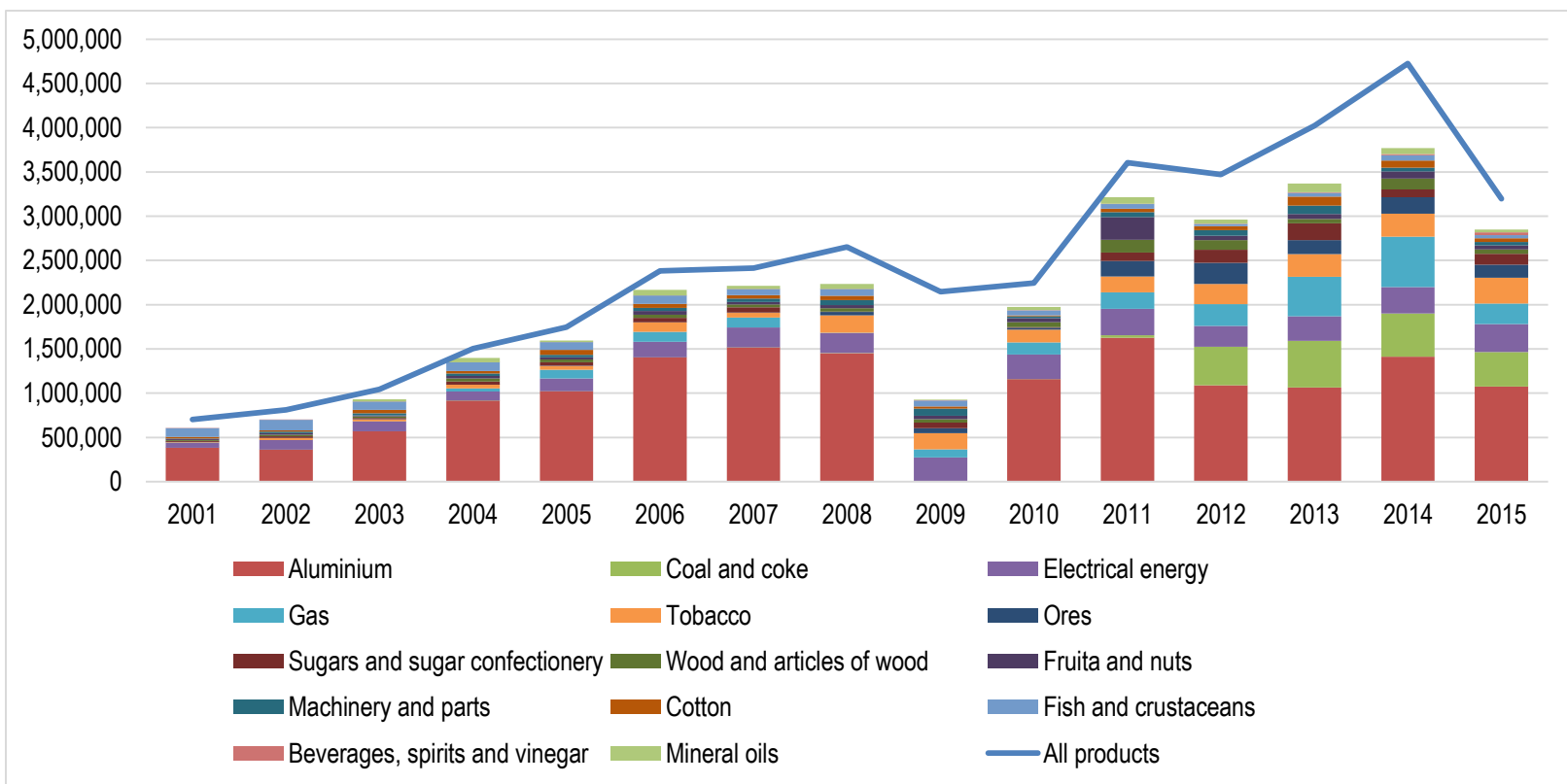


Source: WDI, 2016

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'

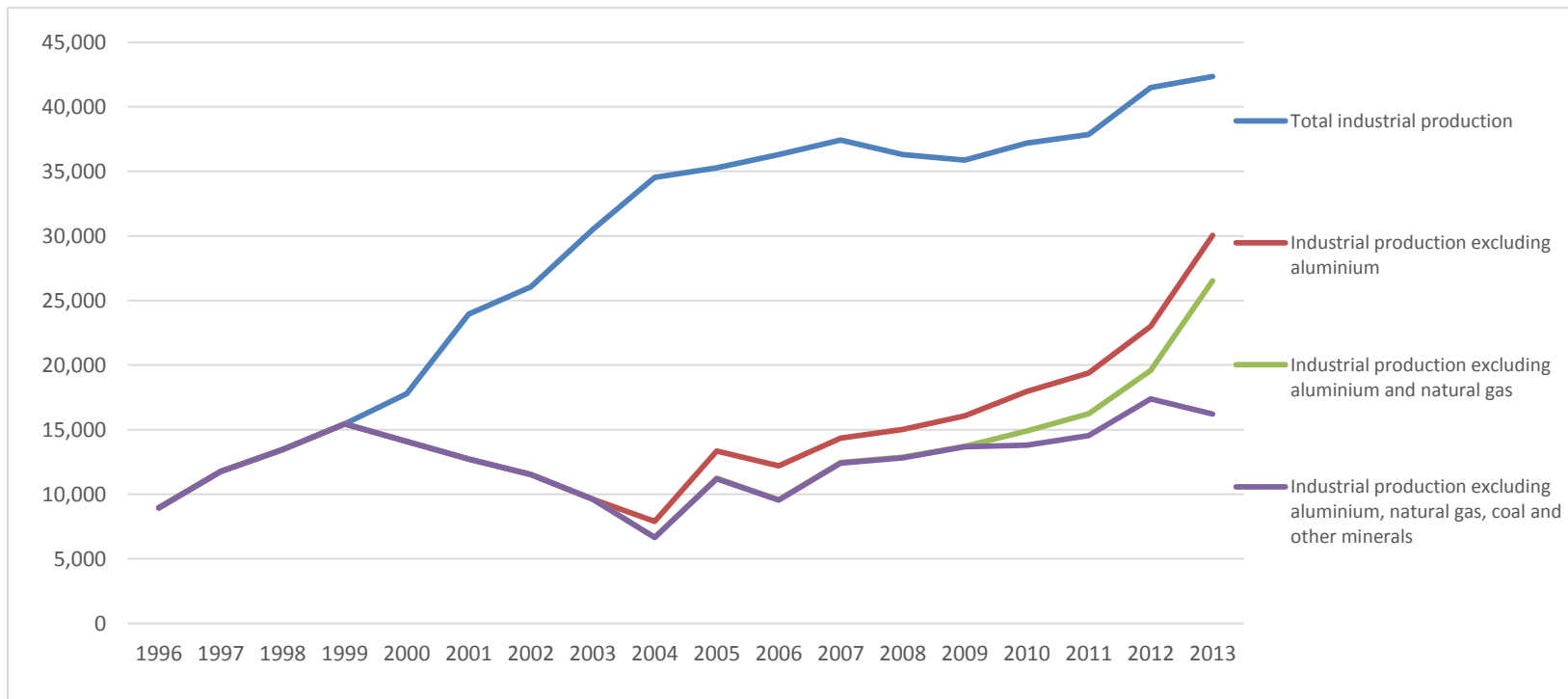


Source: Trademap

3. The Mozambican Economy and its industrial sector

Small and stagnated industrial production excluding FDI megaprojects

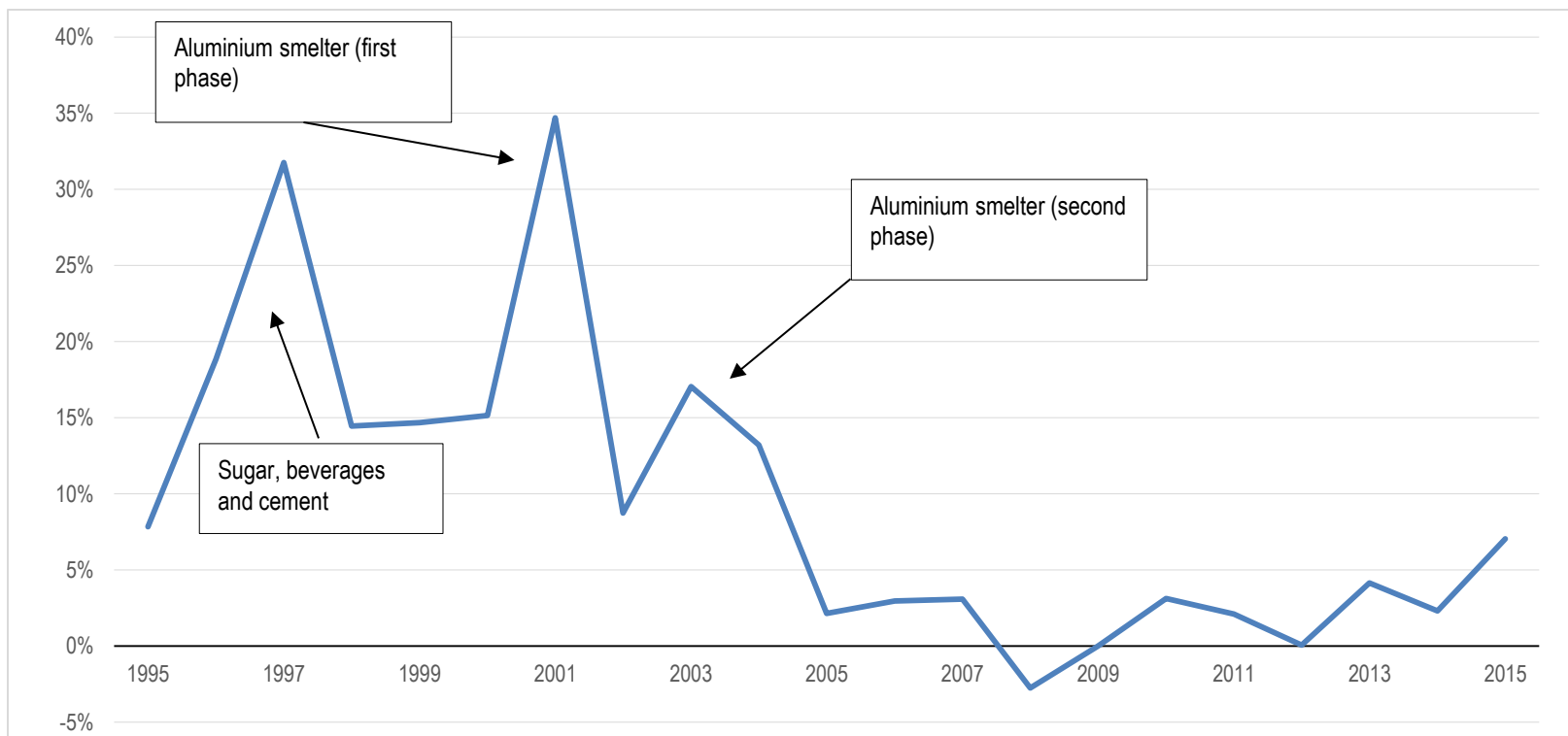
Graph 3: Mozambique's industrial production in 1996-2013 (constant 2009, millions LCU)



Source: National Institute of Statistics

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);

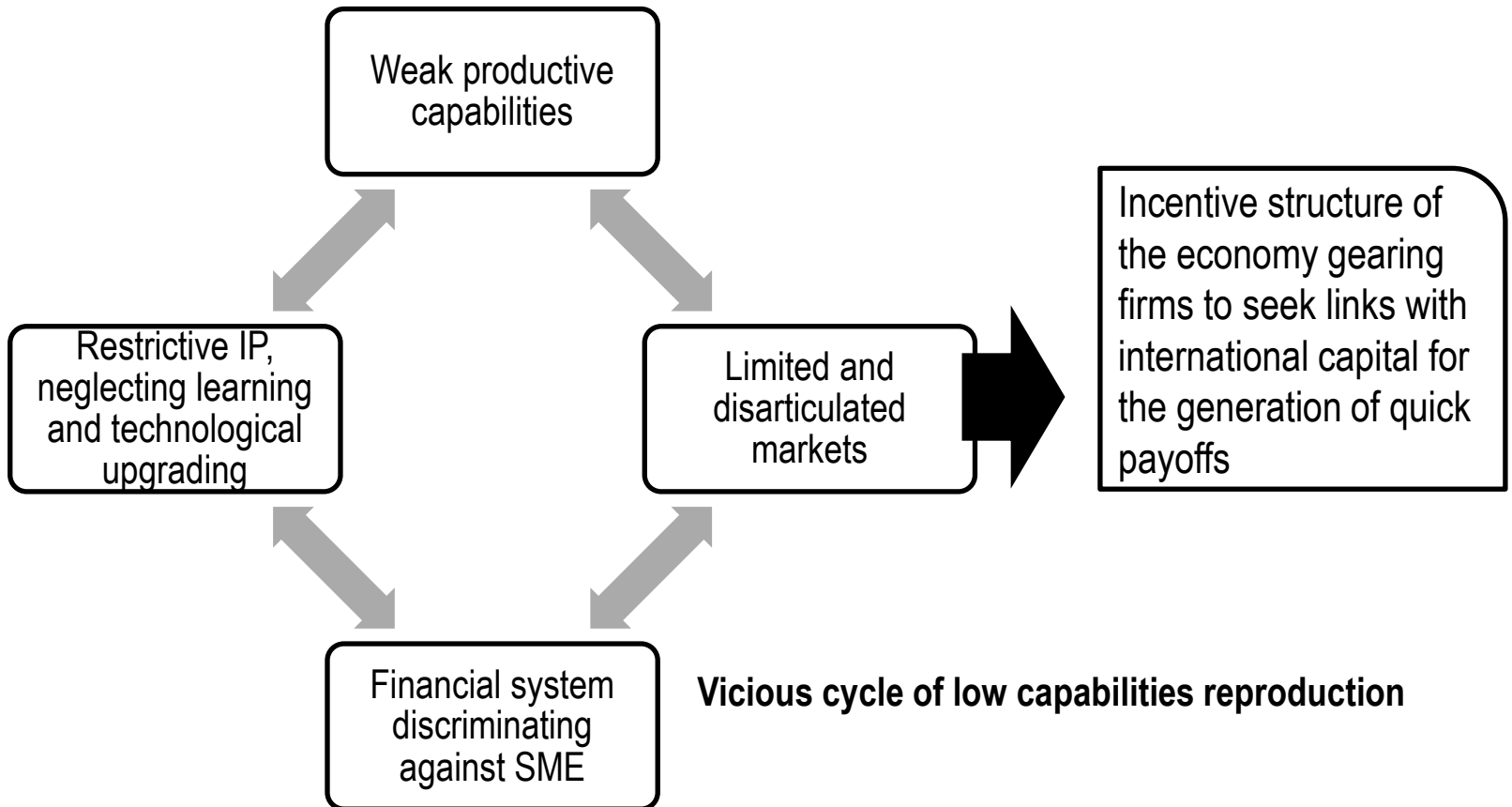
4. Understanding industrial policy dynamics in Mozambique

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;