THE INDUSTRIALISATION OF ZIMBABWE - PAST, PRESENT AND FUTURE

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ABSTRACT

In this paper I look at Zimbabwe's moderately successful industrialisation experience, past, present and future. The lessons that can be drawn from this experience in comparison with what has happened in other countries, both more and less successful, are: that there is a need for an intelligent state role; that both import substitution and export substitution are necessary; that emphasis on industry need not and must not be mean neglect of agriculture; and that the key problem is how to avoid enclave industrialisation which services urban elites but neglects the rest of the country and the region.

1. THE PAST

Zimbabwe has the most highly developed industrial sector of Africa south of the Sahara, apart from South Africa. There are two main factors that contributed to bringing this about:

1. the relatively modest success of mining and agriculture, and

2. the early attainment of a measure of domestic control of the economy.

In contrast to the situation in Zambia with its copper, or Ghana with its cocoa, or a number of other economies in which one primary product was of dominating importance, Zimbabwe did not have a 'real business' that was manifestly the most profitable activity and from which manufacturing industry might have been seen as diverting investment. On the other hand, mining and agriculture were successful enough to make substantial and varied demands on industry for their inputs, from mining equipment for a dozen different sets of geological conditions to irrigation and tobacco-curing equipment, fertilisers and insecticides.

Since Arrighi's seminal essay of 1967(1) the attainment of the white settlers of political power in 1923 has been seen as a crucial event. It is not clear that a desire for more domestic control over investment was a conscious aim of the colonialists at that stage, but political power immediately raised the possibility of investment for the long-term future of the colony, rather than the short to medium-run profitability for metropolitan shareholders, as tended to remain the criterion in other colonies.

Thus began a state-led process of industrialisation favouring settler interests, in part at the expense of the economically dominant British South Africa Company which still controlled mineral rights and owned the Wankie Colliery and the railway. Local capital in the 1920s and 1930s was predominantly agricultural, but small-scale miners (up to a thousand in number) were competing with the larger foreign-owned mines, and manufacturing industry was beginning to supply a range of consumer goods to the settler population, and to seek protection against imports. The 1930s saw the Tobacco Marketing Act (1936), designed to strengthen the power of tobacco farmers against the monopolistic United Tobacco Company, the establishment of the Electricity Supply Commission, and the setting up of the roasting plant, as a disguised subsidy to small-scale domestic goldminers. In the 1940s major state investments were made in the Rhodesian Iron and Steel Company (now Zisco) and in cotton ginnery. Both of these provided a big stimulus to downstream private manufacturers (as well as to cotton growers in the latter case), and manufacturing industry began a steady rise from about 10 % of GDP before the war to 20 % in 1965, whilst agriculture declined in relative terms to about 15 % and mining to about 7 %. Isolation and the economic conditions of World War II and its aftermath provided natural protection, but during the years of the Federation of the Rhodesias and Nyasaland (1954-1963), a complicated tariff structure was introduced, and after gaining preferences in their markets, Southern Rhodesian industry was stimulated by demand from its two less industrialised partners. A complex of opportunities and state responses not available to ordinary colonies thus allowed the development of an industrial structure with few if any parallels outside the independent dominions.

However these opportunities were never pursued unambiguously. As industrial capital grew it developed a need for a larger market, and as it was not yet internationally competitive this meant the internal (or federal) market. This in turn required the expansion of black purchasing power through restoring the viability of black agriculture, and thus it came into conflict with the politically more powerful agricultural capital, the white middle class and white workers, who therefore combined to close off that avenue of expansion by the election of the Rhodesian Front in 1962.

Nevertheless, enforced protection during the UDI period gave an unexpected further stimulus to import substitution, and manufacturing's shares of GDP reached 25 % by 1974, and with continuing protection after independence, over 30 % in 1986. Since 1966, tariffs have been relatively unimportant, with quantitative restrictions on imports being imposed so as to bring the total value of imports in line with export earnings. Because of the shortage of foreign exchange, initially arising because of sanctions on Rhodesian exports, any manufacturer who could demonstrate a capability for local production of any item was very likely to gain protection. Therefore it is important to appreciate that circumstances played a major role in creating a climate conducive to the development of industry: although the state was somewhat interventionist as just discussed, 'natural protection', World War II and UDI also played a major role. Indeed, the professed ideology throughout was of a free market, open-economy nature which was at odds with the interventionist, semi-autarchic policies actually being pursued. Thus it is ironic that successful industrialisation followed from a policy that the dominant ideology would have prevented had circumstances not over-ruled. Government however did not play a very large direct role in industry, although its catalytic effect in steel and cotton were probably crucial. Iron and steel were denationalised in the late 1950s, but government again increased its stake to a majority position in the UDI period, after a major expansion resulted in high financial liabilities when the sanctions-busting of the Austrian partner was exposed. The main direct intervention was through the Industrial Development Corporation (IDC) which was set up in 1963 with capital of 1 million from government and private institutions, and charged with aiding development through strategic investments. These were, however, invariably minority investments, and the IDC appears to have acted, without government interference, as a minor investment company.

Background

After independence, industrialisation was identified as the key long-term requirement for economic development. Aspects involved in formulating an industrial strategy included the dominance by foreign and settler capital, the orientation towards production for an elite, the consequent need for an expanded state role, the

balance between import substitution and export orientation, the orientation to agriculture and the mining, the pressure exerted by the World Bank, and the need to raise the proportion of the population in employment. I do not have space to discuss all these questions explicitly, and so will concentrate on the role of the state, the impact of the World Bank, and export strategy. This will enable an attempt to be made to assess the character, strengths and weaknesses of the 'Zimbabwe model' of industrialisation. First, however, some factual background.

In the years after 1980 the state slowly developed a somewhat greater role in industry, with the IDC both taking over a number of ailing companies, and becoming involved in a wider range of investments, sometimes of a majority nature; in 1983 it had total assets of about ZW\$ 40 million, under 1 % of total industrial assets. In 1985 it was expanded and became 100 % government owned, but remained self-financing, and in early 1988 its capital was increased tenfold to ZW\$ 100 million prior to a new expanded role. It now owns companies in general engineering, film processing, clothing, furniture, vehicle assembly, glass, stainless-steel products and pencils; it has investments in firms making aluminium products, hosiery, abrasives, chemicals, stoves and electronics. It has recently invested in joint ventures with local companies (making polypropylene bags for agriculture) and foreign companies (an explosives factory with Swedish interests), and is involved in major new developments which could lead to the production of chemical pulp and paper, caustic soda, plate glass and copper tubes. After the formation of the Zimbabwe Mining Development Corporation (ZMDC), however, it sold its mining interests, including the Kamativi tin mine.

Government has also made direct (usually controlling) investments in CAPS (pharmaceuticals), Zimpapers (publishing), Heinz-Olivine (oils, fats and canned food) and Zimbank, and it has recently acquired a large interest in the largest company of all, Delta Corporation. Most of these expansions of state ownership followed from tactical decisions relating to such factors as the need for cheap drugs for the expanded health service and the reduction of South African influence in key areas such as information and banking; all involved market purchase of shares by the state with no suggestion of expropriation, although government was often able to drive a hard bargain.

State and market

A more formal state role in industrial development was promised in *Growth with Equity* in 1981 in the proposal for a Zimbabwe Development Corporation, which was not in fact established until 1988. The slow progress in this direction is clearly associated with the more general failure to grapple with the problem of planning for

industrial development, itself constrained by the context of continuing private ownership of the majority of industry. Despite the fanfares associated with the Transitional National Development Plan, 1982/83 - 1984/85 (TNDP) and the First Five-Year National Development Plan, 1986 - 1990 (FFYNDP), no coherent industrialisation plan was included, and no instruments or institutions for such a plan were processed. Many industrial projects were included, but these were largely put in on an ad hoc basis, depending almost entirely on whether they were already being considered by a company or other interest group; there was no prioritisation or attempt to relate them to each other or to other industries needed as part of a planned process of industrialisation.

In fact since independence, state policy towards industry has been very conservative, with the inherited structures of state intervention and protection through control foreign exchange and trade, being preserved with only marginal changes. This may seem paradoxical in that these structures were set up largely as defensive measures against sanctions, and were designed to safeguard the privileges of the white elite. Why, we might ask, should they be preserved by a government inspired by Marxism-Leninism, and seeking greater equality? The answer probably lies in the new state's desire for control over the mainly white or foreign owners of industry, its desire not to risk de-industrialisation by removing protection, and a stated desire to plan the economy. But it is much less clear that instruments to protect a minority regime against sanctions are the best ones to protect and develop an industry for an independent nation. The conservatism has certainly preserved industry and allowed it to grow modestly (the volume of output in 1989 was 31 % higher than in 1980), but there has also, despite the rhetoric, been a conservatism in *functional* ideology.

I shall try to explain why I say this: we have seen above that before independence industry developed under protection, despite the open-market economy ideology of the colonial and rebel governments. But even after independence, under a nominally Marxist regime, the government - or at any rate the ministry of finance, economic planning and development (MFEPD) - from the start made regular statements that its aim was liberalisation of the foreign exchange and trade regimes, even if in part this may be seen in response to pressure from the World Bank and the IMF. What is clear is that there has been no attempt to develop an alternative to liberalisation through the construction of a coherent plan for deepened industrialisation, although precisely that has been called for by some other sections of government. The controls provided by existing structures have been used primarily to maintain an overall balance of payments, secundarily to sustain and develop export-earning (or import-saving) industries, and only intermittently and on an ad hoc basis have they been used, as they might have been, to pursue longer-term objectives.

It is true that the state role has expanded, both in ownership and control. However, except at the purely rhetorical level, this has not related to any grand socialist strategy or any attempt to introduce central planning: state interventions have always had parallel pragmatic justifications. The confusion between socialist rhetoric and conservative pragmatism may be most clearly seen in the introduction to the TNDP where in one paragraph there is an abrupt transition from a statement of the need to develop socialism and greater equality, to a commitment to promoting the conditions for greater foreign investment, with the clear implication that the authors believe that the latter can promote the former.

Liberalisation also appears to be a theoretical idea for the white dominated business community, with a phased implementation of it gaining verbal support from the Confederation of Zimbabwe Industries (CZI) in 1987. In practice the members of the CZI are loud in their condemnation of particular breaches of protection, and they generally recognise that they benefit from state interventions, not only in providing protection but also (for established firms) reasonably guaranteed foreign-exchange allocations at a favourable exchange rate.

The continuing foreign-exchange shortage and the fear of losing control of the balance of payments therefore prevented any significant moves towards liberalisation on the part of government until this year. Thus we find a continuity between pre- and post-independence policy applying also at another level: external factors have forced a policy broadly favourable to industrialisation despite the official desire to operate a different policy.

The theme that I shall therefore be developing is that Zimbabwe's policies towards industrialisation have been broadly correct, but inadequately theorised, and pursued with insufficient priority. They have been prey to short-run balance-of-payments constraints which have often resulted in perverse outcomes and serious inefficiencies which could have been avoided. Consequently they have been unable to respond adequately to the continuous sniping from the World Bank from its base of a more coherent (but I believe incorrect) orthodox, free-market theory of development.

The World Bank's pressure

The World Bank and the Competitiveness of Zimbabwean Industry

The 'Jansen Report'(2) on the international competitiveness of Zimbabwe's industry, was commissioned in 1982 in connection with the first loan that Zimbabwe received

from the World Bank; the 'Belli Report'(3) An Industrial Sector Memorandum followed four years later.

Now both reports were highly critical of Zimbabwe's past and present industrialisation and foreign-exchange policies, so it is important to appreciate at the outset that even in the reports' own terms the overall results they obtained pronounced a quite favourable verdict on Zimbabwe's achievements:

Although Zimbabwe manufacturing may not be clearly efficient in an absolute sense, it is very efficient compared to other manufacturing sectors in Africa and many other developing countries.(4)

Whereas the overall DRC(5) was estimated at 1.27, similar studies had given 1.95 for Ghana, 1.83 for Cameroon and 1.34 for Ivory Coast.

As the last-named country is frequently praised by the World Bank for its relatively open policies(6), it should have seemed all the more remarkable that Zimbabwe should show a better result, after nearly two decades with a relatively closed economy, during which it added to its industry a range of more sophisticated processes requiring more protection as infants in any case.

Belli's solution is to express surprise at the success (despite the system), and then to pass to a catalogue of what it sees as disadvantages of the system (some real, some already solved, some merely disadvantages to the operation of capitalism), without ever mentioning any advantages.(7) All World Bank or IMF reports in the end turn what evidence they have to recommending the standard free-market package, modified only slightly for a country's specificity.(8) Even if one were to accept that this package was appropriate for a country (like Zambia) in serious trouble after a commodity collapse and failed industrialisation strategy (although this could of course be challenged), it does not necessarily follow that it would be appropriate for a country with a significantly more successful industrial record. One is therefore tempted to ask how successful Zimbabwe's policies would have to be before the World Bank would be obliged to alter its prescription.

My detailed criticisms of 'Jansenism' follow in the next section, and fall under two main headings: misuses of the methodology and neglect of the reservations made by more sophisticated practitioners of the methodology such as Bhagwati.(9)

The Jansen Report

The Jansen study attempted to survey the ten main branches of manufacturing industry, investigating 122 firms representing 62 % of the output in 1981. (In fact as it restricted attention to only three products per company it covered only a tiny fraction of the 6200 products listed in *Products of Zimbabwean Industries* in 1980.(10)) The efficiency of these firms relative to international competition was judged by calculating their domestic resource costs. Where these were above unity Zimbabwe would, according to the ideology, gain by closing down such firms and devoting the resources so freed to ones with DRCs below unity.

The methodology of the Jansen Report is thus very simple (or simplistic?); however, it is very difficult to judge the quality of the data inputs.(11) The report in fact falls short of acceptable standards even in terms of its own methodology. The DRC approach (even ignoring the caveats as to the use to which its results may be put) requires genuine shadow pricing of factor costs, painstaking collection of international prices of tradables, and more reliable calculation of the appropriate exchange rate. If one wished to be cynical one could say that Jansen had considerable difficulty in achieving a DRC above unity for Zimbabwe, and this achievement depended on both overvaluing the social price of domestic factors and undervaluing the social price of value added in the output of Zimbabwean industries.

As countries in early stages of development (Japan and South Korea are probable examples) have often tolerated negative value added in infant industries for moderate periods, with consequent large and even negative DRCs, a DRC value of 4 (as found by Jansen for some metal industries in Zimbabwe) may be seen as quite moderate. And yet this figure is used to imply extreme inefficiency, for it states that \$ 8 million of domestic resources are earning or saving only \$ 2 million of foreign exchange, whereas if transferred to an activity with DRC of unity they would be earning or saving \$ 8 million. Even if we accept the average DRC of 1.27, with most sectors of industry having values between 0.9 and 1.4, a value approaching 4 (with 4.4 for Zisco alone) appears to be damning. This however is an artefact of the way that DRCs are calculated: it can easily be shown(12) that a rise in revenue of only 30 % would suffice to reduce the DRC to unity.

The ideological blinkers of the Jansen Report result in it attributing all variations in DRCs to inefficiencies in the trade regime. Indeed Jansen goes further, at one point(13) even stating that market imperfections are 'considered to be entirely the result of government policy'. Jansen, like the World Bank, advocates a larger role of the market, including the world market; in the context of an 'efficiency analysis', 'market imperfections' becomes a loaded term implying that there is no alternative but a change in government policy in the direction of trade liberalisation.

As the overall DRC for Zimbabwe's manufacturing industry was calculated at only 1.27,⁽¹⁴⁾ it could hardly be claimed that Zimbabwe should not be manufacturing, but should concentrate on mining or agriculture. However, with a spread of 0.66 to 3.62 amongst the branches of manufacturing industry, the possibility of serious inefficiency in some activities is raised. And in some of these branches individual companies scored still higher (up to 5.44) on the DRC scale.

I am not therefore suggesting that such figures (if correctly calculated - see below) should be ignored, but a reasonable approach would seek what lessons were to be drawn in terms of installing more modern plant and equipment, much of which had been run down following 14 years of sanctions. Jansen, however, despite conceding that for the metal products sector 'a major reason for the poor performance of the firms in this activity is the fall in the world prices for steel and metallic minerals' nevertheless concluded that '...the country would save foreign exchange by closing them down instead of running down their fixed capital. The ensuing massive layoffs of workers would be undesirable, but a study of alternative product lines and more efficient use of existing plant and machinery should be undertaken'. When would such a study not be good advice? The important point concerns the long-run prospects for industry rather than short-run savings during a world slump.

The World Bank's Industrial Sector Memorandum: The Belli Report

The Belli Report⁽¹⁵⁾ was the first substantial in-house analysis of Zimbabwean manufacturing industry by the World Bank. As such it is interesting to discover whether it takes account of the almost universal and damning criticism of the Jansen report (privately admitted to have effectively discredited it), which led to the latter's rejection by the Zimbabwe government. Unfortunately once again, although Belli begins with a brief history of Zimbabwe's experience with industrialisation, and discusses the specifics of Zimbabwean practice and institutions, the recommendations which follow are in all respects exactly those which someone with no knowledge of Zimbabwe, but familiarity with the World Bank, would have predicted.

In its consideration of how the present structure of manufacturing industry has arisen, the Belli report acknowledges that the effective start of industrialisation occurred during the Second World War under natural protection and some state initiatives in the steel and textile industries; that the Federation with what are now Zambia and Malawi from 1954-1963 benefitted Zimbabwean industry internally through widening its market, and externally through tariff protection; and that the enforced protection during the UDI period resulted in the creation of about half of present industry, protecting some 6000 distinguishable products as compared with some 600 before UDI. What the report plays down⁽¹⁶⁾ is that this was a process involving a high

measure of both state protection and state control and initiative (in key respects if not always in detail). It also attempts to play down the importance of the UDI period, when protection and control were most visible, by emphasising that a half of industry was in place beforehand (implying wrongly that this had arisen primarily through market forces)(17), and that structural changes inside the manufacturing sector during UDI were slight.(18)

The scientific and objective tone of the Belli report is in fact spurious, for the essence of the scientific method is the rejection or modification of hypotheses in the light of conflicting evidence. However, as in the case of Jansen, the Belli mission seems to have started from a received and inviolable theory, so that the task it set itself became one of fitting facts that could not be ignored into the framework, without modifying it in any way. At its weakest, when it is obliged to report that Zimbabwe has had success with policies of a type that it recommends should be abolished, the report can do no better than state that this success is surprising! Equally, no mention is made of countries which have had failures with World Bank policies, or those which have had success with opposite policies.(19)

The propagandistic intent is also evident, despite the sober language, through the fact that only arguments against the present system and its disadvantages are presented. In some cases we may in fact agree with their recommendations, but this would be as a result of a judgement that the disadvantages outweigh the advantages; however the latter are never even referred to by Belli, although in my view they are crucial.

As with Jansen the over-riding criterion employed is that of short-run efficiency: present policies are judged inefficient because the market would dictate a different pattern of relative prices and resource allocation. Considerations of equity, of a desire to construct a socialist society, even of the need for structural change for development, are implicitly relegated to a subsidiary category whose main characteristic is that of imposing costs above the level of a market outcome. This implies an underlying assumption that the basic structure of the economy is sound: all that is needed is to allow market forces to favour those activities for which a comparative advantage already exists. The report, in other words, denies the need to promote structural change (despite this being an oft-repeated government aim), either for social justice or for the purpose of developing comparative advantage in new areas. The primary aim of the Belli report is thus to accelerate the process of reintegrating the Zimbabwean economy into the world market system in such way as to make any attempt at an independent policy (even of economic nationalism, let alone of socialism) impossible.

As the conceptual and methodological weaknesses of the Jansen report had been severely criticised(20) and as the report was rejected by government, the World Bank

understandably wished to distance itself from Jansen; however it clearly wanted to retain the conclusions, and to quote the results of the earlier study where it was unable to repeat the field work.

The Belli Report is therefore by and large only implicitly critical of Jansen(21), despite quoting significantly more favourable DRC values from its own field work; although this changes the specific recommendations, the general ones are untouched. Thus Zisco, which on Jansen's figures should have been written off immediately(22), is now judged to be potentially very efficient with a significant comparative advantage (i.e. DRCs below unity) if appropriate adjustments are made to the crude figures.(23)

The report gives a number of reasons why it obtained such a startlingly different result from Jansen, including the subsequent devaluation and her failure to calculate proper shadow prices. These confirm some of the earlier criticisms made of Jansen and her uncritical use of the DRC methodology, and in particular the extreme sensitivity of the ratio to changes in one component of the denominator.(24) But if a reinvestigation of Zisco can change a DRC of 4.4 (meaning, let us remember, that for every US\$ of value created, US\$ 4.4 worth of domestic factors are consumed - i.e. US\$ 3.4 are wasted), to a DRC of less than unity, how reliable should we regard her other calculations? And even if they were accurate how useful are they if they are so sensitive to change? And what weight should we attach to her overall DRC figure for manufacturing industry of 1.27? Should it really have been about 0.9? Or 0.5? (Belli's other recalculations relate to only five firms in the textile and fertiliser sub-sectors, and they also are significantly, though not quite so dramatically, below Jansen's). Nevertheless (despite privately expressed embarrassment) the Belli report explicitly admits to drawing on the Jansen study, and indeed falls back on it repeatedly.

The Belli Report shares with Jansen an obsession with static comparative advantage (which is what DRCs really measure) to the near exclusion of longer run considerations. It is accepted that it is common for governments to protect industry, but the reasons for this are not discussed. Neither the exception to neoclassical theory of infant-industry protection, nor structuralist, nor socialist theories of industrialisation are mentioned(25). Equally one could not guess that 'model' countries, like Japan and South Korea at early stages of their development (to say nothing of the socialist countries), consciously decided to create new comparative advantages through protection; that is they invested heavily in industries which had high DRCs at the expense of existing ones with lower values. In arguing against the present system, the report implies that it might have been necessary during UDI, but that those conditions no longer obtain. This may well be true, but it misses the point that if the high degree of protection and the discretionary (as opposed to market-determined)

allocation, were responsible in large measure for the economic success (as we would argue), there is no reason why these elements cannot be used now under more favourable conditions. The boot should really be on the other foot, for it is the report's recommendation that a free-market, export-led strategy could generate the type of success seen in South Korea, that assumes conditions that no longer obtain. Aside from the fact that the internal components of the South Korean strategy were far from free market, few would maintain that the favourable world market conditions enjoyed by that country in the crucial take-off period of the 1960s obtain now, or that (unlike the case with planned allocation mechanisms), developing countries can do anything significant about it.

Jansen and Belli in Perspective

In effect these two reports present the pattern of DRCs amongst branches of manufacturing industry in Zimbabwe as a 'hit list'. The arguments in Jansen amount to the claim that any shift from a high DRC firm to a lower DRC firm (it is irrelevant whether they are both above or below unity, or whatever) will increase efficiency: that is the spread of DRCs is (by definition) too large. Jansen's arguments lead to the conclusion that in the end all resources ought to be employed in the single activity with lowest DRC. If this ridiculous conclusion (implicit also in Belli) is rejected, where does one stop on the way towards such an outcome? The report offers no guidance; it might be quite soon, or it is even possible that Zimbabwe might have already gone too far towards this extreme. Any position of differential DRCs is open to the arguments they make.

In order to promote international competitiveness the Belli report suggests that either the most capital-intensive new machinery has to be imported, or real wage-rates have to be squeezed down to the levels of the main far Eastern competitors. Both options are inconsistent with Zimbabwe's socialist aims in the short run. Devaluation could increase the competitiveness of the industry, but at the expense of making imports more expensive, reducing living standards, and transferring income from importers and their customers (industrialists and consumers of industrial products) to exporters (largely foreign-owned mining, ranching and plantations companies and settler farmers).

The Jansen and Belli Reports sit so centrally in the mainstream of World Bank and IMF advice that their major procedural failings merge imperceptibly, through the ignoring of Bhagwati's caveats, into the ideologically loaded nature of World Bank methodology in general. The methodology, in subtler hands and with painstaking data collection, can certainly derive reliable knowledge on static comparative advantage (and thereby provide a useful guide to short-run efficiency);(26) there is,

however, no methodology that can reliably handle dynamic comparative advantage, dealing as it should with several dimensions of the future: the gaining of economies of scale by infant industries, learning by doing, technological change internally and externally, short and long-term changes in world markets, and so forth.

Zimbabwe's alternative

The Belli Report, recognising that there would be strong political resistance to its proposals, described what it calls 'a second best alternative' (27). This would involve various measures designed to promote exports at roughly the present exchange rate, to reward exporters with forex allocations for domestic-market production, and to make it easier to import essential spare parts and similar commodities. Import, price and investment controls would have to be retained in this case: Belli saw this as a negative factor because of 'the distortions that they introduce' - i.e. relative to the world market prices (28). I would however argue that these controls could be simplified and reformed in several ways, both so as to increase the efficiency of their operation and also so as to allow the introduction of more economic analysis into the decision-making process.

In fact Zimbabwe was already following just such a policy, partly as a result of earlier World Bank advice. Thus it operates an export-revolving fund, in which companies with firm export orders can obtain effectively whatever forex they require in order to purchase essential imported inputs (and in some cases spare parts or even new capital equipment): this was originally funded by the World Bank, but was soon operating from the Reserve Bank of Zimbabwe (RBZ) as part of its normal procedures. There is also an export-incentive scheme, and a domestic-market forex allocation based on the extent to which firms raise export levels. In addition a policy has been followed of managing the exchange rate of the Zimbabwe dollar so that its value as measured by a trade-weighted basket of foreign currencies has been falling slowly in real terms. These measures have raised the volume of exports of manufactured goods every year for the last six years.

Thus Zimbabwe has been following successful policies, unlike most countries in sub-Saharan Africa (including South Africa), as evidenced by an average growth rate in the 1980s of almost 4 %, in which 'non-traditional manufactures' have played a large role. Undoubtedly these policies could still be significantly improved, in terms of raising export earnings and in terms of more rapid growth of industry for the domestic, regional and wider export markets. But I will conclude this section by making two further points:

1. These policies are in essence the same as the policies of the newly industrialised countries (NICs), in particular South Korea, where contrary to orthodox mythology, there was significant government intervention, protection of the domestic market, highly selective quantitative controls on imports, the linking of import licences to export performance, and a battery of other export-promoting measures having little to do with short-run market prices. Zimbabwe has been less successful, partly because it has had much less consistent or thoroughgoing policies, partly because of a much less favourable geographical situation (it is landlocked, and it has been subject to destabilisation by South Africa), partly because it received proportionately much less aid and fewer trade concessions, and partly because the world trading environment was much less favourable in the 1980s than in the equivalent period of the 1960s for the NICs.

2. For all Belli's concession that such policies are at least 'second best' (i.e. not totally wrong or counterproductive, merely theoretically sub-optimal according to orthodox ideology), the World Bank has in practice acted to reduce the extent of their success. Thus as the time that the beneficial results of the export-revolving fund were being recorded, Zimbabwe began negotiations with the Bank for a larger fund which would have extended the benefits to the agricultural and mineral exporters also. Such a fund was agreed in principle in negotiations with the Bank's country staff, and was at the point of being signed when it was vetoed by the ideologues at the highest level of the Bank. Four years later it has still not been made available. The price Zimbabwe was being asked (and refused) to pay involved faster devaluation, a commitment to thoroughgoing liberalisation, and, it is believed, an end to socialist rhetoric. As the new fund would have improved an already successful policy, it does not seem too cynical to argue that the Bank refused to support it precisely because it might have succeeded only too well.

Zimbabwe, by then having a good credit rating, was nevertheless able to borrow commercially to set up a similar fund of its own. This of course was on much less favourable terms than the World Bank could have offered, so the outcome is that the latter has in effect deliberately depressed Zimbabwe's exports in pursuit of the imposition of an ideology that argues for the primacy of international trade!

The World Bank victorious?

During 1988 and 1989, with rapidly rising exports and falling debt-service ratio(29), calls for liberalisation lost much of their force. However, it was also clear that the existing system was operating less and less efficiently in that there were increasing delays in making decisions, and increasingly widespread corruption (the evidence

from the Sandura Commission⁽³⁰⁾ was only the tip of a large iceberg) was throwing the rationality of the foreign-exchange allocation system into doubt. In 1988 the widely respected and dynamic permanent secretary in the ministry of trade and commerce was sacked and charged with corruption - on a very minor matter which he claimed was dug up precisely because he had refused to go along with major malpractice by his superiors. The consequence for a time was that almost no decisions were taken on foreign-exchange allocation in the ministry, because more junior staff feared that any discretion could in principle lead to charges of corruption from quarters that felt that they had lost out.

Nevertheless, this was still the system that had delivered positive results, and the most obvious diagnosis should have been for reform. This is what was argued by the ministries of industry and technology, and labour and manpower development. The more orthodox ministry of finance, economic planning and development (MFEPD), however, plainly wished to reach an accommodation with the World Bank: an event seen as highly symbolic by the press - the marriage of the minister's daughter to the son of the World Bank's resident in Zimbabwe - also took place in 1988. The compromise reached seems to be that a phased liberalisation over five years has been agreed on, and may be implemented from July this year. Very careful monitoring will take place, so that firms will not become unviable simply because of earlier inability to retool caused by forex shortage, or because of closure of local sources of supply. Nevertheless the basis does seem to be a switch from quantitative controls to a tariff-based system, which will remove from government a major instrument for planning industrialisation policy.⁽³¹⁾ Since, as we have seen, such instruments have not actually been used to a significant extent, it is possible that the net result may yet be beneficial, if control is retained over strategic parameters of policy, including the tariff structure (this will mean resisting World Bank demands for lower and flat-rate tariffs). One pointer to possible disadvantages, however, is seen in the reported 'own goal' by government when it introduced a preliminary liberalisation measure late last year, raising the level above which importers need to seek an import licence from ZW\$ 500 to ZW\$ 5000. This was intended to ease greatly the obtaining of spare parts by industry. Instead there is evidence of a big increase in the import of luxury consumer goods, especially computers, video recorders and colour TVs, and a halving of the black market value of the Zimbabwe dollar as those with spare local funds try to mobilise the necessary foreign exchange. This may be only a small forerunner of the consequences that opponents of liberalisation have warned of, should the phasing, monitoring, or consequent corrective action prove deficient.

3. THE FUTURE

Attempts to predict the future almost always fail, even (or especially) when formal mathematical models are available. Intuition (or guesswork) based on detailed knowledge of an economy often provides as good a guide as any, but only if neglected factors do not turn out to be significant. Here I am going to retreat onto the safer ground of scenario construction, based on certain explicit assumptions (for some of which I have no secure grounds). The assumptions are: that there will be no more than one severe drought affecting core agricultural areas every five years (the south and west will probably be affected every other year); that destabilisation by South Africa will cease to be a significant factor and that most of Zimbabwe's trade will switch to using Mozambican ports.

The two main factors are unpredictable internal and regional policy outcomes, and together they lead to six main scenarios. The first relates to the question of liberalisation of economic policy in Zimbabwe; here it is possible that:

1. government will retreat into perpetuating the present system without substantial reforms;
2. it may reform the system or implement phased partial liberalisation which places control over key economic instruments in the hands of active planners;
3. rapid liberalisation may occur, turning the majority of decisions over to the market.

Regionally, South Africa may:

- a. reach a settlement in which market policies and an inflow of foreign capital restore it to a major sub-imperialist role; or
- b. the settlement may be of a nationalistic, even socialist, nature, with South Africa becoming a valued member of the SADCC.

Of the six possible combinations of the above two factors, I will elaborate only 2b and 3a here. 3a, which I shall refer to as the World Bank model, would result in rapid de-industrialisation. 2b, an extension of the existing Zimbabwe model, offers the only significant hope of long-run industrialisation, and therefore of any form of meaningful development.

The World Bank Model

Liberalisation should in theory raise the (static) efficiency of an economy because less efficient firms and activities will be forced to become more efficient or else they will be replaced by more efficient importing or by new firms. Now almost all sub-sectors of manufacturing industry in Zimbabwe contain efficient and inefficient firms, but because of the small size of the economy, many products are produced in a highly monopolistic context. Therefore over-rapid liberalisation would produce rather random results, with lines of production disappearing in favour of imports not because Zimbabwe has no comparative advantage in their production, but rather because they happen to be produced by less efficient firms (or by efficient firms which have not been granted the foreign exchange to invest in modern technology). Initially therefore only some highly efficient sections of industry would certainly survive, but eventually many of these would lose their local linkages, and eventually there would probably be few survivors not tied to mining and agriculture and basic food processing.

With the proximity of an open South African economy of much greater size, rationalisation would reduce the Zimbabwean economy to a periphery of a periphery: relatively few industries, and probably no highly advanced ones, would survive in South Africa itself, and those which did would have a huge competitive advantage over their Zimbabwean equivalents.

Static comparative advantage would be the prime criterion, and the integration of the region into the world economy would force specialisation in primary production: mineral products and a limited range of agricultural crops. Industry which added value to these would survive to some extent, but the most obvious source of comparative advantage - cheap labour - now has no relevance whatsoever to almost all manufacturing industries. It is noteworthy that whereas advocates of liberalisation offer an inflow of foreign investment as a job-creating consequence, very little private investment has flowed of recent years to any part of the Third World, and what has, has been of a remarkably capital-intensive nature. Almost no new investments in Zimbabwe recently (domestic or foreign) have created jobs for less than ZW\$ 100,000 each.⁽³²⁾ These are the levels dictated by the need for competitiveness in the world market; a simple calculation shows that even investment at ZW\$ 50,000 would only create jobs for a tenth of Zimbabwe's school-leavers even if the investment ratio rose to over 30 %. The World Bank model is thus a recipe for continuing poverty for a region which has been allocated the role of cheap commodity provision for the developed world, and which would provide remunerative employment for only a fraction of its population.

The Zimbabwe Model

Zimbabwe has industrialised - as almost all countries before it - on the basis of a measure of protection from more advanced economies, whether natural, arising from war or sanctions, or resulting from government policy. Naturally because protection is protection against more efficient firms and economies elsewhere, it is protection to present inefficiency. Preservation of industries because they happen to exist now, or creation of new industries because they are technologically possible (plans are current in Zimbabwe for establishing a machine-tools industry) cannot therefore be justified independent of considerations of future efficiency.

But 'efficiency' is a question-begging term. We could easily accept infant-industry protection on a mechanical basis for firms or activities which can demonstrate that they will be mature and internationally competitive in, say, ten years' time; even the World Bank might agree. More important is to look at the efficiency of an economy as a whole: an economy employing barely 10 % of its population (as Zimbabwe is now) and consigning the rest to subsistence and handouts, is neither efficient nor humane. But an economy spreading similar investment over most of its workforce (and thereby raising employment five-fold) would produce almost nothing at internationally competitive rates, and would therefore have to subsidise exports, thereby violating GATT, World Bank and IMF principles.

Zimbabwe has not yet been able to follow such a policy very effectively, although since independence it has kept alive the possibility of switching to it, and as we have seen has developed a way of breaking into export markets that could be developed much further (learning from the South Korean experience for example). South Africa will face almost exactly the same dilemma, with the aspirations of its highly politically conscious population certain to be thwarted if World Bank policies are imposed. The sharpness of the contradiction in South Africa could still be resolved in a socialist revolution, but short of this may still allow a compromise or stand-off in which more egalitarian industry- and employment-generating policies become a possibility. Both South Africa and the SADCC region, including Zimbabwe, could benefit from regional cooperation in this eventuality. There is no space here to spell out the details of corporation and specialisation that would be required (the SADCC provides a model for the very early stages), but I will conclude by making one rash prediction: that the failure of IMF/World Bank structural adjustment policies for other countries will become manifest during the next five years, so that a measure of space may become available for other countries and regions attempting industrialisation and modified structural adjustment on the Zimbabwe model rather than the World Bank one.

NOTES

1. Arrighi, G. *The political economy of Rhodesia*, (The Hague: Mouton), 1967.
2. Doris J. Jansen, *Zimbabwe: Government Policy and the Manufacturing Sector*, a study prepared for the Ministry of Industry and Energy Development, executive summary and 2 main volumes, April 1983, mimeo. (Unless otherwise stated, further references are to the main report, Volume I.)
3. *Zimbabwe: An Industrial Sector Memorandum*, World Bank Report No. 6439-ZIM, of a mission to Zimbabwe in October-November, 1985, led by Pietro Belli, (World Bank, 22 May 1987).
4. Jansen, p. 7.
5. The accepted definition of the DRC for a particular activity is: "The value of domestic resources (evaluated at 'shadow' or opportunity cost prices) employed in earning or saving a dollar of foreign exchange (in the value-added sense) when processing domestic goods"; see J.R. Behrman, *Foreign Trade Regimes and Economic Development: Chile*, (New York: National Bureau of Economic Research, 1987), p. 387.
6. See for example B.A. den Tuinder, *Ivory Coast: The Challenge of Success*, (Baltimore and London: John Hopkins University Press, 1978); also see John Loxley, 'The IMF, the World Bank, and Sub-Saharan Africa: Policies and Politics' in K.J. Havnevik, ed., *The IMF and the World Bank in Africa: Conditionality, Impact and Alternatives* (Uppsala, Scandinavian Institute of African Studies, 1987), pages 56-59.
7. Recognition of different aspects of the success is expressed on pages xv, 1, 10, 26, 28, 40, 52, 64-6 and 74. Catalogues of the disadvantages of the system occur throughout, but particularly on pages xvi, xx, xxi, 35, 36, 37, 40, 51, 52 and 74. Claims that problems (for example the high degree of monopoly) are attributable to the system, neglect alternative explanations (such as the small size of the domestic market). Admissions that the system works quite efficiently in preventing the consequences of some of the disadvantages occur on pages 44, 46 and 63-4. Advantages of the system and the disadvantages of liberalisation are mentioned nowhere.
8. This includes devaluation of the currency, liberalisation of the foreign-exchange and import-control regimes, removal of the discrimination between sectors of the economy and branches of manufacturing industry, reduction or removal of subsidies, and generally bringing the relative price structure more into line with the world market, and reduction of the state's role in economy.
9. J. Bhagwati, *Anatomy and Consequences of Exchange Control Regimes* (New York: National Bureau of Economic Research, 1978), pp. 87-91.
10. The text is not clear, at one point stating that only 33 products were studied: this would strengthen the case made here considerably.

11. See my chapter "The World Bank and the IMF in Zimbabwe", in Bonnie Campbell and John Loxley, eds., *The Political Dimensions of IMF and World Bank Policies and Alternatives in Africa(?)*, (Macmillan, 1990).

12. See Stoneman in Campbell and Loxley.

13. Jansen, page 19; a fuller treatment of this point is given in Roger Riddell, *A Critique of Zimbabwe: Government Policy and the Manufacturing Sector*, (Harare: Confederation of Zimbabwe Industries, mimeo, July 1983), page 12.

14. And as the dollar was probably overvalued by about 30 % in 1981 a more correct average DRC may have been below unity!

15. Belli Report.

16. It is of more than passing interest that Belli's main source for Zimbabwe's industrial history is in fact Jansen.

17. There is some evidence of differing views amongst members of the team on a number of issues: in this particular case we find the significance of the pre-UDI period (and its supposed free market character) being argued on pages xv and 71, with this view being explicitly or implicitly contradicted on pages 8, 84 and 96.

18. Belli report, page 12; in fact the Table I.8 referred to in the text shows that the proportion of total gross output in manufacturing industry accounted for by the metals and metal products branches rose from 14.5 % to 22.1 % between 1967 and 1975, an increase in share of more than 50 %! This is a major change in a key sector for self-sustaining industrialisation, and depended on both state action in underwriting the expansion of the steel industry, and continued protection of a range of metal products industries that few developing countries have yet developed.

19. For example over the last thirty years growth has been extremely rapid both in several East European countries and in South Korea and Taiwan; about the only other thing that these two sets of countries have in common is that their economic policies have been diametrically opposed to World Bank recommendations in several crucial respects.

20. Riddell, "A critique of Zimbabwe: government policy and the manufacturing sector", mimeo, CZI, July 1983; Colin Stoneman, mimeo, 1983, summarised in Campbell and Loxley.

21. Apart from the implications of the very different results obtained for Zisco, it criticises the failure to use shadow prices (page 66) and the unavailability of CIF prices used in the Jansen calculations (page 58), stating that the figures dependent on them 'should be used with a good deal of care'.

22. I.e. it was in the word category, with a DRC of 4.4, in which immediate closure without running down of the sunk capital investment was indicated. Jansen did not in fact recommend closure here

(a political non-starter), but made it plain that her figures pointed unequivocally to this; at the very least it was suggested that no further investment or even renovation was appropriate.

23. The average DRC (before such adjustments) was calculated as 1.55, but this was partly because of the high cost of exporting through Durban because of the cutting of the Mozambican trade routes; it falls to 0.85 if restricted to domestic sales.

24. See section 7b above.

25. Protection, however, is seen by at least one member of the team as having played a large role in Zimbabwe's development (pages xiv, 3,4 and 60), but this is contradicted in several other places: see especially page 12.

26. A more recent World Bank study - 'Zimbabwe: private investment and government policy' (1989) - represents an improvement methodologically on Belli, but in the end makes the same recommendations.

27. Belli, page 81.

28. Although the latter do represent short-term opportunity costs for Zimbabwe, they are by no means market equilibrium prices, being heavily influenced by cartellisation, trade agreements and protectionism, and the operation of monopoly power by the TNCs. They will most probably give the wrong signals for a country seeking to change its economic structure and create comparative advantage in new areas.

29. From 35 % in 1987 it has now fallen to about 20 %.

30. A commission appointed in January 1989 to investigate evidence of corruption by ministers and civil servants in motor vehicle marketing.

31. See David Evans, 'Visible and invisible hands in trade policy reform', mimeo, Institute of Development Studies, July 1989, p. 15.

32. Recent reported foreign investments and joint ventures have included the following:

- the Hoechst chemical plant at \$ 267,000 per job;
- a Forestry Commission sawmill project at ZW \$ 200,000 each;
- the Merlin spinning project at ZW \$ 100,000 each;
- the IDC chlor-alkali project at ZW \$ 150,000 each;
- the current Zisco rehabilitation at ZW \$ 1.2 million each;

- General Motors of Canada and O. Conolly of Bulawayo at U\$ 115,000 per job;
- another Forestry Commission sawmill at ZW \$ 382,000 per job;
- Delta Gold's Platinum mine at ZW \$ 160,000 per job.

A CZI survey in March 1989 found that members' investments between January 1988 en February 1989 cost ZW \$ 275 million for new capacity, creating 3,213 jobs, i.e. ZW \$ 86,000 each. Total investment (72 % was for replacement) was ZW \$ 998 million, creating 5,556 jobs i.e. ZW \$ 180,000 each.