INDUSTRIALIZATION IN ZIMBABWE: A NON-REPLICABLE MODEL ?

REFLECTIONS ON THE PAPER BY COLIN STONEMAN

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INTRODUCTION

Zimbabwe is not just an average African country. In many ways it does not even reflect the conventional picture of a 'Third World Country' (whatever this may be). In many respects the country defies classical development studies labels. Macroeconomic aggregates about its economy often hide more than they reveal. This makes any discussion about Zimbabwe's 10 years of independence a difficult undertaking. I have only worked some five years in Zimbabwe (which is much less than my esteemed colleagues today), and I admit to be intrigued as ever about its economy, politics and policies.

Zimbabwe has by many standards a remarkably diversified economic structure. The country has a sizeable commercial agricultural sector, an important manufacturing sector and a relatively important mining sector (particularly because of its exports).(1)

In fact this diversity is maintained when looking at a lower level of aggregation. For a tropical country Zimbabwe has a highly diversified agricultural production (major crops are maize, tobacco, cotton, sugarcane, tea and coffee and a vast growing

horticulture). In addition, it has a large livestock production both for meat and for dairy products. Last but not least, Zimbabwe is self sufficient in the production of its main staple food, maize.

Its mining sector is not exclusively focussed on one mineral. For sure gold is the dominant mineral but it constitutes less than 50 % of the value of all mineral production. In addition there is coal, asbestos, nickel, copper and chrome ore. Furthermore there is a platinum mine in the pipeline while oil exploration is underway in the Zambesi valley.

Also its manufacturing industry is remarkably diversified. It is not limited to basic consumer goods such as food, drinks and beverages and clothing and footwear but there is also a not insignificant intermediate industrial sector (e.g. chemicals, fertilizers) and small capital goods industry (e.g. metal and metal products and transport assembly).

If we look at the composition of exports, a similar diversity is found: the biggest export earner, tobacco, earns 18 % of total merchandise exports, followed or sometimes surpassed by gold with about the same percentage (18 %). Many developing countries depend often for more than half or even three quarters of their export earnings on one single item, be that coffee, cocoa or copper.

All this diversity with an average per capita gross national income of no more than some ZW\$ 480 in 1986.

The other interesting aspect of Zimbabwe's economic history is that a lot of what happened with and to Zimbabwe was not by design of any grand scheme or deliberate economic policy: Cecil Rhodes and his British South African Company actually had a grand scheme about gold but didn't find gold at the scale they hoped for. The attraction of settlers (for small scale mining) and the partitioning out of the occupied lands became the driving force. Industrialization was spurred by another accident, namely the Second World War, although the larger market of the Federation helped it grow. International sanctions gave a second boost to industrialization in the 60s and early 70s and these same sanctions forced a liberal free market UDI government to become very interventionist in assistance to the industry. On the basis of these arguments one might be tempted to conclude that it would be better not to design any grand scheme or policy but leave it to history to be benevolent to Zimbabwe! This, of course, is deliberately overdrawn but it calls for greater modesty in relation to grand schemes and ambitious government policies. To this I will address myself later on.

ZIMBABWE'S FIRST 10 YEARS

The immediate post-independence boom was cut short by a severe drought, poor world economic performance as well as acts of South African destabilization. The average economic growth was no more than 1,6 % per annum over the first five years. The second half of the 1980s gave a more favourable picture. One may achieve an average for the decade as a whole of some 3,4 % of real growth per annum.

Given the high population growth (of nearly 3 %), per capita income declined in the first half, and slightly improved during the second half of the 1980s.

The 'boom-bust' performance of the economy is also reflected in the balance of payments. Its current account deficit worsened in the early and mid 80s only to recover and turn into a surplus in the latter part of the decade. It should be added though that in comparison to the boom-bust fluctuations of other countries those in Zimbabwe are much smaller and influenced by non-economic factors, such as recurrent droughts.

The direction of trade also shifted away from South Africa (the Zimbabwean exports to the RSA were in 1981 22 % of the total exports, in 1987 this had declined to 11 %). Exports moved towards the EEC (from 26 % in 1981 to 37 % in 1987). For imports these changes are less pronounced. The SADCC trade shares have not changed dramatically and have remained well below 10 %.

The foreign debt is very limited. In comparison to other countries Zimbabwe has a low debt service ratio. It reached a peak of 35 % in 1987 but currently it stands at around 20 %.

The most important changes in the economy since Independence have been mentioned already in the previous papers. In agriculture one could see a major increase in the participation of the communal or peasant sector, particularly in commercial crops such as maize and cotton. Up to some 51.000 households were given access to land through resettlement schemes. At the same time, however, the introduction of the agricultural minimum wage together with the earlier drought caused a shake out in commercial farming where employment went down with nearly 60.000 jobs to around 275.000.

In industry there has been even less 'structural change'. The most noteworthy is the relative decline of metal and metal products, and the relative increase in drinks and tobacco and chemical and petroleum products subsectors. On balance the 80s

resulted in a 3,6 % increase in real output per annum and a 2,6 % annual increase in employment.

The most important change is found with regard to the services sector: the rapid expansion of education, health and public administration itself. It is also here where the government of Zimbabwe achievements are best known and widely recognized.

Industrial sector

The industrial sector with all its diversity is relatively small. There are less than 1100 units according to the Census of Manufacturing of 1986/7 (was 1340 in 1982). They may produce as many as 6000 products but markets are small, and competitors few. The almost completely shielded domestic market generated monopolistic and heavy oligopolistic enterprises which over time diversified into other existing or new product market areas. Many of these economic activities are controlled by a small number of economic conglomerates such as Delta Corporation, the TM group, etc., in which the foreign investment component is still very high. If the commercial farmers form a tight community of 4000 then for sure also the industrialists form an even smaller interrelated community of managers and shareholders.

The most important post-independence feature has been the lack of industrial investment. Gross domestic capital formation (GDCF) was very low, and according to some (e.g. Green & Khadani), there was no net increase in the capital stock. The rate of investment (GFCF/GDP 1980) fell in real terms from 15,3 % in 1980 to an estimated low of 10,7 % by 1989 (in 1975 it was 20 %). It should be noted that the GDCF that did take place in the 80s, was to a large extent undertaken by the public sector, in the form of infrastructural provisions.

Government take-overs via the Industrial Development Corporation have reduced South African shareholder interest, and appears to have been of a defensive nature. Although a small number of new and very large investment projects (e.g. rehabilitation of ZISCO, the chemical paper and pulp project) are in the pipeline in the form of either joint venture or independent ventures the overall effect so far has been limited.

It is difficult to get a reasonably balanced picture of the major constraints on investment. A recent survey reported the following factors influencing new investment (in order of importance): expected return on investment; forex availability; insufficient local demand; business confidence (Hawkins et al., 1988).

Whatever the success in Zimbabwe's industrial sector, the fact is that the investment rate has dramatically declined, as I already observed earlier. Formal sector employment has not kept pace with the rapid growth of the urban labour market. If one would make a simple population projection for the 12 main urban areas and if one would extrapolate current formal sector growth taking into account the lower growth rates in the public sector itself (in accordance with existing policies), then the formal sector employment shortfall may be estimated to get to some 620.000 for these 12 urban areas. For Harare alone the shortfall would be in the order of some 310.000 jobs in 1995. This is nearly 80 % of entire formal sector employment in this city (360.000).(2)

The unemployment crisis is an urban one and looms heavily on the horizon. The policy dilemmas of Zimbabwe get further complicated. During the recent parliamentary elections ZUM scored its highest success in Harare and its success is widely regarded as a protest vote. Also one, which I would guess, the government can hardly ignore. The latter means that very expensive investments in urban transport, urban infrastructure and housing will divert the already limited national resources away from the rural areas.

I would submit that the decade of the 80s have represented to some extent a lost opportunity. An opportunity to pursue more vigorously a rural development strategy. The policies in the 1990s are less constrained on the rural side (in the sense that the Lancaster House agreement has expired) but they will have to count more seriously with the more vocal urban problems which also tend to require more expensive solutions.

COMMENTS ON STONEMAN'S PAPER

The industrialization debate as seen by Stoneman is dominated by two major issues: a. the Zimbabwe policy context and b. the World Bank policy advice.

Zimbabwe policy context

With regard to the Zimbabwe policy situation or context, I note some ambivalence in the paper. On the one hand the author asks the question of 'why the Government of Zimbabwe, inspired by marxism-leninism, and seeking greater equality, would want to preserve the inherited structures of state intervention and protection through control of foreign exchange and trade?'. From what I understand of the situation, I think the received view was that these inherited instruments gave the government of Zimbabwe the opportunity to decisively influence the structure of the economy. It

gave the government of Zimbabwe awesome powers to control the economy. This was interpreted by some commentators as a very desirable starting point: the government of Zimbabwe had reached the 'commanding heights' of the economy and the socialist experiment could begin.

Later on in this paper the author stresses that the Zimbabwe model has been a correct one, namely, of phased liberalisation with a careful monitoring of developments, to make sure that nobody suffers too much.

I think that the real issue Colin Stoneman raises is not just why preserve such inherited instruments but implicitly he is asking: why were these instruments not really used to effectuate a change away from merely protecting the inherited industrial structure? This leads us to the next key question, namely, doing what instead? What would be a viable long term industrialization strategy? Is there any 'grand scheme' at all?

This same questioning is present in his remarks with regard to the Industrial Development Corporation. The IDC has taken major interests in a number of companies, but for what purpose? What difference does it make?

Foreign exchange allocation has been at the center of attention in industrialization debates. The most surprising aspect of the actual practice of the forex allocation system, which according to almost all observers is the key instrument, is the lack of a clear sectoral prioritization. The major exception to this has been the forex allocation in relation to agriculture and agricultural inputs, where the private sector remained completely involved in the preparation of realistic bids. For all other (non-public sector) sectors the allocations have been based on historic importance and a very general (5-point) product rating as well as general criteria such as 'importance of the rural sector'.(3)

This is also evidenced by the fact that cuts in forex allocations, applied in times of extra hardship (e.g. in 1987) were 'across the board' i.e. the same for all applications. The share of 'industrial imports' (i.e. imports by firms except those related to agriculture) fell from 19,3 % of total forex earnings in 1979 to 8,9 % in 1985.

The second development has been the growing importance of barter deals (Eastern European countries and Third World countries) and Commodity Import Programmes (USA - discontinued in 1986 -, Germany, UK, Japan, France, Holland and Scandinavian countries etc.). These so-called ad-hoc allocations constitute between 20-30 % of the total forex allocation to industry. By their very nature CIPs and barter deals cannot be at the core of Zimbabwean economic policy.

In conclusion, it appears to me that even this potentially powerful policy instrument was not applied with any **design** in mind. It was not given out of hand. On the contrary, access to forex has become more and more an 'art', to put it euphemistically.

It is also remarkable that companies in which the government of Zimbabwe obtained a major or controlling interest were not necessarily better off in terms of access to forex than non-government of Zimbabwe owned companies. At least this is a complaint that was heard in some quarters during interviews in 1987.

The trade liberalization debate, in as far as it is public, suffers from a very similar problem: what sectors will get priority; which sectors will loose out, and what should the tariff structure be like? A phased liberalization looks fine, and indeed better than a big leap in the dark. But...with what priorities?

Perhaps the most important motivation for some form of liberalization may not find its origin in international trade but in the domestic budget deficit. The budget deficit has been growing in the 80s. In 1985 it stood at 10 % of GDP and in 1989 it still remained at 9 % in spite of budget cuts and a healthy economic growth during the last two years. For the current financial year (1989/90) the servicing of debt (interest and loan repayments) stands at more than 1,6 billion dollars which is nearly as much as the combined annual budgets of Ministry of Primary and Secondary Education, Ministry of Agriculture and Ministry of Health together. Further cuts in expenditures are seen as endangering post-independence achievements. The tax base has not increased very much in terms of taxpaying individuals and companies whereas the rates of existing taxes are already considered high. The abolition of quantity restrictions in favour of tariff protection may yield the much needed increase in state revenues. This argument may have relevance but its validity as a motivation for the policy shift towards liberalization cannot be ascertained. It remains sofar a speculation.

Lastly, it is important to make a distinction between 'de-bureaucratization' of forex allocation and 'liberalization' of foreign trade. It would seem that the business community is almost unanimous with regard to 'de-bureaucratization' i.e. simplifying procedures and making them more transparant. The Sandura Commission which exposed corruption among high level civil servants and ministers may also have had an important influence in changing public attitudes towards administrative allocation mechanisms. Liberalizing foreign trade, meaning reducing the protection enjoyed by domestic producers for the domestic market, is quite something else.

World Bank and liberalization

To what extent was liberalization seen as a theoretical ideal for the white dominated business community? I think that here one needs to make a distinction between the first and the second half of the 1980s.

I would submit that neither government of Zimbabwe nor the private sector were in favour of liberalization. Judging from Growth with Equity, Transitional National Development Plan and even the First Five Year National Development Plan, the government of Zimbabwe was not clearly committed to the idea of liberalization. The private sector was during the same period very much on the defensive. The Jansen report was not only controversial in a substantial sense, in particular in as far as the application of the DRC methodology, it was difficult to be accepted not only by the government of Zimbabwe *but also* by the private sector.

During the 80s the private sector came to realise that in fact the government of Zimbabwe's intentions were indeed 'conservative'. It must have dawned on the private sector that the government of Zimbabwe would not launch a radical strategy but opted for the status quo. However, even under such circumstances the private sector would only be lukewarm about the idea of liberalization. A protected, even if stagnating, market is better than none. A dual strategy in which there is export promotion coupled to forex incentive for the protected domestic market is an attractive option which has now received some cautious support from the private sector. Note that only in 1987 such a global policy gained some verbal support from CZI. Now, in 1990, the government of Zimbabwe is yet to publish details on its liberalization.

It appears indeed correct that, since recently, the government of Zimbabwe is more accomodating with regard to new foreign investment. The creation of the Investment Center and the publication of the 'Promotion of Investment: Policy and Regulations' document in April last year has been heplfull.

Whether the marriage between the daughter of Chidzero and the World Bank Resident Representative's son is symbolic of the accomodation reached between the government of Zimbabwe and the World Bank, I do not know but the fact is that softening of attitudes appears to be mutual. The government of Zimbabwe is more and more underlining the importance of 'an active and viable private sector alongside a strong public sector'(4), the World Bank is currently revising its position and is preparing a new country review.

I would emphasize however that the relations between Zimbabwe and the World Bank when compared with other countries are quite different. Firstly, Zimbabwe has not suffered from the economic collapse which other countries have experienced (e.g. Zambia or Tanzania). Secondly, and for the same reason Zimbabwe has not had a structural adjustment predicament of a scale as Tanzania or Zambia. Thanks to its economic diversity (and not just its conservative policies), Zimbabwe has been in a far better position to weather external shocks.

To what extent is the Zimbabwean model a 'success'? Stoneman does not answer this question clearly. Much would also depend on the criterion used. In the short run, it would appear to be affirmative. Some limited growth has taken place, both in output and even in terms of employment. However, in the long run the declining investment rate is problematic. The outdated capital stock will make new investment demanding more forex. Real wages have been falling below pre-independence levels.

I would add that the Zimbabwean Model has been characterised by indecisiveness between concretizing radical aspirations and pragmatic day-to-day considerations. This indecisiveness may be rooted in many causes, e.g. the Lancaster House constraints, the internal division within the party, the pressure from outside, the conservatism of the bureaucracy, the limited 'technical' planning capacity or implementation bottlenecks etc., but it has had costs in terms of declining investment, a serious unemployment crisis and if judged by the election outcomes also political costs in terms of votes.

Other issues

It appears to me that, relatively speaking, Zimbabwe is faced with important *internal* policy constraints. These domestic constraints appear to carry greater weight than *external* policy constraints. In comparison with other less diverse and more dependent countries, Zimbabwe has had more room for developing its own brand of policy. However, internal contradictions and constraints have made it difficult to develop concrete policy alternatives different from the ones currently followed.

A second point that needs to be taken into account concerns the internal dualism between the large peasant sector and the white dominated agro and industrial complex. A dualism that reveals itself on the demand and on the supply side.

The demand side issue reminds me of the Latin American industrialization debate. There, import substituting industrialization had failed to develop the second and third stage of the import substitution strategy. In stead of deepening into more intermediate

and capital goods production, industries moved increasingly to smaller but growing and profitable markets for high income products. The highly skewed and worsening distribution of income favoured this trend. Over time industries became less low-income demand oriented. The more this happened, the more difficult it would be to generate an effective policy shift in favour of low income demand (e.g. Leff, 1982)(5).

Zimbabwe has a very similar problem: the per capita expenditure of households of main socio-economic categories is revealing in this respect:

- average per capita expenditures in Communal Areas: ZW\$ 263
- average per capita expenditures in High density urban areas: ZW\$ 675
- average per capita expenditures in Low density urban areas: ZW\$ 4934.

(Source: Hifab/Zimconsult, 1989, Zimbabwe Country Study, p. 29)

The actual expenditures in the last category are nearly 19 times the average in communal areas. There is no evidence to suggest that since 1985 these gaps have narrowed, in stead there are indications that they may have widened.

The Latin American response has been a sidestep: namely export promotion. Can Zimbabwe follow this and is this desirable? There is one important handicap: Zimbabwe is a landlocked country with a small domestic market and hence less capable of developing the Latin American answer of export diversification. Would it not be desirable to expand the domestic market via a redistribution of (under-utilised) assets such as land?

The dualism on the supply side is equally serious. There is a big gap between the white dominated industrial sector and the black dominated rural industries. The promotion of small scale industrialization and advancement of black entrepreneurship (to be distinguished from 'emergent briefcase' businessmen!) have met with very lukewarm government of Zimbabwe support to put it very positively. Small scale and new enterprises have suffered much more than large and established enterprises from access to forex and problems with the administrative forex allocation system.(6)

There is a widespread agreement now that the expansion of the formal sector, in particular the manufacturing sector, cannot make more than a dent in the unemploy-

ment problem. In 1988 the investment required for a single manufacturing job was estimated to be ZW\$ 49.000 in 1985 prices (Hawkins et al.). In his paper Stoneman states that the investment requirements have now risen to at least ZW\$ 100.000 per job. Staggering investment sums would be required to provide full formal sector employment. Let us be reminded in this context that the per capita annual consumption expenditures in the communal areas were ZW\$ 236 (in 1985).

A very practical example could be to respond to the rapid urbanization and consequent need for housing in all market segments with a policy of promoting the construction and construction materials industry, both formal and informal, which generally has a low import content, and is labour intensive. In fact the construction industry itself is currently the sector with the highest employment growth, but suffers from shortages (surprisingly, cement is being exported to South Africa).

The same applies to the horticulture and agro-processing sector. The Agricultural Development Authority is beginning to develop smallholder schemes in fruits and vegetables, with the financial assistance of the EEC.

Perhaps Zimbabwe would not be better off with a grand scheme. I would agree with Colin Stoneman that in Zimbabwe there were grand and radical aspirations and, at the same time, a lot of conservative day-to-day management of the economy. However, this may also be indicative of the difficulty to translate grand schemes into practical and concrete (and well founded) policies. I was somewhat surprised by the rather strong dismissal by Stoneman of the TNDP and the lack of references to the other major 'Plan Documents'. The point is that without these there are *very few* policy documents left.

NOTES

1. The figures on the Zimbabwean economy presented in this paper have been extracted from the following documents:

- CSO, 1989. Quarterly digest of statistics. June 1989. Harare: CSO.
 - CSO, 1989. The census of production 1986/7. Harare: CSO.
 - CSO, 1988. National income and expenditure report. Harare: CSO.
 - Government of the Republic of Zimbabwe, 1989. The promotion of investment: policy and regulations. Harare: Government Printer.
 - Hawkins, A.M. et al. 1988. Formal sector employment demand conditions in Zimbabwe. Harare: University of Zimbabwe Publications.
 - Hifab Zimconsult, 1989. Zimbabwe country study. Harare: NORAD (final draft).
 - Ministry of Finance, Economic Planning and Development, 1986, Socio-economic review 1980-1985 Zimbabwe. Harare: Government Printer.
 - National Planning Agency, forthcoming, Framework for the Second Five Year National Development Plan. Statistical Annex. Harare: Min. Finance.
2. Estimates made by the author as part of a technical assistance to the National Planning Agency in March/April 1990.
3. Description of allocation system as given by the Min Trade and Commerce during interviews for a CIP Evaluation Mission.
- Figures on importance of ad-hoc allocations taken from: Netherlands Economic Institute, 1988. Evaluation of the Netherlands Commodity Import Programme (CIP) to Zimbabwe. Rotterdam: NEL.
4. GoZ, 1989, The Promotion of Investment: Policy and Regulations, p. 4.
5. Cf Leff, N. 1982. Underdevelopment and Development in Brazil: Allen and Unwin.
6. Interviews with Ministry of Trade and Commerce. Also donors have been reluctant to accept small requests under their import programmes on the grounds of the associated high administrative overhead costs. A successful effort under the US CIP was discontinued. The pooling of import orders is only a partial solution.