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## **Jobs, Votes and Legitimacy: the Political Economy of the Mozambican Cashew Processing Industry's Revival**

## **Abstract**

This article seeks to explain the revival of the Mozambican cashew processing industry after it was virtually wiped out by liberalisation policies at the turn of the millennium. Over the last decade state, private and external actors have cooperated to rehabilitate cashew processing with a concerted industrial policy and rents generated by protection. It is argued that such rent creation is a political process and that theories of 'good governance' and 'developmental neopatrimonialism' are unable to explain political support to the cashew sector in Mozambique. The 'developmental state' literature is a more useful guide not only to how the industry was rehabilitated, but also to where the political 'will to develop' originated in other contexts. Following from this discussion, it is argued that in Mozambique an elite ideology of nationalism, modernisation and anti-imperialism paved the way for protection of the cashew industry, while more active support was a result of more immediate concerns around finely balanced elections, inadequate employment generation in the broader economy and the faltering legitimacy of the ruling party.

## **Abbreviations**

AIA – Agro Indústrias Associadas (Agro-processors association)

APPP – Africa Power and Politics Programme

BCI – Banco Comercial e de Investimentos (Commercial and Investment Bank, with links to Frelimo)

FAO – Food and Agriculture Organisation of the United Nations

Frelimo – Frente de Libertação de Moçambique (the ruling Liberation Front of Mozambique party)

GAPI – Gabinete de Consultoria e Apoio a Pequena Industria (medium-sized Mozambican non-bank financial institution)

GDP – Gross Domestic Product

IFIs – International Financial Institutions, primarily the IMF and World Bank

Incaju – Instituto de Fomento do Caju (state agency for the promotion of the cashew industry)

IMF – International Monetary Fund

MVA – Manufacturing value added

NGO – Non-governmental organisation

NICs – Newly industrialised countries

ODA – Official Development Assistance

Renamo – Resistência Nacional Moçambicana (the opposition Mozambican National Resistance party)

USAID – United States Agency for International Development

## Introduction

This study is concerned with prospects for the industrialisation of less developed countries in the current period of globalisation. 'Actually existing' globalisation presents a range of opportunities and challenges for industrial development and catch-up; while the total value of goods traded internationally reaches all-time highs (UNCTAD, 2012), apparently offering the chance for export oriented growth and integration into global value chains, the policy consensus embodied in the 'good governance' agenda seems to discourage state intervention to facilitate those processes. Through examining the case of the Mozambican cashew nut processing industry, this study hopes to shed light on some of these contradictions and evaluate the usefulness of competing theories.

The Mozambican cashew industry shot to fame at the end of the 1990s, when academics and campaigners highlighted it as an example of heavy handed and counter-productive intervention by the International Financial Institutions (IFIs) in Washington. The controversial liberalisation process and subsequent collapse of the processing industry have been studied in great depth, with the World Bank publishing new research on the reforms in 2012 (Askoy and Yagci, 2012). Much less documented and understood is the reversal in the industry's fortunes over the last decade, which this essay will examine and seek to explain.

The first section lays the theoretical foundations of the study, exploring the case for industrialisation, the challenges of late development and the role of the state in overcoming them. The mainstream 'good governance' framework is presented and critiqued before turning to 'developmental neopatrimonialism' and 'developmental state' theories.

The second section turns to the Mozambican context, briefly outlining the country's political and economic history. Frelimo has held power in Mozambique since independence, though its legitimacy has faltered as the benefits of rapid growth have not been shared evenly. Recent economic growth

has been narrowly based on heavy industrial 'mega projects' and mineral extraction with minimal job creation, while manufacturing has generally declined in prominence. The cashew industry represents an exception to this trend and recent growth in the sector will be examined.

The third section will develop a political economy analysis of the cashew processing industry's revival, by first elaborating the set of policies and interventions by state and non-state actors underpinning it. The theories outlined will then be tested against the evidence. It will be argued that the 'good governance' orthodoxy is not useful in explaining the industry's growth and that the 'developmental neopatrimonialism' framework, though somewhat relevant to the Mozambican context, is also unable to provide a satisfactory explanation of the cashew sector, based on the available evidence. Developmental state theories are more helpful because their account of state involvement in the economy tallies with the Mozambican cashew sector case study, and in addition they emphasise the need to identify the origin of the political 'will to develop'. In Mozambique it is argued that this is rooted in the elite's ideology of anti-imperialism, nationalism and modernisation. Active support to the cashew sector materialised because of more immediate concerns around finely balanced elections, inadequate employment generation in the broader economy and the faltering legitimacy of the ruling party. A final subsection looks at limitations of the industrial policy in the cashew sector.

# 1. Late industrialisation, 'good governance' and developmental regimes

## 1.1 Late industrialisation

This study seeks to understand and promote processes which reduce income poverty. It is therefore concerned with the long-run dynamics of structural change and industrialisation within economies, because of the strong empirical link between income growth and the share of manufacturing in GDP (Kaldor, 1967; Thirlwall, 2011). As Kaldor (1967: 54) puts it, "there can be little doubt that the kind of economic growth... which eventuates in high real income per capita, is inconceivable without industrialization". As well as being validated by the historical record, this proposition has strong theoretical foundations: manufacturing offers increasing returns to scale and prospects for sustained productivity growth, explaining its dynamism and potential for employment generation and wage growth (Kaldor, 1967: 12; Reinert, 2007: 74).

For present purposes 'industrialisation' means the structural change that occurs as the share of GDP derived from manufacturing rises, while the share from agriculture falls. Manufacturing drives structural change but does not exist in isolation from the agricultural sector. Lewis' (1954) dual sector model and Hirschman's (1958) concepts of forward and backward linkages showed the interdependence of sectors, with labour, inputs and outputs moving between them. One example is the industrial processing of agricultural commodities to add value, increase export revenues and provide employment. Over three centuries ago, Hornigk (1684) advised:

"All commodities found in a country, which cannot be used in their natural state, should be worked up within the country; since the payment for *manufacturing* generally exceeds the value of the raw material."

More recently, Cramer (1999) argued that industrialisation based on primary commodity processing was an appropriate strategy for African countries, giving cashew in Mozambique as an example.

Industrialisation can be conceptualised as a process of “accumulation of knowledge and capabilities” by “individuals and organisations” which generates new ways of producing under conditions of dynamic increasing returns (Cimoli et al, 2009). It is therefore not just a matter of adopting productive technologies from other countries, but also innovating new products, technologies and organisational structures to solve local problems and seize opportunities to raise productivity. In his seminal study of industrial catch-up in Europe, Gerschenkron (1962) argued that when latecomers experience rapid industrial growth it often differs in speed and institutional characteristics from that of forerunners.

One of the key tasks in late industrialisation is the mobilisation of resources and coordination of investment so as to promote learning, technological upgrading and innovation. The role of the state in this process is a subject of intense debate. Gerschenkron (1962) found that in nineteenth century France and Germany this function was performed by private banks while in Russia, due to its much greater degree of ‘backwardness’, the state drove industrialisation. In their study of East Asian development, Aoki et al (1997: 22), despite asserting that “policy should have a bias to using private sector institutions to resolve coordination problems whenever feasible”, concur that the role of government in facilitating development is greater in the early stages because “the capabilities of firms are modest”, “the efficiency of markets is hampered by poor integration” and overall “the ability of the private sector to solve challenging coordination problems is suspect”.

An important part of the state’s role in late development can be thought of in terms of creating and managing rents, defined as excess incomes above a competitive rate that would be achieved absent intervention (Khan and Jomo, 2000). Khan (2000) argues that ‘learning rents’ created by government may boost productivity and growth by inducing firms to embark on learning and innovation in the

productive sphere where it would otherwise be too risky. Historically rents have often taken the form of ‘infant industry’ policies such as subsidies, subsidized credit and protection by tariffs. Importantly, these must be conditional in some way on productivity growth, otherwise infants will have no incentive to ‘grow up’ and capitalists will enjoy the “easy life of the monopolist” (Rodrik, 2007).

One response to the problem of subsidies draining state resources without catalysing structural change has been to call for the abolition of state support to specific industries, which we turn to now.

## **1.2 ‘Good governance’**

The World Bank views industrialisation as an important part of economic development,<sup>1</sup> but sees it as a process that should be led by the private sector, not the state. The ‘good governance’ agenda is the current expression of the Bank’s views on state involvement in the economy, representing a policy consensus among major international institutions. Policy efforts have focused on reducing the ‘costs of doing business’, improving the ‘investment climate’ and generally on economy wide reforms “designed to reduce the role of government in economic management” (Page, 2011: 9-10). Sector specific industrial policies have generally been opposed by the World Bank because they are seen as creating wasteful rents and an inefficient allocation of resources.

The ‘good governance’ agenda promotes governance capabilities and institutions that “enhance growth by making markets more efficient” such as secure property rights, the rule of law and transparency (Gray and Khan, 2010). However these features are not robustly associated with industrial development. Khan (2007) finds that among developing countries, those that grew fastest

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1. A page on its website states that “The World Bank has always regarded industrialization in developing countries as a major element of the structural transformation process that signifies economic development”, <http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/E1296FC42FE79980852567F5005CAE85>



in the 1980s and 1990s did not have significantly better scores on 'good governance' indicators than those with slowly growing or stagnating economies.

The origins of the 'good governance' paradigm lie in neoclassical and new institutional economic theory which employ methodological individualism and assume rational, utility maximising individuals (Milonakis and Fine, 2009: 98). In these traditions the state has been characterised as 'predatory' and a 'bandit', interested in maximising its own revenue streams (North, 1981; Olsen, 2000). Government interventions in the economy are seen to generate unproductive 'rent-seeking' and therefore constitute a 'deadweight loss' for society (Krueger, 1974). However, Gerschenkron (1962: 23) and Mkandawire (2001: 294) both observe the presence of national ideologies of progress underlying industrialisation efforts in nineteenth century France and several post-independence African countries. State and private actors did not act purely according to short-term self-interest but in line with some perception of the 'national interest', giving incentives to pursue high risk strategies to grow productivity for long-term gains.

The World Bank's 1997 World Development Report was a definitive text on 'good governance', arguing that the state's economic role should match its capabilities and that there are "stringent institutional prerequisites" for successful interventions in the economy that were "beyond the reach of most developing countries" which were therefore urged to privatise and deregulate their economies and abandon state industrial policy (World Bank, 1997: 72-3). However this argument again ignores the historical evidence, namely the possibility of the dynamic acquisition of institutional capabilities in the *course* of industrial development, and the well documented use of novel institutional responses in place of missing 'prerequisites' (Shin, 1996: 22).

In recent years elements of the World Bank have modified their position, with senior economists calling for states in developing countries to formulate industrial policies and take an 'active role' in 'facilitating structural change' (Lin and Monga, 2010). These writers share the Bank's neoclassical

starting point and argue that industrial policy should be in line with a country's 'comparative advantage' (Lin and Chang, 2009). However, the theory of comparative advantage stresses the static gains to be made from trade, while industrial development is a dynamic process (Smith and Toyne, 1979). Reinert (2007: 19) argues that following the Ricardian logic of comparative advantage would lead a country to "specialise in being poor". Instead of accepting existing resources and capacities as fixed, "the 'productive forces' of a nation can and must be purposefully constructed" (Cimoli et al, 2009: 3).

In sum, the 'good governance' framework is ill suited to the study of the state's role in industrialisation because it is rooted in theories which obscure the crucial political, institutional and ideological context of industrial development and do not take proper account of industrialisation as a dynamic process.

### **1.3 'Developmental neopatrimonialism' and 'developmental state' theories**

We now turn to theories which present more historically and politically grounded accounts of the role played by the state in industrial development. 'Developmental state' theory encompasses a range of studies of the experience of the Newly Industrialised Countries (NICs), particularly those in East Asia at the end of the twentieth century. They have different emphases, but broadly speaking a developmental state is "the set of institutions responsible for the creation, maintenance, and restructuring of property rights and rents that generate growth-enhancing activities" (Di John, 2009: 144).

Many stress the role played by a capable bureaucracy, at once embedded in society and autonomous, in coordinating and monitoring the process of industrial development (Evans, 1995; Woo-Cumings, 1999). This allowed states to generate and effectively manage rents to ensure long-term productivity growth and industrial success. Control of finance was a key lever enabling the

state to direct resources, whilst a close relationship between big-business and state actors facilitated coordination and extra-market disciplining (Woo-Cumings, 1999).

Developmental states were often authoritarian, because of the imperative to mobilize the population to work hard and make sacrifices (Johnson, 1999: 52). However as Gramsci (1971: 80) observed, “the ‘normal’ exercise of hegemony... is characterised by the combination of force and consent”. In most developmental states, ‘consent’, or legitimacy, was derived from the pursuit of a nationalist project of economic development in the face of external threats such as colonialism, imperialism or war, generating a collective ‘will to develop’ (Johnson, 1999: 53).

The absence of some of the features associated with developmental states has been used to explain the failure of African countries to successfully implement late industrialisation strategies. Kohli (2004) cites the poor quality of Nigeria’s bureaucracy, inherited from the colonial era, as a factor in its poor industrial performance. More decisive though, Kohli claims, was the fragmented and ‘neopatrimonial’ character of Nigerian politics whereby politicians mobilised regional and ethnic loyalties through personalised patronage networks, rather than pursuing a collective project of national economic development through a centralised state.

The idea of neopatrimonialism as the defining feature of African political systems has gained widespread currency and is used to explain the poor performance of economies across the continent, though the term is applied casually to different contexts (Mkandawire, 2013). Clapham (1985) defines neopatrimonialism as a political and administrative system formally constructed on rational-legal lines which is pervaded by personalised, ‘patrimonial’ relationships of patronage, often involving transfers of rents or property rights.

Research by the Africa Power and Politics Programme (APPP), funded by the UK Department for International Development, has sought to explore circumstances where neopatrimonial politics is

compatible with economic development, terming this conjunction ‘developmental neopatrimonialism’ (Kelsall et al, 2010; Booth and Golooba-Mutebi, 2012). This contradicts the widely held view that “neopatrimonial rule inhibits economic development by subordinating economic objectives to the short run exigencies of political survival” (Sandbrook, 2000: 97). Indeed, to break the link between neopatrimonialism and predation in this way “raises the question as to the difference between the ‘developmental neopatrimonial state’ and the ‘developmental state’ *tout court*” (Mkandawire, 2013: 42).

There are indeed large areas of crossover between the two schools, not least because governance in South-East Asia was often personalised and ‘corrupt’ in the manner normally associated with neopatrimonialism (Kelsall et al, 2010: 3). APPP research draws heavily on the East Asian developmental state literature and comes to similar conclusions: industrial development can occur when institutional and political arrangements are such that rents are created, managed and removed in a *centralised* way, and oriented to the *long-term* (Kelsall, 2011). This is not to suggest a simple, unilinear process in successful Asian countries, but where rents were distributed to unproductive clients these were either withdrawn or compensated for by more productive rent use by others (Kelsall, 2011: 78; Khan, 2007: 17). APPP research suggests that in neopatrimonial African polities, rent management often occurs through personalised relations of patronage linked to the political leadership, usually the president, as opposed to in East Asia where state bureaucracies managed rents along formalised, legal-rational lines.

Both ‘developmental’ theories reject the good governance agenda, preferring an empirically grounded approach investigating the institutional and political structures governing rent generation and management. The approach taken in this literature will guide the analysis of Mozambique in the next sections.

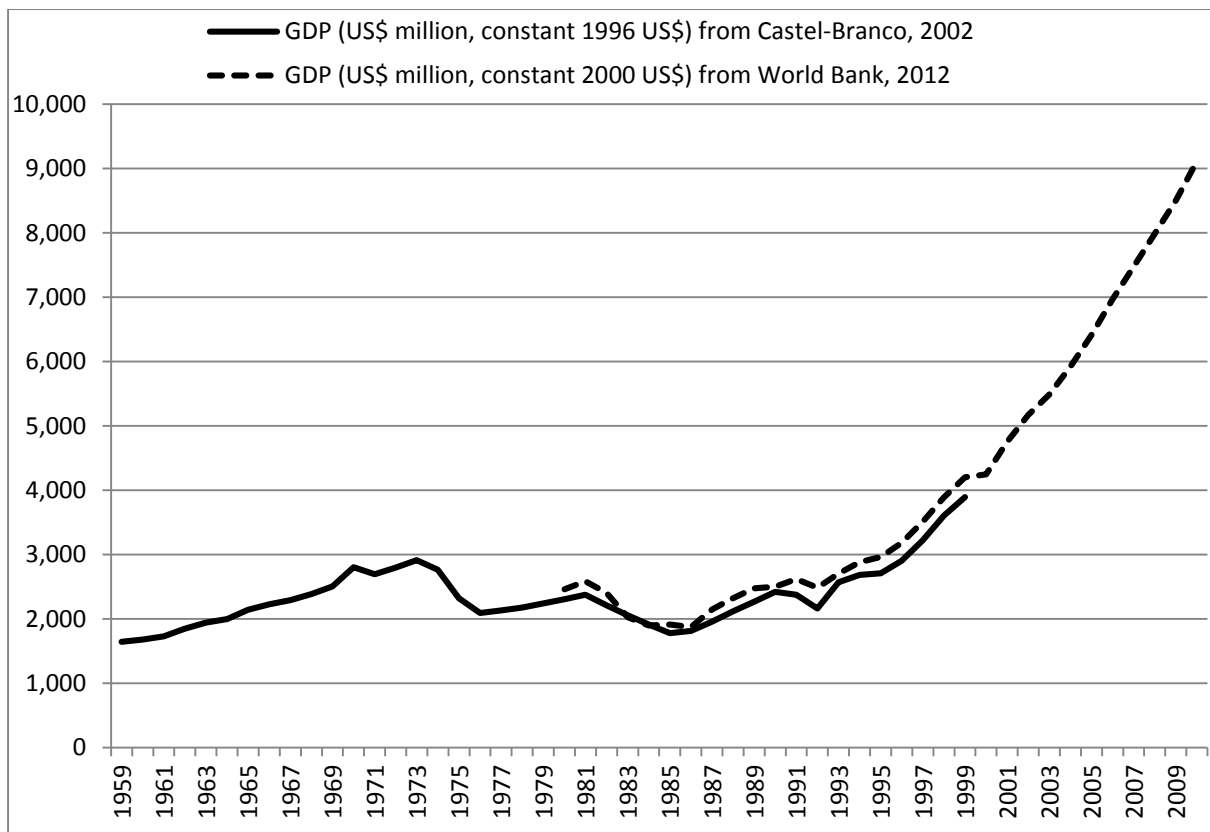
## **2. Historical and political-economic context of independent Mozambique**

### **2.1 Economic development**

Before analysing state involvement in Mozambique's cashew sector it is necessary to understand the macro-economic, political and historical context.

Mozambique was the eighth most industrialized country in Africa before independence but most of the workforce was still engaged primarily in “low-paying... agricultural work for their subsistence” (Pitcher, 2002: 32). Independence from Portugal in 1975 was followed by a two-year fall in economic output and manufacturing by over a quarter, mainly as a result of the exodus of 200,000 Portuguese settlers (90% of the total) who constituted the technical base of the country and a major source of domestic demand (Warren-Rodríguez, 2010: 271). Chart 1 shows that GDP did not then recover to the level achieved in the colonial era until the mid-1990s. A major cause of the disappointing performance was the war of destabilisation waged between 1977 and 1992 by the rebel group Renamo and its external backers, which successfully undermined independent development (Hanlon, 1991). Other reasons included regional drought, worldwide recessions and oil price crises. Crucially though, government policy from socialism to liberalisation failed to adequately address structural constraints in the economy, such as weak inter-sectoral linkages, import dependence, and lack of technical and management expertise (Warren-Rodríguez, 2010).

**Chart 1: Mozambique GDP, 1959 - 2009.**



Since the end of the war in 1992, chart 1 shows that output has more than tripled with annual growth of 7.9% between 2001 and 2010, the eighth fastest in the world, “reflecting rising mining output and strong global demand for minerals” (APR, 2012: 15). The current phase of growth is underpinned by high levels of foreign investment, which makes up 90% of private investment, concentrated primarily into extractive industry mega-projects (Castel-Branco and Ossemane, 2010). Despite the very strong overall growth figures, median household income actually *fell* by 10% between 2002 and 2008, and income inequality also worsened (Hanlon and Cunguara, 2010). A recent study found that “households in rural Mozambique are collectively trapped in generalized underdevelopment” (Giesbert and Schindler, 2012).

This apparent paradox of strong growth alongside worsening poverty can be explained by recalling that industrialisation involves the increased contribution to GDP of the *manufacturing* sector, with its prospects of increasing returns to scale, productivity growth, adding value to exports and

employment creation. These characteristics are not present in Mozambican industrial development since minerals are mostly exported raw with little domestic processing, there is relatively little employment generation, and the domestic market is underdeveloped with few internal linkages between sectors and firms (Castel-Branco and Ossemane, 2010).

**Chart 2: Mozambique MVA as proportion of GDP, 1959 - 2009.**

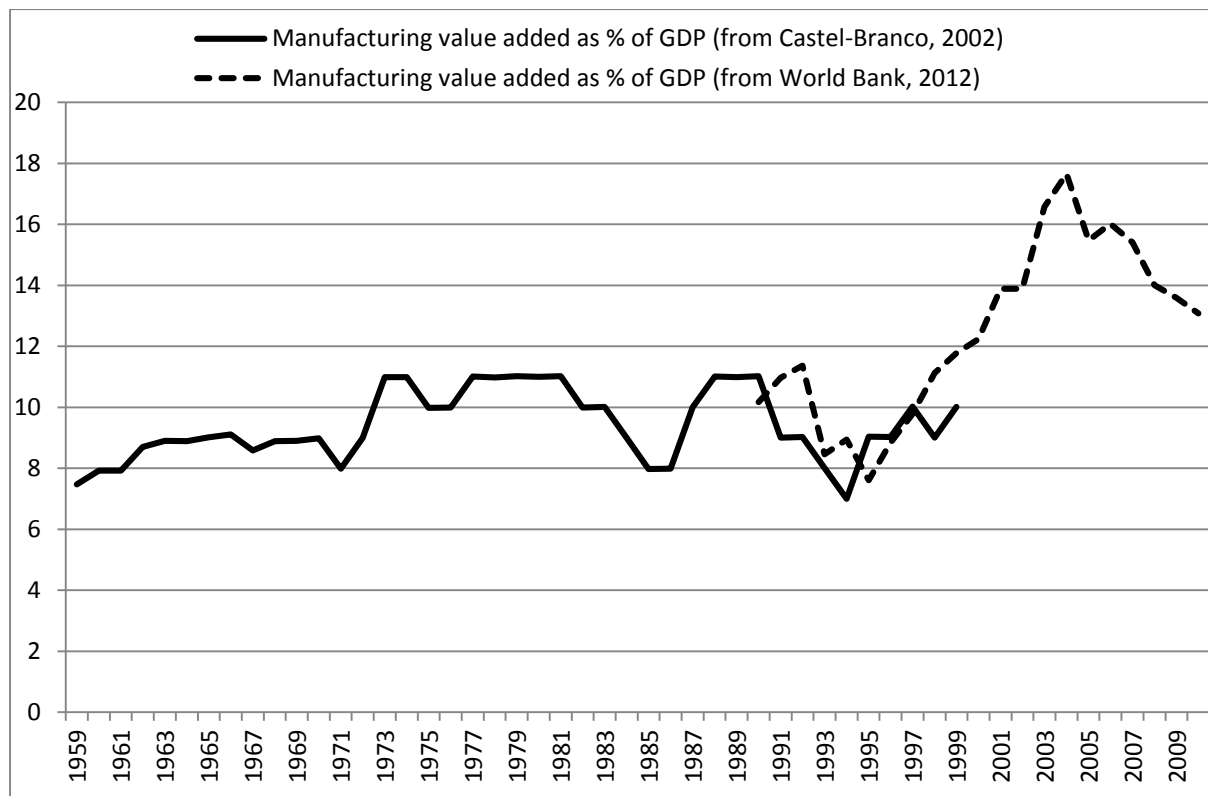


Chart 2 shows that manufacturing value added (MVA) as a proportion of GDP has changed little from the colonial era, fluctuating with economic and political conditions, and certainly lacking the systematic increase seen in NICs. The period of growth in MVA between 1995 and 2004 reflects recovery from the war and concentrated growth in a select few sectors and firms (Warren-Rodríguez, 2010: 275). A large portion of manufacturing growth in the 2000s originated from a single aluminium smelter mega-project, MOZAL, which in 2003 produced 49% of total manufacturing output and made up 29% of total MVA (Castel-Branco and Goldin, 2003). As MOZAL's output has peaked and stabilised while the rest of the economy has grown, overall MVA has declined since 2003.

## 2.2 Politics

The armed guerrilla group Frelimo led the fight in the war of independence and has remained in power since 1975 as a political party ostensibly committed to national modernisation and development. Having been predominantly a Marxist organisation in the 1970s, during the late 1980s and 1990s Frelimo adopted economic liberalisation and privatisation policies in line with IFI recommendations, making Mozambique an 'aid darling' with ODA consistently funding around half of the government's budget (de Renzio and Hanlon, 2007; AIM, 2011b). Pitcher (2002) argues that the state maintained control of these processes and that the 'neoliberal turn' to market led development has therefore been overstated. Similarly, Sumich and Honwana (2007: 15) argue that the apparently dramatic economic liberalisation programme "masked significant continuities as the previous socialist leadership remained firmly in power and the party was still united around the goal of building the nation and consolidating the state".

In 1994 Mozambique held its first multi-party elections, marking a nominal shift away from a one-party state, but despite Renamo transforming itself from a military rebel group to an opposition party and managing to win a third and almost half of the vote in the 1994 and 1999 presidential elections respectively, it has since declined as a political and electoral force, winning only 16.5% of the vote in the 2009 presidential election (Pearce, 2010). Since 2004 Frelimo has consolidated its position in power and Mozambique has effectively been a single party elected state. Moreover, Sumich (2008) argues that the Frelimo elite constitutes a coherent and united ruling class whose access to state power guarantees their successful accumulation of wealth. There is, for example, a law requiring foreign ventures to have a domestic partner, allowing well connected members of Frelimo to accrue revenue from mega-projects as 'silent partners' (Sumich and Honwana, 2007: 20).

The concentration of wealth and power among the elite, and the feeling that the benefits of recent rapid growth are not being shared, has contributed to a faltering of Frelimo's legitimacy. A series of



corruption scandals in the 1990s, especially the well documented assassination of journalist Carlos Cardoso at the peak of his investigation into high-level Frelimo involvement in bank fraud, contributed to a growing lack of tolerance of elite profiteering from an era of 'savage capitalism' (Hanlon and Mosse, 2010). As a result, Frelimo's 52.3% share of the vote in the 1999 presidential election was only narrowly greater than Renamo's 47.7% (see appendix). Support for Frelimo has long been weaker in rural areas since its modernisation project led it to focus investment in urban areas. Yet even in the urban middle class constituency, long a bastion of Frelimo support, Sumich (2008: 120) found a perception that "the elite is becoming increasingly corrupt and self-interested". Protests and strikes took place in the capital Maputo against the high cost of living in 2008 and 2010, which were fiercely repressed by security forces and police, resulting in six deaths (Telegraph, 2010).

The slowly unfolding legitimacy crisis which started in the 1990s can be considered a 'crisis of authority' in Gramsci's (1971: 210) terminology, whereby a "crisis of the ruling class's hegemony... occurs... because... the ruling class has failed in some major political undertaking". In the Mozambican case the crisis resulted from the apparent failure of the Frelimo elite's project of modernisation and broad based social development. Frelimo could not ignore this widespread discontent and responded by replacing President Joaquim Chissano with Armando Guebuza as leader of the party before the 2004 elections, which Guebuza convincingly won with double Renamo's share of the vote. Although like many high-up party members Guebuza had amassed great personal wealth through his Frelimo links, he was seen by many at the time of his election as leading the 'developmental' faction of the party, as opposed to Chissano's 'predatory' faction (Hanlon and Mosse, 2010; Hanlon, 2002).

Few would still characterise Guebuza's faction of Frelimo as 'developmental', a more common view now being that he is pursuing a "project of private accumulation and personalised power".<sup>2</sup> However

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2. The quote is from Carlos Nuno Castel-Branco (Eduardo Mondlane University; Institute for Social and Economic Studies, Maputo) in Mozambique News Reports & Clippings (2012).

Hanlon and Mosse (2010) make a compelling case that Guebuza and his allies have used their personal involvement in business to drive national development as well as self-enrichment, in some cases implementing public policies by private means when donors have frowned on government intervention. For instance in 2007 Celso Correia used his personal connections to enable his business group to take over a share of the Mozambique's second largest bank, BCI. Correia became president of BCI and under his guidance it has begun "actively carrying out the government's development strategy", for example by opening bank branches in rural areas and investing in infrastructure (Hanlon and Mosse, 2010: 11). Guebuza has also implemented high-profile 'developmental' public policies such as the "7 milhões" Local Initiative Investment Budget (OIIL) which channels funds to small businesses and farmers via district authorities (World Bank, 2011); and the creation in 2012 of a 100% state-owned development bank (BNI), an idea long opposed by donors, aimed at providing finance to sectors neglected by private banks such as agriculture and infrastructure (O Pais, 2012).

Although the Correia example highlights the importance of personal relationships, Sumich (2008) has argued that neopatrimonialism is not the dominant characteristic of the Mozambican political economy since power is not based on a specific individual whose removal creates upheaval through the disruption of patronage networks. The peaceful replacement of Chissano with Guebuza through internal machinations in 2004 showed Frelimo to be capable of putting party interests first, but it is unclear at the time of writing whether a similar orderly transition will occur at the end of Guebuza's second term as president in 2014, or if the constitution will be changed to allow him to serve a third term. Whatever the outcome, it seems that instead of competing vertical networks based on clientelism connecting factions of the elite to the poorest in society, the Frelimo elite constitutes a coherent, if internally divided, political and economic ruling class for whom "power buys money" (Sumich, 2008). This does not, however, make the 'developmental neopatrimonialism' framework irrelevant in the study of Mozambique as Sumich acknowledges that patronage relations do exist and are an important aspect of the political economy.

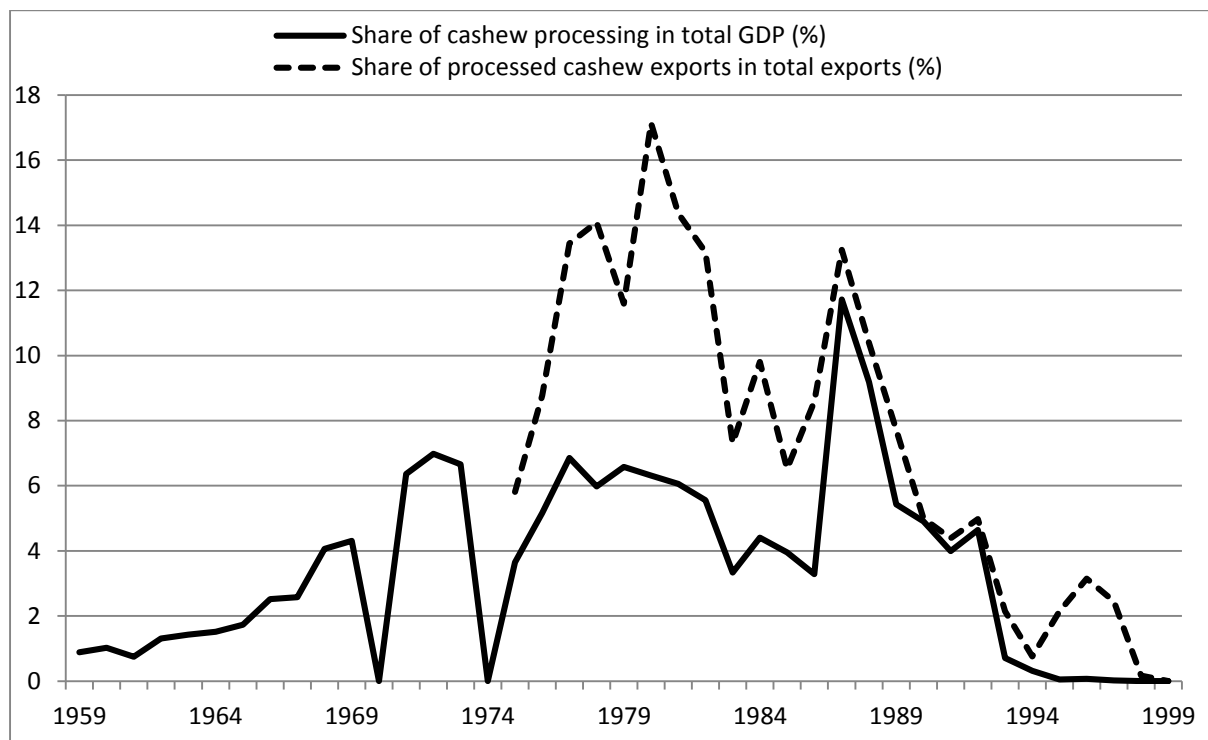
It is equally difficult to interpret the Mozambican political economy as an example of a developmental state in action, not least because industrial performance has been patchy. In addition, Oya and Pons-Vignon's (2010) argument that structural adjustment and dependence on aid has led to a process of state capacity 'de-building' is highly relevant to Mozambique. Warren-Rodríguez (2010: 281) finds that public sector downsizing and donor emphasis on social sectors "has left those government agencies in charge of formulating and implementing policies in the sphere of industrial and private sector development underfunded and presenting very weak capabilities". Despite this conclusion, some sector specific studies have found the Mozambican state to have intervened successfully in promoting private sector development. In the sugar industry for example government, state and party actors formed a 'mediating bureaucracy' which cooperated with foreign and domestic capital to rehabilitate sugar plantations and processing factories (Buur et al, 2012a).

Clearly Mozambique's political and institutional status quo cannot be neatly transposed onto a theoretical framework, but it will be useful to understand something of the political context as we turn to the cashew sector.

### **2.3 The cashew processing industry**

Cashew trees were introduced by the Portuguese in the sixteenth century and by the 1970s Mozambique was the world's largest producer of raw cashew nuts (Azam-Ali and Judge, 2004). A cashew processing industry was established by the colonial regime in the 1950s and shelled nuts made up a significant share of output and exports before and after independence, as shown in chart 3. Despite its origins in the colonial era, the cashew industry is seen as a "national symbol" and "authentically Mozambican", without the negative connotations of other colonial cash crops like cotton, which was seen as "the mother of poverty" (Pitcher, 2002: 225; Isaacman et al, 1980). This is in part due to how cashew is grown, on 1.3 million farms including many small farms, with around 42% of farmers in Mozambique owning trees (AIM, 2011a; Technoserve, 2009).

**Chart 3: Mozambique cashew processing share in output and exports, 1959 - 2009 (data from Castel-Branco, 2002)**

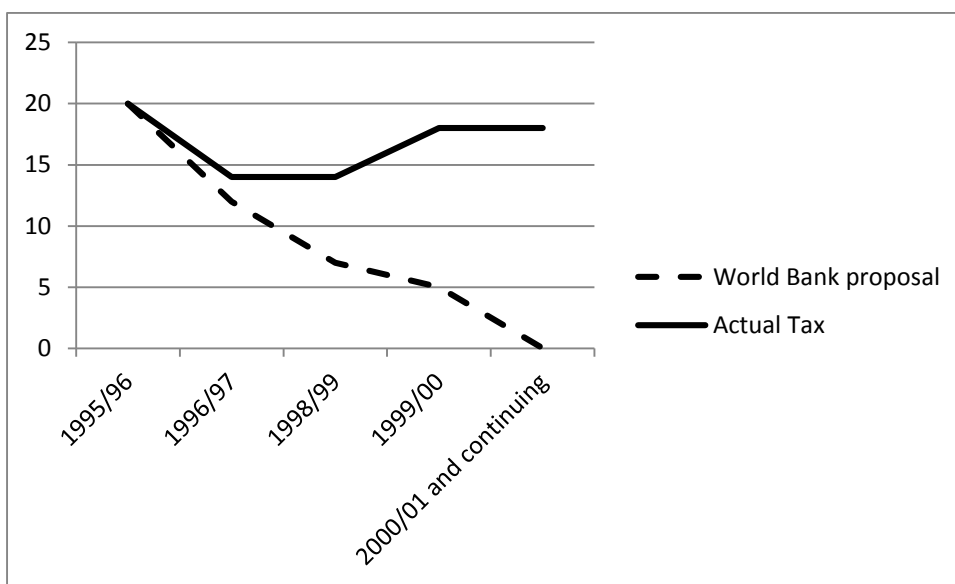


The civil war disrupted production and marketing of raw nuts and therefore supply to factories, so both production and processing fell significantly. A small recovery followed the peace agreement in 1992 as factories were privatised, new investment was made and supportive government policies were introduced, including protection by export restrictions on raw nuts (Hanlon and Smart, 2008). This brief period of rebound was cut short by the liberalisation of the industry in the late 1990s under pressure from the World Bank: bans and quotas on the export of raw cashew were ended and replaced with an export tax which was to fall to zero within five years, as per the 'World Bank proposal' on chart 4.

The World Bank's analysis was based on textbook economics and predicted that the abolition of export restrictions would lead to a more efficient allocation of resources, with less processing and more raw nut production (Cramer, 1999). The argument was based on Mozambique's static 'comparative advantage' as an agricultural economy, which supposedly made it ill-suited for

processing primary commodities. A distributional gain for poor farmers was expected as a result of increased production and higher cashew prices. On both fronts the results were disappointing: resources were not transferred from processing to production because government commitment to the reforms was obviously weak, and traders captured most of the gains from higher export prices instead of farmers (McMillan et al, 2002).

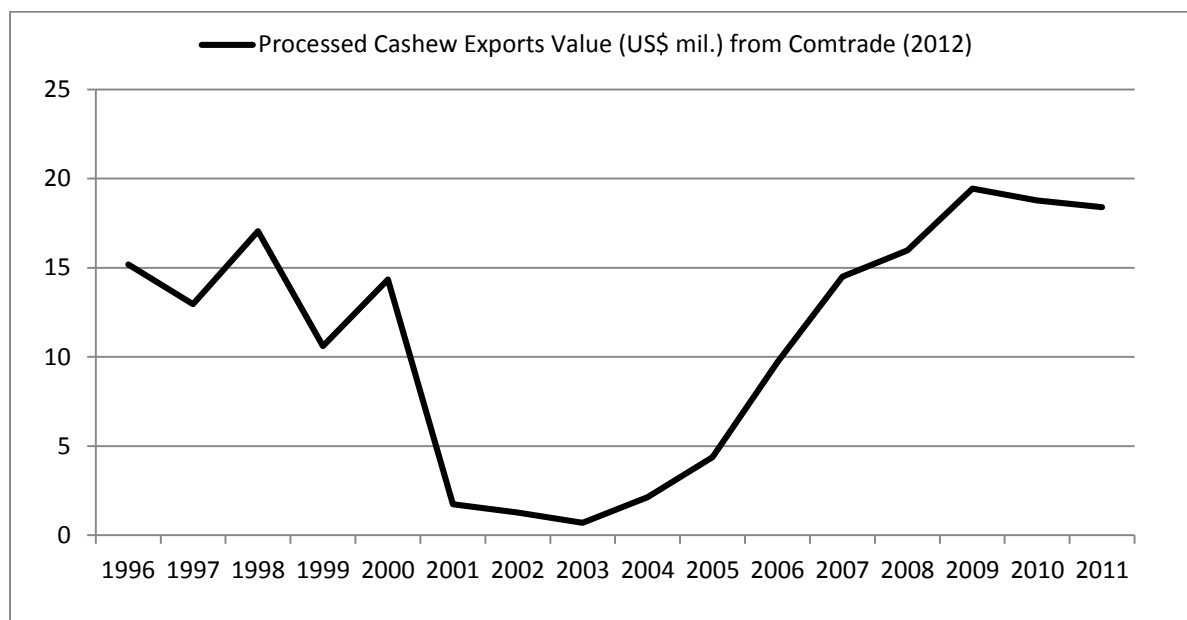
**Chart 4: Schedule of export tax on raw cashew (proposed and actual, %), data from McMillan et al (2002)**



Processed cashew exports fell virtually to zero (see chart 5) after liberalisation as a result of both the reforms and a 50% decline in the international price of raw cashew which disrupted supply to processors (Askoy and Yagci, 2012). 14 out of 16 cashew processing factories closed and 90% of the 11,000 workers were made unemployed by 2001 (AIM, 2001). Since then there has been another turnaround in the policy regime as renewed commitments have been made by policymakers to the protection of the industry (see 'actual tax' on chart 4). A dedicated state agency, Incaju, was established in 1997 within the Ministry of Agriculture and adopted an explicitly interventionist strategy in 2001 aimed at supporting the whole cashew value chain (Hanlon and Smart, 2008). As

can be seen from chart 5, cashew processing has recovered under the new policy regime to its highest level since the war.

**Chart 5: Mozambique processed cashew exports since liberalisation, 1996-2011.<sup>3</sup>**

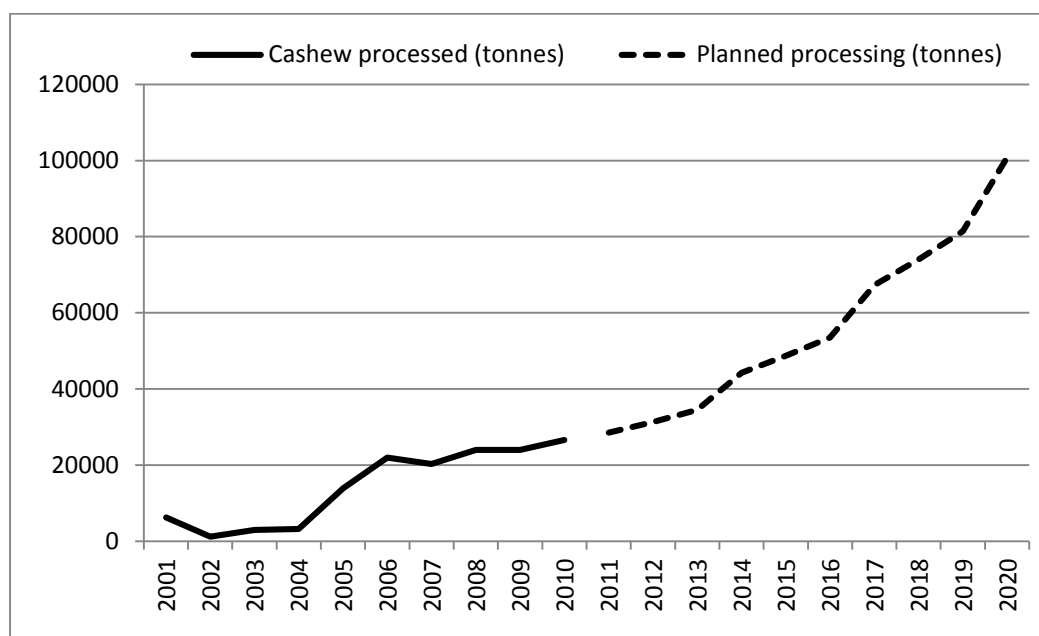


The sector's recovery is domestically significant with cashew (raw and processed) now the sixth most important export, providing 2% of export revenues (Krause and Kaufmann, 2011). The industry has been restructured over the last decade away from large urban capital intensive processing to smaller, labour intensive plants located mainly in rural areas (Hanlon and Smart, 2008; Askoy and Yagci, 2012). This has generated around 9000 jobs in 18 factories since 2001 and Incaju aims to almost quadruple processing capacity over the next decade (see chart 6), which would create around

3. Askoy and Yagci's (2012: 26-32) methodology is used to compute the values. They find the most reliable source of data on Mozambique's processed cashew exports to be partner reporting in the Comtrade (2012) database. For each year, the sum is taken of imports of processed cashew from Mozambique reported by every country (except India, which only imports raw cashew to supply its own processing industry).

30,000 jobs if achieved.<sup>4</sup> The cashew sector provides a rare example in Mozambique of manufacturing growth with export success and job creation in rural areas.

**Chart 6 – Cashew processing, actual and planned (data from Incaju, 2011)**



### **3. Political economy of the Mozambican cashew processing industry's recovery**

#### **3.1 Infant industry policy**

This section aims to explain why the cashew processing industry recovered from its nadir after liberalisation to its highest level in decades. Cramer (1999) argued that international market conditions (e.g. growing demand) were favourable for domestic cashew processing in Mozambique, and that internal constraints were the biggest obstacles to growth: raw material supply, research and development, infrastructure, access to credit, industry standards and marketing. Many of these issues have been addressed in Mozambique by state agencies, donors and private sector actors.

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4. Based on Incaju's (2011: 29) assertion that 100 tonnes of cashew processed creates 38 permanent factory jobs per year.

The backbone of support for the cashew industry was the 'Cashew law' passed by parliament in 1999, which defied IFI threats to withhold aid and debt relief if protection was increased (Incaju, 2008a; Hanlon, 1999). It implemented a variable 18-23% tax on the export of raw cashew (currently 18%), with the proceeds funding Incaju, and specified that 80% of the revenue go towards promoting cashew production and 20% towards the processing industry. This reflected a consensus in the industry that falling production levels were impeding growth in the sector and Incaju, alongside donors and NGOs, have thus focused their resources on increasing yields in the nation's cashew orchard, so as to boost farmers' incomes and improve the supply of raw cashew nuts to processors (Incaju, 2005).

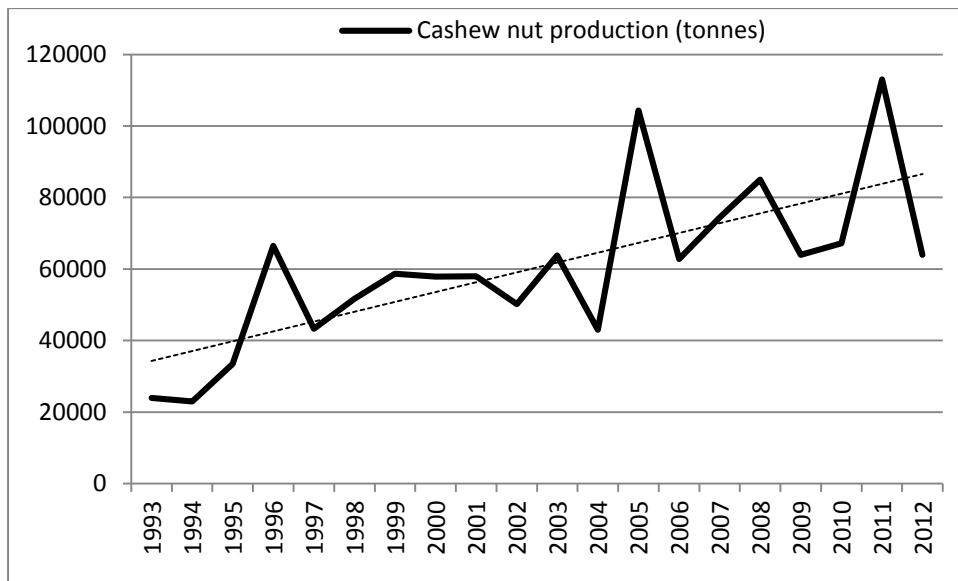
Measures have included subsidizing the spraying of old trees and the supply of new seedlings, researching more resistant and productive seed varieties, and improving information available to farmers on farming techniques such as pruning and cleaning (Incaju, 2005). Chart 7 shows that this programme appears to have been successful since cashew production has indeed increased, albeit with fluctuations resulting from natural alterations in production<sup>5</sup> and variations in international demand and prices. After the war but before the start of Incaju's activities, between 1993 and 1999, production averaged 42,944 tonnes per year. In a comparable seven year period after Incaju's activities began, between 2006 and 2012, production averaged 75,773 tonnes (FAO STAT, 2012). Such a comparison does not control for variations in prices, weather and other factors but the dashed trendline in chart 7 indicates the upward trend. These increases largely reflect the increased spraying of trees; the effects of the replanting programme (around 10 million seedlings distributed) are only just starting to appear in the statistics as new trees take 7 years to enter commercial production (Incaju, 2008b).

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5. Yields peak every 4-6 years and are followed by low yield years.



**Chart 7: Mozambique raw cashew nut production, 1993-2012 (data from FAO STAT, 2012).**



In its efforts to support the whole value chain, Incaju has also been active in supporting the processing industry. Its most significant intervention in this area has been to improve access to finance by creating a loan guarantee fund using the 20% of the export tax earmarked in law for promoting processing (Incaju, 2008a). Incaju guarantees 80% of loans of up to five years for investment by small, new firms in processing machinery and factories. Funds are deposited with the commercial bank BCI, which pays no interest to Incaju but instead offers a special rate on onward loans, at half of the base rate (Krause and Kaufmann, 2011; Hanlon and Smart, 2008). In 2007-8, US\$1 million was disbursed under this arrangement, with a repayment rate of 85% (Incaju, 2008a).

At the request of Incaju and others in the industry, USAID also established a parallel credit guarantee fund aimed at providing working capital for the processing industry to buy cashew at harvest-time (Hanlon and Smart, 2008). Also managed by BCI, this disburses \$US10-12 million annually to more established firms, and has a repayment rate of 97% (Krause and Kaufmann, 2011). Other donors also played a key role in coordinating the rehabilitation of cashew processing through financial and technical assistance. The partnership between the financial institution GAPI and the NGO Technoserve, both donor supported, was crucial in transforming the technological structure of the

industry towards labour intensive processing, and providing integrated business and financial support services to new processors (Simonetti et al, 2007).

Private sector actors have also been driving forces in the cashew processing revival. Antonio Miranda led the way by opening a pilot factory in 2002 with the new wave of technology and an experienced Indian manager (Hanlon and Smart, 2008). Miranda worked closely with Technoserve and GAPI, who then used this business model to help others rehabilitate old and open new factories, 14 in total by 2008 (Technoserve, s.a.). Several processors formed an association, Agro Indústrias Associadas (AIA), again with the assistance of Technoserve, to provide collective services, reduce costs, improve quality control and increase market power (Webber and Labaste, 2010). Importantly, AIA coordinated the launch of the 'Zambique' brand under which processors collectively market their kernels, helping them establish and maintain stable relationships with buyers in the EU and USA.

In sum, a variety of actors and institutions have cooperated to rehabilitate the cashew processing sector over the last decade. The combination of selective tariff protection, subsidies, research and development, financial assistance and extra-market coordination indicates that cashew processing constitutes an 'infant industry' in the tradition of List and Hamilton (Shafaeddin, 2000). We now turn to the political economy of this institutional arrangement to explain why it came into existence.

### **3.2 A sector specific developmental regime**

In the following subsections the theoretical frameworks outlined in section 1 will be employed and their usefulness in explaining the observed phenomena tested. An important aspect of the story which theories must engage with is politics, specifically the political forces underpinning the recovery of cashew processing. This is because it is clear that following the discussion in section 1,

the protection and support afforded to cashew processing have the effect of generating rents within the sector, and rent generation and distribution is a political process.

### ***3.2.1 Good governance?***

The good governance framework is little help in explaining the observed outcomes as it is primarily a set of normative principles or recommendations about what *should* be done. Moreover its main principles have been contravened: the export tax and state support constitute strong direct government intervention in support of a specific industry, instead of creating a ‘level playing field’ for all industries. The theories of rent-seeking which underpin the good governance agenda have more explanatory power, as they see rents as politically created and damaging for the economy (Krueger, 1974). However they provide no account of the political processes which lead to rent creation, and cannot explain the relatively successful export performance of cashew processing over the last decade and thus the productive use of rents. Our ‘developmental’ theories are better equipped on both of these fronts.

It is possible to identify ways in which cashew policy is partially aligned with principles of good governance. The central role of external non-state actors in providing policy advice and technical support for the cashew sector indicates that the Mozambican state is not too much overstretching its ‘institutional capabilities’, just as the World Bank (1997) recommends. Also, in attempting to rebuild an industry with a long history in Mozambique, and with the new labour intensive factories, it could be argued that industrial policy is following the country’s comparative advantage rather than defying it, as Justin Lin has advocated (Lin and Monga, 2010). Finally, democracy has been an important part of the cashew sector’s revival as shall be seen in subsection 3.2.4, with a measure of transparency and accountability in the policy process. Since the main thrust of cashew policy contravenes fundamental good governance principles, however, we will turn to the other theoretical frameworks to seek an explanation.

### ***3.2.2 Developmental state?***

Much of the developmental state literature places emphasis on the importance of state agencies performing a supportive and coordinating function with respect to private sector investment. To a large extent Incaju can be said to fulfil this role in the cashew sector, with its key activities outlined in subsection 3.1. It has been argued that despite these, Incaju does not possess the ‘intellectual leadership’ in cashew policy because of the important role of non-governmental and/or foreign organisations like Technoserve, GAPI and USAID (Krause and Kaufmann, 2011: 46).

Yet the use of foreign technical assistance and aid in industrial policy has a strong historical precedent in East Asian development strategies (Pempel, 1999). The key question for Pempel is who controls the process, and in the case of Mozambican cashew the state does seem to be in the ‘driving seat’. The legislative and executive branches of government approved laws protecting cashew processing in the face of fierce IFI and donor opposition, and Incaju has produced several ‘master plans’ for the sector, the most recent covering the period 2011-2020, which lays out a comprehensive and integrated programme of support to the whole value chain and contains the ambitious target of quadrupling processing capacity to over 100 thousand tons (see chart 6) and increasing raw cashew nut production by 80% (Incaju, 2011; IPEX, 2011).

Incaju’s programme of financial support to processors via the loan guarantee fund also demonstrates its leadership because “state control of finance was the most important, if not the defining, aspect of the developmental state” (Woo-Cumings, 1999: 11). Although USAID guarantees more finance to processors than Incaju, it established its fund at Incaju’s request and lends according to mutually agreed criteria (Hanlon and Smart, 2008). The relatively high repayment rate of 85% in 2007/8 indicates that Incaju has succeeded in establishing adequate incentive structures to discipline firms and ensure productive investment, another feature of developmental state bureaucracies (Johnson, 1999: 48).

A feature of developmental states able to successfully drive growth in NICs was their 'embedded autonomy', according to Evans (1995). This breaks from the Weberian conception of autonomy, whereby the bureaucracy should be insulated from social and political forces to allow decisions to be made based on technical and economic criteria. Instead a measure of autonomy, achieved through meritocratic recruitment, long-term incentives and corporate coherence, is tempered by being embedded in networks creating channels for negotiation and information sharing with the rest of society (Evans, 1999: 12). The formation of a business association (AIA) by cashew processors, which engages in "constant dialogue with government entities to identify and solve problems" through regular meetings (Incaju, 2005: 52), bears a strong resemblance to the 'deliberation councils' seen in East Asia and recommended by Rodrik (2007), demonstrating 'embeddedness' and encouraging cooperation between public and private actors.

In Mozambique, the boundary between the dominant Frelimo party and the state is blurred, with the party taking on functions that might elsewhere be associated with the state, including aspects of 'embeddedness'. Hence there is "pressure for state functionaries to join the party", which is "an important channel of two way communication" according to Hanlon and Mosse (2010: 7). It is no surprise then that Incaju's operations and management are sometimes aligned more with Frelimo's interests than those of cashew processors (Krause and Kaufmann, 2011: 47), but this does mean that Incaju might err more on the side of being 'embedded' to the loss of 'autonomy' to direct the industry according to broader interests. More research would be needed to discover where Incaju sits on this spectrum, with attention focused on its recruitment and promotion policies, and the incentives - formal and informal - of managers.

Developmental state theories have provided an insight into the workings of Incaju and reasons for its relative success in driving productive investment in the cashew sector. So far though we have not fully accounted for why rents and supporting measures were created in the first place. The

developmental state literature is clear that nationalism in the face of external threats, such as imperialism and war, often lay behind the 'will to develop' in successful East Asian late developers (Woo-Cumings, 1999). In Mozambique, Frelimo's revolutionary nationalism was forged in the fire of colonialism, and nation building and modernisation have been unifying objectives ever since. Manufacturing performance has been poor overall though, so reasons for the recent success of cashew must be specific to that sector with ideology playing only a background role.

### ***3.2.3 Developmental neopatrimonialism?***

Developmental neopatrimonialism theories acknowledge the role of a nationalist/modernising ideology in industrialisation, but place more emphasis on the private interests of powerful elites in explaining rent creation. Askoy and Yagci (2012), influenced by the 'rent-seeking' literature of Krueger (1974) and others, see the protection of the processing industry as a manifestation of the "links between the processors and the political leadership". However, they provide no account of the character of these links, or evidence of their material basis, and do not explain why processors are privileged with protection even though it conflicts with the interests of other groups, such as traders who export raw nuts. Although some traders also own processing factories, they are a group who largely lose from the protection afforded to processors, and their close links to Frelimo are well documented and have even been used to explain the earlier phase of liberalisation (Pitcher, 2002: 230-231). Donors too, who wield great political power over the political elite, have long advocated liberalisation which has now been rejected (Hanlon, 2000). According to Pitcher (2002: 233), "national and international criticism of the World Bank probably has increased the government's leverage with the bank on this issue. Moreover, within government, the influence previously exercised by traders has now shifted somewhat to agriculture and industry".

Whether the influence of processors stems primarily from their personal and financial links with policy makers, as in the neopatrimonial framework, seems doubtful. Joseph Hanlon asserts that

“cashew is a sector that has virtually no links with the Mozambican elite”,<sup>6</sup> emphasising instead the efforts of NGOs and local entrepreneurs (Hanlon and Smart, 2008), but Buur et al (2012b: 28) suggest that some of the new processors are “affiliated to the Frelimo party”, with the Chissano family owning a factory in Gaza province. Buur et al provide no further examples however, and further research would be needed to determine the extent of direct financial links between cashew processors and the Frelimo elite. One question is how profitable BCI’s involvement in operating the loan guarantee fund for processors is. As seen in subsection 2.2, the leadership of BCI have close personal links to the president and carry out aspects of the government’s development strategy. It may be that BCI’s operation of the loan fund represents a lucrative rent conferred by the president, or an unprofitable (in the short-term) support to a sector seen as strategically important by Frelimo. Further knowledge on this subject would shed light on political reasons for support to the cashew sector, but from the available evidence it appears that the elite is not extensively personally or financially involved, so the neopatrimonialism framework has little explanatory power in this case.

#### ***3.2.4 Jobs, votes and legitimacy***

Other evidence suggests that Frelimo’s interest in reviving cashew processing is not based on direct opportunities for short-term financial gain, but more indirect and long-term reputational benefits relating to employment, electoral support and legitimacy. As outlined, many in the country see cashew as authentically Mozambican and a symbol of the nation’s independence. This contributed to the “national uproar” when it was announced that the government had acceded to World Bank demands for liberalisation in 1995 (Pitcher, 2002: 227). In the following years Frelimo experienced the legitimacy crisis described in subsection 2.2; newspapers ferociously attacked the changes in the cashew sector as damaging to Mozambique’s interests; the IFIs were accused of interfering in Mozambique’s affairs and violating its sovereignty; new cashew factory owners criticised the

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6. Personal communication, 4th July 2012

government for reneging on its promise of protection after privatisation; and labour unions mobilised mass protests at the loss of thousands of jobs (Pitcher, 2002).

At the same time there were serious worries within Frelimo about the election in December 1999, after the 1994 presidential election had given Frelimo only a slim majority of the vote. Hanlon (1999) argued that with up to 9000 cashew workers unemployed after liberalisation, the votes of them, their families and friends could be decisive. Perceiving this, and to counter the impression of subservience to the IFIs, Frelimo parliamentarians submitted a bill in February 1999 against the IFIs' wishes to ban raw cashew exports and to "re-industrialise the cashew sector", thus initiating the programme of support to the cashew sector outlined (PANA, 1999). Frelimo narrowly won the 1999 presidential election, with 52.3% of the vote compared to Renamo's 47.7%, and have consolidated their dominance in subsequent elections.

Another factor in Frelimo's decision to support the cashew industry was the strong association of the sector with the rural Northern provinces of Nampula and Cabo Delgado, where over half the country's cashew trees are located (AIM, 2011a). For many years Frelimo lacked support in these areas due to local resentment of its early rural development policies, especially 'villagisation', as well as its focusing of investment in urban areas as part of its project of modernisation (Pearce, 2010: 373; Sumich and Honwana, 2007). In 1994 and 1999 for instance, Renamo won more votes than Frelimo in Nampula in the general elections (see appendix). Support for cashew production and processing can therefore be seen as an effort to create and maintain jobs in former opposition strongholds, in rural areas across the country but primarily in the North (Buur et al, 2012b: 10). The new factories are located in rural areas and 60% of households whose trees have received chemical treatment to increase yields are located in Nampula (Incaju, 2011). In 2009 Frelimo won two-thirds of votes in Nampula province, compared to only one-third in 1994, representing a marked turnaround. While other factors are also behind this change, the jobs and income generated by state support to the



cashew sector are likely to have been an important contributing factor given that in much of Nampula cashew is the single most important crop in terms of income generated, contributing 5-20% of total incomes, and cashew factories are often the only formal sector jobs available to non-skilled workers in rural areas (Technoserve, 2009).

At the national level though, the number of jobs created is largely symbolic. Even if processing capacity increases by the highly ambitious amount targeted in Incaju's (2011) master plan, only an extra 30,000 jobs would be created (see subsection 2.3). These figures pale in comparison to the number of unemployed in Mozambique, currently at 27% of the labour force or around 3 million people, with 300,000 additional workers entering the labour force each year (World Bank, 2012; AEO, 2012). Following the discussion in subsection 2.1, the cashew industry is largely peripheral to processes of accumulation in Mozambique, which centre on industrial and extractive mega projects initiated and controlled by foreign capital. However, as outlined in subsection 2.3, cashew is a symbol of independent Mozambique and has an important place in the national imagination (Pitcher, 2002: 225). Support for domestic production and processing is an attempt to bolster Frelimo's faltering legitimacy among key support bases, which see it as "increasingly corrupt and self-interested" (Sumich, 2008: 120), and demonstrate Frelimo's continued commitment to its modernising nationalist project and the incorporation of neglected sections of the population into the growing economy.

Thus while nationalism and anti-imperialism – in this case directed against IFIs rather than colonisers – provide the political-ideological background for protection to the cashew sector, the impetus for active support was based in the Frelimo elite's concerns around job creation and bolstering its legitimacy in order to ultimately win elections and maintain political dominance.

### **3.3 Limitations of industrial policy in the cashew sector**

Vietnam, Brazil and India have experienced far more dramatic success than Mozambique in growing their cashew sectors and they now dominate the international market (Technoserve, 2009). This subsection will analyse why Mozambique's industrial policy towards cashew has only been a partial success by examining problems around nut supply to factories, income to farmers and workers, and finance. A common theme is the influence of donors, who exercise considerable leverage over policy but have somewhat different objectives to others in the industry because they are accountable to overseas funders and taxpayers. Incaju therefore does not have complete control over the direction of resources, and both developmental state and developmental neopatrimonialism schools argue that such a lack of centralisation of rent creation and management is a potential obstacle to growth (Kelsall, 2011; Woo-Cumings, 1999).

One area of divergence between donor and industry interests arose over the problem of ensuring a reliable supply of quality nuts to factories, the absence of which has been identified as a major obstacle to increased cashew processing. Subsection 3.1 showed that the current strategy of spraying and replanting the existing orchard has been successful in increasing yields, but the results have been criticised as inadequate, partly because of difficulties in reaching all of the 1.3 million farmers who own cashew trees (Askoy and Yagci, 2012: 16). A proposed alternative is vertical integration of the cashew supply chain such that large scale cashew tree plantations would be directly managed by processors (Incaju, 2011). However, this is opposed by donors who see plantation agriculture as "not desirable from a poverty reduction perspective" (Krause and Kaufmann, 2011: 41). The donors who support the cashew processing sector do so mainly because of the perception that cashew trees are owned by "1 million small-scale, subsistence farmers" (USAID, 2011). This reflects the widespread misconception that rural labour markets in Africa are

inactive and that rural communities consist of homogeneous self-employed small farmers (World Bank, 2008: 204; Oya, 2010).

In fact, social differentiation has taken place in Mozambique at least since colonial times, and small farmers are already engaged in wage labour to a far higher extent than reflected in official statistics (Manghezi, 1998; Cramer et al, 2008). Among farmers with cashew trees there is also much variation in wealth and income, with poorer farmers benefiting least from growing cashew. 'Middle-income' and 'better-off' farmers earn much more (US\$120-240, 20% of their cash income) than 'very poor' and 'poor' farmers (US\$8-20, 5-10% of their cash income) per year from cashew because they can afford pesticides and can sell their crop later in the season when prices are higher (Technoserve, 2009). 50-70% of farmers with cashew trees fall into the 'very poor' or 'poor' categories, and they engage in casual wage employment to earn most of their income (ibid).

In their study of Mozambican rural labour markets, Cramer et al (2008: 372) found that agricultural workers working for local farmers or neighbours on a casual basis earned around half of the median wage on large plantations. It may therefore be the case that growing cashew on plantations not only improves nut supply to factories, but also increases the income of the poorest cashew farmers in rural areas, who are also wage labourers anyway. This is because vertical integration of the supply chain is likely to improve productivity and profitability, providing space for concessions to labour in the form of decent wages and conditions on plantations. A more productive cashew industry would also allow for higher wages for workers in processing factories, who currently receive less than the industrial minimum wage and even the agricultural minimum wage in most cases (Technoserve, 2009). 600 cashew workers in a Nampula factory went on strike in 2011 to protest the move from a monthly wage to a piece rate, in breach of their contracts (AllAfrica, 2011a).

Kohli (2004: 13) argues that labour repression has been a common feature in many instances of late development, "enabling private investors to have a ready supply of cheap, 'flexible,' and disciplined

labor". The tolerance by the state of wage suppression in cashew factories indicates a willingness to fulfil one side of the bargain, but Mozambique's education and health systems are unable to ensure a reliable workforce and hence absenteeism in cashew factories is high, between 30 and 50%, often caused by preventable diseases like malaria (Krause and Kaufmann, 2011: 41). Reliance on worker exploitation may have been common in authoritarian developmental states, but since cashew protection in Mozambique is to some extent about building democratic legitimacy, wage suppression is likely to backfire. Instead, state support to the National Cashew Workers Union would be a fitting political strategy by increasing their collective bargaining power, or 'associational power', which has been shown in other instances of production for export to lead to better outcomes for labour (Selwyn, 2012). Of course, short-term concessions to labour should not be at the expense of investment needed to boost the long-term competitiveness of the industry.

A final problem area for industrial policy in the cashew sector is around financing investment, where again donors have impeded a potentially fruitful policy option. A group of Mozambican opinions leaders from across the political spectrum produced a report in 2003 calling for a development bank to finance and support strategic businesses and sectors, but donors opposed the creation of such an institution and successfully blocked it until 2012 (Hanlon and Smart, 2008: 175-187; O Pais, 2012). The loan guarantee fund in the cashew sector depends on USAID support and Incaju (2011) admits that the funds may soon expire with no alternative financing system yet in place. The new public development bank, BNI, would be an appropriate institution to fulfil this function since commercial banks see cashew as too risky without donor guarantees. However the government has rejected hopes that BNI will provide subsidised credit to strategic sectors, saying it will "follow the rules" of private banks, and thus conform to the policy consensus espoused by donors (O Pais, 2013).

## Conclusion

This study has found that within the Mozambican cashew sector a policy package akin to an infant industry strategy has been implemented, with a moderately successful outcome. It has been argued that the good governance framework is unable to explain this result because it sees rents as manifestations of corruption with no possible benefits in the productive sphere, contrary to the evidence. Developmental neopatrimonialism is also inadequate in explaining the industry's revival, as personalised relations of patronage do not seem to be the driving force behind rent creation. Further research into the nature of links between cashew processors and the political elite would be needed to gauge the extent of patronage-type relations, however.

Developmental state theory is a useful guide to how the industry was revived through various extra-market interventions by state agencies and other actors, though more research would be needed to properly assess the corporate character of Incaju and compare it to East Asian models of 'embedded autonomy'. Developmental state theories are also a useful starting place in understanding why rents were created in the cashew industry in the first place, pointing to the importance of a modernising nationalist ideology and anti-imperial sentiment. However, a full understanding of the cashew sector's protection and support must be rooted in Mozambique's political economy context and its historical development.

This context was a slowly unfolding crisis of legitimacy for the ruling Frelimo elite, as the pattern of accumulation in the economy was perceived to benefit a narrow few at the top of society. Reviving the cashew processing industry, long seen as a symbol of the independent nation, was a way of publicly renewing the elite's commitment to broad based social development, modernisation and job creation in rural areas. This was an attempt to bolster legitimacy among both rural and urban constituencies and ultimately win votes, especially in areas formerly held by the opposition, and so maintain political power.

In this instance then, globalisation has been a double-edged sword. Access to export markets in the USA and EU and favourable conditions of international demand for processed cashew nuts were important for the successes achieved. Also, foreign technical and financial assistance by donors and NGOs was important in providing knowledge and resources for the implementation of the cashew strategy. However, donors' opposition to certain measures which would be likely to boost competitiveness, such as direct public financing, point to a downside of globalisation - the policy consensus embodied in the good governance agenda limits state involvement in the economy and therefore the ability of countries to capitalise on international market opportunities.

The relative success of Mozambique's cashew sector raises the question of whether a similar approach could be implemented in other sectors and/or other low income countries. This would require acceptance by states of the need for active and targeted industrial policy, but also technical and financial assistance from external sources since most low income country states could not resource such a strategy alone. If the IFIs were to fulfil this role, their 'good governance' principles would need significant moderation, or abandonment. However this study also finds, as others have, that industrial policy must be compatible with the domestic political-economic context if it is to have any chance of success (see also Di John, 2009; Khan, 2007: 7). This may take the form of growth industries benefitting elite groups financially, or, as in Mozambique, contributing more indirectly to their position in power through job creation and increasing legitimacy.

## Appendix

**Table 1: Presidential election results**

Year	1994	1999	2004	2009
Frelimo share of vote (%)	53.3	52.29	63.74	75.01
Renamo share of vote (%)	33.73	47.71	31.74	16.41

Source: [africanelections.tripod.com](http://africanelections.tripod.com); [psephos.adam-carr.net](http://psephos.adam-carr.net); Mozambique News Agency

**Table 2: Share of vote in Nampula province**

Year	1994 (L)	1999 (L)	2004 (P)	2009 (P)
Frelimo share (%)	31	39	50	67
Renamo share (%)	48	44	44	28

(P) indicates Presidential election; (L) indicates Legislative election

Source: [psephos.adam-carr.net](http://psephos.adam-carr.net); [eisa.org.za](http://eisa.org.za)

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