

# [Growth options for zimbabwe assignment](https://assignbuster.com/growth-options-for-zimbabwe-assignment/)

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UNIVERSITY OF ZIMBABWE GRADUATE SCHOOL OF MANAGEMENT MASTERS IN BUSINESS ADMINISTRATION Group 10 Bright ChidyagwaiR074349A Raymond MharaparaR074352B Sarathiel ChaipaR901942L Lovemore MurondaR074359Q Lovemore HakunaR0019347 Fanuel SigodhoR9913490 Course: Business and Its Environment Course Code: MBA 504 Lecturer: Mr. M. Kwaramba Due Date: 02 December 2007 QUESTION: Zimbabwe’s comparative advantage is restricted largely to resource-based activities. What are the advantages of such a situation and what scope is there for shifting into another growth path? Introduction

Zimbabwe is richly endowed with several different types of resources, such as gold, platinum, nickel, tin, copper, trees for timber, water bodies etc. This gives the country a comparative advantage, which is largely resource-based. The theory of comparative advantage states that, a country should export products it can produce at a lower comparative cost than those with whom it trades with (Samuelson & Nordhaus, 1988: 689). Zimbabwe, for some years, was the bread-basket of southern Africa, relying more on agricultural products for trade within the Southern Africa Development Community (SADC).

The country has been week regarding exports on manufactured products. Comparative advantage, generally would dictates the industrial policy of a country, unless there are strong reasons not to. We define industrialisation as the process of building a country’s capacity to process raw materials and to manufacture goods for consumption or further production. There are five determinants of industrialisation namely: ??? Size of as country: The size of a country refers to the population size together with the spatial distribution of the country.

Countries with high population and high per capita incomes would industrialise faster than small ones. ??? Geography: This refers to the resource endowment of a country and how it is located. Poorly resource-endowed countries may industrialise faster that those which are well endowed. This is due to the demand for goods and services e. g. South East Asia. This contrasts sharply with manufacturing, which tends to lag in resource-rich states since investment flows into high yielding resource-based industries like oil in Nigeria, tobacco in Zimbabwe, and copper in Zambia etc. Government economic policy: government policy can favour a different direction in terms of its policies on interest rates, property rights, exchange rates etc, can increase or accelerate industrialisation. ??? Trade policy: this can influence pace of industrialisation, more on the same lines as point three above (Government economic policy). A country’s openness regarding trade can influence the pace of industrialisation, that is, exports give rise or impetus to demand while imports are the main channel of new technology, in the initial stages of industrialisation. Infrastructure: Good infrastructure, like roads, telecommunications and others, favours industrial growth. Research has shown that, industrialisation tries to follow three stages namely 1. Domestic production of non-durables, such as, food processing, tobacco, clothing and textiles, brewing of beer, etc 2. Production of durables 3. Processing of intermediates and capital goods Four industrial options exist, which a country can follow, namely, import substitution (IS) industrialisation, resource-based (RB) industrialisation, export-led (EP) industrialisation, and finally, agricultural-demand led (AD) industrialisation.

Let us look at each of these industrialisation options in more detail, and in relation to the Zimbabwe situation. Import substitution industrialisation This entails an attempt to replace commodities being imported, usually manufactured goods, with domestic sources of production and supply. According to Gillis et al (1996), choice of an industrial strategy or policy is dependent on a country’s approach to trade. They cite two approaches that have been employed by some governments and I quote, “ to force the pace of changing the comparative advantage and also to alter the pattern of industrialisation” which are IS led and export ‘ led.

They define IS as the replacement of imports by products from the domestic industry and see this as the principal path to industrialisation. This approach has been employed for the past two decades. The approach got world-wide recognition after England became the first industrial powerhouse, after the industrial revolution of the 18th century. According to their book, the United States of America (USA), in 1807, boosted its manufacturing capacity after the trade embargo was imposed during that year.

European powerhouses like Germany, Russia, and Japan, all had to protect their manufacturing (import substitution) after realising that military strength depended largely on industrial growth. Latin America (Gilles et all) explored IS after their primary markets were severely disrupted by the great depression of the 1930s, combined with the scarcity of commercial shipping during the Second World War. These countries emerged the Second World War with fledging economies. Gillis goes on to prescribe a formula or path on how to introduce and gain from IS.

He says that the first thing is to identify large domestic markets, which can be identified from import data studied over a period of years. The second aspect is to ensure that the production technology is available and that there is personnel that is qualified in the usage of that technology. In countries that lack the technology, there is need to ensure that foreign investors’ willingness to supply such technology, management, as well as the capital. Once these have been established, protective barriers should then be erected through the use of tariffs, or quotas on imports.

Such an approach will overcome high initial costs of local production. There is also the need to make it more profitable for the potential investor in the target industries. IS (Little et al, 1971: 1-29) say that IS or agricultural demand led approaches are forced on countries due to falling exports which lead to shortages as the balance of payments (BOP) scale will not be in the a country’s favour, resulting in the ballooning of the external debt, as happened to Zimbabwe. This debt becomes difficult to service.

This could be a result of wars as in the case of Latin Americans during the Second World War, or due to the inability of a country, as in the case of developing countries who are unable to supply manufactured goods. A case in point is that of India and Pakistan. Thus IS becomes a natural option for developing countries due to BOP difficulties, and the realisation that IS is the most appropriate policy for furthering the goal of self-sustainancy or self-sufficiency as happened with Germany and Japan during the Second World War.

This parallels the current situation in Zimbabwe, as the country is under political and economic suctions from the international community. According to Little (1971), import restrictions can encourage industrialisation in a variety of ways namely: by providing inducement for local and foreign firms to invest in IS industries; or through the provision of high profits and thus a direct resource savings for expansion; provision of imported equipment at prices that are relatively favourable; and also through the reservation of already established market for industry’s output.

Despite the advantages of IS, it also has disadvantages as follows: ??? In countries like Argentina, Pakistan, Brazil, India, Philippines and Mexico, according to Little, industrialisation polices enacted involved proliferation of administrative controls, and drastic intervention in the economy whose costs were considerable, for example, controls in Zimbabwe, such as price controls. ??? A great amount of uncertainty is created with excessive interventions, which may also be changed with new governments. Red tape usually increases capital-output ratio as manufacturers, either hold excessive large stocks of imported inputs as a precautionary measure or they are prevented from the full use of the industrial capacity due to delays in obtaining foreign currency for such inputs. ??? Income distribution is negatively affected, as the policies could result in inequalities in the distribution of income. ??? In some instances, attempts to industrialise rapidly has resulted in BOP problems due to an increase in demand for capital inputs.

It is evident that there will be a marked decrease in the importation of manufactured goods but a rise in the import of raw materials and intermediates is seen. This has resulted in the distortion of foreign currency cost of inputs, apart from domestic labour. This results in high foreign currency expenditure than savings on the final product (Little et al) ??? Restrictions can cause an exchange rate crises as the rate could be increased resulting in capital goods ‘ prices required for productive or manufacturing sector rising up leading to higher foreign currency expenditure. Restrictions to enforce IS can result in the neglection of comparative advantage. ??? In other countries, too much IS implies resorting to capital-intensive process. For any given output, more foreign currency has to be spend thus depriving investment to other sectors and consequently resulting in less employment ??? Studies have shown that growth can surely occur within a period of about 15 years. A case in point is the Latin American one. After the expiry of the first 15 years, exports can permit growth of an industry at a faster rate than internal demand for manufactures. IS had ended up benefiting foreign companies, in other instances, at the expense of the local firms. The foreign firms benefited from tax concessions and protective tariffs. ??? IS can result in the creation of monopolies ??? Protection through tariffs can protect inefficient industries at the disadvantage of the consumer. Poor quality standards are protected. This strategy is good when prices are low (Bryce, 1960) Adelman et al (1986) contend that, and I quote “ paradoxically, in some developing countries, IS strategy was promoted on the grounds that it would imply greater industrialisation.

However, exactly the opposite happened in the semi-industrialised countries such as India, where the discrimination against exports, reduced the size of the market, imposed protectionist costs, and indeed impaired the growth rate of the economies that had little industrialisation base and exports that were almost exclusively non-manufactures; the opposite happened to semi-industrialised countries where exports already included a growing quantity of manufactures. Resource-based industrialisation This has been the main route for African countries, but was affected by the short comings of the 1950s and 1960s.

Zimbabwe, before 1953, also followed this option taking advantage of its gold, tobacco and asbestos. Zimbabwe followed this policy between 1953 ‘ 1963, that is during the federation period, before it was affected by the trade embargo, which curtailed exports or international trade during the Unilateral Declaration Independence (UDI) period. By following this route, a country would be exploiting its comparative advantage. The advantages of such a strategy are: ??? A country exploits its comparative advantage as opposed to its comparative disadvantages as in the case of IS. Technology and capital flow into the country for the exploitation of resources. The strategy also has disadvantages as follows: ??? A major problem is the instability of prices of products on the international market, which are controlled by the developed world for their own advantage ??? It creates a great dependence for developing countries on developed countries. ??? It is politically unpopular as it appears to promote multinationals that are in the position of great authority or power or influence, who extract irreplaceable resources, imply that the pace and manner is in the hands of foreign firms as opposed to local firms or overnment ??? Countries relying on this strategy have been disadvantaged through emergency of substitutes for traditional raw materials such as copper, aluminium, asbestos etc, due to technological progress resulting in less use of those raw materials in the production of a given volume of output. For example, there is a marked decrease in the amount of steel being used in the manufacture of today’s motor vehicles compared to the past 20 years. , copper has been replace by silicon in the manufacture of electrical components. This strategy is capital-intensive and not labour-intensive, thus not utilising the comparative advantage of cheap labour in developing countries. Zimbabwe has followed this route in the 1950’s and it can adopt it again today, but there is need to tilt the scale in the favour of locally-owned firms. All the advantages and advantages as stated above apply to Zimbabwe. Export-led industrialisation Proponents of this strategy see growth as coming from exports. This strategy recognises growth as being driven by exports. The policy is outward-looking as opposed to IS which is inward looking.

This strategy normally exists in countries where there is policy neutrality regarding exchange rates and other industrial polices. This policy shares the common features with agricultural-led policy and at times is confused with agricultural-led policy. The major differentiation exists in that agricultural-led is focuses purely on agricultural products only as opposed to resources like minerals or manufactured goods etc, that is non-agricultural products. Agricultural demand-led industrialisation This is similar to export-led but the focus here is on agricultural products only and sees agriculture as the engine of growth.

Agriculture has linkages with other sectors of the economy such as the manufacturing sector where it supplies raw materials. It has backward linkages as it demands chemicals and inputs as well irrigation equipment and pesticides. It is labour intensive and can earn foreign currency through exports. The major drawback is the control of prices on the international market by developed countries and that in other countries it has failed to respond to government incentives. Trying to produce agricultural products that internationally competitive can be a problem.

Zimbabwe growth path Our country has followed the resource-based (RB) in the 1950s and eventually abandoned it during the UDI period due to the trade embargo that was imposed by the international community. The resources targeted were mainly minerals and multinationals owned the means of mineral extraction. When this was abandoned, the country took the IS route during the UDI period. This was not out of choice, but a reaction to the trade embargo. Some changes in the growth path are not by choice but by default in reaction to some forced circumstance.

After independence, Zimbabwe focused on agriculture as the backbone of growth. The reason of the change was out of choice and in reaction to the changing circumstances. The trade embargo was lifted and the country could trade internationally. Most of the agricultural products were from white-owned commercial farms, such as flowers, maize, beef, oranges with few coming from indigenous Zimbabweans. The country has tried to foster this growth path but as indicated above on prices on the international market which are controlled by the developed countries for their own advantage.

This has resulted in serious BOP problems for the country. Much financial resources are being put into this sector. After the agrarian reforms in the early 2000, agricultural output fell as most white commercial farmers left the farms. The government, through the Reserve Bank of Zimbabwe, has put in immense financial resources to improved agriculture and centre all growth around it. This has had little impact to date on the output and thus has failed to sustain the BOP imbalance. The advantages The country has gained though the exploitation of its resources, which are ostly in the hands of foreign firms. The advantages as expounded above on resource-based have been enjoyed by Zimbabwe. It has managed to exploit its comparative advantages especially in mineral resources. These have brought export proceeds though not enough to sustain the economy and reverse the BOP imbalance. Shifting into a different growth pattern The scope exists for the country to shift into a different growth pattern. The country can adopt policy neutrality and leave entrepreneurs to determine the course to follow. There is also scope to move into resource-based strategy as adopted in the 1950s. ut more to that, there is need to process the resources and then export them as finished goods which fetch more returns. It should be realised though, that change does not come quickly. There is need for local skills development and that large changes in prices would have to occur (Little). There is need for social and political acceptance for that shift to occur. The changes may also require devaluation of our local currency to an equilibrium position and this has to be accompanied by tariffs and export subsidies designed to leave local prices the same.

According to Lewis et al (1986), economic development is the process by which an economy is transformed from one that is dominantly rural and agricultural to one that is dominantly urban, industrial and urban in composition, and this does not happen over night. The process of transformation is a gradual process though it can be sped up by incentives and concessions on the part of the government. Japan, Thailand, Cote ‘ d ivore, Malaysia, Punjabs of India, Pakistan and some parts of South Asia have had success in development through agriculture.

It is ironic that perhaps because of critical importance of trade expansion in agricultural-led strategy, several of those successes are perceived as coming from export-led growth rather as successes of agricultural strategy. South Korea, Taiwan, Hong Kong, and Singapore known as “ The Asian Tigers” along with Indonesia, Malaysia, and Thailand known as “ the “ little tigers” have changed policies and have realised phenomenal growth in export-led strategy (Gillis, 1996). Zimbabwe can learn from them and do the same. Conclusion

There is room for Zimbabwe to move into a different growth pattern. We have to be aware that these changes do come at a cost from the economics front, the social front, the political etc. Changes will have to occur and in the mind of the politicians especially for that change to be realised. Options such as resources-based, agricultural demand-led and export-led do exist for Zimbabwe, though we are currently focusing on agricultural demand-led and partly import substitution. References Little I. , Scitovsky T. & Scott M. 1971). Industrial Trade in Some Developing Countries: A comparative study. Oxford University Press, London Adelman I. , Mollor, J. W. , Bhagwati, J. N. , Solis, L. , Montmayur, A. , Bradford, Jr. C. I. , Duncan, A. , & Kohli, A (1986). Development Strategies Reconsidered. Transaction Books, New Brunswick, USA. Nelson, JM. (1996). Economic Crisis and Policy Choice: The politics of adjustment in the Third World. Princetown University Press, Princeton, New Jersey, USA Gillis, M. , Perkins, D. H. , Roemer, M. , & Snodgrass, D.

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