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Can Poverty be a Comparative Advantage?
A study of export strategies based on low labour costs: The case of Zimbabwe

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Abstract

Can high levels of poverty be a competitive advantage for a country in the world economy? Or, put differently, can low labour costs provide a sustainable basis for a small country's export strategy? In this study poverty is represented by low real wages that are at a physiological minimum subsistence level. Poor countries are frequently recommended to carry out export strategies based on their comparatively lower labour costs. But what is the merit of the low-wage strategy for competitiveness? Are the policies of trade liberalisation effective in terms of generating economic development and reducing poverty, in a small economy with natural comparative advantage in activities that intensively use cheap unskilled labour?

The analysis arrives at two fundamental lessons for trade strategy: First, in order to attain international competitiveness without holding back living standards, trade strategies should aim for a development where real wages rise, but where productivity increase even more. Second, labour-cost advantage should be a temporary part of a conscious strategy for upgrading production into activities in which technological progress and productivity growth is still achievable.

World Bank and IMF policy-documents promote 'flexibility' in wage-setting to allow 'downward adjustment' of wages. The two institutions argue that this policy is positive for national economic development and 'pro-poor', i.e. good for job-seeking individuals. However, this study argues that this policy advice may not be consistent with the aim of raising living standards as that will require rising real wages.

Low production costs represented by cheap labour are attractive to entrepreneurs. Consequently, high levels of poverty may themselves encourage a specialisation in low labour-cost advantages. The self-reinforcing dynamics of specialisation may perpetuate the dependence on supply of cheap labour. Such cumulative causation may aggravate the vicious circle of poverty, locking a small outward-oriented economy with an undiversified export structure into dependence on low costs and low wage levels. This situation may impede the possibilities to raise real wages and thereby standards of living for the majority of workers and their families.

After adopting trade liberalisation policies in 1990, Zimbabwe has experienced a pattern of specialisation where export-oriented production has made increasingly intensive use of basic factors such as tobacco leaves, cereals, minerals, and cheap labour. As a result, the liberalisation has allowed the dictates of natural comparative advantage to reassert itself, resulting in a stronger orientation of export production towards primary goods, making more intensive use of abundant resources (basic factors). In these activities in which Zimbabwe has a natural comparative advantage, the vital productivity growth required for long-term development is not likely to be achievable.

Contents

Boxes

Figures

Tables

Abbreviations and acronyms

COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CSO	Central Statistical Office (Harare)
EOI	Export Oriented Industrialisation
EPZ	Export Processing Zone
ERF	Export Revolving Fund
ERS	Export Retention Scheme
ESAP	Economic Structural Adjustment Programme
FDI	Foreign Direct Investment
GoZ	Government of Zimbabwe
ILO	International Labour Organisation
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
ISIC	International Standard Industrial Classification of all economic activities
NIC	Newly Industrialising Country
OECD	Organisation of Economic Cooperation and Development
OGIL	Open General Import License
PTA	Preferential Trade Agreement of Southern and East African states
R&D	Research and development
SADC	Southern African Development Community
SITC	Standard International Trade Classification
TNDP	Transitional National Development Plan
UDI	Unilateral Declaration of Independence
UN	United Nations
ZCTU	Zimbabwe Congress of Trade Unions
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation

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The responsibility for the findings presented here is entirely my own, and the remaining errors and weaknesses are mine alone.

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Erik Blytt

1 The openness dogma

Introduction

In this thesis I analyse the demand for openness, and specifically the policy recommendation directing poor countries to take advantage of their relatively lower labour costs in international trade. In existing literature this is referred to as 'the low-wage strategy for competitiveness' (Freeman & Soete 1994). Primarily, I am concerned with how alternative theoretical approaches which I refer to as 'neo-Schumpeterian', may qualify standard approaches to theory on international trade – and subsequently how this may affect the merits of the recommended low-wage strategy as it supports itself on standard trade theory.

Issues concerning development are interrelated and take place at all spatial scales, running from the individual, household or village levels to the more abstract national and international levels. Specific development strategies depend in part upon the economic policies of a given country and on global trading regimes. By the same token, abstract demands for trade liberalisation should have regard to the context-specific economic, social and political structures through which these demands or policies must be operationalised.

But as real-world development is far from abstract and general, an analysis of the abstract theories and policy recommendations will benefit from being informed by concrete empirical evidence. One way of doing this would be to perform a cross-country analysis with very aggregated statistical regressions. However, as this is a study in Development Geography, I focus on the highly context-specific nature of empirical facts concerning development. I have therefore chosen to examine the experience of one particular country. I selected Zimbabwe because this case allowed me to study an exceptionally extensive process of opening-up.

Moreover, this study must be seen in context of a central issue which continues to face development studies: namely, how to be sensitive to the particularities of place and to the essentially different catching-up (or falling behind) experiences of poor countries (Abramowitz 1986), while *at the same time* remaining sensitive to the 'asymmetrical insertion of poor countries' societies into a global political economy' (Terlouw 1989, in Corbridge 1990). Naturally, this unresolved tension between context-specific factors at the local level and wide-ranging processes of international economic integration at the global level is inherent also in this study. Sensitivity to the differential spatial impact associated with international trade liberalisation is in this study appreciated as an over-riding goal, but admittedly acknowledged as practically unattainable in this analysis of what is a rather abstract and general policy advice.

Importantly, the experience that I record of Zimbabwe's export strategy from 1965 to 1997, is meant to serve as an illustration of one, perhaps quite unique, process of economic

liberalisation. But the case may also be a small building block in the complex account of the 130 or so developing countries that recently have, or currently are, undertaking trade liberalisation. As such, the investigation of the case serves to highlight one tangible example of a country's export strategy and its real wage development. In other words, the case is brought in as an *empirical illustration* to the theoretical analysis.

It may also be worthwhile to point out that as this basically is a study of economic development, I draw mostly on economic literature. Importantly, however, I do not study the issue of specialisation in low labour costs in the same manner as I believe a student in Economics would have been predisposed to do. I do a more historical, institutional (political economy), context-specific social-science analysis, supported by statistical data. And as I am primarily concerned with the merits of the low-wage strategy for competitiveness, I also attempt to suggest implications for theory and policy based on theoretical examinations. Ultimately, it is my contention that the issue of economic development is an issue too important to be left to be studied by economists alone. In my view, this study has in its own right something original to contribute with to the stock of knowledge on mechanisms of economic underdevelopment. The originality lies in the application of multiple geographical levels in the analysis, with implications for the design of policy recommendations at the global level, for the design of trade and development strategies at the national level, and for decisions by individuals or households to invest in human capital – although these decisions are considered to be very much dependent on demand for labour by firms which again is dependent upon policies at the national level.

This study questions the current policy advice given to poor countries of trade liberalisation based on existing comparative advantages[1] in primary products and low labour costs, and specifically the (neo-classical) theoretical underpinnings for these (neo-liberal[2]) recommendations. Primarily, the study aims at contributing to a more balanced understanding of the low-wage strategy for international competitiveness than the one which currently reigns in major agenda-setting and policy-making institutions like the World Bank and the International Monetary Fund (IMF).

Point of departure

Poverty is the most central dimension of underdevelopment. Low real wages are one of the most important causes of poverty[3]. Many workers in poor countries, whether they are employed in the

[1] In this thesis I employ the term 'comparative advantage' as synonymous with 'competitive advantage'. I will use the two terms interchangeably. This understanding is broader than the one defined by Ricardo (1817) in which a country could have an absolute (competitive) disadvantage in trade with one commodity, but a relative (comparative) advantage in production of the same commodity compared to its trading partner.

[2] By 'neo-liberal' I understand a position which validation is largely derived from a *laissez-faire* approach to the governing of markets.

[3] Poverty has several dimensions, including powerlessness; insecurity; vulnerability; physical, social, emotional and material illbeing. Low income in the form of low real wages is only one of these dimensions, and is the one referred to in this study.

formal or the informal sector, have jobs that pay less than what they and their families consider a liveable wage (ILO 2000, Narayan *et al*. 2000). Real wages that are at a physiological minimum subsistence level are the result of the drive by employers to keep labour costs low[4]. Accordingly, low labour costs are a symptom of poverty.

In contradiction, the opportunity to take advantage of low labour costs is currently recommended as the main development path available for poor countries, in order to catch up with richer ones through export revenues from increased international trade. Outward-orientation – or 'openness' – is today the norm in policy recommendations for economic development (Lall 1999b, Rodrik 1999). Trade liberalisation is forcefully recommended to poor countries by international financial institutions in Washington D.C., and likewise by influential bilateral aid donors. The centrepiece of this policy advice is to specialise in activities where a country can utilise its existing comparative advantages. Specifically, according to this mainstream view, poor countries should follow "an outward-oriented strategy based on exporting labour-intensive goods and taking advantage of relatively lower labour costs" (IMF 2000:23).

Policy makers and planners in poor countries are under intense pressure to open up. There is a strong, if not excessive, faith in what openness can accomplish. A recent policy briefing from the IMF may serve as a good example:

> "Further trade liberalisation in these areas [the agricultural products and labour-intensive manufactures in which developing countries have a comparative advantage] (…) would help the poorest escape from poverty (…). Policies that make an economy open to trade and investment with the rest of the world are needed for sustained economic growth. (…) Freeing trade frequently benefits the poor especially. (…) New jobs are created for unskilled workers, raising them into the middle-class. (…) Developing countries would strengthen their own economies (and their trading partners') if they made a sustained effort to reduce their own trade barriers further." (IMF 2001:1-4).

Taking advantage of relatively lower labour costs is supposed to benefit both poor unskilled people and the country as a whole. Poor unskilled people can get new employment as production requiring cheap labour expands. The country as a whole is supposed to benefit as the economy's production structure is specialised according to its comparative advantage. This is supposed to enable the country to penetrate international markets with its cost-competitive products. The remarkably rapid catching-up process by countries in East Asia has been used as evidence supporting this argument (see IMF 2000).

However, considering the contemporary spatial division of labour in the world economy[5], a highly unequal pattern of specialisation emerges. Many poor countries are at risk of

[4] This drive is in turn the result of a desire for profit, a pressure for cost-competitiveness, or a combination of the two. This study is primarily concerned with the downward pressure on labour costs as a result of the need to stay competitive in a liberalised economy.

[5] By 'spatial division of labour in the world economy' I refer to differences in activities of production between different regional entities (here countries).

being marginalized in the dynamics of increasing international economic integration through world-wide trade liberalisation and rapid technological change in production of goods for which there is demand in world markets. They lack the technological skills and capabilities to compete in high-return (often manufacturing) activities, where buyers in world markets have sophisticated demands for state-of-the-art products. Their main competitive advantages in international trade remain unprocessed primary products or products embodying cheap unskilled labour by which they compete on price. A central question is whether these advantages hold the promise of sustained growth in incomes and productive employment that can benefit the poor masses of hard-working – including underemployed – people.

The point of departure for this thesis is the policy advice to poor countries recommending them to carry out export strategies based on their comparatively lower labour costs. The focus is on the *merit of the low-wage strategy for competitiveness*. Are the policies proposed to poor countries effective in terms of generating economic development or reducing poverty? Or is the dominant policy advice fundamentally misguided? Will poor countries undertaking liberalisation necessarily benefit from increased openness, or may they risk becoming marginalized as specialisation in the competitive labour-cost advantage proceeds and is continually self-reinforced? And if the latter development takes place, may such a pattern of specialisation result in a 'lock-in' in the situation of having many poor people who are willing to work for low real wages – or what may be termed the *competitive advantage of poverty*?

The case

Zimbabwe has high levels of poverty. During the last decade the poverty levels seem to have grown markedly (CSO 1998b, Raftopoulos 2001). A recent study talks of "the increasing impoverishment of the working majority" (Raftopoulos 2001:197). A Poverty Assessment Study Survey carried out in 1995 found that 62% of all Zimbabweans were living in households with income per person below a level regarded as sufficient to provide basic needs (CSO 1998b).

Zimbabwe is particularly interesting for this study of export strategies, because of its recent economic history with three distinct periods of changing trade policies. From a directly controlled trade regime (1965-1980) via a semi-controlled regime (1980-1989) to a liberal(ised) regime after 1990, its history allows us to study an *exceptionally extensive liberalisation process*. In other words, the basis on which Zimbabwe is selected is not its particular experiences with land reform; with wide-spread corruption; with dramatically high HIV/AIDS prevalence; or with excessive repression of the opposition by the same political establishment that has been in power since Independence in 1980. But rather it is Zimbabwe's *recent economic history*. To some extent, its evolution of trade regimes during the last 35 years is different from that of most other poor countries. Between 1965 and 1980 Zimbabwe went through a period of *de facto* import substituting industrialisation (ISI) compelled by the

international sanctions against the white racist regime. The controlled trade regime was for the most part continued in the 1980s by the new government, although some restrictions were removed. In 1990 trade was liberalised as part of the World Bank and IMF-supported structural adjustment programme. Other developing countries have also had trade restrictions and then liberalised their foreign trade, but in Zimbabwe the controls were unusually effective due to the international sanctions.

Being land-locked is often considered a competitive disadvantage in international trade. The port through which most import and export of goods to and from Zimbabwe is being shipped, is Beira in neighbouring Mozambique. Infrastructure in the war-torn Mozambique is poor and transport networks are underdeveloped (Hanlon 1996). Moreover, Zimbabwe is drought-prone, something which adversely affects agricultural production in which approximately 27% of the recorded labour-force is employed (CSO 1997). Another distinguishing feature of the Zimbabwean economy is its high share of manufacturing in total output (Riddell 1990). Manufacturing is averaging around 25% of total private sector production (see figure 3 in chapter 3). Statistics shows that in June 1996, 184 thousand people were employed in manufacturing whereas 335 thousand were employed in agriculture (CSO 1997)[6]. In other words, recorded employment in manufacturing was more than half of that in agriculture, which is unusually high in Sub-Saharan Africa (ILO 1998).

Based on Zimbabwe's experience with foreign trade during the last 30 years, I will look at the determinants of its competitive advantages. And I will also explore the trends in real wages during the period with import-substitution from 1965-1980, and compare with the period after liberalisation in 1990.

Theoretical framework

Theories on trade and development are frequently classified by the debate in development studies on the two supposedly incompatible models of export-oriented industrialisation (EOI) and import-substituting industrialisation (ISI). The basic neo-liberal theory of EOI advocates exchange rate devaluations to make exports cheaper, the liberalisation of trade and elimination of subsidies to force firms to be competitive, and the elimination of other distortions to the market, such as minimum wages and price controls (Balassa *et al*. 1986 in Kiely 1998). The structuralist theory[7] underpinning ISI on the other hand, advocates active government intervention (Shapiro & Taylor 1992) which protect the domestic market through high tariffs and import restrictions; transfer of resources from the agricultural to the industrial sector through price-, tax- and credit policy; and also efforts to keep the exchange rate high to allow relatively cheap import of intermediate inputs and capital goods to promote a domestic

[6] The *Quarterly Digest of Statistics* for September 1997 (CSO 1997) does note that these figures exclude the employees of small agricultural units because of collection difficulties. Consequently, the actual employment in agriculture is likely to be higher than the figures suggest.
[7] See Hunt (1989).

industrial base (Hunt 1989). Nevertheless, it is important to bear in mind that the contrast between the two strategies is frequently overdrawn (Gereffi 1996). It should also be noted that both strategies include a gradual process with different phases, and for ISI at least, different specific strategies are recommended for the different stages (Kiely 1998, List 1841, Martinussen 1997).

Within the setting of this broader debate, there is a whole body of literature which is preoccupied with the *special problems* of poor developing countries in the world economy (Helleiner 1990, Stewart 1985). A part of this literature deals specifically with the relationship between trade policy and industrialisation in poor countries (e.g. Helleiner 1992, 1994, 1995; Morrissey & Filatotchev 2001; Rodrik 1999). Much of this literature is typically focusing on Sub-Saharan Africa (e.g. Bigsten *et al*. 1988; Frimpong-Ansah *et al*. 1991; Lall 1995, 1999b; Riddell 1990; Söderbom & Teal 2001; Wood & Mayer 2001). It is within this context the study of competitive advantages in Zimbabwe is developed, with a particular emphasis on theorising on the creation of factors suggested as sources of competitiveness.

Defining and understanding competitiveness

In a recent book assessing the global policy environment for development, Dani Rodrik writes that "traditional developmental concerns relating to industrialisation and poverty have been crowded out by the pursuit of international competitiveness." (Rodrik 1999:1). Competitiveness is sometimes understood as a vehicle that can be used by a country to achieve development, whereas 'development' is often understood as a goal. The picture is definitely blurred. In the mid-1990s there was an intense debate among academics over what international competitiveness really was (Boltho 1996; Fagerberg 1996; Krugman 1994, 1996; Reinert 1995; see also Lall 2001).

There are many definitions of competitiveness. Castells (1996) adopts the definition used by Stephen Cohen *et al.* (1): "Competitiveness at the national level is based on superior productivity performance by the economy and the economy's ability to shift output to high productivity activities which in turn can generate high levels of real wages." (Cohen *et al*. 1985:1 in Castells 1996:87). According to the OECD, competitiveness (2): "may be defined as the degree to which, under open market conditions, a country can produce goods and services that meets the test of foreign competition while simultaneously maintaining and expanding domestic real income." (OECD 1992:237 in Reinert 1995:25). In a later publication (in 1996), the OECD maintained the emphasis on *income*, and added employment and long-term sustainability (3): "… ability to generate, while being and remaining exposed to international competition, relatively high factor incomes and factor employment levels on a sustainable basis." (OECD 1996 in ILO 1998:115). More emphasis on the welfare of workers is given by Lall (4): "… the ability of an economy to grow in an open market with advantages that yield

rising wages, sustained employment creation and improved working conditions." (Lall 1999a:2-3).

These four definitions have in common an inclusion of the *ability to generate, or raise, wages – while simultaneously participating in, or being exposed to, international competition.* This understanding of competitiveness is central to this analysis.

The main argument advanced by Porter concerning the competitive advantage of nations is that "a nation's standard of living in the long term depends on its ability to attain a high and rising level of productivity in the industries in which its firms compete" (Porter 1990:2). And, he continues: "This rests on the capacity of its firms to achieve improving quality or greater efficiency" (Porter 1990:2). As will be described more carefully in chapter 2, the central element Porter emphasizes is 'upgrading'. Therefore, in my opinion, Porter does not suggest that a high and rising level of productivity strictly resting on the capacity to achieve continually greater efficiency in the industries (or activities) in which its firms compete today, is sufficient in itself. As Reinert points out:

> "Although it is difficult to be competitive if you are not efficient and have high productivity, it is by no means obvious that being the most efficient producer of an internationally traded product makes a country competitive – i.e. enables it to raise the standard of living. Some very efficient producers and nations are desperately poor – they are efficient in products which do not provide competitiveness in the income-raising meaning of the word." (Reinert 1995:26).

Reinert makes the case that economic growth is activity specific. As an example, he points to the world's most productive manufacturers of baseballs, Haitians, who earn 30 cents an hour by using needle and thread technology, which is the most efficient production method. In light of this recognition, this study analyses the competitive advantages of Zimbabwe (chapter 5), and especially focus on trends in real wages, as this is one factor that have a direct impact on living standards and ultimately on poverty.

Trade liberalisation and real wages

The relationship between *increasing trade liberalisation and possibilities to increase real wages* is a central one in this study. This is highly relevant, because in order to advance from being a poor country to becoming a rich country, *an outward-oriented economy must be able to raise its national wage level and still be able to sell its products on international markets* (in line with the understanding of competitiveness above).

In standard (or orthodox) trade theory, trade liberalisation is assumed to give cheaper imports as tariffs are reduced. The increased competition from foreign imports is expected to out-phase uncompetitive parts of domestic import-competing production. The closing down of inefficient industries is expected to free up resources, which can be invested in export-oriented industries where the country has a comparative advantage. Likewise, as trade liberalisation gives cheaper imports, the increased competitive pressures on domestic production will give

more efficient markets that will 'get the prices right'. Prices are assumed to fall as competition is increased. But as foreign (established) competitors are likely to be more competitive, it is easier for them to penetrate the market than it is for domestic producers to build up export production. In the *short term*, the allocation of resources will change, as domestic producers will respond by producing less. This will bring about retrenchments, and increased supply of labour will result in lower wages. But as investments in export production come about, production is predicted to pick up, employment opportunities may expand, and wages may rise in the *long term*. Accordingly, incomes generated from increased export production may allow for higher wages, while the competitive pressures keep domestic prices right and thereby inflation low. In this case, real wages will increase (in the long-term) following trade liberalisation.

However, markets are imperfect in poor countries (in particular), and inflation is persistently high in many poor countries despite liberalisation of trade and lowering of tariffs. One reason for high inflation can be deficits in government budgets, financed through money printing and borrowing. Budget deficits can instigate deteriorating confidence in the currency, and force the government to devalue. The government may also resort to devaluation to make export products more competitive in world markets. When national currencies in poor countries depreciate against rich trading partners' currencies, imports will not be so cheap after all, and the price level may not go down. Moreover, trade liberalisation is likely to intensify competitive pressures that *may induce employers to keep labour costs low, in order to not lose competitiveness when competing on price*. This may result in a situation where wages increase less than inflation, and real wages fall. This tendency could be partly off-set by minimum wages, but a part of the economic reforms that accompany liberalisation in poor countries, is usually a demand to dismantle minimum-wage legislation in order to allow for 'labour-market flexibility'. In theory, the relationship between trade liberalisation and real wages is produced by the mechanisms explained above.

Contradictory theoretical approaches

To analyse the role of real wages – or labour costs – in determining competitive advantage in international trade, this study identifies and explores a few contradictory theoretical approaches. *Standard neo-classical* approaches essentially support the contemporary policy advice of trade liberalisation described above. A rival set of theoretical approaches which can be labelled *neo-Schumpeterian*, essentially suggests that to rely on specialisation in low wages as the major source of competitiveness in international trade would be a path of deliberate underdevelopment. The core argument is that productivity growth, which is seen as the 'source of the wealth of nations', requires improvements in the *quality* of the factors of production.

The different theoretical approaches to specialisation in international trade will be more rigorously spelled out in the next chapter. In the subsequent chapters, the empirical evidence from Zimbabwe's experience with international trade, realisation of competitive advantage and

real wage development, is presented as an illustration to highlight the merit of the policy advice for openness, seen in context of the theoretical approaches considered in this study.

Research questions

The main question guiding the investigation and analysis in this study is whether using low labour-costs as the main source of competitiveness is necessarily beneficial to poor countries (in terms of raising living standards). The following questions are addressed in the subsequent six chapters:

1. How do various approaches to theory on specialisation in international trade consider low wages as a source of international competitiveness?
2. What are the outcomes of the export strategies pursued by Zimbabwe since 1965, in terms of export policies, export performance and export structure?
3. How is Zimbabwe's prospective labour cost advantage in international trade determined by the historical evolution of employment and wage policies; trends in real wages; and by development in labour costs compared to other countries in the region?
4. Based on Zimbabwe's experience with international trade over the last 30 years, in which types of activities does Zimbabwe have competitive advantages in international trade?
5. Can the inclusion of dynamic and cumulative elements in the theoretical analysis of specialisation in international trade qualify propositions of low wages as a source of international competitiveness?
6. Which implications for the current mainstream policy advice (and its theoretical underpinnings) may be generated from an appreciation of the roles of technology; of aggregate demand; of self-reinforcing mechanisms in specialisation; and of poverty traps at the individual and national levels?

Methodology

This section outlines the research strategy I have followed, how the thesis is operationalised, and why I have not carried out fieldwork. Moreover it explains why I selected Zimbabwe as a case, and challenges I have been confronted with concerning validity and reliability in using various sources.

Research strategy

The methods used in producing this thesis are quantitative and historical in character, based on critical analysis of secondary literature and existing data sets from official statistics. A purely descriptive historical analysis would be inadequate without some attempt of using statistical data to measure the overall trends in the areas of particular concern in this study. My method is basically a *time-series analysis*, where I interpret the statistical evidence of changes in exports

and wages, in the light of a critical examination of the changing trade- and development strategies pursued in Zimbabwe. This was a natural choice due to the exceptional opportunity to study particularly far-reaching changes in trade regimes over a relatively long time period in a poor country.

A *case study* may be defined as "an empirical inquiry that investigates a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin 1994:13). According to Yin the results of a case can be generalised in an *analytic method* (as opposed to statistical generalisation) whereby a previously developed theory is used as a template with which to compare the empirical results. In other words, theory becomes the main vehicle for generalising the results of the case study. This captures much of what I do, as I also analyse implications for theory and policy. This study may therefore be considered a 'theoretical case-study'.

> "Theories are generalisations pertaining to a 'universe' of cases, case-studies [are] interpretations of one unit in such a universe, and *theoretical case-studies* a kind of synthesis of the two. Their object is to interpret specific cases through established generalisations and, by doing so, to cast a sharper light on the cases to confirm or modify the theories, or, if necessary, to generalise new ones" (Eckstein 1966:177 in Andersen 1997:128, emphasis added).

The generalisability of case studies has been subject to much debate (see Gomm *et al*. 2000a). Some have argued that a case is a bounded system, and have emphasised the importance of respecting the boundaries of the case. On these grounds they have suggested 'naturalistic' generalisation as the alternative to law-like generalisation (Stake 1978). Others have criticised the idea that generalisation is the aim of science, and have identified several problems with this positivistic belief (Lincoln & Guba 1985). It seems evident that case-study researchers are not faced with the choice between either searching for general laws – or studying the unique; between these extremes there is a broad range of incidents related to the case which may be explained by the same mechanisms. Others maintain that case study research is not barred from producing general conclusions as long as they are presented as *analytical generalisations* and not universal laws (Gomm *et al*. 2000b, Schofield 1990).

An important question is therefore to what extent Zimbabwe's experience is *unique*. The question is particularly important concerning the possibilities for *generalisation* from the case of Zimbabwe to the theoretical propositions that I examine. My initial contention is that the particular experience of Zimbabwe is (for obvious reasons) unique, whereas the process of undertaking trade liberalisation is (in general) common to most developing countries. Importantly, as the starting point for this study is not the particular experience of Zimbabwe, but rather the general policy recommendation of trade liberalisation, this thesis is not only concerned with the case of Zimbabwe but also with the general policy recommendations and their theoretical underpinnings. For this reason, the empirical and theoretical analysis is mostly kept separate, as the theoretical analysis goes beyond the specific experience of Zimbabwe.

The analysis can be understood to be more exploratory than explanatory. According to my knowledge there is no uncontested, useful and comprehensive theory that explains all the relationships involved in specialisation in the competitive advantage of low labour costs and its effects on (1) the possibilities to raise real wages, and (2) the capacity to generate progressively more export revenues. Therefore, much of the study is centred on *identifying theoretical propositions*, especially those of relevance from the heterogeneous 'neo-Schumpeterian' approaches. And it is also centred on *identifying empirical patterns*. One apparent problem, which is common in social science, is that observable data do not correspond exactly to the concepts of theoretical analysis. Theoretical concepts can be open to a number of different interpretations or defined in a number of ways. Hence, the identification of theoretical propositions, conditioned by the particular context and scope of this analysis, becomes central in this study. On the other hand, even if the concept to be measured can be identified fairly precisely, there is still a potential problem of measurement error. This explains why much of the study is devoted to relatively detailed exploration of data. Finally, the study is centred on how – by putting together these ideas in a new way – the theoretical underpinnings of the mainstream policy advice can be questioned. Rather than building an explanation of trends in exports and real wages, I attempt to explore possibilities and constraints that determine Zimbabwe's capacity to benefit from international trade based on further specialisation in its existing competitive advantages.

Choice of study object

As the starting point for this study is the general policy recommendation to carry out export strategies based on low labour costs, all poor countries with significantly lower labour costs than rich ones were relevant at the outset. The case of Zimbabwe serves as an empirical illustration to how a poor country responds to this advice, and performs in its efforts to 'reap the benefits of openness'. Some country-specific characteristics (described below) determined the choice of case. In my opinion, these characteristics make Zimbabwe a good case, and an interesting one too.

In the case of Zimbabwe, three distinct periods of different trade regimes can be identified over a relatively long time-period (1965-1997) for which there is available data. Importantly, the availability of aggregated statistical data over many years is better than for most countries in the region, which allows an *exploration of trends over time*. This enables us to study *change* over time, allowing for trends in exports and real wages to be manifested after changes in policy. Of course, there is a time lag after policy changes that may postpone and even obscure the effects on real developments. Nonetheless, the pattern of real wages and actual export-oriented production has surely been affected by policies that have been put into operation. Furthermore, it is evident that the concrete ways in which particular policy changes are implemented over time can differ, and are often not transparent to an external observer

relying on secondary literature and aggregated statistical evidence. Such differences in policy-implementation may also contribute to explain different outcomes.

In a more distinct way than many other countries in Sub-Saharan Africa, Zimbabwe (then Southern Rhodesia) went through a period of *de facto* import substituting industrialisation (ISI) from 1965 until the end of the 1970s (when the war severely reduced economic activity). More than anything, the explanation for this lies in the UN-led international sanctions that where imposed in 1966. The one question that caused me to select Zimbabwe rather than any other country was the following: *How did real wages develop during the ISI period compared to the period after liberalisation?* As I measure real wages, and not nominal wages, they can be compared meaningfully at different points in time as increased costs of living (inflation) is accounted for. Moreover, as pointed to above, the availability of aggregated statistical data over many years is in fact *better* than for most poor countries in the region. This was a necessary condition in order to explore trends over time, and accordingly excluded a number of other potential countries.

In case study research, both single and multiple case studies are possible. I have selected only one country rather than several. The desire to study change over time also explains this, as comprehensive data sets on exports and wages have been carefully investigated. The ideal scheme would be to examine several countries or cases that could strengthen the analysis. However, this was not possible given my limited resources. Rather than having information on many specific contexts, this study has therefore accumulated relatively detailed information on one particular empirical context.

Moreover, I have chosen to study the national economy of a country, rather than specific economic activities in this country (or across a number of countries). The reason is quite simple. The availability of wage data is very limited. To acquire reliable and comparable wage data for specific industries was not possible given the available wage data on Zimbabwe in the ILO publications.

The starting point for this study is at the international level – in what Rodrik (1999) calls the 'global policy environment for development'. On this basis, I operate with national variables, and not with data from specific industries or regions. It was therefore possible to undertake the study by using available statistics and secondary literature without fieldwork in Zimbabwe.

The challenge of validity in the use of secondary literature

The selection of secondary literature is partly a result of the extent of relevant literature available to me through university libraries in Norway and working papers downloadable from the internet. But the selection is also partly a result of my preferences of studies that I considered relevant (within the range of studies available to me). Furthermore, the appropriate

sources of evidence are likely to be conditioned by the particular context of the case (Phelan & Reynolds 1996). Regarding the role of the secondary literature, there are several aspects that have some bearing on how these previous studies affect this one. First of all, researchers have in general a predetermined view of a certain topic. This influences their presentations of data. In my selection, some authors seem to have been biased *against* the controlled trade regime prior to 1990. Secondly, no researchers are able to show the entire range of existing data in their own surveys. They are more prone to emphasise what they consider to be central according to their own theoretical perspectives and prior insight. In many of the studies I have consulted, labour costs and wage issues have had a marginal role. Equally, I have in this study focused on trends in labour costs and real wages rather than other issues (such as (un-) employment; the production base of the major export commodities; the nature of policy-making in Zimbabwe; etc.). However, this has been necessary as I focus on labour costs and real wages in analysing specialisation in international trade. Another dimension of this problem is that I sometimes make use of statistical data in constant prices (especially in chapter 4) which may reduce the data's applicability. Thirdly, it is not possible to perform two identical studies of the same case. This makes it all the more important to examine the secondary sources critically (and especially what they have to say about labour costs and real wages) in order to say something new with a different perspective, and guided by different research questions. Fourthly, it is important to make use of a range of sources and studies that can inform the topics covered in one source, and thereby qualify and substantiate the presentation. I believe that I have managed to deal fairly well with the challenges of validity in using the various sources. In many ways, the study object is a relatively extensive one, and many more inputs could have been used. However, in the writing process I had to engage in some dimensions more rigorously than others. Consequently, I have by necessity drawn more on some sources than on others.

The challenge of reliability in the use of data

Any discussion of development policies at the aggregated level in a Sub-Saharan African country like Zimbabwe must necessarily be tentative, because of the low quality of the statistical evidence available. When considering how extraordinarily difficult it is to collect statistics in less developed countries, one should realise that much of the data that are commonly used may be very unreliable. Furthermore, the major gap in our knowledge of the processes of change, or development over time, is partly a result of the large differences in data-bases used by different agencies in different publications. The way that statistics are presented can be a function of a conscious effort to communicate a certain belief. Herein lies considerably power on the part of the institutions that publish the statistics. I have made use of statistics published by ILO, IMF, UNCTAD and the United Nations Statistical Division (UNSD). Statistics used in cross-country publications by international agencies are often collected from

many different sources. And the caveats that accompany the original surveys and sources are often not recorded very clearly in the footnotes of the final publications. As McNeill puts it:

> "The more that statistics are repeated, quoted, and compiled from different sources, the more the errors tend to be compounded, and the more the revealing footnotes are concealed, or simply excluded" (McNeill 2000:147).

The analysis presented in this study suffers from these inadequacies. However, the fact that I have analysed some data that may be unreliable (as I also believe, see below), does not imply that I have consciously tried to understate the unreliability of the statistical evidence employed in this study. McNeill (2000) argues that development researchers who do not visit the field but use available statistics, may not only be ignorant of the unreliability of the available statistics, but may also have an incentive to remain ignorant – what he calls a 'conspiracy of silence.' He suggests: "Certainly those who provide statistics and those who use statistics have a vested interest in overstating rather than understating their reliability" (McNeill 2000:149).

That has not been my intention, and I hope this study does not suffer from such shortcomings. Rather, I arrive at a position where I question the reliability of parts of the wage data I use. Most of the UN data I use are derived from data collected by the Central Statistical Office (CSO) in Zimbabwe. To some extent, these data suffer from the common weaknesses and limitations, but are generally held to be of good quality and coverage compared to other countries in the region. Still, in the wage data that I rely upon (issued by ILO and collected by CSO), I have discovered what seems to be an incorrect U-turn in the data series. The real wages for Zimbabweans employed in formal sector activities could not possibly have increased by more than one third between 1996 and 1997, when the economic crisis worsened drastically and inflation soared (see figure 8). Minor fluctuations in real wages may of course happen from one year to another. However, the sudden change in the data series is simply too large to be plausible.

I have consulted other researchers and observers of Zimbabwe[8] and presented this finding to them. However, they could not think of a reasonable explanation of this statistical (mis)-representation. I have searched, but not found an explanation for this incident. Of course, one should bear in mind that data for the most recent year in a dataset is often corrected in later publications, reflecting the dubious nature of the statistics available. The fact that data after 1997 have not been released (as of December 2001), may in itself be a good enough reason to leave out the doubtful and last published data for 1996 and 1997. Based on this, I have chosen to include data for 1996 and 1997 in the tables (table 5, 6, 11 and 12) but not in the illustrative figures (figure 6 and 7).

[8] Dr. Halvor Mehlum, Department of Economics, University of Oslo and Professor Bill Derman, Department of Anthropology, Michigan State University and Centre for Applied Social Sciences, University of Zimbabwe.

Structure of the thesis

The rest of this study is organised as follows. In chapter 2, different sets of theoretical approaches to cost advantages in international trade are laid out. It gives a presentation of standard neo-classical-, 'new trade-theory'-, and neo-Schumpeterian approaches. Chapter 3 describes the export strategies in Zimbabwe from 1965-1997, focusing on export policies, performance and structure. Chapter 4 starts with a presentation of employment and wage policies in Zimbabwe, before portraying its real wage development and its recent levels of labour costs compared to other countries in the Southern Africa region. Chapter 5 begins with an exposition of possible determinants of competitive advantages in Zimbabwe based on empirical evidence in the two foregoing chapters. It then connects human capital development in Zimbabwe with exports and wages. Subsequently, it analyses Zimbabwe's export strategies with reference to the notions of natural and created comparative advantage, before assessing its experience with trade liberalisation. Chapter 6 employs examples of theorising on self-reinforcing specialisation to draw implications from neo-Schumpeterian insights for standard trade theory. Chapter 7 analyses the merits of the low-wage strategy for competitiveness through considering the roles of technology; of aggregate demand; of self-reinforcing mechanisms in specialisation; and of poverty traps at the individual and national levels. Conclusions are drawn in chapter 8.

2 Theoretical approaches to labour-cost advantages in trade

Introduction

This chapter outlines how different theoretical approaches to specialisation in comparative advantages in international trade consider low labour costs as a source of international competitiveness. The purpose is to display the theoretical underpinnings of the mainstream policy advice on one hand, and a set of alternative approaches that may modify these theoretical underpinnings on the other. Insights from the alternative approaches on dynamic elements such as cumulative causation, will be addressed later in the analysis (chapter 6). Implications for policy are addressed in chapter 7. The theoretical propositions that are put forward here are also intended to serve as guidance for understanding the issues raised in the two chapters that presents the empirical evidence on export strategies and real wages (chapter 3 and 4), and indeed the issues illuminated as part of the analysis of Zimbabwe's competitive advantages in chapter 5.

It should be kept in mind that it is not possible here to do justice to the richness and variety of the different approaches to competitive labour-cost advantages and specialisation. Despite these limitations, the approaches should, in the condensed form they are represented, provide some relevant and significant propositions.

First, standard neo-classical approaches are presented. Then, I briefly expose the intermediary position represented by 'new trade theory' as a modified version of standard neo-classical approaches. Third, I introduce a rather heterogeneous set of neo-Schumpeterian approaches. At the end of the chapter, I summarise central propositions from the different approaches in the form of a short taxonomy. The chapter will make evident that the different approaches have rather contradictory recommendations regarding low wages – or low labour costs – as a source of international competitiveness.

Standard neo-classical approaches - on low factor costs and comparative advantage

According to the basic theorems of standard neo-classical approaches to trade theory, trade liberalisation will increase demand for the more abundant factor of production because this factor will be relatively cheap. Since cheap unskilled labour, apart from natural resource endowments, is an abundant factor in poor countries, opening up to free trade is assumed to increase demand for unskilled labour and hence benefit the poor.

The legacy from Ricardo

The traditional argument in favour of free trade is that it allows countries to specialise in the production of those goods and services in which they have a comparative advantage. The doctrine of comparative advantage is commonly ascribed to David Ricardo. He assumed that through increased trade[9], prices would fall making possible a reduction in wages to allow for increased profits.

> "It has been my endeavour to show throughout this work that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market, at a reduced price, profit will rise" (Ricardo 1817:92).

Ricardo based his theory of comparative advantage on a static model of trade between England and Portugal in which neither capital nor land was required for production. In his example, both England and Portugal could produce both cloth and wine using only labour (Ricardo 1817). He assumed that labour was perfectly mobile between cloth and wine production in each country; that labour was required in fixed proportions to produce each commodity; that there were constant returns to scale; that there were no externalities; and that there was perfect competition. In the Ricardian model, it is the relative labour inputs that determine the pattern of trade. *Relative labour costs per unit can therefore be said to determine comparative advantage in the Ricardian sense*. Accordingly, trade was, in Ricardo's view, based on labour productivity differences between countries[10].

The dominant version of theory on comparative advantage, is usually ascribed to works by the two Swedish economists Eli Heckscher and Bertil Ohlin in 1933, later supplemented by Paul Samuelson in 1948. The underlying notion is that countries differ in their endowments of factors of production such as land, labour, natural resources, and capital. According to the Heckscher-Ohlin-Samuelson (H-O-S) theory, countries gain comparative advantage in activities that make intensive use of the factors they possess in abundance. The differences in factor costs give 'factor-based comparative advantage'. The H-O-S model takes endowments as given and does not address the question of where these endowments come from in the first place – or how they are created. As such, it has little to say about the different initial conditions from which industrialisation started in different countries (Lall & Latsch 1999).

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[9] Or through technological change ('improvements in machinery' as Ricardo writes) – but this has mostly been neglected by mainstream economists.

[10] Surprisingly perhaps, Ricardo and Marx had in common a notion of labour as the source of surplus product:
"Ricardo, in line with other classical political economists, identified in labour *the* source of surplus product. The mercantilists were rightly criticised by the classical political economists for their identification of *the* source of surplus product in exchange, just as the French physiocrats were criticised for their identification of agriculture as *the* source of surplus product. The idea that labour is *the* source of surplus product, still retained by the fundamentalist Marxian tradition, is not useful" (Evans 1989:47, italics in original).

Differences in factor costs have certainly played a role in determining patterns of trade in many industries, but there has been a growing awareness that comparative advantage solely based on factors of production is not sufficient to explain patterns of trade. The H-O-S theory assumed that there are no economies of scale; that competition is perfect; that technologies everywhere are identical; that products are all equal; and that national factors are fixed, and do not move among countries. All these assumptions have been criticised for being unrealistic, and bearing little relation to actual competition (Porter 1990, Stewart 1985). Take for instance the assumption of perfect competition. The likelihood of finding a competitive market structure composed of a large number of small agents interacting without market power over each other is, to say the least, very small. Local product and factor markets (in any country) may rather be segmented because of poor infrastructure. And competition between firms in different countries would certainly not be 'perfect' and undisturbed by market power.

The 'black box' of technology and skills

Another weakness with standard approaches to trade theory is that they do not give a significant role to technology in determining competitive advantage. Rather the role of technology is in standard neo-classical approaches considered a black box of which we know very little (Rosenberg 1982). In H-O-S theory, technology is assumed to be fully diffused across firms and countries. Firms automatically select techniques suited to their relative factor prices (i.e. labour-intensive techniques for developing countries). They use the technologies efficiently without cost, lags, risk, learning or effort, and thereby automatically reach 'best practise' levels (Lall 1999a). Evidently, this neo-classical view is too simplistic. The assumptions violate reality, and can lead to wrong policy conclusions (Lall 1990).

Some *neo*-H-O-S theories incorporate *skill* as a third factor of production (in addition to the cost of capital and labour). However, these theories leave the policy conclusions essentially unchanged, as countries are still recommended to specialise in abundant factors. Moreover, they do not ask how the relevant factors come into existence or are created, or what role markets, history and institutions play in determining endowments. According to these approaches, the advantage of developing countries lies in low-skill, labour-intensive activities (Lall 1999a). A *new version* of this approach (see Owens & Wood 1997; Wood & Berge 1997; Wood & Ridao-Cano 1999; Wood & Jordan 2001; Wood & Mayer 2001), assumes capital to be fully mobile and comparative advantage to be dependent on two immobile factors, skills and natural resources. Technology remains a freely available factor through import, and thereby irrelevant in explaining differences in possibilities to benefit from trade. Furthermore, skills are only measured by years of schooling. No distinction is drawn between formal education-based skills and experience-based capabilities. This approach also ignores the importance of specific skill acquisition, which can only be acquired by prolonged experience and problem solving with those specific technologies (Lall 1999a).

Adjusting resource allocation to 'natural' comparative advantage

In this section, I elaborate more on the expected effects of trade liberalisation as assumed in neo-classical standard approaches (trade liberalisation's expected effects on real wages were briefly outlined in chapter 1).

Trade liberalisation is supposed to change a country's specialisation in international trade towards its 'natural' comparative advantage. Exposure to competition from imports is expected to cause three kinds of favourable resource allocation: within firms (from inefficient to efficient activities), between firms (from 'bad' to 'good' performers) and between industries (from less to more productive activities). Trade liberalisation is supposed to remove the economic 'distortions' that impede economic efficiency, and "resources previously devoted to relatively inefficient or unproductive uses move to more efficient production" (Thomas & Nash 1991b:9 in Lall & Latsch 1999:38). As market failures[11] are assumed to be unimportant, the adjustment process is expected to be smooth, rapid and efficient (Lall & Latsch 1999). This surprisingly confident assertion in the 'blessings of outward orientation' (Singer 1988) is also upheld in a World Bank sponsored survey which maintains that "Trade liberalisation results in the contraction of inefficient sectors and the expansion of new, efficient ones. Over time, a new and more efficient production structure develops that will be better suited to the international environment" (Michalopoulos 1987:24 in Lall & Latsch 1999:36).

It is important to recognise that the stimulating effects of liberalisation that are postulated in the standard neo-classical approach can only be theoretically justified given all the assumptions made. But these effects will *only* manifest themselves if the policy changes lead to appropriate supply responses (i.e. new export-oriented production emerge in activities where the country has a natural comparative advantage). The expected effects will *not* manifest themselves if there is something lacking in the *ability* of enterprises to produce efficiently in response to liberalisation. As Helleiner puts it, "'getting prices right', through trade and other policies, however important, can achieve little in the absence of *responsive capacity*" (Helleiner 1995:31 in Lall & Latsch 1999:34-35, emphasis added). In other words, if the capacity – of markets in poor countries – to provide supply of necessary inputs to new export-oriented production (as a response to trade liberalisation) is inadequate, then the positive effects of trade liberalisation – as assumed by standard neo-classical approaches – will not come about. It seems plausible to expect that such responsive capacity is indeed inadequate in poor countries. Recent theorising has established a 'new mainstream' position which incorporates imperfect competition and economies of scale into models building on standard neo-classical theory.

[11] Market failures are deviations from the 'competitive equilibrium' assumed in standard neo-classical economic theory. Commonly mentioned causes of market failure are public goods (e.g. security), externalities (e.g. pollution) and imperfect information (where information is not freely and fully available and is costly to collect). See Stiglitz (1989) for an exploration of causes and consequences of market failures.

New trade theory: An intermediate position

As noted in chapter 1, standard neo-classical approaches to international trade theory essentially supports the contemporary policy advice of trade liberalisation. However, some economists have in recent years taken a different view on what they see as mainstream theory. Their arguments modify the conception that 'mainstream' theory (in their sense) is – and can be – used to support the dominant policy recommendation.

A new mainstream

According to Lall & Latsch (1999:26-27) "neo-liberal propositions have acquired almost axiomatic status. They continue to inform thinking about development policy in institutions such as the IMF and the World Bank". Thereby they share the starting point of this thesis. However, they argue that "over the last ten years, advances in the tools and techniques of economic theorising appears to have outpaced thinking about development histories, paths and policies". In essence, they argue that what may be regarded as *the most modern, and dominant, frontier in economic theory, do not support the current policy recommendations for economic development*. They support their argument by referring to the high-ranking mainstream economist, Paul Krugman, who casts doubt on the theoretical case for free trade: "There is still a case for free trade as a good policy, and as a useful target in the practical world of politics, but it can never again be asserted as the policy that economic theory tells us is always right" (Krugman 1987:132 in Lall & Latsch 1999:27)[12]. My point here is that regardless of whether the 'dominant frontier' in economic theory no longer supports the dominant policy prescriptions, what matters for *real-world development* is the actual recommendations and the effects from the ensuing policies that are carried out. Consequently, the standard neo-classical approach to theory on international trade, which is used by policy-making institutions to underpin the neo-liberal policy advice, is the relevant approach to consider. This is certainly the case if the merits of the policy advice are to be assessed by investigating its theoretical support.

Modifying standard trade theory

In the early 1980s, the assumptions of perfect competition and constant returns to scale were relaxed by some trade theorists. Realities of market structure (such as imperfect competition) and considerations of scale economy (such as increasing returns) were systematically inserted into the formal structure of trade theory. These modifications in standard trade theory were labelled *new trade theory*. The changes generally support a basic view in which trade patterns not only reflect specialisation according to natural comparative advantage, but also additional

[12] Notably though, some dissenting economists claim that ever since 1613 (indeed 163 years before the first publication of *The Wealth of Nations* (Smith 1776)), there has been another canon in economic theory that has never supported the view that 'free trade is always right' (see Reinert & Daastøl 2000).

specialisation to realise economies of scale (Helpman & Krugman 1985 in Helleiner 1990). Krugman (1990) argues in the introduction to a collection of many of his articles that formed much of new trade theory, that much trade (especially between similar countries) represents *specialisation to take advantage of increasing returns*, rather than to capitalise on inherent differences between countries' factor endowments as the old Ricardian trade theory claims. Krugman (1990:6) reasons that "a pattern of specialisation can be established, and then get locked in by the cumulative advantages that go with large scale".

Whereas technology was ignored in standard trade theory, some departures in new trade theory include technology as an explanatory variable. One such departure is the 'neo-technology' approach taken by Paul Krugman, which is grounded in models of imperfect competition. In this approach the pattern of trade is depending on relative rates of innovation and imitation – or 'technology gaps' between countries. It is assumed that trade leads to the diffusion of knowledge, allowing technology gaps to be closed over time. However, as technologies mature, factor costs are assumed to reassert themselves as the primary determinant of comparative advantage. It may therefore be argued that even if new trade theory approaches relax some assumptions used in standard approaches, they still have a neo-classical bias.

Not a new mainstream, but an old underground river?

New trade theory approaches acknowledge the fact that much trade can be explained by self-reinforcing specialisation in comparative advantages to take advantage of economies of scale. However, the policy conclusions from new trade theory remain largely unchanged compared to standard neo-classical theory. According to Erik Reinert "Krugman has been sitting on the lid of the Pandora's box he opened" (Reinert & Riiser 1994:18). Krugman's conclusion is that trading inside the same product groups (e.g. trading cars for cars) is necessarily mutually beneficial to both trading partners. Thereby, Krugman excludes the possibility that within the same sector or industry only some activities are subject to increasing returns[13]. The very same differences that exist *between* economic sectors (e.g. between manufacturing and primary production) also exist *within* sectors, within industries, and even within companies (Reinert & Riiser 1994). According to Reinert, trading manufactured goods for other manufactured goods is beneficial to both trading nations only if the goods are subject to the *same degree* of increasing returns. Moreover, while some activities are subject to increasing returns, others are subject to diminishing returns (Reinert 1980, 1994). New trade theory has not taken into account that economic activities are different, and consequently are subject to different degrees of economies of scale. The bottom-

[13] Economies of scale imply that when increasing the scale of production (producing a greater quantity of a product), unit costs are reduced. Increasing returns to scale imply that output increases more than proportionately to the increase in input. With diminishing returns to scale, output increases less than proportional to the increase in input.

line is that the disposition to benefit from increased trade is *activity-specific* (Reinert 1980, 1994, 1995, 1999).

Reinert & Daastøl (2000) argue that increasing returns has, implicitly or explicitly, been at the core of what they call the other canon of economic analysis, ever since 1613. Regarding the role of increasing returns in economic theory they borrow a metaphor used by Kenneth Arrow: "This tradition acts like an underground river, springing to the surface every few decades" (Arrow in his foreword to Arthur (1994) in Reinert & Daastøl 2000:3). The mainstream policy advice given to poor countries is clear: They should specialise in activities in which they have a natural comparative advantage. The standard neo-classical approaches to trade theory that are used to support the recommendations are also clear: Countries have a natural comparative advantage in activities that intensively use abundant factors. But as the presentation so far has showed, and will expose more thoroughly below, there is a range of theoretical approaches that diverge from the standard approaches. Some, such as new trade theory approaches, may modify standard trade theory in some respects, but fail to draw significantly different lessons for policy. This may especially be the case with policy recommendations to poor countries, as they are more dependent on factor endowments based on natural resources that may be subject to diminishing returns. Rich industrialised countries, however, have more diversified factor endowments (including technological capabilities like human capital and technological know-how), which make it easier for them to compete in activities subject to increasing returns. In other words, the implications from new trade theory are mainly applicable to rich countries.

However, in addition to new trade theory, there are also other approaches that contest the assumptions in standard neo-classical approaches.

Neo-Schumpeterian approaches – on low factor costs and comparative advantage

According to neo-Schumpeterian approaches, countries should specialise in activities where they have a potential to upgrade existing factors and capabilities, or create new ones, allowing them to compete on quality rather than costs. Consequently, low labour costs are by definition considered unsuitable as a principal source of competitiveness.

Neo-Schumpeterian approaches as understood here, stem mostly from economic theory at the micro (or firm) level. The wealth of a country is essentially created by its private business. It is, after all, firms and not countries that compete in international markets. At the aggregate level, however, international trade is seen as trade between countries, and in this respect it makes sense to study the competitive advantages of a country through neo-Schumpeterian lenses. More than standard neo-classical approaches, neo-Schumpeterian approaches recognise determinants of competitive advantage at the micro-level that are likely to vary between

industries and economic activities, notably the role of activity-specific technology and how it effects labour productivity.

Characteristics of neo-Schumpeterian perspectives

An obvious characteristic of neo-Schumpeterian approaches is their intellectual debt to the works by Joseph Alois Schumpeter. Schumpeter is perhaps best known for his explicit and careful analysis of economic development as discontinuous, occurring through cyclical disturbances created by innovation – or the process of creative destruction – which he considered to be the strategic stimulus to economic development. The 'neo-' element suggests that his ideas reappear. For example, in the voluminous and much-cited work '*The Competitive Advantage of Nations*', Michael Porter writes "My fundamental perspective is more Schumpeterian (1934, 1942) than neo-classical" (Porter 1990:778).

Neo-Schumpeterian approaches represent an alternative framework to approaches based on standard neo-classical theory. It has been argued by Lall & Latsch (1999) that the dominant H-O-S model is by itself unable to explain observed trade flows, and that relaxing its least realistic assumptions leads to indeterminate outcomes in terms of specialisation and trade patterns. Neo-Schumpeterian approaches suggest that new trade theory has implications that could be fruitfully employed in an alternative framework that allows for a more specific, historical and institutional analysis. This alternative framework attempts to be more dynamic, emphasising the effects of trade on overall economic activity, and looking explicitly at processes of factor creation (Lall & Latsch 1999).

The emphasis of neo-Schumpeterian approaches is on international differences in innovative and productive capabilities, and on the dynamics of evolving comparative advantage. These 'dynamics' are related to historical processes of institutional development, increasing returns, learning, and accumulation of technology – including the physical equipment, knowledge and specialised skills involved in the mastering of technologies (Lall & Latsch 1999). Whereas neo-classical standard approaches saw economic efficiency as static and allocative, 'Schumpeterian efficiency', by contrast, is characterised as "dynamic, long-run innovative potential and flexibility" (Lall & Latsch 1999:34).

Neo-Schumpeterian approaches are characterised by *empirical generalisations*. In this respect, they can be clearly distinguished from formal model and theory building based on a set of assumptions that allow the researcher to 'control' the model as in an experiment in a laboratory. In accordance with what Arestis & Sawyer (1994) label 'radical political economy'[14], neo-Schumpeterian approaches value relevance more than formalism. The underlying principle in

[14] The approach is *radical* – not in the sense of having a left-wing political point of view, but in the sense that it re-examines the very roots of economic analysis.

neo-Schumpeterian approaches is that theory should represent reality as accurately as possible. To do so, these approaches often begin with observation and proceeds to build upon what Rogers (1989 in Arestis & Sawyer 1994) calls 'realistic abstractions' rather than 'imaginary models'. However, appreciation of context-specific factors do not imply that generalisations are impossible. An implication of this methodology is that explanation is emphasised and less attention is given to prediction.

Another feature of neo-Schumpeterian approaches is that they tend to view the economy as part of a socio-cultural system; it is formed by this system, but at the same time influences culture and society. Such an understanding of economic phenomena can best take place in a multi-disciplinary way, which explains why e.g. sociologists have made important contributions to neo-Schumpeterian approaches regarding the role of institutions in economic change (see e.g. Chang & Evans 2000; Evans 1995).

Below, I outline some neo-Schumpeterian perspectives on specialisation in international trade, and particularly the role of labour cost advantages, wages and employment.

International trade and productivity growth

As pointed out in chapter 1, the issue of international *competitiveness* has become central in the debate on development strategies. Porter claims that "the only meaningful concept of competitiveness at the national level is national productivity" (Porter 1990:6). *Productivity growth can be seen as the source of the wealth of nations*. It is now widely accepted that the major productivity-inducing factor is technological change (Fagerberg 1996; Freeman *et al*. 1982; Freeman & Soete 1987, 1994; Nelson 1995; Perez 1999). Competitiveness and profitability (in firms) are the actual determinants of productivity growth and technological innovation.

But it is not only technological change which boost productivity. Other forms of innovation, such as organisational (process) innovation, may also induce productivity growth.

Competition resulting from increased international trade may threaten national productivity. If the industries that are losing position to foreign rivals are the relatively more productive ones in the economy, a country's ability to sustain productivity growth is threatened (Porter 1990). The competition can result in downward pressure on wages, and if enough of a country's industries and activities are affected (by some considered as de-industrialisation[15]), there may also be downward pressure on the value of the country's currency. Devaluation may lower the standard of living in a country by making imports more expensive and reducing the prices obtained for its exports abroad.

Moreover, developing countries may face a trade-off between specialising according to existing comparative advantage (in 'low-technology' goods), or entering sectors in which they

[15] For a discussion of different definitions of de-industrialisation, see Jalilian & Weiss (2000).

currently lack a competitive advantage, but may acquire such an advantage in the future as a result of the potential for productivity growth (in 'high-technology' goods). According to Redding (1999), comparative advantage is domestically determined by past technological development, while simultaneously shaping current rates of innovation. Specialisation according to current comparative advantage results in the static gains from trade predicted in standard approaches. However, if individual firms fail to fully internalise the potential for productivity growth in each sector, it may also mean that an economy fails to specialise in activities where its potential for productivity growth is large relative to its trading partners. As a result, such specialisation under free trade may generate "dynamic welfare losses" (Redding 1999:36). If sufficiently large, these welfare losses may outweigh the static welfare gains explained by Ricardo, so that the net-effect from trade is welfare-reducing.

Dodaro (1991) has argued that when allowing for market distortions, productivity in the export sector may be lower than in other sectors. Moreover, Rodrik (1992b) has argued that there is no good reason to expect that trade liberalisation will generally be helpful to overall technological performance:

> "if truth-in-advertising were to apply to policy advice, each prescription would be accompanied with a disclaimer: 'Warning! Trade liberalisation cannot be shown to enhance technical efficiency; nor has it been empirically demonstrated to do so'" (Rodrik 1992b:171-172).

Labour-saving technological change and demand

Technological innovation is likely to lead to efficiency improvements in production, which may reduce demand for labour (Freeman *et al*. 1982). Labour-displacing innovations result in lower employment if growth in output does not compensate sufficiently for productivity gains. Whether it does so will depend on price and income elasticity – whether growth in output leads to larger *demand capacity* and more actual demand, which may create more jobs. The most well-known cases where such compensating effects will be insufficient relate to food and other basic commodities (cocoa, coffee, cotton, tobacco etc.). Engel's law postulates that a declining proportion of rising income is spent on food. The steady long-term decline in agricultural production in rich countries is mostly due to the combined effect of technological change and this law. Furthermore it "indicates that poor resource rich countries are engaged in the wrong activities when they specialise their economy even more on basic primary products" (Freeman & Soete 1994:77). The relevant policy implication here is that *poor countries should not specialise their economy (even more) in existing comparative advantages* in the production of commodities for which there is inelastic demand, as productivity growth based on such factors will only lead to *more unemployment* (as growth in output does not lead to more demand), *resulting in more pressure to take low-paid jobs*.

The various innovations that constitute technological change in an activity are often assumed to be labour-displacing rather than employment-generating. Nevertheless, technological change may after some time result in new activities and new jobs. Freeman & Soete (1987) argue that a change involving *mechanisms whereby labour is intended to substitute capital is limited in scope* not least *because of the nature of technological change itself*:

> "The notion that a temporary *reduction in real wages* will somehow 'induce' the development and adoption of more labour-intensive techniques in manufacturing is in our view particularly dubious and based on several fallacies about the nature and direction of technical change" (Freeman & Soete 1987:39, emphasis added).

The inference is that *the argument supporting low real wages as a means to increase employment is unpersuasive in light of the conventional nature of technological change*. In the same study, Freeman and Soete also make the argument that:

> "The most important condition for increasing employment is sustained increase in investment and in productivity. As employment rises and unemployment diminishes, *real wages can certainly increase without damaging profits, provided productivity increase is maintained*. It is for this reason that we have stressed so strongly the importance of diffusion of new technology and of skills" (Freeman & Soete 1987:255, emphasis added).

This argument relates directly to the core of neo-Schumpeterian approaches to competitive advantage in low labour costs. *Productivity growth*, by way of investments in – and diffusion of – new technology and skills, *will allow labour costs to increase* as the competitive advantage is moved from competitiveness based on costs *per se* to competitiveness based on *quality* features. The ideal is differentiated and specialised advantage through high levels of product quality and (technological) sophistication. The underlying premise to achieve this is *a conscious change in the specialisation of production from focusing on costs to focusing on quality features*.

The trap of cost-advantage in basic factors

As described above, the stock of factors in a country is taken as fixed in standard neo-classical approaches to trade theory. Neo-Schumpeterian approaches, however, emphasise the importance of *factor creating* mechanisms. Factor creation is cumulative. Continual reinvestment to upgrade the quality of factors is necessary, also in order to keep the current stock of factors from depreciating. As a result, the rate at which the factors are *upgraded*, and made more specialised to particular industries, is more important than the stock of factors at any particular time (Porter 1990).

In actual competition the abundance or low cost of a factor often leads to its inefficient deployment. Consequently "*an abundance of factors may undermine instead of enhance competitive advantage*" (Porter 1990:74, emphasis added). Porter distinguishes between 'basic factors' which include "natural resources, climate, location, unskilled and semiskilled labour, and debt capital", and 'advanced factors' which include "modern digital data communication

infrastructure, highly educated personnel such as graduate engineers and computer scientists, and university research institutes in sophisticated disciplines" (Porter 1990:77). Evidently, basic factors are typically not created, but rather inherited by a country. By contrast, the more advanced and specialised factors are *created*. It is these factors that are important in achieving "higher-order and more sustainable competitive advantage" (Porter 1990:80). Furthermore, Porter argues that disadvantages in basic factors, such as labour shortages or lack of domestic raw materials, create pressures to innovate.

> "innovating around basic factor disadvantages leads firms to *upgrade* by developing more sophisticated competitive advantages (…) that can be sustained longer and which may also support higher prices. At the same time, pressures are created to upgrade and specialise more rapidly other factors such as skilled human resources or infrastructure in order to keep pace." (Porter 1990:82, italics in original).

Porter claims that what is considered to be disadvantages in the standard neo-classical understanding of competition, can become advantages in a more dynamic one. Based on this reasoning, Porter suggests that firms facing '*selective factor disadvantages*' are more likely to innovate than those facing a comfortable abundance of factors. But if factor disadvantages are to stimulate innovation, the disadvantages must motivate rather than discourage it. Therefore, the best combination for improvement and innovation is to have a balance of advantages in some areas and disadvantages in *selected* others (Porter 1990). Importantly, however, Porter underlines that the positive role of selective disadvantages in stimulating innovation depends on the other determinants in his 'diamond' model of national competitive advantage[16] (apart from factors conditions, they are domestic demand conditions; presence of related and supporting industries; and firm strategy, structure, and rivalry). The 'diamond' is a mutually reinforcing system, where the advantages in one of the determinants can create or upgrade advantages in others. In other words, the model emphasise external economies. Consequently, for selective factor disadvantages to upgrade the sources of competitive advantage, the other broader conditions in the diamond must be present.

Furthermore, Porter (1990) suggests four stages of competitive economic development of countries (factor-driven; investment-driven; innovation-driven; and wealth-driven). For Porter, competitive development is all about upgrading. *Upgrading* is the movement toward more sophisticated sources of higher-order competitive advantages in existing industries and

[16] Porter's diamond model has been criticised for indeterminacy of the relationships in the model. For instance, Porter is criticised for failing to clearly define the conditions under which advantages in the supply of basic factors of production (such as low labour costs) are an advantage and the conditions under which they are a disadvantage (Grant 1991). According to Grant, the key weakness of the theory is in its *predictive power*: "Ambiguity over the signs of relationships, the complexity of interactions, and dual causation renders the model unproductive in generating clear predictions. (…) The result is a theory which is gloriously rich but hopelessly intractable" (Grant 1991:542-543). However, this criticism fails to appreciate the nature of the neo-Schumpeterian perspective outlined above (valuing relevance more than formalism and giving less attention to prediction), and therefore Grant seems to criticise Porter on unjustly grounds.

toward positions in new higher-productivity segments and industries (Porter 1990, see pp. 543-544). Preconditions for such competitive progress include factor creating mechanisms; motivation; domestic rivalry; demand upgrading; selective factor disadvantages; and capacity for new business formation (Porter 1990). According to Porter, nearly all developing countries are at the *factor-driven stage*. He also points out that few countries ever move beyond this stage. Consequently, poor countries in general do not have a competitive development or progress. In my view, it is therefore meaningless to concurrently suggest that poor countries experience a factor-driven competitive development. A more relevant question is why poor countries do *not* go through factor-driven competitive development?

Porter describes the factor-driven stage as one where "virtually all internationally successful industries in the nation draw their advantage solely from *basic* factors of production" and moreover, the country's domestic firms "compete solely on the basis of price in industries that require little product or process technology" (Porter 1990:546-547). One explanation of why countries at this stage do not experience competitive development would be that they *lack the preconditions* for such development that is listed above. A related explanation is offered by Porter, albeit indirectly, in terms of his framework. He suggests that for countries at this stage *only factor conditions are an advantage in the 'diamond' model*. Furthermore he asserts "This source of competitive advantage limits sharply the range of industries and industry segments in which the nation's firms can successfully compete in international terms" (Porter 1990:547). The implication in terms of the diamond framework would be that the mutually reinforcing element cannot operate, and there will be *negligible possibilities for synergies like external economies*. Moreover, he points out

> "Indeed, my theory contains a much more daunting challenge for a developing nation than a model based heavily on factor cost, factor quality, and economies of scale. The mutual dependency of the determinants that I have emphasised means that the weakest one will constrain development. (…) A nation will be most likely to be successful not in isolated industries but in building whole clusters" (Porter 1990:676-677).

A third explanation can be found in the factor advantages themselves. Porter maintains that advantages due to basic factors are often *short-lived*[17], and have been undermined by their diminished necessity and increased availability, making returns to basic factors low: "Those industries in which labour costs or natural resources are important to competitive advantage also often have industry structures that support only low average returns on investment" (Porter 1990:15). Since such industries are accessible to many countries because of relatively low barriers to entry, they are prone to too many competitors and too much supply-capacity. This argument corresponds to the one more clearly expressed by Reinert (1994) who provides a tentative index of the quality of economic activities. The economic activities largely dependent

[17] Also Lall (1999a) argues that insofar as the suggested advantage given by low wages exists, it is *temporary*.

on basic factors, in the Reinertian sense the low-quality activities, are frequently subject to *diminishing returns to scale*. The implication from acknowledging the fact that economic growth is activity specific, is that *specialisation in such low-quality basic factor advantages cannot sustain the productivity growth necessary to achieve a higher-order competitive development* (Reinert 1980, 1994, 1995, 1999). Porter also recognises that "This basis for advantage [basic factors] is not sustainable and may limit the potential standard of living" (Porter 1990:677). As a priority for development strategies he recommends:

> "As a starting point, a nation must identify those industries where its factor advantages today provide some competitive advantage but where *other* determinants of national advantage are also actually, or potentially, present. (…) Such industries become initial centres of development. Import substitution will succeed if the determinants are present. However, a nation must move quickly to upgrade its advantages in these industries beyond basic factor costs" (Porter 1990:677, italics in original).

Based on this, Porter recommends investments in forward and backward linkages along the same lines as Albert Hirschman did in his *Strategy of Economic Development* (Hunt 1989). Development should be stimulated (through government policy) by investments in "upstream, downstream, or related industries in which advantage is less factor sensitive. Investments in education, research, and infrastructure should concentrate on these clusters" (Porter 1990:677-678). In addition, the theory suggests a parallel stimulation of development based on demand. Government and local firms should identify those industries, or industry segments, in which its demand conditions are favourable. These could be industries where there are sophisticated and demanding buyers, or where local needs are distinctive, so that there are niches left that have been ignored by other producers in other countries. These activities should have hitherto unexploited potential for productivity growth given the available technology. As poor countries have limited resources available to invest in research and development (R&D), it is particularly difficult for them to locate such niches and activities.

Summary

The main difference between the approaches considered in this chapter is the following: In standard neo-classical approaches, comparative advantage depends entirely on *factor endowments* (capital, labour and natural resources). By contrast, neo-Schumpeterian approaches emphasise *factor creation* through innovation (in a broad sense), as well as technology and technological capabilities (including tacit know-how from learning and experience).

Moreover, in standard neo-classical approaches the overall objective and guiding principle is specialisation according to natural comparative advantage. In neo-Schumpeterian approaches by contrast, productivity growth is the overall objective and technological change is seen as the most important determinant of increasing productivity. The latter approaches emphasise forms of specialisation and prioritisation that induce the ability of firms and industries to follow technological change and take advantage of technological progress.

Standard neo-classical approaches basically have a static understanding of specialisation in international trade. Neo-Schumpeterian approaches, on the other hand, appreciate the dynamic and cumulative elements involved in such specialisation, and emphasise the effects of not only increasing (as in new trade theory) but also diminishing returns to scale.

On the whole, the different approaches have rather contradictory recommendations regarding low wages – or low labour costs – as a source of international competitiveness. Standard neo-classical approaches draw heavily on the legacy from Ricardo and emphasise competitive advantages in abundant factors such as cheap labour. Neo-Schumpeterian approaches by contrast, are distinctly enriched with an appreciation of the significant roles of technology and cumulative causation, and consequently emphasise specialisation in sources of competitiveness that can be upgraded in terms of *quality* by technological change, rather than advantages of low *costs*. The theoretical approaches considered in this chapter can be presented schematically as indicated in box 1. As can be seen, the different approaches have different recommendations regarding specialisation in low labour costs.

Box 1
Taxonomy of theoretical approaches to labour-cost advantages in trade

Standard neo-classical	**New trade theory**	**Neo-Schumpeterian**
Specialisation according to comparative efficiency (Ricardo)	Specialisation to take advantage of increasing returns (Krugman)	Specialisation to induce productivity growth (Porter, Redding)
Comparative cost advantage based on factor proportions (H-O-S theory)	Despite imperfect competition, more trade will ameliorate technology gaps	Productivity growth in activities with inelastic demand will result in more unemployment (Freeman & Soete)
Technology assumed to be available through trade		Compete on quality – not costs (Porter, Reinert)
		Cost-advantages are temporary and short-lived (Lall, Porter)
Recommendations:	**Recommendations:**	**Recommendations:**
- Specialise according to cost advantages	- Specialise in increasing return activities	- Create, and specialise in, quality-based advantages
- Take advantage of low labour costs	- Take advantage of low labour costs	- Use, but do *not* specialise in, cost-based basic-factor advantages

To support the analysis of the 'low-wage strategy for competitiveness', the concrete experience of Zimbabwe will be used as an empirical illustration in the following chapters. Empirical evidence on the export strategies carried out by Zimbabwe since 1965 is presented in chapter 3. Moreover, the country's real wage development is recorded in chapter 4, before its evolved comparative advantage is analysed in chapter 5. I return to the tension between standard trade theory and neo-Schumpeterian approaches in chapter 6, by looking explicitly at how considerations in the latter approaches – of 'dynamic and cumulative elements' – may qualify

the assumptions in standard approaches. Finally, I move on to analyse the merits of mainstream policy recommendations by focusing on their theoretical underpinnings in chapter 7, before I draw a number of implications for policy.

3 Zimbabwe's trade regime 1965-1997

Introduction

This chapter outlines the export strategies pursued by Zimbabwe from 1965 to 1997, in terms of export policies, export performance and export structure. When studying export strategies in a particular country, one need to get a reasonably good insight into the country's exports – of policy, performance, and a conception of export value and export structure, both aggregated and detailed. The purpose of this chapter is to give an account of the evolution of the role of exports in Zimbabwe's economy, and its export structure, so as to provide the basis for a discussion of Zimbabwe's competitive advantages in international trade in the analysis in chapter 5. To successfully align the various factors contributing to this, I provide a presentation of the policies and strategies that has been pursued by Zimbabwe in the period under review relying on literature sources. I also present the actual export performance, trade balance, production structure and export structure relying on statistical sources. The focus will be on the systemic transformation from a controlled to a liberalised regime. Particularly the question of the external sector's overall performance will be explored before I end up by displaying the structure of Zimbabwe's exports.

The external sector in Zimbabwe: From controls to liberalisation

The recent economic history of Zimbabwe can be divided into three distinct periods. The first started in 1965 following the Unilateral Declaration of Independence (UDI) by the Rhodesia Front government on November 11th 1965. The second period started with Independence on April 18th 1980. This period was also characterised by 'independence' in another sense, as the new political regime, until 1990, resisted negotiations for a World Bank and IMF supported structural adjustment programme (Trålim 1999). The third period is the decade of the 1990s, which was characterised by trade liberalisation and other economic reforms in conjunction with the 1991-95 Economic Structural Adjustment Programme (ESAP) and the 1996-2000 Zimbabwe Programme for Economic and Social Transformation (ZIMPREST).

The system of protection 1965-1989

The UDI period 1965-1979

In 1965 Rhodesia made its unilateral declaration of independence (UDI) from the United Kingdom. In response to the UDI, the United Nations (UN) imposed selective sanctions in

1966, and comprehensive mandatory sanctions from 1968 (Ndlovu 1994). Sanctions were intended to stop all trade and consequently most economic activities. Rhodesia had been dependent on imports of capital equipment, raw materials for manufacturing and mining, and consumer goods. Aided by South Africa and a number of international companies, the Rhodesian government started with a co-ordinated import rationing and foreign exchange allocation system.

The central concern of the government's management of the external sector, was the balance of payments. The government established trade controls to reduce the balance of payments effects of the UN imposed sanctions. Imports were controlled through import licensing and a foreign exchange allocation system.

The protective feature of the system lied in the restriction of imports by denying *foreign exchange* to importers in general, and only allowing limited amounts to some selected importers who already had obtained an import licence. Imports were determined by the administrative allocation of foreign exchange based on balance of payments projections and expected export revenues (Ndlovu 1994). The foreign exchange allocated was the balance after allowances for payments of contractual obligations and other forward commitments had been made. Therefore import levels varied with the availability of foreign exchange.

Ndlovu (1994:77-82) describes the complex system of foreign exchange allocation in Zimbabwe during the UDI and the independence periods. Applicants to the foreign exchange allocation system had to fulfil stringent criteria to be allocated foreign currency. To obtain an *import licence*, the goods to be imported, or commercial service to be sustained, had to "serve an essential need, ameliorate some deficiency in domestic supply and lead to sustained net gain in foreign exchange" (GOZ 1981a:72 in Ndlovu 1994:80).

Because of the extensive foreign exchange allocation system, the Zimbabwe system of protection did not rely on *taxes* levied on trade, such as customs duties, to protect the domestic industries or indicate the direction of preferred development. Their main function was to raise revenues for the government. Under the protective trade system (1965-1990) the proportion of duty to import values was lowest for capital goods, then intermediate goods (excluding fuel), and highest for consumer goods (Ndlovu 1994). There were variations in duty rates on consumer goods depending on whether they were considered luxury items or necessities.

The independence period 1980-1989

The system for allocating foreign exchange introduced at UDI, was maintained after independence with minor modifications. Foreign exchange earnings increased (the first two years) after independence. Imports started to increase in 1980 when allocations were relaxed and reached their peak in 1982. Imports were initially increased to enable the industrial sector to replace ageing equipment and increase exports. When exports failed to keep pace with the rising

imports, the balance of payments deteriorated leading to a tightening of the import control regime (Ndlovu 1994).

However, even under this tight import control regime, a small range of products was imported under an Open General Import License (OGIL). But OGIL did not play a significant role in the first decade after Independence. The share of OGIL imports in total imports declined from about 3% in 1983 to less than 1% in 1988 (Ndlovu 1994:81). As will be described below, the ESAP reform programme, initiated in 1991, rapidly expanded the list of goods imported under OGIL.

Import liberalisation in the 1990s

Changes in trade policy began in 1990, before the formal introduction of ESAP in 1991. The policy was to liberalise imports gradually by moving items from the allocation system to OGIL. The phasing of liberalisation was designed to be gradual in order to give domestic producers time to adjust before facing competition from imports. Thus the importation of production inputs was to go onto OGIL before consumer goods, with priority for inputs to sectors in which "export volumes are assured or for 'linkage' sectors which do not directly export but are important in the export chain." (Ndlela & Robinson 1995:146). Even though only 45% of imports were on OGIL by the end of 1992, there was already a high degree of *de facto* liberalisation (Chipika & Davies 1998). By July 1994, all import restrictions (with the exception of a limited list of 'negative' imports) were removed resulting in full liberalisation 18 months ahead of ESAP schedule. Thus, the intended 'gradual phasing' of trade liberalisation in Zimbabwe went much faster than projected in the reform programme (GoZ 1990, see pp. 9-12).

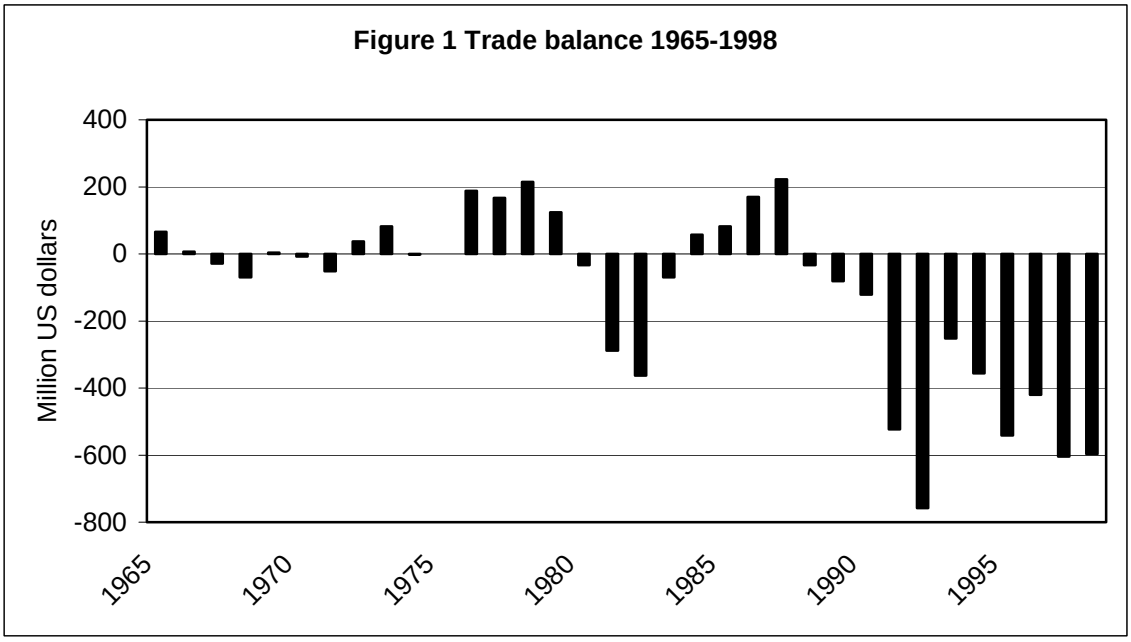
As the tight import control regime was abandoned, *tariffs* became all the more important. The major tariff rates introduced in 1992 were 10% for raw materials, 20% for intermediate goods and 30% for finished products (Chipika & Davies 1998:24). This was relatively low protection by developing country standards, but the addition of a 20% surtax charge raised the level of protection. However, the surtax was intended to be reduced or removed by 1993 according to the plans (see GoZ 1990 p. 10). In February 1997 a simplified tariff schedule was introduced with 0% on capital goods, 5% on raw materials, 15% on spares and partly processed inputs, 20-30% on intermediate goods and consumables and 40-85% on finished goods (Chipika & Davies 1998:24). The intention was to lower the cost of production and make Zimbabwe's manufactured products more competitive while still providing some level of protection to the local market. This was in line with the goal set out in ZIMPREST of "low and uniform tariffs with the rest of the world to maximise the benefits of global trade for Zimbabwe." (GoZ 1998:20). The specific aim of the policy changes was to focus "tariffs on incentive rather than revenue objectives" (GoZ 1998:37).

Export strategy and export performance

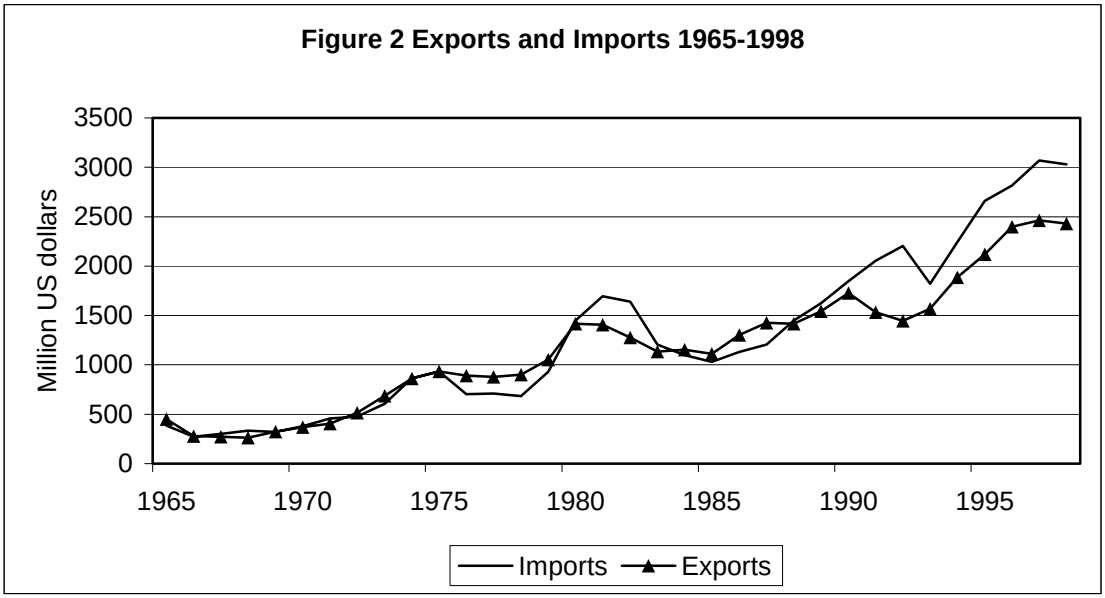
In the years before liberalisation (1965-1989), Zimbabwe maintained a trade surplus for most of the years, as the imports were generally lower than exports in the two first periods, except for 1981-82 (see figure 1 and 2, and table A.0 in the Statistical Appendix). This reflected the impact of import control, designed to maintain balance on external accounts in the face of foreign exchange difficulties (Ndlovu 1994). Notably, in the period after liberalisation (from 1990) the trade balance was in considerable deficit (see figure 1 and 2).

All figures on exports are in current US dollars, except those on export structure, which are in per cent, but are based on US dollar values.

Figure 1 Trade balance 1965-1998



Source: UNCTAD. 2000. *Handbook of Statistics*. CD-ROM. UNCTAD, Geneva.
See table A.0 in Statistical Appendix for details of calculation.



Source: UNCTAD. 2000. *Handbook of Statistics*. CD-ROM. UNCTAD, Geneva.

From figure 1 and 2, it can be observed that Zimbabwe, in tandem with its trade liberalisation, experienced what Celso Furtado called 'a breakdown of the capacity to import' (Furtado 1964 in Hunt 1989). Even though incomes from exports rose, import expenditures rose even more, and the Zimbabwean economy did not only become more dependent on foreign markets, but also saw a reduced ability to import as export revenues were inadequate. In turn, this added to the country's balance of payments difficulties, and naturally undermined its creditworthiness on international capital markets.

The UDI period 1965-1979

Export strategy

During the UDI period, Zimbabwe (then Rhodesia) pursued a *de facto* import substitution industrialisation (ISI) strategy. In practise (as opposed to in theory), ISI strategies have typically been biased towards production for the domestic market rather than production for export (Lall 1996). However, minimising imports and producing substitutes domestically, can be combined with an aggressive export strategy if the required inputs to export production are available. The overreaching goal of the government, keeping the balance of payments positive, resulted in targeted attempts to export products that were not needed in the domestic economy. As will be shown in more detail later in this chapter, these exports were mainly minerals, tobacco, food and manufactured goods. The strategy to endure the sanctions also involved export promotion. Universal Exports (Univex) was created to find new export markets, extend existing ones and arrange for circumvention of economic sanctions (Ndlovu 1994). The main export market was South Africa (which did not abide by sanctions) to which Rhodesia was allowed to export under preferential conditions (Ndlela & Robinson 1995).

According to Ndlela & Robinson (1995), the ratio of *manufactured exports* to gross output dropped significantly from about 27% in 1965 to 15% in 1980, despite the growth in manufacturing under import substitution (see table A.1 in the Statistical Appendix), and the targeted attempts to export. How can this be explained? Presumably, this miserable trend reflect the fact that Zimbabwe's exports during UDI were facing significant barriers in developed-country markets. But it also indicates that the strategy was unsuccessful in supporting export of manufactures.

Export performance

The Zimbabwe economy declined between 1975 and 1978, under the combined influence of the liberation war, tighter sanctions and world recession. Higher oil prices increased the import bill. The closure of the Mozambiqan border in 1976 substantially increased transport costs, which resulted in higher import costs with adverse impact on the balance of payments.

The slow growth of exports during the first years of UDI, gave rise to tighter import controls, and consequently positive trade balances after 1975 (see figure 2). However, there was a loss of export markets as a result of appreciation of the Zimbabwe dollar (1975-1979) against the currencies of its major trade partners (see table 2, which shows exchange rates).

As table 1 shows, the UN sanctions had a dramatic effect on Zimbabwe's exports, which were nearly halved from 1965 to 1966. Moreover, the export growth during UDI was modest, and in some years even negative (1975-1976).

Table 1
Export performance 1965-1979 (million US dollars)

Year	Exports
1965	452
1966	280
1967	272
1968	263
1969	325
1970	370
1971	404
1972	515
1973	688
1974	863
1975	932
1976	891
1977	877
1978	900
1979	1053

Source: UNCTAD. 2000. *Handbook of Statistics*. CD-ROM. UNCTAD, Geneva.

The UDI period can be summarized as a period of stagnant export as a result of poor commitment to export, as well as poor access to export markets, partly due to barriers in overseas markets and partly due to appreciation of the Zimbabwe dollar.

Table 2
Exchange rate 1965-1999

Year	US Dollars per Zimbabwe dollar
1965	1.40
1966	1.40
1967	1.40
1968	1.40
1969	1.40
1970	1.40
1971	1.40
1972	1.52
1973	1.71
1974	1.69
1975	1.76
1976	1.60
1977	1.59
1978	1.48
1979	1.47
1980	1.56
1981	1.45
1982	1.32
1983	0.99
1984	0.80
1985	0.62
1986	0.60
1987	0.60
1988	0.56
1989	0.47
1990	0.41
1991	0.29
1992	0.20
1993	0.15
1994	0.12
1995	0.12
1996	0.10
1997	0.08
1998	0.05
1999	0.03

Source: IMF. 2000. *International Financial Statistics*. CD-ROM. International Monetary Fund, Washington, D.C.

The 'independence period' 1980-1989

Export strategy

Despite the fact that the highly controlled trade regime was largely maintained after Independence, Zimbabwe's trade policy of the 1980s can neither be classified as export led nor as import substitution, as there was a clear combination.

Realising the importance of trade, coupled with the slump in exports in 1982, the new government initiated several export promotion programmes. The Zimbabwe dollar was devalued in 1982 (see table 2) and continued to depreciate against a trade weighted basket of currencies to restore and maintain export competitiveness (Ndlovu 1994).

Export incentive measures of the 1980s included the Export Revolving Fund (ERF), established in July 1983 with a US$ 70.6 million loan from the World Bank (Chipika & Davies 1998). The ERF allowed exporters to have access in advance to foreign currency needed to purchase inputs required to manufacture goods for specific export orders. In 1987 it was extended to agricultural and mining sector exports. According to Ndlovu (1994) it proved effective in removing exporters' input constraints. However, the ERF was brought to a close in the first quarter of 1993 (Ndlela & Robinson 1995).

Another measure was the export incentive bonus, which provided cash payment in domestic currency equivalent to 9% of the export value, as a bonus or subsidy to exporters. A third measure was the incremental bonus scheme, that entitled exporters to use 25% of incremental export earnings (in foreign currency) to import inputs for production for the domestic market (Ndlovu 1994). However, it is questionable whether this was an intelligent export strategy. Critics have argued that "this was more linked to an opportunity for the firm to earn some foreign currency needed to buy inputs to produce for the under-supplied domestic market rather than a serious commitment to develop export markets" (Chipika & Davies 1998:15).

Export performance

Ndlovu (1994) cite many reasons for the poor export performance of the Zimbabwean economy after Independence. Among these are the age of equipment, limited production and export capacity, and the primary nature of exports. It was possible for exports to grow at rates below GDP during UDI mainly because of exploitation of easy import substitution opportunities. However, the situation after Independence changed, the easy import substitution opportunities had been exhausted and an export growth lower than GDP growth could only be sustained with a combination of net resource inflows and investment cutbacks.

But the government's position was that investments should increase. As a result, high levels of external debts accumulated in the first years after Independence. External loans played a significant role in financing the imports needed for the high rate of growth in the first two years of independence and to cover the increased social expenditures (GoZ 1988). Increased

borrowing and aid kept the balance of payments in surplus. However, the current account deficit in 1981-82 when imports exceeded exports, forced the government to borrow at commercial terms. The use of short-term commercial borrowing worsened the situation. Debt servicing increased and the debt service to exports ratio rose from 15% in 1981 to about 36% in 1987 (Ndlovu 1994, Table 5.4). During the 1980s, the government continued to meet all debt service obligations on time, which increased pressure to earn exports as the repayments mounted. This accumulating burden of foreign debt repayments was a significant contributing factor to Zimbabwe's trade problems at the end of the 1980s.

Despite a trade surplus from 1984-1987 (see figure 1, and table A.0 in Statistical Appendix), there was a pressing need to boost exports at the end of the 1980s (GoZ 1988), and as such the overall trade performance in the period can be classified as being poor. Table 3 illustrates the miserable export performance (when measured in US dollars) where exports in 1988 were at the same level as in 1980.

Table 3
Export performance 1980-1989 (million US dollars)

Year	Exports
1980	1415
1981	1408
1982	1276
1983	1135
1984	1155
1985	1113
1986	1302
1987	1427
1988	1415
1989	1542

Source: UNCTAD. 2000. *Handbook of Statistics*. CD-ROM. UNCTAD, Geneva.

The independence period can be summarized as a decade with major difficulties in managing the external sector. Despite several attempts to boost exports, the growth from 1979-1980 (figure 2, and table A.0 in Statistical Appendix) could not be maintained as the easiest opportunities to expand into new markets were quickly exhausted. With the failure to expand exports, the new government receded to the previous government's measure, namely to squeeze imports so as to turn the trade balance positive. However, after the setback in 1987, the trade balance was slightly in deficit in 1988 and 1989 (figure 1).

The 1990s

Export strategy

To minimise the levels of external financing required to implement the 1991-1995 ESAP, the government stated that "every effort will be made to maximise export growth (…)" (GoZ 1990: Preface).

As part of the reforms in the 1990s, a new scheme was set up to stimulate growth of exports which was seen as necessary for a successful import liberalisation programme. The government introduced an Export Retention Scheme (ERS) in 1990 (GoZ 1990). Under this scheme, productive sectors were allowed to retain a certain proportion of their export earnings in foreign exchange for the purchase of machinery and raw materials needed to boost output. Initially exporters were allowed to retain 5% of their export earnings, but the proportion of retention was increased overtime until 1994 when all exporters were allowed 100% retention (Chipika & Davies 1998, Ndlovu 1994).

Another important factor in the government's efforts to induce Zimbabwean firms to seek out export markets, was the exchange rate policy. For the first time since 1982, the Zimbabwe dollar was heavily devalued in the third quarter of 1991 "in support of trade liberalisation" (Ndlela & Robinson 1995:147). In response to rising inflation, it was devalued again in 1993 to keep exports competitive (see table 2). Chipika & Davies explain that "The exchange rate was allowed to continue to depreciate in real terms in order to encourage a shift of resources to the export sector and sustain export competitiveness" (Chipika & Davies 1998:17). Given the sluggish economic performance during ESAP, one could expect a change in policies in the ZIMPREST document. Indeed, the programme states the intention to "Improve policies to support beneficiation and export development" (GoZ 1998:44). However, this did not imply any deviation from the liberalisation policies pursued under ESAP.

Export performance

According to Chipika & Davies, one of the major objectives of ESAP was to expand 'non-traditional exports' of which *manufactured exports* were to form a significant part. But Zimbabwe's export performance under ESAP has been disappointing:

> "Some of the reasons for the poor export performance of the manufacturing sector include the 1992 severe drought, poor external marketing, and poor support infrastructure (telecommunications). While total exports in US$ value rose by 9% annually from 1985-1990, they rose by on average 6% annually from 1990-1994." (Chipika & Davies 1998:18).

Manufactured exports increased each year in Zimbabwe dollar terms, but declined when measured in US dollars by more than 15% between 1990 and 1991 (see table A.6 in the Statistical Appendix). This poor export performance was particularly tormenting for Zimbabwe as the start of the ESAP marked an intensification of export incentives for manufacturers (Ndlela & Robinson 1995).

The study by Ndlela & Robinson found that because the export incentive structure only rewarded final exporters, textile and leather producers would rather "export their products directly than strive to provide the range and quality of inputs required by clothing and footwear exporters" (Ndlela & Robinson 1995:194). In this way, opportunities to export processed (manufactured) products were bypassed. Another factor was that competitive imports penetrated

domestic Zimbabwean markets earlier than had been envisaged in the original design of the trade liberalisation process (as pointed to above).

Table 4 shows the export performance in the 1990s. The picture for the first half of the decade is depressing. Moreover, it can be seen from the table that exports picked up from 1994 to 1998. During the drought in 1992, many producers turned to export markets, as the deregulation and liberalisation of foreign currency had given them "the flexibility to do so, and rapid growth in exports followed" (GoZ 1998:64). But the sizeable deficit on the trade balance in the 1990s, which exceeded 400 million US dollars in all four years from 1994-1998 (see table A.0 in Statistical Appendix), made the overall trade performance worse than ever due to the increased import bill that came with liberalisation and due to food imports after the drought.

To sum up, the 1990s presented a fundamental shock to the external sector of Zimbabwe as imports were fully liberalised in the first part of the decade, in a much more rapid pace than envisaged by the experts who outlined the plan. Despite a not insignificant growth in exports in the latter part of the period, the trade balance deteriorated to a historically low level instigating severe economic constraints to the entire nation.

Table 4
Export performance 1990-1998 (million US dollars)

Year	Exports
1990	1726
1991	1532
1992	1445
1993	1568
1994	1885
1995	2119
1996	2397
1997	2464
1998	2432

Source: UNCTAD. 2000. *Handbook of Statistics*. CD-ROM. UNCTAD, Geneva.

Production structure and export structure

This section will identify and depict key characteristics of the production structure and the export structure that has evolved in Zimbabwe from 1965 to 1997. Knowledge of the production structure of Zimbabwe's economy in the years examined, is essential when studying specialisation of the economy. Still, it should be underlined that most emphasis is placed on the *export structure* in analysing the relationship between specialisation of export production and competitive advantages. The export structure will be analysed in the second section.

Production Structure

Zimbabwe's production structure is atypical compared to other African economies. The most salient feature is the relatively low share of agriculture in total output, which is around or below 20%, and the relatively high share of manufacturing, averaging around 25%. In addition, employment in manufacturing as a percentage of total employment is unusually high compared to the average in Sub-Saharan Africa (ILO 1998). Many studies have pointed to the manufacturing sector's unusually important role in Zimbabwe[18].

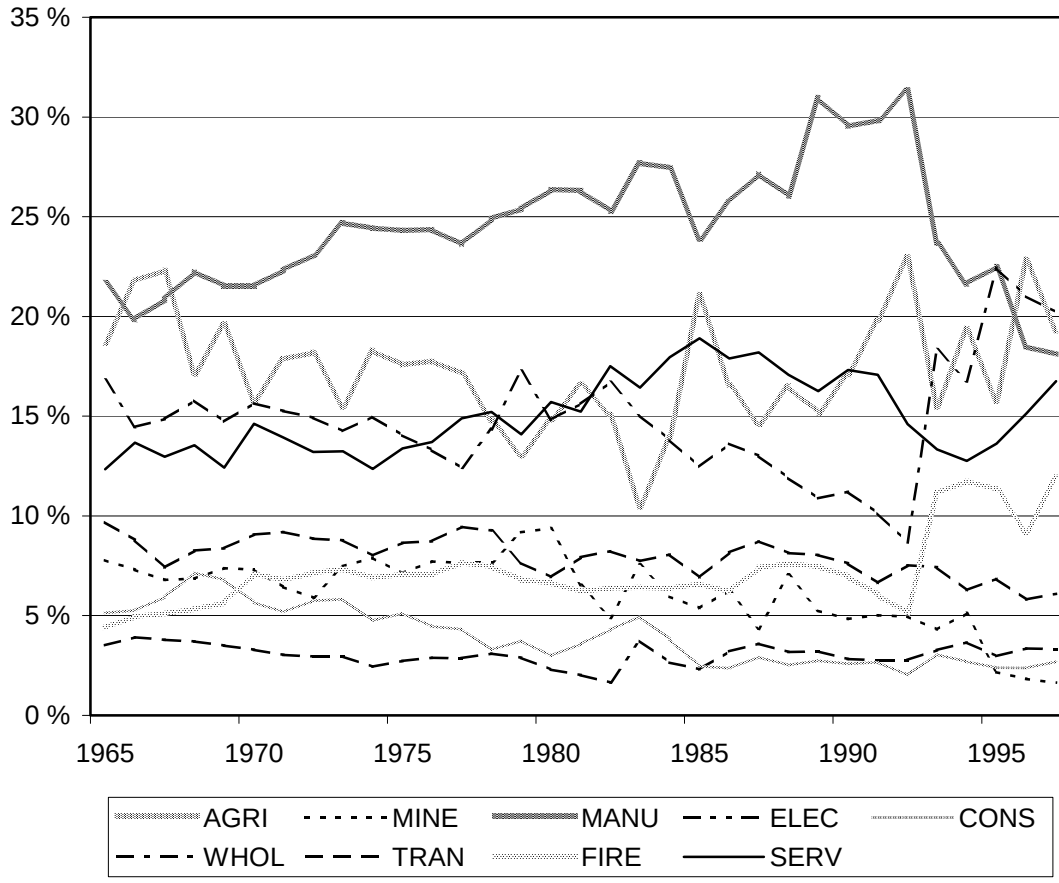
Figure 3 shows the production structure spanning over the years 1965-1997. The data for 1965-1992 is extracted from various issues of the *UN Yearbook of National Accounts Statistics*, whereas data for 1993-1997 is extracted from the Central Statistical Office (CSO) publication *National Accounts 1985-1997*[19]. The relative shares in percentage are calculated from base data in current prices (see table A.1 and A.2 in Statistical Appendix). The categories used in these publications follow the International Standard Industrial Classification (ISIC) with two exceptions. The first is that 'Business services' are included in division 9, rather than division 8. The second is that data for 1993-1997 in my category 9 'SERV' is the sum of 'Education, Health, Domestic and Other services' given in the CSO publication. Another effect from using a different data source (the CSO publication) is that categories 6 WHOL and 8 FIRE both seem unlikely large for 1993-1997.

The application of different data sources creates some difficulties. After 1992 there is a serious drop in agriculture, manufacturing and to some extent mining, as shares of total output (see table A.2). It is possible that this trend is partly due to adoption of another data source. The fact that these sectors' contribution to total private sector output in absolute numbers rise substantially (as is also true for the other sectors, see table A.1) is probably due to considerable price inflation in this period (the data is measured in current prices) and perhaps also to some over-reporting in the second data source.

[18] Probably the most comprehensive exploration of this subject is Riddell (1990).

[19] The data from CSO are based on reporting from a sample of firms. Allegedly this sample has not been updated since 1980. Since then, many of the firms have closed down, and new firms have been established but not included in the sample. This undermines the validity and reliability of the data.

Figure 3 Production Structure 1965-1997



Categories

1 AGRI	Agriculture, hunting, forestry and fishing
2 MINE	Mining and quarrying
3 MANU	Manufacturing
3 ELEC	Electricity, gas and water
5 CONS	Construction
6 WHOL	Wholesale and retail trade, restaurants and hotels
7 TRAN	Transport, storage and communication
8 FIRE	Finance, insurance and real estate
9 SERV	Community, social, personal and business services

Note: Data for 1993-1997 is taken from CSO. 1998. *National Accounts 1985-1997*. Table 2.1(a). Categories 6 WHOL and 8 FIRE both seem unlikely large in this period.
Category 9 SERV is the sum of Education, Health, Domestic Services and Other services.

Sources: Own calculations based on the following statistics: Output data for 1965-1992 from *UN National Accounts Statistics* issues for 1975, 1981, 1988 and 1995. Output data for 1993-1997 from *CSO National Accounts 1985-1997*. See Statistical Appendix table A.1 and A.2 for output data and details of calculation.

Figure 3 demonstrates that manufacturing has by far contributed most to national output throughout the period. And accordingly, the most noticeable feature of change is the dramatic

slump in the relative importance of manufacturing in the 1990s. The tendency that can be observed is of a *severe de-industrialisation*. Still, the decline in manufacturing is somewhat over-represented due to the adoption of a new data source from 1993 onwards. According to table A.2 in the Statistical Appendix, manufacturing contributed with 31% to total private sector production in 1992 (UN data), whereas in 1993 it contributed with 24% (CSO data). Controlling for differences between the two sources by using data for the years 1985-1992, covered in both sources, I found a difference of 6% in the absolute numbers (Zim-dollars). A deviation of 6% must be considered significant, but even if it modifies the tendency observed, it does not alter the direction of the observed tendency altogether. The categories used by the two sources are the same, and CSO is understood to be the original source for the UN data. Nevertheless, the CSO data themselves report a downturn in manufacturing output from 24% in 1993 to 18% in 1997. This downward trend over the last five years for which I have data, cannot be discarded. Especially if the stability in the UN data is considered (table A.2 in the Statistical Appendix). Another feature is the strong fluctuations in the contribution of agriculture to national private output, underscoring the climatic conditions with recurrent droughts. The figure also gives the impression that the relative importance of WHOL (Wholesale, retail trade, restaurants and hotels) increased dramatically in the 1990s (doubling from 1992 to 1993) after a steady downturn from 17% in 1965 to 9% in 1992. But as indicated above, this is probably misleading due to the adoption of another data source from 1993 onwards. Similar arguments apply to FIRE (Finance, insurance and real estate). If these two categories are over-reported, the real effect will be that the other categories have a more positive trend from 1993 onwards.

Export Structure

Zimbabwe mainly exports unprocessed and semi-processed products of agriculture and mining. The main exports are flue-cured tobacco, iron and steel, gold, ginned cotton, textiles, nickel alloys, maize, asbestos, foodstuffs, fresh cut flowers and fertilizers. Principal export markets are South Africa, the European Union (predominantly United Kingdom and Germany), Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) / Preferential Trade Agreement of Southern and East African states (PTA) (predominantly Botswana, Zambia, Malawi, Namibia and Mozambique).

To get a picture of the export structure I have extracted export data in US dollars on the nine SITC categories (Standard International Trade Classification) from various issues of the UN's *International Trade Statistics Yearbook* (see table A.3 to A.9 in the Statistical Appendix for base data and calculations). I have reproduced these data in absolute values (US dollars) and in relative values (in per cent), for each of the nine SITC groups and for two constructed categories (primary exports and manufactured exports).

Box 2 presents the SITC categories which are used, and it also singles out which commodities under the different SITC groups that are significant exports from Zimbabwe.

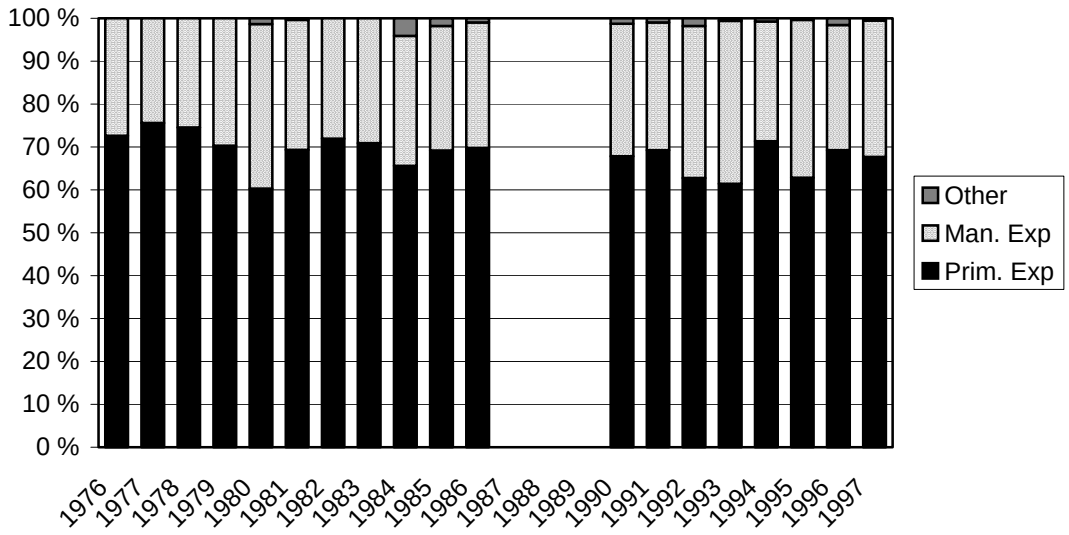
Box 2
Standard International Trade Classification (SITC)

	Description	Significant Zimbabwean export commodities in each group
SITC 0	Food and live animals	Unmilled maize, sugar and honey, coffee, tea and meat
SITC 1	Beverages and tobacco	Tobacco (mostly unmanufactured tobacco leaves)
SITC 2	Crude materials, inedible, except fuels	Raw cotton, crude asbestos, granite and sandstone, cut flowers, iron, sawn lumber and soya beans
SITC 3	Mineral fuels, lubricants and related materials	Coal and briquettes, and petroleum products (of marginal importance)
SITC 4	Animal and vegetable oils, fats and waxes	Processed vegetable oils (only for some years)
SITC 68	Non-ferrous metals	Unwrought copper and nickel alloys
SITC 5	Chemicals and related products, n.e.s.	Dyes, medicinal and pharmaceutical products, soap and fertilizers
SITC 6	Manufactured goods classified chiefly by material	(Less 68:) Textile and fabrics, and iron and steel
SITC 7	Machinery and transport equipment	Aircraft engines, electric machinery, road and railway vehicles, and 'other machinery for special industries'
SITC 8	Miscellaneous manufactured articles	Furniture, clothing, and footwear
SITC 9	Commodities and transactions not classified elsewhere in the SITC	Special transactions and commodities not classified according to kind, and non-monetary gold

Source: Based on various issues of *UN International Trade Statistics Yearbook.*

Figure 4 displays Zimbabwe's export structure in the years from 1976-1997 broken down in primary and manufactured exports. These two broad categories are aggregated from the nine main SITC categories. Primary exports are the sum of SITC 0 to 4 plus SITC 68. Manufactured exports are the sum of SITC 5 to 8 less SITC 68. SITC 68, non-ferrous metals, represent one of the more significant export commodities. This category covers unwrought copper and nickel alloys. As these goods are unwrought (or 'unworked') I have chosen to classify them as primary rather than manufactured exports. This method is also adopted in Wood & Mayer (2001). I have labelled exports classified as SITC 9 as 'Other'. As figure 4 shows, primary exports averaged just below 70% of total exports in the years 1976-1987 and 1989-1997, and manufactured exports averaged around 30% of total exports in the entire period. One observation worth mentioning, is the *stability of the share of primary and manufactured exports in total exports* despite changing trade policies and export performance.

Figure 4 Export Structure 1976-1997



Note: See table A.10 and A.11 in Statistical Appendix for detailed data on the various commodity groups. Data for 1987-1989 not available.

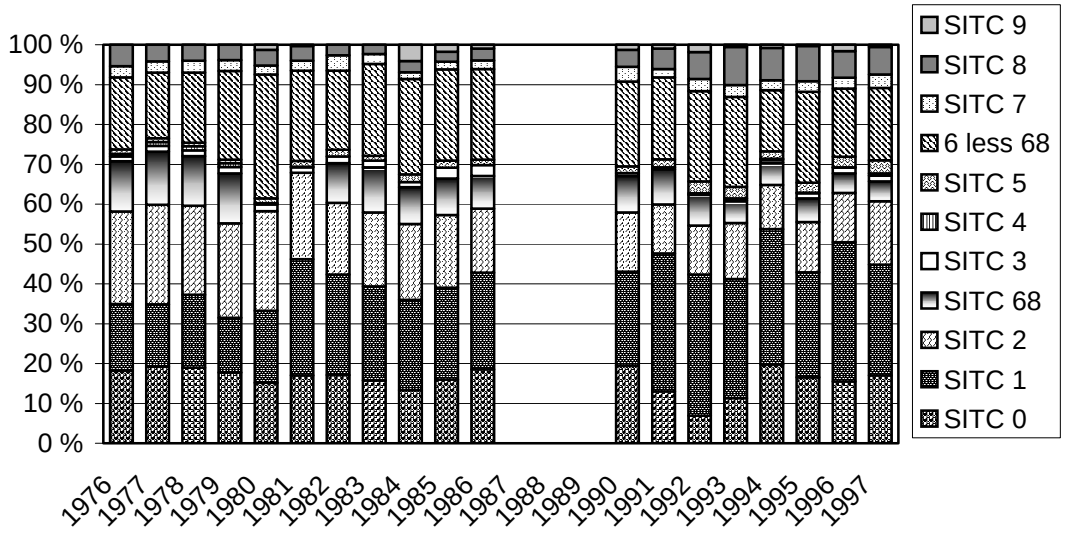
Source: Own calculations based on UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Figure 5 presents a more detailed picture of the same export structure as figure 4, displaying all the nine SITC commodity groups. As the figure shows, SITC categories (in rising order) 1; 6 less 68; 0; 2; 8 and 68, are the most significant. This indicates that Zimbabwe's most important exports are flue-cured tobacco, textiles, iron and steel, maize, cotton, asbestos, fresh cut flowers, fertilizers, nickel alloys and gold. The major changes that have taken place over the period under review are the following: Group 68 (copper and nickel alloys) have diminished from 13% in 1976 to 5% in 1997, whereas group 1 (flue-cured tobacco) have increased from 17% in 1976 to 35% in 1996 (see table A.11 in Statistical Appendix for detailed data in percent).

In other words, *a more detailed look at the export structure reveals some significant shifts*, where the share of 'almost manufactured' copper and nickel alloys are more than halved from the mid-1970s to mid-1990s, and where the share of a primary product like tobacco leaves is practically doubled over the same period. As for the latter, the share of 'raw' tobacco leaves in total exports, increased from 24% in 1990 to 35% in 1991 (table A.11 Statistical Appendix). In absolute numbers tobacco exports increased from 1990-1991 whereas total exports declined in absolute numbers (table A.10 in Statistical Appendix). Flue-cured tobacco has in the 1990s become the by far most important export commodity for Zimbabwe (accounting for 35% of total exports in 1996). Being an agricultural product, this export commodity is vulnerable to changes in climate, and is subject to relatively inelastic demand (there is a limit to how many cigarettes a person can smoke) and is also subject to diminishing returns at some point. Still, it

could be possible for Zimbabwe to increase its exports of tobacco even more, if other competitors on the world market are unable to compete with Zimbabwe. Nevertheless, increased dependence upon this commodity, after liberalisation and increased exposure to external shocks, may be considered as not particularly favourable for long-term development.

Figure 5 Detailed Export Structure 1976-1997



Note: Export structure according to the Standard International Trade Classification (SITC) commodity grouping. See table A.10 and A.11 in Statistical Appendix for detailed data on the various commodity groups. Data for 1987-1989 not available.

Source: Own calculations based on UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Chapter 5 will discuss possible determinants of competitive advantages in Zimbabwe, partly based on this illustration of the country's export structure.

It may be worthwhile to note, that I have not presented Zimbabwe's import structure. Import structures vary much less across countries than export structures because trade encourages each country to specialise in producing a few goods for export, and correspondingly to rely on imports from other countries to meet domestic demand for the majority of tradable goods. I therefore considered the export structure to be most relevant.

Summary

The picture emerging from the exploration of Zimbabwe's export strategy in the period under review, can be summarised as follows:

In the UDI-period from 1965-1979, a *de facto* ISI-strategy was pursued. The strictly controlled trade regime was based on full government control with the allocation of foreign exchange to importers. With these policies, the government managed to keep the current

account in quite good balance, but failed to boost exports due to poor access to export markets and insufficient commitment to export. After Independence in 1980, the controlled trade regime was maintained with some modifications. Growth in exports was completely stagnant in the 1980s when measured in US dollars. Taken together, the protective regimes in these two periods managed to maintain a trade surplus for most of the years (except for 1981-82, and quite small deficits after 1987).

After liberalisation in 1990, however, the trade balance had a considerable deficit. In tandem with its trade liberalisation, Zimbabwe experienced a breakdown of its capacity to import, adding to its balance of payments difficulties. The intended 'gradual phasing' of trade liberalisation went much faster than projected in the reform programme. Moreover, a tendency of de-industrialisation can be observed, following the opening up of the economy.

The shares of primary and manufactured exports in total exports have been more or less stable throughout the period, despite changing trade policies and changing export performance. A more detailed look at the export structure reveals some significant shifts. The most notable being the share of tobacco leaves in total exports doubling from the mid-1970s to the mid-1990s. A substantial part of its increased share came in concert with liberalisation at a time when total exports declined. As flue-cured tobacco has become by far the most important export commodity, the external economy in Zimbabwe is highly vulnerable to changes in climate affecting agricultural production. This export commodity is also subject to inelastic demand and diminishing returns at some point.

In short, the situation of Zimbabwe's external economy after liberalisation is characterised by substantial current account deficits, de-industrialisation, increased exposure to external shocks, and increased dependence upon tobacco.

4 Employment, real wages and labour costs in Zimbabwe

> "Employment regulations are attractive with free hiring and firing of labour as well as free collective bargaining at firm or industrial levels. In addition to this, labour costs are low and industrial relations harmonious." (From the internet presentation of *ZIMtrade*, a government-sponsored trade information and trade promoting centre: http://www.zimtrade.co.zw downloaded 2001-04-24).

Introduction

The purpose of this chapter is to provide a detailed picture of the trend in real wages, as real wages are seen as a major determining factor in establishing a country's competitiveness (as maintained in chapter 1). First, I will present the employment and wage policies in Zimbabwe during the three periods under review to provide a backdrop to the actual evolution of the real wages. Then I will present statistical evidence of the real wage development from 1972-1997. Finally, I will present data on Zimbabwe's labour costs compared to other countries in the region.

Employment and wage policies

Employment

During *UDI*, industrial and agricultural diversification was undertaken to help manufacturing survive and maintain employment in order to sustain sufficient internal demand. No firm was allowed to lay off their workers (Ndlovu 1994). The measures that were taken stimulated economic activity. Investments started to grow again from 1967, and employment rose as well. Low wages for black workers in all sectors of the economy, and the determination of and co-operation between the government and the white business- and farming community are common explanations of these successes (Ndlovu 1994, ILO 1993).

At the time of *Independence* in 1980 there were about 1 million people in formal wage employment out of a labour force of 2.5 million. In 1990 by contrast, there were about 1.2 million people in formal wage employment out of an estimated labour force of 4 million (ILO 1993). In other words, during the 1980s, labour force growth radically outstripped formal sector employment growth. But, it is important to bear in mind that compared to other African countries, Zimbabwe had (in 1980) an unusually high proportion of formal sector employment (ILO 1993). This is due to the previous discriminatory regime before 1980, where black workers in urban areas were not allowed to become self-employed. After 1980 this situation has gradually changed, and with the massive retrenchments in the 1990s (Sachikonye 1999),

informal self-employment in Zimbabwe is not very different from other African countries. According to the ZIMPREST document (GoZ 1998), formal sector employment creation during the 1980s averaged only 18000 jobs a year, which was about one tenth of what was required to absorb the net increase to the labour force.

In the *1990s*, the ESAP programme (1991-1995) had employment creation as one of its main objectives, but failed to deliver the necessary employment opportunities. Therefore, a rapid expansion in job creation was the main objective for the 1996-2000 ZIMPREST programme (GoZ 1998). But as the economic crisis accelerated from 1998 onwards, unemployment increased even more. Formal sector employment growth has generally been weak both before and after liberalisation, falling below the population growth rate of 3% per year (Chipika & Davies 1998).

The 'Framework for Economic Reform 1991-95' (GoZ 1990) embodied a long annex entitled 'Assessing and Addressing Social Dimensions of Adjustment'. Although the unemployed were not one of the groups specifically examined, it was predicted that there would be at least 45-50 thousand retrenchments in the formal sector (public and private), disproportionately affecting the lowest paid (Gibbon 1995). It also predicted that at least half of those still employed, mainly semi- and unskilled, would face wage erosion and that a further 10% would see their incomes fall below the 'Poverty Datum Line' (Gibbon 1995).

Contraction in formal employment in Zimbabwe in the 1990s, has resulted in the emergence of an *informal sector* that is absorbing retrenches and new entrants in the job market, "providing a 'dumping ground' for retrenched labour and a waiting station for job seekers" (Chiripanhura & Makwavarara 2001:4).

The informal sector also provides supplementary incomes for those who remain in formal employment where real wages have been falling sharply (Tekere 2001). In other words, there is a growing trend for formal sector workers to also engage in informal sector activities. Such supplementary activities range from selling clothes, cross-border shopping and security guard work to various vending activities (Raftopolous 2001). The result is that workers now have to survive on a multiplicity of income sources each with its specific problems.

The informal sector is characterised by gross underemployment, which implies the sector has "too may people working too hard to produce very little and for incomes that are much too low. (…) it is trapped in a low income, low productivity trap." (Chiripanhura & Makwavarara 2001:4).

Wage policies

During *UDI*, wage policies were discriminatory, benefiting the white minority. Even in 1965, before the new government took seat in November that year, wages in non-agricultural sectors were more than 7 times higher for Non-Africans than for Africans (ILO 1972). And in agriculture, wages were staggeringly 20 times higher for Non-Africans (ILO 1972).

At *Independence* it was expected that the economy would benefit from the lifting of economic sanctions. Under these circumstances the new government made attempts to narrow the income gaps through the introduction of minimum wages (Ndlovu 1994). Starting in 1981, the government set minimum wages and directly controlled wage increases for various income groups, in order to address inherited income distribution disparities and improve standards of living for lower paid groups (Ndlovu 1994). Although the socialist government had income equity as a stated goal, income gaps persisted. Data given in a study by ILO (1993 Table 8.4) suggests that inter-industry minimum wage differentials decreased during the 1980s, but started to increase again from 1990.

Arguing for more outward orientation in the latter part of the 1980s, the World Bank found that labour costs in Zimbabwe were too high, emphasising that "High labour costs contribute to making exports uncompetitive in world markets" (World Bank 1987a:xviii). When *ESAP* was introduced in 1990, free bargaining in wage determination began to be allowed in all sectors (except in public service) "in the expectation that it would drive down wages." (ILO 1993:124). Furthermore, the procedures for hiring and firing of individual employees were relaxed, and a mechanism for quick retrenchment of workers was introduced (GoZ 1990).

Real wages

Real wages are sometimes used as an indicator of human welfare. However, real wages are difficult to estimate meaningfully, since a gradually shrinking number of people have 'real jobs' or jobs in the formal sector (as pointed to above). But this being said, remittances from those employed in the formal sector (mostly in urban areas) are also redistributed to others (notably in the countryside), and to workers in the informal sector, including indirectly via the purchasing power of formal sector workers by purchase of goods and services from the informal sector. Henceforth, real wages can be a useful indicator of welfare, albeit an imperfect one.

Table 5 and 6, and figure 6 and 7, show the overall trend in real wages for the entire period (1972-1997). Data on wages in agriculture for 1982-1986 was not available in my source (ILO's *Yearbook of Labour Statistics 1991*). But Kanyenze (1996) shows that for all sectors (including agriculture), 1982 was the peak year. From table 5 and 6, and figure 6 and 7, a picture emerges, showing that real wages have declined significantly since 1982. *This implies a declining standard of living for Zimbabweans since 1982.*

It is well known that structural adjustment programs may cause reductions in aggregate demand due to decreased government spending and increased real interest rates. A World Bank study (Verner 1999a) found that the main cause of falling real wages in Zimbabwe was precisely reduced economic activity. The same study also found wages to be flexible rather than rigid, and in line with the World Bank's way of thinking on this subject, viewed this positively – as the decrease in aggregate demand could be "mitigated by falling wages" and, therefore, causing a more limited increase in unemployment or informal sector activity than if wages were

rigid and unable to adjust downwards. The view adopted by the World Bank and the view taken in my study, diverge completely with regard to whether 'downward adjustment' of real wages is necessarily positive. Rather, I suggest that such a development can be essentially negative for social welfare and living standards and thereby also for international competitiveness, as defined in chapter 1.

The main reason for the low real wages includes the high level of inflation that have characterised the Zimbabwean economy in recent years (see figure 8). The high trends in the inflation rate have largely been emanating from the manner in which the budget deficit has been financed, i.e. through money printing and domestic borrowing (Chiripanhura & Makwavarara 2001). The exchange rate depreciation has also fuelled the decline in real wages (see table 2).

For measuring real wages I have re-calculated nominal wages given in various issues of ILO's *Yearbook of Labour Statistics* into wages in constant prices with 1972, 1980 and 1990 as base years. I have then re-calculated the consumer price index (CPI) given in IMF's *International Financial Statistics* (CD-ROM 2000) from constant 1995-prices into constant prices with 1972, 1980 and 1990 as base years. This has given me comparable measures of wages and prices. I have then divided wages on prices, and multiplied with 100 to get an expression of real wages. Of course, my annual averages based on annual averages of nominal wage data from ILO, may actually be artificial or non-existent in reality in the sense that the *average* may represent figures that are both below what some people earn, and above what most workers earn. As the data are only available on an aggregated level, there is not much to do about this. It is also worth to notice that in agricultural wages there is likely to be *seasonal fluctuations*. These are not recorded in the statistics as they only report annual averages. But employment statistics (see CSO 1997) show that employment in agriculture tends to be lower in June (in the winter), which is the low-season. This may suggest that wages in agriculture are likely to be higher in the spring (during planting in October/November) and in the fall (during harvesting in April-May) because of more activity. Moreover, it should be clear to the reader that workers of European descent in Zimbabwe are generally better educated and better skilled and therefore occupy jobs that are better paid, in contrast to the majority of workers of African descent.

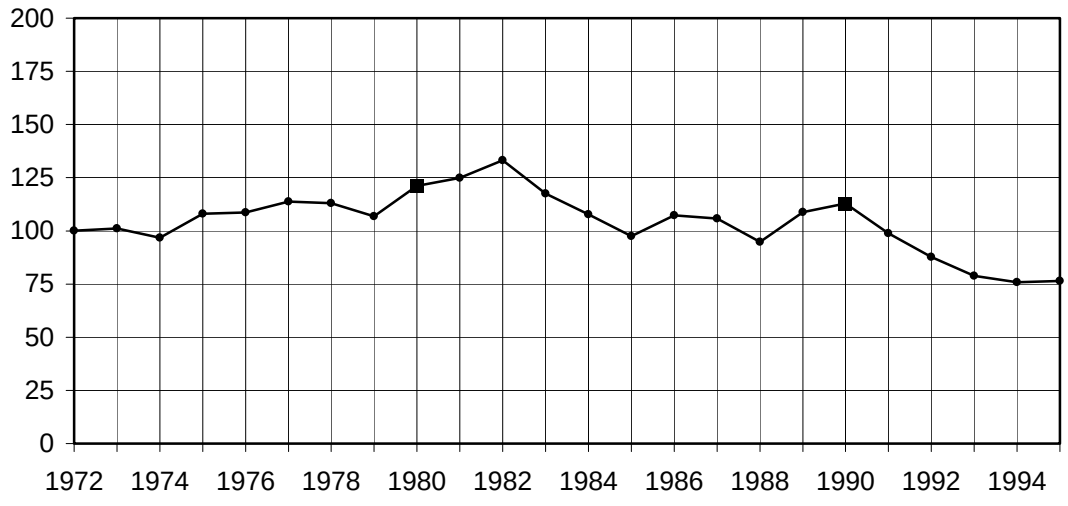
As explained in the Introduction, I have discovered what I consider to be an incorrect U-turn in the data series. The real wages for Zimbabweans employed in formal sector activities could not possibly have increased by more than one third in 1996 and 1997, when the economic crisis worsened drastically and inflation soared. Minor fluctuations in real wages may of course happen from one year to another. However, the sudden change in the data series is simply too large to be plausible. I have, therefore, chosen to include data for 1996 and 1997 in the tables (table 5, 6, 11 and 12) but not in the illustrative figures (figure 6 and 7).

All figures on real wages are in constant prices. In order to illustrate the trend from the initial year, the scale on every Y-axis is portraying the same range above and below the starting point (which is 100). However, the scale on the Y-axis on the two figures involving the consumer price index (figure 8 and 9), only portray the range above 100 as the price level for obvious reasons only rise in constant prices based on the first year.

Table 5
Real wages for workers in non-agricultural activities 1972-1997 (1972=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1972	100.00	100.00	1972	100.00
1973	104.32	103.12	1973	101.17
1974	106.20	109.83	1974	96.70
1975	130.63	120.86	1975	108.08
1976	145.67	134.05	1976	108.67
1977	168.23	147.96	1977	113.70
1978	176.69	156.35	1978	113.00
1979	197.36	184.65	1979	106.88
1980	235.90	194.72	**1980**	121.14
1981	274.95	220.14	1981	124.90
1982	324.46	243.65	1982	133.17
1983	352.77	300.00	1983	117.59
1984	388.18	360.43	1984	107.70
1985	381.30	391.13	1985	97.49
1986	479.76	447.00	1986	107.33
1987	531.75	502.88	1987	105.74
1988	511.90	540.29	1988	94.75
1989	663.13	609.83	1989	108.74
1990	807.94	715.59	**1990**	112.91
1991	872.34	882.73	1991	98.82
1992	1 099.92	1 253.96	1992	87.72
1993	1 262.55	1 600.00	1993	78.91
1994	1 482.58	1 956.12	1994	75.79
1995	1 831.58	2 398.08	1995	76.38
1996	2 442.63	2 901.68	1996	84.18
1997	3 462.49	3 457.79	1997	100.14

Figure 6 Real wages (1972-1995) for workers in non-agricultural activities (1972=100)



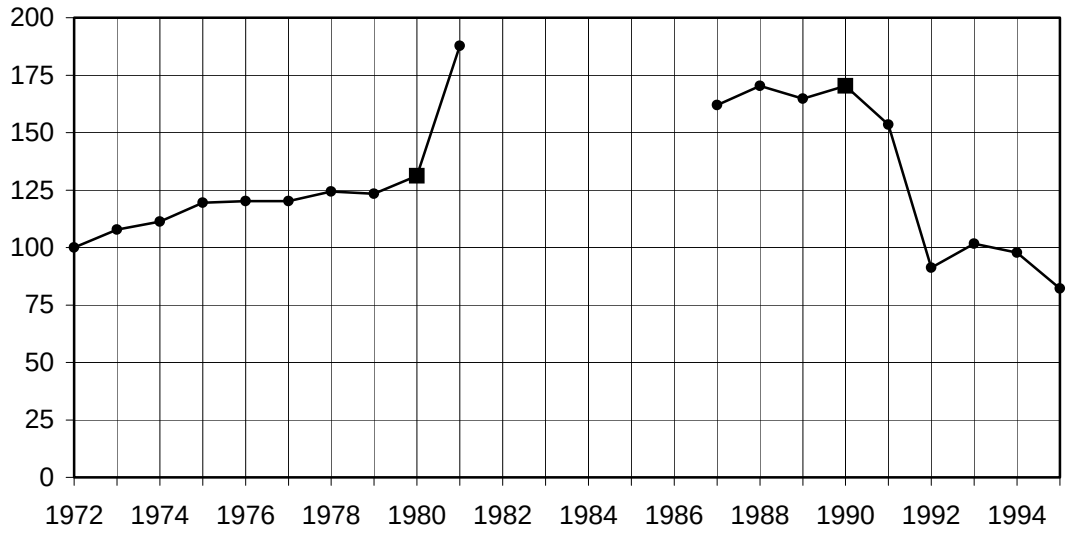
Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1982, 1991, 1997 and 2000. See table A.12 in Statistical Appendix for details of calculation.

Table 6

Real wages for workers in agriculture 1972-1997 (1972=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1972	100.00	100.00	1972	100.00
1973	111.13	103.12	1973	107.77
1974	122.20	109.83	1974	111.26
1975	144.47	120.86	1975	119.53
1976	161.13	134.05	1976	120.20
1977	177.80	147.96	1977	120.17
1978	194.46	156.35	1978	124.37
1979	227.80	184.65	1979	123.37
1980	255.53	194.72	**1980**	131.23
1981	413.33	220.14	1981	187.75
1982	n.a.	243.65	1982	n.a.
1983	n.a.	300.00	1983	n.a.
1984	n.a.	360.43	1984	n.a.
1985	n.a.	391.13	1985	n.a.
1986	n.a.	447.00	1986	n.a.
1987	814.66	502.88	1987	162.00
1988	920.66	540.29	1988	170.40
1989	1 004.66	609.83	1989	164.74
1990	1 219.32	715.59	**1990**	170.39
1991	1 355.32	882.73	1991	153.54
1992	1 143.99	1 253.96	1992	91.23
1993	1 625.98	1 600.00	1993	101.62
1994	1 912.65	1 956.12	1994	97.78
1995	1 972.05	2 398.08	1995	82.23
1996	2 675.91	2 901.68	1996	92.22
1997	3 514.30	3 457.79	1997	101.63

Figure 7 Real wages (1972-1995) for workers in agriculture (1972=100)



Source: Own calculations based on the following data: Data on Price (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1982, 1991, 1997 and 2000. Wage data for 1982-1986 is not listed in ILO's *Yearbook of Labour Statistics* (Issue 1991). See table A.13 in Statistical Appendix for details of calculation.

During *UDI*, real wages both in agriculture and in non-agricultural activities increased steadily (see table 7 and 8). The growth in real wages was most pronounced in agricultural activities. In non-agricultural activities however, the pattern was more customary (resembling an S-curve rather than a straight line, see table 7) with a slump in 1974, and then a marked growth in 1975, and a new downturn in 1979 before it was to shoot up at Independence in 1980 (see table 5 and figure 8).

Table 7
Real wages for workers in non-agricultural activities 1972-1979 (1972=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1972	100.00	100.00	1972	100.00
1973	104.32	103.12	1973	101.17
1974	106.20	109.83	1974	96.70
1975	130.63	120.86	1975	108.08
1976	145.67	134.05	1976	108.67
1977	168.23	147.96	1977	113.70
1978	176.69	156.35	1978	113.00
1979	197.36	184.65	1979	106.88

Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1982. See table A.12 and A.14 in Statistical Appendix for details of calculation.

Table 8
Real wages for workers in agriculture 1972-1979 (1972=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1972	100.00	100.00	1972	100.00
1973	111.13	103.12	1973	107.77
1974	122.20	109.83	1974	111.26
1975	144.47	120.86	1975	119.53
1976	161.13	134.05	1976	120.20
1977	177.80	147.96	1977	120.17
1978	194.46	156.35	1978	124.37
1979	227.80	184.65	1979	123.37

Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1982. See table A.13 and A.14 in Statistical Appendix for details of calculation.

In most sectors, real wages went up immediately after *Independence* (see table 9 and 10). Workers in agricultural activities experienced a remarkable increase in their real wages due to the introduction of minimum wages (figure 7 and table 10). From 1982, however, real wages dropped gradually until the end of the decade (table 9 and 10). In this period, real wages dropped considerably in non-agricultural activities (whereas wage data for workers in agriculture is not available for 1982-1986). As pointed to above, other studies – such as Kanyenze (1996) – show that real wages in all sectors plummeted after 1982. Still, it must be underscored that compared to 1972, the years 1980-1982 brought the most generous real wage levels in both agricultural and non-agricultural activities experienced by Zimbabweans during the entire period under review (see table 5 and 6).

Table 9
Real wages for workers in non-agricultural activities 1980-1989 (1980=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1980	100.00	100.00	1980	100.00
1981	116.56	113.06	1981	103.10
1982	137.54	125.13	1982	109.92
1983	149.54	154.07	1983	97.06
1984	164.56	185.10	1984	88.90
1985	161.64	200.87	1985	80.47
1986	203.38	229.56	1986	88.59
1987	225.41	258.26	1987	87.28
1988	217.00	277.47	1988	78.21
1989	281.11	313.18	1989	89.76

Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1991 and 1997. See table A.12 and A.14 in Statistical Appendix for details of calculation.

Table 10
Real wages for workers in agriculture 1980-1989 (1980=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1980	100.00	100.00	1980	100.00
1981	161.76	113.06	1981	143.08
1982	n.a.	125.13	1982	n.a.
1983	n.a.	154.07	1983	n.a.
1984	n.a.	185.10	1984	n.a.
1985	n.a.	200.87	1985	n.a.
1986	n.a.	229.56	1986	n.a.
1987	318.82	258.26	1987	123.45
1988	360.30	277.47	1988	129.85
1989	393.18	313.18	1989	125.54

Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Various issues. Wage data for 1982-1986 is not listed in ILO's *Yearbook of Labour Statistics* (Issue 1991). See table A.13 and A.14 in Statistical Appendix for details of calculation.

In the *1990s* the general tendency has been for real wages to decline (table 11 and 12). The drop in real wages for agricultural workers was particularly severe in the drought-year 1992 (table 12), when inflation reached almost 50% while salaries were hardly adjusted (ILO 1993). As shown in table 13 and figure 8, inflation accelerated immensely from 1991 onwards. This aspect was given concern in the ZIMPREST document:

> "The resulting inflation has eaten away at ordinary people's ability to meet the basic needs of their families. These unfavourable conditions, which prevailed at the end of ESAP, cannot be allowed to continue." (GoZ 1998:6).

The 'unfavourable conditions' for the average Zimbabwean did not get better in the latter part of the 1990s. Rather, there has been a persistent decline in real wages for those in formal employment during the period with trade liberalisation in the 1990s (table 11 and 12). Data for the two last years in the data set (1996 and 1997) indicate a significant upward movement (table

11 and 12). I have omitted data for these two last years in the illustrative figures (figure 6 and 7), because the data for 1996 and 1997 are apparently erroneous. The study *Poverty in Zimbabwe* (CSO 1998b) contends that poverty in Zimbabwe increased from 1990 to 1996, and underlines that this finding does not depend on the choice of poverty line. The prevalence of poor people increased immensely from 52.8% to 75.6% out of the total population during the 1990s (CSO 1998b:36). Moreover, the worsening economic crisis in Zimbabwe during the latter part of the 1990s provides evidence for a continued downward trend in real wages. This is further supported by the fact that inflation climbed steadily (see figure 8).

Table 11
Real wages for workers in non-agricultural activities 1990-1997 (1990=100)

Year	Wage (W)	Price (P)	Year	W/P*100
1990	100.00	100.00	1990	100.00
1991	107.97	123.37	1991	87.52
1992	136.14	175.26	1992	77.68
1993	156.27	223.62	1993	69.88
1994	183.50	273.39	1994	67.12
1995	226.70	335.16	1995	67.64
1996	302.33	405.55	1996	74.55
1997	428.56	483.27	1997	88.68

Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 2000. See table A.12 and A.14 in Statistical Appendix for details of calculation.

Table 12
Real wages for workers in agriculture 1990-1997 (1990=100)

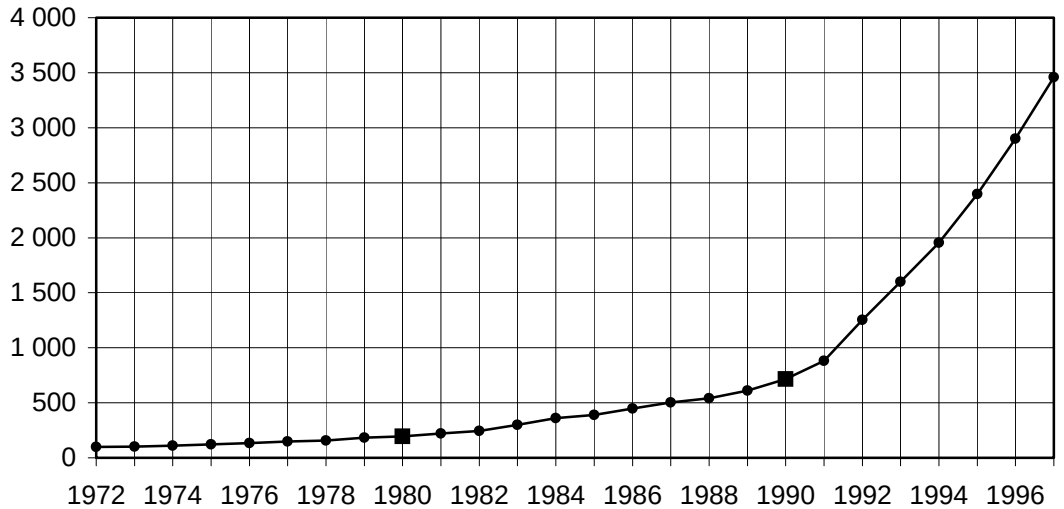
Year	Wage (W)	Price (P)	Year	W/P*100
1990	100.00	100.00	1990	100.00
1991	111.15	123.37	1991	90.10
1992	93.82	175.26	1992	53.53
1993	133.35	223.62	1993	59.63
1994	156.86	273.39	1994	57.38
1995	161.73	335.16	1995	48.26
1996	219.46	405.55	1996	54.11
1997	288.22	483.27	1997	59.64

Source: Own calculations based on the following data: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Various issues. See table A.13 and A.14 in Statistical Appendix for details of calculation.

Table 13
Consumer Price Index (CPI) 1972-1997 (1972=100)

Year	CPI
1972	100.00
1973	103.12
1974	109.83
1975	120.86
1976	134.05
1977	147.96
1978	156.35
1979	184.65
1980	194.72
1981	220.14
1982	243.65
1983	300.00
1984	360.43
1985	391.13
1986	447.00
1987	502.88
1988	540.29
1989	609.83
1990	715.59
1991	882.73
1992	1 253.96
1993	1 600.00
1994	1 956.12
1995	2 398.08
1996	2 901.68
1997	3 457.79

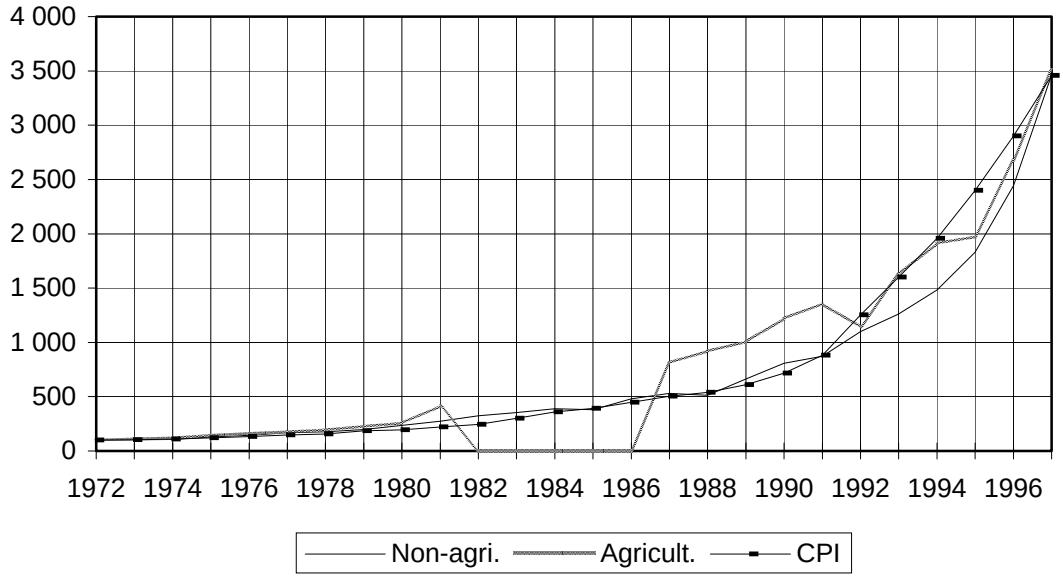
Figure 8 Consumer Price Index 1972-1997 (1972=100)



Source: Own calculations based on data in constant 1995-prices on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. See table A.14 in Statistical Appendix for details of calculation.

As can be seen from figure 9, the growth rate of nominal wages followed the growth rate of prices during UDI (specifically from 1972-1980). On the positive side, the growth rate of wages for agricultural workers exceeded prices in 1982, and from 1986 to 1991. On the negative side, one can observe that from 1992 onwards, the growth rate of wages has been below the growth rate of the consumer price index, particularly the wages in non-agricultural activities. One concern that must be pointed to here is that the curve showing the growth-rates of wages in non-agricultural activities is surprisingly stable. It does not follow the more plausible S-pattern for wages in agriculture. Therefore, it makes sense to be cautious with relying too much on the wage data for non-agricultural activities.

Figure 9 Wages compared to CPI 1972-1997 (1972=100)



Source: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*.
CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1982, 1991, 1997 and 2000.
Wage data for 1982-1986 is not listed in ILO's *Yearbook of Labour Statistics* (Issue 1991).
See table A.15 in Statistical Appendix.

Labour costs

Labour cost per worker is often used as a measure of international competitiveness. Looking at labour costs and not only real wages implies studying the same matter from the opposite side. Whereas real wages are what matters for workers and their welfare, labour costs are what matters for employers, and for governments struggling to acquire competitiveness through realisation of competitive advantages. Labour costs are measured differently than real wages. Usually it includes all compensation paid by employers beyond just the wages received by workers.

Labour costs in Zimbabwe

Table 14 show labour costs per worker in manufacturing in Zimbabwe for five-year periods from 1960 until 1994. In the source used (Rama & Artecona 2000), data was not available for the last period (1995-99) and data on labour costs in agriculture were only available for 1980-89, but was calculated in a different way and it was therefore pointless to compare the two sectors. As table 14 shows, labour costs jumped considerably after Independence. What is worth noting, is that labour costs per worker measured in current US dollars declined in the latter part of the 1980s and declined further in the first period of the 1990s, indicating *a downward trend in labour costs accompanying the liberalisation process*.

Table 14
Labour costs in Zimbabwe 1960-1994 (US dollars per year)

Year	WGEIND
1960-64	1 089,03
1965-69	1 227,31
1970-74	1 741,23
1975-79	2 776,11
1980-84	4 096,92
1985-89	3 742,01
1990-94	3 421,78

Note: WGEIND: Labour cost per worker in manufacturing in current US dollars per year. Calculated as the ratio between total compensation and the number of workers in the manufacturing sector as a whole. Compensation includes direct wages, salaries and other remuneration paid directly by the employer; plus all employers' contributions to social security programs on behalf of their employees.
Source: Rama & Artecona (2000).

This downward trend in labour costs is positive to foreign investors holding 'hard' currency (such as US dollars), and who are seeking cost advantages. However, as pointed to by Amsden (1992), this is not equally positive to domestic investors seeking to exploit the same cost advantages. Because of the strong depreciation of the Zimbabwe-dollar against US dollars (see table 2) in the same period that labour costs dropped when measured in current US dollars, the pattern is reverse when measured in current Zimbabwe dollars. By using data in table 2, I

arrived at an average of the exchange rate for the period 1980-84, which was 1.22 US dollar per Zimbabwe dollar. The average for 1990-94 was 0.23 US dollar per Zimbabwe dollar. By dividing the average labour cost of 4096 US dollars on the average exchange rate of 1.22 for the period 1980-84, I arrived at an average labour cost of 3357 Zimbabwe dollars. By dividing the average labour cost of 3421 US dollars on the average exchange rate of 0.23 for the period 1990-94, I arrived at an average labour cost of 14873 Zimbabwe dollars. In other words, when measured in current Zimbabwe dollars, labour costs per worker in manufacturing increased from 3421 to 14873 Zimbabwe dollars. Of course, taking into consideration the dramatic inflation over the same period (see table 13), manufacturers who do not export receive more in output prices, but they also have to pay more in other input costs apart from labour costs. Particularly in manufacturing which depends on imported inputs, the exchange rate is important. On balance, therefore, it seems reasonable to suggest that the trend in labour costs has been to the benefit of foreign investors (due to the depreciation of the Zimbabwe dollar against US dollars) and detrimental to domestic investors, assuming they save in the domestic currency.

Zimbabwe's labour costs in a comparative perspective

Of most concern to this study is labour costs measured in US dollars because it is this measure that allows us to compare labour costs across countries. Does Zimbabwe have a comparative labour cost advantage? That depends on which countries Zimbabwe is compared to. Table 15 show labour costs per worker in manufacturing in five countries in Southern Africa (data was not available on Malawi, Mozambique and Namibia). As can be seen from table 15, South Africa has the highest labour costs in manufacturing, and Mauritius the lowest. Moreover, labour costs in manufacturing increased in South Africa, Zambia and Mauritius, between the two periods, but fell in Zimbabwe and Botswana.

Table 15
Labour cost per worker in manufacturing (US dollars per year)

Country	1980-84	1990-94
South Africa	6 261	8 475
Zambia	3 183	4 292
Zimbabwe	4 097	3 422
Botswana	3 250	2 884
Mauritius	1 465	1 973

Source: World Bank, *World Development Indicators 2000*. Washington, D.C.
Note: Labour cost per worker in manufacturing is obtained by dividing the total payroll by the number of employees, or the number of people engaged, in manufacturing establishments.

Summary

The discriminatory wage regime biased against black workers during UDI secured relatively high formal employment levels. After Independence, formal sector employment creation has been insufficient, unable to absorb retrenched workers and new entrants in the job market. As a consequence, informal self-employment has increased rapidly. Following the liberalisation in 1990, there has been a growing trend for formal sector workers to also engage in informal sector activities. Together, these factors have resulted in more insecurity for both wage-earners and self-employed, who are now more dependent on a multiplicity of volatile income sources.

The minimum-wage legislation introduced in 1981 helped to push real wages to a peak level in 1982. Compared to the situation in 1972, workers in agriculture enjoyed a substantial increase in real wages, as their wage level had been considerably below that in non-agricultural activities. Relatively, the rise from 1979 to 1982 was largest for workers in agriculture, and the fall in real wages after 1982 was also largest for them (particularly after 1990). For workers in non-agricultural activities, there was a gradual decline in real wages from 1982-1990.

However, after 1990, the fall in real wages for workers in all sectors, was much steeper than in the 1980s. This may partly be ascribed to the fact that minimum wages were removed in 1991 as part of the ESAP package. The World Bank, which first promoted and then supported the ESAP, considers flexibility of wages – or their ability to adjust downwards – as a positive development. The reductions in real wages, involved a declining standard of living for Zimbabweans as inflation accelerated together with trade liberalisation. The prevalence of poor people out of the total population increased from 52.8% in 1990/91 to 75.6% in 1995/96 (CSO 1998b).

Labour costs per worker in manufacturing measured in US dollars increased after Independence, but fell in the latter part of the 1980s and fell further in the 1990s, indicating a downward trend in labour costs accompanying the liberalisation process. However, labour costs measured in Zimbabwe dollars increased from the first half of the 1980s to the first half of the 1990s. This suggests that the trends in labour costs have relatively been to the benefit of foreign investors and detrimental to domestic investors in manufacturing activities. Compared to other countries in the region labour costs are not particularly high – or low.

The findings above on the historical evolution of employment and wage policies, trends in real wages, and development in labour costs compared to other countries in the region, determine Zimbabwe's prospective labour cost advantage in international trade. The question of competitive labour cost advantage is explored further in chapter 5.

5 Zimbabwe's competitive advantages

Introduction

The purpose of this chapter is to identify and analyse Zimbabwe's competitive advantages in international trade, primarily based on evidence presented in chapter 3 and 4. First, factors determining comparative advantage are clarified. Second, Zimbabwe's competitive labour cost advantage is reviewed in light of its competition with other countries in international trade. Third, human capital in Zimbabwe and its linkages to exports and wages is highlighted. Fourth, realisation of comparative advantage is analysed with reference to the notions of natural advantage in primary production and created advantage in manufacturing, and the relationship between the two. Fifth, Zimbabwe's experience with trade liberalisation is assessed based on the foregoing presentation of evidence on Zimbabwe's export strategies.

It should be noted that an *ex post* identification cannot explain competitive advantage. Such an exploratory investigation can only help to identify *where* competitive advantage lies (not why). Similarly, I only attempt to *identify* to what extent Zimbabwe has a competitive labour cost advantage. I do not attempt to explain why it may have one.

Possible determinants of comparative advantage

Which factors determine comparative advantage in Zimbabwe? Zimbabwe's export structure as exposed in chapter 3, clearly underpins the notion that realisation of competitive advantage in Zimbabwe has been in natural resource based activities. The picture that emerged in chapter 3 demonstrated that Zimbabwe's most important exports are flue-cured tobacco, textiles, iron and steel, maize, cotton, asbestos, fresh cut flowers, fertilizers, nickel alloys and gold. Furthermore it was pointed out that the share of flue-cured tobacco in total exports had more than doubled from 1976 to 1996 (from 17% to 35%), making it by far the most important export commodity.

The most obvious determinant of comparative advantage in Zimbabwe, as in any country, is its natural resource endowments. But as stated in the Introduction, Zimbabwe is considered to be the most highly industrialised economy in Sub Saharan Africa (with the exception of South Africa). This is also reflected in its production structure presented in chapter 3, with manufacturing output averaging around 25% of total GDP. This may give reason to expect Zimbabwe's competitive advantage to lie in manufacturing. Manufactured exports out of total exports have averaged around 30% during the period under review. But even if these numbers are high compared to other African countries, the fact remains that export of primary goods accounts for as much as two thirds of total exports, and a great deal of the 30% of exports

that are 'manufactured' are heavily based on natural resources. This gives a central role for natural resource endowments.

Wood & Jordan (2001:103) argue that "Zimbabwe can produce manufactures relatively more cheaply than other countries with similar human and natural resources." In principle, this cost advantage might reflect policies rather than fundamental economic causes. However, they find this implausible, as the share of manufactures in exports has remained roughly constant during almost four decades of changing trade policies. The share has averaged around 30% (from 24% to 38%, see table A.9 in the Statistical Appendix), but there has been no clear trend towards a growing share of manufactures *vis-à-vis* primary goods, neither in exports nor in GDP (see table A.2 in Statistical Appendix).

Wood and Jordan (2001) consider it more likely that Zimbabwe's cost advantage has deeper economic and historical roots. They go a long way to substantiate their argument that Zimbabwe has created an 'unusually strong' competitive advantage in manufacturing compared to other African countries. They see Zimbabwe's acquisition of a competitive advantage in manufacturing as a result of *inflow of a large number of Europeans who settled in the country, "bringing know-how from (and connections with) the more industrialised regions of the world"* (Wood and Jordan 2001:110).

Obviously, the European settler know-how also contributed to development of the country's primary exports. But the advantage in manufacturing came as a result of *deliberate policy actions* over a long period to promote development of the sector. Without the policy, there would have been less incentive for people with manufacturing know-how to migrate to Zimbabwe, and the further accumulation of know-how would probably have been channelled less into manufacturing and more into other sectors.

However, Zimbabwe's unusually large manufactured *output* (relative to its supplies of natural resources and labour) is only partly a result of competitive advantage. It is also a result of policy barriers to manufactured imports (Ndlovu 1994, Riddell 1990, Wood & Jordan 2001).

As advantage is comparative, it is interesting to see where Zimbabwe's exports go, and how much that goes to potentially competing countries. A sufficiently detailed review of exports by country of destination is not provided in the *UN International Trade Statistics Yearbook*, which is my source of export data. But using data from the UN COMTRADE database (which I did not have access to), Wood & Jordan (2001:107, table 4), provide such data for 1990 (see table 16).

Table 16
Composition of exports by destination, 1990 (%)

	Africa	Rest of world	Total
Manufactures	**45.1**	**24.8**	**31.2**
Iron and steel	9.4	16.8	14.6
Textiles	6.1	2.1	3.3
Clothing	1.4	3.1	2.6
Footwear	1.1	0.1	0.4
Transport equipment	2.4	0.4	1.1
Non-electrical machinery	1.3	1.0	1.1
Chemicals	3.2	0.9	1.6
Metal manufactures	4.1	0.2	1.3
Cement and asbestos products	2.9	0.2	1.0
Other manufactures	13.2	0.0	4.3
Primary	**54.9**	**75.2**	**68.8**
Nickel	0.2	9.7	6.9
Copper	1.7	1.9	1.9
Tobacco leaves	6.9	30.4	23.4
Unmilled cereals	23.4	0.8	7.5
Cotton lint	3.1	7.1	5.9
Coffee beans	0.5	5.7	4.1
Raw sugar	0.0	4.9	3.4
Other primary	19.1	14.7	15.6
Total	**100.0**	**100.0**	**100.0**
Share of destination in total	**32.0**	**68.0**	**100.0**

Note: Manufactures in this table are SITC 5 to 8 less 68, and primary exports are SITC 0 to 4 plus 68.
SITC 9, including gold exports, which are under-reported in their source (COMTRADE CD-ROM), is omitted.

Source: Wood & Jordan (2001) Table 4 (p. 107).

In all, 32% of exports went to other African countries (including 8.8% to South Africa) whereas the African average is about 7% (Wood & Jordan 2001:107). Table 16 shows that Zimbabwe's exports to other African countries contain a much larger share of manufactures (45%) than do its exports to the rest of the world (25%). It can also be seen from the table that a single category, *iron and steel products*, accounts for two-thirds of all Zimbabwe's manufactured exports to non-African countries, while its manufactured exports to other African countries is far more diverse. In other words, *Zimbabwe's manufactured exports to the rest of the world outside Africa are highly concentrated, specialised in activities in which Zimbabwe has a natural comparative advantage*.

Keeping in mind that advantage is comparative, it is important to note that an unusually high proportion of Zimbabwe's exports go to other African countries.

> "The size and composition of Zimbabwe's exports to other African countries are a reflection of the country's comparative advantage. That Zimbabwe trades more extensively with other African countries than they do with each other, that its exports to them contain a large share of manufactures, and that these manufactures are of many kinds, all suggest that it has an unusual advantage in most sorts of manufacturing over other countries in the region. Compared to the rest of the world, however, Zimbabwe's advantage in manufacturing seems less unusual and more concentrated on basic metals" (Wood & Jordan 2001:108).

Another aspect is the kind of export destinations and their 'purchasing power'. Has Zimbabwe managed to hitch itself to economies that have experienced high rates of economic growth or are poised to experience growth? Reviewing the period 1985-1995, Chipika & Davies (1998) found a slight increase in the share of exports going to high-growth countries. However, the share going to economies which had experienced negative growth rates also rose.

Zimbabwe is land-locked, with roughly 480 kilometres by railway from the capital Harare, to the nearest port, Beira in Mozambique. *High transport costs* squeeze value added in manufactured exports in both ends, by raising input costs and by reducing factory-gate output prices. Henceforth, transport costs are a disadvantage for Zimbabwe's export prospects.

Because competitive production of basic metals depends on low transport costs, it could be argued that Zimbabwe's advantage in iron and steel exports (i.e. most of its exports of manufactures to non-African countries) is a result of its natural mineral resources. But Wood & Jordan (2001) disregard this explanation in favour of their own (which is supply of local know-how and links to foreign know-how and markets, combined with infant industry promotion and import protection policies). The justification for why natural resource endowments are only part of the explanation of Zimbabwe's competitive advantage seems obvious. Other African countries (with at least comparable access to ports and overseas markets) also have rich mineral resources, and none of them, apart from South Africa, export metals at such an advanced stage of processing as Zimbabwe.

It also seems worthwhile to point to characteristics that may single out Zimbabwe positively or negatively compared to other, potentially competing, countries. Chipika & Davies (1998) list several factors explaining the relatively weak export-oriented FDI in Zimbabwe (see box 3). These factors also inform the context of Zimbabwe's competitive advantage. Even though export-oriented FDI is just one (and special) form of export-oriented production in Zimbabwe, the list of advantageous and disadvantageous factors for location of such production signal the possibilities and constraints that influence whether a potential competitive advantage will be realised or not.

Box 3
Advantageous and disadvantageous factors for location of export-oriented production in Zimbabwe

Advantageous Factors

- A large and diverse natural resource base (agriculture and mining)
- Cheap, literate, English-speaking and relatively disciplined labour
- Preferential markets under PTA and the EU
- A more liberalised investment environment with respect to incentives
- A diversified, established industrial sector and fairly sophisticated financial sector
- A relatively well developed transport and communication network
- A pleasant and safe living environment for expatriates

Disadvantageous Factors

- A relatively small, slowly growing domestic market
- Political instability and drought effects in the region
- Lack of FDI policy credibility in the midst of indigenisation drive, land reform, slow implementation of EPZs and still cumbersome bureaucratic procedures
- A land-locked terrain with cumbersome cross-border delays for transport
- A lack of technical skills
- An inadequate technological infrastructure
- A limited range of suppliers of raw materials, parts and components
- Macroeconomic instability

Source: Chipika & Davies (1998:22-23)

Competitive labour cost advantage

The findings in chapter 4 suggested a downward trend in labour costs measured in current US dollars accompanying the liberalisation process. Comparing the two periods 1980-84 and 1990-94, labour costs in manufacturing fell in Zimbabwe while they increased in some of the other countries in the region such as South Africa, Zambia and Mauritius. Still, the latest data which run until 1994 (table 15) demonstrate that both Botswana and Mauritius have a competitive labour cost advantage compared to Zimbabwe (most pronounced in Mauritius), whereas Zimbabwe has a competitive labour cost advantage compared to Zambia and South Africa. The ILO study for example, noted that Zimbabwean manufacturers enjoyed a "considerable labour cost advantage over their South African counterparts" (ILO 1993:79). However, *at an aggregate level it is impossible to give an exact account of to what extent Zimbabwe has a competitive advantage in low labour costs*. It will be a question of the specific production process and its labour intensity - labour compared to other input and production costs (e.g. transport, machinery, social or organisational capital, design and marketing, and so on). And it will also be a question of which other countries that can be meaningfully compared to Zimbabwe. They do not necessarily have to be neighbouring countries. Countries on other continents may also have equivalent natural endowments and other resources needed to export the same product, including comparable transport costs to the preferred export market despite a great difference in absolute distance to this market. Evidence presented in Chipika & Davies (1998) based on UNIDO's *Industrial Development Report 1996*, shows that Zimbabwe's real wages in 1994 were only 15% of real wages in the mature Asian Tigers (South Korea, Taiwan,

Singapore and Hong Kong) and approximately 50% of real wages in Malaysia and Thailand. In sum, the evidence presented in chapter 4, sustains – at a general level – that Zimbabwe, at least in the same magnitude as other poor countries in Sub-Saharan Africa, can be said to *have a competitive advantage in low labour costs* when compared to other countries with higher labour costs measured in current US dollars.

It was not only labour costs (measured in current US dollars) that fell in Zimbabwe after liberalisation. Also real wages fell in the 1990s. A World Bank study (Verner 1999b) found that larger exporting firms in Zimbabwe pay workers marginally less than the average firm. The same study also found that the exporting firms themselves benefit more than their employees do from trade openness. As there is no reason to assume that exporting firms need higher profits than firms producing for the domestic market – it seems plausible to suggest that *exporting firms may have to keep labour costs low to stay competitive*. This may be the case if the activities in which the exporting firms compete in, are activities where they compete on price and not quality-dimensions. I do not have information on inter-industry wage differentials. Nevertheless, such data would probably not distinguish between export-oriented industries and production for the domestic market. Hypothetically, of course, it could be assumed that the national wage level do not reflect labour costs in export-oriented industries. However, I have no reason to assume that labour costs in export-oriented industries are substantially lower or higher than the national wage level.

The issue of profits contra wages is significant. Using data from the *Quarterly Digest of Statistics*, CSO December 1998, Chiripanhura & Makwavarara (2001) show the functional distribution of gross domestic income. The share of wages and salaries in gross domestic income declined from 54% in 1987 to 39% by 1997. The share of profits increased correspondingly, overtaking that for wages, from 47% in 1987 to 61% by 1997. This may be taken as an indication of how workers have been economically marginalized after liberalisation.

Human capital development

Most available data on skill levels in Zimbabwe are from firm studies. The challenge arising from this is that, as Lall puts it: “The analysis of individual firm studies may not clearly capture skill deficiencies, since it is difficult to evaluate competence by international standards at the micro level and economic researchers are often dependent on information given by firms.” (Lall 1999b:20).

Skills and exports

Söderbom & Teal (2001) use micro-data to study how skills have impacted on investment and exports from manufacturing firms in four African countries, including Zimbabwe. They particularly address reasons for why the possible growth of unskilled labour-intensive exports fail to occur. Their findings are for the most part inconclusive. They do not find support for the

view that increasing efficiency is the key to firms being able to *enter* the export market. However, surprisingly perhaps, they find that efficiency plays some role in the *exit* from export markets. They hypothesize that there can be a mismatch between (high) wage costs and productivity, which deter manufacturing firms in most African countries from exporting their products. However, they do not consider unskilled wages to be too high, but rather point to the fact that large manufacturing firms in the export market pay wages "substantially above the price of labour" (Söderbom & Teal 2001:38). This results in scepticism on the part of other manufacturing firms to enter into exports. They suggest that African economies lack the potential for a successful and profitable export sector because manufacturing firms pay prices that exceeds the opportunity costs of labour.

If human capital is scarce in Africa we should expect exports to use relatively little of it. A consequence of this would be that African countries would not be able to export manufactures as they lack the necessary skills. Accordingly, it has been argued that the underlying cause of the lack of manufacturing exports from African economies is that the relative scarcity of skilled labour in Africa ensures that African countries has a competitive advantage in natural resource exports (Wood & Berge 1997). This argument has also been extended from a narrow definition of manufactures to one that includes processed primary products within the definition of manufactured exports (Owens & Wood 1997).

Skills and wages

Despite the fact that skilled labour is relatively scarce in Sub-Saharan Africa, it has been argued that the return to education is not high (Bennell 1996 in Bigsten *et al*. 1998). Analysing the rates of return to human capital in five African countries including Zimbabwe, Bigsten *et al*. (1998) found that the average return was low in all the countries examined. However, for those with skills from secondary school and beyond the returns were very high. And insofar as these skills are those used intensively in successful manufacturing, the relative scarcity of such skills is consistent with the failure of African economies to develop a successful manufacturing sector (Bigsten *et al*. 1998).

Verner (1999b) finds that skills (formal education, training and experience) affect wages positively in Zimbabwe. She also found that there is a wage premium for workers who completed secondary school, but she suggests that this does not necessarily reflect greater productivity, but may rather indicate a shortage of educated workers. This situation, however, is likely to change, as there is a much higher enrolment ratio among younger age groups today than before Independence. According to data for 1992 presented in Lall (1999b: Table 1.5), 48% of the relevant age group were enrolled in secondary school, whereas 119% of the relevant age group were enrolled in primary school. (The extra 19% were obviously not from the relevant age group but from older age groups). Moreover, the 1992 data show that Zimbabwe

had a higher secondary enrolment rate than Thailand, and almost the same tertiary enrolment rate as Malaysia (Lall 1999b).

Human resource development in Zimbabwe

Before Independence (pre 1980), only 4% of black children completed four years of secondary education. This was a deliberately designed policy to ensure that no competition evolved between blacks and whites (Riddell 1979 in Chiripanhura & Makwavarara 2001). At Independence the new government adopted a policy of education for all. One side-effect of this massive expansion was that many who failed to attend school during the war, went to school during the 1980s and chronologically completed their ordinary level education after 1990 (Chiripanhura & Makwavarara 2001). This coincided with the introduction of economic reforms, and contributed to the worsening unemployment situation. But it has also prepared the ground for skills formation and human resource development. By 1999 the literacy rate was as high as 87.8% (CSO, Labour Force Survey 1999 in Chiripanhura & Makwavarara 2001).

The rapid and massive expansion of the education system in Zimbabwe following the attainment of Independence has been characterised as a success story (ILO 1993). However, this rapid expansion was at high costs in terms of the quality of outputs. According to Chiripanhura & Makwavarara (2001) over 90% of those who sat the exams in 1996 joined the ranks of the unemployed.

> "… the pass rate in the education system has been declining over the years. The major problem is that the system is academically oriented, and those who fail to meet the standard have no chance of procuring formal employment. Except for those that can enter vocational training centres and apprenticeships, there are no other ways of skills acquisition that can benefit the academically weak" (Chiripanhura & Makwavarara 2001:30).

Historically, formal apprenticeship is the main avenue for skills formation in Zimbabwe. Since its peak intake of 2072 apprentices in 1991, the number of apprentices has declined by 38% to 1149 by 1998 (Chiripanhura & Makwavarara 2001). Firms in all industries have cut back on apprenticeship and those that qualify are not guaranteed employment. According to Chiripanhura & Makwavarara (2001) the educational institutions are not able to meet the demands for skills. Some institutions have archaic training equipment, and thus pass on obsolete skills to the trainees who then need to be retrained by the recipient firms.

In Zimbabwe, limited apprentice programs are available. Moreover, apprentices are paid a low wage, while employers of apprentices are not compensated (Verner 1999b). It is of the interest for both the employer and the employee to form a long-run employment relationship, thereby helping to build and retain firm-specific skills. In line with this argument, Verner (1999b) found that workers with permanent contracts obtain higher wages than workers with temporary contracts.

The study made for the Zimbabwe Congress of Trade Unions (ZCTU), points to problems with the apprenticeship system and possible reasons for low levels of human capital:

> "A major weakness of the skills-development process in Zimbabwe was its neglect of technical training and the acquisition of manual skills. This had been reinforced through heavy reliance on migrant labour, which undermined the development of a comprehensive apprenticeship training and technical education (see Raftopoulos 1986). Furthermore, the apprenticeship system relied exclusively on employers, resulting in under-investment (case of market failure). These developments still have a bearing on the problems of skill shortages in some strategic areas" (Chiripanhura & Makwavarara 2001:28)

Bearing in mind the massive expansion efforts in the 1980s, and the common cutbacks in public spending and introduction of user fees accompanying economic reforms, it is not surprising that the average expenditure on education as a proportion of budgetary allocations increased during the period 1982/83 to 1990/91, and then declined during the 1990s (to 4% in 1999/2000) (Chiripanhura & Makwavarara 2001).

Lall & Wangwe aptly summarise the lessons for industrial strategy from Zimbabwe's experience with human capital development in the different periods:

> "Since the industrial base of Zimbabwe owed much to import substitution, and to the incentives for deepening provided during its long period of isolation during UDI, there had clearly been benefits in past industrial strategies. Zimbabwe also had the advantage of higher levels of entrepreneurial talent and general human capital, which allowed it to use import substitution to better effect than its neighbours. This suggests that any adjustment and liberalisation that does not take account of underlying capabilities and the process of acquiring them is likely to be seriously flawed in promoting future industrial development" (Lall & Wangwe 1998:84).

The observations presented above, suggest that human capital development in Zimbabwe has been insufficient to meet the requirements for a dynamic quality-based competitive advantage.

Natural versus created comparative advantage

In the years before the structural adjustment programme was initiated, the World Bank advocated strongly in favour of outward orientation (World Bank 1987a, 1987b). Chipika & Davies (1998) suggest that the World Bank-supported reforms in the 1990s may have had a more significant impact on the expansion of traditional exports (primary goods) than non-traditional exports (manufactures). This would accord with the orthodox view in standard trade theory of the likely impact of a shift from a regulated to an unregulated economy: The distortions from the regulations work against the dictates of *natural* comparative advantage, while their reduction allows it to reassert itself. In other words, the World Bank-supported liberalisation have presumably directed Zimbabwe's export production more towards primary production, making more intensive use of abundant resources such as tobacco leaves, cereals, minerals, and cheap labour. As a result, industrial development is not oriented towards export of

some selected high-quality products, promoted through active government policy to *create* a sustainable 'dynamic' long-term competitive advantage.

Long-term competitive advantage will usually be a function of the evolution of firms and industries over time. Therefore, to create a competitive advantage is not simply a matter of promoting new activities that seems attractive. It also requires technical and managerial competence that can only be accumulated through years of practise (Porter 1990). Consequently, comparative advantage will most likely be found in areas where firms have existed for some time creating a craft-basis. In its first assessment of structural adjustment in Zimbabwe, the International Labour Organisation (ILO) wrote:

> "After more than 25 years of extensive protection, it is by no means clear where the long-term comparative advantage of Zimbabwean industry lies. Even some of the basic resource-based industries are looking vulnerable as the structural adjustment programme proceeds" (ILO 1993:75).

An obvious concern, therefore, is the fact that new and viable areas for long-term competitive advantage have not been created during the last 20 years after Independence. Already in 1982, in the *Transitional National Development Plan* (TNDP), the government pointed out: "… industries in which the economy has a long-term competitive advantage [are] principally raw material processing and/or employing labour-intensive production methods …" (TNDP 1982 para 13.3, cited in Davies 1991:289). Twenty years later, the economy is still critically dependent upon raw material processing and utilisation of its relatively lower labour costs.

Zimbabwe's experience with liberalisation

The situation of Zimbabwe's external economy after liberalisation is characterised by substantial current account deficits (or a breakdown of the capacity to import); de-industrialisation; increased exposure to external shocks; and increased dependence upon export of one single primary commodity (tobacco). Moreover, in basic activities like tobacco production, in which Zimbabwe has a natural comparative advantage, the vital productivity growth required for long-term development is not achievable. This hardly resembles the scenario offered by the IMF of 'reaping the benefits of globalisation'. According to Lall, the capacity to export manufactures in Zimbabwe

> "is based on capabilities built up during import-substitution: it is not clear that these capabilities will continue to grow once the existing comparative advantages have been fully exploited, regional markets have opened up to full international competition, and the special privileges for exporting to regional and European markets are eroded" (Lall 1999b:235).

Keeping in mind that Zimbabwe has exported unusually much manufactures to other African countries, the intensified competition in regional markets that are now also opened up is likely to have a major bearing on Zimbabwe's prospects of exporting manufactures.

In Zimbabwe, domestic real wages have declined, whereas labour costs measured in US dollars are not especially low even though the Zimbabwe dollar has depreciated. However, what is critical for the country's competitiveness in the long-term, is its ability to raise real wages while generating necessary export revenues. The pattern of specialisation that has evolved throughout all the three periods considered in this study, may be recognised most clearly in the period with import liberalisation. Export-oriented production has been increasingly directed towards production making intensive use of basic factors, rather than being subject to quality-based technological upgrading. As observed by Chipika & Davies (1998), this has allowed the dictates of natural comparative advantage to reassert itself after 25 years of controlled trade regimes. As the natural comparative advantage in basic factors is vulnerable to climatic conditions that affect agricultural production, and to lower labour-costs in competing countries, Zimbabwe's economy seems to be more vulnerable after liberalisation. Recognising that the increased dependence on basic factors also implies an increased dependence on activities subject to diminishing returns, points to a declining ability to accumulate export revenues in the long-term. Moreover, compared to the initial situation in 1972, workers in all sectors have seen their real wages fall below the 1972-level after 1991. So even if their real wages were stagnant or declining after 1982, their real wages first fell below what they originally had in 1972 after liberalisation was undertaken in 1990-1991.

Another indicator of unfavourable development during liberalisation, is the declining share of wages in gross domestic income. Before liberalisation, more than half of domestic income was in the form of wages. By 1997, the share of wages was less than 40%, whereas the share of profits in gross domestic income had grown to more than 60%. This implies that the average worker gets a smaller part of the created wealth during liberalisation – compared to before, and the small business-owning upper-class gets a larger share of the values created in Zimbabwe.

Together, the findings above all suggest that Zimbabwe's experience with liberalisation has been a painful one for the average worker, and negative for the country's long-term specialisation in international trade.

Summary

Here, I summarise the main findings from the evidence and arguments presented above. The most significant determinants of competitive advantage in Zimbabwe include:

1. Natural resource endowments (particularly tobacco, minerals and maize).
2. The historical trajectory of manufacturing know-how brought in by European settlers and accumulated through years of practice and the general evolution of Zimbabwean manufacturing industries over time.

3. The government's deliberate policy actions over a long period to promote manufacturing (infant industry promotion and import protection policies), especially under the pressure of international sanctions.
4. Relatively low labour costs measured in current US dollars, especially in larger exporting firms.

The bottom line of these four determinants relating to our particular foci, suggests that exporting firms may need to keep labour costs low to stay competitive (mostly in production of processed primary products), which negatively affects the opportunity to raise real wages as specialisation is reinforced in existing activities along with trade liberalisation.

Another finding is that more than three decades with changing trade policies have not brought a substantially renewed and improved competitive advantage in manufacturing activities that were relatively robust already in the late 1960s, nor in upstream and downstream production of the related industries. In particular, the IMF and World Bank-supported liberalisation in the 1990s has allowed the dictates of natural comparative advantage to reassert itself after years of regulations and active (but not too successful) government intervention. The result has been a stronger orientation of export production towards primary goods, making more intensive use of abundant resources such as tobacco leaves, cereals, minerals, and cheap labour. Moreover, a number of observations suggest that human capital development in Zimbabwe has been insufficient to meet the requirements for a dynamic quality-based competitive advantage. Reasons include limited apprentice programs and insufficient attention given to the process of skill-acquisition while carrying out liberalisation policies.

In short, based on its experience over the last 30 years, Zimbabwe's competitive advantages can be said to lie in activities that make intensive use of basic factors such as tobacco leaves, cereals, minerals, and cheap labour.

6 Implications for standard trade theory

Introduction

As indicated in chapter 2, neo-Schumpeterian approaches appreciate the *dynamic* and *cumulative* elements involved in specialisation in international trade, and emphasise the effects of not only increasing but also *diminishing* returns to scale. To substantiate this proposition, some examples of such theorising will be examined more closely in this chapter to draw implications from neo-Schumpeterian insights for standard trade theory.

Self-reinforcing specialisation in inferior activities

Neo-Schumpeterian approaches have directed special attention to aspects of cumulative mechanisms of increasing and diminishing returns to scale, that are weakly developed or completely neglected in prevailing standard approaches to trade theory. Based on the more realistic assumptions of both increasing *and* diminishing returns, I will argue that these approaches qualify the more static standard neo-classical approaches to specialisation patterns following trade liberalisation.

Market size and productivity growth

A basic assumption underlying the low-wage strategy for competitiveness is the expectation that decreasing relative unit costs of labour will make a product more competitive and allow it a growing market share. Contrary to this assumption, Nicholas Kaldor has pointed out that over the long term, growing market shares and increasing relative unit costs (or prices) move together, rather than the other way around. Investigations by Fagerberg and ul Haque support this 'Kaldor paradox' that growing market shares and increasing relative unit labour costs tend to be positively associated, and thereby complement the findings by Kaldor. Specifically, Fagerberg (1996) shows a positive relationship between a country's rate of income growth and the change in the world market share of its exports. By the same token, ul Haque (1995, in ILO 1998, Ch. 5) has recorded a positive relationship between manufacturing export growth and productivity growth in manufacturing. How can this be explained? One explanation for this phenomenon may be that countries which have high rates of income and productivity growth, also have high rates of investment.

With more *investment* (in infrastructure, physical and human capital, etc.) these countries may have a faster turnover of production equipment (depending on the nature of the

investment), which enables them to take advantage of more advanced production processes that can yield higher productivity (Lall 1997). Hence rich countries can be more prone to initiate and take advantage of technological progress, and may therefore experience greater learning by doing and faster development of new products. The potential for such a development may be clarified by the observation by Kaldor that: "the growth of a country's exports should itself be considered as the outcome of the efforts of its producers to seek out potential markets and to adapt their product structure accordingly" (Kaldor 1981:603). In other words, Kaldor emphasised that it is the innovative ability and the adaptive capacity of a country's manufacturers that determine whether the demand of foreign countries for this country's products will tend to be relatively large or small. This is so because "technical progress (…) takes the form of the development of marketing of new products which provide a new preferable way of satisfying some existing want" (Kaldor 1981:603). In other words, technological change is a continuous process where new products gradually replace existing ones[20]. The relevant implication for this investigation is that *the exports of countries achieving rapid productivity growth may become more competitive without having to compete through lower wage levels*. Rather, they experience a virtuous circle with more investment in skilled labour, more productivity growth, more exports and more income.

Economies of scale and cumulative causation

The term 'cumulative causation' was first used by Gunnar Myrdal in his classic book *Economic Theory and Underdeveloped Regions* in 1957 (Thirlwall 1994). In Myrdal's theory, trade is a mechanism which in practice is likely to perpetuate or exacerbate existing inequalities between different regions.

> "Trade benefits the strong at the expense of the weak, particularly if some regions are forced by comparative advantage to specialise in diminishing return activities, while other regions specialise in increasing return activities. Diminishing returns depresses the growth of productivity and per capita incomes and makes regions less competitive, while increasing returns does the opposite" (Thirlwall 1994:62-63).

In his discussion on division of labour and the resulting specialisation of production, Adam Smith (1776) argued that the division of labour is limited by the extent of the market, but the extent of the market is in turn affected by the division of labour. The aspect of economies of scale, which by definition requires much production, which in turn is dependent on 'the extent

[20] This understanding of technological change is similar to how Schumpeter (1934) saw it. Schumpeter also distinguished technological change from 'economic development proper', by focusing on the two processes as respectively being continuous and discontinuous:

> "To produce other things, or the same things by a different method, means to combine these materials and forces differently. In so far as the 'new combination' may in time grow out of the old by continuous adjustment in small steps, there is certainly change, possibly growth, but neither a new phenomenon nor development in our sense. In so far as this is *not* the case, and the new combinations appear *discontinuously*, then the phenomenon characterising development emerges." (Schumpeter 1934:65-66, emphasis added).

of the market', was taken up by the American economist Allyn Young in 1928, who observed that:

> "Adam Smith's famous theorem amounts to saying that the division of labour depends in large part on the division of labour. [But] this is more than a mere tautology. (…) – change becomes progressive and propagates itself in a cumulative way" (Young 1928:533 in Thirlwall 1994:63).

The analysis of the division of labour being not only determined by, but also itself determining, the size of the market, was later revisited by Nicholas Kaldor in 1972 (Kitson & Michie 2000). Kaldor (1981) argues that owing to increasing returns to scale in manufacturing, success breeds further success and failure begets more failure. According to Kaldor, as a result of such cumulative causation, free trade in manufactured goods leads to concentration of manufacturing in certain areas – what he calls a 'polarisation process' – which inhibits the growth of manufacturing activities in some areas and concentrates them in others. Kaldor describes how this polarisation process has made some countries specialise in the production of raw materials and minerals which only could offer employment to limited numbers of workers. He maintains that "the poverty was a consequence, not of low productivity of labour in their export sectors, but of the limited employment capacity of their 'profitable' industries" (Kaldor 1981:597). Kaldor argues that specialisation in export of primary products is inconsistent with high living standards because *only a small fraction of the labour force can be effectively employed in land-based activities*. If diminishing returns (in agriculture) are allowed for in economic theory, production may be limited by a land-constraint (if land is limited). Therefore, Kaldor argues for 'land-saving innovations', i.e. technological progress that enables more resources to be extracted out of a given natural environment (Kaldor 1981).

Lucas (1988 in Fagerberg 1996) argues that because of the cumulative character of technological progress, *existing patterns of specialisation will tend to be reinforced* through time. Thus, market forces may strengthen, or reinforce, a specialisation pattern that implies slow growth (a low-growth trap). Lucas argues, that in this situation it may pay off for a country to change its specialisation by a combination of subsidies and protection (Fagerberg 1996). Reinert (1999) has argued along similar lines.

Finally, it should also be noted that a country with a large home market may, due to dynamic economies of scale, consequentially acquire an advantage also in exports (Kaldor 1981).

Economies of scale and self-reinforcing lock-in mechanisms

In the case of economic activities subject to increasing returns, Arthur (1988, 1989, 1990) suggests that small 'random' events may select a particular historical path for the economic activity. As the events accumulate and become magnified by positive feedbacks, the activity

may become locked into this particular path regardless of the advantages of alternative paths. Through a theoretical example, Arthur (1989) shows the circumstances under which an economy might become locked-in by historical events to the monopoly of an inferior technology: Small economic shifts, or historical events, may by chance give one increasing-return technology an initial advantage in adoptions, which explains how one particular path is selected which the activity eventually locks into.

By the same token, it may be argued that in the case of activities subject to constant or diminishing returns to scale, similar self-reinforcing lock-in mechanisms may operate. This could be labour-intensive activities competing on costs, not involving sophisticated technology, such as the positive-feedback mechanisms identified by Myrdal and Kaldor (Arthur 1990). Random historical events may create a lock-in in *'perfect specialisation'* in the most efficient technology in a diminishing-return activity. In other words, a particular technology may be adopted or selected as being the most efficient or most favourable, due to (random) historical events. However, diminishing returns may themselves drive the use and adoption of a product into developing a production process that has inferior long-run potential. Reinert (1995) has shown this with his example of baseball-manufacturing by using needle and thread technology, as pointed to in chapter 1. By definition, economies that are specialising in constant or diminishing-return activities are excluded from the potentially positive synergy effects that Arthur has identified in the case of increasing return activities.

Summary

In the exposition above, I have made the case that due to (a) inherent differences between economies (i.e. their specialisation in different activities of production) and (b) the existence of both increasing and diminishing returns to scale (including the fact that different activities are subject to either increasing or diminishing (or almost constant) returns, or to different degrees of one of the forms) and (c) the self-reinforcing nature of specialisation (the division of labour 'deepens' along with the extension of the market): it can be argued that *specialisation in the 'wrong' activities* (characterised by diminishing returns and competition on costs) *are subject to cumulative causation and may result in a lock-in in the existing form of specialisation*. The mechanisms described in the analysis above may also contribute to explain trade-induced divergences in national development paths.

Neo-Schumpeterian approaches that incorporate mechanisms such as economies of scale and cumulative causation in determining patterns of trade specialisation, suggest that specialisation in activities subject to diminishing returns and competition on costs, *may weaken a country's position in international trade* relative to countries which specialise in competition on quality where technological upgrading is critical. Consequently, neo-Schumpeterian theorising which allows for economies of scale and cumulative causation in patterns of specialisation in international trade avoids unrealistic assumptions made in standard

approaches[21]. By doing so, *neo-Schumpeterian approaches qualify and perhaps even contradict the standard approaches, and thereby the theoretical underpinnings of the mainstream policy advice*.

[21] As pointed out in chapter 2, other artificial, or unrealistic, assumptions include those of perfect competition and technology as freely available. As Lall writes: "The economic case for rapid and sweeping liberalisation, with no strategy to help upgrading, is based on assumptions of market efficiency and costless learning that bear little relation to reality" (Lall 1999b:271).

7 Implications for policy

Introduction

The overall objective of this chapter is to assess the merits of the mainstream policy based on implications from exposition of theoretical developments that qualify the assumptions in standard trade theory. Specifically, I attempt to identify implications this has for policy recommendations. First I point to some dilemmas with designing trade strategies and exposing a national economy to international trade. Then I assess the low-wage strategy for competitiveness, and point to policy implications from appreciating the roles of technology; of aggregate demand; of self-reinforcing mechanisms in specialisation; of poverty traps of individuals; and of linkages between poverty at the individual and national levels. I end by drawing some core lessons for designing trade strategies.

Dilemmas with different trade regimes

Policies to take advantage of income opportunities embodied in international trade may have undesirable by-products. Pursuing one goal may result in ruining another. For poor countries that urgently need foreign exchange to import necessary inputs to vital production, export earnings are indispensable. However, questions of *how* they design their export strategies; which national factors of advantage they try to use; how they combine utilization of existing natural advantages with development of created advantages based on potent factors; of short-term and long-term motives; and on *which terms* they engage in international trade, are not as straightforward to answer as donor governments and policy advisors suggest. But in addition to these questions, there are also dilemmas concerning the *degree* to which a country can pursue a trade strategy without experiencing unintended negative side-effects.

Dilemmas with export-led growth

Growth of exports may have negative effects on a country's economy. The success of some export industries can push up the costs of labour, inputs and capital, making other export industries uncompetitive. This phenomenon is often referred to as the 'Dutch disease' after the effects of North Sea gas discoveries on the Dutch economy in the 1960s. The effect was a sharp decline in the profitability of the traditional export industry; emergence of new export commodities; and an increase in the price of non-tradables (Evans 1989). Notably, the export success in Holland was due to a natural resource bonus, rather than to sustainable productivity growth in industry. The dividend was "used to finance a bloated social welfare system rather

than the education, research, or infrastructure necessary to boost future productivity" (Porter 1990:774).

When countries attempt to specialise according to their comparative advantages, many developing countries end up specialising in the same primary product, or group of products. When trade liberalisation and export-oriented policies lead to export expansion for several countries that mainly export the same particular product, they collectively face the *fallacy of composition* problem. The demand curve on the world market for a particular product, e.g. coffee or tobacco, is closer to being inelastic than perfectly elastic (as pointed out in chapter 2 regarding Engel's law). The result of increased export production may be decreasing prices and less export revenues.

Finally, it has been suggested that periods of pure 'export-led growth' are unlikely to be sustained (Helleiner 1990). In Arthur Lewis' words: "The engine of growth should be technological change, with international trade serving as a lubricating oil and not as fuel" (Lewis 1978:74 in Helleiner 1990:213).

Dilemmas with import liberalisation and import substitution

According to theory, exposure to world prices through trade liberalisation generates a process of competitive selection which firms might not survive if they owe their existence largely to previously sheltered markets or subsidised input supplies. Sachikonye (1999) found evidence of this effect on the textile and metal sectors in Zimbabwe after liberalisation.

Another issue is the direct effect of trade liberalisation on the poor; because, in order to benefit from trade liberalisation, the poor need to enjoy trade-induced price reductions for consumer goods, as well as reduced input and increased output prices which they face as producers. And, as referred to in chapter 2, Gerry Helleiner has pointed to the tendency of absence of a responsive capacity to import liberalisation in poor countries.

A further dilemma, pointed out by Mehlum (1999) is that short-run consequences of trade liberalisation can generate compatibility problems in the exchange rate regime, with depreciation resulting in strikes and social unrest that may undermine reforms. And trade reforms that lack credibility may prove difficult to sustain (Rodrik 1992a).

On the other hand, there are also dilemmas with import substitution. A strategy of import substitution is likely to have an expansionary impact initially, that may increase domestic output and employment (Kitson & Michie 2000). However, these benefits may prove difficult to sustain over time. According to Hawkins in Ndlovu (1994), evidence suggests that ISI tends to shift the pattern of imports away from final consumption items to raw materials, intermediate and capital goods rather than reducing dependence on imports altogether. This means that the degree to which a country can compress its imports in times of crisis is greatly reduced, which may lead to severe adjustment problems and perhaps a necessity to depress

consumption. This may in turn adversely affect income, output and employment. In 1987, the Zimbabwean economy experienced such a crisis and had to face the accompanying problems (Ndlovu 1994).

Questioning the low-wage strategy for competitiveness

As observed in the Introduction, current policy recommendations by agenda-setting and policy-making institutions like the World Bank and IMF, advise poor countries to open up and exploit their natural comparative advantage in low labour costs. However, there are several reasons to question the long-term effects from specialising in 'basic factors' (such as low labour costs) alone. This reasoning will be exposed below.

Voluntary underdevelopment?

The underlying concern of this thesis has been to point to the danger of being caught up in a low-wage trap on a long-term basis. Recent and persuasive research has emphasised the critical role played by technology when pointing out the weaknesses of a low-wage strategy for competitiveness:

> "[For] a country (…) which is committed to compete in international markets on a long-term basis, the choice of internationally competitive technology is crucial. This means that employment generation must mainly be sought by the widespread adoption of advanced technologies and not by the transition to a low wage, technologically backward (…) economy. To rely on low wages as an inducement for the choice of labour-intensive techniques and the major source of competitive leverage in world markets would be a path of voluntary underdevelopment" (Freeman & Soete 1987:47).

The implications suggested are unmistakable for countries on a path towards almost complete openness. Moreover, Freeman & Soete argue on behalf of well-developed industrial economies, such as the UK in the mid-1980s:

> "we do not see wage reduction as the main route to a stable high employment, high growth economy. As a long-term solution we believe it could lead to a low productivity, low technology, low growth, socially divisive 'shoe-shine boy economy' as in many Third World countries, or to a dual economy, in which one part was high wage and ultra-high technology and the other was based on low-wage casual employment" (Freeman & Soete 1987:260).

With increasing international economic integration, it seems natural that this argument can be extended to developing countries as well. As Porter has aptly put it:

> "The expansion of exports because of low wages and a weak currency, at the same time as the country imports sophisticated goods that its firms cannot produce with sufficient productivity to compete with foreign rivals, may bring trade into balance or even surplus, but lowers the nation's standard of living" (Porter 1990:8-9).

It is precisely this potential problem for countries with competitive advantage in low labour costs, which can arise as a result of trade liberalisation and the increased pressure to export. The question if this much promoted advantage truly is a sustainable advantage in the long term, is an issue of great consequence that deserves to be pushed higher on the agenda of policymakers.

The renowned development economist Sanjaya Lall is quite direct and explicit when describing the suggested advantage of having abundant supplies of cheap labour. In developing countries, according to him, "the growth of 'raw' labour can be dismissed as a growth-promoting factor" (Lall 1990:26).

Intelligent versus un-intelligent use of low labour costs

Most of the international competition that poor countries already are engaged in is competition primarily on costs. Partly for this reason, the policy advice to use the advantage of low labour costs is easily adhered to. Furthermore, evidence of catching-up by East Asian economies during the last decades has been used to substantiate the virtues of the recommended low-wage strategy for competitiveness (see IMF 2000).

Indeed, prudent and '*intelligent*' use of low labour costs in a catching-up strategy may be helpful. However, in a report written for the ILO, Lall argues that insofar as the advantage of low labour costs exists in reality, it is *temporary*:

> "Competitiveness in the new technological context requires more of developing countries than just providing cheap labour. The competitive advantage given by low wages for unskilled or semi-skilled workers should certainly be exploited, but it is only a starting point. Such an advantage is temporary and evanescent; it cannot support rising wages or better living standards unless skills and technologies are upgraded to allow labour to be used in more productive, higher value-added activities" (Lall 1999a:3).

It is using this cost-advantage as part of careful and conscious upgrading, with realistic aims of attaining capabilities for competitiveness in what Reinert (1994) calls 'high-quality activities', that deserve the label 'intelligent'. As Reinert (1980) writes:

> "Any nation which has the factor endowment of being desperately poor and specialises in the international division of labour as being poor, producing labour intensive goods will automatically stay poor. The only way to escape this is by following a conscious strategy like Taiwan and South Korea of specialising in relatively high-technology but labour intensive products in which technological development and productivity development are still achievable" (Reinert 1980:138-139).

This view is also supported by Freeman & Soete: "the example of South Korea already shows that catch-up can be a process which leads to better conditions of labour, as well as higher wages" (Freeman & Soete 1994:163).

But as shown above, they also warn of what I call the *'un-intelligent' path*. Freeman & Soete (1994) argue strongly against a low-wage strategy for the advanced OECD-countries. Why should such policies have a better long-term effect in poor countries? Of course, poor

countries' export performance would most likely have benefited from a development where productivity rose more rapid than real wages, so that unit labour costs declined. As Shapiro & Taylor put it: "it is clear that aiming for low wages alone is *not* a viable or sustainable strategy. South Korea would never have shifted its exports from human hair and cheap garments to automobiles and electronics had its wages stayed at the levels of 1955" (Shapiro & Taylor 1992:872, italics in original).

Moreover, standard macroeconomic policies for liberalisation have a tendency to ignore the fact that real wages are not only a cost factor, but are also an important determinant of aggregate demand (Taylor 1988 in Van der Hoeven & Taylor 2000). In arguing for industrial strategy, Shapiro & Taylor (1992) suggest that growth of real wages may be necessary for industrialisation in the long run: The greater part of demand for advanced products that may help stimulate an industrialisation process, must come from exports (foreign demand) or domestic wage income. The linkages from rising real wages via larger domestic demand to industrialisation are frequently overlooked by those advocating low labour costs and wage levels. Moreover, efficiency arguments for higher wages suggest that worker motivation and efficiency depend on good pay (Bowles & Boyer 1988 in Shapiro & Taylor 1992). Finally, lower effective demand at a lower real wage level can actually cause unemployment to rise, creating a larger supply of cheap labour in a vicious circle (Van der Hoeven & Taylor 2000). If development strategies neglect such important mechanisms, and there is no conscious and strategic upgrading of skills and production technologies, the use of low labour-cost advantages may well prove to be unintelligent in the long-term.

The basic lesson for catching-up suggested here, is that real wages should rise (not decline as in Zimbabwe), but productivity should rise even more.

Diminishing real wages and increasing self-exploitation

When one factor grows, according to the neo-classical Rybczynski theorem, the output of the commodity which intensively use the increased factor expands, and the output of the other commodity contracts (Rybczynski 1955 in Reinert 1980). As for the consequences for trade between rich countries (having much capital) and poor countries (having much cheap labour), Reinert suggests that the Rybczynski-effect may give the following situation:

> "a nation which specialises in labour intensive production, will lose its capital intensive production to its trading partners. But since economic progress and productivity improvements are achieved in economic growth theory through the increasing proportion of capital to labour, the nation which specialises indiscriminately according to its comparative advantage of having cheap labour will see its labour growing increasingly cheaper. The only assumption which has to be made in order to achieve this result, is a world supply of cheap and unskilled labour at a price which is fixed close to subsistence minimum in the long run" (Reinert 1980:139-140).

This assumption seems to be consistent with observations of actual supply and costs of labour in poor countries. Referring to the recent experience by African least developed countries, UNCTAD suggests that without the necessary finance, the ongoing processes of adjustment can be "driven by intensified self-exploitation of all the family driven by pressing minimal consumption needs" (UNCTAD 2000:127). And for Zimbabwe, Peter Gibbon observes in the introduction to a set of studies on 'the working poor in Zimbabwe' that "The picture emerging from the studies is of a working-class, formal and informal, generally on the verge of destitution" (Gibbon 1995:30).

Poverty at the individual and household levels

The poorer people are, and the less educated or skilled, the more their livelihood is likely to involve physical work, whether in farming or other labour-intensive activities in urban or rural areas. Therefore, the body is the main asset for many poor people (Narayan *et al*. 2000). Consequently, poor people are vulnerable to situations in which they overexert or maltreat their bodies, as they may have to do in low-paid jobs in poor countries. Poverty assessment studies suggest that the poor tend to overwork themselves: As economic conditions deteriorate, people work harder with greater negative effects for their main asset. In the face of rising costs of living, poor people agree to work harder regardless of the workload and time:

> "In a fishing community in Malawi participants complain that employers usually take advantage of people's desperate situations to make them work more for low wages. (…) "…we get some K 500, buy some maize for one day's consumption; when it is finished we go again… The problem is that these boat owners know that we are starving. As such we would accept any little wages they would offer to us because they know we are very desperate… we want to save our children from dying…"." (Narayan *et al*. 2000:96).

As poverty is multidimensional, the poor find themselves in a vicious circle where one problem gives rise to another one – or aggravates an existing one. The poorer people are, the more adversely affected from this vicious circle are they likely to be: Due to minimum food intake in crisis periods, men and women cannot perform labour-intensive work. Consequently, they are paid less. The poor also tend to get paid less reliably (Narayan *et al*. 2000).

Despite the fact that poverty is multidimensional, this study has only focused on low income in the form of low real wages. By contrast, Amartya Sen has argued compellingly for a perspective where absolute poverty is seen as deprivation of basic capabilities:

> "What the capability perspective does in poverty analysis is to enhance the understanding of the nature and causes of poverty and deprivation by shifting primary attention away from *means* (…) to *ends* that people have reason to pursue, and, correspondingly, to the *freedoms* to be able to satisfy these ends" (Sen 2000:90, italics in original).

Notably, the two perspectives of income poverty and capability poverty are fully related. Not only is income an important means to capabilities, but enhanced capabilities would typically

tend to expand a person's ability to be more productive and earn a higher income. Because the poor's most significant asset is their labour, the most effective way to improve their welfare may be to increase their employment opportunities and the productivity of their labour through investment in education, health and nutrition. However, poor families have to make hard choices between investments in human capital of each child and the number of children they have. This suggests that there is a case for a development strategy which includes policies that help to create demand for skilled workers, thus providing positive incentives for families to send their children to school. A strategy that primarily advocates specialising in the advantage of low labour costs, will not contribute to creating such demand.

Poverty at the national level

Essentially, low real wage levels, low labour costs, or abundant supplies of cheap labour, all signify poverty at the national level.

In its *Poverty Reduction Handbook* (World Bank 1993), the World Bank provides guidance to World Bank operational task managers about 'good-practice' operational approaches. On wage and employment policies, the message is as simple as it is clear: "When enforced, [minimum wage regulation] raise the cost of labour to employers and therefore result in less employment and fewer jobs" (World Bank 1993:38). The positive effects that rising real wages are likely to have on poverty reduction are downplayed and for the most part neglected completely.

In fact, the handbook provides an empirical illustration that happens to be extracted from a World Bank discussion paper from 1987 on Zimbabwe. Incidentally, this was the time when the World Bank began to prepare the ground for the country's first structural adjustment programme (Trålim 1999). Not surprisingly, the finding was "the increase in wages due to minimum wage legislation led to a decline in employment" (Box 2.4 in World Bank 1993:38). The negative effects of declining real wages in both agricultural and non-agricultural activities from 1982 onwards, observed in chapter 4 (table 5 and 6), seem not to have been sufficiently important to be mentioned in the handbook that guided World Bank task managers in the 1990s. This allure of the virtues of labour-market flexibility was also evident in the World Bank studies by Verner (1999a, 1999b) used in chapter 4 and 5, but has been forcefully criticised by Van der Hoeven & Taylor (2000).

Another element which can be seen as linked to the 'labour-market flexibility'-argument, is the idea promoted by the IMF – that deeper specialisation in low labour cost advantages is actually pro-poor because it increases or sustains employment opportunities for the poor. The focus is not on real wages and incomes *per se*, but on employment generation for poor unskilled workers. It is evident that those willing to work for the lowest wage are those who will be given jobs if labour costs become the principal factor determining hiring of employees. However, the argument rests on rather weak assumptions. An expected short-term

effect from the shift in resource allocation towards natural comparative advantage (as a result of trade liberalisation) is the closing down of uncompetitive industries. In this process however, retrenchments of workers is an unavoidable outcome. This results in a situation where a larger number of unemployed are offering their labour to the anticipated new export industries that use cheap labour intensively. The argument depends on how 'pro-poor' is defined. Existing income inequalities may only be moderately reduced as those who had better paid jobs before liberalisation gets no wage at all, assuming that even poorer workers get the new jobs. Moreover, it may be too simplistic to assume that by shifting production to activities that make intensive use of cheap labour, in itself will make the poor sufficiently attractive to employers who need to keep labour costs low. Experience-based skills are critical for productivity also in many simple activities that make intensive use of cheap labour. In this scenario, some poor previously unemployed may get paid jobs and income inequality may be less severe. However, income per person will decline, and if prices increase while wages stay low, the net effect for the community may be lower living standards. On balance, it has not been proven (as the IMF suggests) that to pursue a low-wage strategy for competitiveness is necessarily 'pro-poor'.

The competitive advantage of poverty at the individual and national levels

Policies at the macro level have an impact at the micro level. Likewise, actions of individuals at the micro level combine to affect macro policy. The first case can be represented by macroeconomic policies of trade liberalisation and labour market flexibility to support a low-wage strategy for international competitiveness. These policies affect the incentives and constraints of employers, which in turn affect the pay scales for workers. The second case may be represented by many poor people offering their labour for low wages (or at low costs), giving a national competitive advantage in cheap labour.

There is an ongoing debate, and dispute, over how policies for economic growth at the national level affect the welfare of individuals at the micro level[22]. How changes in the macro environment affect the poor has important implications for designing policy interventions to benefit the poor. Correspondingly, changes in the situation of individuals may affect national prosperity. The flow of influence between the two levels is not unidirectional (see figure 10). For instance, increasing poverty in the form of low real wages for individual workers reduce aggregate demand in the national economy. This may cause the government to run a budget deficit financed through domestic borrowing that increases inflation, which in turn affects real wages. Moreover, high levels of poverty indicate under-utilised human resources, which may act as a constraint on national economic growth and competitiveness. Moreover, poverty and

[22] As policies affect different people in different ways, issues of *inequality* are intimately tied to issues of national economic growth and prosperity. In countries with high inequality, it is possible to observe economic growth at the national level with increasing poverty at the individual level (Datt & Ravallion 1992, in Morrissey 1997).

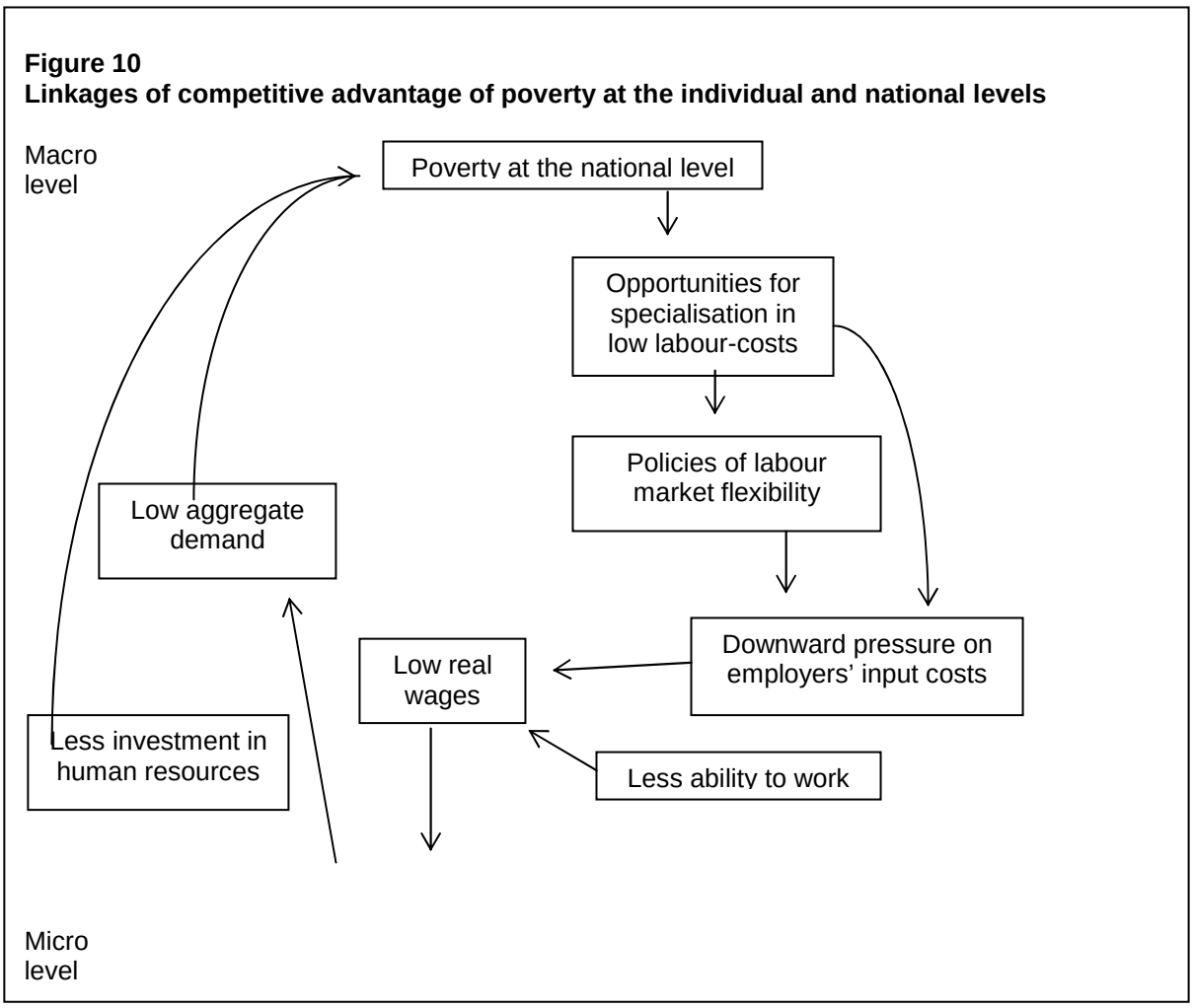
intensive self-exploitation may negatively affect workers' ability to work and consequently their pay. Likewise, (trade) liberalisation policies that aim for downward flexibility of wages may give increased pressure on employers' input costs and result in lower wages.

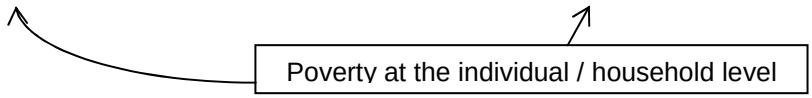
In short, the individual worker's 'competitive advantage of being poor' affects the aggregated competitive advantage of a country in international trade. Similarly, a country pursuing a strategy to take advantage of low labour costs, may, due to the self-reinforcing nature of specialisation in international trade, adversely affect the possibilities for workers to get higher real wages.

In the introduction to this thesis, I pointed out that in order to advance from being a poor country to becoming a rich country, an outward-oriented economy must be able to raise its national wage level and still be able to sell its products on international markets. This implies that even if its most important export-products compete on costs rather than quality, the main source or 'competitive factor' in its international competitiveness should not be its level of labour costs. There has to be some other factor (like transport, technology, organisational process, design or something else), or combination of factors, that makes the product cheaper than what firms in other countries can produce for international markets. Otherwise it cannot raise the national wage level and the inhabitants will still be poor.

Still, as has been emphasised by neo-Schumpeterian approaches, it is (by definition) more favourable to compete on quality than on costs, due to incentives for upgrading.

Figure 10
Linkages of competitive advantage of poverty at the individual and national levels





Lessons for trade strategy

Under the heading 'In Praise of Cheap Labour: Bad Jobs at Bad Wages are Better than No Jobs at All', Paul Krugman has argued that "some combination of factors that we still don't fully understand (…) has reduced the disadvantages of producing in developing countries" (Krugman 1998:82). He continues to describe the success story of export-led growth in the last two decades, where low wages allowed developing countries to break into world markets in manufacturing (they were already competitive in agriculture). Wherever the new export industries have grown, the growing industry has offered a somewhat higher wage than workers could get elsewhere, which according to Krugman has given measurable improvement in the lives of ordinary people. With the growth of manufacturing, "the pressure on the land becomes less intense, so rural wages rise; the pool of unemployed dwellers always anxious for work shrinks, so factories start to compete with each other for workers, and urban wages also begin to rise" (Krugman 1998:83). Unsurprisingly, Krugman mentions South Korea and Taiwan as examples of this process.

> "The only reason developing countries have been able to compete with those industries is their ability to offer employers cheap labour. Deny them that ability, and you might well deny them the prospect of continuing industrial growth, even reverse the growth that has been achieved" (Krugman 1998:84-85).

It has been argued that low labour costs are seen by international investors as *the* factor triggering late industrialisation. According to the assumptions in standard neo-classical approaches, capital (in the form of Foreign Direct Investment, FDI) will flow to competitive localities where labour costs are low. According to these approaches, capital will be invested in production, which creates employment, resulting in gradual wage improvement as demand for labour grows.

However, according to Amsden (1992) it is not the 'attractiveness' given by low labour costs to attract FDI, which drives economic development. Rather, Amsden suggests it is domestic productivity growth which is based on other forms of profitability than low costs:

> "Neo-dependency, flying geese, and product life cycle theories of economic restructuring regard Third World development as a response to investment relocation decisions of the multinationals, but given the insignificance of such investments in the total capital formation of even the most gracious host countries and given the tendency for such investments to lag rather than lead rapid increases in GNP, this way of viewing industrial development is wagging the dog by the tail" (Amsden 1992:64).

The story told by Krugman is same story being told by the IMF and may be considered as the 'mainstream story'. The story may not be wrong in itself. But *it is easy to draw the wrong*

lessons. The countries that have experienced successful export-led growth while taking advantage of low labour costs, *have not specialised their economies according to this competitive cost-advantage.*

There are of course a number of context-specific factors that are also necessary parts of the explanation for their success (political and macroeconomic stability, market access, etc.). But if these other factors are held constant, it seems clear that the efforts by these countries to take advantage of their competitive labour cost advantage have been embedded in conscious and targeted attempts supported by government intervention, of *upgrading* the technological level of production; of managerial and technical skills; of flexibility to adjust products to differentiated and changing demand; and to have a long term strategy to gradually create domestic linkages by providing competitive supply of domestic inputs to export production. These efforts seem to be in line with suggestions from neo-Schumpeterian approaches. Such 'intelligent' use of low labour costs – as a *temporary* part of a broader strategy – stand in sharp contrast to 'unintelligent' and passive use of low labour costs as the main source of competitiveness (besides natural resource endowments).

The cumulative effects of self-reinforcing specialisation, may make 'unintelligent' use of low labour costs a *race to the bottom*. The continued downward squeeze on wages as a result of the dominant policy advice, may force many workers to increase their 'self-exploitation' by consuming less and if possible work more. This is not only detrimental for the individual worker and the worker's family. It is also negative for aggregate demand in the entire domestic economy. These factors suggest that a result of such specialisation in international trade may be strong cumulative synergies of poverty growth. As wage-earners, individual workers are dependent upon the relative supply and demand for labour. In poor countries, supply of cheap labour tends to be abundant. Demand for labour in a liberalised economy is dependent upon competitive pressures determining the costs of labour as input to production. A country which has liberalised trade and labour markets, and in which its competitive advantage lies in low labour costs, may provide an incentive structure to employers that promotes demand for cheap labour – but does not nourish demand for skilled labour. The vicious circle of poverty is likely to be perpetuated by a policy whose principal aim is to make use of the competitive advantage of low labour costs in international trade. The 'competitive advantage of poverty' may not be an advantage at all – but rather a trap which allows the self-reinforcing mechanisms of continued specialisation (resulting from increased liberalisation) to lock a country into a situation in which it cannot raise the real wages of its workers while being dependent upon export to world markets.

Summary

Policy implications pointed to in this chapter, include:

1. There are dilemmas with the pursuit of particular trade strategies, concerning the *degree* to which a country may pursue a trade strategy without experiencing unintended negative side-effects.
2. Choice of internationally competitive *technology* is crucial for competitiveness on international markets in the long-term.
3. An intelligent use of low labour costs is the use of labour-cost advantages as a *temporary* part of a conscious strategy for *upgrading* production into activities in which *technological progress* and *productivity growth* is still achievable.
4. An unintelligent use of low labour costs aims for low costs alone (including low wages) as the principal source of international competitiveness. It is therefore unintelligent to see low wage levels as pro-poor, only because employers making use of labour-intensive production methods may hire more workers.
5. To attain international competitiveness without hampering living standards, *real wages should rise but productivity should rise even more*.
6. According to the neo-classical Rybczynski theorem, a country which specialises according to the advantage of having cheap labour will see its abundant factor (labour) growing increasingly cheaper (poorer), provided the working poor can be driven by increasing self-exploitation.
7. As *poor people tend to overwork themselves*, they get paid less. They are also paid less reliably, *and have insufficient incentives to invest in human capital* (e.g. send their children to school).
8. Policy recommendations to governments from the World Bank and the IMF promote downward flexibility of wages as 'pro-poor'. The rationale is the expectation that new jobs will materialise in labour-intensive production where poor countries have a natural comparative advantage. This assumption has not been proven to be pro-poor, and *the importance of real wages for living standards is neglected* in the recommendations.
9. *The combined poverty of individuals may be aggregated to the poverty of a country in the international system*. The comparative advantage of a country with many poor people, may be self-reinforced through specialisation according to the advantage of cheap labour supply, and with increasing trade liberalisation and specialisation, the country may eventually be locked into the competitive advantage of poverty.
10. If low labour costs are the main source of competitiveness, an increasingly outward-oriented economy may due to cumulative causation, be unable to raise its wage level. While it is more favourable to compete on quality than on costs, due to incentives for upgrading, *it is less favourable to rely on low labour costs alone than (a combination of) other factors*.
11. It is easy to draw the wrong lessons from evidence of successful export-led growth experiences based partly on low labour costs.

8 Conclusions

Introduction

There is a need to re-examine the effectiveness of the economic policies proposed to poor countries. Seemingly well-designed policies have frequently failed and been discredited for want of tangible benefits in terms of robust (and poverty reducing) economic development. As the ILO pointed out in its *World Employment Report 1998-99*, countries across the world must be able to change their competitive positions to adapt to new (ever-changing) circumstances:

> "The dynamics of the growth process show that in the long run a country's international competitive position is closely tied to its standard of living. In order to be competitive it must adapt to the new circumstances of an unprecedented strengthening of world competition as the immediate consequence of trade liberalisation and advances in technology. A country which is slow to adapt may find, through cumulative causation, that it falls further behind and may end up with an unfavourable product mix from the perspective of long-term productivity growth" (ILO 1998:116).

It is precisely this concern of marginalisation and lock-in into poverty in the long-term as a result of such an 'unfavourable product mix', where a country is dependent upon activities that use basic factors intensively (including labour), that has guided the investigation in this thesis.

The argument

The central argument that has been advanced throughout this analysis is that when taking advantage of their competitive labour cost advantage, poor countries should do this in what may be termed 'the intelligent' way. This requires a high degree of consciousness of the potentially severe implications of self-reinforcing dependency of long-term specialisation in low-cost, low-skill activities. In other words, there is a strong case for caution when exploiting low labour-cost advantage. On the one hand, this advantage is liable to be short-lived in the sense of cost-competitiveness, as other countries may easily be able to offer lower costs. On the other, specialisation in this advantage may be self-reinforcing, resulting in increased dependence in the long-term on the ability to supply cheap labour. Consequently, 'unintelligent' use of low labour costs may result in a continually self-reinforcing specialisation, which in the long-term may impede the opportunity to raise real wages (and thereby living standards). I have made the case that the view adopted in policy-documents produced by the World Bank and the IMF – that regards 'downward adjustment' of real wages as essentially positive for national economic development and 'pro-poor' for job-seeking individuals – may not be consistent with the aim to raise living standards through rising real wages.

The preceding analysis has arrived at two fundamental lessons for trade strategy:

First, what may be termed the intelligent way to use labour-cost advantages, necessitate a strategy in which labour-cost advantage is a *temporary* part of a conscious strategy for *upgrading* production into activities in which *technological progress* and *productivity growth* is still achievable.

Second, by first adopting an understanding of competitiveness for outward-oriented economies that includes the ability to raise national wage levels sufficiently to provide increased real wages and thereby rising living standards, it becomes clear that trade strategies should aim for a development where *real wages rise*, but where *productivity increase even more*.

The case

The basis for my empirical enquiry has been critical analysis of secondary literature and existing data sets from official statistics. I consider the validity of the data sources to be high, and thereby also the relevance of my findings – despite the fact that I have not visited Zimbabwe. However, I consider the reliability of the statistics I have used to be fairly good compared to African standards, but relatively low compared to Norwegian standards. The reliability of the statistics on production structure appears to be of particularly low reliability. In the case of nominal wage data for 1995-1997, I consider the reliability to be unsatisfactory. I make no attempt to generalise based on Zimbabwe's experience.

Reviewing the export strategies pursued by Zimbabwe from 1965-1997, a number of observations suggest that Zimbabwe's experience with liberalisation has been a painful one for the average worker, and negative for the country's long-term specialisation in international trade. Rather than experiencing quality-based technological upgrading, Zimbabwe has experienced a pattern of specialisation where export-oriented production has made increasingly intensive use of basic factors such as tobacco leaves, cereals, minerals, and cheap labour. Zimbabwe's exports have become increasingly more dependent upon one single *primary* commodity (tobacco). Moreover, Zimbabwe's *manufactured* exports to the rest of the world outside Africa are highly concentrated in processing of minerals like iron and steel. In short, the liberalisation in the 1990s has allowed the dictates of natural comparative advantage to reassert itself, resulting in a *stronger orientation of export production towards primary goods, making more intensive use of abundant resources (basic factors)*. In these activities in which Zimbabwe has a natural comparative advantage, the vital productivity growth required for long-term development is not achievable.

Real wages have declined in Zimbabwe since 1982, implying a declining standard of living for the average Zimbabwean. However, *after liberalisation in 1990, the fall in real wages for workers in all sectors was much steeper than in the 1980s*. This may partly be ascribed to the removal of minimum wages as part of the ESAP package, supported by the World Bank to allow flexibility – including downward adjustment – of wages. Another contributing factor is

the exceptionally strong inflation after 1990. The outcome was a growth in the prevalence of poor people from 52.8% in 1990/91 to 75.6% in 1995/96 (CSO 1998b).

There has also been a downward trend in labour costs measured in current US dollars accompanying the liberalisation process. Another indicator of unfavourable development during liberalisation is the *declining share of wages in gross domestic income*. After liberalisation, the average worker has received a declining part of the created wealth compared to the situation before liberalisation. Whereas the small business-owning upper-class, has received a larger share of the wealth created in Zimbabwe after liberalisation. Moreover, a number of observations suggest that the government has given insufficient attention to the process of skill-acquisition while carrying out its liberalisation policies.

Keeping in mind that advantage is comparative, Zimbabwe's competitive advantage must be understood and situated in relation to other competitors, especially South Africa's competitive advantages. Furthermore, it has not been the objective of this thesis to explore and suggest possible paths for the Zimbabwean economy to enter a more virtuous circle.

To sum up, the liberalisation in Zimbabwe seems to have induced a self-reinforcing specialisation in natural comparative advantages in which productivity growth is not achievable with available technology and technological capabilities.

Limitations of the argument advanced in this thesis

Stiglitz (1987) makes a distinction between static (natural) comparative advantage, and dynamic (created) comparative advantage. In his words, optimal development strategies should *not* focus on current comparative advantage, but look at dynamic comparative advantage. However, the 'optimal development strategy' is not easy to design:

> "In ascertaining static comparative advantage, we need only look at current resources and capabilities relative to those of other countries. In ascertaining dynamic comparative advantage, we need to look at future resources and capabilities relative to those of other countries. And these are, at best, conjectural: is there any *a priori* reason why Switzerland should have a long-run comparative advantage in watches?" (Stiglitz 1987:142).

In other words, the argument advanced in this thesis calls for a development strategy that is *complicated to design*. Moreover, 'optimal' or preferred policies must be *adapted to local realities*. More still, if policies are to be effective they require appropriate *responsive capacity*, so that they may be followed up and enforced properly.

From this also follows that any *labour-cost advantage is context-specific*. A big country may have more supply of cheap labour than a small one. However, the small one may be more prone to have a concentrated export structure, whereas the big one may have a broader range of other capabilities that can be used constructively to create dynamic competitive advantages. The *size of developing country exporters* relative to each other may have an effect on their

competition, and on the subsequent impact on their pattern of specialisation and level of labour costs. If small exporters individually are too small to affect terms of trade, considerations of expanding market share are likely to dominate, which may result in downward pressure on labour costs to expand output and export revenues (Chau & Kanbur 2000). Big developing countries like China or India may therefore experience lower degrees of (country-wide) specialisation in low labour costs relative to other competitive advantages, than small countries like Zimbabwe.

Another challenge, also concerning the gap between preferred and practicable policies suggested above is the point made by Krugman (1998) that bad jobs at bad wages are better than no jobs at all. Of course, Krugman does have a point in arguing that a policy of good jobs in principle, but *no jobs in practice*, is not in the interest of the working poor in developing countries. Moreover, typically 'good jobs' may be in high-quality manufacturing activities using sophisticated technology that would not be labour-intensive.

In this thesis I have argued that to passively follow specialisation in trade according to natural comparative advantages may result in a lock-in situation characterised by many poor people – or much poverty. Evidently, policies for employment generation – including for poor unskilled labour – are critical for poverty reduction in developing countries. Consequently, it does not make sense to suggest that poor countries should not nourish demand among entrepreneurs for cheap unskilled labour. The point is that when opening up their economies to largely uncontrolled forces in international trade, *poor countries should be aware of the possibly devastating effects that may come into operation if their economies get specialised according to their natural comparative advantage in low labour costs*. As the starting point for new development strategies is that most poor countries now undertake policies of trade liberalisation, the lessons for policy-making are significant. The implications are that a different path of specialisation should be strived for. This specialisation would be in a competitive advantage that has to be *created*. Previous experiences suggest that such an advantage may be created by a conscious upgrading of existing capabilities that could be used in activities where there are achievable, but untapped opportunities for further productivity growth.

As pointed out in chapter 2, Porter (1990) has suggested that these could be niches ignored by other producers in other countries. These activities should have hitherto unexploited potential for productivity growth given the available technology. However, selecting them and exploiting them in practice seems extremely difficult and complicated for poor countries with limited resources available to spend on R&D.

The bottom line

Poverty may be a comparative advantage in international trade. But it is a short-lived one. In fact, it is so unsustainable that it may be more of a handicap than advantage. Due to the attractiveness in terms of low production costs represented by cheap labour, high levels of

poverty may themselves encourage a specialisation in low labour-cost advantages. The self-reinforcing dynamics of specialisation may perpetuate the dependence on supply of cheap labour. Such cumulative causation may aggravate the vicious circle of poverty, locking an outward-oriented economy into dependence on low costs and low wage levels. This situation may impede the possibilities to raise real wages and thereby standards of living for the majority of workers and their families.

Consequently, poor countries with small open economies should not place all their eggs in one basket and follow the low-wage strategy for international competitiveness. Rather they should explore other possible paths that allow rising real wages – though not necessarily attempt to pursue 'high-wage' strategies. For every country, a distinctive country-specific strategy may be identified. The different strategies may use a varying mix of basic and advanced factors of production. To identify the best possible factor mix in an export-strategy for Zimbabwe requires a study in its own right.

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All the sources that have been used in this thesis are listed above.

Statistical Appendix

Table A.0
Exports, Imports and Trade balance 1965-1998 (in million US dollars)

Year	Exports	Imports	Trade balance
1965	452	386	66
1966	280	273	7
1967	272	301	-29
1968	263	333	-70
1969	325	321	4
1970	370	378	-8
1971	404	456	-52
1972	515	478	37
1973	688	606	82
1974	863	865	-2
1975	932	932	0
1976	891	703	188
1977	877	710	167
1978	900	685	215
1979	1053	929	124
1980	1415	1448	-33
1981	1408	1696	-288
1982	1276	1639	-363
1983	1135	1205	-70
1984	1155	1098	57
1985	1113	1031	82
1986	1302	1132	170
1987	1427	1205	222
1988	1415	1448	-33
1989	1542	1623	-81
1990	1726	1847	-121
1991	1532	2055	-523
1992	1445	2203	-758
1993	1568	1820	-252
1994	1885	2241	-356
1995	2119	2660	-541
1996	2397	2817	-420
1997	2464	3068	-604
1998	2432	3029	-597

Source: UNCTAD. 2000. *Handbook of Statistics*. CD-ROM. UNCTAD, Geneva.

Table A.1 Production Structure 1965-1997

Output data by kind of activity in current prices. Million of Zimbabwean dollars

Year	AGRI	MINE	MANU	ELEC	CONS	WHOL	TRAN	FIRE	SERV	TPSP
1965	115,8	48,3	134,7	21,8	31,9	104,5	60,2	27,3	76,7	621,20
1966	134,9	45,2	122,9	24,2	32,6	89,5	54,5	30,7	84,7	619,2
1967	152,0	46,2	142,1	25,8	40,3	101,2	50,5	34,8	88,3	681,2
1968	121,0	48,4	157,2	26,2	50,4	111,6	58,4	37,6	95,7	706,5
1969	166,1	62,6	182,4	29,7	57,7	124,8	71,0	47,7	105,3	847,3
1970	153,0	71,0	209,0	32,0	55,0	152,0	88,0	69,0	142,0	971,0
1971	200,0	72,0	250,0	34,0	58,0	171,0	103,0	76,0	156,0	1 120,0
1972	234,0	76,0	297,0	38,0	74,0	192,0	114,0	92,0	170,0	1 287,0
1973	215,0	104,0	343,0	41,0	81,0	198,0	122,0	102,0	184,0	1 390,0
1974	315,0	136,0	421,0	42,0	82,0	258,0	138,0	119,0	213,0	1 724,0
1975	323,0	131,0	447,0	50,0	94,0	258,0	159,0	130,0	246,0	1 838,0
1976	350,0	152,0	480,0	57,0	88,0	262,0	172,0	139,0	270,0	1 970,0
1977	334,0	149,0	460,0	56,0	84,0	242,0	184,0	149,0	290,0	1 948,0
1978	305,0	158,0	514,0	64,0	68,0	296,0	191,0	154,0	314,0	2 064,0
1979	321,0	226,0	625,0	71,0	92,0	425,0	188,0	167,0	347,0	2 462,0
1980	451,0	285,0	802,0	70,0	91,0	451,0	211,0	202,0	478,0	3 041,0
1981	640,0	252,0	1 016,0	78,0	138,0	603,0	306,0	240,0	588,0	3 861,0
1982	669,0	217,0	1 121,0	73,0	190,0	741,0	365,0	283,0	777,0	4 436,0
1983	544,0	393,0	1 441,0	195,0	258,0	783,0	403,0	334,0	856,0	5 207,0
1984	748,0	320,0	1 475,0	142,0	205,0	742,0	434,0	342,0	965,0	5 373,0
1985	1 314,0	335,0	1 488,0	144,0	154,0	777,0	431,0	411,0	1 178,0	6 232,0
1986	1 179,0	446,0	1 832,0	229,0	168,0	971,0	582,0	441,0	1 275,0	7 123,0
1987	1 123,0	335,0	2 089,0	276,0	225,0	1 001,0	671,0	570,0	1 399,0	7 689,0
1988	1 596,0	681,0	2 518,0	307,0	243,0	1 152,0	787,0	736,0	1 652,0	9 672,0
1989	1 753,0	607,0	3 580,0	370,0	318,0	1 258,0	930,0	863,0	1 878,0	11 557,0
1990	2 391,0	676,0	4 130,0	394,0	362,0	1 569,0	1 067,0	977,0	2 423,0	13 989,0
1991	3 709,0	939,0	5 585,0	520,0	499,0	1 898,0	1 243,0	1 133,0	3 197,0	18 723,0
1992	5 692,0	1 226,0	7 760,0	687,0	499,0	2 145,0	1 865,0	1 271,0	3 616,0	24 761,0
1993	5 836,0	1 625,0	8 930,0	1 234,0	1 152,0	6 926,0	2 807,0	4 206,0	5 037,0	37 753,0
1994	9 592,0	2 531,0	10 701,0	1 810,0	1 330,0	8 289,0	3 105,0	5 811,0	6 309,0	49 478,0
1995	8 312,0	1 142,0	11 871,0	1 563,0	1 261,0	11 844,0	3 615,0	5 977,0	7 194,0	52 779,0
1996	16 427,0	1 317,0	13 297,0	2 409,0	1 708,0	15 107,0	4 175,0	6 578,0	10 887,0	71 905,0
1997	16 371,0	1 384,0	15 376,0	2 828,0	2 289,0	17 163,0	5 180,0	10 136,0	14 241,0	84 968,0

Categories

AGRI 1 Agriculture, hunting, forestry and fishing

MINE 2 Mining and quarrying

MANU 3 Manufacturing

ELEC 4 Electricity, gas and water

CONS 5 Construction

WHOL 6 Wholesale and retail trade, restaurants and hotels

TRAN 7 Transport, storage and communication

FIRE 8 Finance, insurance and real estate

SERV 9 Community, social, personal and business services

TPSP Total Private Sector Production (= GDP less public administration)

Note: Data for 1993-1997 is taken from CSO. 1998. *National Accounts 1985-1997*. Table 2.1(a).

Category 9 SERV is the sum of Education, Health, Domestic Services and Other services.

Sources: Output data for 1965-1992 from *UN National Accounts Statistics* issues for 1975, 1981, 1988 and 1995. Output data fro 1993-1997 from *CSO National Accounts 1985-1997*.

Table A.2 Production Structure 1965-1997

Output data by kind of activity in current prices. In percentage.

Year	AGRI	MINE	MANU	ELEC	CONS	WHOL	TRAN	FIRE	SERV	TPSP
1965	19 %	8 %	22 %	4 %	5 %	17 %	10 %	4 %	12 %	100 %
1966	22 %	7 %	20 %	4 %	5 %	14 %	9 %	5 %	14 %	100 %
1967	22 %	7 %	21 %	4 %	6 %	15 %	7 %	5 %	13 %	100 %
1968	17 %	7 %	22 %	4 %	7 %	16 %	8 %	5 %	14 %	100 %
1969	20 %	7 %	22 %	4 %	7 %	15 %	8 %	6 %	12 %	100 %
1970	16 %	7 %	22 %	3 %	6 %	16 %	9 %	7 %	15 %	100 %
1971	18 %	6 %	22 %	3 %	5 %	15 %	9 %	7 %	14 %	100 %
1972	18 %	6 %	23 %	3 %	6 %	15 %	9 %	7 %	13 %	100 %
1973	15 %	7 %	25 %	3 %	6 %	14 %	9 %	7 %	13 %	100 %
1974	18 %	8 %	24 %	2 %	5 %	15 %	8 %	7 %	12 %	100 %
1975	18 %	7 %	24 %	3 %	5 %	14 %	9 %	7 %	13 %	100 %
1976	18 %	8 %	24 %	3 %	4 %	13 %	9 %	7 %	14 %	100 %
1977	17 %	8 %	24 %	3 %	4 %	12 %	9 %	8 %	15 %	100 %
1978	15 %	8 %	25 %	3 %	3 %	14 %	9 %	7 %	15 %	100 %
1979	13 %	9 %	25 %	3 %	4 %	17 %	8 %	7 %	14 %	100 %
1980	15 %	9 %	26 %	2 %	3 %	15 %	7 %	7 %	16 %	100 %
1981	17 %	7 %	26 %	2 %	4 %	16 %	8 %	6 %	15 %	100 %
1982	15 %	5 %	25 %	2 %	4 %	17 %	8 %	6 %	18 %	100 %
1983	10 %	8 %	28 %	4 %	5 %	15 %	8 %	6 %	16 %	100 %
1984	14 %	6 %	27 %	3 %	4 %	14 %	8 %	6 %	18 %	100 %
1985	21 %	5 %	24 %	2 %	2 %	12 %	7 %	7 %	19 %	100 %
1986	17 %	6 %	26 %	3 %	2 %	14 %	8 %	6 %	18 %	100 %
1987	15 %	4 %	27 %	4 %	3 %	13 %	9 %	7 %	18 %	100 %
1988	17 %	7 %	26 %	3 %	3 %	12 %	8 %	8 %	17 %	100 %
1989	15 %	5 %	31 %	3 %	3 %	11 %	8 %	7 %	16 %	100 %
1990	17 %	5 %	30 %	3 %	3 %	11 %	8 %	7 %	17 %	100 %
1991	20 %	5 %	30 %	3 %	3 %	10 %	7 %	6 %	17 %	100 %
1992	23 %	5 %	31 %	3 %	2 %	9 %	8 %	5 %	15 %	100 %
1993	15 %	4 %	24 %	3 %	3 %	18 %	7 %	11 %	13 %	100 %
1994	19 %	5 %	22 %	4 %	3 %	17 %	6 %	12 %	13 %	100 %
1995	16 %	2 %	22 %	3 %	2 %	22 %	7 %	11 %	14 %	100 %
1996	23 %	2 %	18 %	3 %	2 %	21 %	6 %	9 %	15 %	100 %
1997	19 %	2 %	18 %	3 %	3 %	20 %	6 %	12 %	17 %	100 %

Categories

AGRI 1 Agriculture, hunting, forestry and fishing

MINE 2 Mining and quarrying

MANU 3 Manufacturing

ELEC 4 Electricity, gas and water

CONS 5 Construction

WHOL 6 Wholesale and retail trade, restaurants and hotels

TRAN 7 Transport, storage and communication

FIRE 8 Finance, insurance and real estate

SERV 9 Community, social, personal and business services

TPSP Total Private Sector Production (= GDP less public administration)

Note: Data for 1993-1997 is taken from CSO. 1998. *National Accounts 1985-1997*. Table 2.1(a).

Category 9 SERV is the sum of Education, Health, Domestic Services and Other services.

Sources: Output data for 1965-1992 from *UN National Accounts Statistics* issues for 1975, 1981, 1988 and 1995. Output data fro 1993-1997 from *CSO National Accounts 1985-1997*.

Table A.3 Base Data on Export Structure 1976-1997

In thousand US dollars

Year	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9	Total
1976	154 187	140 481	195 847	10 271	4 993	9 573	259 169	24 221	45 072	n.a.	843 814
1977	154 909	126 197	201 703	11 610	7 581	8 011	239 827	22 746	33 753	n.a.	806 337
1978	155 616	150 405	183 353	11 681	8 429	7 322	247 148	24 097	33 001	n.a.	821 052
1979	187 498	145 783	250 421	16 769	10 327	9 719	368 347	28 695	40 588	n.a.	1 058 147
1980	153 553	183 402	253 851	17 253	3 225	11 551	430 251	22 693	39 704	13 351	1 128 834
1981	189 354	324 846	240 981	14 987	1 497	16 920	345 404	27 836	41 036	3 839	1 206 700
1982	174 408	256 433	183 441	16 786	n.a.	16 957	304 445	39 003	27 218	n.a.	1 018 691
1983	152 363	228 892	178 941	16 181	n.a.	11 635	333 151	24 456	22 330	n.a.	967 949
1984	134 037	227 213	190 694	13 121	n.a.	18 900	332 402	17 503	27 827	41 259	1 002 956
1985	157 533	226 629	180 253	26 472	n.a.	17 391	315 917	18 670	24 406	17 676	984 947
1986	195 623	254 786	169 440	28 978	n.a.	14 583	324 449	22 806	31 111	10 565	1 052 341
1987	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1 419 565
1988	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1 630 741
1989	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	285 572	345 875	217 559	10 919	n.a.	24 501	446 403	54 048	62 596	18 581	1 466 054
1991	167 850	444 446	158 627	6 147	n.a.	25 244	378 198	27 310	65 359	12 866	1 286 047
1992	86 337	441 753	153 404	4 779	n.a.	36 592	380 527	37 801	84 410	22 751	1 248 354
1993	149 246	394 158	185 559	7 647	n.a.	37 747	371 956	39 939	125 155	7 881	1 319 288
1994	389 200	669 000	218 000	14 100	4 900	36 200	412 000	49 300	159 800	15 400	1 967 900
1995	306 000	484 900	232 800	23 700	2 600	46 600	531 300	49 200	161 900	6 500	1 845 500
1996	329 600	740 300	264 000	31 900	1 300	56 000	465 100	59 300	141 400	33 600	2 122 500
1997	362 800	591 400	337 300	31 300	12 000	70 600	491 300	72 600	147 700	11 200	2 128 200

Note: Export structure according to the Standard International Trade Classification (SITC) commodity grouping.

SITC group 0 - Food and live animals. SITC group 1 - Beverages and tobacco. SITC group 2 - Crude materials, inedible, except fuels.

SITC group 3 - Mineral fuels, lubricants and related materials. SITC group 4 - Animal and vegetable oils, fats and waxes.

SITC group 5 - Chemicals and related products, n.e.s. SITC group 6 - Manufactured goods classified chiefly by material.

SITC group 7 - Machinery and transport equipment. SITC group 8 - Miscellaneous manufactured articles.

SITC group 9 - Commodities and transactions not classified elsewhere in the SITC. n.a. = not available.

Data on SITC 4 are not reported for the years 1982-1993, suggesting that none of these products were exported in the period.

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.4 Base Data (in %) on Export Structure 1976-1997

Year	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9	Total
1976	18 %	17 %	23 %	1 %	1 %	1 %	31 %	3 %	5 %	n.a.	100 %
1977	19 %	16 %	25 %	1 %	1 %	1 %	30 %	3 %	4 %	n.a.	100 %
1978	19 %	18 %	22 %	1 %	1 %	1 %	30 %	3 %	4 %	n.a.	100 %
1979	18 %	14 %	24 %	2 %	1 %	1 %	35 %	3 %	4 %	n.a.	100 %
1980	14 %	16 %	22 %	2 %	0 %	1 %	38 %	2 %	4 %	1 %	100 %
1981	16 %	27 %	20 %	1 %	0 %	1 %	29 %	2 %	3 %	0 %	100 %
1982	17 %	25 %	18 %	2 %	n.a.	2 %	30 %	4 %	3 %	n.a.	100 %
1983	16 %	24 %	18 %	2 %	n.a.	1 %	34 %	3 %	2 %	n.a.	100 %
1984	13 %	23 %	19 %	1 %	n.a.	2 %	33 %	2 %	3 %	4 %	100 %
1985	16 %	23 %	18 %	3 %	n.a.	2 %	32 %	2 %	2 %	2 %	100 %
1986	19 %	24 %	16 %	3 %	n.a.	1 %	31 %	2 %	3 %	1 %	100 %
1987	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	19 %	24 %	15 %	1 %	n.a.	2 %	30 %	4 %	4 %	1 %	100 %
1991	13 %	35 %	12 %	0 %	n.a.	2 %	29 %	2 %	5 %	1 %	100 %
1992	7 %	35 %	12 %	0 %	n.a.	3 %	30 %	3 %	7 %	2 %	100 %
1993	11 %	30 %	14 %	1 %	n.a.	3 %	28 %	3 %	9 %	1 %	100 %
1994	20 %	34 %	11 %	1 %	0 %	2 %	21 %	3 %	8 %	1 %	100 %
1995	17 %	26 %	13 %	1 %	0 %	3 %	29 %	3 %	9 %	0 %	100 %
1996	16 %	35 %	12 %	2 %	0 %	3 %	22 %	3 %	7 %	2 %	100 %
1997	17 %	28 %	16 %	1 %	1 %	3 %	23 %	3 %	7 %	1 %	100 %

Note: Export structure according to the Standard International Trade Classification (SITC) commodity grouping.
SITC group 0 - Food and live animals. SITC group 1 - Beverages and tobacco. SITC group 2 - Crude materials, inedible, except fuels.
SITC group 3 - Mineral fuels, lubricants and related materials. SITC group 4 - Animal and vegetable oils, fats and waxes.
SITC group 5 - Chemicals and related products, n.e.s. SITC group 6 - Manufactured goods classified chiefly by material.
SITC group 7 - Machinery and transport equipment. SITC group 8 - Miscellaneous manufactured articles.
SITC group 9 - Commodities and transactions not classified elsewhere in the SITC. n.a. = not available.
Data on SITC 4 are not reported for the years 1982-1993, suggesting that none of these products were exported in the period.
Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.5 Calculation of Primary Exports

In thousand US dollars

Year	SITC 0	SITC 1	SITC 2	SITC 68	SITC 3	SITC 4	**Primary exports**
1976	154 187	140 481	195 847	106 714	10 271	4 993	612 493
1977	154 909	126 197	201 703	107 361	11 610	7 581	609 361
1978	155 616	150 405	183 353	102 506	11 681	8 429	611 990
1979	187 498	145 783	250 421	132 928	16 769	10 327	743 726
1980	153 553	183 402	253 851	114 685	17 253	3 225	725 969
1981	189 354	324 846	240 981	94 173	14 987	1 497	865 838
1982	174 408	256 433	183 441	102 017	16 786	n.a.	733 085
1983	152 363	228 892	178 941	109 920	16 181	n.a.	686 297
1984	134 037	227 213	190 694	92 529	13 121	n.a.	657 594
1985	157 533	226 629	180 253	90 221	26 472	n.a.	681 108
1986	195 623	254 786	169 440	85 600	28 978	n.a.	734 427
1987	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	285 572	345 875	217 559	134 283	10 919	n.a.	994 208
1991	167 850	444 446	158 627	113 609	6 147	n.a.	890 679
1992	86 337	441 753	153 404	96 896	4 779	n.a.	783 169
1993	149 246	394 158	185 559	74 133	7 647	n.a.	810 743
1994	389 200	669 000	218 000	109 400	14 100	4 900	1 404 600
1995	306 000	484 900	232 800	110 200	23 700	2 600	1 160 200
1996	329 600	740 300	264 000	102 900	31 900	1 300	1 470 000
1997	362 800	591 400	337 300	106 100	31 300	12 000	1 440 900

Note: Export structure according to the Standard International Trade Classification (SITC) commodity grouping.

SITC group 0 - Food and live animals. SITC group 1 - Beverages and tobacco. SITC group 2 - Crude materials, inedible, except fuels.

SITC group 3 - Mineral fuels, lubricants and related materials. SITC group 4 - Animal and vegetable oils, fats and waxes.

SITC group 5 - Chemicals and related products, n.e.s. SITC group 6 - Manufactured goods classified chiefly by material.

SITC group 7 - Machinery and transport equipment. SITC group 8 - Miscellaneous manufactured articles.

SITC group 9 - Commodities and transactions not classified elsewhere in the SITC. n.a. = not available.

Data on SITC 4 are not reported for the years 1982-1993, suggesting that none of these products were exported in the period.

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.6 Calculation of Manufactured Exports

In thousand US dollars

Year	SITC 5	6 less 68	SITC 7	SITC 8	**Manufactured exports**
1976	9 573	152 455	24 221	45 072	231 321
1977	8 011	132 466	22 746	33 753	196 976
1978	7 322	144 642	24 097	33 001	209 062
1979	9 719	235 419	28 695	40 588	314 421
1980	11 551	315 566	22 693	39 704	389 514
1981	16 920	251 231	27 836	41 036	337 023
1982	16 957	202 428	39 003	27 218	285 606
1983	11 635	223 231	24 456	22 330	281 652
1984	18 900	239 873	17 503	27 827	304 103
1985	17 391	225 696	18 670	24 406	286 163
1986	14 583	238 849	22 806	31 111	307 349
1987	n.a.	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.	n.a.
1990	24 501	312 120	54 048	62 596	453 265
1991	25 244	264 589	27 310	65 359	382 502
1992	36 592	283 631	37 801	84 410	442 434
1993	37 747	297 823	39 939	125 155	500 664
1994	36 200	302 600	49 300	159 800	547 900
1995	46 600	421 100	49 200	161 900	678 800
1996	56 000	362 200	59 300	141 400	618 900
1997	70 600	385 200	72 600	147 700	676 100

Note: Export structure according to the Standard International Trade Classification (SITC) commodity grouping.

SITC group 0 - Food and live animals. SITC group 1 - Beverages and tobacco. SITC group 2 - Crude materials, inedible, except fuels.

SITC group 3 - Mineral fuels, lubricants and related materials. SITC group 4 - Animal and vegetable oils, fats and waxes.

SITC group 5 - Chemicals and related products, n.e.s. SITC group 6 - Manufactured goods classified chiefly by material.

SITC group 7 - Machinery and transport equipment. SITC group 8 - Miscellaneous manufactured articles.

SITC group 9 - Commodities and transactions not classified elsewhere in the SITC. n.a. = not available.

Data on SITC 4 are not reported for the years 1982-1993, suggesting that none of these products were exported in the period.

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.7 Calculation of SITC 6 less 68

In thousand US dollars

Year	SITC 6	SITC 68	**6 less 68**
1976	259 169	106 714	152 455
1977	239 827	107 361	132 466
1978	247 148	102 506	144 642
1979	368 347	132 928	235 419
1980	430 251	114 685	315 566
1981	345 404	94 173	251 231
1982	304 445	102 017	202 428
1983	333 151	109 920	223 231
1984	332 402	92 529	239 873
1985	315 917	90 221	225 696
1986	324 449	85 600	238 849
1987	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.
1990	446 403	134 283	312 120
1991	378 198	113 609	264 589
1992	380 527	96 896	283 631
1993	371 956	74 133	297 823
1994	412 000	109 400	302 600
1995	531 300	110 200	421 100
1996	465 100	102 900	362 200
1997	491 300	106 100	385 200

Table A.8 Aggregated Export Structure 1976-1997

In thousand US dollars

Year	Prim. exp.	Manu. exp.	Other	Total
1976	612 493	231 321	n.a.	843 814
1977	609 361	196 976	n.a.	806 337
1978	611 990	209 062	n.a.	821 052
1979	743 726	314 421	n.a.	1 058 147
1980	725 969	389 514	13 351	1 128 834
1981	865 838	337 023	3 839	1 206 700
1982	733 085	285 606	n.a.	1 018 691
1983	686 297	281 652	n.a.	967 949
1984	657 594	304 103	41 259	1 002 956
1985	681 108	286 163	17 676	984 947
1986	734 427	307 349	10 565	1 052 341
1987	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.
1990	994 208	453 265	18 581	1 466 054
1991	890 679	382 502	12 866	1 286 047
1992	783 169	442 434	22 751	1 248 354
1993	810 743	500 664	7 881	1 319 288
1994	1 404 600	547 900	15 400	1 967 900
1995	1 160 200	678 800	6 500	1 845 500
1996	1 470 000	618 900	33 600	2 122 500
1997	1 440 900	676 100	11 200	2 128 200

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.9 Aggregated Export Structure 1976-1997 (in %)

In percent

Year	Prim. exp.	Manu. exp.	Other	Total
1976	73 %	27 %	n.a.	100 %
1977	76 %	24 %	n.a.	100 %
1978	75 %	25 %	n.a.	100 %
1979	70 %	30 %	n.a.	100 %
1980	64 %	35 %	1 %	100 %
1981	72 %	28 %	0 %	100 %
1982	72 %	28 %	n.a.	100 %
1983	71 %	29 %	n.a.	100 %
1984	66 %	30 %	4 %	100 %
1985	69 %	29 %	2 %	100 %
1986	70 %	29 %	1 %	100 %
1987	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.
1990	68 %	31 %	1 %	100 %
1991	69 %	30 %	1 %	100 %
1992	63 %	35 %	2 %	100 %
1993	61 %	38 %	1 %	100 %
1994	71 %	28 %	1 %	100 %
1995	63 %	37 %	0 %	100 %
1996	69 %	29 %	2 %	100 %
1997	68 %	32 %	1 %	100 %

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.10 Detailed Export Structure 1976-1997

In thousand US dollars

Year	SITC 0	SITC 1	SITC 2	SITC 68	SITC 3	SITC 4	SITC 5	6 less 68	SITC 7	SITC 8	SITC 9	Total
1976	154 187	140 481	195 847	106 714	10 271	4 993	9 573	152 455	24 221	45 072	n.a.	843 814
1977	154 909	126 197	201 703	107 361	11 610	7 581	8 011	132 466	22 746	33 753	n.a.	806 337
1978	155 616	150 405	183 353	102 506	11 681	8 429	7 322	144 642	24 097	33 001	n.a.	821 052
1979	187 498	145 783	250 421	132 928	16 769	10 327	9 719	235 419	28 695	40 588	n.a.	1 058 147
1980	153 553	183 402	253 851	114 685	17 253	3 225	11 551	315 566	22 693	39 704	13 351	1 128 834
1981	189 354	324 846	240 981	94 173	14 987	1 497	16 920	251 231	27 836	41 036	3 839	1 206 700
1982	174 408	256 433	183 441	102 017	16 786	n.a.	16 957	202 428	39 003	27 218	n.a.	1 018 691
1983	152 363	228 892	178 941	109 920	16 181	n.a.	11 635	223 231	24 456	22 330	n.a.	967 949
1984	134 037	227 213	190 694	92 529	13 121	n.a.	18 900	239 873	17 503	27 827	41 259	1 002 956
1985	157 533	226 629	180 253	90 221	26 472	n.a.	17 391	225 696	18 670	24 406	17 676	984 947
1986	195 623	254 786	169 440	85 600	28 978	n.a.	14 583	238 849	22 806	31 111	10 565	1 052 341
1987	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	285 572	345 875	217 559	134 283	10 919	n.a.	24 501	312 120	54 048	62 596	18 581	1 466 054
1991	167 850	444 446	158 627	113 609	6 147	n.a.	25 244	264 589	27 310	65 359	12 866	1 286 047
1992	86 337	441 753	153 404	96 896	4 779	n.a.	36 592	283 631	37 801	84 410	22 751	1 248 354
1993	149 246	394 158	185 559	74 133	7 647	n.a.	37 747	297 823	39 939	125 155	7 881	1 319 288
1994	389 200	669 000	218 000	109 400	14 100	4 900	36 200	302 600	49 300	159 800	15 400	1 967 900
1995	306 000	484 900	232 800	110 200	23 700	2 600	46 600	421 100	49 200	161 900	6 500	1 845 500
1996	329 600	740 300	264 000	102 900	31 900	1 300	56 000	362 200	59 300	141 400	33 600	2 122 500
1997	362 800	591 400	337 300	106 100	31 300	12 000	70 600	385 200	72 600	147 700	11 200	2 128 200

Note: Data for 1987-1989 not available.

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.11 Detailed Export Structure 1976-1997 (in %)

In percent

Year	SITC 0	SITC 1	SITC 2	SITC 68	SITC 3	SITC 4	SITC 5	6 less 68	SITC 7	SITC 8	SITC 9	Total
1976	18 %	17 %	23 %	13 %	1 %	1 %	1 %	18 %	3 %	5 %	n.a.	100 %
1977	19 %	16 %	25 %	13 %	1 %	1 %	1 %	16 %	3 %	4 %	n.a.	100 %
1978	19 %	18 %	22 %	12 %	1 %	1 %	1 %	18 %	3 %	4 %	n.a.	100 %
1979	18 %	14 %	24 %	13 %	2 %	1 %	1 %	22 %	3 %	4 %	n.a.	100 %
1980	14 %	16 %	22 %	10 %	2 %	0 %	1 %	28 %	2 %	4 %	1 %	100 %
1981	16 %	27 %	20 %	8 %	1 %	0 %	1 %	21 %	2 %	3 %	0 %	100 %
1982	17 %	25 %	18 %	10 %	2 %	n.a.	2 %	20 %	4 %	3 %	n.a.	100 %
1983	16 %	24 %	18 %	11 %	2 %	n.a.	1 %	23 %	3 %	2 %	n.a.	100 %
1984	13 %	23 %	19 %	9 %	1 %	n.a.	2 %	24 %	2 %	3 %	4 %	100 %
1985	16 %	23 %	18 %	9 %	3 %	n.a.	2 %	23 %	2 %	2 %	2 %	100 %
1986	19 %	24 %	16 %	8 %	3 %	n.a.	1 %	23 %	2 %	3 %	1 %	100 %
1987	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1988	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1989	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	19 %	24 %	15 %	9 %	1 %	n.a.	2 %	21 %	4 %	4 %	1 %	100 %
1991	13 %	35 %	12 %	9 %	0 %	n.a.	2 %	21 %	2 %	5 %	1 %	100 %
1992	7 %	35 %	12 %	8 %	0 %	n.a.	3 %	23 %	3 %	7 %	2 %	100 %
1993	11 %	30 %	14 %	6 %	1 %	n.a.	3 %	23 %	3 %	9 %	1 %	100 %
1994	20 %	34 %	11 %	6 %	1 %	0 %	2 %	15 %	3 %	8 %	1 %	100 %
1995	17 %	26 %	13 %	6 %	1 %	0 %	3 %	23 %	3 %	9 %	0 %	100 %
1996	16 %	35 %	12 %	5 %	2 %	0 %	3 %	17 %	3 %	7 %	2 %	100 %
1997	17 %	28 %	16 %	5 %	1 %	1 %	3 %	18 %	3 %	7 %	1 %	100 %

Note: Data for 1987-1989 not available.

Source: UN *International Trade Statistics Yearbook* (issues 1980, 1984, 1987, 1990, 1991, 1994 and 1998).

Table A.12
Wages in non-agricultural activities

Year	Nom.wage	1972=100	1980=100	1990=100
1972	88,67	100,00		
1973	92,50	104,32		
1974	94,17	106,20		
1975	115,83	130,63		
1976	129,17	145,67		
1977	149,17	168,23		
1978	156,67	176,69		
1979	175,00	197,36		
1980	209,17	235,90	100	
1981	243,80	274,95	116,56	
1982	287,70	324,46	137,54	
1983	312,80	352,77	149,54	
1984	344,20	388,18	164,56	
1985	338,10	381,30	161,64	
1986	425,40	479,76	203,38	
1987	471,50	531,75	225,41	
1988	453,90	511,90	217,00	
1989	588,00	663,13	281,11	
1990	716,40	807,94		100
1991	773,50	872,34		107,97
1992	975,30	1 099,92		136,14
1993	1 119,50	1 262,55		156,27
1994	1 314,60	1 482,58		183,50
1995	1 624,06	1 831,58		226,70
1996	2 165,88	2 442,63		302,33
1997	3 070,19	3 462,49		428,56

Note: Nominal wages (per month) are Zimbabwe dollars in current prices.
Data coverage: All persons engaged.
Source: Wage data from ILO. Yearbook of Labour Statistics. Issue 1982, 1997 and 2000.

The column with nominal wages in Zimbabwe dollars in current prices are taken from ILO's *Yearbook of Labour Statistics* (issue 1982, 1997 and 2000) which are based on reporting from CSO in Harare. I have re-calculated the data to constant prices, so that the values became 100 for the chosen base year (1972, 1980, 1990).

Table A.13
Wages in agriculture

Year	Nom.wage	1972=100	1980=100	1990=100
1972	15,00	100,00		
1973	16,67	111,13		
1974	18,33	122,20		
1975	21,67	144,47		
1976	24,17	161,13		
1977	26,67	177,80		
1978	29,17	194,46		
1979	34,17	227,80		
1980	38,33	255,53	100	
1981	62,00	413,33	161,76	
1982	n.a.	n.a.	n.a.	
1983	n.a.	n.a.	n.a.	
1984	n.a.	n.a.	n.a.	
1985	n.a.	n.a.	n.a.	
1986	n.a.	n.a.	n.a.	
1987	122,20	814,66	318,82	
1988	138,10	920,66	360,30	
1989	150,70	1 004,66	393,18	
1990	182,90	1 219,32		100
1991	203,30	1 355,32		111,15
1992	171,60	1 143,99		93,82
1993	243,90	1 625,98		133,35
1994	286,90	1 912,65		156,86
1995	295,81	1 972,05		161,73
1996	401,39	2 675,91		219,46
1997	527,15	3 514,30		288,22

Note: Nominal wages (per month) are Zimbabwe dollars in current prices.
Wage data for 1982-1986 is not listed in ILO's *Yearbook of Labour Statistics* (Issue 1991).
Data coverage: All persons engaged.
Source: Wage data from ILO. Yearbook of Labour Statistics. Issue 1982, 1997 and 2000.

The column with nominal wages in Zimbabwe dollars in current prices are taken from ILO's *Yearbook of Labour Statistics* (issue 1982, 1997 and 2000) which are based on reporting from CSO in Harare. I have re-calculated the data to constant prices, so that the values became 100 for the chosen base year (1972, 1980, 1990).

Table A.14
Consumer Price Index (CPI)

Year	1995=100	1972=100	1980=100	1990=100
1972	4,17	100,00		
1973	4,30	103,12		
1974	4,58	109,83		
1975	5,04	120,86		
1976	5,59	134,05		
1977	6,17	147,96		
1978	6,52	156,35		
1979	7,70	184,65		
1980	8,12	194,72	100,00	
1981	9,18	220,14	113,06	
1982	10,16	243,65	125,13	
1983	12,51	300,00	154,07	
1984	15,03	360,43	185,10	
1985	16,31	391,13	200,87	
1986	18,64	447,00	229,56	
1987	20,97	502,88	258,26	
1988	22,53	540,29	277,47	
1989	25,43	609,83	313,18	
1990	29,84	715,59		100,00
1991	36,81	882,73		123,37
1992	52,29	1 253,96		175,26
1993	66,72	1 600,00		223,62
1994	81,57	1 956,12		273,39
1995	100,00	2 398,08		335,16
1996	121,43	2 901,68		405,55
1997	144,19	3 457,79		483,27

Source: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM.

Note: The CPI was given in the *International Financial Statistics* in constant 1995 prices. I have re-calculated these data to make 1972, 1980 and 1990, the base years for the constant prices.

Table A.15
Wages compared to CPI 1972-1997 (1972=100)

Year	Non-agri.	Agricult.	CPI
1972	100,00	100,00	100,00
1973	104,32	111,13	103,12
1974	106,20	122,20	109,83
1975	130,63	144,47	120,86
1976	145,67	161,13	134,05
1977	168,23	177,80	147,96
1978	176,69	194,46	156,35
1979	197,36	227,80	184,65
1980	235,90	255,53	194,72
1981	274,95	413,33	220,14
1982	324,46	n.a.	243,65
1983	352,77	n.a.	300,00
1984	388,18	n.a.	360,43
1985	381,30	n.a.	391,13
1986	479,76	n.a.	447,00
1987	531,75	814,66	502,88
1988	511,90	920,66	540,29
1989	663,13	1 004,66	609,83
1990	807,94	1 219,32	715,59
1991	872,34	1 355,32	882,73
1992	1 099,92	1 143,99	1 253,96
1993	1 262,55	1 625,98	1 600,00
1994	1 482,58	1 912,65	1 956,12
1995	1 831,58	1 972,05	2 398,08
1996	2 442,63	2 675,91	2 901,68
1997	3 462,49	3 514,30	3 457,79

Nominal wages in non-agricultural activties and in agriculture compared to consumption price index (CPI). 1972 = 100.Wage data for 1982-1986 in agriculture is not listed in ILO's Yearbook of Labour Statistics (Issue 1991).

Source: Data on Consumption Price Index (CPI) from IMF. 2000. *International Financial Statistics*. CD-ROM. Wage data from ILO. *Yearbook of Labour Statistics*. Issue 1982, 1991, 1997 and 2000.