GLOBALISATION, GOVERNANCE AND THE STATE: THE HISTORY OF COTTON IN MOZAMBIQUE

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1. INTRODUCTION: ECONOMIC GLOBALISATION AND INSTITUTIONS

As a general concept, globalisation implies increasing interdependence among countries and their citizens. Recently, however, the emphasis has been on economic globalisation, which can be defined as "the ongoing process of greater economic interdependence among countries, reflected in an increasing amount of cross-border trade in goods and services facilitated by improvements in transport and communications technology, an increasing volume of international financial flows and increasing flows of labour" (Fischer 2003:3).

While national economies can benefit from increasing interdependence, a number of recent studies have argued that institutions are more important factors in economic development than, for example, openness to trade (e.g. David and Mach 2006; Easterly *et al*. 2006; Rodrik *et al*. 2002). As emphasised by the new institutional economics, economic growth is essentially a response to the evolution of institutions, which support social and commercial relationships (Klein 2000). Institutions, on the other hand, are a function of the shared mental models and ideologies of the actors, including thus also the sphere of politics (Denzau and North 1993).

The sharing of mental models is made possible by communication and learning, which enable the creation of ideologies and institutions in a co-evolutionary process. They are a cumulative outcome of past decisions and actions taken in a specific economic and political setting. This has two important implications: (i) Institutions are context-bound, and thus institutional solutions which perform well in one setting may be inappropriate in others if key supporting norms and complementary institutions are not in place; and (ii) institutional change tends to be path-dependent, and suboptimal performance can thus persist for substantial periods of time (Denzau and North 1993; Rodrik *et al*. 2002).

Political and economic institutions are built on and operate through certain basic forms of communication and decision making, which are characterised by the concepts

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"rhetoric", "bureaucracy" and "violence".[2] Institutional systems differ in the way these forms are articulated, this possibly varying between different subareas of the system. Depending on the dominant communication and decision making modality of a given articulation, an institutional system can be based on voluntary participation due to persuasion, demonstrative strategies leading to authoritarian imposition or exercise of power relying on threat or actual use of force (Santos 2003).

Institutions are important for economic performance in the context of globalisation, as most potential gains from economic interdependence require coordination: "(A) market economy is based on the existence of a set of shared values such that trust can exist" (Denzau and North 1993:11). This is because the neoliberal ideal of totally free markets characterised by spot market transactions and unrestricted competition between atomistic agents can function only in a hypothetical world of homogeneous private goods, fully flexible production processes and fully informed rational actors. In the real world these conditions are never met, and some form of trade-off between competition and coordination is required. As emphasised by the new institutional economics, economic growth depends on the degree to which the potential hazards of economic transactions can be controlled by institutions (Klein 2000; Poulton *et al*. 2004).

1.1 The role of the state in rural development

The underlying assumption of the neoliberal theory is that free markets will squeeze out mismanagement and inefficiency. In the agricultural sector, for example, improved efficiency would then lead to higher producer prices as well as better and cheaper inputs, technical support and marketing services for producers. While there is some evidence of higher producer prices after market liberalisation (Swinnen and Vandeplas 2007), at least in sub-Saharan Africa such programmes have succeeded poorly in developing competitive private input, output and financial markets. This is because the systemic investment risks inherent in the vulnerability of agriculture to natural hazards, the volatility of markets and the prevalence of transaction failures tend to be high. Jonathan Kydd and Andrew Dorward (2004) point to the last risk category as particularly damaging, as it undermines the processes of agricultural intensification and specialisation necessary for economic growth, noting that in the context of the thin markets characterising most of rural Africa, a type of coordinated

2 "Rhetoric" is a form of communication and a strategy of decision making based on argumentation and commonly accepted axioms. It thereby anchors itself in the social, the characterisation of which will depend on the nature of the audience. "Bureaucracy" is a strategy based on authoritarian imposition relying on the demonstrative potential of regularised procedures and normative models. Consisting essentially in transition from formal premises to conclusions, it evades social conditioning. Lastly, *violence* is a strategy based on the threat of violence, which can be more or less socially conditioned (Santos 2003; cf. Perelman 1959).

market economy actively facilitated by the state may provide a more fertile institutional environment than fully liberalised markets.

Here a coordinated market economy does not comprise the old state-led development model of the 1970s, and indeed it is crucial to distinguish between different instances of coordination. While the "institutional environment" (including both formal and informal rules) creates the basis for economic activities, "institutional arrangements" provide the specific guidelines which mediate particular economic relationships (Klein 2000). In a coordinated market economy strategic commitment for investment, which is necessary to reduce the risk of transaction failures, is achieved through deliberative mechanisms which bring together the different actors and promote coordination. The state may facilitate these deliberative and coordinative processes based on rhetoric, but should not control them unilaterally. Its main role consists in the impartial setting and enforcement of formal rules which define the boundaries within which competition takes place (Kydd and Dorward 2004; Poulton *et al*. 2004). The specific institutional arrangements, on the other hand, are normally designed by trading partners, though the state may intervene when deemed necessary to protect some public good such as the environment or the interests of vulnerable social groups, for example through minimum prices and salaries.

Contract farming, which represents a form intermediate between spot markets and full vertical integration, has become a popular institutional arrangement designed to overcome the coordination problem facing small-scale agricultural producers in the context of market liberalisation (Eaton and Shepherd 2001; Kirsten and Sartorius 2002). While contract farming is often recommended by key representatives of the neoliberal doctrine such as the World Bank, it actually constitutes a deviation from the principle of free markets, being typically a solution for market imperfections. Anti-competition mechanisms such as market monopsonies[3] are fairly common in contract farming, as they provide a way for companies to secure the profitability of their investment; problems usually appear when farmers start selling their goods to the highest bidder, i.e. behaving as free market actors (Baumann 2000).

1.2 Cotton: the challenge of coordination

Cotton is one of the rare success stories in commercial agriculture in sub-Saharan Africa over the last two decades. While the region's share in world agricultural trade fell by one half in the twenty-year period since 1980, its share in the world cotton trade rose by 30 per cent.[4] Cotton, like most processed agricultural commodities, requires a great deal of coordination to be produced, processed and marketed competitively.

3 Monopsony is a market situation in which there is only one buyer.

4 It should be noted that world markets for cotton are distorted by heavily subsidised production by farmers in the USA and the EU, but also in some emerging countries such as China and Brazil. See e.g. Gillson *et al*. 2004; Poonyth *et al*. 2004.

In sub-Saharan Africa the crop is grown predominantly by smallholders, who usually need credit to access the necessary inputs such as seeds, fertilisers and pesticides. A key coordination challenge is thus to ensure timely access to inputs, and subsequently to recover the credit. As credit market failure is widespread in sub-Saharan Africa, contract farming is often regulated by some kind of statutory monopoly whereby inputs are provided directly to farmers on credit, to be subsequently recovered upon purchase of the product (Boughton *et al*. 2002; Swinnen and Vandeplas 2007).

Despite the coincidence of rapid market liberalisation and the expansion of cotton growing in sub-Saharan Africa since the mid-1980s, the success of the sector cannot be attributed to neoliberal policies, for it appears that higher levels of competition are not necessarily associated with better system performance (Poulton *et al*. 2004). One study from eastern and southern Africa, for example, has indicated that countries with highly competitive markets for seed cotton have suffered from problems of input supply and a decline in lint quality, which are likely to diminish national competitivity in world markets (Tschirley *et al*. 2006).

Another controversy concerns proposals to link producer prices directly to world market prices (e.g. Shepherd and Delpeuch 2007; USAID 2004). While such a linkage would improve supply elasticity, i.e. responsiveness of farmers to changes in world prices, it is not entirely clear whether this would actually benefit the farmers. The fact that the impressive expansion of cotton production in sub-Saharan Africa was particularly notable in the Francophone countries of West Africa, which are characterised by strong state intervention in the sector and relatively low supply elasticity, certainly gives food for thought (Gillson *et al*. 2004; Poulton *et al*. 2004; cf. Shepherd and Delpeuch 2007). We should also bear in mind that the supply elasticity doctrine completely ignores the socio-political functions of market coordination institutions, including income security (Gillson *et al*. 2004; Oxfam 2007).

In this context some researchers have pointed out that country-specific institutional systems in the cotton sector show marked path dependency, as colonial and early post-colonial institutional set-ups tend to re-emerge or strongly condition current institutional environment and arrangements (Pitcher 1998; Tschirley *et al*. 2006). To some extent country-level differences can be directly traced to the legacy of colonialism - or the impact of neocolonialism. For example, while the cotton sector in most Francophone West African countries continued to be organised around a state-dominated, centralised marketing system until a few years ago, in most Anglophone countries it was liberalised and privatised more than a decade earlier (Gillson *et al*. 2004; Poulton *et al*. 2004). This would seem to indicate that the impact of economic globalisation is strongly conditioned by the historical evolution of national institutional systems, which can become a decisive factor for successful integration in world markets.

In this article the focus is on the historical development of the cotton sector in Mozambique, which is placed in the context of economic globalisation. The hypothesis adopted here is that the present state of institutional instability and low productivity characteristic of the sector in Mozambique can be traced back to the specific character of its political and economic institutional framework. Apart from the recent pressure for market liberalisation, the development of the framework has been strongly conditioned by its origin in Portuguese colonialism. The present discussion is divided into two parts: the first analyses the legacy of Portuguese colonialism in Mozambique, where it continues to influence political and economic institutions, and the second assesses the implications of this legacy for the cotton sector and its current institutional difficulties, notably the role of the state in defining the institutional framework vs. institutional arrangements.

2. MOZAMBIQUE AND ECONOMIC GLOBALISATION

In the period following the industrial revolution, the world has seen two major waves of globalisation, the first from about 1870 to 1914 and the second from roughly 1950 to the present (Baldwin and Martin 1999; Kaplinsky 2005). Increasing economic integration was reflected in changes in trade as a percentage of the world Gross Domestic Product (GDP), which increased from less than five per cent in 1800 to 20 per cent at the start of World War I, but then collapsed back to five per cent at the end of World War II. By the early 1970s trade had again reached 20 per cent and has since continued to grow (Fischer 2003).

2.1 The first wave of globalisation

The first wave of globalisation was driven mainly by the technological innovation and infrastructure investments following the industrial revolution, which radically lowered transport costs. Cheaper and faster oceanic shipping, coupled with construction of railroads and canals, opened new areas to settlement and staple production, linking them to world markets dominated by the rapidly industrialising northern countries.[5] This fostered mass migrations of people and capital, which was a hallmark of the period (Baldwin and Martin 1999; Kaplinsky 2005).

The first wave proceeded without effective international institutions or formal rules: its world-wide extension depended on the hegemonic position of Great Britain and profound changes in the system of European colonialism. In contrast to the dominant position of the neoliberal doctrine in the current phase of globalisation, the

[5] The first wave of globalisation followed the industrial revolution, which had started from Great Britain and was intrinsically linked to international pressure for the abolition of slavery, which in the Portuguese empire took place gradually between 1869 and 1875 and in Brazil between 1871 and 1888 (Newitt 1995; Wolf 1982).

first wave was characterised by the co-existence of economic liberalism advocated by the British with support from the Dutch, and protectionist policies adopted by most continental European powers struggling to catch up with Great Britain. The system thus depended on negotiation and persuasion - buttressed by the threat of violence – as the lack of a common economic paradigm and credible international institutions ruled out the option of bureaucracy (Baldwin and Martin 1999).

The other leg of the system, "modern" colonialism, based on effective territorial occupation and economic transformation, was tentatively institutionalised in the Berlin Conference of 1884, which defined some basic rules of colonial practice. The new system was based on a selective combination of colonial rule and free market capitalism, which allowed the dominant European powers to use colonies as a shielded market for exports while opening up new markets elsewhere, notably in decolonising Latin America. The system made possible a gradual catch-up on Great Britain of certain European and newly independent settler economies, but the other side of the coin was a systemic de-industrialisation of the majority of current developing countries in Asia and Africa (Furtado 2006; Wolf 1982).

2.2 Subaltern colonialism: the case of Portugal

Aside from underdevelopment in Africa and Asia, globalisation led to divergence within Europe, notably in the case of Portugal. Since the late seventeenth century, Portugal had been relegated to semiperipheral status in the world economy, and it never fully assumed the characteristics of the "modern" liberal nation-state which had become dominant in Europe in the mid-nineteenth century (Santos 2002). In terms of economic development, its subaltern status was reflected in increasingly marginal participation in the benefits derived from the first wave of globalisation. While most northern European countries and a few settler colonies improved their position (in per capita terms) relative to Great Britain, Portugal - along with some other South European countries - lost ground, thus drawing closer to the Third World (Baldwin and Martin 1999).

The marginal role of Portugal in the globalising world economy was reflected in the form of Portuguese colonialism, which Boaventura de Sousa Santos (2002) called "subaltern colonialism". During most of its long colonial presence in eastern Africa since the end of the 15th century, Portugal was more intent on controlling trade than settling the territory. During the 18th century, however, even trade slipped from Portuguese hands to Indian capital and was directed mainly to India. While the involvement of the Portuguese in the Brazilian slave trade led to a partial revival of metropolitan commercial interest in Mozambique at the end of the century, it was by nature predatory, as investment in productive activities remained minimal. Subsequent expansion of the Mozambican economy in the late 19th century was also driven by foreign, mainly French, Dutch and British merchants, who were increasingly competing with the Indians. At the same time Mozambique's share in Portugal's internal colonial trade fell from three to one per cent (Newitt 1995; Strandes 1989).

Portuguese political rule was equally fragile. By the early 19th century the ancient feudal *prazo* system, which had structured the Portuguese presence in the central part of Mozambique for three centuries, deteriorated to semi-autonomous rule by Afro-Portuguese warlords. At the same time, most of the southern part of the colony outside of coastal urban settlements was still ruled by the Nguni kingdom, while the north remained practically unexplored. Following the deliberations of the Berlin Congress of 1884 on effective colonial rule, Portugal was forced to assume new colonial responsibilities, including effective territorial occupation. However, while the Nguni were finally defeated in the late 1880s and the southern region brought under Portuguese rule, a subsequent profound financial crisis forced the Portuguese government to find cheaper and administratively less taxing means of running the colony. In conformity with the tenets of globalisation, the solution was sought in transnational flows of capital and labour, albeit in a peculiar subordinate form. Thus the pacification, administration and economic development of most of central and northern Mozambique was contracted out to foreign-owned private "chartered companies", while labour agreements signed with the South African government effectively made of the southern part of the country a labour reserve for South African mines (Newitt 1995; Pélissier 1994).

In this political context the *prazo* system eventually prevailed in a somewhat modified form under the system of chartered companies, which with considerable autonomy ruled large parts of the colony from 1891 until the 1940s. As slavery and outright raiding were increasingly controlled by the end of the 19th century, the warlords and mercenaries turned into labour recruiters or company police. Rule by violence thus continued under the disguise of company administration, which was based on coerced labour recruitment and forcible collection of tax revenue.[6] However, while company rule was violent and its economic impact and efficiency geographically uneven, in cases such as the Mozambique Company and the Sena Sugar Company in the central region, vigorous economic growth was achieved once early administrative and financial problems had been overcome. Another major investment during this period was the construction of railways and port facilities, this too with foreign capital. Although true to the subaltern character of Portuguese colonialism, the main objective in developing the transport system was to create

6 While the first labour regulations passed in 1878 after the abolition of slavery were designed to provide for a completely free labour system, the revised labour regulations of 1899 and subsequent repeated tax increases were designed to facilitate forced labour recruitment. Even though the Portuguese labour law of 1899 was never formally implemented in Mozambique, the labour regulations enacted by the chartered companies and some districts were based on it, thus providing bureaucratic support for the prevailing system based on the threat of violence (Bailey 1969; Newitt 1995).

export channels for the surrounding British territories, it also served to boost the economy of the colony (Isaacman 1992; Newitt 1995).

2.3 Economic nationalism in the inter-war period: Estado Novo

The period from World War I to the 1950s, which roughly spans the interval between the two waves of globalisation, was characterised by the closure of national economies and a decrease in international flow of capital (Kaplinsky 2005). In Portugal autarchic policies were devised by the authoritarian *Estado Novo* regime set up by Salazar after a military coup in 1926. In Mozambique the period was characterised by expanding export-oriented agricultural production to supply the Portuguese industrial sector, while simple import substituting industries were introduced to meet the needs of Portuguese settlers. However, due to the continuing weakness of the Portuguese state and the scarcity of national investment capital, the system remained highly dependent on foreign capital (Newitt 1995; Torp 1979).

2.4 The second wave of globalisation

Globalisation in the late twentieth century was characterised by a rapid expansion of global trade in manufactures, fuelled by a systematic reduction in barriers to trade. The period can be further divided into two distinct phases, the first from the1950s to about 1980, characterised by a spread of advanced production technologies through trade; and the second from 1980 to the present, characterised by trade in semi-manufactured components made possible by technological advances in transport and communications (Kaplinsky 2005).

In contrast to the first wave of globalisation, the current second wave is supported by a solid set of international financial institutions (IFIs) and rules set up in Bretton Woods at the end of World War II, which rendered bureaucracy a viable option on the level of the international system. The new institutions were behind a series of policy interventions designed to facilitate trade growth under the General Agreement on Tariffs and Trade (GATT) and to promote capital flows under the International Monetary Fund (IMF). Since 1995 the World Trade Organisation (WTO), the successor of GATT, has orchestrated - with the support of the IFIs and major bilateral donors such as the USA - a global programme of trade liberalisation, also drawing in the majority of developing countries (Baldwin and Martin 1999; Kaplinsky 2005).

While the second wave of globalisation has benefited from a well-organised international bureaucracy, views regarding the role of the state, the key international actor in development, have changed radically. During the first three decades – from the 1950s to the late 1970s – emphasis was on state-led development. With the abatement of the Cold War and the eventual collapse of the Soviet Union in the late 1980s, however, the state-led model was replaced by neoliberalism, which emphasised market liberalisation, privatisation and a radical reduction in the role of the state. In many developing countries the neoliberal reform was implemented through structural adjustment programmes (SAPs) promoted by major IFIs such as the World Bank and the IMF (Eronen *et al*. 2007; Kydd and Dorward 2004). Interestingly, the first phase coincided with broad-based economic growth in most industrialised and developing countries alike, while the second was characterised (until the turn of the millennium) by volatile and generally slow growth in the developing world, except for some Asian countries (Easterly *et al*. 2006).

In sub-Saharan Africa the results of neoliberal policies have been highly controversial, since there the sectorally uneven economic development has in most cases been accompanied by increasing inequality and unemployment (Noorbakhsh and Paloni 1999; SAPRIN 2004; Schatz 1994). Neoliberal reforms have turned out to be particularly complicated in transition and post-conflict countries such as Mozambique, which suffer from unsuitable and/or substantially weakened political and economic institutions unable to cope effectively with the imperfections of free markets (Aron 2003; Marangos 2002).

2.5 Internal colonialism: the case of Mozambique

In Mozambique the second wave of globalisation coincided with major political upheavals. The period from 1960 to 1974 was characterised by an inflow of capital and subsequent industrial growth, combined with substantial immigration from Portugal, but also an intensifying armed liberation struggle. After a military coup in Lisbon in 1974, the struggle eventually led to independence under radical socialist leadership in July 1975. Two years later the new regime was challenged by an armed opposition movement which was initially created and supported by the neighbouring minority rule regimes of Rhodesia (now Zimbabwe) and South Africa, but eventually gained substantial local support and was transformed into a leading opposition party after the first democratic elections held in 1994 (Newitt 1995; Virtanen 2003).

A change in the economic framework, however, took place even before the change in political institutions. In order to halt the deepening economic crisis of the early 1980s and to access the desperately needed western foreign aid, Mozambique joined the IMF and the World Bank in 1984. Three years later, the government adopted an IMF-sponsored SAP, which included massive devaluation, a reduction in state subsidies for social services, restoration of markets, the elimination of most price controls, and privatisation. The liberalisation process accelerated considerably after the end of the civil war in 1992 and the shift from a one-party state to multiparty democracy after the national elections in 1994. The IFIs were highly influential in Mozambique since the SAP had been instituted in 1987, playing a decisive role in planning, financing and implementing economic reform (Arndt *et al*. 2006; Eronen *et al*. 2007).

One interesting aspect of these political and economic transitions is the persisting legacy of the subaltern form of Portuguese colonialism, which on the one hand made neocolonialism impracticable, but on the other facilitated the reproduction of authoritarian relations of power based on bureaucracy and threat of violence after decolonisation, resulting in internal colonialism (Santos 2002). While there was a radical break at the level of political and economic doctrine, a number of key institutional principles of the Portuguese colonial bureaucracy were maintained, including political-administrative centralism and corporatism.[7] Albeit in a modified form, the single-party system was also maintained, thus reproducing the authoritarian and paternalist relationship of state authorities with the population (Cahen 1993). Along with the inherited institutions, new state-socialist institutions were established during the first decade of independence, and the institutional framework has since become increasingly fragmented as neoliberal elements of Anglo-Saxon origin have been introduced in financial and economic legislation (Santos 2003).

In the end, the ruling party's radical project to replace authoritarian colonial rule with popular democracy was marred by a persistent contradiction between its early espousal of rhetorical means such as mass participation (*poder popular*) and its increasingly hierarchical and centralised system of leadership relying on inherited colonial bureaucracy and eventually on violence,[8] which gradually estranged the party élite from the aspirations and realities of the rural population (Virtanen 2003). In connection with economic policies adopted from Soviet state-socialism, the estrangement led to the emergence of a shadow economy operating in parallel with the centralised planned economy. In this context the transition from socialist to market economy inevitably suffered from a weak institutional environment, which made enforcement of institutional arrangements difficult.

3. COTTON IN MOZAMBIQUE

Cotton was effectively promoted in Mozambique by the colonial government from the 1930s, and had become an important cash crop by the mid-1940s.[9] Between 1960

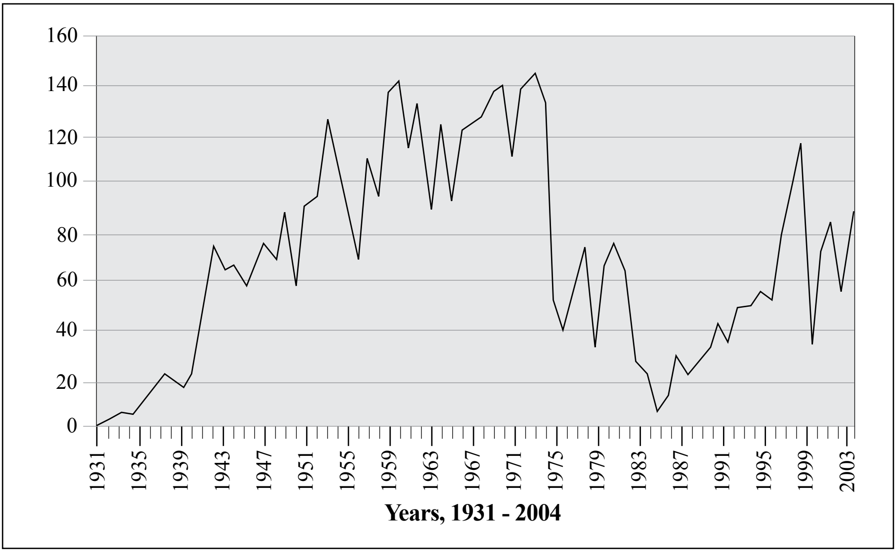
7 The Portuguese model of state-led development, where the bureaucratic state doubles as the main economic actor, goes back to the Middle Ages and the Inquisition. Contrary to the rest of Europe, in Portugal corporatism was not a means of negotiated autonomy for the emerging bourgeoisie but a means of state integration (Cahen 1993).

8 See e.g. Dinerman 1999. While the forced relocation of people into strategic communal villages and the deportation of urban unemployed to remote Niassa under "Operation Production" (a disastrous attempt to re-establish colonial-type urban influx controls) in the early 1980s may be regarded as extreme measures consequent upon the civil war (O'Laughlin 2000; Sachs 1990), the re-enactment of the death penalty and public flogging in the same period were clearly manifestations of a need to enforce the threat of violence in public.

9 Cotton was already known in Mozambique when the Portuguese arrived there at the end of the 15th century. Cotton cloth was both imported from Asia and produced locally. The thriving textile industry was, however, stifled by the Portuguese in order to secure markets for their own trade (Newitt 1995).

and 1974 the production of raw cotton oscillated between 90 000 and 140 000 tons. After independence in 1975 production collapsed, falling to slightly above 5 000 tons in 1985. Since then the sector gradually recovered, but is still well below the pre-independence level (Figure 1). Even so, it is one of the major agricultural products, ranking second after prawns in merchandise exports during the years 1996-1998 (Osório and Tschirley 2003).

Figure 1. Seed cotton production in Mozambique, 1931-2004



Source: Eronen *et al*. 2007; Wandschneider and Garrido-Mirapeix 1999.

3.1 Cotton in Mozambican colonial economy

Despite the need for a cheap and secure supply of cotton lint for the textile industry in Portugal, the colonial government's efforts to increase cotton production in the colonies remained futile until the 1930s. In the end it was left to the Mozambique Company, virtually a British-owned enterprise, to conduct experiments and start commercial cultivation during the first decade of the 20th century. The results indicated that the growing of cotton in plantations was inefficient and unprofitable in Mozambique, while peasant production under the prevailing forced labour regime offered the most remunerative option. Subsequently, key elements of the company's coercive production experiments such as the creation of peasant settlements, the use of female peasant labour and the monopolisation of recruitment were incorporated into *Estado Novo*'s cotton policy (Pitcher 1991).

Until the 1930s peasant production of cotton remained insignificant due to low producer prices and the labour-intensive character of the crop. African farmers found food crops such as maize and peanuts more lucrative and less risky. In 1938, the Salazar regime created a specific institution, *Junta de Exportação do Algodão Colonial*, which was empowered to set up the bureaucracy needed to enforce cotton growing on the African population. It defined extensive zones where peasants were forced to cultivate cotton, stipulated a fixed work calendar for the producers and set up a mechanism for fixing the producer price. The new institutional framework was inspired by a system created in the Belgian Congo (another European colony with a tradition of particularly brutal forced labour regime), where private concession companies enjoyed monopsony rights in specific areas for the purchase of seed cotton from peasants at officially determined prices. In Mozambique the system depended on customary chiefs and their police - in addition to company foremen - for enforcement at the local level. The companies ginned the cotton and exported it to Portugal for a guaranteed and, during the initial phase, considerably subsidised price (Isaacman 1992; Newitt 1995).

The new institutional framework succeeded in creating a dynamic cotton frontier as new areas were rapidly incorporated into the system and their inhabitants forced to register as cotton producers. As a consequence, seed cotton production increased from 2 000 tons in 1932 to 72 000 tons in 1942 (Figure 1), while the number of registered growers increased from 80 000 in 1937 to nearly 800 000 in 1944. The following two decades witnessed a steady increase in average annual production, which reached approximately 120 000 tons in the early 1960s (Newitt 1995; Wandschneider and Garrido-Mirapeix 1999).

The system had, however, two major institutional faults. Firstly, while some individual members of the African population such as emerging commercial farmers and customary chiefs were able to profit from it, its basis in bureaucratic directives backed up by undisguised coercion alienated the majority of the rural population from the crop. Secondly, as the primary objective of the mostly Portuguese-owned cotton companies was to augment input without substantial investment, the coercive labour regime was used to increase total output by simply expanding the area under cultivation. Even marginal lands were thus attractive, while investment in new technology and research was not. Even later, when external competition made it necessary to rationalise production, improvements focused on concentrating producers and controlling labour more effectively. Consequently, productivity per hectare remained low (Isaacman 1992; O'Laughlin 2001).

At the beginning of the 1960s the institutional framework suffered major changes linked – albeit indirectly – to the second wave of globalisation. In 1961, under increasing pressure from the international community, the Salazar regime abolished the system of forced labour and later also the monopsony system.[10] At the same time immigration from Portugal increased substantially, and by the end of the colonial period the number of Portuguese settlers in Mozambique had doubled from barely 100 000 in 1960 to approximately 200 000 (Newitt 1995; Wandschneider and Garrido-Mirapeix 1999). These changes coincided with a period of high world prices for cotton lint, which made large-scale commercial production profitable. As a consequence, commercial farmers, who were mainly Portuguese settlers but also included an increasing number of African farmers, gradually displaced small-scale producers in the sector. By 1974 they accounted for 67 per cent of total seed cotton production, compared to less than 2 per cent a decade earlier (Dinerman 1999; Hermele 1986).

3.2 The first decade of independence (1975-1985)

The new political leadership of independent Mozambique sought to make a distinct break in relation to colonial policies, but critical researchers, among them Anne Pitcher (1998), argued that the post-independence agrarian policies disrupted rather than transformed agrarian relations. In the cotton sector poor planning and management, inappropriate technological choices, inefficient input delivery and marketing, weak extension services and low producer prices led to the collapse of production during the first decade after independence. Approximately one half of the declining cotton harvest was produced by state farms, where investments were concentrated, and the rest mainly by small-scale farmers without access to improved inputs (Osório and Tschirley 2003).

While the drastic fall in production can partly be explained by the civil war, institutional continuities and misguided agricultural policies were other key factors. Processing facilities continued to be highly concentrated and prices were still set by the state. With regard to institutional arrangements, post-colonial state farms and colonial private companies actually shared several features despite the difference in socio-economic goals. The work pattern, for example, did not change significantly from the colonial period, since the government's decision to invest the limited resources in mechanisation meant that low salaries and abysmal working conditions continued to characterise the sector. Management problems - caused initially by the exodus of Portuguese technical staff but aggravated by rapid mechanisation - added to the difficulties. Eventually the managers, supported by local state administration, turned to the coercive methods used by the colonial authorities (Dinerman 1999; Pitcher 1998).

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10 In 1961 a new state body, *Instituto de Algodão de Moçambique* (IAM), replaced the former *Junta de Exportação do Algodão Colonial*. It was created to serve both the small-scale and commercial sectors of the colonial system (Dinerman 1999).

3.3 Privatisation through joint ventures: 1986-1995

In order to recover from the collapse of 1985, and anticipating the move towards market economy under the forthcoming SAP, the state decided in 1986 to allocate the management of cotton production and processing in most of Nampula Province to a private company, *Grupo João Ferreira dos Santos* (JFS). The company was initially contracted somewhat surreptitiously, but in 1990 the arrangement was formalised as a joint venture company (JVC), and two more JVCs were established with another agro-industrial company with a long history in the country, the Portuguese *Grupo Entreposto,* and one with the British *Lonrho*.[11]

The new institutional arrangement entailed transferring defunct or unproductive state farms and ginneries into private-public ownership and management. Instead of paying something to the government, which remained a minority owner, the private companies invested in rehabilitating the existing ginneries and other infrastructure. In addition, the companies agreed to supply inputs and technical assistance on credit to smallholders wishing to produce cotton within the extensive concession area, and received a formal monopsony in the local cotton market in return. In the war years the companies were also responsible for road rehabilitation and maintenance as well as security, running large private militias to protect the ginneries and trucks. The whole process was handled at the highest levels of the central government with very little transparency (Oliveira *et al*. 1997; Pitcher 1996). Initially some 60 per cent of cotton was produced directly by the concession companies and linked commercial producers, but due to increasingly unfavourable terms of trade between the prices of inputs and the price of cotton lint in the world market, commercial cotton farmers soon withdrew. By 1998, large-scale production constituted only about ten per cent of total production (Osório and Tschirley 2003).

The reform process in Mozambique shows strong path dependency, as colonial-period institutional arrangements have practically re-emerged or at least strongly conditioned the choice of post-reform arrangements (Pitcher 1998; Tschirley *et al*. 2006). This can be observed in terms of both the overall model and the specific ways it is implemented in different localities, these tending to reflect patterns established in the colonial period. For example, the rather authoritarian strategy adapted by all four JVCs to encourage and supervise cotton cultivation, which relied on local customary

[11] JFS is an agro-industrial and trading company established in 1897 in Ilha de Moçambique. Like JFS, the other JVC partner companies had weathered the early years of independence under personal agreements with party/state leadership. *Grupo Entreposto* is a direct successor to the Mozambique Company, which held a concession over the present provinces of Manica and Sofala from 1891 to 1941 and was a pioneer of cotton cultivation at the beginning of the 20th century. Since then it has been involved in agro-industry and diverse trade in Portugal and Mozambique. *Lonrho*, with roots in colonial Rhodesia, has been involved in Mozambique since the early 1960s, when it started building an oil pipeline from the port of Beira to Mutare in Southern Rhodesia (Zimbabwe). It later became involved in cotton and rice cultivation in the Chokwe irrigation scheme along with JFS, as well as in various other activities (Hanlon 1991; Vines 1998; West and Myers 1996).

chiefs to oversee production, was almost identical to the arrangements employed by the private companies in the 1960s, including elements of forced labour (Dinerman 1999; 2004). Continuity is also evident in elements of the institutional framework such as the *Instituto do Algodão de Moçambique* (IAM), which monitors the sector and recommends together with the major companies the yearly minimum price for seed cotton.[12]

Aside from the re-adoption of a familiar model, continuities include the re-emergence of colonial operators and agricultural experts,[13] who were involved in reviving the production system. In addition to two major Portuguese JVC partner companies, a large number of commercial farmers of Portuguese and Asian origin managed to repossess their colonial holdings and even gain access to new lands through the privatisation process which started in the late 1980s, many of them taking up cotton as it enjoyed favourable world prices at the time. They were joined by a new élite consisting of high-ranking state/party functionaries and army officers, who used their position to gain access to large land holdings. This inevitably led to land conflicts between the companies and commercial farmers, and smallholders who had settled on the defunct state farms and cooperatives now privatised (Pitcher 1998; West and Myers 1996).

The JVC strategy represented an indirect acknowledgement by the state that it was unable to perform some of the duties normally expected of a politically and financially stable public authority such as providing infrastructure, extension services and public security. Foreign-owned private companies were therefore contracted to perform these services in its place. To a certain point, the new institutional arrangement worked, as seed cotton production recovered to 50 000 tons in 1995 (Figure 1). On the other hand, output per hectare did not improve over the average figures for the colonial period, and for small-scale producers returns on family labour were often substantially lower than wage rates paid to unskilled agricultural labour (Oliveira *et al*. 1997). Even more problematic for the development of the sector, however, was the increasingly confused role of the state as both regulator and actor in the cotton markets.

When a state grants monopsony rights to private companies without consulting the population affected, it is obliged to create an institutional framework to guard against abusive practices by the companies. In the case of cotton JVCs such practices include

12 IAM, which was closed down soon after independence, was re-established in 1991 to coordinate and monitor the production and processing of cotton and lint. IAM is financed from a tax on the lint produced, originally equal to five per cent, but later reduced to 2,5 per cent. The minimum price is formally set by *Comissão Nacional de Salários e Preços* (CNSP).

13 One example of a colonial expert whose influence was crucial in the re-creation of the concession system was José Bernardo de Faria Lobo, a Portuguese agronomist who participated in the establishment of the colonial era *concentrações*, i.e. planned resettlement of small-scale cotton growers along a system of feeder roads, and then again in the implementation of its revised version as *blocos* in the late 1980s (Dinerman 1999).

failure to provide inputs, credit or extension services to smallholders in a timely manner, or offering an unreasonably low producer price for seed cotton. While the agreements between the state and the JVCs stipulate that the government establish a minimum producer price each year, various observers have criticised the government for a largely unsuccessful price policy resulting in internationally low producer prices which were less than one half of the export price in the early 1990s (Oliveira *et al*. 1997; Pitcher 1996). The private companies have also been accused of failing to provide quality inputs and extension services to interested small-scale growers in the unrealistically extensive concession areas granted by the state (Pitoro *et al*. 2001; Tinga 2000).

3.4 Institutional confusion and stagnation: 1996-2005

By the mid-1990s the institutional arrangements in the cotton sector were changing rapidly for both external and internal reasons. The increase in production had been achieved mainly through an expansion of cultivated areas, while the JVCs (with the exception of Lonrho) had invested very little in improving quality and productivity. With the relatively high world prices for cotton lint in the early 1990s, combined with the socio-political insecurity which continued to trouble Mozambique until the elections of 1994, the low-risk strategy adopted by the companies made sense from their point of view (Jeje *et al*. 1999; Pitcher 1996). The decline in world prices since 1994 and the continuing upward trend of input prices for pesticides and fertilizers, however, caused a rapid fall in profitability, leading to the abandonment of their own production by both the concession companies and large-scale commercial farmers. By the late 1990s smallholders, who relied mainly on family labour and traditional low-input production technology, accounted for 98 per cent of total seed cotton production (Osório and Tschirley 2003; Wandschneider and Garrido-Mirapeix 1999).

As many commercial farmers turned to trading cotton grown by smallholders, the process put the monopsony system at risk. The independent buyers, as they are called, attracted production from concession areas by offering better prices, this leading to widespread credit default. In the midst of farmer protests in support of the independent buyers in 1995, the state made an about-turn from trying to restrict illegal purchases to granting the principal buyer his own concession area in northern Zambezia Province.[14] This provided no solution to the institutional problem, however, as new buyers entered the arena while producers grew increasingly discontented due to continuing low prices and inadequate services. In 1998, the state decided to encourage the formation of farmer associations, which were then allowed to deal with the company of their choice irrespective of concession borders. Farmer groups had already started to form prior to the new policy, succeeding in securing higher prices and better support services. When turned into an official

[14] The new company, SANAM (a family enterprise), continues to operate following a low-input strategy.

policy, however, the model was exploited by some independent buyers who created large "virtual" associations to legitimise purchases inside concession areas without providing any support services (Osório and Tschirley 2003; Tschirley *et al*. 2006).

Over the same period fully private concession companies began to appear along the JVCs. While JFS had initiated a private operation in Niassa already in 1991, the improving security situation and ongoing market liberalisation also created interest among new investors. They were attracted by the concession model promoted by the state, as it provided access to land and cheap family labour while reducing the risks of the entrepreneur, but also by the prospect of cheap loans from IFIs in support of the post-war reconstruction process. New investors initially came from Portugal and neighbouring countries such as Zimbabwe, Zambia and South Africa, but also from Egypt (Wandschneider and Garrido-Mirapeix 1999). Most of these companies, however, withdrew fairly rapidly from the sector.[15]

Despite increasing confusion with respect to the institutional framework, production increased rapidly, reaching a post-independence peak of 116 000 tons of seed cotton in 1999, but subsequently collapsed to 40 000 tons in the following year (Figure 1). During the first national meeting between the government and stakeholders held after the collapse, an "open concession" model was introduced, which was expected to serve as a first step towards full liberalisation of the sector. The model allowed farmer associations within concession areas to opt out of their implicit contract with the concession company and choose freely with whom to collaborate. Production in the following year increased again to 71 000 tons, but pressure from the established ginning companies led to a revocation of the model and a return to an increasingly strict "closed concession" model in the following year. For the second time, the government sought to placate discontent by offering the largest independent buyer his own concession area, but this time in the middle of existing concessions in Nampula Province.[16] Since then both total production and productivity levels in the sector have stagnated at relatively low levels, which means that less than 50 per cent of the existing processing capacity is in use (Boughton *et al*. 2002; Tschirley *et al*. 2006).

15 The investment of the Egyptian firm Pidico, which took over a former state enterprise in Zambezia in 1992 in anticipation of a large World Bank loan, resulted in bankruptcy a couple of years later. The concession was subsequently taken over by a consortium with South African capital, which largely avoided new investment. AGRIMO, operating with Portuguese capital (including a loan from IFC), built a large modern ginnery in Zambezia, but with falling world prices failed to fulfil its contractual obligations and went bankrupt (Verde Azul 2005). The Zambian Sable and the South African Clark Cotton also withdrew after a brief period of operation, while the Portuguese-financed Agri-Buzi and TextÁfrica are defunct (Osório and Tschirley 2003; Wandschneider and Garrido-Mirapeix 1999).

16 The decision to carve out a new concession to SANAM was justified by its investment in a new processing facility. The rationale of the investment, however, remains obscure, as it resulted in tenfold overcapacity in relation to available raw material, which the investor justified by planned expansion of procurement operations to other concessions held by competitors (Ruotsi 2003).

3.5 Sectoral development and state intervention

A key factor in the financial problems faced by the companies was a weak institutional basis for contract enforcement, which led to very low recovery rates of credit given to producers.[17] During the post-independence period the basis of Mozambique's banking institutions was substantially weakened by a channelling of state support to industries through "loans" by nationalised banks, which were never expected to be paid back (Eronen *et al*. 2007). The practice continued throughout the privatisation process, and was extended to smallholders by donor-supported development programmes which included credit components without any realistic repayment mechanisms. Thus small-scale producers became accustomed to considering such "loans" as grants from the government or donors. The practice of credit failure was reinforced by lack of trust between most small-scale producers and the companies, and sometimes also the state, which were seen as exploitative and unreliable. Some authors even described non-repayment of input loans as a conscious strategy chosen by farmers (Jeje *et al*. 1999). Unfavourable perceptions of the current cotton regime are reinforced by the authoritarian approach taken by the state, which relies on bureaucratic decisions and even threat of force instead of broad-based agreements, as well as the low-cost approach chosen by most concession companies, which is manifested in low producer prices and poor service delivery (Osório and Tschirley 2003; Pitoro *et al*. 2001).

There are, however, some important differences in company strategies. Whereas most of the original JVCs chose not to invest in improved cultivation practices and restricted inputs to insecticides and improved seed, Lonrho chose a more innovative strategy, offering a variety of input packages and seeking to incorporate extension services and applied research, supported by credit from the World Bank (Pitcher 1996; Jeje *et al*. 1999). Since then the entry of new companies with extensive experience in the sector resulted in some improvements in quality and productivity. In the last few years major international cotton companies already operating in sub-Saharan Africa, Dunavant and Cargill (USA), Dagris (France), Plexus (UK), and Cottco (Zimbabwe), for example, entered the sector either alone or in consortium with existing concessionaires.[18] The newcomers invested in improved seed development and extension services in order to boost productivity, often paying higher than the

[17] By 1999, credit recovery rates in the cotton sector had fallen to around 60 per cent (Osório and Tschirley 2003; Ruotsi 2003; Teyssier and Boguiço 2004).

[18] LOMACO, the Lonrho-led JVC operating a concession in Cabo Delgado, went bankrupt in 2001 and the concession was subsequently taken over by Plexus; SAMO, a Grupo Entreposto-led JVC in Nampula, went bankrupt in the same year and the concession area was handed over to the principal independent buyer SANAM (a family enterprise), who had built a huge new ginnery; the JFS-led joint venture SODAN entered into liquidation in 2005 and its concession was subsequently shared by Plexus and SANAM. Despite encouraging results in Tete and Manica, Cottco withdrew from a joint venture operation in 2006 due to financial problems in Zimbabwe. Dunavant took over from AGRIMO, while Cargill and Dagris entered into consortiums with JFS (in Nampula) and Grupo Entreposto (in Sofala), respectively. SANAM, led by Grupo Entreposto but with 24 per cent state ownership, is currently the only remaining JVC (IAM 2006; Osório and Tschirley 2003; Tschirley *et al*. 2006).

minimum price. Some companies such as Plexus, which took over the former Lonrho concession in Cabo Delgado Province, also invested in ginning technology, and report ginning turnout ratios of over 40 per cent, far above Mozambique's recent average of 33 per cent (Osório and Tschirley 2003; Tschirley *et al*. 2006).

One area where recent entrants have brought new ideas to resolve the persistent institutional arrangement problems is farmer organisation. In theory, farmer associations can secure the company with sufficient throughput while reducing monitoring costs and the unit cost of technical assistance as well as improving credit repayment.[19] The current concession companies, however, have very different opinions on the role of associations (see e.g. Ruotsi 2003). The differences can be better understood in the light of two aspects, namely the historical neglect and/or discouragement of independent associations by the state, and the specific context in which the current cotton sector associations were created. Initially the creation of associations was supported in the main cotton-producing areas by NGO-implemented rural development projects, which provided training in financial administration and other aspects of commercial production and trade. The changes made in the institutional framework in 1998, however, allowing farmer groups to negotiate with the cotton companies of their choice, introduced a new type of association created by independent buyers. Their sole purpose was to provide a legal basis for the buyers' operation, and thus "associations" with up to 3 000 farmers with little or no effective capacity to engage in coordinated action were formed. By 2000, the concession holders also began to form associations of their own as a strategy to counteract independent buyers, but with the exception of the associations supported by Lonrho in Cabo Delgado Province, little effort was put to make them self-sustaining (Osório and Tschirley 2003; cf. Pitoro *et al*. 2001).

Overall, initiatives taken by the state in the sector tended to create confusion rather than an effective and transparent institutional environment. As noted above, the state did not support the formation of independent associations, and the role of producers in negotiations over key issues such as the legal framework regulating institutional arrangements and minimum prices was marginal. In most cases smallholders are not even recognised as contract partners despite their being subjected to strict market restrictions.[20] While the representatives of large international companies and donors,

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19 Osório and Tschirley 2003. For example, the farmer distribution system used by Dunavant in Zambia relies on independent local distributors contracted by the company to receive inputs on credit and deliver them along with extension assistance to local farmers. The company reports that its recovery rate has improved from 53 per cent in 1998 to 85 per cent in 2001 (Boughton *et al*. 2002; Onumah 2002).

20 Aside from the emphasis placed on a clear contractual system in most contract farming guidelines, in Mozambique smallholders are usually not offered formal contracts but work on the basis of cards where the inputs and sales are marked by company employees. Contracts are established with commercial farmers and associations, but even there the format seems to be incomplete. Key issues on pricing, risk sharing and level and type of extension assistance are not treated, while the focus is on the obligations of the producers towards the company (Ruotsi 2003; Osório and Tschirley 2003; cf. Baumann 2000; Eaton and Shepherd 2001).

along with influential local businessmen, wielded considerable influence in the design of the framework, the changes made were often contradictory and took the form of unilateral bureaucratic decrees with little transparency. At the same time the state largely failed to protect the interests of smallholders or to create institutions which can effectively reconcile conflicts over land, contractual obligations and producer prices.[21] Continuing insecurity in respect of the future institutional environment, combined with oscillating and rather arbitrarily set minimum prices, has thus made investment in cotton by both private companies and smallholders a highly risky business (Osório and Tschirley 2003; Pitcher 1998).

4. CONCLUSIONS

Cotton involves in Mozambique well over 300 000 small-scale growers, generates significant export revenue and has a strong potential for upstream and downstream linkages through input use and technology, processing, marketing and international trade. Since 2000, production seems to have stabilised at around 70 000 tons of seed cotton, which represents approximately one half of the production levels achieved at the end of the colonial period. Current yields per hectare are only about one third of those achieved in West Africa, while Mozambican cotton is rated among the most contaminated on the world market. While there is strong competition for seed cotton due to a substantial overcapacity in the ginning industry, cotton companies operating in Mozambique pay the lowest average producer share in sub-Saharan Africa despite the advantage of coastal access and achieve the second lowest average export value per hectare. Cotton continues, therefore, to be a low-input, low-output cash crop whose growers live in poverty much like their colonial era predecessors (see e.g. Osório and Tschirley 2003; USAID 2004).

The history of cotton in Mozambique shows how key elements of a negative institutional environment can persist through ideologically divergent political regimes, eating away their potential for socio-economic development. As described above, national policies in the cotton sector, but also in other key agricultural sectors such as cashew and tobacco, were characterised by repeated and contradictory policy revisions and individual arrangements which sometimes involved breaches of legally binding contracts between the state and private company (cf. Hanlon 2006; McMillan *et al*. 2003). In most cases changes did not contribute to improved service delivery and income security for the producers, as they were typically instituted under pressure from influential donors and businessmen, or as a price paid for securing investment in the processing industry. The inconsistent and irregular character of government

[21] Benefits from cotton cultivation have been distributed unevenly: according to a recent study the net results in Zambezi valley ranged from losses of over US$ 20 in the poorest quartile to an average net gain of over US$ 200 in the wealthiest quartile of cotton growers (Benfica *et al*. 2005).

interventions caused considerable insecurity in the sector, thus also discouraging private investment. As noted by some critical researchers who have identified a similar pattern in other sectors of the Mozambican economy, it does not represent a transparent partnership between the state and the private sector in the service of the public good, but rather a private deal between the political élite and speculative investors, supported by some IFIs and donors (Söderbaum and Taylor 2001).

Institutional development is a question of political will. The Mozambican state has consistently failed to use its regulatory powers to create national level support or insurance funds to improve the income security of vulnerable small-scale producers against volatile world markets, and to provide enhanced technical assistance and capacity building for farmer organisations in order to strengthen their bargaining position. At present the institutional arrangements which also bind the producers are regularly made over their heads between the state and private companies, and it should therefore come as no surprise that trust between different actors is lacking and transaction failures are common. What the lack of genuine deliberative mechanisms based on rhetoric instead of bureaucracy means for the society, however, is that economic reforms are likely to fail to improve efficiency and bring about higher producer prices and other benefits, as the institutions needed to control the hazards of economic transactions are not in place.

The end of the line is that in times of declining world prices the risks of market failure are transferred down to the small-scale producer at the bottom of the production chain, to be added to the already substantial risk of natural hazards. This is not a new phenomenon: in the colonial period large-scale commercial production reflected trends in world markets, declining rapidly when prices fell. The burden of economically unsustainable production was then transferred to small-scale producers who were coerced by colonial bureaucracy to serve the processing industry's need for cheap raw material. While the use of violence is less evident under the current regime, the relationship between producers and buyers/processing companies, which are usually backed by the state, continues to be characterised by a profound antagonism manifested in strikes and demonstrations over the last few years. In this context the paternalist and authoritarian approach inherited by the state from its colonial predecessor only aggravates the existing communication problem.

The subordinate role of the state is also familiar from the colonial period. The state continues to serve as an agent intermediate between national and international (mostly Portuguese and South African) business interests and agricultural producers, but instead of providing a fair and transparent institutional environment to protect the public good and the interests of rural dwellers, it has focused on securing public revenue through taxation and individual benefits accruing to political and business élites through particular institutional arrangements. The failure of the political system is also reflected in the absence of coherent and concrete subsectoral policies under the very general agricultural sector programme, which appears to have been formulated mainly to please important donors and IFIs providing most of the public funding. The distorted direction of accountability has created fertile ground for internal colonialism, whereby the rural population does not enjoy full rights of citizenship but have become the object of agreements between the state and the private sector.

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