Reflections on structural transformation and private sector development in Mozambique

By

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How does structural transformation work in theory?

• An economy with two sectors:
  • Agriculture
  • Industry

• Transforming gradually shifting people from agriculture into industry (the motor is?)
  • Role of agriculture
  • Role of industry

• Implications
  • Industry grows faster than agriculture
  • The relative (not the absolute) contribution of agriculture falling and the economy grows in complexity and engagement with trading

• Happening in practice? Recall messages from the IIM surveys and today’s deliberations ++
And...

- Mozambique remains one of the world’s **least complex economies** despite experiencing significant economic growth in recent decades.

- A very limited part Mozambique’s economic progress is attributable to **structural change**. This is highly problematic for the prospects of sustained growth in the long run.

- Aggregate growth has been driven by productivity increases within the **mining sector** and employment growth in **low-productivity services (informal sector)**.

- **Labour reallocation** has played a relatively small role overall and the majority of Mozambicans continue to rely on simple and **unproductive agricultural production**. Policies to facilitate structural transformation critically needed.
Can manufacturing play a role?

• Manufacturing value added as a share of GDP) is about 8%, among the lowest in the World

• However, manufacturing is recognized as priority sectors in the National Development Strategy (2015–2035), along with agriculture, fishery, tourism and the extractives sector

• The Industrial Policy and Strategy (2016–2025) has the objective to make industry the main vehicle for achieving prosperity and well-being

• 7 priority sectors within manufacturing: (i) food and agro-industry; (ii) clothing, textiles, and footwear; (iii) non-metallic minerals; (iv) metallurgy and manufacture of metal products; (v) wood and furniture processing; (vi) chemicals, rubber, and plastics; and (vii) paper and printing

• These priority sectors selected based on a broad set of policy objectives: (a) the origin of raw materials, (b) job creation potential, (iii) import substitution and export potential, (iv) industrial linkages, and (v) ease of implementation
Product space and exports

• Mozambique’s exports are located in the outskirts of the product space

• The products Mozambique currently knows how to export require very few capabilities that are useful in exporting other products

• Consequently, it will be very difficult for Mozambique to learn to export many new and sophisticated products, suggesting that its road to a complex economy is challenging
What does this mean – and a question for the panel

- Mozambique has remained one of the world’s least complex economies for the past 20 years
- Low-complexity natural resources and primary commodities has remained at approximately 90% of total exports over time
- Mozambique’s export basket is both unsophisticated and undiversified
- 75 per cent of the country’s exports comes from just ten products
- These products all have Product Complexity Index (PCI) at or below average (zero) and do not substantially add to the transformation of the Mozambican economy as a whole

- QUESTION: Given the current structure of Mozambique’s economy, how is the country positioned to diversify and upgrade?
- QUESTION: What role can manufacturing play?
- QUESTION: What role for higher value added services (industries without smokestacks)?
- What kind of industrial policy should the government pursue?