

INCLUSIVE GROWTH IN MOZAMBIQUE

- scaling up research and capacity

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

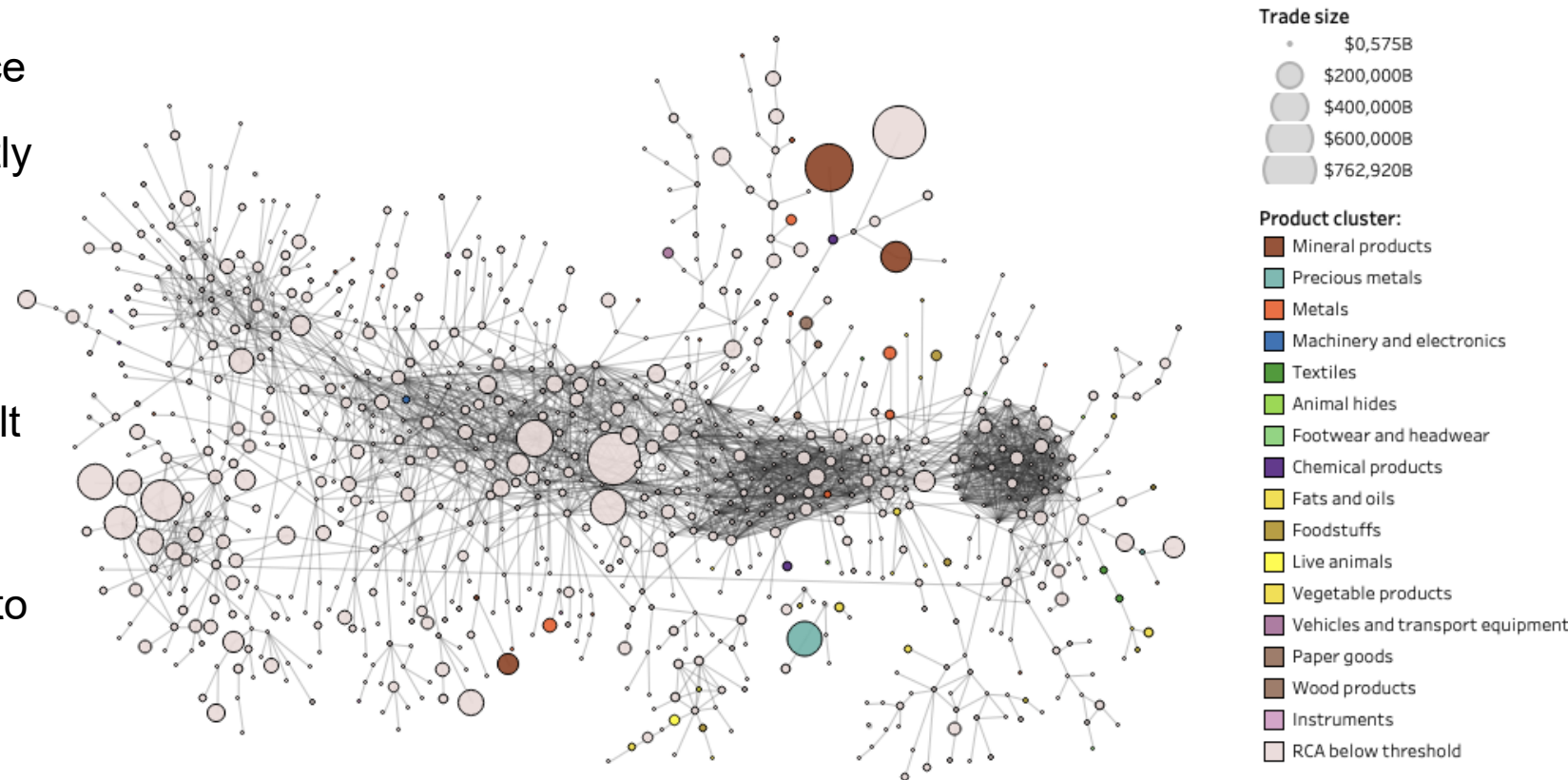


Can manufacturing play a role?

- 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

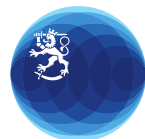


What does this mean – and a question for the panel

- 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?**



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