

Industries without Smokestacks: Mozambique case study

By

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Helsinki July 2016

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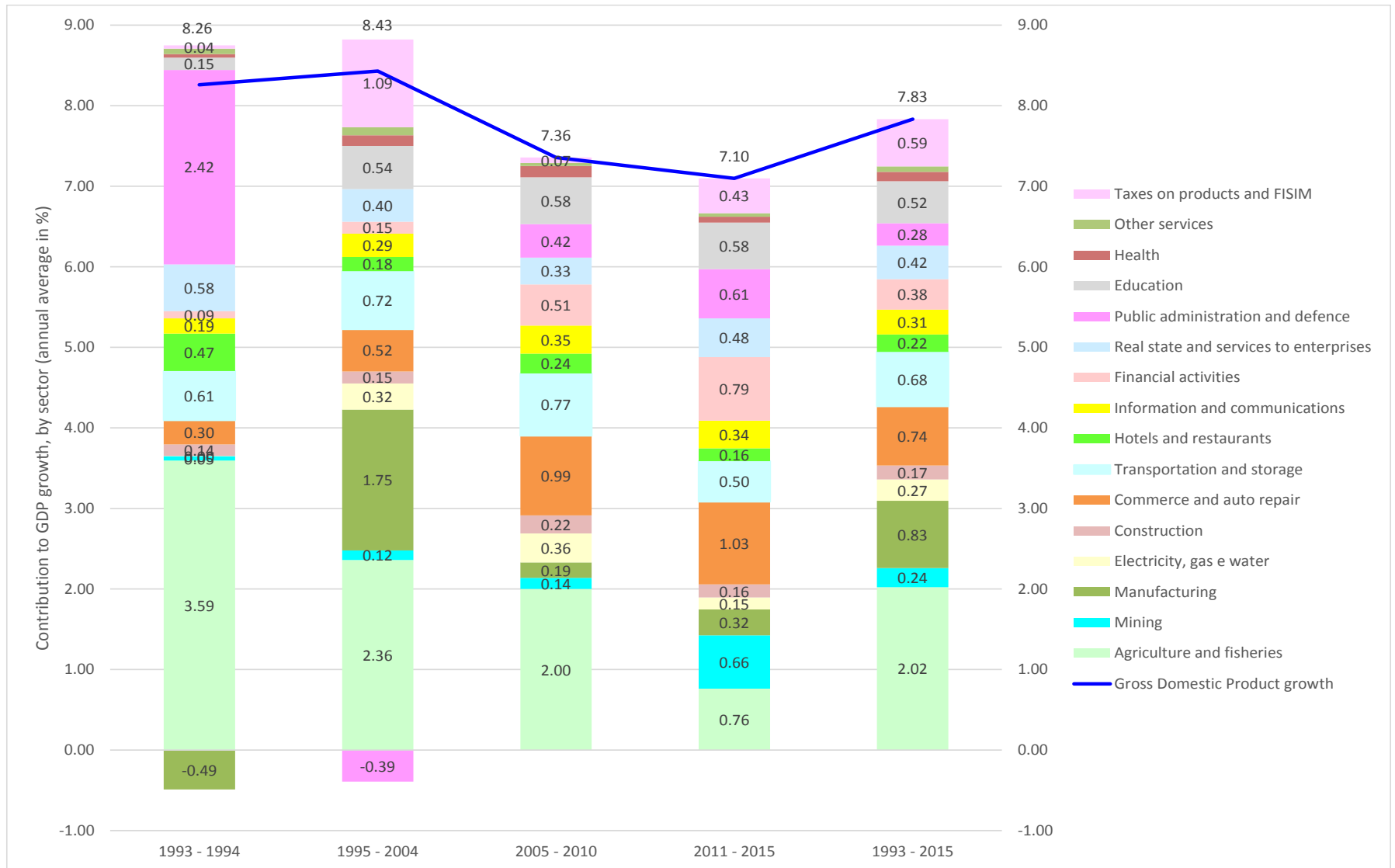
Background (1/2)

- Mozambique has been growing rapidly since 1993, at an annual average rate of 7.8%.
- Driven by substantial inflows of foreign aid, foreign direct investment (including megaprojects), a high rate of population growth and a young population, on average relatively good weather conditions, significant investments on education, health, basic public infrastructures, legislation and institutional reforms, and a favourable international environment (savings from the West, high demand from the East).
- However without structural change: 4/5 of labour force in agriculture, livestock, forestry and fisheries, applying traditional manual and low productivity technology, producing 25% of the GDP. The share of manufacturing in GDP has declined from 16% in 2006 to 10% in 2015.
- Headcount poverty rate declined from 69.4% in 1996-97 to 54.1% in 2008-09, but stagnated from 2002-03 on onwards (increasing the absolute number of poor citizens).
- Since mid 2000's, there has been as an increase in investments in natural resources exploitation, mainly mineral coal and natural gas.
 - But: International oil prices dropped since mid 2014, external demand for coal and natural gas reduced, foreign investments slowed down and exports declined contributing for a reduction in inflow of foreign revenues in past two years.

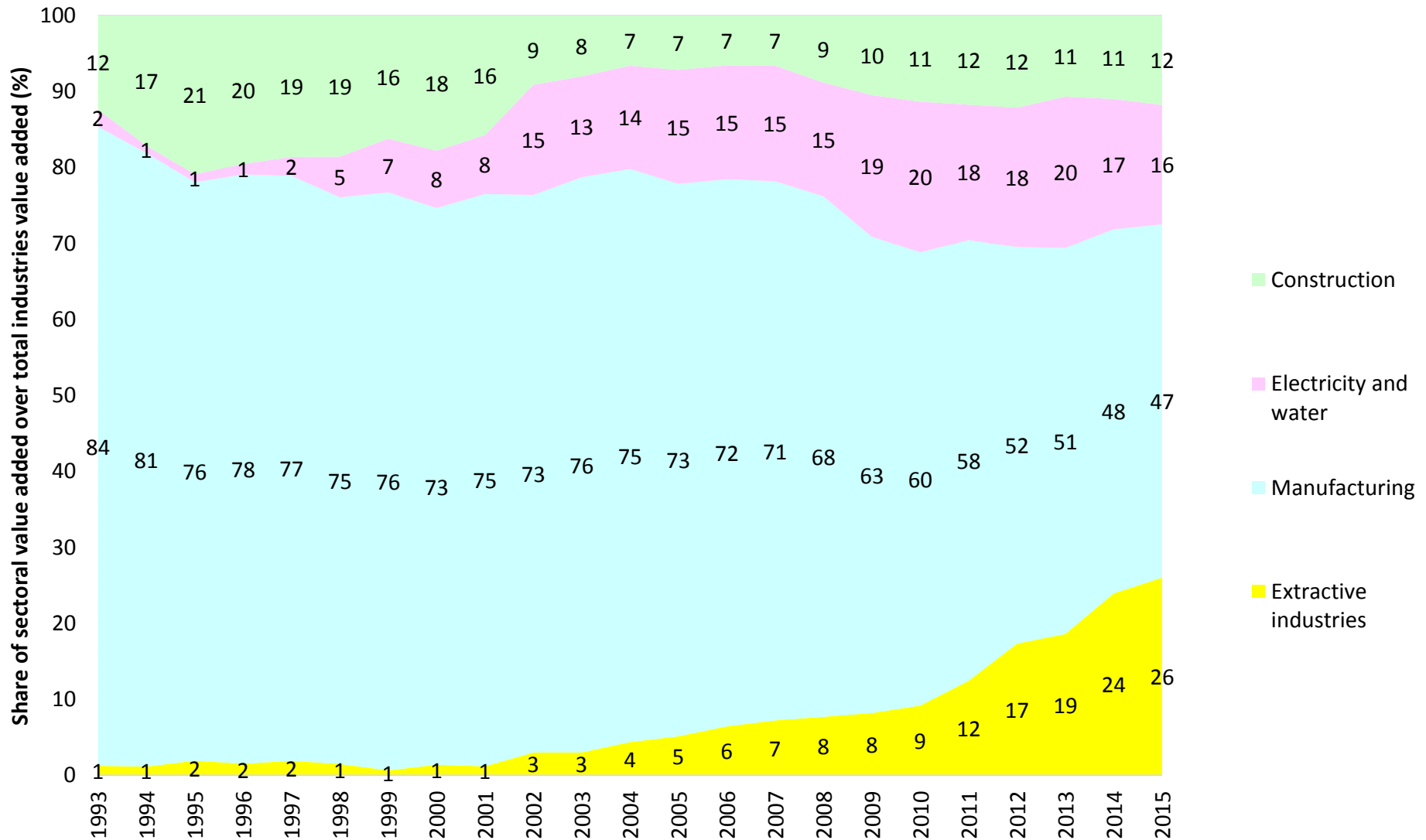
Background (2/2)

- In 2016, the country is in economic crisis due to:
 - (i) A decline in inflows of external resources and (ii) The increase in external debt ratios.
 - Public investment by obtaining non-concessional credit in the international market between 2010-2014.
- Strategy crisis: Economy based on the extraction of natural resources mainly for exports.
 - This scenario requires new strategies that would enable the Mozambican economy to compete in the international market.
- Exports from industries without smokestacks (IWSS) could offer a good opportunity for Mozambique to break into the international market.

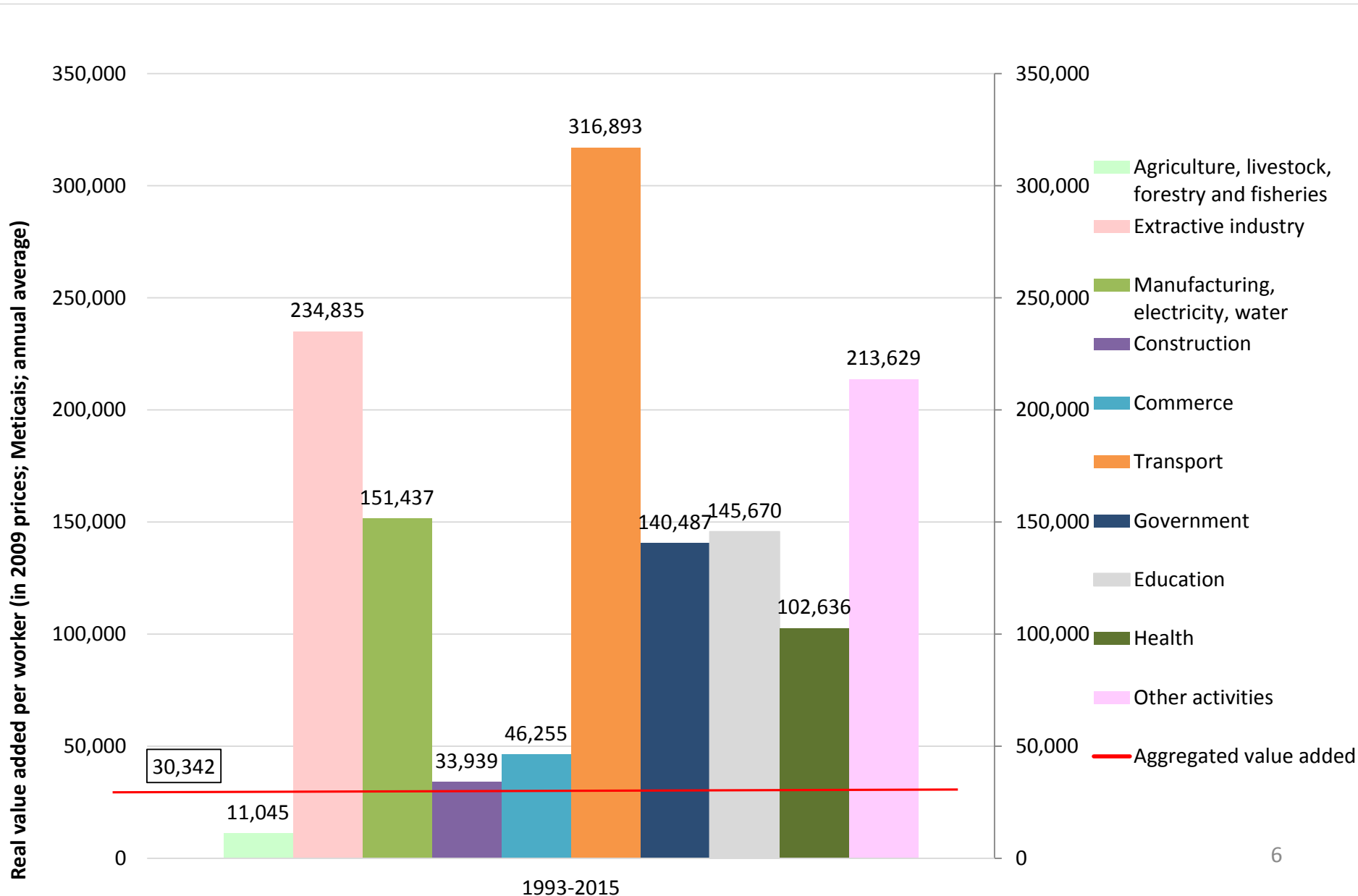
Economy evolution versus lack of structural transformation



Mining share of industries increased by 18% against a decline by 16% in the manufacturing share of industries, from 2009 to 2015



Income per worker in services sectors tend to be higher but the overall economy is strongly influenced by low productivity in agriculture and related sectors



Industries without smokestacks

Regarding the “IWSS”, the country has increased its capacity and its potential in the production chain in the agro-industrial value, most notably:

- Tomatoes and horticultural products increased at an annual average of 8.% and 12.6%, respectively in 1993-2002.
- Production of citrus increased at an annual average of 6.7% in 1993-2014.
- Gross value added (GVA) in current prices of food processing, ‘textiles and garments’, and wood processing represented 32%, 5% and 9%, respectively of the aggregate GVA in manufacturing in 2010-2015.
- Agro-processing of sugar, cashew-nuts, and cotton fiber for exports is a traditional activity in Mozambique.
- GVA in tourism (hotels and restaurants) contributes to 2.2% to aggregated value added in 1993-2015. This sector has been growing at an annual average rate of 9.1%, higher than the GDP growth.

There is evidence that IWSS have been contributing to the economic growth in Mozambique since 1993 but there is no evidence of a significant contribution to the expansion of its goods and services in the international market.

Selected public policies

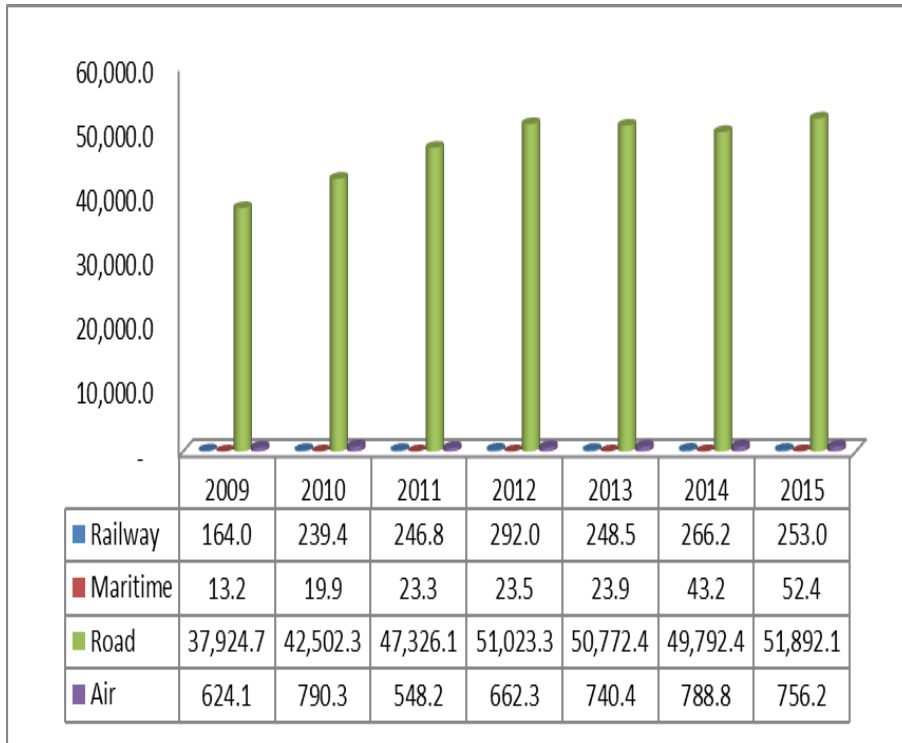
- Macroeconomic policies: Price liberalization, fiscal deficit control up to beginning of 2010's, market power in banking sector.
- Trade policies: Liberalization, free trade are in SADC.
- Labour policies: Slight improvement in business environment with new 2007 labour law.
- Agricultural and industrial policies: Cut in agric. subsidies, privatization, weak incentives for agric. smallholder producers to increase productivity, weak industrial and competition policies.

Tourism and related services: An overview

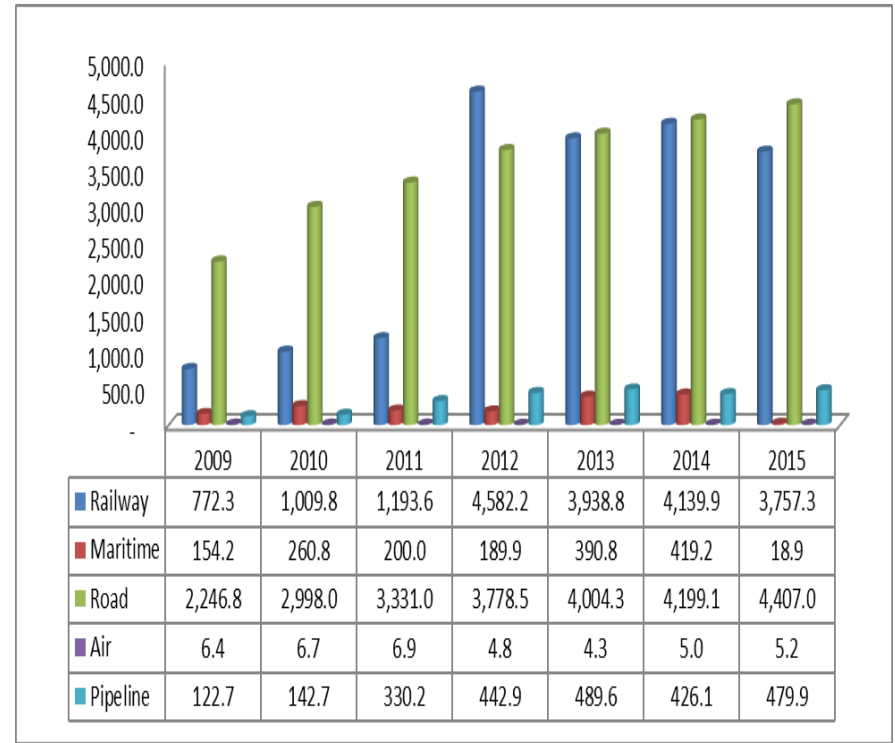
The tourism sector is seen as an opportunity to diversify the economy through its potential for export expansion, job creation, skills learning, and income generation.

- Due to its cultural, natural and wildlife conditions transportation, and information and communications are relevant services supporting the tourism activity.
- The geographic division into three regions, North, Center and South, with different characteristics provides a basis for regional profiles:
 - Own identity, resources, priority development and regional partners, representing vast natural areas of flora and fauna, including 15 national parks and reserves and marine protected areas.

Air transport, road and railway cargo transport



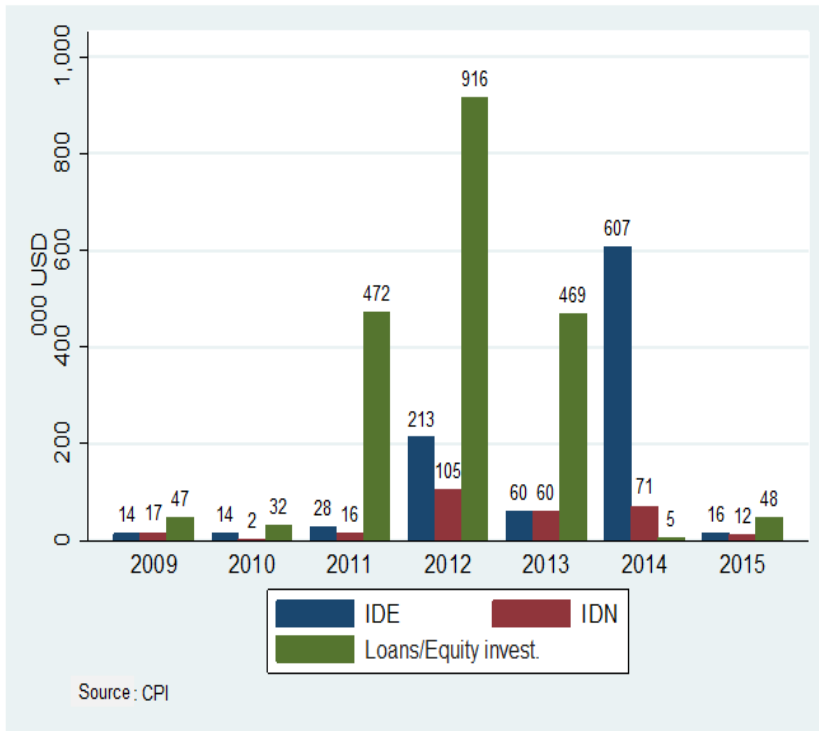
Road passenger traffic increase by 34.5% between 2009 and 2012 (Million passenger-kilometre transported).



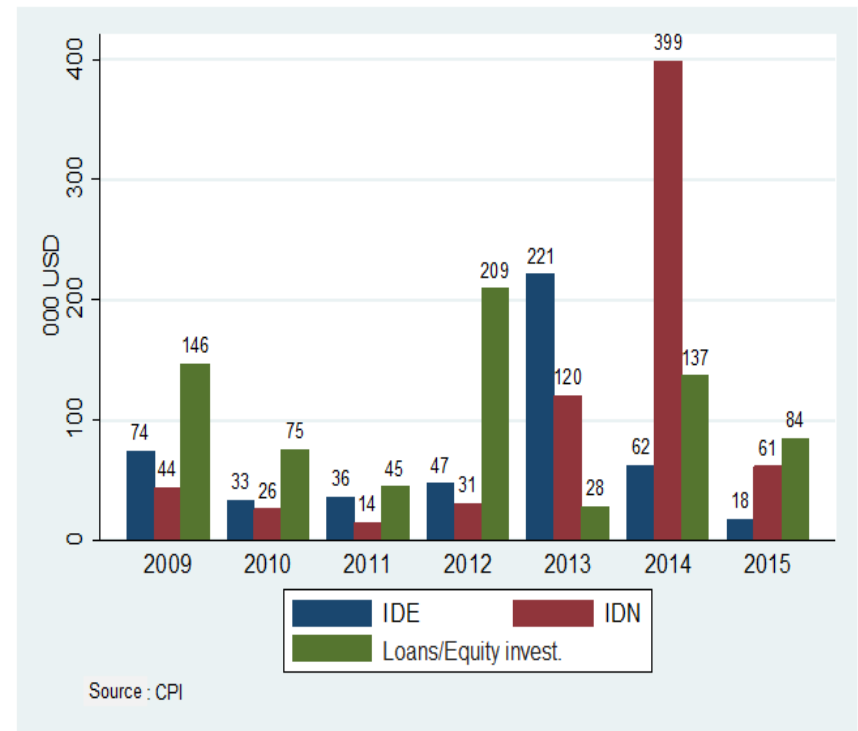
Railway cargo increased by about 5 fold between 2009 and 2012, due to mineral coal exports (Million tons-kilometre transported).

Investment in transportation/communications and in tourism/hotels

- Investments in transportation/communications in 2009-



- Investments in tourism/hotels in 2009-



- Number of mobile phone subscriptions increased after 2012.
- Number of land line telephone tended to reduce after 2011.

Conclusion

- In past two decades Mozambique had strong economic growth, without structural transformation.
- Growth strategy since 2010 has been focused on international investment on mineral coal and natural gas, as well as on expanding public infrastructure investment with a growing share of external commercial lending.
- The economic performance in 2015 and 2016 is revealing that such strategy was very risky and unsustainable, and with the decline in foreign aid is leading to a serious economic crises.
- A diversified growth strategy could promote synergies to expand output from agriculture and related activities, manufacturing and other industries without smokestacks to compete in the international market.
- This economy could potentially attempt to compete in industries without smokestacks, producing goods/services like baby corn, green beans, citrus, bananas, mango, cut flowers, maize and related products, sesame, resorts/wildlife/cultural/ecotourism, electricity from hydropower plants and natural gas plants, and transportation services.

- Thank You!