UNDERSTANDING MOZAMBIQUE'S GROWTH THROUGH AN EMPLOYMENT LENS

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MOTIVATION

- **Mozambique one of the top regional growth performers from mid-1990s to 2016**

- **Successful transition from post-conflict reconstruction to emerging market frontier**

- **BUT pace of poverty reduction uninspiring**

- **On-going concern = absence of growth-enhancing structural transformation**

- **Mozambique not unique in this respect** (Rodrik & MacMillan, 2012; de Vries et al., 2013)

- **New challenges emerging:** crisis & natural resources

OUTLINE

- **Macroeconomic success**

- **Microeconomic concerns**

- **Labour market analysis**

  - Data
  - Methods
  - Trends
  - Findings

- **Policy implications**

- ***A brief update?***

MACROECONOMIC SUCCESS
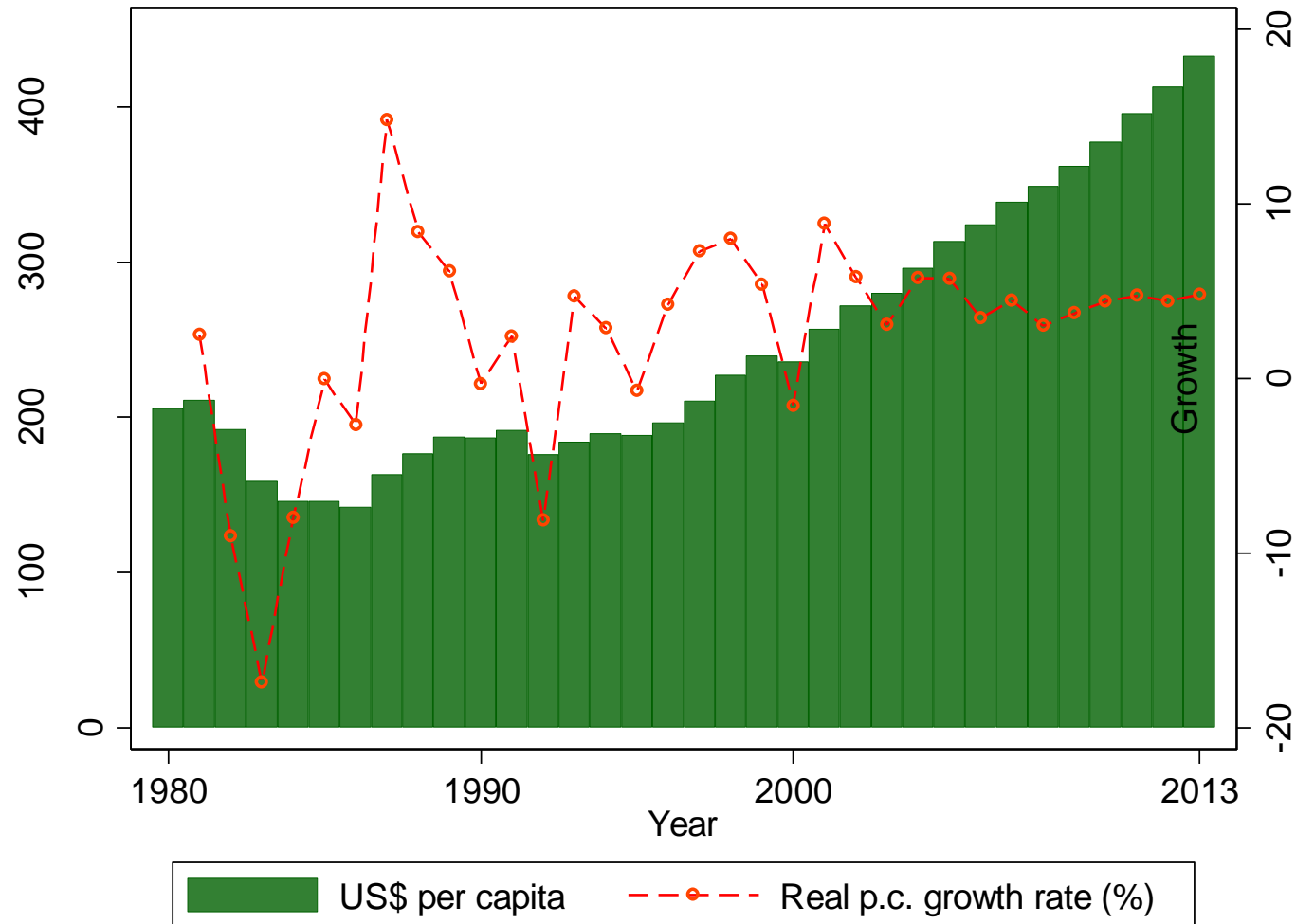
MACROECONOMIC SUCCESS

	90-94	95-99	00-04	05-09	10-13	Change
GDP per capita, PPP (constant 2011 int. $)	458.3	524.4	662.1	832.7	1000.0	541.7
Inflation, consumer prices (annual %)	46.2	22.9	12.9	8.4	7.5	-38.7
Foreign direct investment, net inflows (% of GDP)	1.1	3.9	5.9	4.5	30.1	29.0
Exports of goods and services (% of GDP)	11.7	13.8	25.4	31.8	29.6	17.9
Imports of goods and services (% of GDP)	42.0	30.7	42.7	41.7	40.4	-1.6
Government consumption expenditure (% of GDP)	11.9	7.5	9.7	14.8	19.5	7.7
Net ODA received (% of GNI)	57.7	30.1	29.9	21.1	16.2	-41.6

MICROECONOMIC QUESTIONS

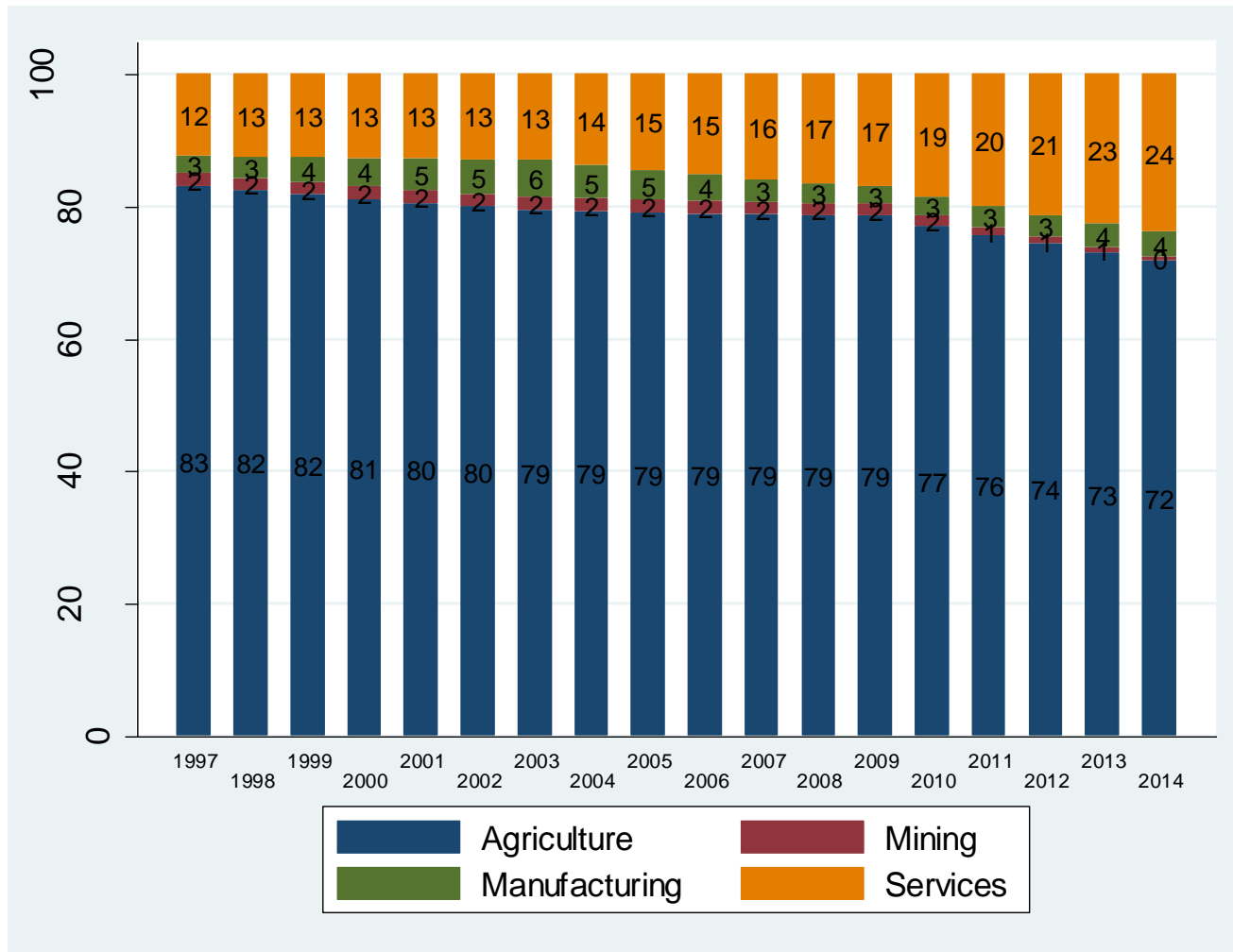|					Change p.a.	
(a) DHS surveys	Group	1997	2003	2011	1997-03	2003-11
No education	Male	26.2	25.4	19.3	-0.1	-0.8
	Female	47.4	44.4	32.8	-0.5	-1.5
Infant mortality	Boys	153	127	75	-4.3	-6.5
	Girls	142	120	67	-3.7	-6.6
Under 5 mortality	Boys	225	181	113	-7.3	-8.5
	Girls	213	176	103	-6.2	-9.1
Total fertility rate	-	5.2	5.5	5.9	0.1	0.1
					Change p.a.	
(b) Budget surveys	Group	1996/97	2002/03	2008/09	1997-03	2003-09
Consumption poor	-	69.4	54.1	54.7	-2.6	0.1
Asset poor	-	73.8	73.6	66.7	0.0	-1.2
Asset & cons. poor	-	54.0	42.6	40.1	-1.9	-0.4
Neither (non-poor)	-	11.8	14.8	19.0	0.5	0.7

LABOUR MARKET ANALYSIS

- **Labour market = primary mechanism linking household welfare and macroeconomic trends**

- **Question:**

  - To what extent has macroeconomic success been accompanied by structural changes in use of labour through the economy?

- **Data:**

  - No regular comprehensive employment data in Moz.
  - Latest full household budget survey 2014/15
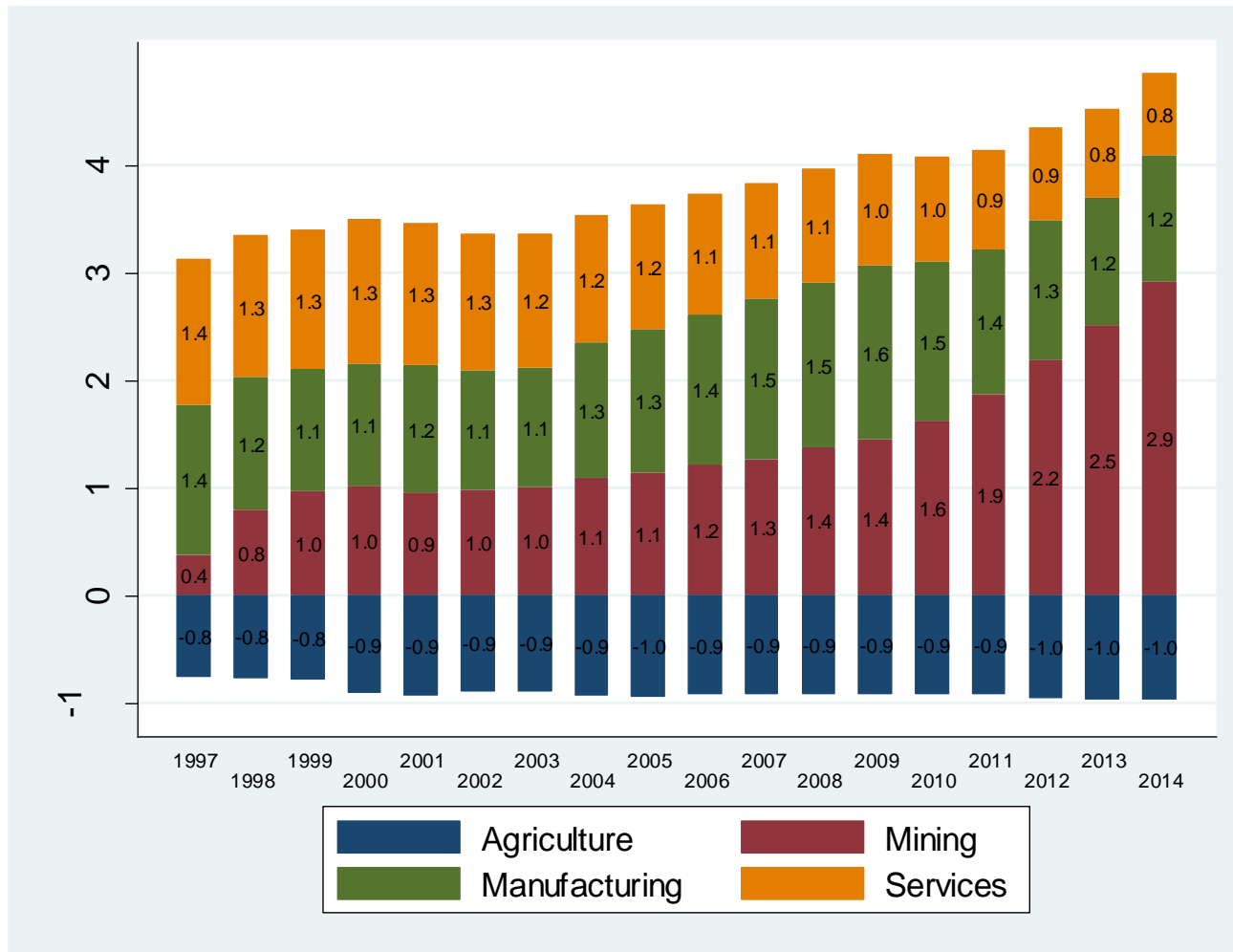   - This survey uses preliminary numbers
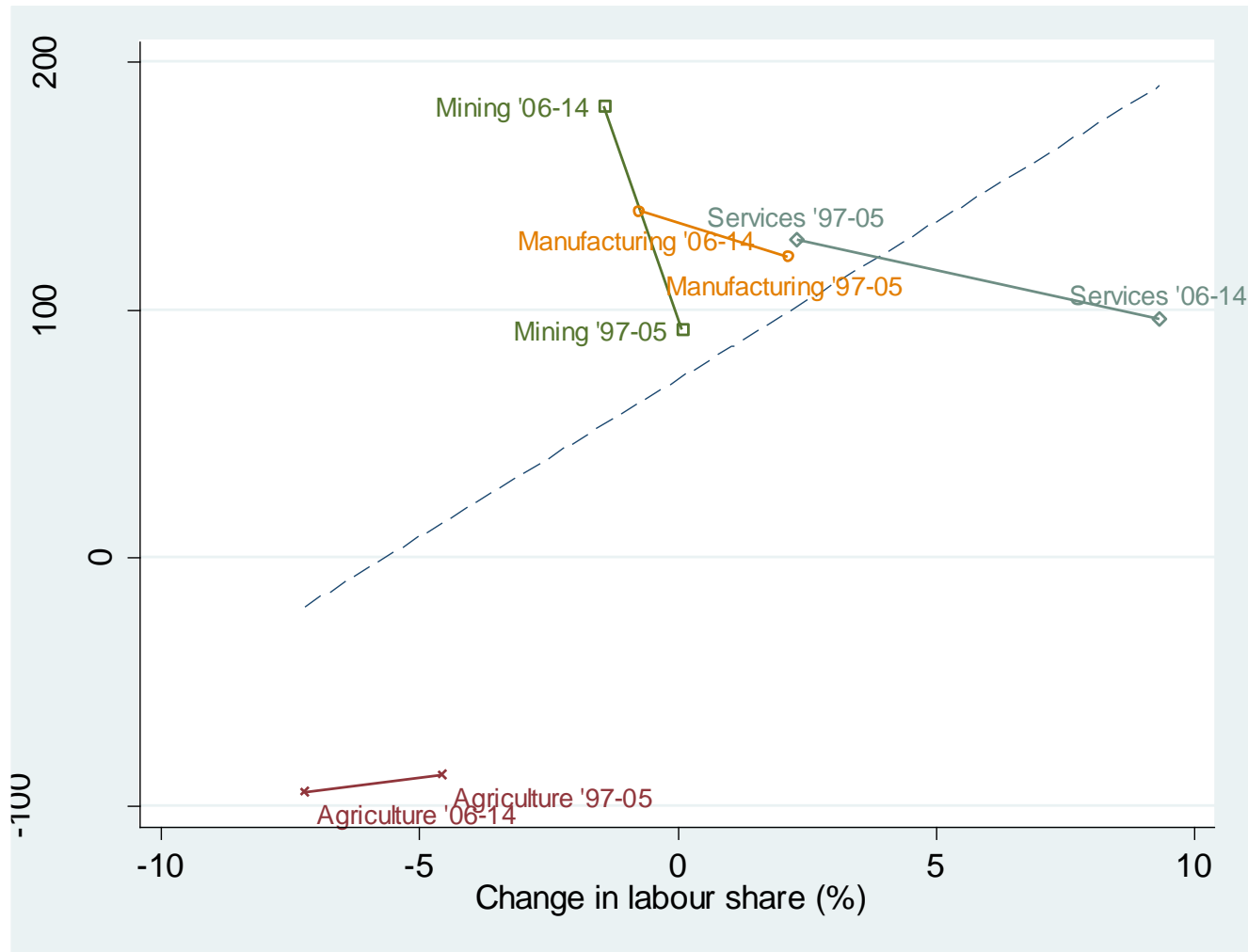 - = up to date insights

SECTORAL GDP TRENDS
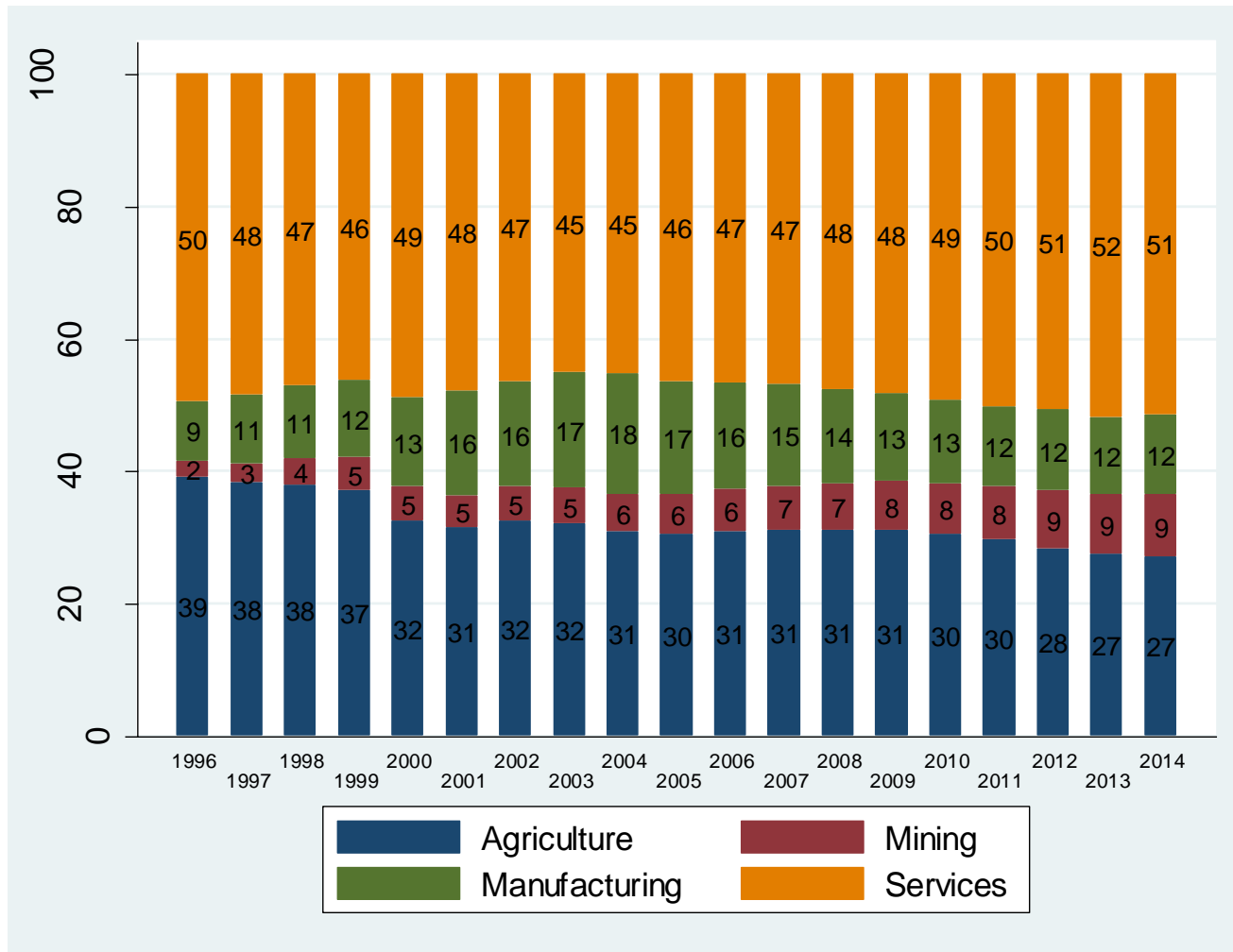
LABOUR MARKET TRENDS

RELATIVE LABOUR PRODUCTIVITY TRENDS

SECTORAL DYNAMICS

METHODS

- Standard decomposition of changes in labour productivity into three main sources:

1. **Intra-effect**: changes in productivity within-sectors, holding output weights fixed (i.e., contribution of changes in average worker productivity).

2. **Denison effect**: reallocation of labour across sectors, holding productivity fixed (i.e., contribution of changes in labour across sectors).

3. **Baumol effect**: dynamic structural reallocation effect, equal to the interaction between average productivity growth and relative labour growth (i.e., positive if sectors with growing average productivity are also adding workers).

2 + 3 = components of *structural transformation*

METHODS

$$\overline{g}_t^P = \frac{\Delta \overline{P}_t}{\overline{P}_{t-1}} = \sum_{i \in I} \left(\Delta P_{it} \omega_{it-1}^L + P_{it} \Delta \omega_{it}^L \right) / \overline{P}_{t-1}$$

$$= \sum_{i \in I} \left(\frac{\Delta P_{it}}{P_{it-1}} \frac{P_{it-1}}{\overline{P}_{t-1}} \omega_{it-1}^L + \frac{P_{it}}{P_{it-1}} \frac{P_{it-1}}{\overline{P}_{t-1}} \Delta \omega_{it}^L \right)$$

$$= \sum_{i \in I} \left(g_{it}^P \omega_{it-1}^P \omega_{it-1}^L + \Delta \omega_{it}^L [1 + g_{it}^P] \omega_{it-1}^P \right)$$

$$= \sum_{i \in I} \omega_{it-1}^P \left(g_{it}^P \omega_{it-1}^L + \Delta \omega_{it}^L [1 + g_{it}^P] \right)$$

$$= \sum_{i \in I} \left(g_{it}^P \omega_{it-1}^Y + \Delta \omega_{it}^L \omega_{it-1}^P + \Delta \omega_{it}^L g_{it}^P \omega_{it-1}^P \right)$$

STRUCTRUAL CHANGE?

|		Absolute				Relative			
		Intra[a]	SRE	DRE	Total	Intra	SRE	DRE	Total
1997–2002	Agriculture	1.40	−0.29	−0.01	1.10	22.2	−4.5	−0.2	17.5
	Manufacturing	0.06	1.94	−0.01	2.00	1.0	30.8	−0.2	31.6
	Mining	0.67	0.06	0.01	0.73	10.5	0.9	0.2	11.6
	Services	2.15	0.32	0.01	2.48	34.0	5.1	0.2	39.3
	Total	4.28	2.04	0.00	6.32	67.7	32.2	0.0	100.0
2003–08	Agriculture	1.15	−0.08	0.00	1.06	27.6	−2.0	−0.1	25.5
	Manufacturing	2.04	−1.44	−0.21	0.39	48.9	−34.5	−5.0	9.5
	Mining	0.66	−0.07	−0.01	0.58	15.8	−1.7	−0.2	13.8
	Services	0.19	1.94	0.00	2.13	4.5	46.6	0.1	51.2
	Total	4.04	0.35	−0.22	4.17	96.8	8.4	−5.2	100.0
2009–14	Agriculture	1.02	−0.44	−0.02	0.56	24.2	−10.5	−0.4	13.3
	Manufacturing	−0.20	0.49	−0.08	0.20	−4.8	11.6	−1.9	4.8
	Mining	2.97	−1.57	−0.69	0.71	70.5	−37.3	−16.4	16.8
	Services	−0.39	3.16	−0.03	2.74	−9.2	75.0	−0.7	65.1
	Total	3.40	1.64	−0.82	4.21	80.6	38.9	−19.5	100.0

FINDINGS

- **The majority of Mozambique's labour force remains dependent on low productivity agriculture**

- **Inter-sectoral labour movement has been moderate, and dominated by growth of workers in services sector**

- **Inter-sectoral differences in labour productivity are widening, esp. with investment in mining sector**

- **Productivity growth driven by:**

  - Within-sector growth, BUT this is slowing

  - Movement of workers from agriculture to services BUT average productivity in services is falling

  - Negative dynamic reallocation effect recentl

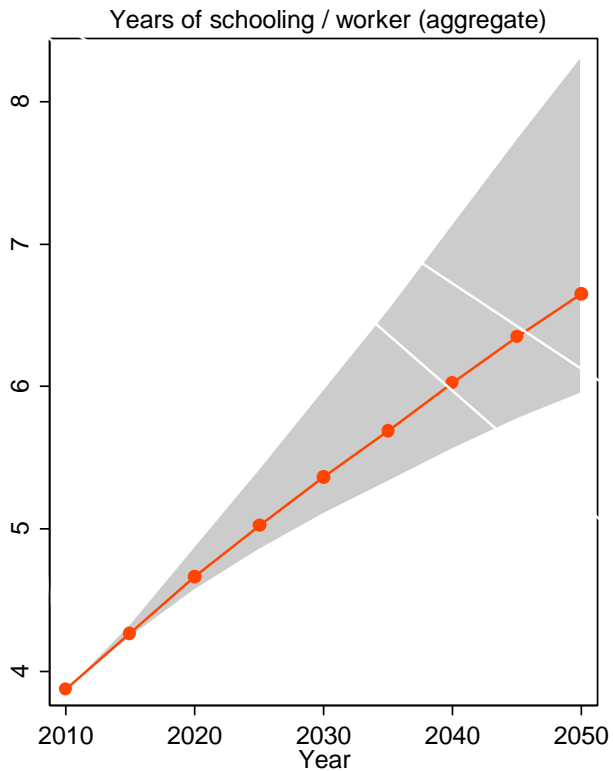- **Limited contribution of structural change**

POLICY CHALLENGE

Total working-age population
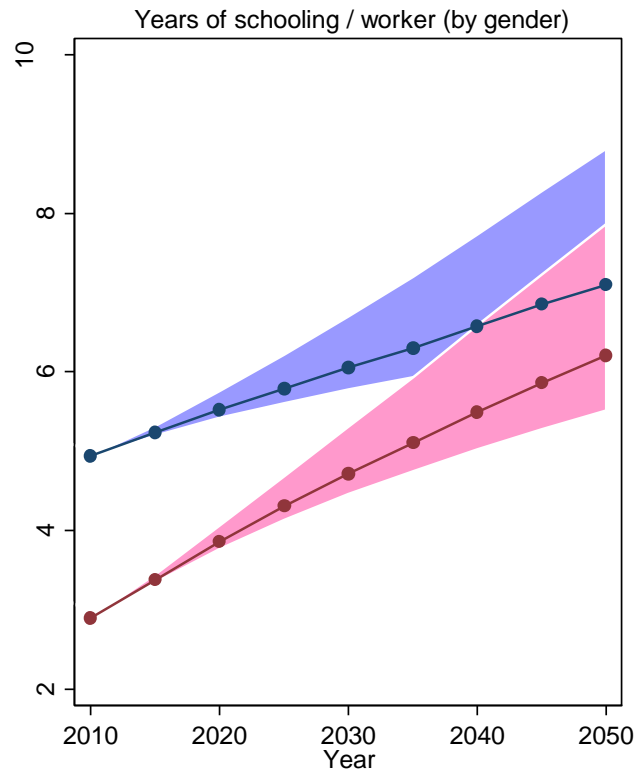
Working-age pop. with primary edu., (by gender)
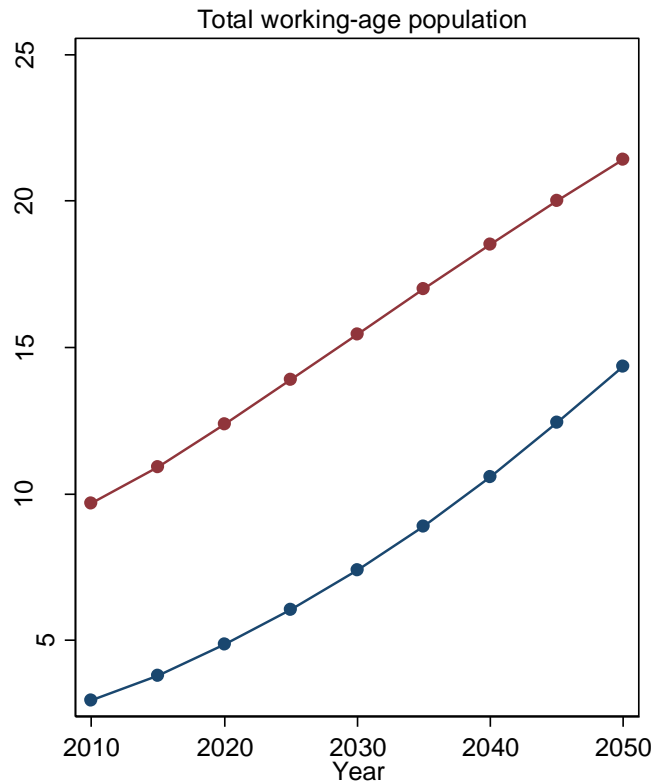
With primary — Without primary
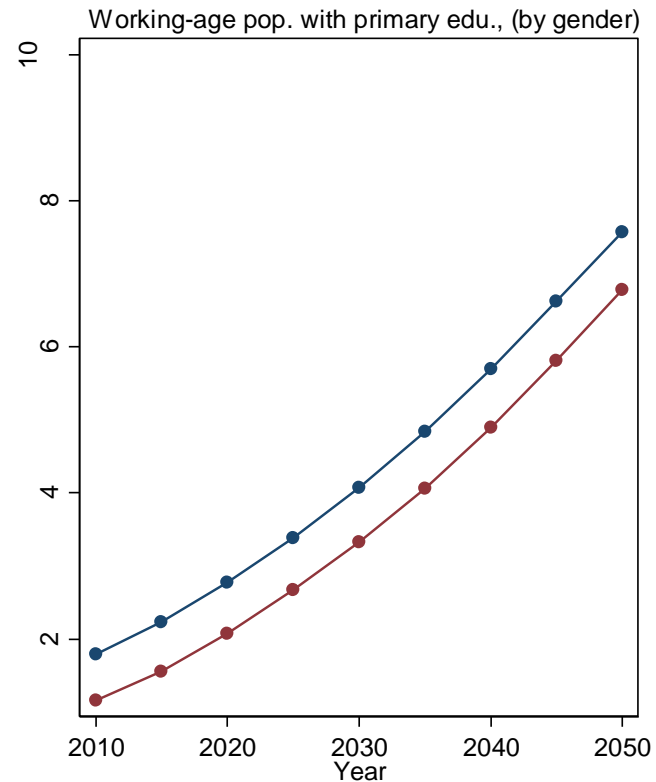
Males — Females

POLICY CHALLENGE

Years of schooling / worker (aggregate)

Years of schooling / worker (by gender)

Forecast at median

Males   Females

POLICY IMPLICATIONS

- **Primary concern: Mozambique's current growth mode (dynamic) is capital intensive and NOT pro-poor**

- **Major demographic challenges on the horizon**

- **What can be done?**

- **Relevant distinction:**

  - Microeconomic sector- / firm-specific policies
  - Macroeconomic initatives (affect multiple sectors)

- **Broad-based, macroeconomic approaches are preferred**

  - Weak policy implementation capacity

  - Scale of the challenge

  - Fertility rate is not falling

UPDATE?

- **Mozambique has experienced a debt crisis since 2016**

- **Reduced growth, high inflation, depreciation, reduced aid**

- **Situation now stabilizing**

  … some evidence of higher unemployment

  … no evidence of a substantive shift in policy / econ. structure

  … treading water until natural gas revenues arise

- **Looming focus on natural gas:**

  - *Threat*: standard curse scenario (Angola, Nigeria)
  - *Opportunity*: UBI?

CONCLUSION

- **Mozambique has been a success story**

- **BUT new challenges emerge in each development phase, as shown in debt crisis**

- **Current challenge is to assure genuine welfare improvements *across* society, where jobs place a key role**

- **This concern is urgent:**

  - Structural has been transformation weak and slowing
  - Current mode of growth is dependent on capital intensive mega-projects and shift of some labour from low productivity agriculture to only slightly higher productivity services, which are becoming saturated
  - Demographic challenges on horizon

- **No 'magic bullet' policy solutions**