Can Mozambique Industrialize?

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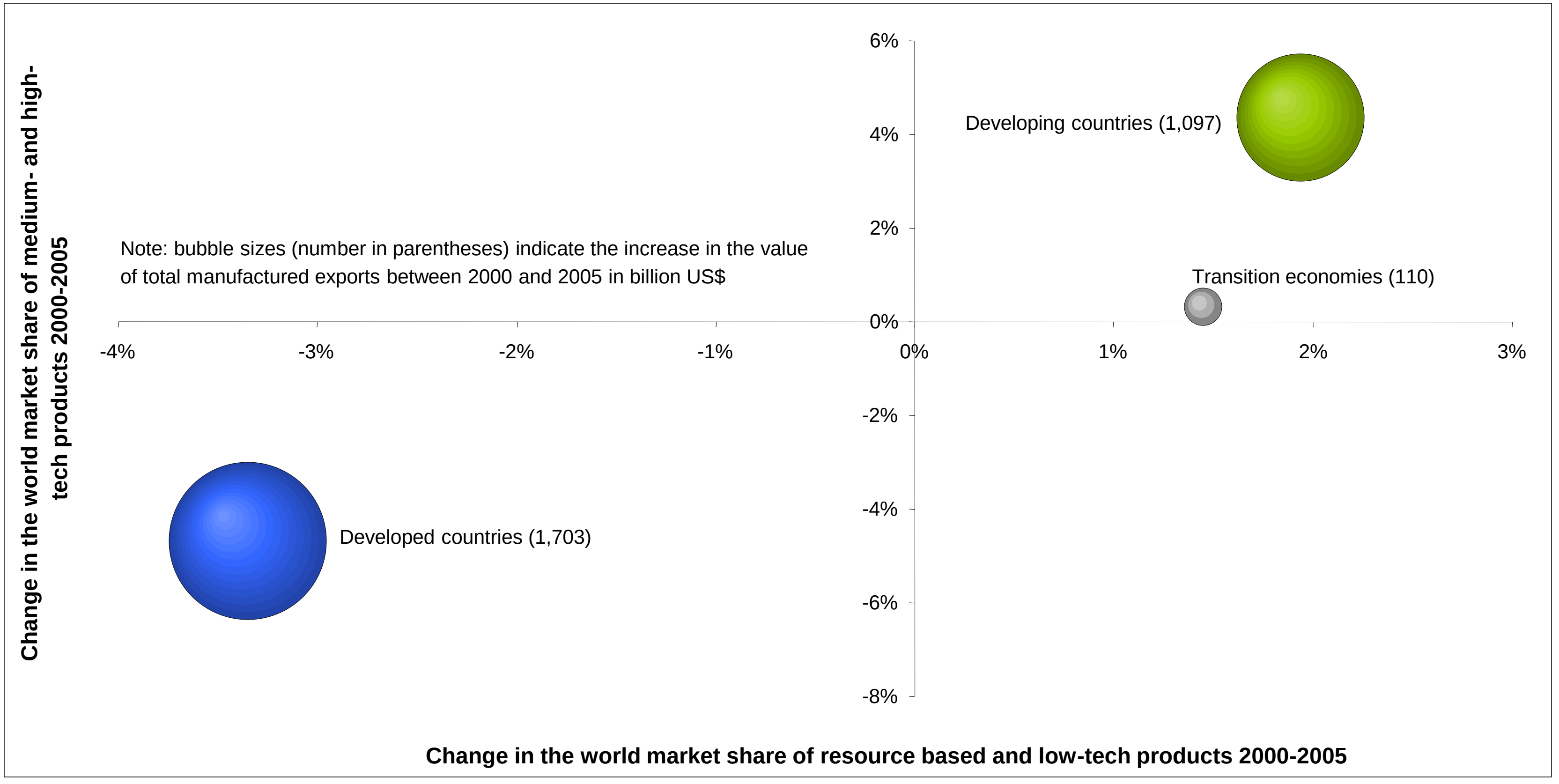
A New Global Structure of Industry

Developing countries have gained market share in all categories of manufactured exports since 2000



Why Industrialize?
What you make matters

- Economies with more sophisticated manufacturing sectors grow faster.
  - “Sophisticated” products embody advanced country knowledge and productivity
  - As the manufacturing base moves from low sophistication to higher sophistication activities, new export opportunities arise
  - Knowledge becomes more generalized and productivity rises
- More diverse economies have higher incomes.
  - More diverse economies are better able to take advantage of opportunities in global markets
  - A wide range of industrial activities provides a broad basis for the entry and exit of firms

The Challenge of Breaking In

- New entrants to global markets are competing with Asia
- A window of opportunity?
  - Rising costs in Asia
  - Growing domestic demand in Asia
  - Industry no longer need smokestacks
- Success requires mastering the drivers of industrial location

The Drivers of Industrial Location: Trade in tasks

- Technical change has brought about “vertical disintegration” of production.
- Rapid growth: imported intermediates grew from 26 percent of total intermediate inputs 1986-1990 to 44 percent in 1996-2000.
- A chance for a foothold, but many low wage economies have not attracted task-based production

The Drivers of Industrial Location: Firm capabilities

- High capability firms are those that can compete globally on price and quality
- Capabilities are the tacit knowledge and working practices needed for production and product development
- Capabilities are transferred from high to low capability settings by FDI or supply chain links
- Capabilities can spill over to other firms, although usually not horizontally

The Drivers of Industrial Location: Agglomerations

- Manufacturing and service industries tend to cluster, often in cities
- Agglomerations confer significant productivity gains
- Starting a new industrial agglomeration is a form of collective action problem

Meeting the Challenge of "Breaking In": A strategy for industrial development

- Conventional Wisdom: Fix the investment climate.
- Unconventional Wisdom: Strategies for public action

The Investment Climate: Regulatory reform

- Regulatory constraints to business are important
- *Doing Business* has been the most popular instrument (an easily understood league table) but:
  - *Doing Business* cannot identify the binding constraints to industrialization
  - *Doing Business* has diverted attention from more serious diagnosis and policy reform

THE INVESTMENT CLIMATE: TWO NEGLECTED PRIORITIES

INFRASTRUCTURE

- Firm level studies in Africa highlight infrastructure deficiencies as a significant constraint
- Africa lags at least 20 percentage points behind the average for low income countries on almost all major infrastructure measures
- Donors are part of the problem: ODA for economic infrastructure has declined as a share of aid since the 1970s

SKILLS

- The skills gap poses a major constraint to industrial development
- Between 1990 and 2005:
  - East Asia secondary enrollment rates increased by 21 percentage points, Africa 7.
  - East Asia tertiary enrollment rates increased by 13 percentage points; Africa 1
- Again, the donors are part of the problem: A new education MDG is needed.

Beyond the Investment Climate

- Industry is lumpy – in size, space and time.
- Once a minimum threshold of activity is reached growth can be sustained, but below that threshold marginal improvements may not yield the intended results.
- Externalities and coordination failures are at the center of “lumpiness” and call for a coherent strategy of public action

Beyond the Investment Climate: Tilting towards exports

- Breaking into export markets in a world of task based production and agglomeration will need an “export push”
- Trade logistics are critical to export success, especially in task-based trade
- Trade logistics reforms will require better infrastructure and institutions

Beyond the Investment Climate: Attracting and building capabilities

- Strengthening policies and institutions for attracting FDI: A world class FDI agency is critical (think Ireland)
- Removing obstacles to the transfer of capabilities in value chain relationships (migration, trade, procurement)
- Supporting knowledge networks to encourage horizontal spillovers (public-private partnerships)

Beyond the Investment Climate: Supporting agglomerations

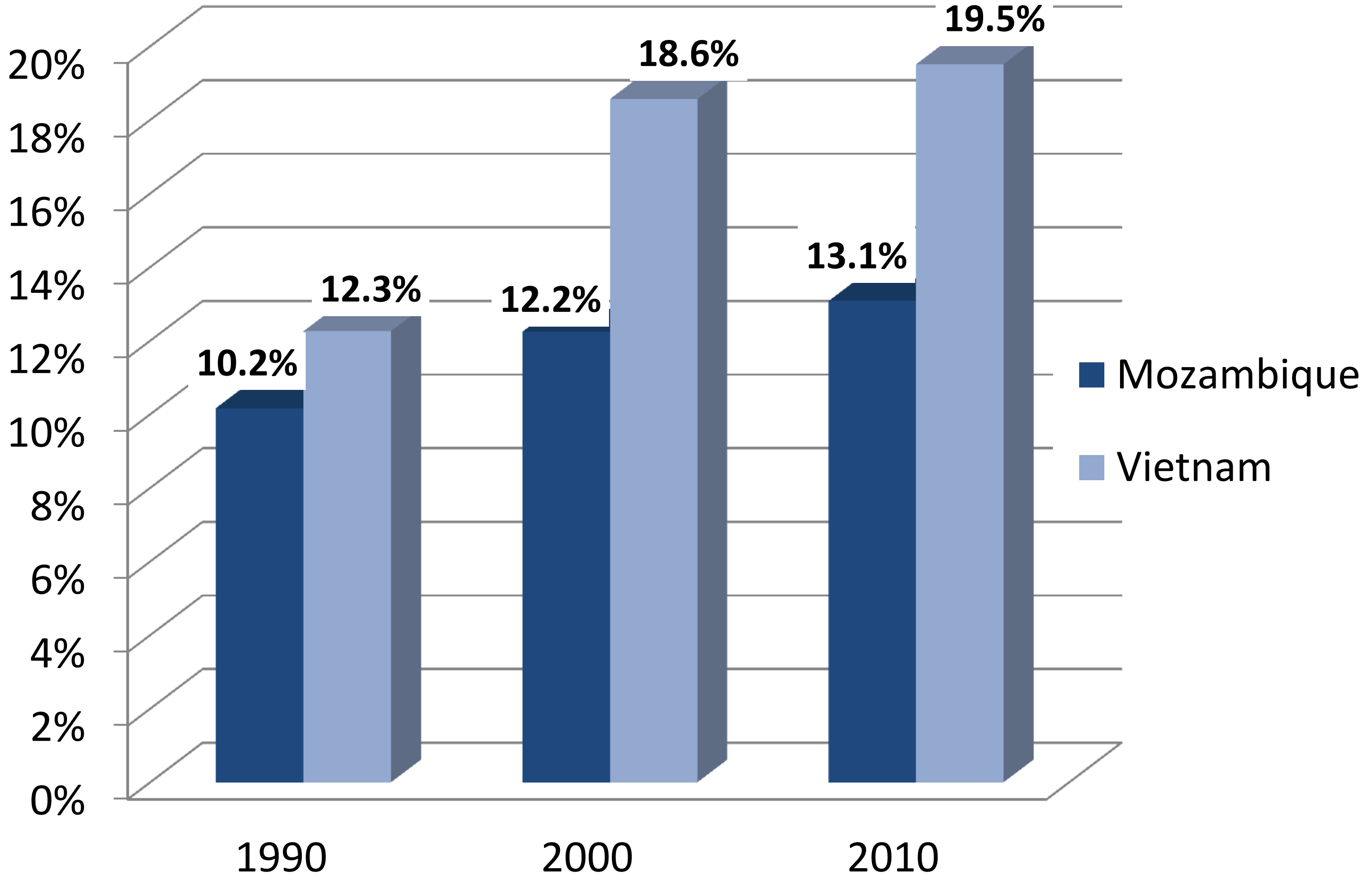
- Spatial industrial policy
  - concentrate investment in high quality institutions, social services, and infrastructure in a special economic zone (SEZ)
  - Fix existing EPZs
- Growth corridors?
  - link natural resources, transport and industry
  - address coordination problems between investments in related projects

The Industrialization Challenge : Mozambique's "structural deficit"

	GDP SHARE AGR	GDP SHARE IND	GDP SHARE MFG	GDP SHARE SER		LABOR SHARE AGR	LABOR SHARE IND	LABOR SHARE MFG	LABOR SHARE SER
Benchmark MIC	21.7	12.2	21.9	44.2		45.2	6.6	11.6	36.6
Africa LIC Average	27.8	11.8	11.1	49.3		63.1	5.1	6.6	25.2
Mozambique	31.9	10.3	13.1	44.8		83.4	1.4	2.5	12.7
Vietnam	19.8	20.0	19.5	38.9		54.2	6.5	13.5	25.9

Vietnam and Mozambique: Divergent paths of structural change

Manufacturing value added (% of GDP)



The Investment Climate: Regulatory Reform

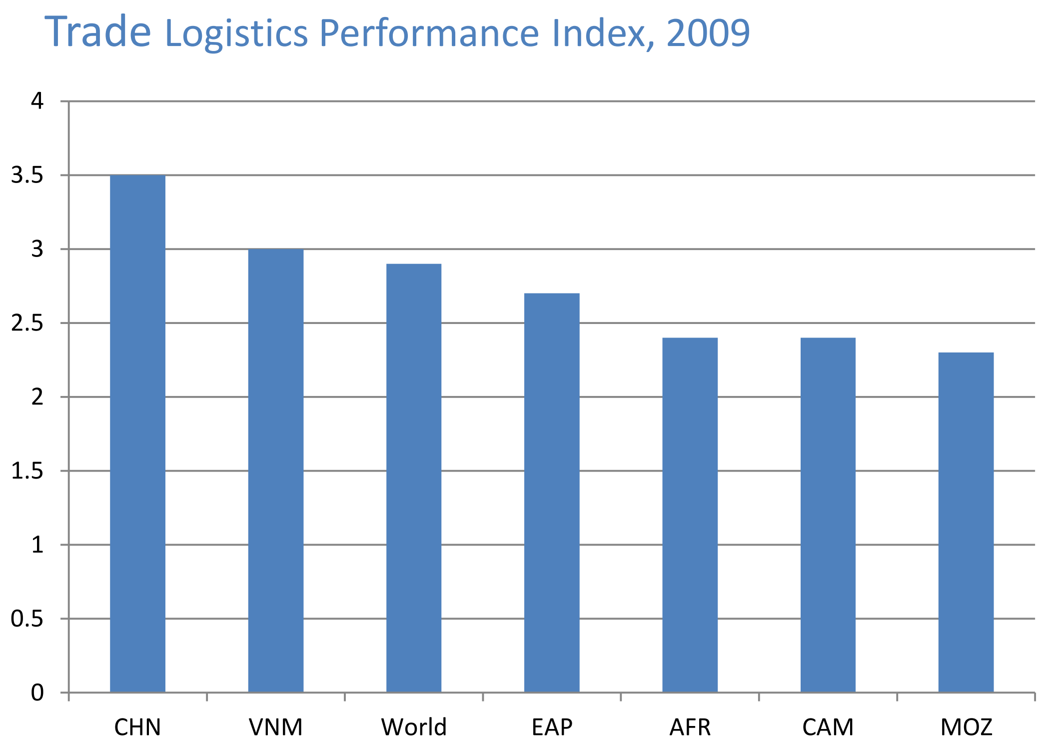
Ease of Doing Business and Industrial Performance

Country Group	Average "Ease of Doing Business" Score (range)	Mfg Exports PC 2005	Share of Mfg in GDP 2005
South East Asian new industrializers	132 (78-171)	185.3	19.0
Central American new industrializers	103 (86-125)	209	19.0
Africa Average	137 (20-183)	39	07.6
Mozambique	132	69	12.5
Vietnam	90	211	19.0

The Investment Climate:
Neglected Priorities – Infrastructure and Skills

	Mozambique		**Vietnam**	
	GCI Rank (n=142)	GCI Score (n=142)	GCI Rank (n=142)	GCI Score (n=142)
2011 Global Competitiveness Rank	133	3.3	65	4.2
Infrastructure	123	2.6	90	3.6
Quality of overall infrastructure	121	3.1	123	3.1
Health and Primary education	132	3.8	73	5.7
Higher education and training	136	2.5	103	3.5

Creating an export push: Trade logistics are poor



Creating an export push:
Customs and timeliness are major bottlenecks

Components of the Trade Logistics Performance Index, 2009

	Overall Rank	Customs	Infrastructure	International Shipments	Logistics Quality and Competence	Tracking and Tracing	Timeliness
Vietnam	**53**	**53**	**66**	**58**	**51**	**55**	**76**
Mozambique	**136**	**145**	**124**	**87**	**130**	**135**	**150**

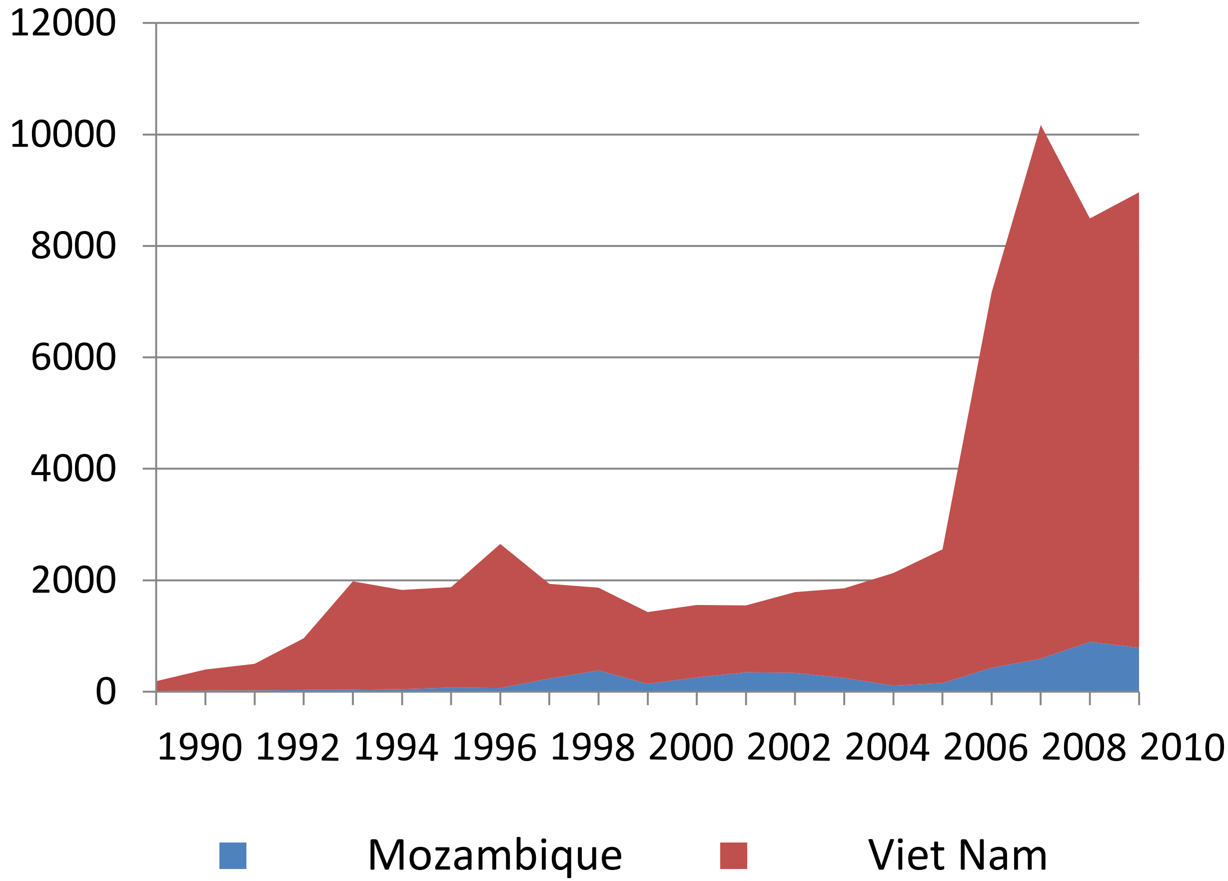
Note: Ranking ranges from 1 Best Practice to 155 Worst Practice

Competing in Capabilities

	Mozambique		Vietnam	
	GCI Rank (n=142)	GCI Score (n=142)	GCI Rank (n=142)	GCI Score (n=142)
2011 Global Competitiveness Ranking	133	3.3	65	4.2
Institutions	105	3.4	87	3.6
Higher education and training	136	2.5	103	3.5
Innovation	107	2.8	66	3.2

Source: World Economic Forum

Competing in capabilities: Inward FDI Flows (1990-2010)*

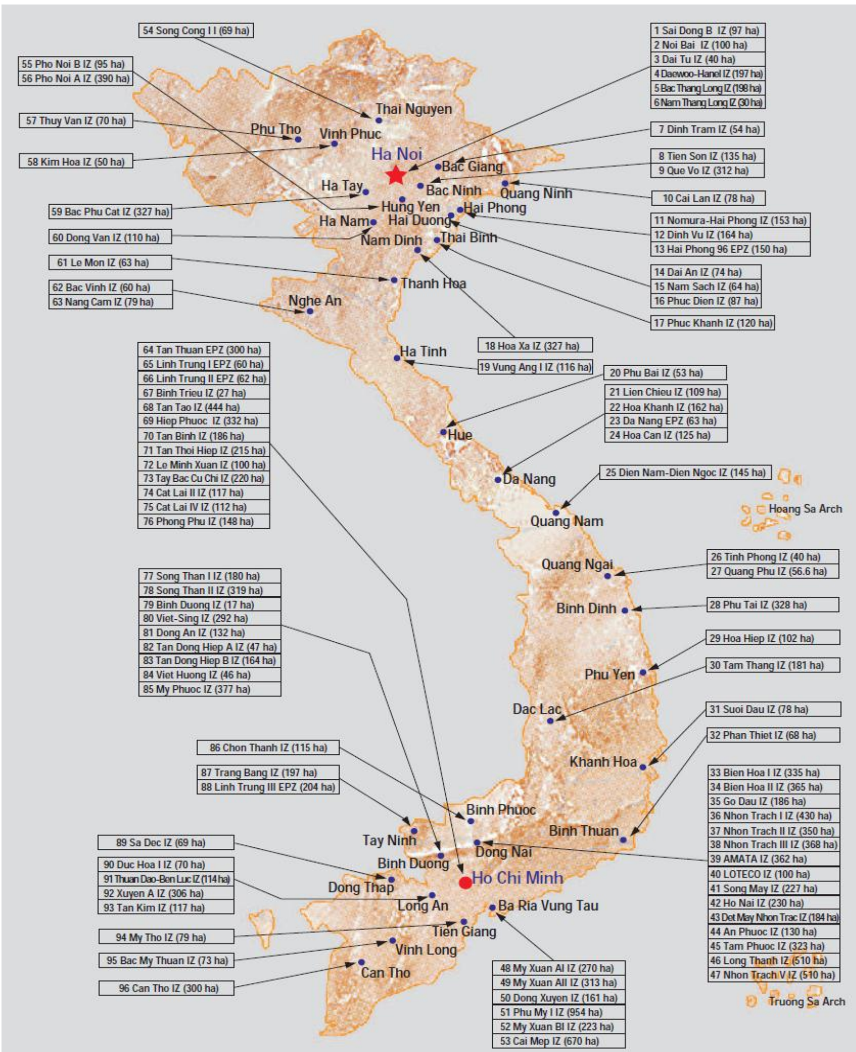


**US Dollars at current prices and current exchange rates in millions*

Source: UNCTAD

Spatial industrial policy:

Special Economic Zones in Vietnam and Mozambique



An added challenge: Natural resources

- Dutch disease and competitiveness
  - Relative prices work against exports and diversification
  - But geology is not destiny
- The investment climate matters
  - Accelerate relevant reforms
  - Boost investments in infrastructure and skills
- Sharpen the focus on trade logistics
- Generate knowledge relevant to new exports
- Focus on FDI *outside* the natural resources sector
- Develop effective spatial industrial policies
  - Use natural resources infrastructure for broader purposes (SEZs)
  - Link investments in new knowledge and skills with geography

Conclusions

- Industry is important because “what you make matters”
- Breaking into global markets is possible but not assured
- Three drivers of industrial location will determine success
  - Trade in tasks
  - Firm Capabilities
  - Agglomerations
- A strategy for industrial development is needed
  - Fix the investment climate: infrastructure and skills
  - Move beyond the investment climate: push exports, attract capabilities, support agglomerations
- Mozambique faces major challenges in both areas
- Natural resources will further complicate the task
- It can be done: coherent and effective public action is needed