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Impact of Mozambique's Resource Revenue Boom on the Competitiveness of Business Sectors

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Objectives

- Define competitiveness issues for existing sectors
- Prepare Terms of Reference for research
- Provide information for debate and discussion



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Definitions

- Resource curse
 - Inferior rates of growth
- Dutch disease
 - Changes in the structure of the economy
 - Contraction of the tradables sector



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Competitiveness

- Competitiveness has been a theme for a long while
- What we mean by competitiveness
 - Business
 - Value chain
 - Region
 - Economy
 - Business environment



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Competitive and comparative advantages

Comparative Advantages	Competitive Advantages
Land availability; land costs	Labor productivity
Arable land; fertility	Process efficiencies
Taxation	Quality of product, service
Labor costs	Skills base
Raw materials	Technology
Business environment	Research and development (R&D)
Transport	Knowledge base; core competencies
Proximity to markets	Differentiation
Scenery, beaches, etc.	Social capital/trust
Economies of scale	Market knowledge
Collaborative advantages	

Source: ADB and JAA



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Expectations

- Labor prices rise
- Skills are scarce
- Exchange rate appreciates

What are the consequences?



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Sectors to consider

Principally:

- Agriculture
- Tourism
- Manufacturing



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Impressions

- Few seem to have looked at these issues
- Assumption that exchange rates won't appreciate
- Many anecdotes of good business models and strategies
- When businesses discuss these issues, they discuss their core strategies



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Sector hypotheses and research

The research will examine impacts of exchange rates and labor prices.

Competitive sectors will also require –
supportive business environment, market linkage, ...



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Agriculture

- Traditional export commodities
- New exports
- Subsistence and smallholder agriculture



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Agriculture - hypotheses

- World prices limit what exporters can earn
- Costs of imported items (in meticaïs) will decline:
 - Competition for those producing for the local market
 - Reduces costs of some inputs
- Many local inputs and service costs will rise
- Small farmer will be squeezed – will switch crops if s/he can

Banana for Export (per box, USD)

Profitability at risk

	USD	%
Selling price	8.50	100.00
Variable costs, of which:	5.74	67.53
Labor	0.43	5.04
Transport and loading	1.90	22.35
Materials	3.04	35.79
Electricity	0.17	2.03
Other	0.20	2.32
Fixed costs, of which:	0.87	10.24
Labor	0.75	8.88
Other	0.12	1.35
Maintenance and Capex	0.17	2.00
Total Operating Costs	6.77	79.65
Operating profit	1.73	20.25

Source: Adapted from TNS

Banana for Export (per box, USD)

Profitability at risk

Metical Component of Revenue per Box	
	%
Labor	13.92
Electricity	2.03
Transport and Loading	22.35

And for comparison, an example of road transport (data is only indicative)

Road Transport per Container	
	%
Revenue, of which:	100.0
Destination	85.0
Backhaul	15.0
Costs, of which:	
Fuel	22.0
Labor	5.5
Other operating costs	17.5
Fixed costs	8.0
D&A	17.0
Profit	20.0

Source: Author's estimates from industry discussion



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Agriculture – To research

- Value chain cost structures (overall value chain and individual actors)
- Impact of quality/price improvements on the cost structures
- Benchmark value chain cost structures vs. comparator countries
- Sensitivity analysis
- Flexibility due to transfer pricing
- How have other producer countries adapted to similar pressures?



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Manufacturing - hypotheses

- Light manufacturing
 - Labor (and other) costs will be prohibitive
- Capital intensive manufacturing
 - Prohibitive - Will require startup and skills
- Manufacturing for the region
 - Might piggyback on corridor, transport, power advantages
- Agro-processing/agro-industry
 - Conceptually attractive, if it can compete against imports and global pricing.
- Resource-based industry
 - Conceptually attractive, if it can compete against imports and global pricing



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Manufacturing – to research

- Investigate the strategic/financial rationale for current investments – are they replicable?
- Cost structures of selected businesses and value chains
- Benchmark the cost structures against international models
- Sensitivity analyses to highlight impact of exchange rates and labor costs
- How have other producer countries adapted to similar pressures?



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Tourism - hypotheses

- Overall:
 - Labor will be increasingly expensive and skills will be scarce
 - Local inputs (for investment and operation) will be increasingly expensive
 - Imported inputs (especially from RSA, will continue to be attractive)



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Tourism - hypotheses

- International (high end) leisure
 - Will need to operate in price insensitive market segments
 - Leisure tourism serving customers from overseas will lose cost competitiveness
- Domestic and regional
 - Rising Mozambican incomes will improve affordability
 - Regional interest will continue, but with cost sensitivity
- Business-related
 - Both for business and add-on leisure
 - Package opportunities through big companies
 - This segment may not be price sensitive



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Tourism – to research

- Profitability of various tourism business models
- Cost structure of tourism businesses – especially the labor costs, and costs of imported and locally-procured goods and services.
- Tourism strategies that have been successful elsewhere.
- How have other producer countries adapted to similar pressures?