



Establishing Coherent and Effective Policies for Trade:

Mozambique

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1. Objectives of the study

This study aims at identifying “a set of coherent and realistic policies, directed at a country’s development objectives, and which could constitute an effective national trade strategy to be implemented by the Government through domestic and international actions”. In order to achieve this objective, we will proceed to assess the main trade policy objectives and instruments according to their coherence and effectiveness. The main findings will be used for prioritising and eventually proposing different measures that may eliminate incoherencies in trade and trade related policies. All this will serve as a basis for a coherent country strategy in key and ongoing trade negotiations.

The study is organized as follows. In the next section we establish a simple framework to define what is trade policy, its main instruments and its theoretical linkages with growth and poverty reduction. Also, we describe the criteria we use to assess the effectiveness and coherence of trade policy. Section 3 describes the trade policy currently in place in Mozambique. These two sections together form the basis for the following sections. Section 4 carries out an assessment of Mozambique’s trade policy based on the coherence and effectiveness criteria. Section 5 introduces some proposals for improving the current trade policy, overcoming incoherencies and misconceptions. Finally, in section 6 we conclude by sketching a coherent negotiating strategy in key *fora* based on the lessons drawn in all the previous sections.

2. Theoretical background and scope of the analysis

2.1 What is trade policy

Trade policy may be defined in broader terms as a set of national policies and government actions aimed to affect the quantity and value of a nation's exports and imports of goods and services.

Two important issues arise as a result of this definition. First, we set our focus on external and not internal trade policies. By the latter we understand policies aimed to improve trade flows internally, between areas of the same country. Examples of *internal trade policy* measures are local marketing boards oriented to domestic markets or subsidies to domestic transport for commercialization. However, when internal trade policies may influence the outcome of policy objectives set out in the external policy, we will try to include them in our analysis. An example could be the design of competition policy in order to increase the level of price transmission within the country. The effects of any tariff liberalization would be in this case enhanced.

Among external trade policies, we will use the term *domestically determined* for those policies designed almost exclusively at domestic level by the Government aiming to impact exports and imports. Conversely, we will use the term *externally negotiated* for those policies that are negotiated with external partners (i.e. bilaterally, regionally or multilaterally).

A second important element is the fact that the definition of trade policy above is very general. Many measures that may influence exports and imports are not considered part of trade policy. Consider for example investment incentives to foreign investors. These incentives may particularly benefit exporters. However, not all exporters benefit from them, and not all investors that benefit from incentives produce goods for exports. The same happens with policies aimed to improve quality and productivity, and many other policies. Clearly there is significant overlap between any measures oriented to support the productive sector and measures oriented to increase exports. We need to separate them in our analysis. For this reason, we narrow our definition of trade policy by referring to the set policies for which the main objective is to influence international trade. We

classify policies primarily directed to other objectives, but also having a potential impact on trade, within the domain of sector policies (e.g. policies addressing productivity in specific industries).

2.2 Instruments of trade policy

Having defined our concept of trade policy, we now proceed to identify its instruments: the actions or measures that the Government can put in place in order to achieve the impact described by its objectives.

A rather narrow set of measures would be the so-called “trade control” measures such as customs duties and other taxes, non-tariff barriers, licensing and prohibitions, trade defence mechanisms and customs procedures. However, by doing this, we would exclude other instruments affecting exports, such as services for instance. One possible list of trade policy instruments is the one used within the WTO trade policy review exercise.¹ In these reviews, in addition to trade control measures mentioned above, other policies such as those referring to services are also assessed together with some measures affecting the production of goods and services (e.g. export promotion measures) and policies having an indirect impact on trade (e.g. government procurement regulations affecting imports).

Following the WTO classification, we classify trade policy instruments in three groups: measures directly affecting imports, measures directly affecting exports and other measures that impact trade but that belong mainly to the domain of other sector specific policies (i.e. industrial, agriculture, competition or monetary policies). We include these measures under the heading of mainly domestically determined to distinguish them from those negotiated with external partners.

(a) Mainly domestically determined

Measures directly affecting imports

Price and quantity based

- Tariffs (applied, bound, exemptions and preferences)
- Other import taxes (VAT, consumption taxes)
- Import prohibitions, restrictions and licensing
- Antidumping and countervailing measures
- Safeguard measures

Administrative and regulatory

- Custom laws (includes pre-shipment laws)
- Customs valuation
- Rules of origin (RoOs)
- Standards and other technical requirements
- Sanitary and phyto-sanitary (SPS) regulations

Measures directly affecting exports

Price and quantity based

- Export taxes, charges and duties
- Export prohibitions and restrictions (VER)
- Tariff and other tax concessions, including free export zones

¹ This is an exercise “mandated in the WTO agreements, in which member countries’ trade (and related) policies are examined and evaluated at regular intervals”. www.wto.org

Administrative and regulatory

- Export licensing
- Procedures, documents and registration
- Deposit requirements and other guarantees

Other

Export promotion (e.g. Export Promotion Zones (EPZs))

Other measures affecting trade

- Competition and pricing policy
- Incentives and other government support
- State trading, government-owned enterprises
- Government procurement policies
- Foreign exchange controls
- Services regulations
- Quality and technology policies

(b) Externally negotiated

- Regional integration instruments (e.g. common external tariff)
- Policy harmonization at the regional level (e.g. standards, trade facilitation and business laws)
- Common policies (e.g. infrastructure and spatial development initiatives)
- Coordination of monetary and other policies (e.g. exchange rates and fiscal harmonization)

In (a), most of these measures are largely determined by the government in an autonomous way, without the need of being negotiated with external partners. On one hand, this may sound unrealistic for a country like Mozambique largely depending on foreign aid. However, in Mozambique, sector and economic policies in general, are discussed with donors through a participative process established within the budget support programme. It is fair to say that in such process the Government retains a significant degree of sovereignty over policy options. On the other hand, we have to consider that some measures, despite decided domestically, such as price controls and quotas, have nowadays strong external constraints, because of WTO and regional trade agreement commitments. Administrative and regulatory measures remain in the domestic domain and constitute important non-tariff barriers (NTBs). Trade facilitation and harmonization of regulatory frameworks are normally discussed at the multilateral level. Subsidies related to trade are also partially constrained by the WTO although not specifically for LDCs like Mozambique. Other 'new generation trade issues' such as competition policy, investment and government procurement are also subject to multilateral negotiations.

In (b) we include those measures that have to be negotiated and harmonized with regional or bilateral partners. The proliferation of RTAs makes the adoption of these policies a significant element of trade policy. This is particularly true for Mozambique, which is currently part of a regional free trade area (SADC) and in the process of moving towards deeper integration through the creation of a customs and monetary union.

2.3 Relationship between trade policy, growth and poverty reduction

In order to assess the effectiveness of trade policy we need to establish its linkages with economic growth and poverty reduction. Although the evidence is not totally conclusive, most empirical

studies suggest that openness is positively associated with growth (see for example Berg and Krueger, 2003). Trade improves efficiency in production and the allocation of resources, reduces consumption prices and increases competition. On the other hand, there is no clear evidence that protectionist trade policies are associated with higher growth. Several problems arise from this type of cross-section evidence. The first problem is the ability to control for country specificities, institutions and complementary policies to trade policy. The second problem is the measurement of trade policy and how to measure a broad set of policies that may be different among countries. Third, and more important, is the fact that some measures may have a positive impact on certain sectors of the population but have a negative impact on others. Therefore, the net effect of all these impacts is often unclear.

The link between trade and poverty has been extensively analysed in the literature. The evidence on the relationship is less clear cut. Some interventions tend to increase poverty, especially in the short-run, and some others tend to reduce it. Openness seems to be (on average) poverty reducing in the long-run (see Winters *et al*, 2004). As expected, some groups gain and some lose, and the key question is whether instruments are in place to guarantee compensation to the groups that lose the most, especially when these groups are concentrated among poorer households.

Following McCulloch, Winters and Cirera (2001), we can summarize the channels through which trade policy acts as follows:

- impact on prices that reach the household;
- impact on employment wages and profits;
- impact on government tax revenue and resulting spending; and,
- impact on household risk.

These four channels affect households directly. At the same time growth and economic transformation also affect poverty. Clearly the problem arises when analyzing interventions that may improve growth but can, at least in the short-run, increase poverty. For example, the removal of an export subsidy to cotton may reduce significantly farmer's income but may trigger substitution and investment into more competitive agricultural activities. Complementary policies to compensate the losers of the reform may be the first best and coherent policy.

2.4 Effectiveness of trade policy

The establishment of effective trade policies implies, in our view, to consider two main elements: *coherence of objectives* and *effectiveness of instruments*. This section briefly describes the main criteria in order to assess both. First we assess clearness and coherency of trade policy objectives along two dimensions, horizontal and vertical. Second, we describe the main criteria to assess instrument effectiveness: their translation into concrete actions, their expected impact on key channels linking trade to development; and the adequacy of the institutional mechanisms set up for their coordination and implementation.

2.4.1 Coherence of objectives

The first question to make is whether there is a trade policy and, if it exists, whether the objectives are clearly formulated in terms of both internal and external trade. In this analysis it is important to consider the main policy documents for the Government, setting its development priorities (e.g. the PRSP). Very often these documents are the umbrella that guides sector-specific objectives and may well include trade policy objectives. Timing issues have also to be considered. Policies tend to be generally updated every 5-10 years especially after Government changes.

Assuming that trade policy exists, we then have to analyse whether we have coherence of objectives – i.e. if objectives are complementary rather than contradictory. We can assess this by:

- comparing trade policy objectives with overall development priorities and with objectives stated in other sector policies (e.g. industrial, agricultural, competition, monetary, fiscal, energy, investment, and infrastructure policies (*horizontal*)); and,
- comparing trade policy objectives with the regional integration policy or with objectives inspiring negotiating policies at multilateral, regional and bilateral level (*vertical*)

2.4.2 Effectiveness of instruments and strategic choice

First, we need to assess whether following the identification of policy objectives, the Government has set up a concrete strategy for their achievement. This implies analysing:

- whether a list of concrete instruments and programs have been designed;
- whether these instruments are operational (i.e. whether they have been included in the budget and received the resources needed); and,
- whether some sectors and areas have been prioritized.

Second, we may look at the impact of the instruments on the channels linking trade to growth and poverty reduction. This implies that for each instrument, we ideally would like to analyse:

- expected impact on exports/imports;
- expected impact on prices;
- expected impact on profits, employment and wages;
- expected impact on productivity or other externalities that can generate growth;
- expected impact on government revenue;
- expected impact on households risk;
- overall expected impact on growth and poverty; and,
- is it the best instrument to achieve that objective among other policies (is it 2nd best or nth best)?

Finally, we may question the degree of coordination among the different instruments and programmes (*operational coherence*) and the institutional setting for their implementation. Among the questions we may want to answer include the following:

- Are sector strategies/instruments coordinated with each other in order to achieve trade policy objectives?
- What is the institutional mechanism in place and how is it performing in terms of enhancing coordination?
- Are there any instruments that contradict, undermine or make trade policy instruments less effective?

In the following two sections we will assess trade and trade related policies following the scheme drawn above. However, due to the limited scope of this study we will not be able to assess every single aspect but we will focus our attention on those we envisage as most important and for which relevant data exists and have been made available to the authors.

3. Trade policy in Mozambique

In this section we will first present a brief description of the Mozambican economy and then analyse in detail objectives, strategies and instruments of the 1999 Trade Policy. Following this, we will proceed to review all major “trade-related” policy documents, including general development policies such as the PARPA II (Mozambique’s PRSP) and the Government Programme, as well as sector policies (i.e. agriculture, industry, SME, fiscal policy) having an indirect – but important – impact on trade.

3.1 Features of Mozambican economy

Mozambique is well known in Sub-Saharan Africa for its sustained high growth rate over the last ten years, averaging figures close to 7% per year, although with some volatility. As a result, the incidence of absolute poverty dropped from 69.4% (1996-97) to 54.1% (2002-03)², in line with the achievement of the MDG of halving poverty by 2015. However, as of today, more than half of the population still lives below the poverty line, especially in rural areas, where poverty headcount rises up to 55.2% - reaching almost 11 million people. In these areas, agriculture remains the main income generating activity although its contribution to GDP decreased in the last ten years and it is now close to 23%. The GDP composition varied substantially since the end of the civil war in the mid 1990s. Services are today the dominant sector representing almost half of GDP. The share of industry rose to 30% (from about 16% after the war)³ mainly due to the establishment of mega projects⁴. The agricultural sector, however, still supports nearly 80% of the economically active population, while the service sector (including government) employs 15% and industry only a mere 5%.

A prudent monetary policy contributed in the last years to contain inflation which recorded a single-digit level (6%) in January 2007. Interest rates remain high, with inter-bank lending rate amounting to 24% in 2007 which obviously imply high cost of accessing to credit for private business. The real exchange rate against the US Dollar and the South African Rand remained relatively stable after a substantial depreciation in 2005.

Export growth is mainly sustained by mega projects but still at a lower pace than imports, leading to a widening deficit in the trade balance. This imbalance stopped temporarily in 2005 due to favourable prices for key exports such as aluminium, sugar, cashew and seafood but it is estimated to reach 1 billion USD in 2010 according to IMF estimates (IMF 2007).

Imports in 2006 amounted to 2.9 billion USD with South Africa and the EU as key partners, totalling more than half of overall imports.

² Source: PARPA II and Inquerito de Agregado Familiar (IAF)

³ Source: IMF (2006)

⁴ Mega-Projects are large (foreign) investment projects above 500 millions USD which are granted special fiscal treatment. They are presently concentrated in light manufacturing (aluminium) and exploitation of mineral resources (ex. titanium, coal, gas) and have been among the major drivers of the recent economic growth of Mozambique.

Table 1 Imports by origin (2006)

	2006	
	\$1,000	Share
World	2,869,277	100%
South Africa	1,074,110	37.4%
EU25	753,886	26.3%
India	132,545	4.6%
United Arab Emirates	120,579	4.2%
USA	100,148	3.5%
China	76,463	2.7%

Source: COMTRADE

Among major imports there are oil products (13.1% in total), motor vehicles and electrical energy. Electricity is also a major export due to the northern dam of Cahora Bassa – amongst the larger in Africa. Ironically, imports of electricity still continue due to lack of proper internal network that could supply all the energy to the more industrialised southern region. Rice and wheat are the main agricultural imports, although the former is widely produced in the country but as subsistence crop and, thus, not commercialised. Interestingly, clinkers (input for cement) is also a major import, despite Mozambique granting a very high nominal protection to cement as a final product, bringing the rate of protection for this good close to 45% (authors' calculation). Excluding oil, and unknown items totalling 20% of imports, all other imports are below a 3.3% share signalling a relatively high diversification of imports.

Table 2 Main import products (2006)

HS 6	Product	\$000	Share	Average MFN
271019	Medium Oil Preparations	302,239	10.5%	5.9%
870421	Motor vehicles	94,174	3.3%	5%
100630	Rice (semi milled or wholly milled)	90,723	3.2%	7.5%
271600	Electrical energy	83,718	2.9%	0%
271011	Light oil preparations	74,568	2.6%	5.7%
100190	Wheat	66,401	2.3%	2.5%
847110	Data processing machines	36,416	1.3%	7.5%
252310	Clinkers (cement)	32,766	1.1%	7.5%
300490	Medicaments	30,165	1.1%	0%
030379	Frozen fish	28,801	1.0%	10%

Source: COMTRADE

In terms of exports, the EU and South Africa remain the major partners. Regional trade is mainly directed towards Zimbabwe and Malawi. The level of exports to Zimbabwe is probably due to a surge of exports and re-exports of food due to the economic crisis affecting the country and may include food aid. Exports to Malawi include tobacco being processed mainly in Malawi and some of the maize exports which are largely traded informally. Trade with China has been growing in the last years though it is still limited. Interestingly, exports to China are higher than to the US despite the former offering almost no preferential access to Mozambique (GSP) while the latter is granting generous preferences through AGOA.

Table 3 Exports by destination (2006)

	2006	
	\$000	Share
World	2,381,137	100%
EU25	1,578,959	66.3%
South Africa	335,761	14.1%
Zimbabwe	76,128	3.2%
Switzerland/ Liechtenstein	52,636	2.2%
China	32,939	1.4%
India	30,197	1.3%
Malawi	24,738	1.0%

Source: COMTRADE

At the product level, the data shows a very high concentration of exports in very few products and a generally low level of processing. Value adding activities are simply not taking place in Mozambique, something that is also signalled by the declining importance of manufacturing (excluding mega-projects). Aluminium is the main export, following the opening of a large smelter in 2001 operated by a multinational group. Mineral resources and electricity are amongst the main exports and are likely to grow in the next years with the opening of several mining projects in the centre-north of Mozambique. Traditional exports such as cotton, seafood and sugar still continue with the latter benefiting from substantial protection in the domestic market (most sales take place there). Large investments for the production of sugar and other crops destined to the production of ethanol and bio-fuels are expected in the years to come. Tobacco has been growing strongly in the last five years but only one processing plant is operational thus value addition is mainly taking place in Malawi and Zimbabwe. Raw cashew-nuts are being exported in higher quantities than shelled, although hindered by an export tax favouring the recovery of the processing industry after its collapse in the 1990s. Textiles and clothing, once a strong export, almost disappeared, totalling an aggregate of less than 1% of total exports.

Table 4 Main export products (2006)

HS6	Product	\$000	Share
760110	aluminium, not alloyed, unwrought	1,401,315	58.9%
271600	electrical energy	177,830	7.5%
271121	natural gas in gaseous state	109,606	4.6%
030613	frozen shrimps and prawns	86,269	3.6%
240120	tobacco unmanufactured	78,842	3.3%
170111	raw cane sugar (excl. added flavouring or colouring)	67,236	2.8%
271019	medium oils and preparations, of petroleum	48,781	2.0%
520100	cotton, neither carded nor combed	36,841	1.5%
240110	tobacco, unstemmed or unstrapped	31,467	1.3%
080131	fresh or dried cashew nuts, in shell	23,678	1.0%
440399	wood in the rough	16,528	0.7%
120740	Sesame seeds, whether or not broken	13,500	0.6%

Source: COMTRADE

3.2 Trade policy

The existing trade policy goes back to the year 1999 (Council of Ministers Resolution No. 25/98). The document was formulated in the aftermath of the civil war (ended in 1994) and the approval of the new Constitution formalising the establishment of multi-party democracy and the shift from a socialist to a market economy. Its objectives and strategy reflect this exceptional period and it is structured among three pillars:

- domestic trade;
- external trade; and,

- the new role of the state in a market economy.

The last pillar basically refers to the state as regulator and provider of a conducive business environment for private sector and trade development, leaving aside any direct intervention in the market (e.g. marketing boards). Considering that the aim of the report is to establish effective trade negotiating strategies for the country, we will focus our attention more on external trade and briefly go through domestic trade. It is important to mention that in 2005 the new Government decided to proceed to a substantial review of the trade policy to adapt it to the new domestic and regional economic contexts. Such a review is ongoing but still at a very preliminary stage. Thus, in this report we will refer to the 1999 Trade Policy as the main policy document - also considering that many instruments currently in place have been inspired by it. In the next sections (3.2.1 and 3.2.2), we go through the 1999 Trade Policy and highlight key objectives, strategies and instruments currently in place.

3.2.1 Domestic trade

3.2.1.1 Objectives

Due to the loss of transport infrastructure during the civil war and the collapse of the public marketing system, internal transport costs remained high and distribution of agricultural products from rural areas very difficult. Therefore the main objective is to promote the “establishment of a trade network comprising the development of storage capacity” and contribute to “reduce transaction costs” also through the “integration of the informal trade sector and creation of a suitable infrastructure”.

3.2.1.2 Strategy

In order to achieve these objectives, the implementation strategy focuses on the rehabilitation of the commercial network through the “sale of state-owned shops in rural areas” as well as “granting of fiscal benefits for investment and reconstruction of trade infrastructure in rural areas” and “decentralisation of trade licensing”. In order to reduce transaction costs, the state should develop “a price policy that allows the development of competition” and “... disseminate relevant market information on internal and external markets” in order to reduce asymmetry of information and orientate private sector decision making.

3.2.1.3 Instruments

The implementation mechanisms of the above strategy and objectives are listed in the *Estrategia de Comercialização Agrícola (ECA) 2007-2009*. Key vectors of action envisaged include law modifications simplifying the licensing of commercial activities and maintenance of VAT exemption on sales of domestically produced agricultural goods; establishment of credit facilities for opening and restructuring of formerly state-owned rural shops; more effective market information systems and large investments in the construction of storage facilities countrywide. However, in terms of effectiveness, the uncertainty over funding – a large part of the ECA is not included in the Government’s expenditure plan (PES) and should be financed by external donors - casts serious doubts over the real implementation of the various activities.

3.2.2 External trade

3.2.2.1 Objectives

On external trade the 1999 Trade Policy sets its priorities on:

- Export promotion (“increase and diversification of exports ... giving priority to products and services that provide an increase in foreign exchange”);
- Facilitating the provision of capital goods and inputs (“guarantee provision of raw materials and equipment ... to stimulate the production of consumption and export goods”) but keeping an eye on the protection of domestic industries (“administer the process of imports bearing in mind the interests of the country, particularly the protection of national production”)
- Regional and international integration (“support regional and international initiatives towards economic integration ... increase cooperation and economic integration at regional level, with the aim of obtaining economies of scale, promotion of trade and improvement of terms of trade”).

3.2.2.2 Strategy

Export promotion should be achieved through the granting of incentives to exporters including “export credit facilities and drawback and bonded warehouse systems” as well as through “a simplification of export procedures and documentation” including licensing of exporters that should be decentralised.

Regarding imports, key vectors of actions include: “reduce to a minimum import duties on inputs and capital goods, ... for an increase in exports and substitution of imports” thus aiming at improving competitiveness of domestic industries through lower costs of inputs; “simplification of import procedures” and decentralisation of “licensing process and import registration” are also mentioned so as to reduce the bureaucratic burden on market actors, which makes trade costly and risky; and finally, consolidate “mechanism of pre-shipment inspection” in order to combat smuggling and ensure higher tax revenue for the State.

On international relations, the main target remain the creation of a regional free trade area (FTA) through “promotion of trade policies at domestic level in line with regional obligations on customs tariffs and transport, migratory procedures and trade documentation”; while at the international level the main vector of action should be to negotiate agreements “to provide preferential access to Mozambican products”. An immediate and positive “consequence” of this orientation has been the signing in 2000 of the SADC Trade Protocol, establishing the calendar for the realisation of a free trade area in the region.

3.2.2.3 Instruments - mainly domestically determined

a) Measures directly affecting imports: price and quantity based

Tariffs (applied, bound, exemptions and preferences), other import taxes (VAT, consumption taxes), antidumping and countervailing measures, and safeguard measures

Mozambique reformed its most-favoured nation (MFN) duty structure during the 1990s in agreement with the adjustment programmes proposed by the World Bank and IMF. Overall rates have been reduced, all duties have been converted into *ad-valorem* and the number of bands has been lowered to the existing five – which makes the tariff structure extremely transparent and simple to administer, compared to those of neighbouring countries (e.g. SACU has more than 30 tariff bands). The external tariff is organised in such a way that high duties, which are used mainly

for the purpose of revenue collection rather than for the protection of import-competing industries, fall mostly on consumer goods, while inputs – raw materials, capital goods and intermediate goods – are taxed at lower rates. The table below summarises the tariff structure in 2007 showing a simple average tariff of 10.31%.

Table 5 Mozambique MFN tariff structure (2007)

<i>MFN duty (%)</i>	<i>Number of lines</i>	<i>% total lines</i>
0	116	2.16%
2.5	1,151	21.46%
5	662	12.34%
7.5	1,564	29.16%
20	1,871	34.88%
All lines	5,364	
<i>Average MFN tariff</i>	<i>10.31%</i>	

Source: Authors' calculations based on Customs data

Special duty exemptions are granted in certain cases:

- Since 2002, manufacturing firms that are able to demonstrate yearly revenue of more than USD 250,000 and value addition greater than 20% benefit from a special exemption programme on imported inputs (*Diploma Aduaneiro para a Industria Transformadora*);⁵
- Registered investors in specific sectors (e.g. Agriculture, Tourism) or based in Rapid Development Zones and Industrial Free Zones may claim duty exemptions on 642 tariff lines (11% of all lines) considered to be “capital goods” (*Lei de Investimento eCodigo de beneficios fiscais*);
- “Mega-project” investments (those exceeding USD 500 million) may benefit for a period of 10 years of exemptions on import duties for capital goods and other special incentives and exemptions, granted on a case-by-case basis by the Council of Ministers;

Ad hoc exemptions have been officially eliminated in 2002 with the rationalization of tax incentives to investors; however, some remain in practice. There are no specific duties currently being applied, nor any anti-dumping, countervailing or safeguard measures being implemented. However, there are a small number of fixed and variable surcharges applied on top of normal duties to protect some “sensitive” products (see Table 6). The most important surcharge is on sugar introduced at the end of the 1990s as an incentive to attract foreign investors. It is still in place in order to shield producers from the generally low international prices and offer them a secure domestic market.

Table 6 Mozambique's applied tariff surcharges

<i>Tariff line code</i>	<i>Product description</i>	<i>Surcharge</i>
17011100	Raw cane sugar	Variable duty (average 2004: 77%)
17011200	Raw beetroot sugar	Variable duty (average 2004: 77%)
17019100	White sugar with flavourings or colourings	Variable duty (average 2004: 54%)
17019900	Other white sugar	Variable duty (average 2004: 54%)
25232900	Portland cement	10.5%
72104100	Corrugated iron or steel sheets	20%
73063000	Round tubes of iron or steel	10.5%
73066000	Other tubes of iron or steel	10.5%

Source: Alfieri, Cirera and Rawlinson (2006)

⁵ In 2005, about 50 companies were allowed to benefit of this scheme.

In addition to duties and duty surcharges, goods imported to Mozambique are also subject to excise taxes and VAT. VAT on inputs re-exported after processing or assembly should be reimbursed. Excise taxes on specific luxury products such as cars and alcoholic drinks range from 15 to 65%. However, only a few products (2.7% of tariff lines) are presently covered by such a tax. By contrast, VAT is charged on 97% of tariff lines at a uniform rate of 17%. Exempted products are mostly organic chemicals, pharmaceuticals, fertilizers, mechanical products, cereals and other basic agricultural products. VAT exemptions are also currently granted to specific industries (e.g. sugar, certain mega-projects, etc.) and government-supported projects (e.g. in education or health).

Mozambique grants duty preferences to members of the SADC Trade Protocol. Through this agreement, duties are being progressively lowered and a FTA will be established in Southern Africa by 2008. Certain “sensitive” goods are exempted until 2012, or even 2015 if imported from South Africa. Since 2004, SADC countries have benefited from duty-free access into Mozambique on 30% of tariff lines, equivalent to 53% of their export value to Mozambique. In a similar way, South Africa benefits from preferential access on roughly the same amount of lines (28.1%), amounting to 21.7% of their export value to Mozambique. The bulk of scheduled liberalisation will take place in 2008, when almost 93% of tariff lines will be completely liberalised for both South Africa and other SADC member states. In 2008 the simple average tariff faced by SADC products will be roughly 1% against approximately the 10% faced today.

b) Measures directly affecting imports: administrative and regulatory

Import restrictions and licensing

In 1998, Mozambique simplified its existing export and import registration process, eliminating the need for prior licensing. Importers (exporters) are registered as any other private businesses at the Ministry of Industry and Trade. This registration has been simplified in 2006 with the establishment of single access points (*Balcao unico*). Additionally, importers have to register as “external trade operators” on a yearly basis exclusively for tax and statistical purposes. Once registered, the importer is authorized to deal directly with Customs. The same is true for exporters, but renewal of registration is required only every five years. Licensing costs are below 100 USD, thus relatively affordable.

Custom laws (includes pre-shipment laws) and valuation

Concerning customs valuation, Mozambique follows the Brussels definition of value and the price of reference is the declared CIF price. Trade taxes are then calculated cumulatively on the basis of the CIF price. That is, customs duties are calculated as a percentage of CIF import values, the excise (where applicable) is computed as a percentage of CIF plus duties, and VAT is a percentage of CIF plus duties plus excise. Minimum or reference prices can be assigned by customs in case of suspected under-valuation of specific goods (e.g. fresh agricultural prices, second hand cars, etc.). Pre-shipment inspections are nowadays limited and required only for few products selected on the basis of their potential risk of smuggling (e.g. sugar) or for sanitary reasons (e.g. chicken). The list is regularly updated by the *Conselho Superior Tecnico Aduaneiro*. Pre-inspection has been replaced by pre-declaration, which is done through the Single Administrative Document (*Documento Unico*). Post inspections are then conducted by Customs based on fraud risk assessment.

Rules of origin

Goods entering Mozambique have to be accompanied by a certificate of origin given by competent authorities in the exporting country. Rules of origin (RoOs) become relevant only with free or

preferential trade agreements since it is a tool that impedes trade deflection. As said earlier, Mozambique is signatory of the SADC Trade Protocol and thus goods entering from SADC countries are allowed preferential duties only if they comply with SADC RoOs. These RoOs have been widely criticised in the recent Mid Term Review of the Protocol for being “complex and highly restrictive product-specific rules”. The Review also highlighted the risk that “rather than facilitating development through trade, the trade Protocol will replace transparent and declining tariff barriers with complex and more restrictive input sourcing requirements that will diminish trade, increase transactions costs, reduce flexibility of producers and make the region a less attractive place to invest”.

Standards, other technical requirements and sanitary and phyto-sanitary regulations

In the area of standards, INNOQ⁶ is the leading institution in Mozambique with the task of implementing the National Policy on Quality. Although the policy has been approved, it has not received the necessary funding. So far, only a few standards based on ISO and other regional standards have been approved (i.e. maize, salt and cement) with the active involvement of the private sector. In terms of sanitary and phytosanitary regulations, Mozambique is member of international forums such as CODEX and OIE (animal health) but not of IPPC (plant health). Key regulations governing animal and plant diseases belong to the early nineties although recently the Ministry of Agriculture approved a new regulation on animal health. Their degree of harmonisation with the above international standards is at best questionable.

c) Measures directly affecting exports: price and quantity based

Export taxes

Export taxes have been abolished although exceptions are made for raw cashew and cotton. Raw cashew exports were banned from 1976 until 1992 in order to supply cheap inputs to the local cashew processing industry. Raw cashew exports were liberalized in the early 1992s but an export tax, still in place, was introduced and today it is around 14%. The cotton sector has also an export tax, between 2 and 3%, aimed at financing the Cotton Institute (IAM).

Tariff and other tax concessions, including export promotion (e.g. EPZs)

Legislation allowing for the establishment and operation of export processing zones (EPZs) was adopted on 21 September 1999 (Decree No. 62/99). An enterprise exporting 85% or more of its annual production, employing at least 20 Mozambican workers and considered by the Government to contribute positively to the national economy is eligible to apply for EPZ status. Entities operating in EPZs are permitted to sell 15% of their previous year's production into the local market but must pay the normal duties and taxes on those sales. Incentives under the EPZs include:

- Exemption from import duties on goods and merchandise destined for the implementation of licensed investment and production activities;
- Exemption from value-added tax (VAT) and specific consumption tax (a tax on certain luxury and related items);
- Exemption from corporate income tax on income from licensed activities, as well as certain property taxes and the property transfer tax, with the exception of the withholding tax on distributions (currently 18%);
- For customs purposes, an EPZ is treated under Mozambican law as if it were offshore; as a consequence, transfers of goods within or between EPZs are not subject to ordinarily applicable value-added or other transaction-specific taxes;

⁶ Instituto Nacional de Normalização e Qualidade

- Significant hiring flexibility while maximizing incentives to employ Mozambican workers. For example, EPZ companies may hire either Mozambican managers or, if none with the requisite skills are available, foreign managers, during the first seven years of operation. They may also hire foreign skilled labourers if no skilled Mozambican labourers are available during this same period. However, in no event may foreign workers exceed 15% of the total number of workers employed at an EPZ company; and
- Allowance to hold and operate foreign currency accounts within and outside Mozambique.⁷

Furthermore, a special regime has been created to encourage investment in some Rapid Development Zones (e.g. Zambeze River Valley and Beira corridor). Among the incentives of the regime are:

- Exemption from import duties on goods in certain customs tariff categories when destined for new enterprises or the rehabilitation or expansion of existing enterprises;
- Exemption or reduction from corporate tax and various withholding taxes; and
- Exemption from real property transfer tax.⁸

d) Measures directly affecting exports: administrative and regulatory

Export licensing and procedures

Export licensing has been replaced by simple registration and follows very similar rules to import registration (see previous sub-section) with no need of prior authorisation.

e) Other measures affecting trade

Competition and pricing policy

Although the previous Government began the process of formulating a national competition policy, this came to an end after the last elections and the issue was been put on hold. A new competition policy has, however, very recently been approved in 2007.

On pricing, the Government is not directly fixing market prices since the dismantlement of marketing boards and structural reforms in mid 1990s. Exception is made for cotton, whose price at the farm-gate level is still established by an ad-hoc Government commission following hearings of concession holders (ginners) and, from 2007, also farmers.

Government procurement policies

At the end of 2005, a new procurement policy was approved with the technical support of various donors including the World Bank. The general view is that the new regulation is an improvement compared to the old one, although in some aspects it falls short of internationally recognised standards (such as the WTO/GPA).

Foreign exchange controls

As part of Mozambique's trade liberalization efforts, foreign exchange controls were gradually relaxed during the 1990s including the elimination of import/export licensing. However, at the end of 2006, the Central Bank introduced some restrictions on payment methods for import/export (*Aviso 2*). Common wire transfers were abolished as well as advance payment. Now, the only possible forms of payments are letters of credit or documentary collection. Such restrictions are

⁷ Source: WTO Policy Review 2000

⁸ Source: WTO Policy Review 2000

supposed to tackle the problem of illegal exports of capital through non-existing imports of goods or services although it is quite likely that most irregularities take place through under or over invoicing.

Services regulations

Although some services have been liberalised following structural reforms (e.g. financial services and more recently tourism), attracting significant inflows of foreign capital and benefiting from competition, others continue to be characterised by protectionist policies (air and internal maritime transport are a well-known example). At the national level there is neither an official policy on services or general policy guidelines for this important sector.

Quality and technology policies

See *Standards and other technical* requirements above.

3.2.2.4 Instruments - externally negotiated

SADC

The deepening of economic integration within SADC should follow the achievement of the common market area between 2012 and 2015, the creation of a customs union by 2010 and of a monetary union by 2016. The calendar is widely perceived as ambitious, also considering the SADC Trade Protocol suffers from various problems. This includes only partial implementation by certain members, low utilization rates and overly restrictive RoOs. In addition, the work of establishing the common external tariff and the overall structure of the Customs Union only began in 2006 and it is still at an initial phase. The Customs Union preparatory work is revolving around two main issues, the setting of the common external tariff and the revenue collection and sharing mechanisms. The existence of an existing customs union within SADC (SACU) including South Africa greatly influences the whole process. SACU presents some critical issues that may not want to be replicated by the new SADC customs union. In terms of common external tariff (CET), the SACU CET is a rather complex structure. Duties are calculated on a FOB basis (not CIF) including ad valorem, specific, mixed and compound tariffs and formula duties based on reference prices. Around 97% of tariff lines are subject to 39 different ad valorem rates (compared to the five of Mozambique). Tariff revenue is distributed to SACU members through a sharing formula favouring countries with higher intra-SACU imports and lower GDP. This implies that border controls are still in place in order to ensure data collection. The problem is also exacerbated by the lack of VAT harmonisation so that VAT is still being collected at national borders within SACU.

Harmonisation of policies in trade sensible areas such as SPS and technical barriers to trade (TBT) should be ensured by the approval of relevant annexes to the trade Protocol, although after seven years these have not been signed yet. In the meantime, harmonisation of product standards is ongoing thanks to the creation of a SADC regional body, SQAM⁹; while no similar effort has been made for SPS. Discussions of a Services Protocol is ongoing but at a very early phase. A series of protocols in other policy areas have been also approved by SADC (e.g. tourism, health, mining, corruption, movement of people, etc.) but an assessment of their concrete application by member states is difficult to make at present since no monitoring mechanism seems to be in place. In terms of fiscal and monetary issues, countries have only approved memorandums of understanding (“Macroeconomic Convergence and Cooperation in Taxation and Related Matters”) that should guide the region towards the creation of a monetary union.

⁹ Standardisation, Quality Assurance, Accreditation and Metrology (SQAM)

EPA

Due to the expiry of the Trade Protocol in the Cotonou Agreement in 2008, Mozambique is currently negotiating a new WTO-compatible-FTA with the EU. The country has been negotiating as part of the “SADC-EPA” configuration, including the SACU countries plus Tanzania and Angola. These last two dropped out at the moment of signing an interim agreement in November 2007. The agreement envisages a market opening for goods for Mozambique which is different from the one agreed by SACU countries (based on the TDCA).¹⁰ All countries got EBA type access to the EU market excluding South Africa – which lead this latter not to sign the interim agreement. Services liberalisation have been excluded by the agreement temporarily, but the parties agreed on talks during 2008 leading to liberalisation in at least on sector and on the establishment of a calendar for further negotiations on this sector. The position of Namibia and South Africa on this issue is still outstanding. Other new generation trade issues (e.g. investment, government procurement, etc.) have been sidelined in conformity with the position taken by LDCs at WTO level. The new EPA should be complemented by a large package of financial and technical assistance related to trade particularly on issues such as SPS, TBT and trade facilitation but most of this assistance should come from Country Programmes which have already been defined at national level (country by country). The key issue that emerges from the ongoing EPA negotiations is the difficulty in harmonising this process with regional integration. The configuration does not include all SADC countries and those excluded are negotiating another EPA in a different regional group (East and Southern Africa and the ECA Customs Union which finally decided to negotiate an agreement on its own). The lack of a unified regional framework implies that the SADC countries negotiating under different blocks ends up with different external tariffs as well as RoOs, SPS and TBT protocols. While the latter will complicate the simultaneous implementation of similar provisions of the SADC Trade Protocol due to possible incoherence, the establishment of different external tariffs will imply a firm stop to the customs union process.

Multilateral trade

Since 1995, Mozambique has been a member of the WTO and has actively participated in various Rounds since then. It has a permanent representative in Geneva who reports to the Ministry of Industry and Trade (MIC¹¹) in the preparation of the country position and to ensure participation to the various Committees. Within the WTO, Mozambique is advocating Special and Differential Treatment (SDT) for LDCs as member of the G-90 Group as well as defending the specific interests of the ACP and African countries in general. Its negotiating strategy can be defined as a mix of the positions brought forward by the three groups which sometimes are not homogenous. Obviously, the resulting incoherence in terms of objectives and strategies is compensated by the higher bargaining power that a small country like Mozambique achieves due to participation in these groups. Due to the low existing capacity, Mozambique traditionally concentrates on few negotiating issues. In the Doha Round so far the country focused its efforts on: defending the exemptions granted to LDCs in opening up their market of goods and services; pursuing commitments of liberalisation by developed countries for LDCs export goods; and advocating a substantial increase of trade related financial and technical assistance.

3.3 National development strategies

3.3.1 Objectives

¹⁰ Trade and Development Cooperation Agreement signed between South Africa and the EU in the year 2000.

¹¹ Ministério de Industria e Comercio (MIC)

There are two main policy documents setting the development objectives and strategy of the Government of Mozambique: the Poverty Reduction Strategy Paper 2006-2009 (known as PARPA II)¹² and the Government's programme for the mandate 2005-2009. Although Mozambique has drafted a DTIS¹³ and it is currently participating in the Integrated Framework (IF) initiative, the DTIS has not been officially endorsed by the Council of Ministers as a policy document. Its action matrix has been extensively used in the preparation of the PARPA II and it is still the basis for the design of IF projects. However, this is not enough to include the DTIS among the main development policy documents of Mozambique. In the next two sub-sections we will outline the main objectives related to trade in PARPA II and the Government Programme as well as the envisaged strategies and instruments to achieve them. It is the intention of the Government that they will form the basis for the new trade policy currently under preparation so they may be considered as the best *proxies* for the objectives and strategies of the new trade policy.

The alignment between the two documents is quite substantial, and the Government Programme is significantly linked to the preparatory work for the PARPA II. Both share as key objective the reduction and, ultimately, the eradication of poverty in Mozambique through sustainable, inclusive and private-led economic development. Special emphasis is placed on the development of rural areas where poverty is more persistent and the majority of the population live, and on the specific role of the state as the provider of adequate conditions for the private sector - the main actor responsible for growth.

Both documents are organised around three pillars: human development, good governance and economic development. Trade related objectives are included in this last pillar. There are two preliminary observations to make: the first is that there is no mention of the potential linkages between trade and economic growth, nor any detailed analysis of the channels through which trade could impact on poverty reduction and an evaluation of related trade policy options. Trade is treated as a sector issue along with others such as industry, agriculture or infrastructure, but not as a cross-cutting issue. In fact, although both documents contain a specific section on trade specifying objectives and strategy, most references can be found within other sector strategies, particularly to export promotion as a tool to achieve objectives related to private sector development (i.e. increase business opportunities for national industries)¹⁴ or macroeconomic stability (i.e. improve trade balance). The second observation is that trade objectives and strategies are still defined both in terms of domestic and international trade. The privatisation of the former public marketing system did not translate into a competitive and efficient distribution system; ultimately implying losses in terms of resource allocation and higher prices to consumers. Given the strong focus of the Government on rural development, domestic trade remains equally relevant as international trade within the Government development policy.

In the PARPA II, the main trade objectives are "to define a trade policy integrating the country in the Southern African region and in the main international markets, being favourable to consumers and producers on aggregate terms" (pp. 32) and, similarly, "to integrate the economy in the regional and international markets in order to ensure free circulation of goods and people, increase national production and improve the availability of goods and services to consumers" (pp. 115). There is also a reference to domestic trade: "create adequate conditions for the commercialisation of goods and services in national and international markets" (pp.116). The protection of national industries is not reported among trade objectives. In contrast, trade liberalisation is explicitly mentioned together with the need of enhancing consumers' welfare.

In the Government's programme, objectives are rather mixed with strategies signalling a lower clarity of intents compared to PARPA. Domestic trade "objectives" are the majority and generally

¹² PARPA stands for Plano de Acção para a Redução da Pobreza absoluta

¹³ Diagnostic Trade Integration Study (DTIS)

¹⁴ In the preparation of PARPA II, trade was a sub-theme discussed in the Private Sector Working Group

aim at “improving the national distribution network for agricultural and industrial products” (pp.81). On external trade, there is a clear reference to “the promotion of trade as a tool to stimulate growth and poverty reduction” (pp.94) and also to the need to ensure “integration (of trade policy) in the national development policies ... and a better coordination between trade policy and sector policies” (pp.94). Despite these references, the objectives stated does not give a clear picture of what “state of affairs” Mozambique’s trade policy should achieve. It is important to notice that both documents do not link with the trade policy approved in 1999 (see above), confirming that objectives and strategies there mentioned shall not be considered as a point of reference today.

3.3.2 Strategy

The PARPA II envisages three main lines of actions on external trade: institutional capacity, trade negotiations and trade facilitation. On capacity, the focus is on “reinforcing the institutions involved in trade negotiations” and “the creation of the inter-institutional committee on trade policy” (pp. 135). However, at the moment, the leading body in charge with external trade matters is the *Conselho Superior de Coordenação da Política Aduaneira* established in the year 2000. On the same line of argument, the Government’s programme envisages the “update and revision of trade policy” (pp.81) as one of its first strategic actions. However, at present, such a review has not taken place, leaving a substantial gap within the Government’s economic policy. On trade negotiations, the PARPA II reports the following actions: “conclude the negotiations of ongoing bilateral free trade agreements¹⁵, advance market access for LDCs at the multilateral level and assess the participation of Mozambique in the SADC Customs Union or alternatively in the SACU customs union”. On trade facilitation, the focus is on the “adoption of a common transit document for goods agreed at SADC level, computerization of customs in order to reduce waiting time for transit documents (*Documento Unico*)¹⁶, the improvement in key customs infrastructure including the border post with South Africa”. On domestic trade, the focus is on the improvement of transport networks but also on a “new competition policy” (pp.137).

The Government’s programme reports as priorities, among others, the “diversification of exports, increase in productivity of national industries in order to respond to opportunities in regional markets, reinforce institutions in charge of SPS certification to facilitate exports, promote the implementation and monitoring of the SADC Trade Protocol” (pp.95).

On domestic trade, alongside the need for “improving internal circulation of agricultural and industrial goods and ... approve and implement the domestic strategy for commercialisation of agricultural goods” (pp.82) there is, again, a specific reference on “formulating and approving a national competition policy” (pp.82), suggesting that tackling uncompetitive market structures, that contributes to the lack of price transmission, is among the Government’s priorities.

3.3.3 Instruments

No specific instruments are foreseen in the PARPA II or the Government’s programme. In fact, the two documents have the objective of establishing the basis to guide any policy pursued by the Government, but not of listing concrete actions to be taken. These will have to be identified by the competent ministries and the Council of Ministers in conformity with the guidelines agreed in the two documents through sector policies (such as the trade policy for instance). Both PARPA II and

¹⁵ Zimbabwe, Malawi and Zambia. Despite part of the SADC free trade area these countries showed substantial delays in the implementation of the liberalisation commitments. Thus, Mozambique decided to enter into negotiations of FTAs in order to ensure free circulation of goods independently of the implementation of the SADC Trade Protocol.

¹⁶ This indicator has been strongly pushed by importers lobbies and South African companies using Maputo port for export but, curiously, not by Mozambican exporters.

the Government's programme envisage that progress towards the achievement of objectives and implementation of the correspondent strategies will be measured through the *Programa Economico e Social* (PES) and the Government's budget – the preliminary list of policies and relative budget allocations provided by each Ministry in preparation of the yearly budget.

Nevertheless, in the PARPA II, a matrix of indicators has been developed. However, there are no indicators referring to the trade measures listed, except for the "time needed to obtain transit documents" though still without a specified target.

3.4 Sector policies

In this sub-section we list the main sector policies having an indirect impact on trade both in terms of objectives and instruments. As said earlier, such policies may enhance or reduce the effectiveness of trade policy by interacting with the channels through which trade impacts on growth and poverty. A tentative list of the most important sector policies in place in Mozambique includes: the Industrial Policy, the SME Development Policy, the Agricultural Development Strategy, the Priorities for Agriculture Development 2006-2009 and the PROAGRI II Memorandum of Understanding¹⁷ for agriculture, selected aspects of fiscal and monetary policy (e.g. VAT, exchange rate management) and competition policy. All of these should be developed in line with the sector objectives stated in the PARPA II and the Government's programme. For each of these strategies we will attempt to report the main features and their relationship with trade.

3.4.1 Agricultural policy

The main objectives of the government in this sector focus on (a) production and productivity growth for the smallholders and their transformation into commercial farmers; and (2) increasing the number of existing commercial farmers as well as improving their competitiveness in order to provide cheap inputs for the establishment of a national agro-industry and enter export markets.

Actions envisaged to reach these objectives include almost no measure related to external trade. On the other hand, few references are made to domestic trade, although, they are in line with the *Estrategia de Comercializacao Agricola* developed by MIC, and, therefore, showing coherence between domestic trade and agriculture policy. In the Priorities for Agriculture Development 2006-2009, there are few remarks on the need of reducing the costs of imports for agriculture inputs. However, it has to be recognised that in terms of import taxes, a lot has been done already in the past years. Agriculture products pay a 20% rate, but those products considered inputs (i.e. maize) or basic food products pay a much lower rate at 2.5%. Also, seeds, chemicals and other fertilizers enter duty free and are also granted VAT exemptions, further reducing their cost. Duties on agriculture goods circulating within SADC are being liberalised and there is no attempt in any of the agriculture policy documents to delay such liberalisation.

Again, in the Priorities for Agriculture Development document there is a reference to the need of improving SPS controls at the borders, although nothing is said for instance on the need to harmonise legislation at regional level so to facilitate movement of goods within the region. The lack of mention to the need of supporting agricultural export through a prompt and valid phytosanitary certification shows the low importance attached to this issue despite repeated cases of exports rejected at the South African border in the last few years.

In general, despite some references to the importance of agricultural exports in both PARPA II and the Government's programme, no strategies or concrete actions are envisaged in the agriculture

¹⁷ PROAGRI II is the SWAP currently in place for Agriculture in Mozambique.

policy documents to this end. Target products selected in the various documents are mainly based on food-security criteria and on domestic demand. No attention is given to export markets potential.

3.4.2 Industrial policy

A new industrial policy has been very recently approved. Amongst its specific objectives are:

- Development of industries with a higher impact on poverty such as agro-industry, fish processing and labour intensive industries especially in rural areas. Special attention should be given to SMEs given the large numbers;
- Encourage import substitution in metal-mechanic, chemical and construction material;
- Further develop industrial free zones (ZFI) and the establishment of more labour intensive industries within them (e.g. textile and clothing);
- Increase and diversify exports to international and regional markets in order to improve the balance of payment;
- Enhance the contribution of industry to fiscal revenue;
- Improvement of linkages between local industries (goods and services) and existing mega-projects (e.g. Mozal¹⁸) and other realities at regional level;
- Promote technological innovation and improve the quality of domestic products to increase their competitiveness in local and regional markets;
- Development of industries in the energy sector - including production of alternative sources of energy – water, sustainable use of natural resources and infrastructure.

In terms of objectives, there is no relevant incoherence with the trade policy's mentioned above. It is important to highlight that in the industrial policy "import substitution" does not stand for "higher protection through increased duties". On the contrary, it is clearly stated in the text (pp.17) that domestic industries should not consider this option but work on improving their competitiveness and look positively towards greater integration with foreign (mainly regional) markets. Compared with the need of "protecting domestic industry" stated in the 1999 Trade Policy, this seems a step forward in favour of trade liberalisation.

The positive role assigned to ZFI to promote investment and industrial development is partially reconsidered. There is widespread criticism that such zones lead to important fiscal losses for the state without leading to the creation of clusters or significant gains in employment. This is reinforced by the need to review the existing policy on mega-projects, with the view to achieving more linkages with local companies, increase transmission of know-how and improve energy sustainability. Among the actions envisaged in the medium term are the review of the rules governing the ZFI and the assessment of their economic viability, as well as the promotion of programmes supporting the creation of linkages with mega projects.

An important target of the industrial policy concerns the integration of Mozambican industries into regional clusters and their participation in regional value chains. In contrast with the agricultural policy above, there is clear reference to the need of unleashing export potential through identification of key export products with higher potential (especially at the regional level). This obviously may be facilitated by the establishment of common policies within SADC on, for example, investments, infrastructure and standards. (*deeper integration*). On this, the industrial policy calls for a greater coordination with the external trade policy and the conduct of ongoing trade negotiations, but also with other policies (e.g. infrastructure) as well as the creation of cross-cutting programmes amongst different ministries.

¹⁸ Mozal is a large aluminium smelter close to Maputo and one of the first mega-projects established in Mozambique at the end of the 1990s.

Another issue where this policy calls for greater attention to the needs of local industry is in the review of the tariff structure; eventually signalling that industry is not adequately represented in this process. Of particular concern is the transformation of existing mechanisms granting special exemptions to the import of inputs and capital goods (*Diploma Aduaneiro para a Industria Transformadora*) into permanent changes to the tariff structure, in order to reduce application costs for enterprises and increase effectiveness in terms of costs reduction. Considering that local industries import most of their inputs and capital from abroad and the current rules in the *Diploma* are for some companies very difficult to comply with, such change would prove beneficial. On the other side, the Government position is that industries should be able to comply easily with the rules once they have a well established accounting system. The information provided in the application is then used by the Government for fiscal purposes and it may be possible that companies compare the benefits of the *Diploma* against the higher tax payments due to their participation in it.

3.4.3 SME development policy

As for the industrial policy, the SME policy has also very recently being completed. The need for a specific strategy towards this type of firms is justified by the fact that the overall majority of businesses in Mozambique are of small and medium size. However, despite their potential as engine of growth, their contribution to national production and employment is below 50% and their competitiveness and productivity remain low.

The key objectives of the policy are to create a solid basis for the establishment of new enterprises and improve their competitiveness through the creation of partnerships with foreign firms. The related strategy mainly focuses on changing selected aspects of the business environment in favour of the SMEs. Amongst the various aspects mentioned, there are some related to instruments of trade policy, for instance, the reform of the VAT (and fiscal) system, the review of the export regime and modifications in the procedures of government procurement. Concerning the former, the strategy envisages a general reduction of the VAT rate for the SMEs and income tax reductions, particularly for those firms “importing new technologies”. However, no reference is made to specific reductions (e.g. duties, taxes, etc.) impacting imports of inputs or capital goods.

On exports, the strategy includes increasing access to information on foreign markets, simplifying the documentation needed for export and reforming the services of selected institutions (e.g. IPEX, Mozambican embassies abroad, etc.) by transforming these into “selling offices of Mozambican products abroad”. Regarding government procurement, the aim is to establish a certain quota of purchases from SMEs. However, on this issue, the policy specifies that any action in this sense should not go against commitments taken at SADC or WTO level – ensuring coherence with the trade policy.

3.4.4 Fiscal and monetary policy

It is the widespread opinion that the impressive economic growth experienced by Mozambique in the last decade has been the consequence of a rigorous macroeconomic policy. Following structural adjustment in mid 1990s, fiscal and monetary policy have been actively oriented towards curbing inflation rates, reducing external and internal debt (the former due to HIPC), reducing the primary deficit, increasing international reserves and enhancing exchange rate stability towards the SA Rand and US Dollar. Today, the Government remains committed towards a “rigorous management of the economy” (*Programa do Governo*). According to both PARPA II and the Government Programme, the fiscal policy in the next five years should, among others, gradually increase levels of tax revenue, expand the tax base, simplify the tax regime, proceed to an evaluation of fiscal incentives being granted to investors and implement the creation of ad-hoc tribunals for fiscal issues. Specific targets for these objectives are set in the medium term framework of fiscal policy (*Cenario Fiscal de Medio Prazo - CFMP*) together with targets on

government expenditure. In terms of tax revenue, for instance, the objective is to increase the ratio between tax revenue and GDP by 0.5 pp per year until 2008 by expanding the tax base.

Monetary policy should be managed (by the Central Bank in this case) in strict coordination with the above objectives and aiming at “keeping inflation low, stabilising the exchange rate to promote exports and maintaining high international reserves” (PARPA II).

The centrality of fiscal and monetary policy with respect to other policies, including trade policy, is simply a fact. For instance, the establishment of a solid macroeconomic environment is a condition *sine qua non* for achieving economic growth. Exchange rate instability or high inflation are factors that would definitely compromise exports despite any export promotion strategy put in place within the trade policy. Again, severe fiscal imbalances would impede the Government to operate, thus compromising the implementation of trade policy instruments.

3.5 Institutional framework for the coordination of trade policy

The Council of Ministers, as the Government's highest executive body, is responsible for the planning and formulation of government policy as well as advising the President. The Council of Ministers sets forth new laws and changes to laws and delegates regulatory authority and administration to relevant ministries. The Ministry in charge of trade policy formulation is the Ministry of Industry and Trade. Within MIC, the Directorate for International Relations (DRI) is in charge of external trade while the Directorate for Commerce (DNC) is responsible for internal trade. Other ministries involved include the Ministry of Planning and Development, the Ministry of Finance, Agriculture and Fisheries, Tourism, Mineral Resources and Energy, Transport and Communication, as well as the Bank of Mozambique, Customs, the Investment Promotion Centre (CPI), the Export Promotion Institute (IPEX), and the National Institute for Standardization and Quality (INNOQ).¹⁹

The implementation of the external trade policy is legally achieved through Customs Tariff Acts²⁰ by Government Decree identifying and regulating instruments such as import procedures, the computation of duties, exemptions and remission of duties, and containing updates of tariff schedule (Harmonized System, eight-digit level). The Act is regularly reviewed according to the orientation of the Government. Any decision should be based on the preparatory work done by the *Conselho Superior de Coordenação da Política Aduaneira*. This latter is a body at Ministerial level including among its members the Minister of Finance (chair), the Minister of Industry and Trade, the Minister of Transport and Communications, the Governor of the Central Bank and the Director of Customs.

The private sector, academic institutions and unions provide input to trade policy issues through ongoing informal consultations (working groups and task forces schedule *ad hoc* meetings with private sector) and through their participation in the *Conselho Superior Técnico Aduaneiro*. Another contribution comes from the yearly private sector–government conference (CASP) organised by the private sector, where a specific working group on trade has been recently established, though orientations expressed there are not binding. Furthermore, in the past years the weight of importers and domestic industries producing or distributing exclusively for the local market within the group has been much higher than the one of the (very few) exporters. This often determined the surge of protectionist requests from private sector side and a general lack of interest on problems related to export such as procedures or factors affecting the international competitiveness of Mozambican firms.

¹⁹ The last two are actually part of MIC.

²⁰ The first was the Customs Tariff Act, Decree No. 30 of 24 May 1999

4. Assessing coherence and effectiveness of trade policy

We now proceed to assess the degree of coherence and effectiveness of trade policy objectives and instruments being implemented by Mozambique. Our analysis will follow the methodology highlighted in section 2.4 but focusing on selected aspects as there mentioned. This will form the basis for the last two sections of the report, where we will outline our proposals for reducing incoherencies and improve effectiveness as well as sketch the main features of the country trade negotiating strategies in the different *fora*.

4.1 Coherence of objectives

We start our analysis by looking at *horizontal coherence* between trade policy objectives and overall development priorities and sector policies. We will focus here on the external component of the trade policy.

There is quite a strong coherence of objectives among the existing trade policy and the PARPA II and Government's programme. We can summarise these as:

1. Facilitate provision of goods and services to both domestic producers and consumers (increase integration with international markets);
2. Deepen regional economic integration (trade and policy harmonization);
3. Promote competitiveness of domestic industries so to substitute imports and increase exports.

It is interesting to notice that protection of local industries is only briefly mentioned in the 1999 Trade Policy, while it disappears from recent development priorities. From this point of view, it seems that trade liberalisation has become a widely recognised objective of Mozambique's economic policy. This turns the attention to the importance of updating and improving the trade policy in order to avoid possible incoherence. Also, both the Government Programme and PARPA II seem to go beyond some of the objectives described in the trade policy, reaching a higher level of detail. For instance, referring to (1) the original document reads "to guarantee provision of raw materials and equipment to stimulate production..." while in PARPA II it reads "to define a trade policy integrating the country...in international markets being favourable to consumers and producers on aggregate terms". The focus on aggregate welfare analysis as a tool to shape the integration process is quite important once the Government moves from objectives to strategy and instruments. Once again, this kind of mismatch between trade policy and these "second generation policy documents" should be eliminated to ensure future horizontal coherence and effectiveness.

Concerning coherence between trade and sector policies, the picture is more nuanced. It is fair to say that the agriculture policy documents and the trade policy lack any significant linkages in terms of objectives and even strategies. This suggests not only a horizontal incoherence but possibly an operational one. This implies quite a serious blow, considering the importance of agriculture in the economy and, especially, its key role in poverty reduction.

In contrast, the industrial policy presents significant links with the external trade policy. We cannot find conflicting objectives with the trade policy nor with the PARPA II and the Government's programme. The new industrial policy seems to move a step forward from the original trade policy. For instance, the need to assess the results of instruments like the ZFI and proceed to its review, as well as the need to move towards "deeper integration" within SADC, indicates that some lessons have been learnt since 1999 and policies have developed accordingly.

SME development policy objectives seem to be in line with the trade policy, particularly on the export promotion side. Similarly, there is a clear reference among fiscal and monetary objectives that the envisaged macroeconomic stability should be achieved in such a way to favour competitiveness of local industries and, again, promote exports. However, a potential conflict of objectives between trade and fiscal policy may lie in the achievement of higher fiscal revenue, once this means higher customs duties or the setting of the external tariff responding only to revenue criteria and not to industrial or economic development. Obviously, coherence in this case very much depends on how the objectives are translated into concrete instruments. We deal with this in the next section.

Leaving aside agriculture, it is fair to say that there is horizontal coherence, although the non actualization of the existing trade policy may increase the risk of incoherence in the next future.

Concerning *vertical coherence*, regional and multilateral negotiating strategies have been in line with the trade policy objectives of increasing the integration of the country with neighbouring and world economies. This can be said on the basis of the behaviour taken by the country in recent years, since no strategic documents have been produced – exception made for country positions in view of WTO Ministerial Conferences. At the regional level, Mozambique has been one of the key drivers of the process that led to the signing of the SADC Trade Protocol and has been advocating actively for its full implementation, the reduction of non-tariff barriers (e.g. the simplification of RoOs) and deeper integration (e.g. the creation of a SADC customs union). At the multilateral level, the stance in favour of trade liberalisation and policy harmonisation has been less clear. On one hand, Mozambique strongly advocated the right of SDT for LDCs in many areas; from goods to services to other new generation trade issues and to non-tariff barriers. Concretely, the objective of more integration with international markets have been pushed through market opening of target countries much more than through the opening of Mozambican markets. Even in areas such as SPS and TBT, the objective of favouring policy harmonisation at multilateral level has been shadowed often by request of special treatment and trade-related technical assistance. On the other hand, however, in the last ten years, the tariff structure has been significantly simplified and the average tariff reduced. Overall, at the multilateral level, the perception is that the coherence of objectives with the national trade policy is not as evident as at the regional level.

The EPA negotiations is probably the setting in which incoherence of objectives is more serious. In fact, as the process has developed and for the reasons highlighted earlier in the text, there is a high risk that the final agreement could be detrimental to the integration within SADC. This would compromise one of the main objectives of both trade policy and Mozambique development priorities: regional integration. The decision of signing a different liberalisation schedule for goods with respect to SACU countries is highly contradictory and not in line with the efforts taken towards the establishment of a SADC free trade area and, above all, the creation of a SADC customs union. EPA negotiations have been generally perceived as externally “driven” by the EU, rather than an autonomous decision taken according to each country’s interest. As a result, the country strategy has been passive and unclear, and the only perceived link with development priorities is related to the possibility of increasing Aid for Trade.

Policy objectives indicate the desired *state of affairs* that should be reached as a result of the implementation of a certain instruments. As a result, objectives need to be translated into strategies establishing concrete instruments and measures to be implemented. Establishing general objectives without a clear strategy is one of the main reasons behind failure to attain the desired results. Coherence of objectives per se does not guarantee that objectives will be achieved. Thus, in assessing trade policy we cannot limit ourselves to only analysing coherence but we have to analyse the relevance and effectiveness of proposed instruments. For this reason, the following section analyses the different measures and instruments used in trade policy and other related policies which impact on trade.

4.2 Coherence and effectiveness of instruments

There are many potential strategies and instruments that could be adopted in order to achieve a particular set of trade policy objectives. Starting from the instruments highlighted in section 3.2.1, we list the key instruments currently being implemented, and for each of them we assess whether they have resources to be implemented and whether they are oriented to the objectives above. For some we try to discuss whether such instruments are the most effective and efficient. Due to the limited scope of this report, we will do this briefly without entering into an empirical evaluation. Finally, we look at the operational coherence of instruments and we try to identify those instruments or practices that may jeopardise the achievement of the main objectives.

4.2.1 Instruments

a) Tariffs

The external tariff is the main instrument of trade policy. In the case of Mozambique it has a relatively simple structure, with tariff bands targeting different types of goods: final goods, capital goods, inputs and essential goods. We can relate the structure of tariff bands to the main objectives of trade policy. On one hand, the progressive lowering of the average tariff, the simplification of the overall structure and the elimination of non ad-valorem duties suggest that Mozambique has been pursuing the objective of liberalisation. On the other hand, the fact that final products pay higher taxes than intermediate inputs in order to increase the effective rate of protection clearly aims at protecting domestic firms and substituting imports. In doing this, two critical issues emerge:

- There are some problems of misclassification, since some final products are at the same time inputs for some sectors (e.g. some types of paper for printing industry).
- Since most inputs are imported, exporters cannot produce at international prices because they have to pay duties on inputs.

A further complication comes from the presence of a large number of exemptions, implying that the effectiveness of the current tariff structure in achieving the stated objectives may be much lower than expected. Alfieri, Cirera and Rawlinson (2006) calculates that actual duty and VAT collections at the border are around half of what they should be based on the tariff book.

It is also clear that most of the products imported, especially manufactures, do not compete with domestic production. This suggests that the tariff structure does not only respond to trade objectives. In practical terms, it is quite likely that the tariff structure is more influenced by fiscal objectives, such as tax revenue collections, than trade, or even industrial and agricultural policies.

In Mozambique, two elements may help to explain this “fiscal policy supremacy”. First, development assistance conditionality is often linked to specific fiscal targets rather than trade performance. Second, and related to the first explanation, there is a lack of substantial coordination mechanisms between ministries, and often the Ministry of Finance plays a dominant role in certain sector areas such as the tariff structure. The fact that, for instance, some duty surcharges are still in place despite lack of economic rationality indicate that revenue objectives are more important. Another example that may be more indicative of the power balance over the control of trade policy is the review of the external tariff approved in 2006. This has been presented by the Minister of Finance to the Parliament within a package of solely fiscal reforms. If the relative importance of trade taxes in the overall tax revenue has to be reduced in the future, then we should expect less control of the tariff structure by the Ministry of Finance. However, the forecast presented in the CFMP until 2010 indicate a constant relative contribution of trade taxes (close to 14% excluding VAT) thus suggesting that changes to this situation may only come through a more advocating role

played by the Ministry of Industry and Trade within the Government. In this light, the main objective of the current external tariff seems more to achieve tax revenue objectives while accommodating trade policy objectives. This would also explain why all final products are taxed at 20%.

b) Surcharges

It is difficult to assess the effectiveness of surcharges, though firms enjoying protection continue producing and capturing a large segment of the domestic market. There are two questions that arise when thinking about surcharges. The first question is whether they are the most effective instrument to support these firms. For example, it may be the case that a temporary subsidy would be second best, and, therefore, preferred. The second question, linked to the first, is whether there is any assessment and monitoring of the surcharges in order to analyse whether firms are using the protection rent to become more competitive. To our knowledge, there is hardly any monitoring of surcharges, with a limited exception for sugar.

A final element to consider is whether surcharges on these products are consistent with poverty reduction. For instance, sugar producers are also responsible for internal distribution being granted a *de facto* a monopoly in this sector. Since sugar is an important product in the consumption basket in urban areas, it is likely that the surcharge has a negative impact on urban poverty. In the case of cement and corrugated steel sheets, the surcharge has increased the monopolistic power of the very few remaining domestic firms. The result is an undesired increase in the costs of construction in a country with very poor housing quality for most of its population. By having a negative pro-poor impact, the surcharges would contradict trade objectives and development priorities.

c) Duty exemptions

As highlighted above, duty exemptions (*ad hoc* and regulated by law) are so large as to make the tariff structure less effective. A widespread criticism by private sector representatives to the “*Diploma Aduaneiro para a Industria Transformadora*” is the complexity of the documentation required. Firms have to provide a series of data, including fiscally sensitive data, which require additional monitoring costs for them and, thus, discourage the use of this facility. Although the criticism may be exaggerated, the fact that data for tax purposes have to be provided seems in contrast with the stated objective of the exemption. If the aim is to increase competitiveness of domestic firms, then it would be more transparent and easier to directly liberalize duties on inputs. Besides, all firms may benefit from cheaper inputs and not just the few able to apply. The limited use of the Diploma so far suggests that this may be a more effective way forward for the Government. Concerning exemptions granted by the investment law and those related to Mega-projects, duty exemptions under both schemes are very large with some informal estimations suggesting that these may lie above 50 million USD. Thus, the cost of these incentive measures is non-trivial, especially for a country like Mozambique. In terms of effectiveness, one may ask whether these incentives are crucial for the location of investment or for encouraging export activities. Investments in natural resources or aluminium are unlikely to need these incentives to be profitable. Finally, despite its formal elimination, there is still a significant amount of imports exempted due to exceptional circumstances by the Ministry of Finance. These exemptions are not related to trade objectives, and make the tariff structure less effective.

In conclusion, we can identify two major problems related to the current external tariff. The first, is the fact that tax revenue objectives tend to be as or more important than trade policy objectives. Second, the large number of exemptions implies that the nominal structure is not relevant for many imports.

d) VAT

The first issue related to VAT is that it works effectively as an additional import tax. This is due to the fact that a large proportion of domestic production does not pay VAT thus discriminating between imported and domestically produced goods.

Another major problem related to VAT is that firms are not reimbursed directly but are granted a credit for duties payable on future imports. The private sector claims that reimbursements are given with years of delay (if given), thus seriously compromising the cash-flow of exporters – especially SMEs.

e) Standards and other technical requirements & sanitary and phyto-sanitary regulations

Perhaps this is the set of measures that can have a stronger impact on competitiveness and exports. Leaving aside the inadequacy of current laws in these areas, the real problem is that almost none of the envisaged policies are actually translated to concrete measures, making coherence irrelevant.

The capacity of INNOQ to enforce technical standards is extremely weak due to lack of infrastructure (there are no accredited laboratories in Mozambique) and lack of qualified personnel. Monitoring of the quality of imports is also poor, with the result that many counterfeit or low quality goods enter the country at a cheap price and compete successfully with domestic goods. An example is given by rice imports that according to recent studies are at a very low level of international quality standards.

Concerning SPS measures, controls by the Ministry of Agriculture at border posts and within country are very weak and do not comply with international procedures. Export certification is neither in line with international standards nor with more stringent US, EU or even South African rules. The result is that dangerous imports come in freely mainly through informal traders, and high potential exports such as meat and fresh agriculture products face high risk of rejection, ultimately discouraging investments. As an example, in 2004 South Africa prohibited imports of mangoes and other fruits from Mozambique while in the same year tomatoes affected by dangerous pests entered into Mozambique and compromised production in the Maputo province. Although, this is an issue that would deserve great attention since it affects the sector with the highest potential for growth and poverty reduction (agriculture), both the Ministry of Industry and Trade and Agriculture did not take actions to tackle budgetary and personnel constraints to upgrade their performance. This may be the result of the “rigidity” of the budget exercise as well as a lack of financial resources. However, it is apparent that the lack of clear trade policy objectives relating to quality and standards plays a major (negative) role. The fact that these non-tariff barriers emerged strongly only in recent years confirms once more the need of updating the 1999 Trade Policy to the renewed international context.

f) Export taxes

There are two export taxes being applied, cotton and raw cashew. Both are in principle incoherent with the objective of promoting exports. In fact, the cotton export tax aims at financing the Institute of Cotton (IAM) and therefore it cannot be related to any trade policy objective. On the other hand, the export tax on raw cashew has the objective of encouraging domestic processing. Despite increasing domestic supply available for domestic processors, a substantial amount of raw cashew is still exported for processing in India. The case of the cashew export tax in Mozambique has been widely reviewed by various authors, domestically and internationally (McMillan, Rodrik and Horn, 2003). Yet, it remains a very controversial subject, due to the fact that reform led to a large downsizing of the processing companies and the impact on farmers was not very significant. In our view, other complementary policies are required in order to support the sector rather than an export tax that may not be a very effective instrument. Policies such as the improvement of cashew

quality and improving processing technological capacity may be more effective in order to develop the sector.

g) Export Processing Zones (EPZs) and Spatial Development Zones (SDZs)

EPZs incentives go beyond duty exemptions highlighted above and include tax breaks, location advantages and other incentives. EPZs are an important element of industrial policy, as expressed in the recently approved industrial policy document. The question is whether this is the most effective instrument to encourage exports. In practice, the number of EPZs is quite limited in Mozambique and the amount of firms operating within them extremely low. Single firm EPZs cannot achieve the externalities embedded in the concept of export zones and instead turn this instrument into a means to guarantee incentives and improved business environment for selected specific firms. The effectiveness of such an instrument therefore becomes questionable.

In general, and although EPZs are coherent with trade policy objectives, they seem to miss a more strategic approach. Particularly, there is not much interaction between EPZ incentives and specific sector strategies. For instance, the establishment of a competitive horticulture export sector needs additional tailored incentives (e.g. long term credit) than the ones envisaged in the EPZs. In contrast, investments in the exploration of natural resources do not need this kind of incentives. Actually, the tendency worldwide is to open tender for the exploration of such resources with private investors paying “royalties” to the state for their use. This differentiation has not been made evident within policy documents including the trade policy and development priorities but also sector strategies (e.g. industrial policy). The same critique can be applied to Spatial Development Zones (SDZs), which are priority areas for development. Incentives are general and not tailored to particular strategic sectors/activities.

h) Trade facilitation

Several actions have been taken in this area - the most important is the implementation of a single document (Documento Unico) for customs clearance. This is clearly coherent with trade policy objectives and implies a significant advance in terms of trade facilitation. However, in 2006, inspection procedures for both import and export have been tightened through the use of a compulsory scanner in the port of Maputo operated by a concessionary company. The fee for scanning has to be paid by the importer and all cargos are supposed to be scanned (even shipment in bulk) independently from any risk assessment. According to private sector representatives this is causing delays and significantly increasing the cost of doing business through the Maputo port. There have been several meetings between private sector associations and customs on this issue but so far the scanning system is still operational. The involvement of the Ministry of Industry and Trade in these discussions has been, at best, marginal.

i) Competition policy

It is difficult to assess at this stage whether this policy would be coherent with the overall trade policy framework. On one hand, it is not clear whether the institutional capacity exists for implementing this policy successfully and monitoring markets. On the other hand, considering the existence of oligopoly and even monopoly, especially in the distribution sector, it would definitely scale up the effect of trade liberalisation policy on internal prices.

j) Government procurement

The impact on the new law on foreign investments is ambiguous. On one hand, rules such as the discretion of contracting authority in simplifying tenders or moving to direct contracts seem to favour the attraction of foreign investment. On the other hand, the new law introduces the possibility of having bids reserved to national companies under a certain amount (700,000 USD for goods and 350,000 USD for services), leaving the contracting authority a significant power of

discrimination. Also, the lack of a central authority in charge of controlling its application may be a problem, leading to uneven application of rules and leaving investors without a superior body for appealing other than the contracting institution. For these reasons, the final impact of the new measures and the effectiveness and coherence with trade policy objectives is uncertain.

k) Foreign exchange controls

For importers, the elimination of advance payment due to *Aviso 2* is quite a problem since foreign suppliers tend to require this facility in order to ship goods to Mozambique. In case of payment after delivery, it is quite likely that suppliers will ask for additional bank guarantees by Mozambican importers. In the first case the imports may not take place at all, while in the second case the *Aviso 2* would add a cost to the transaction for the importer. Concerning exporters, the prohibition of using wire transfers implies additional costs to be paid to the intermediary financial institution and likely delays in payments. For instance, with letters of credit, even the smallest discrepancies in the timing, documents or other requirements allow the buyer to reject the shipment. For documentary collection, the time spent by the bank to transmit the documents and authorise the transaction is definitely longer than what would be required by a simple wire transfer. The implementation of these measures highlights a certain incoherence of objectives between monetary/financial policy and trade policy particularly on export promotion.

l) Services

Mozambique has been defending a non-negotiating stance based on the lack of a comprehensive domestic regulatory framework. At the WTO level, it supports the position of the LDC group of not tabling any offer of service liberalisation within the Doha Round. Interestingly, at the national level, it is the Ministry of Tourism that is leading the preparatory work on this subject, while the Ministry of Industry and Trade ensures supervision and alignment with the overall country position. The issue of service liberalisation is also being discussed at SADC level, although at an extremely low pace. So far the Ministry of Trade has not come forward with a clear position. At the same time, in the EPA negotiations, the EU pressure finally ended up with the agreement of negotiating (limited) services liberalisation during 2008. This position further split SADC countries with South Africa and Namibia opposing the new negotiations and the other countries accepting it.

Better services in the domestic market could have a positive impact on competitiveness of many economic sectors. For this reason, it is important for the Ministry of Industry and Trade to formulate a clear position on this subject, coherent with main trade policy objectives. This implies the need of identifying those areas where the lack/low quality of domestic services is constraining the development of existing or new viable activities (i.e. internal sea transport).

m) Infrastructure and transport network

Historically, there has been a significant focus on investing in transport infrastructure for trade corridors: south corridor between Maputo-Witbank in South Africa, centre corridor Beira - Zimbabwe and north corridor between Nampula - Malawi. These routes have significantly better transport infrastructure than most routes in the country signalling that the international trade objectives have been driving investments in infrastructure and the transport network. Projects implemented at SADC level also focused on the promotion of main export corridors. A trade off of this coherence with international trade objective is the poor state of domestic infrastructure from the south to the north of the country, despite recent large investments for rehabilitation. This constitutes a serious bottleneck for internal trade, which is worsened by the lack of competition in the sector of internal sea transport.

n) Regional integration instruments

Concerning the implementation of the SADC Trade Protocol by Mozambique, the ongoing gradual tariff phase down of tariffs with SADC is coherent with the main objective of trade integration. However, recent data from customs point towards very low utilization of preferences by SADC exporters in Mozambique. Around 16% of imports claiming SADC origin (and thus entitled to preferences) did actually receive the preference. This probably indicates the presence of NTBs and significant costs of compliance for preference utilization that may be jeopardizing any efforts of trade integration through tariff liberalisation. Therefore, more efforts on trade facilitation are required in order to guarantee regional integration. Unfortunately, there is no data available regarding the use of preferences by Mozambican exporters to SADC. This information would allow assessing the real impact of the SADC Protocol on Mozambican exports and the extent of efforts still required for trade facilitation.

As a partial response to the weaknesses of the SADC Trade Protocol, in recent years Mozambique has signed bilateral free trade agreements with neighbouring countries like Malawi and Zimbabwe. These agreements allow for duty free trade (with a very small number of exceptions) under a more liberal RoOs regime. The overlapping of different preferences within SADC obviously does not play in favour of an effective regional economic integration. However, these bilateral agreements have been useful to guarantee preferential trade with these two neighbouring countries when their credibility implementing the SADC Protocol was at stake.

Another element to consider regarding SADC is the timing of integration. Mozambique has opted for an strategy of late liberalization, liberalizing around 30% of lines in 2001, and then having a second wave of liberalization in 2007 and 2008, where more than 90% of tariff lines will be liberalized. This strategy aims to minimize adjustment costs, for both the productive sector and for tax revenue. Although it is still early to assess the effectiveness of this strategy, since most liberalization still has not occurred, we cannot identify so far a large increase of trade flows associated to SADC liberalization.

SADC has also established the goal of establishing a Customs Union by 2012. Although the objective looks overly optimistic, technical work on the design of this customs union has already started, having SACU as the main reference point. Recent analysis²¹ points out the risk of relevant trade diversion for Mozambique in the case of adopting SACU tariff structure in addition to a mixed impact on domestic prices and management problems at border posts due to complexity. VAT harmonisation and the monitoring of intra-SACU trade flows are substantially hindering the free circulation of goods within SACU, thus reducing one of the main benefits of a customs union. Finally, despite being a customs union, free trade agreements with third countries are often conducted by South Africa with limited (although growing) contributions from other members. The discussion on whether the SADC Customs Union should move along these lines is ongoing but the pressure coming from existing SACU member to transform SADC in a SACU plus is quite strong. The final result however will depend on the agreed common external tariff. Mozambique's position so far has been of supporting the customs union as an instrument to deepen regional integration, consistent with the trade policy objectives, but it is too early to assess whether any measure that will be proposed will be coherent and effective.

In term of policy harmonisation, there has not been much progress, especially for those common policies that could foster deep integration. All actions envisaging policy harmonisation in various sectors are listed in the Regional Indicative Strategic Development Plan (RISDP). This is an official document endorsed by member states though not binding and only indicative in nature. It merely outlines the necessary conditions that member states should put in place to achieve the goal of harmonisation in the various areas.

²¹ Stern M. et al. (2007)

o) Rules of origin

SADC RoOs have been extensively analysed as very stringent and very harmful for trade integration. They have been the result of lobbying by particular producers wishing to avoid competition in their domestic markets. In fact, restrictive rules will also make it difficult for SADC countries to compete in other markets and may deprive both producers and final consumers of the benefits of tariff reductions. After more than three years from the review, the process of modification of SADC RoOs is still ongoing and no consensus has been achieved yet. It is fair to say that considering the current pattern in Mozambican exports to the region (primary and low processed products), current SADC rules do not represent a major obstacle for export. However, an exception is made for textiles and clothing for which a double-transformation rule hinders possible exports of apparel. Mozambique is enjoying derogation allowing single transformation for specific apparel products to be exported to the SACU market. Without such derogation it would be impossible for the (very) few existing companies to continue producing and exporting. The position of the Ministry of Industry and Trade on this issue in the recent past has been ambiguous, supporting a double transformation rule in order to force companies to source textiles produced in Mozambique (though the industry is currently paralyzed and domestic cotton is not even ginned in Mozambique). Despite this ambiguity, it has to be said that Mozambique has been the only country within SADC to propose the simplification of RoOs through the adoption of a single criteria (value added) with clear thresholds, while all other member states proposed a review of RoOs line by line. In this case Mozambique has supported the only realistic option for fostering integration through a set of simple and flexible RoOs thus being coherent with overall trade policy objectives.

4.2.2 Operational incoherence

The major operational problem is the lack of a clear institutional framework for the definition of the trade policy. Despite the recognition of MIC as driver of policy formulation, the only existing coordinating body in charge of “advising on policies concerning external trade flows” (*Conselho Superior de Coordenação da Política Aduaneira*) is headed by the Minister of Finance. In practice, since its creation, this body has been dealing mainly with the setting of the external tariff and issues related to customs valuation and administration, leaving MIC the task of defining the country's trade negotiating strategies in the various *fora*. The need to reconcile this evident contradiction has been correctly highlighted in previous assessments. For instance, the DTIS strongly advised over the establishment of one inter-institutional committee (senior officials and technical) focusing on the definition of trade policy objectives as well as identification and implementation of adequate instruments. So far, no steps have been taken in this direction.

The lack of coordinating bodies is also mirrored at the technical level with the presence of a *Conselho Superior Técnico Aduaneiro*²² acting on the external tariff and a series of inter-ministerial working groups and task forces under the MIC umbrella working on trade negotiating issues (e.g. trade in goods, services, TBT, SPS, etc.). The lack of coordination between the *Conselho Técnico* and the working groups, and the lack of a clear hierarchically superior body to report to, implies that conflicting technical opinions are being circulated and decisions are delayed. As a result of this situation, most actions in international trade policy appear uncoordinated with other sector policies and, vice versa, many sector policies that require trade instruments are elaborated without coordination with trade policy.

A second operational problem is timing. While most sector policies and strategies have been reformulated to reflect the current situation of post structural reform and regional integration, the

²² Composed by the same institutions of the *Conselho de Coordenação* plus other representatives of public and private sector.

official trade policy is still based on a mid 1990s perspective. It is imperative that the trade policy is reformulated to better reflect the current situation and be in line with second generation sector policies.

The third problem is the lack of strategic approach. Strategies imply prioritization of certain economic sectors and activities. However, most of the instruments used in trade policy and analysed above are general and open to any economic activity (perhaps with the exception of surcharges). For example, EPZs and its incentives are open to any business, independently of whether this business can create linkages with domestic sectors, or whether the firm needs any of the granted incentives for exporting. Incentives are costly, and therefore a prior assessment of the beneficiary should be done so that they would be allocated to sectors and activities maximizing national welfare.

Finally, the lack of a monitoring body assessing the effectiveness of the different trade policy instruments implies that lessons are not properly learnt and thus cannot be used in the formulation of new policies. A clear case is the one of surcharges. No formal assessment has been made of their impact on prices and on firm competitiveness. In a similar way no assessment has done about the costs and impact of duty exemptions.

5. Formulating an effective and coherent trade policy

In this section, we attempt to formulate a set of measures that could help to enhance the coherence of trade policy in Mozambique. In order to do so, we start by briefly summarising the main incoherencies found in the analysis carried out in the previous section.

5.1 Trade policy incoherencies

5.1.1 Vertical incoherencies

In general, we find coherence between domestic and external trade policy in Mozambique. This coherence is especially related to SADC integration. Despite the fact that most tariff lines have not been liberalized yet, trade policy has been consistent in attempting to deepen integration. Mozambique has actively participated in SADC negotiations and discussions on the formation of a customs union. It has advocated positions such as simplification of RoOs and policy harmonisation at various levels, thus favouring free trade and also deeper integration. Bilateral agreements were signed in moments of SADC uncertainty with the aim of guaranteeing preferential trade with neighbouring countries.

On the other hand, EPA negotiations seem to be a source of incoherencies. First, the strategy of formulating a separate offer to the EU will imply delays in applying the SADC common external tariff until convergence is achieved with the SACU countries offer to the EU. As a consequence of this, it is difficult to perceive how the EPA could contribute to deeper integration in the region. Or how EPA will improve market access to the EU since Mozambican access to the EU market would still be guaranteed under EBA. Though it is true that this latter is a unilateral initiative and thus time limited, it is the same EC that is pushing for its formalisation at the multilateral level (as at the last WTO Ministerial Conference). The EC is also suggesting that signatories of EPA will have more trade related aid although this increase is likely to be a mere redistribution of already existing funds by the EC or member states.

5.1.2 Horizontal incoherencies

At the horizontal level, we found three main sources of incoherence between domestic policies and trade policy:

- There is a clear gap between trade and agricultural policy, without common objectives and with serious operational problems.
- There are conflicting objectives between fiscal and trade policy, the former dominating the tariff structure and the trade domain when there is revenue involved. This is mainly due to poor diversification of sources of fiscal revenue with fiscal policy exerting pressure on increasing revenue via VAT on imports and customs duties.
- Exchange rate, monetary policy and financial regulations have been largely biased against trade policy objectives. First, the exchange rate has been potentially overvalued due to aid flows and monetary policy. Central Bank policy has been focusing more on ensuring cheap imports and keeping inflation low than on favouring exports. Second, measures taken in order to reduce dollarization of banks deposits as well as controls on foreign exchange such as *Aviso 2* have increased the financial costs for exporters and importers.

5.1.3 Instrument incoherencies

Regarding trade and other trade related instruments, we found several incoherencies:

- The tariff structure includes some misclassifications of inputs as final products and, more importantly, most imported inputs are still taxed though at a lower rate. This implies that producers acquire inputs at prices above international ones, which reduce their competitiveness already strained by other factors such as low productivity and poor infrastructure.
- Surcharges are not second best policies, but nth best, and in the case of Mozambique they are concentrated in sectors having a serious pro-poverty bias.
- Export taxes are incompatible with trade policy objectives. Despite the export tax on cashew may be considered as having an industrial development objective, it is highly ineffective without complementary policies.
- Duty exemptions present a serious problem since they i) distort the tariff structure; ii) are not transparent and thus not predictable nor controllable; and, iii) are very costly in terms of revenue loss.
- There is a lack of capacity to design and enforce policies on standards and quality implying that domestic producers face, on the one hand, unfair competition in the domestic market and, on the other hand, are not pushed towards improving the production process which would result in better quality final products.
- EPZ policy and incentives are often too general to achieve any positive results and in some sectors (e.g. natural resources) go against the interest of the country. There is also a substantial lack of strategic coordination with other policies thus diminishing both effectiveness and efficiency of these incentives.
- There is evidence of low preference utilization by SADC countries, suggesting a strong presence of non-tariff barriers and thus raising doubts on the effectiveness of trade facilitation measures put in place so far in the region.
- There is a lack of clear policy and strategy related to trade in services at both national and regional level, and how these could be used for increasing domestic firms' competitiveness.

5.1.4 Operational incoherencies

Finally, we also found some serious operational incoherencies that impact negatively on trade policy including:

- lack of a clear institutional framework for the definition, coordination and monitoring of trade policy;
- lack of a contemporary approach to trade policy, still based on the mid 1990s perspective; and,
- lack of a strategic approach with very low prioritisation of sectors and activities.

5.2 Coherent trade policies: recommendations

After having analysed the coherence of the different objectives and instruments of trade policy, this section lists some recommendations in order to articulate a more coherent trade policy strategy.

5.2.1 General objectives

Regarding objectives, we recommend taking the following actions:

- The 1999 Trade Policy should be reformulated in order to be contemporary to other sector policies. Both, horizontal and vertical coherence require a modern trade policy that establishes the objectives to be achieved accordingly to the current context. Concretely, the new trade policy should do the following:
 - The policy should narrow the objectives towards more specific goals (e.g. what sectors should be the focus of trade policy).
 - It must have specific objectives that can be monitored.
 - Objectives and instruments should be articulated fully in line with other sector strategies.
 - It must clarify the mandate for trade negotiators regarding multilateral and potentially new preferential trade agreements in line with defined trade objectives. This has been done correctly in the case of SADC and WTO in the recent past but it seems unclear whether there was a coherent negotiating mandate in the case of EPA (and whether there is one for the forthcoming services negotiations) or for some aspects at the WTO level (e.g. new generation trade issues).
 - It should allow for regular reviews in order to be as dynamic as possible, thus, being able to adjust to changes in economic environment and new business opportunities.
- The objectives of the agriculture policy regarding international trade and how these should be integrated with trade policy should be urgently clarified.
- Coordination between fiscal and trade policy needs to be improved in order to avoid tax revenue objectives dominating trade policy instruments (e.g. duties). This may require a significant effort in diversifying the sources of government revenue in order to lower pressure on trade related revenue.
- Higher coordination with the Central Bank is required. Exchange rate and financial regulations have acted in the last years against the export sector. For this reason, it is important for the trade policy to influence exchange rate policy. At the same time, the Central Bank should seriously consider how their financial regulations impact on the cost of finance for the productive sector and more, importantly, the export sector.
- Correct instruments for the implementation of standards and quality need to be put in place. This would benefit domestic industries in both import substitution and export promotion.
- The development of a clear and coherent position on services (at the national, regional and international level) is needed that could enhance domestic competitiveness levels. In a similar way, guidelines should be set for the definition of the country position on new generation trade issues.

5.2.2 Strategies and instruments

Regarding strategies and instruments, we recommend the following actions:

- The tariff structure should be rationalised in order to better reflect trade policy rather than tax policy objectives. This implies taking the following actions:
 - elimination of duties on inputs which will eliminate the bureaucratic costs associated with the various exemption schemes (i.e. *Diploma Aduaneiro para a Industria Transformadora*), extend the number of beneficiaries while reducing the scope for smuggling;
 - rationalisation of exemptions by eliminating non transparent *ad hoc* exemptions and assess economically what exemptions should continue under the investment law and EPZ policy; and,
 - revise the “surcharge policy”. A critical assessment of these measures should be conducted in order to analyse their impact and whether other instruments should be preferred in order to support the sector. These instruments should be linked to concrete targets for the firms and should have time frames so they are not perceived as a permanent protection.
- Sector priorities should consider whether trade instruments are appropriate in terms of effectiveness and costs and there should be a prioritization among sectors.
- A special assessment of business environment problems is required, with a strong focus on bottlenecks constraining the development of a dynamic and competitive export sector. The results should be used to formulate an effective policy on trade facilitation.
- Develop a series of policies on infrastructure and other factors that negatively impact on the development of a South-North corridor that can act as an engine for increasing domestic trade. Possible areas of focus may be the market structure of internal maritime transport, port rehabilitation and port management and investment in railways and air-transport that could complement road transport.

5.2.3 Integration with sector policies and institutional setting

As suggested in the previous section, one of the main problems when implementing sector policies is the lack of coordination between instruments designed by these policies and those of trade policy. Although in the case of Mozambique these are mostly not conflicting, they appear to be designed and implemented independently thus wasting precious synergies. This is likely to be the result of lack of an institutional coordination body. For this reason, we believe that the main measure to be taken in this area is the creation of an inter-Ministerial implementation and coordination body at the political level. This body should be responsible for elaborating and implementing trade policy, as already suggested in the DTIS, and have a formal recognition by the Council of Ministers. Moreover, this coordinating body would be also responsible for coordinating and dialogue with the different government sectors on all the objectives linked to trade policy, as well as designing and implementing common trade instruments. This would ensure consistency across government policies related to trade policy.

As part of this coordination body, a technical group should also be created in order to monitor existing instruments and propose new instruments to be implemented. This technical group should be lead by the Ministry of Trade and Industry, but should integrate technical staff from other ministries.

6. Establishing a country trade negotiating strategy

6.1 Priorities and institutional setting

The trade negotiating strategy of the country must reflect a coherent set of trade policy objectives. In the case of Mozambique, as seen above, it implies a substantial focus on promoting exports through enhanced market access and deepened regional integration.

Similarly to domestic trade policy, trade negotiations require strong coordination from different sectors of government policy. This is due to the fact that negotiations imply market access for different productive sectors and, more recently, they have associated other economic elements such as competition policy, investment and government procurement (new generation trade issues). Within the Government there are currently technical groups formed by staff from different ministries in charge of following and preparing different negotiations under the leadership of the Ministry of Industry and Trade. It would be very useful, for instance, to merge these working groups into one, and incorporate it into the trade policy coordinating bodies mentioned above (political and technical).

Another important element that should be considered when creating trade negotiating strategies is the analytical element. Trade negotiations require quite a substantial amount of economic analysis assessing socio-economic impacts of different trade regimes. Currently, the Ministry of Industry and Trade has a very limited number of technical staff working on this area. By creating a unified technical group with the participation of colleagues from line ministries it would achieve a substantial improvement in terms of analytical capacity.

6.2 Negotiating strategies: bilateral, regional and multilateral

6.2.1 Bilateral

Mozambique has currently signed bilateral agreements with Malawi and Zimbabwe. Two elements are required in order to guarantee that bilateral agreements are coherent with trade policy objectives. First, bilateral agreements should foster market access for Mozambican exports. Second, they should support, and not jeopardize, regional integration.

The current agreement with Malawi and Zimbabwe appears to be coherent with both objectives, especially since negotiations took place after Mozambique's withdrawal from COMESA and given delays in the implementation of the SADC Protocol in these two neighbouring countries.

In the case of the other neighbouring countries, Zambia and Tanzania, trade flows remain very low. Trade policy should encourage exports to these two countries. However, it is unclear that bilateral agreements should be the best instrument in terms of expanding trade with these countries. Ideally, Mozambique should attempt to increase exports to these countries through the SADC Protocol. However, a bilateral agreement could be a coherent strategy if these countries would opt for leaving the SADC Protocol and focus only on COMESA.

A very important dimension when aiming to increase trade flows with neighbouring countries is the issue of trade facilitation, including the establishment of relevant transport infrastructure. This is especially important when thinking of improving trade flows with Tanzania and Zambia. More focus is required on improving transport and customs infrastructure between these countries and Mozambique. This could be more effective than bilateral trade agreements overlapping the SADC Protocol.

In general terms, it would be more coherent for trade negotiators to focus in regional and multilateral negotiations than having bilateral agreements overlapping existing agreements. The proliferation of bilateral agreements may well reduce effectiveness in the implementation of any agreement considering the low capacity installed in a country like Mozambique.

6.2.2 Regional: SADC

SADC integration is one of the main trade policy objectives for the country. As a result, implementing the SADC Protocol and adopting the SADC Customs Union should continue being a priority. Two relevant issues emerge when implementing a coherent strategy in this area. First, Mozambique should align its implementation of the SADC Trade Protocol with the targets set by the SADC Secretariat. This would act as peer pressure and thus encourage other member states to do the same. For instance, tariff reductions should be carried out at the starting of each year, as the SADC secretariat understands and not with delays as is currently occurring. Second, Mozambique should actively participate in the design of the SADC customs union, focusing its negotiating effort on the setting of an adequate common external tariff, the revenue sharing formula and trade facilitation issues. The first should be simple in order to be manageable and should seek to minimize trade diversion, which would imply a negative impact on the competitiveness of domestic industries. The second should try to compensate from the expected revenue loss and be eventually managed at SADC level through regional development funds following the example set by similar facilities in the EU. These may address, for instance, the financing of large infrastructure projects (e.g. transport, communication) connecting member countries and thus strengthen the creation of regional markets. Third, by focusing on harmonising customs procedures, member states would not limit themselves to a mere tariff liberalisation which may not translate into a real free circulation of goods.

The issue of governance in a new customs union is also pivotal. Mozambique should make sure that adequate common governing bodies are put in place, particularly dealing with the setting of the common external tariff and the management of trade negotiations at all levels. The risk of being marginalised at the expense of stronger countries or regional groups (i.e. SACU) would reduce the country's control over its trade policy with all the implications for the productive sector and fiscal revenue.

Another important area to consider when elaborating a trade negotiating strategy for regional integration is the discussion of *deep integration* elements. These are measures that go beyond tariff reductions, such as common policies on investment, fiscal, industrial or agricultural issues, SPS and TBT and that can contribute to increase economic integration substantially. Mozambique could improve its business environment and attractiveness to investment by adopting common policies at SADC level and harmonizing legislation in key areas such as SPS and TBT. Little discussion has been carried out in this area so far, but it would be important for Mozambique to proceed to a thorough assessment of the potential impact of different *deep integration* measures and integrate the results in the negotiating strategy.

6.2.3 EPA and unilateral preferences

Unilateral preferences aim to increase substantially exports from selected developing countries. However, the real impact of unilateral preferences in Mozambique is unclear. Alfieri and Cirera (2007)²³ find for the case of Mozambican exports to the EU that export growth seems weakly linked to preferences considering that most products enter at MFN zero and the main exported

²³ Alfieri, A. and X. Cirera (2007) "Unilateral Trade Preferences in the EU: An Empirical Assessment for the Case of Mozambican Exports" DNEAP Discussion Paper forthcoming

products show lower than average use of preferences. They also find that although utilization rates are generally high, this does not translate into significant price margins captured by Mozambican exporters compared to MFN competitors. For the case of AGOA and other GSP preferences, exports are minimal. For Mozambique it is unclear whether unilateral preferences are having a significant positive impact on exports, and the question is whether traditional exports would occur even in the absence of preferences. These elements raise doubts about the importance that unilateral export preferences should have in the negotiations strategy. What is clear is that a more detailed study at the sector level about the constraints that impede using unilateral preferences is required, in order to shape a coherent trade negotiation strategy.

Regarding EPA negotiations for Mozambique, from an exporting and market access point of view nothing changes with respect to EBA. Thus, it is unlikely to have a significant result with regards export expansion. On the other hand, market access to the EU, should be secondary to the trade objectives stated above. First, EPAs should not jeopardize regional integration, especially regarding the adoption of the customs union. The different agreements reached by SADC countries and the EU will simply delay the adoption of a common external tariff. Second, the objective of importing cheaper products, especially regarding inputs, is best attained with multilateral liberalization. Third, and more important, more than 80% of the value of bilateral trade with the EU was already liberalized in 2006.

Taking into consideration all these arguments, it seems that a coherent negotiating strategy for EPAs should have been the formulation of a common position with other SADC countries or at least with those negotiating in the same configuration as Mozambique.²⁴ What could be done now, after the signing of the interim agreement, is to set up a calendar establishing a transition towards the agreement eventually concluded between SACU countries and the EU - that will probably serve as basis for the future SADC common external tariff. On services, the agreed talks with the EC scheduled for 2008 should first focus on achieving a common position between all SADC countries fully in line with the ongoing discussion within SADC on services liberalisation.

6.2.4 Multilateral

In the multilateral arena, Mozambique should continue the ongoing trade reform of its MFN tariff, especially regarding input liberalization and tariff structure simplification. In addition, a more active role should be taken into integrating trade in services in negotiations. This requires a more clear idea of the potential impact of liberalizing trade in services on the Mozambican economy.

In the current Doha round Mozambique should start searching common position with its regional SADC partners instead of focusing exclusively on its current blocks (G-90, ACP and African Union) and harmonise such positions with the decisions taken at regional level. This would prove beneficial for the regional integration process and possibly enhance the coherence with, and effectiveness of, measures taken at SADC level.

A key element to take into account for the near future is that, once the SADC customs union is in place, it will be the customs union as a whole that decides on the common external tariff as well as trade negotiations. This highlights the importance of having truly representative governing bodies within the customs union. A situation like the one being experienced in SACU, where South Africa dictates the negotiating agenda as well as the structure of the external tariff, would not serve Mozambican interests at all.

²⁴ SACU countries, Angola and Tanzania

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