MAINSTREAMING TRADE

A POVERTY REDUCTION STRATEGY FOR MOZAMBIQUE

SUPPORTED AND FUNDED BY THE TRADE CAPACITY BUILDING PROJECT
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

ANALYSIS AND REPORT PRODUCED BY NATHAN ASSOCIATES INC.

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Analysis and Report Produced by
Nathan Associates Inc., Arlington, Virginia

Maputo, Mozambique

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Foreword

In October 1997, trade ministers of the World Trade Organization (WTO) established the Integrated Framework (IF) for Trade-related Technical Assistance. Its purpose is to enable WTO members to collaborate in assisting least-developed countries (LDC) in integrating into the world economy. The framework was endorsed by the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Bank, and the International Trade Centre. The United States Government has supported the IF through funds donated to the IF Trust Fund, which was established in 2000.

The IF was redesigned in 2000 to ensure that trade issues are more fully integrated into the poverty reduction strategies of LDCs. IF collaborators agreed to begin pilot "diagnostic trade integration studies" in LDCs seeking assistance and committed to trade reform. The diagnostic studies, which identify constraints to trade integration, are used to develop a national consensus on and action plans to address constraints, including technical assistance needs. The action plan forms the basis for consultations with donors on how technical assistance needs may be met. Under World Bank leadership, the IF conducted pilot studies in 2001 for Cambodia, Madagascar, and Mauritania. Later that year, the IF initiated a pilot study for Mali, in collaboration with the U.S. Agency for International Development (USAID).

Under the IF and other vehicles, the U.S. Government has supported LDCs in responding to the challenges and opportunities of the global trading system. In addition to its contribution to the Mali pilot study now underway, USAID is leading a trade integration needs assessment for Mozambique. This report presents that assessment.

The needs assessment will help build national consensus in Mozambique on the importance of trade to the country's development objectives, including sustainable growth that benefits the poor. A significant step in building consensus is the national workshop to be held in Maputo in October 2002, to discuss the conclusions and recommendations presented in this report. The workshop will include leaders of Mozambique's public and private sectors, non-governmental organizations, and donor organizations. It will focus on the importance of trade to Mozambique's economic growth and poverty reduction strategies, identify constraints to export growth, present preliminary recommendations and priorities for overcoming constraints, and consider implications for the Mozambican economy and citizenry—especially the poor—of adopting a more pro-trade policy and regulatory environment.

Nathan Associates Inc. conducted the Mozambique pilot study as part of USAID's Trade Capacity Building (TCB) project. The study team consisted of Mike Anderson, Lance Graef, Ashok Menon, and Nicolau Sululo. Erin Endean, Chief of Party for the TCB project, directed the study.

The report draws on a substantial body of economic research on the Mozambican economy, including research on specific sectors, regions, and products. This includes research by donor agencies, internationally renowned development experts, and Mozambican economists and government officials. The report also draws on extensive interviews conducted by Nathan Associates in Mozambique and with leading outside experts on the Mozambican economy.

1. Introduction

Despite regional conflict, devastating floods, and fluctuating world prices for its commodities, Mozambique has made significant gains in economic growth and reform in the past decade. Still, the country is among the world's poorest, with more than two-thirds of its population classified as poor and many living in extreme poverty.

To lift its citizenry from poverty, Mozambique must grow quickly and sustain that growth over a number of years. At present, however, the internal market is too small and the purchasing power of Mozambican consumers too low to expand production at the rate required to achieve such growth. Improvement in national welfare will instead depend on export growth. The challenge: *develop a strategy that will help Mozambique achieve export growth while ensuring that such growth provides economic opportunities and income to the poor.*

The position of this report is that trade must become an integral part of Mozambique's strategy to stimulate sustained growth and to reduce poverty. Only when the public and private sectors address constraints to trade and investment in a comprehensive and collaborative manner will Mozambican entrepreneurs be able to increase exports and create jobs, thereby helping to reduce poverty. Addressing these constraints implies a broad, but necessary, agenda—an agenda fraught with obstacles. Overcoming such obstacles will require endorsement at high political levels, effective intergovernmental coordination, public–private partnership, and targeted donor-funded technical assistance.

One such obstacle is the lack of consensus on the value of trade liberalization, as well as other measures for accelerating export growth. This lack of consensus is reflected in Mozambique's national poverty reduction strategy paper (PRSP). According to the PRSP, the main goal of economic policy is strong and broad-based growth with poverty reduction. To reach this goal, the government has stated its commitment to maintaining financial discipline, improving the environment for the expansion of private sector activities, and fostering development of a strong export base through liberal trade and investment policies. Interviews with policymakers and reviews of policies, however, reveal that stated commitment is not supported by action. Necessary reforms are either not enacted or not implemented. Effecting change will require not only high-level commitment to change but also an interagency and public–private mechanism devoted to achieving it.

In addition, while trade liberalization may be necessary to pro-poor export growth, it is not sufficient. Developing export capacity will require economy-wide changes to (1) reduce anti-business bias in the regulatory system, (2) improve the transportation infrastructure that links Mozambican producers to global markets, (3) reduce transaction costs that render Mozambican exports uncompetitive in world markets, and (4) attract domestic and foreign investment to labor-intensive sectors of the economy.

This report presents an assessment of Mozambique's trade integration needs and the relationship of those needs to poverty reduction goals. Chapter 2 describes the relationship between exports, economic growth, and poverty reduction in general. Chapter 3 provides an overview of Mozambique's current economic environment, including its resources, macroeconomy, investment climate, and trends in imports as well as exports. Chapter 4 describes Mozambique's untapped export potential in various industries. Chapter 5 discusses Mozambique's opportunities for increasing access to foreign markets through trading arrangements, multilateral, regional, and preferential. Chapter 6 describes the institutions and processes involved in trade and investment policy, negotiations, and public–private coordination in Mozambique. Chapters 7 and 8 describe constraints in the trade and investment environment and the regulatory environment. Chapter 9 describes the necessity, value, and virtues of a national trade strategy and proposes creation of a National Trade Strategy Committee as a coordinating mechanism. Chapter 10 describes what will be necessary to prepare for the effects of trade liberalization, particularly short-term negative effects on the rural poor and displaced workers. Persons interviewed for this report are listed in Appendix A and sources consulted are listed in Appendix B. Recommendations for capitalizing on Mozambique's inherent strengths, for addressing constraints, and for pursuing opportunities are presented throughout the report.

2. Exports, Growth, and Poverty Reduction

With 70 percent of its population classified as poor and a third of those living at or below subsistence levels, Mozambique is among the poorest countries in the world.[1] To overcome extreme poverty, Mozambique must grow quickly and for a considerable number of years. The Government of Mozambique has set an ambitious target of double-digit growth through 2010. The donor community agrees that such growth is possible, but only if Mozambique continues and deepens its economic reforms.

High Growth Rates Reduce Poverty

The link between economic growth and poverty reduction in developing countries has been studied extensively. A recent literature survey by the International Monetary Fund's First Managing Director, Dr. Anne Krueger, and Deputy Division Chief for the Research Department, Dr. Andrew Berg, concludes that "changes in average per capita income are the main determinant of changes in poverty." The authors also conclude that "the income of the poor tends to grow proportionally with mean per capita growth."[2]

In one of the most comprehensive studies cited by Krueger and Berg, World Bank economists David Dollar and Art Kraay analyzed economic growth in 80 countries over a four-decade period, concluding that, on average, the income of the poor rises on a one-to-one basis with overall growth. As they express it, "It is almost always the case that the income of the poor rises during periods of significant growth."[3] Krueger and Berg also conclude that "the aggregate evidence shows that the

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[1] The poverty reduction strategy paper (PRSP) defines "poor" as consumption expenditures of less than US$0.50 per day and "abject poverty" as consumption expenditures of US$0.30 or less per day. (p. 11.)

[2] Andrew Berg and Anne Krueger. Trade, Growth, and Poverty. Presented at the Annual Bank Conference on Development Economics, World Bank, April 25, 2002. p.2.

[3] David Dollar and Art Kraay. Growth is Good for the Poor. Policy Research Working Paper No. 2587, World Bank, 2001.

income of the poorest tends to grow one-for-one with average income…. In some countries and in some periods the poor do better than average, and sometimes they do worse."[4]

Exports Key to Growth

Mozambique's internal market is too small to increase production to levels required to achieve rapid and sustained double-digit economic growth. Such growth will depend on rapid expansion of Mozambique's exports. Increased exports require increased imports, especially of intermediate and capital goods. Thus, if Mozambique is to boost exports, it will need to accept the imports of production inputs. In short, increased openness to trade is essential for Mozambique to grow at the rates it requires to bring down absolute poverty.[5]

Increased openness under appropriate circumstances, and in combination with related reforms, should spur economic growth. This expectation is logical and empirically grounded. First, increased receptivity to imports, particularly of production inputs, will give Mozambican entrepreneurs access to a wider variety of inputs at lower costs, which in turn will enable them to produce competitively priced exports. These exports will generate income for the exporter, as well as the exporter's workers, distributors, and suppliers. National income rises, as does per average capita income (assuming output growth outpaces population increases).

Second, extensive research on the experience of other developing countries has documented the link between openness and growth. Krueger and Berg conclude that "varied evidence supports the view that trade openness contributes greatly to growth."[6] And according to Dollar and Kraay, a 20 percent increase in trade as a share of GDP produces a gain in GDP growth of 0.5 percent to 1.0 percent per year.[7] Acknowledging that openness is not a "magic bullet," Krueger and Berg add that "trade policy is only one of many determinants of growth. It is central, but so are strong institutions, macroeconomic stability, a supportive international environment, the avoidance of conflict, and a host of other factors."[8]

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[4] Berg and Krueger, *op cit.*

[5] Over the last decade exports of goods and services grew at an average 14 percent per annum. Nevertheless the current account balance has been highly negative over the past eight years (see WTO/TPR, p. 5). The World Bank is projecting an expansion of exports of 26 percent per annum over the 2000-2004 period. (See International Development Association and the International Finance Corporation. Memorandum of the President of IDA-IFC to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Mozambique. June 14, 2000, p. 31.)

[6] Berg and Krueger, *op. cit.,* p. 1.

[7] Dollar and Kraay, *op cit.*

[8] Krueger and Berg, *op. cit.,* p. 32. The authors also say that "trade openness has important positive spillovers on other aspects of reform so that the correlation of trade with other pro-reform policies speaks to the advantages of making openness a primary part of the reform package."

Accelerated Export Growth Consistent with Pro-Poor Growth Strategy

In developing countries experiencing sustained growth, poverty is reduced in an income-distribution neutral way as exports create jobs and increase sales of goods produced by the poor. This is consistent with the findings of Krueger and Berg:

> … trade openness, conditional on growth, does not have systematic effects on the poor. The aggregate evidence shows that the income of the poorest tends to grow one-for-one with average income… The micro evidence from a large number of individual liberalization episodes also shows that there is no systematic relationship between trade liberalization and income distribution. … [In sum,] [t]rade openness has contributed to growth that has resulted in an unprecedented decline in absolute poverty over the past 20 years.[9]

While much research has focused on the impact of export growth on the poor, the impact of lower import prices is also worth considering. For example, by lowering the cost of items that the poor consume, tariff reductions may yield a small, but positive benefit to the poor. [10, 11]

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[9] Berg and Krueger, *op. cit.,* pp. 31-32.

[10] Recent World Bank studies have concluded that reductions in import tariffs may have only a small impact on the disposable incomes of the poor. In Mauritania, a 23 percent tariff reduction on clothing and footwear was calculated to produce only a 2 percent-plus improvement in disposable incomes of the lowest 60 percent of the population. A similar reduction in tariffs on meat, poultry, and rice led to a 5 percent improvement in disposable income. This result is complicated by income loss suffered by smallholder producers of these goods. (See World Bank, Madagascar: Increasing Integration into World Markets, pp 64-65). In Cambodia, a lowering of tariffs on food products, clothing, and footwear from 28-30 percent to 7 percent was projected to improve household purchasing power from 3.2 to 3.9 percent for poorer groups. (WB, Cambodia: Integration and Competitiveness Study, Part A, p. 15.)

[11] Welfare and poverty outcomes accruing from tariff reductions may be different. Even a small 2 or 3 percent consumption gain multiplied by 70 percent of the population would have a significant welfare impact. But if the poverty gap is large, as it is estimated to be in Mozambique, a 2 or 3 percent "nudge" will not push many out of poverty.

3. Overview of Mozambique

Geography, Resources, and Political Environment

Mozambique, a former Portuguese colony, occupies 500,000 square miles of the south-east coast of Africa bordering South Africa, Swaziland, Zimbabwe, Malawi, and Tanzania. The country has a coastline of 1,700 miles on the Indian Ocean and is well served by 25 major rivers and several deep ports. About 80 percent of its population of 17.7 million lives in rural areas. Many of its 10 provinces are lightly populated; two, Nampula and Zambèzia, contain 40 percent of the population. Mozambique has abundant land, though pressure on natural resources along the coast, in urban areas, and along the major transport corridors is increasing.

The central and northern provinces have fertile soils and plentiful rainfall, but transportation links are limited. In southern provinces, soils are poor and rain-fed production marginal, but accessibility is relatively good, particularly to Maputo, the nation's capital and largest market.

Mozambique won its independence in 1975. The exodus of most Portuguese settlers and Asian traders, subsequent adoption of central planning and nationalization of major enterprises, and the civil war from the late 1970s to early 1990s, resulted in a collapse in production, destruction and deterioration of infrastructure and public services, and heavy dependence on foreign aid.

Mozambique's central planning apparatus began to be dismantled in the late 1980s, but the 1992 peace settlement enabled the Government of Mozambique to move ahead with market-based economic policies, including privatization, market determination of prices and the exchange rate, and rationalization of public expenditure and fiscal balance. Known as the Economic Rehabilitation Program (PRE), these polices also aimed to reform the public sector and the civil service. Since 1992, the government has earned a reputation for prudent macroeconomic management— growth has averaged close to 10 percent per year—and commitment to alleviation of rural poverty. The government has also been active in managing and ensuring consistency among donor-supported development activities.

In 1984, Mozambique became a member of the World Bank, the International Monetary Fund (IMF), and the Lomé Convention. Its current constitution was introduced in 1990 and Mozambique held its first multiparty elections in 1994. The President and members of the Republic Assembly are elected by direct popular vote for 5-year terms. The President may serve only two consecutive terms. The current president, Joaquim Chissano—who has led the nation since 1986 and through the first 10 years of the democratic era—will step down in 2004.

Macroeconomic Climate

Mozambique is one of the world's fastest-growing countries as well as one of its most heavily indebted and most impoverished. Seventy percent of the population lives in absolute poverty.[12] Most of the poor are rural families that depend on cash crops destined for export markets. Nonetheless, despite devastating floods, the country's economic climate has been improving in recent years. A number of factors have contributed to the upturn, including peace, better economic policies, rising foreign investment, continued external assistance, and deeper integration into regional and global markets. The following paragraphs provide details on the country's macroeconomic climate.

- ***Growth.*** During the decade ending in 1996, Mozambique averaged 5.5 percent annual growth followed by 11 percent growth between 1997 and 1999 (see Figure 3-1). Disastrous floods in 2000 dropped GDP growth to 2.1 percent.[13] In 2001, however, growth rebounded to nearly 14 percent thanks to a rebound in agricultural output, post-flood construction activity, and the first full year of production by a massive aluminum smelter. According to World Bank projections, growth could average 7.7 percent annually for the next four years. These projections are consistent with those of the Government of Mozambique's poverty reduction strategy paper (PRSP) of 2001.
- ***Debt.*** Mozambique's external debt recently stood at US$6 billion but through the original and enhanced Heavily Indebted Poor Country (HIPC) initiative it was reduced to US$1.7 billion. This reduced the debt-to-export ratio from 538 to 150 and the debt-service-to-export ratio from 20 to 5 percent.
- ***Inflation.*** Mozambique's annual rate of inflation declined from about 60 percent in the early 1990s to 2.9 percent in 1999. In 2000, inflation increased to 12.7 percent and in 2001, it jumped to 21 percent, accelerating over the course of the year. Inflation is expected to decline in 2002 to about 8 percent annually according to government projections. Preliminary statistics indicate that after averaging more than 3 percent per month in the final quarter of 2001, the monthly increase in the consumer price index slowed to an average of less than 0.2 percent per month in the first four months of 2002. The PRSP projects inflation at approximately 5 to 7 percent annually through 2010.

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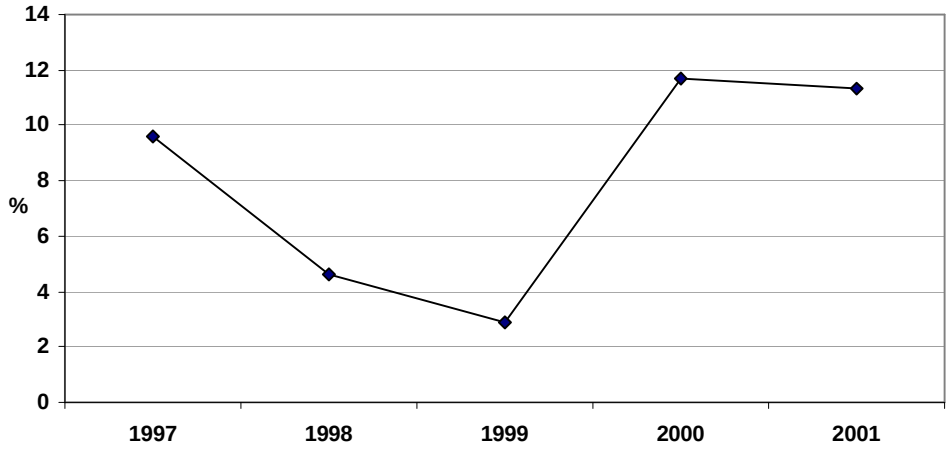
[12] According to the World Bank, absolute poverty occurs when incomes of individuals or groups fall below US$1 per day in purchasing power parity.

[13] Floods in the south in February and March of 2000 killed 700, displaced 490,000, and required nearly US$300 million in emergency aid. In 2001, another flood affected the Zambezi valley; emergency aid totaled about US$100 million.

FIGURE 3-1
Real GDP Growth, 1997–2001



- ***Exchange Rate.*** The Mozambican currency, the *metical,* has remained broadly stable *vis-à-vis* the U.S. dollar since October 2001. This fact, combined with a sharp depreciation in the South African *rand* relative to the U.S. dollar—and higher inflation in Mozambique—has reversed the 12 percent depreciation of the trade-weighted real effective exchange rate that occurred in the first half of 2001.[14] The complexity of managing the currency is discussed in Exhibit 3-1.

Structural Changes in Output

Table 3-1 presents changes in the structure of the Mozambican economy since 1996. The statistics indicate the growing importance of non-manufacturing output, especially services, as the main growth sector. These data, however, include data on mega projects, which significantly skew production and export performance. Moreover, the data for 2000 reflect unusual circumstances, including significant dislocations caused by devastating floods.

[14] Government of Mozambique. Memorandum of Economic and Financial Policies of the Government of Mozambique for 2002. Report to the International Monetary Fund in connection with Article IV Consultations, June 3, 2002.

Exhibit 3-1

Exchange Rates and Liberalization, Competitiveness, and Aid

To preserve competitiveness, the Bank of Mozambique has targeted a 5 percent annual depreciation of the metical against a basket of currencies. Exchange rates affect competitiveness in many ways, such as the price of exports, the costs of imports, and local operating costs. Even small misalignments can have a big influence in industries whose decisions about location are governed by operating costs, particularly labor costs.

Many governments choose to pair trade liberalization with devaluation. Devaluation provides compensatory protection for local producers.[15] In part, devaluation might take place naturally as tariffs are lowered, and an import-driven demand for foreign exchange pushes the value of the *metical* down. The resultant devaluation is likely to be small.

Mozambique does not have such an option—the *metical* is not overvalued. In fact, if IMF trade projections prove true, the *metical* may appreciate over the coming years. It appreciated by 5 percent in real terms in the second half of 2001 and the first quarter of 2002, reflecting the surge in inflation and the weakness of the *rand*.

Despite the recent appreciation, the metical value remains about 10 percent below its average in real effective terms in the previous three years. In that period Mozambique's terms of trade improved by about 6 percent and its exports remained strong, even from non-mega projects, suggesting that the recent appreciation is not interfering with competitiveness. Moreover, a July 2002 IMF review concluded that despite high levels of external assistance, aid inflows appear to have been within the country's absorptive capacity and Mozambique has been able to avoid the aid-induced "Dutch disease" that has plagued many recipients of large levels of outside aid.

Nevertheless, evolution of the exchange rate is a prime concern in trade policy. The Central Bank has a key role to play in evaluating how grants, loans, profit remittances, high levels of donor funding, and mega projects affect the exchange rate and we encourage the Bank to initiate studies to analyze the structural determinants of the exchange rates over time.[16]

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[15] Malcolm McPherson. Growth and Poverty Reduction in Mozambique: A Framework for Analysis. EAGER Project, African Economic Policy, Discussion Paper No. 60, March 2001, p.35.

[16] External aid represents between 14 and 20 percent of GDP, 50 percent of government spending, and 75 percent of public investment. External aid is approximately US$35 per capita, totaling US$500 per capita over the past decade (WB/CEM and IDA-IFC statistics).

TABLE 3-1
Structure of the Mozambican Economy, 1996–2001 (% of GDP)

	1996	1997	1998	1999	2000	2001
Agriculture	30.5	30.2	27.2	25.4	20.2	18.8
Fishing	4.0	3.9	3.0	2.5	2.0	1.9
Industry	16.0	17.4	21.5	21.8	22.7	24.8
Mining	0.2	0.3	0.3	0.1	0.2	0.3
Manufacturing	8.7	9.6	11.0	11.0	11.3	10.7
Electricity and water	0.5	0.8	1.9	3.0	2.4	2.1
Construction	6.6	6.7	8.3	7.7	8.7	11.7
Services	49.5	48.5	48.3	50.3	55.1	54.4
Commerce	23.2	22.5	21.5	21.1	20.3	17.2
Repair services	0.6	0.6	0.8	0.8	0.9	0.7
Restaurants and hotels	0.8	1.2	1.1	1.2	1.4	1.1
Transport and communications	8.6	8.9	9.2	10.2	12.6	16.0
Financial services	3.7	3.2	2.6	2.1	4.0	4.3
Real estate rentals	2.7	2.6	2.4	2.2	1.9	4.6
Corporate services	1.3	1.1	1.3	0.8	0.8	0.7
Government services	4.4	4.5	5.1	6.8	7.1	7.1
Other services	4.1	3.7	4.3	5.1	6.0	5.6

SOURCE: *Mozambique, IMF Country Report No. 02/139, July 2002.*

FOREIGN DIRECT INVESTMENT AND MEGA PROJECTS

Since 1987, the Government of Mozambique has worked to create an investment climate attractive to foreign investors through economic reforms and privatizations (Economic Rehabilitation Program, or PRE). With a few exceptions, such as fishing, 100 percent foreign ownership is permitted in most sectors, including commercial banking. In 1999, Mozambique adopted legislation providing for the establishment and operation of export-processing zones (EPZ).[17] (See Exhibit 3-2.)

[17] September 21, 1999 (Decree No. 62/99).

Exhibit 3-2
Mozambique's Export-processing Zones

To be eligible for EPZ status, an enterprise must export 85 percent or more of its annual production, employ at least 20 Mozambicans (as long as there exist at least 500 permanent jobs for Mozambicans in the EPZ), and contribute to the national economy. Legislation was amended in 2000 to allow a company operating anywhere in Mozambique that employs more than 250 workers and exports 85 percent of its annual production to be also eligible for EPZ status.[18] To date, only the Mozal mega project has qualified for EPZ status.

EPZs benefit from numerous incentives, including

- Exemption from (1) import duties on goods and merchandise destined for licensed investment and production activities; (2) value-added tax and specific consumption tax (a tax on certain luxury and related items); (3) 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 (18 percent); and (4) value-added or other transaction-specific taxes when transferring goods within or between EPZs. (For customs purposes, an EPZ is treated as if it were offshore.)
- Hiring flexibility with incentives to employ Mozambican workers. In the first seven years of operation, EPZ companies may hire foreign managers if Mozambicans with requisite skills are not available. They may also hire foreign skilled laborers if no skilled Mozambicans are available. (Foreign workers may not exceed 15 percent of the company's workforce.)
- Permission to hold and operate foreign currency accounts within and outside Mozambique.
- Customs clearance times of 24 to 48 hours.

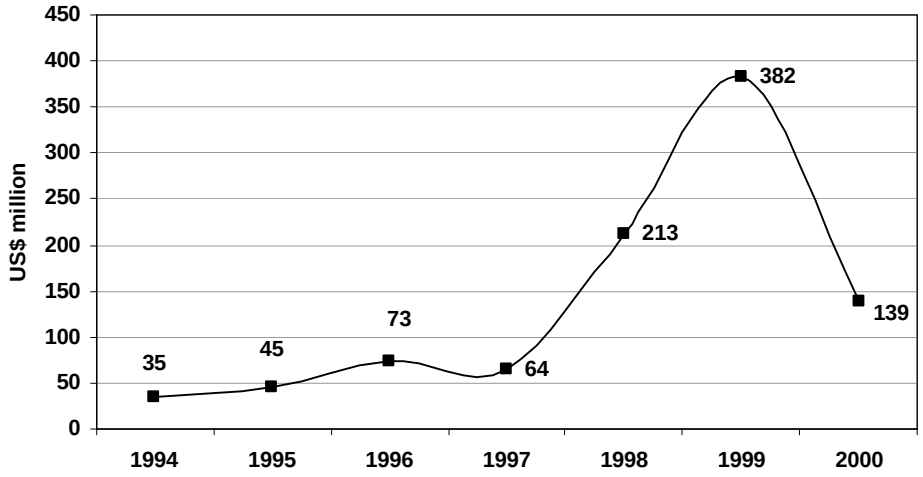
Entities operating in EPZs may sell 15 percent of their previous year's production into the local market, but must pay the normal duties and taxes on those sales.

Activities that may not be located in EPZs include prospecting and extracting natural resources; processing raw cashews; domestic fish processing, including shrimp; or other activities reserved to the state. The production of alcoholic drinks and tobacco and its byproducts (except under certain conditions) is also prohibited. Precious stones and skins, weapons, ammunition, fireworks, and explosives may be authorized if at least 25 percent of the raw material incorporated is of local origin.

[18] The law was again amended in 2001 to permit qualifying individual firms to be declared EPZs. The MPF, however, is not willing to accept firms outside contiguous EPZs.

As shown in Figure 3-2, the results have been dramatic. In 1997, foreign direct investment (FDI) amounted to US$64 million. The following year construction began on a US$1.34 billion aluminum smelter, known as Mozal, with investment from Australia, Japan, South Africa, the United Kingdom, and the Government of Mozambique. The Mozal investment instantly catapulted FDI to US$213 in 1998 and US$382 in 1999, placing Mozambique sixth among FDI recipients in Africa, just behind Angola, Egypt, Nigeria, South Africa, and Morocco—countries whose oil and diamonds have served as a magnet for foreign investment.[19]

FIGURE 3-2
Foreign Direct Investment, 1994–2000



SOURCE: UNCTAD.

Such "mega projects," which exploit and leverage Mozambique's natural resources, are important. Because they are export-oriented, they link Mozambique to the international economy. They also bring technology and managerial expertise into the country and showcase Mozambique to potential foreign investors. Properly conceived, they may induce investment that improves infrastructure bottlenecks and thereby benefits other sectors. Such projects also provide training opportunities for the Mozambican labor force.

The location of several energy-intensive mega projects—Mozal, the Maputo Iron and Steel Plant (MISP), and Corridor Sands—was influenced by the availability of cheap energy. Mozal benefited from the European Union's treatment of Mozambique under the Lomé convention, which permits primary aluminum produced in Mozambique to be imported duty free into the EU.

But capital-intensive mega projects will not solve underemployment problems. For example, it is estimated that the projects presented in Table 3-2 will create only 5,000 direct jobs and perhaps 15,000 indirect jobs in supporting industries, with each direct job "costing" well over US$1 million

[19] This is information for 1999, based on UNCTAD's World Investment Report, 2000.

in investment.[20] Furthermore, the capital-intensive nature of these projects implies that the factor returns are skewed toward profits for investors and toward debt service instead of wages.

TABLE 3-2
Proposed Mega Projects in Mozambique

Name	Investor	Location	Activity	Investment Value (US$)
Mozal -2 Expansion	Bilton SA, IDC	Beleluane, Maputo	Expansion of aluminum production	1 billion
Belleluane Industrial Park	Chifton & GoM	Beleluane, Maputo	Industrial park and free zone construction	500 million
Limpopo Heavy Sands	Corridor Sands, Southern Mining, WMC	Chibuto, Gaza	Mining	1.2 billion
Moma Heavy Sands	Kenmare Resources	Moma, Nampula	Mining	100 million
Maputo Iron & Steel Plant	Enron	Maputo	Iron and steel production	1.1 billion
Ponta Dobela Port	CFM & GoM	Ponta Dobela, Maputo	Port harbor services	515 million
Belita	Palmar Group	Beira, Sofala	Textile and clothing manufacturing for export	1.5 million
Temane-Secunda Pipeline	Sasol	Inhambane, Gaza, Maputo	Natural gas pipeline construction and transport	1 billion
Korean Industrial Park	MK International	Unknown	Industrial park and free zone construction	13 million
Rehabilitation of Sena Railway	CFM & GoM	Tete-Sofala	Sena railway rehabilitation	315 million
Maputo-Catembe Bridge and Highway	Nanjing Housing Construction Co.	Maputo & Catembe	Bridge and highway construction	unknown
Beira Petrochemical complex	Sasol	Beira, Sofala	Petrochemical production	1.7 billion

SOURCE: CPI

Note: Several projects appear to be no longer viable. The Maputo Iron and Steel Plant is not likely to move forward because of Enron's collapse, and several major partners in Beleluane Industrial Park have reportedly indicated their intention to withdraw.

Trade Trends

According to the IMF, Mozambican GDP, exports, and imports are expected to grow through 2005 (see Table 3-3).[21] But exports from capital-intensive mega projects that employ few directly or indirectly in the Mozambican economy account for virtually all of this growth. These exports will grow as a share of Mozambican GDP from 3.3 percent in 2000 to 33 percent by 2004—an annual growth rate of more than 70 percent. If mega project exports are excluded from projections for the same period, exports are relatively static, their share of GDP growing from 6.2 percent to 7.4

[20] Per-Ake Andersson. The Impact of the Mega Projects on the Mozambican Economy. Gabinete de Estudos Discussion Paper No. 18.

[21] World Bank and IMF calculations differ, depending perhaps on the timing of the missions and how exchange rates are calculated.

TABLE 3-3

Real and Projected GDP, Exports, and Imports, 1998–2005 (US$ million)

	Years								Annual growth (%)	
	1998	1999	2000[a]	2001[b]	2002[b]	2003[b]	2004[b]	2005[b]	98-00	00-05[b]
GDP	3,960.00	4,100.00	3,830.00	3,310.00	3,560.00	3,980.00	4,460.00	5,100.0.	-1.7	3.9
Trade Balance	-572.7	-916.1	-793.2	-608.1	-1352.4	-1250	-106.6	211.5	--	--
Large projects	-52.8	-438.6	-49.3	94.9	-628.1	-534.3	610.8	979.4	--	--
Other exports	-519.9	-477.5	-743.9	-704	-724.3	-715.7	-717.4	-768	--	--
Exports (fob)	244.6	283.7	364	744	778.6	809.6	1,804.80	2,233.40	22	43.7
Large projects	34.5	75.8	127.2	487	489	496.2	1,472.60	1,873.00	92	71.2
Other exports	210.1	207.9	236.8	257	289.6	313.4	332.2	360.4	6.2	8.8
Imports (cif)	817.3	1,199.80	1,157.20	1,352.10	2,131.00	2,059.60	1,911.40	2,022.00	20	11.8
Large projects	87.3	514.4	176.5	392.1	1,117.10	1,030.50	861.8	893.6	42.2	38.3
Other imports	730	685.4	980.7	961	1,013.90	1,029.10	1,049.60	1,128.40	15.9	2.9

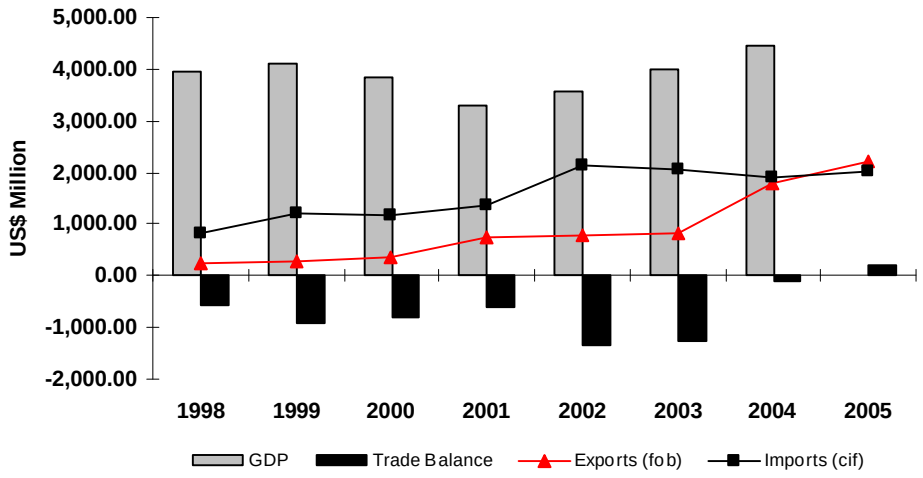
[a] *Estimate*

[b] *Projection*

SOURCE: *IMF, Republic of Mozambique.*

percent, representing an annual growth rate of 8.8. By 2005, exports from mega projects will account for almost 84 percent of the country's total exports. Despite rising exports, Mozambique's trade deficit is projected to grow in the near term. The deficit is expected to disappear by 2005 after mega projects begin exporting (see Figure 3-3).

FIGURE 3-3
GDP and Trade Balance of Mozambique, 1998–2005 (projected)



SOURCE: IMF, Republic of Mozambique

EXPORTS

Mozambique's 2001 exports totaled more than US$770 million (see Table 3-4). This exceeded the IMF's earlier projections. Aluminum exports (i.e., from Mozal) increased almost eight-fold between 2000 and 2001, rising from 16 to 61 percent of total exports and accounting for roughly twice the value of all other exports combined. The IMF expects aluminum exports to remain flat in 2002 and 2003. In 2004, exports from mega projects once again are expected to triple, to $1.5 billion, as the Mozal expansion and other projects (such as the Limpopo Heavy Sands mining project and the Biera Petrochemical Complex) come on stream. Exports of products exclusive of those from mega projects are forecast to grow an average of almost 9 percent per year through 2004, with growth decelerating from 13 percent in 2002 to 6 percent in 2004. But these projections may be too optimistic given that these exports experienced virtually no growth between 1997 and 2001. Only fish (including prawns), oilseeds, and two relatively small sectors (rubber and marble) grew in that period. All other sectors experienced declines or erratic patterns.

IMPORTS

At the time of report production, complete import data were not available for 2001. Data from 1997 to 2000 clearly demonstrate the impact of the aluminum project (see Table 3-5). Imports of

machinery, particularly industrial heating equipment, rose sharply in 2000 by more than US$70 million, as did construction materials, which jumped by more than US$40 million. The increased need for fuel is also evident from the doubling of fuel imports between 1997 and 2000. And transportation equipment accounted for roughly 15 percent of imports over the period.

Agricultural imports declined generally from the levels of 1997 and 1998, reflecting the recovery of Mozambican production in sugar (imports of which declined by 60 percent). The doubling of insecticide imports in 2000 reflected attempts to increase productivity of several agricultural crops, and the rise in imports of breeding stock to almost US$7 million is another sign of re-investment.

Imports of textile and clothing products were more than twice the value of exports from this sector. Fabric and yarn imports were relatively stable through the period. Used clothing imports were roughly twice the level of new clothing imports. (See Table 3-5.)

TABLE 3-4
Key Exports, 1997–2001 (US$ million)

Product Group	1997	1998	1999	2000	2001
Fish	84.4	66.4	74.8	100.7	102.2
Prawns	74.9	57.4	64.6	91.2	82.2
Agriculture (excluding fish)	102.9	88.8	87.0	83.4	66.3
Cashews	26.5	36.7	33.1	20.0	12.2
Other fruit, nuts, and vegetables	3.7	13.1	9.5	2.8	2.1
Citrus	1.2	12.7	5.8	0.8	0.3
Tea	0.3	0.4	0.2	0.9	1.5
Maize	11.8	6.1	1.2	1.6	1.0
Sugar	12.8	2.9	5.5	4.3	8.3
Oilseeds	5.6	9.4	10.0	10.5	9.1
Coconut oil	1.9	4.8	5.3	3.6	6.5
Oilcake	3.0	3.2	2.8	7.4	8.0
Copra cake	0.3	0.4	0.6	5.0	5.3
Cottonseed cake	0.7	1.1	0.9	0.9	0.9
Tobacco	6.5	5.0	2.6	7.8	9.4
Cotton	22.2	10.9	20.2	25.8	23.5
Other fiber	0.2	0.1	0.8	0.7	0.7
Wood	10.1	5.2	9.2	14.6	12.6
Textiles and clothing	10.0	10.0	5.8	6.7	14.1
Rubber products	0.7	3.6	1.1	0.3	4.8
Footwear	0.7	0.8	0.9	0.6	0.3
Minerals and fuel	3.8	1.1	7.8	11.0	6.2
Salt	0.5	0.2	0.1	0.4	0.0
Marble	0.0	0.0	0.0	0.0	3.8
Graphite	1.3	0.0	2.1	0.0	0.1
Bentonite	0.4	0.0	0.4	0.5	0.3
Machinery	5.3	13.0	6.6	4.7	6.5
Transportation Equipment	4.2	3.7	5.9	5.0	5.8
Miscellaneous	7.6	15.1	8.9	10.8	10.7
Subtotal	229.6	207.6	208.0	237.8	229.5
Aluminum	0.0	0.0	0.0	60.2	473.4
Subtotal (with aluminum from Mozal)	229.6	207.6	208.0	298.0	702.9
Electricity	0.0	37.0	62.8	67.0	70.0
TOTAL	229.6	244.6	270.8	365.0	772.9

SOURCE: *Mozambique export data. Data for 2001 are based on preliminary data from Customs. Nathan Associates estimated electricity exports for 2001.*

TABLE 3-5
Key Imports, 1997–2000 (US$ million)

Product Group	1997	1998	1999	2000	2001
Fish	3.9	9.6	7.0	8.7	7.8
Agriculture (excluding fish)	165.6	191.0	131.2	156.8	143.6
Rice	40.0	52.0	40.6	31.4	45.9
Wheat	30.0	30.5	22.2	16.9	25.3
Maize and maize flour	1.6	6.4	2.9	4.4	4.4
Vegetable oil	14.2	13.4	20.5	12.4	12.4
Sugar	30.4	25.1	13.8	12.2	12.2
Fruits and vegetables	4.9	5.8	2.9	6.3	6.3
Processed food products	8.7	12.7	6.5	17.4	17.9
Beverages	11.1	10.5	5.2	15.9	9.2
Minerals and fuel	99.5	85.3	80.3	190.2	183.6
Cement	6.5	11.8	5.2	6.8	12.4
Fuels	77.2	59.0	72.2	158.8	169.7
Electricity	15.0	8.4	14.1	14.6	28.5
Pharmaceuticals	12.9	7.4	8.5	14.5	19.3
Fertilizers	4.3	2.4	3.2	2.2	4.0
Other chemical products	38.5	41.6	28.3	59.9	78.3
Soap and detergents	4.4	6.0	3.5	6.9	6.4
Insecticides and fungicides	7.5	10.1	5.6	12.6	4.5
Plastics	13.7	13.2	8.2	17.6	50.3
Rubber products	12.7	8.4	6.1	16.4	9.5
Wood and paper products	16.2	25.7	10.5	30.1	40.1
Textiles and clothing	42.3	42.6	29.9	41.5	26.2
Textiles	19.2	18.9	11.4	17.3	12.0
Clothing	5.6	6.4	9.2	6.7	4.1
Used clothing	12.7	12.6	6.2	10.3	8.8
Iron and steel	27.2	94.3	26.2	68.9	39.7
Other metals	9.1	7.9	4.4	10.6	234.7
Machinery	74.4	85.9	60.5	188.9	131.7
Transportation equipment	113.4	73.8	174.7	174.8	80.5
Scientific equipment	12.4	18.6	7.9	23.6	10.7
Furniture	9.1	0.8	7.8	17.1	7.3
Other	29.7	0.0	15.6	26.0	28.1
TOTAL	755.9	817.3	656.5	1162.3	1063.4

SOURCE: *Mozambique import data. Mozal imports for 1999 of $515.5 million, as reported by the World Bank, were not available in disaggregated form. They consisted mostly of machinery, construction materials, fuel, and electrical machinery. The 2001 imports of $231.1 million in miscellaneous imports (HS 9999) were assigned to the other metals category above, since bauxite and aluminum ores (HS 2606) and scrap (HS 7602) would have had to be imported to support the more than $300 million in exports of aluminum ingots (HS 76.01).*

4. Mozambique's Export Potential

As discussed in Chapter 3, Mozambican exports are growing at a rapid rate and are expected to reach 33 percent of GDP by 2004. Most of these exports, however, are from capital-intensive mega projects that employ few in the Mozambican economy. If exports from mega projects are excluded from projections, exports are relatively static and account for only a few percent of GDP.

Mozambique's resources and geography imply an export potential significantly beyond the current level. Mozambique has abundant farmland and is rich in natural resources, including oil, gas, and minerals. The country's location makes it ideally suited to be a transportation hub. Mozambique shares borders with several other countries, and it has a long coastline dotted with deep ports.

Certain sectors in the Mozambican economy have especially strong potential for increasing exports while improving the welfare of Mozambique's poor. These sectors include agriculture, fishing, and manufacturing. In particular, labor-intensive activities—smallholder farming, artisanal fishing, and labor-intensive manufacturing such as textiles, apparel, and leather goods—can yield vital jobs and income.

This chapter examines the export potential in agriculture, fishing, and manufacturing. It also discusses tourism—another labor-intensive sector that serves foreign customers. It concludes with recommendations for tapping export potential across the economy and in these individual sectors.

POTENTIAL IN THE AGRICULTURE SECTOR

Mozambique's untapped export potential is perhaps greatest in the area of agricultural goods and products. About 46 percent of Mozambique's land area, or about 36 million hectares, is suitable for agricultural production. A wide range of fertile soils and climatic conditions permit cultivation of a variety of crops, from cotton to fruits to spices. Agriculture is already the most important sector in Mozambique, accounting for about 35 percent of GDP and 40 percent of exports. At present, however, less than 15 percent of productive land is under cultivation. The low utilization rate, combined with the ability to produce a variety of crops, suggest vast potential for the expansion of agriculture.

More than 70 percent of Mozambique's population live in rural areas and depend on agriculture for survival.[22] Most of Mozambique's agricultural output is produced by smallholders— families that grow both subsistence and cash crops on farms of 10 hectares and less.[23] USAID estimates the per capita income of this sector in 2001 at only US$70, compared with a national average of US$210. Improvements in productivity and expansion of trade can produce huge and direct improvements in rural welfare.

One study estimates that gains from improvements in seeds and simple tools, combined with a reduction in marketing margins, could raise GDP by 12 percent, with much of the gain going to farmers.[24] More open trade should enlarge these gains. For the foreseeable future, Mozambique's western neighbors will have significant deficits in maize and other food crops. Because of limited transportation options in Mozambique, especially from north to south, external trade with western neighbors is often more viable than internal sales. A study for the Ministry of Agriculture and Rural Development (MADER) found that producers in northern and central Mozambique were more likely to find profitable markets in Malawi, Zambia, Zimbabwe, and beyond than in Maputo or, to a lesser extent, Beira.[25]

Another recent study, published by the European Union's RESAL Southern Africa/Food Security Unit, finds that many crops have strong export prospects (see Table 4-1). The study distinguishes the relatively simple task of producing for local markets or even for cross-border trade with Malawi from the challenges of exporting to distant markets. It emphasizes the important role that intermediation and major international traders could play in developing Mozambique's external trade in agricultural products. The study concludes that agriculture has high export potential; current production levels can be expanded; and Mozambique can make additional export gains by introducing a wider range of export crops. The study identifies domestic, regional, and international marketing potential and constraints.[26]

Because the RESAL study focuses on smallholder production in the north, it does not address several important agricultural exports, actual and potential, in the south. These include citrus, bananas, and other fruits and vegetables. It also excludes products grown on a larger scale in

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[22] Government of Mozambique. Poverty Reduction Strategy Paper, 2001-2005, p. iv.

[23] Tschirley, David and Rui Benfica. Smallholder Agriculture. Wage Labour, and Rural Poverty Alleviation in Mozambique: What Does the Evidence Tell Us? Ministry of Agriculture and Rural Development (MADER). August 2000, p.16.

[24] Channing Arndt, Henning Tarp Jensen, Sherman Robinson, and Finn Tarp. Marketing Margins and Agricultural Technology in Mozambique. *Journal of Development Studies*, Vol. 37. October 2000. pp. 121-137.

[25] Tschirley, David and Ana Paula Santos. The Effects of Maize Trade with Malawi on Price Levels in Mozambique: Implications for Trade and Development Policy. MADER, Directorate of Economics, Department of Policy Analysis, Research Report No. 34, 20, November 1999. According to the study, open trade with Malawi does not affect retail markets in Maputo or Beira, or producer markets in Manica. The large price differences between one area and another reveal the lack of market integration. Between Maputo and Nampula, price differences of more than 20 percent have been reported for maize and beans and 35 percent for imported rice; between Maputo and Beira, an almost 100 percent difference has been found in the price of maize. Reported in Quente-Quente Informaçao Semanal de Mercados Agricolas no Pais, Regiao e Mundo (Weekly Information on Agricultural Markets in the Country, Region and World), Statistics Department, National Department of Economics, MADER, 5 December, 2001.

[26] Tickner, Vincent, Finn Riisberg, Marcos Freire, and James Cooper. Viable Options for Smallholder Crop Improvement and Diversification in Northern Mozambique. RESAL. July 2001. Funded by SIDA. Tickner also produced a study of the northern and central provinces: Rural Trade in Mozambique: Pre-Feasibility Study Central and Northern Provinces, March 1997.

orchards or plantations, such as sugar, coconut, palm, and tea. Smallholders, however, have grown sugar and tea successfully as a complement to estate production. One way to expand production is to facilitate smallholder access to irrigable land near processing plants.[27]

TABLE 4-1
Crops Recommended and Ranked for Export

Crop	Rank
Maize	9
Tobacco	8
Cotton	8
Pigeon Peas	8
Groundnuts	7
Paprika	7
Potatoes	6
Ginger	6
Chilies	6
White sesame seeds	6
Sunflower seeds	6
Castor beans	6
Chick peas	5
Soybeans	4
Cardamom	4

Note: Highest potential = 10; lowest = 1.

COTTON

Cotton is Mozambique's most important cash crop. Exports of cotton have exceeded $20 million in four of the last five years and have accounted for as much as 30 percent of Mozambique's agricultural exports.

Most of this cotton is produced by an estimated 250,000 smallholders under contract arrangements with several large ginning and trading companies. The trading companies provide seeds, other inputs, and some extension services in return for the right to purchase the cotton at a price set annually by MADER. The trading companies process and bale the cotton, extracting byproducts in the process, and sell on international markets. These companies themselves employ 10,000 full time and seasonal workers, providing additional opportunities and income for Mozambique's poor.

This system has come under some stress recently. World cotton prices have declined sharply from US$0.70/lb to US$0.40/lb, the lowest price in 30 years. These falling prices contributed in part to the failure of one of Mozambique's largest trading companies. Several other companies are

[27] Tschirley, David. Some Characteristics of Pro-Poor Growth and Policy Implications for Mozambique, MADER, Feb. 25, 2002, p.3.

reported to be experiencing financial difficulties. Since April 2002, however, prices have strengthened slightly to US$0.44/lb as world demand again exceeds supply.

For the next several years regional demand for cotton will also exceed supply. Zimbabwe's crop is declining significantly. At the same time, regional demand is increasing in response to the United States' African Growth and Opportunity Act (AGOA), which provides tariff preferences to African apparel manufacturers. For example, regional demand for yarn outstrips supply, a gap that is projected to grow as manufacturers in South Africa and Mauritius seek the inputs necessary to produce apparel for the U.S. market. In 2001, South Africa's imports of cotton and yarn totaled 10,000 tons, three times the average of the previous five years.

CASHEW

Between 1978 and 1994, the Government of Mozambique banned exports of unshelled cashew. In 1994 it lifted the ban and imposed an export tax of 20 to 40 percent of the f.o.b. export price. It reduced the tax to 20 percent in 1996 and 14 percent in 1997. The National Cashew Institute (INCAJU), which was formed to assist the industry with the production, marketing, and processing of cashew nuts, is funded by export tax receipts.

Following privatization in 1995, the number of firms processing cashew rose rapidly, although the processing technology remained, in some cases, decades old. Combined exports of in-shell and processed nuts exceeded US$33 million in both 1998 and 1999. During this peak export period, cashew processors were reported to employ between 8 and 10,000 workers.

In late 2000, prices for processed cashew fell to below US$2 per pound, a 15-year low; in 2001, average prices were reported by the IMF to be half the average of 1995–2000 values. The combined exports of in-shell and processed nuts also fell sharply. In 2000 they totaled US$20 million, and in 2001, just US$12 million. By 2001, only a few processors continued to operate.

Yields have declined because of disease and the failure to replace aging tree stock. One study found that a million trees were dying or going out of production each year, while only 300,000 were being planted. Research by MADER in Nampula Province found that the labor necessary to improve cashew tree management conflicted to a large extent with the labor necessary for other cash and subsistence crops. Workers delayed needed work on cashew until later in the season, by which time it was often too late to help revitalize cashew production.[28]

Currently, more than 900,000 smallholders are involved in cashew production. There are several reasons to consider export prospects promising. First, a number of programs have been instituted to replant cashew trees and increase production of cashew nuts, with a target increase of 50 percent to 100,000 tons. The cost-competitiveness of labor-intensive processing techniques has been established. The added value resulting from processing is significant; processed cashew products generally sell at prices five to seven times higher than prices for unshelled cashew. New

[28] Smallholder Cashew Development Opportunities and Linkages to the Food Security in Nampula Province, Mozambique, Mole, November 2001, p.5.

investments in processing plants have been made. In May 2002, the trend of plant closings was reversed with the opening of a new, albeit small, plant in Namige, Nampula Province. Three more processing plants are scheduled to be opened.

MAIZE

Maize is an important food crop in Mozambique. With southern Africa facing famine this year, food security is a concern.[29] Because tight supplies are forecast for southern Mozambique, the effect of food crop exports on local prices and supplies must be considered. Inadequate transportation links between northern and southern Mozambique make northern producers more likely to export maize to western neighbors than to sell to Mozambicans in the south. Studies from previous years have demonstrated that such exports had negligible effects on prices in southern Mozambique.[30] Because of transportation constraints and high transaction costs within the country, it is generally advantageous for purchasers in southern Mozambique to import maize. Since 1997, Mozambican imports of maize and maize meal have averaged approximately US$4 million annually.

Northern Mozambican farmers typically have a small surplus of maize to export to Malawi and other western neighbors. In recent years, annual exports have been between US$1 million and US$2 million. Mozambique's relatively consistent export performance during this time, in contrast to the more erratic patterns of its western neighbors, suggests that if production and therefore surplus can be increased, so can exports to those neighbors. One study estimates that using improved seeds and farming methods could more than double yields per hectare, from 800 kg/ha to 1800kg/ha.[31] A significant portion of maize that Mozambique exports to Malawi is milled there then imported into Mozambique as maize meal. Introducing small-scale mills in rural Mozambique has kept some processing in the country; starting up more mills would keep more value in Mozambique while creating more jobs

TOBACCO

Buoyed by demand from tobacco processors in neighboring Malawi, Mozambique's exports of tobacco increased fivefold between 1999 and 2001, from under US$3 million to more than US$15 million. Tobacco became an alternative cash crop for many cotton farmers who were disappointed by declining cotton prices. Production has generally been under a contract arrangement, with the buyers of the crop supplying needed inputs. Demand will increase markedly as Zimbabwe's production and exports, previously the largest in the region, decline.

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[29] The FAO estimates that in 2002, four million people in southern Africa will need emergency food assistance because of poor crop production and economic turmoil in Zimbabwe, where planting has dropped 54 percent. Aggregate output of maize is estimated to be one-quarter lower than the 2000 harvest and well below the average of the last five years. Low maize stocks and delayed delivery of imported maize have raised prices beyond the reach of many in southern Africa. Severe food shortages are already affecting Lesotho, Malawi, Zambia, and Zimbabwe. The food supply is also tight in southern provinces of Mozambique and in Swaziland.

[30] Tschirley and Santos, *op cit*.

[31] *Ibid*.

COCONUT AND COCONUT PRODUCTS

Smallholders control an estimated 60 percent of coconut production in Mozambique; large plantations control the balance. Much of smallholder production goes to downstream buyers. Between 1997 and 2001, exports of downstream products from coconut, including copra and coconut oil, rose almost fivefold to just under US$12 million. Production of coconut oil, soap, and other downstream products is increasing in the center and north of Mozambique and new production capacity is being added.[32] New export markets include Zimbabwe.

SUGAR

Sugar exports have been erratic, rising and falling with production. Currently, sugar production is on the rise. It is expected to rise from 67,000 tons in 2001 to 200,000 tons in 2002, with further expansion to 400,000 tons likely by 2005.[33] Employment in the sugar industry is forecast to double between 2002 and 2005, reaching 40,000.

This year, Mozambique is expected to have 50,000 tons of exportable surplus sugar; the increased volume should boost export receipts sharply despite low world prices. Exports in 2002 should far exceed 2001 exports, which were more than US$9 million.

Trade in sugar is highly controlled by quota arrangements in most major markets, but Mozambican producers are poised to benefit from improved quota access in the Southern African Customs Union (SACU) and EU markets.[34] The Doha round of WTO negotiations will also affect access to these markets and should be monitored closely.

TEA

Tea production is beginning to recover from the destruction of 13 processing plants during the civil war. Since 1997, exports have grown modestly but steadily, reaching US$1.5 million in 2001. Primary growing locations are remote, so the low availability and high cost of transport in Mozambique present obstacles to export growth. After several attempts to use the Nacala corridor rail line, about two hours by road from the growing area, exporters have decided to ship tea to Durban by truck through Malawi and Zimbabwe. Improved infrastructure might help producers to export more.

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[32] The refining of coconut oil has recently begun in Quelimane. Our study team observed lines of smallholder producers bringing sacks of coconuts to a processing plant for sale.

[33] As production approaches the industry target of 400, 000 tons, it may be appropriate to consider removing the tariff surcharge that has protected the sugar industry. The surcharge resulted in an additional tariff of more than 100 percent in March 2002. However, a review of the surcharge might best be undertaken at a later date, given serious market distortions resulting from the recent collapse of the Zimbabwean currency and large inflows of Zimbabwean sugar into Mozambique (through official and unofficial channels).

[34] Because Mozambique is planning to double sugar production over the next three years, it would benefit from an increase in foreign sugar quotas in the current WTO round of negotiations.

FRUIT AND FRUIT PRODUCTS

Exports of citrus, especially grapefruits and lemons, from southern Mozambique have declined with the fortunes of the major exporter. New ownership may reverse this pattern. The value and feasibility of citrus exports having already been established, Mozambique should examine the possibility of exporting citrus concentrate to take advantage of a new 25 percent margin of preference that will be phased into the South African market by 2004. New markets for citrus, especially in the Middle East, appear to offer opportunity. New possibilities exist for crops not previously exported, including tangerines.

Mozambique also produces but does not export pineapples. At one time Mozambique did export pineapple juice, which now enjoys a 20 percent margin of preference in the SACU market. This margin may make Mozambique competitive in that market.

In 1998, during workshops on the SADC Protocol, one of the study team's investigators talked with several banana producers who were frustrated by their inability to sell to ShopRite, a South African company operating in Maputo. With the help of technical assistance, those producers have since established a brand, Sweet Mozambique, and have displaced South African imports in Maputo. They have proven that they can deliver the quality and quantities needed in this market. The next logical step would be exporting to the South African market, where retailers will pay a premium for superior bananas. South Africa imported more than 200 tons of bananas in 2000, mainly from Zimbabwe.

POTENTIAL IN THE FISHING SECTOR

More than two-thirds of the population of Mozambique lives within 90 miles of the coast. The fishing sector is thus an important source of both food and employment. An estimated 480,000 people, or more than 3 percent of the population, are economically dependent on the sector. Direct employment in the sector is estimated to be between 75,000 and 80,000.

In recent years, fishery products, including prawns, have represented between 40 and 50 percent of Mozambique's total exports. More than 80 percent of fish exports consist of shallow-water prawns caught on the Sofala Bank. Most of the shrimp are exported to Spain, Japan, and South Africa.

The Government of Mozambique developed a Fisheries Master Plan in 1996 to identify strategies and development initiatives for three subsectors: industrial fleets, semi-industrial fleets, and artisanal (small-scale) fishers. The industrial fleet of some 107 vessels is dominated by state–joint venture companies and accounts for the great bulk of exports. The catch of the semi-industrial fleet is destined mostly for regional market, especially South Africa. Production by the artisanal sector is estimated at 80,000 tons a year, worth US$50 million; this goes entirely to the domestic market. Of the people employed in the fishing sector, the vast majority (90 percent) are artisanal fishers or people associated with the handling and distribution of the artisanal catch. Helping these people expand production and move into the export market can have an important impact on their welfare.

The International Fund for Agricultural Development (IFAD) and other donors have provided significant technical assistance to help develop exports and improve the standard of living in poor fishing communities. To ensure sustained fish production, Mozambique will need to formulate policies for sustainable development and management of the sector. Prawns are already being fished to their biological limit, and the government decided in 2001 not to increase quotas. Development initiatives emphasize increasing the catch of other species.

POTENTIAL IN THE MANUFACTURING SECTOR

Mozambique's manufacturing sector is small, accounting for only 12.9 percent of GDP in 2000. Furthermore, manufacturing is highly concentrated in a few subsectors—food processing, beverages, and metallurgy. As Table 4-2 shows, food processing has lost ground since 1996, whereas beverages have risen from 18.5 percent of manufacturing output to more than 22 percent. Investment from large foreign-based companies, such as Coca-Cola, South African Breweries, and Parmalat, has contributed significantly to the growth in the beverage subsector. The most dramatic growth has occurred in paper production and in metallurgy, especially aluminum.

These subsectors are expected to continue growing. However, other manufacturing subsectors hold great potential for increasing output, exports, and employment, especially employment of the poor. Apparel and leather products are especially promising. Both subsectors are labor intensive, and demand for apparel and leather products is significant in foreign markets where Mozambique enjoys preferential access.

TEXTILES AND APPAREL[35]

The textiles industry in Mozambique is collapsing.[36] Aging capital equipment has caused declines in both the quality and the quantity of fabric and cloth produced. Floods have damaged production facilities, and the Asian financial crisis has sent world prices plummeting, worsening the condition of this subsector.

The apparel industry performed well through 2000. During 2001, however, it experienced difficulties as the cost of borrowing working capital increased and as competition with South African producers intensified.

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[35] This discussion is based on interviews with apparel manufacturers in Maputo and Beira and draws on Peter Coughlin's "SADC Study of the Textile and Garment Industries in Mozambique" (May 2001).

[36] Mozambique has seven apparel manufacturers and five textile mills. Five apparel factories were privatized in the late 1990s. The government still owns three textile mills—Texmoque, Texmanta, and Texlom. Texmoque has been closed since 1993, Texmanta since 1996, and Texlom since 1999, when it was damaged in the floods. Texlom is looking for a buyer. Although these mills are not producing, workers are receiving government salaries. One functioning mill,TextAfrica has ceased all production except dying and printing and the other, Riopele, is operating at one-tenth capacity.

TABLE 4-2
Structure of Mozambican Manufacturing Output, 1996–2000 (% of total)

	1996	1997	1998	1999	2000
Total Manufacturing (as a % of GDP)	**10.6**	**12.0**	**10.1**	**11.0**	**12.9**
Food processing	24.8	23.1	21.7	20.8	15.7
Process animal feed, tea and cashew	6.2	3.4	2.7	0.0	0.0
Beverages	18.5	18.0	23.9	28.1	22.4
Tobacco	2.6	2.5	2.6	2.3	1.9
Textiles	9.9	12.4	3.2	7.1	4.4
Clothing	2.7	4.2	4.6	4.1	2.6
Footwear	0.1	0.0	0.1	0.1	0.0
Wood and cork	6.4	4.8	5.4	4.6	4.5
Furniture	0.2	0.1	0.1	0.1	0.1
Paper	0.9	6.7	8.0	7.0	5.9
Chemical products	1.2	0.9	1.0	0.6	0.5
Other chemicals	4.7	4.1	4.4	3.9	3.3
Oil refineries	0.6	0.6	0.6	0.5	0.4
Rubber	4.3	3.5	3.0	1.3	1.1
Plastics	1.0	1.2	1.5	2.2	1.8
Glass	0.1	0.0	0.5	0.4	0.3
Other nonmetallic mineral products	10.5	9.2	12.0	14.6	10.6
Metalworking (iron and steel)	1.1	0.3	0.7	0.1	0.1
Metalworking (non-iron)	0.2	0.1	0.1	0.1	0.1
Metallurgy (except machinery)	0.5	3.4	1.8	1.2	23.9
Of which: aluminum	0.0	0.0	0.0	0.0	22.7
Non-electrical machinery	0.1	0.1	0.1	0.1	0.1
Appliances and electrical machinery	0.8	0.5	0.7	0.5	0.4
Transport machinery	2.5	0.6	1.2	0.1	0.1
Other manufacturing	0.2	0.1	0.1	0.1	0.1

SOURCE: *IMF Country Report no. 02/140, July 2002.*

Despite the recent setbacks, the textile and apparel sectors both stand to benefit from the quota- and duty-free treatment of qualifying apparel under the U.S. AGOA program. Regional trade agreements also offer new export opportunities to Mozambican textile and apparel producers, particularly in the South African market.

The greatest obstacle to taking advantage of these market opportunities is access to capital at competitive terms and rates. Since most apparel production inputs are imported, the production cycle through shipment and receipt of payment is more than 200 days. Current offers for financing are at rates of 35 percent or more, with terms of only 90 days.

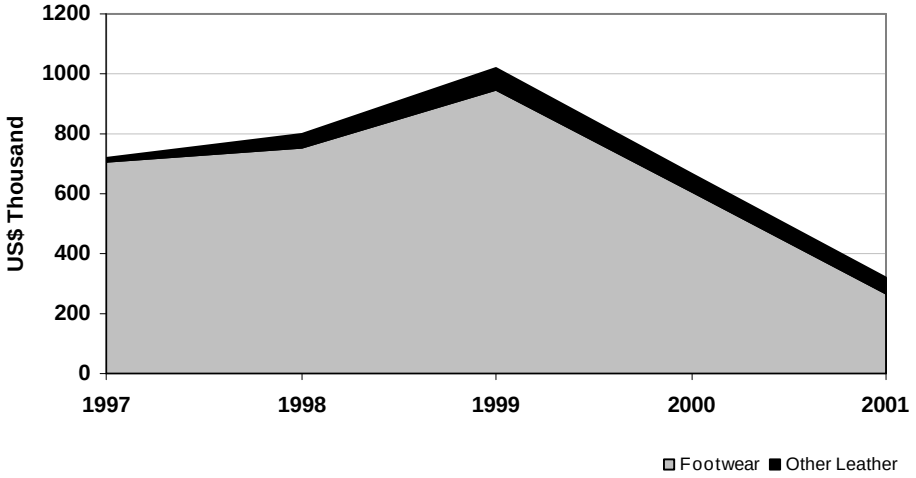
Several other financial and administrative burdens also erode Mozambique's competitiveness in textiles and apparel. Until local fabric production can meet world standards, apparel producers

must depend on imported fabric and thread. Accessories such as buttons and zippers also must be imported. Duties of 30 percent and a value-added tax (VAT) of 17 percent must be paid on these inputs. VAT refunds upon export are not prompt. Duty refunds are not made unless export processing zone (EPZ) status is achieved, but no EPZ applications have been approved for firms in Maputo.[37]

LEATHER PRODUCTS

Mozambique's exports of footwear and other leather products grew from 1997 to 1999, then began a steep decline (see Figure 4-1).Manufacture for export was from both locally obtained and imported materials. The products created using local inputs went largely to Malawi and Zambia under COMESA preferences, whereas the products assembled from imported materials generally were exported to South Africa and Europe.

FIGURE 4-1
Footwear and Other Leather Exports from Mozambique, 1997-2001



SOURCE: *ITC, Mozambique Customs*

In recent years, Mozambique's livestock herds have increased substantially, offering significant opportunity to strengthen the leather products sector. Backward linkages to local hides, skins, and tanning should be investigated. There is tremendous potential for attracting foreign direct investment to this sector. Because the production of leather and leather products is labor intensive, the world footwear and leather products sector is moving from high-cost industrialized countries to lower-cost developing countries such as Mozambique.

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[37] Belita, in Beira, is located in the Zambezi Valley EPZ and has EPZ status. One competitive factor that has improved for Belita is that imported and exported materials clear the port much more quickly. At start-up, delays in clearance ran more than three weeks; delays are now just three days. EPZ status is supposed to result in deliveries to the factory within 48 hours of arrival.

Worldwide demand for hides, skins, leather, and leather products is high.[38] New preferential access to the South African and U.S. markets should allow Mozambique to reverse its decline in exports. Greater access to foreign markets is still needed, so Mozambique should make reductions in tariffs on leather products a high priority in the current round of multilateral trade negotiations. Mozambique will need to take steps to determine and meet the quality and marketing demands of importing countries.

Potential in the Tourism Sector

Over the last decade Africa has experienced an average annual growth of 6.6 percent in international tourist arrivals. Arrivals to southern Africa alone grew by 18.2 percent per year during this period.

The growth of tourism in poor countries has a positive impact on these countries' economies (see Table 4-3). Natural and cultural heritage projects, when properly planned and managed, can generate economic gains that often directly benefit the poor. One such project is USAID's Natural Resource Conservation and Historic Preservation Project in Ghana. Over the course of the project, annual visitor arrivals to important tourist destinations in Ghana increased dramatically. The number of hotels also rose sharply, from 12 in 1991 to 53 in 1999. Staff for these hotels were recruited and trained locally. Total employment in the hotel, food, and beverage industry increased by 620 percent. As the tourism industry expanded, it required more inputs, contributing to the growth of the agriculture, fishing, and livestock sectors.

Clearly, tourism is an industry that must be developed in Mozambique. The country is rich in natural beauty, historical sites, and cultural attractions. Its beautiful coastline is lined with beaches and fringed by reefs ideal for snorkeling and diving. Its towns boast historical mosques and churches, such as those on the Ilha de Mocambique (Mozambique Island), recently declared a World Heritage Site by UNESCO.

So far, tourism development has focused on beach destinations along the coast. But Mozambique's nature reserves, mountains, lakes and lagoons, and exceptional flora and fauna offer ample opportunity for developing other types of tourism. That potential was acknowledged in 2000 with the creation of a Ministry of Tourism. The new ministry is updating the National Tourism Policy and Strategy for Tourism Development, which was

Tourism and Developing Countries

The World Travel and Tourism Council estimates that tourism employs 200 million people and accounts for 11 percent of the world's GDP. For many developing countries, tourism is the leading source of economic growth, foreign exchange, investment, and job creation. Tourism arrivals to developing countries have grown an average of 9.5 percent annually since 1990, more than twice as fast as growth in tourism worldwide over the same period. World Tourism Organization research has demonstrated that tourism is one of the few areas of opportunity common to all developing countries. In 2000, it estimated that tourism accounted for a 43.3 percent share of all services in developing countries. For least developed countries, that figure is an even more significant 70.6 percent.

[38] The global value of production of hides and skins exceeded US$14.5 billion in 2000 and the value of world leather production was estimated at about US$28 billion. The value of leather footwear produced was approximately US$70 billion in 2000.

created by the Ministry of Industry, Commerce and Tourism for the 1995 to 1999 period. That document identified nine zones to explore for potential development. These include destinations within the Ponta do Ouro zone (Ponta Malongane, Ponta Mamoli, and the Maputo Game Reserve), the Inhaca zone, and Pomene, including its game reserve. A community-based ecotourism project that meets goals for poverty reduction, conservation, and tourism could be developed in the Gorongosa National Park. The Pemba and Vilanculo zones appear to offer opportunities for developing additional beach destinations. Infrastructure development, including less costly, more frequent air service could create medium- and long-term opportunities in Gurue and the Gile Reserve, Niassa Lake, and the Cahora Bassa Dam.

TABLE 4-3
Significance of International Tourism to Poor Countries

Country	Population living below US$1/day[a]	Contribution of tourism industry in Billion US$ and as % of GDP[b]	Growth in demand (2000)[b]
Mali	73	na	9.0
Nigeria	70	0.5 (2.0)	13.5
Central African Republic	66	1.2 (2.3)	10.8
Zambia	64	3.9 (11.0)	3.4
Madagascar	63	3.8 (8.0)	3.4
Niger	61	1.9 (3.6)	7.5
Burkina Faso	61	2.2 (4.8)	3.0
Sierra Leone	57	1.8 (2.7)	15.9
The Gambia	54	5.6 (11.0)	3.5
India	44	2.5 (5.2)	9.7
Lesotho	43	2.0 (10.4)	na
Honduras	41	4.4 (10.6)	4.3
Ghana	39	5.5 (8.4)	34.0
Mozambique	38	na	na
Nepal	38	4.5 (7.7)	6.3

[a] *World Bank, 2001 Development Indicators.*

[b] *World Travel and Tourism Council, 2001 Country League Tables.*

SOURCE: *Roe & Urquhart. Harnessing the World's Largest Industry for the World's Poor, 2001.*

Mozambique's tourism sector faces constraints common among developing countries: a poor road network, particularly access roads to potential tourism destinations; expensive or low-capacity forms of transportation, especially air transportation; limited infrastructure; and poor security. Developing tourism infrastructure such as hotels, other lodging facilities, restaurants, and

supporting services, such as electricity and water, require investment. Mozambique needs to attract foreign investment and the market networks and knowledge that come with such investment.[39]

Why has Mozambique not attracted investment? Many of Mozambique's potential attractions are found elsewhere in Southern Africa where conditions for investment are more certain. Governments, for example, have commitments in the General Agreement on Trade in Services (GATS) under the WTO. While Mozambique does not restrict equity participation in tourism investments, it has not made a commitment in GATS to ban this type of restriction—and other restrictions apply. For example, Mozambican legislation and regulation restrict expatriate labor. In contrast, other countries in Southern Africa have made full commitments on market access, that is, they will not introduce restrictions on the rights of foreign establishment in tourism (see Table 4-4).[40] Full commitment means that investors have the right to employ expatriate labor and that the country may not limit the size of an establishment, the number of service suppliers, the value of the investment, or foreign capital as a percentage of total investment.

TABLE 4-4

GATS Commitments by other SADC Countries Concerning the Right of Establishment

Country	Restrictions			
	Hotels and Restaurants	Travel Agencies and Operators	Tour Guide Operators	Other
Angola	None			
Botswana	None	None		
Lesotho			None	
Malawi	None	None	None	None
Mauritius	Foreign equity limitations	None		
Namibia	None	None		
South Africa	None	None	None	None
Swaziland	None			
Tanzania	Size restriction on hotels			
Zambia	None	None	None	None
Zimbabwe	None	Size restrictions	Size restrictions	

SOURCE: *GATS Schedules.*

[39] On several occasions our investigating team tried to obtain data on tourism and investment in the sector. Other than a single CPI report data was anecdotal. The CPI data reported on investments approved for the first 9 months of 2001 and identified hotel and restaurant investments separately. For this first 9 months of 2001, 10 percent of approved projects were in this category, but less than 5 percent of investment. Data on tourism services in Mozambique needs to be developed.

[40] All SADC members except Mozambique included tourism in their GATS schedules. In fact, 34 African countries made commitments on tourism services. Only 5 African countries did not (Mozambique, Madagascar, Burundi, Central African Republic, and Togo).

In Mozambique other legislative or regulatory requirements make investment in tourism costly and uncertain. These constraints on domestic as well foreign investors include rights to land, customs clearances, inspections, and the like. These constraints, described in detail in Chapter 8, affect several economic activities.

TAPPING MOZAMBIQUE'S EXPORT POTENTIAL

A number of research reports and studies have made recommendations for tapping Mozambique's export potential in the agriculture, fishing, manufacturing, and tourism sectors. Many of these recommendations involve broad improvements that can be expected to increase exports across all sectors. Some recommendations are specific to individual sectors.

TAPPING EXPORT POTENTIAL ACROSS SECTORS

To exploit the full export potential in agriculture, fishing, manufacturing, and tourism, general constraints affecting all exports from Mozambique must first be addressed. Recommendations for eliminating these constraints include the following:

- ***Improve basic infrastructure.*** An inadequate transportation network makes movement of products and people expensive—and sometimes impossible. The high cost of road transportation and coastal shipping makes it difficult for farmers, fishers, and manufacturers to obtain necessary inputs or get goods to market at competitive prices. Shipping is sometimes completely unavailable. The high cost of air travel in Mozambique discourages tourism. The telecommunications network presents another obstacle to trade. Orders are missed when phone calls cannot be made.
- ***Help producers understand and meet the needs of foreign markets.*** Mozambican producers are handicapped by a lack of understanding of the complexities of foreign markets. Products destined for developed countries must meet different specifications and standards than those required for domestic sales. Exports often must adhere to stringent production and quality criteria, meet specific requirements for packaging and labeling, and be shipped in large volume. Education and training will help farmers, fishers, and manufacturers achieve the quality mandated by foreign markets. For example, a quality improvement program that includes techniques for proper handling of fish can help artisanal fishers prepare their catch for export. Factory managers need more specialized managerial and technical skills. The World Bank's Projecto para o Desenvolvimento Empresarial (PODE) has supported a limited number of expert consultants to help improve the competitiveness of Mozambican manufacturers. More such help is needed.
- ***Improve labor regulations.*** Existence of a large and flexible work force is critical to the development of competitive industries. Recent liberalization of labor regulations should make it easier to hire and fire workers, but these regulations are not yet being implemented. Regulations that might prevent workers from engaging in certain activities—such as the entrepreneurial

activities that support the tourism sector—must be examined. More flexible regulations must be developed to facilitate the employment of foreign workers with scarce skills. Such workers can provide the critical technical expertise needed to set up and manage the manufacturing process.

- ***Reduce tariffs.*** The ability to import necessary equipment and raw materials at world prices is key to success in global trade. High tariffs impede the acquisition of technology and inputs, preventing producers from creating quality goods at competitive prices. Import tariffs must be reviewed and reduced. Some tariffs, such as the one on fabrics, should be suspended altogether.
- ***Reduce bureaucracy and red tape.*** The ability to move goods quickly through customs is critical for keeping costs down and meeting delivery dates. An interview with the one major apparel manufacturer in Mozambique indicated that it can take as long as two or three weeks to clear goods through a Mozambican port. Two days is the norm in more efficient ports. The World Bank's Foreign Investment Advisory Service (FIAS), in a 2001 report, notes that bureaucratic procedures, overlapping authority, and discretionary practices have permitted corruption to take hold. Rent-seeking is common in some dealings between government agencies and commercial firms (e.g., inspections). The high costs of such transactions reduce competitiveness. Bureaucracy and red tape also impede investment. The FIAS report observes that "inconsistent implementation and application of laws and regulations" has given rise "to discrimination between investor groups, e.g., foreign versus domestic, large versus small, and between investors in different locations, e.g., the capital city versus the provinces."[41]
- ***Clarify and streamline the system for exchanging land-use rights.*** In amount of land per inhabitant, Mozambique is one of Africa's most land-abundant countries. However, land conflicts are common. Land-use rights are not well defined, and the mechanism for exchanging such rights is unclear and inefficient. There is no legal land market where land can be traded. Farmers often obtain land through inheritance or through the customary tenure allocation system, only to find their rights challenged and some of their land confiscated. The lack of a legal land market prevents both farmers and manufacturers from using land as collateral to obtain needed capital. Large-scale foreign investors are reluctant to invest in agricultural production, manufacturing, or tourism because the legitimacy of their land titles may be questioned by Mozambican citizens or arbitrarily cancelled by the government.
- ***Increase access to capital.*** Currently, opportunities to obtain working capital at competitive rates and terms are extremely limited. Most local banks take a minimum of two weeks, and often longer, to process letters of credit. Rates and terms are often highly unfavorable. Small and medium manufacturers have a hard time obtaining the capital needed simply to obtain necessary inputs, let alone to expand production. A lack of capital in rural areas prevents farmers from obtaining the equipment and technology necessary for improving their productivity.
- ***Attract foreign investment.*** Large amounts of capital are needed for large-scale agriculture, manufacturing, and tourism projects. Many of the changes outlined above can help foreign investors feel confident about investing in Mozambique. Tax reductions and other incentives can also help attract investors.

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[41] FIAS. Mozambique: Continuing to Reform Administrative Barriers to Investment, June 2001, p. ix.

TAPPING POTENTIAL IN INDIVIDUAL SECTORS

Agriculture Sector

With the support of donors, the Government of Mozambique has developed many key policy initiatives aimed at developing the agricultural sector. These initiatives include the poverty reduction strategy paper (PRSP), the National Food Security and Nutrition Strategy, the National Program for Agricultural Development (PROAGRI), and even the National Trade Policy and Strategy of 1998.

The initiatives offer a number of recommendations for expanding agriculture and increasing exports. Many of their recommendations apply to all sectors of the economy and have been identified above. Recommendations specific to the agriculture sector include the following:

- ***Improve access to water.*** Most agricultural producers are completely dependent on rainfall to irrigate their crops—despite the abundant groundwater resources underlying most of Mozambique's coastal plains. Irrigation projects have been developed, but only a small portion of crops receive water through the irrigation channels. For agriculture to expand, it is necessary to modernize the irrigation system in Mozambique.[42]
- ***Introduce better seeds.*** Productivity can be greatly boosted through the introduction of better seeds.[43] Introduction would be aided by expediting the certification of new seeds, by encouraging the mutual recognition of seed certification by other regional bodies, and by rehabilitating the research and extension system.[44]
- ***Improve the distribution system for agricultural inputs.*** The Fundo do Fomento Agrario still supplies most agricultural inputs, such as seeds, hand tools, and pesticides, to smallholder producers. Prices therefore remain high, and choice and quality remain low. A number of private and semi-private enterprises have begun producing and supplying agricultural inputs—SEMOC supplies seeds, Agro Alfa Sarl and Kanes Sarl supply hand-tools, and Zeneca supplies pesticides. But these enterprises tend to neglect rural areas. Market reform can help new entrants enter the agricultural input subsector.

Fishing Sector

A variety of studies have made recommendations on how Mozambique can support development of exports from the fisheries sector.[45] Some of the recommendations are reflected in the section on tapping export potential across sectors—for example, improving infrastructure and helping

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[42] World Bank. Mozambique: Agricultural Sector Memorandum: Volume II, Report No. 16529, April 30, 1997.

[43] MADER estimates that that the annual benefit from improved seed would increase crop values of cassava by almost 69 percent, and values of maize by 11 percent. See Investment Priorities for the Development of Mozambique's Seed System, March 2001.

[44] Only nine new seeds were registered and available for sale between 1995 and 2000. SADC negotiators are attempting to harmonize certification processes under the SADC Protocol.

[45] International Fund for Agricultural Development (IFAD). Appraisal Report, Sofala Bank Artisanal Fisheries Project. December 20, 2001.

producers understand and meet the needs of foreign markets. Recommendations specific to the fishing sector include

- ***Increase the catch of higher value fish.*** This includes demersals (haddock, cod, black marlin) and cephalopods (squid and octopus). Meeting upgraded production standards makes these fish high value-added products. Duties on these fish within SADC will fall to zero in 2002.
- ***Improve access to ice and cold-storage facilities.*** Ice is crucial to the development of the artisanal fishing sector. Ice enables the artisanal fisher to sell fresh or frozen fish, which command a much higher price than the more typical dried fish. Currently ice is found only in a few places along the coast. Access to freezers, refrigerated storage, and refrigerated transport must also be improved if fish are to reach export markets safely.
- ***Promote by-catch collection.*** By-catch is often discarded or treated poorly. By-catch offers potential for the artisanal fishers, especially if improvements in handling techniques can be made, if arrangements can be made with fishers to collect their by-catch.

Manufacturing Sector

The manufacturing sector will benefit greatly from all of the general recommendations for increasing exports across sectors. Two further recommendations, specific to the apparel subsector, are provided.

- ***Certify apparel producers as EPZs.*** Most of the apparel producers in Mozambique export 100 percent of their production. Such industries should be expeditiously certified as EPZs in order to receive benefits such as exemption from import duties, exemption from VAT, and expedited customs clearance. These benefits can contribute significantly to the competitiveness of the apparel industry.
- ***Support the development of a repair industry.*** Over the long run, the apparel industry needs to have a complementary service industry that specializes in machinery and equipment repair. The industry must be available locally.

Tourism Sector

Tourism should benefit greatly from several of the recommendations for tapping export potential across sectors. These recommendations include improving basic infrastructure, improving labor relations, and streamlining the system for exchanging land-use rights. To attract investment necessary for tourism development, Mozambique should study the GATS commitments of other SADC countries and develop an offer for the services negotiation during the current Doha Development Round of negotiations (due March 2003). That offer should make Mozambique as attractive for investment in tourism as other SADC countries.

One issue of particular importance to the tourism sector—security—is beyond the scope of this report. Security concerns, however, must be addressed if tourists are to feel comfortable visiting Mozambique. The government is working to increase security and create an atmosphere favorable to the development of tourism.

5. Access to Export Markets

A member of the World Trade Organization (WTO) and the Southern African Development Community (SADC), Mozambique benefits from preferential trade arrangements that reduce duty rates on its exports. To improve its export performance, Mozambique must take advantage of market opportunities, including new access to regional markets and preferential access to markets in developed countries. This chapter examines Mozambique's access to foreign markets, including opportunities and impediments in those markets.

World Trade Organization

As a WTO member, Mozambique benefits from the certainty and transparency governing the exchange of goods and services across national frontiers. The WTO creates rights and obligations between Mozambique and its trading partners, provides dispute settlement procedures for enforcing rights, provides a forum for negotiating market access, and ensures transparent policy through notification requirements and review procedures. Mutual rights and obligations may reduce political sovereignty, but they also make policies more predictable and help secure access to foreign markets.

To benefit fully from WTO membership, Mozambique must be prepared for trade negotiations. Preparation depends heavily on the government's capacity to receive and analyze information from other countries and the private sector in Mozambique. Mozambique's importers and exporters, therefore, must understand their rights under the WTO and communicate problems to the government for resolution in the proper forum.

MISSED OPPORTUNITIES

Because Mozambique was not an active participant in the Uruguay Round, it missed some opportunities to improve market access conditions for its exports. For example,

- A proposal for permanent bound tariff elimination, including intermediate and finished products, in the wood and fisheries sector was discussed but not adopted.

- Wood was liberalized significantly, but tariffs on fishery products were cut only modestly—less than half the average cut of 40 percent—in developed markets (see Table 5-1).
- Quotas and reference price systems on fishery products in important markets, such as Japan and the EU, were not addressed.
- It was agreed that textile and clothing quotas of the Multi Fiber Arrangement (MFA) would be eliminated, but tariffs were reduced less than half and remain the highest of any sector in developed countries.
- Developed countries' duty reductions on leather and leather products, including footwear, were the smallest of any sector.
- Mozambique did not seek special treatment for exports, such as prawns and cashews.
- And, while tariffs are nil or low in major developed markets, significant barriers remain in the markets of developing countries.

TABLE 5-1

Developed Countries' Uruguay Round Tariff Reductions on Products of Interest to Mozambique

	Pre-UR (%)	Post-UR (%)	% Reduction
All industrial products	6.30	3.80	40
Without fish and textiles	5.40	2.90	46
Non-electrical machinery	4.80	1.90	60
Electrical machinery	6.60	3.50	47
Wood, paper and furniture	3.50	1.10	69
Metals	3.70	1.40	62
Chemical, photo supplies	6.70	3.70	45
Manufactured articles	5.50	2.40	56
Textile and apparel			
Tariff only	15.50	12.10	22
Fish and fish products	6.10	4.50	26
Leather, rubber, and footwear	8.90	7.30	18
Industrial tropical products	4.2	2.0	52
Natural resource based products	3.2	2.1	24

SOURCE: *WTO.*

NEW OPPORTUNITIES

The multilateral negotiations launched in November 2001 under the Doha Development Agenda offer a new opportunity for Mozambique to improve market access on key export products. In the previous round, access for many of these products (cotton, sugar, groundnuts) was "tariffied." This means that non-tariff measures were converted to exceptionally high tariffs with lower rates set for in-quota imports that guaranteed minimum market access (see Table 5-2). In this round, Mozambique needs to reduce these levels and/or ensure access to the minimum import levels that were agreed to in the Uruguay Round. If preferences are accorded "new LDC suppliers," Mozambique will benefit in potential markets it does not currently supply.

TABLE 5-2
Examples of Uruguay Round Tariffication

	South Africa (%)	United States	European Union	Japan
Cotton	60	31.4 c/kg	Free	Free
Tobacco	44	32.7 c/kg	30Ecu/kg	Free
Sugar	105	33.9 c/kg	419Ecu/mt	71.54y/kg
Rice	5	Free	211 Ecu/mt	617y/kg
Maize	50	Free	94 Ecu/mt	Free
Groundnuts	70	163.8c/kg	Free	617y/kg

SOURCE: *WTO Agricultural Tariff Schedules.*

Nor should Mozambique neglect the markets of its regional partners and other developing countries. During the Uruguay Round, these countries made very limited commitments, binding tariffs at ceiling rates far in excess of applied rates, thus preserving their ability to revoke whatever tariff reductions were offered on a non-binding basis. The Doha negotiations provide an opportunity for Mozambique to improve access to these markets.

In the current round of negotiations, Mozambique also has an opportunity to improve market access for manufactured goods important to its producers. Import tariffs remain quite high on apparel, footwear, leather products, and textiles. Tariff escalation—imposing higher duties on higher value goods—is common, as are tariff "peaks" of 50 percent or more on some products in these sectors. In the current round, Mozambique should request duty reductions on commercially meaningful product groups.

Regional and Subregional Trade Agreements

Mozambique's regional arrangements for economic cooperation are focused in Southern Africa. It is a member of the 14-country Southern African Development Community (SADC) and the Zambia-Malawi-Mozambique Growth Triangle (ZMM-GT).

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

The SADC Trade Protocol, which establishes a free trade agreement in Southern Africa, became effective September 1, 2000.[46] Mozambique completed its implementation in October 2001, retroactive from August 2001. Nearly the last country to deposit the instruments necessary to implement tariff reductions, Mozambique was one of the first to complete its tariff offers. Its offers were "gazetted" and regulations on rules of origin and certification were published in October 2001. Like other members, it has begun implementing the protocol even though some negotiations are not complete.[47] Negotiations to accelerate tariff reductions and to agree on rules of origin are expected to conclude soon. Within SADC, progress in harmonizing customs and trade documentation has been substantial.

SADC Export Opportunities

Nearly 45 percent of both Mozambique's imports and exports are destined for or originate in SADC countries. South Africa by far accounts for the largest share, with 40 percent of imports and 20 percent of exports.[48] And these totals were achieved before the SADC Protocol. Under the protocol, South Africa is likely become an even more important trade partner to Mozambique.

SACU Markets

A part of SADC, the Southern African Customs Union (SACU) consists of Botswana, Lesotho, Namibia, South Africa, and Swaziland. These countries account for more than 75 percent of GDP in sub-Saharan Africa, with South Africa dominating. SACU members have a common external tariff (CET) and act as one country with regard to tariffs on exports from SADC countries. Under SADC, however, SACU members have committed to staged elimination of the CET.

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[46] Eleven SADC members are implementing the protocol: Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, Tanzania, and Zimbabwe. The latter two have not yet reduced tariffs according to the offer. Angola announced intentions to make a tariff reduction offer in order to accede to the protocol. The Seychelles and Democratic Republic of Congo complete the original roster of signatories. Botswana, Lesotho, Namibia, South Africa, and Swaziland are also members of SACU, a customs union. (For SADC information, see http://www.sadc.int/overview/vision.htm.) Several SADC countries have yet to fully implement the protocol.

[47] The original goal was to complete negotiations in 2000 and begin implementation in 2001. SACU began implementation in September 2000.

[48] South Africa accounts for 37 percent of Mozambique's exports, if data are adjusted to exclude prawn exports to Japan, Portugal, and Spain. Harvested by joint-venture fishing fleets involving Mozambican, Spanish, Portuguese, and Japanese partners, prawns are exported directly.

Goods produced in Mozambique and with market opportunities in SACU member countries, especially South Africa, will benefit from CET elimination. SACU countries began implementing phased tariff reductions under the SADC Protocol in September 2000. With implementation of the third phase of reductions in January 2001, most SACU tariffs that had been 25 percent or less have been eliminated for goods imported from SADC members.

In addition, certain Mozambican products are no longer subject to the tariff-rate quotas of the bilateral Mozambican–South African trade agreement. These products include cashews, citrus fruit, coconut oil, fishery products, and wooden furniture. Duties on other products, including footwear, also covered by the bilateral agreement, will not be completely eliminated until 2004 or 2005. See Tables 5-3 and 5-4.

Equally important, preferences afforded Mozambican suppliers under SADC have created new opportunities to export products to South Africa. These products include bananas, dried beans, footwear, mangoes, peas, pineapples, processed agricultural products, and stranded-wire products. Mozambique now exports many of these products to other destinations (see Table 5-5). Processed or manufactured products from the aluminum and iron ore mega projects could also enter South Africa on a preferential basis vis-à-vis non-SADC suppliers, but capitalizing on this preference will require new investment.[49]

[49] Mozal only converts bauxite into aluminum ingots. New investment in rolling and extruding mills would be required to create flat and round products. We are not aware of any plans for such investment. Potential investors are studying the potential of an aluminum foundry in Beira.

TABLE 5-3

Mozambican Exports to South Africa No Longer Subject to Bilateral Agreement Quotas

Product	1997 Quota Level (MT)	Product	1997 Quota Level (US$)
Fresh, frozen, dried fish	2,000	Cigarettes	600,000
Crayfish	200	Cotton fabrics	500,000
Shrimps and prawns	2,500	Clothing	790,000
Crabs	500	Blankets	250,000
Langoustines	1,000	Asbestos—cement roofing tiles	300,000
Squid, octopus, clams	150	Wooden furniture	500,000
Cashew nuts	1,000	Handicrafts	300,000
Citrus fruit	5,000		
Coconut oil	5,000		
Cashew nut oil	500		
Cotton-seed oilcake	6,000		
Tires and inner tubes	830		

SOURCE: *Mozambique–South Africa Trade Agreement.*

TABLE 5-4
Selected SACU Tariff Reductions

HS Code	Description	SACU Offer	
		Base Rate	2002 Rate
Fishery Products			
0302xx	Fish, fresh or chilled	25%	0
0303xx	Fish, frozen	25%	0
030559	Other dried fish	6c/kg	0
03061300	Shrimps and prawns	5c/kg	0
03061400	Crabs	5c/kg	0
0307	Mollusks	6c/kg	0
Fruits and Vegetables			
08051000	Oranges	5%	0
080530	Lemons	5%	0
080540	Grapefruit	5%	0
Coffee, tea, and spices			
090121	Coffee, roasted	6c/kg	0
090240	Black tea	4R/kg	1.6R/kg
Oilseeds and downstream products			
12072000	Cotton seeds	10%	0
23061000	Oilcake from cotton seeds	6%	0
23065000	Oilcake from coconut or copra	6%	0
Cotton			
52010020	Ginned cotton	1.6R/kg	60c/kg
5203	Carded cotton	15%	0

TABLE 5-4
Continued

HS Code	Description	SACU Offer	
		Base Rate	2002 Rate
TEXTILE PRODUCTS			
520811xx	Cotton fabric	30%	9%
520819xx	Cotton fabric	30%	9%
CLOTHING PRODUCTS			
6109xx	Of cotton	72%	25%
6203xx	Of other textile materials	72%	25%
6204xx	Of cotton	72%	25%
6205xx	Of other textile materials	72%	25%
WOODEN FURNITURE			
94033000	Wooden furniture	21%	0

SOURCE: *SACU offer.*

TABLE 5-5
Products Not Currently Exported to South Africa That Will Benefit from SACU Duty Reductions

HS Code	Description	SACU Offer	
		Base Rate	2002 Rate
04090000	Natural honey	24%	0
FRUITS AND VEGETABLES			
070810	Peas (pisum sativum)	15%	0
07133290	Other dried beans	10%	0
07133990	Other beans	10%	0
08030000	Bananas	5%	0
08043010	Pineapples	15%	0
080450	Guavas and mangoes	35%	15%
CEREALS AND DOWNSTREAM PRODUCTS			
1101	Wheat flour	Var	40%MFN
110220	Maize flour	Var	40%MFN
190220xx	Pasta	20%	0
190530	Biscuits	25%	0
PROCESSED AGRICULTURAL PRODUCTS			
200920	Grapefruit juice	25%	0
200930	Other citrus juice	25%	0
200940	Pineapple juice	20%	0
240110	Tobacco, not stemmed/stripped	8.6R/kg	3.4/kg
240120	Tobacco, stemmed/stripped	8.6R/kg	3.4/kg
MINERALS			
2501	Salt	14%	0
282300	Titanium oxide	12%	0

TABLE 5-5
Continued

HS Code	Description	SACU Offer	
		Base Rate	2002 Rate
PLASTICS			
3921xx	Laminated plastics	17%	0
3923xx	Plastic packing materials	17%	0
3924xx	Plastic utensils	25%	0
3925xx	Plastic reservoirs	25%	0
WOOD AND PAPER PRODUCTS			
440920	Laminates non-coniferous	12%	0
441820	Doors and frames	17%	0
441890	Other building products	16%	0
442010	Wood statuettes	30%	6%
FOOTWEAR PRODUCTS			
64034090	With toe-cap & leather uppers	30%	14%
640590	Other footwear, nes	40%	18%
640610	Parts other than from rubber	22%	0
640699	Parts other footwear products	22%	0
Metal products			
731210	Stranded wire, not electrically insulated	5%	0
7604	Aluminum bars and rods	12%	0
7605	Aluminum wire	12%	0
AUTOMOTIVE PARTS			
870891	Radiators and parts	20%	0

SOURCE: *SACU offer*

OTHER SADC MARKETS

The markets of Malawi, Mauritius, Tanzania, Zambia, and Zimbabwe will not open to Mozambican exports as rapidly as South Africa's market. Under differentiated offers, however, they will open more rapidly to Mozambican than to South African exports. But for most products of export interest, Mozambique will have to wait until 2008 and in some cases 2012 to benefit from zero duty rates (see Table 5-6). These SADC partners designated many of Mozambique's current and potential export products as sensitive, often backloading the staging to maintain the current duty. Many reductions, therefore, will not begin until the fifth year.[50]

TABLE 5-6

Partner Duty Base Rates and Staging on Selected Mozambique Products

	Malawi	Zambia	Zimbabwe	Tanzania
Vegetables	10% (8th yr)	25% (8 yrs)	40% (8 yrs)	30% (8 yrs)
Cashews	10/30% (8th yr)	Free	Free	30% (8 yrs)
Fruits	30% (8th yr)	25% (8 yrs)	40% (8 yrs)	30% (12 yrs)
Tea	30% (8th yr)	25% (8 yrs)	40%/Immediate	30% (12 yrs)
Maize	Free	Free	Free	30% (12 yrs)
Flour (maize)	30% (8th yr)	15/25% (8 yrs)	40% (12 yrs)	30% (8 yrs)
Vegetable oils	30% (8th yr)	25% (8 yr.)	40% (8 yrs)	30% (8 - 12 yrs)
Tobacco	30% (8th yr)	15% (8 yrs)	100% (12 yrs)	30% (8 yrs)
Cement	Free	Free	Free	30% (12 yrs)
Fabric	30% (8th yr)	15% (8 yrs)	15/25% (3-5 yrs)	30% (12 yrs)
Clothing	30% (6 yrs)	25% (8 yrs)	40/60% (8 yrs)	30% (8 yrs)
Footwear	30% (8th yr)	25% (8 yrs.)	65% (8 yrs)	30% (8 yrs)
Tires	30% (6 yr.)	25% (8 yrs)	30% (5 yrs)	30% (8 yrs)
Plastic containers	30% (8 yr.)	25% (8 yrs)	25% (5 yrs)	30% (8-12 yrs)
Wood products	10/30% (6 yrs)	25% (8 yrs)	15/25% (3-5 yrs)	30% (5-8 yrs)

SOURCE: SADC offers.

Note: Only Tanzania has an import barrier on fish. It imposes a 30 percent tariff on fishery products, beginning reductions in the fifth year and completing them in the eighth year.

[50] Malawi is making reductions all at the same time in the eighth year. Zambia is beginning reductions in the fifth year and completing them in the eighth. Zimbabwe and Tanzania are staging concessions annually.

Exports of many products noted in Table 5-6—especially exports to Malawi, Zimbabwe, and Zambia—virtually ceased when Mozambique withdrew from the Common Market for Eastern and Southern Africa (COMESA). Mozambique has tried to restore parity with other COMESA countries through SADC and bilateral negotiations, but to no avail. During the 1999-2000 SADC negotiations, Mozambique held talks on, but did not complete, bilateral agreements with Malawi, Zambia, and Zimbabwe. The bilateral agreement discussed with Malawi was the most ambitious. Malawi proposed that all products except sugar be covered. Discussions with Zambia and Zimbabwe covered only products now traded between the bilateral partners. The talks have not yet succeeded.

A Possible Free Trade Agreement

By mid-2002, Mozambique and Malawi had nearly concluded a Free Trade Agreement covering substantially all bilateral trade in goods. Products excluded from duty-free treatment are armaments, beer, cigarettes, soft drinks, and sugar. The countries appear to have agreed to much simpler and open rules of origin than those that govern their trade under SADC. Dates for final ratification are uncertain.

Mozambique itself will be slow to give preference to SADC partners. So far, it has reduced duties on 1,600 raw materials from 2.5 percent to zero, responded positively to a few requests from trade partners, and made reductions on a most favored nation (MFN) basis for all partners as required by the IMF. Duty reductions that result in a margin of preference to SADC partners (a difference between the MFN and SADC rates) will not occur, with few exceptions, until the fifth year, 2006.

To SADC partners other than South Africa, Mozambique made differential concessions. It immediately eliminated 35 percent duties on 90 products, or 3 percent of its SADC trade, and 7.5 percent duties on 300 products, 8 percent of its SADC trade (see Table 5-7). It made other immediate reductions on raw materials (11 percent of SADC trade). Mozambique also designated 14 percent of SADC trade as sensitive to SADC members other than South Africa. Tariffs on those products will be reduced over 12 years.

TABLE 5-7
Mozambique's SADC Offer – Phased Reductions of Duties on Imports

	Duty Level and Percent of Imports Covered			
Staging level	**35 %**	**5.0 – 7.5%**	**2.5 %**	**Free**
Immediate	3.2	7.8	11.2	3.0
Years 7 – 8	11.1	49.6		
Years 9 –12	4.9	9.0		

SOURCE: *Mozambique Offers to SADC (excluding South Africa).*

Mozambique will not reduce duties on products originating in South Africa until the seventh year. Sensitive products with respect to South Africa cover 26 percent of SADC trade. Duty reductions on these products will be staged over 15 years.

Several proposals have been made in SADC to accelerate progress. In March 2001 it was proposed that Mozambique, Malawi, Tanzania, and Zambia (MMTZ) eliminate tariffs for each other on all but a few products, such as sugar or maize. Malawi and Zambia are already free to each other under COMESA. Along with Mozambique, the two countries have also been designated for the Southern African growth triangle. Discussions of this proposal have languished because of the infrequency of SADC negotiating sessions, the nearly complete turnover in negotiators, and the impact of sharp increases in cross-border trade from Zimbabwe on markets in Malawi, Mozambique, and Zambia. This proposal should be revisited.

SADC TRADE PROTOCOL CHALLENGES

Membership in SADC may be an important opportunity for Mozambique. Greater market access could spur economic activity. At the same time, the consequences of rules of origin and extended transition times for protected industries must be considered.

Regional trade arrangements often divert imports from low-cost worldwide sources to higher-cost regional ones. Such trade diversion is most likely to occur when regional preferential rates are significantly lower than MFN tariffs. For example, to meet SADC requirements and sell to South Africa, Mozambique must shift from cost-efficient sources of raw material to South Africa for plastics, and to the region for fabrics (for out-of-quota clothing exports). South Africa may have a larger and more developed economy than other SADC members, but it is not a low-cost producer by international standards. Furthermore, because South Africa has a large comparative advantage in the production of tradable items, the benefits of the regional trade arrangement may accrue mostly to it. Indeed, SADC negotiations on rules of origin have been delayed because Mozambique and other members are trying to liberalize those rules (see Exhibit 5-1).

Because it is among the poorest countries in SADC, Mozambique is allowed a longer transition period to lower its tariffs. It is assumed that during this period industries will become more competitive, infrastructure will improve, the workforce become more skilled, and industrialists acquire the knowledge and capacity to export competitively. At the same time, industries are still protected while facing market costs that are above international levels. Unfortunately, extended transitions are rarely successful. In fact, they may delay competitiveness.[51]

Leaving aside the complexities of rules of origin and other non-tariff measures, a small poor country participating in a regional trade arrangement must ensure that regional preferences align with MFN-based tariffs; the country must also promote domestic market reform.[52] Whether negotiations are regional or multilateral, they should be approached in the context of a national approach to trade policy. For example, should Mozambique set high binding tariffs to allow greater flexibility in later negotiations or set low binding tariffs to "provide stability and credibility in the country's trade policy framework?"[53]

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[51] "Special and different provisions for … developing countries… is problematic. Rather than being guidelines for 'good' policy they are more realistically viewed as escape clauses for bad policy." See, World Bank, Cambodia p. 17.

[52] Frank Flatters. SADC Rules of Origin: Impediments to Regional Integration and to Global Competitiveness. Prepared for SADC Secretariat Project, July 12, 2002, p. 24.

[53] WB, Cambodia, p. 17.

Exhibit 5-1

SADC Rules of Origin and Mozambican Export Prospects

Under free trade agreements, members are subject to different tariff levels than non-members. Rules of origin, which prevent tariff hopping to the lowest tariff, can constrain or enhance Mozambique's export prospects. For example, Mozambique is one of South Africa's top two apparel suppliers largely because of its ability to meet the rules of origin in its bilateral agreement with South Africa.

In many cases, the rules of origin thus far agreed to in SADC seek to encourage production and consumption of goods with a high degree of regional content. This often requires SADC manufacturers who want preferential duty rates to switch from external suppliers to less competitive regional suppliers of raw materials and intermediate goods.

In other cases, SADC suppliers may be unable to meet the proposed rules applying to some important products, effectively removing trade in these products from the SADC agreement. Because of these trade-diverting or excluding effects, the rules of origin for several key product groups have yet to be agreed to fully. These groups include textiles and clothing, flours from cereal and other downstream cereal products, processed coffee, and plastic products.

For textiles and clothing, the issue is whether two or more changes of tariff heading in SADC countries are required for the product to qualify for SADC rates. For example, under the proposed rule, a fabric producer would have to start from *fiber* produced in the region, while an apparel producer would have to start from *yarn*.

SADC's least developed countries—Mozambique, Malawi, Tanzania, and Zambia, or MMTZ—have a special need to rehabilitate or establish apparel manufacturing. Therefore, a special rule allowing single transformation has been adopted. MMTZ suppliers to the South African market can supply apparel made from fabric imported from external sources free of duty, but subject to an annual quota. The application of this rule will be reviewed next year in order to adopt a single rule in 2005. Attempts by Mauritius and Zimbabwe to have a similar rule apply to apparel made from fabrics or blended fabrics not produced in the region have failed.

Mozambique and other SADC members have an opportunity, during the scheduled SADC review in 2004 if not before then, to re-examine rules of origin and other weaknesses in the SADC Trade Protocol. We believe that rules of origin should be examined carefully. Sector studies of the effects of the protocol, particularly its rules of origin, on global competitiveness and regional investment would be useful for that review. SADC members should agree to discard rules of origin—or other protocol provisions—that have hindered regional economic integration or had a neutral or negative impact on the global competitiveness of regional producers.

See Frank Flatters, SADC Rules of Origin: Impediments to Regional Integration and to Global Competitiveness, prepared for the USAID-funded SADC Secretariat Project, July 12, 2002.

In sum, if Mozambique ignores current and future changes to regional or international trade arrangements it may lose market access. But in approaching trade arrangements, Mozambique should first determine what it stands to gain—or lose—by the arrangements and changes thereto. Doing so will require substantial new resources for policy analysis and impact modeling (see Chapter 7).

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA

COMESA was formed in December 1994. COMESA's 20 members have a population of more than 385 million and annual combined imports of around US$32 billion.[54] Mozambique withdrew from COMESA in 1998, but is considering rejoining. At present, exclusion from COMESA puts Mozambique at a competitive disadvantage in most COMESA markets. COMESA is negotiating a common external tariff as its members move to establish a customs union by 2004. Two members, Uganda and Kenya, are negotiating with Tanzania to re-establish a customs union in the East African Community (EAC).[55]

Eleven countries, including four SADC members, began full reciprocal implementation of COMESA in October 2001. The SADC members—Malawi, Mauritius, Zambia, and Zimbabwe—already accord each other duty-free access. They also accord better tariff treatment to Egypt, Kenya, and Madagascar than to Mozambique. Mozambique sought restoration of COMESA rates under SADC's MFN provisions, but to no avail. It then sought accelerated elimination of tariffs on priority products through direct requests in SADC negotiations—also to no avail.

Preferential Access Agreements

Mozambique has significant, but underused market access opportunities in developed countries that provide preferential access to products from least-developed countries. Preferential access schemes include the Generalized System of Preference (GSP) in the United States and EU, the EU's Cotonou Partnership Agreement and Everything But Arms initiative, and the U.S. African Growth and Opportunity Act (AGOA). Mozambique also benefits from preferential tariff treatment by Australia, Canada, Japan, and New Zealand under the GSP.[56] India grants preferential access to Mozambique under the Global System of Trade Preferences (GSTP).[57] In 1986, Denmark, Finland, Norway, and Sweden signed the Nordic/SADC Accord, which provides market opportunities for SADC-made products on highly favorable terms. To increase Mozambican exports, government officials and private sector producers must understand preferential trading arrangements.

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[54] Members are Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. Lesotho, Tanzania, and Mozambique have withdrawn from COMESA.

[55] Uganda is also interested in joining SADC.

[56] Other countries with GSP schemes include Belarus, Bulgaria, Czech Republic, Hungary, Norway, Poland, Russian Federation, Slovak Republic, and Switzerland.

[57] WTO document WT/LDC/HL/20, 23 October 1997. Turkey indicated its intention to grant Mozambique preferential tariff rates under the GSTP (WTO document WT/COMTD/W/ 39, 30 March 1998.)

Strategies for pursuing such opportunities should become part of the national trade strategy proposed in this report.

EUROPEAN UNION

The EU's preferential market access programs for Mozambique are regulated by two main trade arrangements—the Everything But Arms (EBA) initiative and the Cotonou Partnership Agreement.

Everything But Arms

EBA, which took effect in 2001, provides duty- and quota-free access to the EU market for all products originating in beneficiary LDCs, with the exception of arms, ammunition, and three sensitive products. Duties on the sensitive products will be phased-out as follows:

- ***Bananas***. The tariff will be phased out by 20 percent every year until it reaches zero in January 2006.
- ***Rice***. Starting in September 2006 the tariff will be reduced to zero by September 2009. In the meantime, the EU has instituted a tariff-rate quota that permits entry into the EU up to the quota amount duty free. Quotas will increase by 15 percent every year until 2009, when they will be eliminated.
- ***Sugar***. Starting in July 2006, the tariff will be reduced to zero by July 2009. Sugar imported from LDCs (up to the quota amount) can enter the EU duty free. Such quotas will increase from 74,185 tons in the first year to 197,355 tons by 2009. Mozambique's quota for sugar, under EBA, varies by a formula favorable to Mozambique.

With the exception of these products, the EBA covers all agricultural products, many of which may offer opportunities to Mozambique, such as fruit, vegetables, maize, oilseeds, and processed fruit and vegetable products. As with most GSP schemes, EBA preferences may be withdrawn at any time depending on a number of circumstances, including unfair trading practices and failure to comply with rules of origin or international conventions for drug trade or money laundering.

In addition, EBA does not affect the current GSP rules of origin, which are often difficult for Mozambique to meet. These rules are characterized by a system of cumulation of origin that is more stringent than the system for African, Caribbean, and Pacific countries under the Cotonou Partnership Agreement. For most woven articles of apparel and clothing accessories classified in HS Chapter 62, "origin" requires manufacture from yarn; this means that using imported fabric does not confer origin. On the one hand, this is a problem for Mozambican exporters because most textile mills in Mozambique have closed down. On the other hand, these rules of origin, as well as those for the U.S. AGOA program, could induce foreign investment in Mozambique and help apparel producers meet the EBA and AGOA requirements.

Cotonou Partnership Agreement

Signed in June 2000, the Cotonou Partnership Agreement is the successor to the Lomé IV convention.[58] It provides preferential market access for LDCs until 2009, after which it will be replaced by economic partnership agreements (EPA) negotiated between the EU and the African, Caribbean, and Pacific (ACP) countries previously covered by the Lomé convention.

The agreement provides duty- and quota-free access for all industrial products, including oil and mineral products, fish products, and agricultural and processed products. It was granted a waiver from the WTO's MFN provisions during the Doha Ministerial meeting in November, 2001. To secure the waiver, the EU made the agreement more reciprocal. The agreement constitutes a 20-year partnership with 77 countries and expresses a joint commitment to eradicating poverty, promoting sustainable development, and integrating LDCs into the multilateral trading system.

As a partnership, the agreement is a series of two-way free trade arrangements. Through EPAs negotiated with the EU, ACP states will commit to removing barriers among themselves and improving cooperation in all trade-related fields.

EPA negotiations will begin in September 2002 and end in 2008. The EU prefers negotiating with regional trade arrangements that include ACP partners. ACP countries may negotiate individually or opt out of an EPA while maintaining access under the GSP. Initially, discussions on the modalities for negotiations will involve all ACP countries. The deadline for settling which regional groupings will negotiate with the EU is 2004.

The EU may choose negotiating partners from a number of regional trade arrangements in Southern Africa (see Figure 5-1). But the EU's choice should be clear. Negotiating with customs unions that apply a common external tariff will be easier than negotiating with individual countries or regional groupings with differentiated tariff structures. Three existing or planned customs unions account for virtually all ACP states in the region—SACU, COMESA, and EAC.[59] The latter two are under negotiation, but will be in place in 2004.

Mozambique is the only member of a regional trade arrangement in Southern Africa that is *not* also a member of a current or planned customs union.[60] This could put Mozambique at a significant competitive disadvantage. If it does not rejoin COMESA or join SACU, Mozambique will have to negotiate a separate EPA with the EU or forego this opportunity to secure preferential access to EU markets.

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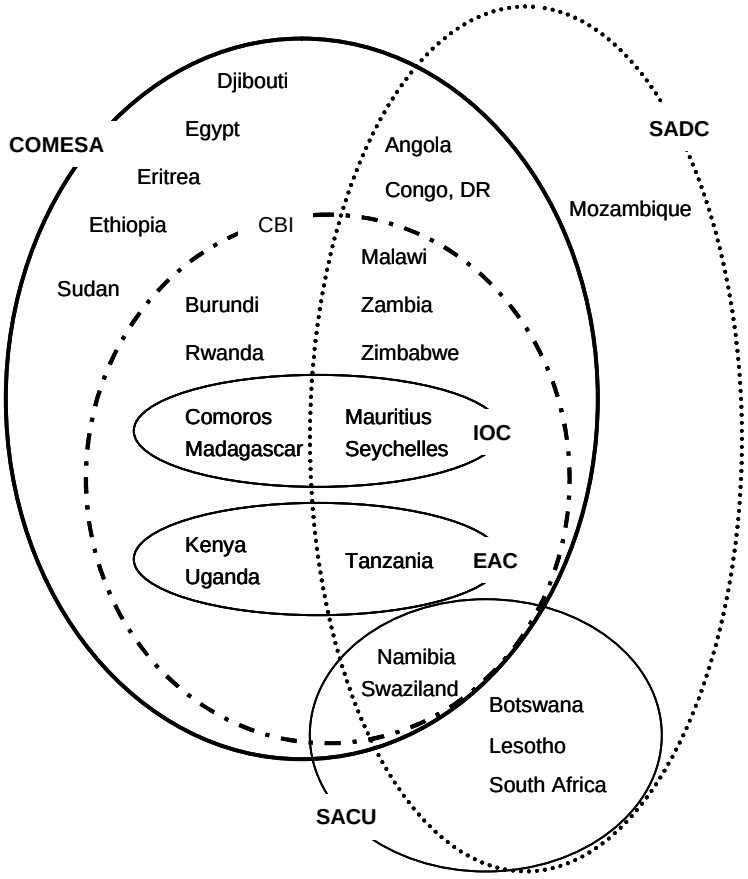
[58] The first Lomé Convention between the EC and its ACP trading partners became effective in 1975. The conventions were part of a tradition of privileged relations between ACP states and their former colonizers. Since 1975, four conventions have governed preferential tariff programs for ACP states exporting to the EU. The last one expired on February 29, 2000.

[59] South Africa, which does not benefit from Cotonou tariff preferences, established a Free Trade Area with the EU in 1999. Because South Africa is a member of SACU, SACU is a likely negotiating partner for the EU. This suggests that Mozambique should consider joining SACU. The recently signed trade agreement between South Africa and the EU is a cause for concern. Mozambique fears that trade diversion may result.

[60] Angola and the Democratic Republic of the Congo are not implementing the SADC or COMESA agreements, but they are members.

FIGURE 5-1
Regional Trade Agreements in Eastern and Southern Africa



CBI	**Cross Border Initiative**
COMESA	**Common Market for Eastern and Southern Africa**
EAC	**Commission for East African Cooperation**
IOC	**Indian Ocean Commission**
SADC	**Southern African Development Community**
SACU	**Southern African Customs Union**

UNITED STATES

Signed into law in May 2000, the African Growth and Opportunity Act (AGOA) gives products from sub-Saharan African preferential access to the U.S. market. Duty-free access for eligible countries is provided for more than 1,800 items, 214 of which were excluded from any benefits under the U.S. GSP. Footwear, luggage and handbags, and citrus and pineapple juices previously excluded from the GSP are now good opportunities for Mozambican exporters.

AGOA Eligibility

To be eligible for AGOA preferences, countries must demonstrate progress in a number of areas, such as establishment of a market-based economy, elimination of barriers to U.S. trade and investment, protection of workers' rights, effective systems to combat corruption, and protection of intellectual property rights. Eligibility under AGOA's apparel provisions requires an effective visa system and an enforcement mechanism to prevent illegal transshipment. A special rule under the apparel provisions permits less-developed countries to ship apparel duty free to the United States

until September 30, 2004. Mozambique became eligible under the provision on February 8, 2002, and is eligible to take advantage of the special rule.

AGOA Opportunities

AGOA provides a solid and enduring opportunity for Mozambican textile and apparel exporters. Duties on apparel in the United States are about 22 percent on a trade-weighted basis, providing a significant margin of preference for qualifying suppliers. Apparel suppliers also benefit from the special rule that allows LDCs to qualify for the tariff preference until October 1, 2004, regardless of the source of the fabric used in the apparel. Mozambique will have another four years under which to export apparel to the United States under more restricted rules of origin at preferential rates of duty.

AGOA provisions also present an important opportunity for rebuilding Mozambican yarn and fabric production. To qualify for tariff preferences, apparel exported from South Africa and Mauritius needs to be made of regional yarns or fabric. South Africa and Mauritius together imported more than US$300 million of cotton yarn and fabric (mostly from outside the region) in 2000, and another US$52 million in fiber, mostly from SADC partners.[61] Swarp, a firm located in Zambia, spins yarn from local cotton produced under an outgrower scheme. Its sales to South Africa have increased significantly since AGOA went into effect. Producers in South Africa and Mauritius need to increase their regional supply of yarn and fabric to maintain market share in the United States. That market share will be under pressure when the Multi Fiber Arrangement quotas expire in January 2005.[62] So far in 2002, only 30 percent of South African and 37 percent of Mauritian apparel exports have qualified for AGOA preferences.[63] A good location for spinning and weaving, Mozambique also has local supplies of cotton and could increase its sales to South Africa and Mauritius.

Even beyond 2004, the AGOA program provides opportunities for Mozambique. After September 30, 2004, preferences will be accorded only to apparel produced using regional yarns and fabrics.[64] If Mozambique can create good investment conditions, it could attract investment to its textiles sector from apparel producers wishing to qualify for AGOA preferences in the U.S. market.

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[61] Calculated from ITC TradeMap data.

[62] Investors in both countries can invest in LDCs that benefit from the special provision. Belita has opened a second and larger factory in Beira to produce for the U.S. market.

[63] Total imports and AGOA imports were calculated from USITC Data Web.

[64] U.S. fabric may also be used but transport costs to Mozambique would be prohibitively expensive.

6. Trade and Investment Institutions and Processes

The Ministry of Industry and Commerce (MIC) is responsible for export promotion and formulating and implementing trade policy. Until recently, it was the principal contact between the government and the private sector on economic issues. MIC resources, however, are not adequate to these tasks. The Ministry must depend on the cooperation and staffing support of other ministries and agencies. In addition, its authority to manage the tools of trade policy is incomplete.

This chapter examines Mozambique's trade policy institutions and coordinating mechanisms, both in the government and between the government and the private sector. It also identifies institutional capacity and training needs, as well as constraints to policy development.

Trade Policy

The MIC is responsible for formulating and implementing trade policy under delegation of the Council of Ministers, the government's highest executive body. Most significant trade policy decisions are made only after debate in this body. Other implementing agencies include the ministries of Planning and Finance, the Customs Department, Agriculture and Rural Development, Fisheries, Tourism, Mineral Resources and Energy, and Transport and Communication, Labor, Public Works and Housing.

The MIC is also responsible for promoting exports, setting and enforcing standards, registering commercial entities, and protecting certain intellectual property through its subsidiary agencies, the Export Promotion Agency (IPEX), the National Institution of Normalization and Quality (INNOQ), and the National Directorate for Industrial Property.

At present, trade policy is not coordinated through a formal body. In December 1998, the MIC created the Technical Unit for Commercial Protocol (UTCOM) to support Mozambique's SADC negotiations and to coordinate negotiating positions with other agencies and the private sector. UTCOM kept the public and private sectors informed of SADC developments while seeking advice

on market access and technical issues. After most SADC implementation regulations were put in place, coordination was largely discontinued.

Trade Negotiations

In the MIC, the National Director for International Trade is responsible for trade negotiations including the Doha Round, SADC, and bilateral negotiations with Malawi, South Africa, and Zambia. He is also responsible for preparing to negotiate a partnership with the European Union under the Cotonou Partnership Agreement. During SADC negotiations, UTCOM supported the National Director for International Trade. UTCOM convened an interministerial group, Grupo Inter Ministerial (GIM), before negotiating sessions to coordinate Mozambican positions. Meeting agenda were discussed by the Ministry of Agriculture and Rural Development (MADER), the Ministry of Planning and Finance (MPF), and other relevant agencies. GIM has not been formally convened to discuss other bilateral, regional, or multilateral negotiations.

Public–Private Coordination

The MIC is the liaison between the government and the private sector. It is supported by Gabinete de Apoio ao Sector Privado (GASP), whose goal is to eliminate administrative barriers to domestic and foreign investment. GASP promotes public–private dialogue through the Annual Conference of the Private Sector in Mozambique, an event now in its sixth year and jointly sponsored by the Confederation of Mozambican Business Associations, or CTA.

When the conference last convened in September 2001, conference participants decided to establish permanent working groups between sector-specific producer associations and senior officials of ministries relevant to the sector. For example, the private sector resolved to begin a dialogue on trade and "red tape" with each relevant ministry. In addition to MIC, these include MADER, MPF, Labor, Tourism, Transport and Communications, Justice, Public Works and Housing, and State Administration. The Prime Minister has agreed to become the principal government contact for this dialogue.

Confederation of Mozambican Business Associations

CTA's 41 members represent more than 1,300 firms from various sectors of Mozambique's economy. CTA works to address the constraints that businesses and exporters face in the country. At the last Annual Conference, CTA and its members identified more than 50 tasks for improving the business environment. CTA also called for a partnership for the government to implement the desired changes.

At present, Mozambique's private sector, academic institutions, and unions contribute to trade policy formulation through informal, ad hoc consultations. As the ultimate beneficiary of—or loser in—policy changes, the private sector should contribute formally to the formulation and evaluation of policy options. Private sector perspectives will be diverse, with some resisting trade and investment liberalization and others seeking greater access to regional or global markets for their goods. But on the whole, regular contact between the public and private sector will help to ensure

that trade policy decisions are made with broad appreciation of their impact on Mozambican interests.

The public–private dialogue already covers many trade facilitation issues, such as customs and business licensing, as well as other critical issues, such as land, labor, and product market functions. But dialogue on export promotion, microfinance, and other crucial matters does not seem to be part of the current framework.

Duties, Taxes, and Investment

The Ministry of Planning and Finance handles other aspects of trade policy, such as setting and collecting import duties and taxes and attracting foreign investment. In 1999, it introduced a value-added tax (VAT) of 17 percent.[65] And it collects excise taxes on alcoholic beverages, tobacco, certain luxury goods, and automobiles. In contrast to many countries, Mozambique does not collect a customs user fee.

The MPF's Investment Promotion Center (CPI) deals with both domestic and foreign direct investment and certifies the status of export processing firms. (Commercial entities must be registered with MIC before receiving a certificate of investment.) In 2001, the law establishing export processing zones (EPZ) was amended to permit individual firms to be declared EPZs. The MPF, however is unwilling to accept firms that are outside contiguous EPZs, so implementation is stalled.

Issues

TRAINING AND HUMAN CAPACITY

The WTO's Trade Policy Review (TPR), conducted in 2000, indicates that trade-related institutions in Mozambique suffer from very limited human capacity, poor interministerial coordination, and weak organizational structure. In addition, these institutions often lack the capacity to assess Mozambique's national interest in critical trade policy issues on which the government must take a stance.[66] For example, as with many government institutions in LDCs, the MIC sorely needs trained trade experts to handle the wide variety of trade issues and coordination necessary for

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[65] The VAT does not apply to essential goods and services, including medical services and drugs, housing, wheat flour, rice and bread, agriculture, and fishing.

[66] According to the review, only the MIC is familiar with the WTO. The TPR identified major technical assistance tasks that would benefit Mozambique: (1) increase awareness of the WTO in the government and the private sector; (2) build capacity of individuals and institutions implementing trade agreements, especially mid-level and technical officials in agriculture, customs, fisheries, and industry; (3) improve quality control and consumer protection through better equipment and staff training; (4) provide assistance and training to identify and overcome problems in accessing external markets; (5) provide assistance to make local laws and decrees conform with WTO agreements; and (6) provide assistance in preparing for and participating in WTO negotiations.

effective analysis and formulation of pro-poor trade policy. [67,68] But low government salaries hamper retention of qualified staff; higher wages in the private sector usually attract qualified individuals with graduate-level training in economics and trade.

Training in the public sector is fundamental, but problems in the public sector are not easily resolved. Turnover is high and skills and experience among public sector employees are limited. Training must therefore be considered a long-term structural problem, one that requires interventions at many levels. See Exhibit 6-1.

While education in Mozambique is improving, the educational infrastructure does not at this time offer the specialized programs that the MIC requires.[69] Basic skills—such as computer training and effective writing—can be developed in many different centers across the country. But training in the skills required of trade specialists is very limited in Mozambique. Universities in South Africa are providing both short-term and Masters-level programs.[70] These programs are reasonably priced; the Masters programs are less than 20 percent of the cost of equivalent programs in the United States. They are also taught in English, a language essential for anyone wishing to work in the region or at the WTO.

The assessment team believes that funding should be made available so Mozambican government officials can attend trade-related training programs offered in South Africa. Training should be available to staff of the MIC and staff in MADER, Fisheries, and Customs directly involved in trade policy implementation or negotiation. Funding should also be made available to university graduates who show potential and who would be required to spend some time working at the MIC and other agencies when they complete training. Because managers do not want to give up their best and most productive staff for long-term training, using consultants as replacements for long-term staff should be considered.

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[67] MIC trade capacity is assisted by four donor programs. USAID provides technical assistance to support regional and multilateral negotiations. The European Union/Food and Agriculture Organization is supporting development of domestic and market information on agricultural products. Ireland and the ITC are helping the IPEX evaluate potential export products. The World Bank, with DFID and Norad (the Norwegian aid agency), are providing general capacity and equipment support to the MIC and technical assistance to business and the MIC under the World Bank's Enterprise Development Project (PODE) project. The Commonwealth Secretariat and UNDP are assisting the INNOQ.

[68] The Directorate for International Trade has a staff of 14, divided into three sections: Multilateral, Bilateral, and Special Organizations. Only the Deputy National Director has attended the WTO's trade policy course in Geneva. In the past year, a member of MIC's staff was assigned to Geneva to cover the WTO and UNCTAD. Mozambique was represented at Doha by the Deputy Minister of MIC, who had been the Ministry of Foreign Affairs' Representative to International Organizations in Geneva.

[69] The UNDP funded the Integrated Trade Development Support project, which ended in June 2002. The program was designed to strengthen trade-related training programs in Mozambique.

[70] The Universities of Natal-Durban, Cape Town, and Stellenbosch have implemented Masters programs in trade, funded by USAID, as of this year. Two times a year, the University of Cape Town also offers a two-week executive course on Trade Negotiations: Applied International Trade Bargaining. See www.commerce.uct.ac.za/tarpog.

Exhibit 6-1
Importance and Availability of Trade Training

In improving the content of higher education and making more technical and vocational training programs available, Mozambique should also focus on trade-related education. That focus will help make the Mozambican workforce more competitive and attractive to businesses. It will also improve the human capacity of trade-related institutions to formulate trade policy. The following organizations offer trade-related training:

- The Superior Institute for International Relations, established in 1990 by the Ministry of Foreign Affairs and Cooperation, offers a five-year course in International Relations and trains primarily Mozambican diplomats.
- The Faculty of Economics at the Eduardo Mondlane University offers a five-year curriculum in economics and management so graduates are able to assume managerial positions in the private sector or executive posts in the government.
- The Center for the Formation of External Trade provides short-term courses (from 40 to 100 hours), that train technicians and business operators in trade.
- The Mozambique Institute of Export Promotion offers 4-week courses on trade and export development in the provinces of Sofala, Zambezia, and Nampula.

Each of these organizations' programs should be analyzed and strengthened with a trade-related curriculum as part of the national trade strategy proposed in this report. Trade-related training can also be integrated into other forums. These include the Catholic University in Beira, the Catholic University in Nampula, the Instituto Superior Politécnico e Universitario, and the Instituto Superior de Ciencias e Tecnologia.

In addition to strengthening the trade curriculum of these organizations, the national trade strategy proposed in this report should encourage current public and private sector officials to participate in short-term trade training.

DATA COLLECTION, DISSEMINATION, AND ANALYSIS

At present, data collection and dissemination in Mozambique is inconsistent and scarce. Trade and investment data, especially trade statistics, are not adequate or reliable. Volume data on exports and imports can be obtained only from original sources and even then common units of measurements are not always used. Figures provided by different government ministries and departments vary widely. This hinders

- Analysis of export performance,
- Identification of changes in the volume of imports that affect the health or competitiveness of domestic industries,
- Forecasting of trends in trade,
- Analysis of trade policy, and
- Adequate support services for exporters and importers.

Some trade information is available from the National Statistics Institute (INE), CPI, and IPEX, but the private sector is either unaware of it or does not know how to use it. Statistics on foreign markets, even such large, data-rich markets as the United States, are even scarcer.

Analytical capacity also needs improvement. As part of the national trade strategy proposed in this report, the MIC would chair a National Trade Strategy Committee. To do this, the MIC will need to deepen its knowledge of and ability to analyze issues related to trade and industrial policy.

The MIC enjoys the services of an excellent research and information provider, the Market Management Assistance Project (Projecto de Assistencia a Gestão do Mercado), funded by the EU. It also receives support from UTCOM, which is funded by USAID. At present, the EU and UTCOM projects are too narrow to support a trade strategy based on open regionalism. We recommend expanding the projects or incorporating them into a more broadly defined institutional support mechanism. South Africa's Trade and Industrial Policy Strategies (TIPS) project could be examined as a model for Mozambique.[71]

The resulting institutional support mechanism would research trade and industrial issues and link into worldwide trade policy networks. An oversight board—consisting of MIC and the CTA (co-chair), donors, NGOs, other representatives of the private sector, as well as national and international university representatives—would determine specific programs. The entity would report its analyses to the Annual Conference of the Private Sector.

MIC analysis could also be strengthened considerably with use of a computable general equilibrium (CGE) model.[72] For example, the poverty reduction strategy paper (PRSP) will soon be complemented by poverty and social impact analysis once the new household survey is completed. A CGE model, similar to others recently developed for African countries, could be used to link survey results to trade influences. The CGE model could be used to explore the relationship between poverty and macroeconomic and exchange rate policy, the labor market, the agricultural market, access to trade-related services, and access to safety nets.[73]

INTERMINISTERIAL COORDINATION

Trade needs assessments have been completed for Cambodia, Madagascar, and Mauritania. Like those countries, Mozambique has an ambiguous trade policy that reflects not only the influence of interest groups for and against trade, but also a significant coordination problem.

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[71] See www.tips.org.za. Other institutional arrangements include a collaborative arrangement between the organizations in South Africa and Mozambique, or expanding the mandate of TIPS to cover SADC. However, following on OECD recommendations, the TIPS approach might be broader still, linking donors, the Government of Mozambique and the private sector into various trade policy networks. See OECD, Strengthening Trade Capacity for Development, 2001, p.42ff.

[72] Research by Arndt *et al.* used a CGE model.

[73] See WB, IF Summary, p. 30.

While the MIC has primary responsibility for trade policy formulation, a number of Mozambican ministries participate in formulation, including the MADER, MPF, and the Ministry of Transport. Each pursues its mandate in its own way. MADER may promote food security over external trade; MPF will defend revenue collections; the Ministry of Transport may wish to develop north-south links, rather than more export-friendly east-west infrastructure. Even the MIC has conflicting interests because it represents industries that favor trade liberalization and those that seek shelter from foreign competition.

Tariffs are an important tool of trade policy . . .

But MIC lacks authority to review and adjust tariffs. It has identified several desirable changes for tariff levels. For example, MIC wants to reclassify some consumer products, which attract the highest tariff levels, as intermediate products, which have lower tariffs. Domestic producers could then import these products for export production at competitive duty-paid prices.

Without a formal interministerial coordinating mechanism for trade policy formulation, reform may be impeded. Such a mechanism can help to design liberalizing and pro-poor trade policies, respond to demands of regional and multilateral trade negotiations, and gain high-level government support for trade liberalization. It can also ensure that ministries support each other. For example, to increase exports to SACU the MIC negotiated a preferential quota for Mozambican apparel manufacturers. But this purpose will be defeated if the Ministry of Labor does not issue work permits or if the Department of Immigration does not issue visas to expatriate experts with knowledge of SACU market requirements, including product design and quality control techniques.

In the next few years interministerial coordination will become even more important as Mozambique

- Comes to terms with the breadth of multilateral negotiations under the Doha Development Agenda,
- Completes SADC negotiations and fully implements the Protocol,
- Reassesses its participation in COMESA, and
- Prepares to negotiate a reciprocal trade agreement with the EU under the new Cotonou Partnership Agreement.

Mozambique must also be able to participate effectively in and take advantage of WTO negotiations while also meeting its WTO commitments. Strengthening interministerial coordination will require identifying the department responsible for coordination, a mechanism for ensuring coordination, and a schedule for regular interministerial meetings on trade issues.

7. Trade and Investment Policy Environment

In the past decade, the Mozambican government has done much to create an attractive trade and investment environment. It has made many improvements in its trade regime and institutions, trade and investment policy, trade facilitation measures and institutions, regulatory policies, and physical infrastructure. All of these affect Mozambican export production and price competitiveness. In this chapter we describe how Mozambique might further improve its trade and investment environment to stimulate exports, particularly exports of labor-intensive goods, and thereby reduce poverty. In compiling these recommendations, we consulted a significant body of research, which is presented in abbreviated form here.

Trade Policy

The structure of Mozambique's tariff, PAUTA, was simplified in 1996. Import duties, which are assessed on the basis of cost-insurance-and-freight (CIF), range from 2.5 percent to 30 percent, depending on the classification of the goods (see Table 7-1). The rate on consumer goods recently dropped from 35 percent and is scheduled to drop to 25 percent in January 2003 and to 20 percent in 2006.[74] Mozambique still adheres to the Brussels Definition of Value to calculate the value of imported merchandise.[75] This lets customs officials raise the value of imports to "market rates." Officials therefore exercise much discretion in assigning value, which makes the total cost of importing uncertain. The cost of imports is raised either directly through higher import duties or indirectly through higher payments to officials. This reduces the price-competitiveness of exports produced with imported material.

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[74] The reduction to 25 percent was scheduled for 2002 but the government sought delay until 2003 to conform reductions to the scheduled SADC phase down, which was delayed one year while negotiations were completed.

[75] Mozambique uses the Harmonized System (HS) of Tariff Classification. It updated the PAUTA to HS 2000 in implementing the SADC agreement.

TABLE 7-1
Classification of Goods for Import Duties

Product	Class	Rate (%)
Basic goods	E	0
Raw materials	M	2.5
Fuel	N	5
Equipment	K	5
Intermediate materials	I	7.5
Consumer goods	C	30

ELIMINATE ANTI-EXPORT BIAS FROM TARIFF STRUCTURE

Mozambique's tariff structure has a relatively low average applied tariff rate of 13.8 percent, or 11.6 percent on a trade-weighted basis. Nevertheless, it still has an anti-export bias. For example, many imported goods that are used to produce value-added goods with export potential are classified as consumer goods and subject to a 30 percent tariff. These goods include fabrics and packaging material. This level of protection is remarkable because no domestic industries in these sectors are capable of meeting domestic demand for "intermediate" goods used to produce exports. Clearly, such goods should be reclassified to lower their duty rates. Some imports—sugar, cement, galvanized steel—are subject to temporary surcharges in addition to regular tariffs as the domestic industry is rehabilitated. The surcharge on sugar, for example, adjusts import prices to a target domestic price, but is not time-limited. No date or conditions have been set for eliminating the surcharge.

Individual tariff lines may be changed upon review of the essential nature of the goods by the Customs Superior Technical Council (CSTA), a joint committee of the government and private sector that makes recommendations to the Minister of Planning and Finance. Difficult decisions are referred to the Council of Ministers. Reclassifying a product from an intermediate to a consumer good lifts the duty rate from 7.5 percent to 30 percent. In this regard, CSTA review can offer temporary protection to domestic industry, much like conventional safeguards and antidumping duties.[76]

PREPARE FOR TARGETED, CONTINGENT TARIFF MEASURES

The ability of the government to offer temporary protection to domestic producers is an important part of the trust between government and the private sector. Reducing protection as part of a pro-

[76] Current rates are unbound to most favored nation (MFN) suppliers. But Mozambique has committed to these rates, as well as the phased reduction to zero, in its SADC tariff schedule. The phase down period ranges from immediate to 15 years for sensitive products imported from South Africa. Mozambique has implemented the first stage of its phase down, and thus applies as many as three different duties on a single line—one to MFN suppliers, one to South Africa, and the rest to SADC.

poor trade agenda will give rise to concerns about injurious and disruptive surges of imports. Contingent protection measures may provide the assurance necessary for across-the-board liberalization.

As with many other LDCs, Mozambique does not have legislation or institutional mechanisms for raising tariffs temporarily in response to import surges. This does not prevent Mozambique from taking temporary measures with WTO members, but new legislation and institutions will be necessary for trade remedies under SADC, in which Mozambique has bound its tariff levels. To meet WTO requirements that are incorporated by reference in the SADC protocol, Mozambique will require technical assistance for trade remedies.[77]

WTO-compliant temporary tariff measures include antidumping duties, countervailing duties, and safeguards. Antidumping duties protect domestic firms from foreign firms that sell products at prices lower than prices in the originating market. Countervailing duties protect domestic industry from imports subsidized by governments in originating markets. Safeguards offer time-limited, digressive protection against import surges. For example, under the WTO, developing countries are permitted 10 years of progressively reduced protection; a safeguard duty of 50 percent would be phased out over 10 years.

When considering antidumping and countervailing duty (AD/CVD) legislation, Mozambique must take into account (1) its capacity to implement the legislation and (2) the effect of the legislation on the poor. Administering the legislation could be burdensome. The research and analysis necessary to implement an AD/CVD regime, while complying with WTO obligations, is expensive and time consuming. In addition, the jobs that antidumping duties preserve are unlikely to involve the poor and the price increases they induce are likely to hurt the poor.[78]

Safeguard legislation, used when import surges threaten fundamentally sound domestic industries, should be considered in formulating Mozambique's national trade strategy. Such legislation is less burdensome to administer than AD/CVD duties; and it is easier to comply with WTO obligations. Safeguards could give Mozambique's domestic industries protection against an import surge without the potentially harmful effects on the poor likely under AD/CVD legislation.

Investment Policy

Despite significant improvements in Mozambique's investment environment over the past decade, the interest of investors, foreign and domestic, is limited. Complicated regulatory procedures stifle business start-up and expansion. Inconsistent application of laws and jurisdictional overlap among government agencies destabilizes the commercial environment. Few businesses understand the

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[77] Mozambique has tabled a proposal in SADC negotiations to simplify safeguard procedures while SADC countries conform legislation and build institutions to implement safeguards. It is believed that only South Africa has the laws and institutional mechanisms necessary to take action consistent with the SADC protocol. Mozambique's proposal is based on the safeguard provisions of COMESA, under which countries can take action for one year after notifying all parties. Investigations are conducted during that year.

[78] McCulloch, Winter, Cirera, *Trade Liberalization and Poverty: A Handbook*, Center for Economic Policy and Research, 2002.

convoluted procedures for acquiring licenses, permits, and land title or rights. In addition, the decision-making criteria of many local and national agencies are unclear, arbitrary, and rarely available to the public. This lack of information and inconsistent decision making increases transaction costs for those seeking to start and operate businesses, while affording unscrupulous officials opportunities for personal enrichment. Foreign and local investors have little incentive to bring into the country the capital, best management practices, or technology necessary for competitiveness.

Compounding the problem, business associations (except the CTA) remain weak and under-funded, without the power or skills to advocate for change and better performance from the local or national government. Since the introduction of a market economy, policies and attitudes at the national level have changed, but execution of policy changes has lagged.

STRENGTHEN THE INVESTMENT PROMOTION CENTER AND MAKE IT INDEPENDENT

Investment promotion organizations are proliferating worldwide. They help investors overcome barriers and promote local opportunities for investment. Since 1993, the Investment Promotion Center (CPI), part of the Ministry of Planning and Finance (MPF), has been responsible for implementing Mozambique's law on investment; coordinating the promotion, analysis, follow-up, and verification of investments; and certifying status for export-processing zones (EPZ). Although partially subsidized, the CPI charges companies for its services.

The CPI is generally viewed as effective in helping investors overcome barriers, but could be more effective in promoting Mozambique among international investors. The CPI is a member of the World Association of Investment Promotion Agencies and could pursue business linkages through the Association to introduce potential investors to Mozambique.

CPI's subordinate relationship to the MPF has sometimes interfered with its ability to advocate for investors. For example, garment manufacturers in Maputo have been seeking the EPZ status to which they are entitled by law. Each manufacturer exports 100 percent of production. But their efforts have been blocked by MPF's insistence that EPZ status be given only to firms operating in contiguous zones. CPI has been unable to help.

In its review of the CPI, the World Bank's Foreign Investment Advisory Service (FIAS) found the CPI concentrating on large international investors to the exclusion of local ones and providing limited support once investment approvals were obtained. Nor was the CPI providing provincial support.[79] In addition, responsibilities for approvals are dispersed throughout the government. Such dispersion may complicate and delay approvals, which average 18 to 24 months, and limit the CPI's effectiveness.

FIAS suggested that the CPI be elevated to the Cabinet of the Prime Minister. We recommend making it an independent agency that reports to the National Trade Strategy Committee proposed

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[79] pp. 64-66. The World Bank is now supporting consultants in several provinces (Tete, Sofala, Cabo Delgado).

in this report. Its work would be reviewed by several ministers, each with authority to unsnarl bureaucratic impediments in specific ministries, but under collegial scrutiny. In this manner CPI could become an effective advocate for investors. Ultimately CPI would be a "one-stop shop" for business licenses, tax registration, and customs duty exemptions. Or, some of these activities could be carried out by private sector business advisers whose fees would be proportional to the difficulty of securing approvals and exemptions.

STRENGTHEN LINKAGES BETWEEN EXPORT-PROCESSING ZONES AND THE ECONOMY

EPZs can contribute to export development, but are a second-best alternative to economy-wide changes such as those recommended in this report and advocated by the World Bank, the International Monetary Fund, the WTO, and others.

Nearly all strategies for the export of manufactures have used some form of export platform, such as an EPZ, but such platforms do not guarantee success.[80] This is especially true if the government does not also deal with problems outside EPZs, such as high transaction costs, corruption, and delays in reimbursements of duty drawbacks. Moreover, EPZs might not be effective if their linkages with the local economy are weak, or if they consist mostly of low-wage, low-productivity operations.

The success of linkages from EPZs to the local economy depends on economy-wide reforms that EPZs demonstrate on a small scale. An EPZ-based firm that can purchase raw materials and intermediate goods from abroad duty free is unlikely to purchase them from a local producer who must pay duty on them. Local producers also suffer when some firms in EPZs ignore the 15 percent limit on the share of their production they may sell on the local market.

All firms with EPZ status should be assessed regularly for linkages to the local economy. A firm applying for EPZ status should describe linkages and linkage benchmarks should be related to the firm's profile—output mix, labor force, size and skill mix, and capital stock. Monitoring could be built into the firm's business plan, which would specify output, employment, investment goals, and even likely export markets. The plan would also indicate how and in what timeframe local linkages would be developed.

Trade Support Infrastructure—Customs

An efficient and integrated regulatory regime will reduce transaction costs for producers, making exports more price-competitive. Traders consider inefficient customs procedures or poorly functioning transportation a waste of time, money, and resources.

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[80] Steven Radelet. Manufactured Exports, Export Platforms, and Economic Growth. CAER II Discussion Paper No. 43, Nov. 1999, p. 3.

The Government of Mozambique has made substantial progress in establishing a working system for customs administration based on international practices. Still, opportunities for improvement abound. Customs delays—and the systemic corruption that often attends an inefficient, discretion-laden regime—raises costs for enterprises in Mozambique. These higher costs make Mozambique's exports less competitive in international markets. Modernizing and simplifying customs processing can help to reduce corruption and improve the price-competitiveness of exports.

Customs processing in Mozambique is constrained by

- Complex regulations;
- Lack of information on customs laws, regulations, administrative guidelines, and rulings;
- Faulty appeals mechanism;
- Excessive discretion in classifying and valuing goods;
- Conflict with customs procedures in partner countries;
- Problems with temporary importation of goods and VAT rebates; and
- Unnecessary inspection of cargo and mandatory warehousing.

In 1996 the government selected Crown Agents to manage customs operations, to train customs staff, and to provide other support as needed. It also contracted Intertek Testing Services to conduct pre-shipment inspections. The government has been devising a new customs code to rationalize and modernize the system by 2003. In the meantime, it has issued several decrees and administrative orders to provide a regulatory framework for import and export activities (Decree 56/98 and Ministerial Diploma 206/98). In February 1995, the MPF created the Technical Unit for Customs Restructuring (UTRA) to handle the reform process, design and implement the new code, and supervise daily operations of the customs service.[81]

One of Crown Agents' tasks has been to reduce corruption and related problems affecting revenue collection and national reputation. Much progress has been made, but customs officials admit that problems of internal corruption and collusion remain. For example, in the first six months of 2000, 130 staff members were charged with serious offenses. Responsibility for investigation, intelligence, and valuation are likely to remain in the hands of consultants for some time.

IMPORT CLEARANCE PROCEDURES

With the assistance of Crown Agents and donor support, Mozambique has been reforming and simplifying import procedures. For example, the pre-declaration and payment of 15 percent of duty liabilities and VAT has been suspended, freeing operating capital. But the import process is still complex, requiring pre-shipment and shipment inspections. Customs declaration on arrival can take several days and be unnecessarily complex.

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[81] UTRA was also made responsible for the Fiscal Policy, Customs Court, Advanced Customs Training, and the Tobacco Industry Council.

Mozambique's 2002 Customs National Plan set a target of processing 80 percent of customs entries within 24 hours. This clearance time assumes that all declaration documentation is completely correct. In practice, clearance times vary greatly and are sometimes delayed for days or weeks. According to Crown Agents, the average clearance time for sea port is 5.25 days, land transport 3.89 days, and airfreight 6.13 days. Importers have reported an average clearance time of 15 days. Recommended improvements are described in the following paragraphs.

Implement Customs Valuation Agreement

Mozambique is scheduled to implement the WTO Customs Valuation Agreement (CVA) in 2003. It still uses the Brussels Definition of Value (BDV) rather than the "transaction value" specified in the provisions of Article 20 (special and differential treatment) of the Agreement on Implementation of Article VII of the GATT 1994. The BDV corresponds to the normal price of the goods (i.e., the price that the goods would fetch in the place and at the time of declaration, on fully competitive terms, between an independent buyer and seller). Under the BDV, customs officials may raise an import's value if they do not accept the declared value. This practice makes the landed cost of goods uncertain and abets corruption among officials, who may seek to extract fees from importers in return for not raising the value of imports.

Under CVA, goods are valued on the basis of their transaction value, or the price of goods paid for export, usually cost-insurance-and-freight (CIF). It is *not* the retail price at which the product can or may be sold. Mozambique must implement the CVA, but has not yet done so—most likely because of fear that transaction values will be understated. This fear appears unwarranted. In the Philippines tariff revenues increased after implementation of the CVA. In any case, several techniques can be introduced to prevent undervaluation, such as audit programs based on risk assessments.

Implementing a transparent and predictable system of tariff collection should increase tariff revenues and decrease opportunistic corruption. Why? Under such a system, import values (prices) have been recorded at many points and those records help the government identify revenue and combat corruption. A transparent and well-documented system of prices minimizes the chance for improper valuation and helps ensure that duties find their way into government coffers rather than the pockets of customs officials, as is more frequently the case when officials are able to assign a price.

Improve Targeting of Pre-shipment Inspections

Until 1997, Mozambique required pre-shipment inspections (PSI) for all imports. The government was not confident that goods were correctly valued or classified or that they met appropriate quality standards. PSI requirements are based on quality, quantity, and price. The government also had little confidence that its customs service could adequately inspect imports. Since 1997, the government has strengthened the customs service and reduced the percentage of imports covered by PSI requirements to about 30 percent. PSI requirements will be reduced as customs is further strengthened and modernized.

But reducing PSIs will not necessarily lead to fewer physical inspections.[82] Even if the percentage of shipments undergoing PSI falls to 25 percent, the number of inspections may increase with the volume of imports. To facilitate the entry of imports, Mozambique should consider eliminating PSI requirements, consistent with the strengthening and reforming of the customs service.

Mozambique could further reduce the number of inspections by instituting risk-management procedures and a post-transaction audit system. Risk management is used to target goods or people considered a high risk. Low-risk transactions, which attract minimal attention and intervention from customs, are processed quickly. Risk management ensures that physical inspections affect only a small share of shipments. For post-transaction audit, Mozambique may want to consider inviting traders to self-assess duties and taxes. Auditing activities can then be conducted after the import transaction, ensuring that cargo deliveries are not delayed as they are with PSIs.

Introduce Competition or Regulate Prices for Mandatory Warehousing

Mandatory customs warehousing is another major constraint on trade. To curb smuggling in the cross-border trucking business, all imported goods entering Mozambique through the Ressano Garcia and Namaacha border posts must undergo complete customs procedures and be authorized for release.[83] Under the Maputo Development Corridor project, a 24-hour one-stop inspection and clearing facility is to be built at the border. Until then, all trucked shipments must by law be stored at a customs terminal on the outskirts of Maputo. The terminal is owned by Frigo, a private company without competition. The government does not regulate Frigo's storage fees. The private sector believes those fees are excessive because they are based on the value of the merchandise and not the space required to store it. This, coupled with clearance delays, arbitrary assessment of duties, use of the BDV, and lack of expedient arbitration, greatly reduces the competitiveness of imports, especially intermediate imports.

The mandatory warehousing requirement is a serious constraint on businesses, especially those that depend on imported intermediate products. Until the 24-hour, one-stop customs facility is completed, the Mozambican government should consider reducing processing delays and regulating Frigo's warehousing fees.

Improve Customs Administration Integrity

Few public agencies present the preconditions for institutional corruption so conveniently as a customs administration. The potent mixture of administrative monopoly and wide-ranging discretion, particularly when systems of control and accountability are lacking, can easily lead to corruption. A corrupt customs administration does not function well and the impact of the corruption is felt throughout the society.

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[82] According to the FIAS Investment Report 2001, imports are frequently inspected at the border, again at the warehouse, and even again at the destination after they have already been cleared by the entry port.

[83] FIAS investment report, 2001.

In 1993, the World Customs Organization (WCO) adopted the Arusha Declaration on Integrity in Customs. In March 2002, a follow-on conference on *Integrity in Customs: The African Response*, was held in Maputo. Mozambique should continue implementing the Declaration and should take advantage of the WCO's many resources to improve the integrity of its customs administration. Specifically, Mozambique should make use of the WCO's

- Integrity Self-Assessment Guide, which helps administrations examine their systems and procedures and identify areas for improvement;
- Integrity Workshops, which help customs administrations design and execute integrity action plans for unique operating environments;[84]
- Model Code of Ethics and Conduct to develop a code of conduct or to review and upgrade an existing code; and
- Integrity Resource Centre, which provides access to integrity-related information and resources.

At the same time, Mozambique should continue improving systems and procedures by

- Promoting technologies that eliminate opportunities and incentives for corruption among officials and members of the business community;
- Practicing management strategies that acknowledge the unique operating environment of customs and revenue administrations and reinforce the highest standards of professional and ethical behavior;
- Creating regional mechanisms that enable customs and revenue administrations to identify policies and practices that reward integrity and combat corruption and to share information on those strategies and practices; and
- Working with the business community to identify areas of high risk and to take practical steps to correct corruption in customs and revenue administrations.

Conduct World Customs Organization Diagnostic

To fully assess the performance of its customs administration, Mozambique should consider conducting a WCO diagnostic. The diagnostic will assess

- How well each customs body functions;
- The general environment, taking into account the views of those involved in trade and transport; and
- Mozambique's legal regime and practices, comparing them with international standards and practices.

It will also identify where technical assistance is necessary and provide recommendations for making practices conform to international standards. One product of the diagnostic could be a matrix identifying which customs procedures and controls do not conform to the International

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[84] Workshops have been conducted on a national basis in the Czech Republic, India, Sri Lanka, Uganda Vietnam, and Zambia, and on a regional basis in Australia, Japan, and Lesotho.

Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention) or the Revised Kyoto Convention—documents that have governed best practices in customs procedures for nearly 30 years. The diagnostic could then recommend ways to address each deficiency.

Administer Rules of Origin Effectively

Rules of origin are essential in applying commercial policy, from negotiating free trade areas and issuing import licenses, to applying safeguard duties. They ensure that preferential tariffs are applied only to products that have been taken from, harvested, produced, or manufactured in the country benefiting from the preference. This excludes products that originate in other countries and merely pass through, or undergo a minor transformation in, the beneficiary country. Any given product may be subject to numerous rules of origin. Unsurprisingly, many developing countries have difficulty administering and enforcing the rules, and Mozambique is no exception.

According to Mozambican law, the country of origin is that in which the product underwent its last significant transformation—at least a 35 percent addition of value as compared with final value. The law also explains what may be considered within that 35 percent. Exceptions may be made when Mozambique enters into a treaty or international accord that has different origin arrangements. For example, SADC rules of origin are set out in an Annex to the SADC Trade Protocol and customs regulations. Mozambique has adopted SADC rules of origin (provisions of the Trade Agreement approved in August 2000) in its trade relations with other members (Chapter II (5)(iii)(a)).

The origin of imported goods is proven by documents that must by law accompany them. If such documents appear faulty, officials may require a certificate of origin issued either by the Mozambican consular or commercial mission in the country of origin, or by an entity competent for that purpose, as recognized in treaties or ratified commercial agreements. Customs is responsible for certifying Mozambican origin on exports to other SADC destinations.

The Mozambican private sector is concerned about the government's limited capability for enforcing the SADC rules of origin. It fears that South African goods for which Mozambique's SADC duty reductions are delayed will mistakenly enter Mozambique as goods from Swaziland or even Zimbabwe.

EXPORT CLEARANCE PROCEDURES

Mozambican exporters must obtain several certificates before they can export a product, specifically a certificate of origin, a certificate of quality, and a sanitary and phytosanitary (SPS) certificate. The latter two require inspections. Apparently, customs will not release the goods for export without these certificates. In addition, a license to export is required each time a company exports no matter how frequently it exports.

Obtaining these licenses and certificates costs time and money. The fee charged in meticals for inspections appears to be in excess of the actual cost of providing inspections or licenses. The cost

in time, especially when unpredictable, reduces export sales. An inspection delay of a few days can result in a missed delivery. All these costs reduce the competitive position of the producer.

Certificates of origin ensure preferential rates of duty when exports are destined for SADC countries or the United States and the EU under programs such as AGOA, EBA, and the ACP arrangement. But the need for other certificates and inspections is not clear. A product or SPS standard might require certification depending on the goods. But the need to meet mandatory or SPS standards is usually established in the importing country. Our understanding is that Mozambique does not usually enforce SPS standards on export products other than fishery products and possibly maize. Producer (exporter) associations or institutions that want to protect their reputation or product quality often set their own standards, but we are not aware of any formal voluntary standards in Mozambique. Indeed, the quality requirements of the importer are self-enforcing; if they are not met the importer will not order more products.

As with import procedures, a national trade strategy should limit procedural requirements and costs to those necessary. Transaction costs and time delays should be reduced wherever possible to make Mozambican exporters more competitive.

Transportation Infrastructure

Mozambique's strategic location should make it ideal for moving goods in the region. But the transportation network in the north is underdeveloped, with east-west connections better than north-south connections. Donor activity has focused on east-west connections that link Mozambique's ports to neighboring countries, especially landlocked countries. Consequently, the northern provinces are not well integrated into the national economy, and links between rural areas and urban centers are weak.

CONDUCT DIAGNOSTIC AND PRIORITIZE INFRASTRUCTURE IMPROVEMENTS

A country's transport infrastructure affects its competitiveness in global markets. In previous Integrated Framework studies of trade competitiveness in Cambodia, Madagascar, and Mauritania, transportation costs and delays were found to be significantly greater than in many other countries producing similar products for export.[85] Anecdotal information suggests that high transport, port, and telecommunications costs reduce the price-competitiveness of Mozambican exports. A systematic study of such costs is outside the scope of this report but would help to identify the

[85] The Cambodia IF study, for example, found that port charges were four times higher in Cambodia than in Thailand. The Mauritania study found that the cost of transporting electrical machinery from Baltimore to Mauritania was $7,000; the same shipment going twice the distance, from Baltimore to Hong Kong, cost $2000. The Madagascar study found that transporting children's clothing from Madagascar to Paris cost one-third more than transporting from Sri Lanka to Paris—Sri Lanka is significantly farther from Paris. The study also found that the order-to-arrival time for clothing was more than twice as long for items produced in Madagascar and shipped to Baltimore as for items produced in Hong Kong and shipped to Baltimore, though the distance from Hong Kong was much greater.

most significant constraints. Areas ripe for study, according to government and private sector leaders interviewed for this report, are described in the following paragraphs.

Road Network – North-South Corridors

Mozambique has a classified road network of approximately 17,400 miles, of which only 3,100, or 22 percent, is surfaced. Even so, 65 percent of the road network is in good or reasonable condition. Mozambique also has approximately 18,500 miles of unclassified roads, of which 6,000 may eventually be considered for maintenance by the road authorities.[86] Many of Mozambique's poor live and work far from any road; they must have access to roads in order to sell their products to local or foreign markets.

With the support of donor agencies, Mozambique has improved its road network since the end of the civil war in 1992, rehabilitating more than 1,800 miles and keeping approximately 9,500 miles under routine maintenance. Since the floods in February and March 2000, all road construction and maintenance resources have been devoted to returning the network to the pre-2000 level. By mid-2002, the government hopes to have restored the road network. With donor support, it will then work to extend the network by approximately 7,500 miles over the next ten years. This expansion will focus on improving the north-south route and access to rural farming and coastal communities. It should improve trade opportunities for many of Mozambique's poor, most of whom live in rural communities that thrive on agriculture and fishing, the products of which must be transported to market or port quickly.

Coastal Shipping

Mozambique's road and rail system is underdeveloped and rivers crossing east to west present obstacles to inland transport. Therefore, the coastal shipping industry is important to domestic and international trade. Until efficient road and rail links are established, coastal shipping can offer an important way to move goods—primarily agricultural—produced in the center and north of the country to Maputo or international markets.

During the war, coastal shipping was particularly important for north-south movement of cargo. Since the end of the war, the industry declined steadily until four foreign-owned companies recently began offering services. Cargo ships carry manufactured goods from Maputo to the northern provinces. Cargo for the return journey usually consists of agricultural products.

Field interviews indicate that the costs of intracoastal shipping have fallen but are still too high relative to even nearby foreign destinations. Regional quotes per 20-foot container indicate that it is still cheaper to ship from Maputo to destinations outside Mozambique than within Mozambique. For example, the charge to Dar-Es-Salaam is US$845 per container, compared with US$995 to Beira, US$1,230 to Nacala, and US$1,340 to Quelimane. Exporters in smaller central and northern ports say that it is more cost-effective to ship cargoes to Durban than to Mozambican ports. In Durban,

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[86] The Ministry of Public Works and Housing is responsible for road policy. It is advised by the National Roads Board, which consists of public and private sector stakeholders. The National Roads Authority (ANE) manages the country's road network.

cargoes are containerized for shipment to their final destinations, depriving Mozambique's container ports of business volume that might reduce their costs.

Shipping costs and patterns may merit a full review of policies to determine policy barriers and incentives to expand coastal shipping. The Ministry of Transport drafted legislation to promote competition in intercoastal shipping almost four years ago but it has not yet been presented to Parliament.

Ports and Railways

Rail and port service in Mozambique's transit corridors ending in Maputo, Beira, and Nacala have not yet been fully privatized. Concessions to manage Maputo and Nacala ports have been let but implementation has been delayed, so the government is still managing the ports. A joint venture company, Cornelder Mozambique, manages the container and general load terminal in Beira.[87]

Rail service through the Beira and Maputo corridors has yet to be fully rehabilitated or privatized. In January a contract with Spoornet to operate the rail line between Ressano Garcia and Maputo under concession was let but negotiations have yet to be completed. Bids were received in July to restore the Sena line connecting Beira to Tete Province and the Moatize coal mines. In the north, problems on the rail line between the Malawi border and Cuamba have been blamed for the 4 percent decline in shipments through Nacala in the first half of this year. Exporters in all three corridors complain about costly and infrequent or unreliable rail service to ports. In fact, several exporters in the center and north now use road transport to Durban through Malawi and Zimbabwe.

A recent study of regional ports compared the costs of unloading cargo in Walvis Bay, Capetown, Durban, Port Elizabeth, and Maputo. Total costs in Maputo were 50 percent higher per 20-foot equivalent unit (TEU) than the next highest port (Durban), and 75 percent higher on cost per ton for breakbulk cargoes. Maputo also has the highest costs in the region for cargo handling, marine services, and light dues, which may include fees to cover dredging costs.

Air Transport

Air travel in Mozambique is considered expensive. The most common complaint expressed in interviews was that it is cheaper to fly to Europe than to Northern Mozambique. High air transport costs increase the transaction cost of doing business in Mozambique. They also limit tourism and the movement of time-sensitive and perishable goods. Many neighboring countries already export high-value, perishable agricultural goods—such as cut flowers and snap beans—by air to Europe, often connecting through regional hubs such as Johannesburg. There may be trial air shipments of cut flowers from Chimoio to regional markets.

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[87] General traffic through Beira port increased between 2000 and 2001 by almost 36 percent, but TEUs were down 13 percent. Total tonnage was almost 1.2 million tons, considerably below the capacity of more than 7 million tons annually.

8. Regulatory Environment

Mozambique's regulatory environment imposes heavy costs on businesses. Small and medium enterprises, producers with perhaps the greatest potential for export growth, have been especially disadvantaged by Mozambique's complex and burdensome system of approvals, licenses, and special levies that impede market entry and increase the costs of doing business. Removing unnecessary and burdensome constraints embodied in policies, practices, laws, and regulations can greatly stimulate economic activity, promoting exports and reducing poverty.

In this chapter, we analyze regulatory constraints that impede export expansion and recommend ways to minimize those constraints. Our analysis focuses on the tax system, the financial sector, standards and conformity assessment, land acquisition and use, the labor market, company registration and licensing, and telecommunications. A comprehensive evaluation of the broader regulatory environment and its effect on commerce is needed, together with recommendations for improvement.

Tax System

Mozambique's tax rates and the tax system are generally perceived as reasonable and comparable to those of other countries. But administrative practices tend to undermine the system. World Bank reports stress improving collections and reducing exemptions and distortions. For example, the corporate tax rate of 30 percent applies to all businesses regardless of size; collections could be improved by reducing the tax rate on micro-enterprises. As Mozambique liberalizes trade and reduces tariffs on imported goods, it will have to improve the integrity of the tax administration. And the tax administration must be able to collect taxes associated with the increased economic activity resulting from trade liberalization.

EXPEDITE VAT REBATES ON EXPORTS TO REDUCE TRANSACTIONS COSTS, FREE WORKING CAPITAL

The Ministry of Planning and Finance (MPF), which is responsible for collecting import duties and taxes, introduced a value-added tax (VAT) of 17 percent in 1999. The VAT does not apply to some essential goods and services, including medical services and drugs, housing, wheat flour, rice and bread, agriculture, and fishing, but must be paid upon import of goods, including capital goods, raw materials, and intermediate inputs.[88] The VAT is to be refunded upon proof of export, but significant delays in refunding have raised investment and production costs by tying up working capital.[89] Some delays were as long as one year.[90] VAT on capital goods increases the costs of agricultural as well as manufactured products and decreases the export competitiveness of many Mozambican goods.

IMPROVE COORDINATION

To reduce reporting requirements, avoid unnecessary taxes, and minimize costs for the private sector, local and national authorities must strive for transparency and coordination. This will require coordinating policies, developing best practices on tax collection, and creating a good environment for small and medium sized companies.

In particular, local tax authorities, especially in the northern provinces, often have little or no communication with MPF representatives to coordinate tax policy. For example, a manufacturer in the Zambezi Valley EPZ attempted to import machinery that would expand his capacity. Although the machinery was exempt from customs duty and VAT, local customs required that he pay duty and taxes, amounting to almost US$20,000. The manufacturer refused to pick up the machinery because the duty and tax would tie up too much of his working capital, perhaps for as long as a year. The implementing officer for the EPZ was located in Maputo and unaware of the customs ruling or its consequences.

MPF authorities and customs must also coordinate, especially on payments of tariffs and duties, for the release of goods. Release is often delayed due to miscommunication, lost documentation, and lack of transparency between the two agencies. Imported merchandise that enters Mozambique through a port other than the one originally designated has reportedly been delayed up to six months. Better coordination and communication between MPF and customs can help reduce costs and improve the efficiency of manufacturers and agricultural producers in Mozambique.

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[88] During interviews we were informed that VAT has been applied to sales by domestic rice traders and processors but not to importers of similar products.

[89] A manufacturer in the Zambezi Valley EPZ delayed capital expansion because payment of the VAT, without prompt refund, ties up working capital.

[90] Reportedly, VAT refunds to the diplomatic and donor community were delayed almost a year even though most of their imports are exempt from the VAT.

Financial Sector

Export growth, especially for agricultural exports, is constrained by a lack of financing at reasonable terms, especially in poor and rural communities. Mozambique's few financial institutions have limited outreach. The few financial services that are available are provided almost entirely in major cities and towns. Rural communities have no formal banking services. With the recent banking crisis, new loans to the private sector are reported to be mostly short-term and thus mostly to traders.[91] Commercial banks may also be uninterested in making loans for agriculture and agribusiness because of poor repayment histories.

All commercial banks have some degree of foreign ownership. They operate primarily from their offices in Maputo and major provincial capitals. Only Banco Comercial de Mozambique has a network that covers a number of district capitals in rural areas. Commercial banks have very little presence in the rural areas and provide practically no services to the poor in rural districts.

IMPROVE ACCESS TO AFFORDABLE FINANCING, ESPECIALLY IN RURAL AREAS

Because the commercial banking sector does not serve Mozambique's rural or urban poor, the micro-finance sector is extremely important for savings and credit services. Micro-finance consists of financial services such as credit or savings, valued at less than US$1,000 and offered by non-governmental organizations, associations, cooperatives, and other institutions. About 30 institutions provide micro-finance services to approximately 16,000 poor clients in Mozambique. (In contrast, a single micro-finance institution in Kenya, Uganda, or Zimbabwe can serve more than 20,000 clients.) Most of these organizations offer only credit services, generally short-term credit at a flat interest of 3 to 6 percent per month. Initial loan sizes are between US$20 to US$30 and can increase to between US$300 to US$600.

To reduce financial constraints, Mozambique should consider (1) identifying and reducing policy, legal, and regulatory constraints on private sector lending to the agricultural sector, or provide incentives for such lending; and (2) examining outgrower and other schemes in neighboring countries that have assisted family farms. Other forms of partnership between input suppliers and producers should also be considered, as should the feasibility of establishing loan guarantee funds.

Standards and Quality Control

To benefit from the multilateral trading system, Mozambique must be able to formulate and meet standards and technical regulations. Mozambican producers who meet international product standards can elevate quality and facilitate market acceptance overseas. In particular, small- and medium-sized firms that are new to international trade will benefit from meeting harmonized and

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[91] This was also the case with Banco Novo, a micro-lender in Maputo who reported that 99 percent of its loans were to small traders who travel to Zimbabwe and South Africa to purchase goods for resale in Mozambique.

transparent standards. Making conformity assessment procedures uniform will help shorten time to market and reduce costly and duplicative accreditation. In Mozambique, the Ministries of Industry and Commerce, Agriculture and Rural Development, Health, and Fisheries and are involved in setting and implementing product standards.

To help member countries bring laws, policies, and laboratories into compliance with WTO agreements on sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT), SADC has a program to inventory national product standards, assess them against international norms, and harmonize them in the region. Because of the importance of agriculture, the program has focused on SPS. So far, product standards have been inventoried and comparison with international norms is just beginning. Addressing the need for national and regional testing and certification institutions will be as critical. SADC is drafting an annex to the Trade Protocol that will commit members to mutual recognition of equivalent measures. The annex will also address risk determinations of the appropriate level of SPS protection, transparency in setting standards, and control and inspection procedures.

STRENGTHEN CAPACITY TO SET AND MEET STANDARDS

Created in 1993, the National Institute of Normalization and Quality (INNOQ) administers and develops product standards in Mozambique. It has worked hard to adopt product standards despite having a staff of only seven, including an expatriate expert provided by the Commonwealth Secretariat.[92] The institute's priorities appear to be basic human health issues, adopting international standards for important export products, and responding to national and SADC priorities. By mid-2001 it had adopted standards for cement, maize, wheat, wheat and maize flour, roofing tiles, and salt. Other standards set for adoption in 2001 covered animal feed, cashews, copra, cotton, fresh milk, honey, juice, manioc, mineral water, seafood products, tea, and vegetables. Completing these standards is important since most are either current or potential exports.

INNOQ is also working to adopt quality and environmental management standards (ISO 9000 and 14000 series) in order to train and audit Mozambican firms. Once firms have been qualified they need to be audited periodically to maintain their qualification. INNOQ has two qualified auditors to provide the necessary oversight. Further handicapping INNOQ are the limitations of the National Laboratory; most analysis required for certification is done in South Africa.

INNOQ has been designated the enquiry point for TBT matters, but no enquiry point has been designated for SPS matters.[93] The Department for Plant Protection in the Ministry of Agriculture and Rural Development (MADER) is responsible for all plant and plant products in Mozambique. Plants, roots, tubers, bulbs, stakes, branches, shoots, seeds, and honey, as well as their packaging, are subject to phytosanitary inspection before being cleared by customs, which has only a few agents experienced in SPS standards. The MADER's Veterinary Services Division is responsible for

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[92] Donors have provided assistance to INNOQ since its creation, but some have suspended assistance because they believe that such assistance, without commitment of other resources, cannot sustain the organization.

[93] Discussions to resolve the impasse over designating an official SPS enquiry point as required under the WTO Agreement on SPS are ongoing. INNOQ and the MADER may be designated a joint enquiry point.

health and sanitary inspections and certifications. Animals, animal residue, and their products cannot be imported without the division's authorization. MADER negotiates SPS trade matters and provides notifications to the Ministry of Commerce, which communicates these to international bodies, such as the WTO. The Ministry of Health is responsible for public health issues; the Ministry of Fisheries inspects imports and exports and issues licenses for trade fishery products.

When developing standards that affect imports, Mozambique should ensure that they are compatible with international standards to facilitate exports and avoid trade disputes in SADC. But guidelines for developing standards are few. For example, INNOQ must ensure the quality of national and imported products, but without the guidance of a national quality policy, national labeling requirements, or legislation related to weights and measures. A national trade strategy should provide INNOQ with a clear context in which to operate. Interministerial coordination should be improved and serious thought given to integrating laws and regulations into a single system and designating implementing agencies.

Land

Export growth associated with smallholder agriculture could be highly effective in reducing poverty in Mozambique. Land tenure issues, however, make developing or transferring land to its most productive use extremely difficult. Lack of ownership prevents farmers and entrepreneurs alike from using land as collateral to raise capital, while deterring agricultural producers from making long-term investments, such as planting trees or installing irrigation.
The current system of land administration (1) reduces access to credit because land cannot be used as collateral; (2) gives rise to rent seeking through the process for trading leases; (3) reduces allocative efficiency because land prices, which are determined by the administrative process and not the market, are artificially low; and (4) prohibits many foreign investors, as well as poor and rural communities, from obtaining title. The cost for obtaining title to land and premises can go as high as US$50,000.

SIMPLIFY LAND REGISTRATION AND LAND USE

Land use rights are not well defined in Mozambique and the framework for exchanging rights is inefficient, unclear, and rigid. This lack of definition and the inadequacy of land titling constrains smallholder production and large-scale activities.

The burden that Mozambique's land-tenure system imposes on foreign investors is indicated by the number of business days required to secure land access and develop a business site. A recent working paper from the Foreign Investment Advisory Service of the World Bank ranked 32 developing countries for the number of days and total monetary cost necessary to secure access

and develop a site. Mozambique, with 34 administrative procedures that take 625 days to complete, was the third most time-consuming.[94]

Mozambique should seek to reduce constraints in land registration and use. For example, to minimize land registration constraints it could (1) improve the land registry and information on plots, which will also help minimize investor risk; (2) improve mechanisms for identifying who holds the lease to a plot; (3) simplify the granting of land concessions, which now consists of many steps and parties for approval; and (4) reduce rent seeking behavior of those who give or withhold approvals.

Labor

Employment is often accompanied by or even results from flexible labor practices. Flexibility is an essential response to slow economic growth, and has been proven to increase exports and attract foreign investment. Rigid labor markets have been blamed for a lack of competitiveness in many countries, including Mozambique. At the same time, it is important for governments to enforce labor rights. Inexpensive and vulnerable labor guarantees neither competitiveness nor poverty reduction.

In late 1999 USAID developed data on the size, composition, and distribution of Mozambique's labor force based on 1997 census data and a household expenditure survey conducted by the National Statistics Institute (INE) in 1996/1997.[95] The labor force of 7.1 million included 1.9 million in urban centers and 5.4 million in rural areas. Almost 79 percent were formally employed, 1.3 million in urban areas and 4.3 million in rural areas. The unemployment rate, as traditionally measured, was 21 percent.[96] When data were adjusted for hours actually worked, 71 percent of the total available, the effective unemployment rate was 44 percent.

Salaried employees accounted for only 12 percent of the employed, and 60 percent of them worked in the private sector. Nearly 75 percent of salaried jobs were in urban areas. Household survey data indicating that only 19 percent of household receipts were from salaries were consistent with the relatively small number of salaried jobs. The same data indicated that 54 percent of receipts came from self employment. While exact numbers are elusive, we can conclude that most Mozambicans are self employed or work less than full time and intermittently.

How to obtain a work permit in Mozambique

Advertise the position in a local newspaper for more than 10 days to see if the position can be filled by a local worker.

If no local candidates respond, which is rarely the case, have the Employment Center certify that there are no qualified locals available for the position.

With certification, apply to the MOL for an expatriate work authorization. After the MOL receives the application it obtain "opinions" from worker unions and other ministries.

Once MOL approval is received, obtain a residence visa (DIRE) from the Immigration Authority.

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[94] Jacques Morissef and Olivier Lumenga Neso. Administrative Barriers to Foreign Investment in Developing Countries. Foreign Investment Advisory Service, World Bank, May 2002.

[95] Richard P. Harber, Jr. Some of What We Know and Don't Know About Employment and Unemployment in Mozambique. USAID/Mozambique, November 1999.

[96] Another 1.5 million workers, 600,000 in urban areas, were reported informally employed.

It appears, then, that the complexity of labor regulation in Mozambique may be discouraging job creation and productivity. Complex regulation discourages not only formal "regulated" employment but also full-time employment. For example, employers prefer using part-time workers because of the costly rights accorded full-time employees.

Labor policies, however, are politically sensitive and must be treated with care. The government has made noticeable improvements in regulations, but could go further. For example, hiring and firing regulations seem to impose great cost on companies, as do Ministry of Labor (MOL) reporting requirements. Labor inspections are another serious concern. The 200 or so poorly paid Mozambican labor inspectors are said to seek extra income when conducting inspections.[97]

Labor market policies are a critical element of any national trade strategy. In the case of Mozambique, the government needs to thoroughly and systematically analyze labor policies, eliminating requirements that no longer serve the nation's interests; establish clear criteria and standards for labor requirements; and train labor inspectors thoroughly, establishing and enforcing high ethical standards.

EXPEDITE WORK PERMIT PROCESSING

To take advantage of the technological and managerial expertise available internationally and to attract foreign investors, Mozambique will need to address work permit constraints.[98] Companies in Mozambique can contract foreign citizens only with MOL authorization. This rule applies to directors, managers, delegates, partners, proxies, and representatives if they perform work in Mozambique and receive remuneration. Companies have complained that obtaining a work permit is complicated, time-consuming, and difficult, with applications sometimes misplaced and misdirected. Mozambique should consider (1) clarifying work permit processing by creating criteria that can be applied to each case; (2) simplifying the application procedure, which requires advertisements, letters, opinions from unions and line ministries, and approval by the MOL and Immigration; and (3) reducing multiple applications and approvals by multiple ministries.

INCREASE LABOR FORCE TRAINING PROGRAMS

Training programs that upgrade the skills of the labor force can increase the competitiveness of Mozambican products and services in the international marketplace. At present, Mozambique has few such programs, but they will become even more important as the economy adjusts to trade liberalization and as workers move from low-wage to high-wage positions involved with exports. Mozambique should analyze the types of training programs that could be of use to its citizens and seek to create such programs. For instance, if Mozambique believes that it can be competitive in producing information technology service exports, it should consider creating more IT training

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[97] Foreign Investment Advisory Services. Mozambique: Continuing to Remove Administrative Barriers to Investment. June 2001.

[98] Recently Ramatex Textiles from Malaysia invested $90 million in an integrated textile mill in Namibia that will eventually employ 8,000. Press reports on the investment indicated that investors were required to bring in 600 expatriate workers to start up operations. See *Namibian Economist*, July 9, 2001.

courses. We recommend making vocational training courses more available and responsive to the needs of Mozambique's industries.

IMPROVE LABOR FORCE DATA

Designing and implementing pro-poor policies conducive to trade requires ready access to data on Mozambican labor. For instance, the immigration department needs data on foreign workers to decide on the number of work permits issued. Data are required to design vocational training programs and to provide adjustment assistance for workers displaced by trade liberalization. Mozambique should seek to improve the availability and quality of the MOL's data on labor force skills so decisions on available labor and work permits can be made more quickly and with more confidence.

MAKE LABOR LAWS FLEXIBLE

In many of our interviews it was clear that the private sector believes that Mozambique's labor regulations are rigid and biased toward employees. The government permits companies to dismiss employees, but the costs of doing so—notice period before dismissal and severance pay—are high. Companies therefore keep unproductive employees on the payroll rather than hiring more productive workers. Firing and hiring are simply too costly. Companies end up keeping more workers than they need and are reluctant to increase salaries. Apparently, the interests of the workers may not be effectively served by the law.

For instance, one company that wanted to relocate to an EPZ was required to fire all employees then rehire them in the EPZ. But current labor laws would have imposed significant costs for such firing, even though all employees would be rehired. These costs are keeping the business from moving to the EPZ and being more competitive in the international marketplace.

In addition, information required by the MOL tends to be burdensome and unnecessary. For instance, companies must seek approval for work schedules, salary structures, and job grades; affix staff charts and annual leave plans to their walls; and obtain workers cards that need to be stamped by various officials. Inspections occur often and inspectors actively fine companies.

Mozambique's national trade strategy should address how rigid labor laws constrain exports. Mozambique should consider (1) relaxing hiring and firing regulations, (2) reducing and relaxing reporting requirements, and (3) ensuring that the MOL adheres to the new law on authorizing salary structures and job grades.

Company Registration, Licenses, and Inspection

Domestic and foreign investors seeking to establish an enterprise in Mozambique find that registering a company, obtaining licenses, and undergoing inspections is cumbersome and costly, often deterring business start ups. Various reports on the registration process have established that foreign investors spend at least 149 days registering. The cost of registration for even a modest investment of US$1,500 is more than double per capita income. Unsurprisingly, some potential investors lose interest after starting this process. To increase exports and exploit trade and investment opportunities, constraints associated with registration, licenses, and inspections need to be reduced.

STREAMLINE COMPANY REGISTRATION, ENSURE MULTI-AGENCY COORDINATION

Company registration is time-consuming and duplicative. Many government agencies require the same information but share little information among themselves (e.g., CPI and the Notary Office, the Public Commercial Registry, the Government Printing Office.). Lack of computerization further burdens the registration system.[99] According to FIAS, the overlap of regulatory authority between national, provincial, and local councils is a problem. Investors often need to request licenses in each jurisdiction. Different government agencies issues licenses for the same activity, apply different standards and inspection methods, and do not coordinate with or necessarily respect or accept each other's authority.[100]

IMPROVE EXPERTISE OF INSPECTORS, CURB ARBITRARY INSPECTIONS

Unnecessary inspections and poorly trained inspectors can also constrain export potential. Numerous inspections by various ministries, municipal, and district authorities raise the cost of doing business, especially when unnecessary fines are levied.[101] Inexperienced inspectors inadvertently allow dishonest companies to evade regulation, while corrupt inspectors extract bribes from businesses. (According to the FIAS survey of Mozambique's investment environment, businesses report that inspections often increase before major holidays.) Addressing constraints to company registration, licensing, and inspections as part of the national trade strategy could substantially improve Mozambique's environment for foreign direct investment and its export prospects.

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[99] Data collected during registration is not readily accessible. For example, before traveling to the center of Mozambique we tried to discover the name and location of a pineapple juice manufacturer operating near Quelimane, but to no avail.

[100] FIAS, *op cit*.

[101] The incentive structure in some ministries needs to be examined. Proceeds from fines are shared among the central, provincial, and local governments and often the inspector himself.

Commercial Contract Conformity and Dispute Resolution

To facilitate trade and investment in Mozambique, the legal and judicial system needs to reform and modernize. Commercial law has improved, but its administration has been troubled. Court decisions often take years, which makes it difficult to adhere to or enforce contracts; dissemination and enforcement of laws is poor, especially outside major cities; and weakness in the legal sector impedes progress in other sectors critical to improving trade, such as the private sector and foreign investment. A strategic plan for reform of the justice system was produced in early 2001, but reforms have been implemented slowly.

More positively, in early 2002, the government established the Center for Arbitration, Conciliation and Mediation (CACM) to settle disputes between local and foreign investors efficiently and without corruption. The center is already adjudicating cases sanctioned by Mozambican legal institutions and to the satisfaction of all disputing parties. The center allows for faster resolution of cases and reduces the burden on Mozambique's strained legal system.

Strengthening the judicial system and the CACM will improve the ability of Mozambican firms to benefit from trade liberalization. In addition, Mozambique's commercial code and practices should be studied and compared with those of neighboring countries in order to update laws and regulations and make Mozambique more attractive to investors.

Telecommunications

Telecomunicações de Moçambique (TDM), a state-owned company, exercises monopoly control over the fixed telephone network. The National Institute for Communications in Mozambique (INCM) is the independent regulator. Fixed telephone lines are concentrated in urban areas. Only 1,340 lines are available in rural areas, which have a population of approximately 11 million. Many places have no communication service; the closest telephone for some rural villages is more than 30 miles away. In fact, 26 of the country's 128 districts are without a single telephone. Work is underway to rehabilitate the fixed network and expand it to cover the whole country.

In addition to fixed telephone services, TDM also provides telex and facsimile services. A mobile cellular telephone service started in 1997 covering Maputo and Xai Xai. This service should be extended to other cities in the very near future, according to development plans.[102]

The telecommunications sector has experienced other developments, such as extension of the national communications network via satellite, the provision of Internet services, and the introduction of cable television. Telephone communications were digitalized in Maputo, Beira, Nampula, Quelimane, and Tete; a transit exchange was installed in Maputo; and the present network was upgraded to carry and distribute radio and television programs. Fiber optic cables will be run along the Mozambican coast in the near future.

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[102] Cellular service was introduced in 1997 through a joint venture with Deutsche Telekom (MCel).

LIBERALIZE TELECOMMUNICATIONS TO SPREAD AVAILABILITY, REDUCE COSTS

Liberalizing the telecommunications sector can reduce costs and increase access, helping Mozambican producers become more price-competitive in global markets. Many Mozambicans lack phone service. The waiting list is long and most villages have no phone. In addition, both land line and mobile service is expensive.

According to TDM, it costs US$24.25 to establish fixed telephone service, and a 3-minute call ranges from US$0.03 for local calls to US$1.51 for overseas calls to the region and US$3.63 to Europe and the United States. The connection fee for mobile services is between US$7.35 and US$9.45 depending on the type of service; the monthly fee is US$21.38. An additional per-minute charge ranges between 9 and 18 cents depending on whether the call is in the system or not. The per-minute charges are added to rates for long distance and overseas calls. The cost of businesses calls to clients or suppliers throughout Mozambique or to international markets makes Mozambican producers and exporters less competitive.

According to the Minister of Communications, the telecommunications sector is soon to be liberalized, opening the way for more operators and competition in the provision of services.[103] As a first step toward privatization and liberalization, the Government of Mozambique created INCM to formulate policy and supervise implementation of laws and regulations. This carved the regulatory functions out of TDM, which had been both a regulator and provider. As Mozambique proceeds to privatize TDM and liberalize its telecommunication sector, it will need to manage privatization in a manner that accounts for the interests of the poor. For example, it may require private providers to extend services to marginal areas. When developing a national trade strategy, the MIC will need to closely coordinate liberalization with the Ministry of Communications.

Curbing Corruption

In this chapter and in Chapter 7, we identified practices that constitute—or tempt government officials into engaging in—rent-seeking behavior, including

- Customs classification and valuation,
- Mandatory warehousing,
- Delays in releasing merchandise,
- Complex and burdensome licensing procedures,
- Significant delays in refunding VAT or customs duties upon export,
- Unnecessary and repeated inspections,

[103] A tender for two additional cellular licenses was issued in 2001. In November the telecommunications law was amended to provide for the privatization of fixed line network and the introduction of competition.

- Unclear land leasing records, and
- Uncertainty in obtaining "dires" for expert expatriate labor.

Perhaps petty in each instance, these practices together show that corruption is pervasive or systemic. If Mozambican producers, domestic or foreign owned, pay costs associated with these practices their competitive position in both domestic and foreign markets is reduced. If they do not pay, the consequent delays or inherent uncertainties also harm their competitiveness. Single encounters with any of these practices have been known to turn away investors; systemic encounters will keep investors away from Mozambique altogether.

Several international surveys have rated corruption in Mozambique as high. The Corruption Perceptions Index 2000, prepared by Transparency International, ranked Mozambique the ninth most corrupt among the 90 countries surveyed. And domestic investors are just as likely to perceive corruption as pervasive. In a survey conducted by Etica in Mozambique just one year ago, 45 percent of those surveyed in three provinces (Maputo, Sofala, and Nampula) had been solicited to or had paid a fee not otherwise required by law or regulation. Most paid between US$4 and US$40, but 9 percent paid between US$40 and US$400. Fifty-eight percent believed corruption to be pervasive in the judicial system and the regulating ministries. According to the survey, this placed Mozambique among the most corrupt countries in the region. More alarming, those surveyed believed that the institutions involved in corruption had the least interest in stopping corruption, even though almost half believed the government had the capacity to do so.

Developing the institutions and capacities needed to curb systemic corruption should be seen as an integral part of Mozambique's national trade strategy. More effective public scrutiny through parliament and civil-society bodies should also be an integral element of its trade policy.

9. National Trade Strategy

To create jobs and ultimately reduce poverty, Mozambique's exporters need to capitalize on market opportunities under current trade agreements and be able to expect improved market access through ongoing and future trade negotiations. To become more competitive, Mozambique's producers need to be free of impediments to global integration, such as some of the policy and regulatory constraints identified in this report. Achieving these goals will require

- High-level endorsement of trade as central to the country's development strategy;
- Effective coordination among ministries with unifying goals of reducing transaction costs, increasing competitiveness, and increasing exports;
- Intensive collaboration and consultation between the public and private sectors;
- Developing and prioritizing goals and the actions for achieving them; and
- Creating a mechanism for ensuring accountability for and assessment of progress.

Mozambique's development agenda, embodied in the poverty reduction strategy paper (PRSP), recognizes that the principal engine of poverty reduction will be strong economic growth, and that this depends on an enabling environment characterized by trade liberalization. The PRSP does not, however, reflect the importance of trade, nor does it outline steps that Mozambique should take to harness the power of trade in creating jobs and reducing poverty. Integrating a national trade strategy (NTS) into the PRSP may be the best way to (1) ensure interministerial collaboration and consensus, and (2) provide a forum for high-level and regular dialogue between government and private sector leaders.

High-level Support Essential

To be successful, the NTS must be promoted at the highest levels for two practical reasons. First, NTS development and implementation will require work that crosses ministerial and agency boundaries. Second, changes will need to be comprehensive and coordinated. Broad trade liberalization programs in other countries have benefited from the leadership of presidents and

prime ministers. Often, high-level support convinces government officials at all levels that they must effectively implement programs consistent with and in support of an NTS.

Elements of National Trade Strategy

The NTS should (1) analyze Mozambique's current economic and trade performance, macroeconomic policies, poverty profile, resource base, and poverty reduction strategy; (2) describe trade prospects and constraints; (3) outline a strategy for removing constraints to trade while considering impacts on growth and poverty reduction; and (4) consider implications for policy and supportive technical assistance. It should outline how trade may be used to reduce poverty and how policies can incorporate trade. Specifically, it should

- Convey a long-term vision of trade policy and its integration into the Mozambican development agenda;
- Link negotiating objectives in bilateral, regional, and multilateral trade forums to achieve desired export growth;
- Outline the general strategy and specific objectives for trade reform;
- Assess and address the possible impact of trade reform on poverty (e.g., distributional outcomes that might result from import liberalization);
- Include policies and priorities that will help to ensure that the poor benefit from reforms;
- Incorporate social protection policies and safety nets to mitigate possible negative effects of trade reform; and
- Address strategies for the pace, design, and sequencing of trade reform.

While trade liberalization can contribute to poverty reduction it does not constitute a strategy. Therefore, the NTS cannot, and probably should not, indicate all the policies and programs of Mozambique's pro-poor trade agenda.

Guiding Vision of Open Regionalism

We believe that Mozambique needs a long-term vision of trade policy, a fairly simple one that can garner broad support from different stakeholders. It needs to be more operational than the current official definition:

> Trade policy is a collection of principles, measures and activities, based on national economic policy, that promote commerce with the aim to stimulate the production of goods

> and services to supply the local market and for export using human capital and natural resources in a sustainable way.[104]

This long-term vision might fruitfully be based on what has been called "open regionalism." As economist Frank Flatters has said:

> The entire SADC market is very small…. An inward-looking strategy based solely on preferential access to this market is doomed to failure. To achieve sustainable and equitable development of the Member States, the SADC Trade Protocol must be part of a broader strategy of integration with the global economy to improve regional competitiveness.[105]

Open regionalism can be pursued by setting external tariffs at reasonable rates with low dispersion, by reducing or eliminating non-tariff barriers, and by maintaining a sound macroeconomic enabling environment. A country's participation in regional trading arrangements should be guided by its trade strategy and should aim to preserve and increase market access while providing concessions in line with its most-favored nation (MFN) tariffs to avoid trade diversion.

A more comprehensive NTS can be developed once a strong guiding statement has been agreed. The Ministry of Industry and Commerce (MIC) will need to establish line functions with responsibilities for NTS action elements. It could elaborate on an excellent document prepared by the Direcção Nacional do Comercio, which provides a complete reference to the organization and responsibilities of that department.[106]

Coordinating Mechanism

Most governments deal with trade policy coordination using either a single lead agency or a formal coordinating mechanism. For example, in the United States, the United States Trade Representative (USTR) provides trade policy leadership. A Cabinet-level office in the Executive Office of the President of the United States, USTR coordinates interagency activity, maintains significant dialogue with numerous private sector advisory committees, and regularly consults with the U.S. Congress. A full description of USTR responsibilities and decision and consultative processes is presented in Appendix C.

Mozambique's pro-poor NTS could be developed and implemented in one of three ways:

- Existing institutional mechanisms for intergovernmental and public–private cooperation on trade-related issues could be used, perhaps if strengthened by regular and more frequent meetings;

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[104] A Política e Estategia Comercial (Commercial Policy and Strategy) approved by the Ministerial Council July 1, 1998, Resolução No. 25/98, published in the Boletim da República, Número 26, July 7, 1998.

[105] *Op.cit.*, p. iv.

[106] Organização da Direcção Nacional do Comercio, Manual de Referencia (Organization of the National Department of Trade, Reference Manual) MIC 11/01.

- A single ministry, such as the MIC, could be given authority over trade-related policy matters, including those that now fall under the jurisdiction of other ministries and agencies; or
- A National Trade Strategy Committee (NTSC), consisting of representatives of key economic ministries and chaired by the Minister of Industry and Commerce, could be created. The NTSC would not only coordinate trade policy formulation, but would also oversee the design and implementation of an NTS; have authority over the tools of trade policy, including tariff levels; and coordinate the trade-related aspects of the PRSP.

The first option keeps the status quo. We believe that coordination problems would probably continue under this scenario, and that the NTS would lack the visibility necessary to ensure tangible results. Trade policy has not been unified under status quo institutions, diverging as different goals and methods have been pursued in bilateral, regional, and multilateral talks. In addition, the relationship between trade policy and internal reform efforts has not been established. The second option, which extends the power of a single ministry, would likely encounter resistance from ministries fearing to cede critical policy decision making authority.

In contrast, the third option combines centralized responsibility with consensus-based decisions among affected agencies. We believe that an NTSC offers the best institutional mechanism for ensuring coordination on trade policy issues, building consensus on the NTS, and implementing the many components of such a strategy. The NTSC should be chaired by the Ministry of Commerce and Industry because of its current responsibilities—to develop and implement trade policy, to promote exports, and to serve as the principal liaison between the government and the private sector. Other ministries that should participate include Agriculture and Rural Development, Planning and Finance, Labor, Tourism, State Administration, Fisheries, Transport and Communications, and Public Works and Housing. A dialogue between each ministry and representatives of concerned private sector groups has already been established and can be incorporated into NTSC deliberations. Decisions should be made by consensus, and other ministries would be consulted as necessary.

COORDINATING PROCESS AND STAFF SUPPORT

Existing institutions, UTCOM and GASP, could provide administrative staff to serve as an executive secretariat to the NTSC. These institutions will handle day-to-day activities for organizing interministerial meetings and interacting with the private sector.[107] The NTSC will organize trade working groups (TWGs) on topics important to Mozambique, such as land tenure, customs, intellectual property rights, and tariffs. Management-level staff from the appropriate ministry will chair each TWG. For example, the Customs Administration would chair a TWG on customs issues. Working-level staff from ministries with a stake in the issue would attend TWG meetings and research ways to resolve the issue. Once the issue is resolved, the TWG will arrive at a resolution and draft a memo for the NTSC. NTSC will approve the resolution and send it to the Prime Minister and the President for validation. Once validated, the resolution will be passed to the MPF for integration into the PRSP for consultation and incorporation into the five-year rolling

[107] GASP's mandate is consistent with proposed NTSC objectives, but UTCOM's mandate would have to be extended beyond the SADC Trade Protocol negotiations.

plan framework, with MIC responsible for execution and the Ministry of Planning and Finance (MPF) for monitoring progress. Institutionally, the NTS will be subordinate to the government's poverty-reduction strategy.

NTSC AND CURRENT PUBLIC–PRIVATE SECTOR DIALOGUE

The policy and regulatory reform agenda for making Mozambican producers more competitive in domestic and export markets has some overlaps. Many of the proposed NTSC member ministries and the private sector have already agreed on a significant work program. At the last Private Sector Conference, the sixth sponsored by MIC and CTA, permanent working groups were established between sector-specific producer associations and senior officials of relevant ministries. A dialogue was initiated with each ministry on trade or red tape issues. (In addition to MIC, these ministries include MADER, MPF, Labor, Tourism, Transport and Communications, Justice, Public Works and Housing, and State Administration.) The Prime Minister has agreed to become the principal government contact for this dialogue.

The progress of these working groups will be reported at the Seventh Private Sector Conference, now scheduled for late October. The recommendations of the working groups, if translated into consensus-based reform measures, should substantially accelerate the pace of actual reforms to improve competitiveness and export performance. The results of the conference including such successes, as well as the agenda still to be addressed as defined in working groups and this report, should become the basis of the NTSC's detailed consideration of reforms.

FOCUS AND MECHANISM FOR PUBLIC–PRIVATE SECTOR DIALOGUE

The private sector is the immediate beneficiary of a trade-led growth strategy. Such a strategy is, after all, designed to increase producers' access to foreign markets while improving their capacity to supply those markets—markets with far greater purchasing power than domestic markets. To be sure, some in the private sector will resist policies that might negatively affect their interests. But most, we believe, will expect to benefit from improved access to and cost-competitiveness in international markets, such as South Africa and the United States. The Mozambican private sector has considerable insight into the steps needed to facilitate penetration of foreign markets. Their participation in the trade policy process is essential.

Private sector input on trade policy and the NTS will be critical. The private sector should continue to articulate its positions on trade policy and seek to have the government create an environment conducive to businesses operations and trade. At the same time, the government will need to elicit input from the private sector on trade policy and on the NTS.

Labor unions should be included in public–private consultation. Labor market rigidity, covering such issues as overtime and procedures for hiring and firing, has proved a divisive subject. Although Mozambican workers should gain from a pro-poor export strategy, highly protected industries will need to adjust to competition from imports, and retraining programs for these workers will help facilitate the transition.

National Trade Strategy and the Poverty Reduction Strategy Paper

Including trade in the PRSP is the best mechanism for ensuring interministerial collaboration and consensus, as well as high-level and regular dialogue between government and private-sector leaders. Because the PRSP assesses progress on a regular basis, incorporating the NTS into it will help ensure that trade issues receive steady attention. The PRSP also provides for accountability in the achievement of results: it defines a broad policy road map as well as particular areas where work is required, assigning specific responsibilities for carrying out that work. Most important, including the NTS in the PRSP will ensure that trade policy decisions are evaluated for their contribution to poverty reduction, rather than narrower interests or pressures.

The NTS should be developed within the institutional framework already established by Mozambique's PRSP process, which is driven by MPF, rather than a parallel process initiated by the MIC. This does not preclude MIC from initiating work on an NTS, which it could propose to the MPF for inclusion in the five-year rolling plan framework for the PRSP. Institutionally, the NTS will be subordinate to the government's poverty strategy.

The PRSP was developed after numerous consultations with stakeholders. The NTS should be developed in a similar manner and its medium-term poverty impact should be carefully assessed (see Exhibit 9-1).

Exhibit 9-1

Building Support for a National Trade Strategy – Topics for Workshops and Research

To establish its legitimacy, as well as national ownership, the NTS should be developed through extensive consultation with stakeholders. Consultations could be developed around donor-funded workshops, on topics of immediate interest, such as

- Markets for specific products, such as traditional Mozambican goods (i.e., cotton, maize, cashew, sugar) as well as other markets for which Mozambique may be able to develop exports;
- Export prospects and constraints in labor-intensive manufacturing, such as textiles and garments;
- Mozambican potential in services, such as tourism and transport;
- Doing business in regional markets, Europe, the United States, and some Asian markets; and
- Common elements and possible solutions to trade impediments identified in the Integrated Framework assessments (would include participants from IF countries).

In addition, in-depth analysis in other areas could help inform the NTS and build consensus on key elements. Possible areas for research include

- Analysis of preferential trading arrangements, such as AGOA and EBA; and
- Implications of the phase-out of the Multi-Fibre Arrangement, and the quota system that has dominated global textiles trade for decades;
- Trade and investment implications of Mozambique's implementation of the WTO Customs Valuation Agreement;
- A baseline study of bureaucratic hurdles (time and expense) to obtaining business licenses;
- A baseline study of customs clearance times or other transportation costs and time requirements;
- Analysis of market opportunities and economic conditions of Mozambique's main trade partners in the Southern African Development Community (SADC); and
- Guidelines for Mozambique's participation in regional trade arrangements such as SADC, as well as in the multilateral trading system.

Donors could provide funds directly to the Annual Conference for the Private Sector, so members could disburse funds for research projects that will enhance the mission of the group, or directly for consultant research or workshops on topics specified by donor agencies and developed in consultation with the Government of Mozambique.

10. Preparing for Trade Liberalization

When analyzing the potential impact of trade liberalization, the Government of Mozambique needs to evaluate the effects of reform on the rural poor, on industrial employment and wages, on enterprises and costs of goods, and on government revenue and expenditure. Reforms should be paced and sequenced to minimize negative effects on the poor, and policies and programs put in place to help the poor adjust to a changing economic environment. In this chapter, we suggest areas that the Government of Mozambique should consider in formulating a pro-poor national trade strategy (NTS) and recommend ways to ease adjustment to trade liberalization. Figure 10-1 shows a schematic approach that may be useful in analyzing the consequences of trade reform. This chapter also presents the case for rapid as opposed to gradual or partial liberalization.[108]

Rural Poor

In developing an NTS, the Government of Mozambique must consider the impact of trade liberalization on its poorest citizens and develop programs that will ease the transition for those least able to cope. Many of Mozambique's poor may not be harmed by trade liberalization or other reforms. This is especially true for the *machamba,* who do not produce crops that can be exchanged for goods and who do not sell their labor outside the family farm. Because their subsistence households are "outside the market economy" they are not as affected by external economic circumstances.

But most of Mozambique's poor are affected by the general economy. They sell products, cash crops, handicrafts, and labor. For some, trade liberalization could be disruptive or even disastrous. The poor do not have an asset base to cushion their consumption needs as they adjust their production or labor skills to a new economic environment. Even the near-poor can be thrown into poverty as formerly protected industries are forced to compete or close.

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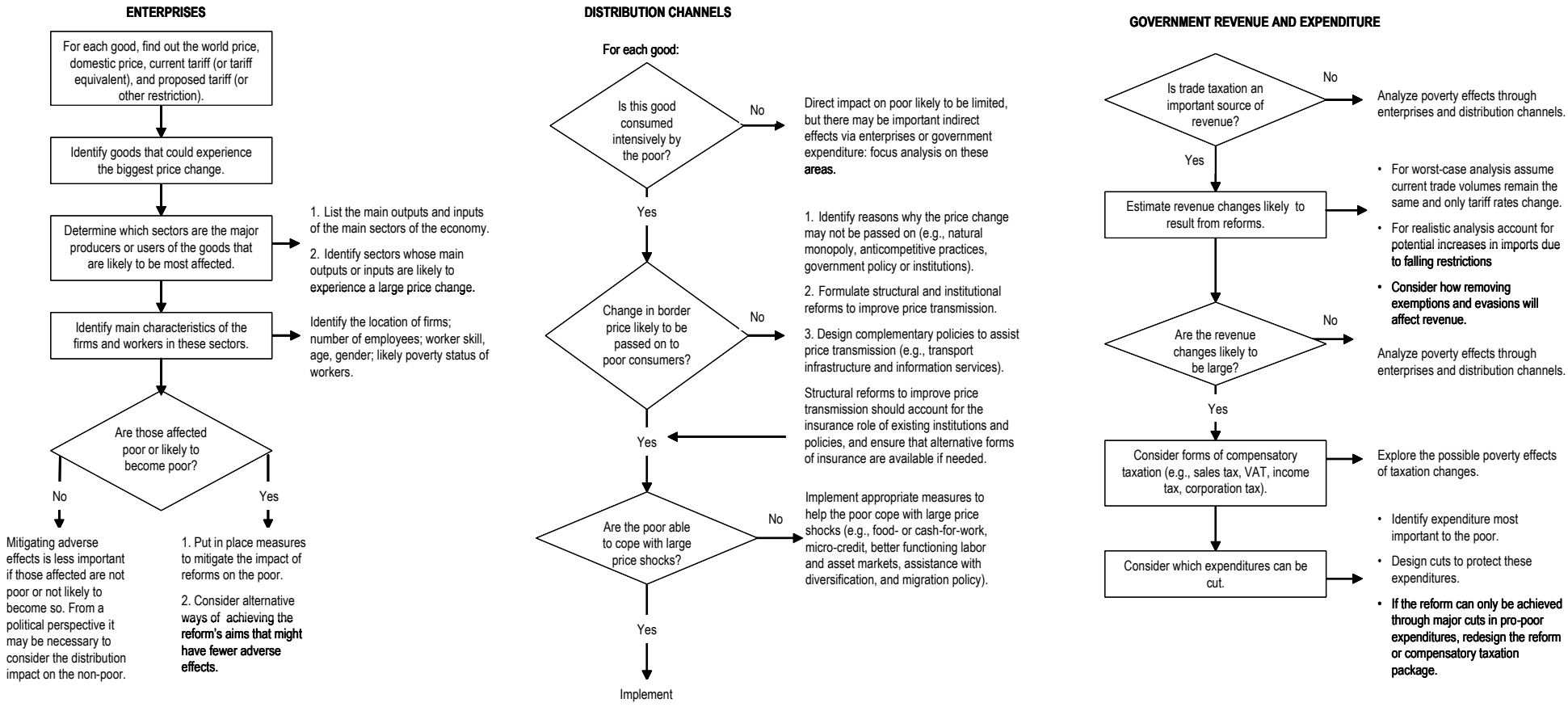
[108] Gradual liberalization is not the same as reform sequencing. Liberalization is not specific about reforms and timing; sequencing proposes a clear set of reforms and rigorous timing. Sequencing minimizes distributional conflicts and permits "winners to emerge early on and provide political support." See Dani Rodrik, Trade Policy and Economic Performance in Sub-Saharan Africa, EGDI, Nov. 1997, p.5.

FIGURE 10-1

Decision Process for Policymakers



SOURCE: *McCulloch, Winters, Cirera.* Trade Liberalization and Poverty: A Handbook. *Center for Economic Policy and Research, 2002.*

Others stand to benefit from trade liberalization. Gains from improvements in seeds and simple tools, combined with a reduction in marketing margins, could raise GDP by 12 percent, with much of the gain going to small farmers.[109] Trade liberalization would magnify such gains. Trade initiatives, including cross-border trade and expanded agricultural and fishery exports, could improve rural welfare directly and profoundly.

The effect of trade liberalization on the poor varies depending on a number of factors. For example, the nature of competition that results from liberalization influences the impact of reforms on farmers and workers in liberalized sectors. Dr. Alan Winters has described the different effects of liberalizing the maize market in Zambia and Zimbabwe.[110] In Zambia, the official purchasing monopsony was replaced by two private firms that colluded to keep farm prices down. In contrast, three private buyers—one a farmers' cooperative—emerged in Zimbabwe and effectively competed against each other. South Africa's experience is also instructive. Trade liberalization created many jobs in export industries for a large group of the poor. But those whose only source of income was government transfers were harmed as consumer goods became more costly.

Mozambique's government understands that when a country exposes itself to international competition some of its poor citizens will suffer. This awareness has made some reluctant to endorse rapid reform. That reluctance is unwarranted. In study after study, trade has been shown to be a key vehicle for sustained, rapid growth that produces tangible economic benefits for all members of society over the medium and longer term. Aware that short-term disruptions and dislocations are an inevitable result of change, the government can develop programs that provide immediate income to those who may lose their livelihoods.

USE LABOR-INTENSIVE ROAD WORKS PROGRAMS TO EMPLOY DISLOCATED RURAL POOR

In Mozambique, road construction presents an ideal way to employ the rural poor productively. According to a recent World Bank Country Economic Memorandum for Mozambique, "Improving the road network… can accelerate the short- and long-run growth of agriculture and the Mozambican economy."[111] Others have concluded that "increasing rural infrastructure, especially in the form of roads, is one of the most effective ways of reaching the poor."[112] The World Bank's study of Madagascar was clearer still: ". . . build infrastructure."[113] A 1999 report on trading in the Mozambican province of Zambezia found that transport posed the most significant cost, in time

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[109] Channing Arndt, *op cit.*

[110] L. Alan Winters. Trade Liberalization and Poverty. Center for Economic Policy Research, London and Center for Economic Performance London School of Economics, Feb. 2000, p.11.

[111] Feb. 7, 2001 p. 37. See also the section on infrastructure in the PRSP, pp. 56 ff.

[112] J. Dirck Stryker. Impact of Outward-Looking Market-Oriented Policy Reform on Economic Growth and Poverty. Consulting Assistance on Economic Reform II Discussion Paper No. 6, June 1997. pp. ii-iii.

[113] WB, Madagascar, Vol.2, p. 27. The authors argue that the rural sector is in a poverty trap. Farmers face increasing returns to scale, but do not receive the correct market signals to produce for sale that better market infrastructure, including transportation, would provide.

and money, for crop marketing, and that better access afforded by rehabilitated secondary roads was undermined by problems with maintenance.[114]

Donors, including SIDA, the World Bank, UNDP, ILO, DFID, and USAID, have been investing in trunk and feeder roads in order to create jobs while improving Mozambique's transportation network. A recent MIC report containing recommendations on roads, rail, and maritime transport deserves consideration.[115] Under a coordinated policy of trade mainstreaming, a large labor-intensive road works program could assuage fear that trade liberalization will harm the poor.

Industrial Workforce

Trade reform will have two likely effects. As the price of imported inputs goes down and exports become more price-competitive or more profitable, demand for labor is likely to grow. At the same time, sectors that compete with imports will be exposed to more intense competition and their businesses may become less profitable or demand for their goods could decline. Either way, demand for labor in businesses that compete with imports is likely to decline.

Matusz and Tarr found that "workers who have accumulated significant amounts of firm-specific or sector-specific human capital" bear most of the "adjustment costs" of market reform when they lose the wage premiums they once enjoyed in a protected industry.[116] Dislocated workers, however, tend to be reemployed within two years. A recent World Bank policy research report concluded that workers gain from global economic integration in the long run, despite high turnover in the labor market. Wages tend to grow twice as fast in "globalized" developing countries than in those less so. Short-term effects, however, vary considerably, especially in economies that liberalize trade but do not attract foreign investment, either because of a poor investment climate or slow investor response.[117]

Matusz and Tarr are "cautiously optimistic that a wide range of economies are quite resilient and can adjust to trade liberalization swiftly and at minimal cost."[118] Large adjustment costs are due to high wage premiums in heavily protected industries. While some Mozambican industries are protected, such protection is not extreme and adjustment is not likely to be very disruptive.

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[114] Nina Bowen, Characteristics of Food Crop Marketing in Zambezia, 1997-1998. Maputo 1999, Nota de Pesquisa da DNCI-No. 5, pp. ix-x.

[115] Cardoso Muendane, "Analise dos Custos de Transporte na Comercializaçao Agricola em Moçambique: Estudo de caso dos custos de transporte do milho das zonas norte e centro para a zona sul de Moçambique" (Analysis of the costs of transport in agricultural marketing in Mozambique: Case study of transport costs for maize from the northern and central areas to the southern areas of Mozambique) Nota de Pesquisa da DNC No 18, MIC Direcção Nacional do Comercio, Maputo, June, 2001.

[116] Steven Matusz and David Tarr. Adjusting to Trade Policy Reform. Mimeo, p. 21.

[117] World Bank, *Globalization, Growth, and Poverty*. 2002, pp. 14-15.

[118] *Ibid*., p. 29

CREATE JOBS IN LABOR-INTENSIVE SECTORS

Nevertheless, governments must be sensitive to their constituencies, particularly those who may be harmed by new policies. The Government of Mozambique should therefore consider introducing programs to minimize or reduce adjustment costs borne by urban workers. Public works programs such as the rural road-building program described earlier might work as well for dislocated urban workers.

Displaced workers may also find opportunities in Mozambique's agricultural and services sectors, both of which are labor-intensive and underdeveloped. Labor-intensive export industries, such as apparel and footwear, hold significant potential for job creation. These industries have relatively low start-up costs and short lead times for investors—once they receive the necessary government approvals—to begin operations.

The government should also strive to remove constraints on labor-intensive export industries that produce price-competitive, high-quality products. As described in Chapters 7 and 8, these constraints can be eased through trade and investment policy liberalization; land, labor, and financial market reforms; changes to the tax structure; and infrastructure development.

Labor market reforms are especially important. For example, in the last several years, South Africa has experienced a startling trend—a large drop in employment and rise in wages among unskilled workers—the opposite of what is expected from trade liberalization in a country with abundant unskilled labor. This trend may be the result of increasing market regulation and strong labor unions.

The Value of Labor Flexibility

"One key problem area for labor-intensive exporters is the labor market itself. Investors face burdensome controls on hiring expatriates, alongside a severe shortage of skilled domestic labor. They also face costly legal provisions on terminating workers…. Recent large increases in the minimum wage, if continued, will threaten to undermine Mozambique's competitive advantage in labor-intensive industries."

Soumodip Sarkar, "Mozambique Too Can Compete! In Labor-Intensive Manufactured Exports", MPF Discussion Paper No. 14, November 2000, p.2

In some ways, Mozambique has experienced more labor regulation than South Africa. In 1996, the market suffered excessive government intervention. More flexible labor legislation promulgated in 1998 has not been effectively implemented at the provincial or local levels and many unnecessary costs remain.[119]

PROVIDE TRAINING FOR DISPLACED WORKERS

Labor training and retraining schemes are important for countries that liberalize trade. Studies in South Africa found that despite improvements in productivity, firms—especially smaller, national firms—tend to skimp on training, partly because they cannot develop compensation plans that can keep trained workers. Large firms that have foreign capital, employ educated workers, invest in research and development, and export products, invest in training. In Mozambique, some in-house

[119] FIAS, pp. 45-46. The opinions of industrialists, which were sought here, should be approached with caution. NGOs and universities should undertake more independent research.

training may take place in Mozal, but vocational training, especially in textiles and garments, is rare.[120] The Ministry of Higher Education, Science and Technology, established in 2000, is reported to be developing a strategy for improving vocational and higher education and fostering private–public partnerships in financing and service provision.[121]

Entrepreneurs and Industrialists

The success of trade liberalization depends on effective entrepreneurial response among industrialists and agricultural producers to price incentives and the incentives of trade agreements. Otherwise, exports are not generated and jobs are not created. In a protected market, industrialists have no motive for making the transition to exports. Competition from imports and smaller profit margins motivate that transition.

In a liberalized environment, industries that had relied almost exclusively on high rates of effective protection for their competitive position are at risk of "deindustrialization," partial or complete disappearance.[122] Fortunately, complete deindustrialization has not been recorded, and decreases in manufacturing employment are extremely rare.[123] Lack of responsiveness to export opportunities is much more common. The response of investors in Madagascar is instructive.

> Excluding the EPZ-based industries, Madagascar's growth is coming from sectors that are effectively nontradable….Domestic firms, accustomed to high levels of protection, might not have restructured or invested enough to withstand the growing competition from imports. Consequently, resources might be flowing out of traditional import-substituting industry and toward nontradables that do not have to compete against imports. However, substantial barriers to entry remain and the restructuring process is not advancing rapidly.[124]

According to one study, firms respond meaningfully to trade liberalization if reforms are substantial and if the government does not waver when confronted by labor protests or pressure from industries or political representatives.[125] Other studies add that productive industrial

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[120] Peter Coughlin recommends organizing training for these areas in a manner similar to South Africa's training. See, Mozambique: SADC Study of the Textile and Garment Industries, May 2001, p. 11-12. About a year ago, the Mauritian Chamber of Industries made a specific offer to donors to reinvigorate the textile training institute in Beira.

[121] IDA-IFC, p. 20ff.

[122] Effective protection is the result of tariff escalation; tariffs increase up the chain of production from raw materials, to intermediate products, to final goods.

[123] In their research, Matusz and Tarr found no cases of extreme deindustrialization and only one instance of manufacturing employment decreasing after trade liberalization. And in that case (Chile), agricultural employment increased (p. 52).

[124] World Bank. Madagascar, Increasing Integration Into World Markets as A Poverty Reduction Strategy: A pilot study prepared under the Integrated Framework for Trade-related Technical Assistance, draft for consultation and discussion, November 16, 2001

[125] Mark Roberts and James Tybout. The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs. *American Economic Review* 87 (1997): pp 545-563.

response requires transparency and a "level playing field," less administrative harassment and judicial uncertainty, and effective private sector support institutions.

USE BROAD-BASED REFORMS TO STIMULATE PRIVATE-SECTOR EXPORT RESPONSE

Trade liberalization programs assume that the private sector will respond appropriately to incentives. If the private sector does not respond within a reasonable period, policy or market failure may be to blame. Broad-based reforms, such as those recommended in Chapters 7 and 8, can reduce the adjustment costs of trade liberalization. Such reforms could reduce effective rates of protection and the bias against intermediate and agricultural goods while adjusting production prices and costs. If firms' prices and costs are adjusted at the same time, profit margins will not be too disrupted and deindustrialization will be less likely. And firms will be more likely and more able to adjust to new incentives, competing and exporting successfully.[126] When firms respond weakly to price and other incentives, some countries resort to export promotion. Export promotion can be successful if it complements crucial reforms, but may not if it substitutes for broad-based reforms. Support for privatization, public–private partnerships, and business linkages could also strengthen private sector participation in the national economy, especially in trade activities.[127, 128]

Government Revenue

The government fears that lowering external tariffs will reduce revenue and that further trade liberalization will reduce customs revenue. If not compensated for by other revenue sources, such contraction may limit the government's ability to carry out its development plans, particularly those in the poverty reduction strategy paper (PRSP).

The experience of Mozambique and other countries with reductions in tariff and non-tariff barriers should reassure government officials. In recent years, the composition of Mozambique's revenue collections has shifted noticeably. Taxes on international trade and income and profits have been shrinking as a share of total revenue, while taxes on goods and services and non-tax revenues have

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[126] Some economy-wide general equilibrium models permit examination of these possibilities. Jensen and Tarp have produced such a model for Mozambique, but tariff and other trade mainstreaming reforms have not been examined using this model. See, On the Choice of Appropriate Development Strategy: Insights for CGE Modeling of the Mozambican Economy, presented at the UNU/WIDER Development Conference on Growth and Poverty, Helsinki (25-26 May 2001). See also Arndt, et al, *op. cit*,. as another example of CGE usage.

[127] The government has already privatized or restructured more than 1,200 firms and encourages private sector participation in the national economy through privatization and public–private partnerships. More government and quasi-government functions and operations could also be reexamined as private sector opportunities. Reexamination might begin at the level of the CTA/MIC Conference with one of the proposed working groups in charge. We recommend establishing a facilitation unit linked to TIPS and reporting directly to the CTA. The unit would have access to all working groups and especially to the ministry concerned with public works to carry out such a re-examination and make proposals at the Annual Private Sector Conference.

[128] Several donor-funded programs have introduced business and agrobusiness links where markets inhibit such contacts. In Mozambique, the PODE project is a linkage program, albeit somewhat troubled, as our team learned in a meeting with PODE staff. See also CTA, MIC 6th Conferencia Annual do Sector Privado em Moçambique, p. 29 and comments by Cabo Delgado Delegation, p. 77.

been growing (see Table 10-1.) Tariff collections have decreased as a *share* of government revenue, but their *absolute value* has increased (see Table 10-2). As the government has replaced non-tariff barriers, such as quotas, with tariffs, trade volumes have increased. This has enabled the government to gain revenue on the increased volume. At the same time, customs enforcement has improved, at least for cross-border trade with Malawi.

TABLE 10-1
Composition of Government Revenue (% of total)

	1999	2000	2001 (preliminary)
Total tax revenue	100	100	100
Taxes on income and profits	15	15	17
Taxes on goods and services	63	63	63
Taxes on international trade	18	19	17
Other taxes	3	3	3
Non-tax revenue	8	9	12

SOURCE: *IMF Country Report, July 2002.*

TABLE 10-2
Government Revenue (in billions of meticais)

	1999	2000	2001 (preliminary)
Total tax revenue	5,733	6,857	8,589
Taxes on income and profits	867	1,008	1,498
Taxes on goods and services	3,638	4,331	5,379
Taxes on international trade	1,046	1,297	1,477
Other taxes	183	221	235
Non-tax revenues	474	606	1,027

SOURCE: *IMF Country Report, July 2002.*

EXPECT REVENUE INCREASES WITH TRADE VOLUME AND BETTER COLLECTION RATES

Significantly more revenue could be collected by improving customs collection and by lowering tariffs, thereby encouraging more trade through legal channels. In addition, we expect that Mozambique will collect a growing proportion of its revenue from the value-added tax implemented in 1999. Indeed, this trend is already apparent. Between 1998 and 2001, taxes collected on international trade were stable at 2.0 percent of GDP, whereas VAT revenues rose from 6.1 percent to more than 7.2 percent of GDP.[129]

Income tax reform should also boost revenue collections over the next few years. The current system is quite complex, with many provisions for exemptions and deductions that erode yield. Revenue from tax receipts on income and profits dropped to just 2 percent of GDP in 2002.[130] A new income tax law was submitted to the parliament in December 2001, and preparations are underway for its full application to 2003 incomes. The new tax code is expected to broaden the tax base, simplify collection procedures, and boost collections.

Pace of Trade Liberalization

Which is better—rapid or gradual trade liberalization? Trade liberalization cannot be instantaneous and is rarely complete. Protectionist policies persist even in the most open economies. But the success of liberalization hinges on visible, comprehensive, and credible political commitment. And the clearest sign of such commitment is rapid liberalization.

So far, liberalization in Mozambique has been gradual. In fact, its value is still being debated. Since 1996, for example, import surcharges have been introduced for sugar, cement, and some steel products. Two recent government studies suggest protectionist measures to encourage local rice production.[131] Neither mentions what such measures will cost consumers, nor the viability of such measures in an open economy.

For practical as well as theoretical reasons, rapid liberalization is overwhelmingly favored in most studies. Gradual liberalization makes quick success unlikely and without quick successes liberalization falters. The private sector doubts the government's intentions and may be slow to respond to incentives. Industrialists and workers who do not believe that they will benefit from liberalization agitate for an end to reform. Skeptical of the private sector's ability or willingness to respond, the government becomes reluctant to carry out reforms that are costly in financial and

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[129] IMF. *Country Report for Mozambique*. Statistical Appendix of Country Report 02/139. July 2002. p.29.

[130] Mozambique has a business profits tax; a labor income tax; a complementary tax, which, in practice, is applied only to some capital income; a tax on rental income, a national reconstruction tax; and taxes on the production of petroleum and other minerals. In addition to exemptions and deductions, high administrative costs erode yields, according to the *Country Report for Mozambique*, p. 12.

[131] See MADER, Strategies and Actions to Promote Rural Economic Growth in Mozambique (Estrategias e Acções para Induzir o Crescimento Económico Rural em Moçambique), Direcção de Economia, Departamento de Analise de Políticas, Dec. 15, 2000, pp. 34-5. See also MIC, The Markets for Rice and Wheat in Mozambique (Os Mercados de Arroz e de Trigo em Moçambique), Direcção Nacional do Comercio Interno, em colaboração com o Projecto Assistencia a Gestao do Mercado, April 2000, p. 54.

political terms. Neither side trusts the other; the government has little incentive to reform and the private sector has little incentive to invest. The reform process loses momentum and buckles under political pressure. Remaining anti-export biases squander the benefits of reform. And firms do not become more efficient during prolonged transitions because only the risk of losing market access motivates efficiency. Gradual or partial liberalization can also be harmful. For example, deindustrialization is a significant risk when the market for finished products (exports) is opened but the market for imported inputs remains protected.

In contrast, rapid liberalization gives rise to quick successes, builds momentum while building on those successes, and enables the government and the private sector to signal their intentions clearly and effectively. When intentions are clear, the government and the private sector both benefit—the government from increased revenues and political credibility, the private sector from increased profits.[132] In fact, "quite a lot of trade reforms have been accelerated once they have been launched…usually at the behest of the private sector….Once it is accepted that reform will occur, business is keen to adjust rapidly."[133]

Rapid liberalization also recognizes that the export market has certain advantages not available locally, such as technical assistance, lines of credit, stability and perhaps most important, economies of scale. A foreign investor interested in working with a Mozambican counterpart will be more motivated to enter an open market than one that may be open in the future. The risk-averse will enter the market only when it is liberalized.

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[132] See WB, Madagascar, Vol. 2, p. 102.
[133] DFID, p. 29.

11. Conclusion

A strategy of trade "mainstreaming" has distinct advantages for poverty alleviation. It has the greatest potential for generating high and sustained rates of economic growth and substantial increases in labor-intensive exports. Production of labor-intensive exports will employ more of Mozambique's poor than capital-intensive mega projects, costly public works, or internal market development.

To be successful, trade mainstreaming needs support from the highest levels of government. Mozambican leaders must make a credible commitment to open trade and ensure that government departments harmonize policies to support that commitment. We urge development of a National Trade Strategy (NTS) and explicit integration of this strategy into the national poverty reduction strategy paper (PRSP). A National Trade Strategy Committee (NTSC), composed of ministers from all ministries engaged in trade-related activities and chaired by the Minister of Industry and Commerce, would focus and provide the necessary visibility for strategy development and implementation.

The NTS should address trade and investment policy reforms; trade facilitation reforms; land, financial, and labor market reforms; infrastructure improvements; fiscal reforms; "red tape" reduction; and the curtailing of opportunities for corruption. To reinforce and strengthen the reform process, the Government of Mozambique should consider including precise measures of progress in the NTS. Measures could include

- Percentage of cargoes requiring pre-shipment inspection,
- Number of days to receive approval for a land transaction,
- Number of days in port awaiting loading or unloading,
- Transportation costs for specific products as a share of export price (and comparisons with other countries),
- Customs clearance delays, and
- Number of days from the placement of a product order to its fulfillment in the foreign market.

To carry out reforms, the Government of Mozambique will need the help of donors to improve public administration and the legal system, to educate or train government officials in trade and

investment policy analysis, to build on successful changes in customs administration, and to fund significant infrastructure projects.

The Government of Mozambique also needs to ensure that government agencies and the private sector understand what it expects to achieve through trade mainstreaming and how it will reach specific goals. Common understanding can be reached through workshops. These workshops would compare Mozambique to more successful economies, such as those of Chile, China or Taiwan, and Mauritius, as well as other countries within the Integrated Framework with similar needs and aspirations for trade. Other workshops might be required for government agencies involved in trade policy and trade facilitation. Long-term training of selected government officials is also advisable. Trade and investment activities, especially in the Ministry of Industry and Commerce, are expected to increase and staff must be prepared.

In addition, the private sector needs access to financing, skilled labor, and entrepreneurial know-how. Donor assistance can be helpful in addressing these needs. For example, support for attending trade fairs and developing other business-to-business linkages should be increased. To fully understand foreign market requirements—product standards, quality and design elements, labeling requirements—Mozambican producers need to cultivate linkages with foreign buyers.

Appendix A. Persons Interviewed

Abdulla, Diaglo	SIMA, MADER
Amela, Hipólito	USAID
Archondo, Sherri	Financial Specialist, World Bank
Balói, Oldemiro	Executive Board Member, Banco International de Moçambique
Bamber, Jonathan	Head of Commercial Section, British High Commission
Barrington, Clare	DFID
Bastos, J. Teixeira	Centro CIMPOR
Berggren, Lars	Senior Adviser, Private Sector Development Division SIDA
Bettencort, João	Agro-Industrial, Chimoio
Bolnick, Bruce	Division of Studies, MPF
Born, Tim	Enabling Environment Team Leader, Infrastructure Division Chief, USAID
Botas, Gilberto Antero	Administrative Analyst, UNDP
Boughton, Duncan	Visiting Professor, Michigan State University
Cassim, Rashad	Chief Executive Officer, Trade and Industrial Policy Strategies
Chitará, Sérgio	Executive Director CTA
Cóme, Elias	Director, CADI
Compton, Julia	Rural Livelihoods Advisor, DFID
Cordon, Roberto	Training Officer, Human Resource Development Section, Division of Trade Support Services, International Trade Centre

Costa, Carlos	Consultor em Agro-Business (director adjunto) TechnoServe
Coto, Pedro	Director, Studies Department, MPF
Coughlin, Peter E.	Industrial Economist, Maputo
da Conceição de Quadros, Maria	Jurist, MADER
da Cruz e Sousa, Daniel Libório	Agricultural Services, World Bank Resident Mission
Dassat, Alibhai Hassan M.	Vice Chairman, Magin—Confecções, Lda., Maputo
Davis, Carrie	Link Consulting Lda., Beira
Dombo, Horácio Eugénio	Head of Free Zone Division, CPI
de Voest, Joop	Marketing & Planning Consulting Services, South Africa
Fellingham, Simon	General Manager, Manica Freight Service, Beira
Ferrão, Felisberto	President, IPEX
Ferrera, Joaoquim	Provincial Director, MIC, Beira
Franco, António	Division of Studies, MPF
Franco, Paulo	General Manger, Fresh Produce Terminals Port of Maputo
Freita, Egr.	Plantation Manager, Agrimo, Morumbala
Freitas, Maria Rita	Forestry Engineer, IPEX
Garrido-Mirapeix, Julio	Coordinator, Food Security Unit, EU
Grönvall-Branks, Monika	SMME Development Specialist, Verde-Azul Consult Limited
Henriquez, Rogerio	Regional Director, Madal, Quelimane
Highton, Nick	Economic Councilor, DFID
Hilton, Brian	World Vision
Hoobash, Niazi	Belita Mozambique Lda
Jaiantral, Dipac	World Bank
Jusob, Rafique	Director, CPI
Levy, Samuel	SAL Consultancy and Investments Limited
Low, Jan	Visiting Associate Professor, Michigan State University
Lucas, Maria José	Permanent Secretary, MIC
Macia, Agonias Antonio	Chief, Specialized Organizations Section, International Relations Department (Chefe de Departamento, Organizações Especialízadas, Direcção de Relações Internacionais)

Manuel, Felisberto	Associação Moçambicana de Armadores de Pesca Industrial de Camargo
Marketos, Gerry	Managing Director, Consulting, Management and Participation, CIMPOGEST
Massingue, Venâncio	Vice Rector, Administration and Resources, University Eduardo Mondlane
Menon, Umesh	Entrepreneurship Development Institute of India
Morgado, H.E. Carlos	Minister of Industry and Commerce (MIC)
Mucavel, Carlos Pedro	Economist, National Director, Directorate of Economy, MADER
Muendane, Cardoso	Director, Organization of Industry, Trade and Services
Namburete, Salvador	Deputy Minister of Industry and Commerce
Negrao, Paulo	Mozambique Cotton Association
Osman, Abdul Magid	Chairman of the Board, Banco Comercial e de Investmentos
Patel, Kekobad	Enacomo
Pireira, Luis	Agrimo
Pintado, Clover	General Manager, Novo Banco
Prosperino, Galcipoli	Executive Director, União Geral de Cooperativas
Rawjee, Afzal	Delta Corporation, Beira
Raimundo, Susana	Chef de Departmento Cooperacção Internacional, Direcção Geral das Alfândegas
Ribeiro, Ana Maria	Economist, Food Security Unit, EU
Ribeiro, Arnaldo	Director, INA
Rodríguez, Alex Warren	Economist, Departamento de Análise e Previsão, Direcção Geral das Alfândegas
Rodriquez de Sousa, Beatrice	Provincial Director, MIC, Quelimane
Ruface, Celso	Consultant, Technoserve, Chimoio
Salimo, Omaña	Executive Director, Small Industry Development Fund
Salvador, Jorge	Economic Advisor, UTCOM, MIC
Sandrana, Sr.	Administrator, TextAfrica
Sarasan, C.J.	Managing Director, Geralco
Schafer, Stephan	CIM

Schalke, Alexander	Agricultural Economist, Market and Trade Information Expert, Ministry of Industry and Trade, National Directorate of Internal Trade, Marketing Management Assistance Project, FAO, EU
Schlotthauer, Julius	Senior Economic Development Advisor, USAID
Silva, Gabriela	Director, INNOQ
Simoa, Alberto	Director, Policy Studies, MADER
Simons, Scott	Agricultural Policy Advisor, USAID, Mozambique
Sitoe, Luís Eduardo	National Director, Directorate for International Relations, MIC
Story, James	Economic/Political Officer Third Secretary, U.S. Embassy
Thumbo, Hermenegilda Ruth Moisés	Office of Studies and Projects, Associação Moçambicana para o Desenvolvimento Rural (AMODER)
Trindade, José Carlos	Executive Director, Associação Moçambicana para o Desenvolvimento Rural (AMODER)
Ussene, Mário	Director Centro de Arbitragem, Conciliação e Mediação da CTA (CACM) formerly Executive Director CTA
Van de Ven, Frans	Chief Technical Advisor, Marketing Management Assistance Project, National Directorate of Internal Trade, MIC
van Seventer, Dirk Ernst	Senior Economist, Trade and Industrial Policy Strategies
Veloso, Luis	Director General, AON
Viola, José	Administrator, Bank of Mozambique
Waite, Graeme	Managing Director, Tete Dalmann
Watson II, James	Program Officer, USAID, Mozambique
Whitaker, Eric	First Secretary, Economic/Political Section Chief, U.S. Embassy
Wojtyla, Lauren	SAL Consultancy and Investments Limited

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Appendix C. U.S. Trade Policy Process

The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy. It is also responsible for leading or directing negotiations with other countries on such matters. It provides trade policy leadership and negotiating expertise in

- All World Trade Organization (WTO) matters;
- Trade, commodity, and direct investment matters managed by international institutions, such as the Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD);
- Expansion of market access for U.S. goods and services;
- Industrial and services trade policy;
- International commodity agreements and policy;
- Bilateral and multilateral trade and investment issues;
- Trade-related intellectual property protection issues; and
- Negotiations affecting U.S. import policies.

USTR is part of the Executive Office of the President. The agency head, also referred to as the USTR, is a Cabinet member who serves as the President's principal trade advisor, negotiator, and spokesperson on trade and related investment matters. The USTR is also Vice Chairman of the Overseas Private Investment Corporation (OPIC), a non-voting member of the Export-Import Bank, and a member of the National Advisory Committee on International Monetary and Financial Policies.

Through an interagency structure, the USTR coordinates trade policy, resolves disagreements, and frames issues for Presidential decision.

Interagency Coordination

USTR coordinates trade policy matters through the Trade Policy Review Group (TPRG) and the Trade Policy Staff Committee (TPSC). Administered and chaired by the USTR, these groups are composed of representatives from 17 agencies and offices. They constitute the sub-cabinet-level mechanism for developing and coordinating U.S. Government positions on international trade and trade-related investment.

The TPSC, the primary operating group, is made up of senior civil servants. Supporting the TPSC are several task forces and more than 60 subcommittees in specialized areas. If agreement is not reached in the TPSC, or if significant policy questions are being considered, then issues are taken up by the TPRG (Deputy USTR/Under Secretary level).

The final tier of interagency trade policy coordination is the National Economic Council (NEC), chaired by the President. The NEC Deputies' committee considers memoranda from the TPRG, as well as important or controversial trade-related issues.

Coordination with the Private Sector and Civil Society

The private sector contributes to trade negotiations through advisory committees. The advisory process has been extremely successful in negotiations on China's accession to the WTO; multilateral agreements on information technology, financial services, and basic telecommunications; the NAFTA and Uruguay Round negotiations; and the Summit of the Americas and Asia-Pacific Economic Cooperation (APEC) initiatives. Congress provided for continuation of the advisory process in the Trade Agreements Act of 1979. Committees advise on the operation of trade agreements, the development and implementation of U.S. trade policy, and priorities for actions to implement such policy.

The primary objectives of the private sector advisory system are to (1) consult with the U.S. Government on negotiation of trade agreements, (2) assist in monitoring compliance with the agreements, and (3) provide input and advice on the development of U.S. trade policy. The advisory system is composed of committees. The Advisory Committee on Trade Policy and Negotiations (ACTPN), a presidentially appointed committee, has 45 members from representative elements of the U.S. economy with international trade interests. Its mandate is to provide general policy guidance on trade issues. At the next level are six committees:

- Intergovernmental Policy Advisory Committee
- Trade Advisory Committee on Africa
- Agricultural Policy Advisory Committee,
- Labor Advisory Committee,

- Defense Policy Advisory Committee,
- Trade and Environment Policy Advisory Committee.

Each provides advice from the perspective of its sector or area. In addition, there are 26 technical, sectoral, and functional advisory committees. Seventeen devoted to the industrial sector cover everything from wholesale and retail trade and textiles to consumer and capital goods. Five committees on the agricultural sector cover animal products; fruits and vegetables; tobacco, cotton, and peanuts; sweeteners; and grains and oilseeds. Functional committees cover customs valuation and standards, intellectual property rights, and electronic commerce. The Labor Advisory Committee has three functional committees: government procurement, standards, and unfair trade practices.

Coordination with Congress

Since its creation, USTR has consulted closely with Congress. Five Members from each House are formally appointed under statute as official Congressional advisors on trade policy, and additional Members may be appointed as advisors on particular issues or negotiations. Liaison between USTR and Congress are extensive.

Glossary

ACP	African, Caribbean, and Pacific
AD/CVD	antidumping duty and countervailing duty
AGOA	African Growth and Opportunity Act
ANE	National Road Administration
BDV	Brussels Definition of Value
c.i.f.	cost, insurance, and freight
CACM	Center for Arbitration, Conciliation and Mediation
CET	common external tariff
CGE	computable general equilibrium model
COMESA	Common Market for Eastern and Southern Africa
COMTRADE	Commodity Trading Statistics Database of the United Nations
CPI	Investment Promotion Center
CSTA	Customs Superior Technical Council
CTA	Confederation of Mozambican Business Associations
CVA	Customs Valuation Agreement
DFID	Department for International Development
EAC	Eastern African Community
EBA	Everything But Arms
EPZ	export processing zone
EU	European Union
f.o.b.	free on board
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Service
FTA	free trade agreement
GASP	Gabinete de Apoio ao Sector Privado
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GIM	Grupo Inter Ministerial
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences
HCR	Head Count Ratio Index
HICP	Heavily Indebted Poor Country
HS	Harmonized System (of tariff nomenclature)

IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IF	Integrated Framework
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
INCAJU	National Cashew Institute
INCM	National Institute for Communications in Mozambique
INE	National Statistics Institute
INNOQ	National Institute of Normalization and Quality
IPEX	Export Promotion Agency
ITC	International Trade Centre
LDC	least-developed country
MADER	Ministry of Agriculture and Rural Development
MFA	Multi-fiber Arrangement
MFN	most favored nation
MIC	Ministry of Industry and Commerce
MISP	Maputo Iron and Steel Plant
MMTZ	Malawi, Mozambique, Tanzania, Zambia (least developed countries of
MPF	Ministry of Planning and Finance
NSFNS	National Food Security and Nutrition Agency
NGO	non-governmental organization
NORAD	Norwegian Aid Agency
NTB	non-tariff barrier
NTS	national trade strategy
NTSC	National Trade Strategy Committee
OECD	Organization for Economic Cooperation and Development
PODE	Projecto para o Desenvolvimento Empresarial
PROAGRI	National Program for Agricultural Development
PRE	Economic Rehabilitation Program
PRSP	poverty reduction strategy paper
PSI	pre-shipment inspection
SACU	Southern African Customs Union
SADC	Southern African Development Community
SEMOC	Mozambique state-owned seeds company
SIDA	Swedish International Development Cooperation Agency
SIMA	Information System for Agricultural Markets
SME	small- and medium-scale enterprises
SPS	sanitary and phytosanitary standards
SSA	sub-Saharan Africa
TBT	technical barriers to trade
TCB	trade capacity building
TDM	Telecomunicações de Moçambique
TEU	twenty-foot equivalent unit

TIPS	Trade and Investment Policy Strategies
TPR	trade policy review
TPRM	trade policy review mechanism (WTO)
TWG	trade working group
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
U.S.	United States
USAID	United States Agency for International Development
USTR	United States Trade Representative
UTCOM	Technical Unit for Commercial Protocol
UTRA	Technical Unit for Customs Restructuring
VAT	value-added tax
WB	World Bank
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
ZMM-GT	Zambia, Malawi, Mozambique Growth Triangle