3. The Mozambican Economy and the SADC Agreement

As the 1992 Treaty of Abuja states, the African continent must take part in the world economic integration through the existence of regional economic communities. During the 1990s, Mozambique underwent a series of liberalizing reforms after the end of the Civil War. It has demonstrated a commitment to regional integration by participating in the SADC and has been invited to join SACU. Both possibilities appear profitable because of the presence of South Africa among the Member States, which is its "*largest, most diversified and most consistent trade and investment partner*" (Alfieri, Cirera, Rawlinson, 2006). Given this fact, Mozambique has decided to create a Free Trade Area among SADC countries. This implies a further liberalization and the removal of all trade barriers. That ultimately means a change in the trade policies pursued up to today. Given the classification of Mozambique as a least developed country, this liberalization process is particularly crucial since it involves not only economic variables but also political and technical capabilities. This is the element that threatens the International Community: the possibility that the Protocol on Trade may result as simply an unsuccessful attempt.

This chapter hopes to present a comprehensive description of the SADC Agreement, paying particular attention to the Trade Protocol. The emphasis on Trade Protocol will lead to an understanding of the key elements and the timing of each phase from its beginning to FTA implementation. On the other hand, the paper constitutes a brief review of the trade pattern and policies in Mozambique in order to evaluate what the SADC-FTA adhesion and implementation has meant for this country. Moreover, the goal is to highlight the features of the SADC that make it appear as a North-North agreement and at the same time the weaknesses derived from the collocation of the agreement in the African context.

II. The SADC Agreement

a. Historical Overview

In April 1980 the Governments of nine Southern African countries[1] established the Southern African Development Co-ordination Conference (SADCC). This was the result of the independence obtained in the 1970s in most of these countries. Since the SADCC was a result of political struggles, it had four political objectives: to reduce Member States' dependence and apartheid in South Africa, to implement both programmes and projects at a regional level, to mobilize Member States' resources and to secure international support.

This experiment first demonstrated the tangible benefits of working together and created a climate of trust and confidence among States in the African Continent, that ultimately established a tradition of consultation among people and governments of the Region. Therefore under the SADC Programme of Action, a number of infrastructural projects were undertaken. On the other hand, the lack of financial independence, the inadequacy of all institutions and their decision- making processes pushed for a reform of the system. This was done in 1992 with the meeting of Windhoek.

The Windhoek Treaty established the SADC (the Community), an international body whose objectives were to promote and sustain regional economic growth, and to maximise productive employment and a rational utilization of natural resources. In order to achieve these goals, the SADC Member States agreed on a wide variety of topics including trade, whose protocol (PC-SADC) was signed on 24 August 1996 and became active on 25 January 2000. However, this document was amended on 7 August 2000 with a series of three new annexes that provided a quota system in the clothing, textile and sugar markets for Malawi, Mozambique, Tanzania and Zambia, (MMTZ)[2] the Least Developed countries in SADC.

This cooperation led to the creation of a Free Trade Area (FTA) in 2008 as "*a step towards a deeper integration*[3]", as box 22 demonstrates.

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[1] The founding fathers were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe.

[2] See paragraph b.

[3] This is the slogan the SADC itself uses to define the FTA (SADC (2008))

Box 22: The economic integration in the Southern Africa Development Community

1992: Southern Africa Development Community (SADC)
1996: SADC Protocol on Trade
2008: Establishment of the SADC Free Trade Area (FTA)
2010: Establishment of the SADC Custom Union (CU)
2015: Completion of a Common Market
2016: Creation of the SADC Monetary Union and SADC Central Bank
2018: Implementation of a regional currency

SADC is not the only regional agreement established here; it has some overlapping memeberships mainly with the Common Market for Eastern and Southern Africa (COMESA) and the South Africa Custom Union (SACU). Now, there are fourteen SADC Members: five are SACU members (two of which are also COMESA members) seven are COMESA Members, and only Mozambique has a single commitment with SADC. This overlapping membership has created problems, especially in the negotiations with the SADC-EU EPAs since each RTA has a different external tariff without the possibility of harmonization at a continental level[4].

Box 23: Overlapping Membership in the Southern African Region

	Individual Country "commitment" Index[a)]	**SADC**	**SACU**	**COMESA**
Angola	0.50	•		•
Botswana	0.50	•	•	
Congo, Democratic Republic of	0.50	•		•
Lesotho	0.50	•	•	
Madagascar	0.25	•		•
Malawi	0.33	•		•
Mauritius	0.25	•		•
Mozambique	1.00	•		
Namibia	0.33	•	•	•
South Africa	0.33	•	•	
Swaziland	0.33	•	•	•
Tanzania	0.33	•		
Zambia	0.33	•		•
Zimbabwe	0.33	•		•

a) This index derives from Lledó V., Peiris S.J., Kvintradze E. (2007)

b. SADC Provisions for a Free Trade Area

The creation of an FTA among SADC Member States was established by the treaty constituting the Community and the Regional Indicative Strategic Development Plan (RISDP). In this document, Member States were divided into three categories in order to organize the liberalization process on the basis of "asymmetry". This concept states that the trade barriers' removal should take place on the basis of each country's development level.

[4] This problem will be discussed more precisely in section II paragraph c.

That means "*developed countries should accelerate their tariff phasing out more than developing countries and least developed ones* (LDCs)".

There are only twelve participants in the FTA since Congo and Angola are set to join at a later date.

1) Least Developed Countries (LDCs): this group is comprised of Malawi, Mozambique, Tanzania and Zambia (elsewhere defined as the MMTZ countries) Angola, DRC, and Madagascar. They are the members with the lowest economic indicators for whom special treatment is provided. According to the phase down schedule they are defined as *Back loading group* since they reduced tariffs for products by equal installments from year 6 to year 8 (i.e. from 2006 to 2008).

2) Developing countries: Mauritius, Zimbabwe. In SADC terminology they are the *Mid loading group* that reduced tariffs from year 4 to year 8 (i.e. 2004-2008).

3) Members both of SADC and SACU: these are considered the most developed countries in the area as well as the most beneficial for regional trade integration. They are Botswana, Lesotho, Namibia, South Africa, and Swaziland. Also defined as *Front loading group*, they started trade barriers' removal immediately in year 1 and continued to year 8 (i.e. 2001-2008), since they have stronger economies and may face the tariff revenue loss in a more proper way.

At the basis of the Protocol there are four principles:

1) Free assent. Each country decides for itself about participation in SADC on the basis of a cost-opportunity analysis looking at its own benefits. The abstention of the DRC and Angola to the implementation of the SADC may be interpreted by the basis of this principle.

2) "Win/win" principle. No country member should have a loss at the end of the liberalization process.

3) Globality. There should be unanimity on each decision SADC wants to make.

4) Asymmetry.

To establish an FTA the participants should remove all barriers from the intra- regional trade. As literature clarifies, a free trade area is characterized by the elimination of barriers, both tariff and non- tariff, from the intra- region trade and each member maintains its own tariff for third countries (i.e. there is no Common External Tariff (CET)). The establishment of the SADC- FTA, started in 2000, was complex and based on three main kinds of elimination: first, regarding tariffs and a reorganization of the tariff's structure for each country; second, concerning non- tariff barriers; and the last, rules of origin that are managed at the regional level with the principle of harmonization.

1. *Tariff Barriers*

To reduce tariffs, the Member States had to divide their production into categories (namely A, B, C, E) in order to define a timetable for liberalization. Category A is formed by products that countries want to liberalize as soon as the PC- SADC implements them. They are mainly capital goods and count for around 47 percent of total traded goods. Category B is formed by sub- categories (i.e. B1, B2) and defines products that are subject to different tariff phase out schedules. The objective is the liberalization of at least 85 percent of traded goods. Category C responds to individual countries' interests since it is formed by products of special importance for each country. In the SADC project, the number of items should be limited but special interests have increased the group to the limit imposed by the PC- SADC (15 per cent of the total intra- SADC trade). Finally, category E is the smallest one where there are products that international treaties declare as excluded goods for international trade[5] and it is mainly formed by commodities collected in HS Chapter 93 (arms and ammunitions).

The phasing out schedule is complicated by the heterogeneity of the Member States' economies[6]. For this reason, import duties diminish on the basis of a base tariff offer and a differentiated tariff offer. The former is applied for all the SADC members, SACU members[7] included, while the latter is expressed only for trade with South Africa[8].

2. *Non- tariff Barriers* (NTBs)

A non- tariff barrier to trade is complex to define. It comprises, for example, import or export quotas, policies to preserve public health or security, and so called "technical barriers" (TBs). The problem of NTBs in the region has been identified mainly by the private sector and

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[5] In the protocol the reasons for an exclusion are summarized in article 9. To sum up, it declares exceptions not only on the basis of international agreements but also to protect public morals, public order, human, animal and plant life, health, intellectual property rights, natural resources and environment. Then gold, silver, precious and semi-precious stones are excluded together with national treasures.

[6] Since it is a LCD country according to the UN terminology, and it has been involved in a civil war till the 1990s, Mozambique has obtained a delay in its liberalization that should be concluded by 2012 and 2015 for SADC Members and South Africa, respectively.

[7]"*SACU is a functional Custom Union with a Common External Tariff*" (WTO/Committee on Regional Trade Agreements- WT/REG176/5).

[8] "*The size of the South African economy in relation to the other economies necessitated the application of asymmetry in the scheduling of tariff reductions by the non-SACU Members*" (WTO/Committee on Regional Trade Agreements- WT/REG176/5)

other stakeholders who state that difficulties at borders are the key barriers to doing business. Goods must cross several borders as many SADC Member States are landlocked.

Generally, PC- SADC suggests to Member countries not to raise new quantitative restrictions unless necessary. This is in order to mitigate short- term production instability (in the case of export quotas) or to preserve public health (article 7, and 8). However, these measures should be temporary and only used in the face of a serious threat.

The only quota systems directly established by the Protocol[9] are applied to the sugar market (Protocol on Trade, Annex VII) and for products of HS chapter 50 to 63. But in the Protocol itself these systems are defined as "*ad interim measures*" (Protocol on Trade, Annex 1, Appendix V).

In the first case, the one of the sugar market, market access on a non- reciprocal basis for SADC and a preferential sugar exported on a quota basis into the SACU market are established. If total exports are higher, the excess is subject to MFN tariffs. But the long-term objective for this market is a full liberalization of intra- SADC trade after 2012 depending on the conditions of the world sugar market.

The second case is again applied to LDCs (also known as MMTZ group) for textiles and clothing. In this case the temporary deadline was July 2006 but later moved to December 2009. This preferential treatment according to MMTZ is linked to a special set of rules of origin[10]:

1) Items (clothing and textile categories) should be the result of a single- stage transformation;

2) Derogation for double- stage transformation of manufactured products in HS Chapters 50 and 63 is established.

[9] These provisions are not included in the first version of the Protocol on Trade of 1996 but in the 2000 amended version.

[10] For the other Rules of Origin see subsection c.

Table 12: Annual Quotas granted to MMTZ by SACU

	HS Ch. 52	HS Ch. 55	HS Ch. 60	HS Ch. 61-62	HS Ch. 63
	(cotton)	*(man-made staple fibers)*	*(knitted or crocheted fabrics)*	*(articles of apparel and clothing accessories knitted/crocheted and not)*	*(other made up textile articles)*
Malawi	1.110.000	43.000	200.000	8.565.000	565.000
Mozambique	3.600.000	-	-	4.200.000	170.000
Tanzania	1.200.000	-	-	500.000	300.000
Zambia	1.700.000	390.000	60.000	500.000	300.000

Source: ***SADC Trade Protocol, Annex I, Appendix V***
Note: these features are kilos.
Note: Preferences shall only be extended: in the case of HS Ch. 52, to products of HS headings 5204 to 5212;
in the case of HS Ch. 55, to products of HS headings 5508 to 5516;
in the case of HS Ch. 60, to products of HS headings 6001 and 6002;
in the case of HS Ch 61, to products of HS headings 6010 to 6117;
in the case of HS Ch. 62, to products of HS heading 6201 to 6217;
in the case of HS Ch. 63, to products of HS headings 63012 to 6308 (and 6301.4000 for Zambia).

The other group of NTBs, and probably the broadest, is not composed directly of economic measures, but policies or procedures that usually represent a waste of time for traders. These are divided according to frequency in their application and their impact on trade in box 24.

In making this distinction, SADC decides on an immediate elimination of practices in group 1. Then, for the ones in group 2, there are two possibilities: one is their elimination within 1- 2 years and the other, harmonization. Practices in group 3 will be eliminated within 2- 5 years after the creation of the SADC- FTA.

Box 24: Non- Tariff Barriers in the SADC Member Countries

Highly frequent NTBs with high impact on trade

→ Customs and Administrative entry procedure
→ Customs that are not import or export licenses
→ Customs valuation

Frequent NTBs with medium impact on trade

→ Government monopoly practices
→ Import licensing
→ Restrictive practices for export licences
→ Consular formalities and documentation

Less frequent NTBs with low impact on trade

→ Not necessary quantitative import restrictions
→ Pre- shipment inspection
→ Technical regulations and standards for food (for public security purposes)

Within this group of barriers, one could also include Technical Barriers (TBTs)[11] such as technical regulations and standards. There could be testing or certification and other conformity assessments, but the way for their elimination passes through the establishment of the SADC Cooperation Standardization, Quality Assurance, Accreditation and Metrology (SADC- SQAM). This road is the one of harmonization and standardization (included in Annex III).

3. *Rules of Origin* (RO)

This group of regulations is included in the NTBs, but has a unique status inside the SADC framework. These should represent the rules to define a "country[12]" product that may be met a preferential treatment. In other words, rules of origin decide for a minimum in terms of economic activity.

The Protocol on Trade defines two main rules:

1) Wholly produced/ obtained rule: a commodity may meet a preferential treatment within the SADC region if it is fully produced in and of itself. This rule is used particularly for agricultural products.

2) Sufficiently worked/ processed rule: this is a broader rule as a lot of different provisions enter it. With this definition PC-SADC defines two sub- rules:

Value addition criteria: a commodity should contain 35 percent of its value added, produced in the SADC region.

Import content (MC): imported intermediates should not be more than 60 percent of total value of intermediates. This is typical in textiles, some metals and the special treatment applied to MMTZ is based on this rule.

Although the final objective is an FTA, the Protocol recognizes that the Parts are at different stages of development and that they can face transition burdens as a new element of instability. This can result in a worsening of the economic environment. For these reasons, it sets up a series of temporary protectionist rules, briefly defined as safeguards (PC- SADC, article no. 20), infant industry protection (PC- SADC, article no. 21), and anti-dumping measures (PC- SADC, article no.18).

The first set of provisions is constrained by a situation in which "*a product is imported in large quantities a price that causes or threatens to cause serious injury to the domestic*

[11] Technical standards and regulations are not TBTs when they are based on internationally agreed standards.

[12] "Country" in this case means the whole SADC region.

industry" (SADC, 2007). This definition respects the idea of temporary measures and these trade restrictions in the SADC- FTA may last between 4 and 8 years to give domestic industry time to adjust. This treatment cannot discriminate among countries and so the rule should be applied to all imports.

Infant industry protection allows the imposition of duties that may be removed when the industry becomes competitive, respecting imports, after having demonstrated that the only strategy for industry development is trade protection.

Anti- dumping measures in SADC are exactly the same as those internationally enforced.

c. Negotiations with the EPAs

The history of the cooperation between the European Union and the developing countries started in 1977 with the Lomè Conventions. These established that 77 countries, defined ACP[13], would have a preferential treatment, since they were recipients of unilateral preferences in the EU market.

This agreement gave important market access mainly to agricultural products and then other minor exports.

In 2000 these provisions were revised and the new Cotonou Partnership Agreement (CPA) entered into action. The reason for this revision was the incoherence of the Lomè conventions within the GATT framework. In fact, one of the main elements of the GATT treaty is the Enabling Clause rule[14] that prohibits unilateral preferences that discriminate between groups of developing countries. The 1977 Agreements were exactly these kind of provisions and so inconsistent with the international economic organization. The key principle of CPA was reciprocity, differentiation, deeper regional integration, coordination of trade and aid.

To revise the system, but not to nullify it, the EU invited (Cotonou Agreement article 37.4) ACP countries to negotiate new WTO-compatible EPAs by 2007.

This new system guaranteed reciprocal market access with a possible transition period of 10- 12 years for phasing out tariff barriers. The final stage was a Free Trade Area (FTA)[15] with special arrangements for sensitive products. To reach this objective, two phases had to be undertaken; after an *interim* period, started with the signing on 23 June 2000. The first phase was launched on 27 September 2002. It had to be concluded with the identification of the

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[13] This group included all members of COMESA and SADC except Egypt and South Africa.

[14] It is included in article XXIV.

[15] In order to be GATT consistent, an FTA should be recognized by the elimination of restrictions on "*substantially all the trade*". The quantitative qualification is a requirement of 80- 90 percent of bilateral trade liberalized.

RECs in order to start the negotiations. The second phase with a regional perspective was launched in 2004 for East and Southern Africa[16].

As the previous version of the agreements, the EPAs maintained their developmental focus since they were interpreted as help for the ACPs to enlarge their markets and as a stimulus to South-South integration. Formally, the EPAs had three pillars:

1) Regionalism;

2) Market access;

3) Integrated trade and development support.

ACPs, however, continued to focus more on the development dimension of the EPAs rather than the EU focus on trade aspects.

Negotiations for the SADC- UE agreement[17] were launched in Brussels in 2002. Given table 8, the objective of the SADC economies is clear. All the countries have a strategic economic partner in the EU since it is the first, or one of the first, commercial partners. The average export share of SADC to the EU is slightly above 33 percent, while the regional import share reaches nearly 25 percent.

Table 13: European-Union Share in Trade for SADC Members

	Exports to EU %	Imports from EU %
Angola	13.7	52.2
Democratic Republic of Congo	66.8	41.6
Malawi	31.3	9.8
Mauritius	71.3	41.5
Madagascar	51.5	52.3
Mozambique	63.7	14.6
SACU	-	-
Botswana	59.6	45.2
Lesotho	-	-
Namibia	-	-
South Africa	38.9	44.9
Swaziland	-	-
Tanzania	32.0	23.6
Zambia	16.6	10.0
Zimbabwe	18.0	10.1

Source: ***Khandelwal (2004)***
Note: -: not available data

[16] In the African context, there are four negotiating forums with SADC, ESA- COMESA, CEMAC, ECOWAS- UEMOA.

[17] An important aspect to note is that four countries, Malawi, Mauritius, Zambia and Zimbabwe, negotiate in the COMESA- EU Forum. This is another example of the partial commitment these countries have with SADC.

The EPA is based on regional integration initiatives of the SADC countries. It involves, as a consequence, SADC member states except for RSA, who had already signed a TDCA (Trade, Development Cooperation Agreement). The objectives in establishing such an agreement were to complement and support the regional integration process and programmes, to harmonize regional rules and to consolidate the SADC regional market.

For these reasons, both parties agreed to establish a SADC- EU Regional Preparatory Task Force (RPTF). This focused on finding ways to cooperate and on addressing SPS and TBT problems affecting both intra- and extra- SADC trade. This goal is reached through three preliminary stages: the setting of priorities and preparation, substantive negotiations and finalization.

The main concerns are involved in the first stage; after a general agreement among the African countries on the main modalities of the negotiation issues, difficulties arise because of the BLNS group. It is formed by four countries (i.e. Botswana, Lesotho, Namibia, and Swaziland) that have difficulties finalizing their lists of sensitive products.

Currently, the process is ongoing. Both parties have agreed on at least three main concerns:

1) Overlapping membership. Since in Southern Africa there is an overlapping membership between COMESA and SADC with different tariff structures, this problem occurs in Angola, Congo, Malawi, Mauritius, Swaziland, Zambia, and Zimbabwe, all of which are COMESA and SADC members. Moreover, it arises for South Africa, which is not an ACP country but a member of SACU (a custom union) Consequently, RSA is a constraint for SACU-Members. And there is the case of Tanzania, a member of SADC and EAC (a custom union).

A likely solution is harmonization between COMESA and SADC tariff structures in order to establish a comprehensive custom union. Otherwise, these countries may choose a single membership in only one RTA.

2) Different economic structures. The SADC members are not uniform in terms of development and economic structure. This is clear when taking into account the contemporaneous presence of a developing country such as Swaziland and a LDC such as Mozambique.

3) No diversification in the economies and supply- side constraints.

Despite these difficulties, the parties agreed that the SADC- EU EPA would become a *quasi* free trade area[18] in the years following 2008. It would liberalize imports of industrial and

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[18] It should be similar to the EBA strategy that grants 48 LDCs duty free access to EU markets for all goods except weapons and armaments. As UN- ECA ATPC (2005) states. "*the critical difference between*

processed agricultural products and would provide special market access under "commodity protocols" for a few products (i.e. bananas, rum, beef and veal, and sugar). These categories of sensitive products would be traded duty- freely only in quotas (as it happens in the SADC market for sugar). This has been a strong claim of the African countries. They have pushed for the exclusion of a greater number of items since their economies are subject to international shocks.

Although these exclusions exist, UN- ECA and the ATPC (2005) demonstrated that the SADC- EU EPA should have had a negative impact on a wide range of industrial products, both in terms of losses in revenue exports and of private consumption for the poorest categories. In particular, these vulnerable products should have been in HS Chapters 11 (products of milling industry), 19 (preparation of cereals, flour), 21 (miscellaneous edible preparations), 22 (beverages), 32 (tanning/ dyeing extract), 33 (essential oils, perfume), 40 (rubber), 73 (iron and steel products), 84 (nuclear machinery), 85 (electrical machinery), 87 (vehicles other than railway and tramway), 94 (furniture).

III. The Mozambican Trade Sector

a. Mozambique Trade Patterns

Analyzing the trade performances of Mozambique in recent years, we may outline a relatively stable trade deficit. As depicted in the table below, Mozambique is a net importer of goods and services despite its sensible export increase since 2001 with an average annual growth rate of nearly 39 percent. On the other hand, in the same period, there was a marked increase, on average 17 percent, in imports. It is worthy of note that the growth rate of exports is lower than the one of imports despite the liberalization process that Mozambique pursued according to its international commitments. Notwithstanding a constantly negative trade balance, the worst year was 1999; this trade deterioration was the result of the construction of the Mega Aluminium Smelter Project MOZAL and it was mainly due to an increased import of machinery and capital goods.

Another interesting part of this is the composition of exports and imports and how they changed during this period. In fact, the changes in value depended not only on the quantity but also on world prices. Because Mozambique is an exporter mainly of primary and agricultural goods, it is subject to international shocks. For example, there were lower cashew nut prices in 2006, and more markedly in 2007 (AfDB/ OECD,2008), or the higher oil prices

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the EBA initiative and the EPAs in terms of trade is that the EBA initiative is non-discriminatory amongst least developed countries while the EPAs are just for ACP countries".

that raised imports and spending of consumer durables and capital goods. In fact, imports mainly consist of these classes of commodities.

Table 14: Mozambique's Trade Balance, 1996-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Merchandising Trade											
Export	217	222	230	263	364	703	810	1045	1504	1745	2398
%change		***+2.3***	***+3.6***	***+14.3***	***+38.4***	***+93.1***	***+15.2***	***+29.0***	***+43.9***	***+16.0***	***+37.4***
Import	759	739	790	1139	1158	1063	1543	1753	1927	2408	2807
%change		***-2.6***	***+6.9***	***+44.2***	***+1.7***	***-8.2***	***+45.1***	***+13.6***	***+9.9***	***+25.0***	***+16.6***
Balance	**-542**	**-517**	**-560**	**-876**	**-794**	**-360**	**-733**	**-708**	**-423**	**-663**	**-409**
Commercial Services											
Export	253	279	286	295	325	249	336	300	246	316	355
%change		***+10.3***	***+2.5***	***+3.1***	***+10.2***	***-23.4***	***+35.0***	***-10.7***	***-18.0***	***+28.4***	***+12.3***
Import	319	329	396	392	439	607	559	553	512	627	729
%change		***+3.1***	***+20.4***	***-1.0***	***+12.0***	***+38.3***	***-8.0***	***-1.1***	***-7.4***	***+22.5***	***+16.3***
Balance	**-66**	**-50**	**-110**	**-97**	**-114**	**-358**	**-223**	**-253**	**-266**	**-311**	**-374**

Source: ***author's computation on the basis of WTO International Trade Statistic 2007***
Note: the features are billion dollars

In the table below, we analyze the trends in imports and exports according to goods in order to better define the relative importance of different sectors. As we have previously cited, agricultural products, especially food products, fisheries and fresh and dried nuts account for a strong percentage of total exports while in the last three years exports have extended to minerals and electricity. This is due to the beginning of MOZAL production and new investments in the energy and mining sectors. In recent years there were two other mega-projects: the Sasol natural gas pipeline and the Cahora Bassa hydro-electric facility. As a result of their reaching maturity, there was an exponential increase in the export of these sectors and even the natural gas export started from nothing and became one of the leading export products. In the following years, new mega projects should begin building and production; this regards mainly coal- production and the mining sector as a whole. The most interesting projects that should positively affect the trade balance are the MOMA titanium smelter, and the KENMARE smelter for the production of ilmenite, rutile and zircon.

Table 15: Principal exported products, 1996-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Raw Cashew	3964	20011	23182	7864	8399	2104	1114	1499	8015	5514	13010
Cotton	12746	22160	10916	19991	25495	18271	15925	32442	35791	56267	45691
Wood	7983	10067	5208	9186	14601	12559	17977	20434	29967	32353	35593
Lobsters	1868	1630	22	642	269	307	855	455	756	841	1172
Tobacco	820	6333	5016	2501	7803	9099	24446	21463	40794	43245	110337
Maize	2125	12521	6156	1322	1621	1647	7090	1369	2944	3185	5017
Sugar	12868	12815	2898	5349	4323	8036	17069	16094	26523	37700	71351
Cashew	39038	5848	13547	25150	11946	10895	16201	7438	21209	17588	23678
Crayfish	79871	75364	58178	65564	91458	92448	114241	75822	91752	70888	86676
Electric. energy	-	-	36993	62862	66979	57346	107378	113268	102252	141800	177820
Nat.Gas	-	-	-	-	-	-	-	-	31273	100158	109606
Alumin. Bars	-	-	-	-	60160	383100	361100	567600	915011	1020547	1401315

Source: INE Mozambique

Imports have a different composition. Since agricultural performance is erratic and vulnerable to climatic shocks, cereals' and other foodstuffs' imports reflect these natural events. For instance, the imports in the period between 2002- 2005 which are the highest of the last decade, reflect a severe drought affecting the South of the Country. Talking about the agricultural sector, it is worthy to note that Mozambique has become a net exporter of sugar in recent years proving the industrial protectionist policies adopted by the Government have worked. The prediction for the future is a consolidation of this trend.

In the manufacturing sector, however, the increasing trend in capital goods' and machinery's imports is accelerating as a response to the new mega- projects the Government announces. (see Table 5).

Table 16: Principal imported goods, 1996-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Automobile	66891	82216	48830	154065	114384	67304	160859	108082	118054	150295	208113
Cereals	74409	84433	88369	68168	52978	73094	113130	108963	144536	172581	1795
Medicines	19413	7040	4875	5366	9036	14411	22460	16621	29996	26780	39265
Sugar	19823	30503	24346	14185	9055	6378	4661	7397	19542	9888	4773
Machinery	150081	139051	147617	109852	259098	142452	148816	227145	304887	344520	397681
Gasoline	49488	45991	28629	39453	84759	76806	59492	114237	144752	171389	233767
Electric Energy	13261	15026	8405	1412	14526	28456	30744	48770	75478	79774	83718
Petrol	9768	9053	10835	10493	15172	23497	16374	26058	36073	41629	54922

Source: ***INE Mozambique***

In 2006, the most recent available year, exports were divided into three categories and we may find the same patterns we have previously described in relation to the last decade. Agricultural sector exports accounted for nearly 16 percent (i.e. 15.8 percent), while the mining and fuels sector was five times higher (74.7 percent) and finally the manufacturing exports reached 7.2 percent. These imports present a different composition. The highest value is for manufacturing (49.6 percent), followed by agriculture (15.4 percent) and only 2 percent of the fuel and mining sector is imported.

Another interesting aspect to evaluate is the destination of exports and the origin of imports. Mozambique's export destinations are mainly the EU, South Africa and secondly Zimbabwe and Switzerland. More than 66 percent of total exported goods are bound for the EU with a closer relation to the Mediterranean Countries and limited economic relations with the new EU- Member States. Imports come mainly from South Africa.

In order to state the reasons Mozambique wants to become a member of a regional FTA it is useful to analyze the regional trade and highlight the improvements and the advantages.

As depicted in the table below, the main trade partner is South Africa and consequently a regional agreement should include this country. Imports are mainly derived from Malawi, Swaziland and Zimbabwe, a group of neighbouring countries, while exports are destined for the same countries plus Tanzania and Zambia. Consequently, a regional agreement seems to be profitable even if the share of regional trade is not very significant. In particular, in 2005, Mozambican imports from the Region were 48 percent of the total while export reached only 22 percent.

Table 17: Mozambican imports and exports within the SADC region

Imports							
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Angola	31.78	42.28	94.54	117.86	14.00	70.72	47.81
Botswana	51.78	116.54	110.70	208.84	79.09	2017.30	1645.95
Congo	20.46	0.00	0.00	0.00	0.00	0.00	0.00
Lesotho	0.07	8.44	3.31	1.70	0.00	0.00	0.00
Madagascar	0.00	0.0	0.00	0.00	0.00	0.00	0.00
Malawi	17809.21	11713.80	10016.52	18321.53	5043.70	3713.52	3827.12
Mauritius	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Namibia	1.14	0.00	0.00	0.00	0.00	677.22	0.00
RSA	94793643	91049242	84194595	58771995	49922995	42944536	51495272
Swaziland	15936.85	15570.83	11403.09	4156.98	4456.71	9103.51	10003.50
Tanzania	6315.32	4361.80	3452.59	1605.04	1201.29	787.18	1935.09
Zambia	1264.29	2983.42	687.29	72.69	135.68	60.33	379.84
Zimbabwe	24123.06	16963.68	9354.32	9472.48	16992.41	9035.05	7424.29
Exports							
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Angola	1540.43	821.20	631.69	858.89	482.87	501.23	537.54
Botswana	531.90	55.84	750.88	1.754.35	296.54	7.24	2.32
Congo	544.19	326.37	736.62	299.08	132.11	99.08	71.62
Lesotho	778.09	128.37	129.03	0.61	50.45	0.00	0.00
Madagascar	147.67	0.00	0.66	47.03	0.00	17.21	168.64
Malawi	24738.39	48811.46	49861.3	32836.91	40578.85	10274.05	10974.61
Mauritius	916.78	576.75	195.43	612.66	159.06	77.17	16.88
Namibia	50.79	8.86	177.43	53.06	15.60	3.06	27.44
RSA	36170719	28286537	19399435	16963351	12496303	10761879	5333250
Swaziland	8228.60	3881.28	2683.67	17454.36	1039.33	686.34	636.18
Tanzania	4522.48	452.29	2230.79	1264.58	1582.55	180.80	0.00
Zambia	2116.03	1340.02	1036.55	808.94	2107.28	107.07	77.30
Zimbabwe	76128.17	51197.28	35025.61	29467.99	54659.57	37145.95	64525.46

Source: *INE Mozambique*
Note: Features are in thousands of US$

b. Mozambique Trade Policy Regime

The trade sector has been reformed multiple times since 1987, although the main reforms have happened in the last few years. The result is the creation of a significantly liberalized regime based on tariffs. Moreover, foreign exchange controls have been abolished and most export restrictions have been eliminated or simplified in their procedures. As the Government itself states: "*Mozambique's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially those of the developed countries of Europe, America, and Asia without prejudice to the promotion of intra-African trade*". These policies may be divided into two categories: those that improve external competitiveness and those that enhance its market access. The former includes both control over the exchange rate, which government abandoned at the beginning of the reform, and distorted policies such as subsidies. The latter is formed by tariff and non- tariff measures that affect the ability to sell outside the domestic market.

Tariff simplification has been decided upon in order to fulfill the WTO commitment. Now the tariff rates range from 0 to 30 percent and the system has a modestly escalatory structure. The average applied MFN tariff in 2000 was 13.8% with a decreasing trend as the 2006 value (i.e. 12.1 percent) shows. It is a lower rate in respect to the majority of the neighbouring countries. This is, in fact, a delight for the other countries in the Region since they believe this measure distorts regional trade.

Then, like others WTO participants, Mozambique has a 100 percent ceiling rate for agricultural products[19] and a tariff for non- agricultural products which ranges from 5 and 15 percent[20]. More specifically, in 2006 the average rate applied to agricultural products and non-agricultural products was 16.4 and 11.4 percent respectively.

At the beginning of 1997 the Mozambican Government opted for acceleration in customs reform. Crown Agents, a private British agency, was contacted to implement this reform. In order to increase Government revenue from customs, in 1999 they introduced a 17% value-added tax (VAT)[21]. The Government expected to improve public revenue with this measure and hopes to reduce the maximum tariff to 20 percent in the following years.

[19] This provision was negotiated under the Uruguay Round.

[20] See table 7.

[21] The exceptions are medical services and drugs, non- profit activities, banking, finance, insurance, housing rent, gambling, funeral services, wheat flour, rice, bread, tomatoes, agriculture and fishing. For imported goods it is calculated as a percentage of the c.i.f. plus duties plus excise.

Box 25: MFN tariff rates, 2000

	Ranges of MFN tariffs applied					
	0-5	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**
Live animals/ products						•
Vegetables products				•		
Animal/ vegetable oils & fat			•			
Prepared foodstuff/beverage					•	
Mineral products	•					
Products of chemical ind.	•					
Plastics/ rubber			•			
Raw hides/ skins			•			
Wood/ articles of wood		•				
Pulp of wood		•				
Textile/ articles of textile					•	
Footwear/ headgear/ umbrella					•	
Stone/ plaster cement			•			
Precious stones				•		
Base metals		•				
Machineries		•				
Transport equipment			•			
Precision instruments					•	
Arms/ ammunitions						•
Misc. manufactured articles						•
Works of art						•

Source: WTO Secretariat

1. *Trade measures affecting imports*

The reform of NTBs took place in 1998 and it was directed towards a simplification in procedures and the elimination of prior licenses. At present, an importer has to be registered annually by completing a Single Administrative Document that is similar to the one used in the EU. Another simplified measure is the pre-shipment inspection that has been replaced by a pre- declaration before goods are shipped. In this context a 25 percent deposit against possible duty must be paid. Eventually, if exempted products are traded, there is a US$ 50 administrative charge. To conclude, customs fix the exchange rate for the transaction.

As mentioned above, the main pillar in the tax system is the imposition of tariffs, duties, and charges. Since 1989 duties are *ad valorem* and Mozambique does not apply any seasonal duties, tariff quotas or variable levies. In 2000, in the system there were 133 duty- free items and the tariff structure for the others was escalatory in nature. This means that at different stages of processing there was a different tariff rate, in particular, imported primary goods have a 12.8 percent duty, semi- processed a 9.5 percent duty, while finished goods have a 16.6 percent duty.

This demonstrates that processed goods face a higher effective rate of protection (ERP) while there is a modest degree of protection for higher level processing activities which ultimately means higher costs for consumers.

Another measure is the import surcharge that is applied in three cases. The first one is sugar imports. It is not fixed but depends on the world price[22]. The objective is to attract investments to revive sugar production as all sugar plants were destroyed in civil war. Investors in this sector negotiate a price policy to assure profitability[23] since there is the surcharge over a minimum import price equal to the world minimum price. It is known as "Sugar price policy". The second one is a surcharge on cement with the intent to build a foundation for a domestic cement industry. It was introduced in 1997 and was fixed at 12.5 percent although the Government envisions a gradual phasing out. Lastly, a surcharge on steel sheets and tubes was introduced because of dumping attitude of RSA and Zimbabwe. These countries actually sold their steel products below market prices in the Mozambican economy. Indeed, in 1997 a surcharge of a certain percentage [24] was imposed on this import from all countries, not only these two.

The ones described above are the main provisions for imports. Some minor measures are:

1) Import restrictions. They are applied only for reasons of health, morals or counterfeiting (i.e. pornography, narcotic drugs, select used automobiles older than five years).

2) Import regulations and licensing. This regards certain medications, arms, explosives, certain used clothes, gold, silver, platinum, certain foreign and domestic currency, certain used tyres.

3) Reference prices. This is limited to imports of second- hand automobiles.

4) Minimum import prices. This represents an effort to eliminate undervaluing by small importers at land borders, and on the basis of these prices duties are collected. They are limited to agricultural products and in particular to fresh produce and condensed milk. In the latter case, it is a reaction to the entry of small quantities of products by small traders taking advantage of the price differences between RSA and Mozambique.

5) Excise taxes. This is limited to alcoholic beverages, tobacco, luxury goods and automobiles. For luxury products, it ranges from 15 to 65 percent and it is calculated as a percentage of the c.i.f. plus duties.

6) User fees. These are for goods exempt from duties. Importers should pay a fee of US$ 50 for each importation.

[22] In 2004 this tariff surcharge was structured in this way: for raw cane sugar and raw beetroot sugar there was a 77 percent surcharge, and for white sugar with flavourings/ colourings and other white sugars it was 54 percent. (Alfieri A., Cirera X., Rawlison A.(2006))

[23] It implies a nominal protection of about 60 percent.

[24] This surcharge is structured as follows: a 20 percent surcharge on corrugated iron/steel sheets, a 10.5 percent surcharge on both round tubes of iron/steel and others.

There is no regulation for antidumping, or safeguards in the Mozambican legislation. As a consequence, this kind of rule is directly implemented by SADC regulations. Rules of origin, then, are not often implemented and the law defines them as "*the country of origin of a product where it underwent its last relevant transformation*". Practically, this means that the addition of value added respect the final value of the good should be at least 35 percent.

2.*Trade measures affecting exports*

The reforms in the 1980s and 1990s were implemented to create a liberalized system that could attract foreign investments. As a consequence, foreign exchange control was abolished and the external sector was opened to external forces of supply and demand. Non- tariff barriers, such as export registrations and export licenses have been abolished to make export processes shorter, easier, faster and less cumbersome.

In the Mozambican system there are no export subsidies and no export taxes with the exception of an 18 percent surcharge on raw cashews. It grants protection to the domestic cashew processing industry increasing the price for poor small farmers and improving the incentives to revitalize cashew orchards.

At the end of 1999 the National Assembly passed a bill, known as "Cashew Nut Overvaluation Tax", raising the tax on exports of raw nuts from 14 percent to the current 18-22 percent.

Other minor measures include the following:

1) Export prohibitions. They are limited to foods that do not meet domestic standards, certain metal containers, counterfeit goods, ivory and ivory products, currency above a certain limit, art and cultural patrimony.

2) Measures restricting exports. They are decided by specified authorities for certain commodities. This is the case for animals and animal products, items of historical importance, gold and silver, poisonous and toxic substances, and narcotics that should be checked directly by the Veterinary Services, the Ministry of Culture, the Bank of Mozambique, and the Ministry of Health, respectively.

3) Duty and tax concessions. This measure is directed only to the special category of the companies in Export Processing Zones (EPZ). These were established in 1999 and the first one was the Beluluane Industrial Park followed by the MOZAL aluminium smelter in 2001. In order for an enterprise to be eligible to apply for EPZ status, it must satisfy two pre-requisites: it should export at least 85 percent of its annual production and employ at least 20 Mozambican workers (as long as there are at least 500 permanent jobs for Mozambicans in the EPZ). So, for customs purposes, an EPZ is treated as if it were offshore.

IV. Maputo's Offer to SADC

In December 1999 Mozambique submitted its first offer to SADC for its tariff phase- out and only in 2001 its implementation began. This offer comprised all the provisions established in the Protocol on Trade. This means it was differentiated between SADC Members and RSA. Each of them was presented in terms of product categories and the phasing out process would last until 2012 for SADC and SACU Members and until 2015 for RSA according to the special treatment reserved for Mozambique.

In the tables below (table 8 and 9) this offer is briefly depicted in terms of variations of import duties.

As previously cited, the first table shows that products of category A (immediate liberalization) faced an immediate zero percent import tariff starting in 2001. Products in category B (gradual liberalization) are divided into three subsections with different tariff rates (i.e. B1 presents the highest tariff while B22 the lowest) and their liberalization started only from year 6 to year 8 (i.e. 2006/ 2008) as the protocol grants to back loading member states. For category C (sensitive products) reductions start only after year 8 but a complete liberalization if maintained until 2012.

The purpose for RSA, as depicted in the second table, is similar. The only difference is the deadline for products in category C which will be liberalized until 2015.

An important facet to highlight is that the same product coming from a third country enters another category. More distinctively, goods in category A may enter categories B or C if they are produced in a third state. For category B, goods may enter either group B if they are Member States' products or group C if they are products from another African State.

Table 18: The Mozambican phase- out for SADC and SACU members

Cat. SADC	*Cat.Int.*	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
A	*A*	-	-	-	-	-	-	-	-				
B1	*B1*	30	30	25	25	25	20	10	-				
B2	*B21*	7.5	7.5	7.5	7.5	7.5	7.5	4	-				
B2	*B22*	5	5	5	5	5	5	3	-				
C1	*C1*	30	30	25	25	25	20	20	20	15	10	5	-
C2	*C21*	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	5	-
C2	*C22*	5	5	5	5	5	5	5	5	5	5	3	-
C2	*C23*	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	1	-
E	*E*												

Table 19: The Mozambican phase- out for RSA

Cat.SADC	*Cat.Int.*	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
A	*A*	-	-	-	-	-	-	-	-							
B1	*B1*	30	30	25	25	25	20	10	-							
B2	*B21*	7.5	7.5	7.5	7.5	7.5	7.5	4	-							
B2	*B22*	5	5	5	5	5	5	3	-							
C1	*C1*	30	30	25	25	25	20	20	20	15	15	15	10	10	10	-
C2	*C21*	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	5	5	3	3	-
C2	*C22*	5	5	5	5	5	5	5	5	5	5	4	3	2	1	-
C2	*C23*	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2	1	-
E	*E*															

Source: ***MIC Mozambique***
Note: the features are import duties

From a different perspective, the liberalization program may be seen and analyzed in terms of categories of products according to the HS system. In the table below, we present a timetable for liberalization respecting twenty- one merchandising groups. In more detail, we can divide them into three categories:

1) Agriculture. This includes animals, vegetables and products from them.

2) Mining. This is formed by mineral products.

3) Manufacturing. This is the widest and least homogeneous category. It comprises, for example, textiles, the chemical sector, paper, wood, food manufacturing, machinery and equipment.

Table 20: The Mozambican offer to SADC, SACU members and RSA

	SADC (exc. RSA)				RSA			
	Duty free in				*Duty free in*			
	2001	**2008**	**2012**	***Excl.***	**2001**	**2008**	**2012**	***Excl.***
totals	***1578***	***3351***	***298***	***19***	***1475***	***3382***	***370***	***19***
Live animals/products	44	125	42	2	31	133	47	2
Vegetables products	133	142	29	-	120	145	39	-
Animal/ vegetable oils & fat	14	19	15	-	13	19	16	-
Prepared foodstuff/ beverage	36	145	16	-	9	146	42	-
Mineral products	118	41	3	-	115	41	6	-
Products of chemical ind.	642	139	7	-	638	143	7	-
Plastics/ rubber	104	100	8	-	100	97	15	-
Raw hides/ skins	15	59	-	-	14	60	-	-
Wood/ articles of wood	16	67	-	-	15	67	1	-
Pulp of wood	37	110	1	-	36	110	2	-
Textile/ articles of textile	98	616	111	-	78	635	112	-
Footwear/ headgear /umbrella	4	53	-	-	2	55	-	-
Stone/ plaster cement	8	134	5	-	7	135	5	-
Natural/ cultured pearls	-	-	-	-	-	52	-	-
Base metals	154	389	34	-	151	381	45	-
Machineries/ mech. appliance	142	658	14	-	138	662	14	-
Vehicles/ aircraft/vessel	-	138	11	-	-	135	14	-
Optical/ photogr. equipment	2	235	-	-	2	235	-	-
Arms/ ammunitions	-	-	-	17	5	-	-	17
Misc. manufactured articles	10	122	2	-	1	124	5	-
Works of art	1	7	-	-	-	7	-	-

Source: ***WTO Secretariat***
Note: the features are the number of liberalized tariff lines

This table demonstrates how liberalization is faster for raw materials than for the manufacturing sector with a negative record for the textile and clothing sector. With respect to RSA the same thing happens and it demonstrates that the manufacturing sector has a higher degree of protection.

According to the SADC terminology and division into categories, we can easily determine the impact of each category on the total number of liberalized tariff lines and on the share of free trade. As we can see, 30 percent of goods in category A have no import duties when they are exported to SADC Members in 2001. In 2008, around 94 percent of tariff lines should be liberalized since in that year there is a contemporaneous liberalization of categories A and B.

Finally, by 2012, around 99.57 per cent of tariff lines will be liberalized with the exception being tariffs on the exclusion list (category E). Those count for only 0.43 percent.

Table 21: Relative shares of each category in the number of liberalized tariff lines for Mozambique (except RSA)

Category	*No. tariff lines*	*% total*
A	1613	30.04%
B1	1542	28.72%
B21	1350	25.14%
B22	541	10.07%
C1	233	4.34%
C21	55	1.02%
C22	7	0.13%
C23	6	0.11%
E	23	0.43%
totals	***5370***	***100%***

Source: ***MIC Mozambique***

The same reasoning may be applied to the liberalization towards RSA. In this case, the first is the liberalization of around 28 percent of tariff lines while at the end of 2008 the liberalized share was higher than 92 percent. This was caused by two categories (A, B) which were then fully liberalized. Then, the results were reached in the last two steps and increase the share of only 7 percentage points (from around 92.5 per cent to 99.48 percent). This small change in respect to a seven- year period is derived from the possibility of liberalizing trade for commodities of categories C in two steps instead of the unique implementation period decided for their trade within the SADC- SACU region.

Table 22: Relative shares of each category in the number of liberalized tariff lines for Mozambique (RSA)

Category	*No. tariff lines*	*% total*
A	1509	28.10%
B1	1568	29.20%
B21	1348	25.10%
B22	547	10.19%
C1	269	5.01%
C21	89	1.66%
C22	7	0.13%
C23	10	0.19%
E	23	0.43%
Totals	***5370***	***100%***

Source*: MIC Mozambique*

The purpose of this chapter was to examine the contents of the SADC Protocol on Trade and the effect that the creation of a Free Trade Area in the region may have, with an emphasis on Mozambique. It shows that this process is likely to be an opportunity for the region to grow through the expansions of small domestic markets. It is important since it represents both an increase on demand, namely an increase in the number of consumers, and a benefit on supply if SADC- FTA will be able to attract foreign direct investments and stimulate the full implementation of trans- borders and regional mega- projects.

The forecasts are positive in relation to the Mozambican experience. As previously described, there is a number of already accomplished projects and new opportunities to explore. These involve not only intra- SADC resources but also extra- African ones, namely from the United States, Switzerland, the United Kingdom, China, Portugal, Spain, and Canada. The manufacturing and the mining sectors seem to be the key elements for FTA's success since the agricultural sector is exceptionally protected as a response to the national special interests.

The agricultural example raises new concerns about the effective level of commitment of Member States and their true willingness to create a common market. In fact, this region presents an overlapping membership to many different regional agreements creating an environment of non- commitment to any of them.

Mozambique, as demonstrated, is the only Country belonging to a single REC. This choice may be critical. This may obligate them to accept provisions that are not the optimal ones but are the result of a compromise between special interests.

From an international perspective, SADC is an interesting experiment to follow as it develops. Since South- South integration is considered to be the best way to enter the globalized world economy for developing countries, it is sustained by all international organizations, especially in technical and capacity building. This is one of the objects of the established SADC- EU EPA besides the enlarging of markets.