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TRADE POLICY REVIEW

MOZAMBIQUE

Report by the Government

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Mozambique is attached.

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I. INTRODUCTION

1. Mozambique with a population of 17.5 million inhabitants, covers land area of 799,380 sq. km. in South Eastern Africa. The land consists of a wide coastal plain rising to mountains and bordering Tanzania, Zimbabwe, Zambia, Malawi, Swaziland and South Africa. It is characterized by a tropical climate with dry season running from April to September, during which time the climate is pleasant although nights can get chilly.

2. Mozambique is quickly transforming itself into a dynamic, credible and customer-friendly country able to provide a wide range of services. Capitalizing on its strategic location and supported by its key productive sectors: agriculture, fisheries, manufacturing, tourism, construction and electricity, Mozambique's economy is thriving.

3. Furthermore, she has registered strong economic performance over the last five years. Strong fiscal and monetary policies drastically reduced inflation to just 0.5 and 2% in 1998 and 1999, respectively. At the same time, the economy has achieved an average real growth of 10% per year over the period 1995 to 1999. Over the same period, the GDP per capita has increased significantly, from US$145 in 1995 to reach over US$240 in 1999. Though poverty remains widespread and average incomes are still very low, Mozambique can point to important record of economic achievements.

4. To support the overall policy changes, a streamlined service-oriented public sector is essential. To this end, customs reform, public sector review and the operational systems underpinning these are undergoing change. The Ministry of Industry and Trade in collaboration with the other Ministries is systematically working to significantly reduce administrative barriers to trade and investment. To kick start the manufacturing and industrial sectors and to boost exports, an industrial free zone regime has been established.

II. ECONOMIC AND INVESTMENT ENVIRONMENT

(1) MACROECONOMIC POLICIES

5. Mozambique is a relatively small economy located on the eastern side of southern Africa. Its GDP is estimated to have reached about US$4.2 billion dollars, in 1999. In U.S. dollar terms, GDP per capita grew by about 13,5% per year from 1995 to 1999. Part of this figure was due to changes in the exchange rate, but even in local currency terms, adjusted for inflation, real per capita GDP was rising by 7.4% per year over this period. This rapid growth is having a significant impact on poverty.

6. Although the budget deficit is still high- it is estimated at almost 12% of GDP in 1999- it is completely financed by international aid provided in the form of grants and concessional credits, as well as external debt deficit. Careful management of fiscal policy contributes to effective monetary policy, creating a sound basis for the continuation of a stable macroeconomic and financial environment. On the revenue side of the budget, the Government moved to broaden the tax base and boost revenue performance by introducing the value-added tax (VAT) in June 1999, in place of distortionary sales tax. In the first half year of its operation, the VAT contributed to a slight increase in revenue collections as a per cent of GDP, and the fiscal benefits should increase over time.

7. As a result of its good economic performance, Mozambique benefited from the highly indebted poor countries (HIPC) initiative and was granted some US$3.4 billion in debt relief, in the third quarter of 1999. The Mozambican economy is still highly dependent from foreign assistance, thus the current preparation of medium-term economic development and poverty reduction programme aims at addressing this sustainability issue.

8. Real interest rates are still high, reaching levels of about 13-14% per year. This is due to a combination of factors including the need to enhance competition in the banking sector, the high interest rates being paid on demand and time deposits, and the inherent risks associated with financial investments in a poor economy that only recently achieved stability. Over the past year, the real exchange rate has been relatively stable against the U.S. dollar, while appreciating slightly against the currency of Mozambique's main partner, the South African Rand.

9. Major structural reforms have also been pursued. The country has finalized the privatization of all state companies, and is currently preparing a strategy to deal with its remaining assets in the productive sector. A major civil service reform has also been implemented, with the definition of a new career and remuneration programme for government employees in April 1999. This programme aims to improve institutional capacities, the management of government agencies, and for the first time, the Government closed its 1998 budget accounts and submitted the records for auditing. These have also been submitted to Parliament. Hence, this is a major step towards fiscal efficiency, accountability, and transparency, and the process will continue from now on.

(2) FINANCIAL REFORMS

10. The main sources of growth in Mozambique have been a stable economic and political environment combined with strong structural reforms. For instance, the banking system is undergoing a carefully phased process of liberalization and reform. The last publicly owned commercial bank was privatized in 1997, and the Government budget has cleared all bad loans to state companies, in order to restructure and strengthen the banking system.

11. The decision brought a new era in Mozambique, by liberalizing the banking sector, the objective being to introduce competition and thereby improve the quality of services offered to clients through the participation of private banks and financial institutions. However, it enunciate the role and autonomy for the Bank of Mozambique (BM) to carry out its activities. Moreover, it set precedence for establishment of the capital market and securities authority in that spearheaded formation of the Mozambican Stock Exchange in 1999, with the objective of establishing a secondary market for securities and stock market.

12. However, since the capital/financial account of the Balance of Payment is yet to be fully liberalized, participation of foreign investors in Mozambique Stock Exchange is still limited. Liberalization of the banking sector removed monopoly of the state-owned banks and financial institutions by allowing participation of private sector through privatization and/or establishment of new ones thus creating competitiveness and hence efficiency in banking activities. By the end of 1999, banks and non-bank financial institutions were licensed and are operational. On the other hand, autonomy of the Bank of Mozambique was to ensure price stability in the economy.

(3) INVESTMENT POLICY

13. Mozambique's investment guide provides information on the huge economic potential and the range of trade and investment opportunities. Therefore, to take advantage of the country's economic potential, the Government has identified five major infrastructure, agriculture and industry development areas. These include the Maputo, Beira and Nacala development corridors, the Zambeze Valley and the Lubombo Spatial Development Initiatives. To realise the combined potential of these ideally located geographic areas; the Government invites serious project development partners. Public and private partnership in development is a nationally endorsed concept.

III. TRADE POLICY

(1) AGRICULTURE

14. Mozambique has immense agricultural potential, with an estimated 36 million hectares of arable land, with only 9 million currently in productive use. It is the backbone of the Mozambican economy, providing employment for 80% of the workforce, and contributing 25% to the GDP. The main exports are copra, cashew nuts, sugar cane, cotton fibre and tea. Other products include sisal, tobacco, mafurra and sunflower. In addition to the vast areas of arable land there are large tracts suitable for livestock. Following the war, livestock farming is very underdeveloped, with much of the present requirements having to be imported.

15. On particular needs are investments in poultry and pig production, and in the supply of feedstock to these industries.

16. Rehabilitation of the existing agriculture-related investments including roads, rail, ports and irrigation systems is a priority for the Government. This should facilitate new investments, and provide viable opportunities. Key areas of development of commercial farming include Chokwe, Massingir and Corumana which all have an existing network of irrigation.

(2) MANUFACTURING

17. A vigorous privatization programme, combined with strong foreign investment is having its impact on the manufacturing sector. Long neglected, there is a tremendous need for the upgrading of old plants, and investment in new sectors. The strong growth in the domestic economy, and not inconsiderable market of 18 million is currently under-served, and consumer goods industries should blossom.

18. The low cost electricity, combined with highly competitive wage ranges should act as a major catalyst for industrialization. To support this process generous investment incentives exist and the Government has introduced legislation allowing the establishment of free zones for exports oriented investments. Mozambique's preferential access to major markets in the U.S. and EU should act as a powerful magnate for many labour intensive industries. Manufacturing currently accounts for some 10% of the total, but with the Mozal Aluminium Smelter Project, the contribution of the manufacturing sector will rise significantly and should lay the platform for a massive downstream industry completely altering the structure of the Mozambican economy.

19. Priority sectors identified for development include:

- food processing and agro-industries (high priority- salt, sugar, copra, processed fish, processed fruits and cashew nuts; lower priority- milling, sisal, tea, bakery products, pasta processed meat, tobacco, animal feed, dairy products and liqueurs);

- textile and clothing industries (which do not face any quota restrictions);

- soaps and oils;

- chemical industry;

- metallurgy (downstream of Mozal, and other products);

- metal working industry (construction materials, heavy equipment, furniture, structures, tools and parts);
- packaging industry (wooden boxes, glass bottles, corrugated board, flexible packaging).

(3) TRADE POLICY IMPLEMENTATION

20. Mainly the Ministry of Industry and Trade carries out trade policy implementation in Mozambique under approval by the Mozambican Government. However, there are also a number of government departments or agencies, which play a role in the implementation of trade laws in Mozambique. The Government, in its revitalization programme, is committed to a policy of broad-based liberalization as well as price liberalization to encourage investment.

(4) MULTILATERAL, REGIONAL OR PREFERENTIAL TRADING AGREEMENTS

21. 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. Trade policies are formulated with view to speeding up Mozambique's industrialization process, and in such a way to make access to foreign markets easier for Mozambican products. In pursuing these objectives, Mozambique has entered into multilateral, regional bilateral and preferential trade agreements as mentioned below. Mozambique is a signatory of the WTO- World Trade Organization, World Bank, IMF- International Monetary Fund, Lomé Convention, SADC- Southern Africa Development Community, IOR- ARC Indian Ocean Rims Association For Regional Cooperation, AGOA- African Growth and Opportunity Act, GSP- Generalized Systems of Preferences and Trade Preferential Agreement with South Africa.

(5) BILATERAL TRADE AGREEMENTS

22. Mozambique is currently in a process of negotiations for bilateral trade agreements with the following countries: Algeria, Cuba, Egypt, India, Kenya, Malawi, Mauritius, Russia, Zambia and Zimbabwe.

23. Under these agreements, Mozambique and its contracting partners accord each other the MFN- Most Favoured Nation treatment in all matters with respect to their mutual trade relations. These agreements have been used as instruments for promoting trade and improving economic relations between Mozambique and these countries.

IV. EXTERNAL TRADE RELATIONS

(1) EXPORTS

24. Mozambique's export earnings, continue to be generated mainly from exports of primary agricultural products and seafood, including cashew nuts, prawns, cotton, sugar, timber, citrus and others. The major trading partners are South Africa, Portugal, Spain, the United States of America, and Japan.

(2) IMPORTS

25. The main imports are intermediate goods and capital goods. Energy imports, which include mainly electricity and petrol products, have ranged US$85-90 million a year in the period 1996-1999, and are expected to increase in 2000 as a result of the oil price increase.

26. In 1999, there was a general increase in the values of most categories, although imports of non-food industrial supplies were reduced in the previous years (1998 and 1999). This was mainly due to:

- the liberalization of trade, through the removal of import licensing, quantitative import restrictions and foreign exchange controls; and

- implementation of Mozal Smelter Project.

(3) BALANCE OF TRADE

27. Mozambique's balance of trade has been relatively stable, with a deficit of about US$550 million a year, during the period of 1995 to 1998. In 1999, the balance of trade deteriorated somewhat as a result of the construction for the Mega Aluminium Smelter Project, Mozal.

28. It should, however, be noted that even though liberalization has increased the volume of imports, exports have also grown but at a lower rate than imports.

V. INVESTMENT POLICY

(1) INVESTMENT PROMOTION CENTRE

29. Investment Promotion Centre is a public funded institution, which was established in February 1993 as a one-stop shop geared to promote investment in the country. CPI processes all applications for new investments and forwards recommendations to the Ministry of Finance and Planning for approval by the Minister. A general authority license is issued within one month with prior approval from the relevant authority in charge of issuing the License.

30. CPI provides the following services and assistance:

- promotion, reception and registration of investment project proposals;

- facilitation of the concession of fiscal and customs incentives to investors;

- identification of potential partners for joint-ventures;

- identification and dissemination of investment opportunities; and

- institutional assistance to investors in the implementation of investment projects.

(2) MAJOR INVESTMENT INCENTIVES

31. While the Government policy is to formulate and implement measures in favour of private sector investment, the following represent a summary of current incentives:

- exemption from customs duties and consumption and circulation tax on:

- equipment for carrying out project feasibility studies, and investment project implementation;

- building materials and equipment necessary to carry out an approved investment project;

- light passenger cars for company representation, provided that the relevant values do not exceed 1% of the value of the total project investment;

- raw materials, intermediate products and packaging materials for production of export goods, medicines, educational materials and foodstuffs;

- raw materials, intermediate products and packaging materials for production of other articles shall be exempted only for the first production cycle;

- 50% reduction the normal customs handling fees (thus paying only 2.5% of the total value of the above-mentioned imported goods; and

- foreign investor's and expatriate technical staff's personal belongings.

(3) EXPORT PROCESSING ZONES

(i) Scope

32. The Industrial Free Zone Regime applies to the two component parts of an Industrial Free Zone, namely:

- the development and operation of the Industrial Free Zone infrastructure or estate (Industrial Free Zone Developer); and

- the operation of an export oriented manufacturing, processing or services enterprise within an Industrial Free Zone (Industrial Free Zone Enterprise).

(ii) Requirements

33. There are two essential characteristics or requirements to qualify for Industrial Free Zone status:

- job creation for Mozambican nationals; and

- the production for export at least (85% of the product must be exported).

34. In the case of an Industrial Free Zone Developer, the establishment and management of the installations for such export production are required.

35. Once initially qualified for Industrial Free Zone status, the operating certificate is issued after construction and installation of the customs control and security procedures and installations.

(iii) Industrial Free Zone Tax and Customs Regime

36. Industrial Free Zone Developers enjoy an exemption from customs duties, VAT and Specific Consumption Tax (including when payable on internal acquisitions) on the importation of building

materials, machinery, equipment, accessories, accompanying spare parts and other goods destined for the establishment and operation of the Industrial Free Zone.

(iv) Tax

37. Industrial Free Zone Enterprise pays no income tax on manufacturing and other Industrial Free Zone activities. Income from the sale and rental of Industrial Free Zone installations and from the supply of services by Industrial Free Zone Developers is subject only to 1% fee on gross receipts from the quarterly invoices for these services from the seventh year onwards after the date of the issuance of the respective Certificate.

VI. MOZAMBIQUE AND THE WTO

(1) APPLICATION OF THE WTO AGREEMENTS

38. Since the coming into force of the Uruguay Round Agreements Mozambique like other SADC members, has been significantly beset by problems arising from the implementation of these agreements. Indeed the Geneva Ministerial Declaration duly recognized the marginalization of the least developed countries and certain small economies. Therefore, the effective implementation of WTO commitments by Mozambique, continues to be hampered by the lack of adequate financial, institutional, technological and technical capacities, a situation that will be exacerbated by our participation in new negotiations.

39. We call for renewed commitment to technical cooperation, through adequate provision of resources in the regular budget of the WTO and other core agencies according to their mandates. Furthermore, we emphasize the need for improved coordination in the delivery of this assistance as an urgent requirement to facilitate effective participation on our part.

40. The development perspectives should first and foremost achieve the objectives spelt out in the Preamble to the Marrakesh Agreement and should enable the world's people to share fully and equitably in the achievements of the multilateral trading system.

41. Consequently, this would bring about a sustained rise in the income of our country (as an LDC) and would offer real prospects for economic growth and poverty eradication in this new millennium. We believe that more attention should be devoted to ensuring degrees of flexibility to address the constraints faced by our country and others.

42. With regard to mandated negotiations, Mozambique acknowledges the vital role of the agricultural and services sectors to its economic growth and development. Therefore, the development of the agricultural sector in the country is crucial to trade growth, employment creation employment, environment protection and social cohesion. Bearing this in mind, the ongoing reform and liberalization of international agriculture trade should lead to improved access to world markets for all our agricultural exports. So, this should be achieved as follows:

- elimination of export subsidies which displace agricultural exports of developing countries or impact negatively on their domestic production;

- elimination of tariff escalation and tariff peaks;

- reduction in domestic support in the developed countries; and

- the obligation to formulate disciplines on export credits.

43. Beside this, it is important to note the greater effort that the Government of Mozambique is doing in fulfilling their obligations on the WTO agreements as an LDC, nevertheless some notifications must be done, taking into account the greater need of technical assistance and capacity building for better understanding of these agreements at all levels.

(2) MOZAMBIQUE'S POSITION REGARDING FUTURE NEGOTIATIONS

44. We attach particular importance towards achieving, among other outcomes, the following objectives:

- Improved market access for products originating in developing countries, through further lowering of trade barriers in areas of particular interest to these countries, such as agricultural products, textiles and clothing, among others.

- Extension of bound, duty-free and quota-free market accesses for all products originating in the LDCs. It is a well-known fact that these countries share of the international market is simply marginal (it declined from 0.8% in 1980 to 0.5% of world trade today, according to the 1999 UNCTAD report on LDCs). Duty-free and quota-free access for their products would represent a meaningful political commitment to helping them address some of the most daunting challenges of our time, such as the extreme poverty.

- Adoption and implementation of capacity building strategies and programmes aimed at addressing the inextricable link between increased market access and improved supply capacity. The elimination of trade barriers needs to be complemented by appropriate measures to help the LDCs overcome their infrastructure and institutional weaknesses, including investment areas such as health care, education and other social concerns. We need a WTO that actively engages in a real partnership with the United Nations, the Bretton Woods institutions and other international organizations in the search for and adoption of integrated and effective technical assistance strategies, tailored to developing countries needs, including appropriate funding mechanisms.

- Adoption of a new global partnership that involves advancing sustainable development strategies that put people at the centre stage of development, by the provision of basic human development levels for all people. A partnership that involves a constructive dialogue between governments, the private sector, the NGOs, the civil society at large, and ultimately, a partnership that entails a strong support to developing countries and the LDCs in their efforts to integrate themselves into the world economy, by focusing on the identification of targets and objectives such as poverty eradication, improved market access to health, education and food security. As an LDC, Mozambique believes in the merits of a new round of trade negotiations that encompasses a development dimension.

- Greater understanding of the need to embrace more creative solutions to debt relief. While we appreciate the HIPC initiative, we would like to emphasize the importance of improving its implementation mechanisms. In this regard, we would also like to praise the efforts currently being undertaken by G-7 and the Bretton Woods institutions, and urge developed countries to seize this momentum and embark on efforts aimed at matching debt relief with improved market access initiatives. This is crucial for the effective mainstreaming of the LDCs into the multilateral trading system.

- Concurrence of the entire WTO membership to the need to renew the waiver granted to ACP-EU countries in order to allow the continuation of existing trading arrangements until the end of the preparatory period and beyond, if necessary. This will help address specific trade concerns and needs of 71 developing countries, comprising 48 LDCs and 29 WTO Members. We believe that the reasons underlying the extension of this waiver still prevail and deserve positive consideration by WTO Members.

(3) CONCLUSION

45. Bearing the above in mind, we would like to stress that trade cannot be seen as an end itself, nor can it be seen as the only answer to the challenges facing today's world. We need investment, infrastructure, education, training and skills to take advantage of the opportunities offered by globalization and liberalization. Therefore, we favour an approach that includes embracing new creative cooperation paradigms, in order to turn trade relations into an important tool in our endeavours to provide better living standards to our people.