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Mozambique Trade Brief

Trade Policy

Mozambique has staged a remarkable recovery following 16 years of civil war that ended in the early 1990s, successfully embarking on a program of trade reforms. As a result, it has one of the most open trade regimes in Africa as reflected in its MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 5.7 percent, well below both the Sub-Saharan Africa (SSA) and low-income country group averages of 11.3 percent and 11.6 percent, respectively. Based on the TTRI, it ranks 65th out of 125 countries (where 1st is least restrictive). The agricultural sector remains more protected (6.8 percent) than the non-agricultural sector (5.5 percent). Mozambique has five tariff bands (0, 2.5, 5, 7.5, and 20 percent) with the highest tariff rate applied to basic food products such as meat, fish, fruits, vegetables, beverages, and clothing. Mozambique also applies surtaxes on imports of sugar, cement, and certain galvanized steel products and imposes an export tax of 18 percent on raw cashews.[2] The country's latest average MFN applied tariff is 10.3 percent, a noticeable decline from its value of over 15 percent in the mid 1990s. The maximum MFN applied tariff, excluding alcohol and tobacco, is 20 percent. Although Mozambique has bound tariffs on all agricultural products at a ceiling rate of 100 percent under its Uruguay Round commitments, bindings on non-agricultural products are very limited (only 19 tariff lines have been bound at either 5 percent or 15 percent)[3], resulting in a trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), of 84.5 percent. Regarding its commitment to liberalizing services trade, Mozambique ranks 120th (out of 148) on the GATS Commitments Index.

In 2008, to cope with the food crisis, Mozambique established an agreement with Vietnam to import 400,000 tons of rice each year for the next three years. Furthermore, due to high commodity prices, the government suspended duties on imports of fuel and food.

External Environment

Mozambique's Market Access TTRI[4] including preferences is 0.8 percent, reflecting favorable market access when compared to the SSA (3.9 percent) and low-income (5.6 percent) averages. The weighted average overall rest of the world tariff (including preferences) faced by its exports is 2.3 percent, with its agricultural exports facing much higher tariff barriers (12.4 percent) than its non-agricultural products (0.5 percent). Mozambique's currency, the metical, appreciated by 6 percent against the U.S. dollar in nominal terms in 2008, making exports more expensive in foreign currency terms.

Mozambique belongs to the 15-member Southern African Development Community (SADC) whose Trade Protocol, which was signed in 1996 and came into force in 2000, culminated in the launch of a free trade area in August 2008. As negotiations between the seven-country SADC Economic Partnership Agreement (EPA) group and the EU towards a comprehensive EPA could not be completed prior to the December 2007 deadline, Mozambique signed an "interim" agreement with the EU in June 2009. The country continues to negotiate a comprehensive EPA with the EU as part of the SADC EPA group.

Behind the Border Constraints

Mozambique remained in the bottom 30 percent of international business environments in 2009, being ranked 135th out of 183 countries, in the Ease of Doing Business index. In addition, Mozambique scores 2.29, on a scale of 1 to 5, on the Logistics Performance Index (LPI), a measure of the extent of trade facilitation in the country, in line with the low-income average but below the SSA average of 2.35. It ranks 110th (out of 150) in the world and 22nd (out of 39) in the SSA region (with South Africa leading the

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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regional group). Among the LPI subcategories, the country's best performance is in lowering domestic logistics costs and ensuring the timeliness of shipments in reaching their destination, while its weakest performance is in the ability to track and trace shipments.

Trade Outcomes

In real terms (in constant 2000 U.S. dollars), trade grew at 8.9 percent in 2008, after a 5.4 percent contraction in 2007, but is expected to fall again by 0.7 percent in 2009. Imports increased by 11.4 percent in 2008 following a 2.1 percent fall in 2007, driven in part by increases in imported capital goods for ongoing investment projects. Buoyed by the first exports of titanium from the Moma mining project, but dampened by a fall in aluminium exports owing to energy shortages, exports grew at 6.8 percent following an 8.2 percent fall in 2007. Exports will continue to register positive growth of 2 percent in 2009 but imports are expected to fall by 3 percent.

In nominal terms, trade grew at 16.5 percent in 2008 more than twice the growth rate of 5.9 percent in 2007. Import growth was 20.2 percent in 2008, a sharp acceleration from the 7.6 percent growth rate in 2007, and export growth accelerated to 11.8 percent from 3.7 percent in 2008. Goods exports grew at a higher rate of 10 percent in 2008 compared to 1.3 percent in 2007, but are expected to contract by 31 percent in 2009. National statistics[5] show that goods exports had already declined by 36 percent in nominal U.S. dollar terms in the first quarter of 2009 compared to the same period in 2008. Services export growth outpaced that of goods exports in 2008, with services exports increasing by 21 percent compared to 18.7 percent in 2007. Services export growth is, however, expected to slow to 9.3 percent in 2009. FDI flows into the country in 2008 were 6 percent of GDP, mainly targeted at projects on aluminium, gas and electricity exports to South Africa.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. WTO, 2009.
3. WTO, 2009.
4. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
5. Bank of Mozambique, 2008, 2009.

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