

Mozambique: Thinking About Trade

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Outline

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1. Background

The Context

- Growth, trade and poverty reduction
 - *International experience: import-led growth (SE Asia, Mauritius, China) the greatest tool for poverty reduction; openness necessary but not sufficient*
- Missed opportunities

Choices and Interests

- Many paths – how to choose?
 - *Multilateral (WTO; unilateral) vs. preferential (reciprocal and non-reciprocal; bilateral; regional; South-South; North-South)*
- Be realistic about influence on global and regional rules
- Use negotiations to promote own interests; do not be misled by mercantilist fictions

2. 'Trade Relations' Options

SADC Trade Protocol

- Problems:
 - *Small size (less than Turkey): SADC useful only if used as a platform for improving global competitiveness*
 - *Rules of origin: will frustrate any benefits of tariff liberalization*

SADC Trade Protocol

- Solutions:
 - *Improve rules of origin*
 - *Frontload tariff reductions, especially with South Africa*
 - *Link MFN and SADC tariff reductions to avoid trade diversion and speed global integration*
 - *Tighten provisions on safeguards and infant industries*

Regional Bilaterals

- Regional bilaterals are prone to trade diversion and rent-seeking, often promoting activities that are globally uncompetitive
- They strengthen interests opposed to more general trade liberalization

North-South Bilaterals

- Except for a few key sectors, low tariffs in the North make market access benefits small
- Rules of origin often a barrier (EU; textiles)
 - *EU rules should be a warning, not a model, for SADC*
- Main benefits will arise from domestic liberalization, not only in goods, but also in services, etc.
 - *but this can and should be done on an MFN basis*

WTO

- The biggest losers from a failed WTO round will be poor countries, not because of failure to get 'concessions' from the North, but rather from a lost opportunity to open their own borders and deal with even more important 'behind the border' issues
- Among poor countries, the biggest winners from any failure (or success) will be those that move ahead on these issues as quickly as possible

3. An Agenda for Mozambique

Focus on Domestic Reform

- Mozambique's comparative advantage is in improving its own policies, not those in the US or EU
 - *More control*
 - *Far greater impact*
- The focus needs to be the entire regulatory regime, at the border and behind the border
 - *Good trade policies work best with a good domestic environment*

Import Policies

- MFN tariff structure
 - *high rates on final goods, surcharges, cascading*
- Customs and trade facilitation
 - *excessive focus on revenue and control*
 - *Frigo is unique to Mozambique – put all imports in cold storage for at least a week before release*

Export Policies

- The best export incentive is easy importing (import-led growth)
 - *EPZ and other import facilities (VAT, duty drawbacks, etc.) as immediate and unconditional first steps*
- Regulations, red tape, poor infrastructure, weak service sectors tax exports
 - *"Singapore issues" are really Mozambique issues*
- Export taxes and restrictions hurt the poorest

Investment Environment

- Mozambique is a 'high cost' economy, and this is due largely to well known domestic policy failures
 - *laws and regulation: labor and land laws, financial regulation, business licensing, legal system*
 - *infrastructure and services: roads, transport, telecoms, education*
- Improvements in all these areas are a necessary complement to trade policy reform

4. Concluding Remarks

Can Mozambique Compete?

- Yes – but it requires an environment that encourages and facilitates investment, employment, imports and exports
- The current regime raises costs, rewards rent-seeking and discourages competition

Geneva, Gaborone, or Maputo?

- Many of the most important things are made in Mozambique; this is especially true of the policies needed to unleash the potential and promote the welfare of the citizens of this beautiful country

Background Papers

<http://qed.econ.queensu.ca/faculty/flatters>