Mozambique

1. Introduction

Mozambique, which has an estimated population of 19.9-million people (World Bank, 2006), is located on Africa's southeast coast and bordered by Tanzania to the north, Malawi, Zambia and Zimbabwe to the west, and South Africa and Swaziland to the south. The country, colonised by the Portuguese in the 16th and 17th centuries, gained its independence in 1975. From 1978, Mozambique was governed by a Marxist-Leninist Constitution which was replaced in 1990 by a multiparty system and a new Constitution. In 1987, the country joined the Bretton Woods Institutions and embarked on a process of economic reform involving privatisation of formerly government-owned enterprises and a shift towards a market-based economy. The reforms were also aimed at reversing the economic decline caused by the civil war, the massive exodus of skilled labour and entrepreneurs, most of whom were Portuguese expatriates, and the inappropriate macroeconomic policies in place since independence.

With the end of the civil war in 1992, the country increased its trade flows with the rest of the world. In terms of exports, traditionally, it has exported fish and crustaceans (mainly prawns), aluminium and natural gas. Exports of key products, such as prawns, sugar, tobacco and wood, have been increasing. Aluminium exports now comprise almost two thirds of the country's export revenue. The economy has been growing at an average rate of 7% per annum for the period 2000-2005 yet economic growth has been affected, in part, by the country's lack of capacity for producing the capital goods needed to spur economic growth and development. Consequently, imports have been dominated by mechanical and electrical machinery, vehicles, iron and other inputs needed by several mega-projects underway in the country.[1] Mozambique does not produce enough cereal for its own needs and that makes it a net importer of cereals. Food security therefore remains a key issue for the country.

2. Economy

The Mozambican economy has experienced significant growth for most of the last decade. There are several reasons for this. Good macroeconomic policies were introduced after independence in 1990. These political and economic reforms brought about stability, reduced large external capital inflows and reintegrated the economy gradually

[1] The concept of a "mega-project" refers to the big investment projects under way in Mozambique. Examples of these projects include the US$2-billion aluminium smelter project, Mozal; the SASOL natural gas project; the Kenmare Heavy Sands project; and the Cahora-Bassa hydroelectric dam project.

Table 1: Mozambique's macroeconomic indicators: 2000-2005

	2000	2001	2002	2003	2004	2005
GDP growth	1.9	13.1	8.2	7.8	7.2	7.7
Unemployment*	21	21	21	21	21	21
Inflation	11.4	21.9	9.1	13.8	9.1	14.0
Investment to GDP ratio	33.5	25.9	29.8	25.9	22.6	20.4
Savings to GDP ratio	33.5	25.9	29.8	25.9	20.1	
Budget deficit to GDP ratio	-5.8	-6.1	-7.0	-4.5	-4.5	-2.3
Current account deficit to GDP ratio	12.9	12.5	13.3	9.2	5.2	8.8
Capital account surplus to GDP ratio	9.1	7.5	-12.4	13.6	8.0	3.6
US$ exchange rate	16,985	22,885	23,180	23,341	22,123	24,183
ZAR exchange rate	2,335	2,553	2,399	3,255	3,525	3,817

Source: World Bank (http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MOZAMBIQUEEXTN/0,,menuPK:382158~pagePK:141132~piPK:141109~theSitePK:382131,00.html). * Official unemployment rates based on the 1997 Census. A new Census is scheduled for 2008 when more accurate statistics will be available.

into both regional and global markets. Additionally, the country has had generous support from the international community. Despite its rapid economic growth, Mozambique remains one of the poorest countries in the world, with 54.1% of its population living below the poverty line.[2] Unemployment is also a serious problem.

Trade has played an important role in spurring growth in Mozambique. Gross earnings from exports grew significantly over the last five years, from Mts15,330bn in 2001 to Mts40,239bn. That increase was largely due to the rise, from 2000, in aluminium exports. Exports from other sectors, including traditional products such as cotton, sugar, cashew nuts and marine products, have followed a more erratic pattern. Imports have increased sharply as a result of gas, electricity, aluminium and sand imports required by the country's mega-projects.

Substantial improvements have been made in pursuit of the goal of macroeconomic stability. The government has targeted a single-digit inflation rate of 6%[3], although in 2003 (with a rate of 13.8%) and 2005 (with a rate of 14%), those targets were not met. Poor revenue collection was identified as one of the factors for the high dependency on foreign aid: almost 50% of the budget is donor-funded. Currency exchange rates, relative to the US dollar and the South African Rand, were stable despite strong depreciation against those two currencies in 2001 (where depreciation was equivalent to 35% against the US$ and 9% against the ZAR). That depreciation was partly due to the Mozambique's low economic performance in 2000 and linked to the floods experienced in the country that year. Yet despite the country's positive growth performance, Mozambique has a structural trade balance deficit. Low production capacity, the declining and erratic prices of primary commodities and the high oil price will contribute towards maintaining that deficit in the short to medium term.

[2] The International Monetary Fund and the International Development Association, http://www.imf.org/external/pubs/ft/scr/2005/cr05313.pdf (last accessed on 15/10/07).

[3] The Bank of Mozambique targets base money, that is, the sum of notes a nd coins in circulation and in the banks' reserves. In 2007, in order to achieve a 6% inflation rate, base money growth was targeted to grow by 15%.

3. Structure and patterns of trade

3.1 Trade balance

Table 2: Mozambique trade balance with the world, South Africa and the RoSADC: 2001-2005 (Mts m)

	2001	2002	2003	2004	2005	Compounded growth rate (%)
Exports to world	15,330,861	15,802,488	24,369,468	33,577,433	40,239,941	27.3
Imports from world	21,350,773	29,615,420	40,932,814	45,032,888	55,510,050	27.0
Trade balance with world	-6,019,912	-13,812,933	-16,563,346	-11,455,456	-15,270,110	
Exports to SA	2,216,137	2,968,289	3,963,337	4,760,256	6,522,491	31.0
Imports from SA	7,361,853	7,426,361	14,754,261	20,562,281	24,069,292	34.5
Trade balance with SA	-5,145,716	-4,458,072	-10,790,924	-15,802,025	-17,546,801	
Exports to RoSADC	988,735	1,137,985	2,025,991	1,886,188	2,473,829	25.8
Imports from RoSADC	466,482	824,615	1,443,721	1,830,195	2,289,338	48.8
Trade balance with RoSADC	522,253	313,369	582,270	55,993	184,490	

As is evident in Table 2, Mozambique's trade balance has been consistently in deficit for all trade regions – the world, the SADC and South Africa. The low productive base of the economy is partially responsible for this deficit. Although exports have been growing at an average of more than 20% per annum for the period 2000-2005, imports over the period have been growing at a slightly larger average rate. The mega-projects are responsible for the growth in both exports and imports, with the main imports being fuel, machinery, transport equipment, plastic, iron and steel. Overall, the trade balance has narrowed over time but the balance of payments' deficit has widened despite the huge inflows of external aid.[4]

Overall, the terms of trade have exhibited a negative pattern, as is shown in Table 2. In 2004, there was a strong improvement and that was due, first, to the exporting of natural gas to South Africa and second, to the sharp rise in world market prices of primary commodities such as prawns, unprocessed cashew nuts, sugar and tobacco – all of which are key exports for Mozambique. Since 2000, there have been major economic reforms that have impacted directly on the country's trade structure. Before the reforms were introduced, there were approximately 12 tariff lines, an average weighted tariff rate of 18.4% and a maximum tariff rate of 35%. There were also a large number of ad hoc exemptions and a 40% tax on cashew exports. In the post-reform environment, tariff lines were reduced from 12 to five and the average import weighted tariff was lowered to 7%. In 2006, the maximum tariff was lowered to 20%, the tax on cashew exports was reduced from 40% to 18% and a number of ad hoc exemptions were eliminated.

[4] It must be noted that these inflows, although offering support to the budget, create a major challenge for the monetary authorities' efforts to sterilise the build-up of liquidity in the economy which results from the government's spending of that aid.

3.1.1. Exports and imports by region

Table 3: Exports and imports by region: 2005

Region	Export value (Mts m)	Exports (%)	Import value (Mts m)	Imports (%)
World	33,755	100.00	43,645	100.00
SADC	6,537	19.37	22,392	51.31
European Union	22,964	68.03	6,101	13.98
Mercosur	1	0.00	876	2.01
Rest of Africa	97	0.29	246	0.56
Oceania	1	0.00	69	0.16
Rest of Americas (excl. Mercosur)	8	0.02	38	0.09
Rest of Asia	1,337	3.96	3,295	7.55
Rest of Europe	175	0.52	354	0.81
Eastern Asia	815	2.41	1,237	2.83
Other regions	1,620	5.39	7,851	17.99

Mozambique's main trading partners are the EU and SADC (see Table 3). The 2005 exports and imports data show a strong dependence on the EU and SADC.[5] Exports to the EU include aluminium and marine products while electricity and natural gas are exported to SADC and specifically to South Africa. Exports to Asia are dominated by prawns, cotton and wood products. Mozambique sources most of its imports from South Africa and these imports include the bulk of its consumer and capital goods such as electricity, machinery, vehicles and iron. Electricity is a large component of the country's intra-industry trade. This is explored further in Section 6. Crude oil is the major import from the rest of Asia. Further, two trade blocks have increased their share of total imports into Mozambique. The first is the Common Market of the South (Mercosur)[6] and the second is the China. These changes are a result of explicit trade decisions made by China and Brazil towards Mozambique.

[5] The SADC market is dominated by South Africa, which also happens to be the biggest source of imports for Mozambique.

[6] Mercosur consists of Brazil, Argentina, Uruguay and Paraguay.

3.2 Top 10 sources of imports and destinations for exports

Table 4: Top 10 sources of imports and destinations for exports: 2005

	Exports			Imports		
	Country	Value (Mts m)	Share of total (%)	Country	Value (Mts m)	Share of total (%)
	World	40,247,318	100.0	World	55,538,611	100.0
1	The Netherlands	24,046,408	59.7	South Africa	24,070,238	43.3
2	South Africa	6,522,491	16.2	Portugal	2,049,569	3.7
3	Zimbabawe	1,180,660	2.9	India	1,568,969	2.8
4	Malawi	1,125,640	2.8	United States	1,470,430	2.6
5	United States	883,704	2.2	China	1,433,851	2.6
6	China	767,478	1.9	Thailand	973,147	1.8
7	Spain	756,828	1.9	United Arab Emirates	961,235	1.7
8	India	583,601	1.5	Vietnam	710,220	1.3
9	Portugal	494,590	1.2	Spain	700,716	1.3
10	France	309,552	0.8	Malawi	678,818	1.2

Disaggregated data in Table 4 show the most relevant trading partners for Mozambique, and from that it is clear that South Africa is a major trading partner both in terms of exports and imports. It is worth noting that within SADC, although no other country besides South Africa has had a substantial share of Mozambican trade, Malawi is becoming an important player (see section 3.3 for further details).

Mozambique's principal export destination is the Netherlands, to which all of its aluminium is exported. The Rotterdam Hub plays an important role in the transhipment of aluminium to other destinations. Previously, the aluminium used to be transported through Belgium. Other export destinations include South Africa, for electricity and natural gas, and Malawi, for tea, cotton and textiles, and maize. Exports to the US include mainly cashew nuts, some textiles – which are exported under the AGOA – and fish and fish products. China is an export market destination for cotton, wood and marine products, while India, which consumes unprocessed cashew nuts, is becoming an important destination for Mozambican exports. The US, Spain and Portugal are other top export destinations for Mozambican prawns.

More than 40% of Mozambique's imports come from South Africa and include mostly electricity (which is exported although part of it is again imported later), machinery, vehicles, consumer goods and iron. While it is possible to identify a pattern in the products sourced from South Africa, Mozambique also imports a wide variety of consumer and capital goods from other countries such as Portugal (processed foodstuff), India (rice and processed foodstuff), the US (maize and other cereals), China (rice, processed foodstuff, medical equipment, chemical products and clinker), Thailand and Viet Nam (rice) and the UAE (crude oil).

3.3 Fastest growing import and export partners

Table 5: Fastest grow ing trade partners: 2000-2005

Imports			Exports		
Country	**Value 2005 (Mts m)**	**Average growth 2001-2005 (%)**	**Country**	**V alue 2005 (Mts m)**	**Average growth 2001-2005 (%) ***
Viet Nam	710,220	335 .30	The Netherlands	24,046,408	358.03
Malawi	678,800	170.19	China	767,478	159.00
Thailand	973,147	110.39	India	583,601	87.74
Brazil	478,185	69.92	Malawi	1,125,640	64.52
Spain	700,716	61.31	United States	883,704	47.59
Namibia	513,179	53.26	South Africa	6,522,491	30.10
Singapore	480,022	51.75	Spain	756,828	9.33
Germany	664,571	51.35	Portugal	494,590	0.03
China	1,433,851	49.12	Not specified	1,979,362	-25.18
Argentina	602,678	47.34			

* Growth rate calculated from trendlines

Mozambique's trade with Asia, which includes Viet Nam, Thailand, Singapore and China, has been growing significantly over the period 2001-2005 (see Table 5). Wood and cotton exports to Asia account for the fastest export growths to that region.

Within SADC, trade with Malawi is largely informal and mostly in agricultural products such as maize, rice and beans. Mozambique exports maize to the central and northern regions of Malawi and imports rice, beans, and soft and alcoholic drinks from that country. The capacity to monitor cross-border trade and the movement of people is minimal despite efforts by Mozambican Customs to address this issue. Rapid growth in trade between Malawi and Mozambique is largely due to Mozambican improvement in data collection capacity which has made it possible to capture and register previously unregistered trade flows.

Mozambique has strengthened its economic ties with Brazil and Argentina, mostly for foodstuff products. Other fast growing exports are wood (to China), unprocessed cashew nuts (to India), processed cashew nuts (to the US), marine products (to the EU and the US) and textiles (to the US as per the AGOA provisions).

3.4 Commodity composition of trade

Table 6: Commodity composition of imports: 2005

Product	Share of total imports from world (%)	Share of total imports from South Africa (%)	Share of total imports from RoSADC (%)
C01: Animals (live) and animal products; Section I	2.55	1.32	23.73
C02: Vegetable products; Section II	8.04	2.24	2.58
C03: Fats and oils (animal or vegetable); Section III	1.45	0.91	0.07
C04: Prepared foodstuffs, beverages and tobacco; Section IV	2.59	2.20	18.71
C05: Mineral products; Section V	17.29	37.24	1.75
C06: Chemical products; Section VI	5.31	5.51	9.54
C07: Plastics and rubber; Section VII	2.68	2.81	1.36
C08: Leather products; Section VIII	0.12	0.07	0.01
C09: Wood products; Section IX	0.46	0.82	1.33
C10: Paper products; Section X	3.46	3.09	21.61
C11: Textile products; Section XI	2.29	1.16	2.57
C12: Footwear, headgear and umbrellas; Section XII	0.41	0.22	0.09
C13: Stone, cement and glass products; Section XIII	0.94	0.86	1.46
C14: Pearls and precious stones; Section XIV	0.01	0.00	0.00
C15: Metal products; Section XV	5.19	7.81	1.44
C16: Machinery; Section XVI	14.31	14.66	8.65
C17: Vehicles, aircraft and vessels; Section XVII	11.39	16.25	4.56
C18: Photographic instruments, clocks and musical instruments; Section XVIII	1.46	1.38	0.13
C19: Arms and ammunition; Section XIX	0.01	0.00	0.00
C20: Furniture, toys and other products; Section XX	1.23	1.44	0.44
C21: Works of art and antiques; Section XXI	0.00	0.00	0.00
C22: Commodities not elsewhere specified (n.e.s.) XXII	18.80	0.00	0.00

The commodity composition of imports is consistent with Mozambique's trade pattern as a developing economy: it imports mainly manufactured goods and exports mainly primary goods (see Table 6). Again, it is worth noting that South Africa is its main source of machinery and vehicles imports. Mozambique also imports mineral products from South Africa and these gas and petrol products are mostly for domestic and industrial use. Imports from the rest of the world are dominated heavily by crude oil. Trade with the rest of SADC continues to be led by imports of live animals from Swaziland and is linked to government efforts to increase the population of specific types of animals in the country. Other important imports from SADC include textiles from Swaziland and Lesotho.

Table 7: Commodity composition of exports: 2005

Product	Share of total exports to world (%)	Share of total exports to South Africa %)	Share of total exports to RoSADC (%)
C01: Animals (live) and animal products; Section I	4.90	5.25	1.65
C02: Vegetable products; Section II	3.72	1.95	20.72
C03: Fats and oils (animal or vegetable); Section III	0.24	0.58	0.90
C04: Prepared foodstuffs, beverages and tobacco; Section IV	4.95	1.22	24.37
C05: Mineral products; Section V	15.53	73.80	44.17
C06: Chemical products; Section VI	0.07	0.08	0.09
C07: Plastics and rubber; Section VII	0.53	0.04	0.59
C08: Leather products; Section VIII	0.00	0.00	0.02
C09: Wood products; Section IX	1.85	0.59	0.06
C10: Paper products; Section X	1.00	5.44	0.04
C11: Textile products; Section XI	2.71	0.85	2.22
C12: Footwear, headgear and umbrellas; Section XII	0.00	0.00	0.01
C13: Stone, cement and glass products; Section XIII	0.09	0.44	0.07
C14: Pearls and precious stones; Section XIV	0.07	0.21	0.02
C15: Metal products; Section XV	60.33	3.33	0.75
C16: Machinery; Section XVI	2.25	4.80	1.97
C17: Vehicles, aircraft and vessels; Section XVII	1.21	0.88	2.26
C18: Photographic instruments, clocks and musical instruments; Section XVIII	0.09	0.43	0.01
C19: Arms and ammunition; Section XIX	0.00	0.00	0.00
C20: Furniture, toys and other products; Section XX	0.02	0.08	0.05
C21: Works of art and antiques; Section XXI	0.02	0.01	0.02
C22: Commodities n.e..s. XXII	0.41	0.00	0.00

Metal products, especially aluminium, are the country's main exports to the world (equalling 60%), while gas and electricity are the main exports to South Africa (almost 74%). Exports to SADC are dominated by foodstuff and beverages, and mineral products such as pearls and precious stones. This fact explains, in part, the low diversification of its export partners: South Africa (electricity and natural gas), the EU (aluminium and marine products), the US (cashew nuts and textiles) and Asia (wood and cotton).

This commodity composition of exports poses some medium- and long-term challenges to Mozambique's growth prospects and poverty reduction goals. The nature of the exports (as clusters) limits the potential of high growth to function as a poverty reduction mechanism. Although there are high export revenue from agriculture products such as cashew nuts, cotton and tobacco, the market structure, where few companies dominate the industry, hinder producers from getting better prices for their output.

3.5 Fastest growing import and export commodities

3.5.1 Fastest growing export commodities

Analysis of Mozambique's fastest growing exports reflects, first, the recovery of certain industries, such as the sugar industry; second, the emergence of new products such as natural gas; and third, that tobacco exports, which for years had experienced declining production levels, have grown quite impressively over the last decade. The same applies to wood products, perhaps because they are linked to a wood export strategy, which are becoming an important source of revenue for Mozambique. The export of marine products, mainly to Europe and South Africa, is also one of the most important revenue sources. Exports to the world, as is evident in Table 8, reflect the recovery and growth of some traditional crops, such as cashew nuts (24%), tobacco (64%), sugar (65%) and tea (172%), in the economy. The pattern is consistent with the country's historical comparative advantage in crop markets for sugar, cashew nuts and tobacco. In addition, the fact that lost production capacity has been recovered in the post-civil war explains some of the high growth rates seen in these markets.

Table 8: Fastest growing exports to the world: 2000-2005

Product	Value 2005 (Mts m)	Growth * (%)
H49: Printed books, newspapers, pictures etcetera	382,896	677.99
H09: Coffee, tea, mate and spices	405,075	171.97
H39: Plastics and articles thereof	208,231	73.36
H12: Oil seed, oleagic fruits, grain, seed, fruit, etcetera, n.e.s.	298,728	68.78
H17: Sugars and sugar confectionery	895,635	64.58
H24: Tobacco and manufactured tobacco substitutes	997,253	63.71
H27: Mineral fuels, oils, distillation products, etcetera	6,171,856	44.32
H44: Wood and articles of wood, wood charcoal	744,965	35.45
H08: Edible fruit, nuts, peel of citrus fruit, melons	555,227	23.72
H03: Fish, crustaceans, molluscs, aquatic invertebrates n.e.s.	1,956,446	-0.94

* Growth rate calculated from time trend regression analysis

Two of the fastest growing exports to the world are driven by trade in the SADC region: natural gas exports to South Africa (44%) and tea exports (172%) to Malawi. More than 70% of Mozambique's exports to South Africa comprise natural gas and electricity. Natural gas is one of the fastest growing markets for Mozambique, with growth of 80%, as reported in Table 9, and is a result of investment by global petrochemical group Sasol.

Table 9: Fastest growing exports to South Africa: 2000-2005

Product	Value 2005 (Mts m)	Growth * (%)
H49: Printed books, newspapers, pictures, etcetera	352,696	1,115.62
H84: Nuclear reactors, boilers, machinery, etcetera	280,147	97.83
H27: Mineral fuels, oils, distillation products, etcetera	4,784,472	80.41
H73: Articles of iron or steel	145,140	4.08

* Growth rate calculated from time trend regression analysis

Table 10 shows trade with the rest of SADC and confirms the role of Malawi as the second most important trade partner for Mozambique in the region, as well as the growing importance of tea (302%) and tobacco exports (47%) in the country's export profile. Mozambique exports to Malawi mainly agricultural products, beverages and foodstuffs, specifically tea (in unprocessed and processed forms) and tobacco. Another important export to Malawi is cereals but most of that trade is not fully captured because of smuggling taking place across the borders of the two countries.

Table 10: Fastest growing exports to the rest of SADC: 2000-2005

Product	Value 2005 (Mts m)	Growth * (%)
H09: Coffee, tea, mate and spices	371,331	301.70
H24: Tobacco and manufactured tobacco substitutes	598,318	47.34

* Growth rate calculated from time trend regression analysis

3.5.2 Fastest growing import commodities

The persistent food shortage in Mozambique explains the high value of imports for processed food from the world. In general, imports from the world are mainly foodstuffs. The fastest growing import commodities are meat (84%), dairy products (63%), and grains and seed (63%). The fastest growing imports in terms of value are cereals (29%), and this category includes the imports of rice from Asia (specifically, Thailand and Bangladesh), and maize (from the US).

Table 11: Fastest growing imports from the world: 2000-2005

Product	Value 2005 (Mts m)	Average growth * (2000-05) *
H02: Meat and edible meat offal	206,946	84.15
H04: Dairy products, eggs, honey, edible animal product n.e.s.	515,108	63.19
H12: Oil seed, oleagic fruits, grain, seed, fruit, etcetera, n.e.s.	116,350	63.14
H15: Animal, vegetable fats and oils, cleavage products, etcetera	803,137	44.02
H03: Fish, crustaceans, molluscs, aquatic invertebrates n.e.s.	649,182	40.09
H17: Sugars and sugar confectionery	268,184	36.79
H20: Vegetable, fruit, nut, food preparations, etcetera	119,535	35.91
H10: Cereals	3,971,378	28.96
H11: Milling products, malt, starches, inulin, wheat gluten	213,582	22.26
H19: Cereal, flour, starch, milk preparations and products	130,870	14.16

* Growth rate calculated from time trend regression analysis

Among all imports from South Africa, those with the highest share of total imports are processed food and mineral fuels for domestic consumption and industrial use, as shown in Table 12. The growth of imports of electricity (under H27) reflects first, the high demand for this product by the Mozal, Sasol and Kenmare projects, and second, government efforts to increase household consumption levels, as only 6% of Mozambican households have access to electricity.[7]

Table 12: Fastest growing imports from South Africa: 2000-2005

Product	Value 2005 (Mts m)	Average growth * 2000-05 (%)
H31: Fertilisers	347,341	89.45
H23: Residues, wastes of food industry, animal fodder	136,166	47.45
H33: Essential oils, perfumes, cosmetics, toiletries	120,902	45.04
H27: Mineral fuels, oils, distillation products, etcetera	8,530,287	44.14
H15: Animal, vegetable fats and oils, cleavage products, etcetera	219,242	43.41
H11: Milling products, malt, starches, inulin, wheat gluten	153,209	42.95
H04: Dairy products, eggs, honey, edible animal product n.e.s	170,896	35.82
H10: Cereals	201,652	27.85
H34: Soaps, lubricants, waxes, candles, modelling pastes	255,497	26.06
H25: Salt, sulphur, earth, stone, plaster, lime and cement	433,054	19.41

* Growth rate calculated from time trend regression analysis

As is evident in Table 13, certain imports from SADC are increasing rapidly. This is driven by increases in imports from Swaziland (sugar and sugar confectionary, 307%), Namibia (marine products, 53%) and printed materials (154%) from Swaziland, Malawi and Zimbabwe.

Table 13: Fastest growing imports from the RoSADC: 2005

Product	Value 2005 (Mts m).	Average growth * (%)
H17: Sugars and sugar confectionery	147,359	307.71
H49: Printed books, newspapers, pictures etcetera	448,944	153.53
H33: Essential oils, perfumes, cosmetics, toiletries	158,791	68.17
H03: Fish, crustaceans, molluscs, aquatic invertebrates	506,045	53.40
H24: Tobacco and manufactured tobacco substitutes	228,844	31.54

* Growth rate calculated from time trend regression analysis

[7] http://www.villagereach.org/MOZ_project.htm (last accessed on 07/10/2007).

4. Describing trade

Trade intensity figures suggest that Mozambique trades mostly with other SADC countries and exhibits a preference for importing from SADC relative to the rest of the world. This is consistent with the SADC Trade Protocol, which allows for greater trade liberalisation between the countries of the region.

The Trade Complementarily Index (TCI), as captured in Table 14, indicates that Mozambique is not a major trading partner for any other country. If the indices were calculated with aluminum and electricity excluded, the indicators would be even lower.

Table 14: Trade intensities for exports and imports

	2000	2001	2002	2003
Export intensities	40.77	13.80	12.26	13.11
Import intensities	3.93	5.91	4.90	7.06
Trade Complementarity Index	0.84	0.54	0.56	0.74

The Trade Concentration Indices (Hirschman Indexes) reflect the fact that Mozambique's exports are concentrated around a few products and dominated by the product needs of the country's mega-projects. Imports are more diversified than exports, implying that there country imports a range of consumer and capital goods, a pattern which is consistent with Mozambique's low level of industrialisation. The same pattern of trade concentration is found in the data on trade with SADC and with South Africa. Trade concentration can eventually decrease because more products, such as cotton, cashew nuts and tobacco, are emerging as important sources of revenues.

Table 15: Hirschmann indices: 2000-2004

	2000	2001	2002	2003	2004
Exports to the world	0.140	0.324	0.310	0.318	0.385
Imports from the world	0.026	0.072	0.127	0.036	0.050
Exports to SADC	0.120	0.105	0.100	0.282	0.227
Imports from SADC	0.025	0.106	0.033	0.021	0.069
Exports to South Africa	0.579	0.502	0.502	0.166	0.281
Imports from South Africa	0.037	0.085	0.174	0.081	0.101

5. Revealed comparative advantage

Mozambique has the potential to become a key player in the aluminum world market; this is evident from its Revealed Comparative Advantage (RCA) index of 54. Potentially, the country can increase its share of the world market in other products, too, including sugar, prawns, tobacco, cashew nuts and cotton. Besides aluminum, those products in which the country can have an RCA in the world market are all primary goods and include sugar, marine products, tobacco and cashew nuts. However, primary goods' world prices tend to be erratic or in decline and that can affect the prospects for growth. Worth noting, too, is that aluminum and marine products are not labour-intensive products and that reduces the prospects of increasing the income of the poor. Aluminum and sugar are processed exports, while fish, tobacco and cashew nuts[8] are all unprocessed exports (exported in raw form, without any value addition).

Table 16: Revealed comparative advantage with respect to the world: top 20 commodities (HS2) in 2004

Product	Index value	Exports (Mts m)
H76: Aluminium and articles thereof	54.43	23,577,213
H17: Sugars and sugar confectionery	10.30	895,635
H24: Tobacco and manufactured tobacco substitutes	9.18	997,253
H03: Fish, crustaceans, molluscs, aquatic invertebrates n.e.s.	8.42	1,956,446
H09: Coffee, tea, mate and spices	6.21	405,075
H52: Cotton	3.88	835,588
H08: Edible fruit, nuts, peel of citrus fruit, melons	2.94	555,227
H49: Printed books, newspapers, pictures etcetera	2.36	382,896
H53: Vegetable textile fibres nes, paper yarn, woven fabric	2.22	39,148
H12: Oil seed, oleagic fruits, grain, seed, fruit, etcetera	2.12	298,728
H27: Mineral fuels, oils, distillation products, etcetera	1.91	6,171,856
H44: Wood and articles of wood, wood charcoal	1.67	744,965
H11: Milling products, malt, starches, inulin, wheat gluten	1.36	49,315
H07: Edible vegetables and certain roots and tubers	0.72	103,971
H23: Residues, wastes of food industry, animal fodder	0.65	89,248
H73: Articles of iron or steel	0.59	407,093
H15: Animal,vegetable fats and oils, cleavage products, etcetera	0.55	94,669
H25: Salt, sulphur, earth, stone, plaster, lime and cement	0.43	44,479
H10: Cereals	0.36	76,217
H78: Lead and articles thereof	0.34	4,272
H88: Aircraft, spacecraft and parts thereof	0.34	187,145

[8] A significant portion of cashew nuts are exported in unprocessed form to India. With the slow recovery of the domestic industry for cashew processing, a decline in unprocessed cashew nuts can be expected.

6. Intra-industry trade

Describing intra-industry trade requires attention to specific circumstances that existed in 2005, which do not necessarily reflect Mozambique's standard trade pattern. Key examples include equipment and heavy machinery imports, as part of the expansion of the Mozal plant, and the construction of the heavy sands project. The top four categories accounting for intra-industry trade with South Africa are also among the most important for the rest of the world (see Table 17). Excluding the Netherlands (to which it exports aluminium), most of Mozambique's trade takes place with South Africa.

Table 17: Intra-industry trade with the world: top 15 commodities (HS4) in 2005

Commodity	Grubel-Lloyd index	Exports (Mts m)	Imports (Mts m)
H8429: Self-propelled earth moving, road making, etcetera machines	1.00	190,296.83	190,856.08
H8803: Parts of aircraft, spacecraft, etcetera	0.99	39,025.90	38,292.56
H4907: Documents of title (bonds etcetera), unused stamps etcetera	0.93	379,807.46	434,526.92
H6205: Men's or boys' shirts	0.92	18,499.85	15,880.30
H4407: Wood sawn, chipped lengthwise, sliced or peeled	0.92	108,820.32	92,771.51
H8802: Aircraft, spacecraft, satellites	0.91	148,119.08	123,744.73
H8426: Derricks, cranes, straddle carriers, crane trucks	0.91	16,753.78	20,208.84
H3923: Containers, bobbins and packages, of plastics	0.89	195,363.44	156,596.26
H1101: Wheat or meslin flour	0.86	44,776.91	33,635.09
H7615: Aluminium ware for table, kitchen, sanitary use	0.77	23,932.70	15,075.64
H0709: Vegetables n.e.s., fresh or chilled	0.76	11,253.54	6,849.84
H7310: Tank, cask, box, container, iron/steel, capacity <300l	0.73	74,248.81	128,308.62
H2716: Electrical energy	0.72	3,270,056.76	1,839,658.82
H8711: Motorcycles, bicycles etcetera with auxiliary motor	0.69	167,915.46	88,118.95
H3303: Perfumes and toilet waters	0.67	13,921.05	27,607.89

The index with South Africa (Table 18) captures the important products in which trade occurs at an intra-industry level – wood, vegetables, electric equipment and electricity. Electricity is the most relevant product in terms of transaction size. Mozambique exports electricity from the Cahora-Bassa hydroelectric dam to South Africa, part of which is re-exported back to Mozambique. Energy imports are driven by the mega-projects' growing demand for resources for aluminium and heavy sands production. The remaining intra-industry trade indicators capture the strong interdependence of the two economies; for example, Mozambique exports cotton and imports manufactured cloths. It also imports machinery and vehicles, including construction equipment.[9]

[9] An analysis of trade data with South Africa should note the effect of 'temporary imports/exports' of heavy equipment and machines (used mostly for construction) by South African companies bidding for public works projects in Mozambique, and also the effect of the use of the Maputo Hub by South Africa's Mpumalanga province.

Table 18: Intra-industry trade with the South Africa: top 15 commodities (HS4) in 2005

Commodity	Grubel-Lloyd index	Exports (Mts m)	Imports (Mts m)
H6205: Men's or boys' shirts	0.95	6,948.95	7,623.93
H8429: Self-propelled earth moving, road making, etcetera machines	0.93	126,292.86	110,153.37
H2716: Electrical energy	0.88	2,319,940.85	1,839,658.82
H6902: Refractory brick, block, tile etcetera, not siliceous-earths	0.79	2,309.75	1,508.28
H8426: Derricks, cranes, straddle carriers, crane trucks	0.76	15,396.33	9,349.60
H7310: Tank, cask, box, container, iron/steel, capacity <300l	0.64	58,560.09	123,737.27
H6109: T-shirts, singlets and other vests, knit or crochet	0.63	8,693.40	18,733.52
H1202: Ground-nuts, not roasted or otherwise cooked	0.61	79,097.77	34,552.85
H9026: Equipment to measure fluid flow, level, pressure, etcetera	0.54	14,453.58	39,100.52
H4407: Wood sawn, chipped lengthwise, sliced or peeled	0.51	25,961.79	74,898.18
H8413: Pumps for liquids	0.51	31,979.43	92,577.39
H7306: Tube, pipe of iron or steel, except seamless > 406.4mm	0.50	73,921.02	24,446.18
H6305: Sacks and bags of a kind used for packing of goods	0.47	3,294.15	10,584.45
H8705: Special purpose motor vehicles	0.46	12,534.62	42,356.27
H0303: Fish, frozen, whole	0.44	29,068.56	101,678.72

Trade with the rest of SADC is marginal and the indices are typically very low. Relevant intra-industry trade takes place in the tobacco and maize markets between Malawi and the north and central provinces of Mozambique. The use of the Mozambican port of Beira by Malawi, Zambia and Zimbabwe should be taken into consideration when interpreting the data in Table 19 because the indices can capture 'goods in transit' from and /or to those countries.

Table 19: Intra-industry trade with the RoSADC: Top 15 commodities (HS4) in 2005

Commodity	Grubel-Lloyd index	Exports (Mts m)	Imports (Mts m)
H8704: Motor vehicles for the transport of goods	0.97	41,046.84	43,178.10
H8701: Tractors (other than works, warehouse equipment)	0.82	6,915.30	9,917.48
H8427: Fork-lift trucks, other trucks with lifting equipment	0.80	4,645.85	7,004.59
H3923: Containers, bobbins and packages, of plastics	0.79	9,893.13	6,454.33
H1207: Oil seeds and oleaginous fruits n.e.s.	0.72	3,602.46	6,458.56
H7308: Structures, parts of structures of iron or steel n.e.s.	0.64	11,282.10	5,368.11
H2306: Oil-cake other than soya-bean or groundnut	0.58	2,483.11	1,024.75
H2401: Tobacco unmanufactured, tobacco refuse	0.55	598,317.79	227,675.38
H8429: Self-propelled earth moving, road making, etcetera machines	0.49	33,278.68	10,801.49
H6305: Sacks and bags of a kind used for packing of goods	0.47	5,525.41	17,949.89
H2523: Cement (portland, aluminous, slag or hydraulic)	0.46	5,619.40	19,068.82
H8703: Motor vehicles for transport of persons (except buses)	0.42	2,693.41	10,132.01
H1005: Maize (corn)	0.39	68,311.26	16,789.48
H3925: Plastic articles for use in construction n.e.s.	0.35	3,785.08	806.21

7. Summary of trade agreements planned and currently in force

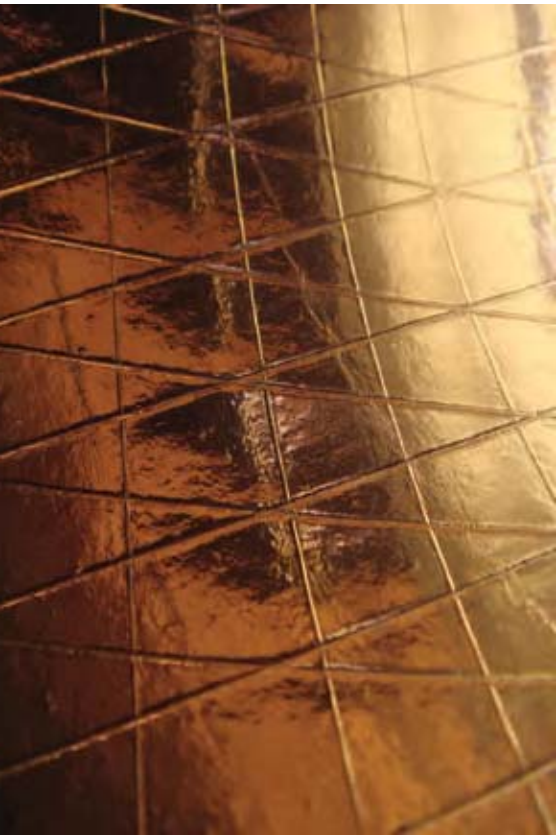
Mozambique is party to the SADC Trade Protocol and a beneficiary of the AGOA, Everything But Arms (EBA) and the Cotonou Partnership Agreement (CPA). In addition, under the Generalised System of Preferences, Mozambique benefits from preferential tariff treatment from Australia, Canada, Japan and New Zealand, while India grants preferential access under the Global System of Trade Preferences (GSTP). In 1986, Denmark, Finland, Norway and Sweden signed the Nordic-SADC accord that provides market opportunities for SADC-made products at highly favourable terms. As of 2008, Mozambique also has a bilateral trade agreement with Zimbabwe and is negotiating another with Malawi.

The country is currently participating in discussions regarding its future participation in an Economic Partnership Agreement (EPA) as part of a SADC negotiating group – an agreement which is to replace the soon-to-expire Cotonou Partnership Agreement. Mozambican membership of the Southern African Customs Union (SACU) is another potential trade agreement under consideration.

As indicated earlier, despite several years of implementation of the SADC Trade Protocol, the data analysed in this report suggest that Mozambique has yet to take full advantage of the opportunities of exporting to SADC.

Although Mozambique is already implementing the SADC Trade Protocol, which aims to establish a free trade area between Mozambique and SADC countries by 2012 (and by 2015, with South Africa), increase competition in the domestic market and potentially involve some trade diversion, its impact for Mozambique may be limited by the fact that South Africa is a fairly competitive producer with pre-existing preferential access to the Mozambican market. Furthermore, Mozambique's trade profile remains fairly similar to its fellow SADC member states, limiting the potential for further trade.

Regarding SACU membership, Mozambique already enjoys duty- and quota-free access to virtually all SACU markets – to the extent that SACU membership would make no material difference to Mozambican exports. Additionally, phasing out of tariffs against SACU goods will, if anything, simply accelerate the SADC Trade Protocol's objectives. Perhaps the main threat associated with joining SACU is the adoption of SACU's MFN tariff structure which has a higher than average tariff level, albeit a lower weighted average tariff, and a much more complicated tariff structure than Mozambique's prevailing one. Adoption of this tariff structure, which reflects South Africa's industrial interests, would not necessarily be in Mozambique's interests and may even lead to a more complex institutional setting for the Mozambican private sector and authorities. This potentially reduces Mozambican competitiveness.



8. Conclusion

For most of the past three decades, Mozambique was engulfed in a civil war that left millions of people dead and its economy in tatters. During the years of the war a significant number of skilled labour emigrated and foreign direct investment was scarce. However, in the early 1990s things changed. The civil war ended and foreign investors saw an opportunity to invest in the country. Mozambique's trade with the rest of the world started to increase. Economic growth for the last decade has averaged more than 5% per annum.

However, like most of the SADC countries, the structure of trade in Mozambique has not changed, owing in part to the supply-side constraints ever present in developing African countries. One such constraint is the shortage of skilled labour and the lack of free-market institutions to support economic growth. Another notable constraint is the lack of infrastructure, including well-maintained and quality telecommunications systems. Against all these constraints Mozambique trade continues to grow.

Trade with the rest of the world has soared. Exports rose from Mts15,330bn in 2001 to Mts40,240bn in 2005. On the other hand imports grew from Mts21,351bn in 2001 to Mts55,510bn in 2005. Electricity is a large component of the country's intra-industry trade. Mozambique both exports and imports electricity from South Africa.

Mozambique's trade deficit is large, a result of the economy's low productive base and existing pattern of exports (mostly primary products) and imports (mostly manufactured goods). The country's main export commodities include traditional crops such as cashew nuts, cotton, tobacco, marine products and sugar, and significantly, new commodities such as natural gas, electricity and aluminium. Gas and electricity are exported to South Africa and aluminium is exported to the EU. Imports are more diversified than exports, both in terms of commodity composition and sources, and comprise predominantly consumer and capital goods, especially those needed by the country's mega-projects. Mozambique's high dependence on export revenue from a few export products poses serious concerns, especially in terms of the country's economic growth and poverty reduction goals.

South Africa and the EU are Mozambique's two major trading partners. Almost 70% of the export revenues, according to 2005 data, were from aluminium exports to the EU; exports to South Africa accounted for about 15% of the total. Trade between Mozambique and other SADC countries is minimal, yet there is evidence of growing importance of trade flows with Malawi.

Mozambique implements the SADC Trade Protocol, which should boost trade in the region, although it is unlikely that a high level of integration with South Africa will be secured by the Free Trade Area.