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DISCUSSION PAPER No. 338

Lessons from SADC for the AfCFTA: The case of Mozambique

By Bruce Byiers, Poorva Karkare and Samuel Zita

March 2023

Mozambique has signed and recently ratified the African Continental Free Trade Area (AfCFTA) agreement. This study review's the country's experience of the Southern African Development Community (SADC) Protocol on Trade in Goods and draws lessons for designing AfCFTA-related policies.

Collected evidence suggests that, while imports to Mozambique have been rising, much of this is from outside Africa, while imports from the region are arguably not driven by the SADC free trade agreement (FTA) per sé. Administrative, logistic and infrastructure hurdles have limited the use of the SADC FTA and thus its impact, while evidence suggests that the main tariff reductions led to lower levels of misreporting and border corruption rather than increasing import volumes. Although this does not preclude some competition from SADC imports, it implies that the overall effect of the SADC FTA has been limited in terms of displacing industries or stimulating structural change.

Mozambican exports to South Africa and the region grew over the SADC FTA implementation period but these relate primarily to the extractive sectors. Nonetheless, Mozambique has seen some 'new' export products over the last 15 years, with documented cases of small-scale SADC-focused investments.

These examples, and the challenges of using the SADC FTA should offer guidance for taking advantage of the AfCFTA. The paper concludes that the political momentum around the AfCFTA and recent industrial policy efforts can, and should, be used as a tool to promote job-creating exports to SADC and the continent through a problem-solving approach to promote further export development.

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Acknowledgements

This Discussion Paper summarises work carried out for an assignment commissioned by UNDP Mozambique at the request of the Mozambican Ministry of Economy and Finance. This paper thus reflects the analysis and views of the authors only and not those of UNDP or the Mozambican Government. The authors would like to thank the following for their useful comments and suggestions on earlier versions of the work on which this paper draws: Alex Warren, Enilde Sarmento, Luis Sitoe, Angelo Mondlane, Agonias António Macia and Michael Sambo. Corresponding author: Bruce Byiers - bby@ecdpm.org.

Acronyms

AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
AU	African Union
CGE	Computable general equilibrium
COMESA	Common Market for Eastern and Southern Africa
CONSADC	National SADC Commission
DRC	Democratic Republic of the Congo
EAC	Eastern African Community
EBA	Everything But Arms
ECDPM	European Centre for Development Policy Management
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free trade area
GDP	Gross domestic product
GTAP	Global Trade Analysis Project
GVC	Global value chain
MFN	Most-favoured nation
MIC	Ministry of Industry and Commerce
MINEC	Ministry of Foreign Affairs and Cooperation
MSME	Micro, small and medium enterprise
NTB	Non-tariff barrier
NTM	Non-tariff measure
NTFC	National Trade Facilitation Committee
OECD	Organisation for Economic Cooperation and Development
PRONAI	National Programme to Industrialise Mozambique
REC	Regional economic community
RISDP	Regional Indicative Strategic Development Plan
RoO	Rule of origin
RVC	Regional value chain
SACU	Southern African Customs Union
SADC	Southern African Development Community
SPS	Sanitary and phytosanitary
TFA	Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organisation

1. Introduction

Mozambique is the 47th country to ratify the African Continental Free Trade Agreement (AfCFTA) (AfCFTA Secretariat 2023). Thinking ahead to implementing the agreement, this paper reviews the country's experience with the Southern African Development Community (SADC) Protocol on Trade in Goods, in terms of its implementation and its impacts.[1] That includes some of the challenges found in actually using the SADC free trade area (FTA), providing lessons that might help the Mozambican government and partners to maximise the benefits from the AfCFTA.

The benefits of regional trade agreements are expected to arise through access to cheaper products and more choice for consumers and producers, and access to larger regional markets for exports. In turn, expanded markets should encourage foreign and domestic investment and firm growth, and with them rising employment and incomes, thus helping to reduce poverty. However, cheaper imports can also undermine local production; inputs for production may not be found in the region or continent; while demand in the region for a country's exports may be limited. Trade agreements must also be correctly implemented and utilised by the private sector for any benefits to accrue.

The gains from trade are thus not automatic and, anecdotally, many question whether or not Mozambique has benefited from the SADC FTA.

This study reviews the evidence on its effects in Mozambique and the implications of these experiences for what will be a wider continental FTA. Given the challenge of identifying causal relations between trade liberalisation and economic growth or poverty reduction, this study adopts a pragmatic approach. We discuss existing data and analyses of the different channels through which the SADC Trade Protocol may have impacted on the Mozambican economy, namely through export growth and diversification and import effects.

We examine the changes seen over the implementation period for these different channels and discuss their possible link to the SADC Trade Protocol. As well as discussing evidence for *impacts*, data on low preference utilisation rates also raises the need to discuss four main *implementation* challenges that have affected that impact, namely: i) complex rules of origin; ii) non-tariff barriers; iii) a complex business environment; iv) ineffective institutional structures and industrial policy.

The study combines desk-based analysis of data and literature with stakeholder interviews.[2] Given the objective of drawing lessons for policymakers and their partners, we lay emphasis on understanding how Mozambican public and private actors have experienced SADC regional trade and trade policy to form a picture of how the AfCFTA process might play out in practice.

[1] The 16 SADC Member States are: Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe.

[2] Due to Covid-19, the international team members were prohibited from travelling to Mozambique, while even within Mozambique restrictions seriously restricted the ability of the team to meet with stakeholders face-to-face. Online discussions were used as an alternative option. 25 entities were interviewed.

The following three main points emerge for Mozambican policymakers in thinking about the AfCFTA:

1. SADC, especially South Africa, has been and will likely remain the main trading partner for Mozambique in Africa, even with the AfCFTA. Given that the AfCFTA will coexist with, rather than replace, the SADC Free Trade Area, the immediate regional market should be the target of export development efforts.

2. Costs associated with using the SADC FTA and wider issues that hold back investment, export expansion, and indeed imports of inputs, have a greater economic impact than tariff liberalisation, suggesting government efforts should focus on these.

3. The AfCFTA can, and should, be used as a basis for relaunching efforts to promote job-creating exports to SADC and the continent, through a problem-solving approach to resolve bottlenecks, building on the recent industrial policy - PRONAI - to prioritise key export-focused actions.

The remainder of the study is organised as follows: Section 2 discusses the Mozambican SADC FTA commitments before looking at the evidence of its impact through exports, imported inputs, and import competition. The section then discusses the challenges of using the FTA in practice. Section 3 summarises estimates of likely impacts of the AfCFTA on the Mozambican economy before summarising analyses on some of the sectors that may offer new export opportunities under the AfCFTA and the government's recently launched industrial policy operational instrument. Section 4 summarises and provides some recommendations for policy, with a focus on establishing a *process* for uncovering challenges to companies seeking to trade more.

2. Mozambique and the SADC Trade Protocol

2.1. SADC trade commitments

The SADC region, established in its current form in 1992, comprises 16 Southern African countries.[3] Though cooperation in trade, industry, finance, investment and mining all feature in the SADC Treaty of 1992, The Protocol on Trade in Goods was signed in 1996 and came into force in 2001 after ratification by the requisite two-thirds of member states. Following a process of gradual tariff reductions, the SADC Free Trade Area (FTA) was thus established in 2008 though, as we shall see, full liberalisation of Mozambique towards South Africa was only completed in 2015.

Mozambique also signed the *SADC Protocol on Trade in Services* along with other SADC Heads of State in 2012 but by July 2021 only 10 countries had ratified the Protocol, thus falling short of reaching the two-thirds of members to come into force (SADC 2021). SADC member states also signed the SADC Finance and Investment Protocol in August 2006. Although Mozambique ratified the protocol in June 2008 and it came into force in April 2010, there has been little implementation progress since then, with a recent assessment discussed in December 2022 questioning "whether the amendments and additions to the Protocol since 2011 are implementable within the context of SADC's existing capacities".[4]

[3] "Nine neighbours of apartheid South Africa established the Coordination Conference (SADCC) Southern African Development in 1980... After the independence of Namibia, the Windhoek Treaty transformed SADCC into the Southern African Development Community in 1992. With Namibia, South Africa became the 11th member in 1994, followed soon by Mauritius, the Democratic Republic of the Congo (DRC) and the Seychelles. Madagascar joined in 2005, bringing SADC membership to 15. Comoros joined in 2018, bringing SADC membership to 16 countries (Vanheukelom and Bertelsmann-Scott 2016).

[4] The December 2022 workshop is summarised here: https://www.sadc.int/latest-news/senior-officials-sadc-discuss-finance-and-investment-protocol.

Table 1 shows the key milestones of the SADC trade and investment regimes.[5] The remainder of this paper focuses on trade in goods.

Table 1: SADC milestones and targets

Year	Milestones and Targets
1996	SADC Protocol on Trade in Goods Agreement signed including Mozambique
2000	Entry into force of SADC Protocol on Trade in Goods
2001	Mozambique: liberalisation of 30% of tariff lines (1604 tariff lines) to SADC Protocol on Trade in Goods members except South Africa; Southern African Customs Union (SACU) member states: liberalisation 64% of tariff lines
2005	SACU member states: liberalisation of 94% of tariff lines
2006	SADC Protocol on Finance and Investment signed including Mozambique
2008	Launch of FTA: 85 % of intra-SADC goods trade flows reached a duty-free status
2010	Entry into force of the SADC Finance and Investment Protocol
2012	SADC tariff phase-down on sensitive goods for non-South Africa trade; SADC Trade in Services Protocol signed
2015	Full tariff phase-down for all including Mozambique to South Africa, except 20 tariff lines (arms, ammunitions and ivory)

Source: Authors, data from the SADC Protocol on Trade in Goods (1996) and Trade in Services Protocol (2012)

Mozambique's tariff offer to other SADC parties meant that 30% of a total of 5,347 tariff lines were immediately liberalised for trade in goods in 2001, rising to 99.6% in 2012 (Autoridade Tributaria 2019, unpublished). However, given Mozambique's backloaded tariff liberalisation towards South Africa, tariffs on products such as fresh fruits and vegetables and specific consumer goods only saw substantial cuts in 2008, with full liberalisation arriving in 2015.

On the export side, South Africa and other SACU countries liberalised 64% of tariff lines for imports from Mozambique and other SADC countries in 2001, rising to 94% in 2005 and 99% in 2008 (SATH 2011a). As such, Mozambican market access to SADC and South Africa in particular has been gradually rising since 2001.

Even if 2008 saw tariff liberalisation on a wide range of goods, the gradual liberalisation of tariffs on more sensitive sectors between 2012 and 2015 make it hard to detect clear shifts in import behaviour. Further, for some products the tariff reductions were partially offset by additional excise taxes and surtaxes. A variable surtax was introduced on sugar and 20% on zinc sheets, cement and iron/steel tubes, with excise taxes on tobacco, cashew nuts, vehicles and wood, thus adding to the protection and revenue generation around those sectors.

[5] The SADC Trade Protocol has been amended twice: in 2001 and 2017. The second amendment sought to clarify the procedures for derogations on tariff reductions given a perception that these were being abused and applied unilaterally. Nonetheless, the amendment was ultimately "not an improvement" and was "unlikely to result in increased compliance" given that the ultimate decisions would be made by the Council of Ministers of Trade, and therefore be "political in nature" rather than rules-based (Erasmus 2017).

The phased trade liberalisation across products and partners combined with the offsetting of some tariff reductions impose difficulties in identifying a clear impact from the SADC Protocol on Trade in Goods. The next section reviews existing studies and related data to determine the impacts of the SADC Protocol on Trade in Goods, and discusses the degree to which the identified patterns can be attributed to the tariff reductions.

2.2. SADC Trade Protocol impacts on Mozambique

Unclear regional SADC trade effects

Estimating trade and regional integration effects is a challenge. As one seminal report puts it, "there are no general comparative static results about whether trade liberalisation will increase or reduce poverty", due in large part to "the very specific conditions which shape which channel dominates between export and consumption benefits, and competition effects (Winters et al. 2004). Similarly, studies of the linkages between trade liberalisation and growth are broadly inconclusive, while the few empirical studies on the African regional economic communities (RECs) that exist have "methodological shortcomings" (IMF 2021).[6] As such, clearly identifying the effects of SADC trade liberalisation on Mozambique is a challenge.

Nonetheless, a recent review of the effects of regional trade liberalisation finds that SADC and the East African Community (EAC) have outperformed all other regional FTAs in boosting intra-regional trade (World Bank 2021b). The study associates this with "their investment in trade facilitation, the level of synergy between national and regional goals, the density of economic activity and the advancement in the quantity and quality of regional infrastructure".

However, that stands in contrast to earlier studies that found that the impacts of SADC integration had been small, with most benefits accruing to South Africa (Tsheko and McDonald 2016).[7] A 2020 study concluded that "the formation of SADC had not yet brought about any effects on growth perhaps because of lack of full establishment of the primary instruments for achieving its central objective."[8] A mid-Term Review of the SADC Regional Indicative Strategic Development Plan (RISDP) 2015-2020 found that market integration was making "significant progress", but intra-regional trade remained low due to supply-side constraints: inadequate trade related infrastructure and other trade policy instruments such as non-tariff barriers (NTBs) and restrictive rules of origin (RoOs). It reported that "Member States are concerned that the existing RoOs are disadvantageous to the less industrialised countries" and suggested that these be discussed "to avert the risk of breeding further inequality and inhibiting balanced industrialisation in the region." (Daima Associates Limited 2019). An earlier report from 2015, looking at the achievements, challenges and constraints of trade integration in SADC found a "relatively low level of intra-SADC trade", and raised similar challenges.[9]

An important objective of the SADC Protocol on Trade in Goods was to support development of regional value chains (RVCs). Studies show that although SADC has more RVC-related trade than other African RECs, it remains limited

[6] According to IMF (2021) "the few empirical studies on the African RECs suffer from methodological shortcomings related to the endogeneity between the indices used and economic growth and drawbacks related to the use of dummy variables".

[7] They carry out CGE simulations looking at the impact of the SADC FTA on SACU members, finding these to be "positive although small" and that "the major winner is South Africa".

[8] This is based on panel data looking at economic growth and selected trade variables for the period between 2005 and 2017. They find that though "export expansion stimulated growth" and "more openness to trade reduced it," SADC itself did not bring about any identifiable effects (Farahaneand Heshmati 2020).

[9] It found that in spite of increasing openness among SADC members and commitments to harmonise standards and rules between countries, that "barriers to regional trade and investment remain high". It pointed in particular to NTBs, weak trade in services, weak enforcement of the existing agreements, lack of coherence between the overlapping regional trade agreements in force for some countries, and the limited involvement of the private sector (Baker and Deleplancque 2016).

when compared to other regions of the world such as the Association of Southeast Asian Nations (ASEAN). Instead, countries participate more in global value chains (GVC), and as primary commodity exporters, tend to have forward linkages (i.e. exports are used as inputs into third country's value added exports) rather than backward linkages (i.e. using value-added imports to make their own exports) (de Melo and Twum 2021).[10] Thus, despite the rhetoric around the development of RVCs as part of SADC industrialisation policy (and indeed the AfCFTA), the SADC FTA has so far had apparently limited impact in this area.

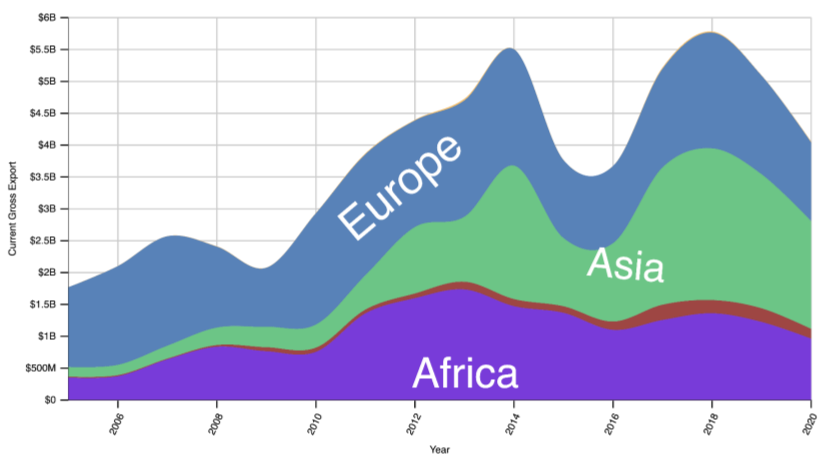
The broad conclusion from these reports is that, although the SADC Protocol on Trade in Goods has contributed to raising trade volumes among countries, impacts vary across countries while RVC integration remains hindered by other factors beyond tariff liberalisation.

Rising Mozambican exports

Looking more specifically at Mozambique, at first glance the SADC Protocol on Trade in Goods was accompanied by a rise in overall exports, potentially signalling an effect on export growth and diversification. These rose from US$2.2 billion in 2005, just before the main tariff reduction, to over US$6 billion in 2019.

However, as Figure 1 shows, 80% of Mozambican exports are destined to markets outside Africa. Intra-African exports nonetheless did rise from 2005 to 2013, during the main tariff reduction phase, but have been in slow decline since then.

Figure 1: Mozambican exports by partner region 2005-2020[11]



Source: Atlas on Economic Complexity

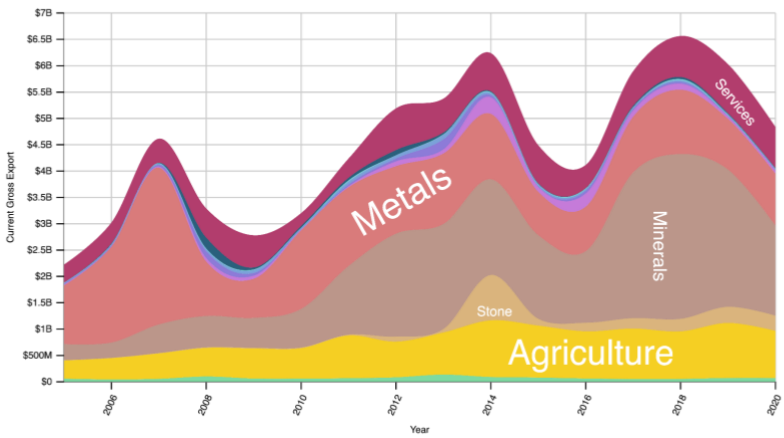
Further, Mozambican exports have been dominated by a limited number of products. Minerals, including coal, gas, electricity and heavy sands; and metals, mostly due to aluminium exports, consistently account for a majority of total Mozambican exports (Figure 2). Around 20% of Mozambique's overall exports, and 70% of exports to Africa, are to South Africa, but again, 75% of overall exports to South Africa are electricity, coal and heavy sands, with far more limited exports to other SADC countries.

[10] UNIDO (forthcoming), Interregional trade and regional value chain integration in Africa. Though taking the region as a whole, UNIDO suggests that there are greater backward linkages in Southern Africa than forward, the picture is skewed by the dominance of South Africa which indeed has significant backward linkages in GVCs.

[11] Does not include service exports since data disaggregated by partners is unavailable, hence the discrepancy with Figure 2.

Nonetheless, although investments in those sectors would arguably have taken place even without the SADC Protocol on Trade in Goods, coal data suggest that pre-2011 South Africa was sourcing coal from Eswatini (already tariff free to SACU) and switched source to Mozambique thereafter, arguably thanks to the SADC Protocol on Trade in Goods.[12]

Figure 2: Mozambique's exports by product



Source: Atlas on Economic Complexity

Although their growth is dwarfed by that of minerals and metals, Mozambican agricultural exports roughly tripled between 2005 and 2019. Further, this included a rise in exports to the SADC region, thus arguably benefiting from the SADC FTA. Sugar accounts for around 30% of overall agricultural exports but fresh fruits and vegetable exports are also rising, particularly bananas, mangoes, and papayas (Dias 2013).[13] Other agricultural exports to SADC markets include cereals such as wheat, maize, rice and sorghum while Mozambique increasingly also exports cotton to other SADC markets such as Mauritius, reflecting linkages to the regional textile and apparel sector through Mauritian firms.

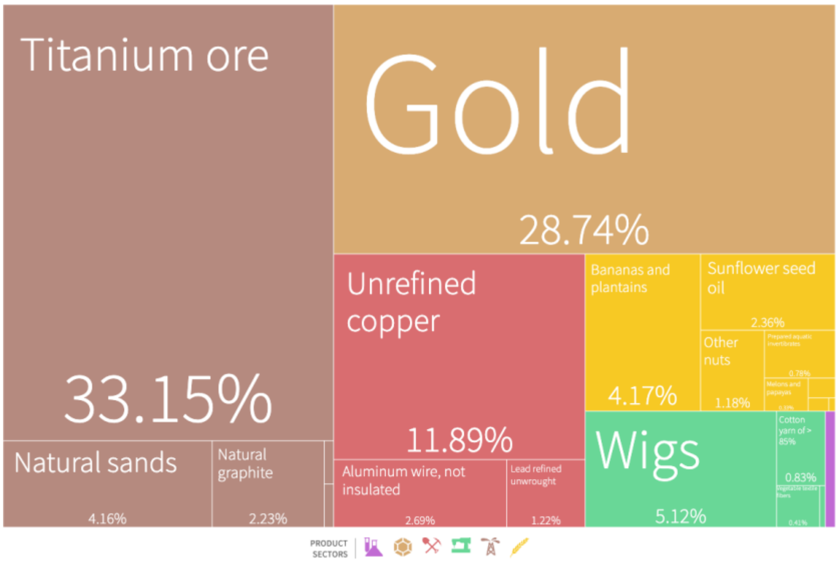
More broadly, a study of South African imports from its neighbours from 1996 to 2017 identifies a 422% increase in Mozambican exports to South Africa following an average preference margin gain of 151% after SADC tariff liberalisation (Stuart 2021).[14] This suggests significant positive effects on the Mozambican economy through the export channel.

Small-scale SADC-related export diversification?

Even if natural resources and metals dominate exports, data suggest that Mozambique has somewhat diversified its export basket. Mozambique added 19 new products to its export basket since 2004, a considerably higher number than other countries in the region - South Africa added 9 products, Malawi 5 and Zimbabwe 3 during the same period (Atlas of Economic Activity). These new products represented 14% of the overall 2020 export basket, illustrated in Figure 3.

[12] Based on calculations of available trade data and interviews.
[13] The sector is dominated by four commercial companies located in Maputo and Sofala.
[14] The author uses the fact that only non-SACU countries saw a change in tariffs, allowing him to compare imports from SADC before and after the tariff reduction and compare relative shares.

Figure 3: New Mozambican export products 2005-2020 (% share of total new exports)



Source: [*Atlas of Economic Activity*]

Although largely related to the extractive industries, there are new exports in the agro-food and manufacturing sectors, including for example aluminium, manufacturing of wigs and mixed fertilisers. Though some new export products such as titanium ore, graphite, and sunflower seeds are oriented towards non-African markets, the SADC market features prominently for others. As well as natural gas exports to South Africa, manufactured goods such as wigs are fully exported to SADC from the Beluluane Industrial Park, while other new export products such as bananas and plantains, mixed fertilisers and aluminium wire are destined for the SADC market (98%, 100% and 30%, respectively).[15] These positive export stories add to the extractive sector exports identified above, suggesting a positive effect of the SADC Protocol on Trade in Goods on exports. Signalling what may be a broader concern for the AfCFTA, 10% of cashew exports now go to South Africa but only thanks to support to establish buyer relations and meet industry standards (Krause and Kaufmann 2011).[16]

Finally, through its ports and corridors Mozambique is increasingly positioned as the gateway for the hinterlands exports to other parts of the continent and thus exports of services (UNCTAD 2021). Apart from roads and ports infrastructures, transport services like management and coordination between different segments of the transport chain are equally important, with transport making up a large part of the services exports shown Figure 2.[17] Nonetheless, Mozambique is a net importer of services including construction, travel and financial services, and in fact, research suggests that firms prefer to invest in South Africa to serve the wider SADC market, including Mozambique.[18] That is reportedly the case for maintenance services for machinery and equipment, for example

[15] Qualitative analysis of specific firm cases seems to confirm the role of the SADC Protocol on Trade in Goods in encouraging some firms to target that market. Firms include Beleza-Darling, the wig producer, but also firms such as Pintex SARL - a producer of paints, varnishes, glues, thinners and related products, who adopted their marketing strategies to target SADC. Others such as Pannar Seed Lda have sought to simply enter the larger SADC supply chain (Sutton 2014).

[16] They also find that in the case of the cashew industry, high quality seeds produced by the national cashew institute (INCAJU) could not get to the farmers which would ultimately improve yields and productivity, underlining the importance of instruments beyond trade policy.

[17] See e.g. Byiers et al. 2020.

[18] Banco de Moçambique 2015 and 2020, Boletim Anual da Balança de Pagamentos. In recent years services trade deficit dropped from -17.2% of GDP (2015) to -13.2% of GDP (2020) though this may have been a result of reduced activity due to COVID-19.

(Langa and Nkonjera 2018). While services employment in Mozambique has been expanding, this has mostly been in the small-scale trading and informal sector with low labour productivity. In contrast, productivity is growing in mining and manufacturing where employment shares are declining, suggesting that export growth in those sectors has failed to boost employment.[19]

In sum, in spite of some new export products, the economy has not diversified meaningfully under the SADC FTA, while the country's ranking on the Economic Complexity Index remains at 116 out of 133 countries (Atlas of Economic Complexity). That suggests some positive export effects from the SADC Protocol on Trade in Goods at the sectoral and firm level, though the vast majority of trade has remained linked to the extractive sector and beyond Africa, suggesting limited economic transformation stemming from regional trade opportunities.

Rising SADC imports - but due to the FTA?

The main Mozambican concern around the SADC Trade Protocol has been the risk of imports outcompeting domestic production, thus undermining employment and poverty reduction efforts. At the same time, cheaper inputs from the region offer more choice to consumers and, in principle, lower prices, thus benefiting Mozambican businesses and consumers.

Mozambique did experience a sharp rise in imports over the period of SADC tariff liberalisation. Total imports increased almost five-fold from just over US$3 billion in 2005 to just under US$15 billion in 2019. Though around half of overall imports were sourced from Asia in 2019, as Figure 5 illustrates, the share of imports from Africa has been on a long-term rise. Imports of food products rose from some $300m in 2000 to $1.8bn in 2019 (with a temporary drop between 2014 and 2019) with just under half of that from elsewhere in Africa.

Figure 4: Mozambique's imports by product

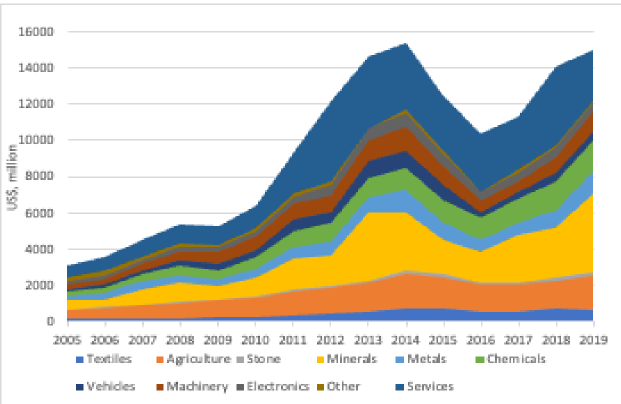
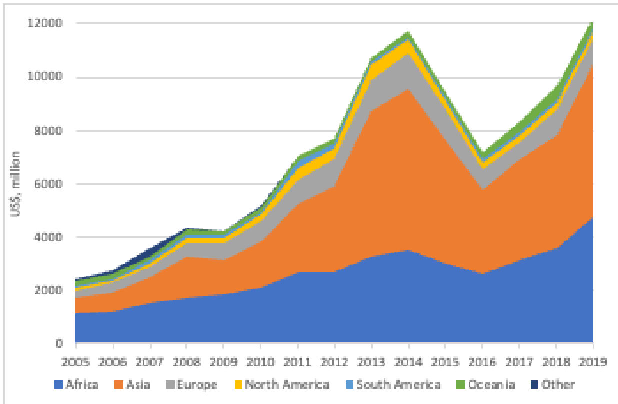


Figure 5: Mozambique's imports by partner region



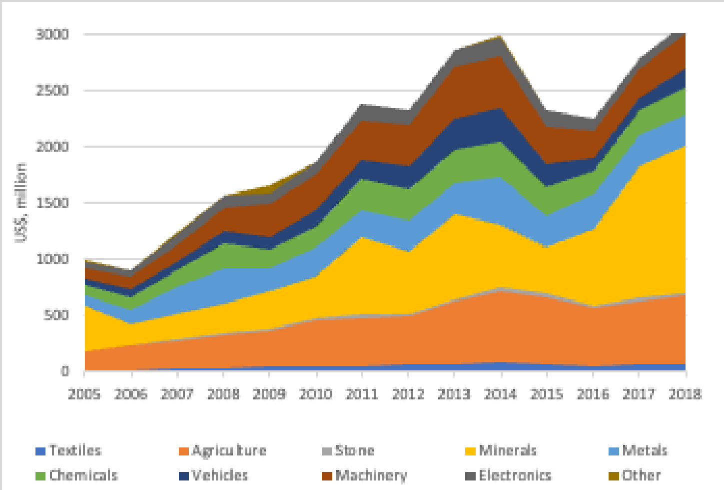
*Note: Data in Figure 5 do not include service exports disaggregated by partners, hence the discrepancy.

Source: Atlas on Economic Complexity

Again, much of this is dominated by South Africa, accounting for almost 30% of Mozambique's overall imports, and nearly 90% of its imports from within Africa. Consequently, Mozambique-South Africa trade is one of the largest bilateral trade flows in Africa and arguably has increased with the SADC FTA (Jensen and Sandrey 2015). At the same time, Mozambique imports little from other SADC countries, and even less so from non-SADC countries.

[19] Also confirmed in AfDB (2019), Jones and Tarp (2015).

Figure 6: Mozambique's imports from South Africa



*Note: Does not include trade in services

Source: Atlas of Economic Complexity

A large share of imports from South Africa relate to capital goods and mineral imports, but also include products that Mozambique itself produces, potentially implying import competition. These include food - maize, cereal, poultry etc. - as well as textiles, often cited anecdotally as a sector that has been damaged by the SADC Protocol on Trade in Goods. Vegetables, anecdotally a sector with rising import competition, saw a sharp increase in imports from less than $5m in 2005 to $40m in 2019, with the South African share rising from 14% in 2005 to 85% in 2019 (Atlas of Economic Complexity).

Although those figures might suggest SADC FTA-induced competition with Mozambican production, the rise began in 2005, prior to the relevant tariff liberalisation, which came in 2008. That does not negate the possibility of import competition effects, but also aligns with studies suggesting that rising agricultural and especially food imports reflect Mozambique's limited productive capacity to serve the domestic market rather than the removal of protection (Haffner and Mampava 2010). Further, analyses of the effect of the SADC Protocol on Trade in Goods on rural livelihoods suggests limited impacts, even if these varied by household, due to the small scale of production in food crops and the way markets operate in cash crops, often interacting with one purchasing firm (e.g. for cotton, tobacco or paprika) (Castel-Branco 2005). As such, the greatest impact of the SADC FTA on rural households would be on the availability of employment outside agriculture where, as discussed above, despite growing exports, employment growth has been relatively absent.

Although the Mozambican textiles industry is also frequently thought to have suffered due to the SADC Protocol on Trade in Goods, the greatest increase in textile imports has been from South-East Asian countries, in line with the general trend of rising Asian textile exports to African markets and the simultaneous fall in African exports since the phasing out of the restrictive regimes under the Multi Fibre Agreement (Ayoki 2017). The textile sector may have entered into decline even earlier as cotton production was affected by the civil war, while the garments sector has particularly suffered from imports of second-hand clothing from beyond Africa (SATH 2011b). This again undermines the argument that the SADC FTA undermined domestic production.

Overall, the data show that formal imports into Mozambique have risen over the implementation period of the FTA, including from SADC members and South Africa in particular. But there are limited indications that the main identified trends have arisen *due to the SADC Protocol on Trade in Goods*. Rather, they seem to have been driven by resource-based foreign direct investment as well as high economic growth sucking in inputs from outside Africa, while many of the competition effects commonly cited plausibly relate to other factors.

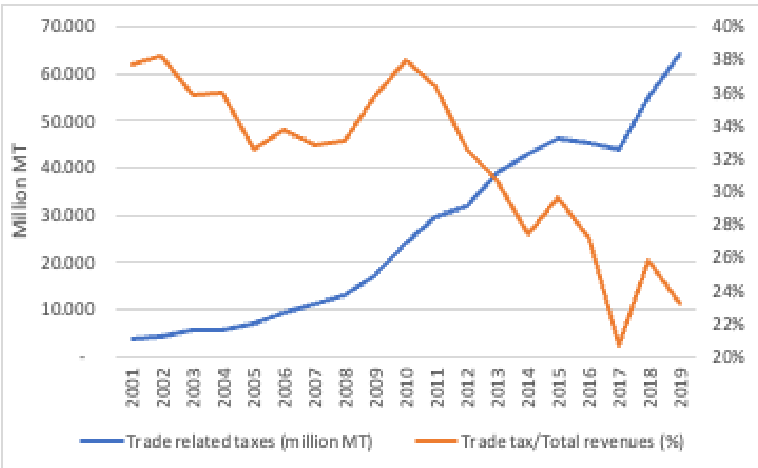
FTA-related reduced smuggling & revenue effects

Though there are few rigorous studies to separate out the effects of the SADC Protocol on Trade in Goods on imports from global economic dynamics, one important study uses the 2008 major tariff reductions as a 'natural experiment' to identify its effects. By comparing reported South African exports with reported Mozambican imports before and after the tariff reduction - which should be equal in the absence of fraud or misreporting - the study finds that rather than triggering higher demand for South African imports, import volumes remained broadly unchanged after the main tariff reduction on imports, even up to 2014 (Sequeira 2016).

More importantly, the study finds that discrepancies between reported South African export and Mozambican import figures fell after the reduction in tariffs, instead reflecting a drop in fraud or misreporting. A key conclusion is therefore that all being equal, import volumes from South Africa remained steady, but more goods were declared as imports after the SADC Protocol on Trade in Goods was introduced.[20] Even if a large part of regional trade takes place beyond formal channels - it is estimated that 65% of the economically active population in Maputo is engaged in informal activities, of which informal cross-border trading is an important part (Raimundo and Chikanda 2016) - the potential reduction in smuggling with the SADC Protocol on Trade in Goods is an important effect.

Reflecting the above dynamic, data from several government General State Accounts suggest that Mozambican trade tax revenues have continued to rise in absolute terms, despite SADC tariff liberalisation, illustrated in Figure 7.[21] This supports the above finding that tariff reductions led to lower tariff avoidance at the borders, as well as rising imports from outside the region.

Figure 7: Evolution of trade tax revenues



Source: General State Accounts, several

[20] Ibid.

[21] Nevertheless, revenues from income and corporate taxes have vastly outstripped trade tax revenues, resulting in the downwards trends in trade taxes as a share of total revenues.

Low preference utilisation rates

Recent evidence also suggests that the rate of preference utilisation of the SADC FTA is low. Data from the Mozambican Revenue Authority (Autoridade Tributária, AT), on average, the preference utilisation rate for imports from SADC in 2013-2017 was only 36% of eligible imports (Autoridade Tributaria 2019, unpublished).[22] That is also supported by survey data suggesting that South African exporters to SADC make "moderate use of the SADC FTA (37%)" (Stuart and MacLeod 2020). As such, more than 60% of recorded Mozambican imports from SADC did not in fact enter using the SADC Protocol on Trade in Goods, and thus were subject to the same import duties as imports from outside the region. That also means that the actual effects of lowering tariffs on imports from SADC have been considerably lower than they might have been.

More strikingly, only 7.2% of eligible Mozambican exports to SADC member states were traded under the SADC Protocol on Trade in Goods (Autoridade Tributária 2019, unpublished). The vast majority of Mozambican exports to SADC countries are therefore treated the same as those from beyond the region, foregoing the tariff reduction of trading under the SADC Protocol on Trade in Goods.

Such low preference utilisation rates demand an explanation. According to South African firm survey data, the biggest challenge firms face is lack of awareness of the process to use these preferences (Stuart and MacLeod 2020). Beyond this, large South African exporters to the SADC region cite Sanitary and Phytosanitary (SPS) and technical requirements, while micro, small and medium enterprise (MSME) exporters, 23% of which are women-led, cite technical requirements and customs procedures as their major obstacles. While for small firms this might then encourage informal trade, research from 2015 found that even major supermarket chains such as Shoprite and Woolworths were foregoing SADC FTA preferences due to the high compliance costs involved (Charalambides 2015). They cited the additional delays experienced at borders to inspect containers with multiple different types of goods subject to different RoOs as barriers to using the SADC Protocol on Trade in Goods.

The long-time delay and cost of ensuring documentary and border compliance is confirmed by private sector interviewees, who also cite basic bureaucratic hurdles relating to customs procedures to emit certificates of origin, and lack of availability of certificates themselves.

Evidence on the causal impact of the SADC Protocol on Trade in Goods on Mozambican imports and exports is therefore somewhat ambiguous. In spite of rising regional imports, especially from South Africa, the impact of the SADC FTA seem more muted, partly due to the challenges of using the protocol. Four key challenges are discussed in the next section.

2.3. Practical challenges to using the SADC Protocol on Trade in Goods

A key lesson to be drawn from the SADC Protocol on Trade in Goods in thinking about the AfCFTA is that it is in fact used for far less trade than is eligible. As this section explains, the reasons for that relate to NTBs and broader policy issues that undermine its use. More broadly, in discussing 5 main lessons from the SADC trade liberalisation experience, the section points to the need to better align industrial policy with regional and continental trade ambitions.

[22] This is also broadly confirmed in survey data where South African exporters to SADC "indicated a moderate use of the SADC FTA (37%)" (Stuart and MacLeod 2020).

Challenge 1: Complex rules of origin

One potential contributor to low preference utilisation relates to the restrictive rules of origin (RoOs) applied under the SADC FTA.[23] Despite slightly lower restrictions in some sectors following the Mid-Term Review of the SADC FTA in 2004, the SADC RoOs are reportedly still complex and "out of tune with the characteristics of twenty-first century production and trade", where most SADC member states, whose private sector mainly consists of small enterprises, are not well equipped to comply with them.[24] Other analyses concur, finding that in comparison with the COMESA and EAC, the SADC RoOs "do not meet the criteria of least trade restrictiveness, substantive and administrative simplicity, and ease of application laid out by the SADC subcommittee on Customs and Trade" (Draper et al. 2016).[25]

SADC RoOs remain especially restrictive for textiles and clothing, blended tea, coffee and spices, making it difficult for MSMEs (including those in Mozambique) to maximise their participation in existing RVCs. The Mid-Term Review of the SADC RISDP 2015-2020 recognises this restrictiveness and its negative impact on production and trade (DAL 2019). Consequently, SADC member states have reportedly agreed to review the SADC RoOs after the finalisation and approval of those at the AfCFTA level where negotiations are still ongoing. This might help increase the use of the SADC FTA.

Challenge 2: Non-tariff barriers and trade facilitation measures

Beyond tariff preferences and the complex processes of using them, barriers to preference use often relate to NTBs (UNCTAD 2013b).[26] *Ex-ante* studies regularly find that NTB removal has a greater impact than tariff liberalisation, something that may also hold for intra-SADC trade.[27] Some of the main NTBs for SADC trade in Mozambique include the high cost of obtaining export licences and stringent product standards (cited by 96% of non-exporting firms) (UNU Wider 2017), limited quality infrastructure particularly outside of Maputo, inefficient and costly border procedures, limited private sector awareness of the Authorised Economic Operator Program, and complex bureaucratic compliance processes (SPEED+ 2017a). Since implementation of the SADC FTA began in 2000, numerous steps have been taken to address NTBs at national and regional levels, summarised in Table 2 although there has not been a comprehensive evaluation of the impact of these measures.

[23] Though initially SADC negotiators had agreed on a simple and transparent set of 'regime-wide-rules' covering all products, similar to those in the Common Market for Eastern and Southern Africa (COMESA) FTA, this did not last, with final negotiations resulting in more restrictive product-specific rules (Kalenga 2012).

[24] These essentially inhibit RVC creation and protect domestic markets, particularly in the most diversified South African market. As Kalenga and Hartzenberg (2015) discuss, the (i) 'change of tariff heading' rule was replaced by multiple transformation rules and/or detailed descriptions of required production processes, (ii) value added requirements were raised and permissible levels of import content were decreased.

[25] These findings are broadly consistent with the findings from an earlier national study by Sambo (2011).

[26] For practical purposes, non-tariff measures (NTMs) are categorised depending on their scope and/or design and are broadly distinguished in technical measures (e.g. SPS measures, Technical Barriers to Trade and pre-shipment inspections) and non-technical measures (e.g. RoOs and trade-related investment measures). NTMs also have the potential to substantially distort international trade. Measures such as quality standards and RoOs, although generally imposed without protectionist intent, may be of particular concern to poor countries whose producers are often ill-equipped to comply with them. NTBs are a subset of NTMs implying a negative impact on trade.

[27] One example is found in a OECD study (2014) according to which the implementation of the mandatory and all provisions of the WTO TFA by Low-Income Countries would lead to overall reduction in trade costs by 11.7% and 14.1%, respectively (WTO 2014). More recently, the World Bank (2020) finds that the biggest gain from the AfCFTA would come from the reduction of NTBs and the implementation of the WTO TFA. The combined effect of tariff liberalisation and reduced NTBs would lead to an increase in real income of 2.4% by 2035 at the continental level whereas the effect of the WTO TFA would raise the real income gains by 7% for AfCFTA members.

Table 2: Mozambican trade facilitation measures and year

Year	Trade facilitation measure
2009	Adoption of the Single Electronic Window system to enable the electronic submission of documentation for clearing import/export goods at customs
2012	Broader promotion of the Authorised Economic Operators Program to speed up border procedures for all trade
2016	Signing and ratification of the WTO Trade Facilitation Agreement
2016	Approval of the SADC Trade Facilitation Program, including *inter alia* the introduction and use of the electronic certificate of origin (SADC 2020)
2017	Formal establishment of the National Trade Facilitation Committee (NTFC)
2019	Introduction of reforms in the Pre-Shipment Inspection system to align with international best practices
2019	Establishment of Mozambique's Trade Portal

Despite the above measures, interviewees cite persisting challenges and a need to provide greater support to exporting firms. Extracting from various studies, proposed measures include: (i) improve the quality and standards infrastructure particularly at provincial level outside Maputo to reduce the cost of exporting; (ii) improve cooperation among key government entities (fisheries, agriculture and health) to issue licences and certificates electronically (NTFC 2019, unpublished); (iii) disseminate the Authorised Economic Operator program to traders and fast-track the approval process for applicants (SPEED+ 2017b); (iv) provide updated information to businesses through the use of tools like the Ministry of Trade's Trade Portal; (v) fast-track and monitor the implementation of the WTO Trade Facilitation Agreement (TFA); (vi) review the scope of work of the National Trade Facilitation Committee (NTFC) to broaden its mandate to also coordinate and facilitate the implementation of the trade facilitation provisions stemming from other trade agreements to which Mozambique is signatory, including the SADC Protocol on Trade in Goods; (vii) use a robust and objective evidence base to inform public-private dialogue in key areas of interest of producers, exporters, exporters, and other relevant entities; and (viii) increase public-private sector dialogue to effectively reduce the excessive and duplicated bureaucracy for imports and exports (CTA).

While these challenges surely help understand the low utilisation rate of the SADC Protocol on Trade in Goods and its ultimate impact, the discussion also highlights some important areas to work on to address these for the SADC Protocol on Trade in Goods, but potentially also for the AfCFTA.

Challenge 3: Business environment challenges

While challenges related to trade facilitation have been the subject of past analyses, other more structural issues also shape regional trade outcomes. Foremost among these are transport costs. These are high due to not only poor infrastructures but also because of trade imbalances, implying that firms pay for empty return loads.[28] For companies

[28] One company interviewed exports its product on the return cargo of a transport company that imports inputs for a third company, allowing it to reduce transport costs by avoiding an empty return load though this is not very common.

exporting perishable goods, the lack of cold chain infrastructure, poor quality roads, and high costs of air freight all hinder export potential.[29]

Market connections domestically *and* regionally have been poor. South African firms reportedly have more information on opportunities with megaprojects than their Mozambican counterparts (Langa and Nkonjera 2018).[30] Access to finance for firms is also frequently cited as one of the key barriers to firm expansion, along with corruption and informality, considerably above trade-related issues relating to customs and transport.[31]

The small size of the Mozambican economy also means that only a few firms make up entire sectors, therefore limiting the competition and agglomeration effects that can help build production and export capabilities through mutual learning and sharing of information. For instance, Mozambique's manufacturing sector registered only 58,000 firms in 2016, more than a third of which are located in Maputo city and province (Iimi 2021). Moreover, the sector has gradually been losing technical capacity and its skills base (Warren-Rodriguez 2010, cited in Iimi 2021). This is reportedly not due to a lack of opportunities, rather human capital and lengthy bureaucratic procedures hold back investment.[32]

Beyond the economic environment, corruption and rent-seeking behaviour are cited as key constraints to Mozambique's trade with other countries (CIP and CMI 2016).[33] The role of large importers with close links to the political class and complicity of customs officials in large scale contraband imports and smuggling has been documented (Hanlon 2018 and CIP 2016). Recent research looking at enterprise registrations and political individuals shows that holders of political office "attain significantly faster growth not only in the number of companies they own but also in their structural power within the business-owner network" (Jones et al. 2021). These firms are concentrated in joint-stock firms, primarily active in the trade and finance sectors, and thus surely play a role in the way the SADC Protocol on Trade in Goods is used in practice. The success of trade and transport reforms such as the SADC Protocol on Trade in Goods therefore partly hinge on their alignment with political interests, given the centrality of rent creation and distribution in Mozambique (Byiers et al. 2020).

As will be discussed in the final section, efforts to better take advantage of the SADC FTA, and indeed the AfCFTA, should learn from industrial policy experiences. As summarised in Box 2, sugar is an oft-cited success for Mozambique, not only for the ability to attract investment, but also the way this was combined with trade policy and institutional innovations to ensure the policy was followed through.

[29] Despite having a regular and sizable freight i.e. being able to provide solid supply, companies have not been able to get favourable freight rates from the air carrier LAM (interview).

[30] The national business association (CTA) established a special office to support businesses in 2017 to disseminate information about opportunities linked to megaprojects as well as to provide them with financial solutions and legal advice. See: https://cta.org.mz/servicos/gae-gabinete-de-apoio-empresarial/

[31] See, for example World Bank 2018, Enterprise Survey Mozambique. Further, "Mozambican women want to trade with Africa, but it's difficult for us. We don't have the technology support that we need[..] Most of my female friends don't use bank accounts and don't know how to use mobile applications that can receive money from abroad. It would be difficult for us to trade with Africa under such conditions." cited in AfCFTA Secretariat 2021, Which value chains for a made in Africa revolution?

[32] For instance, for AfriFruta, which exports to South Africa as well as other European markets, even though there is "good access to the governor and directors of agriculture, commerce and industry" demonstrating political will at the top, it does not always translate to resolving these challenges (Maritz 2020).

[33] Corruption is said to have cost the economy up to US$4.9 billion in 2004-2014, equivalent to around 30% of the 2014 GDP and 60% of the 2015 budget.

Box 1: Industrialisation and 'pockets of efficiency'

The Mozambican sugar industry is often cited as an industrial policy success story, where different actors - politicians, businesses and bureaucrats - and factors came together in a bureaucratic 'pocket of efficiency' that resulted in the rehabilitation of the industry. In this case, the industry developed because of policies that aligned with, rather than countering political interests. While the formal objective was to rehabilitate the sugar industry, informally the strong political interest of the FRELIMO ruling party also favoured investments that would pay off in terms of electoral wins (Whitfield et al. 2015). Sustained political support of the ruling party was key in ensuring its survival: key industry players got access to government-guaranteed subsidised loans, including through multilateral and commercial credit facilities. This was made possible by the links of entrepreneurs with FRELIMO, as well as through state ownership of majority shares in the sugar estates. There continues to be a surcharge on sugar imports to protect the domestic sugar industry, negotiated as part of the SADC Protocol on Trade in Goods (Buur et al. 2011). The resistance this created from upstream industries, especially beverages, was tactfully handled by reaching a compromise whereby input costs (refined sugar) would not rise. Moreover, raw sugar is exempt from export taxes to incentivise exports to lucrative markets. Doing this also involved going against the interests of dominant groups, that were among the major financiers of the ruling party, and challenging trade monopolies and informal contraband sugar trade.

Moreover, capable state bureaucrats who had the technical and practical knowledge of the workings of the sugar industry from their prior experience, were able to play a mediating role (Whitfield et al. 2015).[34] For instance, it included the responsibility to intermediate the imports of refined sugar into the country. Given the political interest and bureaucratic capacity, there was coordination between the different entities of the government to make this a reality.[35] Mutual needs also ensured that the state could credibly threaten to withdraw support if businesses didn't perform, just as businesses could hold the government to account against its commitment to protect the industry. Thus the interests of the ruling elites and investing firms aligned to create a pocket of efficiency.

Challenge 4: Institutional structures & industrial policy

Addressing the above challenges requires strategic coordination between multiple public and private stakeholders to boost productive capabilities, including technological as well as human capital. Government implementation and monitoring of the SADC Protocol on Trade in Goods is generally agreed to have been lacking.

While the National SADC Commission (CONSADC) was established in 2003 under the chairmanship of the Ministry of Foreign Affairs and Cooperation (MINEC), its visibility and effectiveness has been limited, partly due to lack of technical and financial resources to perform its duties, but arguably also due to a lack of political prioritisation (Zita 2020). In addition, although a strategy to fast-track Mozambican integration into SADC markets was elaborated in 2017, with a description of Mozambique's tariff offer, status of SADC FTA implementation, and a discussion of success factors and 19 identified strategic products (food and cash crops), there is no evidence of structured implementation of this plan, or monitoring and evaluation of results (Ministério da Indústria e Comércio 2017).

Key indicators for the Industrial Policy and Strategy 2016-2025 include "export volumes of the companies located in the industrial parks, development corridors and export processing zones", respectively. The priority industries identified there include a series of key export sectors (i) food and agro-industry, (ii) clothing, textile and footwear, (iii) non-metallic minerals, (iv) metallurgy and manufacture of metal products, (v) wood processing and furniture, (vi) chemicals, rubber and plastics and (vii) paper and printing.[36] But SADC is not mentioned as a key export

[34] These include the National Sugar Institute as well as other organisations that were subsequently created to enhance the efficiency in the sector e.g. national sugar-producing organisation (APAMO), National Sugar Distributor (DNA), among others.

[35] This was not the case in other industries like fisheries, or cashews.

[36] The selection criteria were as follows: national priority, potential to create economic linkages (upstream and downstream), source of raw material, job creation, import substitution, contribution to current production levels, easy to implement and export potential. For each priority industry a set of products were identified. For example, for the food and agro-industry sector the main targeted products are pasta and edible flours, rice, meat, animal feed, processed fruits/vegetables and cooking oil.

destination market in spite of its importance and the apparent need for strategic policy follow-up in these areas. This is reportedly related to weak coordination and limited identification of complementaries between government institutions, but also a lack of a clear results framework for industrial development and exports in general and the SADC market, in particular. The recent government approval of the Programa Nacional Industrializar Moçambique (PRONAI) may offer opportunities to address these, and indeed take advantage of the AfCFTA.[37]

At a more practical level, the scope of Ministerial mandates may also undermine coordination around SADC Protocol on Trade in Goods implementation. The national committees for SADC members are housed at the Ministry of Foreign Affairs, with apparently limited coordination with other Ministries to address SADC trade concerns, when they arise. Moreover, there is reportedly limited coordination between the different departments of the same Ministry. For instance, as raised by one interviewee, it is unclear whether the National Directorate of Industry works closely with the National Directorate of External Trade on these issues even though trade issues would seem highly relevant to the work of the former, while coordination with the Ministry of the Economy and Finance is frequently raised as a challenge.

2.4. Summary

There are very few robust analyses of the causal impact of the SADC FTA on the Mozambican economy, on specific sectors, or on employment. Further, the existing literature cites the difficulty of carrying out such analyses due to the lack of counterfactuals, necessitating inventive econometric strategies to isolate the effect of trade liberalisation. At the same time, broader work on trade and its impacts suggest that tariff reduction has only a small part to play in the presence of NTBs and other administrative, logistics and infrastructure hurdles which ultimately determine the use or not of a trade agreement, and thus its impacts.

With that in mind, the combination of studies and data cited above suggest that while imports from South Africa have undoubtedly risen over time, the main identified effect of the SADC Protocol on Trade in Goods was a rise in formally declared imports, reflecting reduced smuggling rather than a rise in imports *per sé*. The SADC FTA is likely to have been most strongly felt in retail, arguably due to reduced import prices on consumer goods, especially food, apparently backed up by the growth in retail services as a share of the economy.

Mozambican exports have visibly risen during the period of the SADC FTA. This includes a large and rising share to South Africa over the period. Although a large part of this export growth relates to electricity and gas, both tied to the South African market through infrastructures, impact analysis of the SADC Protocol on Trade in Goods identifies a clear causal impact of the SADC FTA on coal exports to South Africa, and to a smaller extent for fruits and other food products. Further, Mozambique has seen a relatively high level of 'new' export products over the last 15 years, with documented cases of SADC-focused investments, for example in products such as wigs operating out of the Beluluane Industrial Park.

Yet, actual use of the SADC Protocol on Trade in Goods has been low, with the majority of intra-SADC imports to Mozambique foregoing preferential tariffs, while only some 10% of Mozambican exports use the SADC Protocol on Trade in Goods. Anecdotally, this relates to practical issues related to receiving certificates of origin and complying with rules of origin, although lack of awareness of the procedures is also cited by many firms. Many of the challenges and opportunities of the SADC Protocol on Trade in Goods have been raised in past policy documents and

[37] Other policy instruments that make explicit reference to SADC are either not yet approved or there is very limited public evidence of their implementation. For example, the Drafts of both the Trade Policy and Strategy 2019-2028 and the National Export Strategy refer to the need to align the national policy and legal framework with trade agreements to which Mozambique is a Party such as the SADC FTA and SADC-EU Economic Partnership Agreement (EPA).

institutional forms suggests a need for more targeted approaches to addressing the problems of exporters and potential investors. All of these points will be important to consider for the AfCFTA.

3. Mozambique and the AfCFTA

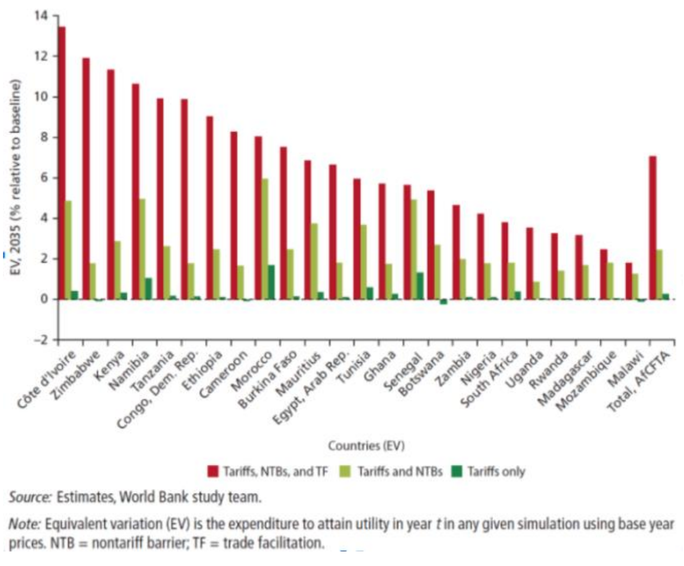
This section summarises the estimated impacts of the AfCFTA on the Mozambican economy and explores to what degree one might expect major changes in the three channels of exports, import price reductions and import competition.

3.1. Estimated AfCFTA impacts on Mozambique

Estimates of the impact of the AfCFTA suggest that its full implementation could raise real income on the continent by 7% by 2035, or nearly US$450 billion (in 2014 prices and market exchange rates) (World Bank 2020). That is equivalent to raising 67.9 million people in the continent out of moderate poverty (at US$5.50, PPP-adjusted, a day) by 2035. However, these aggregate numbers also mask widely varying impacts across countries and sectors, often depending on prior levels of protection.

From those cross-country studies, most suggest only a limited impact of the AfCFTA on the Mozambican economy. In contrast to Côte d'Ivoire and Zimbabwe, for example, where each is estimated to expect income gains of 14% due to relatively high current trade barriers, countries like Mozambique and Malawi are estimated to see real income gains of only 2% by 2035, if the agreement is fully implemented (Figure 8). Such marginal gains for Mozambique are supported by other studies, partly because of the heavy dependence on South Africa and limited relations with other countries in the region (Mevel and Karingi 2012). One study looking specifically at the impact of the AfCFTA on SADC member food security and cereals trade finds no impact for Mozambique.[38]

Figure 8: Estimated benefits from full AfCFTA implementation



Source: World Bank 2020

[38] It finds AfCFTA will only lead to positive outcomes in four (Angola, the Democratic Republic of Congo, Madagascar and Namibia) while all others will remain unchanged (Pasara and Diko 2020).

Beyond tariff reductions, the real income gains of the AfCFTA are expected to arise from removing NTBs and implementing the WTO trade facilitation agreement (TFA). Some estimates suggest that implementing the TFA would increase member state incomes by 7% by 2035 (World Bank 2020 and Jensen and Sandrey 2015).

Other studies agree on the broader benefits of integration under the AfCFTA, but cite greater benefits for the more developed countries within regions (IMF 2021). This then highlights the need to complement the process of trade integration on the continent with policies that are adequately designed to protect vulnerable sectors in the poorest countries.

As raised above, the scale and distribution of benefits from the AfCFTA will also depend on the finally agreed RoOs. The AfCFTA adoption of product-specific RoOs, under pressure from some key countries including Egypt, Kenya, and South Africa, could result in restrictive RoOs that arguably would limit the benefits to low-income countries including Mozambique (AfDB 2019).[39] As the SADC FTA discussion suggested, Mozambique stands to gain more from promoting export industries than protecting its limited industrial base, particularly given the existing openness to SADC competition. Nonetheless, it is important to understand the potential impact of rising non-SADC imports.

3.2. AfCFTA import effects

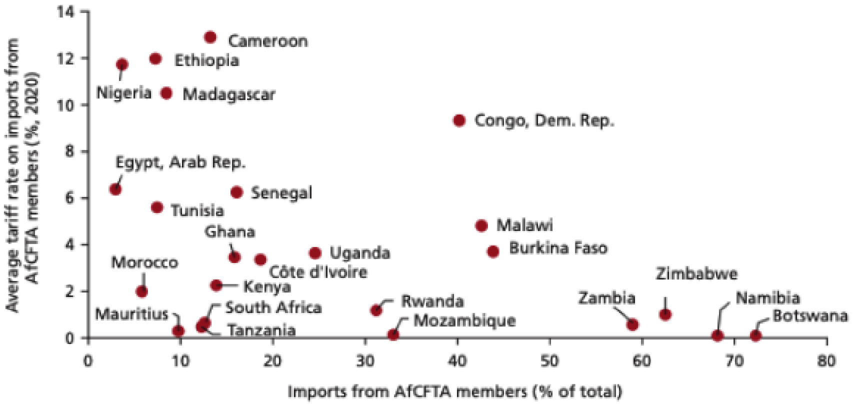
Although the impact of the AfCTA on Mozambique is estimated to be low, lower tariffs on imports from beyond SADC may allow cheaper inputs by local industries.

Final impacts will depend on the negotiated tariff liberalisation for specific product lines but at present, only 2% of Mozambique's intra-Africa imports (1% of overall imports) are from outside SADC, mainly linked to "oils and preparations" from Liberia, Kenya and Egypt (TRALAC 2021). Although the AfCFTA may provide opportunities for non-SADC countries to export to Mozambique, Mozambique's average tariff on AfCFTA imports are in fact already quite low (Figure 9), while firms would likely need to overcome greater distances and related barriers to transport. This helps explain why the expected AfTCTA effects are estimated to be low and casts doubts on tariff reductions as the key drivers of trade patterns.

Given the limited expected impact on imports, the projected revenue impacts of the AfCFTA are also small. Total customs revenues collected on imports during the period 2013-17 from non-SADC African countries represented on average less than 1% of the total customs revenues duties (Autoridade Tributária 2019). As such, projections to 2028 estimate AfCFTA-related fiscal losses to be around 0.5% of the total, considerably less than foregone duties due to SADC Protocol on Trade in Goods.

[39] Instead, general RoO (probably resembling other regions like East Asia and the Pacific) are preferred by many other (e.g. West and Central African) countries.

Figure 9: Share of imports and average tariffs imposed on AfCFTA imports



Source: Estimates, World Bank study team.

Note: Trade weights are based on benchmark trade flows in 2014 GTAP database. AfCFTA = African Continental Free Trade Area; GTAP = Global Trade Analysis Project.

Source: World Bank 2020

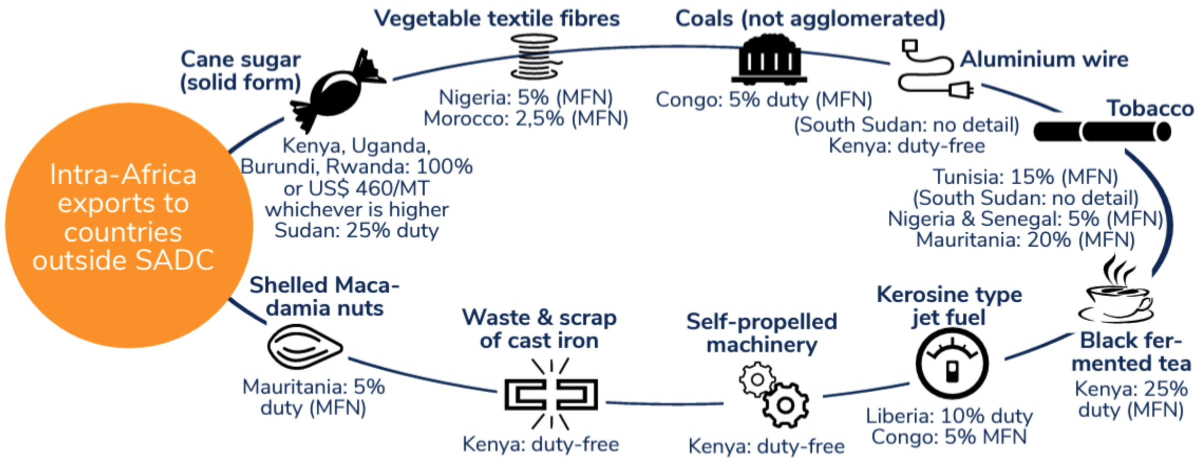
AfCFTA impacts may also be felt through competition in current export markets such as South Africa. Egypt is the third-largest exporter to South Africa in the AfCFTA region and the fourth-largest importer of its goods, implying an important role and therefore potential impacts on other South African trade partners such as Mozambique. Looking at textile trade, for example, South African imports from Egypt reportedly rose from R81m in the first quarter of 2020 to R135m in the first quarter of 2021 after a tariff reduction from 10% to 8% (MacKay 2021). Even if Mozambique is not competing in textiles in the South African market directly, as mentioned, cotton exports to Mauritius have risen under the SADC Protocol of Trade in Goods, feeding Mauritian textile exports to South Africa. Under the AfCFTA these may suffer heightened competition as tariffs are reduced on imports from other continental producers such as Egypt. Interviewees also cite rising competition from Kenyan fresh fruits and vegetables, which were entering the South African market even before the AfCFTA had been ratified.

3.3. AfCFTA export opportunities

As discussed above, Mozambique's intra-Africa trade is dominated by South Africa. In 2019, around 2% of Mozambique's intra-Africa exports (1% of world exports) were destined to markets outside SADC, including sugar, textiles, coal and tobacco destined primarily for Kenya, Nigeria, Côte d'Ivoire and Uganda. In principle, the AfCFTA offers opportunities to expand trade with those partners, establish new partners, expand exports of products where Mozambique has an established production basis, and potentially explore new export opportunities.

Figure 10 highlights some of the existing exports with potential to expand to African markets according to potential tariff reductions below existing most-favoured nation (MFN) tariffs. They include some of the 'new' export products such as aluminium wire, but also older but growing sectors like sugar, coal and machinery.

Figure 10: Mozambique existing non-SADC exports and markets (2019), with MFN tariffs



Source: TRALAC 2021

Other analyses go further to estimate future demand, supply and ease of trade to identify existing products with export potential to the African continent as a whole.[40] The top 4 existing exports with greatest growth potential to Africa are summarised in Table 3: aluminium wire; false beards, eyebrows & eyelashes; cashew nuts and bananas; according to levels of demand on the continent, but ignoring potential tariff preferences.[41]

Table 3: Mozambique export potential (selected products)

Products	Values (USD million)			
	Wire of aluminium, non-alloyed >7mm (HS 760511)	**Raw sugar cane (HS 1701)**	**Cashew nuts, shelled (HS 080132)**	**Bananas, dried or fresh (HS 0803)**
Export potential	62.5	20.3	9.9	50.7
Actual exports	25.2	9.1	6.1	29.3
Untapped potential (remaining in the country)	**37.2**	**15.7**	**3.9**	**21.5**

Source: ITC Export Potential Map, Spot Export Opportunities for Trade Development

Table 4 presents some key export products where Mozambique currently has productive capacity but relates these to the size of the African market, as well as key importing countries *and* other potentially competing producing countries. Notably, for almost all products South Africa is either a major potential market or competitor, again highlighting how South Africa will continue to be a key trade partner for Mozambique and the possibility of entering into established supply chains of South African firms.

[40] More explanation of the methodology can be found here.
[41] ITC Export Potential Map.

Table 4: Key potential export products, African markets and competitors

Product	Global market (US$ billion)	African imports (US$ million)	Key importing countries	Export competitors
Aluminium wire	3.3	153	Morocco (24%) Egypt (22%) South Africa (17%) Tanzania (11%)	Mozambique (55%) Egypt (42%)
Petroleum gases	335	5370	Tunisia (28%) Egypt (22%) Morocco (22%)	Algeria (49%) Nigeria (25%) Mozambique (2%)
Titanium ore	2.1	1040	Egypt (62%) South Africa (18%) Mozambique (14%)	South Africa (40%) Mozambique (19%) Sierra Leone (14%) Kenya (12%)
Natural graphite	617	2.6	South Africa (26%) Madagascar (18%)	Mozambique (68%) Madagascar (29%)
Bananas and plantains	13.3	223	Algeria (44%) South Africa (18%)	Côte d'Ivoire (53%) Cameroon (22%) Gana (11%) Mozambique (6%)
Sunflower seed oil	10.8	849	Egypt (21%) South Africa (18%) Djibouti (11%)	South Africa (37.8%) Egypt (24%) Morocco (10%) Mozambique (8%)
Other nuts	18.9	334	Egypt (22%) Algeria (20%) Morocco (19%) Libya 15%) South Africa (12%)	South Africa (67%) Kenya (13%) .. Mozambique (2%)
Wigs	3.9	1260	Nigeria (37%) Benin (21%) South Africa (19%)	Senegal (31%) Mozambique (21%) Togo (17%)
Cotton yarn of > 85%	11.5	173	Egypt (54%) Morocco (18%)	Egypt (64%) Mauritius (17%) Lesotho (5%) Algeria (4%) Mozambique 3%)
Mixed fertilisers	22.4	1530	Djibouti (14%) Kenya (9%) South Africa (7%) Mozambique (6%)	Morocco (86%) .. Mozambique (<1%)
Sugar and sucrose	20.3	4480	All over	South Africa (25%) eSwatini (21%) Mauritius (10%) Mozambique (5%)

Source: Atlas of Economic Complexity, Country profile: Mozambique

Zooming in on fresh fruits and vegetables, Mozambican banana production reached 600,000 tonnes in 2016 (Club of Mozambique 2021). As discussed in Section 2, around 80% of the production is destined for the regional market. Given that imports of bananas in the African market are steadily rising, the AfCFTA may offer an opportunity to capture some of the regional market. Exports of fresh vegetables have also grown significantly in the past years where South Africa is an important market, though maintaining existing market shares may be challenging with a rise in competition from outside SADC, from countries such as Kenya.

Natural gas also offers the opportunity to locally manufacture chemical fertilisers which can significantly boost agricultural productivity.[42] The AfCFTA offers Mozambique an opportunity to expand into the regional/continental markets given the generally low levels of fertiliser use which is an essential input into agriculture. SASOL, which already has a presence in Mozambique, is a fertiliser producer, offering a potential entry point.

Other analyses identify 'nearby' products to those which Mozambique currently exports, to build on existing know-how.[43] Sectors with a high number of potential African importers include: Water, flavoured or sweetened, though South Africa is currently also a major African exporter of these (over 50% of the market); live fish, where the major African importers are Tunisia and Algeria; and food preparations where although South Africa dominates African imports with 41%, Egypt Morocco and Kenya together also represent some 40% of imports. Other studies also point to opportunities for developing manufacturing exports especially in machinery and electronics and in the textiles and apparel sector (Sørensen et al. 2020). These would require investments, both domestic as well as regional (especially Mauritian and South African firms who have also invested in other countries in the region), to establish stronger RVC linkages (Grumiller et al. 2018).

While all of the above suggest a range of opportunities for Mozambique to expand exports, within SADC and to the continent, there are some caveats. Even if lower tariffs outside the SADC region offer opportunities for Mozambican exporters in principle, for example in Central and West Africa, high transport costs and other NTBs may hinder exports to these regions in practice. Further, in the absence of existing trade ties, support is required in terms of market information and business contacts to target exports into those markets. Each of the above sectors comprises small numbers of firms in relatively niche markets, arguably facilitating the task of targeting support and addressing current bottlenecks to export expansion (Sutton 2014).

The Programa Nacional Industrializar Moçambique (PRONAI), approved in 2021, lays out a ten-year strategy that may be useful to address some of the above issues.[44] Although not explicit about target markets, whether in SADC or the AfCFTA, PRONAI nonetheless identifies some potential sectors to support this ambition: minerals, electrical materials, chemicals, fertilisers, jewellery, furniture, pharmaceutics, fish products, cement, and the food industry. It also identifies a range of constraints that must be addressed, again aligned with many of those cited above, and accompanied by a strategy to work with the private sector and seek financing.

At the same time, past industrial strategies have often struggled to move from policy to practice, requiring a pragmatic approach, where lessons from the SADC Protocol on Trade in Goods, and the opportunity of the AfCFTA may offer ways to combine efforts and ensure pragmatic steps are taken in priority areas. This is further discussed in our recommendation below.

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[42] Gas is "used as a primary raw material for the production of liquid ammonia and resulting carbon dioxide gas, which is then combined to create urea fertilizer" (Farmers Review Africa 2021).
[43] See Atlas of Economic Complexity, Mozambique New Product Opportunities.
[44] See Boletim da República, 21 Outubro 2021, No. 203 and the Ministry of Industry and Commerce.

3.4. Summary

A key characteristic of the AfCFTA is that it is *complementary* to existing customs unions and FTAs such as SADC. The SADC Protocol on Trade in Goods will therefore continue to govern trade within SADC, while negotiations would only be required with countries with whom there is no prior agreement. For Mozambique, this will also depend on the position adopted for the Tripartite FTA, which has not yet been ratified.

Estimates of the impact of the AfCFTA suggest that while more developed economies stand to gain more, for Mozambique its existing openness and strong trade ties to SADC suggest a small but positive impact. While the AfCFTA offers new opportunities, they are unlikely to be significantly different and/or bigger than what the regional (i.e. SADC) market currently offers, while the SADC market offers proximity and established trade partnerships. Nonetheless, there are numerous opportunities for exporting existing goods to the African market, with studies pointing to the potential for aluminium wires, various foods products, and possibilities to expand into 'new' products building on the existing export base.

Overall, evidence suggests that the main overall benefits (and thus overall effects) of the AfCFTA are likely to come, not from tariff reductions, but from a reduction in NTBs. This is in line with the findings relating to the SADC FTA discussed above. Given existing estimates, and current SADC-focused trade, the effect of the AfCFTA seems likely to be small in the short-run though ultimately, export opportunities will depend on the finally agreed tariff reductions and RoOs and ability of firms to establish markets and to comply with these rules.

4. Conclusion: lessons for Mozambique for the AfCFTA

This study set out to review the literature and data on the effects of the SADC Protocol on Trade in Goods on the Mozambican economy and to draw lessons for AfCFTA accession and implementation. This section summarises the key lessons and related recommendations for the Mozambican government and international partners in preparing to take advantage of the AfCFTA.

4.1. Summary and implications

On SADC Protocol on Trade in Goods and exports

Although the macroeconomic trade data suggest that rising *exports* are almost exclusively related to the extractive sector and exports outside Africa, there are positive signals of rising exports that seem linked to market access through the SADC Protocol on Trade in Goods, including some 'new' export goods. But interviewees cite numerous constraints to exports, perhaps explaining the very low utilisation rate, while surveys reflect a wider set of constraints to export expansion in the wider business environment. Employment trends and high levels of informality all underline the importance of focusing on job-creating exports, beyond the extractive sector, leading to the following recommendations**:**

1. Set up a problem-solving **export-facilitation team** to talk to and work with current exporters (and potential exporters, where they can be identified) to better identify where the real, practical constraints lie, and convene the necessary government actors to overcome these. This would help address some of the basic concerns raised by exporters around availability of certificates of origin and personnel for inspections.

2. **Raise the currently low preference utilisation rate of the SADC FTA by** working to create awareness of the necessary formalities, and facilitating and simplifying the process for firms to obtain necessary paperwork and thus benefit from the SADC Protocol on Trade in Goods.
3. Building on the above teams, selectively prioritise and then **problem-solve around key export-related industrial policy (PRONAI) envisaged actions** to ensure more progress than past industrial policy efforts. This could focus specifically on feeding RVCs, working also with the export and investment promotion agency (APIEX) to identify opportunities.

On SADC Protocol on trade in goods and imports

Overall, the evidence on *imports* suggests that although imports and indeed import competition may be on the rise for certain sectors, this is not only due to the SADC Protocol on Trade in Goods. Indeed, the SADC FTA may have had a relatively small impact due to its limited use, but also to trade taking place outside the formal system. As discussed, recent analyses cite evidence that politically connected firms a) do better than others and b) are predominantly in the retail and trade sector, while corruption is frequently cited as barriers to firm expansion and growth.

Based on the above findings and implications, the following recommendations emerge for policymakers and their partners:

4. Explore ways to increase **preference utilisation rates on imports** to ensure the benefits of imports for consumers and those using imported inputs, while potentially reducing trade tax evasion**.** This may relate to dissemination of information on the steps to follow in order to benefit from the preferences, but also better understanding which aspects of the process require streamlining and acting on those.
5. Further raise **awareness of steps to facilitate trade, of trader rights and obligations** under the SADC Protocol on Trade in Goods and other FTAs to lower corruption at borders, potentially learning from other programmes in African countries and viewing evasion as a system, not an error.[45]
6. If they do not exist, **establish problem-oriented teams** with a mandate from the Minister to better understand different challenges of sectors suspected of suffering from import competition. Begin with, and potentially seek to work with relevant ministries and other partners on a more informal and regular basis to identify what bottlenecks can be addressed, and what pragmatic support is needed. This might align with PRONAI but be framed under SADC Protocol on Trade in Goods and AfCFTA consolidation. These might operate as working groups under the NTFC or the *Conselho Econômico*[46] or entail broadening the mandate of the NTFC and ensuring its coordination with (a reinforced) CONSADC.
7. Seek to better **understand drivers of corrupt systems at borders and political-business linkages** in order to take a pragmatic approach on where to adapt policies to that reality, attempt to alter such practices, or work around them.[47]

On the AfCFTA

Given the lessons from the SADC Protocol on Trade in Goods cited above, and studies estimating *AfCFTA impacts*, AfCFTA tariff reductions are likely to have a far smaller impact than reducing NTBs and seeking ways to ensure utilisation of AfCFTA preferences. As for the SADC Protocol on Trade in Goods, implementation of the agreement

[45] For instance see Karkare et al. 2021.
[46] Reportedly, the NTFC is formally focused exclusively on the TFA implementation though recently, two subcommittees were introduced on implementation of the i.e. EPA implementation and American Growth and Opportunities Act (AGOA). One option might be a further subcommittee on SADC Protocol on Trade in Goods implementation.
[47] See Byiers and Bossuyt (2016).

and the wider business environment will all shape the degree to which firms can take advantage of the AfCFTA. As such, policymakers might focus on the following issues:

8. AfCFTA ratification should be accompanied by a **proactive approach to export promotion,** building on the recommendations proposed above for the SADC FTA - many of the issues are and will be the same. Information on **new market opportunities and potential business partners** will be key, where efforts are underway to create a platform for this at the continental level. This may include strengthening economic or commercial diplomacy to promote intra-Africa trade and investment flows.
9. In addition to the above teams, if it does not already exist, create **an export market-focused team** to work with APIEX, MozParks the body responsible for managing industrial parks, and others to explore in more detail where there is demand for current and potential export goods and steps to take to promote these exchanges. This might also involve proactively seeking potential investors into those sectors, requiring a proactive, adaptive, learning approach.
10. **Assign responsibility to examine the AfCFTA tariff offers from other region**s and how these align with specific sectoral interests and competencies in terms of export opportunities into non-SADC markets. Analyse where import competition may compete with local production due to the tariff offers of SADC members to other countries. Where necessary, exploit the use of safeguard measures in specific industries in accordance with the provisions of the AfCFTA.
11. Use the **AfCFTA as a tool to frame a job-creating, export expansion**, building on aspects of PRONAI while setting in motion a process of iterative information gathering and problem-solving through targeted teams.
12. Improve **communication and stakeholder engagement:** Civil society, businesses need to be sensitised on the potential opportunities that the AfCFTA could bring. Public consultations with the involvement of academics and other experts will be necessary in this regard. It was reported that while such consultations and discussions took place in the context of the SADC-EU Economic Partnership Agreement (EPA), this is yet to be seen for the AfCFTA.

4.2. Complementary measures for economic transformation

As is raised in the above discussions, many of the constraints to job creation and economic transformation are less linked to trade than to bureaucratic processes, and access to credit, among others. Beyond the above proposed measures, efforts to build productive capabilities through the use of targeted industrial policy can therefore help expand the productive base to supply regional and continental markets. This requires greater coordination between stakeholders, and identification of focus specific sectors and industries where political interests and incentives can be managed. In terms of sequencing, diagnostic studies that can identify African markets for Mozambique's products (apart from studies identifying industries where Mozambique has potential which already exist) may help narrow the focus to a few industries with true potential.

While the recently adopted PRONAI industrial policy document offers a useful policy hook to focus government efforts, past experience with industrial and trade policies and strategies point to the difficulties of moving from policy to action. The recommendations here therefore include the need for targeted, action-oriented, cross-institutional teams to proactively explore existing problems related to the SADC FTA and AfCFTA, and propose pragmatic solutions that help gradually remove constraints to job-creating export investments. That reflects an *approach* rather than creating an additional new strategy document.[48]

[48] This recommendation and others relating to a problem-based, action-oriented approach to export expansion, etc. build on the work of Harvard Kennedy School of Governance with whom the study team has engaged. The following links provide further useful resources on this approach: https://bsc.cid.harvard.edu/podcasts/pdia-in-practice and https://bsc.cid.harvard.edu/publications/policy-area/pdia-building-state-capability.

The following three broad points may help frame future thinking about the AfCFTA in Mozambique:

1. SADC, especially South Africa, has been and will likely remain the main trading partner for Mozambique in Africa, even with the AfCFTA. Given that the AfCFTA will coexist with, rather than replace, the SADC Protocol on Trade in Goods, the immediate regional market should be the target of export development efforts.

2. Costs associated with using the SADC Protocol on Trade in Goods and wider issues that hold back investment, export expansion, and indeed imports of inputs, have a greater economic impact than tariff liberalisation, suggesting government efforts should focus on these.

3. The AfCFTA can, and should, nonetheless be used as a basis for relaunching efforts to promote job-creating exports (to SADC and the continent), through a problem-solving approach to bottlenecks in the sector, building on PRONAI to prioritise key export-focused actions.

Ultimately, utilisation of preferences set out in trade agreements is a function of the compliance costs and procedural requirements. To the extent that they can be reduced and eased respectively, the use of preferences can be expected to rise and greater trade opportunities and benefits to arise.

Annex I - List of interviewees

N	Institution, Title
1	Ministry of Industry and Trade (MIC), Deputy National Director of External Trade
2	SADC Secretariat, Senior Customs Officer
3	Universidade Eduardo Mondlane, Faculty of Economics, Lecturer
4	CITRUM SA, Manager
5	Sociedade Algodoeira de Nampula (SANAM), Manager
6	Tax Authority /General Directorate of Customs
7	IESE, Researcher
8	*Associacao Comercial, Industrial e Agricola de Nampula* (ACIANA)
9	Association of Sugar Producers of Mozambique (APAMO), Director and Deputy Director
10	Mozfoods, Manager and Distribution Manager
11	Southern Africa Trade and Investment Hub (SATIH)
12	Universidade Eduardo Mondlane, Faculty of Economics (Lecturer) and IESE (Researcher)
13	Export and Investment Promotion Agency (APIEX), Officer
14	National SADC Commission (CONSADC), Officer
15	Ministry of Industry and Trade, National Director of Industry
16	University of Cambridge, Assistant Professor
17	SNV, national representative
18	Technoserve, representative
19	ETG, representative
20	Yara, representative

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This publication benefits from the structural support by ECDPM's institutional partners: Austria, Belgium, Denmark, Estonia, Finland, Ireland, Luxembourg, the Netherlands and Sweden.

ISSN1571-7577

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HEAD OFFICE
SIÈGE
Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)433 502 900

BRUSSELS OFFICE
BUREAU DE BRUXELLES
Avenue des Arts 44, 1000
Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)28 825 008

info@ecdpm.org
www.ecdpm.org
KvK 41077447