SUMMARY

1. Mozambique shares many of the problems of resource-rich countries, with a fragile development model excessively focused on extractives and major projects. It has undoubted potential but faces considerable challenges: a lack of qualified workers; a limited internal market; infrastructure insufficiencies; a costly business environment; limited economic diversification; a high dependency on imports; increasing debt levels; a narrow tax base; and limited capacity for domestic resource mobilization.

2. Mozambique's economy has grown rapidly since the end of the civil war in 1992. Real annual GDP growth averaged around 8% over the past two decades and around 7% during the current review period. Robust growth was made possible by sound macroeconomic management, a number of large-scale foreign investment projects, relative political stability and significant donor support.

3. For most of the review period, Mozambique appeared to be enjoying a natural gas-fuelled boom until the disclosure in April 2016 of secret loans to the Government, which resulted in the IMF and other donors suspending financial support. The Mozambican authorities are currently engaged in discussions to resume financial support.

4. Strong growth has been supported by FDI inflows in extractive industries. Major discoveries of coal and gas may transform Mozambique into a significant player in global energy markets and the country's medium-term reform agenda emphasizes the need to focus on strengthening capacity to better manage the country's extractive industries.

5. There has been relatively limited structural transformation: the share of manufacturing, which grew from 13% in the early 1990s to 16% in the early 2000s, had fallen to 10% in 2010-15. The share of the agricultural sector, which initially fell from 35% before the end of the war to 24% in the early 2000s, has averaged around 26% since 2010. Extractive industries represented over 5% of GDP in 2015 with most investment still geared towards exploration. Tertiary activities accounted for 54% of GDP; in addition to expanding financial services, the tertiary sector has a growing number of micro-scale retail businesses with tiny profit margins and few opportunities for saving and investing.

6. Mozambique's traditionally small current account deficits widened during the review period as the value of imports significantly exceeded the value of exports. Large-scale megaproject-related imports have driven this trend, starting with investments in aluminium production and followed by the expansion of the mining and gas sectors financed by FDI. The current account deficit (CAD) has widened from an average of around 11% of GDP from 2004 to 2010 to around 40% from 2012 to 2015.

7. FDI reached between US$5 billion and 6 billion in 2012 and 2013 and was estimated at US$4.9 billion in 2014, or around one third of GDP, and financed 85% of the current account deficit. This trend compares favourably to most of the last decade, when FDI financed 35% of the deficit.

8. Trade in goods and services (exports + imports) accounted for over 100% of GDP in 2015, up from 68% in 2008. The pick-up in investment and FDI inflows since 2008 has been linked to strong import growth particularly in consumption and capital goods imports.

9. Mozambique's export basket is rather limited, reflecting the narrow scope of the economy: in 2015, four items (aluminium, coal, gas and electricity) accounted for almost 63% of exports. Coal exports rose from zero in 2010 to over US$520 million in 2013, ranking second only to aluminium exports. Mozambique's main imports are manufactured goods (67% of imports, especially machinery and equipment for use as megaproject inputs), foodstuffs and other agricultural products (13%), and fuel and mining products.

10. Services imports are roughly the same size as Mozambique's total merchandise exports. The strong growth in services imports was partly counteracted by improvements in the services balance in 2015 which noted a reduction in construction and professional services, a side effect of lower investment that year.

11. Over the review period various development strategy documents were released. Although they differ in focus, a common thrust is the priority attached to changing the structure of the economy through industrialization with a view to ensuring economic growth, reduced unemployment and improved living standards. The promotion of economic zones and development corridors, and the upgrading of transport, energy, water and communications infrastructure, is seen as being central to achieving this vision. It is against this background that various legislative and regulatory changes have been made, *inter alia*, in the areas of rules on public–private partnerships as well as incentives.

12. Mozambique's stated trade policy objective is to create an environment conducive to promoting the competitiveness of Mozambican products in international markets, especially those of the developed economies of Europe, America and Asia, without prejudice to regional trade. While external commentators have suggested that Mozambique could do more to encourage public–private sector dialogue on trade policy issues and be more transparent in the way that laws and regulations are developed, the recent institutionalization of a formal mechanism for public–private dialogue on economic and business issues is a positive step.

13. Mozambique is a founding Member of the WTO and grants MFN treatment to all of its trading partners. In January 2016, Mozambique ratified the Trade Facilitation Agreement. It has never been engaged in any dispute settlement activity. Over the review period, Mozambique has taken steps to improve its record on making notifications to the WTO, which was the subject of concern during its previous TPR. However, notifications still remain outstanding in various areas and this is an area where Mozambique has signalled that it needs technical assistance.

14. Mozambique has regional trade agreements in force with its South African Development Community (SADC) partners, as well as with Malawi and Zimbabwe (who are also SADC members). With respect to SADC, a key development was the completion of the transition period for full implementation of the free trade area in 2015; 99.6% of duties on goods imported into Mozambique from SADC members are now at zero. Mozambique ratified the SADC Protocol on Trade in Services in 2012 and approved the SADC Protocol on Employment and Labour in 2014. Negotiations to establish a customs union are ongoing, as are broader regional integration efforts. An EU–SADC EPA was signed in June 2016, but has not yet been ratified by Mozambique; this provides for asymmetric liberalization of goods and leaves the door open to enter into future negotiations in a variety of areas including services, investment, intellectual property rights, competition policy, and public procurement. Mozambique is eligible to benefit from unilateral preferences offered by various WTO Members.

15. Guarantees and incentives for investment are set out in the 1993 Investment Code and its 2009 implementing regulations, as well as the 2009 Code of Fiscal Benefits. Foreign investment must be of a certain value in order for investors to be able to remit profits outside the country and re-export domestic capital; otherwise foreign investors must meet targets related to annual sales volumes, exports or direct employment of a certain number of Mozambican citizens. There are few foreign investment restrictions in the areas covered by this report, namely with respect to the profession of customs brokers and the export of cashew nuts.

16. Over the review period various steps have been taken to facilitate trade, these include the launch of a single window system for customs clearance and other functions; the launch of an authorized economic operator scheme; liberalized transit regulations; and the creation of a one-stop border post with South Africa.

17. Mozambique continues to require the use of customs brokers for all commercial imports, exports and goods in transit; this profession is reserved for qualified Mozambicans and, recently, for citizens of SADC member States under certain conditions. However the authorities have noted that this requirement will be removed upon Mozambique's implementation of the WTO's Trade Facilitation Agreement. Pre-shipment requirements also remain in place, albeit on a reduced list of goods; since 2011, exporters of used vehicles have been required to pay a PSI inspection fee.

18. There have been no changes to Mozambique's rules on customs valuation over the review period. Reference prices are applied to sugar, various horticultural products and certain products supplied by grocery stores.

19. Mozambique's applied MFN tariff has remained largely unchanged over the review period. Mozambique's simple average tariff rate is 10%, with a higher simple average tariff on agricultural products (WTO definition, 13.4%) than on non-agricultural products (9.5%). International tariff peaks affect one third of Mozambique's tariff schedule. Mozambique does not apply tariff quotas. Mozambique has only bound 686 tariff lines out of its schedule of 5,063 tariff lines (just over 13%). 19 tariff lines at the 8-digit HS level are bound for non-agricultural products; and for three of these lines, applied rates exceed their respective bound rates. Mozambique's tariff shows mixed escalation overall: it is negative from raw materials to semi-processed products and then positive from semi-processed to finished products. Such a tariff structure tends to discourage investment in processing industries because the heavy taxation of imported inputs adds to production costs or reduces the competitiveness of products manufactured in Mozambique. Thus the tariff structure may not be conducive to diversification of economic activity through manufacturing. It also contributes to investors' arguments in favour of duty and tax concessions, including under the Industrial Free Zone (IFZ) and Special Economic Zone (SEZ) regimes.

20. Import surtaxes continue to affect ten tariff lines and are applied to sugar, cement, and certain iron and non-alloy steel items. Raw and processed sugar are subject to variable surtaxes which depend on the differences between the Mozambican reference prices and world market prices. Over the review period reference prices were significantly increased in order to protect the domestic industry from cheap imports, such that surtax rates have occasionally exceeded 100%, which is Mozambique's bound rate for "other taxes and charges". Surtaxes on cement and iron/steel items are *ad valorem* (ranging from 10.5 to 20%) and remain unchanged since Mozambique's previous review.

21. Other taxes and charges affecting both imports and domestic production are VAT (levied at a general rate of 17%) and excise taxes on certain goods such as alcohol, tobacco and luxury goods. Various exemptions apply to provide incentives to particular activities. A special inspection regime applies to alcoholic beverages and processed tobacco whereby a seal provides proof of the tax payment, with associated fees being applied at a higher rate to imports than domestic production.

22. A chicken import quota mechanism, introduced in 2009, protects the national poultry industry from cheap imports of chicken. There is no legal basis for this mechanism; rather it is based on an agreement between the Government, the Association of Poultry Farmers (AMA) and importers. Quotas are set annually by a working group, and are allocated to a group of large importers based on historical performance and distribution capacity criteria.

23. Mozambique has no legislation in place relating to safeguard, anti-dumping and countervailing measures.

24. Over the review period, various new laws have been enacted with respect to technical barriers to trade and sanitary and phytosanitary measures, *inter alia* to ensure Mozambique's conformity with treaty obligations and to update its regulations according to the authorities. These include laws relating to: metrology; standardization and conformity assessment; animal health; plant health; GMOs; seeds; pesticides; and, food of aquatic origin. Mozambique's SPS measures are based on international standards drawn up by the OIE, IPPC and Codex Alimentarius; it has no purely national SPS measures *per se*. The importation of animals fed with hormones (or their products) is not permitted.

25. As at the time of its previous review, Mozambique continues to impose an export tax of 18% of the f.o.b. customs value on raw or unprocessed cashews, which was in place to encourage domestic processing of cashew nuts and promote employment. New export taxes have been introduced on raw and processed timber. The Government does not provide any export finance, insurance or guarantee services. The objective of these measures is to encourage domestic processing and promote employment, and in the case of timber, to protect the environment.

26. In 2009, the Government introduced a new Code of Fiscal Benefits which moves away from a one-size-fits-all approach to providing benefits to a more tailor-made approach, with different incentive packages designed for different sectors. Fiscal incentives include customs duty and VAT exemptions, corporate income tax exemptions, reductions and deductions; investment tax credits; accelerated depreciation and reintegration; and personal income tax deductions. The new Code eliminates the possibility of exceptional authorization of fiscal benefits; grants more incentives for

tourism promotion; and extends the corporate income tax exemption period for Industrial Free Trade Zones (IFZs) to 10 years.

27. Mozambique continues to operate an IFZ regime; under which incentives are offered to all industrial activities with a few exceptions. IFZs are closed physical areas which must have security systems in place. Seventy per cent (previously 85%) of annual production must be exported. In 2007, Mozambique introduced a new type of zone, the Special Economic Zone (SEZ); SEZs are a geographic area of economic activity, rather than a physically-closed space, and SEZ fiscal and other incentives are available to all types of legal economic activity. Under both IFZ and SEZ regimes, if manufactured goods produced therein are sold to the domestic market, they are considered as an export to the domestic market and subject to the applicable duties. The encouragement of SEZs and IFZs are considered to be central to the Government's industrialization strategy.

28. In 2013, Mozambique promulgated its first historic Competition Law (Law No. 20/2013 of 20 March 2013). This law was the first step in Mozambique's efforts to establish a modern legal framework on competition. A Competition Regulatory Authority (ARC), once operational, will have authority to supervise, regulate, investigate and sanction, and will also be required to coordinate its activities with other regulatory authorities in the application of the law. The Competition Law applies to all economic activities undertaken in Mozambique or having an effect on it by private and public enterprises, with a few exceptions. Under the Law, prohibited anti-competitive practices include: horizontal agreements between competitors which aim to, or have the effect of, impeding, distorting or restricting competition; vertical agreements between companies and their customers and suppliers; and the abuse of dominant position by a dominant enterprise.

29. The National Sugar Distributor (DNA) has exclusive rights to export sugar. With respect to state-owned enterprises, the State has continued to gradually divest itself of various assets. By 2016, there were 122 enterprises in which the Government has either a full or partial share. A comprehensive privatization strategy is being implemented with consideration being given to further privatizing non-strategic companies.

30. The Government of Mozambique has continued to reform its procurement regime with new Procurement Regulations being introduced in 2010 and in 2016. While new legislation has not changed the overall institutional structure for government procurement, it has introduced changes in order to, *inter alia*, increase transparency in procurement processes; reduce the use of direct procurement; introduce a new contracting modality; increase business opportunities for foreign competitors; remove barriers to complaints by competitors; increase the thresholds for the application of certain tendering modalities; and strengthen the intervention powers of the supervisory agency. Preferences given to national competitors remain in place.

31. In the area of intellectual property rights, a new Industrial Property Code entered into force in 2016; legislative amendments are designed to promote competitiveness, industrialization and modernization of the economy and to increase exports. Parallel imports of various forms of industrial property are prohibited under the new Code. Provisions allowing compulsory licensing under certain conditions are in place; these have been invoked once, but not yet used. In 2013, Mozambique acceded to the Berne Convention for the Protection of Literary and Artistic Works and in the same year it signed the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled.

32. Agriculture accounts for a quarter of GDP and is a driver of Mozambique's robust growth. It remains the core economic activity for most Mozambicans, with an estimated 86% of the people depending on agriculture as their primary means of subsistence. However, the sector is dominated by low-productivity subsistence farming which is in need of new technology and investment. The country still imports a significant share of its food, mainly rice to supply urban centres.

33. Agricultural exports have grown steadily, encouraged by a liberalized trade regime. Although cash crops, including sugar cane, tobacco, cotton and cashew, account for a small proportion of total area cultivated, they represent the majority of agricultural exports. Government intervention in these subsectors remains significant. Agriculture remains the most protected sector with an average tariff of 12.4%. The highest average tariffs are applied to basic food products such as meat, fish, fruits and vegetables.

34. Despite being a growing activity, extractive industries represented only 3.9% of GDP in 2014 with most investment still geared towards exploration. Mining in Mozambique plays a significant role in the world's production of coal, gold, graphite and limonite, with massive coal reserves in Tete Province. Large reserves of natural gas were discovered in the Rovuma Basin in 2012. Currently, most of Mozambique's mining and mineral processing operations are privately owned, including cement plants, aluminium smelters and gas processing plants.

35. Coal mining began in 2011 and is becoming a major export, although infrastructure constraints and declining coal prices may affect development prospects. Ultimately, natural gas is projected to dominate the export mix toward the end of the current decade.

36. During the review period, Mozambique's mining sector has attracted significant attention from international mining companies. Recognizing this potential, the Mozambique Parliament approved a new Mining Law (Law No. 20/2014 of 18 August) repealing the previous Mining Law (Law No. 14/2002).

37. Manufacturing, which accounts for 10% of GDP, is dominated by the Mozal aluminium smelting plant, while the rest of the sector has significantly under-performed over the last decade. Mozal contributed 48% of Mozambique's industrial output and further represents 75% of manufacturing exports.

38. Mozambique is characterized by a weak fixed telecoms network and a relatively strong mobile network. The fixed network, with 81,000 subscribers or just 0.3 fixed-telephone subscribers per 100 inhabitants, has been unable to compete against mobile providers, struggling with poor infrastructure due to a prolonged period of under-maintenance and insufficient investment. The mobile segment has been more successful, expanding from 436,000 subscribers in 2003 to an estimated 18 million subscribers in 2015. The new Telecommunications Law (Law No. 4/2016), which entered into force in June 2016, addresses some of the sector's challenges and technological changes, including: unified licensing, enhancing competition, assuring network interoperability and interconnection, promoting infrastructure investment and sharing, and quality and affordability of service. The aim of this law is to stimulate competition in the telecommunications market, improve its functioning and ensure the protection of basic rights of consumers.

39. There has been a significant level of liberalization in the Mozambican banking services market, but this has not translated into increased affordability and availability of banking products. Access to finance remains an obstacle to improving Mozambique's investment climate. Cross-border lending by banks and acceptance of deposits is allowed, but lending is subject to restrictions on the period, size, and interest rate of the loan. Financial services are both a key sector in services trade and a necessary prerequisite for foreign direct investment in other goods and services sectors. The Financial Sector Development Strategy 2013-2022 aims to maintain financial stability, improve financial access and support inclusive growth, and increase the supply of long-term private capital to support development.

40. Mozambique has poor quality transport infrastructure compared to other countries in the world: in 2013 it was ranked 124th out of 144 countries by the World Economic Forum (WEF) in the "quality of transport infrastructure" index. The country fares even worse when it comes to the quality of roads, where it ranked 135th out of 144 countries. Transport by road accounts for nearly all of passenger traffic in Mozambique and over half of freight traffic. The condition of the road network is poor, in particular in rural areas. The quality of its railroads is deemed more adequate, with a ranking of 89th. Air transport services constrain the growth of the tourism industry as only the Portuguese carrier TAP operates an intercontinental direct flight to Mozambique and all other long-haul flights to Maputo are routed through Johannesburg.

41. Mozambique accounts for 70% of SADC's transit traffic, with logistics corridors linking the deep water coastal ports with neighbouring countries. It therefore plays a major role in regional trade as it provides important transportation corridors for cross-border businesses as well as exporters and importers of goods.

42. Mozambique has significant potential in tourism based on its range of beach holiday products, ecotourism, cultural diversity, and extensive coastline. The Government has made tourism a development priority since 2000. The relevance of tourism to economic growth and poverty reduction is also acknowledged by the Strategic Plan for the Tourism Sector, 2004-2014.