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Comments on

Should Mozambique Join SACU?
A Review of Key Issues

A report prepared by TSG for the Government of Mozambique

This is a useful paper reviewing some of the key issues concerning Mozambique's possible membership to SACU. At this stage, the review is somewhat inconclusive: it does not say whether, on technical grounds, the membership would be beneficial to Mozambique. This is because the benefits and costs of membership are not fully explored and other options for improving Mozambique's access to the South African market are not considered. While Government's decision on membership is essentially a political one, a good technical analysis would help the government to make an informed decision.

An informed judgement on membership can be made based on a careful analysis that weighs the benefits of membership against its costs, and compares these with the benefits and costs of other options of integration available to Mozambique. The following comments indicate the additional analysis needed to enable the Government of Mozambique to make such an informed decision.

Potential Benefits of Membership

The paper identifies three potential benefits of membership.

- Duty- and quota-free access to SACU market (basically South African market) without meeting SADC's very restrictive rules of origin (ROO)¹. This is probably the most important benefit of being a member of SACU. However, to assess this benefit one needs to identify the products that can be potentially exportable to the SACU market but presently hindered by SADC's restrictive ROO taking also into account the restrictive trade practices under the SACU agreement. This is necessary to be able to make a realistic assessment of the potential expansion of Mozambique's exports in the SACU market. One should also consider Mozambique's other options for improving access to the South African market. For example, can Mozambique increase its exports to South Africa under its current (or improved) bilateral trade agreement with South Africa, which has more liberal ROO compared to SADC. One would also expect improvement in SADC's ROO. A review of SADC's ROO has already been initiated as part of the mid-term review of its Trade Protocol. EPA negotiations are also expected to affect SADC to improve its ROO arrangements. If these are realistic alternatives for improving Mozambique's access to the South African market, the value of SACU membership to Mozambique would decrease significantly.

¹ SACU membership is not needed to attract South African investment in Mozambique.

- Mozambique would continue to have duty- and quota-free access to the US market through the SACU-US free trade agreement (FTA) after AGOA is phased out in 2015. It is not clear if this is an important benefit to Mozambique. First, the report assumes that the SACU-US FTA will be successfully concluded. At this stage, it may be too early to make this assumption. Second, Mozambique's exports to the US is presently only one percent of its total exports. To have a good idea about the US as a potential market for Mozambique, one needs to identify the products that Mozambique can potentially export to the US and show that Mozambique presently cannot export these products because of trade restrictions by the US which will be removed under the successfully negotiated SACU-US FTA. Third, one should keep in mind that, in time, and especially when the MFA elapses, the value of preferences received from the US will be significantly eroded.
- Enabling Mozambique to reform its policy environment/regulatory framework and locking in these reforms. Given many weaknesses in the SACU Agreement including its exclusion of trade in services, it is doubtful that SACU membership would enable Mozambique to introduce the necessary reforms. However, a successfully concluded EPA has the potential to lead policy reforms in Mozambique and enable Mozambique to lock them in.

Potential Costs of Membership

There are three main potential costs of SACU membership to Mozambique that need to be weighed against its benefits.

- By joining SACU, Mozambique will adopt the present tariff structure of SACU, which serves largely the trade interests of South Africa. The loss of independence in trade policy is likely to work against Mozambique because, given its size, South Africa will continue to dominate making trade policies in SACU, and the trade interests of South Africa and Mozambique are very different. For example, South Africa produces some capital and intermediate goods and protects them heavily. Mozambique imports these products and prefers to have zero or very low tariff on them. Besides, SACU's present tariff structure is very complex compared to Mozambique's tariff system. And, Mozambique has to increase tariffs on some important capital and intermediate goods when it joins SACU, adversely affecting its competitiveness. A detailed analysis is needed to assess the impact of current SACU tariff structure on the Mozambique economy, and to review the compatibility of trade interests of South Africa and Mozambique².
- Trade diversion resulting from SACU membership may be large because SACU's common external tariffs (CET) are high and SACU accounts for only 26 percent of Mozambique's exports. SACU's planned FTAs with the US and some other countries would not significantly reduce this risk, as the report argues, because Mozambique's imports from these countries are small (55 percent of Mozambique's imports are from countries other than SACU, EU, and US). Besides, South Africa's FTAs normally

² I was not able to review the revenue impact of membership. The report concludes that the revenue impact would be marginal.

provide only partial liberalization (For example, South Africa continues to protect 15 percent of its imports as sensitive products under its FTA with the EU). A detailed analysis is needed to assess the possible trade diversion resulting from the membership.

- Under SADC, Mozambique will remove tariffs on imports from South Africa by 2012-2015. SACU membership may mean an immediate removal of these tariffs. Is Mozambique ready for an immediate phase down of tariffs vis a vis South Africa? What would be the impact of this on Mozambique? The report does not provide adequate answers to these questions.

Conclusion

The benefits of the membership seems be overstated in the report and costs are understated, and alternatives to SACU membership to improve Mozambique's access to large South African market are not considered. For an informed decision on membership, further work is needed along the lines suggested above.

At this stage, Mozambique should not rush to apply SACU for membership, but wait and see how various on-going trade initiatives (SADC mid-term review, SACU-US FTA negotiations, EPA negotiations, etc) play out while undertaking more detailed analytical work to assess the benefits and costs of membership. The outcome of these initiatives would affect Mozambique's decision on membership in a significant way. By delaying application, wouldn't Mozambique lose its opportunity to participate and influence the SACU-US FTA negotiations? Yes, but this influence would be very limited given the dominance of South Africa in these negotiations. And, this benefit should be weighed against the costs of a rushed application.

At this time, the most imminent trade concerns for Mozambique are those related to mid-term review of SADC's Trade Protocol, EPA negotiations with the EU, and Doha Round negotiations. It is advisable that the Government allocates its very scarce resources to participate these negotiations effectively to maximize their benefits to Mozambique.