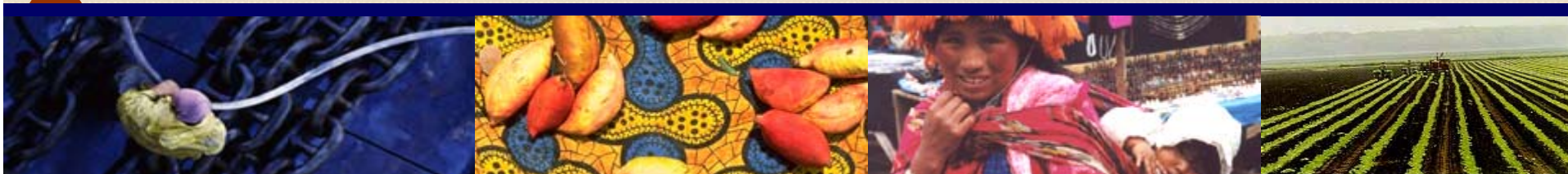


USAID Workshop: Promoting Economic Growth in a New Era



Building a Consensus for Trade Liberalization Trade Mainstreaming in Mozambique

Timothy Born, USAID/Mozambique
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Outline

1. What are we trying to do and how important is trade liberalization to our purpose?
2. What gets in the way?
3. Brief history of Mozambique's trade debate
4. Trade capacity building (TCB) & mainstreaming
5. Conclusions



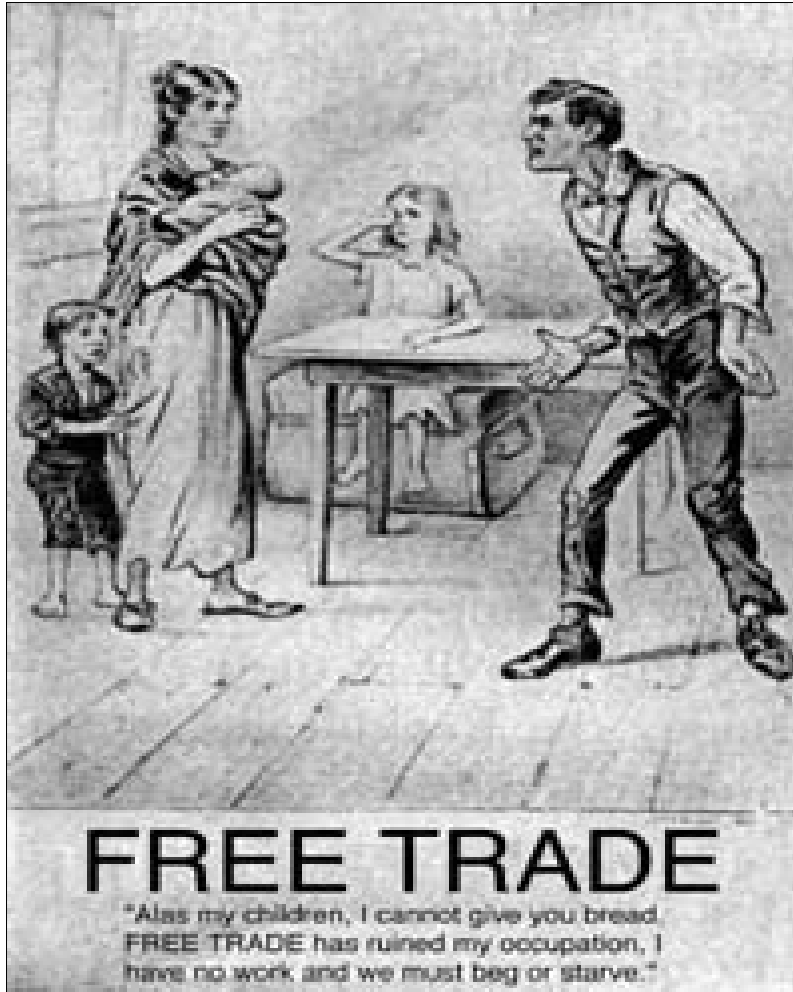
What are we trying to do?

Decrease poverty

- Trade increases growth; growth reduces poverty.
- Evidence that trade liberalization is a good early move – and not hard to implement.
- In Mozambique, unlikely to hurt poor, even in transition period.



What gets in the way?



*Alas my children,
I cannot give you
bread. FREE
TRADE has
ruined my
occupation, I
have no work and
we must beg or
starve.*



What gets in the way? (2)

- Infant industry; revenues; sequencing.
- Mozambique is competitive in “nothing”
- Intellectual and political tradition based on Marxism and Salazarism – control.
- Consumer welfare insignificant/to be sacrificed.
- Result – no bulwark against vested interests.
- Challenge is as much intellectual as political.



History

- Mozambique liberalized economy beginning in late 1980s -- but trade lagged.
- 1996 – tariff reform, to five band system, ranging from 35% to 0%
- 1998 – privatization of customs management
- 2000 and 2003 – reduction of high tariffs dispersion, to 30% then 25%; further 5% planned within two years



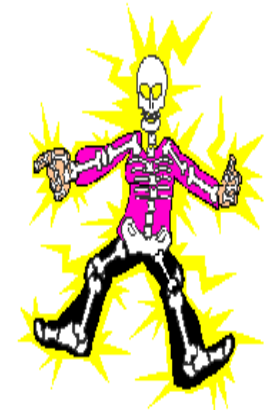
History (2)

- 1998 – Private sector pushed SADC FTA
- 1994 – 1998: Cashew debacle hurt reformers, undermined MFI credibility.
- Protection as a policy tool: sugar heavily protected beginning in about 2000; rice likely next.
- AGOA, EBA, and SADC served notice that it was time to join world economy.



History (3): SADC FTA

- Mozambique's corn laws debate.
- USAID played critical role by convincing key private sector figures that procrastination not the answer – tiny market a helpful argument.
- Showdown between Minister of Finance (see logo) & Minister of Trade.
- Minister of Trade was champion partly because Finance was against.



Mainstreaming: the IF

- SADC work important start;
- Trade mainstreaming followed naturally;
- IF brought other donors – and need for coordination in Mozambique, Washington and Geneva;
- Mozambique test case of bilateral DTIS;
- DTIS presentation in September to launch mainstreaming of trade into PRSP.



Mainstreaming (2) Opinions

- Trade liberalization important part of any economic growth or poverty reduction program.
- SADC FTA stepping stone – even if trade-diverting.
- Build up negotiation capacity – with it comes confidence.
- TCB w/o liberalization is dangerous.
- Supply side (enabling environment) critical.



Mainstreaming (3): More Opinions

- Major coordination issues with big trade program -- especially for IF.
- IF & mainstreaming try to make trade development's unifying concept -- poverty reduction more effective in this role.
- Even for growth programs, competitiveness is better guiding principle than trade. Is there a difference?
- Trade will always be too controversial.



Mainstreaming (4): USAID's Role

- Took lead with SADC FTA (domestic debate and negotiations);
- Trade program integrated with enabling environment and sector programs.
- Conducted a trade mainstreaming study in 2000/2001;
- Supported Mozambique's IF application;
- Drove the process— partly because of little interest from others.
- IF required considerable coordination by Washington.



Conclusions

- TCB must be based on conviction that trade increases growth reduces poverty;
- Mainstreaming & IF have led to better understanding of trade/growth/poverty links.
- Also increased attention on range of business environment issues – licensing; labor law, etc.
- Opposition is as much political and intellectual tradition as it is vested interests;
- Debate should be public and populist – trade for the poor and the workers.



What worked

- Mozambique's market is too small – growth depends on exporting;
- If you wait ten years, you'll be ten more years behind;
- You have nothing to lose.



Worth a Try?

