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*Mozambique**

– *Fernando Lichucha*†

Mozambique[1] is situated at Southern-eastern Africa, bordering the Mozambique Channel, between South Africa and Tanzania. Large-scale emigration by whites, economic dependence on South Africa, a severe drought, and a prolonged civil war hindered the country's development.

The ruling Front for the Liberation of Mozambique (FRELIMO) party formally abandoned socialist economic policy in 1989, and a new constitution the following year provided for multiparty elections and a free market economy. An UN-negotiated peace agreement between FRELIMO and rebel Mozambique National Resistance (RENAMO) forces ended the fighting in 1992.

In December 2004, Mozambique underwent a delicate transition as Joaquim Chissano stepped down after 18 years in office. His newly elected successor, Armando Emilio Guebuza promised to continue the economic policies that have encouraged foreign investment.

PROFILE	
Population:	18.8 million***
GDP (Current US$):	4.3 billion***
Per Capita Income: (Current US$)	210 (Atlas method)*** 1,050 (at PPP.)**
Surface Area:	801.6 thousand sq. km
Life Expectancy:	38.5 years**
Literacy (%):	46.5 (of ages 15 and above)**
HDI Rank:	171***

Sources:
- World Development Indicators Database, World Bank, 2004
- Human Development Report Statistics, UNDP, 2004

(**) For the year 2002
(***) For the year 2003

Economy[2]

At independence in 1975, Mozambique, a former Portugese colony, was one of the world's poorest countries. Socialist mismanagement and a brutal civil war from 1977-92 exacerbated the situation. In 1987, the Government embarked on a series of macroeconomic reforms designed to stabilise the economy. These steps, combined with donor assistance and with political stability since the multi-party elections in 1994, have led to dramatic improvements in the country's growth rate. Inflation was reduced to single digits during the late 1990s although it returned to double digits in 2000-03. Fiscal reforms, including the introduction of a VAT and reform of the customs service, have improved the Government's revenue collection abilities.

In spite of these gains, Mozambique remains dependent upon foreign assistance for much of its annual budget, and the majority of the population remains below the poverty line (BPL). Subsistence agriculture continues to employ the vast majority of the country's workforce. A substantial trade imbalance persists although the opening of the MOZAL aluminium smelter, the country's largest foreign investment project to date has increased exports earnings. Additional investment projects in titanium extraction and processing, and garment manufacturing should further close the import/export gap.

Mozambique's once substantial foreign debt has been reduced through forgiveness and rescheduling under the World Bank and IMF's HIPC and Enhanced HIPC initiatives, and is now at a manageable level.

* Original paper submitted in December 2004. Revised in February 2006
1 http://cia.gov/cia/publications/factbook/geos/mz.html
2 The world fact book - Mozambique

Competition Evolution and Environment

The Government of Mozambique's reform process started in 1987 with its Economic Rehabilitation Programme, renamed the Economic and Social Rehabilitation Programme, in 1989. The stated objective was to lay the foundation for a shift to a market-based economy[3] .

In recent years, privatisation and deregulation policies have been part of a major structural change from active industrial policy to a market economy. The central component of the liberalisation programme consisted in reducing or eliminating burdensome and inefficient regulations, which is deregulation. And institutional reforms of the financial sector and a privatisation programme for state enterprises were key components of deregulation.

Trade, widely recognised as an engine of growth and development, has been another important component of liberalisation. The Government of Mozambique moved from a system of managed trade toward a liberal regime with imports subject to *ad-valorem* tariffs. Since 1987, quantitative restrictions on imports and exports have been scrapped, the number and average level of tariff rates substantially reduced, and licensing procedures simplified or rendered automatic.

Mozambique's reforms were intended to induce competitiveness, economic growth, and better living standards. Deregulation, encouragement of new market entry, and increased competition would make firms more efficient. Efficient firms would necessarily become more productive and better able to compete in the world markets. Increased competition would benefit consumers by providing more choices, better quality, and lower prices. So far, results have been encouraging. Substantial price decontrol and vigorous trade liberalisation appear to have enhanced microeconomic efficiency and the capacity of the economy to withstand external shocks.

Price liberalisation has been vigorous and comprehensive. In 1986, products with fixed prices accounted for about 70 percent of GDP. In July 1993, prices for major food groups, such as maize meal, cooking oil, and rice were liberalised. By 1996, only wheat flour, bread, rents, fuel, utilities, and certain transportation fares remained regulated. As of April 2002, only utilities and some taxicab fares were regulated.

Mozambique's privatisation programme, when measured on the basis of the moving of assets from the state into private hands, has also been successful. In 1994, there were 125 privatisations, and in 1995, 261. By mid-1999, more than 1,200 firms had been privatised with 87 of these considered large enterprises. The World Bank referred to Mozambique's privatisation programme as 'one of the largest in Africa'[4].

State of Competition under Privatisation and Deregulation Policies

Mozambique's relatively successful deregulation, privatisation, trade reform, and other liberalisation processes have imposed gains and losses. For example, the reduction and elimination of domestic barriers to trade stimulated imports and entry. The resulting competition between imports and domestic production affected economic sectors differently.

And while the benefits of such competition have usually been enjoyed broadly by consumers, import-competing industries bear the costs. Those affected tend to oppose further deregulation and to seek protection from imports or maintenance of protective barriers, or both. If import-competing commerce has more to lose than the export industry has to gain, incentives for protection can be stronger than pro-liberalisation forces and can spearhead opposition to deregulation. Indeed, reformers are not unaware of the problem:

Recent assessments of the reform efforts have concluded that the Government has been making consistent efforts to remove administrative barriers to investment in recent years.[5]

Numerous government policies affect the ease of entry, some in obvious ways and others more subtly. For example, it takes 153 days to start a business in Mozambique. In addition, the 'costs of bureaucracy are high resulting in delays and lead(ing) to high levels of corruption'[6] .

Delays add costs, often-insurmountable costs that erode general competitiveness. In addition to disadvantaging small business, Mozambique's numerous government regulations restrict imports from entering national markets. Recently published statistics ranked Mozambique 19th among 24 African states on 'hidden import barriers', 15th on 'import tariffs and quotas' as serious impediments to access to foreign materials and equipment, and 15th in 'overall openness to trade', as measured by levels of imports or export restrictions, licensing requirements, and exchange controls. These statistics suggest that Mozambique has much to gain by increasing deregulation and pursuing trade enhancing measures rather than antitrust law enforcement.

3 Arndt, Channing, Henning Tarp Jensen, and Finn Tarp. 2000. Stabilisation and Structural Adjustment in Mozambique: An Appraisal. *Journal of International Economic Development*, Volume 12, Number 3, April (p. 302)

4 Sowa, A. 1996. Evaluating the Impact and Effectiveness of the Enterprise Restructuring Program. Private Sector Finance Technical Unit (The World Bank: Washington, DC, August 1996).

5 Foreign Investment Advisory Services, The World Bank and the United States Agency for International Development. 2001. *Mozambique: Continuing to Remove Administrative Barriers to Investment.* p. vi.

6 Schwab, Klaus, *et al. The Africa Competitiveness Report 2000/2001*. p. 170.

Competition Law and Policy

There is no competition law in Mozambique. Mozambique's present state of economic transition stands to gain considerably from encouraging market entry and investment. Accordingly, its competition policy should focus on (1) forcefully challenging Government's anticompetitive behaviour and (2) horizontal proscriptions, especially price-fixing. Regulations should rely on a *per se* methodology, narrowly defined to include only agreements on price. Like Swaziland, Mozambique has sought the assistance of the Zambian Competition Commission to establish a competition law regime of its own.

The competition policy should aim to remove barriers to increased trade and to move the country's economy towards integration into the world economy. Cartels and monopolies cannot co-exist with trade and imports. But even a nationwide price-fixing cartel cannot undermine trade and integration without government barriers. Unless accompanied by a boycott against imports, high cartel prices simply trigger a flow of trade as consumers search for lower priced and higher quality products and services.

Why focus on cartels? First, in contrast to some non-price horizontal practices and nearly all-vertical practices, price-fixing has no efficiency benefits. Second, administering a highly focused law is easier, more effective, and less expensive than managing the full array of antitrust procedures and ancillary infrastructure. Mozambique has little tradition in antitrust: a limited jurisprudence in competition; a limited capacity to administer laws; little or no confidence in the legal system; no natural constituency for a competition agency; constrained budgets; little experience with competition; and limited human capital. Other similar institutional constraints abound.

Sectoral Regulation

Telecommunications Sector

The telecommunications sector in Mozambique is in the process of being liberalised. Since 1992, the Government has embarked on a disengagement strategy that actively encourages private sector participation in the production and delivery of goods and services that formerly were furnished or assured by the State. The Telecommunications Law sets forth the following objectives:

- promotion of the availability of high quality public telecommunications services;
- promotion of private investment in the telecommunications sector;
- promotion of fair competition and consumer protection; and
- increasing telecommunication access and advanced information services nation-wide.

Box 49.1: Price Wars between Sugar Producer, Consumers

Mozambique's main industries that use sugar are continuing to import the commodity rather than buying the locally-made product, according to Arnaldo Ribeiro, the director of the National Sugar Institute (INA) here.

Since the start of 2005, some 56,000 tonnes of Mozambican sugar (white and brown varieties) have been sold on the domestic market, an eight percent decline on the same period in 2004.

But industrial consumers have purchased only 8.6 percent of the sugar sold domestically. The major sugar-using industries are breweries and soft drink makers, dominated in Mozambique by *Cervejas de Mocambique* (CDM, or Beers of Mozambique), which is a subsidiary of South

African Breweries, and the local branch of Coca-Cola Bottling Company. Ribeiro said that the industries are dissatisfied with the price charged by Mozambican sugar producers. They have not abandoned Mozambican sugar entirely but are continuing to import sugar from South Africa at the same time.

This could be regarded as economically irrational: imported sugar bears surtax, in order to protect the national product. So, South Africa sugar costs the industries more than Mozambican sugar. But CDM and Coca Cola seem willing to pay the extra, as part of their pressure to force Mozambican sugar companies to lower their prices, according to the observers. Failure to reach consensus on the price means that the local industry is prejudiced since it can sell less on the domestic market.

According to date made available to AIM, this year the sugar companies have sold 6,000 tonnes less than they would have done, if the industries had not imported any sugar.

Source: www.panapress.com/newslatf.asp?code=eng088983&dte-29.07.05

Telecomunicações de Moçambique (TDM)[7] is an independent state-owned firm responsible for the provision of public telecommunications services. TDM was transformed into a publicly owned business firm by Decree No. 23/92, on September 10, 1992, as part of the larger economic reform underway in Mozambique. TDM was restructured to function as a commercial entity with financial autonomy, and it has responsibility for planning, installation and operation of the national and international

7 http://www.uneca.org/aisi/nici/country_profiles/Mozambique/mozaminfra.htm

network. The major services offered by TDM are telephone/fax, telex, leased lines, radio and television transmissions, cellular telephones (GSM) and Internet services.

In addition to establishing TDM as an independent company, the *Instituto Nacional das Comunicaçoes de Moçambique* (INCM) was established as an independent regulatory body under the umbrella of the Ministry of Transport and Communications (MTC). INCM undertakes several responsibilities, including licensing, spectrum management, formulation and interpretation of sector policy, international relations, and defining and monitoring compliance with the performance targets set for TDM.

National Telecommunications Institute of Mozambique (INCM)[8], responsible for sector policy, regulation and supervision of state owned carrier. Mozambique remains one of the least developed markets in Africa, but peace in recent years and radical reforms have transformed the country into one of the fastest-growing economies on the continent.

The telecom sector is independently regulated and a second mobile licence was awarded to Vodacom in mid-2002. The mobile sub-sector has experienced triple-digit growth rates almost every year since 1997. In a bid to encourage competition, the state-owned telco TDM was converted into a limited company in 2003 and its mobile subsidiary mCel was spun-off into a stand-alone company. The sale of a majority stake in TDM to a strategic investor is being planned and a second fixed-line operator is to be licensed before the end of 2007.

Energy Sector[9]

Mozambique has southern Africa's greatest potential for energy production. Most of these resources lie untapped, awaiting the investment needed to realise this potential.

In August 1997, a new Electricity Act was approved by the Parliament to define:

- general policy for the organisation of the electrical energy sector and the administration of the supply of electrical energy; and
- general legal framework for electrical energy generation, transmission, distribution and sale within the country, as well as its exportation to and importation from outside of the national territory, and granting concessions for such activities.

New municipal legislation was enacted in 1997, giving municipalities certain functions in investment planning and the operation of electricity services in local authorities. The objectives were to follow up the intentions of the Electricity Act reforms through the granting of concessions, including proposals for tariff regulation.

The National Directorate of Energy (DNE) is a central organ of the Ministry of Minerals Resources & Energy, responsible for study, conception and development of energy policies. The organisational structure of DNE, was approved on April 16, 1997, by Ministerial decree and the main tasks of DNE are as follows:

- to study, to propose and to administer the energy policy in the country;
- to promote the diversification of energy use and optimise the use of various energy sources;
- to determine environmental issues, based on the development of the economic perspectives of the Country,
- to provide the plans and the programmes for the development of the sector;
- to promote and to maximise the rational use of the national energy sources with relevance to the installed capacity, namely, through the encouragement of investors; and
- to promote the cooperation with public and private institutions, national or foreign, in achieving the maximum potential in the technical development and sector regulation.

Anticompetitive Business Practices

Cartels and Monopolies

If a single entity captures an entire industry, monopoly can replace state control and choke off the benefits of competition. Cartel activity reduces the output and raises prices, which imposes comparable duress on competition. Mozambique's largest business association has characterised monopolies as a huge problem as there exist dominance by monopolies and oligopolies, with foreigners dominant in vital sectors due to which the business environment is adversely affected.

Antitrust policy was recommended as many monopoly and cartelisation problems exist, urging the state to apply its function as a regulator of firms that are monopolies or oligopolies in such a way that the cost of their products of services does not penalise the less profitable sectors. If monopolists invest resources to raise price, the total value of the monopoly may be lost to society. A policy that considers the price effects of mergers would require large efficiencies and anticompetitive effects in the analysis.

Concluding Observations and Future Scenario

In conclusion, Mozambique has a keen interest in having a competition policy framework in place and is engaged in a number of activities toward that goal, namely:

8 www.itu.int/ITU-D/ldc/documents/ projects-2001/mozambique.pdf
9 http://www.sovereign-publications.com/mozambique.htm

- setting up a working group for developing a competition law and policy focused on horizontal price-fixing proscriptions and challenges to government anticompetitive practices;
- drafting a competition law proscribing naked cartels, prohibiting price fixing, and empowering a competition agency to review proposed bills or statutes within the Government; and
- examining alternatives to antitrust law enforcement.

Suggested Readings

Arndt, Channing, Henning Tarp Jensen, and Finn Tarp. 2000. Stabilisation and Structural Adjustment in Mozambique: An Appraisal. *Journal of International Economic Development*, Volume 12, Number 3, April (p. 302)

Sowa, A. 1996. Evaluating the Impact and Effectiveness of the Enterprise Restructuring Program. Private Sector Finance Technical Unit (The World Bank: Washington, DC, August 1996).

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Schwab, Klaus, *et al*. *The Africa Competitiveness Report 2000/2001*. p. 170.

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