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Theme: COMPETITION

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Freeway
Promoting Competion

Competition promotes efficiency. We all recognise this in the field of sport. Despite that, support for competition in business, in the professions and in government is often half-hearted, even negligible. Zambia no longer suffers from the severe price controls which held back our economic development for many years after independence. Yet the country's ratings in the World Bank's 'Doing Business' reports, and especially in the 'Global Competitiveness Index' of the World Economic Forum, remain disappointing. Even the article from the government's Competition Commission in the current issue of this journal indicates little activity to promote competition.

Other articles discuss what is needed. Freeing up foreign trade, removal of price controls, restraint of monopolies and the provision of government services are all mentioned. But mostly in general terms. There is little detail. We need to attend to specific areas in Zambia where action is needed to promote competition. Those which need serious attention include monopolistic governmental institutions, rent control, services provided by government, and minimum wages and conditions of employment. The Editor would welcome comments and suggestions from readers, as well as comments on articles published.

Articles from readers on the topic of our next issue, 'Creating Employment' will also be welcome.

World Trade begins at home

By Alec van Gelder

The long-awaited EU-Africa summit in Lisbon ended in deadlock, with Africans accusing Europeans of attempting to elbow into African markets. This is a missed opportunity for economic growth in Africa but the summit rhetoric obscures a far more important point: Africa is never going to get rich while its governments restrict trade between its own countries, EU deals or not.

African exports account for just 2% of global trade but, according to WTO figures, only about 10% of these exports are within

Africa. Yet 70% of the tariffs paid by Africans are imposed by governments in other African countries.

On top of that, Sub-Saharan governments are three times more likely to apply non-tariffs barriers than in wealthy countries, World Bank figures show.

As a result of grotesque trade distortions including corruption and tortuous bureaucracy, African countries cannot exploit their best potential markets: their own neighbours. Dropping those barriers could boost inter-African trade by more than 50%, according to World Bank figures.

The self-appointed spokesman for Africa, Bob Geldof, missed this point when he lamented before the summit that "international promises to make trade work for Africa have been lost in haggling, acronyms and inadequate will." But if Geldof really wants the poor to "engage with the global economy fairly," he should campaign against governments of poor countries that drive up prices and hinder growth with the world's highest tariff barriers.

The disputed Economic Partnership Agreements with the EU do not challenge the trade barriers that prevent Africans from getting products they most need, like medicines or fertilisers. Tanzania imposes a 10 per cent tariff on imported medicines, to protect its "infant medicine industries," thus taxing the sick. Similarly, cheaper imported fertiliser would yield more and cheaper food. If African governments are serious about meeting the Millennium Development Goals, freeing trade in these areas is not just an economic necessity but a moral imperative.

These barriers, however, will be difficult to dismantle while powerful domestic interest groups lobby for protectionism.

The Nigerian agricultural sector, under the pretext of "encouraging local substitutes," has gained a ban on imports of wheat, rice, maize and vegetable oil, even though they would be far cheaper for the 11 million Nigerians who are undernourished. But this giant country is still not self-sufficient in food after thirty years of pursuing this delusion.

While domestic protectionist groups are motivated purely by self-interest, they get ethical credibility from the global Trade Justice Movement (TJM), a coalition of "development" NGOs including Oxfam. The TJM claims tariffs allow nascent local industries to grow, shielded from "unfair" international competition. But these "infant industries" rarely grow up to become efficient or innovative. Protectionism makes them lazy and old-fashioned, and permanently reliant on taxpayer's subsidies or consumers' high prices.

Mobile telephones show what can happen without protectionism. In countries such as Kenya, mobile 'phones have reached millions precisely because the government has not manipulated the market with protectionist tariffs and subsidies. Foreign and domestic companies have therefore competed with each other to roll the network out even to rural areas.

Mobile 'phones have empowered entrepreneurs, from farmers to taxis, using them to get real-time information on local markets and trading opportunities. A London Business School study recently discovered that for every 10 additional handsets (with reliable signal) per 100 people, GDP can increase by 0.6% annually.

But the Ethiopian government prefers the philosophy of the TJM. It thinks the state monopoly Ethiopian Telecommunications Corporation needs a few years' more protection before liberalisation. This comes after decades of inefficiency and outright failure to provide fixed line connections or mobile coverage to more than 1.2% of the population, and mainly in cities.

It is ironic that African countries are now turning to China for investment. China spent decades pursuing economic self-sufficiency but its accelerating reforms and its massive unilateral tariff cuts have delivered growth around 9% a year, letting 400 million (and counting) people raise themselves out of poverty. China is now the second-largest economy on earth.

Global liberalisation would raise Africa's GDP by US$120 billion a year, according to Oxford Economic Forecasting, but African politicians and vested interests are afraid of competing with developed economies. Yet intra-African liberalisation alone would yield a full third of those benefits, a study by the Cato Institute shows.

If African countries want to emulate China's growth, they should follow its lead, stop cosseting local industries and remove tariffs unilaterally. Once they do, Africans will demonstrate that their economies can grow as quickly as anyone else's.

Author: **Alec van Gelder is Network Director at International Policy Network in London.**

Walmart in South Africa

By 'The Economist' magazine , 17.02.2011 (with permission)Feb 17th 2011 JOHANNESBURG

ON FEBRUARY 11th the world's most successful retailer came a step nearer to establishing a presence in Africa. South Africa's Competition Commission approved Walmart's proposed acquisition of a 51% stake in Massmart, a South African firm that owns 265 wholesale and retail stores in South Africa and 25 more in 13 other African countries. Massmart's shareholders love the 16.5 billion rand ($2.3 billion) deal: 98% of them voted to approve it last month. But South African unions view it like a charging rhino in a narrow alley.

The American giant will bash unions, cut wages and drive more humane employers out of business, shop stewards predict. They also fear that it will source cheap products from China instead of buying locally. Mere talk of the merger has already destroyed "thousands of jobs", they claim, by forcing other South African retailers to lay off workers and make working conditions worse in preparation for the great American onslaught. The Congress of South African Trade Unions, South Africa's biggest union group, has threatened to stage "the mother of all boycotts" of Massmart products and a strike at all its stores if Walmart takes over.

The Competition Commission is sceptical of the unions' claims. It said it had received assurances from the merging parties that they would honour existing union agreements, abide by South Africa's tough labour laws and source most of their products locally. Massmart insists it has no plans to make any lay-offs. On the contrary, it says it plans to open 54 new stores (net) over the next three years and add 6,300 new hires to its 27,000 employees. Further objections from South African unions and others will be heard by the Competition Tribunal, another official body, next month. It, too, is expected to rule in favour of the deal.

Ten years ago Massmart, which is South Africa's leading wholesale warehouse business, decided that it needed a global partner. Walmart began sniffing around South Africa three years ago, seeking a toehold on a continent where consumer spending power has risen sharply in the past decade.

The obvious partner was Shoprite, Africa's biggest grocer. But Massmart increased its allure by rushing into the food-retailing business, and the gamble paid off. Massmart now has 40 grocery stores in South Africa, with many more in the pipeline, and has become the country's third-biggest food retailer. If the merger is consummated, Massmart will continue to trade under its old brand names, such as Game, Makro, Builders' Warehouse and CBW.

But beyond this, the Beast of Bentonville is cagey about its plans. Walmart says it aims not to change Massmart's strategy, but simply “to put the foot on the accelerator”. It may be a heavy foot. Walmart did not become a $200 billion company without running down a few pedestrians. Few doubt that it will use all its skill and muscle to reduce prices and woo shoppers. It may stumble for cultural reasons, as it did in Germany. But if it succeeds, the effects may be profound.

South African retailers such as Shoprite, Pick 'n' Pay, Spar and Woolworths are highly sophisticated and offer a fine array of fresh food, at least in the big cities. But they cannot match Walmart's scale, global sourcing network or logistical brilliance. So there is a chance that Walmart will reduce prices so much that it affects the national inflation rate, as it has in America. At a time of painfully surging food prices, that would be a hefty boon for the needy. But it won't please everyone.

Role of the Competition and Consumer Protection Commission

By Vaida Bunda, Public Relations officer

Zambia liberalised her economy in 1991 following a change in Government. The liberalisation of the economy meant a shift from government controlled enterprises to private owned firms. It also meant that the government had transferred its controlling jurisdiction over the production of goods and services, and their distribution or pricing, as everything was now determined by the private owners. However, the government, through its assumed roles as facilitator and regulator, had to ensure a level playing field in the economic sector, so as to avoid trade distortions or market failures which could eventually lead to stagnation of the economy or sluggish growth.

This is because in a liberalised economy with no regulation big business firms are more likely to engage in activities which can hinder the growth of smaller firms and frustrate potential entrants into the market. A new regulatory economic environment was then created through the formulation and enactment of various laws aimed at defusing the state's role as policy maker and regulator, so as to foster a healthy market participation of all players. Competition analysts agree that a well functioning market mechanism devoid of monopolistic tendencies is essential in ensuring that there are no price distortions that have an effect of reducing consumer welfare and the well being of the economy at large.

The Competition and Fair Trading Act (CFTA) Chapter 417 of the Laws of Zambia of 1994 was the primary statute source of competition law and policy in Zambia until August 2010, when it was repealed and replaced with the Competition and Consumer Protection Act No. 24 of 2010. The Competition and Consumer Protection Commission plays an important role in the Zambian economy by ensuring that competition among business players is protected and consumer welfare in the economy enhanced.

The Commission promotes competition in the economy by prohibiting anti-competitive trade practices such as price fixing, as well as regulating monopolies and the concentration of economic power. It also ensures that there is efficiency of production and distribution of goods and services, and helps to secure the best possible conditions for the freedom of trade in the economy. The other way the Commission promotes competition in Zambia is through the regulation of market structures by scrutinising all mergers and acquisitions before authorisation is given.

A good example of a case handled by the Commission was the takeover of Mobil Zambia Limited by Total Outre-Mer of South Africa in 2005. Total Outre-Mer already had two wholly owned Oil Marketing Companies (OMCs) in Zambia, Total Zambia Limited (Total) and TotalFinaElf Zambia Limited. In addition, the company owned 50% of shareholding in Indeni, of which it had the management contract.

An assessment of the transaction by the Commission indicated that there were likely to be some adverse effects on competition if the transaction was allowed to take effect. The Board in determining the transaction noted that the relevant product market was petroleum products, which were largely diesel, petrol and kerosene.

The Board also observed that the pre-merger market concentration ratio of the top three players at 74% was relatively oligopolistic and was prone to collusive tendencies and hence contrary to the objectives of the Competition and Fair Trading Act. In addition, the Board disclosed that with the takeover of Mobil (BP, Total and Caltex) a mere three players were going to have control of at least 80% of the market.

In granting its approval of the transaction, the Commission directed that Total should provide workable undertakings that were self regulatory and ideally structured, because without them the transaction would substantially lessen competition in petroleum marketing and distribution.

Thus by using competition law the Commission protects the competitive process and provides for equal opportunity for all firms to compete - not an equality of outcomes. Competition law preserves market processes by preventing a firm from engaging in activities which undermine rather than enhance overall economic efficiency. Competition law is about protecting the process of competition, and it is not concerned with protecting particular competitors or individual companies in the market.

Readers are invited to send their comments to: The Director, Consumer and Public Relations, Zambia Competition Commission, PO Box 34919. Lusaka, E-mail: zcomp@zamtel.zm

Competition in Providing Government Services

By Peter Drucker

Lincoln, Nebraska, 120 years go, was the first city on the Western world to take into municipal ownership public services such as public transportation, electric power, gas, water, and so on. In the last ten years, under a woman mayor, Helen Boosalis, it has begun to privatize such services as garbage pickup, school transportation, and a host of others. The city provides the money, but they then contract out the service to a private business on the basis of competitive bids. With private business bidding for the contracts; there are substantial savings in cost and even greater improvements in service.

What Helen Boosalis has seen in Lincoln is the opportunity to separate the 'provider' of public services, that is, government, and the 'supplier'. This makes possible both high service standards and the efficiency, reliability, and low cost which competition can provide.

Author: **Peter Drucker, 'Innovation and Entrepreneurship', 1985.**

The Power of Freedom

By Eustace Davie

In 1970's Russia, housewives spent two hours per day, seven days per week, to buy basic household necessities. Centralised control in the Soviet Union caused chaos. There was no personal choice, no voluntary exchange, no freedom to enter and compete in markets, and no private ownership of property and the means of production. What operated there was the opposite of a free market.

In markets without centralised control products flow in to feed the people of the largest cities and smallest villages, to provide them with clothing, medicines and all the other goods for which there is a demand. Careful planning and efficiencies by the private firms involved in the production, packing, transport and delivery of all these products and services are taken for granted.

Free markets create the incentives and the disciplines for suppliers of goods and services, pursuing their own self-interest as everyone does, to provide their customers, clients and patients with the best quality goods and services at the lowest prices. No supplier in a competitive market can escape the discipline provided by the presence of alternative suppliers of similar goods and services operating in an environment in which the rule of law prevails.

"Free markets are simply millions upon millions of individual decision-makers, engaged in peaceable, voluntary exchange pursuing what they see in their best interests," says economist Walter Williams. He goes on to say that, "People who denounce the free market and voluntary exchange, and are for control and coercion, believe they have more intelligence and superior wisdom to the masses. What's more, they believe they've been ordained to forcibly impose that wisdom on the rest of us. Of course, they have what they consider good reasons for doing so, but every tyrant that has ever existed has had what he believed were good reasons for restricting the liberty of others."

Proponents of free markets (economic freedom) are in favour of people making their own decisions and choices about their own lives, as long as they do so peacefully and their exchanges with others are entirely voluntary.

In free markets, consumers decide which goods and services will be produced, the quality, and the price. They do this by purchasing or declining to purchase what is offered to them. Prices are the result of the subjective value judgements of consumers. There is no objective value for anything and it is this resulting price that provides the vital information for the co-ordination of supply and demand and the efficient use of resources. Suppliers, not consumers, pay for the mistakes of misjudging the market and fraud is punished when the legal system is accessible to consumers and functioning efficiently.

But the information required becomes available only when consumers are allowed to exercise their choices in markets that are free of price regulation. Regulatory tampering with prices has the destructive effect of depriving everyone of information. Where rising prices in an unregulated market are a sign of a shortage and a signal for producers to increase supply, a controlled price suppresses the signs of increased demand and causes a shortage of a product, such as a vaccine or medicine, for which there could be a desperate demand.

Countries that have greater economic freedom have higher economic growth and higher per capita incomes than less free countries. People in freer countries are healthier, live longer, are more productive, have more political rights and civil liberties, and the incomes of the poorest 10% are far higher than those in less free countries. The key ingredients of economic freedom are personal choice, voluntary exchange co-ordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression by others.

Author: **Eustace Davie is a director of the Free Market Foundation.**

Competition in Sport and Trade

By Dishi

The government has banned football! Just imagine the outcry that would follow that announcement. There would be protest meetings, riots, even revolution. For Zambians love sport. Football is fun, and it is the life-blood of much social intercourse. But it is also serious. Rules must be obeyed, the playing field must be level, and the goal posts must not be moved. These requirements ensure free and fair competition, which is accepted by all as the essence of sport.

Alas, the attitude to competition in business is often less positive. Winners are happy enough, but losers tend to condemn competition as 'ruthless' and 'cut-throat', and to denounce market forces as 'cold-blooded' and 'heartless'. Often they persuade consumers and governments to back their demands for 'protection'.

In favouring competition the economist is like the referee on the football field. In commercial matters the rivals are competing businesses, determined to perform well and gain support. The role of the economist (or of the government through the Competition Commission), is that of referee, to ensure that the rules are obeyed. His task is not to support or protect any individual or group, whether domestic or foreign, (international competition raises standards and restrains prices) but to let the parties compete freely, for the benefit of the consumer. His purpose is to protect competition, so as to promote the interests of society as a whole.

Economic liberals - sometimes denounced as 'neo-liberals' - believe in making optimum use of the forces of competition, which they see as the best means of coordinating human efforts, and so of promoting economic development and growth. They perceive competition to be the life-blood of business. In particular, they see it as a discovery process that facilitates learning and invention, and so generates and tests a greater number of ideas than would ever be possible in a planned economy. Limiting competition by protecting certain industries, or even preserving monopolies, can disadvantage consumers, while acting as a serious brake to economic development. We should not be afraid of free and 'unbridled' competition. In wealth creation, no less than in football, performance requires a competitive environment.

Quotations

To promote competition, governments should foster free trade. The state needs to ensure that goods and services can move freely between regions inside its country's borders and between countries. International trade, thus, matters for development precisely because it is an important source of competition.

- Parente and Prescott - 'Barriers to Riches'

In a market economy competition manifests itself in the fact that the sellers must outdo one another by offering better or cheaper goods and services, and that the buyers must outdo one another by offering higher prices.

Those fighting for free enterprise and free competition do not defend the interests of those rich today. They want a free hand left to the unknown men who will be the entrepreneurs of tomorrow and whose ingenuity will make the life of coming generations more agreeable.

- Ludwig von Mises

The best way to inject the virtues of business into public life is.... to introduce as much choice and competition as possible into the public service.

- The Economist 02.10. 2010

The Price system

The Price System by Friedrich Hayek

IN 1936... I suddenly saw, as I prepared my Presidential Address to the London Economic Club, that my previous work in different branches of economics had a common root. This insight was that the price system was really an instrument which enabled millions of people to adjust their efforts to events, demands and conditions, of which they had no concrete, direct knowledge, and that the whole co-ordination of the world economy was due to certain practices and usages which had grown up unconsciously.

Here my thinking was inspired largely by Ludwig von Mises' conception of the problem of ordering a planned economy. My early investigation into the consequences of rent restriction showed me more clearly than almost anything else how government interference with the price system completely upsets human economic efforts.

But it took me a long time to develop what is basically a simple idea. I was puzzled that Mises' Socialism, which had been so convincing to me and seemed finally to show why central planning could not work, had not convinced the rest of the world. I asked myself why this was the case.

I gradually found that the basic function of economics was to explain the process of how human activity adapted itself to data about which it had no information. Thus the whole economic order rested on the fact that by using prices as a guide, or as signals, we were led to serve the demands and enlist the powers and capacities of people of whom we knew nothing. It was because we had relied on a system which we had never understood and which we had never designed that we had been able to produce the wealth to sustain an enormous increase in the world's population, and to begin to realize our new ambitions of distributing this wealth more justly. Basically, the insight that prices were signals bringing about the unforeseen co-ordination of the efforts of thousands of individuals was in a sense the modern cybernetics theory, and it became the leading idea behind my work.

F A Hayek - 'The Moral Imperative of the Market' in 'The Unfinished Agenda', IEA 1986

Customer Service Charters - a start at last

We are glad to report that, after much delay and a major change of plan, ZIPPA's USAID supported consultancy on customer service charters is at last under way. As our civil service does not yet seem ready to introduce performance charters, the consultant will focus on the Taxpayer Charter, which the Zambia Revenue Authority is very keen to review and improve. Dr. Njunga Mulikita is being assisted by staff from the Anti-Corruption Commission, which is very supportive. It recognizes that preventing delays may be the most effective way to combat corruption.

The consultancy will last two months, and it will conclude in late May with a workshop to consider findings and future action. Other quasi-governmental institutions interested in the charter idea will be invited to attend, and we hope their participation will lead to further charters being adopted and actively implemented.

Debate on Mines Taxation

Controversy continues on taxation of the mining industry. ZIPPA will therefore follow up its journal on 'Taxing the Mines' by holding a public debate on the topic at this year's Copperbelt Agricultural, Mining & Commercial Show. Date and time: Friday 3rd June, 1730 hours. Venue: Jubilee Lodge, Kitwe Show Grounds. Speakers: a Mining Industry representative, a Government representative and a leading critic. Joint Sponsors: The National Economic Advisory Council (NEAC) and ZIPPA.

Membership

ZIPPA's financial year starts on 1st April. Invoices for the 2011/12 financial year will be mailed to all Corporate and Institutional Members. Individual Members will also receive them on request. Otherwise please mail your payment to 'ZIPPA' at P O Box 20516, Kitwe, Zambia. Payments can also be sent to 'ZIPPA', Account No. 020710017796013, Investrust Bank Plc, Kitwe, Sort Code No. 17.02.02, SWIFT Code VSTRZMLUXXX. When you make such a transfer kindly email us at zippamail@gmail.com, giving details of date and bank used, to enable us to identify the payee and mail your receipt.

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ZAMBIA INSTITUTE FOR PUBLIC POLICY ANALYSIS

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