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DOES COMPETITION KILL OR CREATE JOBS?

Contribution from Zambia

-- Session I --

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A CASE STUDY OF THE ZAMBIAN CEMENT INDUSTRY

-- Zambia --

Introduction

1. The mandate of the Competition and Consumer Protection Commission (CCPC) is drawn from the Competition and Consumer Protection Act No.24 of 2010 (CCPA). Unlike the predecessor statute that is, the Competition and Fair Trading Act Chapter 417 of the laws of Zambia, the CCPA has “public interest concerns” as one of the central pillar of competition regulation in the country. The CCPA was designed to achieve a socio-economic environment that advances the interest of the business community, the consumers and the public as a third party.

2. Specific requirements in competition regulation include the consideration of the benefits that would accrue to the Small to Medium Enterprises, the promotion and preservation of employment and the transfer of skills. This test is thus applied to all competition cases except those are prohibited per se such as cartelisation and retail price maintenance. Therefore, the law provides a balancing approach to competition cases between the prevention of competition and public interest considerations which include the creation and preservation of jobs.

Background

3. Zambia’s population is overwhelmingly young, similar to other Sub-Saharan countries, and the youth make up a large share of the labour force (figure 2.1). Africa is experiencing a youth bulge, and Zambia is no exception. According to 2010 estimates, 82 percent of the population (roughly 5 million people) is 35 or younger, and 66 percent (about 3 million) is 24 or younger (CSO 2010b). At 62 percent, youth (ages 15–35) also make up a large share of the total labour force.

Fig 1: Zambia population

4. The total population in Zambia was last recorded at 15.0 million people in 2014 from 3.1 million in 1960, changing 388 percent during the last 50 years. Population in Zambia averaged 7.70 million from 1960 until 2014, reaching an all-time high of 15.02 million in 2014 and a record low of 3.08 million in 1960. The population of Zambia represents 0.20 percent of the world's total population which arguably means that one person in every 518 people on the planet is a resident of Zambia.

5. Zambia's economy has been showing some structural change over the years. The structure of the economy also changes with industries and services accounting for a larger share of the output. In Zambia over the past 20 years, the combined share of industries and services has grown slightly more than 10 percent, a rather slow pace of structural change. It is difficult to say how fast the structure of jobs is changing in Zambia, but formal jobs creation appears to be very slow while informal jobs have performed better.

6. Historically, during the Command Economy (Planned Economy), the state government regulated various factors of production, the government was the final authority to take decisions regarding production and utilization of the goods and allocation of revenues earned. It was difficult for private businesses to be established. The economy then had no conducive environment for industries to join the market and be competitive. Only the formal sector was well established, however, unemployment was quite high. It was then that most industries were commercialized and the then Government was the only employer.

7. The Zambian government in 1991 created a 'free market economy' where private businessmen were able to engage in trade in Zambia. In so doing, they decided to privatise State Owned Enterprises in order for the burden placed on government to be alleviated and thus the companies could be run more sufficiently to meet the present day technological advancement. These policies and the process of privatisation were implemented. However, among the major areas that were affected was the employment sector. Many changes have been made to the work force in the privatised companies. Workers have had their contracts of services altered to suit the new employer's conditions or workers have been retrenched claiming that the workforce is too large to sustain, or simply that they do not have any jobs for them. Government's intention was that, as soon as these companies are privatised, many jobs would be created for Zambians and better working conditions shall be advanced. Furthermore, more money would be pumped into various organisations for their smooth running by their private owners, which in the long run,

would provide good conditions of service for the employees. After the economy was liberalized, privatization of companies and consequently deregulation promoted the formation of the informal sector which could now compete with other industries on a level playing field.

8. Zambia's labour force recorded a disproportionately high growth of the informal sector against a declining formal sector employment. According to the 1991 Central Statistical Office (CSO) Priority Survey on the Social Dimensions of Adjustment published in 1993, the labour force was estimated at 3.2 million with an average annual growth rate of 2.1 percent. Of the labour force, only 526.4 thousands were in informal sector employment with the public sector and agriculture having the largest share. Formal sector employment then declined at an annual average of 2 percent in the 1990s. The most affected sectors in terms of the decline in employment levels are manufacturing, construction and mining. The declining employment trends have been attributed to the privatisation programme and in some companies liquidation which have been associated with job losses. What the country has witnessed is a quickly contracting formal sector employment and a rapidly growing informal sector

9. The private sector has brought in investment in Zambia resulting in additional employment created. The Zambian economy is highly informal with the formal sector only covering 16.6% employees while the informal covers 83.4%, (CSO, Labour Force Survey, 2012). Liberalisation has made it easy to establish business in the country. The promotion of competition and the creation of a level playing field have seen the ease of entry and exit in the majority of industries with only financial capital being the barrier in larger industries. The current conditions have allowed the Micro, Small and Medium Enterprises to establish businesses at will thereby contributing to the informal sector development. In a nutshell, competition has thus brought about reduced tariffs, the markets are now open, there are reduced barriers to entry and there are better opportunities for the private sector hence the informal sector has improved.

Table 1: Percentage distribution of employed persons

	Sector of Employment				Aggregate Employment
	Formal Sector		Informal Sector		
	Frequency	Percent	Frequency	Percent	
Total Employment	894,175	16.6	4,491,943	83.4	5,386,118
Rural	199,591	5.8	3,262,663	94.2	3,462,254
Urban	694,584	36.1	1,229,280	63.9	1,923,864

Source: CSO, Labour Force Survey, 2012

Out of 5.4 million employed persons, 83.4 percent (4,491,943) were in the informal sector. Formal sector employment accounted for 16.6 percent (894,175).

Table 2: Employment to population ratio - 1950-2015

Year	Population ^[1]	Employment to population ratio ^[2]	Unemployment ^[3]	Employed
2015	15,520	7,317	1,390	5,927
2010	13,217	6,232	1,184	5,048
2005	11,470	5,408	1,028	4,381
2000	10,101	4,763	905	3,858
1995	8,841	4,169	792	3,377
1990	7,845	3,699	703	2,996
1985	6,838	3,224	613	2,612
1980	5,847	2,757	524	2,233
1975	4,964	2,340	445	1,896
1970	4,191	1,976	375	1,601
1965	3,581	1,688	321	1,368
1960	3,083	1,453	276	1,177
1955	2,687	1,267	241	1,026
1950	2,372	1,119	213	906

10. The quality of data is not accurate to estimate how many jobs are being created and in what sector. Looking at aggregate employment data, the 2008 Labour Force Survey recorded a net employment increase of about 475,000 over 2005–08, but only 3.3 percent of the increase was in formal employment (CSO 2010a). These numbers depict a very slow rate of net increase in formal jobs, roughly 5,000 a year, or about 1 percent a year. In comparison, real GDP expanded over 2003–08 at an average rate of 5.7 percent. These numbers show that, given the current structure of the economy and the nature of growth, formal jobs are being created at a much slower pace than economic growth.

11. The number of Zambians in formal employment, in 2011, however increased by 50 per cent from 500,000 to 750,000 this year following a steady rise in job opportunities being created in the mining, agriculture, construction and other sectors of the economy^[4]. Indicating a recent but gradual increase in formal employment.

12. The 1990 reforms and the introduction of competition brought about massive changes in the economy leading to economic growth from 2001 when the country registered a positive economic growth in more than a decade after the introduction of economic reforms. However, the growth has been accompanied by a mixed trend in employment with an unemployment rate gradually falling. Unemployment Rate in Zambia decreased to 15 percent in 2008 from 15.90 percent in 2005.

^[1] <http://www.factfish.com/statistic-country/zambia/population%2C%20total>

^[2] <http://www.indexmundi.com/facts/zambia/employment-to-population-ratio>

^[3] <http://www.tradingeconomics.com/zambia/unemployment-rate>

^[4] <https://www.lusakatimes.com/2011/07/11/zambias-employment-rate-50-cent/>

Unemployment Rate in Zambia averaged 15.01 percent from 1986 until 2008, reaching an all-time high of 19.70 percent in 1993 and a record low of 12 percent in 1998.

13. The introduction of competition policy saw a reduction in formal employment immediately the policy was implemented. This was because of over employment in the command economy. Thus when the economy was faced with competition, the labour market had to find an equilibrium point. Therefore there were job losses through redundancies. But at the same time, Zambia witnessed a surge in informal employment as citizens took up opportunities that had been created by the liberal markets.

Fig 2: Unemployment rates in Zambia 1988-2008

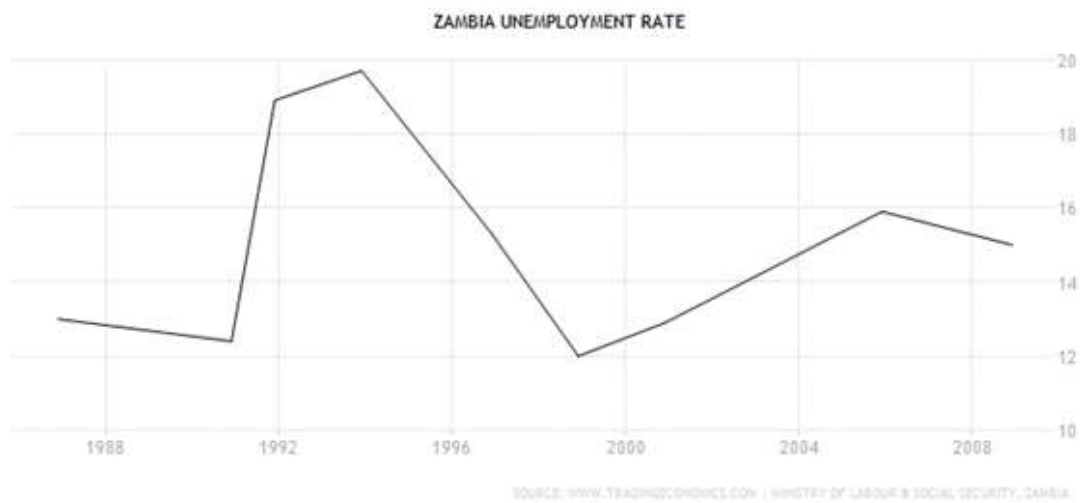
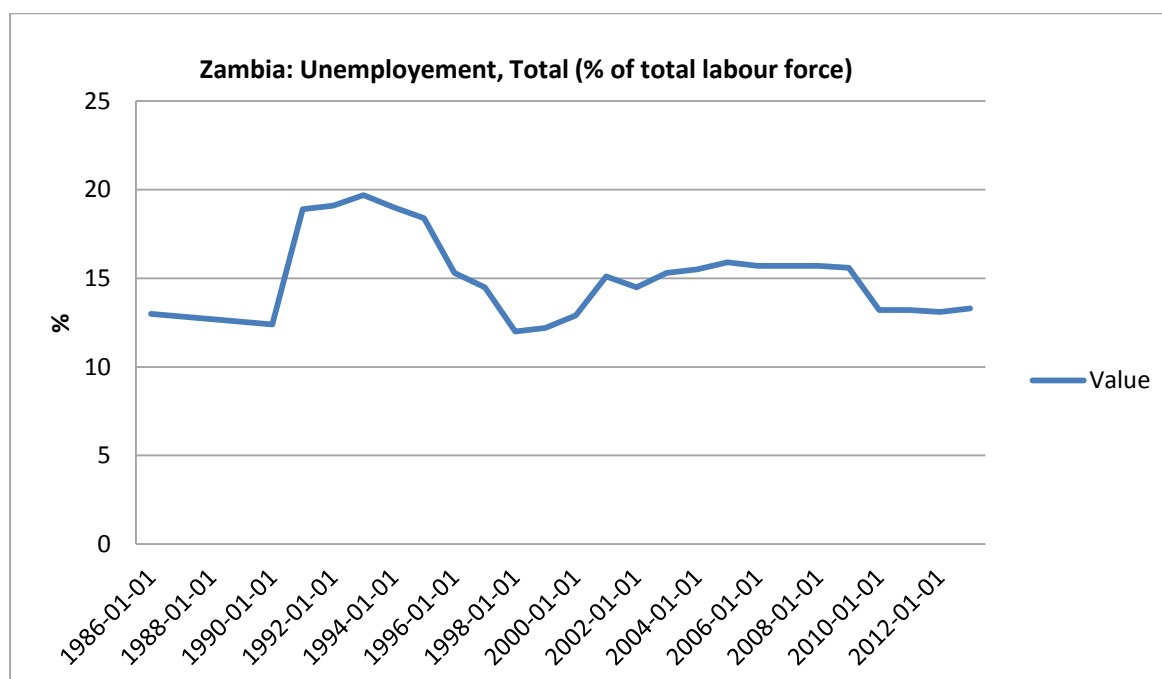


Fig 3: Unemployment rates in Zambia 1986 - 2012



The Cement Market – A case study

14. The Zambian Cement Industry has predominantly been dominated by a single industry. The company was initially state owned and was initially created to provide a steady supply of cement for the construction of the Kariba Dam that is shared between Zambia and Zimbabwe. The privatisation phase of the 90s saw the then state owned cement industry privatised. Until the 2014, the privatized cement industry enjoyed a market share of close to 70% countrywide with a much larger market share in the other provinces except the Copperbelt Province.

15. Zambia has three companies operating in the cement market with installed capacities of approximately 1.3 million¹ tonnes per annum giving the largest company 62% market share while the second largest with 26-28% market share has an installed capacity of approximately 1,400 tonnes of cement a day². The smallest of the three, has an installed capacity of close to 100,000 tonnes of cement per year with a market share of 6% while imports mostly from Zimbabwe account for 4%.

16. The cement sector in Zambia has performed exceptionally well posting an impressive output growth from around 340,614 tonnes in 2000 to over 1,500,000.00 tonnes in 2012³. The construction industry is one of the fastest-growing sectors in Zambia. It accounted for 12–15% of GDP between 2007 and 2011 according to the National Construction Council. The sector has continued to grow rapidly due to continued strong demand for residential, commercial and public infrastructure projects across the country. Between 2004 and 2007 the real year-on-year growth rates averaged 19%, but the sector's growth rate fell in 2008 to 8.7% following cement and building materials shortages. In 2009 it was adversely affected by the effects of the global financial crisis on the country's construction activities⁴. Despite these setbacks in

¹ http://www.lafarge.com/04112011-customers_activities-cement_market_2010-uk.pdf

² <http://www.times.co.zm/?p=18099>, 1400 multiplied by 365 is approximately 0.6 million tonnes of cement per year.

³ Competition dynamics and Regional Trade Flows in the Cement and Poultry Sectors in Zambia - Nov 2012 report

⁴ John Sutton and Gillian Langmead (2013), AN ENTERPRISE MAP OF ZAMBIA International Growth Centre, London Publishing Partnership

2008 and 2009, the sector has performed well since then, driven to a large extent by construction of commercial and residential buildings and the establishment of new mines. The sector recorded growth of 10% in 2010 and remains one of Zambia's largest employers with 15,000 people currently estimated to be working in the sector⁵.

Competition in the sector

17. The lucrative construction sector and the growth of the country have of late attracted entry in the Zambian cement sector. A new entrant has since opened its USD\$400 million plant with a capacity of 1.5million tons per year plant which has seen prices falling by 30% to 35%. This new cement company is planning another cement plant east of Lusaka while some Chinese Investors have started the process of setting up yet another plant west of Lusaka. It is expected that at the completion of these projects, over 3000 direct jobs will be created with an additional 10,000 to 15,000 indirect jobs⁶.

18. Two months into the operations of the new cement company in Zambia, the Times of Zambia⁷ newspaper reported that forty-seven employees at one of the cement companies were laid off while a further sixty-three were earmarked for retrenchment. The redundancies were due to reduction in business volume at the cement manufacturing company, which was now faced with stiff competition from the newly commissioned Cement Plant. The affected cement company also reported a reduction in the price of cement from K66 to K52.

19. This is a natural response to competition as companies seek to re-invent themselves in order to compete effectively. Unfortunately, the easiest overheads to reduce first are those concerned with man power especially in a country with weak labour laws. This development is expected across the country as companies seek to induce efficiency in their production systems in the cement sector. However, the question that still remains is what has been the effect of competition to jobs. Two lines of thought may be advanced. The first being overhauls considerations of the entire cement industry or the effect of actual competition. One might argue that the 1000 direct jobs and the 6000 indirect jobs would have probably been created had it been that the new investor had invested in any novel industry other than cement. 110 jobs however were lost as a direct result of competition induced in the cement industry because the new investor chose to invest in the cement industry. Therefore, in terms of national figures for employment, one would argue that 890 people were employed as a net effect of the entry of the new investor but 110 jobs were killed by competition in the cement sector.

Conclusion

Was it competition that prevented the killing of these jobs?

20. What has transpired in Zambia bears a testimony of the studies that have been conducted by several researchers concerning the relationship between employment and economic growth. In most sectors of the economy, there is a positive relationship between employment and economic growth. The developments that have taken place in the Zambian economy in sectors such as the mining, agriculture, and the services sectors have created huge employment opportunities thanks to open market policies pursued by the government.

⁵ John Sutton and Gillian Langmead (2013 p.103), An Enterprise Map Of Zambia. Published by the international growth centre

⁶ These figures are based on the current estimates of the Dangote Plant in Masaiti District which is expected o employ 1000 direct jobs and a further 6000 indirect jobs. <http://www.globalcement.com/news/itemlist/tag/Zambia>

⁷ <http://www.times.co.zm/?p=64527>

21. Based on the Zambian situation, there is no clear evidence to suggest that competition kills employment. When the economy was liberalised, the Zambia labour force recorded a disproportionately high growth of the informal sector against a declining formal sector. The initial loss of formal jobs being a result of over-employment in the command economy and the eventual equilibrium brought about by a surge in informal employment as citizens took up opportunities that had been created in the liberal market.

22. The introduction of competition on the Zambian economy following the economic reforms of the 1990s, the market economy that emerged resulted in the increase in employment figures in several sectors of the economy, most vividly the informal sector. Basically, competition has seen a reduction in formal employment and an increase in informal employment. The debate is whether informal jobs can be equated to formal jobs.