Squeezed to the limit

Is the government of Mozambique favouring imports with its fiscal and exchange rate policies?

To make an urgent phone call in Maputo, where private phones are not always easy to come by, the next best option is a public telephone at the PTC exchange. If you can find one that functions, you will have to excuse the presence of a PTC employee outside the booth who has to time the call and bill you, since coins are extinct in this southern African country.

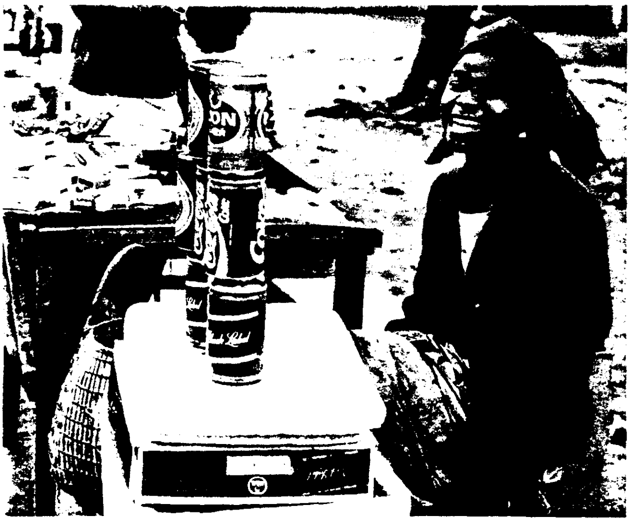
During the six years of the Social and Economic Rehabilitation Programme (PRES), the Mozambican currency -the metical - has been devalued by more than 4,500 per cent. Between January 1987 and May this year, the metical has fallen from 40 to US$1 to 3,200 meticais to US$1 (the official rate).

Analysts say that the steep devaluation was not only to correct the imbalances created by a decade of a fixed exchange rate regime, but also to perform the conventional functions of encouraging exports and making imports expensive.

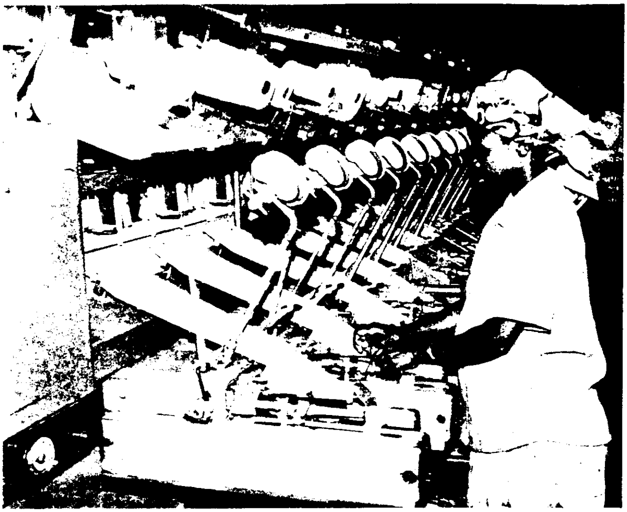
The outcome of this policy however has been mixed. Exports have indeed grown from US$80 million in 1986 to US$142 million in 1992, and foreign exchange is no longer scarce. On the other hand, imports have become expensive, but they have not been discouraged. Mozambique is so dependent on aid flows to finance economic activity, that it has become a nightmare to stabilize the currency. Whenever the donors sneeze, the metical faints. For example, when the donors withheld the disbursement of aid in the first quarter of 1992, to signal that they wanted a quick end to the war, the metical devalued by 25 per cent.

Under the new liberal exchange rate regime, proceeds from the export of non-traditional goods (sea shells, medicinal flowers, octopus), which account for 40 per cent of total exports, can be freely traded through dealers who set up shop after the introduction of the second window of foreign exchange in 1990. The trouble is that these resources are not enough to meet the need for imports.

Economists point out that while liberalisation has led to what govern-



Imports are better



A fragile sector

ment officials boasts as being an "efficient system of foreign exchange allocation", its impact on the country's fragile manufacturing sector, which accounts for more than 15 per cent of Gross Domestic Product (gdp) and comprises food and beverages, textiles, clothing, rubber, and pharmaceuticals, has been devastating.

When the liberalisation process was set in motion and donors responded generously with support packages, manufacturers believed that the dark days of chronic shortages of spare parts and raw materials had come to an end, and that prosperity had finally arrived. They did not know that the 1987 to 1989 boom prompted by the availability of foreign exchange and easy credit facilities was to be short-lived and that easy access to foreign exchange had a price.

What followed suggests that some sectors of the economy were not prepared to endure the full brunt of liberalisation. In 1990 the output of the manufacturing sector fell by 8.2 per cent, and in 1991 by another 0.5 per cent. Companies and managers that have emerged from a decade of a centrally-planned economy, where virtually everything was subsidized, have to now wrestle with the painful transition to a system of high prices of foreign exchange, interest rates of 45 per cent and above, and other constraints in the marketplace.

The government's plan for 1992 conceded that the reasons for this decline were the shortage of raw material, inability to raise credit and low internal demand. The situation was made worse by stiff competition from imports, which "are putting the viability of the domestic industry at risk", the government said.

Taking advantage of the weak border controls and corruption among custom officials, foreign producers have taken the Mozambican market by storm. Major centres like Maputo are flooded with all sorts of goods from clothing to trinkets, which find their way into the country's thriving black markets. This kind of activity is now the lifeline for the parallel market that the government had vowed to extinguish with the liberalisation of the exchange rate. Marketeers have created their own parallel economy based on smuggled goods and with sources of foreign exchange which offer more attractive rates than the official dealers. In May, the spread between the official and parallel market rates was close to 30 per cent. Some three years ago the amount of foreign exchange handled in the parallel market was estimated at US$50 million. Now it is estimated to be significantly higher.

It is not surprising therefore that commerce has become the most important activity in places such as Maputo, and that the prospects for the recovery of the domestic industry, now that a peace accord has been signed, might be dashed by the spread of the activity.

Nils Tcheyan, the World Bank's resident representative in Mozambique, agrees that "the situation in the manufacturing sector has been difficult over the past years", while the president of the country's chamber of commerce, Americo Magaia, says that he has now learnt to regard the economic reform programme as a "double edged sword".

But the woes of Mozambique's manufacturing sector do not lay entirely on smuggled goods. Industrialists argue that the country's tariff structure also encourages imports. The most cited example in Maputo is that of beer. The locally-produced clear beer pays an excise duty of 170 per cent, thus eroding its competitive edge over imported beer, which pays 75 per cent of import duty, if any tax is paid at all.

The minister of finance, Eneas Comiche, disagrees with this assumption, arguing that manufacturers are exaggerating the figure to prove a point. But the World Bank representative does not deny that "the present tariff and taxation structures are not assisting companies to compete". This assumption reinforces the warning by Adriano Chiale, an economist with the ministry of industry, that the situation might lead to the collapse of companies, if urgent measures are not taken.

But Mr Comiche is not prepared to budge. He argues that "the whole package of fiscal, monetary and exchange rate measures is geared towards the benefit of the productive sector". The president of the Industrial Association of Mozambique (AIMO), Inocencio Matavele, however asks why is it then that the most prosperous businessmen in the country are the traders?

In the meantime, all Mr Comiche is prepared to offer is a promise that the tariff code and the tax structure are being looked into in order to take measures that will relieve the burden on industry. He wants to "avoid taking steps that might benefit one sector at the expense of another".

But one wonders if it is not too late to repair the damage. □