PD-ABQ-225

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH
(EAGER)
TRADE REGIMES AND GROWTH

TRIP REPORT FOR JULY 11 - AUGUST 12, 1995

August 31, 1995

J. Dirck Stryker, Chief of Party

The AIRD Group team that visited Mali, South Africa, Tanzania, and Kenya from July 11 through August 12, 1995 to initiate the EAGER/Trade project comprised the following: J. Dirck Stryker (Chief of Party), Lucie Colvin Phillips (Senior Advisor), Josué Dioné (Regional Coordinator for West and Central Africa - Mali) and Daniel Ndlela (Regional Coordinator for East and Southern Africa - South Africa and Tanzania). The purpose of the visit was to work with USAID and African decision makers, business leaders, and researchers to identify and prioritize the initial topics to be investigated during the project. The team was also to work, in collaboration with African researchers, to develop proposals for specific research projects to be undertaken on these issues.

The trip was highly successful in that seven research projects were identified and are being prepared. These are described in detail in the attached trip reports for Mali, South Africa, and Tanzania. All these projects have tentatively been approved by the missions, but they are still subject to approval by AID/Washington. The projects have the enthusiastic support of policy makers and business leaders. Local African researchers have been identified to work on each project.

It is anticipated that three of these projects for Mali will be submitted to the Technical Committee during a workshop that is tentatively scheduled to take place in Bamako in late October - early November. These projects include studies of (1) the constraints on rice exports from Mali to the rest of West Africa, (2) the constraints on increased value added and exports in the livestock sector, and (3) the impact of alternative tariff regimes on public revenue and on incentives and competitiveness in the industrial and agro-industrial sectors.

Two projects were identified in both South Africa and Tanzania. The first, which will be undertaken in each of these countries and eventually in other countries of East and Southern Africa, will involve a study of comparative costs and incentives in several industrial chains. One of these will be the cotton/textile/garment chain; others remain to be identified. The objective of these studies will be to identify the extent to which policy reform and infrastructural investment can contribute to the realization of comparative advantage at different stages of production in different countries. These studies will be prepared during the fall and will be submitted to the Technical Committee for approval at the time of the conference in Nairobi after the first of the year.

The second study in Tanzania will examine issues associated with mining claims and the processing and marketing of gold and diamonds by small-scale miners in Tanzania. This study will receive prefinancing for background research and preparation of the project by a Tanzanian researcher, prior to its submission to the Technical Committee at the Nairobi conference. The second study in South Africa, which will also cover a number of other countries in southern Africa, will examine the various trade schemes in which South Africa is participating to see the extent to which these are compatible with one another and how they will affect South Africa's trade relations with its neighbors. Among these schemes are the the current agreement that South Africa has with the World Trade Organization under GATT, its negotiations with the European Union, the renegotiation of the South African Customs Union (SACU), the forthcoming Trade Protocol of the Southern African Development Community (SADC), and the bilateral agreements that South Africa has with several of its neighbors. This project will be prepared over the coming year in collaboration with AID missions in other southern African countries.

In each of the countries, major emphasis was given to assuring that the research program fit into the USAID missions needs and was stongly supported by the mission. In addition, each research project was planned from the perspective of how it will fit into the policy dialogue and lead to policy reform. Support for each project was assured from policy makers, business leaders, opinion makers, and the research community.

In addition to visiting these three countries, the team also had discussions with REDSO/ESA and with the USAID/Kenya mission. While in Nairobi, the team also visited the African Consortium for Economic Research (AERC) and the African office of the International Center for Economic Growth (ICEG). Out of these discussions, a number of conclusions emerged.

1. There appears to be no conflict between the EAGER/Trade project and the research project being supported by AID/REDSO/ESA and AID/Washington on Increasing Intra-Regional Trade in East and Southern Africa. Whereas the latter project is focused on regional trade in agricultural commodities, the EAGER project is focusing, within East and Southern Africa, either on regional trade in the products of the industrial sector, including inputs into that sector, or on exports to overseas markets. In addition, the leaders of each project have agreed to collaborate closely in order to avoid duplication and to benefit from each other's research results.

2. Tony Chan, in the REDSO/ESA office, recommended that a series of background papers be prepared prior to the Nairobi conference in order to establish a baseline regarding what is already known about trade policy in Africa so that the changes in policy resulting from the research can be assessed at the time of the mid-term evaluation. We strongly agree with this. The other reason for preparing these papers, as expressed in Washington at our meeting in May, is to be able to evaluate the contribution of proposed research to the existing body of knowledge regarding trade policy. We are currently preparing the terms of reference for these background papers.

3. Excellent discussions were had with the AERC. The Consortium has furnished us with a list of their researchers and with the names of participants in the project on Regional Integration and Trade Liberalization in Sub-Saharan Africa. They have also given us a large number of research reports and papers related to this project. We anticipate close collaboration with AERC and may want to consider having a representative from AERC on our Technical Committee.

4. Very useful discussions were also held with ICEG, which has furnished us with a list of their eighty or so Correspondence Institutes. These include most of the major African centers doing research on economic development. We discussed the possibility of submitting manuscripts to ICEG for publication, and of giving them copies of EAGER/Trade's research reports for circulation to their Correspondence Institutes. This will need to be coordinated

with the Dissemination and Logistics Contractor, which should contact ICEG at an early date after that contract is signed.

5. Although the AID/Kenya mission did not respond to the initial cable that went out from Washington, this was largely because the cable was not seen by the Program Office. While we were there, the mission expressed strong interest in participating, and it was agreed that a first visit will take place at about the time of the Nairobi conference. The mission expressed strong interest in having HIID take part in the research, given its long experience in Kenya and the lessons that it has learned in Asia that could be applied to Kenya.

6. With the addition of Kenya, a total of 14 USAID missions have indicated either orally or by e-mail or cable that they are interested in participating in the EAGER/Trade project (Ghana, Guinea, Mali, Senegal, South Africa, Zimbabwe, Zambia, Malawi, Mozambique, Tanzania, Kenya, Uganda, Eritrea, and Madagascar). This may stretch our capacity, but we have not turned anyone down as of yet. Instead, our tactic has been to visit the missions that have indicated that they wanted an early visit and to identify and begin to develop good research projects that respond to the criteria that we have set out in our Project Summary. Not all of these projects will lead to approved proposals but we expect that most will reach this stage at least. We have also made use of our Regional Coordinator in Harare, Dan Ndlela, who visited the USAID mission in Lusaka on August 16-18 (see attached trip report). I plan to travel to at least three new countries this fall, in addition to attending the workshop in Bamako and an AERC meeting in South Africa. Lucie Phillips will also travel to three or four countries after the first of the year. It is unlikely, however, that we will have had an opportunity to visit all the countries until next summer.

7. Our budget for research is about $2.5 million, so that if we spend $80,000 - $100,000 per project-year, we can finance about 25-30 project-years. We may be able to reduce these costs to the extent that we find good African researchers that can do most of the work, especially after the projects are initiated. But it is highly unlikely that, with existing resources, we will be able to finance more than three to four project-years of work per country if we work in all 14 countries. It may be considerably less. Some choices among countries, therefore, may eventually have to be made.

XD-ABQ-225-A

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

MALI TRIP REPORT
July 19, 1995

The AIRD Group team that visited Mali from July 11 through July 19, 1995 to initiate the EAGER/Trade project comprised the following: J. Dirck Stryker (Chief of party), Lucie Colvin Phillips (Senior Advisor), and Josue Dione (Regional Coordinator). The purpose of the visit was to work with USAID and African decision makers, business leaders, and researchers to identify and prioritize the initial topics to be investigated during the project. The team was also to work, in collaboration with African researchers, to develop proposals for specific research projects to be undertaken on these issues.

The timing of this visit was particularly propitious because the USAID mission is in the process of elaborating its Long-Term Strategic Plan. On arriving, the team met immediately with the Sustainable Economic Growth Strategic Objective Group. During this and subsequent meetings, a number of key topics were identified for research that will contribute substantially to the implementation of the Strategic Plan. These included:

1. the effect of the devaluation of the CFA franc on comparative advantage and price incentives;

2. the lack of term finance for private investment and lack of short-term finance for export operations;

3. constraints on the processing, marketing, and export of rice in the post-devaluation period;

4. comparative advantage, incentives, and constraints in the livestock sector, including those pertaining to export of live animals, local processing for export and the domestic market, and production and marketing of livestock feeds;

5. constraints on the collection, packing, processing, marketing, and transport of fruits and vegetable exports;

6. advantages and disadvantages associated with Mali's participation in regional organizations such as UEMOA, Air Afrique, etc.

It was agreed that members of the Sustainable Economic Growth Strategic Objectives Group will participate actively in defining and implementing the research, including reading drafts, attending conferences and workshops, disseminating results, and participating in the work of the Policy Research Advisory Committee.

During its stay in Mali, the team visited with Malian government officials, private business leaders, officials of USAID and other donors, researchers, and private consultants, some of whom had previously been in the public service. A complete list of those contacted is contained in Annex A.

Our preliminary assessment of the policy dialogue in Mali is that it is fairly well advanced compared to the rest of the continent. The government, the private sector, and the donors talk to one another in both informal and formal settings. Both government and private sector representatives now seem positively disposed towards market liberalization, devaluation, and structural adjustment. The Ministry of Finance and Commerce organizes formal consultations on major policy decisions with the Malian Chamber of Commerce and Industry, the Permanent Assembly of the Chambers of Agriculture, the National Federation of Employers, and sectoral professional associations. These organizations complain, however, that their point of view is not sufficiently taken into account when the decisions are actually made. Both they and the government welcome the possibility that rigorous, timely applied economic research might help them choose the most viable policy options.

The research community appears to have been relatively isolated from policy-making. While there are a number of consulting firms that undertake studies for the government or the donors, these are often very short-term in nature and are not always based on the use of sound methodologies. Yet there are a number of economists and other researchers capable of undertaking solid research in support of policy. Some of these are associated with the Ecole Nationale d'Administration; others are operating independently or with firms as consultants. Some excellent researchers are also found within the government, but the closer they are to policy makers the more frequently they are called upon to respond to short-term demands, often of a political nature.

One of the conclusions of the team is that the establishment of a true dialogue between government and the private sector will require that a capacity be created within the research community to undertake research that can be put at the service of the business community. The Malian Coordinator of the West African Enterprise Network and the President of the Chamber of Commerce seem particularly interested in the possibility of developing this capacity and agreed to cooperate closely with the EAGER project.

The current administration has liberal economic policies in place that favor regional and overseas trade, minimize inflation, and are realistically moving toward a balanced government budget. Much of this is the result of the past decade of reform, to which USAID contributed through the 1985-91 Economic Policy Reform Program and the current Program of Reform for Economic Development.

On the other hand, the future integrity of the CFA zone and the ability of Mali to restructure its economy and develop regional and overseas export markets depends critically on the evolution of the real exchange rate (nominal exchange rate adjusted for relative rates of inflation) and the convertibility of the CFA franc. Given fixed parity between the CFA franc and the French franc, this depends, in turn, on maintaining a low rate of inflation within Mali relative to its major trading partners. Following the devaluation, the government avoided reinstating price controls, but issued guidelines to employers, unions, and merchants to ensure that an inflationary mentality did not take hold. In fact, inflation following the 100 percent devaluation in January 1994 (measured in CFAF/FF) was 34.5 percent for 1994, is 10 percent thus far in 1995, and is projected to decline to 2.3 percent in 1996. As a result, the profitability of a number of Mali's potential export products has improved dramatically.

A second major issue is how to reduce the burden of taxation on the formal private sector and, at the same time, ensure the sustainability of fiscal tax receipts. There is a sense, especially in the private sector, that this can be done by reducing rates of taxation, which will stimulate economic activity and reduce the incentive for tax evasion. In no area is this more important than taxation of imports, which is the single most important source of public revenue. Yet it is critical that such action not reduce public revenues, leading to budget deficits and inflation. There is an urgent need to undertake research and to engage in public dialogue in this area, which can contribute directly to policy reform. The issue is so important, in fact, that all the EAGER research projects will be required to spell out the fiscal implications of their recommendations.

Potential Topics for Research

This initial prospection visit revealed widespread interest in a number of topics that could lead to fundable research projects. These include studies in the rice, livestock/meat, and non-traditional exports sectors. An overarching theme is the regulatory context of regional export-import trade, including regional accords.

1. Rice

One area of great importance for policy is the rice sub-sector. Mali has the potential to produce enough rice not only to satisfy the domestic market but also to export in substantial quantities to neighboring countries. Rice has recently been exported, in fact, to Burkina Faso, Côte d'Ivoire, Guinea, and Senegal. Yet rice is also critical to the domestic market, since a rise in its price can have a severe impact on real income and on nutritional intake, especially of the poor. This occurred recently and motivated the government to substantially reduce the tariff rate on rice imports. Trade policy made in this ad hoc manner, however, makes planning by the private sector extremely difficult.

There is a need to examine external trade in rice from at least two perspectives:

1. facilitation of rice exports as Mali shifts from a deficit to a surplus producer, which will require cooperation with neighboring countries, allowing rice exports from Mali to replace imports from abroad;

2. trade policy during the transition from Mali as a rice importer to rice exporter, and perhaps even beyond to the extent that weather and other factors result in Mali being in surplus in some years and in deficit in others, or that some regions export to and other regions import from neighboring countries.

A key determinant will be trends in the world market price for rice and in the real exchange rate.

2. Livestock/Meat

One of Mali's most important exports is livestock and livestock products. The recent devaluation of the CFA franc created a potential for export expansion and an increase in livestock producer incomes. This is highly desirable because livestock herders and other producers are among the poorest people within Mali. Yet the gains to producers from higher livestock prices also result in losses to local consumers. This is of tremendous importance for policy, because the government has come under heavy pressure to limit exports in order to keep internal prices for meat from rising.

The livestock sector is extremely complex and the options for its development are numerous. At present most exports are of live animals. These confront significant formal and informal trade barriers. Some members of the private sector are interested in local slaughter for export of meat by air overseas or overland within West Africa. This will require expansion of the domestic market for offals and other by-products if local processing is to compete successfully with the export of live animals within West Africa. There also appears to be considerable potential for growth in the tanning of hides and skin, and perhaps even the manufacture of leather products. Other options pertain to trade in feedstuffs, which are increasingly being used in the poultry industry and are likely to expand in importance for ruminant production as rangelands come under increasing pressure and crop residues are exhausted.

3. Nontraditional exports

Exports of fruits and vegetables from Mali have expanded sharply since the devaluation, and there is considerable potential for further expansion. This is extremely important because the horticultural sector has been identified as an important area in which to learn how to export products of international quality in a timely manner.

There was a consensus among those consulted that the major constraints to the expansion of both overseas and regional markets for non-traditional exports are: (1) geographic isolation, accompanied by inadequate, high cost transportation and communications infrastructure; (2) lack of credit for export and import operations and no medium or long-term investment credit. For regional trade, rent-seeking through administrative harassment is also a major problem.

The major constraint on overseas horticultural exports today appears to be the high cost of air freight resulting from Air Afrique's monopoly over freight handling at the airport and extraordinarily high air freight rates. Air Afrique operates the airport, on license from the Malian government, and collects landing fees, freight handling fees, and royalties from all traffic. The result is that it costs 560 CFAF per kilo of produce exported from Bamako to Paris, compared to 350 CFAF per kilo for a comparable distance from The Gambia to London. This arrangement was entered into when air transport charges were paid mainly by European importers and passenger traffic. As they now affect Malian and other West African exporters as well, this is an opportune time for the Malian government and its fellow owners of Air Afrique to reexamine the rate structure.

Malian exporters also had many problems with the French wholesale market near Paris in the beginning. With the help of the European Union's technical assistance agency for produce, the COLEACP, daily price information and free quality inspections are helping to establish confidence among African sellers and European buyers.

Export of high quality produce is generally most competitive where there is a secondary market for non-exportable produce, either on the local or regional markets. In Mali the local market for overripe, second and third quality produce is very limited. Processing facilities and better developed national and regional markets are two potential solutions. Both would enhance the viability of overseas exports.

4. The Regulatory Framework for Regional Trade

Regional export markets exist for Malian cereals, livestock, mangoes, potatoes, condiments, and other products. They are complemented by imports of gold from Guinea, manufactured goods and produce from Ivory Coast, and kola and diverse products from Ghana and Nigeria. These markets generally operate informally, and are poorly understood. Narrow economic nationalism hampers the development and regularization of this trade, both through formal laws and through rent-seeking administrative harassment. The tendency towards national self-sufficiency rather than regional trade appears to have been enhanced rather than weakened by the recent wave of democratization.

Regional accords that might facilitate this trade are generally not applied. The ECOWAS treaty, for example, calls for the free movement of goods and people within West Africa. The UDEOA and CEAO established preferential tariff rates for intraregional trade, but these were often ignored. Furthermore, some thirty police and customs checkpoints block Mali's main regional trade axis, the road between Bamako and Abidjan. The 1200 km (800 mile) trip between Bamako and Abidjan that could take as little as 24 hours, even with unpaved sections of road, takes most trucks three days, and costs an estimated 150,000 FCFA per truck in bribes one way. Trucks arriving with cargo at the Malian border must be accompanied by a (paid) customs escort; if they arrive after the last escort leaves in the afternoon, they spend the night at the border.

This trade rarely operates through the formal banking system. Payment is mainly in cash or gold, converted either through informal currency markets or by purchasing trade goods locally for resale. With Guinea, Ghana, and Nigeria, formal sector banking practice is not adequate to facilitate the transactions. Traders either find repatriation of payments impossible, due to non-functional currency clearing arrangements, or find it too slow and costly. Even for Senegal and Ivory Coast, fellow members of the CFA zone, the formal banking system is rarely used.

5. Tax Policy and External Trade

One of the major problems in Mali, as in many African countries, is how to reconcile the fiscal requirements of the government with need to maintain a structure of incentives conducive to external trade. A major goal of devaluation is to realign domestic prices so that they better reflect prices on the world market, which are an important measure of the true opportunity cost of goods and services in the economy. Yet high import tariff rates distort local prices and result in excessive protection of import-competing industries.

The structural adjustment program for Mali has included efforts to simplify the structure of import taxation, to reduce the rates of taxation, and to expand the tax base. Although the tax structure has been simplified to a considerable extent and there has been some reduction in tax rates, these rates are still quite high. This distorts domestic prices and leads to high rates of effective protection for import-competing industries, encouraging a flow of resources away from the export sectors in which Mali has a comparative advantage.

A reduction in import tariff rates would reduce these distortions and help promote economic growth. But it could also lead to a reduction in public tax revenues. It this not certain, however, because the decrease in tariff rates would be accompanied by some increase in the tax base, through an expansion of imports and some decrease in tax evasion. Whether the growth of the tax base would compensate for the reduction in tariff rates is an important topic deserving of further research.

6. Other

Some attention was devoted to the USAID mission's concern over lack of term finance for the private sector in general and of short-term financing for the export sector. Discussions with the private sector revealed the importance of these constraints, especially for those companies that do not have a long credit history. The unwillingness of local commercial banks to finance export operations, however, is a common problem of countries with a conservative banking sector. Initial export operations tend to be high risk, particularly in the perishable fruits and vegetables areas. As export operations demonstrate their viability, bankers become more willing to finance them, particularly if they are encouraged by the government and donors to do so.

Although lack of term and short-term export finance has important implications for the capacity of private firms to export, it was felt that this is only part of a much broader issue regarding financial intermediation, which affects the domestic as well as the export sector. Consequently, the team felt that this issue is better suited for study under the other component of the EAGER project, which is being led by the Harvard Institute for International Development (HIID), and which has as one of its themes savings mobilization and financial mobilization. We will recommend, in fact, that the HIID team look at this issue when it visits Mali in the fall, assuming that the USAID mission responds positively to the cable that is being sent from AID/Washington on this component.

9

Future Action

The team recommends that a number of research topics be selected for Mali and that research proposals be prepared as described below. A senior member of the AIRD Group will return to Mali in late September or early October to work with the researchers who have been identified in the preparation of these proposals. These will be submitted to the Technical Committee in October.

The first meeting of the Technical Committee will probably take place in Bamako in October at the EAGER/Trade project's first semi-annual workshop. During this workshop, researchers will present their proposals, discuss methodologies, and interact with policy makers and business leaders interested in the research. They will also revise their proposals in line with the comments of the Technical Committee.

1. Rice

This study will concentrate on the marketing of rice exports in neighboring countries, especially rice produced in the Office du Niger. It will look at profitability from both an economic and a financial perspective, and will analyze constraints faced by exporters associated with processing, transportation, and marketing. Particular attention will be paid to policies regarding rice imports in neighboring countries.

A senior agricultural economist (Josué Dioné, Ph.D, Michigan State University) has been identified who has an intimate knowledge of the rice sector and of rice policy in Mali. A potential junior Malian researcher has also been identified with training at the masters level (troisième cycle, CIRES, Côte d'Ivoire). In addition, Abdoul Barry, AIRD agricultural economist (Ph.D., Michigan State University), is also available to participate in the study. Discussions with the Ministry of Rural Development reveal important complementarities, but no conflicts, with work being undertaken by the Programme de Recherche en Economie des Filières. We will also be contacting those working on a rice study for the West Africa Rice Development Association to assure that there is no conflict there.

2. **Livestock/Meat**

This study will be a follow-on to the work undertaken recently by AIRD on livestock production and marketing in the central corridor (Burkina Faso, Côte d'Ivoire, Ghana, and Mali). It will look particularly at various options for the processing, transport, and marketing of livestock products. Special attention will be paid to policies and investments in neighboring countries that could act as constraints on Mali's exploitation of its comparative advantage in livestock.

The Principal Investigator for this project will be Jeffrey Metzel (Ph.D. in economics, Tufts University), who directed the central corridor study and who has also participated recently in a serious of studies on the livestock sector being financed by the World Bank. He will come to Mali in late September or early October to identify the Malians with whom he will collaborate and to develop the research proposal.

3. Nontraditional Exports

The two areas where we think that EAGER Trade Regimes funding would be most useful in promoting nontraditional exports are: (1) transport policy and (2) administrative/regulatory practice. The theme of regulatory practices is taken up below. In the area of transport policy, we have not yet identified a research team, nor have we had an opportunity to survey the literature. The World Bank has been undertaking a major Africa-wide transport study that we will consult upon returning to Washington. We would appreciate suggestions from USAID on Malian researchers with experience in this field. A second mission of the coordinating team will follow up to define the terms of reference more precisely, and mobilize a research team.

4. Regulatory Framework

The regulatory framework for regional trade is an overarching theme that will ultimately integrate findings from the rice, livestock, and tax policy studies. The research team that will address these issues directly will be headed by Dirck Stryker and Lucie Phillips, working with Baba Touré of the Centre d'Etudes et de Recherche Economique et Sociale of the Ecole Nationale d'Administration and others. It will start with a review of the literature covering both the formal legal and regulatory structures for regional trade and informal practice. It may concentrate on financial operations in regional trade during the first year. In a second phase, the practices of both the administration and traders will be examined. By the second year, this study should benefit from input from the rice and livestock studies already underway.

5. Tax Policy and External Trade

The study on tax policy and regional trade will begin with an analysis of effective protection and comparative advantage in the industrial and agro-industrial sectors. Simulation analyis will be used to examine the effects of alternative trade policy regimes including those proposed for a customs union under UEMOA. The impact of these regimes on government budgetary receipts will be estimated as a function of resulting changes in trade flows and the degree of tax evasion.

This analysis will be carries out by Massaoly Coulibaly of the Centre d'Etudes et de Recherche Economique et Social of the Ecole Nationale d'Administration, with participation of an AIRD Group researcher yet to be named. Professor Coulibaly has already undertaken a similar study of effective protection and comparative advantage for a sample of industrial firms during the period prior to the devaluation.

Consultative Process

Since the main purpose of this research is that it have policy impact that stimulates economic growth, research teams will be required to establish a formal consultative process with decision-makers. In the proposal development process the researchers should interview a wide range of influential persons in government and the private sector concerning their priorities and information needs in the area under consideration. The leaders interviewed may be in private business and in institutions such as the Chamber of Commerce, the West African Enterprise Network, the National Federation of Employers, and sectoral associations. On the government side they may be in the ministries, especially those dealing with commerce, finance and planning, in the Prime Minister's or President's office, in the courts responsible for business litigation, and in the legislature.

Since the budgetary implications of policy changes are a necessary concern, research teams will work with the Ministry of Finance to calculate budgetary implications of any policy changes proposed. The projections will be presented with each report.

A Policy Research Advisory Committee will be formed, the core members of which will include representatives of the Direction National des Affaires Economiques of the Ministry of Finance and Trade, USAID/Bamako, the Malian Chamber of Commerce and Industry, and the West African Enterprise Network. The representative from USAID should be in a position to engage in a policy dialogue with the government and coordinate with other interested donors.

Each research team should analyze the decision-making process in its sector and identify individuals most likely to be able to effect a change in policy if the research shows it to be justified. A list of persons interviewed and summary analysis of the decision-making process should be included in the research proposal. Among the decision-makers interviewed in the proposal development process, each research team should invite one or two of the most influential to sit on the Policy Research Advisory Committee to review the research.

Throughout the research process, the team should maintain contact with committee members. The Advisory Committee will hold at least quarterly review sessions to consider all projects funded for Mali. It will comment on and make suggestions for the initial proposal, the mid-term report, and the final report of each project.

The Policy Research Advisory Committee will develop follow-up action plans, beginning at any point in the process where the results justify it. By the time the first research project delivers its final report, the Advisory Committee should prepare a report on follow-up activities. If the Chair of the Committee desires, he may request the Principal Investigator or a representative of USAID for help in drafting the report.

As the EAGER project's scope is Africa-wide, good communications among on-going research projects in different countries will have a cross-fertilization effect. Each team should make arrangements to communicate via e-mail in so far as possible with the project leaders, sponsors in USAID/Washington, and one another. E-mail communications will be complemented by fax.

ANNEX A
LIST OF PERSONS CONTACTED

Malian Government Officials

Alhassane Ag Hamed Moussa, Directeur National des Affaires Economiques
Mme. Konare Nafissattou Guindo, Directrice Adjointe des Affaires Economiques
Dr. Oumar Niangado, DG, Institut d'Economie Rurale (IER)
Dr. Bino Teme, Directeur Scientifique, IER
Ousmane Moriba Sanago, Directeur, Programme de Recherche en Economie des Filières, IER
Mamadou Gouita, Chef Cellule de la Planification et des Statistiques (CPS), Ministère du Développement Rural (MDR)
Adema Coulibaly, CPS, MDR
Dominique Traouré, Directeur, Agence de la Promotion de la Filière Agricole (APROFA)
Fadio Diarra, Conseiller Technique, Ministry of Finance

Private Business Leaders

Amadou Djigué, trader
Darhamane Hamidou Touré, President, Chambre de Commerce et de l'Industrie du Mali (CCIM)
Tidiane Hady Kane, Chargé des Relations Extérieurs, CCIM
Mousadek Bally, Bally S.A.
Sahia Bally, Secrétaire Générale, AMALEF
Founéké Kéita, Président Directeur Général, Crédit Initiative
Eric Stevance, Responsable du MaliNet, BINTTA, S.A.
Ibrahima Makanguilé, Coordinateur du Mali, West Africa Enterprise Network
Mamadou Sada Diallo, Président Directeur Générale, SADA S.A.
Mahamane Attaher Maiga, Promoteur, UNITEL

USAID Officials

Joel Schlesinger, Mission Director
Charles May, head of Strategic Planning Team
Cheikh Dramé, Livestock Specialist
Abdoul Diallo, Acting Livestock Development Officer
Oumar Diakité, macroeconomist and head of Sustainable Economic Growth Strategic Objective Group
Ibrahima Cissoko, education specialist
Amadou Camera, microeconomist
Mamadou Coulibaly, Project Officer for Manantali Dam project
Dennis Bilodeau, Project Officer for Haute Vallée project

13

Other Donor Officials

Youssef Thiam, World Bank
Francois Giovalucchi, Caisse Francaise de Développement
Yves Gueymard, Ministère de la Coopération

Researchers

Daouda Diarra, independant consultant
Massaoly Coulibaby, Chef Département Science Economiques, Ecole Nationale d'Administration (ENA)
Arouna Dembélé, Chef Départment Administration Publique, ENA
Moussa Coumaré, Secrétaire Perménant, CERES, ENA
Mohamané Attaher Maiga, Ingénieur Zootechnicien, ENA
Bani Touré, Economiste, ENA
Mamadou Diakité, SODREA

Private Consultants

Tièna Coulibaly

14

XD-ABQ-225-B

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

SOUTH AFRICA TRIP REPORT
August 1, 1995

The AIRD Group team that visited South Africa from July 20 through August 1, 1995 to initiate the EAGER/Trade project comprised the following: J. Dirck Stryker (Chief of Party), Lucie Colvin Phillips (Senior Advisor), and Daniel Ndlela (Regional Coordinator). The purpose of the visit was to work with USAID and South African decision makers, business leaders, and researchers to identify and prioritize the initial topics to be investigated during the project. The team was also to work, in collaboration with South African researchers, to develop proposals for specific research projects to be undertaken on these issues.

Our initial discussions with USAID made clear that the mission's priorities fit well with the EAGER project goal of developing the capacity of African researchers to respond to policy makers' needs with sound research related to economic policy issues. Given the complex political changes taking place in South Africa today, however, the team placed less stress than in other countries on developing a consultative process that would ensure this integration, since it was felt that only South Africans can decide how research under the project should be integrated into the policy-making process. Nevertheless, it was possible during our visit to identify existing institutional mechanisms for ensuring that the results of the research will be made available to policy makers and will contribute to the policy dialogue in South Africa.

The EAGER/Trade team agreed to work closely with the USAID program economist and private sector office throughout the project. USAID/Pretoria will be invited to participate in the selection of projects, read draft reports, attend conferences and workshops, and help disseminate results.

During its stay in South Africa, the team visited with South African government officials, business promotion organizations, private business leaders, officials of USAID, journalists, and researchers in universities, research centers, and public banking institutions. A complete list of those contacted is contained in Annex A.

POLICY MAKING AND THE RESEARCH COMMUNITY

The EAGER project is meant to improve the use of top quality economic research by African policy makers. One step in this direction is to consult them in advance about their research priorities. Another is to structure research projects and teams so as to strengthen working relationships between policy makers and local economists. Our first step, therefore, was to consult with policy makers, researchers, and USAID staff to obtain an overview of the existing dialogue between the research community and leaders in government, business, and labor. Policy makers were interviewed from the Department of Trade and Industry, the Industrial Development Corporation, and the Development Bank of Southern Africa. Researchers were consulted from two independent African research institutes, the African Institute for Policy Analysis and Economic Integration (AIPA) and the National Institute for Economic Policy (NIEP), and from the Universities of Cape Town, Western Cape, Stellenbosch, Natal (Durban) and Witwatersrand.

In the trade policy area links between university research economists and policy makers are perhaps closer in South Africa than in any other African country. Yet both groups have been operating in a relatively closed intellectual and economic universe still strongly marked by the years of apartheid and economic sanctions.

One nexus of government/university linkages lies in the relationship between the University of Cape Town, the government, and the trade unions. A group of researchers at the Development Policy Research Unit of the University of Cape Town initiated the Industrial Strategy Project four years ago at the request of the trade unions. The eleven volumes recently published have become an "economic plan" for the new South Africa from their point of view. The current Ministers of Trade and Industry, Labor, and the Reconstruction and Development Programme (RDP) were part of the project team, as were many of their newly appointed associates. The former head of the Trade Policy Monitoring Project at the University of Cape Town, for example, is now Chief Director: Industry Technology and Strategy in the Department of Trade and Industry. Others advise the Congress of South African Trade Unions (COSATU) and the Ministers of Labor and RDP.

During the last two decades the South African research community functioned in a closed and polarized world. Economists tended to publish largely in South African journals and had limited overseas contacts. Most of the research was done at predominantly white universities such as Cape Town, Stellenbosch, Natal, and Witwatersrand. University economists who actively opposed apartheid generally allied with COSATU and the ANC. Their international intellectual community comprised mainly third world leftists. Less politically active South Africa economists maintained a more neutral political profile. Today, these economists are farther removed from the centers of policy making and are anxious to formulate an alternative policy agenda. The head of the policy analysis unit at the DTI has indicated an openness to a full range of economic analytical approaches.

Apartheid's effects can also be noted in the relative scarcity of trained African research economists, particularly in the universities. Historically African universities were obliged to concentrate on teaching, though a few, such as the University of Western Cape and University of Natal (Westville), managed to generate some economic research. There are a few senior "leading lights", such as Bax Nomvete, who was trained before apartheid was fully applied and made his career in international civil service, but there is a serious generation gap. The generation that was subjected to "Bantu education" is that to whom South Africa should logically be looking for economic guidance today. But many leaders in that generation went into exile. Those who managed to get training in economics and who stayed in South Africa generally went into business, or more recently into government. Those who trained in the UK or the US are just now returning to South Africa, and are seeking to have their ideas and research methods accepted. Apartheid also left South Africa well behind the rest of Africa in closing the gender gap in high quality education for Africans.

POLICY-MAKING PROCESS IN SOUTH AFRICA

The formal decision-making process for trade policy is quite complex in South Africa. On the one hand, constitutional organs created for the transition process have overlapping functions. The Department of Trade and Industry has the lead for the executive branch. It must work in consultation with the Ministry of Finance, as every trade policy has budgetary implications. Similarly, it works with the Ministry of Labour to examine the consequences of policy and practice on the unions and the work force as a whole. The Minister of the Reconstruction Development Programme has until recently had an overall mandate to prioritize policies and spending among ministries, but the cabinet has just decided to retract some of that power. Parliament sees itself as setting the overall legal context for trade policy, but in fact it has had a minimal role thus far, partly because its attention has been focused on drafting a permanent constitution.

Much more significant has been a unique South African transitional institution, the National Economic Development and Labor Advisory Council (NEDLAC). Four chambers comprise NEDLAC: (1) Finance, (2) Labor, (3) Development, and (4) Trade and Industry. Business, organized labor, and government each appoint six members to each chamber, for a total of 18 members per chamber and 72 members in all. Every major economic policy measure must be debated and accepted by NEDLAC. Its deliberations are confidential, which may facilitate decision-making but leads to protests regarding lack of transparency.

A multitude of lobbies pressure NEDLAC members and DTI -- other government and parastatal interests, trade unions, producers' associations, export promotion agencies, and various NGOs. Bilateral and multilateral donors have a voice as well, but it appears less influential than in other developing countries. For example the International Monetary Fund plays virtually no role in South Africa and that of the World Bank has thus far been limited to undertaking a series of sectoral studies.

Given the importance attached to policy impact in the EAGER project, this will be an important element in the development of research proposals. Each research team will be expected to analyze the decision-making process in its area of interest and to propose a consultative process to ensure that its results enter fully into the policy dialogue.

TRADE POLICY ISSUES IN THE NEW SOUTH AFRICA

South Africa today stands at an important crossroad, both politically and economically. Much of the political energy of top leaders is still concentrated on ensuring a peaceful transition and the acceptance of a definitive democratic constitution. Trade policy is nevertheless a key factor in the ultimate success or failure of the transition. It is being debated daily, with the Department of Trade and Industry and NEDLAC trying to reconcile the competing demands of vested interests in industry and labor versus broader political pressures for consumer protection and rapid growth in jobs.

Complicating the policy debate is the legacy of apartheid, which left a large part of the population with low levels of education, literacy, and the means to earn a livelihood. There is a natural desire to overcome this deficiency as soon as possible through education , training, and a general upgrading of the work force. Yet this will take time and be very costly. In the meantime, the major question South Africa faces is whether this approach can generate the return to economic growth that the country desperately needs. Two critical issues are trade policy reform and economic cooperation.

Trade Policy Reform

South Africa has for years promoted economic activity behind high protective barriers, including both economic sanctions imposed by the rest of the world and high tariffs applied by the South African government. These have led to investment in import-competing productive activities by public enterprises, privately owned firms, and the Industrial Development

Corporation (IDC), a large venture-capital parastatal. For four decades, starting during the Second World War, South Africa experienced sustained and diversified growth. Beginning in the early 1970s, however, the limited size of the domestic market and the increasingly high cost of doing business under the apartheid regime led to a sharp decline in investment and increased obsolescence of the capital stock.

Over the years, the dependence of the South African economy on exports of gold, platinum, and diamonds has led to overvaluation of the rand in relation to the exchange rate that would allow South Africa to maintain balance of payments equilibrium if it were more dependent on exports of agricultural and manufactured products.[1] In addition the protection against imports has resulted in further overvaluation, as well as a bias against exports and in favor of import-competing activities. As a result, many South African products do not appear to be competitive in neighboring countries or on the world market. To make them competitive, the government has had to rely on cash rebates to exporters under the General Export Incentive System (GEIS), a scheme that has been highly biased in favor of larger firms. This system is not sustainable, moreover, since South Africa's participation in the World Trade Organization requires its eliminating direct export subsidies.

As long as exports of mineral products continued to grow in relation to South Africa's need for foreign exchange, overvaluation of the rand did not pose much of a problem. But now that South Africa has emerged from its period of political and economic isolation, there is a need to restructure the economy in a more outward-looking direction and to increase and diversify exports. This is all the more important because of the decline in gold exports. Production is down thirty percent over last year and diminishing returns are expected from this industry in the future.

South Africa is currently seeking a viable diversified export strategy. There is consensus that tariff barriers must come down and that the highly complex structure of import taxes needs to be simplified. In addition, the entire export incentive system, including the GEIS, the duty drawback scheme, and the practice of granting import tax exemptions, needs to be radically reformed so that there is less of a drain on fiscal resources, less discrimination against small and medium enterprises, and much greater transparency.

These steps may not come quickly or easily. The protected industries protest each invasion of their market. Labor unions reinforce their lobbying strongly, fearing the loss of existing jobs in non-competitive industries. The new jobs potentially created by a restructured economy are an abstraction to union leaders, with no political clout compared to existing members whose jobs are threatened.

The second major issue in the South African economy is thus the labor market. After years of a racially determined wage differential, African wages in South Africa began bridging the racial gap in the 1970s and 1980s. According to the research of Julian Hoffmeyer at the University of Natal (Durban), this was mainly in response to labor shortages that emerged in the 1970s, capping four decades of rapid growth.

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[1]This is the familiar "Dutch Disease" problem that has been applied to countries that have experienced substantial growth of petroleum exports. This has led to a rise in the prices of domestic "nontradable" goods and services, including labor, relative to the price of tradables.

18

The pressure for continued real wage increases, however, is now mainly political. Neither employment demand nor increases in productivity have grown apace. The number of jobs in industry has stagnated for twenty years. Base wages in South Africa (defined as the minimum paid daily agricultural or urban manual labor) are R10 to R13 per day ($US 2.77-3.61) in rural areas and R20 to R30 ($US 5.55-8.33) in urban areas. In labor-intensive industries such as clothing, without tariff protection South Africa would be competing with countries such as Madagascar and Bangladesh, where base wages are under $1 per day. Wages in the geographically contiguous SACU and SADC countries are also substantially lower than in South Africa, which results in a drain of both skilled and unskilled labor into South Africa. Yet labor productivity in South Africa is quite low by international standards.

Partly because political parties were banned whereas African trade unions were allowed to function for many years, the unions have gained substantial political power. They only cover about one-half of the work force, however, leaving out many of those employed in smaller enterprises and informal sector activities, as well as those who are unemployed. To the extent that the unions are successful in raising real wage rates in the unionized sector, this inhibits the expansion of employment and leaves a large part of the labor force unemployed or underemployed. This problem is especially acute, given the distortions that have existed in the capital market that have encouraged the use of capital-intensive techniques of production.

Some economists and union leaders, particularly those associated with the Industrial Strategy Project (ISP), propose universal unionization of the labor force and national collective bargaining as a solution to the dual labor market. They suggest closing the productivity gap through massive training programs and productivity-enhancing technology. These proposals carry considerable political weight and are likely to be implemented to the extent that resources are available. In some industries this should permit South Africa to carve out markets in relatively high quality products in both regional and overseas markets. This should result in some increase in employment and reduction in income disparities.

Nevertheless, this strategy is unlikely to make a severe dent in employment or to seriously alleviate poverty for many years. The government is currently grappling with a substantial budget deficit, and a rapid expansion of African training and education programs will enormously increase the level of recurrent expenditures required to pay teachers. Without a corresponding increase in the tax base, this would imply growing budget deficits, crowding out of private investment, and rapidly rising inflation. An increase in the tax base, however, will require that more emphasis be placed on policy reforms that will contribute more directly to economic growth. This will also lead to greater employment, especially in labor-intensive industries such as construction, tourism, and some manufacturing activities.

These potential economic consequences of the ISP approach are understood on a practical level by many government officials, yet it is not clear which vision will prevail. A presidential announcement this week declared that the government emphasis would be on growth, driven by reduced tariff protection, more rapid privatization of parastatals, investment incentives, job creation and action against unfair monopolies (Sunday Times, July 30, 1995). Yet during the same week, in an effort to protect the local poultry industry, the DTI reclassified spiced chicken imports from an 8c/kg category to a 313c/kg category and added a new 27 percent ad valorem duty (Ibid).

19

It is also very important to encourage South Africans to agree on indicators and monitor the impacts of the measures adopted. South Africa cannot afford economic stagnation and increased unemployment at this crucial stage in its political transformation. It is very important to develop widespread understanding of the relationship between economic policies and trends, and to make timely corrections in unsuccessful approaches.

Regional Economic Integration

For the countries of East and Southern Africa regional integration has, for many years, formed an alternative to expand their markets beyond the domestic market, generating economies of scale and externalities from exports. Historically there have been a large number of regional integration groupings in the region. Those that are currently of particular importance to the economy of South Africa are the Southern Africa Customs Union (SACU), the Southern African Development Community (SADC) and the Common Market for East and Southern Africa (COMESA).[2]

Southern African Customs Union (SACU)

SACU was established in 1910, at which time it replaced an earlier union agreement that had been established in 1895 between South Africa and what is now Botswana, Lesotho, and Swaziland (BLS). SACU was later extended to Namibia (then South West Africa) when the territory was seized from Germany in 1915. The current SACU Agreement came into force in 1969 after the BLS countries became independent. A parallel agreement that existed between South Africa and the 'independent' homelands (Transkei, Bophuthotswana, Venda, and Ciskei) has now expired following the coming to power of a democratic elected government in South Africa.

SACU boasts of well integrated goods and factor markets and a functioning common external tariff (CET) and common excise tax. The proceeds of the CET, predominantly collected by South Africa, are paid into a Consolidation Revenue Fund and the funds are shared in proportion to the shares in total trade. Following a 1969 revenue sharing formula, the BLNS get a disproportionately higher share of the revenue as compensation for the diversion of their imports from lower cost third countries to higher cost South African sources and for leaving trade, industry, and fiscal policy decisions entirely to South Africa.

The SACU common external tariff was until the early 1990s in the range of 1-100 per cent, with an average import duty of 16 per cent. However, after all import charges are included, the average rate was 22.5 per cent. There is a large number of tariff lines, numbering 11,739 (UNCTAD, TRAINS database, Geneva, 1994).

Until the installation of the democratic government in South Africa, there were many burning issues which made it imperative to renegotiate the current SACU agreement. Negotiations are currently underway between South Africa and the BLNS countries. The issues that are on the agenda for renegotiation include:

[2] Though South Africa has become a full member state of SADC, it has opted not to join COMESA.

20

- lack of consultation and the need to change decision making procedures within SACU, including decisions on fiscal, trade, and industrial policies of member states;

- detrimental price raising effects of the current arrangement on the economies of the small SACU member states;

- delays in disbursing revenue to the BLNS countries;

- review of tariff levels of SACU member countries, including the CET in the context of other multilateral trading agreements. For example, the World Trade Organization, to which all the member states of SACU belong, requires that contracting parties apply the agreed tariff and non-tariff concessions to all other contracting parties in a non-discriminatory manner (Umesh Kumar, 1994: 51).

Southern African Development Community (SADC)

SADC is a successor organization of the Southern African Development Coordination Conference (SADCC) established in 1980 with nine member states: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Namibia became the tenth member after gaining independence in 1990. The objectives of SADCC were to reduce economic dependence, particularly on South Africa, and to promote and coordinate regional cooperation among member states.

In August 1992 SADCC was transformed into the Southern African Development Community (SADC). The main objective of SADC is to enshrine the objectives of regional economic cooperation and integration. The other objectives of SADC include:

- commitment to establish a development community within the region;

- promotion of interdependence and integration of national economies for the harmonious, balanced, and equitable development of the countries of the region;

- agreement to cooperate in the areas of food security, land and agriculture, industry, trade, investment, and finance;

- development of policies aimed at progressively eliminating obstacles to the free movement of capital and labor, goods and services, and the peoples of the region.

SADC is currently developing a Trade Protocol that will attempt to reconcile the often conflicting trade agreements that exist within the region.

Common Market for Eastern and Southern Africa (COMESA)

COMESA is successor organization of the Preferential Trade Area for Eastern and Southern African States (PTA), established in 1982 with the objectives of developing a program of trade liberalization and facilitation, improvement of physical infrastructure in the region, and

21

the development of agriculture and industry. At its inception in 1982 the PTA visualized, the creation of a common market and, eventually, an economic community.

In January 1992, in accordance with the PTA Treaty, the governments of the PTA member states signed a treaty establishing the COMESA. COMESA has now come into effect and taken over the various PTA institutions after ratification by 11 member states. The main objectives of COMESA are set out in Article 3 of the COMESA Treaty. They include attaining sustainable growth and development; promoting joint development in all fields of economic activity and programs to raise standards of living; cooperation in creating an enabling environment for foreign, cross border, and domestic investment; and cooperation to promote peace, security, and stability among member states.

In Article 4, the member states enter into specific undertakings in order to achieve the aims and objectives of the Common Market in the following areas:

- trade liberalization and customs cooperation;
- transport and communications;
- industry and energy;
- monetary affairs and finance;
- agriculture;
- economic and social development.

<u>Issues Facing the Integration of the Southern African Economies</u>

South Africa is currently involved in a number of regional and international multilateral and bilateral economic cooperation schemes. Besides being a founder member of SACU, in August 1994 South Africa became the eleventh member of SADC. South Africa has opted, however, not to join the other regional economic community - COMESA - whose membership spans countries from the SACU member states (except Botswana), the SADC member states, the east African (including Zaire) states, and Indian Ocean Commission member states.

South Africa is currently renegotiating the SACU agreement with the other member states - the BLNS countries. Until that renegotiation process is completed, South Africa will be careful not to conclude any other multilateral or bilateral trade agreements. Article 19(1) of the current SACU agreement, in fact, prohibits a contracting party, without the prior agreement of other contracting parties, from entering into a trade agreement with a third country, where concessions on the duties in force within the customs union area are granted to the third country. In the interpretation of this article, South Africa does not find joining SADC in its present form contradictory to Article 19(1), as this does not mean granting any tariff concessions. In its present context, SADC is therefore safe for SACU members to join, though it seems possible that the SADC Trade Protocol may be in contravention to Article 19(1).

With regard to COMESA, its Article 56 permits member states to maintain or enter into preferential agreements with third party countries, as long as those agreements do not impede or

22

frustrate the objectives of the Treaty and that any concession, privilege, or favor given to a third party be extended to other members of COMESA on a reciprocal basis. Even this provision of COMESA does not seem to contradict Article 19(1) of SACU. A recent review of the COMESA Treaty by the Development Bank of Southern Africa (DBSA) concludes:

> "As COMESA will be a common market rather than a customs union, it is unlikely that any arrangement with a third party country will offer greater preferences. For example, if South Africa were to join COMESA, the Malawi, Zimbabwe and Mauritius preferences are unlikely to contravene the COMESA Treaty, or require South Africa to grant additional preferences to the other members of COMESA..." (Leora Blumberg, July 1994:24)

However, conflicts between COMESA and SACU still exist. Article 56 of COMESA may mean that SACU members grant duty-free treatment to all member of COMESA. Other problems arising out of the multifaceted entry into regional economic groupings by South Africa will arise from the later's current agreement with the World Trade Organization and its negotiations with the European Union. The fact that South Africa is treated as developed country under the GATT agreement may cause problems.

TOPICS FOR RESEARCH

This initial prospection visit revealed widespread interest in at least two broad topics that should lead to fundable research projects. These include (1) an assessment of South Africa's comparative advantage in a number of key sectors and (2) an analysis of South Africa's position vis-à-vis the various schemes for economic cooperation and integration.

South Africa's Comparative Advantage

The preceding analysis has indicated the complexity of assessing South Africa's comparative advantage in production for export, whether to neighboring countries or to the world market, and for the domestic market. Among the numerous factors to be considered are

1. the long-run equilibrium rate of exchange after taking into account the dismantling or reduction of import barriers and the long-term prospects for mineral exports;

2. the functioning of the labor market and, in particular, the opportunity cost of labor in the face of powerful trade unions and the large number of workers who are not full employed;

3. the important role that transportation costs play given long distances to overseas markets and the fact that many of South Africa's trading partners are landlocked;

4. the obsolete nature of much of South Africa's technology, resulting from low levels of investment for many years and the possibilities that exist for upgrading that technology through new investment;

5. the advantages that South Africa accrues because of its superior transportation and telecommunications infrastructure, its well developed financial and insurance markets, and

23

the other institutions that are important in facilitating trade , especially in comparison with other African countries;

6. the substantial upgrading of the work force through training and education that is likely to take place over the next few decades and the effects that this will have on labor productivity;

7. the fact that South Africa is committed to joining the World Trade Organization (WTO) and reducing its levels of protection over the next five to eight years;

8. the impact that the latest GATT agreement and the formation of regional trade preference areas will have will have on world product prices over the next few decades.

There is a particular need to assess where South Africa's future comparative advantage lies with respect to exports to neighboring countries and to the world market. Once this is understood, the analysis must identify the factors that stand in the way of the realization of this advantage, whether these be related to trade and exchange rate policy, transportation and telecommunications policy and infrastructure, mobilization of investment finance, establishment of training programs, or participation in WTO and regional schemes for economic integration.

Regional Economic Cooperation

The current picture regarding regional economic cooperation is far from clear. An agreement with the World Trade Organization has been reached, which establishes a schedule for trade policy reform over the next eight years. Although opposed by some special interests within South Africa, this agreement nevertheless sets the framework for current negotiations with the other members of SACU and with the EU. Together these agreements will enter, along with past bilateral arrangements with other southern African countries, into the negotiation of the SADC Trade Protocol. Complicating this picture will be the adherence of other SADC member states to COMESA.

Although it is not possible at this time to describe in any detail the research that will be undertaken on this topic, it is clear that there will be a major need for research. Furthermore, it is important that the research be conducted not only in South Africa but also in other neighboring countries that form part of the network of interlocking schemes for regional cooperation. The EAGER/Trade project is an ideal vehicle for this research since it has been called upon or is likely to be called upon to work in a number of these countries: Zimbabwe, Zambia, Mozambique, Malawi, and Tanzania.

FUTURE ACTION

The team recommends that at least two research topics be selected for South Africa and that research proposals be prepared as described below. The first of these proposals will be ready for submission to the Technical Committee in the early fall. The second should be ready by the time of the Africa-wide conference on EAGER to be held in Nairobi after the first of the year. Each of these research projects will be conducted under the sponsorship of the Africa Institute for Policy Analysis and Economic Integration (AIPA).

24

South Africa's Comparative Advantage

Directing the study of South Africa's Comparative Advantage will be Siphiwe Cele, who is an economist at the Development Bank of Southern Africa (DBSA) and a member of the Industrial and Trade Policies and Competition Sub-Group for Research on Economic Reform for Growth with Equity in South Africa, under the sponsorship of AIPA. He will be backed up by one of AIRD's staff members with extensive experience in the use the domestic resource cost/effective protection methodology that will be employed for the study. He will work with four more junior African researchers from the banking, business, and academic communities, as well as advisors from the government and universities.

The study will focus on a few sub-sectors in which it is believed that South Africa has a comparative advantage. It will conduct surveys among firms in these industries and will calculate measures of comparative costs and incentives under alternative scenarios regarding the structure and levels of import tariffs and export incentives. As part of this exercise, estimates will be made of the equilibrium exchange rate and the opportunity cost of labor under alternative scenarios regarding trade policy reform, future trends in mineral exports, the functioning of the labor market, and likely changes in labor productivity. The role of transportation costs will be carefully investigated. In addition, alternative technologies will be examined to assess their appropriateness for South Africa. Infrastructural deficiencies will also be identified. Finally, the study will assess the effect of future trends in world prices and the impact of alternative schemes for economic integration.

Regional Economic Cooperation

The Principal Investigator for this project will be Daniel Ndlela, Regional Coordinator for East and Southern Africa for the EAGER/Trade project. Dr. Ndlela has had extensive experience working on issues of regional economic cooperation in Southern Africa. He has worked on both SADC and PTA regional integration topics, and particularly on trade and industrial development in the region, including an assignment as Senior Regional Economic Advisor in the Economic Commission for Africa.

The details of the project will be worked out in cooperation with AIPA, which has Regional Economic Cooperation as its next major research theme. Current plans are for identification and preparation of the project to begin at the next meeting of the research sub-groups currently working on AIPA's program for Research on Economic Reform for Growth with Equity in South Africa. This meeting is scheduled to be held in Cape Town in late November.

List of Persons Contacted

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EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER) TRADE REGIMES AND GROWTH

TANZANIA TRIP REPORT
August 9, 1995

The AIRD Group team that visited Tanzania from August 2 through August 9, 1995 to initiate the EAGER/Trade project comprised the following: J. Dirck Stryker (Chief of Party), Lucie Colvin Phillips (Senior Advisor), and Daniel Ndlela (Regional Coordinator). The purpose of the visit was to work with USAID and Tanzanian decision makers, business leaders, and researchers to identify and prioritize the initial topics to be investigated during the project. The team was also to work, in collaboration with Tanzanian researchers, to develop proposals for specific research projects to be undertaken on these issues.

Our initial discussions with USAID made clear that the mission's priorities fit well with the EAGER project goal of developing the capacity of African researchers to respond to policy makers' needs with sound research related to economic policy issues. This capacity is already well advanced in Tanzania, where researchers from university faculties and research institutes have for many years contributed to the policy-making process. At no time, however, has this contribution been more important, given the current critical juncture in economic policy.

The EAGER/Trade team was able to identify two major areas of research for which there is strong demand within the Government of Tanzania and the private sector business community. The team agreed to work closely with the USAID program economist and private sector office in conducting this research. USAID/Dar es Salaam will be invited to participate in the selection of projects, to read draft reports, to attend conferences and workshops, and to help disseminate results.

During its stay in Tanzania the team visited with Tanzanian government officials, the central bank, business promotion organizations, private business leaders, officials of USAID, and researchers in universities, research centers, and consulting firms. A complete list of those contacted is contained in Annex A.

POLICY MAKING AND THE RESEARCH COMMUNITY

The EAGER project is meant to improve the use of top quality economic research by African policy makers. One step in this direction is to consult them in advance about their research priorities. Another is to structure research projects and teams so as to strengthen working relationships between policy makers and local economists. Our first step, therefore, was to consult with policy makers, business leaders, researchers, and USAID staff to obtain an overview of the existing dialogue between the research community and leaders in government and the business community. Policy makers were interviewed from the Planning Commission, the Ministry of Industries and Trade, the Ministry of Agriculture, and the Bank of Tanzania. Discussions were held with the Tanzania Exporters Association (TANEXA), the Chamber of Mines, The Business Center, and several mining companies. Researchers were consulted from the Economic Research Bureau, the Economic and Social Research Foundation, the Department of Economics at the University of

Dar es Salaam, and Mangesho and Company. Officials from the World Bank and UNDP, as well as from USAID, were interviewed.

Links between university research economists and policy makers are perhaps closer in Tanzania than in any other African country outside of South Africa. Both the Economic Research Bureau and the Economic and Social Research Foundation have Boards of Trustees that include leaders of government and the business community. The Principle Secretary of the Planning Commission chairs each of these Boards. In addition, individual researchers have their own close ties with the government, for which they often act as consultants.

TRADE POLICY ISSUES IN TANZANIA

Tanzania today stands at an important crossroad in economic policy. For many years, the country sought to achieve economic growth and equity through a strategy that emphasized the public sector. This took the form of economic planning and regulation by the central administration, the production of goods and services by public enterprises, the collection and distribution of food and export crops by public marketing boards, and the organization of the rural sector into a system of centrally created cooperatives. Despite the best of intentions on the part of the country's leaders, the result was economic stagnation, mounting public debt, and macroeconomic imbalance leading to rapid inflation.

By the mid-1980s, the situation had deteriorated to the point that major reform was required. This took place in the form of two Economic Recovery Programmes designed to induce macroeconomic stabilization by increasing government revenue and lowering expenditures, reducing price controls, freeing up the internal marketing system, decreasing the importance of parastatals through privatization and liquidation, and reforming trade and exchange rate policy regimes. These reforms included devaluation of the exchange rate and movement towards a more flexible rate, elimination of direct controls on trade and foreign exchange, reduction of the complexity of the import tariff regime and some decrease in the average level of tariffs, and elimination of export taxes and the monopoly power of the marketing boards.

By mid-1995, almost all of the reforms related to trade and exchange rate policy, as well as those associated with price controls and internal market regulation, had been announced. Problems remain, however, with effective implementation. Some success had been achieved in privatization, but much more remained to be done. Macroeconomic stabilization was far from having been achieved, with inflation running at close to 40% per annum. Part of this was due to the inability of the government to control public expenditures and part of it was because of widespread tax avoidance and evasion. This rapid rate of inflation was having a serious impact on decisions regarding investment.

Trade Policy Reform

During the first two decades of independence, emphasis was placed on modernizing the economy and achieving structural transformation aimed at decreasing reliance on the external economy. This was achieved through import protection resulting from high tariffs, quantitative restrictions on imports, and exchange controls. At first, rapid growth was achieved as production by local firms substituted for imports. The limits of market size were soon exhausted, however, often before economies of scale had been achieved. Furthermore, policies designed to promote import substitution resulted in overvaluation of the currency and a strong bias against exports. This was strengthened by the failure of the export marketing boards to offer adequate incentives to producers. As a result, exports declined and firms had difficulty in obtaining the foreign exchange necessary to purchase capital equipment, raw materials, intermediate goods, and spare parts. This led to large losses due to substantial underutilization of capacity.

With the trade and exchange rate policy reforms that have recently been undertaken, there is now an enormous opportunity to reorient the economy once more towards the external sector. This not only will permit Tanzania to exploit its static comparative advantage in international trade but also will allow it to benefit from some of the dynamic effects associated with growing exports.[1] However, although exports have responded to the recent reforms, the response has not been as great as had been hoped. Most of it has occurred among traditional exports such as coffee and cotton. Although the percentage growth rate of nontraditional exports has been relatively high, this rate starts from a small base and, in any case, has tended to level off recently. One reason may be that nontraditional exporters benefitted more when they could obtain imported inputs at the official exchange rate and converted their export proceeds to local currency at the parallel rate of exchange. Now that the exchange rate has been unified, they no longer have this incentive.

A Task Force has recently been created to develop an export strategy for Tanzania. Included on this Task Force are representatives from government, private business, and professional associations such as the Tanzania Exporters Association. A draft report has been prepared and is being discussed by the various parties involved. When it has been agreed upon, it will be disseminated throughout the country through workshops and other mechanisms. Following this, it is expected that the World Bank will fund an export promotion project, which will try to address the constraints on export growth.

In the meantime, there is the danger that some of the recent trade policy reforms may be reversed. As an example, the *Daily News* recently reported on a ban that has been placed on scrap metal exports in order to protect domestic users of scrap metal. This use of discretionary authority over trade policy can wreak havoc with all the accomplishments of the past few years designed to promote export growth. It is vital that both the government and the private sector understand the advantages that trade can bring and the dangers of intervening arbitrarily in the trade regime environment.

Mineral Exports

The mining sector in Tanzania appears to have an immediate potential for rapid growth. In the two years since it was freed from the dominance of inefficient parastatal monopolies, private exploration activity has increased dramatically. Tanzania's major nickel deposits and strong potential

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[1]These are discussed in detail in J. Dirck Stryker, *et al*, *Costs and Benefits of Eliminating Institutional Constraints on the Expansion of Nontraditional Exports*, Cambridge, Massachusetts: AIRD, October 1994.

30

for gold, diamond, and semi-precious gems have been documented both by UNDP-sponsored studies and private mining companies. The intragovernmental Export Strategy Task Force estimates that the mining sector has the largest potential of any sector for contributing to GDP growth in the next five years. Its contribution to employment and income growth should also be greater than the other potential growth sectors, such as tourism and nontraditional exports of agricultural and manufactured products.

One large diamond mine is currently in production (Williamson Diamond Mine) and an estimated 300,000 small-scale miners are prospecting for and mining gold and diamonds. They are one of four interested groups: (1) major mining conglomerates (dominated by such companies as DeBeers and Anglo-American), (2) middle-sized international companies, including Canadian, U.K., Australian, and potentially U.S.-based firms, (3) joint-venture and Tanzanian businesses that have filed small formal claims (often the Tanzanian partner filed the original claim, but lacked the capital and technology to exploit it, and thus allied with a small or medium-size expatriate business), (4) small-scale miners, often young to middle-aged men from local farming communities.

Small-scale miners currently have no legal buyer for their ore and stones since the Bank of Tanzania withdrew from purchasing gold after incurring substantial trading losses. These miners mainly mine illegally, as well, since the diamond and gold exploration concessions are generally held by medium and large-scale companies. Health and environmental hazards associated with the mining are substantial. They include:

- subminimal temporary living conditions;
- less than a living income for most miners most of the time (sustained by the gamble inherent in the enterprise and the possibility of mining as a secondary occupation);
- child labor (cheap and mobilizable);
- conflict between small-scale miners and concession holders;
- work in dark, wet, hand-dug tunnels that occasionally collapse;
- mercury poisoning during manual purification.

Because the entire operation is extra-legal and takes place in isolated rural areas, there has been no way to address the social and environmental problems associated with small-scale mining.

A substantial portion of the sales of gold and diamonds have traditionally passed via Burundi, Rwanda, and other neighboring countries. The result is that Tanzania forgoes potentially substantial royalties on gold (3% of the value of production) and gem production. Moreover, the foreign exchange that is earned stays outside the formal banking system. The Export Strategy Task Force has identified this as a major issue to be studied.

31

TOPICS FOR RESEARCH

This initial team visit revealed widespread interest in at least two broad topics that should lead to fundable research projects. These include (1) a study of small-scale mining and (2) an assessment of Tanzania's comparative advantage in a number of industrial and agro-industrial sub-sectors.

Small-Scale Mining

Tanzania would benefit substantially from bringing small-scale mining under a viable legal and regulatory framework, covering prospection, processing, and marketing. The benefits would include

- enhanced government revenues;
- foreign exchange circulating through official channels;
- growth in employment;
- growth in rural incomes, improving both incomes and equity;
- opportunities for the introduction of schools and health services in mining communities currently lacking them;
- reduced conflict between the small miners and formal-sector mining companies;
- healthier relations between the Tanzanian government, Tanzanian public opinion, and the mining sector as a whole, contributing to a more stable investment climate.

Prospection

Both gold and gemstones occur in dispersed deposits over a wide area. They are high-value, low-weight products, easily transportable across borders. For this reason small-scale mining requires a finely tuned legal framework and marketing system. These must be competitive with those of neighboring countries in order to capture a significant portion of production, as smuggling is virtually impossible to control by force. A viable marketing system in Tanzania would also tend to attract substantial gold and diamond trade across Lake Tanganyika from Eastern Zaire, where small-scale mining is liberalized but not well served by markets.

The prospection component of the study will look at means of facilitating the registration of small claims by artisanal miners. The optimal localization and sizing of claims should be studied, as should procedures for filing and enforcing the legal status of claims. This is expected to contribute substantially to reducing tensions between larger mining interests and small miners. It should also give Tanzanian public opinion a vision of mining that includes Tanzanians benefiting directly from it, not just expatriates. This is an important factor in stable working relations for the sector as a whole.

Processing

The study will examine existing and alternative means for concentrating and processing ore. There is a niche for small-scale appropriate technology in the processing of gold ore and possibly gemstones. This can open opportunities for Tanzanian entrepreneurs able to take advantage of slightly more capital and technology than artisanal miners. In gold processing, for example, what are called stamp batteries have been used successfully in Western Australia in similar artisanal mining situations. The stamp battery purifies the ore of individual miners, who receive their purified ore at a saleable standard concentration and a small recompense for the value of the tailings. The owner-operator of the stamp battery can be an independent entrepreneur, or possibly a licensed gold buyer. Another small device, called a retorquer, allows one to recover the mercury from gold tailings without handling it. This is a potential source of income, saves the cost of the mercury, and reduces the health hazard. Currently some processors handle mercury without gloves while purifying ore, resulting in serious poisoning.

Cutting of gemstones in the field should also be explored. It is risky, as high quality gemstones may be poorly cut, resulting in reduced rather than increased value added. For this reason, we hypothesize that it would only be viable on lesser value gems. Nevertheless, it can result in a valuable secondary market in Tanzania and the region that would complement the tourist trade nicely.

Marketing

The biggest lack in current arrangements is a viable marketing system. As both Tanzania and neighboring countries have liberalized their markets, this will most likely be a form of licensed buying. Viable, competitive conditions and procedures for obtaining and exercising buyers' licenses must be established. For this purpose, existing marketing systems in Tanzania will be examined and comparisons will be made with marketing systems in other countries such as Kenya, Burundi, Rwanda, Uganda, Zaire, Botswana, Ghana, and Mali. The last two countries are considered to have established viable marketing systems; others on the list are potential competitors and/or suppliers for the regional market.

Tanzania's Comparative Advantage in Industry and Agro-Industry

In assessing Tanzania's comparative advantage in production of industrial and agro-industrial products for export, whether to neighboring countries or to the world market, and for the domestic market, numerous factors must be considered:

- the long-run equilibrium rate of exchange after taking into account further reduction of import barriers, the long-term prospects for agricultural and mineral exports, and projected capital inflows;
- the functioning of the labor market and, in particular, the opportunity cost of labor;

- the important role that transportation costs play given long distances to overseas markets and the fact that many of Tanzania's trading partners are landlocked;

- the obsolete nature of much of Tanzania's technology, resulting from low levels of investment for many years and the possibilities that exist for upgrading that technology through new investment;

- the problems that Tanzania accrues because of its poorly developed transportation and telecommunications infrastructure, financial and insurance markets, and the other institutions important to international trade;

- the impact that Tanzania's adherence to various schemes for regional integration would have on the incentives facing its producers.

There is a particular need to assess where Tanzania's future comparative advantage lies with respect to exports to neighboring countries and to the world market. Once this is understood, the analysis must identify the factors that stand in the way of the realization of this advantage, whether these be related to trade and exchange rate policy, transportation and telecommunications policy and infrastructure, mobilization of investment finance, establishment of training programs, or participation in regional schemes for economic integration.

FUTURE ACTION

The team recommends that at least two research topics be selected for Tanzania and that research proposals be prepared as described below. The first of these topics on the small-scale mining sector has already been highlighted by the Export Strategy Task Force and has widespread acceptance within government and the private mining sector. This proposal will be prepared with pre-project financing during the fall and will be submitted to the Technical Committee shortly after the first of the year. The second proposal will involve greater interaction with policy makers and is probably best postponed until after the elections are over and the new government is in place.

Small-Scale Mining

The Small-Scale Mining Sector study will be divided into two phases: (1) a proposal development phase and (2) the study proper. The proposal development phase could be funded by September 1995, and the study proper take place in 1996.

The Business Center in Dar es Salaam, which initially mentioned the need for work in this area, is interested in helping to develop the proposal. This will involve: (1) coordinating with the World Bank, which is undertaking a major project in support of the mining sector, (2) hiring a Tanzanian to do a review of the literature on the subject and interviews with major actors in the sector, and (3) participating in drafting the proposal.

Both TANEXA and the Chamber of Mines (a member of TANEXA) have expressed interest in sponsoring the study, participating in it, and using the results. Several Tanzanian researchers have

34

already conducted work in this area, but composition of the final team will be decided during the proposal development phase.

Lucie Phillips, Senior Advisor for EAGER/Trade, is proposed as Principal Investigator for the project. She is well qualified to lead this study, being familiar with mining and marketing of gold and diamonds in Burundi, Zaire, and Congo. Her firm, AMEX International, has consulted on the status of gold purification firms in Burundi, and is implementing two export promotion projects in Ghana. She is therefore in a position to provide comparative perspective and oversight for the field study.

Tanzania's Comparative Advantage in Industry and Agro-Industry

The Ministry of Trade and Industry has indicated an interest in a study of Tanzania's Comparative Advantage in Industry and Agro-Industry. This study is seen as filling an important gap in the information available to policy makers when they make important decisions regarding trade policy. The topic has also been discussed with the Economic Research Bureau and the Economic and Social Research Foundation, the Directors of each of which feet that such a study would be important for policy and would fit in well with their research programs.

It is generally felt that the study should concentrate on a few sub-sector industry chains. One of those suggested is the cotton-textile-clothing chain. In this chain, there is a danger that efforts to shelter the vulnerable textile firms by artificially lowering the price of domestically grown cotton would decrease the incomes of cotton farmers. At the same time, furnishing this protection by imposing high tariffs on textile imports would raise the prices of inputs into the clothing industry, which might otherwise be competitive for export. This study would be particularly appropriate given the investment that Cargill has made in cotton ginning and exports in Tanzania.

It is anticipated that this research project will be prepared after the first of the year. A useful occasion for deciding whether and how to proceed might be the EAGER conference to be held in Nairobi at that time.

35

List of Persons Contacted

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EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH
(EAGER)
TRADE REGIMES AND GROWTH
ZAMBIA TRIP REPORT
August 18, 1995

On August 16-18 Daniel Ndlela (Regional Coordinator for the EAGER/Trade project) paid a brief visit to Lusaka. Unlike in the case of the other AIRD Group team visits to initiate a full spectrum of the EAGER/Trade project, the purpose of the Zambia visit was to confer with USAID, the Harvard Institute of International Development (HIID) and Zambian decision makers to identify the initial and urgent topics for investigation under the EAGER project.

TRADE POLICY ISSUES FACING ZAMBIA

The initial discussions with USAID showed that though the Trade sector was not in the priority list of its programs in Zambia, the Mission was interested in working closely with the EAGER/Trade project on a number of trade issues. The Mission is of the opinion that a quick review of some policy trade topics, such as the current impact of tariffs on Zambia's productive sectors would be beneficial to policy makers.

The major trade related issue facing Zambia is its position in the trade liberalization vis a vis other countries in the region especially South Africa and Zimbabwe.

Tentative results of COMESA-CET Study on the analysis of the Effective Protection Rate (EPR) of some Zambian companies shows negative protection, eg. in the fertilizer, ink, plastic goods and paper products. To the extent that Zambian firms are facing competition from imports from COMESA and SACU countries, particularly South Africa, the possibility of negative protection can be significant. This arises from the structure of Zambia's nominal protection which is based on three tariff rates, 20%, 30% and 40% on a cascading basis and the COMESA reduction of 70%.[1] Thus there is the possibility of competing imports from say Zimbabwe, to enter Zambia at a much lower rate than imports from non-COMESA countries. Imports from South Africa also falls into this category.

In the case of Zambia, changes in prices of imported goods as a result in tariff changes would have impact on Government revenues. Twenty-two percent of government revenue is generated by taxes on imports (mainly from import duties and sales tax) and 19%

[1] It is however understood that Zambia has had to reduce the COMESA tariff to 60% to reciprocate with other COMESA member countries.

37

is collected by taxes on domestic trade. Zambia's imports from COMESA countries (including South Africa) is over 50% of total imports and these enter under preferential agreements. Duty free imports from COMESA will encourage trade diversion, but it may be that Zambia is already taking as much advantage as possible of benefits under regional trading arrangements.

USAID mission will therefore like to have a "quick response" study on this subject in order to inform policy makers the options available. In a wide ranging discussion between USAID Economist, HIID team and myself, it was however felt that such a "quick response" would be more suitable under the Consulting Assistance for Economic Reform project (Caer) than under EAGER.

TRADE POLICY ISSUES FACING ZAMBIA

In extensive discussions with senior officials of the Ministry of Trade and Commerce, the HIID Team was able to derive a list of potential research topics for Zambia to be considered under the EAGER project:

1. **Competitiveness with SADC region.** Select several industries that are widespread within region, e.g. textiles, maize milling, steel rolling, plastic products. Begin with three countries, e.g. South Africa, Zambia, Zimbabwe. From interview with sample of firms in those industries and countries, attempt to construct measures of relative productivity, such as the efficiency wage (wage cost per unit of output per unit of labor time) or a broader measure of factor productivity, in dollars. Establish means to maintain such measures over time. Once established, expand gradually to include more countries. Could become a comprehensive data base that will indicate levels and changes in competitiveness. This is the kind of data set that policy makers often ask for but seldom have available. This and next two projects could be most effectively in cooperation with researchers from two or more neighboring countries.

2. **Gains from economic integration within Southern Africa.** Regional integration prospects are having a major impact on trade policies. How much is known about the potential benefits and costs of integration? It may be possible to learn a great deal from a relatively simply general equilibrium model of the region, starting e.g. with a two-or-three-economy region, that models a limited category of tradable and non-tradable for each country. The assembly of data for such a model would itself be valuable in understanding the economy of the region and the potential gains from trade. Different approaches--free trade area v. customs union or regional integration v. more liberal trade with the outside world--can be evaluated once the model is built.

3. **Zambia's comparative advantage and the cost of ignoring it.** In implementing reform policies, the government has tried to be responsive to producers who are disadvantaged by the more open economy. Yet it seems likely that many of those who lobby for more protection are in the most inefficient industries; protecting them is likely to entail large costs and to slow economic growth. Techniques for measuring comparative advantage such as domestic resource cost are well known and easy to apply. It would help policy makers if a data base of such estimates existed for Zambia, as it does, for example, in Kenya. Then it would be clear (1) how much protection would be needed to make an industry viable and (2) the cost to the economy of such protection. In most cases, such a data base could be a telling argument against protection for specific industries and in favor of a more open economy. Such a study should cover a range of products in both agriculture and manufacturing.

4. **Transport costs of Zambia's trade.** As a landlocked country, Zambia needs to be concerned about the costs of its exports and imports, both within and outside the Southern Africa region. One of the most important ways for a government to promote efficient trade and especially its exports is to invest in infrastructure that reduces transactions costs, of which transport is the most important. In planning infrastructure investment, therefore, it would be useful to know the costs of carrying exports to various destinations by various means, focusing on those costs that can be most affected by infrastructure investment.

5. **Regional trade in grain (maize).** Eastern and Southern Africa is a region of highly variable yields in the staple commodity, white maize. Although considerable informal trade exists in maize, much of it is local, cross-border trade. The region's food security would almost certainly be enhanced if there was more open trade in maize and other grains. A study of maize production and trade across the region would be valuable in suggesting the role for more open trade and might be used to estimate the benefits form opening up the market on a regional basis.

In the discussion with HIID, it was felt that a combination of topics 1 and 3 would form the main research topic for Zambia. The second important research topic will be Topic 4 (Transport Costs of Zambia's trade). Efforts to identify researchers are still going on. However, two well qualified researchers would be pursued: Flora Musonda Ph.D, Lecturer in Economics at the University of Zambia, and Sindiso

Ngwenya, M.Sc (Economics), Senior Transport Economist at the COMESA Secretariat.

FOLLOW - UP

If these initial findings are anything to go by, there might be need for a one week mission to have follow up discussions with the Research Community and Policy makers at a later date. Secondly Dirck Stryker will also confer with Mike Roemer on the options available for EAGER in Zambia.

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