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9. ABSTRACT

This paper, from the Office of Eastern and Southern Africa Affairs, suggests a strategy framework for U.S. assistance programs in Southern Africa for 1978 and beyond. It summarizes the initial findings, defines key issues, and recommends an approach to program planning. The countries considered in the paper are Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Rhodesia, Swaziland, and Zambia. The wide range of problems in these countries to which the U.S. could respond through assistance programs can be categorized as development, security and humanitarian problems. Recommendations for regional development initiatives include: that the U.S. take a broadly based development initiative in Southern Africa, including Zaire; that A.I.D. undertake an area wide assistance initiative composed of programs and projects in the areas of commercial agriculture, infrastructure and industry; and that the Assistant Administrator for Africa concurrently authorize the immediate expansion of programs in manpower and skills development. Suggestions for security and humanitarian programs include: that the U.S. continue and expand programs for economic stabilization; that the U. S. continue to support those countries in Southern Africa that are imposing economic sanctions on Rhodesia; that the U.S. support programs to improve the political integrity and economic resilence of Botswana, Lesotho and Swaziland; and that the U.S. regularly monitor and assess humanitarian requirements in Southern Africa. A brief summary of the characteristics and development issues for each country is presented. These countries are going through a process of profound social, political, and economic change. The stated objectives of the new nations include: more broadly based participation in the process of economic development, greater equity in the distribution of economic benefits among those who participate in that growth, and continued or accelerated growth in their economies.

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A FRAMEWORK FOR UNITED STATES ASSISTANCE PROGRAMS IN SOUTHERN AFRICA

Submitted by

THE OFFICE OF
EASTERN AND SOUTHERN AFRICA AFFAIRS

BUREAU FOR AFRICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

MARCH 1977

TABLE OF CONTENTS

Page

I. SUMMARY OF RECOMMENDATIONS 1

II. BACKGROUND 3

- The Setting 3
- Past Donor Assistance 5

III. THE COUNTRIES OF SOUTHERN AFRICA 6

- Botswana 7
- Lesotho 8
- Swaziland 10
- Malawi 11
- Zambia 12
- Angola 13
- Mozambique 14
- Rhodesia 16
- Namibia 18

IV. THE CHARACTERISTICS OF SOUTHERN AFRICA .. 19

- Demography and Education 20
- The Economies 21
- Interdependencies 22
  - The Dominance of the Republic of South Africa 22
  - Trade 23
  - Transport 23
  - Labor Exchange 24
  - Investment 24

V. A REGIONAL PERSPECTIVE 25

- Resource Potential 25
- A Long-Run Strategy 26

VI. THE CONSEQUENCES OF TRANSITION FOR ASSISTANCE PROGRAMS 29

- The Current Situation 29
- Security Problems 29
- Humanitarian Needs 30

VII. RECOMMENDATIONS 32

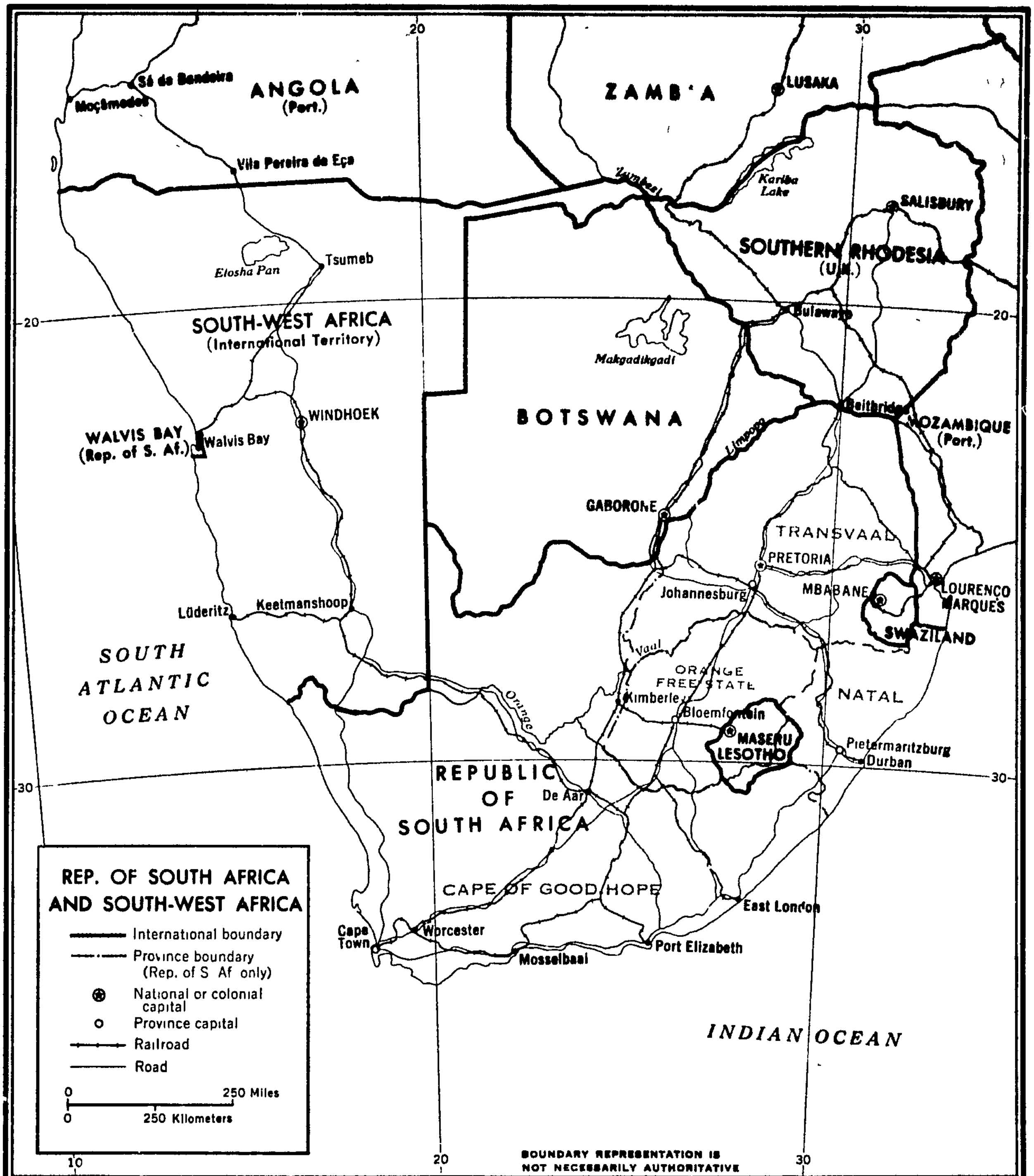
- Regional Development Initiatives 33
- Bilateral Development Programs 35
- Security and Humanitarian Programs 39

COUNTRY PAPERS

ANGOLA 42
BOTSWANA 46
LESOTHO 52
MALAWI 56
MOZAMBIQUE 60
NAMIBIA 65
RHODESIA 71
SWAZILAND 81
ZAMBIA 84

LIST OF FIGURES AND TABLES

		Page
Table	Comparative Statistics for Southern Africa and Selected Comparison Countries	ff p. iii
Figure 1a	Total Population	ff p. 20
Figure 1b	Population Density	ff p. 20
Figure 2	Gross National Product by Country	ff p. 21
Figure 3	Gross National Product Per Capita	ff p. 21
Figure 4	Percent Difference Between Gross Domestic Product and Gross National Product	ff p. 21
Figure 5	Economic Structures of the Countries of Southern Africa	ff p. 21
Figure 6	Southern African Trade Patterns	ff p. 23
Figure 7	Southern Africa Railroad Transportation Network	ff p. 23



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PREFACE

The Office of Eastern and Southern Africa Affairs, utilizing Bureau staff together with short-term contract personnel, has undertaken to examine the role that U. S. assistance programs can play in southern Africa. This Working Paper summarizes the initial findings, defines key issues, and recommends an approach to program planning.

Events in southern Africa are moving in a direction that require reassessment of the relationships between the United States and the countries of the subcontinent. The purpose of this Paper is to suggest a strategy framework for U.S. assistance programs in southern Africa for 1978 and beyond. It is also intended to provide a basis for preparing the Special Report to be submitted to the U.S. Congress by AID not later than September 30, 1977.

The countries considered in this Paper are; Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Rhodesia, Swaziland and Zambia. The Paper does not include country coverage for the Republic of South Africa, Tanzania, or Zaire. However political transition in southern Africa may have specific consequences for these countries.

The wide range of problems in the countries of southern Africa to which the U.S. can respond through assistance programs can be categorized as development, security and humanitarian problems, a categorization that reflects the Foreign Assistance Act (FAA).

- Section 102 states that it is not only expressive of our sense of freedom, justice, and compassion but also important to our national security that the United States, through private as well as public efforts, assist the people of less developed countries in their efforts to acquire the knowledge and resources essential for development and to build the economic, political, and social institutions which will meet their aspirations for a better life.

- Section 531 authorizes the President to assist friendly countries, organizations and bodies in order to support or promote economic or political stability.

- Section 491 recognizes that prompt assistance to alleviate human suffering caused by natural and man made disasters is an important expression of the humanitarian concern and tradition of the American people.

This categorization is a useful guide to the definition of assistance objectives and is so used in this Paper. It is not intended to be confused with a recommendation for funding under the International Disaster Assistance, Security Supporting Assistance or Development Assistance Sections of the FAA. In this regard, Section 115 of the FAA prohibits the utilization of development or humanitarian assistance funds in countries to which security assistance is provided in the same fiscal year.

Methodology

This Paper is not intended to be definitive. It is based on a desk reconnaissance of material readily available to the Agency. To be timely, it was completed against an arbitrary deadline and is presented as a working document. To be concise, it touches only briefly on some important aspects of development.

Work on the Paper began with detailed Country Reports on each of the nine countries in southern Africa. These Reports were prepared by research assistants from data available in Washington. Based on data contained in these reports, short Country Papers were prepared to analyze the potential role of U.S. assistance in the future development of each country. These short Country Papers are presented as annexes to this Paper and their findings are briefly summarized in Part III. The more detailed Country Reports are available under separate cover.

The detailed Country Reports and the short Country Papers were systematically reviewed by a Working Group of senior staff members and consultants. Their review and discussion led, in turn, to a series of conclusions regarding the region, its development, and the potential role of concessional and other assistance. Supporting discussion for these conclusions is presented in Sections IV, V and VI. Specific recommendations, drawn from the conclusions, are presented and discussed in Section VII.

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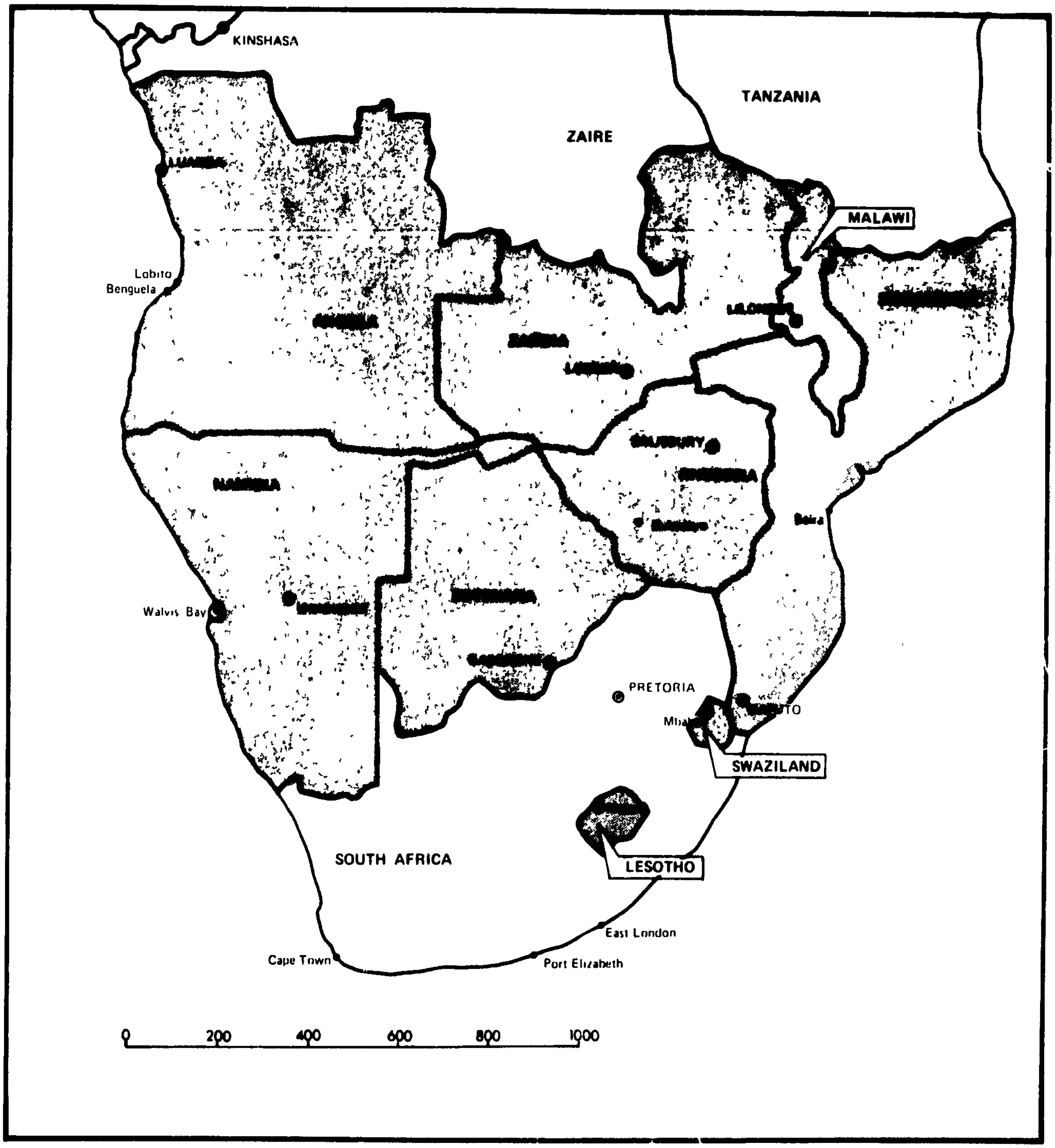
THE COUNTRIES OF SOUTHERN AFRICA



COMPARATIVE STATISTICS FOR SOUTHERN AFRICA AND SELECTED COMPARISON COUNTRIES

Indicators	Angola	Botswana	Lesotho	Malawi	Mozambique	Namibia	Rhodesia	Swaziland	Zambia	RSA[3]	Tanzania	Zaire	Colombia	Thailand
Demographic														
Total Population (000)	6,455	626	1,038	5,012	9,060	883	6,579	481	4,936	25,087	15,506	21,191	25,815	42,223
Population Growth Rate (%)	2.2	1.8	2.1	2.3	2.3	2.8	3.3	2.7	3.1	3.0	3.0	2.4	3.2	2.9
Dependency Ratio	.80	.80	.80	.90	.78	.84	.95	.80	.97	.78	.89	.82	.97	.94
Percent Urban	18	11	4	6	6	25*	20	14	37	50	7	26	62	17
Population Density (per mi^2)	13	3	89	111	30	3	44	74	17	51	42	23	59	213
Economic														
Gross National Product (GNP)[1]	2,980	150	98	525	2,905	616	2,123	138	1,950	25,714	1,770	3,129	9,974	9,735
Gross Domestic Product (GDP)[1]	2,895	185	84	529	3,147	924	2,172	154	2,017	26,329	1,776	3,291	10,191	9,755
GNP per Capita[2]	492	230	100	110	336	915	430	330	430	1,089	130	140	440	270
GDP per Capita[2]	478	284	86	111	364	1,373	440	368	445	1,115	130	147	450	271
Real GNP Growth (1970-74)	6.4	21.8	2.4	9.8	7.4	**	8.1	9.6	2.4	4.7	4.0	4.5	7.0	5.9
GNP per Capita Growth (1970-74)	4.2	19.0	0.3	7.1	5.0	**	4.5	6.4	-0.4	2.0	1.2	1.8	3.6	2.7
Retail Price Index 1974 (1970=100)	138	120	124	118	131	123	109	127	119	124	125	142	153	119
Debt Service Ratio, 1974	NA	2.7	2.0	9.1	NA	NA	**	2.7	5.1	**	6.1	14.7	16.7	2.0
Economic Structure (%GDP)														
Agriculture	42*	28	41	46	42	20	15	31	10	8	39	14	27	34
Manufacturing	24*	10	2	16	<15	10	27	24	15	26	13	10	22	18
Mining	10*	13	-	-	2	50	7	2	36	13	1	22	1	1
Agriculture														
% of Economically Active Population	64	87	89	88	72	55	63	82	69	30	86	78	45	77
Food as % of Commodity Exports	40	39	31	34	56	24	**	40	0.4	22	49	6	63	44
Basic Food Grain Production (KT per Capita)	81	102	154	219	48	46	254	247	154	401	77	24	41	77
Food Exports as % of Food Imports	746	129	14	303	469	<100	**	500	12	427	591	63	973	988
Maize Productivity (kg/ha)	849	667	833	1,153	1,100	412	4,000	1,234	207	1,794	550	699	1,192	2,143
Social														
Literacy Rate	12	20	40	15	7	**	30	30	17	35	17	20	73	68
Primary Enrollment as % of age group	31	46	69	32	25	65	39	62	61	69	26	66	95*	90*
Secondary Enrollment as % of age group	5	8	8	3	3	4	3	12	9	30	3	11	11	8
Life Expectancy at Birth	38	44	46	41	44	**	52	44	44	52	44	44	61	58
Protein Intake (% FAO Req.)	105	**	**	116	97	**	174	**	177	207	161	88	143	147
Doctors per 10,000 Population	0.9	0.6	0.4	0.1	0.6	2.4	1.5	1.2	1.2	4.8	0.4	0.3	4.6	1.4
Hospital Beds per 1,000 Population	2.8	2.6	2.1	1.3	1.3	10.0	3.2	3.6	3.2	5.3	2.5	3.1	2.1	1.2

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1 Millions of 1973 U.S. Dollars.
2 In 1973 U.S. Dollars.
3 Republic of South Africa.

Note: Data are latest available, 1970 to 1975. Several data sources have been used, and differences may make comparisons between indicators invalid. However, a single source was used for each indicator (e.g., GNP per capita), and inter-country comparisons are valid across a single indicator. Exceptions are marked with an asterisk (*). A double asterisk (**) indicates data not available. (NA) indicates item not applicable.

I. SUMMARY OF RECOMMENDATIONS

REGIONAL DEVELOPMENT INITIATIVES

- That the United States undertake a broadly based development initiative in southern Africa, including Zaire; and that the Administrator, as Chairman of the Development Coordination Committee, initiate the analyses, studies and consultations necessary to undertake such an initiative.

- That, subject to obtaining the necessary Congressional clearances, AID undertake an area wide assistance initiative composed of programs and projects in the areas of commercial agriculture, infrastructure and industry.

- That the Assistant Administrator for Africa concurrently authorize the immediate expansion of programs in manpower and skills development.

BILATERAL DEVELOPMENT PROGRAMS

- That the United States dismantle its regional program in southern Africa while continuing development assistance programming on a bilateral basis.

- That the Assistant Administrator for Africa direct OSARAC to immediately undertake preparation of development assistance programs (DAPs) for Botswana, Lesotho and Swaziland.

- That the Assistant Administrator for Africa take steps to initiate development assistance programming in Malawi.

- That, as a necessary first step to the establishment of longer term development relationships, the Assistant Administrator for Africa take action to initiate assistance programs in Angola and Mozambique.

SECURITY AND HUMANITARIAN PROGRAMS

- That the United States continue and expand programs for economic stabilization, utilizing Security Supporting Assistance for those Front-Line countries faced with extraordinary financial problems, so that economic factors will not complicate further an already fragile situation.

- That the United States continue to use Security Supporting Assistance to support those countries in southern Africa that are imposing economic sanctions on Rhodesia and are suffering economic consequences as a result.

- **That the United States be prepared to provide Security Supporting Assistance to those countries that may suffer extraordinary economic stress arising from the escalation of political conflict in the area.**

- **That the United States recognize the vulnerability of Botswana, Lesotho and Swaziland to the Republic of South Africa by undertaking a more thorough analysis of their dependence and by supporting programs to improve the political integrity and economic resilience of those countries.**

- **That the United States continue U.S. scholarship programs under Security Supporting Assistance for nationals of Rhodesia, Namibia and the Republic of South Africa.**

- **While continuing to recognize the responsibility of the United Nations community for addressing the requirements of refugee populations in southern Africa, that the United States be prepared to consider and support bilaterally those requirements which the United Nations either cannot or will not address.**

- **That the United States Government regularly monitor and assess humanitarian requirements in southern Africa.**

NOTE: Given the uncertainties in Rhodesia and Namibia the Paper does not contain specific recommendations on those countries. However, the Office of East and Southern Africa Affairs has completed a range of studies which could serve as the basis for discussions with officials of Zimbabwe and Namibia and the donor community. The Office has also identified a range of experts that could be called upon to assist in program planning when warranted. It is recommended that no additional analysis be undertaken until discussions are possible with African representatives of Zimbabwe and Namibia.

II. BACKGROUND

The Setting

Like the rest of the sub-Sahara, the countries of southern Africa developed under white dominated, mostly colonial, regimes. These regimes have been characterized by:

- Racialism. It is reflected in institutional discrimination; neglect of the welfare of the black majority as exemplified by the pattern of distribution of government services (education, health, agricultural extension); and very limited opportunities for blacks to participate in the modern sector of the economy except as unskilled or low-skilled labor.

- Dualism. The economies have modern sectors based largely upon exploitation of mineral resources and large-scale commercial agriculture that exist side by side with populous subsistence agricultural sectors.

Although Swaziland (1968), Botswana (1966), Lesotho (1966), Zambia (1964), and Malawi (1964) all became independent during the 1960's, the Portuguese colonies of Mozambique and Angola, and Rhodesia and Namibia remained under minority white or colonial control. They experienced continued white immigration and settlement accompanied by large capital inflows; and they repressed the groups which demanded black majority rule and independence.

But the situation in southern Africa has altered rapidly since the Portuguese decision to withdraw from their African colonies in 1974. Mozambique became independent in June 1975, and Angola in November 1975. Their independence has greatly increased the pressure for rapid solution of the problem of white minority rule in Rhodesia and Namibia.

The United States has consistently encouraged a peaceful transition to majority rule in southern Africa. In response to the increased urgency for a peaceful solution, Secretary Kissinger traveled to Africa in April 1976 to confer with leaders of the Front-Line states and Rhodesia and the Republic of South Africa. Discussions between black and white Rhodesian leaders were initiated in Geneva, chaired by the United Kingdom. The guidelines for compromise proved inadequate, and the negotiations apparently broke down in January 1977. President Carter has since emphasized the American commitment to majority rule in southern Africa.

The countries of southern Africa are going through a process of profound social, political, and economic change. In most of these countries, the political transition from minority to majority rule is accompanied by structural changes which provide opportunities for social and economic transformation as a part of the process of their development. This transformation is at the heart of the international development debate.

The stated objectives of the new nations of southern Africa include:

- More broadly based participation in the process of economic development.

- Greater equity in the distribution of economic benefits among those who participate in that growth.

- Continued or accelerated growth in their economies.

These objectives are congruent with those of Foreign Assistance Act, and suggest a process of structural change that extends beyond the dismantling of racism. The basic interest of the United States in helping nations achieve development objectives is heightened by:

- the highly charged political atmosphere in southern Africa; and

- the opportunity to participate in and influence the process of modernization in countries striving for greater equality and equity.

The political transition has also created short-term problems for the countries of southern Africa which can be alleviated with carefully defined assistance. The capacity and responsibility for identifying these needs may often rest outside the Agency for International Development. Nevertheless, the Agency should be prepared to cooperate with other Private and Public Agencies in designing, implementing and evaluating assistance programs to serve humanitarian and security objectives.

While there is no authoritative regional statement of a southern African point of view, there may be a consensus that could be termed a "view from the inside". This view suggests that African leaders will assess U.S. objectives and programs in terms of the following criteria:

- the degree of diplomatic, material and moral backing we intend to provide for the principle of self-determination in African states presently dominated by white, racist regimes.

- how vigorously the United States will support efforts to buttress the security and stability of black nations.

- what the United States is prepared to contribute to help alleviate economic problems and promote development in the region.

Our view from the outside reflects an appreciation of these criteria. To promote U.S. interest in Africa, we must make tangible our commitment to racial self-determination, economic growth, more equitable distribution of wealth, and broader participation in the economic and social process of development. In making our support tangible, two principles govern:

- Economic aid and political and moral support are interdependent. One will not make up for the absence of the other.

- Ad-hoc projects in a few countries, though justified individually, will be recognized from the inside as a token gesture rather than a tangible commitment.

Past Donor Assistance

Foreign aid is of major importance to the southern African countries. Between 1971 and 1975, it amounted to over 20 percent of the Gross Domestic Product of Botswana and Lesotho, to about 10 percent of the GDP of Swaziland and Malawi and 7 percent of Zambia's GDP. The only country in which foreign aid has played a negligible role is Rhodesia, which since U.D.I. has pursued a policy of self-reliance.

From 1962-65 to 1971-75, both the pattern and amount of other donor assistance to the countries of southern Africa have changed. In the earlier period, Great Britain and Portugal provided 91 percent of all aid. More recently, aid has come to be more broadly shared among: the international agencies--principally the World Bank (32 percent), other DAC countries (16 percent), and Communist countries other than Russia (10 percent). Britain contributed 18 percent of the total and Portugal's transfers to its colonies equalled 15 percent. From 1971-75, the U.S. provided about 7 percent of all donor assistance, and U.S. non-food aid has been about 4 percent of the total.

In absolute terms, the volume of aid has grown slowly but steadily. In the first period (1962-1965) such aid averaged about U.S.$100 million per year; in the second period (1966-1970) it averaged about $200 million per year; and in the recent period (1971-1975) it averaged over $300 million per year. Zambia has been the major beneficiary of this aid growth, receiving 43 percent of all aid provided during the recent period, from a variety of donors. Aid to all other countries grew much more slowly, while aid to Rhodesia declined during this period.

Viewed in terms of assistance flows in proportion to population and gross domestic product, however, Botswana has been the principal beneficiary. Lesotho, Swaziland, Malawi, and Zambia fall into a medium category, while Angola, Mozambique, and Rhodesia have all received low levels of assistance up to 1975.

Historically, U. S. bilateral assistance has played a limited role in the countries of southern Africa. U.S. bilateral aid commitments to these countries totalled $108.8 million from FY 1971 through FY 1975 (not counting aid to Zaire). One-third of this amount was food aid. Much of the U.S. assistance has gone for institutional development and training.

Direct AID presence in the region has also been limited. A small regional AID office (currently 19 persons) was first established in Zambia and then moved to Swaziland in 1971. The focus of activities has come to be the three countries--Botswana, Lesotho, and Swaziland--who share a common problem of economic dependence on the Republic of South Africa.

U.S. assistance for the past several years has averaged almost $5 million each annually for Botswana, Lesotho, and Swaziland, for projects in rural development, range and livestock, land conservation and water resources, improved crop production, material and child health and family planning, higher education, primary curriculum development, and Food for Peace.

III. THE COUNTRIES OF SOUTHERN AFRICA

This section presents a brief summary of the characteristics and development issues for each country. These summaries are based on the Country Papers which are presented as annexes to this Paper.

The order in which the country summaries are presented groups the countries in terms of common characteristics. Botswana, Lesotho, and Swaziland share the characteristic of economic dependence on the Republic of South Africa. Malawi and Zambia have been independent for more than ten years. Angola and Mozambique are newly independent, and Rhodesia and Namibia have not yet completed the transition to majority rule.

In this section the reader should bear in mind three of the characteristics which all of the countries have in common, which are discussed in a later section:

- The majority of the population in every country is engaged in subsistence agriculture.
- These majorities living in subsistence agriculture are very poor.
- All of the countries are highly dependent on skilled expatriate, or non-African, manpower.

BOTSWANA

A large country about the size of Texas, Botswana has a population of only 625,000 and an annual per capita gross domestic product of nearly $400. It is characterized by:

- An economy, led by mining and livestock, that has grown dramatically since independence. Its growth rate since 1965 has been one of the highest in the world and real growth since 1970 has averaged about 19 percent.

- Large land areas that are unsuitable for crop agriculture due to either poor soils or lack of water. More than two-thirds of Botswana's land area is sandy desert. Its crop potential and the ability of agriculture to absorb additional people are both limited. Over time the country faces a serious problem of absorbing a growing labor force.

- A problem of translating earnings from the modern sector, principally mining, into improved incomes for the estimated 80 percent of the population who are presently involved in subsistence agriculture.

- Economic dependency on the Republic of South Africa. Fifty-two percent of Botswana's trade is with the Republic and 36 percent of Botswana's wage earners work there.

- A high dependence on expatriate manpower, even by southern Africa standards. Eighty percent of the people with post-secondary education working in Botswana are expatriates and about 40 percent of Botswana's GDP accrues to foreign individuals or foreign firms.

- A poor internal transport net. Its main railroad is owned and run by the Rhodesian Railways and for key parts of the country transport into South Africa is easier than transport to other parts of Botswana.

Development Issues: Given the limited possibilities for expansion of wage employment in the agricultural sector, and a development strategy still heavily dependent on expatriate skills, Botswana's most pressing need is for programs to develop skilled manpower and to create new opportunities in nonfarm employment. There are short to medium term prospects for increasing crop yields and livestock production, even though the agricultural resource base is limited. The government's policy has been to invest heavily in infrastructure construction rather than in more immediately productive activities. Both broader rural development and employment generation through light industry deserve more attention.

LESOTHO

A small country, about the size of Maryland and Delaware, locked inside the Republic of South Africa, Lesotho has a population of over one million. The economy has been stagnant, and the per capita GDP is under $100 per year. Lesotho is characterised by:

- Poverty. It is the poorest country in southern Africa and one of the poorest in the world.

- An extreme dependence on the Republic of South Africa.

  - About 60 percent of Lesotho's male labor force and 10 percent of its female labor force is employed in South Africa. In 1975 some 200,000 migrant laborers remitted as much money back as the 1,000,000 people in Lesotho produced.

  - About 90 percent of Lesotho's trade is with the Republic of South Africa, and its tourists come from there.

  - It is a member of the Customs Union and the Rand Monetary Area, and dependent on both.

  - Foreigners, mostly South Africans, dominate trade, banking, manufacturing and tourism.

  - It is dependent on the Republic for all of its external communications, transport, electricity, and even much of its internal transport.

- A domestic economy that consists almost entirely of agriculture, an agriculture that is declining. Soil erosion is severe and crop yields and crop production are declining. As a result Lesotho is the highest per capita recipient of U.S. PL 480 food aid in the world.

- A remarkable equity in income and land ownership. The poverty is equally shared.

Development Issues: There appears to be no alternative to Lesotho's economic dependence on the Republic of South Africa. The country's size and extremely limited resources leave no reasonable prospect for a viable independent economy. And most of the best prospects for increased domestic productivity, employment, and earnings depend on South African tourists and access to the South African market.

Lesotho's most immediate need is to find employment for its growing population. This could include addressing the productivity of its agricultural sector and promotion of tourism and light manufacturing. Although it may be intractable, a high priority of Government is to halt the loss of arable land due to erosion--it is estimated that 1 percent of Lesotho's topsoil is washed away every year. Given the extreme arable land density and overall availability of water, irrigation deserves careful study. But, major transfers of food aid will continue to be required in the foreseeable future.

Although there would appear to be no alternative to economic dependence on the Republic of South Africa, Lesotho is an independent majority ruled country which is seeking international support to assure its political integrity through investments and institutional infrastructure projects. While such projects will almost always have economic benefits, they probably cannot be justified on economic grounds alone. In their design, attention should also be given to the relationship between political integrity and economic resilience, in the context of Lesotho's vulnerability to events in the Republic of South Africa.

SWAZILAND

About the size of Connecticut and Rhode Island, Swaziland has a small though rapidly growing population of about 500,000 and a GDP per capita of $368 per year. It is characterized by:

- A unique form of dualism in which the government conducts foreign relations and cooperates with the modern sector; while the Swazi nation--a separate entity--runs tribal affairs and allocates communally held land for subsistence agriculture.

- A growing diversified modern economy based on large farm agriculture and related processing, with tourism and light manufacturing growing rapidly.

- Non-African control of almost all commercial agriculture and business. About 50 percent of Swaziland's land is owned by non-Swazi, mostly South Africans.

- A wide variety of topographical and temperature zones which permit diversified cropping.

- A virtually stagnant subsistence agriculture - where 70 percent of the people live and over 50 percent are totally dependent for their living.

- A relatively high level of dependence on the Republic of South Africa - through the Customs Union and Monetary area, and as a source of tourists and a market for most of its products. However, migrant labor is not important to Swaziland.

Development Issues: Within Swaziland there is a sharp division between wage earners in the modern sector (commercial farming, manufacturing, tourism and services) and subsistence farmers in the traditional sector. Incomes in the traditional sector are estimated at only one-fourth of the national per capita GDP, making this sector a critical target for development assistance. There is evidence that some Swazi subsistence farmers can be moved into small-scale commercial production, and small-scale African enterprises would add needed employment. As elsewhere, skilled manpower is in short supply. The Government is currently placing considerable emphasis on improving the quality and the quantity of education, as the key to increased Swazi participation in the modern sector.

MALAWI

About the size of Florida, Malawi is a poor country with a population of five million and a per capita GDP of about $140 per year. It is characterized by:

- Good agricultural potential. It has good rainfall, a temperate climate and a relatively large proportion of arable land, but no known mineral resources and a modest but adequate power potential.

- A high, remarkably equitable, pattern of growth, although from a low base. Increased agricultural production has come from small farmers and estate agriculture, both of which have been encouraged. In the last decade the gap between urban and rural incomes has narrowed.

- A population that is 90 percent rural. Malawi has the highest population density in the region, but it is concentrated in the south and considerable arable land in the north is still unused.

- A dependence on external employment. Some 250,000 Malawians presently work outside the country and remit about U.S. $25 million annually. It would be difficult for the national economy to re-absorb them in the short run

- A small (14 percent of GDP) but dynamic manufacturing sector, comprised of import substitution and agricultural processing industries.

Development Issues: Malawi appears to provide a successful model for agrarian-based development with a high degree of equity in income distribution. Nevertheless, it will become increasingly difficult to involve greater numbers of subsistence farmers in programs designed to increase their productivity. Institutional capability at the national level appears to be weak, and the Government and donors are beginning to doubt the replicability of the expensive intensive area development schemes that have produced most of the increases in small-holder production. One possibility for further small farmer development is to open up unused lands through a program of rural infrastructure. Further expansion of commercial agriculture could provide employment for some of the poorest of the rural poor. Both would require that price incentives be maintained.

Although manpower is not as severe a constraint as in many other countries, Malawi is still dependent on expatriates to fill upper level technical and managerial positions.

ZAMBIA

Slightly larger than Texas, landlocked Zambia has a population of almost five million and a GDP per capita of about U.S. $500 per year. It is characterized by:

- A mineral led economy. Ninety percent of Zambia's export earnings are from mining. It is very vulnerable to changes in world copper prices.

- A high level of urbanization - about 40 percent, the highest in Africa.

- Low returns on relatively high levels of investment, partly due to large infrastru ure costs resulting from the closing of the Rhodesian border and partly due to ciencies caused by government control of industry.

- Neglect of agriculture. Coupled with agricultural price policies that subsidize the urban consumer at the expense of the farmer, it has led to stagnant food production, and increased food imports and rural poverty.

- Considerable agriculture potential, from increased yields and relatively large amounts of unused land.

Development issues: Zambia's major development problem is its lagging agricultural sector, and especially the subsistence agriculture where its poorest people earn their living. The problem, and the country's substantial agricultural potential offer an excellent opportunity, but, agriculture is also fraught with problems not susceptible to a project assistance solution. Significant improvement in agriculture is not likely unless the Government is willing to make difficult policy decisions--decisions which would improve the incentives for farmers at the expense of the large and more vocal and political urban population.

While the education system within Zambia appears to be saturated with outside assistance, a continuing skills shortage and heavy reliance on professional expatriates indicate a continuing need for advanced professional training.

ANGOLA

Angola is a large country, almost twice the size of Texas, with a relatively small population of about six and a half million people. In 1973, before independence, it had a per capita GDP of $490 per year. It is characterized by:

- Rich mineral resources, including petroleum, iron ore, coal, copper, manganese, diamonds, lead, zinc, fluorspar, phosphates, and possibly many others. Petroleum exports alone totalled $500 million in 1974 and reserves may exceed those of Nigeria.

- A diversified export-oriented agriculture with considerable untapped potential for both crops and livestock.

- Significant internal transport capability, including three major and two minor railroads and some 5,000 miles of paved road.

- A huge hydro-electric power potential, and installed capacity in excess of current needs.

- Severe disruption, including mass dislocations of people which have created large groups of internal and external refugees; flight of the 350,000 Portuguese who constituted most of the trained manpower; and consequent severe drops in modern agriculture and manufacturing output.

Development Issues: There seem to be no physical constraints on Angola's future development. Land, water, minerals and energy sources are abundant. The chief long-term constraint appears to be the almost complete lack of middle and upper-level manpower in the country. Major levels of expatriate technical assistance could ease this problem in the short run, contributing to the maintenance of existing transport and industrial infrastructure. They would be of long run development significance if they were tied to a large scale program of training. Governmental service systems such as health, education, and agricultural extension will have to be built from the ground up. The role of government policy in the areas of investment incentives, tariff and price policies, and acceptable forms of collective organization will be crucial to the country's success in combining economic growth with greater social equity.

MOZAMBIQUE

About the size of Washington, Oregon and California, Mozambique has the largest population of the southern African countries--something over nine million people. Its GDP per capita before independence was lower than Angola's, about $336 per year. It is characterized by:

- A service oriented economy, that has provided: access to the Indian Ocean through its excellent natural ports for the Republic of South Africa, Rhodesia, Swaziland, Zaire, and Zambia; and tourist resorts and migrant labor for the Republic of South Africa.

- Substantial amounts of unexploited good agricultural land.

- A transport system well adapted to serve its neighbors but ill-suited for internal development.

- Severe disruption to its economy due to the exodus of the skilled Portuguese who previously ran the colony. In the first year of independence commercial agriculture production is estimated to have dropped 17 percent and industrial output 20 percent.

- Good mineral resources, including the largest coal reserves in Africa and sizable deposits of diamonds, gold, fluorite, iron, titanium, zircon, and bauxite.

- A preponderance of people in low-productivity subsistence agriculture. The three-fourths of the labor force involved in agriculture produce only about 43 percent of the domestic product and the dominant service sector employs only 8 percent of the labor force.

Development Issues: Provision of transportation services to Rhodesia, Zambia, Malawi, Swaziland, and the Republic of South Africa will continue to be an important source of revenue for some time to come. However, the share of this sector should decline with growth in agriculture, industry and mining. The long term prospects for growth are good as Mozambique contains the resources needed to support a diversified economy.

The present transport network, although adequate to provide international trans-shipment services, does not fully meet the needs of agricultural development in the country. A program of rural infrastructure, including both physical and area development, could be significant in helping this sector to grow to the point where the country would be self-sufficient in food and could produce a significant volume of agricultural products for export.

With the departure of the Portuguese, Mozambique faces major shortages of skilled, technical and managerial personnel. Training and technical assistance will be over-riding requirements for the foreseeable future.

Government policies will undoubtedly make a difference in the pace and nature of that growth, but Mozambique can be expected to move in the direction of greater economic independence from its neighbors and greater social equity in the context of a growing and diversified national economy.

About the size of California, Rhodesia has a population of six and a half million and a per capita GDP of about $415 per year. It is characterized by:

- Political and economic control by 300,000 whites, almost half of whom are citizens of Rhodesia. The majority of the Africans have been systematically excluded from skilled jobs and income distribution in Rhodesia is among the most unequal in the world.

- An economy the size of that of Zambia and the Ivory Coast, but which is highly diversified among manufacturing agriculture, and mining. Manufacturing, industries and utilities generate 27 percent of the gross domestic product, a higher percentage than in any African country, including the Republic of South Africa.

- An economy that is complex and modern. The country has a comprehensive banking system, a stock market and a modern tax system typical of economically more advanced countries.

- Substantial further agriculture potential, although land eventually will become a constraint.

- Almost 1,000,000 Africans in wage employment, with more than one-third employed in commercial agriculture.

- A relatively large potential pool of trained Africans at home and abroad. Rhodesia has perhaps as many as 4,000 African college graduates compared to the less than 100 in Zambia at the time of independence. Over half the students at the University of Rhodesia currently are Africans.

- A history of economic growth, both before and after sanctions.

Development Issues: Transition and the elimination of racial discrimination is the over-riding issue. Once Africans gain legal access to the agricultural lands now held by Europeans, they are likely to move in substantial numbers and the output of African agriculture is likely to increase. There is also likely to be a tendency for European farmers to move to cities, and a consequent decline in export crops. A fraction of Europeans, urban as well as rural, will probably decide to leave the country, temporarily depressing internal demand for manufactured products. The efficiency of manufacturing itself will probably decrease as skilled Europeans are replaced by less experienced Africans. The severity of the disturbances will depend on the magnitude of the exodus and on the Africans' ability to carry out a smooth transfer of responsibilities. It is clear, however, that there will be a decline in production and in exports, and, as a consequence, foreign exchange earnings and government revenues will decrease.

The new government of Zimbabwe will be called upon to meet demands for equity, for the expansion of government services, and for growth. A land reform program will have to be designed and financed. Funds will be required to finance African purchases of businesses. Urban facilities and low income housing will be needed as families move to join wage earners already in the cities, and as migrants come from tribal lands to the cities in search of jobs. The unemployment issue, now camouflaged by laws restricting movements out of Tribal Trust Lands, will have to be faced. Such new demands will have to be met by a government with shrinking revenues, declining foreign exchange earinings and a decreasing pool of high-skill manpower.

The lifting of international sanctions against Rhodesia will have mixed effects. Industrial growth should benefit from lowered transportation costs and easier access to capital goods. The Rhodesian railways will benefit if Zambian transhipments of copper are resumed.

NAMIBIA

The country which will become Namibia, formerly the German colony of South-West Africa, is now essentially an integral part of the Republic of South Africa. It is large, about the size of Texas and Louisiana combined, and semi-arid, with a population of about 880,000 and a per capita GDP estimated at over $1,000 per year. It is characterized by:

- Defacto incorporation as a fifth Province of the Republic of South Africa, which has resulted in the practice of apartheid and the absence of an independent national government structure.

- Wealth due mainly to a phenomenal growth of mining industries since World War II. Mining accounts for 60 percent of export earnings and yields 70 percent of government revenue. Diamonds are the most important product and other important minerals include copper, lead, zinc, tin, vanadium, cadmium, lithium, and uranium. In terms of value the mineral output of Namibia ranks 17th among the countries of the world.

- Large-scale white-owned commercial livestock farming and fishing which create a significant part of the GDP and exports. Namibia exports beef, karakul, fish and fish products.

- A relatively prosperous subsistence sector despite severe income disparities. The UN estimates that in 1972, GDP per capita for whites was $5,525 and for non-whites $325.

Development Issues: The absence of a national government structure in Namibia presents a major constraint to development. The first task of an independent government will be to create a national government with attendant monetary and tax structures. Skilled manpower is equally lacking, and the nation will have continue to rely on private and public expatriate technical assistance. Education and training will certainly be priority problems.

Namibia's major development resource is its vast mineral wealth. Its problem, similar to Botswana's, will be to capture the fruits of the exploitation of that wealth and then to direct it into activities designed to support internal development objectives. These objectives might logically include diversifying the economy, reducing income inequalities, and broadening the base of participation in the modern sector. Though limited short-term opportunities may exist to increase agricultural production, in the long run the development strategy will have to focus on the creation of nonfarm employment opportunities.

IV. THE CHARACTERISTICS OF SOUTHERN AFRICA

The countries rather arbitrarily grouped as southern Africa for the purposes of this Paper share a continental peninsula, but southern Africa is not a region in the sense of an area tied together by some geographic feature such as a river basin. It is not characterized by a common language or by a common cultural heritage from either the colonial or the pre-colonial period. Neither is it an area with complementary economies which would give rise to the formation of an integrated economic system.

In addition to the fact that all have dual economies, the countries in the area do have many characteristics in common and common problems calling for similar solutions. The type of external assistance provided might also be common.

- The majority of the population in every country is rural, mostly engaged in subsistence agriculture. The percentage ranges from a low of 60 percent in Zambia to 90 percent in Lesotho, Malawi and Mozambique. However, a large proportion of the farm families are able to supplement their income by off-farm employment in almost all of the countries.

- These majorities living in subsistence agriculture are very poor. They constitute, in effect, RLDC's within their respective countries. Relatively high aggregate per capita incomes disguise this fact. In 1974, Swaziland had a per capita GDP of $370, but per capita incomes in subsistence agriculture were about one-fourth of that figure. In Zambia average family incomes in subsistence agriculture are lower than the average for urban squatters. Rural poverty prevails in every country.

- All are highly dependent on expatriate, or non-African, manpower. Non-Africans are involved in government and the private sector to a remarkable degree. This presents not only political problems, but high economic costs as well. Although expatriate employment in Zambia has been cut nearly in half since independence, expatriates are estimated to have cost Zambia more than $200 million in 1973, about half of which was remitted abroad.

  The corollary to the high dependence on expatriate manpower is the fact that every country in the region is short of skilled, technical, managerial and professional African manpower. Training and manpower development are major problems and available projections indicate that the countries will suffer shortages of trained personnel for a decade or more.

- Almost all have problems of population growth. Severe statistical problems make it difficult to determine real rates of population growth, but a rate of 3 percent per year can probably be accepted as a regional average. If the countries are to achieve long run improvements in their standard of living, they will have to come to grips with this problem.

However, the countries in southern Africa, with the exception of Lesotho, have resources which provide them with an exceptional potential for development. They are mineral rich, the supply of land does not appear to be a constraint, they have substantial hydro-electric potential, and the area has inherited an extensive rail transportation system.

Demography and Education

The countries in southern Africa represent relatively small populations ranging from around 500,000 in Swaziland to perhaps 9,000,000 in Mozambique. The total population is about 35 million, compared to a population of 25 million in the Republic of South Africa. The non-African population of these countries varies from a low of less than 1 percent to a high of 11.6 percent in Namibia. Angola and Mozambique had about 4 percent before independence, but almost all fled.

High overall population densities are found in the relatively small countries of Lesotho, Swaziland, and Malawi. The populations of Rhodesia, Mozambique, and Zambia are moderately dense, while those of Namibia, Botswana and to a lesser extent Angola are small in relation to total land area. In contrast cultivatable land is scarest in Namibia, Botswana and especially Lesotho, where there are 720 persons per sq. mile of cultivated land in the lowland region.

Zambia has a high urban population, almost 40 percent, Namibia, Angola and Rhodesia are next with 20 to 25 percent. Rapid urbanization, although on a very small base, is also taking place in Botswana, while Lesotho, Malawi, and Mozambique are relatively un-urbanized.

Life expectancy is low--less than 50 years in all countries except Rhodesia (where it is about 52 years). Infant mortality rates are probably still high. Rhodesia, Swaziland, Zambia and Namibia are the only countries to have more than one doctor per 10,000 population, and most of these are non-Africans. In Angola and Mozambique, modern health care is probably now practically non-existent because of the expatriate exodus. Average nutrition levels appear to be generally satisfactory by FAO standards. The temperature, climate and generally adequate water supply for human consumption contribute to good health in the region. Except for the tsetse fly, there are no known endemic diseases that might place a major constraint on development.

Estimated literacy levels range from 7 percent in Mozambique, to 36 percent in Swaziland and 59 percent in Lesotho. Since the early 1960's, most governments have devoted considerable attention to education, and relatively good primary enrollment ratios (65-80 percent) exist in all countries except Angola and Mozambique. However, secondary school enrollments are less than 15 percent of the relevant age group in all countries except Swaziland (20 percent) and as little as 3 to 4 percent in Mozambique and Malawi. More than half the secondary school teachers are non-Africans in all countries and a large proportion of the primary teachers are uncertified.

Figure 1a

SOUTHERN AFRICA
TOTAL POPULATION BY COUNTRY
(In Thousands)

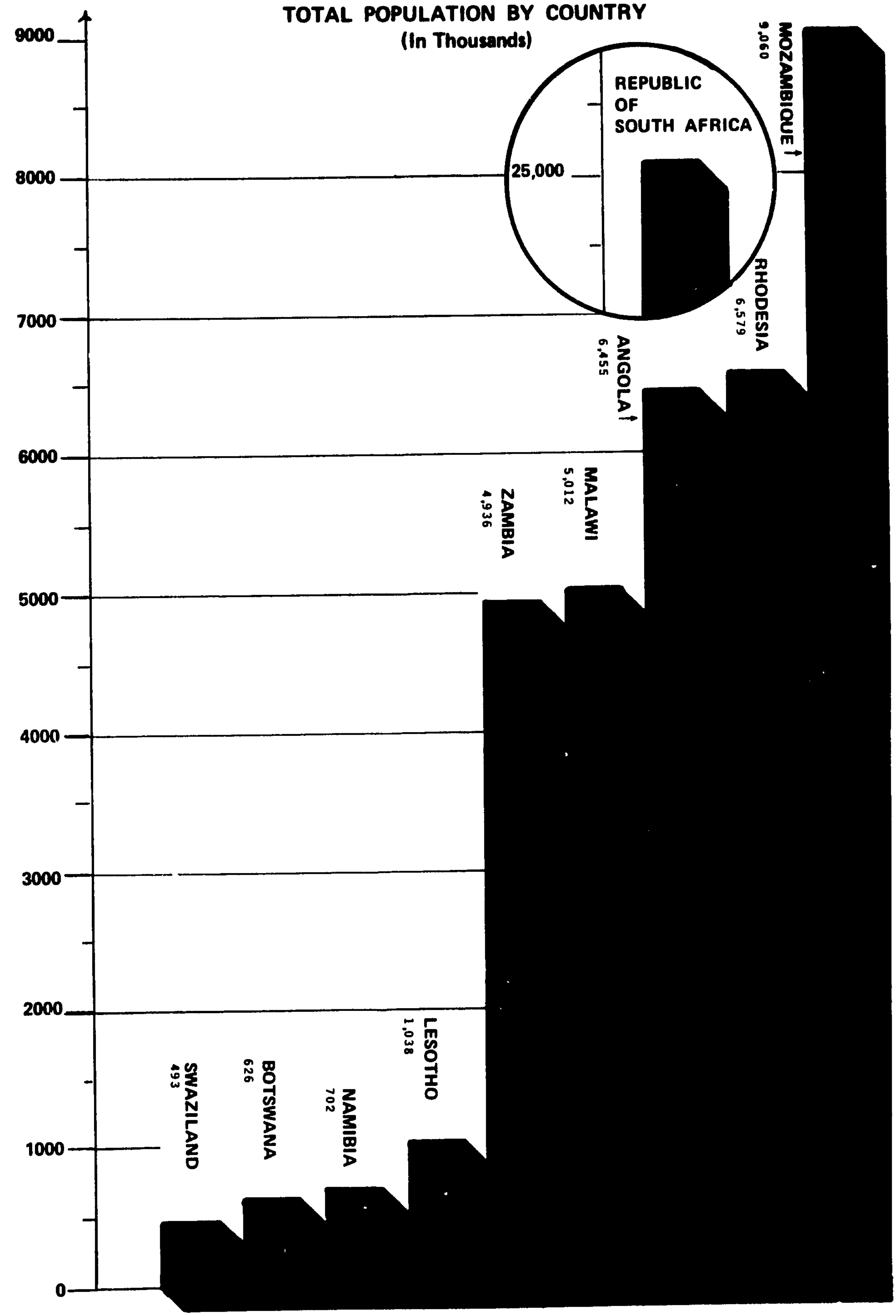
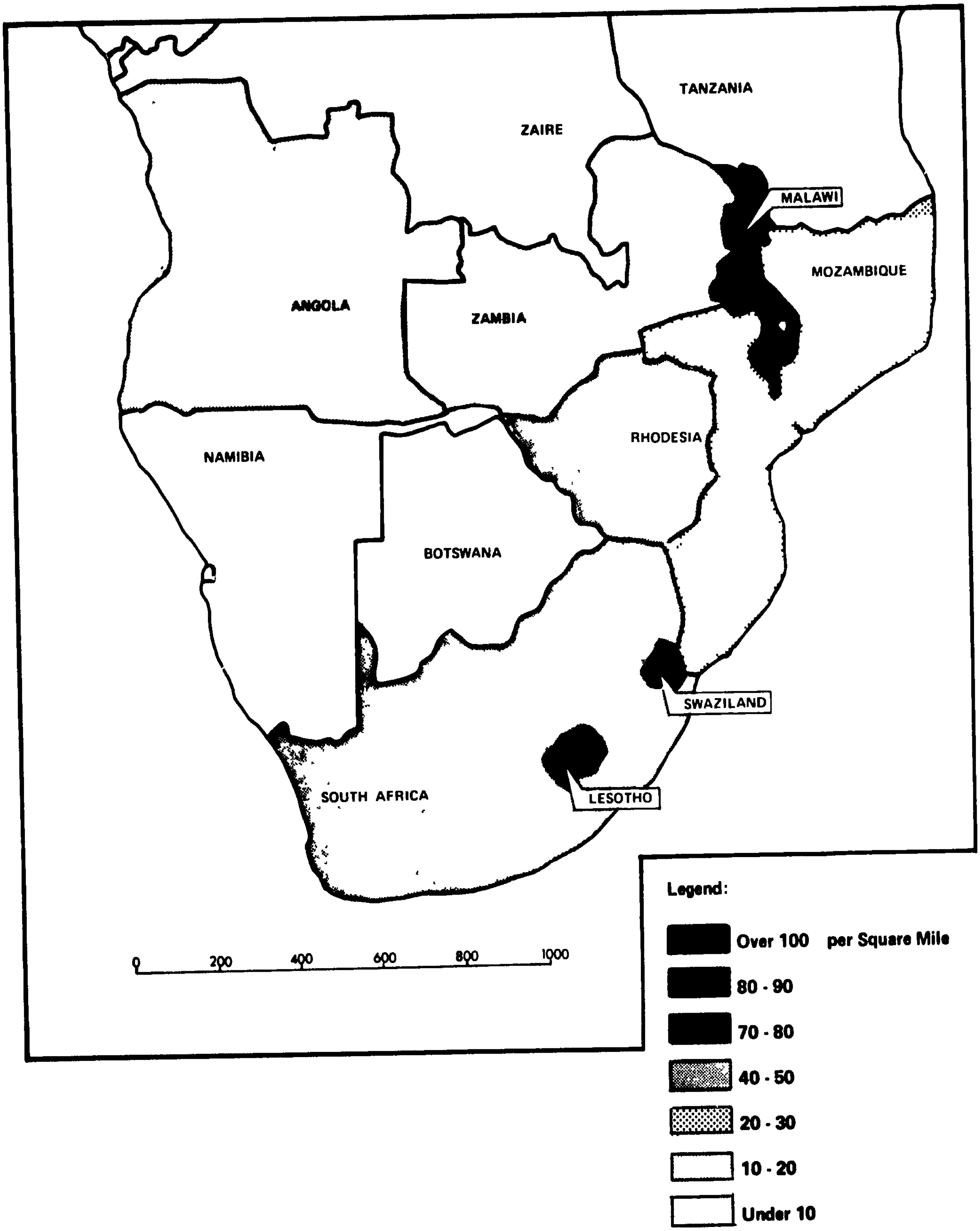


Figure 1b

SOUTHERN AFRICA

POPULATION DENSITY
(Persons Per Square Mile)



The Economies

The countries encompass a spectrum of political/economic philosophy. Angola and Mozambique's orientation is Marxist. Zambia follows African socialism. Malawi mixes egalitarian policies with strong incentives for entrepreneurs. Botswana, Lesotho and Swaziland retain largely free enterprise systems. Minority-ruled Rhodesia and Namibia presently espouse a capitalistic philosophy, but their future ideology is uncertain.

The Republic of South Africa accounts for two-thirds of the combined Gross National Product of the area and has a successful, diversified economy. By comparison the economies of the nine other countries are all small and they vary greatly in size, character and level of development.

- In 1974 total Gross National Product ranged from a low of $100 million for Lesotho to over $3 billion each in Angola and Mozambique, which together have nearly half of the total GNP of the southern Africa countries other than the Republic.

- Lesotho and Malawi are classified by the U.N. as Relatively Less Developed Countries (RLDC's). Namibia stands at the other extreme. Its per capita GDP equals that of the Republic of South Africa. The remainder of the countries are in between, and in the mid-rank of developing countries.

- The countries have been growing economically, but at greatly different rates. In recent years (1970-1974) per capita real domestic product in Lesotho and Zambia has stagnated or declined, while Botswana's small economy has experienced phenomenal real growth. From 1965-1973 its GDP growth rate was fifth highest in the world. The other economies grew well through 1974, but since then the economies of Angola and Mozambique have declined probably sharply and Rhodesia's has stagnated.

- Six of the nine countries have growing manufacturing sectors. As a group, their economies are more diversified than one usually finds in countries at a similar stage of development. Rhodesia's small diversified, sophisticated economy mirrors the larger economy of the Republic of South Africa. Lesotho's economy is essentially subsistence agriculture and it depends on the earnings of migrant workers for survival. Four of the countries - Botswana, Namibia, Zambia and Angola have mineral-led economies, but minerals dominate only Zambia and Namibia. Swaziland's growth is based on agriculture and related processing, but other manufacturing and tourism are becoming increasingly important. Mozambique's principal sources of income have been transport to the sea for its neighbors' tourism and migrant labor. Mineral-poor Malawi's surprising growth has come from small and large farm agriculture.

Figure 2

SOUTHERN AFRICA
GROSS NATIONAL PRODUCT BY COUNTRY

(1974 – In Millions of 1973 $)

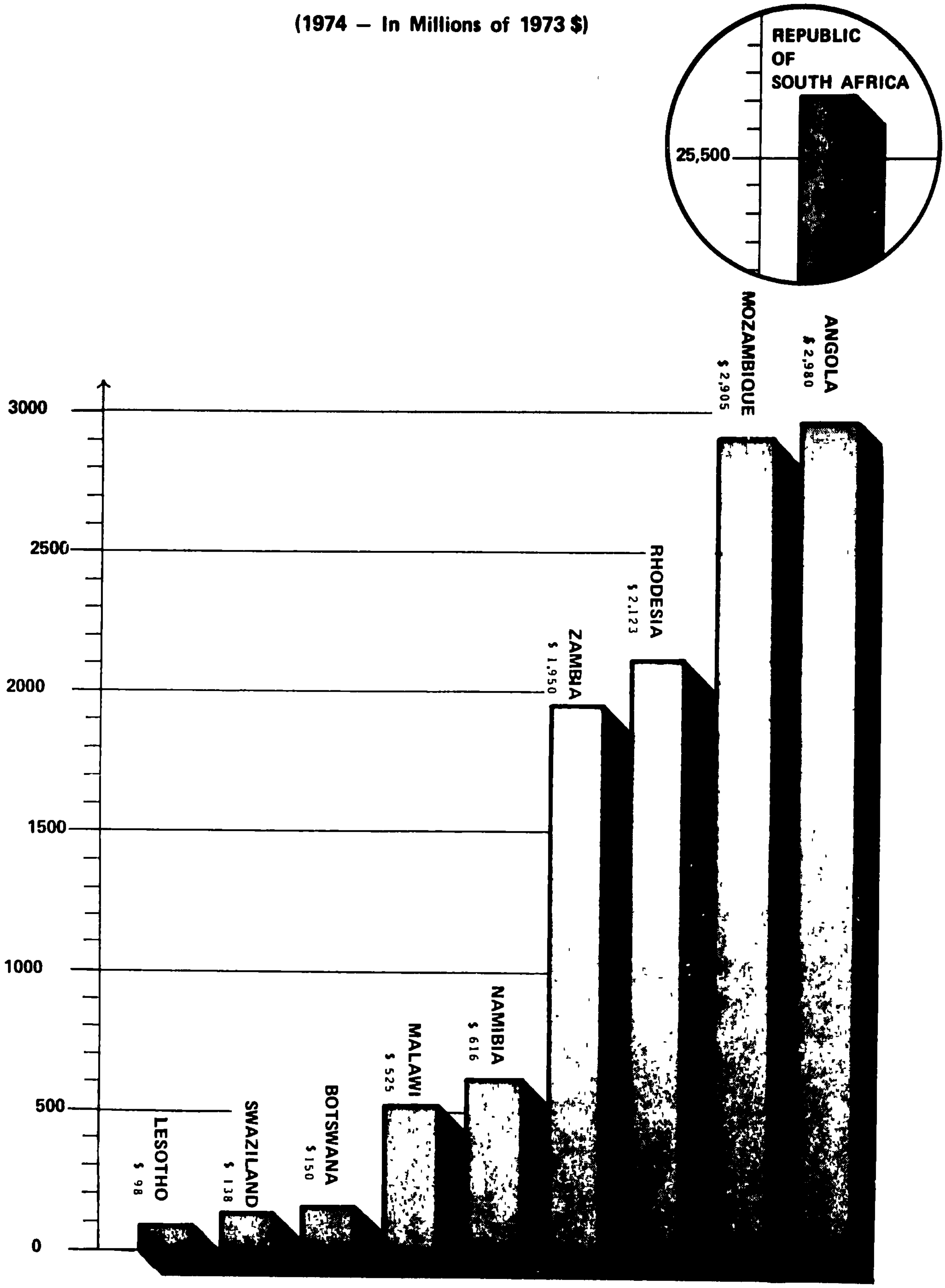


Figure 3

SOUTHERN AFRICA

GROSS NATIONAL PRODUCT PER CAPITA

(1974 – In 1973 $)

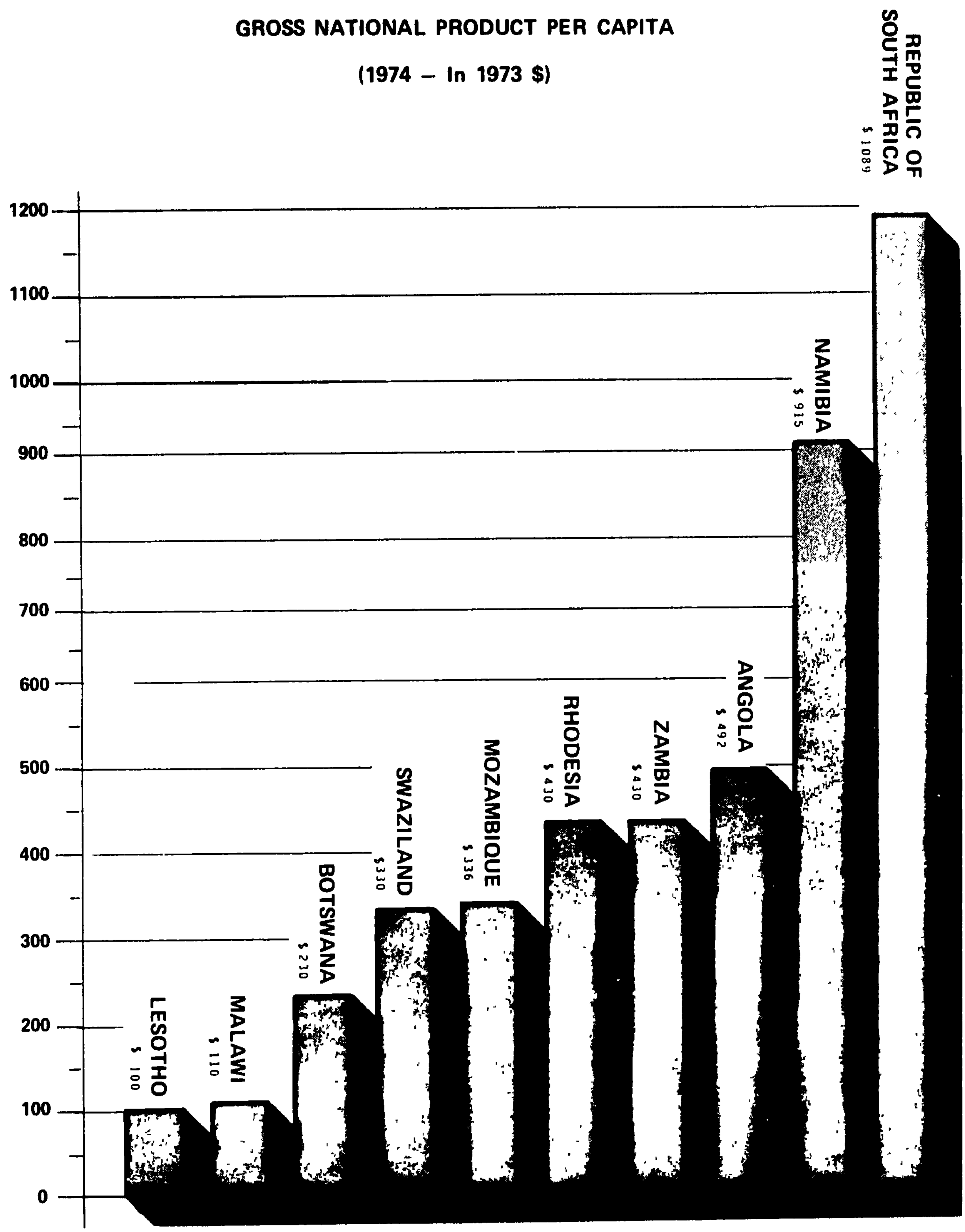
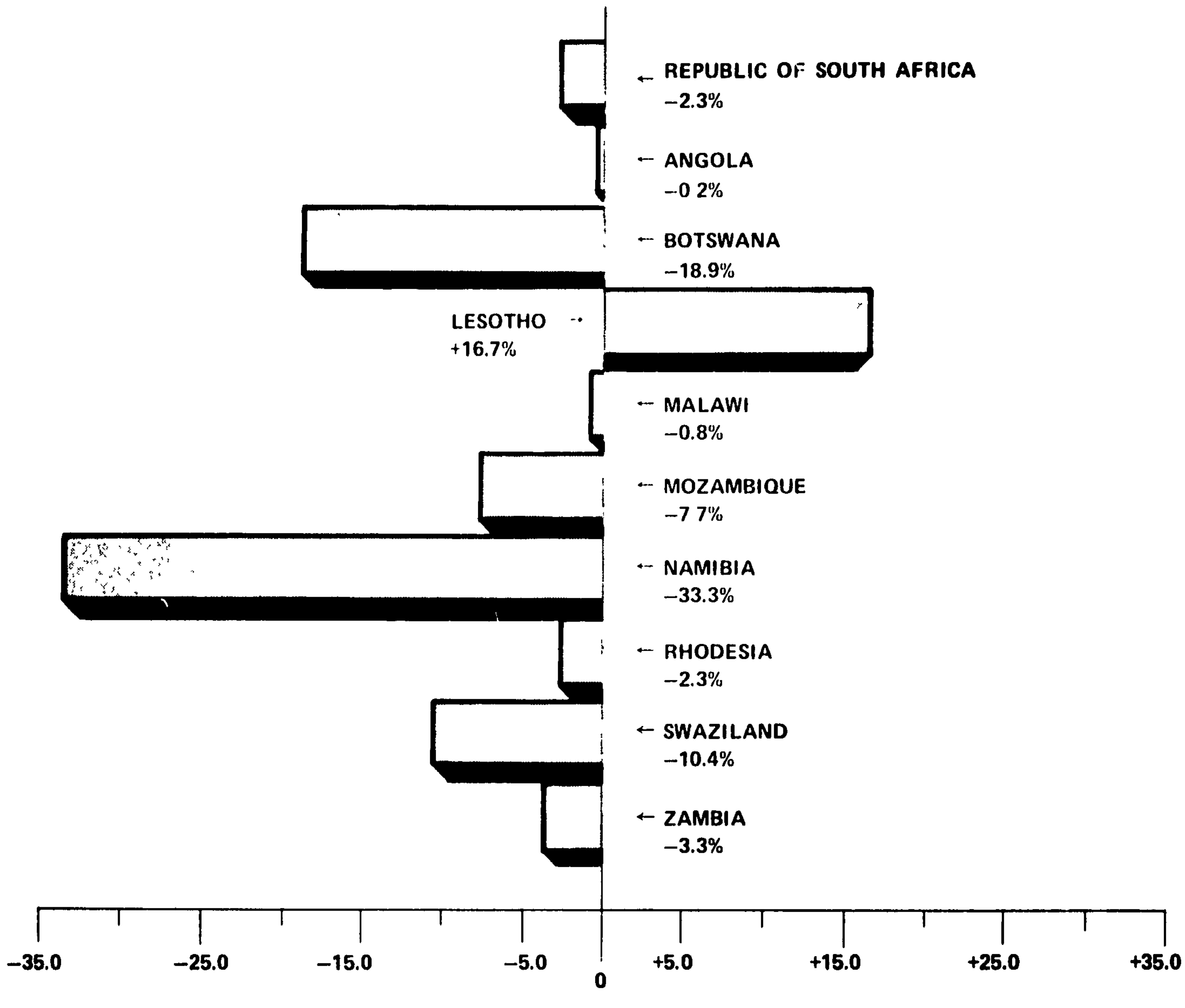


Figure 4

SOUTHERN AFRICA

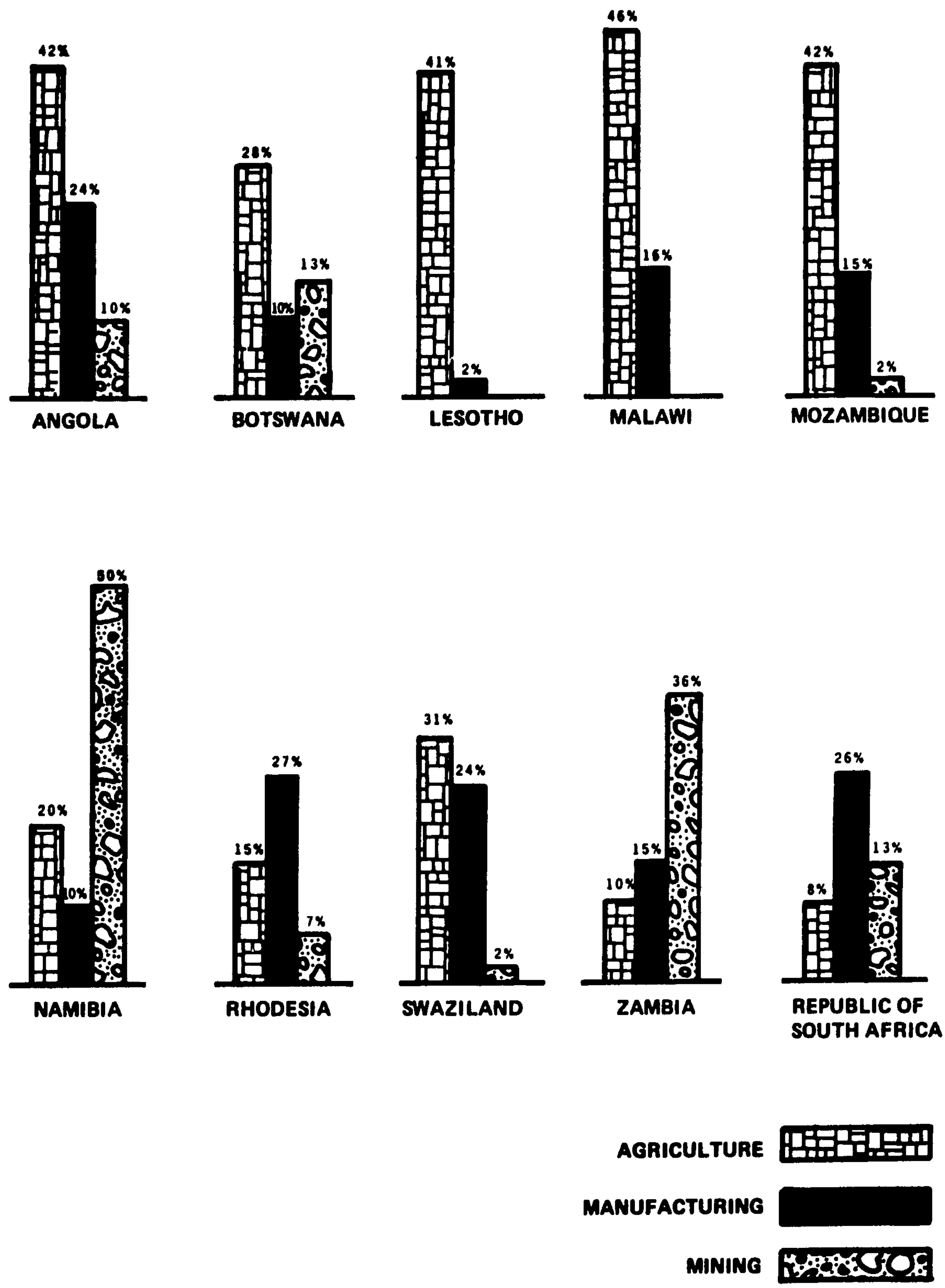
PERCENT DIFFERENCE BETWEEN GROSS DOMESTIC PRODUCT AND GROSS NATIONAL PRODUCT

(By Country – 1974)



ECONOMIC STRUCTURES OF THE COUNTRIES OF SOUTHERN AFRICA

(Percent (%) GDP by Sector – 1973)



Interdependencies

Although important for the countries involved, the interdependencies that exist in the region rarely involve more than two countries and never include them all. They occur in transport, trade, labor exchange and investment. The most common denominator is the dominant role that the Republic of South Africa plays in most of them.

The dominance of the Republic of South Africa is critical for Botswana, Lesotho and Swaziland (and for Namibia, which is an integral part of the Republic). It is somewhat less for Swaziland and almost total for Lesotho, but in general all three depend on the Republic for employment for their citizens, trade and tourists, transportation, managerial talent and investment. This relationship finds its formal expression in the Republic-dominated Customs Union and Rand Monetary area. Namibia may choose not to remain in these agreements after independence.

The Customs Agreement, as revised in 1970, provides free interchange of goods between members; uniform application of South Africa's customs duties, excise taxes and sales taxes on all external trade; and sharing of the trade revenue collected. Under it, Botswana, Lesotho and Swaziland use an efficient cost-free system to collect all trade revenue, and receive forty percent more money than normal import duties would provide. In effect, their imports are subsidized by the South African government. They also have access to the twenty-two million person regional market, but they have difficulty in promoting industrial development which would replace South African imports or compete with South African goods in other regional markets.

Until 1974, under the Rand Monetary Agreement, Botswana, Lesotho and Swaziland used the South African currency; their banks were unregulated and operated for practical purposes as extensions of the South African banking systems; and their citizens and governments had access to South Africa's well-developed financial institutions and capital markets for all financial services not available locally. In 1974 Botswana opted out and established its own currency; Swaziland created a currency of its own which circulates at par with the Rand; and Lesotho opted to continue the old arrangement.

The two agreements give the three small countries free access to a large market for their products, and relieve them from the problems and the costs of trade and monetary administration, but by the same token, the agreements limit their economic sovereignty by eliminating the possibility of an independent trade and monetary policy. The direct economic advantages to the South African Republic are smaller, chiefly because of the small size of the economies of the other member countries, whose combined GDPs amount to less than 2 percent, their export receipts to less than 1 percent and their bank deposits to some 1.5 percent of the corresponding figures for South Africa. However, the Republic sold in 1973 $285 million worth of goods to the three countries (while buying from them only $47 million worth of goods), so it too has an economic stake.

Trade with the Republic of South Africa dominates intra-regional trade:

- In 1973 it accounted for 95 percent of the total. This amounted to only 15 percent of South Africa's total trade but is important since it is the only area where the Republic enjoys a positive trade balance.

- Almost 60 percent of South Africa's regional trade and 57 percent of the total regional trade is between South Africa and Customs Union members (Botswana, Lesotho, Swaziland, and Namibia). Common tariff agreements shelter goods, mostly South African, manufactured within the region.

- Excluding the Republic of South Africa, intraregional trade is insignificant. In 1973 it accounted for only 2.4 percent of total trade. The only country for which it is significant is Malawi which does 16.6 percent of its trade with Rhodesia and Zambia.

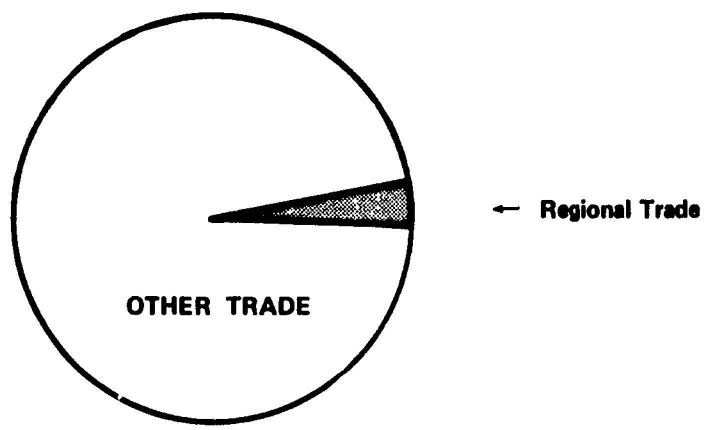
In the last decade the volume and patterns of trade have both been changed by political action. If relations between the countries become more normal, there should be some shift in patterns and increase in volume. But it will almost certainly not be significant for most of the countries, which produce primary products and import manufactured goods. Namibia has little need for Zambia's copper and Zambia cannot use Namibia's Karakul. The one exception is Rhodesia which did substantial trade with Zambia and Malawi prior to UDI. There is some question about the competitiveness of the Rhodesian consumer goods industry that has grown up under the shelter of sanctions and it is faced with competition from similar industries that have grown up in its former customer countries.

The region has an extensive and complex transport system; a system that was built by colonial governments to provide access to the sea for export of primary products. This was particularly important for the landlocked countries of Malawi, Rhodesia, Zambia, Botswana, Lesotho and Swaziland. In this sense, important linkages exist between the landlocked countries and their neighbors with international ports. In no case has it facilitated significant intraregional trade however, and the construction of alternate rail routes during the last decade has lessened the dependence of several countries. Rhodesia and Zambia each have three rail outlets now. Botswana's traffic could go by rail north through Rhodesia or south through the Republic. Malawi also has two rail outlets, although both are through Mozambique. Swaziland depends on Mozambique to ship its iron ore, but relies on road access through the Republic of South Africa for the remainder of its trade. The radical regime in Mozambique is a matter of concern to Swaziland, which must balance between its politically polarized neighbors. Lesotho, of course, is locked inside the Republic of South Africa and Namibia faces the essentially same fate at independence if the Republic of South Africa retains control of the Port at Walvis Bay. (The office of Eastern and Southern Africa Affairs completed a study of transport in the region in the Fall of 1976 which supports these findings.)

Export traffic is economically important to a coastal country in only one case. Mozambique, with its fine ports, is highly dependent on transport--its main source of revenue. Closing of the Rhodesian border has brought great hardship. Part of the traffic will be restored when relations become normal, although part will probably continue to be deflected through the new alternate routes.

SOUTHERN AFRICAN TRADE PATTERNS

TOTAL TRADE FOR ENTIRE REGION

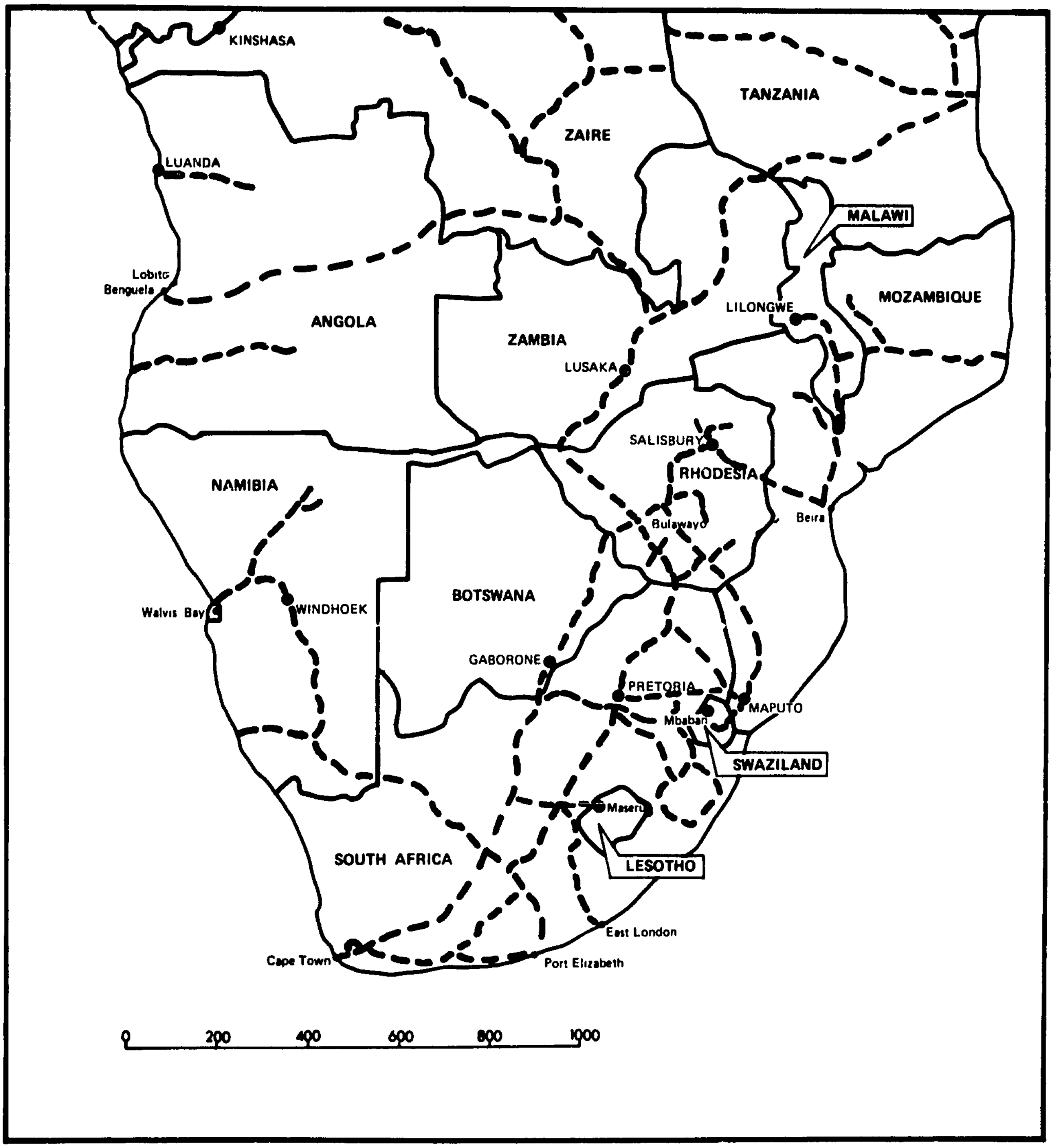


TOTAL TRADE FOR REGION
MINUS
THE REPUBLIC OF SOUTH AFRICA

Figure 7

SOUTHERN AFRICA

RAILROAD TRANSPORTATION NETWORK



Labor exchange has occurred for years. The developed areas of southern Africa have been a magnet to African laborers who have sought entry into the wage economies through mechanisms which vary from formal recruiting boards to independent travel by individuals looking for jobs. About two thirds work in the Republic of South Africa, primarily in the mining industry, and most of the remainder are relatively permanently settled in Rhodesia. The major suppliers are Lesotho, Botswana, Malawi, Mozambique and Swaziland.

Migrant labor has benefited the minority ruled states. Generally migrants are willing to work for lower wages than their citizens. They are more easily subjected to social controls, including racial segregation. Their status in the society is anomalous and transient, and they are generally working age males unencumbered by families.

The exchange has also benefited the labor-exporting countries for which it constituted an important source of employment and income. However since the early 1960's there has been a steady decline in the number of migrant wage earners, and a lessening of their economic importance. The one exception is Lesotho whose economic survival depends on migrant labor.

Investment by the Republic of South Africa is certainly important--the Cabora Bassa Dam in Mozambique and the Kunene in Angola are examples. However, knowledge of the extent and significant is limited for political reasons. It is an area that deserves further study.

In Summary, existing economic relationships among the countries of southern Africa have neither the magnitude nor the immediate potential to warrent formulation of an assistance strategy based on developing regional institutions or designed primarily to achieve regional economic integration.

V. A REGIONAL PERSPECTIVE

Resource Potential

The countries in southern Africa, with the exception of Lesotho, have resources which provide them with an exceptional potential for development. This point is enhanced if Zaire is included.

- They are mineral rich.

Angola, Mozambique, Zambia, Rhodesia, Botswana, and Namibia have large economically exploitable mineral resources, including copper, iron ore, diamonds, bauxite, chromium, asbestos, uranium and many other minerals. Swaziland has much smaller deposits. Several have very large reserves of coal, and Angola's petroleum resources may be larger than those of Nigeria. Survey teams continue to explore the area, much of which has not been adequately assessed.

- The supply of land does not appear to be a constraint on expansion of agriculture and livestock production in most of the countries. Namibia, Botswana, and Lesotho are the exceptions.

Zambia has good agricultural potential that remains unexploited, apparently due to government policies. Malawi, although relatively densely populated, has good agricultural characteristics and untapped potential. Angola, Mozambique, and Rhodesia have vast tracts of presently or formerly white-owned lands that can be used to expand their agricultural production. The sparsely populated grasslands of Botswana and Namibia can support livestock. Mountainous Lesotho has limited agricultural potential due to overcrowding, environmental deterioration, and rainfall patterns.

Climate, terrain and soil conditions make diversified agriculture possible in every country except Lesotho. Diversified large-scale commercial agriculture has been a major element of the countries' economies--generating a large share of GDP and exports and providing a critical source of wage employment. In Rhodesia over one-third of African wage employment is in agriculture. Expansion of commercial agriculture may be one of the most effecive means of dealing with rural unemployment, since small farmer development is slow and not likely to help the landless or those with minimal land. However, commercial farming has been white dominated and only Malawi has succeeded in promoting large scale agriculture with indigenous ownership.

- The area has inherited a system of rail and road transportation which is probably more extensive and better developed than in any other part of Africa.

Transport was a major concern of the colonial administrations in southern Africa. The routes they established were largely designed to serve extractive industries and agricultural exports. Upon independence, most countries in the region set aside substantial portions of their capital development budgets for transportation, and this development was given impetus by the disruptions of border closings and civil war. Through this process a transport network has been established which connects all of the countries by road or rail, and in most cases by both. It still primarily serves the need for access to overseas markets. In a situation of normal relations it would have excess capacity for this purpose, and the network can also serve intra-regional trade.

- Substantial hydroelectric power potential exists in most countries in the area.

Angola has only tapped a small fraction of the power potential of the streams that flow in all directions from the crest of its central highlands. Lesotho's only resource is the large quantity of water flowing from its mountains. In Mozambique numerous rivers flow from the higher altitude interior to the coast, and the new Cabora Bassa Dam is one of the largest dams in the world. Ultimately it will produce 4,000 megawatts of power--almost twice the output of the Aswan Dam. Malawi has only tapped 10 percent of the potential of the Shire River, which could produce an estimated total of 415 million KWH. Zambia's hydro potential is described as abundant. Its Electricity Supply Corporation has already identified five specific sites with a potential generating capacity of 700 megawatts.

A Long-Run Strategy

The economic and political diversity of southern Africa dictates a country by country approach to development. But it does not exclude a common attack on common problems, such as the problem of lack of skilled manpower, nor the design of a bold long-run strategy for the region, based on its unusual potential for development. If such a strategy is developed, it should also include Zaire, because of its geographic proximity and the similarity of its resource base.

The basic resource situation suggests a development strategy which would involve the use of mining as the primary capital and foreign exchange generator for economic development in Angola, Mozambique, Zambia, Zimbabwe, Botswana and Namibia. Development of these resources would provide for significant increases in employment and income.

Agricultural development would have an important role to play in such strategy, both as a provider of foreign exchange and a source of income for farmers. Agriculture might be promoted by utilization of the unused portions of the large previously European-held commercial farms and by expansion of small-holder production, for both domestic and export markets.

These activities should then lead to industrial development, both in the form of mineral and agricultural processing industries and, in some countries, probably heavy machinery and equipment manufacturing for markets in the area and for world markets.

As incomes increase as a result of these industries and of concomitant agricultural development, a market for consumer goods industries should develop in the area. Development of the coal, petroleum, and hydro-electric power resources of the area would be an essential element of the strategy. Similarly, maintenance, improvement and, when necessary, expansion of the railroads, ports, and roads would be required; both to serve as an integrated system for the area and to meet the internal needs of the countries.

In summary, the strategy would be one of using the mineral resources to provide the capital for development of industry and agriculture, supported by utilization of the energy resources of the area and the area-wide transportation system. The goal would be to increase the income level of the whole population. In Swaziland and Malawi much greater dependence would be placed on agricultural production for export.

Specific programs would take account of the necessity for more rapid increases in the income of those at lower income levels and for assuring the full participation of all Africans in the economy. Future economic growth is essential if the countries are to achieve the social goal of a better standard of living for all of their people. Transformation will have limited impact if it merely rearranges what is there. And past experience indicates that economic growth could provide a level of additional resources for all purposes, far greater than would otherwise be available. Total foreign aid to all the countries has averaged $300 million per year for the last five years. In contrast, if Rhodesia's economy grows at the 1968 to 1974 rate during the next decade, that growth alone will generate an additional $340 million a year.

In each country, the success of such a strategy will be constrained by five factors:

- <u>The degree of political stability and internal security</u>. A reasonable degree of stability, order and safety is obviously necessary to any development strategy.

- <u>Governmental attitudes and policies</u>, including such things as economic incentives, extent and nature of bureaucratic controls, means of decision making, and acceptability of foreign investment.

- <u>Availability of skilled manpower</u>. It is clear that the supply of managerial, and specialized manpower is insufficient in all the countries. Heavy reliance must be placed on outside sources of supply in some form or other for a long time to come, and building up of such manpower locally will raise major planning problems.

- <u>Absence of an entreprenuerial traditicn and institutions to support it</u>.

- <u>World economic conditions as they affect potential investors</u>.

The U.S. could play an important role in assisting the countries in the area to implement the strategy outlined above. To be effective, such support would have to include more than the concessional assistance which can be provided by AID. A bold integrated U.S. initiative to support development in the countries of southern Africa should include:

- <u>Positive use of U.S. policy on commodity agreements, stockpiling and other elements of trade policy, such as tariff preferences</u>.

- Involvement of private industry in mining, energy, and industry, and perhaps commercial agriculture to generate rural employment. The U.S. government could actively stimulate American investment in the area through the use of investment guarantees, Export-Import Bank loans, and possibly tax incentives. It could seek host government support for private investment by helping to establish conditions governing the foreign exchange benefits the country receives from the investments; employment of host country nationals; wage rates and other conditions of employment; and provision for training of Africans.

- Aid programs and projects to finance transportation, power, and infrastructure; to support agricultural production for the market; and to assist manpower programs.

The magnitude of investment required to implement this strategy in a reasonable time suggests that the U.S. government should also take the lead in establishing a consortium-type arrangement to secure and co-ordinate private and public support from other countries and donors.

VI. THE CONSEQUENCES OF TRANSITION FOR ASSISTANCE PROGRAMS

The Current Situation

The leaders of five important independent states in the region, the Front-Line countries of Tanzania, Zambia, Mozambique, Botswana, and Angola have frequently come together to coordinate plans for increasing economic, diplomatic and military pressure on Rhodesia and Namibia. At the same time they have counseled the majority leaders to exhaust the opportunities for peaceful change. However, efforts to negotiate a solution to the racial conflict in Rhodesia and Namibia are stalled. The forces for moderation in black Africa may be on the threshold of being discredited. Guerilla violence is on the rise, and the Soviet Union and Cuba are becoming more identified with the radical forces. Unless a peaceful solution can be found quickly, both Rhodesia and Namibia will be plunged into increasingly disruptive guerilla warfare, leading possibly to further outside intervention and, eventually, to racial warfare in the Republic of South Africa. Continued and accelerating conflict will affect several neighboring countries, but it will place Botswana, Swaziland and Lesotho in increasingly precarious political and economic circumstances.

Transition to majority rule in southern Africa has been accompanied by major social transformation that has created opportunities for structural economic change. The consequences of these transformations have been, and will be, almost entirely internal to each country--with little external effect. Transition to majority rule in some countries has occasioned financial consequences for neighboring countries and affected bilateral economic relations, especially trade. Thus the economic effects of transition to majority rule create requirements for short-term security and humanitarian assistance. The opportunities for social and economic transformation, however, relate to the requirement for longer-term development assistance in each country.

Security Problems

In the face of these rising dangers, the U.S. Government has three basic goals:

- Self-determination, majority rule, equal rights and human dignity for all the people of the region.

- That the nations of southern Africa have the opportunity to establish the foundations for economic growth and to become full-fledged participants in the world economy.

- That southern Africa be free of great power rivalry or conflict.

Our efforts to achieve these goals must be governed by the principle stated earlier, that: Economic aid and political and moral support are interdependent; one will not make up for the absence of the other. There are immediate identifiable needs for security aid to support our moral commitment, and some needs that may become real later:

- Zambia lost its principal access to the sea and a major supplier of manufactured goods by imposing economic sanctions on Rhodesia. The Zambian economy appears to have adjusted to these changes, though at considerable cost. However, a sharp drop in world copper prices, coming on top of the large expenditures as a result of the border closing has created serious budgetary and balance in payment deficits in Zambia. These deficits threaten stability and jeopardize the ability of President Kaunda to play a constructive role in the Rhodesian and Namibian settlements.

- Angola and Mozambique are beset by problems of economic destabilization, due primarily to the flight of the Portuguese. Their economies have declined sharply, and immediate and pressing problems may affect the roles which Presidents Neto and Machel can play in the settlement negotiations.

- Mozambique, whose economy has depended on the earnings of its railroads and ports, has incurred economic losses by imposing sanctions on Rhodesia. These come on top of earlier losses caused by Zambia's decision to close its border with Rhodesia, and thus stop its shipments through Mozambique.

- Zaire's mineral-rich province of southern Shaba would be seriously hurt by strict enforcement of the Zambia/Rhodesia border closing.

- If a Botswana-Rhodesia border closure also closed the railroad, the loss would have disastrous effects on Botswana's economy. There appear to be no realistic alternatives to the railroad except at considerable cost. The necessary trucks and busses would cost about $18 million and the existing road network could not stand more than six months of sustained heavy use.

- Botswana, Lesotho and Swaziland's vulnerability constitutes a special problem. Little can be done to insulate them from upheaval in the Republic.

- Regionally, there are a growing number of school and university aged students among the region's refugee populations. They are a growing economic and political burden on the countries sheltering them. The presence of large numbers of secondary and university students has already resulted in the closing of the Botswana University, and governments in the region are fearful of being overwhelmed by the requirements to accpmodate these students.

Humanitarian Needs

Guerilla warfare in Angola and Mozambique, and now in Rhodesia and Namibia, together with internal repression by the Government of the Republic of South Africa, have created a growing refugee problem in these and neighboring countries.

While our information is limited, and there is confusion between exiles and refugees, the Department of State estimates that there are approximately 169,000 refugees in the following countries:

Zaire	110,000
Botswana	2,300
Lesotho	25
Mozambique	28,000
Namibia	8,000
Swaziland	50
Tanzania	300
Zambia	20,000

Various individual governments are contributing bilaterally to refugee maintenance. In addition the U.N. High Commission for Refugees, as the major international agency involved, administers large programs. Host countries contribute as their resources permit, and church and other voluntary agencies play an important role.

To date, U.S. assistance has been channelled mainly through contributions to the U.N. High Commission. In addition to our annual contribution we recently presented the High Commissioner with $1 million earmarked especially for southern African refugees.

If the violence in the region continues, the refugee populations of the Front-Line states will probably grow rapidly and the affected countries will seek additional U.S. help, both for subsistence needs and education.

It is important to recognize that refugees will later be manifest as returning exiles. The U.S. should use its best efforts to relate refugee subsistence and education assistance to the longer term development opportunities of the refugees' countries of origin; and the problem of returning exiles should be treated in the context of country development, rather than as a humanitarian problem.

VII. RECOMMENDATIONS

This section presents and discusses the recommendations for U.S. assistance in southern Africa. The Working Group believes that United States assistance planning for southern Africa should be carefully structured in accordance with the categories of issues identified in this paper: DEVELOPMENT, SECURITY and HUMANITARIAN. These categories reflect distinctions made in the Foreign Assistance Act. They recognize the fact that security programs usually cannot, and should not, meet the tests of economic assistance; that development programs must meet these tests; and that humanitarian programs are immediate and distinctive in character. If the distinction between categories is not carefully and visibly made, both the effectiveness and the credibility of the programs will be open to challenge.

REGIONAL DEVELOPMENT INITIATIVES

Southern Africa has an enormous and distinctive potential for development, but the majority of the people in every country are still living at a subsistence level and all of the countries are highly dependent on expatriate, or non-African, manpower.

A significant U.S. led initiative, involving concessional aid and other assistance, could be directed towards helping the countries in southern Africa to realize this development potential and thus to increase the income level of the whole population.

The AID element of the strategy would be reinforced and enhanced by the other elements, but it is not completely dependent on them. AID could re-orient its bi-lateral development assistance approach to begin projects in transportation, power, infrastructure and commercial agricultural now; or it could begin or expand manpower programs in each of the countries without waiting for the strategy to develop.

RECOMMENDATION: **That the United States undertake a broadly based development initiative in southern Africa, including Zaire; and that the Administrator, as Chairman of the Development Coordination Committee, initiate the analyses, studies and consultations necessary to undertake such an initiative.**

This recommendation proposes an overall development strategy applicable to most of the countries of southern Africa, based on their extraordinary mineral and energy resource base and strong agricultural potential.

This regional initiative, would involve agencies in the U.S. Government other than AID and the Department of State. It would necessarily involve active participation from the private sector and might call for a joint donor, or consortium approach. It would address three major constraints to the full development of southern Africa's extraordinary economic potential:

- capital requirements
- national and regional infrastructure
- manpower and skill development

The U.S. has many policy instruments which can affect development. Concessional assistance, including capital transfers and technical assistance; trade and commodity policy; international monetary matters; technology transfers from both public and private sources; export credits; the ability to use our private capital markets; the treatment of debt; and food policy--all are instruments which potentially could be part of the proposed initiative.

The composition of the Development Coordination Committee, established by Executive Order on February 28, 1975, reflects the many government interests that would be involved in an initiative of this kind.

RECOMMENDATION: That, subject to obtaining the necessary Congressional clearances, AID undertake an areawide assistance initiative composed of programs and projects in the areas of commercial agriculture, infrastructure and industry.

Our analysis of the countries of southern Africa identified a unique opportunity, but an opportunity marred by important populations still living at subsistence levels. The future of the poor majority can be significantly altered only if opportunities for off-farm employment can be generated. It is this fact that relates the potential of the region with the Congressional mandate. Achieving this potential will require investment in infrastructure, including power, internal transport and commercial agriculture. These are critical investments and should be undertaken even in the absence of the broader initiative. However, the Foreign Assistance Act, as restructured in 1973, directed AID to concentrate on assistance in the fields of food, nutrition and rural development; population planning and health; and education. AID was also directed to seek projects to directly impact the lives of the poor majority in lieu of capital projects and transfers.

While some of the investments can come through multilateral assistance programs, the Administrator should discuss the requirement and the possibility for bilateral capital investment with the Congress at the earliest possible moment.

RECOMMENDATION: That the Assistant Administrator for Africa concurrently authorize the immediate expansion of programs in manpower and skills development.

The pervasive and limiting constraint common to all countries of southern Africa is in the area of skilled manpower. The extraordinary presence of expatriate, or non-African, personnel distinguishes this area from other regions of Africa. It slows the rate and breadth of development; it is a major drain on foreign exchange; and it challenges the political integrity of the new nations of the region.

While such an expansion should be region-wide, the specific projects and programs will have to be tailored on a country by country basis. Most governments appear to be concerned about the quality of the education in their present formal systems, but activities will range from formal education, to training by private employers, to finance and management of education and training. A significant increase in non-project related participant training in Africa and the U.S. will probably be required and a broader definition of the areas of AID concern will be essential.

This expansion is necessary as part of current development programs and can proceed in the absence, in advance, or integrally with the broader based initiative outlined above.

BILATERAL DEVELOPMENT PROGRAMS

Existing economic relationships among the countries of southern Africa have neither the magnitude nor the immediate potential to warrant formulation of an assistance strategy based on developing regional institutions or designed primarily to achieve regional economic integration.

Under the terms of the Foreign Assistance Act, AID could expand its development assistance programs in southern Africa from its narrow focus on the BLS to include each of the countries of the region.

RECOMMENDATION: **That the United States dismantle its regional program in southern Africa while continuing development assistance programming on a bilateral basis.**

The countries of southern Africa have a low degree of economic interdependence, and do not now form an economic region. The region is not a natural system. Intraregional trade is insignificant in comparison with trade between these countries and the Republic of South Africa and trade with the rest of the world. The political orientations of the countries concerned are very different, both in domestic politics and in international affairs, and they have a wide variety of relationships with the U.S. and other world powers. Attempts to promote regional institutions have been relatively unsuccessful, and such existing institutions show increasing polarization.

Botswana, Lesotho and Swaziland, the focus of current programming in the region, present very different economic situations and prospects. Their characterization as "BLS" has tended to blur the significance of those distinctions.

This recommendation for bilateral programming does not diminish the significance of their shared problem of vulnerability to South Africa, nor suggest that vulnerability is divorced from development. Rather, it suggests we adopt a set of bilateral relationships with these countries that reflects their political integrity and different development prospects. Vulnerability varies, and needs to be considered as part of each bilateral program. It may also be advisable to examine the questions of dependence on the Republic of South Africa--vulnerability, resilience and political integrity as such (possibly including Namibia)--and to suggest an approach which would supplement the bilateral programs.

RECOMMENDATION: **That the Assistant Administrator for Africa direct OSARAC to immediately undertake preparation of development assistance programs (DAPs) for Botswana, Lesotho, and Swaziland.**

Botswana is sensibly looking to its mineral resources to fuel economic growth. But this will be of little benefit to the people unless the returns from growth can be effectively used. Mining will generate little direct employment. Given the limited possibilities for expansion of wage employment in the agricultural sector, and a development strategy still heavily dependent on expatriate skills, Botswana's most pressing need is for programs to develop skilled manpower and to create new opportunities in off-farm employment. There are short to medium term prospects for increasing crop yields and livestock production, even though the agricultural resource base is limited. The Government's policy has been to invest heavily in infrastructure construction rather than in more immediatly productive activities. Both broader rural development, and employment generation through light industry (particularly processing of livestock products), deserve more attention.

There appears to be no alternative to Lesotho's economic dependence on the Republic of South Africa. Its most immediate need is to find employment for its growing population. This could include restoring the productivity of its agricultural sector and promotion of tourism and light manufacturing. Although it may be intractable, halting the loss of arable land due to erosion is a high priority. Given the extreme arable land density and overall availability of water, irrigation deserves careful study. But major transfers of food aid will continue to be required in the foreseeable future. Continued economic dependence and the disruptive effects of having over half the working-age men abroad also mandate that ways be sought to strengthen the country's political cohesion. Projects to do this will almost always have economic benefits, but they probably cannot be justified on economic grounds alone.

Within Swaziland country, there is a sharp division between wage earners in the modern sector (commercial farming, manufacturing, tourism and services) and subsistence farmers in the traditional sector. Incomes in the traditional sector are estimated at only one-fourth of the national per capita GDP, making this sector a critical target for development assistance. There is evidence that some Swazi subsistence farmers can be moved into small-scale commercial production, and small-scale African enterprises would add needed employment. As elsewhere, skilled manpower is in short supply. The Government is currently placing considerable emphasis on improving the quality and the quantity of education as the key to increased Swazi participation in the modern sector.

RECOMMENDATION: That the Assistant Administrator for Africa take steps to initiate development assistance programming in Malawi.

Malawi is an RLDC, but appears to have good prospects of growth from this limited base. Relying on an aggressive price incentive policy in agriculture, and intensive area development schemes, agricultural production and rural incomes have grown rapidly in recent years. The cost has made area schemes questionable as a growth model, and national institutions are weak. It would appear that a rural infrastructure program to open unused lands and to create demand exposure and market access would offer prospects for further near-term impact on agricultural production and rural incomes if price incentive policies are maintained. As in other countries of the region, manpower and skill training programs are also obvious needs.

There are two caveats to this recommendation. The allegations of human rights violations in Malawi raise an issue of U.S. policy. Secondly, the Government of Malawi has not aggressively sought U.S. assistance in the rural sector and their receptivity to bilateral development assistance programs cannot be assured.

RECOMMENDATION: That the Assistant Administrator for Africa approach the Government of Zambia with the possibility of continuing programmed U.S. foreign exchange transfers if the Government moves towards a more aggressive price incentive policy in agriculture.

Despite its relatively high per capita GDP, Zambia presents a case for development assistance. The key, however, is agriculture; and the Government's consumer-oriented food pricing policy stands squarely in the way of progress. Unless the Government is prepared to address this issue, development assistance programming would have little chance of achieving its objectives.

Given this circumstance, and the fact that transition in Rhodesia would eliminate the security rationale for continuing balance of payments support, the U.S. should approach the Government of Zambia with the possibility of continuing large foreign exchange transfers on the condition that the Government move towards a more aggressive price incentive policy in agriculture. Such an initiative could make a significant contribution to development and would serve as a basis for opening a dialogue on complementary actions. Manpower and skill upgrading is another obvious requirement.

As in Malawi, the Government of Zambia has not aggressively sought U.S. assistance in the rural sector and its receptivity to bilateral development assistance programming cannot be assured.

RECOMMENDATION: **That, as a necessary first step to the establishment of longer term development relationships, the Assistant Administrator for Africa take action to initiate assistance programs in Angola and Mozambique related to the transition and U.S. security objectives.**

While it may be too early to establish longer term development assistance programs in Angola and Mozambique, it is clear that transition has created the opportunity for economic structural change and social transformation. If these opportunities are to have a meaningful effect on people's lives, continued economic growth will be necessary to provide the resources. U.S. assistance could immediately play an important role both in terms of influencing the transformation and meeting U.S. security objectives.

There seem to be no physical constraints on Angola's future development. Land, water, minerals, and energy sources are abundant. The chief long-term constraint appears to be the almost complete lack of upper-level manpower in the country. Major levels of expatriate technical assistance could ease this problem in the short run, contributing to the maintenance of existing transport and industrial infrastructure. They would be of long-run development significance if they were tied to a large scale program of training. Governmental service systems such as health, education and agricultural extension will have to be built from the ground up. The role of government policy in the areas of investment incentives, tariff and price policies, and acceptable forms of collective organization will be crucial to the country's success in combining economic growth with greater social equity.

Provision of transportation services to its neighbors will continue to be an important source of revenue for Mozambique for some time to come. However, the share of this sector should decline with growth in agriculture, industry and mining. The present transport network does not fully meet the needs of agricultural development in the country. A program of rural infrastructure, including both physical and area development, could be significant in helping this sector to grow to the point where the country would be self-sufficient in food and could produce a significant volume of agricultural products for export. Government policies will undoubtedly make a difference in the pace and nature of that growth, but Mozambique can be expected to move in the direction of greater economic independence from its neighbors and greater social equity in the context of a growing and diversified national economy.

Given the uncertainties in Rhodesia and Namibia, the Working Group cannot make a recommendation now. However, the Office of East and Southern Africa Affairs has completed a range of studies which could serve as the basis for discussions with officials of Zimbabwe and Namibia and the donor community. The Office has also identified a range of experts that could be called upon to assist in program planning when warranted. It is recommended that no additional analysis be undertaken until discussions are possible with African representatives of Zimbabwe and Namibia.

SECURITY AND HUMANITARIAN PROGRAMS

The effects of transition to majority rule create requirements for short term security and humanitarian assistance.

RECOMMENDATION: **That the United States continue and expand programs for economic stabilization, utilizing security supporting assistance for those Front-Line countries faced with extraordinary financial problems, so that economic factors will not complicate further an already fragile situation.**

The Front-Line countries of Angola, Botswana, Mozambique, Tanzania, and Zambia are key to promoting a peaceful transition to majority rule in Rhodesia, either by political choice or economic necessity. This Paper did not find significant economic interdependence in southern Africa. But it does recognize the breadth of issues and the number of channels of contact involved in transition, and the possibility that internal economic crises can reverberate through political channels to affect political issues. Because of this, the United States has provided balance of payments support to Zambia during the recent copper price decline. The Paper also identifies the situation in Angola and Mozambique as warranting economic stabilization support. Caution and precision are urged before proposing any additional assistance under this rubric.

RECOMMENDATION: **That the United States continue to use security supporting assistance to support those countries in southern Africa that are imposing economic sanctions on Rhodesia and are suffering economic consequences as a result.**

In the past the United States has supported the countries of the region in their efforts to follow the United Nations Sanctions Resolution. Assistance has included project and program support to Mozambique, Tanzania and Zambia. The economy of Zambia has adjusted over time. Mozambique is incurring direct and significant losses attributable to sanctions. These costs are quantifiable and could consitute a rationale for assistance. Zaire, not included in this analysis, still has major trade links with Rhodesia. The cost to Zaire of applying sanctions would undoubtedly be significant.

RECOMMENDATION: **That the United States be prepared to provide security supporting assistance to those countries that may suffer extraordinary economic stress arising from the escalation of political conflict in the area.**

This recommendation does not relate to economic costs incurred for military expenditure. Possible problems of fungibility are also recognized. Nevertheless, Botswana would suffer significant financial losses were it to lose support from the Rhodesian Railway. Apart from this, the Paper does not identify specific requirements for assistance under this rubric. Outside the scope of this report, Zaire's mining operations in Shaba Province are particularly vulnerable to the possible escalation of political conflict in Rhodesia.

RECOMMENDATION: That the United States recognize the vulnerability of Botswana, Lesotho and Swaziland to the Republic of South Africa by undertaking a more thorough analysis of this dependence and by supporting programs to improve the political integrity and economic resilence of those countries.

Although presenting very different economic situation and economic prospects, Botswana, Lesotho and Swaziland are tied by historic formal and economic links to the Republic of South Africa. While this dependency on South Africa can be eased to varying degrees in each of these countries, full economic independence does not appear a reasonable goal. Nevertheless, as independent countries they all aspire to strengthen their fundamental political integrity. The Paper recognizes the difficulty of using "political integrity" as a criterion for assistance, but suggests that its relationship to economic assistance be examined closely. "Resilience" is even more difficult to define and may suggest a range of considerations in the economic policy area in addition to assistance.

RECOMMENDATION: That the United States continue and expand U.S. scholarship programs under Security Supporting Assistance for nationals of Rhodesia, Namibia and the Republic of South Africa.

The Congress has authorized significant funds through the Foreign Assistance Act for scholarship support to student nationals of Rhodesia, Namibia and Republic of South Africa. The purpose of this support has been to train students for participation in the growth and development of their respective countries, to make the best use of the talents of those students who have left their countries, and to bear witness to U.S. support, concern and identification with their aspirations for racial self-determination. These programs, at present largely for graduate students, would be dramatically expanded if opened to undergraduate participation.

There has been some confusion as to whether these programs belong with economic assistance activities or with international humanitarian and refugee initiatives. This confusion arises from the question as to whether the programs are intended to be directed to refugees. Given the technical classification problems with refugees, the importance of these programs to the future development of Zimbabwe, Namibia and the Republic of South Africa, and the legitimate U.S. interest in maintaining identification with the aspirations of these students, it is probably appropriate for these programs to continue to be grouped with other economic assistance activities.

RECOMMENDATION: While continuing to recognize the responsibility of the United Nations community for addressing the requirements of refugee populations in southern Africa, that the United States be prepared to consider and support bilaterally those requirements which the United Nations either cannot or will not address.

The United Nations, quite properly, gives first priority to the basic human needs of food, shelter and health for refugee populations. Among the refugees of southern Africa there are growing numbers of school age children and young adults, from Soweto for example, that will require schooling. The nature and financial requirements of this situation may go beyond the mandate of the United Nations. In addition, classification problems have sometimes kept assistance from populations not technically classified as refugees. While supporting international efforts as a matter of course, it is the recommendation of this report that the United States be prepared to consider and support bilaterally those requirements which the United Nations either cannot or will not address.

RECOMMENDATION: **That the United States Government regularly monitor and assess humanitarian requirements in southern Africa.**

Recent experience in the Sahel and Ethiopia suggests the necessity of regular U.S. assessment of humanitarian needs. This assessment would not reduce the responsibility of the United Nations and would increase the U.S. capacity to support the U.N.'s efforts. It would also enable us to identify problems which may call for a response either outside the U.N. mandate or beyond its financial resources. This recommendation has implications for overseas and Washington organization, but probably not for staffing.

ANGOLA

Selected Indicators for:

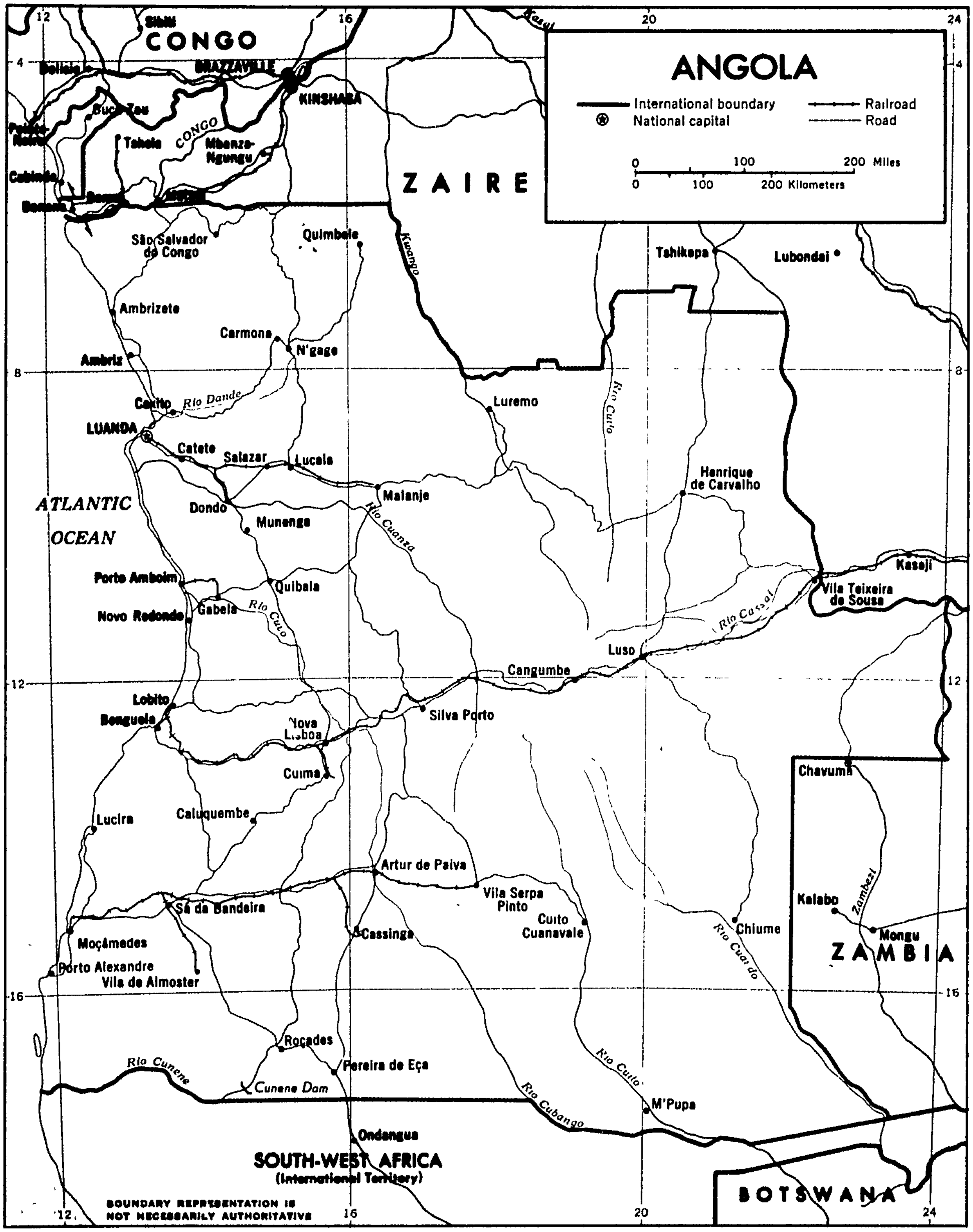
ANGOLA

DEMOGRAPHIC	
Total Population (000)	6,456
Population Growth Rate (%)	2.2
Dependency Ratio	.80
Percent Urban.	18
Population Density (per mi.^{2})	13
ECONOMIC	
Gross National Product (GNP)[1]	2,980
Gross Domestic Product (GDP)[1]	2,896
GNP per Capita[2]	492
GDP per Capita[2]	478
Real GNP Growth (1970-74)	6.4
GNP per Capita Growth (1970-74)	4.2
Retail Price Index 1974 (1970 = 100)	138
Debt Service Ratio, 1974	NA
Economic Structure (% GDP)	
Agriculture	42
Manufacturing	24
Mining	10
AGRICULTURE	
% of Economically Active Population	64
Food as % of Commodity Exports	40
Basic Food Grain Production (KT per Capita)	81
Food Exports as % of Food Imports	746
Maize Productivity (kg/ha)	849
SOCIAL	
Literacy Rate	12
Primary Enrollment as % of age group	31
Secondary Enrollment as % of age group	5
Life Expectancy at Birth	38
Protein Intake (% FAO Req.)	106
Doctors per 10,000 Population	0.9
Hospital Beds per 1,000 Population	2.8

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.

(NA) indicates Not Applicable.


ANGOLA
International boundary
National capital
Railroad
Road
0 100 200 Miles
0 100 200 Kilometers
CONGO
BRAZZAVILLE
KINSHASA
CONGO
Mbanza-Ngungu
Cabinda
ZAIRE
Kasai
Kwango
Tshikapa
Lubondai
São Salvador do Congo
Quimbele
Ambrizete
Carmona
N'gage
Ambriz
Caxito
Rio Dande
LUANDA
Catete
Salazar
Lucala
Malanje
Luremo
Rio Cuilo
Henrique de Carvalho
ATLANTIC OCEAN
Dondo
Munenga
Rio Cuanza
Porto Amboim
Quibala
Novo Redondo
Gabela
Rio Cuvo
Rio Cassai
Vila Teixeira de Sousa
Kasaji
Luso
Cangumbe
Lobito
Benguela
Silva Porto
Nova Lisboa
Cuima
Chavuma
Lucira
Caluquembe
Artur de Paiva
Vila Serpa Pinto
Cuito Cuanavale
Sá da Bandeira
Moçâmedes
Porto Alexandre
Vila de Almoster
Cassinga
Kalabo
Zambezi
Mongu
ZAMBIA
Chiume
Rio Cuando
Roçades
Pereira de Eça
Rio Cunene
Cunene Dam
Rio Cuito
Rio Cubango
M'Pupa
Ondangua
SOUTH-WEST AFRICA
(International Territory)
BOTSWANA
BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE
12
16
20
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ANGOLA

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper identifies refugee assistance and possibly specialized manpower training in foreign countries as possible areas for immediate assistance. As soon as the situation stabilizes and U.S. relations with Angola permit, the primary economic needs will be for education and training and for technical assistance. There seem to be no physical constraints on Angola's future assistance.

Background

Angola is a large country, about twice the size of Texas, with a population of 6.5 million, about 13 persons per square mile. The population growth rate is estimated to be 2.2 percent per year. In 1974 Angola had a per capita GDP of about $480. From 1965 to 1973, GDP grew 2.4 percent a year in real terms.

The country's major topographical feature is a mountainous crest running north and south some 100 miles inland from the Atlantic coast. Vegetation ranges from substantial hardwood forests to the Namib desert, one of the driest areas in the world. Rainfall is heaviest in the North (98 inches a year) and gradually diminishes towards the southern and western parts of the country, which are prone to failure of the rains at frequent intervals.

The present situation in Angola is characterized by an uncertain state of internal security and a lack of consolidation of political control. Internal struggles for power of undetermined severity continue. Severe population dislocations and some damage have resulted from military operations. Practically all the 350,000 or more Europeans who had held and controlled the government, financial, industrial and commercial farming organizations and activities have departed. The abrupt transfer of government power and operations is complicated by a heritage of race discrimination in favor of the Europeans (some 4 percent of the population).

The exact results and the extent of the adverse effects of these conditions is not known. However, widespread abondonment of businesses, farms, and housing, and delays and uncertainties in transport have been reported. Industrial and commercial agricultural production is bound to have fallen sharply, if it has not virtually disappeared. Most of the Africans previously employed must be unemployed. Large numbers of refugess exist in and outside the country. Personnel no longer exist for operation of most of the health facilities.

Development Potential

The present situation aside, fundamental conditions provide Angola with great potential for growth and development.

It has very rich mineral resources. Petroleum exports amounted to $500 million dollars in 1974 and reserves have been estimated at from 900 million to 3 billion tons. Some

$40 million worth of iron ore was exported in 1974 and reserves of 1 billion tons of high grade ore are proven, with additional reserves of lower grade ore. Diamond exports amounted to $80 million in 1974. It has deposits of copper, manganese, fluorspar, lead, zinc, phosphates, and seasalt and evidence of gold, bauxite, semi-precious stones and uranium and other radio active minerals.

Variations in climate and altitude provide the basis for a diversified agriculture. While data is not available as to the amount of land which is suitable for crop use, data as to the percentages of arable land in use and the size of the previous European holdings seem to make it reasonably sure that total supply of land is not likely to be a significant constraint on agricultural development. It appears that there is potential for increasing cropped land both by expanded use of the formerly European held lands and by increase in the size of individual holdings, although some population movements may be necessary for such increases to occur.

It also appears that extensive grazing lands exist. Some 3-4 million head of livestock (mostly cattle) were grazed in 1973, and African practices and production rates are said to be good.

Timber is available and has been usefully exploited in the past.

Fish are also an important resource with a catch of a million tons a year. Processing has been important in the industry sector.

Angola possesses significant transportation capability consisting of three major and two minor railroads, some 5,000 miles of paved roads reaching all district capitals, an internal airline also serving all district capitals and with many other landing strips, and four ports on the Atlantic. One railroad, the Benguela, links with the southern African railway net and provides an outlet to Atlantic ports for Zaire and Zambia (and potentially Zimbabwe). Due partly to sanctions, almost half the freight carried in 1972 and 1973 was from Zaire and Zambia.

Angola's geography, highlands with streams flowing in all directions from them, provide it with a significant hydro-electric power potential. Almost 1 million KWH were produced in 1973 from facilities in several areas of the country. Prior to independence work was underway on the Kunene River Development Project near the Namibia border which would produce, when completed, 320 megawatts from 9 generating stations. This project was undertaken pursuant to an agreement between South Africa and Portugal. Financing was provided by South Africa with repayment to be made by sales of water to Namibia. The future of the project is now in doubt.

Prior to independence Angola had a significant construction and product processing industry which expanded rapidly from 1960 to 1970. The more important industries included food processing, beverages, textiles, tobacco, soaps, paint and construction materials, petroleum products, transportation items, milling, feeds, and cotton ginning. Most of this production was based on the large European population. With their departure and the low income level and small size of the African population, expanded production of consumer goods for local consumption probably has limited potential. However, in the long run, development of construction and heavy industries based on the rich mineral resources and the transportation system seems to offer much promise.

Development Strategy and Constraints

Given its exceptional potential for growth and development, it seems likely that Angola's strategy for development will involve, as its primary emphasis, the exploitation of its mineral resources. This development would serve both to provide capital for development of other sectors and as a basis for development of a mineral processing and transportation and industrial equipment industry. As incomes increase a consumer goods industry might be expected to grow up. Improvement and expansion of transportation would reasonably be an element in this strategy both to provide support for its own minerals and industrial production and as a part of a system serving the entire southern Africa area. Finally, the development of commercial agriculture, including livestock, based on both small holders and large farms could be expected to be a significant part of the country's development strategy.

While such a strategy has the potential for transforming Angola into a rapidly developing country, there are a number of constraints on its successful accomplishment. First, not much progress can be made under conditions of political unrest and lack of internal security. Government policy on such matters as ownership of agricultural and industrial enterprises, price policy, the operation of markets and incentives could inhibit pursuit of the strategy. Hopefully, however, such policies, while they may inhibit the achievement of what many would consider optimum economic results, will not prevent significant growth from occurring. There also may be constraints which are particular to areas or industries. For example, the tsetse fly may be a constraint on expansion of livestock and crop production in some areas.

Manpower, however, is likely to be the most serious constraint both in understanding and accomplishing such a strategy. It is likely to operate as a limiting factor in a number of ways.

The manpower does not exist in the country to replace the entrepreneurial, managerial, and skilled operational personnel who have left. The creation of such manpower is a long run process and Angolan institutions are not adequate to provide for either the replacement or the expansion which will be required while development gets under way. Creation of the necessary manpower will require on-the-job training, formal technical training, and a general education system which can provide a large percentage of the population with command of a common language; an ability to conceptualize, articulate and compute; and an understanding of scientific principles. Finally, if significant progress is made in accomplishing development objectives, the size of the labor force could become a constraint. Data are not available on the size of the labor force. Population data, however, suggest that it may have been around 2 million (including those engaged in non-commercial farming) in 1975 and at estimated growth rates might be about 3.5 million by 2,000. If growth is large and rapid, labor from surrounding countries might be needed.

Conclusion

Under present circumstances refugee relief seems to be the most appropriate and area for immediate assistance. It might also be possible to provide assistance for specialized manpower training in foreign countries to selected individuals. There seem to be no physical constraints on Angola's future development. Land, water, minerals and energy sources are abundant. The chief long-term constraint appears to be the almost complete lack of middle and upper-level manpower in the country. Major levels of expatriate technical assistance could ease this problem in the short run, contributing to the maintenance of existing transport and industry. They would be of long run development significance if they were tied to a large scale program of training. Governmental service systems such as health, education, and agricultural extension will have to be built from the ground up. The role of government policy in the areas of investment incentives, tariff and price policies, and acceptable forms of collective organization will be crucial to the country's success in combining economic growth with greater social equity.

BOTSWANA

Selected Indicators for:

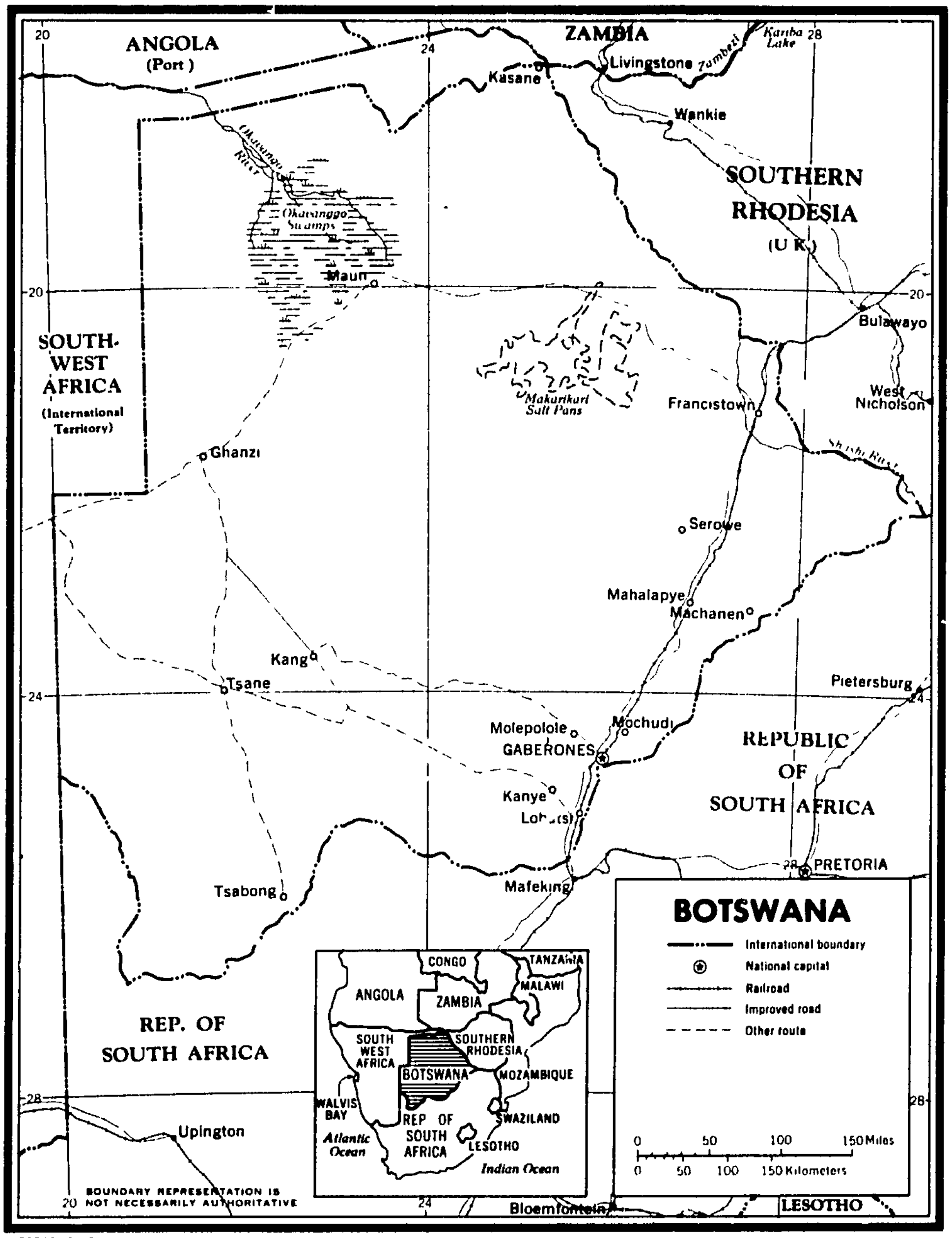
BOTSWANA

DEMOGRAPHIC	
Total Population (000)	626
Population Growth Rate (%)	1.8
Dependency Ratio	.80
Percent Urban	11
Population Density (per mi.[2])	3
ECONOMIC	
Gross National Product (GNP)[1]	150
Gross Domestic Product (GDP)[1]	185
GNP per Capita[2]	230
GDP per Capita[2]	284
Real GNP Growth (1970-74)	21.8
GNP per Capita Growth (1970-74)	19.0
Retail Price Index 1974 (1970 = 100)	120
Debt Service Ratio, 1974	2.7
Economic Structure (% GDP)	
Agriculture	28
Manufacturing	10
Mining	13
AGRICULTURE	
% of Economically Active Population	87
Food as % of Commodity Exports	39
Basic Food Grain Production (KT per Capita)	102
Food Exports as % of Food Imports	129
Maize Productivity (kg/ha)	667
SOCIAL	
Literacy Rate	20
Primary Enrollment as % of age group	46
Secondary Enrollment as % of age group	8
Life Expectancy at Birth	44
Protein Intake (% FAO Req.)	**
Doctors per 10,000 Population	0.6
Hospital Beds per 1,000 Population	2.6

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.

(**) Indicates data not available.


ANGOLA
(Port.)
ZAMBIA
Kariba Lake
Zambezi
Livingstone
Kasane
Wankie
Okavango River
Okavango Swamps
Maun
SOUTHERN
RHODESIA
(U.K.)
Bulawayo
SOUTH-
WEST
AFRICA
(International
Territory)
Makarikari Salt Pans
Francistown
West Nicholson
Ghanzi
Serowe
Mahalapye
Machaneng
Kang
Tsane
Pietersburg
Molepolole
Mochudi
GABERONES
REPUBLIC
OF
SOUTH AFRICA
Kanye
Mafeking
PRETORIA
Tsabong
BOTSWANA
International boundary
National capital
Railroad
Improved road
Other route
REP. OF
SOUTH AFRICA
Upington
CONGO
TANZANIA
MALAWI
ANGOLA
ZAMBIA
SOUTH
WEST
AFRICA
SOUTHERN
RHODESIA
BOTSWANA
MOZAMBIQUE
WALVIS
BAY
REP OF
SOUTH
AFRICA
SWAZILAND
LESOTHO
Atlantic Ocean
Indian Ocean
0 50 100 150 Miles
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BOUNDARY REPRESENTATION IS
NOT NECESSARILY AUTHORITATIVE
Bloemfontein
LESOTHO

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BOTSWANA

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper concludes that Botswana's most pressing need is for programs to develop skilled manpower and to create new opportunities in nonfarm employment. There are short to medium term prospects for increasing crop yields and livestock production. Both broader rural development and employment generation through light industry deserve more attention.

Background

The Republic of Botswana is nearly the size of Texas. It lies at the center of the Southern African Plateau at a mean altitude of 1,000 meters above sea level, and is landlocked by South Africa, Namibia, Zambia and Rhodesia.

More than two-thirds of Botswana's land surface is covered with sand, a large part of which is referred to as the Kalahari Desert. Most of this area is covered with savannah grasses, much of which is of low quality due to lack of rainfall and poor soils.

Only 5 percent of Botswana's surface is considered suitable for arable agriculture. Almost all of it is found in the Limpopo River Catchment in the east, where over 80 percent of Botswana's population lives. The population of 629,000 is relatively small for such a large area, and some 46,000 (36% of the men 20 to 34 years old) work abroad, mostly in the Republic of South Africa.

The Economy

Led by mining and livestock its economy has grown dramatically since independence. In ten years since 1966 Gross Domestic Product grew almost 20 percent a year at current prices and probably 15 percent a year in real terms. Real growth slowed somewhat in the last few years and a rate of 9.6 percent is forecast for the next five years.

During the past decade mining grew at a compound annual rate of almost 45 percent. As a result, agriculture, primarily livestock, has dropped from 34 percent of GDP to 25 percent, despite an annual growth rate of 16 percent. This dependence on two main sectors, mining and cattle, is expected to continue with their relative importance in terms of GDP equalizing over the next five years. In terms of citizen income, however, cattle will remain predominant, since a sizeable proportion of mining income accrues to non-citizens.

GDP per capita was $397 in 1976. However, some estimates indicate that only 59 percent of GDP actually accrues to Botswana citizens and the citizen share is expected to decline further. Even within this limited share, income is poorly distributed. Although mining, cattle and government have been the leading growth sectors, 80 percent of Botswana's population lives in the rural areas and half of them own no cattle at all. Within the rural sector the distribution of income is among the least equal in the world, and the distribution of income between the rural and urban sectors is also highly skewed. This probably has contributed to the recent high rate of urban migration and resulting urban unemployment, estimated at 18 percent of urban men and over 40 percent of urban women.

Mining and cattle also dominate exports. Cattle exports have grown 20 percent over the last five years, but mining has grown even faster. These increases have been due to increases in both quantities and prices. In 1975 minerals--primarily diamonds and copper/nickel matte, comprised 50 percent of exports. However, Botswana has run persistent balance of trade deficits which have been more than compensated for by inflows of public and private capital, yielding overall balance of payments surpluses.

Growth in mining revenues and increased customs receipts from South Africa have also helped transform the government's budget. Through 1973 Botswana's government revenues were less than its current expenditures, with grants from the United Kingdom making up the difference. Recurrent expenditures have increased about 150 percent since then and capital expenditures have grown even more rapidly, doubling between 1972 and 1973 alone. Despite this, domestic revenues financed all recurrent expenditures and 30 percent of capital expenditure last year.

Botswana is also highly dependent on external financing, expertise, transportation and trade. Landlocked, it depends on its neighbors, primarily South Africa, for access to the sea and its railway is owned and operated by Rhodesia. Botswana's mines are predominantly foreign owned and operated, and almost two-thirds of the development budget over the next five years is expected to be financed by foreign aid.

In recent years the Government has pursued a strategy of intensive development of the mining sector. Proceeds from the resulting growth were to be used to develop agriculture and labor intensive manufacturing. The results have been mixed. In part this is due to the way in which the strategy has been executed. In the early 1970s the noncattle-owning rural areas were largely ignored. However, the strategy has been a success in terms of growth--in GDP, exports and revenues. More resources are becoming available which could be used for rural development and the economy is more diversified. Although a major drop in beef prices would still create a great problem for Botswana, it would be less important now than five years ago, and still less critical five years from now.

The new development plan (1977-1981) will soon be published and it will almost certainly continue the mineral-led strategy. In terms of resources, this strategy makes sense. A new diamond mine opened in 1971. Potentially viable, possible large-scale copper and nickel deposits have been discovered in various parts of the country and are currently being investigated by a number of private corporations. Brine deposits could produce over 2 billion tons of soda ash, salt and potash. Reserves of coal--although mostly lowgrade--exceed 40 billion tons. Other known mineral possibilities include manganese, gold, iron, lead, fluorspar, gypsum and talc, even though 75 percent of Botswana is still relatively unexplored.

In the short term, the strategy will exacerbate the problems of external dependence and income inequality, primarily through increases in expatriate employment and foreign earnings. The key issue is whether more progress can be made toward the income redistribution objective over time. There is some evidence that the government desires more emphasis on this objective. Many in government would like to see rural development proceed at a faster pace, partly because of the disquieting effects of urban migration and unemployment.

The Government of Botswana intends to commission a number of studies over the coming plan period evidently designed to create a strategy, or perhaps new tactics, to extend the benefits of economic growth to the bulk of Botswana's population. These reports include a study on employment generation, one concerning migration, and an evaluation of the Accelerated Rural Development Program. They could lay the groundwork for the future, but their effects are not likely to be felt within the next three years.

Rural Development and Equity

Prior to 1966, virtually the entire resident population of Botswana depended for its livelihood on livestock and subsistence agriculture. That situation has not radically changed and is not likely to do so in the foreseeable future. In 1975, 80 percent of the population lived in rural areas, and most of their income depended directly or indirectly on agricultural production. Botswana's rural population is expected to increase 45 percent over the next 15 years and the government estimates that by the year 2000 only 25 percent of the work force will be able to find employment in the modern sector. The long-term need to employ the bulk of Botswana's population in the rural sector would be seriously exacerbated by a return of the more than 40,000 young Botswana men who currently work in South Africa's mines.

Livestock, including cattle and small stock, dominates Botswana's agriculture, comprising about 80 percent of production. The national herd of cattle has grown at a net rate of approximately 8 percent per year since 1971 and was expected to reach 3 million head in 1976.

Over 80 percent of the cattle marketed in Botswana are sold to the Botswana Meat Commission, a government parastatal which runs the only abattoir suitable for slaughtering for export. Due to its excellent veterinary record and adroit negotiating skill, Botswana has been able to export to the European Economic Community. That, combined with a buoyant world market generally has accounted for rapidly rising cattle producer prices until recently. However, not all farmers benefit from such sales. Eighty percent of the cattle are owned by only 20 percent of the rural households and the marketing system discriminates against small holders. Small stock are distributed more equally than cattle, which compensates to some extent.

Poor livestock management and overgrazing have caused serious range deterioration in many areas of the country, particularly in the east. To combat this, the government has recently adopted a National Policy on Tribal Grazing Land which will establish private property rights in tribal areas. While the policy is expected to arrest the deterioration of the rangelands, it will worsen income distribution if small holders cannot afford the proposed commercial leases of land. Implementation of the policy is likely to be gradual, however, partly because so little is known about such things as size and location of holdings, number and location of wells and size and location of vacant areas.

In the East, there are some 350 large scale commercial farms, mostly expatriate, and about 64,000 smaller farms. The large farms produce a variety of crops under dry land and irrigated conditions. Subsistence farmers produce mostly maize and sorghum. Most of the maize produced in the east is sold in South Africa, which exports maize meal for sale in Botswana's urban areas. This pattern tends to complicate the process of crop estimating. Although the government has a goal of cereal self sufficiency by 1986, some analysts believe the country is already self sufficient, and may even be a net exporter in good crop years.

Overall yields are quite low, and even excluding the large commercial farms, there is large variation between groups. About 8 percent of the small farmers, who have better access to draft power and implements and use more modern techniques, have yields of 30 to 100 percent higher than traditional farmers. Partly as a result, crop production is unequal, with about 20 percent of the farmers producing 60 percent of the cereal crop.

Transportation appears to be a major constraint to agricultural and rural development. Botswana's transportation system is still in its infancy. There are only 155 miles of paved road and 940 miles of gravel road, much of which parallels the rail line. (Texas has 130,000 miles of paved rural roads, by comparison.) Almost two-thirds of the people live within 50 miles of the rail line, but roads between much of this population and the rail line and main road are quite primitive, often impassable without four wheel drive vehicles during the agricultural season. Connections to the east are very poor. The Tuli Block, one of the richest farming areas, is virtually cut off during the wet season and is difficult to reach the rest of the year. Ranchers in other areas have to trek their cattle as far as 300 miles to the railhead or abattoir, resulting in cattle weight losses of as much as 50 percent. As a result, the government places high priority on transportation. A National Transportation Plan has been commissioned. In recent years 28 percent of the development budget was spent on transport. During the next plan period the proportion will remain the same, with almost all of the funds going to road development, primarily for major roads.

The Manpower Problem

After independence Botswana's educational system developed rather slowly but steadily. By 1974, 70 percent of the 6-13 age group were enrolled in primary school, 13 percent of the 14-19 age group in secondary schools and less than 1 percent of the relevant age group were enrolled in post-secondary education.

Despite this progress, Botswana faces a serious shortage of well educated citizens trained in modern skills. The present stock of skilled local manpower is far below the demand, the gap being filled by expatriates, to the extent it is filled at all. At the time of the

1972 Botswana manpower survey, expatriates constituted 80 percent of the degree holders in wage employment, 50 percent of the workers with senior secondary schooling and 20 percent of those with junior secondary schooling.

Although enrollments are expected to continue to grow, excess demand for local secondary students is projected to exist until almost 1988. Considering the knowledge and skills required to manage and participate in a modernizing society, even that projection is probably over-sanquine, and a shortage of local university graduates will exist years to come.

The problems of quantity are exacerbated by apparent problems of quality. The missionary ancestors of Botswana's educational system created curricula, administrators and teachers who were largely oriented toward religious and literary education. This has not been fundamentally altered. To the extent that mathematical, scientific and practical studies are more appropriate to Botswana's situation, present curricula and teaching are outmoded. There are also problems of shortage of qualified staff. Over a third of the primary teachers have no teacher training and 80 percent of the secondary teachers are expatriates who primarily teach on two year contracts. A productive teaching evnironment is probably not one of the results of this system.

Many of Botswana's manpower needs can probably best be met by non-formal education. Detailed information on the non-formal education system is scarce, but apparently the quality of the system, though uneven, is generally high and some of the programs are extremely innovative. However, quantity is low. There are currently some 48,000 primary school leavers between the ages of 14 and 18 who are neither in secondary school or wage employment. Yet the highly successful Youth Brigades, which constitute one of the largest nonformal programs, can accommodate only 2,000 per year.

The Government is seriously concerned about its education problems and two major educational events are underway. The Report of the National Commission on Education is about to be released and a large scale World Bank education project is slated to begin this year. Together they may define future directions and open up opportunities for other outside assistance to education.

Conclusions

Botswana is sensibly looking to its mineral resources to fuel economic growth. But this will be of little benefit to the people unless the returns from growth can be effectively used. Mining will generate little direct employment and the potential for other wage employment in the modern sector is presently limited. Most of the growing labor force will have to be accommodated in the rural areas in farm and off-farm employment, and efforts should be made to promote light industry as a source of employment.

Although rainfall is erratic, availability of arable land does not appear to be a constraint to increased agricultural production for now, and productivity of the nation's large livestock herd chould certainly be improved. The Government's goal of agricultural development is a positive factor, as is the apparently increased awareness that more effort and resources will have to be devoted to this goal.

Manpower, rather than need, or the availability of external assistance, is likely to be the major short run constraint to Botswana's development and to its ability to absorb external aid. Almost any development from mining to teacher training, to range management, will require expatriate involvement. In some cases, such as teacher training, this can be self liquidating. But in others, lack of minimally qualified personnel will preclude desirable projects or predetermine them to failure. Viable institutions cannot be built if expatriate advisors do not have counterparts to train. Education and training should have high priority in donor plans.

LESOTHO

Selected Indicators for:

LESOTHO

DEMOGRAPHIC	
Total Population (000)	1,038
Population Growth Rate (%)	2.1
Dependency Ratio	.80
Percent Urban	4
Population Density (per mi.^{2})	89
ECONOMIC	
Gross National Product (GNP)[1]	98
Gross Domestic Product (GDP)[1]	84
GNP per Capita[2]	100
GDP per Capita[2]	86
Real GNP Growth (1970-74)	2.4
GNP per Capita Growth (1970-74)	0.3
Retail Price Index 1974 (1970 = 100)	124
Debt Service Ratio, 1974	2.0
Economic Structure (% GDP)	
Agriculture	41
Manufacturing	2
Mining	---
AGRICULTURE	
% of Economically Active Population	89
Food as % of Commodity Exports	31
Basic Food Grain Production (KT per Capita)	154
Food Exports as % of Food Imports	14
Maize Productivity (kg/ha)	833
SOCIAL	
Literacy Rate	40
Primary Enrollment as % of age group	69
Secondary Enrollment as % of age group	8
Life Expectancy at Birth	46
Protein Intake (% FAO Req.)	**
Doctors per 10,000 Population	0.4
Hospital Beds per 1,000 Population	2.1

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.

(**) Indicates data not available.


LESOTHO
REPUBLIC OF SOUTH AFRICA
Marquard
Ficksburg
Ladybrand
Butha Buthe
Leribe
Teyateyaneng
Berea
MASERU
5100
Maseru
Mafeteng
Mohales Hoek
Quthing
Qachas Nek
Mokhotlong
Mont Aux Sources 10763
Thabana Ntlenyana 11425
MALOTI MOUNTAINS
CENTRAL RANGE
THABA PUTSOA
DRAKENSBERG
ORANGE
Caledon
Kornetspruit
Singunyane
Madibamatso
Zastron
Matatiele
5000
International boundary
National capital
District boundary
District capital
Railroad
Road
Spot elevations in feet
0 10 20 30 Miles
0 10 20 30 Kilometers
ANGOLA (PORT.)
ZAMBIA
SOUTH-WEST AFRICA
SOUTHERN RHODESIA (U.K.)
MOZAMBIQUE (PORT.)
BOTSWANA
WALVIS BAY
REP. OF SOUTH AFRICA
SWAZILAND
LESOTHO
Atlantic Ocean
Indian Ocean

501420 11 72

LESOTHO

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper concludes that there appears to be no alternative to Lesotho's economic dependence on the Republic of South Africa. The country's size and extremely limited resources leave no reasonable prospect for a viable independent economy. Lesotho's most immediate need is to find employment for its excess population, possibly tthough increased agricultural production, promotion of tourism and light manufacturing. The intractable problem of soil erosion looms large, and irrigation should be studied.

Background

Landlocked within the Republic of South Africa, the Kingdom of Lesotho covers an area the size of Maryland and Delaware. Ringed with high mountains which form a natural border on the South and East, Lesotho is a mountainous country. Only 13 percent of the land, mostly in the lowlands, is considered arable and it is severely eroded. The remaining area can support livestock grazing, except in the higher reaches during the winter months. The population of just over 1 million produces a population density of 89 persons per square mile, but the density for the arable lowland region averages 725 per square mile.

The Economy

The sailent feature of Lesotho's economy is its extreme dependence on the wider economy of the Republic of South Africa:

- About 60 percent of Lesotho's male labor force, and 10 percent of the female force, is employed in South Africa. In 1975, some 200,000 migrant laborers remitred as much money back as the one million people living in Lesotho produced with domestic resources.

- Lesotho's exports go to South Africa; her imports come from there.

- A Customs Union Agreement ties Lesotho and South Africa into a common market area.

- The Rand Monetary Agreement makes Lesotho a member of a common monetary area with South Africa, sharing the same currency and subject to the policies of the South African Monetary Authority.

- Foreigners, mostly South African companies and individuals, dominate foreign trade, banking, manufacturing, tourism, and wholesale and retail trade.

- Lesotho's growing tourist trade consists almost entirely of South African tourists.

- Landlocked in the Republic of South Africa, Lesotho is dependent on the Republic for all of its external communications, transport, electricity and even internal transport between the eastern and western parts of the country.

Thus, despite its political independence, Lesotho is in fact a part of, or an extension of the South African economy, and this situation is not likely to change, except at the margin.

Agriculture is the most important sector of the domestic economy. It contributes 45 percent of the GDP, and is an important source of income for about 80 percent of the population. But Lesotho's agricultural resource base is limited and deteriorating. Farm incomes average only $190 per family. Since 1950, crop yields and crop production have declined. food production has not kept pace with demand and food imports have tripled in ten years. Livestock, wool, and mohair comprise 70 percent of Lesotho's exports, but livestock production has not increased over the last 5 years and the volume of wool and mohair production has declined substantially. This decline is difficult to understand since the size of the herd has not decreased, and wool and mohair prices have shot up during this period (400 percent and 137 percent respectively).

Poor tillage and conservation practices and overgrazing are causing soil erosion that is rapidly degrading the limited arable land that is available in Lesotho. About half the cultivated areas and a substantial part of the mountain pastures are affected by erosion. Every year perhaps as much as one percent of the country's soil washes away. This erosion problem has so far proved intractable. Government sponsored conservation programs date back to 1935, but have had limited success. Construction work has been poorly maintained, damaging cultural practices have not changed. and only 10 percent of the 50 million trees that have been planted have survived.

Aside from the rural sector, the contribution of other productive sectors to GDP is very small. Although manufacturing and construction have been growing rapidly in percentage terms, the base is so small that, together with mining and utilities they generate only 5 percent of GDP. One bright growth spot in recent years has been tourism. It is based on a modern Holiday Inn and gambling casino complex and the number of tourists increased from 4,000 in 1969 to 80,000 in 1973. Given Lesotho's beautiful mountain scenery, there should be potential for continued expansion of tourism and associated local production of food and handicrafts. There would also appear to be a potential for developing light industry for export to the large South African market. Swaziland has been successful in doing this in recent years and Lesotho's relatively high literacy rate should help provide an attractive labor base.

If the economic present is grim, the future is also limited. Mining is confined to one medium sized diamond mine and Lesotho's only known untapped natural resource is the fact that, although the large areas of the country suffer from frequent droughts, the high mountains are a rich source of flowing water. The potential for irrigation has not been studied systematically, but what studies there are suggest that it is limited to about 41,000 acres. The potential for irrigation certainly deserves further study, given the limited agricultural base. However, one feasible use for some of the water would be to store it and divert it north for sale to the Vaal Basin and the Witwaterstand area where most of South Africa's mining and heavy industries are located. The Malibamstro project, which would do this at a cost of about $150 million, has been held up since 1971, largely for political reasons.

One notable point is that fact that Lesotho's economy is remarkably equitable. Crop land averages 5 acres per family and deviations are generally justified by difference in family size. Partly because migrant workers tend to come from poor families, income distribution is perhaps the most equitable in Africa with the lowest 20 percent of the population earning 15 percent of the income and the highest 20 percent earning only 33 percent.

The picture of Lesotho's economy that emerges is one of continuing dependence on South Africa. But even with that dependence, there is also a potentially serious problem of labor absorption. In recent years, employment of Bosotho men in South Africa has grown faster than the labor force, absorbing men from the depressed rural areas. This has been possible because the employment of Bosotho men has grown five times as fast as total African employment in South Africa's mines. It is not likely that this rate will continue in the future.

The Lesotho Government has set a target of creating 2,000 to 3,000 new jobs per year in the country. This is very ambitious since only a few hundred non-agricultural jobs per year have been created in the past. Even so, it would not be enough to absorb the number of men leaving the land. If South African employment does not continue its past rate of increase, the only immediate alternative to unemployment is improved employment in agriculture. This will be a formidable task, given the poor agricultural base, a cultural disposition to outside employment and great disparties in earnings. (Cash income in pilot agricultural projects are only R40 per year, compared to R300 per year for a mine worker in South Africa.)

Paradoxically, the potential of a labor surplus is accompanied by a serious shortage of trained manpower. Although 65 percent of primary age children are in school, there is a severe dropoff in later years. Only one percent of the 18 to 22 year olds are in post secondary education and one-tenth of one percent are in college. Education is still dominated by Christian missions with their emphasis on religion and non-technical subjects, and purely technical training is almost non-existent.

Conclusion

Lesotho's economic dependence on South Africa is a difficult prospect in this time of apartheid, but it would be less serious in the future if the social situation in South Africa improved dramatically. In any case, there appears to be no alternative. The country's size and extremely limited resources leave no reasonable prospect for a viable independent economy. Some of the best prospects for increased domestic productivity, employment, and earnings depend on South African tourists and access to the South African market.

Lesotho's most immediate need is to find employment for its growing population. This could include restoring the productivity of its agricultural sector and promotion of tourism and light manufacturing. Although it may be intractable, high priority is to halt the loss of arable land due to erosion. Given the extreme arable land density and overall availability of water, irrigation deserves careful study. But, major transfers of food aid will continue to be required in the foreseeable future.

Although there would appear to be no alternative to economic dependence on the Republic of South Africa, Lesotho is an independent majority ruled country which is seeking international support to assure its political integrity through investments and institutional infrastructure projects. While such projects will almost always have economic benefits, they probably cannot be justified on economic grounds alone. In their design, attention should also be given to the relationship between political integrity and economic resilience, in the context of Lesotho's vulnerability to events in the Republic of South Africa.

MALAWI

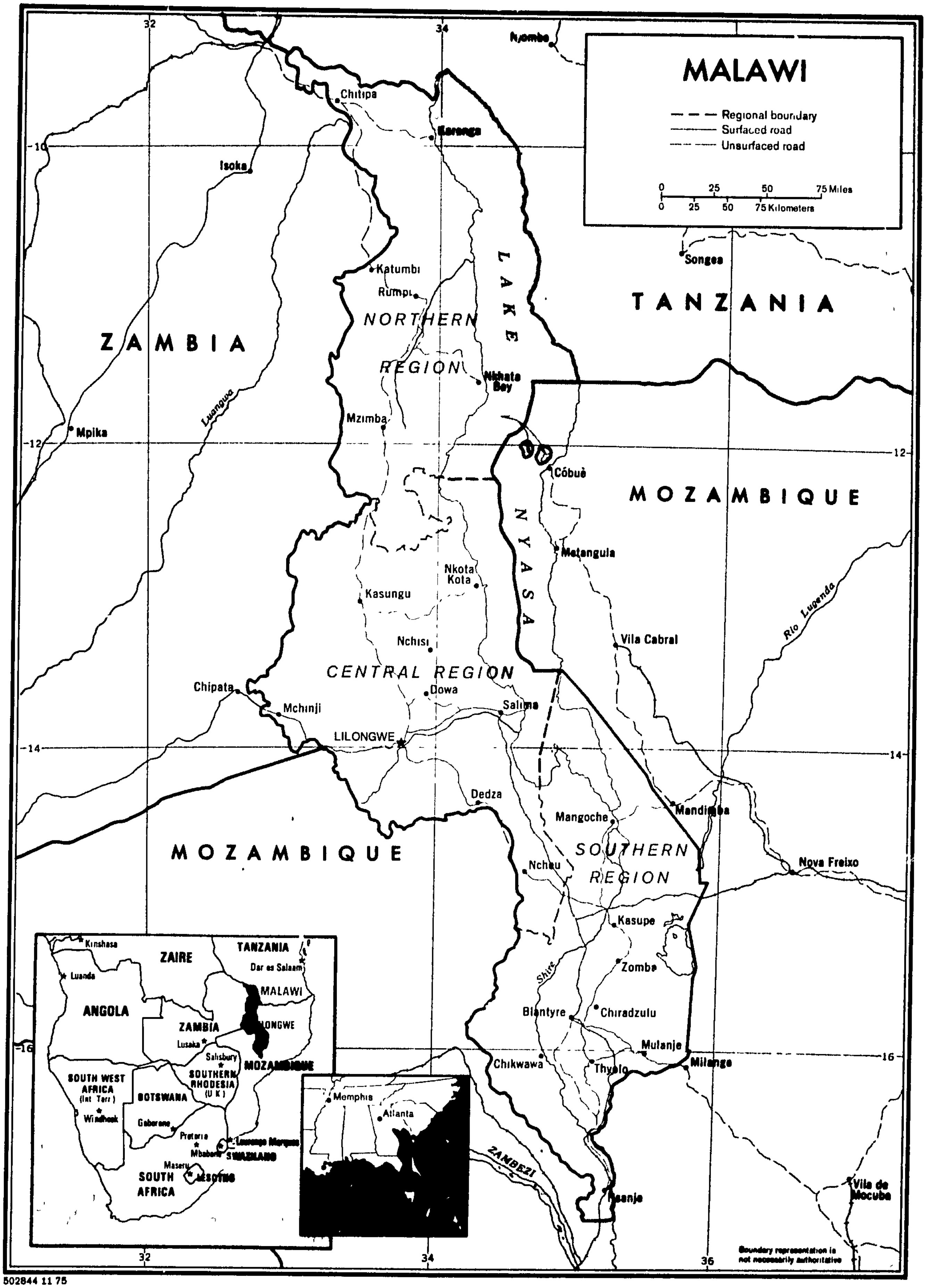
Selected Indicators for:

MALAWI

DEMOGRAPHIC	
Total Population (000)	5,012
Population Growth Rate (%)	2.3
Dependency Ratio	.90
Percent Urban	6
Population Density (per mi.^{2})	111
ECONOMIC	
Gross National Product (GNP)[1]	525
Gross Domestic Product (GDP)[1]	529
GNP per Capita[2]	110
GDP per Capita[2]	111
Real GNP Growth (1970-74)	9.8
GNP per Capita Growth (1970-74)	7.1
Retail Price Index 1974 (1970 = 100)	118
Debt Service Ratio, 1974	9.1
Economic Structure (% GDP)	
Agriculture	46
Manufacturing	16
Mining	---
AGRICULTURE	
% of Economically Active Population	88
Food as % of Commodity Exports	34
Basic Food Grain Production (KT per Capita)	219
Food Exports as % of Food Imports	303
Maize Productivity (kg/ha)	1,153
SOCIAL	
Literacy Rate	15
Primary Enrollment as % of age group	32
Secondary Enrollment as % of age group	3
Life Expectancy at Birth	41
Protein Intake (% FAO Req.)	116
Doctors per 10,000 Population	0.1
Hospital Beds per 1,000 Population	1.3

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.


MALAWI
Regional boundary
Surfaced road
Unsurfaced road
0 25 50 75 Miles
0 25 50 75 Kilometers
TANZANIA
ZAMBIA
MOZAMBIQUE
MOZAMBIQUE
LAKE NYASA
NORTHERN REGION
CENTRAL REGION
SOUTHERN REGION
Chitipa
Karonga
Isoka
Katumbi
Rumpi
Nkhata Bay
Mzimba
Mpika
Luangwa
Cóbuè
Metangula
Songea
Nkota Kota
Kasungu
Nchisi
Vila Cabral
Rio Lugenda
Chipata
Mchinji
Dowa
Salima
LILONGWE
Dedza
Mangoche
Mandimba
Nova Freixo
Nchau
Kasupe
Zomba
Shire
Blantyre
Chiradzulu
Mulanje
Chikwawa
Thyolo
Milange
ZAMBEZI
Nsanje
Vila de Mocuba
Boundary representation is not necessarily authoritative
ZAIRE
TANZANIA
Kinshasa
Luanda
Dar es Salaam
MALAWI
ANGOLA
ZAMBIA
Lusaka
LILONGWE
Salisbury
SOUTHERN RHODESIA (U.K.)
MOZAMBIQUE
SOUTH WEST AFRICA (Int. Terr.)
Windhoek
BOTSWANA
Gaborone
Pretoria
Mbabane
SWAZILAND
Maseru
LESOTHO
SOUTH AFRICA
Memphis
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MALAWI

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper concludes that Malawi presents an especially attractive development opportunity--a small poor country whose development strategy, successful so far, is a pragmatic blend of growth and equity. Nevertheless, it will become increasingly difficult to improve the productivity of subsistence farmers. A program of rural infrastructure to open unused lands and expansion of commerical agriculture to generate employment are possible areas of assistance.

The Development Strategy

Landlocked by Tanzania, Zambia and Mozambique, Malawi is distinctive among the nations of southern Africa. A small country about the size of Pennsylvania with a population of 5 million people. It is the most densely populated country in the region--111 persons per sq. mile. It has no known significant mineral resources or unusual power potential and its only rail outlets to the sea are through Mozambique. Its main resources are its people, good rainfall, temperate climate and relatively large proportion of arable land. Since 1970 Malawi has followed a National Statement of Development Policies which emphasizes efforts to:

- Raise standards of living in the rural areas and avoid increasing disparities between urban and rural areas.
- Achieve an average annual GDP growth of 8 percent through parallel development of small holder farm output, estate agriculture and industry.
- Promote more balanced regional development and develop local initiative and local participation in the economy.

To date this strategy has been singularly successful. In 1975 Malawi's GDP reached $730 million in total and $142 per capita. GDP grew 19.3 percent a year from 1970 to 1975. In real terms it grew 11.8 percent a year. With population growing at about 2.5 percent a year, GDP per capita has increased rapidly. Government forecasts call for a somewhat slower, but still substantial growth rate of 8.5 percent through 1980.

The growth has also been singularly balanced. All sectors have grown in both current and real terms. Starting from a much larger base, agriculture has experienced a somewhat slower rate of growth than the other sectors. The result is a more balanced economy with agriculture contributing 45 percent of GDP in 1975, compared to 55 percent in 1964. And growth within agriculture has been shared. Between 1964 and 1975, in real terms, subsistence agriculture increased 4.3 percent a year and monetized agriculture increased 8.5 percent a year. Over half of cash crop production comes from small farmers and most of them grow some cash crops. Small holder cash crops exports increased 10.1

percent a year from 1964 to 1972, compared to increases of 11.3 percent a year for cash crop exports from large farming estates.

In the years since independence, manufacturing has also been one of the more dynamic sectors of the economy. It now contributes 14 percent of total GDP and 20 percent of monetary GDP. Government policy emphasizes import substitution, small-scale rural industries, and export food processing. The Government has provided a range of indirect inducements such as import tariffs and tax allowances as well as direct support through two industrial development corporations. As a result, much of the growth in manufacturing came in the production of such consumer goods as soap, cigarettes, soft drinks, household utensils and textiles. The immediate import substitution opportunities have been filled and future growth will more likely come from expansion of existing industries as agricultural production and incomes grow. One project now underway, the Viphya Pulpwood Mill, is expected to account for 25 percent of value added by manufacturing in 1980.

Since 1968, wages have not kept pace with inflation while the increasing prices that farmers have received have increased their purchasing power. The narrowed gap between urban and rural real wages offers little incentive for the rural worker--often lacking technical skills--to move to the cities. At the same time, the Government's policy of encouraging large estate farming and manufacturing has resulted in high profits for those having the means, skills and expertise to begin new productive enterprises. While there has been a balancing of income differential for a majority of the population, there has also been an increase in the concentration of income in the hands of a few. However, despite these trends, Malawi still apparently has the greatest income equality in the region.

Agriculture

Agriculture is the mainstay of Malawi's economy. It provides 45 percent of GDP, 80 percent of exports and employment for about 90 percent of the economically active resident population. The most commonly cited figure for maximum arable land is at 13.1 million acres, 56 percent of total land area, although no more than half of this is considered arable with present methods. Ninety percent of the country receives 30 to 60 inches of rain, and the highly diversified relief and associated variations in climate and rainfall have led to an intricate pattern of production of a wide variety of crops.

Unlike many other countries in Africa, Malawi has encouraged gradual expansion of large agricultural estates since independence, although only Malawi citizens can obtain leases now. Some 400 estates with an average size of 940 acres provide 41 percent of the monetary crop production and 55 percent of the agricultural exports.

At the same time the government has stimulated increased production by small farmers. They are responsible for the subsistence production which represents 65 to 70 percent of total agricultural production and over half of the monetary crop production. In intensive area development schemes small farmers have responded to government provided services, farm inputs and guaranteed minimum crop prices. Cultivators in some agricultural projects have increased their yields 50 to 100 percent in a few years. Both Government and donors are beginning to question the replicability of these schemes because of costs. The majority of small holders, however, are still confined to the limited acreage that can be cultivated by non-family members using a hand hoe and to the low yields to be obtained in overcrowded or depleted land without the use of artificial fertilizer or even animal or green manure. They sell cash crops only in surplus years.

Development Prospects and Constraints

The National Development Policy is intended to cover the decade of the 1970s and will probably be continued beyond. Agricultural development will remain the keystone. The emphasis on increasing yields on present land is certain to continue, but the most immediate gains may already have been achieved. Other alternatives, will have to be explored, including development of unused arable land. This will require costly resettlement and irrigation or other infrastructure. Another possibility is increasing intensity of use in present land, where systems of bush fallow are still quite common.

Manpower is likely to be a continuing constraint to development, but the problem is less serious than it is in many southern Africa countries. At present 17 percent of the employees in skilled jobs and above are non-Malawians. The percentage increases sharply as one moves up to senior level managerial positions. This situation is likely to continue for some time if development proceeds. A conservative estimate by the World Bank indicates shortages in all skill categories through 1986 if expatriates are held to present levels. The largest shortage would occur at the level of office and skilled workers requiring a Junior Secondary Certificate.

Another aspect of manpower which is currently an asset could potentially become a serious problem. About 250,000 Malawians work abroad, in South Africa and Rhodesia. Most were on two year contracts, but others have been away for ten years and more. About 10 percent have settled permanently in neighboring countries. Their remittances of about $25 million a year offset foreign earnings in Malawi that are transferred abroad. Wage employment could not possibly absorb these workers if this employment was shut off.

Since independence, Malawi has given high priority to transportation in its development planning and budgets. The major transport services are relatively well developed in the southern half of the country where economic activity is most concentrated. But many rural areas, particularly in the northern half of the country lack dependable year-round routes to markets and administrative centers. In these areas transportation is still a constraint to overall development and to the government's objective of more balanced regional development.

During the seventies Malawi's development has also been dependent on foreign aid. Exports and imports have increased at the same rate producing current account deficits that have been increasing steadily in absolute terms, though not in proportional terms. Government and private capital flows have more than made up the deficit. Government projections indicate a continuing dependence on external assistance. If these projections hold true, in 1980 the resource gap will be $46 million.

Conclusions

The major revision of the Foreign Assistance Act in 1973 reflected the widespread dissatisfaction with a macro-economic approach to development and the resulting inequities and over urbanization it apparently produced. Malawi is trying to reverse this--to limit urban migration and promote increased agricultural production on both large and small farms. It is particularly attractive to donors because of this.

Nevertheless, it will become increasingly difficult to involve greater numbers of subsistence farmers in programs designed to increase their productivity. Institutional capability at the national level appears to be weak, and the Government and donors are beginning to doubt the replicability of the expensive intensive area development schemes that have produced most of the increases in small-holder production. One possibility for further small farmer development is to open up unused lands through a program of rural infrastructure. Further expansion of commerical agriculture could provide employment for the sub-marginal farmer and rural landless poor.

Although manpower is not as severe a constraint as in many other countries, Malawi is still dependent on expatriates to fill upper level technical and managerial positions.

Up to 250,000 Malawians presently work outside the country and remit about U.S. $25 million annually. It would be difficult for the national economy to re-absorb them in the short run and impossible to absorb them into the wage sector.

In recent years, Malawi has not evidenced strong interest in U.S. assistance, probably partly out of concern for its international political balance and partly because other aid is available. It appears, however, that other donor aid will not grow enough to fill increased resource gaps in the future.

The question of political prisoners is even more difficult. Dr. Banda's one man rule is certainly not unique in Africa today. But severe repression of political opposition through arrest and detention has drawn fire from a number of sources.

MOZAMBIQUE

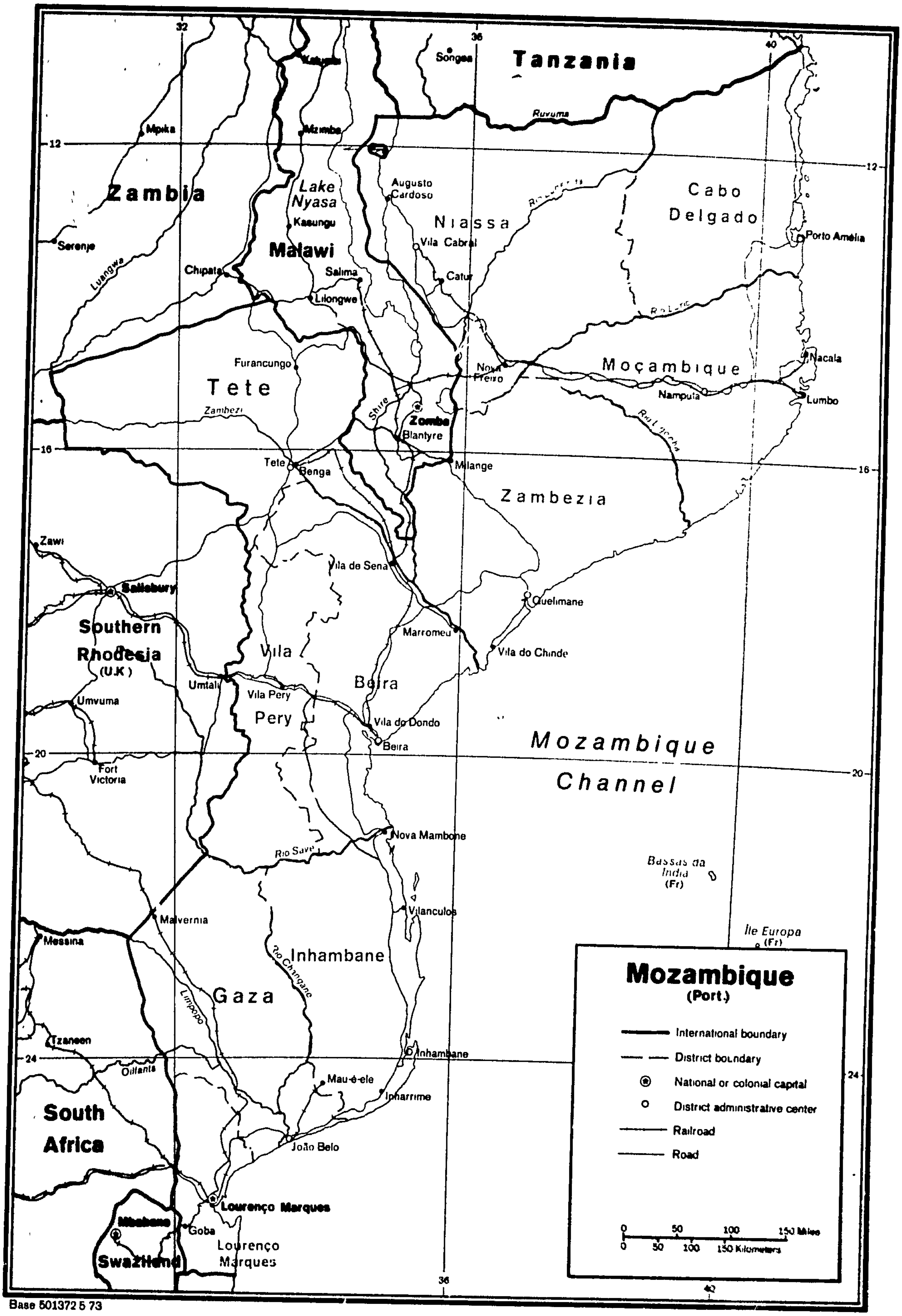
Selected Indicators for:

MOZAMBIQUE

DEMOGRAPHIC	
Total Population (000)	9,060
Population Growth Rate (%)	2.3
Dependency Ratio	.78
Percent Urban	6
Population Density (per mi.^{2})	30
ECONOMIC	
Gross National Product (GNP)[1]	2,905
Gross Domestic Product (GDP)[1]	3,147
GNP per Capita[2]	336
GDP per Capita[2]	364
Real GNP Growth (1970-74)	7.4
GNP per Capita Growth (1970-74)	5.0
Retail Price Index 1974 (1970 = 100)	131
Debt Service Ratio, 1974	NA
Economic Structure (% GDP)	
Agriculture	42
Manufacturing	$<$15
Mining	2
AGRICULTURE	
% of Economically Active Population	72
Food as % of Commodity Exports	56
Basic Food Grain Production (KT per Capita)	48
Food Exports as % of Food Imports	469
Maize Productivity (kg/ha)	1,100
SOCIAL	
Literacy Rate	7
Primary Enrollment as % of age group	25
Secondary Enrollment as % of age group	3
Life Expectancy at Birth	44
Protein Intake (% FAO Req.)	97
Doctors per 10,000 Population	0.6
Hospital Beds per 1,000 Population	1.3

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.



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MOZAMBIQUE

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper concludes that Mozambique's long term prospects for diversified growth are good. Immediate assistance opportunities arise out of the dislocations of independence and the closing of the Rhodesia border. Looking to the future, rural infrastructure and internal road facilities are needed and manpower training is a major long term need.

The Current Situation

Mozambique's development was for centuries related to the needs of Portugal and to services for neighboring countries. Its transportation infrastructure gave South Africa, Rhodesia, Swaziland, Zaire, and Zambia access to the Indian Ocean. Labor was exported to work in the mines and on the farms in Rhodesia and South Africa. Large and medium size farm estates were made available for Europeans with Africans largely confined to subsistence agriculture. A number of industries were developed including food processing, textiles, beverages, refining, chemicals, tobacco, glass and cement. Mineral resources were developed to a very limited extent.

Upon gaining independence in June 1975, the Front for the Liberation of Mozambique (FRELIMO) government embarked upon a major transformation of the country's political and economic structure and began establishing a Marxist-oriented philosophy. The new constitution provides for "farming as a basis and industry as a dynamic and decisive factor" for economic development; State ownership of land and natural resources; and collective forms of production.

Relying on the peasants as "the cornerstone of society," the transition to self government presents many sharp contrasts. A colonial-oriented development strategy is to change to a nationalistic one. An entrepot center catering to other nations will be a producer nation more concerned with providing for its own people. A European-managed economy will now be African-managed. A service-oriented economy will now stress agriculture and a growth guided strategy will be more motivated by equity concerns. The transition is to bring with it the collectivization of agriculture and industry; abolition of private rent, private medicine, and the private practice of law; and the nationalization of all private and missionary schools and clinics.

The government also decided in March 1976 to close its border with Rhodesia. The U.N. has estimated that the closure of the border alone resulted in a loss to Mozambique of $108-134 million annually.

Finally, independence and the subsequent upheaval resulted in the massive departure of Europeans. Of the approximately 280,000 Portuguese who lived in Mozambique before independence, only about 25,000-30,000 remain. Those leaving included most of the country's technicians, managers, professionals, commercial farmers, and skilled workers.

These things combined with the disruptions inevitably involved in the coming of independence have left Mozambique faced with problems in declining production and employment, falling exports, and deficits in the balance of payments. Rough estimates indicate a fall of 12 to 14 percent in GDP from 1974 to 1975. Production of commerical agricultural crops, tea, sugar, cashews, oils, etc. in 1975 has been estimated to be 17 percent below 1974 production. It is thought that the fall continued in 1976. The value of industrial output fell 20 percent in 1975 from 1974. There was probably virtually no tourism in 1975 and 1976. Balance of payments deficits of $80 million in 1974 and $49 million in 1975, with capital flight apparently a significant element, are reported, as compared to $9 million in 1973 and a small surplus in 1972. Deterioration of transportation and port and harbor facilities is also reported to have occurred. Carrying and handling capacity fell, accident rates increased, and traffic volume decreased. Since 1974, Mozambique has been receiving help from the Republic of South Africa in the operation of ports and railways.

Long Term Development

While the country is now facing severe problems of internal adjustment and external relationships, basic conditions affecting Mozambique suggest that it has the potential for significant long-term growth and development.

- It has a large land area, as large as Nigeria, and a reasonably large population, about 9 million, relative to other southern Africa countries.

- It has a long coast line on the Indian Ocean and a number of good natural harbors. It is bounded by Rhodesia, Zambia, Malawi, and Swaziland, which do not have direct access to the sea, and by South Africa and Tanzania.

- It has a well developed system of rail and road transport and port facilities. The Cabora Bassa Dam provides a major source of power. Hotel, restaurant, and beach facilities could support a significant tourist trade - in the past it has produced net earnings of as much as $6 million in a year, but the government currently is opposed to tourism.

- Mozambique's coal resources are among the largest in Africa. The U.S. Bureau of Mines reports that there are economically exploitable, sizeable deposits of diamonds, diatomite, gold, fluorite, iron, titanium, and zircon. There are also exploitable bauxite resources.

- Cultivated, fallow, and pasture land in use is estimated as being 16 million hectares as compared with 41.5 million hectares of cultivable land not being cultivated. Water also does not appear to be a constraint on agricultural production.

Growth rates in the past have been relatively high with GDP, in current prices, increasing at some 7.4 percent per year from 1965 through 1974 as compared with the African average of 4.8 percent for the same period. Per capita income also increased at significant rates during this period and was $350 in 1974. Data suggest that income distribution has been greatly uneven, with some 43 percent of GDP coming from agriculture which constitutes about 74 percent of the labor force, as compared with the same amount coming to the services sector, primarily transportation, which employs only 8 percent of the labor force. An unfavorable balance of trade has been increasing each year. The deficit has been financed largely from transportation services, transfers from Mozambique's labor working in South Africa and Rhodesia, and arrearages to Portugal.

External Trade and Service Relationships

Expansion of its external services and trade relationships offers one of the most important and possibly one of the more immediate means of facilitating Mozambique's development. A UNDP mission report states that "independent Mozambique inherits a communication (transportation) system more developed than in probably any other African country at the time of independence." There are three major deep water ports which handled more than 26 million tons of shipping in 1973. Rail systems provide direct overland service to the Republic of South Africa, Swaziland, Rhodesia, and Malawi and indirect links through Rhodesia to Botswana, Zambia and Zaire. Provision of such services accounted for 50 percent of export earnings in 1973. It is estimated that in 1973, 19 percent of the Republic of South Africa's seabound exports and 60 percent of Rhodesia's external trade passed through Mozambique. About 85 percent of Swaziland's exports were shipped through the Port of Maputo and 80 percent of Malawi's external freight was shipped through Mozambique in 1974. Transportation services to South Africa amounted to about $70 million in 1972.

Rhodesia has previously served as an important source of food imports, and before sanctions and the closing of the border, it provided about $60 million a year in earnings from transportation services. Like South Africa, it is a source of demand for labor which provides remittances of an unknown but significant amount.

Economic relations with Portugal are declining but imports from and exports to that country are still important and Portuguese language ability and Portuguese skilled workers are still needed.

It is apparent that its external economic relationships are of great importance to Mozambique's economic development both because of previous relations and because some of the countries with which it has had such relationships have the potential for future growth (e.g., South Africa and Rhodesia). However, while the potential arising from these relationships is great, it does leave the country vulnerable to its own economic and political conditions and policies and those of the countries surrounding it.

Agriculture

About 3/4 of the labor force is engaged in agriculture, and land and water resources seem to be adequate to support an expansion of agricultural production. The development of agricultural production and increases in productivity will require the bringing into effective production of lands abandoned by their former expatriate holders, which constituted almost all the commercial agriculture in the country. The government has begun attacking the problem by proclaiming that all abandoned properties revert to the State and bv collectivization approaches. It appears, however, that a policy for land reform and redistribution has not yet been fully developed.

While an adequate supply of land for growth and expansion of crop and livestock production appears to exist, tsetse fly infestation in the northern part of the country may be a serious constraint in its utilization. It also appears that expansion of its internal transport system, especially roads, will be needed if significant expansion of agricultural production is to be obtained.

Mining and Minerals

The mining industry is now of limited importance. In 1971 mineral exports were valued at about $3 million and total production at $16 million. However, exploitation of the large mineral resources will almost certainly be a major element in Mozambique's future development. The supply of power seems to be adequate and skilled and unskilled labor is probably available, but the lack of management and technical personnel is a constraint. Transportation is adequate in somc cases but for some projects provision of such facilities would be required.

Industry

Prior to independence, industrial production was 15-16 percent of GDP. In 1971, approximately 43,500 persons were employed in industry and employment has been estimated as now being 100,000. Industry is highly concentrated around the ports where employment and incomes are high. The most important industries are food processing, textiles, and beverages (beer). Food processing has been primarily oriented to production for export.

Conclusions

As part of Portugal, Mozambique did not receive assistance from other countries or international agencies prior to independence. Since independence it has received assistance or pledges of assistance amounting to $68.8 million from other countries and $50 million from multilateral organizations. Of this the U.S. has provided $12.5 million, including food aid.

In the short run, the need would appear to be primarily for foreign exchange to cover losses resulting from the imposition of sanctions and economic deterioration incidental to independence; for technical assistance and equipment for maintenance and operation of the transportation system; and for skill training and operational personnel to ease the losses which have occurred.

Provision of transportation services to Rhodesia, Zambia, Malawi, Swaziland, and the Republic of South Africa will continue to be an important source of revenue for some time to come. However, in the long run the share of this sector should decline with growth in agriculture, industry tourism, and mining. The long term prospects for growth are good as Mozambique contains the resources needed to support a self-sufficient, diversified economy.

The present transport network, excellent for international trans-shipment services, does not fully meet the needs of agricultural development in the country. A program of rural infrastructure, including both physical and area development, could be significant in helping this sector to grow to the point where the country would be self-sufficient in food and could produce a significant volume of agricultural products for export.

With the departure of the Portuguese, Mozambique faces major shortages of skilled, technical and managerial personnel. Training and technical assistance will be over-riding requirements for the foreseeable future.

Government policies will undoubtedly make a difference in the pace and nature of that growth, but Mozambique can be expected to move in the direction of greater economic independence from its neighbors and greater social equity in the context of a growing and diversified national economy.

NAMIBIA

Selected Indicators for:

NAMIBIA

DEMOGRAPHIC	
Total Population (000)	883
Population Growth Rate (%)	2.8
Dependency Ratio	.84
Percent Urban	25
Population Density (per mi.^{2})	3
ECONOMIC	
Gross National Product (GNP)[1]	616
Gross Domestic Product (GDP)[1]	924
GNP per Capita[2]	915
GDP per Capita[2]	1,373
Real GNP Growth (1970-74)	**
GNP per Capita Growth (1970-74)	**
Retail Price Index 1974 (1970 = 100)	123
Debt Service Ratio, 1974	NA
Economic Structure (% GDP)	
Agriculture	20
Manufacturing	10
Mining	50
AGRICULTURE	
% of Economically Active Population	55
Food as % of Commodity Exports	24
Basic Food Grain Production (KT per Capita)	46
Food Exports as % of Food Imports	< 100
Maize Productivity (kg/ha)	412
SOCIAL	
Literacy Rate	**
Primary Enrollment as % of age group	65
Secondary Enrollment as % of age group	4
Life Expectancy at Birth	**
Protein Intake (% FAO Req.)	**
Doctors per 10,000 Population	2.4
Hospital Beds per 1,000 Population	10.0

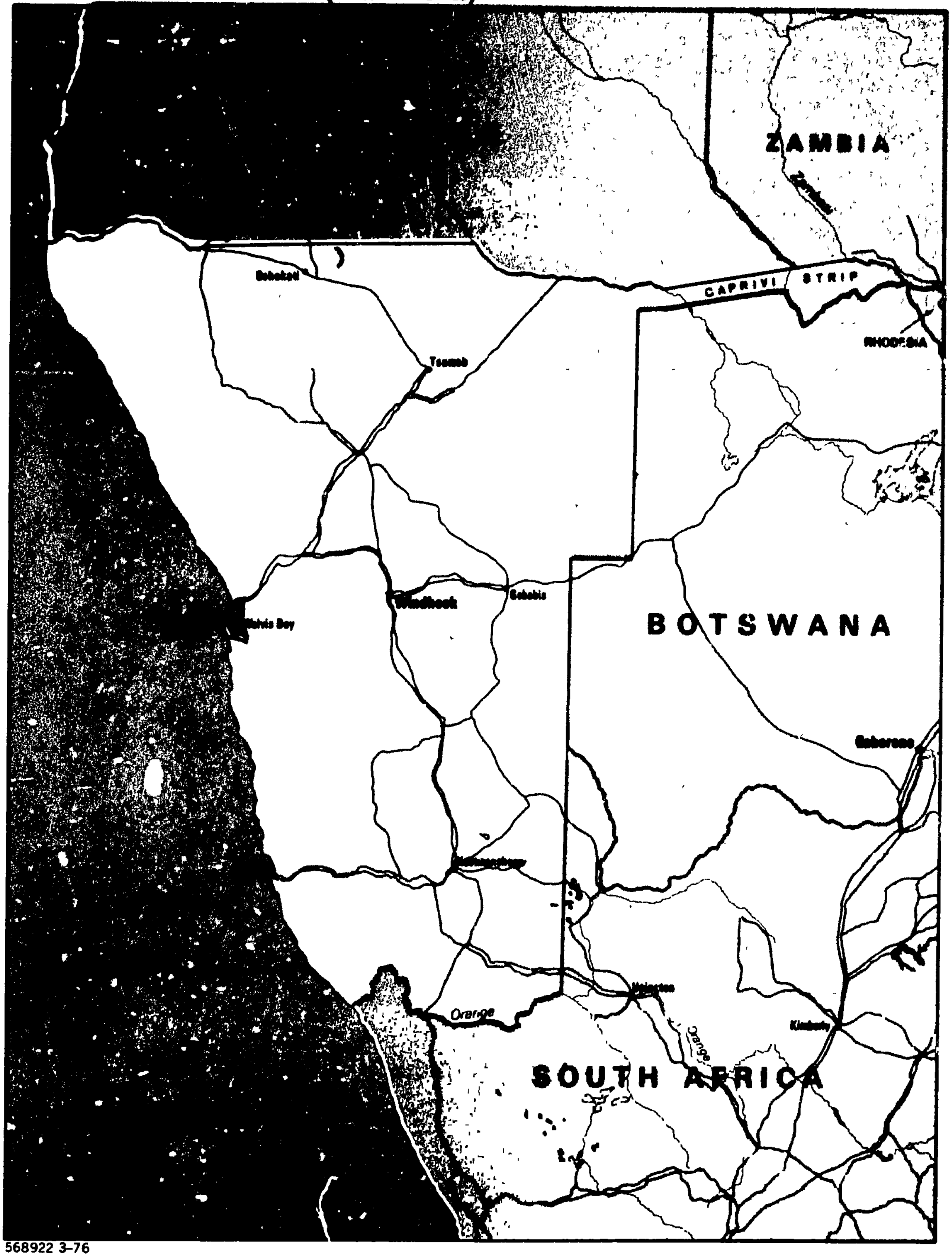
[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.

(**) Indicates data not available.

(NA) Indicates not applicable.

South-West Africa (Namibia)



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NAMIBIA

THE POTENTIAL ROLE FOR U.S. ASSISTANCE

This paper concludes that relatively wealthy Namibia's problem, like Botswana, will be to convert mineral wealth into general well being. The complete lack of institutional infrastructure and skilled African manpower will be major constraints.

Structural Characteristics of the Economy

Namibia is a large (318,000 square miles) semi-arid, sparsely populated (2.7 inhabitants per square mile) but wealthy country. The U.N. estimated GDP in 1973 at $924 million for a population of only 880,000. The resulting per capita GDP of over $1,000 would be among the highest on the Continent.

Namibia's wealth is the result of post World War II development, due mainly to a phenomenal growth of the mining industry. Virtually the entire mining output is exported and mining products account for 60% of export earnings. Diamonds (mainly gem stones) are the most important product (60% of the value of mineral production). Other important minerals include copper, lead, zinc, tin, vandanium, cadmium, lithium, and uranium. In terms of value of mineral output Namibia ranks 17th among the countries of the world and its reserves appear to be very considerable.

Modern agriculture and commercial fishing are the second most important productive sector. Beef sales constitute 55 percent of agricultural marketed output and Larakul pelts close to 30 percent. Most of the beef is exported to South Africa while Larakul pelts are marketed via South Africa in Western Europe, North America and Japan. Over half the fish and fish products are usually exported.

Traditional agriculture practiced on "bantustans" (homelands) concentrated in the northern third of the country consists mainly of subsistence farming and of animal herding. The bantustans occupy about 25 percent of Namibia's territory and consist mostly of inferior lands. About 25 percent of Namibia's 9 million head of cattle, sheep and goats are raised in the traditional sector but the quality of the traditional herds is low and endemic animal diseases prevail. The traditional sector contributes, in total, only an estimated 3.5 percent of the GDP.

Manufacturing generates 10 percent of the GDP and it is primarily related to fish and fish-product processing and canning. There is also some production of mineral concentrates and copper and lead smelting. Since the late 1960's there has been a beginning of consumer goods manufacturing for local markets (soft drink bottling, baking, tanning, milling) and there is one local cement factory.

The rapid growth of population in the northern part of the country where land is cultivated by traditional methods, and the rapid development of mining generated a demand for water which the authorities planned to satisfy by daming the Kunene River, one of the two perennial rivers flowing through Namibia. The Project to be completed in 1978 is to provide water to irrigate Ovamboland. The increased water supply will also permit an expansion of a large base metal complex. The project will have a 320 mw electricity generating capacity, with the power to be used inter alia for the full development of a major open-cast uranium mine.

Though Namibia is to be the sole beneficiary of the Kunene project, which was undertaken and financed by South Africa, virtually all the installations are on Angolan territory. The project was initially negotiated by the Republic and Portugal, and the independent Angolan regime might, in the future, request to share in the project's benefits.

Because of its large size, the sparsity of the population, and the difficulties of the terrain, the cost of railway construction and of construction and maintenance of roads tends to be high. Nevertheless Namibia has an adequate rail and road system. South African Railways operates nearly 3,000 miles of track in Naimibia. The system connects most of the important towns and mines and the two major ports. However, the only inter-regional rail link consists of a single track entering the South African Republic from southern Namibia. The 3,000 miles of paved roads are mostly of recent construction, and an asphalt road connects Namibia with Angola.

Namibia's main access to world markets is through two ports, Walvis Bay, which handles 95 percent of the country's sea-borne trade, and Luderitz, a small port, with limited facilities which cannot be readily expanded. The South African Republic claims Walvis Bay as integral part of its territory, which could present a serious problem to an independent Namibia.

Population and Racial Structure

Namibia's 850,000 inhabitants fall into two distinct groups: the 100,000 whites (of whom one half are Namibian and one half South African nationals) and the 750,000 non-whites. The latter group consists of close to 100,000 mixed-blood persons (falling into several distinct communities) and some 650,000 Africans, over half of whom are Ovambos. The white non-white division plays a key role in the country's socioeconomic make-up. By comparison, the divisions within the non-white community are of minor importance. The population currently grows at close to 3 percent a year.

The white minority plays a dominant role in Namibia's economy. They occupy virtually all the urban positions with administrative and technical responsibility. About one-third of the whites are rural and the 5,000 white-owned farms constitute the modern agricultural sector. The coloreds have a lower economic status than the whites but they are more favored than the Africans.

The dominant position of the whites is reinforced by racial laws, originally imposed under German colonial rule prior to World War I and modified, by the South African authorities. The country is divided into tribal reserves (now called homelands or "bantustans") and into Police Zones. Most of the rich mining and farming region of the central plateau is designated for European settlement. Within this zone there are a few native reserves which provide labor to the surrounding white farms. In the rest, Africans can live only in restricted locations or as servants or laborers in white-owned farms or white-owned enterprises. They are not allowed to move without passes or remain in an urban area other than their place of permanent residence for more than 72 hours.

The Africans who must stay away from their permanent place of residence because of work are regarded as migrant laborers. Their movements are regulated, and they cannot take their families to live with them. Of the estimated 60,000 African workers (1972) 43,000 were classified as migrants. Of these 32 percent were employed in commerce, government and industry, 30 percent in mining, 7 percent in fishing and 6 percent in domestic service. The majority of permanent workers apparently work in agriculture or in domestic service. For the most part Africans work in unskilled jobs, though there is a small but expanding group of teachers, nurses and technicians. Enterpreneurial activities of Africans are discouraged, and a white-directed government corporation has the monoply of retail trade in the homelands.

The racial inequality is fostered by the educational policy. In 1964-65, the last year for which education expenditure figures are available only 17 percent of the budget was allocated for the African population. Few Africans graduate from secondary school and virtually none complete a higher education.

In 1972 the U.N. estimated that GDP per capita was $4,525 for whites and $325 for non-whites. These figures point to great racial disparity, but they also indicate that even in the subsistence sector the poverty was not desperate by African standards.

Foreign Trade and Investment: The South African Connection

Namibia's well-being is dependent on the world economy. Foreign investment is required to develop Namibia's resources, to provide markets for its products, and to furnish commodities and goods which cannot be economically produced within the country. Conversely, Namibia's current and potential future output are of great importance to the more industrialized countries of the world.

The interdependence of Namibia's economy with the world economy is reflected in the trade and investment figures. Mining, the key sector of the economy was developed entirely by foreign capital and it is dominated by three multinational companies. Foreign capital also plays a major role in fishing and manufacturing.

Namibia is a key element in the South African Republic's economic system. The largest share of private foreign investment in Namibia is South African (followed by the U.S.) and South Africa also invested heavily in Namibia's infrastructure, including the Kunene project. Control of Namibian diamond marketing is essential to the preservation of South Africa's diamond monopoly. Namibia is also a valuable source of foreign exchange. The major part of Namibian exports are sold to third countries, generating 10 percent of the foreign currency earnings of the Rand Monetary Area, while 80 percent of Namibian imports come from the South African Republic, benefitting the latter's industry.

Problems of Transition to Majority Rule

The South African Republic's reluctance to relinquish its rule over Namibia is the greatest obstacle to a smooth transition to majority rule. Since 1968, in clear defiance of U.N. resolutions, the South African Republic, which previously acted as a mandatory power, took steps to integrate Namibia into its territory. This culminated in a 1969 act which transferred most of the legislative and administrative responsibilities over Namibia to the Republic of South Africa. Since then Namibia has been administered as a South African province.

The first task of an independent Namibia will be to create its own national administration--a difficult task, aggravated by the absence of African Namibians with any administrative experience. Though the United Nations has undertaken the training of a Namibian cadre, the administrative problem will clearly call for further foreign technical aid and cooperation.

An independent Namibia will also have to face the problem of freeing itself from the South African Republic's economic domination. This is likely to be a very gradual process. In all probability, Namibia will remain dependent on South African technicians and South African capital for a period of years, if not for decades. In all probability, too, Namibia will find it useful to remain, at least to start with, in the Rand Monetary area.

A more urgent task is to increase the benefits flowing to the Africans from Namibian production. Here, on one extreme, there is the danger of preservation of the status quo and, on the other, the danger of over precipitous action. Unless deliberate steps are taken to Africanize the economy, the whites might maintain their economically dominant position even under majority rule. Yet, in view of the low skill level and lack of business experience of the African population, rapid Africanization might severely damage the modern sector. Ideally, a massive educational, apprenticeship, and on-the-job training program will be developed with whites working themselves out of their jobs. Such a program is, however, difficult to institute under any circumstances and even more so under Namibian conditions.

In practice, transition is likely to have an adverse effect on modern agriculture but not on mining, which is the mainstay of the Namibian economy. In the past, the Africans were deprived of their best lands and it is probable that they will get them back from the white owners. Though some Africans have acquired experience by working in supervisory positions on white-owned farms and ranches, there is serious doubt whether the current quantity and quality of beef and karakul pelt production could be maintained initially under African management. A decline in modern agriculture would reduce Namibia's foreign exchange earnings. It would also mean a loss of employment opportunities for Namibian ranch workers. This loss would, however, be compensated by an increase in land available for African ranching. On balance, the African population is not likely to suffer from the change-over.

Because of the technical problems of mining it is most unlikely that any attempt at an abrupt Africanization of the technical personnel will be made. On the contrary, Africanization promises to be a gradual and undisruptive process. In all probability, the

African workers will demand higher wages and the Namibian Government a higher share of the mining companies' profits. But in view of the reputedly high profitability of the Namibian mining ventures, there is room for a mutually acceptable compromise.

Development Problems

Namibia faces a fundamental development choice: whether to use the proceeds from the modern sector, mainly from mining, to improve the traditional sector, or whether to seek to expand the modern sector so as to engage an ever-growing proportion of the population.

A long-term strategy for Namibia clearly calls for the modernization of the economy chiefly on the basis of mineral-led development. The aridity of the major part of the country argues against the likelihood of providing a substantially higher standard of living for a much larger population in agriculture.

There are good possibilities, on the other hand, of modernizing the population and of absorbing its greater part in a mineral-led industrializing economy. The prognosis for further mining expansion is good. Although mining itself will not generate a sufficient number of jobs to employ the increasing number of working-age inhabitants, there is a possibility of expansion of first-transformation of minerals and of other manufacturing ancillary to mining operations.

Majority rule will sweep away racial barriers, permitting families to join workers employed by the mines and in other industry. The workers are also likely to get higher wages. As a consequence demand for housing will increase, stimulating construction and the construction materials industry.

Majority rule is also likely to increase the number of service jobs in such branches as administration, education, health and other community services.

It thus seems likely that sufficient jobs will be created in the modern sector to absorb a much larger segment of Namibia's population. The problem is the lack of adequate skills. Given the total number of people involved, a program of general up-skilling appears to be manageable, but it must be recognized that even under the best circumstances it will take a decade or more to make a significant impact.

In the interim period considerable reliance will have to be placed on expatriate personnel to man the growing economy while training native Namibians to take over the jobs.

Since the modernization of the African population will require a considerable amount of time, short-term action to help African agriculture will also be needed. Some benefit will doubtless accrue as white lands are taken over. There is also the possibility of improving veterinary services and of introducing improved animal husbandry services.

Conclusions

Namibia's major development resource is its vast mineral wealth. Its problem, similar to Botswana's, will be to capture the fruits of the exploitation of that wealth and then to direct it into activities designed to support internal development objectives. These objectives might logically include diversifying the economy, reducing income inequalities, and broadening the base of participation in the modern sector. Though limited short-term opportunities may exist to increase agricultural production, in the long run the development strategy will have to focus on the creation of nonfarm employment opportunities.

The lack of institutional infrastructure in Namibia presents a major constraint to development along the lines suggested by this scenario. The first task of an independent government will be to create a national government with attendant tax and monetary structures. Skilled manpower is equally lacking, and the nation will have to continue to rely on private and public expatriate technical assistance. Education and training will certainly be priority problems.

RHODESIA

Selected Indicators for:

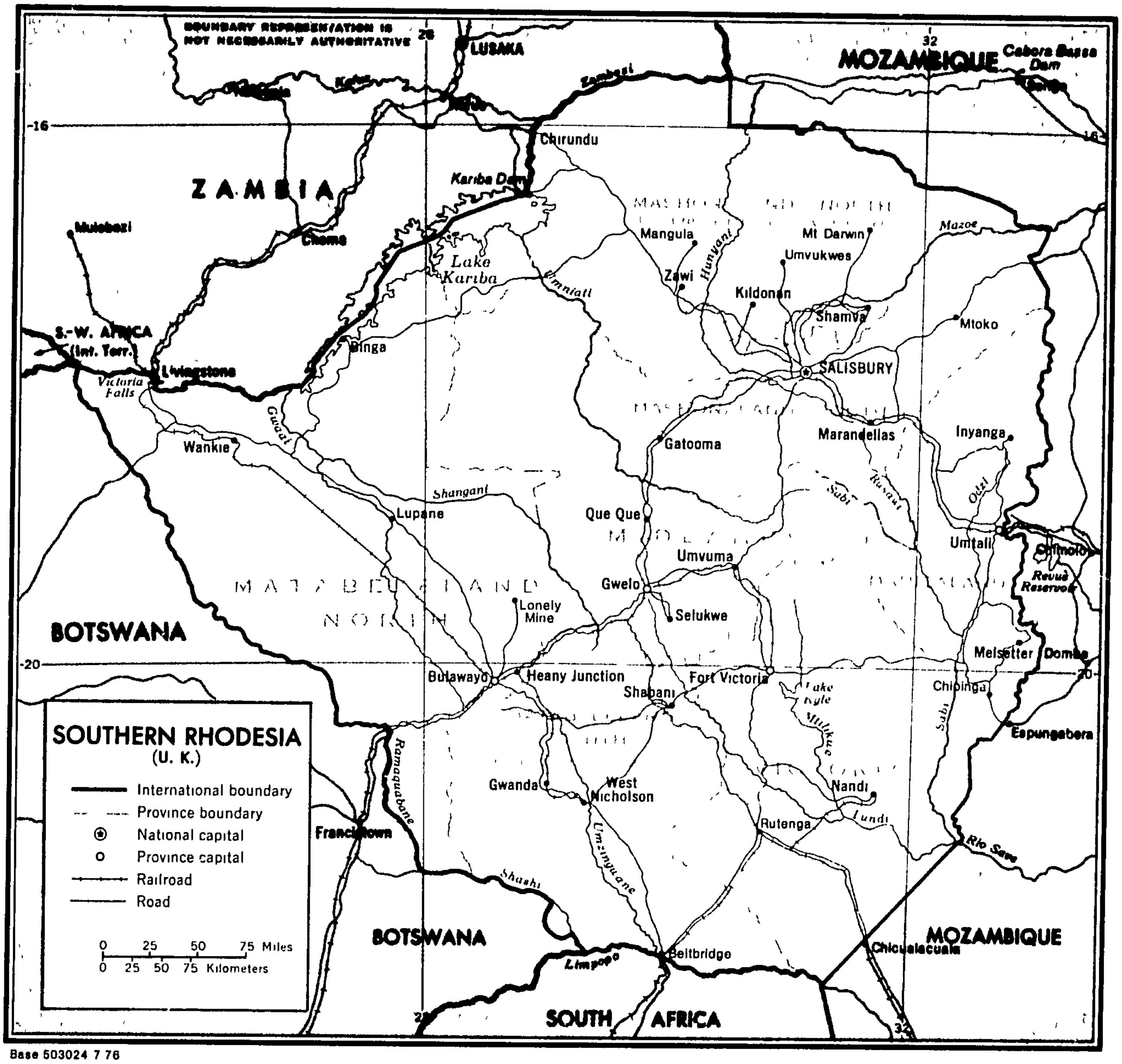
RHODESIA

DEMOGRAPHIC	
Total Population (000)	6,579
Population Growth Rate (%)	3.3
Dependency Ratio	.95
Percent Urban	20
Population Density (per mi.^{2})	44
ECONOMIC	
Gross National Product (GNP)[1]	2,123
Gross Domestic Product (GDP)[1]	2,173
GNP per Capita[2]	430
GDP per Capita[2]	440
Real GNP Growth (1970-74)	8.1
GNP per Capita Growth (1970-74)	4.5
Retail Price Index 1974 (1970 = 100)	109
Debt Service Ratio, 1974	**
Economic Structure (% GDP)	
Agriculture	15
Manufacturing	27
Mining	7
AGRICULTURE	
% of Economically Active Population	63
Food as % of Commodity Exports	**
Basic Food Grain Production (KT per Capita)	254
Food Exports as % of Food Imports	**
Maize Productivity (kg/ha)	4,000
SOCIAL	
Literacy Rate	30
Primary Enrollment as % of age group	39
Secondary Enrollment as % of age group	3
Life Expectancy at Birth	52
Protein Intake (% FAO Req.)	171
Doctors per 10,000 Population	1.5
Hospital Beds per 1,000 Population	3.2

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.

(**) Indicates data not available.



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RHODESIA

THE POTENTIAL ROLE OF U.S. ASSISTANCE

This paper concludes that the effects of transition to majority rule will be mixed. But achieving social and economic equality will create a substantial financial burden for the new government, in foreign exchange and in domestic revenues to finance land reform, urban facilities and other programs. The results of a computer simulation model of the Rhodesia economy are summarized.

Rhodesia's Economy: An Overview

Rhodesia's economy is diversified and highly industrialized. Manufacturing industries and utilities generate 27 percent of the Gross Domestic Product, a higher percentage than in any African country, not excluding the South African Republic. Metals and metal products constitute the most important branch of manufacturing, followed by chemicals and petroleum products and food processing. This pattern is typical for newly industrialized nations which tend to concentrate on light consumers' goods. Agriculture contributes 17 percent of the GDP tobacco, corn and cotton are the major crops. The products of the mining sector, 7 percent of the GDP, include copper, nickel, chrome, asbestos, gold and coal.

Rhodesia's occupational pattern is much more typical for a developing economy than the production pattern. Agriculture provides employment for over a third of Rhodesia's 1.1 million wage earners. Counting the subsistence sector, agriculture provides the primary or secondary means of livelihood for well over half the entire population. Industry, the second most important source of employment, has only 16 percent of the total wage workers.

Thanks to the high degree of diversification Rhodesia's economy is less affected by the vagaries of international commodity markets; and more resilient and more adaptable than the economies of most of the developing countries. The latter typically rely heavily on the income derived from the production and export of one or a few internationally traded commodities. However, by the same token, Rhodesia's economy is more difficult to manage than simpler systems. These strengths and weaknesses are of great importance to the problems of transition to majority rule.

Rhodesia's institutions reflect the complexity and the "modernity" of the economy. The country has an independent currency, the Rhodesian dollar, managed by a Reserve Bank and a comprehensive banking system with four large commercial banks, specialized investment banks, and a stock market. There is a modern tax system typical of economically more advanced countries. Direct (corporate and income) taxes are the chief source of government revenue. The government generates about 30 percent of gross investment. It provides the infrastructure, and most of the transport, communications and utilities. It also regulates, plans and finances economic activities through specialized agencies and public corporations.

The productive resources are predominantly in private hands. Foreign capital has played a key role in the country's development and about 25 percent of the productive assets are foreign-owned. Multinationals play an important role in mining and in banking, and there are also foreign subsidiaries among the larger-scale manufacturing enterprises. Since the Unilateral Declaration of Independence (UDI) domestic savings have financed most of the investment. Reinvestment of corporate profits (which account for two-thirds of private capital formation) has been encouraged through the imposition of a 15 percent tax on profit repatriation.

The modernity and complexity should not obscure the fact that Rhodesia's economy is small. The Gross National Product was estimated in 1975 at U.S. $2.8 billion, which is about the same as Zambia or the Ivory Coast. Rhodesia's per capita GNP, slightly over $400, also places it at par with the above countries. The limited productive capacity limits the resources which can be utilized to eliminate the country's economic and social inequities.

Rhodesian society is racially divided. The non-African minority of 300,000, mainly of European origin, is economically dominant. A major part of the better agricultural land is European-owned, and some 6,000 European farmers produce most of the marketable surplus and virtually the entire export crop. Europeans are the owners of non-agricultural productive assets, the administrators, the managers and the skilled workers. The 6.1 million Africans are mainly subsistence farmers and unskilled workers, with only a small minority in skilled and white-collar positions.

The dominant economic position of the Europeans is reinforced by discriminatory laws and by an institutional system geared to the Europeans needs. African agriculture is confined to designated areas which are overcrowded and overcropped and where land is increasingly exhausted, while much of the land reserved for European settlement lies fallow. There are severe restrictions on African settlement in urban areas. Primary and secondary education is segregated, and the government allocates roughly the same amounts to African as to European education, though there are twenty times as many African children. African farmers pay a special tax ostensibly to cover the cost of development and marketing of their crops. The tax does not apply to European farmers; and the latter receive much better extension services. Financial and other institutions are also clearly geared to European, not to African needs.

The two communities live in a symbiotic, albeit uneven relationship. European enterprise could not function without African labor (of the 1.1 million wage workers 950,000 are African) and without the domestic African demand (Africans account for some 40 percent of domestic merchandise sales). Conversely, the African community derives 80 percent of its income from wages earned by working for Europeans. Though some 3.5 million Africans live on Tribal Lands and engage in traditional agriculture, the subsistence sector generates only 5 percent of the Gross Domestic Product. About half the working age male members of Tribal Trust Land families work for wages elsewhere in Rhodesia and their remittances are of key importance to the traditional sector.

The pattern of income distribution reflects the dominant role played by the Europeans. The 1975 per capita income of the Europeans is estimated at U.S. $2,800, a level comparable with Western Europe, while the African per capita income was less than U.S. $150. In the modern sector the average annual wage received by a European was eleven times higher than the annual wage of an African. As a consequence, income distribution in Rhodesia is among the most unequal in the world.

Despite the vigorous growth which occurred in the ten-year period between the Unilateral Declaration of Independence in 1965 and the onset of the current recession beginning in 1974, the position of the poorest classes did not improve, and it might have even deteriorated. Over the period as a whole, job formation barely kept up with population growth. Overcrowding of the Tribal Trust Lands increased, and despite barriers, there was a strong drift toward cities resulting in a 6 percent annual expansion of urban population and in the spread of shantytowns.

To sum up, Rhodesia's economy is modern, but its capacity is limited, and the Europeans, who constitute 5 percent of the population receive 60 percent of the income. African advancement is slowed by discriminatory laws and practices, and by the economy's inability to generate a sufficient number of jobs. The existing economic institutions are well designed to cater to the needs of the Europeans, but they are not effective as a tool for promoting African advancement.

The Impact of U.N. Sanctions

As is typical of small countries, Rhodesia is heavily dependent on foreign trade. Prior to the imposition of U.N. sanctions merchandise trade (exports plus imports) were valued at over 80 percent of the Gross Domestic Product. Major exports included flue-cured tobacco (1/3 of the total), minerals, manufactured goods and foodstuffs. Close to 40 percent of the exports (mainly manufactured goods and foodstuffs) were destined to African countries other than the South African Republic, and Zambia was Rhodesia's single most important customer. One third of Rhodesia's imports consisted of capital goods, which accounted for half of the country's fixed capital formation. Rhodesia also imported a large share of intermediate product needs for further processing, consumer goods and foodstuffs, mainly wheat.

The sanctions reduced the profitability of exports and increased the cost of imports; the volume of exports declined to 25 percent of the GDP and the composition and direction of trade was altered. The export of tobacco became more difficult; part of the acreage was shifted to wheat production eliminating the need for wheat imports. Mineral exports, unaffected by sanctions and buoyed by rising world prices for chrome and for nickel, expanded rapidly. Industry, gradually cut off from its African markets, and facing import shortages increasingly turned to import substitution. There are indications, however, that some branches of industry as well as the transport sector are hampered by shortages of imported capital goods.

As the ring of sanctions tightened Rhodesia turned to South Africa as a trading partner and intermediary. With the 1974 closing of the Mozambique border, the South African routes became Rhodesia's only link with the outside world. However, these routes are more expensive than through Mozambique, and the limited capacity of South African railways causes costly delays.

Though Rhodesia's economy remained buoyant throughout most of the readjustment period, there was, without doubt, considerable loss of efficiency. The farming sector had to receive important subsidies to grow wheat and the Rhodesian railways piled up losses. Industry retooled to make products which could more advantageously be imported.

Since 1974, the economy has been in a severe slump, resulting from the world economic recession, from uncertainty concerning the future of the country's European minority, from increasing military expenditures and from the effects of guerilla warfare. The increasingly rapid outflow of Europeans which started in 1975 has caused a demand slump (home construction came to a virtual standstill) and has aggravated the skill scarcity. Investment declined to the point that job creation has ceased, aggravating the Africans' position.

The normalization of Rhodesia's international relations, and the removal of U.N. sanctions should bring substantial benefits to the country's economy. Rhodesian farmers will be clear beneficiaries. Though since 1965 alternate sources of supply have been developed, and though Rhodesia's tobacco has managed to reach world markets despite the blockade, the removal of the blockade would mean a lowering of cost of exporting and would bring higher profits, and an encouragement to increase production, to the Rhodesian farmers.

Industry, too, should benefit, albeit to a lesser extent. During the period of sanctions Zambia and the other customer nations have nurtured industries which they are likely to protect against Rhodesian competition, so that not all the traditional market will be recaptured. As trade flows more freely, some of Rhodesia's manufactured products developed as import substitutes are bound to suffer from foreign competition, but the transition could be eased through a judicious use of tariffs and subsidies. Industrial production should benefit, however, from easier access to foreign capital goods. Rhodesian railways will benefit if Zambian transshipments of copper are resumed. Mining which suffered the least will also reap least direct benefits.

Problems of Transition to Majority Rule

Rhodesia's economy has been managed by Europeans for Europeans. The problems of transition are: to improve the Africans' access to economic opportunities, to correct the most flagrant social inequities and to deal with the burden which the adjustments will put on the economy. The longer range problem is how to sustain growth while modifying its pattern so as to better serve the interests of the majority.

If the pattern observed in other African countries prevails, a significant fraction of the European population of Rhodesia will emigrate during the first two or three years of majority rule, after which the situation will tend to stabilize. Within the country there is likely to be a net shift of the European population from the farms to the cities.

When majority rule comes the legal barriers which impeded African outmigration from the Tribal Trust Lands are bound to be removed. As a consequence the rate of urban settlement should increase, and there is also bound to be settlement on agricultural land formerly reserved for European cultivation.

Majority rule will accelerate the process of Africanization of administrative, managerial, and skilled positions. In some cases Europeans who held choice posts because of racial discrimination, might be replaced by equally competent or by more competent Africans. But it is safe to assume that in the short run there will be a decline of average skills, hence a loss in economic efficiency.

The opening of opportunities for advancement will bring few advantages to the majority of the Africans, and there will be pressure on the government to help the least advantaged by raising wages.

Population shifts, Africanization and wage increases will put strains on the economy. In urban areas the expected population influx is likely to create overcrowding, a growth of slums, an increase in the number of urban poor and jobless. In agriculture output of the farms given up by the Europeans may be expected to decline. It may take a decade or more to reorganize the farms and to make up for production losses. On the other hand African agriculture should reap immediate benefits from new lands. On balance, however, a decline in high technology export crops and, in the first place, of flue-cured tobacco production, is likely to occur. Manufacturing will have to absorb higher wage costs, it will suffer from efficiency loss--especially the smaller firms. The larger enterprises and multinational subsidiaries currently employ a higher proportion of skilled Africans and they will be less affected by Africanization. Manufacturing will have to adapt to changing demand patterns resulting from the outflow of Europeans and from increasing purchasing power of Africans. Distribution is likely to face similar problems. Transport and communication may be expected to be less affected.

Thanks to their location, their national importance, and their multinational links, the large mining firms (which employ 70 percent of the mine workers, and which account for the lion's share of the sector's output) will probably be virtually immune from transition difficulties.

The transitional government will be called upon to cope with new problems, and to manage with a shrinking tax base. Rural and urban resettlement will constitute a new claim on government resources, and increased wages will raise the cost of doing government business, while the revenue from income taxes and profit taxes will shrink as Europeans depart and corporate profits decline.

A Simulation Model

To estimate the order of magnitude of Rhodesia's economic problems of the transition period it is necessary first to make plausible assumptions concerning the outside "shocks" (i.e., what proportion of Europeans will leave, by how much will wages be raised, etc.) and next, to analyze how these shocks will affect the various branches of the economy. The latter task was accomplished by means of a simulation model which was used to portray four different transition patterns.

Pattern (1) assumes that majority rule will result in the lifting of sanctions, but that it will not otherwise disturb the economic order. The assumption serves to establish the "base run" from which to measure deviations. Pattern (2) reflects mild disturbances and patterns (3) and (4) "severe" disturbances. A quantification of the disturbances exogenously introduced into the model is shown in the attachment to this paper. In the case of patterns (2) and (3) it was assumed that donors will be ready to cover the entire balance of payments deficit caused by cutbacks in production and real wage increases. In Pattern (4) it was assumed that the government would take measures to keep the balance of payments deficit within reasonable bounds. In all the runs transition was assumed to start in 1977; the figures for 1979 represent the situation in the immediate post-transition period, and the 1984 figures a situation in which the economy is on the way to adaptation to the new situation. Tables 1, 2 and 3 summarize the most important findings.

The "base run" case assumes a vigorous recovery from the 1974-1977 slump: by 1979 the GNP should be 8 percent higher than in 1976, and by 1984 42 percent higher. These figures are obtained by building into the model the structural relations of the post-UDI period. The recovery would require capital imports in excess of R $ 100 million per year throughout the period--a realistic order of magnitude in the light of past experience. Given the vigorous rate of growth, job formation would proceed at approximately 3.6 percent a year - about the same rate as the probable rate of population growth. The number of families deriving a livelihood from subsistence agriculture would also grow at 3.6 percent per year.

"Mild" as well as "severe" disturbances would result in a lower rate of investment and in less efficient production, hence in slower growth. In the "mild" case GNP would barely keep pace with population growth, while in the "severe unconstrained" case there would be a fall in per capita income of some 20 percent. In both of the cases annual balance of payments deficits would mount rapidly, reaching R $350 million per annum (in R $ at 1976 prices) by the early 1980's. In both cases, too, and especially in the latter one, there would be strong inflationary pressures.

It seems highly plausible that in order to fight inflation and to prevent excessive balance of payments deficits the government will step up taxes, cut expenditures, and restrict credit expansion. The measures assumed in Pattern 4 would cut the balance of payments deficit to a manageable level (R $80 in 1970 and R $250 in 1984). If foreign investment and/or foreign aid were not forthcoming, ever stricter measures would have to be adopted.

TABLE 1

GNP GROWTH UNDER FOUR ALTERNATE ASSUMPTIONS, 1976 = 100

	1979	1984
No Disturbances	108	135
"Mild" Disturbances	100	116
"Severe" Disturbances	96	112
"Severe" Disturbances, With Balance of Payments Constraints	94	106

TABLE 2

BALANCE OF PAYMENTS DEFICIT UNDER FOUR ALTERNATE ASSUMPTIONS IN $ MILLION AT 1976 PRICES

	1979	1984
No Disturbance	110	130
"Mild" Disturbance	100	350
"Severe" Disturbance	100	350
"Severe" Disturbance With Balance of Payments Constraints	80	250

TABLE 3

JOB FORMATION DEFICIENCY RESULTING FROM TRANSITION PERIOD DISTURBANCES

	1979	1984
"Mild" Disturbances	125,000	250,000
"Severe" Disturbances	180,000	300,000
"Severe" Disturbances With Balance of Payments Constraints	185,000	310,000

Conclusions

The lifting of international sanctions against Rhodesia will have mixed effects. Industrial growth should benefit from lowered transportation costs and easier access to capital goods. The Rhodesian railways will benefit if Zambian transshipments of copper are resumed. Rhodesia will probably not recapture all of its former foreign markets, however.

Internal changes are likely to be more significant. Once Africans gain legal access to the agricultural lands now held by Europeans, they are likely to move in substantial numbers and the output of African agriculture is likely to increase. There is also likely to be a tendency for European farmers to move to cities, and a consequent decline in export crops. A fraction of Europeans, urban as well as rural, will probably decide to leave the country, temporarily depressing internal demand for manufactured products. The efficiency of manufacturing itself will probably decrease as skilled Europeans are replaced by less experienced Africans. The severity of the disturbances will depend on the magnitude of the exodus and on the Africans' ability to carry out a smooth transfer of responsibilities. It is clear, however, that there will be a decline in production and in exports, and as a consequence, foreign exchange earnings and government revenues will decrease.

The new government of Zimbabwe will be called upon to meet demands for equity for the expansion of government services, and for growth. A land reform program will have to be designed and financed. Funds will be required to finance African purchases of businesses. Urban facilities and low income housing will be needed as families move to join wage earners already in the cities, and as migrants come from tribal lands to the cities in search of jobs. The unemployment issue, now camouflaged by laws restricting movements out of Tribal Trust Lands, will have to be faced. Such new demands will have to be met by a government with shrinking revenues, declining foreign exchange earnings and a decreasing pool of high-skill manpower.

ATTACHMENT

Description of the Differences Between the Four Simulated Cases

Perturbations	Base Case	Mild Case	Severe Case	Severe Case With Constrained Foreign Debt
1. Reduced Agricultural Exports	no change	up to 25% reduction	up to 35% reduction	up to 35% reduction
2. Demand Shift from European to traditional agriculture	no change	10% shift	10% shift	10% shift
3. Reduced Efficiency of European agriculture	no change	no change	no change	15% reduction
4. Reduced Import Transport Costs	no change	no change	no change	20% & 10% reduction
5. Increased Urban Drift from 6% to	no change	7-10-6	7-10-8-7-6	7-10-8-7-6
6. Emigration of Upper Income (European) Households	no change	10-15%	15-20%	15-20%
7. Wage Increases	no change	10-10%	10-10%	10-10%
8. Profits Reduced to	no change	.64, .64	.28, .28	.28, .28
9. Reduced Retained Earnings	no change	no change	.875, .75	.875, .75
10. Increased Indirect Taxes	no change	no change	1.125	1.125
11. Cut Govt. Consumption	no change	no change	25%	25%
12. Reduced Capital Efficiency	no change	limited	severe	severe

Note to Attachment

The changes introduced into the model were arbitrarily chosen to simulate the effect different levels of "shock" to the economy. They are not predictions of what will occur.

The first three exogenous changes listed (1,2 and 3) reflect the decline in European agriculture and improved land availability to traditional African agriculture.

The transport change (4) shows the results of the transport efficiency improvements due to the lifting of the embargo. Perturbation (5) reflects the dropping of racial barriers to urban residence. (6) reflects the 1977 and 1978 probable departures of Europeans from Rhodesia. (7) is the probable real wage increases that will follow from government and private efforts to affect a redistribution of income. Corresponding to the wage increase is the drop in profits (8) and retained earnings (9). Indirect taxes (10) would be expected to increase as the government attempts to generate revenues to pay for the wage increase and maintain revenues. (11) would be the result of efforts to limit foreign debt and balance of payments problems in the last case where foreign loans are limited. Perturbation (12) represents the effects of reducing the marginal efficiency of capital to show the decline in efficiency that transfer of management might induce.

SWAZILAND

Selected Indicators for:

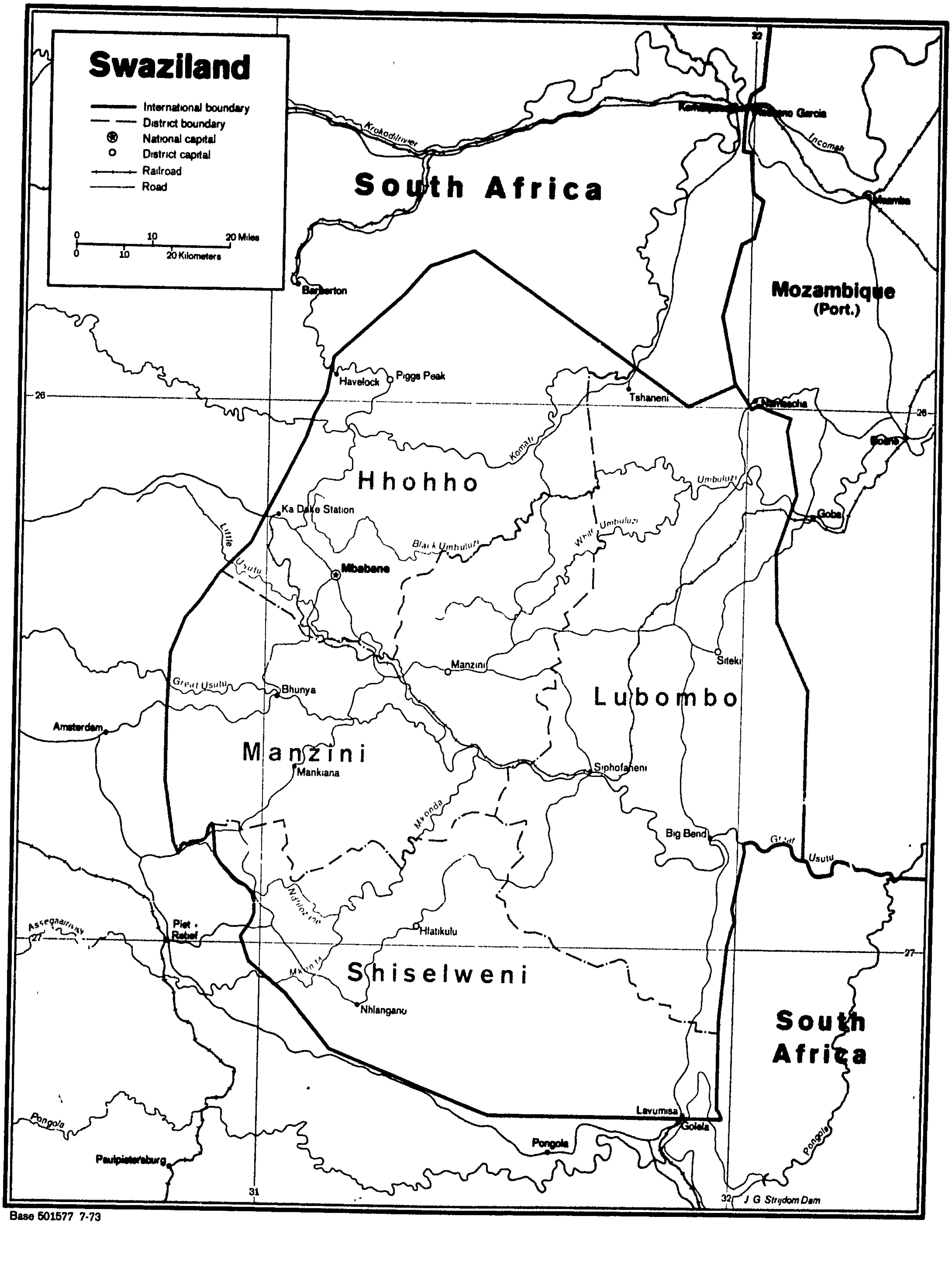
SWAZILAND

DEMOGRAPHIC	
Total Population (000)	481
Population Growth Rate (%)	2.7
Dependency Ratio	.90
Percent Urban	14
Population Density (per mi.^{2})	74
ECONOMIC	
Gross National Product (GNP)[1]	138
Gross Domestic Product (GDP)[1]	154
GNP per Capita[2]	330
GDP per Capita[2]	368
Real GNP Growth (1970-74)	9.6
GNP per Capita Growth (1970-74)	6.4
Retail Price Index 1974 (1970 = 100)	127
Debt Service Ratio, 1974	2.7
Economic Structure (% GDP)	
Agriculture	31
Manufacturing	24
Mining	2
AGRICULTURE	
% of Economically Active Population	82
Food as % of Commodity Exports	40
Basic Food Grain Production (KT per Capita)	247
Food Exports as % of Food Imports	500
Maize Productivity (kg/ha)	1,234
SOCIAL	
Literacy Rate	30
Primary Enrollment as % of age group	62
Secondary Enrollment as % of age group	12
Life Expectancy at Birth	44
Protein Intake (% FAO Req.)	**
Doctors per 10,000 Population	1.2
Hospital Beds per 1,000 Population	3.6

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.

(**) Indicates data not available.



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SWAZILAND

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper concludes that Swaziland's relative dynamism and prosperity give it the potential of becoming as economically independent from the Republic of South Africa as geography and its small size will allow. It will require continuing aid however. Within the country, there is a sharp division between wage earners in the modern sector, commercial farming, manufacturing, tourism and services, and subsistence farmers. Subsistence incomes are estimated at only one-fourth of the national average, making this sector a critical target for development assistance. As elsewhere, skilled manpower is in short supply.

The Country and Its Prospects

Swaziland exhibits a unique form of dualism. The Government of Swaziland conducts foreign relations and cooperates with the largely expatriate-owned commercial farms and businesses, while the Swazi Nation - a separate entity - runs tribal affairs and allocates communally held lands for subsistence agriculture.

Within this dualism, Swaziland enjoys relative economic viability based on an economy balanced among agriculture, manufacturing, mining and tourism. Although small and landlocked by Mozambique and the Republic of South Africa, it is experiencing steady economic growth. GDP has been growing at 7 percent a year in real terms and a real growth rate of 5 to 7 percent is forecast through 1981. It population of 500,000 is growing at 3 percent a year, but the country is not yet densely populated or over-populated for its resource base. The 1975 per capita GDP of $368 was among the highest in Africa. The country is blessed with a wide variety of topographical and temperate zones which permit the raising of many crops. In the 3000-foot highveld the largest man-made forests in Africa yield wood pulp exports worth $22 million a year. The 1,000 to 2,000-foot middleveld is the center of an expanding citrus and pineapple industry, while the 500-foot loweveld has over 70,000 acres under irrigation devoted primarily to growing sugar, cotton and rice. As a result agriculture is the largest sector of the economy-- contributing 29 percent to GDP, 65 percent of exports and 52 percent of wage employment. Most of this is generated by some 790 large, foreign-owned, farms which occupy 43 percent of the land. They average 2,000 acres in size, but 40 percent of them contain less than 240 acres and only 39 farms contain half the land.

The second largest sector is manufacturing which accounts for a surprising 22 percent of GDP and 13 percent of wage employment. Most of manufacturing consists of processing of primary products for export. Sugar refining, wood pulp processing, meat packing, cotton ginning and fruit packing account for 90 percent of the value added by the sector and the value of manufacturing output has been growing at 10 percent a year. Swaziland has attracted private foreign investment in export-oriented light industries over the past three years. A Finnish-financed television factory has started production. Investors from Hong Kong have established a cotton spinning plant which employs 2,000 persons. Other plants recently opened include a small tractor factory, a brewery, two knitwear factories, a cement factory, a furniture factory, an animal feed company and warehouses and workshops. These industries, which are in their infancy, manufacture almost exclusively for the South African market.

Swaziland's membership in the Customs Union and the Rand Monetary Area has contributed to its appeal to private investors who can take advantage of the South African and other African markets as well as Swaziland's preferential treatment within the EEC. The attraction for investors is heightened by generous government tax incentives, such as 30 percent depreciation the first year.

Mining and tourism are much less important in terms of their contribution to GDP and mining has been declining in recent years. But tourism has become the most dynamic sector since 1968, when a complex of hotels and gambling casinos were built in the picturesque Ezulweni Valley. Since 1968/9 the number of hotel guests more than doubled to 96,000 and another 12,000 tourists stay at various caravan and camping sites. Employment generated by tourism is more important than its relative share of the economy. About 15,000 people are employed, over twice the number employed in manufacturing, and a further increase of 4,900 jobs is expected by 1980.

Some Development Problems

While Swaziland status and prospects are very promising, there are also some serious problems. Perhaps the greatest is the fact that subsistence agriculture, where 70 percent of the people live and on which 50 percent of the population is totally dependent, is virtually stagnant. Per capita incomes are about one fourth the latest national figure. With per capita incomes of $125 in 1966 and $137 at present, real incomes have almost certainly declined. The Government is now undertaking a major program to address this imbalance using an integrated agricultural approach through designated Rural Development Areas.

Eighteen Rural Development Areas are planned which will cover 60 percent of the communally held land and a population of 125,000. The eighteen will be sponsored by Britain, the IBRD, the African Development Bank and the European Development Fund. AID is assisting through a Cooperative Marketing Project and a proposed major ($11 million) rural infrastructure project.

The second major problem is Swaziland's dependence on South Africa. Most of the Swazi employed in South Africa are not expected to return. But South Africa is Swaziland's second largest customer, absorbing 18 percent of exports; almost exclusive supplier (90 percent); and the source of almost all tourists. Most of the recent growth in light industry is directly dependent on the South African market. Almost all of Swaziland's manufacturing, mining and tourist facilities are foreign owned and much of the ownership is South African.

Like its neighbors, Swaziland has a shortage of skilled manpower. The country is heavily dependent on expatriates for skilled, professional and managerial personnel. This dependence is likely to continue for some time, although Swaziland has about 20 percent of the relevant age group in secondary school and 3 percent in post secondary education. The Government is actively working to deal with subordinate problems in education, including inappropriate curriculum (where AID is helping) shortages of trained teachers and a heavy dependence at the secondary level on expatriates who stay less than two years on the average.

Conclusions

Swaziland is economically well developed and prospects are relatively bright. Although its economy is heavily dependent on South Africa now, it has the potential of becoming as economically independent as geography and its small size will allow.

Within the country, there is a sharp division between wage earners in the modern sector, commercial farming, manufacturing, tourism and services, and subsistence farmers in the traditional sector. Incomes in the traditional sector are estimated at only one-fourth of the national per capita GDP, making this sector a critical target for development assistance. There is evidence that some of the Swazi subsistence farmers can be moved into small-scale commercial production, and small-scale African enterprises would add needed employment.

As elsewhere, skilled manpower is in short supply. The Government is currently placing considerable emphasis on improving the quality and the quantity of education, as the key to increased Swazi participation in the modern sector.

ZAMBIA

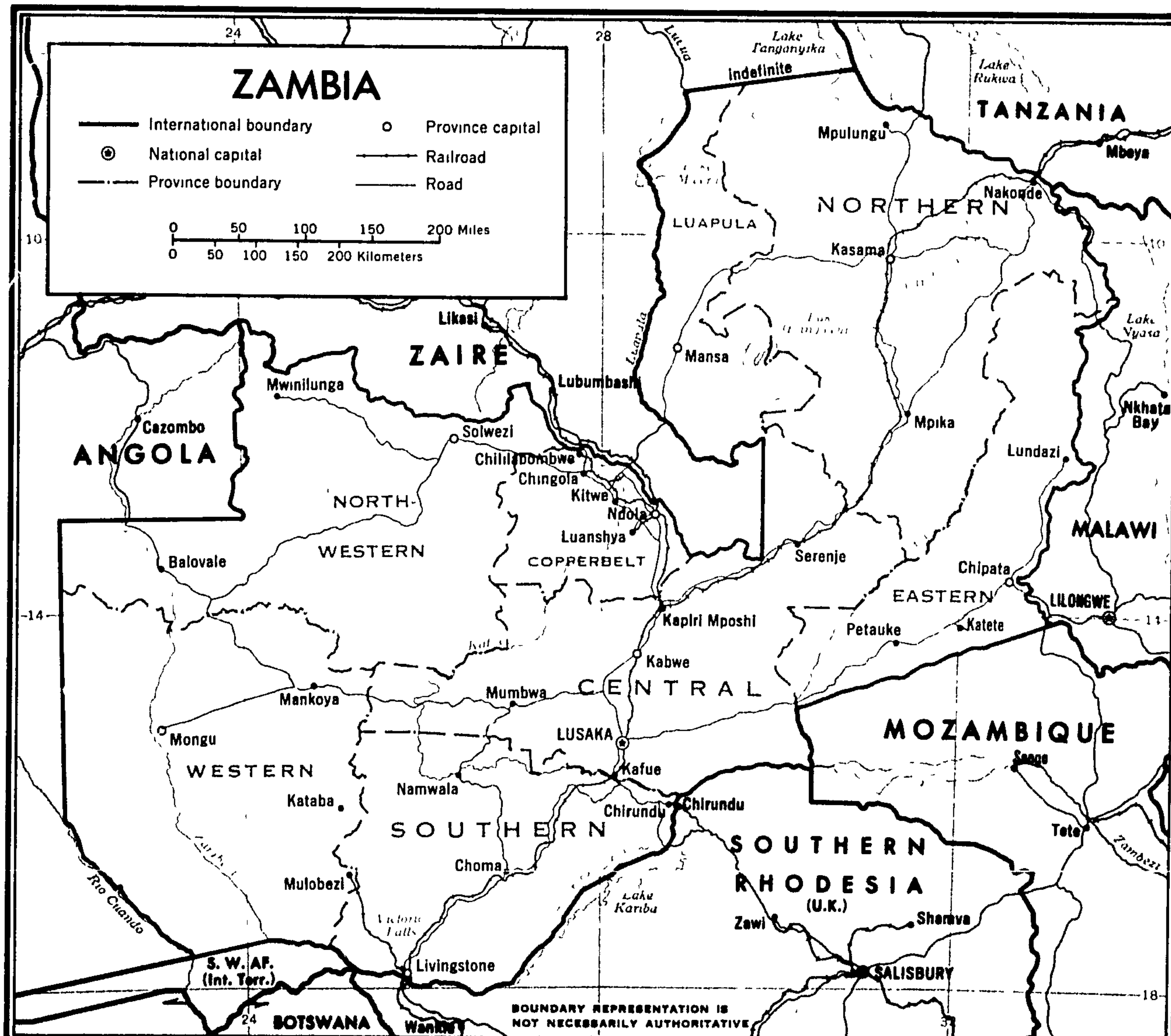
Selected Indicators for:

ZAMBIA

DEMOGRAPHIC	
Total Population (000)	4,936
Population Growth Rate (%)	3.1
Dependency Ratio	.97
Percent Urban	37
Population Density (per mi.^{2})	17
ECONOMIC	
Gross National Product (GNP)[1]	1,950
Gross Domestic Product (GDP)[1]	2,017
GNP per Capita[2]	430
GDP per Capita[2]	445
Real GNP Growth (1970-74)	2.4
GNP per Capita Growth (1970-74)	-0.4
Retail Price Index 1974 (1970 = 100)	119
Debt Service Ratio, 1974	5.1
Economic Structure (% GDP)	
Agriculture	10
Manufacturing	15
Mining	36
AGRICULTURE	
% of Economically Active Population	69
Food as % of Commodity Exports	0.4
Basic Food Grain Production (KT per Capita)	154
Food Exports as % of Food Imports	12
Maize Productivity (kg/ha)	207
SOCIAL	
Literacy Rate	17
Primary Enrollment as % of age group	61
Secondary Enrollment as % of age group	9
Life Expectancy at Birth	44
Protein Intake (% FAO Req.)	177
Doctors per 10,000 Population	1.2
Hospital Beds per 1,000 Population	3.2

[1] Millions of 1973 U.S. Dollars.

[2] In 1973 U.S. Dollars.



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ZAMBIA

THE ROLE FOR U.S. DEVELOPMENT ASSISTANCE

This paper concludes that agricultural development is a pressing need, but Government policy changes must be made before anything else can be done. Program assistance could be used to help the Government of Zambia defray the budget costs of agreed policy changes. A long term (at least 10 years) program of participant training should also be started.

Background

A large country, slightly larger than Texas, Zambia is landlocked by Angola, Rhodesia, Malawi, Tanzania and Zaire. A population of 5 million produces a population density of 17 persons per sq. mile. This density is low in view of the generally favorable climatic conditions in the country and substantial availability of arable land. The population growth rate of 3.1 percent is one of the highest in the region.

The country has a classic dualisitic economy, one part modern and well developed and the other traditional and primitive. For Zambia, the modern part of the economy is grounded in mining -- mostly copper. It includes a growing manufacturing sector and commercial farming, which produces about 28 percent of the value added by agriculture. In contrast to these modern, generally capital intensive sectors, stands traditional small farmer agriculture, which employs some 60 per cent of the people. The dualism occurs geographically as well as economically. Mining, manufacturing, and commercial farming are all located primarily along the line of rail, running north across the middle of the country from Livingstone to the copperbelt on the Zaire border. This belt, with Lusaka -- the capital with a 1973 population of 415,000,--and five copperbelt towns with populations between 100,000 and 350,000-- contains most of the urban population. A combination of high levels of economic activity along the line of rail and adverse agricultural/urban terms of trade has led to a high level of urban migration. The urban population is growing at about 6.5% annually, compared with 1.6% for the rural population and Zambia's level of urbanization--nearly 40%--is one of the highest in Africa.

The Economy

Overall, Zambia is relatively well off, with a per capita GDP of about $500. But this overall level masks the rural/urban dichotomy mentioned above, and the economy's dependence on copper. Mining constitutes up to 40 percent of GNP and generates 90-95 percent of the foreign exchange earnings and up to 50 percent of government revenues. This dependence has left Zambia particularly vulnerable to fluctuations in the world price of copper. Copper revenues were very favorable during the 1960s and the export price peaked in 1974, but it dropped 40 percent in 1975. It remained low in 1976 and IBRD projections anticipate only a small increase over the next five years.

The level of GDP per capita also conceals a long-term economic stagnation since independence. From 1965 to 1974, GDP grew 2.9 percent a year in real terms. With the copper induced drop in 1975, the real GDP growth rate over the 10 year period 1965-75 was 2.3 percent, well below the 3.1 percent population growth rate over the same period.

One bright spot in this picture has been the growth of the manufacturing sector -- over 9 percent a year in real terms. In 1975, manufacturing constituted a respectable 17 percent of GDP. However, if a significant part of this growth has resulted closing the Rhodesian border, majority rule in Rhodesia will present competitive problems for Zambia's industry. Very low ratios of output to capital in recent years also indicate that some of Zamiba's industry which is largely Government controlled, may not be efficient enough to be competitive.

The poor rate of economic growth is perplexing in view of the high level of investment that has taken place. Typically, countries with investment levels above 20 percent of GDP experience rapid rates of economic growth, and Zambia has invested an average of 25 percent of GDP over the last six years. A partial explanation may lie in the high infrastructure investments, such as the Great North Road and TAZARA Railroad to Dar es Salaam, required to make up for the closing of the Rhodesian border. If these expenditures have been an important factor behind Zambia's low ratio of output to capital, capital/output rations should improve in the future. Continued high levels of investment, coupled with a greater rate of return could be an important force for future economic growth, but heavy government involvement in industry does not augur well.

Government revenue is heavily dependent on receipts from various taxes on copper, and therefore, has shown wide annual fluctuations associated with changes in copper production and world market copper prices. The effect of the recent depression in copper prices has been to severely reduce total revenues, despite a substantial increase in revenues from other sources. Both capital and current expenditures rose in 1975 contributing to a record deficit of $355 million. Budgeted expenditures have been reduced in 1976, reflecting reduced availabilities, but a deficit of $194 million is still projected.

Zambia's current account balance in her balance of payments is also highly dependent on copper prices. From independence through 1970, prices were favorable and current account surpluses were recorded. Beginning in 1971 prices fell and deficits were experienced. More favorable prices were experienced in late 1973 and 1974 and surpluses were recorded in those years. The sharp price drop in 1975 produced a massive deficit which continued into 1976 and triggered the current Zambian balance of payments crisis. Deficits are expected to continue through 1980.

Even more severe is the effect on Zambia's terms of trade caused by the interaction of copper prices and the longer term increase in the cost of goods on the world market. A dollar of exports in 1976 bought hardly more than one-third the imports that a dollar would buy in 1969.

Agriculture

Zambia has a very low rural density of about 9 persons per square mile. Although it has limited areas of good soils it has a reliable 4-5 month rainy season over most of the country, and thus has the ecological potential not only to feed itself but also to be a net exporter of agricultural products. However, for various reasons, particularly government policies; low resource allocation to agriculture; and organizational and institutional problems, Zambia is not even self-sufficient in food. Currently, over 40 percent of the marketed agricultural products are imported.

The dualism seen in Zambia's economy on a whole is found in agriculture, with large state and company farms and an economically important group of about 800 commercial farmers (down 50 percent since independence) at one extreme, and about 600,000 small farmers in the other. Between is a small but growing band of emergent farmers. Commercial farms are large with generally fair land close to the line of rail and access to markets. They use modern, rather capital intensive techniques to produce cereals, dairy products, beef, poultry, eggs and tobacco. The emergent farmers use improved seed and oxen or tractors to grow the same crops plus cotton. Over 55 percent of the marketed domestic production is produced by commercial or emergent farmers.

The small farmers use hand tools and traditional technology. About half grow little but their own subsistence, while others produce perhaps three to four times their family needs, partly as a result of better market access. As a group they are important in terms of total, rather than marketed, production, producing 85 percent of all cereals, including 80 percent of the staple maize, and 90 percent of domestic cattle slaughtered. As a group they are also economically the most deprived. Urban incomes are probably four times the rural average. Indeed, average family incomes for the agriculture sector as a whole are below the average for urban squatter areas.

In absolute terms, Zambian agriculture has shown modest growth over the decade since independence, but relative to the needs of the country and the government's objectives, it has lost ground. From 1965 to 1975 the agriculture sector increased by less than 2 percent a year, and from 1971 to 1975 the performance was even poorer, with a total increase of only 5 percent. Agriculture contributed only 7.6 percent of GDP in 1973 and it provided minimal exports – only 1.1 percent of the total.

Stated government objectives include greater food self sufficiency and reductions in income inequality. But government actions appear to work against this, with resultant poor agricultural performance and apparently increasing inequality. The terms of trade for the African farmer in Zambia fell 22 percent from 1964-1973. He would have had to increase his output by 2 percent a year just to maintain his real income. The major policy problem area is agriculture prices and government procurement systems which depress and distort production. Prices have deliberately been held down in order to subsidize the urban consumer. As a result, Zambian farmers are paid less than world market prices and the government has had to make up production shortfalls with imports at the higher world prices. By 1975, these subsidies totalled $128 million and the government began steps to reduce them.

Part of the problem can be attributed to the decline in commercial farms which the government fostered, but little has been done to increase the output or the incomes of the great mass of subsistence farmers. Development expenditures in the rural sector are running well below planned levels and recurrent expenditures represent under $10 per person per year for the rural population. This contrasts sharply with the subsidies which alone benefit urban consumers by about $30 per person per year.

Zambia's lagging agricultural sector is its most important development problem. A substantially increased growth rate is imperative, for four reasons:

- To meet increased consumer demands. Because of its high rate of urbanization, demand for food is growing faster than population. If all additional demand had to be met by imports, the World Bank estimates that in 10 years, Zambia's food imports would cost over $860 million, at today's prices.

- To support diversified growth and foreign exchange earnings.. The problems of Zambia's dependence on copper are apparent, and projections of copper earnings show that increased foreign exchange earnings and economic growth will largely have to come from other sources, with agriculture the most promising one.

- To reduce income inequalities. The poorest Zambians are its rural small farm families. With population growth outpacing employment opportunities, improvement will have to come from within agriculture.

In 1975, the World Bank published a major sector study which recommended a two pronged approach to agriculture development. More immediate increases in production would be achieved by improving the commercial farms. But even with optimal results, demand would outstrip increases from these farms by the early 1980's. To meet this problem and to improve the lot of the rural poor, programs would also be started now to improve and incomes on small farms. Because of the long lead time required, these would begin to produce results when the commercial farm production had peaked.

Education

At independence in 1964, Zambia had one of the lowest education profiles in the developing world -- less than a hundred university graduates and less than 1 percent of the population who had completed the full primary course. Since then, the country has made phenomenal progress in education, allocating half of its social services development funds for this purpose.

As a result, by the mid seventies, about 81 percent of all primary age children and over 16 percent of all secondary age children were in school. The literacy race for 1971 was 15-20 percent, but the current rate should be higher. Between 1964 and 1974, the University of Zambia produced 860 graduates. Achievements in technical and vocational training have been equally impressive.

However, despite this progress, an announced government goal of replacement of non-Zambians by Zambian workers, and a reduction in non-Zambian employment of over 60 percent since 1961, the shortage of educated and skilled manpower remains one of the most important constraints to Zambia's economic development. Non-Zambian employment has been reduced to 1 percent of the total employment (about 34,000 employees), but the reductions have come largely in the middle and lower skill categories and professional positions are still largely held by expatriates. For example, as recently as 1973, only 4 percent of the medical doctors, 30 percent of the engineers, and 12 percent of the secondary school teachers were Zambian. The reliance on expatriates is particularly great in the mining sector where one-third of the employees are still expatriates. Expatriates are estimated to have cost more than $200 million in 1973, about half of which was remitted abroad. The fact that newly trained Zambians have largely replacd non-Zambians, rather than adding to the total pool of skills, has probably contributed to Zambia's economic stagnation over the last decade.

In the last 10 years, Zambia has received a substantial amount of foreign assistance for the system of education -- for establishing colleges and schools, provision of teachers, etc. This assistance is continuing and some observers feel that Zambia is approaching its absorptive limit with respect to in-country education and training.

Conclusions

Zambia's major development problem is its lagging agricultural sector, and especially the subsistence agriculture where its poorest people earn their living. The problem, and the country's substantial agricultural potential offer an excellent opportunity, but, in Zambia, agriculture is also fraught with problems not susceptible to a project assistance solution. Significant improvement in agriculture is not likely unless the Government is willing to make difficult policy decisions - decisions which would improve the incentives for farmers at the expense of the large and more vocal and political urban population.

While the education system within Zambia appears to be saturated with outside assistance, a continuing skills shortage and heavy reliance on professional expatriates indicate a continuing need for advanced professional training abroad. Manpower forecasts project a shortage of over 600 college graduates in mining alone in 1983. This is clearly an area where U.S. institutions have much to offer. This, combined with the continuing need, would justify a long term U.S. program of participant training grants -- perhaps for a decade. Undergraduate training might also be included if there are needed specialties which the University of Zambia does not offer.