PN-ABG-929

REGIONAL TRADE AND ECONOMIC COOPERATION IN SOUTHERN AFRICA

A Study Prepared for the
United States Agency for International Development
Harare, Zimbabwe

Elliot Berg Associates
907 Duke Street
Alexandria, VA 22314

March 1987

REGIONAL TRADE AND ECONOMIC COOPERATION
IN SOUTHERN AFRICA

ERRATA

1. Page 14, paragraph 45, second sentence should refer to Table III.1b.

2. Page 15, Table III.2 should read:

Federal Republic of Germany	No restrictions
United States	No restrictions

3. Table II.2 Footnote: Total GDP is accounted for by agriculture, industry and services. Manufacturing and mining are subsets of industry.

4. Table III.1a should read:

Intraregional Trade Levels in SADCC, PTA, and Selected Countries
(Millions U.S. Dollars)

5. Table III.3 source note should read:

Numbers taken from country tables in 1986 Direction of Trade Statistics. Yearbook. Numbers reported to the left of the / represent numbers reported by the exporting country. Numbers to the right represent those reported by the importing country.

R: 9 months of reported data, 3 months derived from partner;
S: 9 months of reported data, 3 months derived or extrapolated;
T: 9 months of reported data, 3 months extrapolated;
Z: 5 or fewer months of reported data; 7 or more months derived or extrapolated;
*: Data derived from partner country for the entire year;
X: Data extrapolated for the entire year.

6. Table III.5 should read:

Regional Trade Balance with SADCC, PTA and Selected Countries
(Millions U.S. Dollars)

7. Table III.5, Balance of Trade Total column: all figures should be moved up one row (e.g. Balance of Trade Total for Angola should read 871.00). Balance of Trade total for Zimbabwe should then read 173.00.

TABLE OF CONTENTS

I. INTRODUCTION

1. This study of regional trade and economic cooperation in Southern Africa was commissioned by the USAID Southern Africa Regional Trade Program in Harare, Zimbabwe. The principal investigator was Stephen A. O'Connell, who completed the study under the direction of senior analyst Elliot Berg. Julie Spencer provided research assistance and Nancy Berg edited the report.

2. The study is based on interviews conducted and data collected by Dr. O'Connell over the period September 6 to December 21, 1986. Dr. O'Connell visited Botswana, Ethiopia, Kenya, Malawi, Tanzania, Zambia and Zimbabwe for at least one week each, interviewing (1) officials at the respective Reserve Banks, Ministries of Trade, and other government offices concerned with regional trade; (2) businessmen and Chamber of Commerce officials; (3) officials at headquarters of SADCC and the PTA; and (4) economists involved in regional trade issues. The study also draws upon the extensive literature on regional integration in Africa and on a number of recent unpublished papers on economic developments and prospects in Southern Africa.

3. The purpose of the report is to help USAID develop guidelines for policy toward regional cooperation in Southern Africa. We study three principal questions:

(i) What are the impediments to increased intraregional trade in Southern Africa?

(ii) What is the present role and future potential of regional organizations in stimulating trade and other forms of economic cooperation?

(iii) What can the United States and other donors do to increase intraregional trade in the region?

The statement of work for the study is included as Annex 3.

A. Summary

4. The overall problem confronting most countries in the ESA region is that of moving to a sustainable and socially acceptable growth path while stabilizing the balance of payments. A second problem for most of the Southern African states is developing capacity to withstand economic disruptions generated by the anti-apartheid struggle. Given the scarcity of the human and financial resources that can be brought to bear on policy development, regional cooperation measures should be judged by the severe standard of their contribution to solving these two overriding policy problems.

5. We emphasize throughout the study that USAID policy in the region should be formulated with the realization that intraregional trade will not be an

important engine of growth in the medium term. In particular, while regional cooperation has a positive role to play in certain areas, broad trade-augmenting schemes such as customs unions are unlikely to have high payoff, either relative to other forms of cooperation or relative to policy reform at the national level. There are two primary reasons for this. The first is purely economic: the preconditions for significant trade augmentation are missing as long as regional transport and communications remain poor and macroeconomic policies leading to foreign exchange scarcity are maintained. The second is fundamentally political: the efficiency gains from increased regional trade and specialization are usually captured by the more advanced, net exporting countries. Efforts to redress the asymmetry of benefits inevitably involve trade concessions that undercut the specialization that produced the gains in the first place.

6. As for other forms of regional cooperation, the key question to ask in each case is whether the economic problem at hand seems inherently to call for a regional solution. In the absence of clear benefits to a regional approach, there are compelling reasons to prefer an approach at the national level. Regional organizations are expensive in terms of scarce national funds and skilled manpower, and in many cases their effectiveness is severely constrained by political considerations. They tend to promote centralized, public administration of activities that could be carried out more efficiently in a decentralized, private context. Furthermore, their activities may tend to divert attention away from policy goals--like adjustment of agricultural prices or maintenance of realistic exchange rates--that should have a relatively higher priority on national economic policy agendas. All in all, the evidence suggests that most regional integration schemes have not made a significant contribution to economic development in Africa (Elliot Berg Associates, 1985).

7. Although experience suggests a healthy skepticism about regionally based activities, there are also a number of areas in which regional cooperation has been successful and should be encouraged. First, a number of economic activities are naturally regional, due for example to economies of scale or to region-wide market failures--transport is an example of the former; regional provision of trade information may be an example of the latter. Second, regional organizations can serve a useful purpose as clearing houses for economic projects with regional implications. In this capacity they can coordinate the activities of both donors and national authorities, thus helping avoid inefficient duplication of activities. Finally, there is the sanctions threat in Southern Africa; this has temporarily transformed the economic cooperation question from a question of medium-run development strategy to one of short-run adjustment to economic disruption. Cooperation is essential both to strengthen the economic hand of the front line states vis-a-vis South Africa and to achieve efficient and equitable adjustment in the face of disruption.

8. For the purposes of the study, the Southern Africa region comprises the members of the Southern Africa Development Coordination Conference (SADCC).[1] SADCC is currently the major conduit for regionally based economic aid in Southern Africa. We include in the study, however, the current and

prospective members of the newly formed Preferential Trade Area for Eastern and Southern Africa (PTA).[2] Any significant developments in regional cooperation in the near term are likely to come through the activities of one or both of these organizations.

9. The ESA region has been fortunate to escape the proliferation of regional groupings that has occurred in Central and West Africa (Elliot Berg Associates, 1987). Moreover, SADCC and the PTA have taken largely complementary approaches to regional economic cooperation, with SADCC emphasizing production and the PTA emphasizing trade. In fact, however, both organizations are less specialized than their activities to date would indicate. SADCC is currently expanding its activities to include trade and investment promotion, and the PTA hopes to move beyond regional trade liberalization to involve itself in a broad range of cooperation activities.

10. Thus far, SADCC has remained an extremely streamlined organization and maintained a rather narrow concentration on transport and communications infrastructure. In contrast, while the PTA may ultimately make a substantial contribution to regional cooperation, the organization is currently overextended, particularly in its nontrade activities. Given the differences in basic philosophy of the two organizations, overlap of activities may imply not merely duplication but conflict. In some areas, therefore, donors may be faced with choices before the two institutions have worked out an efficient division of labor. While coordination between the two organizations should be encouraged to the fullest extent possible, our recommendation is that in areas of nontrade cooperation, SADCC should be used as the base for USAID support to regional cooperation in Southern Africa. We extend this recommendation somewhat cautiously to trade promotion activities, recognizing that in this arena the bilateralist approach of SADCC has some serious shortcomings as a long-run strategy.

11. The study is organized as follows. Section II outlines the overall economic and political context within which regional trade and cooperation initiatives must be assessed. Section III looks at the current regional trade situation and the main impediments to increased intraregional trade. In Section IV, we examine the current role and future potential of four institutions of importance to regional trade: SADCC, the PTA, the PTA Trade and Development Bank, and the PTA Clearing House. Section V then addresses the question of what the U.S. and other donors can to promote regional trade.

II. MACRO AND STRUCTURAL CONDITIONS IN ESA

12. The prospects for increased intraregional trade through regional cooperation depend both on the structural characteristics of regional economies and on their short-term macroeconomic condition. The discussion in this section therefore forms an important background for the remainder of the study. The key observations we make about the ESA region are the following:

(i) The region is composed of a large number of economically small national units.

(ii) While the level of overall economic development varies considerably in the region, trade patterns throughout the region are dominated by the exchange of primary goods for capital goods and intermediates with nonregional trading partners.

(iii) Political ideologies and modes of economic organization vary considerably in the region.

(iv) With the exception of Angola and Tanzania, the countries of the Southern Africa region are heavily tied into the South African economy.

(v) With few exceptions, the region as a whole is going through a period of balance of payments stress that will persist into the 1990s and remain severe for some countries in the absence of macroeconomic policy changes.

A. Market Size

13. In Table II.1, one can see that 6 of the 20 countries in the region have populations of 6 million or less, and half have GDPs of $1.6 billion or less. Even the larger national markets in the region are too small in isolation to support industrial development except in products for which economies of scale are unimportant.

14. In contrast with the national markets, the two major regional groupings are in principle of sufficient size to support a wide range of industries without recourse to external export markets. For the SADCC region, population and GDP are on the order of 70 million and $22 billion, respectively; non-SADCC states in the PTA area contribute an additional 100 million in population with total GDP of some $22 billion. The entire ESA region therefore comprises a potential market of some 170 million consumers with total income of $44 billion. In terms of purchasing power, the region as a whole is roughly the scale of Thailand or Venezuela, with a population 3 times the size of Thailand's and 10 times the size of Venezuela's. The addition of South Africa would raise the total population to over 200 million and total GDP to $73 billion.

15. Economic markets, however, are not defined geographically but by transport costs and other trade restrictions. This has two implications. First, adequate intraregional transport is an essential precondition to extension of national markets through regional cooperation. Second, regional cooperation schemes can fail to produce substantial benefits if trade restrictions are maintained due to political resistance to increased specialization.

B. Development Disparities But Common Trade Patterns

16. Patterns of production and levels of development vary considerably in the region. Table II.2 gives the sectoral breakdown of GDP for a selection of countries in the region. Although manufacturing sectors are uniformly small, Kenya, Mauritius, Swaziland, Zimbabwe, and to some extent Zambia are clear leaders in the development of manufacturing infrastructure and capability. With the exception of Lesotho and Seychelles, where worker remittances and tourism account for over half of exports, all of the countries in the region export mainly primary products. Minerals account for over 50% of exports in Botswana, Zambia and Zimbabwe (also Zaire and RSA); for the remainder, the majority of exports are agricultural primary goods.

17. Table II.3 gives an indication of basic import patterns for selected countries in the region. For the countries with available data, imports in the Fuels, Machinery and Transport categories typically account for half of total imports. The category "Other Manufactures," which accounts for another 30% of imports on average, consists mainly of industrial supplies (e.g., chemicals) rather than consumer goods. The small share of imports accounted for by consumer goods is borne out in Table II.4, which shows a more detailed breakdown of imports for Kenya and Malawi.

18. Tables II.3 and II.4 underscore the extreme dependence of production and investment on imports in ESA. A key requirement for growth in these countries is sustained access to imports of intermediate goods and capital goods that will not be available from domestic production in the medium run.

Table II.4
Composition of Imports, Kenya and Malawi
(percentage share of total imports, average for 1983 and 1984)

Kenya	
Food and Beverages	10.4
Industrial supplies (non-food)	27.1
Fuels and Lubricants	33.5
Machinery and Other Capital Equipment	16.2
Transport Equipment	8.7
Consumer goods not elsewhere specified	4.2
Other goods	0.1
Malawi	
Commodities for intermediate and final consumption	18.7
Basic and auxiliary materials for industry	41.7
Materials for building and construction	5.1
Plant, Machinery and Equipment	11.4
Transport means	10.8
Consumer goods	12.5
Miscellaneous transactions	0.3

Sources: Republic of Kenya, Economic Survey 1986, p. 87; Reserve Bank of Malawi, Financial and Economic Review, vol. 18, no. 1, 1986, p. 81. Shares may not add to 100% due to rounding.

C. Political Disparities

19. Virtually all of the countries in ESA have substantial public sector involvement in production and (especially) foreign trade. There are important differences in political ideology and mode of economic organization. In the SADCC region, for example, the strongly noncapitalist orientation of Tanzania contrasts sharply with that of Malawi and Botswana. These differences are important obstacles for regional integration schemes, as the crumbling of cooperation in the East African Community (EAC) demonstrated. Ideological differences matter because (1) they weaken political ties between the countries, (2) they may imply conflicts over the form of integration (e.g., Tanzania's preference for countertrade vs. Malawi's preference for broad trade differences in degree, however, and these point to more fundamental liberalization) and (3) they affect the distribution of benefits from liberalization of trade and investment in the region (e.g., foreign direct investors interested in the regional market will prefer to locate in the more market-oriented economies).

20. Ideological differences have not as yet interfered significantly with SADCC's attempts at regional cooperation. One explanation for this success is certainly the political solidarity created by the anti-apartheid struggle. The solidarity factor should not be overemphasized, however, since specific

issues like economic sanctions and military destabilization in the region have proven to be divisive forces within SADCC. What seems to have been more important has been the type of cooperation SADCC has encouraged. As we discuss in Section VI, SADCC has been careful to avoid projects whose implementation involves any significant ideological or economic concessions on the part of member states.

21. In contrast with SADCC, the PTA has had to confront ideologically based conflicts from the start. Broad liberalization of intraregional trade involves a commitment by governments to unleash potentially strong pressures for intraregional resource reallocation and to refrain from formulating unilateral or bilateral responses to these pressures. While history gives ample evidence (primarily outside of the African context) of the benefits of liberal trading systems, their implementation inevitably generates conflict.

22. Within the PTA, conflict has been most apparent along two dimensions: the weak versus the strong, and the highly planned economies versus the more market-oriented ones. The first of these conflicts is well-known from previous experience in economic integration in the region (e.g., the East African Community and the Federation of Rhodesia and Nyassaland). The PTA response is embodied in a number of provisions in the PTA Treaty favoring the economically weaker members. The second conflict is dealt with on a continuing basis in the multilateral process of PTA policy formation. Issues like the Rules of Origin and the timetable for tariff reductions have been addressed in the annual meetings of the Council of Ministers, where the more highly planned economies (Ethiopia, Tanzania) have opposed liberalization and the more market-oriented ones (Kenya, Mauritius) have pushed in the opposite direction. As yet, while disputes of this type have slowed implementation of the PTA program, they have not (with the exception of the withdrawal of Mauritius) fundamentally endangered the Agreement.

D. Links With South Africa and the De-Linking Issue

23. Table II.5 gives an indication of the economic linkages of SADCC states with South Africa. The economies of Lesotho and, to only a slightly lesser degree, Swaziland, are irrevocably tied to that of South Africa and will remain so under almost any conceivable scenario. For other economies in the region, the key ties are in trade, transport, and South African control of domestic production. Notwithstanding the stated goals of SADCC (see Section V), there has not been an appreciable diminution of economic ties with South Africa in the 1980s. On the contrary, through a combination of policies including destabilization of rail corridors in Mozambique and discount pricing of its own transport services, South Africa appears to have increased its economic leverage over the landlocked SADCC states.

24. We argue in this section that the need to react to past disruptions and to the implicit threat of future disruptions is an important problem for SADCC trade and transport policy. The disruption problem applies both to direct SADCC-South Africa links and to SADCC-overseas links. In case of direct links, it is important to note that economic "dependence" works both ways. As

convincingly argued by Lewis (1986), South Africa gains substantial net benefits from its economic ties with the Front Line States. This makes it unlikely that South Africa will unilaterally cut these ties in the absence of severe provocation. The threat here is therefore one of selective disruption or of general disruption due to political instability. In the case of SADCC-overseas links, the threat is one of continued destabilization of transport routes through Mozambique.

25. While there may be other reasons for SADCC states to reduce economic ties with South Africa, we focus here on the appropriate economic response to actual or potential disruption of linkages. With respect to direct trade or transport links, our main point is that increases in the probability of disruption provide a case for restricted usage of these links and accelerated development of alternatives. De-linking strategies of this sort are costly in the short run but provide valuable insurance against potentially larger future costs. With respect to endangered overseas links, appropriate policy involves some combination of increased security (thus reducing the probability of disruption), improvement (since these links are important alternatives to direct links) and accelerated development of alternatives. In particular, we argue that restoration of transport corridors in Mozambique should be a high priority and that this should be accompanied by other investment geared towards reducing transport ties with South Africa.

1. <u>Disruption, Adjustment Costs, and De-Linking</u>

26. Disruption of a key trade or transport link can involve three kinds of cost. In the shortest run, trade simply does not occur, leading to high costs in terms of lost consumption and profit opportunities. Over time, a second [illegible] alternative trading partner or transport route.[3] We call these second-stage costs <u>adjustment costs</u>. Finally, when adjustment is complete, there are ongoing costs if the alternative route has a higher net operating cost than the endangered link. A de-linking strategy is one in which some portion of adjustment costs is incurred in the short run, in anticipation of a potential disruption.

27. Since the first-stage costs of disruption are very high, the speed of adjustment to new linkages is an important determinant of the cost of a disruption. The argument for de-linking depends crucially on the relationship between second-stage costs (what we have called adjustment costs) and the speed of adjustment. If adjustment costs are fixed in the sense that they cannot be reduced by reducing the speed with which the alternative link is developed, then there is no rationale for de-linking. In this case, it is preferable to defer these costs to when the disruption actually occurs (both because deferring a fixed payment saves on interest cost and because the disruption may never occur).

28. It is often the case, however, that adjustment costs <u>rise</u> as a function of the speed of adjustment. For example, the cost of the port improvements currently underway in Dar es Salaam would begin to increase rapidly (due to congestion, lack of quality control in workmanship, overtime charges, etc.) if the scheduled date of completion were moved forward. In cases such as this,

some degree of de-linking may well be an optimal strategy. De-linking provides a kind of insurance: by incurring the adjustment costs gradually in the short run, one avoids a substantially larger future combination of first and second stage costs in the event of a disruption.

29. The details of an optimal de-linking strategy depend, therefore, on the structure of adjustment costs. Fixed costs make de-linking a less attractive strategy, while increasing variable costs argue in favor of de-linking. The final consideration that affects the optimal de-linking strategy is the expected duration of the potential disruption. Temporary disruptions generally provide a weaker rationale for de-linking than permanent ones of the same magnitude. This distinction is important if net operating costs are higher on the new link and there are fixed or variable costs involved in moving back to the initial link.

30. In narrow economic terms, then, de-linking strategies are valuable primarily as insurance against potentially large future costs. There is another benefit, however, that is more difficult to quantify but potentially of greater importance. By reducing the threat of costly disruption, the availability of secure alternative links may considerably reduce the political and economic leverage South Africa can exercise over the SADCC states.

2. Implications for Regional Trade and Transport Strategies

31. What, then, is the role for regional cooperation in the face of possible further economic disruption by South Africa? The most important aspect of regional cooperation may be in raising the cost to South Africa of selective destabilization of existing linkages. Given the benefits that South Africa draws from its ties with SADCC states, any evidence that SADCC will react in a unified manner to future selective destabilizations will serve as a disincentive.

32. In assessing the insurance argument for de-linking, we look at trade and transport separately. On the trade side, it is unlikely that a substantial portion of the goods and markets currently obtained through trade with South Africa can be replaced through increased intraregional trade. Kenya and especially Zimbabwe are likely to increase regional exports to some degree, and there may be some scope for trade in agricultural products (Koester, 1986). But the primary focus in substituting for trade with South Africa must be overseas markets. As argued above, the appropriate degree of de-linking here depends on the structure of adjustment costs in developing new overseas trade links.

33. In the absence of transport problems, the variable adjustment costs associated with shifting from South African to overseas sources for imports are probably relatively small. In fact, they are probably too small by themselves to justify anticipatory de-linking of the type described above. On the export side, however, variable adjustment costs may be considerably more important, given protectionism by major trading partners and the difficulties of penetrating even unprotected markets. This provides an argument for USAID

support to SADCC states in helping identify export markets that would provide alternatives to South Africa in the event of disruption.

34. An even stronger case for de-linking comes from the sharply increasing variable adjustment costs associated with investments in transport infrastructure. On the transport side, South Africa serves the region mainly as a surface transport conduit for overseas trade. A strategy of de-linking would therefore be primarily aimed at development of alternative overseas corridors.[4] Examples are the Tazara railway from Zambia to the port of Dar se Salaam in Tanzania, the Northern Corridor connecting the tip of Lake Malawi with the Tazara railway in Tanzania, and the rail lines in Mozambique connecting Malawi to the port at Nacala and Zimbabwe to the port at Beira.

35. Given the high fixed costs and irreversibility of investments in transport infrastructure, it is important to make a distinction between investments that are primarily justified by the insurance argument and investments that would be economic even in the absence of a disruption threat. The Northern Corridor, for example, is in the first category; it is unlikely to carry a substantial portion of Malawi's overseas trade if links in Mozambique are restored and relations with South Africa normalized. Its primary justification would therefore appear to be the insurance argument (which is important because the threat of renewed disruption makes restoration of the Nacala line infeasible), and benefits in reducing South African leverage over Malawi. There may also be benefits in terms of facilitating north-south intraregional trade.

Ignoring the costs [illegible] and restoration of the Beira Corridor in Mozambique is an example of the second type--it would be economic even if political relations with South Africa were normalized in the near future. The Beira line is simply the lowest-cost alternative for a large portion of Zimbabwe's overseas trade. The Beira Corridor may also be economical for some of Zambia's overseas trade. Malawi has a separate rail link to the port of Beira; this link, as well as Malawi's lowest cost one through Nacala, has been disabled by insurgency (see Louis Berger International, 1985). As long as the region remains in political turmoil, of course, development and utilization of the line involves security costs as well as standard economic costs. Given sharply rising adjustment costs and the benefits to be drawn from reducing South Africa's overall leverage, however, there is a strong case for continued U.S. support to Beira improvements.

E. Balance of Payments Stress and Macroeconomic Stabilization

37. Tables II.6. and II.7 give data on the balance of payments situation of the countries of the region. Table II.6 shows the significant import compression these countries have undergone since the early 1980s as a result of accumulating debt service requirements, terms of trade shocks, weak export performance, and deteriorating conditions in world capital markets. Significant compression relative to GDP has taken place in Malawi, Tanzania, Zambia and Zimbabwe, and certainly also in Mozambique (data for Mozambique are not available). Outside of SADCC, Kenya, Mauritius and Rwanda have all experienced compression of imports relative to GDP. This import compression reduces output directly, since a large portion of the imports are intermediate goods and spare parts needed for the utilization of domestic production capacity (cf. Table II.3). It is also costly in terms of growth given the high import content of investment in these countries.[5]

38. Evidence of weak export performance and constrained access to capital flows is apparent in Table II.7, where foreign exchange reserves have remained steady or fallen relative to imports even in the face of import compression. In SADCC, only Botswana and Zambia had by the end of 1985 reached or exceeded the import cover attained on average in the 1975-79 period. Botswana owes her present reserve position primarily to a substantial export boom due to the initiation of diamond production in the Jwaneng mine in mid-1982; as for Zambia, the reserve inflow in late 1985 was the result of donor assistance that accompanied Zambia's move to a foreign exchange auction. In the non-SADCC PTA region, the tightness of reserves is even more pronounced; only Kenya, thanks to the coffee boom of late 1985, is approaching the reserve levels of the late 1970s.

39. These declines of import cover in the ESA region understate the true loss of liquidity experienced in the region, since the demand for reserves has almost certainly risen due to deteriorating conditions in international capital markets. As further evidence of financial tightness, countries in ESA that have experienced arrears in their international payments in at least one of the past three years (1983-1985) include the Comoros, Madagascar, Mozambique, Somalia, Tanzania, Uganda, Zaire and Zambia (IMF, 1986b).

40. Certain external factors, in particular oil prices and (to a lesser degree, since most debt is on concessional terms) world interest rates, are now favorable for the short run balance of payments. Like most developing countries exporting primary goods, however, the countries in ESA have suffered declines in the 1980s in the purchasing power of their traditional exports over non-oil imports. Medium term prospects for the real price of primary goods are not encouraging, as indicated by the fact that the recent decline took place in the context of a recovery of income growth in developed countries.

F. Policy Adjustment and the Role of Intraregional Trade

41. A recent book on the African economic crisis found "little evidence that most African governments have begun to consider policy measures which may help reduce anti-export bias" (Ravenhill, 1986). We believe that the evidence is more encouraging, especially in the ESA region. In fact, a number of countries in the region have responded to the problem of adjustment with growth by broadly accepting the need to shift resources into the traded goods sector--to increase the production of cash crops, domestically consumed foods, and nontraditional exports. This is being done through currency depreciations, increases in agricultural producer prices, trade liberalization, and direct export promotion measures.[6]

42. Tables II.8 and II.9 give an indication of the evolution of exchange rates and trade policy over the recent period of severe balance of payments pressure. Real exchange rate movements are particularly impressive.

Table II.8
Real Effective Exchange Rates
(1980 = 100)

	1982	1984	1985	1986	1986:III
SADCC	110.7	98.7	90.3	75.3	74.8
[illegible]* current PTA**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Unpublished IMF data. The averages are weighted by 1983 GDP. The Fund does not allow these data to be reported for individual countries.

* Excludes Angola and Mozambique due to lack of data. Also excludes Tanzania, which had a large real depreciation in the third quarter of 1986.

** Excludes the Comoros and Djibouti due to lack of data. Also excludes Uganda, which had an extremely overvalued exchange rate in the reference year of 1980 and had depreciated sharply in real terms by 1982.

Almost without exception, effective exchange rates in the region have depreciated in real terms since 1980. This is helping to restore some of the competitiveness these countries lost over the 1970s and early 1980s and is producing some convergence within the region in the degree of overvaluation of national currencies vis-a-vis convertible currencies. On the trade policy side, policy changes in 1985 also indicate some movement towards market-oriented policies in the region. The data in Table II.9 do not reflect further moves towards liberalization that occurred in 1986, such as the substantial devaluation of the Tanzanian shilling and accompanying import liberalization.

Table II.9
Trade and Exchange Rate Policy Changes
in SADCC Region, 1985

Botswana	L 7/85 Terminal allowance for departing temporary residents raised
	L 8/85 Limits on various types of invisible payments raised;
	L 12/85 Emigration allowance for permanent residents raised;
	Pula devalued by 15%, and weight of South African rand in the reference basket increased;
Malawi	T 3/85 Export tax of 10% levied on tea and tobacco;
	Kwacha depreciated by 15%;
Mozambique	T 8/85 Special buying rate for inward remittances of South African rand from Mozambican miners in SA reduced. Special rate to be discontinued on 3/1/86;
Tanzania	L 7/85 Foreign exchange retention quotas for authorized exporters increased from 5-20% to 10-50% of export proceeds. Higher retention ratios can be granted on a case-by-case basis;
Zambia	U 3/85 Separate licenses introduced for PTA imports;
	L 10/85 Removed restrictions on import licenses;
	T 1/85 Requirement that air freight charges on own-financed imports be paid in foreign currency;
	M 10/85 Expatriate remittances to be paid at pre-auction rate between 10/4/85 and 12/31/85 and from 1/1/86 to be expressed in U.S. dollars;
	L 10/85 A "no questions asked" system instituted for foreign currency transfers in Zambia;
	M 1/86 Expatriate remittances to comprise an inducement allowance payable monthly within a limit of US$6,600 a person a year and an end-of-contract gratuity in U.S. dollars up to 25% of the cumulative inducement allowance;
	Moved to a foreign exchange auction system;
Zimbabwe	L 8/85 Import content requirements on textile imports from Botswana reduced from 25% to 20%.
	L 8/85 Annual foreign exchange allowance for tourist travel increased
	L 10/85 Annual foreign exchange allowance for post-secondary education increased;
	T 1/85 Tightening of certain foreign direct investment provisions;
	L 5/85 Liberalized regulations regarding remittance of dividends and profit (these had been tightened in March, 1984);

Source: IMF Exchange Arrangements and Exchange Restrictions, 1986. T = tightening; L = loosening; M = mixture of liberalizing and tightening effects; U = unclassified.

43. Tables II.8 and II.9 are encouraging about the willingness of governments in Southern Africa to begin addressing some of the distortions built up during the 1970s and early 1980s. What is the role of intraregional trade in the overall pursuit of stabilization with growth? Our analysis in the next section indicates that while liberalization of intraregional trade may contribute to this effort, it cannot yet be an important engine of growth for the region. Moreover, continued progress on macroeconomic policy is an important precondition for it to eventually play that role.

44. Increased intraregional trade may also contribute to increased economic security in the face of disruptions. As emphasized above, however, a more immediate priority is the development and maintenance of alternative links with overseas markets (this itself implies increased intraregional trade in transport and related services). This calls for cooperation in the development and maintenance of the major transport corridors, a process that is underway with the Beira Corridor linking Zimbabwe to the port of Beira in Mozambique and the Northern Corridor linking Malawi to the Tazara railway in Tanzania.

III. INTRAREGIONAL TRADE IN ESA

45. The most striking aspect of intraregional trade in ESA is how small it is, if South Africa is excluded from the calculation. Table III.1 gives a broad outline of the share of regional trade in total trade. Recorded [illegible] was [illegible] in the early [illegible]. There are various reasons for this, one being the closure of the Kenya/Tanzania border following the demise of the East African Community in 1977 and another the increased dependence of the land-locked SADCC states on South Africa after the destabilization of major transport routes through Mozambique in the early 1980s.

46. An important third factor in the weak recent performance of recorded intraregional trade is the general tightening of foreign exchange constraints indicated in the previous section. The proliferation of direct controls that typically accompanies balance of payments stress tends to promote trade with hard-currency markets relative to recorded regional trade. This occurs through a variety of channels. First, import licensing schemes in ESA tend to be biased against regional trade since high priority imports are unavailable regionally. Second, direct controls provide an incentive for an increase in parallel market activity, thus reducing the share of intraregional trade that is officially recorded.

47. A third element in the increasing trade with hard-currency markets is that regional exporters find overseas markets more attractive as payments performance of importers deteriorates, while regional importers are attracted by the more favorable export credit terms offered by overseas exporters. Table III.2 illustrates this latter point by comparing the maximum duration of export credit for various countries inside and outside of the region.

Table III.2
Maximum duration of export credit, Selected Countries, 1985

Comoros, Madagascar	1 month
Tanzania	2 months
Burundi, Ethiopia, Kenya, Rwanda, Zimbabwe	3 months
Malawi, Mauritius	6 months
South Africa	12 months
Federal Republic of Germany	0 months
United States	0 months

Source: IMF, Exchange Arrangements and Exchange Restrictions, 1986.

Finally, capital flight through overinvoicing of imports and underinvoicing of exports is more available with overseas trade, where the proceeds from such transactions can be deposited directly in external accounts denominated in convertible currency.

48. The foregoing observations underscore the importance of macroeconomic policy in forming the environment for intraregional trade. Real exchange rates have naturally become a focus of macroeconomic policy concern in the ESA region, and they are a good case in point. Exchange rates became increasingly overvalued in many countries in the late 1970s and early 1980s. What is meant by this is that they became unsustainable in the absence of direct controls or substantial policy reform. As discussed in the previous section, policy reform has been a very recent phenomenon in certain countries (e.g., Tanzania and Zambia). In the interim, trade and exchange restrictions (and external borrowing) were the mechanisms that allowed governments to maintain the overvalued exchange rates. A side effect of the proliferation of controls was a shift out of recorded regional trade towards trade in parallel and overseas markets.

49. Such intraregional trade as does exist in ESA is dominated by a small number of bilateral flows, as indicated in Table III.3. Apart from a substantial flow of goods between Ethiopia and Djibouti, the major trade links all have Kenya or Zimbabwe as the net exporting partner. These links, which predate independence, essentially split the PTA region in half, with Kenya as the dominant force in the northern region and Zimbabwe the focus of the southern region. The link between Kenya and Zimbabwe has been insignificant, as the data in Table III.4 show, although there has been some very recent growth in this trade.

Table III.4
Kenya's trade with Zimbabwe

(thousands of SDRs)

	1981	1982	1983	1984	1985
Exports to Z	678	341	1123	345	900
Imports from Z	1598	1326	353	566	3148
(% of imports from PTA)	6.1	3.4	1.8	2.4	10.7
(% of total imports)	0.1	0.1	0.0	0.0	0.2

Source: Republic of Kenya, Economic Survey 1986, p. 91.
Amounts in Kenya shillings converted to SDRs using annual average SDR/$ and $/Ksh rates from IMF International Financial Statistics.

50. Table III.5 illustrates a final important feature of the intraregional trade pattern: certain countries persistently run large trade surpluses with respect to the region, and others are persistent net importers from the region. As we argue below, this factor limits the potential effectiveness of regional clearing mechanisms. Structural imbalances have also served in the past as focal points for claims of unequal benefits from trade liberalization (as in the case of the East African Community).

A. The Southern African Region

51. Although it is clear that intraregional trade is very small, this observation by itself does not tell us much about the potential for increased intraregional trade. Intraregional trade can increase either in existing products or in new products. The best available data on detailed aspects of intraregional trade in Southern Africa is from the 1986 study of SADCC trade done by the Christian Michelsen Institute. We draw on that study here, and also on the recent IFPRI paper on food security in Southern Africa (Koester, 1986).

52. The Michelsen study, based on 1982 data, corroborates the observation made above about the small size of intraregional trade in the ESA region. Trade among SADCC members was barely 5% of total SADCC trade, and SADCC trade with non-SADCC PTA countries was even smaller, amounting to less than 1% of total SADCC trade. South Africa, on the other hand, is a major trading partner for SADCC.

53. The Michelsen study was quite pessimistic about the possibilities for increased trade among SADCC countries in existing products. The authors tried to assess the possibilities for such trade by compiling a list of product categories in which there were both imports from and exports to the EEC by SADCC members. They found very few categories satisfying this requirement, and in many cases products in the indicated categories were already being traded among the SADCC states.

54. The authors of the Michelsen study were careful to acknowledge the partial nature of their data search. What the exercise does seem to indicate is the limited scope that currently exists for regional replacement of overseas supply of capital goods and intermediate inputs. What remains unknown is the scope for increased trade in primary goods or final manufactured goods. Not surprisingly, the latter category already accounts for a significantly higher share of intra-SADCC exports than SADCC exports to overseas.

55. While the view that there was "nothing to import" from the less developed regional economies has some currency among public officials and private businessmen alike in the region (not only in the more advanced countries like Zimbabwe; a Tanzanian official expressed the view that Tanzania "will not be a very useful partner in the PTA for the moment"), some take a dissenting view. The IFPRI paper on food security in ESA argued that the export patterns of regional economies indicated substantial possibilities for increased trade in agricultural products. This formal analysis was corroborated by the casual (but direct) observations of a Zimbabwean consultant working with the PTA, who claimed to have found unexploited trade possibilities in beef, fish, butter, dairy products, maize, sugar and tobacco, among others. More work is warranted, however, to determine the extent to which these opportunities are already exploited through parallel markets.

IV. IMPEDIMENTS TO INCREASED INTRAREGIONAL TRADE

56. In discussing the constraints to intraregional trade, it is useful to distinguish constraints affecting overall trade from constraints that affect the share of intraregional trade in overall trade. Distorted exchange rates and agricultural prices are examples of the former. In this section, we are primarily concerned with constraints that bias trade against regional partners. The key impediments are the following: (1) exchange rate misalignments and foreign exchange scarcity; (2) poor regional transport infrastructure; (3) lack of complementarity in production in the region; (4) mistrust of regional partners; (5) lack of information on regional markets; and (6) high cost and low quality of regional goods.

57. Our purpose in this section is to assess these impediments. In the recommendations section, we bring out the implications of these observations for USAID policy.

A. Exchange Rate Misalignments and Foreign Exchange Scarcity

58. As emphasized earlier, regional trade initiatives will necessarily be limited in their impact as long as macroeconomic policies tend to perpetuate the scarcity of foreign exchange. In Annex 2 we argue that this even applies to institutions like the PTA Clearing House that are designed to relieve foreign exchange shortages. As long as shortages are severe, countries have

an incentive to avoid the clearing house and continue to demand foreign exchange for exports. In fact, the only categories of regional trade that are not discouraged by foreign exchange scarcity are illegal trade and countertrade. The costs and benefits of these categories of regional trade are discussed in Annex 1.

59. Businessmen and government officials in the region were united in identifying "payments" as a particularly troublesome aspect of trade with certain regional partners. Zambia is currently in arrears, for example, on its payments to Tanzania for its share of operating costs of the Tazara railway. Tanzania, Zambia and Mozambique all have had severe payments difficulties in recent years. These difficulties suggest a possible role for export insurance schemes and export credit schemes of the sort being considered by SADCC.

B. Poor Regional Transport Infrastructure

60. The transport system in Southern Africa is geared towards overseas trade. The rail system is therefore the most well-developed portion of the transport system in Southern Africa. Compared to road and inland waterway transport, rail (and sea) involve substantial greater economies of scale. This limits the benefits of the regional transport system for intraregional trade, where often the amounts shipped are too small to make rail transport economical.

61. Poor road transport infrastructure is mentioned as a constraint by businessmen in [illegible] number of countries. [illegible] have a smaller network of operable roads now than at independence. In Zimbabwe, lack of trucks has been a bottleneck for moving crops from rural areas. The poor state of road transport is particularly true for Tanzania, which is the key link for surface transport between the northern and southern portions of the PTA (a Zimbabwean consultant characterized north/south road links as "almost nonexistent").[7] Axle loadings allowed on Tanzanian roads, for example, are significantly smaller than on the Zimbabwe highways, and the condition of the north-south highway is very poor. The relative neglect of road transport in Tanzania is likely to continue given the strong interest in the region in increasing the usage of the Tazara railway and the port of Dar es Salaam as an outlet for overseas trade. The Tanzanian government has shown an interest in increasing the country's role as a provider of transport services to the region, but as yet this has been confined to improving the overseas corridors.

C. Lack of Complementarity

62. One of the reasons often cited for the small share of intraregional trade in total trade is the similarity in the production structures of countries in the region. The important question is whether this factor is an important impediment to increased trade. From this perspective, the importance of lack of complementarity has probably been exaggerated. In fact, the resource bases of the economies differ widely, especially if one looks at the PTA as a whole. The Koester (1986) study of food security in the SADCC region, for example,

found significant differences across countries in both the production and export patterns in the food sector. Also, one can see dramatic differences among the countries in the degree of development of institutions and manpower in banking, consulting, tourism and other services. Moreover, even similarity of resource endowments need not be an important constraint to trade in manufactured goods (such as processed agricultural goods), given the possibility for product differentiation.

63. The fact is, however, that strong political pressures must be overcome if patterns of comparative advantage in the region are to be exploited. This is particularly true in the area of basic industry, where efficient regional specialization would seem to require further polarization of levels of development.

D. Mistrust of Regional Partners

64. Dissatisfaction with trading relations with overseas partners has been one of the main motivating factors in calls for increased intra-African trade. The historical record has shown, however, that the same asymmetries in benefits that plague north-south trade relations can arise in trade among developing countries when there is a dominant regional economy. The clearest example of this is the East African Community, where dissatisfaction of the weaker partners (particularly Tanzania) with the gains reaped by Kenya gradually weakened the Community to the point that political differences were able to topple it. Although Kenya/Tanzania relations have improved greatly in the past few years, one of the reasons for Tanzania's lukewarm stance towards the PTA is its fear that broad liberalization will produce a replay of the EAC.

65. The Kenya of the Southern Africa region is Zimbabwe. The Zimbabwe economy is a good deal stronger than that of its neighbors. Much of that strength can be attributed to the long period of aggressive import substitution industrialization under the UDI regime. Protection of domestic industries is still a high priority in the import licensing scheme; in fact, the basic orientation of trade policy in Zimbabwe has changed very little since the UDI period.

66. Trade relations between Zimbabwe and some of its most important regional partners have been strained of late by specific protectionist moves in Zimbabwe. Textile producers in Botswana, for example, were affected dramatically by an increase in domestic content requirements imposed by Zimbabwe in 1984. Textiles are a potentially important nontraditional export for Botswana, and the increase in domestic content requirements effectively shut down the main export market of textile producers.

67. To take another example, Malawi, like Botswana, has had an open, general, import license arrangement with Zimbabwe (allowing each country to export to the other without the importer requiring a license). In 1984, concurrently with signing the PTA Treaty, Zimbabwe put Malawi on the import licensing system. Exports from Malawi to Zimbabwe fell from US$11.8 million in 1984 to

only \$6.5 million in 1985. This occurred at a time when the shutdown of rail connections to Nacala had hit Malawi with a transport cost shock equivalent to some 20-30% of its overseas trade.

68. Zimbabwe has shown some responsiveness to complaints by its partners; after a good deal of protest from Botswana (including a threat of a 20% surcharge on imports from Zimbabwe), domestic content requirements were lowered from 25% to 20%, allowing some flow of imports into Zimbabwe (Table III.3). Similarly, in 1986, Zimbabwe raised its foreign exchange allocation for the PTA substantially, with the apparent purpose of restoring some of the import share of Malawi. The perception remains, however, among Zimbabwe's neighbors, that continued protection of Zimbabwe's industries will limit the growth of nontraditional exports by its trading partners (e.g., textiles in Botswana and Malawi, farm implements in Malawi). Zimbabwe does not seem prepared to counter this perception by taking a leadership role in liberalizing trade in the region.

E. <u>Lack of Information about Regional Markets</u>

69. Lack of information about regional markets is one of the most often-cited constraints on regional trade. Except among countries with strong colonial ties, it is often said that much more is known about overseas markets than about regional markets. In response to this, both the PTA and SADCC are currently developing regional trade information systems.

[illegible] It is clear that a comprehensive information base on regional markets does not currently exist. If business decisions are motivated by profit, however, only extremely specific information is needed at the level of the individual firm, and there is a strong incentive for the businessman to acquire that information. Moreover, lack of detailed knowledge at the firm level is not a clear indication that trade could be increased through the distribution of information. It may be that traders do not become informed because the returns to operating in regional markets are not sufficiently high (due to other constraints to intraregional trade). The key questions are, therefore, whether there is indeed a lack of knowledge of specific regional markets on the part of individuals who could be operating in these markets, and, if so, whether this lack of knowledge is in itself constraining intraregional trade to suboptimal levels.

71. On the first question, established private businessmen in the region in fact seemed reasonably well informed about regional markets. Along with their own information gathering activities, businessmen were able to utilize trade fairs, Chambers of Commerce, and banking and other commercial ties in the region. The magazine of the Kenyan Chamber of Commerce, for example, has been circulated in the PTA area since 1984. The Confederation of Zimbabwean Industry has a well-developed information center in its export promotion office.

72. There did not appear, then, to be a substantial market failure in the market for information on regional trade.[8] Where ignorance of regional market opportunities is more likely to be a problem is in areas of heavy public sector involvement. Here the lack of a direct profit motive weakens the incentive for information gathering. Even here, of course, lack of information per se may not be the operative constraint, since only one party to each potential transaction needs to have an incentive to convey information. The real constraint may be lack of incentive on the part of public sector entities to respond to profit opportunities.

73. In the end, there are three potential rationales for the PTA and SADCC information schemes. The first is economies of scale in information processing and provision. This would suggest centralized performance of these tasks, though not necessarily through public entities like regional organizations. Even here, one must be careful and wonder if more specialized private consulting firms, for example, might overcome certain diseconomies of large scale and end up providing more detailed and useful information to businessmen. Second, there may be some market failure in the information market, especially given the prevalence of public sector involvement in commerce. Third, a comprehensive data base on regional trade would be valuable to the regional organizations themselves and to the economic policy community in general.

F. High Cost and Low Quality of Regional Goods

74. High cost and low quality of goods produced in the region were often mentioned as constraints to intraregional trade. It is important to distinguish these two factors, since neither of them in itself implies a lack of competitiveness. High cost/high quality and low cost/low quality are both acceptable market niches in a wide range of products. In fact, the low cost/low quality niche would seem a natural one for countries abundant in unskilled labor and selling in a low income market. The question is therefore why producers in ESA are unable to bring costs in line with quality.

75. We have already looked at the importance of overvalued exchange rates. These raise regional costs measured in hard currencies and provide a strong disincentive for exports. Parallel markets that provide convertibility at depreciated exchange rates offset this problem to some degree, especially with respect to intraregional trade.

76. While it is difficult to assess the degree to which simple inefficiency hampers intraregional trade in ESA, three factors seem important in limiting cost competitiveness in the manufacturing sectors in the region. The first is the continued willingness of countries to protect industries that were established as part of import substitution strategies of the 1960s and 1970s. These industries (like the textile industry in Kenya) are shut off from domestic competition through privileged access to overvalued foreign exchange and from foreign competition through import quotas. Not only are these industries unable to export to the region, but also their continued existence requires protection from efficient regional competition. Thus clothing from

Mauritius, farm implements from Malawi, and beer from Kenya all find markets outside the region but have difficulty penetrating protected regional markets.

77. Government price controls and subsidy policies are a second factor that hampers competitiveness. In Zimbabwe, for example, the price control system typically allows firms a mark-up on actual costs (Jansen, 1983). While limiting the firm's profit margin may be a legitimate aim of regulatory policy in an oligopolistic industry, this approach has the simultaneous effect of removing all incentive for cost control.

78. A third factor that may be important in raising production costs in the region is low capacity utilization. This factor is particularly important in the countries that have undergone severe import compression (e.g., Tanzania and Zambia) and/or political destabilization (Uganda). In the former countries, production is constrained by lack of imported spare parts and equipment. Both Tanzania and Zambia have recently embarked on policies designed to increase both the efficiency and the volume of foreign exchange allocations.

79. The relatively high cost of the manufacturing sector by world standards suggests that intraregional tariff preferences will tend to be trade diverting, at least in the short run. In other words, regional suppliers will displace lower cost foreign suppliers. Potential dynamic benefits will depend on increased capacity utilization and accumulated production experience driving costs down to world levels. For this to happen, it is essential that countries allow high cost domestic industries to shrink in the face of competition from more efficient regional competitors. This is an extremely difficult political step, however, and one that countries in ESA do not yet seem prepared to take.

V. CURRENT ROLE AND FUTURE POTENTIAL OF REGIONAL ORGANIZATIONS

80. In this section, we examine the four major regional institutions involved in trade promotion: SADCC, the PTA, the PTA Trade and Development Bank, and the PTA Clearing House.

A. SADCC

81. SADCC was formed in 1980 with the emergence of Zimbabwe as an economic focal point for the front line states. SADCC's objectives, as set out in the Lusaka Declaration, are: (1) "the reduction of economic dependence, particularly, but not exclusively, on the Republic of South Africa; (2) the forging of links to create a genuine and equitable regional integration; (3) the mobilization of resources to promote the implementation of national, interstate and regional policies; (4) concerted action to secure international cooperation within the framework of our strategy for economic liberation" (Elliot Berg Associates, 1985).

82. Program and project development within SADCC is done by the individual member states, each of which is assigned primary responsibility for at least one "subject area," such as Energy or Transport and Communications. In 1986, SADCC formalized its intentions to move into regional trade promotion by expanding the subject area in Dar-es-Salaam, Tanzania from Industry to Industry and Trade.

83. The SADCC trade program reflects SADCC's basic strategy of promoting regional development through the production side. Official SADCC documents and the writings of those who have followed the organization closely draw a sharp distinction between this approach and the customs union approach of the PTA. SADCC believes that broad trade liberalization within the region will produce benefits mainly for the most developed member(s) of the region, perhaps even at the expense of the weaker members. The SADCC program is therefore based on "a system of direct trade measures and bilateral trade agreements such as multi-annual purchase agreements, counter purchase, preferential import licensing, etc; the exchange of trade preferences among member States, which will take into account their existing obligations; supplementary financial mechanisms for intra-SADCC trade in order to ease the constraints arising from foreign exchange difficulties. . .; and a trade promotion programme." (SADCC, 1986a)

84. Given the basic differences in philosophy, it is not surprising that SADCC's approach brings it into conflict with the spirit and in some cases the letter of the PTA Treaty. The PTA Treaty in fact requires most favored nation treatment for all member states, forbids new preferential trade arrangements covering goods on the Common List, and rules out other bilateral or multilateral payments arrangements except during a transition period (ending, in principle, in October 1987). This potential conflict is indirectly acknowledged by SADCC, but any actual implementation of plans will bring the conflict out explicitly.

85. SADCC's highly successful approach to date has been to emphasize rehabilitation and development of infrastructure. Projects of this sort have the desireable property that they produce clear benefits for all members directly affected. Certain of SADCC's newly proposed trade promotion projects may fit into the same category; for example, the 1987 program includes feasibility studies of a regional export credit facility and a set of national export prefinancing revolving funds.

86. Where SADCC has not made significant progress, however, is in the areas in which the advantages of regionalism would appear to require a balancing of both benefits and costs on the part of individual countries. Trade policy is such an area. Regional benefits to trade are maximized when countries allow domestic resources to be allocated in response to prices that represent true scarcity values of the resource in question. This often means accepting highly visible costs in the short run (e.g., plant closings) in return for less visible future benefits in terms of lower prices and more efficient resource allocation. A potential problem with the SADCC bilateralist strategy is that it tends to discard at the outset the use of the market as a resource allocation mechanism. It may therefore increase trade without liberalizing

trade, reinforcing rather than attacking inefficient patterns of resource allocation in the region.

87. In reality, however, complete liberalization of regional trade is simply not a feasible option in ESA, given the economic and political disparities in the region. Institutions that press for multilateral liberalization will therefore inevitably find themselves facing a litany of compromises, all of which appear to represent failures relative to the multilateral ideal. In the "second best" world of realistic policy options, in other words, SADCC's program of limited and bilaterally negotiated policy changes may have certain virtues as a short- to medium-run strategy.

88. First, it is well designed to deal with the political cost/benefit issue by enabling governments to confront the trade-offs at the outset. Second, negotiations are smaller scale, and thus likely to lead to more substantial progress than when a consensus must be forged in a larger group. For example, bilateral negotiations may be considerably more successful at addressing issues arising from mistrust of regional partners. Third, there may be advantages in building official national capacity for negotiation and developing national expertise in identifying economic costs and benefits. Fourth, bilaterally negotiated trading arrangements can in principle increase capacity utilization in the short run while structural adjustments are being made away from inefficient industries. Finally, the risk of failure is smaller, since the goals are more limited and a failure in one area need not affect prospects in another.

89. [illegible] risks involved in the SADCC trade promotion strategy. Most importantly, the bilateralist approach is clearly not appropriate as a long-term policy towards trade in the region. Bilateral trade deals tend to involve heavy public sector involvement and may thereby endanger the general attempt to move towards market determined resource allocation. This is not only because piecemeal, politically determined allocations leave the door open for special pleading by inefficient domestic industries; it is also because the bilateralist approach is particularly favored by the more highly planned economies in the region. The latter observation is apparent, for example, in the greater sympathy towards countertrade of countries like Tanzania and Ethiopia (see Annex 1).

90. Although countertrade is only one of the bilateral trade-augmenting strategies that SADCC has shown some interest in, it is one in which USAID has had some involvement in the region, and we were asked to investigate its role and potential for this report. Annex 1 presents that discussion. Like trade in parallel markets, countertrade can be a useful transitional mechanism when foreign exchange is scarce at official exchange rates. Like many of the other bilateral trade arrangements envisioned by SADCC, however, countertrade often involves a implicit or explicit guaranteeing of markets for specific products. This can be useful as a way of raising capacity utilization in the short run, but runs the risk of preventing more efficient uses of resources in the medium to long run. We therefore concur with official policy in most of the countries in the region in viewing countertrade as of limited and transitional importance.[9]

B. PTA

91. The roots of the PTA go as far back as 1965, when the ECA drafted a treaty for regional cooperation in ESA. That attempt never got off the ground, although the ECA continued to develop plans for a set of subregional economic groupings that would eventually lead to a common market covering all of Africa.

92. In 1977, the ECA partition of the continent was formalized in the set of five Multilateral Programming and Operational Centres (MULPOCs) which became the subregional outposts of ECA activities. Interest in regional integration was increasing in the OAU in the 1970s, as formalized in the 1979 Monrovia Declaration and the Final Act of the 1980 Lagos Plan of Action, the latter calling for the creation of an African common market by the year 2000. Under direction of the ECA, which had given integration in the ESA region top priority, negotiations towards the formation of a Preferential Trade Area in ESA got underway in 1978.

93. In 1981, the first 9 member countries signed the PTA Treaty. The Treaty entered into force in September 1982, having been ratified by the required 7 members. The last of the current 15 members, Tanzania, signed in 1985. One of the current members, Mauritius, has announced its intention to withdraw from the PTA in 1987.

94. The PTA maintains a Secretariat in Lusaka, Zambia, the location of the ECA MULPOC for ESA (the two operations are independent). Its potential membership covers the ESA MULPOC plus Rwanda and Burundi; the last two countries are in the Central African MULPOC centered in Gisenyi, Rwanda, and their names are not mentioned in the original treaty.[10] Five members of the ESA MULPOC--Angola, Botswana, Madagascar, Mozambique, and Seychelles--have not signed, although they took part in the negotiations.

95. The PTA Treaty is a broadly worded document that calls for its members to "promote cooperation and development in all fields of economic activity particularly in the fields of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs."

96. These goals are to be realized primarily through the activities of four institutions--a secretariat, a clearing house, a trade and development bank, and a set of technical committees covering various aspects of cooperation--and through the implementation by member states of a customs union. Ultimate power resides in the heads of member states, who constitute the PTA "Authority." Operationally, most of the negotiation and deliberation that determines the evolution of PTA policy is done by the Council of Ministers, which meets at least twice a year and passes on recommendations to the Authority. The Treaty also establishes a Tribunal for dispute settlement.

97. The PTA is funded through contributions of member states. The annual budget for 1987 (the Clearing House and the Trade and Development Bank are

funded separately) is roughly US $2,173,300. Budget contributions are determined by a formula which gives weight to GDP, per capita income, and exports to the PTA region.

1. Trade Policy

98. The PTA Treaty sets a timetable for the gradual reduction of tariffs and nontrade barriers on trade among members, and for the eventual adoption of a common external tariff structure. The first two stages of tariff reduction are as follows:

Table V.1
Cumulative tariff reductions

	Oct 1,1984	Oct 1, 1986
Nonluxury food	30%	47.5%
Raw materials	50-60%	62.5-70%
Intermediate goods	65%	73.5%
Nonluxury manufactured consumer goods	30-40%	47.5-55%
Consumer goods of importance to economic development	70%	84.25%
Capital goods and transport equipment	70%	84.25%
Luxury goods	10%	32.5%

Source: PTA Treaty and PTA (1986).

99. For the ultimate purchasers of these commodities, the effect of the tariff reductions will be to reduce the price of imports from the region relative to overseas imports. The initial rates of reduction are designed to shift trade towards the region most strongly in goods that are accorded highest priority in most countries' import licensing systems. Initially, these relative price changes will tend to encourage trade along the lines of overseas trade, with Kenya and Zimbabwe increasing exports of transport equipment and intermediate and capital goods, and other countries serving as suppliers of raw materials. The Treaty calls for further reductions of 33%, 50%, and 100% at two-year intervals, so that preferential tariffs are driven to zero by 1992. The second round of tariff reductions is now in the process of implementation by most members.

100. Within the above categories, trade preferences are restricted to a "Common List" that now includes 325 commodities (at the level of disaggregation of "butter," "tanning extracts of vegetable origin," "knitted fabrics," or "gas operated welding equipment"). These are goods in which some member has expressed "export interest" and some member "import interest." The Common List originally contained roughly 200 commodity categories and is renegotiated every two years.

101. In order to receive preferences, goods must also satisfy rules of origin and domestic content requirements. The rules of origin have been a significant bone of contention, given the importance of foreign ownership in the region (particularly in the Comoros, Djibouti, Lesotho, Kenya, Malawi, Mauritius, Swaziland and Zimbabwe; all of these except Kenya and Malawi had exceptions to the rules in the original treaty). The original requirement of majority domestic ownership of the producing firm was replaced in May 1986 by a sliding scale that allowed 100% of the PTA preference to firms with majority ownership, 60% to firms with 41-50% domestic ownership, and 30% of the preference to firms with 31-40%, for a period of five years. There remain difficulties with respect to the rules of origin; officials and businessmen in Malawi, for example, complained that the rules were effectively unenforceable, and were being interpreted more liberally in Zimbabwe than in Malawi.

102. It is not known what fraction of intraregional trade is represented by goods on the Common List. For the PTA as a whole, goods on the original Common List (including overseas trade) accounted for some 49% of total imports and 65% of total exports.[11] This probably overstates the coverage of the preferential rates considerably, however. For example, between 1984 and January of 1986, only KShs 10 million of Kenya's total exports to the PTA region of KShs 2.65 billion were both on the Common List and satisfied the rules of origin (EIU, 1986).

2. Nontrade Activities and SADCC/PTA Cooperation

103. Although the formation of a customs union is the most visible characteristic of the PTA (due partly to the title of the Treaty), the Treaty calls for much broader cooperation. The Secretariat in Lusaka serves as headquarters for technical committees on Transport and Communications, Agricultural Cooperation and Industrial Cooperation.

104. While limited progress has been made in some areas (for example, in developing a PTA Road Customs Transit Declaration Document), the PTA is stretched extremely thin in its nontrade activities. Committee meetings in agriculture, postal coordination and transportation, for example, have been plagued by poor attendance by member states. Moreover, the PTA's nontrade activities directly overlap with SADCC's activities in the Southern Region. For reasons we develop further in the Recommendations section, we believe that USAID should maintain a presumption in favor of SADCC when duplication of activities arises.

105. The most constructive approach to the overlap problem, however, is to strongly support SADCC/PTA cooperation in the nontrade areas of cooperation. One major advantage in the region is that there is not a severe overlap of organizations such as one encounters in West Africa. SADCC and the PTA are really the only games in town, and for this reason cooperation is a real possibility. Both organizations seem sensitive to donor concern in this area and to the possibilities for constructive joint action. Dialogue is already taking place at a number of levels; at the time of our PTA interviews in October 1986, for example, the Director of the SADCC Industry and Trade study

area in Dar es Salaam was also serving as Vice-Chairman of the PTA Committee on Industrial Cooperation.

106. Progress in SADCC/PTA cooperation has also been made at the project level particularly in the industrial cooperation area:

(i) SADCC had commissioned a study on the pharmaceutical and pesticide industry in the SADCC region. The study was funded by the Commonwealth Secretariat. After contact between the industry groups in PTA and SADCC, the PTA approached the Commonwealth with a proposal to extend the study to the rest of the PTA. This is being done.

(ii) The PTA had developed a proposal for a study of the regional iron and steel production situation in its planning for sponge iron projects. The SADCC mining study area in Zambia was contacted, and the two organizations drafted joint terms of reference for a "Study of the Iron and Steel Sector in SADCC and PTA Countries." The proposal was jointly submitted to UNIDO for funding. One of the possibilities being explored is a division of labor whereby SADCC takes responsibility for rehabilitation of ZISCO Steel in Zimbabwe and the PTA runs a UNIDO-funded management and training program for the sector. While the two institutions differ strongly in style, their differences in substance are probably smallest in the areas of non-trade cooperation. This makes these areas ripe for cooperation between the two institutions.

3. Progress in implementation

107. The PTA is a large, bureaucratic organization whose style and structure reflect those of its sponsoring institutions, the UN Economic Commission for Africa and the Organization for African Unity. The institution is costly, and there is substantial ambivalence on the part of many members as to the benefits of liberalization. By mid-1986, the 1985 PTA Budget had been paid up, although in December 1985, 34% of the budget had been in arrears (Lesotho, Mauritius, Swaziland, Tanzania, Uganda and Zambia). Progress in implementing tariff preferences has been slow, though by late 1986 most members had implemented the first set of tariff reductions. The most recent Council of Ministers meeting was unable to come to a decision regarding the rate of implementation of future tariff reductions; as in the case of the rules of origin dispute, a study is being done. Reduction of nontariff barriers has been much slower. Finally, the ESA region's most dynamic exporter, Mauritius, will withdraw in 1987.[12]

108. The PTA is currently conduction a study on "measures for correcting in the medium and long term development disparities existing between member States and compensatory mechanisms for ensuring equitable distribution of costs and benefits arising from the implementation of the provisions of the Treaty" (PTA Council of Ministers, 1986, p.50). This study is potentially important, because the Treaty itself does not provide for any form of compensation beyond what is implicit in the graduated scales used to determine

budget contributions, the inclusion in the Industrial Cooperation Protocol of the objective that "all the Member States gradually derive the greatest benefit and economic advantages from cooperation in industrial development" (Treaty, p. 138), and the activities of the Trade and Development Bank.

C. The Trade and Development Bank

109. The PTA Trade and Development Bank (PTATDB) is located in Bujumbura, Burundi and began operation in January 1986. The Bank's resources are to consist mainly of equity capital of 400 million UAPTA, two-thirds of which is to be paid in by member countries over the six-year period beginning in 1986, and one-third of which is to be raised from external sources. It will also have a "special fund" to which donors can contribute and set out terms and conditions for the disbursement of the funds (this looks similar to the African Development Fund established at the African Development Bank in 1972).

110. The equity participation of member states is built up in six installments. These yearly asset purchases are considerably larger than the PTA Budget contribution. For example, Malawi's contribution in 1985 was roughly US$150,000, and its purchase of shares in the PTATDB was on the order of $1.2 million. Four of the current members of the PTA have not subscribed and are therefore not members of the Bank (Lesotho, Mauritius, Swaziland and Tanzania).

111. The PTATDB will operate in a region already served by the most successful of the African development financing organizations--the African Development Bank--and by the East African Development Bank (a carry-over from the EAC, serving Kenya, Tanzania and Uganda). The PTATDB envisions a special role as a trade-financing operation. Up to 25% of its lending will finance intraregional trade. Its primary concerns at the moment, however, are developing basic policy rules and strategies and getting financing underway for basic staffing (it has made a formal request for staff funding to UNDP). It expects to begin activities in trade financing in early 1987 (at the earliest) and to begin activities in development finance later.

112. The Bank itself is mandated to identify projects with regional implications in all areas of PTA interest; it will also accept proposals from the various technical committees at the PTA Secretariat. In the trade area, the Bank envisions financing (1) direct loans to exporters for pre- and post-shipment costs and working capital; (2) guarantee schemes to cover banks lending to exporters; (3) insurance for exporters against commercial and/or political risk; (4) provision of liquidity to traders through discounting and rediscounting of bills; (5) provision of lines of credit to national development and export promotion organizations for on-lending to domestic borrowers. A further possibility that is currently being studied is using the trade financing fund of the Bank to support the PTA Clearing House (one of the chief concerns here is whether the Bank's resources will be adequate to make a difference). We discuss this possibility in Section D below.

113. Given that the organization is in its infancy, any assessment of its prospects must necessarily be speculative. Experience elsewhere in Africa suggests that the PTATDB will have to overcome difficulties of small size and politicization of management and staff. More fundamentally, in its development finance activities, it will be called upon to redress the development imbalances that tend to be heightened when trade is liberalized among unequal partners. In other similar institutions (e.g., the ECOWAS Fund in West Africa), this is done by biasing project support towards the poorer members and by developing schemes to compensate members from revenue losses or business failures due to tariff reductions. These roles inevitably lead to some degree of conflict with the efficiency role of finding projects with high rates of return.

114. On the positive side, the PTATDB may produce gains by attracting donor funds that would not otherwise have been committed to the region. In addition, financial compensation schemes are superior to countervailing duties and other bilateral retaliation schemes that undercut the efficiency advantages of specialization.

D. The Clearing House

115. The main aim of the PTA Clearing House (PTACH) is to encourage the use of national currencies in regional trade transactions, thus promoting the development of regional financial institutions and reducing as much as possible the use of foreign exchange. The institution also provides for regular consultation between the monetary authorities of the region. The PTACH is financed by the monetary authorities of member states and is located in the Reserve Bank of Zimbabwe.

116. A recent paper from the University of Nairobi stated that the "Clearing House facility will reduce the amount of foreign exchange required by Member States drastically, and thereby facilitate trade expansion in the area" (Manundu, 1984, p. 37). A 1982 IMF study of payments arrangements in ESA was more pessimistic, concluding that the "establishment of an alternative system for channeling intraregional settlements would not by itself lead to an expansion of intraregional trade" (IMF, 1982, p. 2).

117. Our analysis leads us to agree with the IMF that the clearing house, as presently structured, is not likely to contribute a great deal to the expansion of intraregional trade. This brings up second question. Can the arrangement be modified in any way to increase its impact? As mentioned above, the PTATDB is currently considering devoting a portion of its trade window to supporting member states which have difficulty clearing their debit balances. The objective of such an arrangement would be to increase the confidence of net creditors that net debtors will pay up--clearly a sensitive issue given the fact that three of the largest net debtors in the region (Tanzania, Uganda and Zambia) have recently been in arrears with respect to their external debt.

118. Annex 2 describes the operation of the clearing house. The basic procedure is as follows (ignoring the role of commercial banks for simplicity). Rather than invoice in a convertible currency, exporters invoice in their own domestic currencies, and receive payment not from abroad but from their own monetary authority. The exporter's monetary authority then receives a credit at the clearing house for the amount of the payment to the exporter. The credit is denominated in UAPTA (the Unit of Account of the PTA; one UAPTA equals one SDR), at the daily rate quoted by the exporter monetary authority. Importers, rather than obtaining convertible currency from their monetary authority and forwarding it to the exporter, simply pay their monetary authority in domestic currency. The importer's monetary authority then incurs the corresponding debit (in UAPTA) at the clearing house. Monetary authorities thus accumulate clearing house credits or debits corresponding to exports or imports routed through the clearing house. These balances are interest free. At two-month intervals, each monetary authority settles its balance with the clearing house in U.S. dollars.

119. Two characteristics of a multilateral clearing house give it the possibility of reducing the need for member banks to hold foreign exchange to finance intraregional trade. The first is that it allows imports and exports that are bilaterally balanced over some horizon but not synchronized (due, e.g., to seasonal considerations or a synchronization of shipping schedules) to cancel each other out. This role is also performed by bilateral clearing arrangements, however, of which there are many already in place in the region. The PTACH is therefore not likely to make a substantial contribution in this area.[13]

120. The second important characteristic is that a country's bilateral imbalances in one direction may be offset by imbalances in the opposite direction with other partners in the region (for example, Malawi runs a surplus vis-a-vis Mauritius and a deficit vis-a-vis Kenya). To the degree that multilateral cancellation is a dependable feature of a country's regional trade pattern, the country's monetary authority can safely reduce the level of foreign exchange reserves held to finance regional trade.

121. The multilateral cancellation possibility gives the PTACH an advantage over bilateral clearing arrangements. Table V.2 gives a very rough indication of the degree of multilateral clearing that may be possible in the PTA region. For each of the 15 current PTA members, the table gives the average percentage of imports from the PTA that were covered by exports to the PTA over the years 1983 to 1985. The numbers vary widely, from below 10% for some of the structural net importers (the Comoros, Rwanda, Somalia, Uganda) to 100% for the four structural net exporters (Ethiopia, Kenya, Swaziland, Zimbabwe). For the 15 countries taken together, an average of 36% of annual intraregional imports were offset by exports to the region each year.

122. The data in Table V.2 allow one to make the following limited statement: had all recorded trade payments been routed through the clearing house between 1983 and 1985, with a single clearing taking place at the end of each year, the annual transfer of foreign exchange would have been 36% smaller on average than in the absence of any payments mechanism. Two questions stand out.

First, how much of this reduction would have occurred anyway through bilateral arrangements? Second, how much of the 36% translates into a reduction in required working balances of foreign exchange?

123. Using 1982 data, the Michelsen study (1985) of SADCC trade suggests that at least for the SADCC region (6 countries of which are included in Table V.2), multilateralization of payments arrangements is not likely to do a great deal to lower the foreign exchange requirements, except in the absence of bilateral clearing arrangements. For the SADCC region, 67% of trade was balanced bilaterally, and only an additional 10% multilaterally. Multilateralization may be somewhat more important in the PTA region where, for example, Ethiopia's large surplus with Djibouti offsets its deficit with Kenya. But this effect is probably limited, given that complete multilateralization only produces 36% clearing.

Table V.2
Multilateral clearing in the PTA region
(average percentage, 1983-85)

Burundi	33	Rwanda	4
Comoros	6	Somalia	7
Djibouti	31	Swaziland	100
Ethiopia	100	Uganda	7
Kenya	100	Tanzania	41
[illegible]	[illegible]	Zambia	[illegible]
Malawi	89	Zimbabwe	100
Mauritius	24	Entire Region	37

Source: Data on annual trade flows from PTA Secretariat. Multilateral clearing for country i is defined as min[M(i),X(i)]/M(i), where M(i) and X(i) are total imports to and exports from regional partners, respectively. Expressed as a percentage, this number takes a minimum of 0 and a maximum of 100.

124. Although the data in Table V.2 are suggestive, it is difficult to determine the degree to which the multilateralization of payments under the PTACH can lead to actual foreign exchange savings. The PTACH transaction period of 2 months is extremely short by the standards of existing clearing arrangements (the West African Clearing House, with a period of 4 months, is more typical). This would not be a problem if payments were smooth throughout the year, so that bi-monthly net payments requirements were simply scaled down versions of the annual patterns reflected in Table V.2. Shipping consignments often occur at quarterly, half-yearly or even annual intervals, however, due to economies of scale in transport or seasonal considerations. Variations in net positions relative to the clearing house may therefore be large--conceivably large enough to erase any saving of foreign exchange to be

gleaned from multilateralization. This seems an issue worth further investigation.[14]

125. A final important aspect of the clearing house is that it is unavoidably a credit facility as well as a clearing house. As we point out in Annex 2, there is a strong incentive for all countries in the region to be net importers through the clearing house, other things being equal. Not only is the implied borrowing interest free, but deferral of foreign exchange payments can have important welfare effects if the monetary authority is liquidity constrained. In the case of structural net exporters like Kenya and Zimbabwe, the high potential cancellation of import payments enjoyed by these countries must be weighed against the continual extension of interest-free net credit to regional partners. This problem is all the more severe given the poor payments record of some of the regional net importers. The clearing house agreement provides for limits on each country's net debtor or net creditor position with respect to the clearing house (as of late 1986, these limits had not been reached for any country). These, along with the short transactions period, may well be a response to the problems mentioned here.

1. **Underutilization and a Credit Facility**

126. The PTACH has been plagued by under-utilization since its inception. This is not surprising given the incentives of foreign-exchange-constrained monetary authorities and the poor payments record of regional net importers. It may, however, reduce the benefits of the arrangement by limiting the scope for multilateral cancellation. For this reason, the PTATDB is considering using its trade window to provide a credit facility to countries having difficulty clearing. One should be skeptical of the possibilities of such an arrangement. First, any increased utilization of the clearing house due to increased confidence of net exporters will heighten rather than lessen the problem of net imbalances, since exporters have been holding back due to fears of clearing house insolvency. Given the lopsided nature of intraregional trade flows, imbalances would tend to be large under even full utilization. There is therefore no chance that mere existence of the facility would lead to sufficient cancellation, and thus that it would rarely have to be drawn upon.

127. Second, the structural nature of net export or import positions also implies that a clearing house credit facility is unlikely to operate as a self-financing revolving fund in which countries vary from being net drawers on the fund to being net payers. It is therefore highly unlikely that the region's net exporters and more liquid monetary authorities will acquiesce in the arrangement unless the facility is predominantly funded by net inflows of foreign exchange from donors.

128. Our recommendation is that USAID remain skeptical about the benefits of a credit facility for the clearing house. As we have emphasized throughout, the primary issue in addressing regional payments problems is macroeconomic policies. This is not to say that donor support of a credit facility for the clearing house would have no benefits; for one thing, it would release resources from the trade window for other uses. But a credit facility is unlikely to be self-supporting, and the clearing house itself is not (even

under full utilization)likely to produce large benefits in terms of foreign exchange saving or increased intraregional trade.

2. Effects on Intraregional Trade

129. Use of domestic currencies in regional trade drives down the relative price of imports at the official exchange rate (see Annex 2), and thus leads to an increase in demand for imports through official channels. What effect this has on total intraregional trade depends on two factors: whether import licenses are liberalized for intraregional trade, and the extent of trade in parallel markets.

130. Liberalization of import licenses has been a slow process, as indicated above. One Zimbabwean trader told us that he had been unable to get a license to export asbestos and textile starch to Tanzania. The Tanzanian official had said that Zimbabwe was not importing enough from Tanzania. The trader then found Tanzanian commodities that he thought had a market in Zimbabwe and attempted to obtain an import license there. He was unable to do so. Mauritius has had similar experiences of being unable to obtain licenses for its exports to the region.

131. The PTACH, in other words, provides an incentive to traders to increase official intraregional trade, but this will not translate into increased trade unless the foreign exchange scarcity problem is substantially addressed. We have already argued that the clearing house in itself is unlikely to do this. There is a catch-22 here: pricing in domestic currencies can increase [illegible] exchange rationing. But this is exactly when a clearing house is not likely to be effective in the ESA region, given the structural net imbalances. Therefore the clearing house is not likely to improve the foreign exchange system noticeably, and monetary authorities will therefore be reluctant to liberalize import licenses on (low-priority) intraregional trade.

132. Furthermore, given the importance of trade in parallel markets in the region, increases in measured trade may at the margin come primarily from shifts of trade out of parallel markets rather than from net increases in total trade. The overall impression one gets, in other words, is that the PTACH is unlikely to be an important source of increased intraregional trade.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. Introduction

133. We have assumed throughout this analysis that the states of ESA have two overriding priorities in the decade ahead: sustained or renewed economic growth and adjustment to shocks emanating from South Africa. More regional trade and cooperation are sought not for their own sake but, first, because they could presumably increase economic growth and welfare in the participating states and, secondly, because South Africa's destabilization

policies, and the regional economic consequences of political turmoil in that country, require economic adjustments along a broad front.

134. We proceed also in awareness of the difficulty of making policy-relevant recommendations on the matters at hand. We clearly are not able--nor were we asked--to make recommendations on specific projects or programs. What we try to do here is, rather, set out an analytic framework, a way of looking at regional economic issues, especially trade-related issues, that can help USAID define its strategy for assistance to the region.

135. Without a framework of this kind, it will be difficult for USAID (or other donors) to define a coherent program and policy orientation. This is so because in coming months, as in the past, multiple requests will be presented for assistance to regional projects, and regional organizations, most of them worthy of support. But how shall these be ranked, since all cannot be financed? And what should be done about competing programs--say from PTA and SADCC, or from one of those organizations and from an individual country? The analysis in this paper should help USAID address such questions.

136. Because donor financing now tends to determine whether organizations in Southern Africa wither or thrive, careful reflection is needed more than ever. This gives special relevance to the kinds of broad policy and institutional issues considered in this report.

B. Shift in USAID Priorities

137. Our central recommendation is that USAID lower its priority for regional trade expansion and give higher priority to programs of regional cooperation designed to deal with the disruptions--actual and potential--coming from South Africa. In institutional terms this means leaning more in the direction of SADCC, less toward PTA, wherever such a choice is necessary.

138. The argument underlying this recommendation is that the economic growth impact of regional trade-augmenting programs and institutions are likely to be slender, and their costs significant. On the small growth benefits, the analysis can be summarized in four points.

i. In ESA, as elsewhere, when people discuss trade expansion they usually mean trade in manufactures. In common market negotiations, in the economic integration literature, and in most analysts' thinking, the overwhelming emphasis is on manufactures. But in ESA, except for Kenya and Zimbabwe, and perhaps Zambia, manufacturing is a minor sector, generating very small shares of GDP, and employing even smaller shares of the labor force. Because of its small size, and--most commonly--its inefficient character, manufacturing is not now nor is it likely to become in the near future a leading sector for growth. Moreover, the scope for exploitation of scale economies in light manufacturing, the predominant component of low-income country manufacturing sectors is probably not large. In footwear, plastics, textiles, holloware, etc., market size in individual countries of ESA is probably big enough to support reasonably efficient-sized plants. Put another way, small scale is rarely a major source of the inefficiencies that characterize manufacturing enterprises in many countries of the region.

ii. Some scale economies nonetheless do exist and their exploitation would yield increases in productivity and output. Also, wider regional markets might make possible the development of industries that would otherwise be uneconomic. However, experience with common markets virtually everywhere in the developing world strongly suggests that governments put sharp limits on the emergence of scale economies and specialization of production. They rarely allow domestic industries to die, when they are threatened by competition, even in common markets; and they insist on regional allocation of new industries to assure balanced growth within the common market. All of this diminishes efficiency gains from trade expansion schemes.

iii. The distribution of benefits may not be investment-raising. Industrial capitalists tend to be major beneficiaries of "protected" or "regulated" industrial growth within common markets. But in ESA these are concentrated in Zimbabwe and Kenya, and are frequently non-African or multinationals. Given the political uncertainty that surrounds the future for these groups, higher profits may not induce them to step up investment.

iv. [illegible] than trade in industrial goods. But the major reasons why more of such trade does not take place lie in the economic policy environment--protected markets, nonmarket pricing for agricultural commodities, overvalued exchange rates and licencing arrangements, etc. Moreover, a considerable share of the potential for agricultural trade is already being exploited, via the ubiquitous parallel markets.

139. These small benefits are balanced by some considerable potential costs.

i. The opportunity costs of negotiating and creating a regional trade-augmenting scheme--say a preferential trade area--are substantial. The large inputs in time required for negotiation and execution take up energies of administrators, political leaders, economic analysts--people with very high opportunity costs. Staff analysts of high quality--very few in number--are absorbed in preparing papers and documents for the regional trade negotiations, and spend less time on domestic policy matters. Attention is lavished on manufacturing sector issues, which are often of trivial economic significance. In general, attention is diverted from critical immediate issues (policy reform, for example, and adjustment to South African disruption) to questions of much longer-term, and often minor economic interest. And there are also institutional opportunity costs; time and other resources are given to creation of regional institutions while parallel national institutions may be neglected--

regional export credit schemes may be debated, for example, by representatives of countries without national schemes. Or worse, consideration of a regional export credit scheme may crowd out attention to the development of a better domestic system of foreign exchange allocation.

ii. Of other potential costs, the most important is damage to agriculture. In most of ESA, the main engine of growth has to be the agricultured sector. Industrial policies should be tailored accordingly. The task of the industrial sector is to provide cheap, high quality agricultural inputs, cheap, high quality consumer (incentive) goods, and efficient processing and related facilities for agro-industrial expansion. But regional trade expansion, by diverting trade from more to less efficient suppliers, can act as a drag on agriculture, especially by substituting higher- for lower-priced inputs and consumer goods. If, after a period of protection, the agriculture-supplying industrial sector becomes competitive, the short-term costs are probably worth paying. But experience worldwide is not reassuring on this point. Highly protected infant industries only rarely become mature competitors. In small economies, where only one domestic producer is allowed and is shielded from import competition, this is a likely outcome. There is some risk, therefore, that agricultural producers will bear the weight of industrial albatrosses spawned by regional trade expansion schemes.

iii. Finally, the negotiation and the execution of a trade-augmenting agreement between states generates continuous political tensions and conflicts, notably over sharing of costs and benefits. But the countries of ESA, whether in their SADCC or their PTA configuration, differ widely in historical tradition, in language, in political and ideological complexion, in development strategy orientation. The region thus is short on political and social cohesion, which is needed to accommodate the strains and conflict associated with cooperative economic activities, especially preferential trade areas. What this means on the cost side is first that tensions generated over economically minor issues might spill over into areas more important for regional cooperation, and make success harder there. Secondly, risks of failure of common market schemes are high, and hence the risks of wasted institution building.

C. <u>Intraregional Trade in Perspective: Policy Choices</u>

140. To argue that intraregional trade in ESA has limited potential as an engine of growth is not to say that it has no potential at all. We have identified six main impediments to increased trade. Listed more or less in descending order of importance, these are: the macroeconomic policy environment; transport infrastructure; mistrust of regional partners; lack of information on regional markets and the high cost and low quality of some regional goods; lack of complementarity in production. The list excludes at

least one commonly mentioned obstacle: lack of trade credits. We consider this to be mainly a consequence of inadequacies in macroeconomic policy, rather than an independent problem.

141. Some of these obstacles are structural or long-term--lack of complementarity, for example. Others, such as high cost and low quality products, and political suspicions between member states, are either not subject to direct policy interventions, or only to very general recommendations (e.g., take measures to increase the efficiency of public enterprises, use private sectors more fully, etc.). That leaves macroeconomic policy, transport and information availability as the major areas for intervention.

142. Donors, especially bilateral donors, can affect macroeconomic policy by dialogue and other encouragements to policy reform. Recommendations here are broader than regional policies alone. The policy dialogue on the country level has to be maintained and improved. One way to deepen the dialogue is to continue to finance policy studies. Another is to encourage the growth of policy analysis units in public and private sectors. Trade matters might be given special emphasis by, for example, creating somewhere in the SADCC structure a trade policy cell, composed of a small group of analysts who would do policy-focused studies. It may also be possible to make SADCC a more useful vehicle for policy discussions between donors and member states. Such an effort could work only if it were free of any conditionality and indeed not immediately or directly involved with SADCC's investment programs. USAID is already considering funding a new and more comprehensive macroeconomic survey. [illegible] could be used to develop local expertise.

143. One tool of USAID policy in ESA is the Commodity Import Program (CIP). It might be possible to use CIPs more aggressively to reduce foreign exchange constraints on intraregional trade. Provisions exist within CIP agreements that allow sourcing from third countries--e.g. in the ESA case, from other countries in the region. This could be especially relevant in countries that are most import-constrained--Tanzania and Zambia, for example.

D. Macroeconomic Policy Options and Trade

144. The role of trade-facilitating programs and institutions is related closely to the macroeconomic policy question. What priority should be given to the PTA Clearing House, to export credit schemes, to the encouragement of bilateral trade arrangements, including intraregional countertrade? We have several observations on these matters.

145. First, they are mainly band-aid solutions to bottlenecks that reside deep in the macroeconomic policy environment. External factors such as civil war, South African destabilization, low commodity prices, and oil shocks are important causes of economic de-equilibria in states such as Tanzania, Mozambique, Angola and Zambia. But the governments of these states have not appropriately adjusted their policies to take account of the ensuing

disequilibria--for example by fiscal, monetary and exchange rate policies aimed at curbing excess demand, especially in the public sector. Nor have they been able to make much forward movement in dealing with basic institutional constraints--inadequate investment programming, excessive regulation of agricultural markets, neglect of private sectors, etc.

146. Very recently some of the most troubled countries have begun to make the policy and institutional adaptations needed for structural adjustment, Zambia and Tanzania, among others. But it is only a beginning.

147. Clearing houses and export credit schemes are useful mainly because other, more conventional sources of trade financing are unavailable to importing countries with high rates of inflation, grossly overvalued exchange rates, and large external arrears deriving from unsustainable budget deficits. The appropriate response to shortages of trade credits thus created is to change the policies that are responsible for the shortages. The other responses are second or third best approaches.

148. The same is true for bilateral trading arrangements. They are often pursued because one or both of the trading partners has a severely distorted economy, notably in the external accounts. The right policy is to restore equilibrium in those accounts by correcting the underlying distortions. Bilateral negotiated trade is better than no trade at all, but it is a distant second-best to more open trading regimes and multilateralism.

149. The USAID policy posture, then, should be one of grudging acceptance of these second best programs and this acceptance should always be accompanied by insistence on the need for the ESA states to address the policy roots of disequilibria in budgets and balances of payments.

150. The transport concerns of ESA have mainly focused on transportation links related to external trade--the Beira corridor question, for example. This is obviously the highest priority, and we hope USAID can find resources to contribute to its success. The links most critical for regional trade are in the north-south direction, not (like the Beira corridor and corresponding western routes) east-west. The missing north-south highway links would therefore seem worthy of priority attention. Since the Tanzanian situation is most critical in north-south transport, that country's internal road network and transport support institutions may require additional attention.

151. The last impediment to regional trade, inadequate information about possible markets in neighboring countries, receives much stress in ESA. As noted earlier, it's hard to know how much weight it deserves; certainly profit seeking private businessmen have every incentive to inform themselves about market opportunities within the region. There may be serious market failure here, however, due to special factors in the environment such as civil strife and threats of external disturbance, or to the predominance of state-owned enterprises and/or noncompetitive managerial behavior induced by protection in domestic markets. The problem warrants further study by USAID, or other sources. To the extent that information blockages seem to be truly significant impediments to trade, the project for a PTA Information System, or

similar programs, would merit support. A comprehensive data base on regional trade would in any case be valuable to the economic policy community in general.

152. In terms of institutional support, two broad recommendations follow from the analysis here. First, assistance to the PTA, which is aiming in the near term at the creation of a regional market, is less likely to yield results in terms of economic growth and regional problem-solving than is assistance to SADCC, a development coordinating body capable of dealing more directly with the short and medium-term adjustment problems of the region. SADCC is far less likely to generate intraregional conflict since it engages mainly in programs that benefit all members and avoids compensation/benefit-sharing debates.

153. Moreover, SADCC works at the level of "ground preparation," which is appropriate for the coming decade--i.e., it deals with transport and other infrastructure needs and regional service provision, and coordination with donors, and does so in a relatively noncontentious way. It could become a vehicle for nonconditionality-ridden dialogue on policy reform, and a source of regional policy studies.

154. For these reasons, in nontrade matters, where there has been some tendency for overlap between PTA and SADCC, USAID should encourage joint SADCC/PTA ventures, and give preference to SADCC when these regional bodies are planning duplicate activities.

155. The second institutional recommendation is that USAID give close attention to the relative benefits and costs of country programs versus regional ones. This is likely to be an issue of growing significance, as the secretariats of PTA and SADCC generate requests for regional approaches in such areas as aircraft maintenance, statistics generation, education and training institutions, and others. There's much to be said for regional approaches. But, except where economies of scale in service provision are demonstrably big, the risks and costs should also be taken into account. Diseconomies of scale set in early in these economic and administrative systems. And to finance regional units to do what national agencies could do at nearly as low a unit cost, is to deprive national institutions of learning possibilities. It also may actually retard long-term institutional development, if the break-up of a regional body leads to a withering of the regional institution while no parallel national institutions have been developed.

156. The possibility of harmful unanticipated institutional consequences of donor involvements in policy regional programs and organizations give special urgency to a careful elaboration of USAID policy in this area.

ANNEX 1
COUNTERTRADE IN ESA

157. It is generally acknowledged that an increasing portion of world trade involves some form of countertrade (Group of Thirty, 1985). The term refers to any set of international transactions which involve explicit obligations leading to an exchange of goods (or services) for goods (or services) by at least one party to the transaction. Countertrade arrangements tend to build in balanced import and export values for at least one of the partners, and therefore often involve some reduction in the use of convertible currency. For this reason, bilateral countertrade has been widely used by the Eastern bloc countries. Outside of the Eastern bloc, countertrade has tended to arise in periods of foreign exchange shortage; for example, barter-style arrangements were widespread in post-World War II Europe.

158. For the developed countries, countertrade is still small relative to overall trade, although it is no longer limited to trade with the Eastern bloc. The most significant increases in interest and activity in countertrade have in fact come from the developing countries. In this Annex, we give a brief assessment of the economics of countertrade and discuss its current and potential role in the ESA region.

A. The Economics of Countertrade

159. In general, commonly acceptable media of exchange (like the U.S. dollar in international transactions) arise and circulate because of the inefficiencies associated with barter. A direct swap of goods can be highly efficient in the rare case of a "double coincidence of wants," but in most cases the use of a circulating medium of exchange leads to significant savings in search and storage costs. For countries in ESA, countertrade is fundamentally a response to scarcity of foreign exchange. As outlined in Section II, these countries are faced with a combination of high debt service obligations and weak export performance, due partly to external shocks and partly to the maintenance of distorted agricultural prices and overvalued exchange rates.

160. In the absence of trade liberalization and a move towards a more market-oriented exchange rate, the typical response to foreign exchange shortages is a combination of exchange controls and direct regulation of imports (e.g., through import licensing procedures). One of the main results of these quantitative restrictions is an increase in black market activity and illegal trade.[15] From an efficiency standpoint, trade in "parallel" markets moves prices closer to market-clearing levels and leads to net gains for both parties to the transaction. It is inferior to unrestricted trade due to the increased uncertainty and transactions costs for traders, the misallocation of

public resources for enforcement, and the deadweight losses associated with punishment of offenders.

161. Countertrade is similar to trade in parallel markets in one important respect: it can bring prices closer to market-clearing levels and increase trade. For a country whose imports are restricted by foreign exchange rationing, for example, a direct swap of exports for imports without the intermediation of a hard currency can increase trade. A countertrade transaction of this sort could work as follows: an importer in the foreign exchange constrained country (the "home" country) uses his own currency to obtain a unit of the home country export good. He ships this directly to a foreign importer, who sells it in his own market for his own currency (which also may not be convertible). The foreign importer then uses part of the proceeds of the sale to purchase his own export good and ship it to the domestic importer. He keeps the rest as his own profit. Because of the profit-taking of the foreign importer, the domestic importer is receiving fewer imports per unit of the home currency than if he had been allocated additional rights to buy foreign exchange and purchased the imports for the landed price in an ordinary arms-length transaction with a foreign exporter. However, the importer can now dispose of the additional imports in the home market, where their value in terms of home currency is greater than the landed price by the amount of the scarcity premium on foreign exchange. The scarcity premium compensates him for the profit-taking of the foreign importer and leaves him with a profit of his own.

162. This trade-augmenting role of countertrade operates when direct controls have forced relative prices away from market-clearing levels. In effect, the trader in the foreign-exchange-constrained country is bidding away the rent associated with the exchange controls and offering part of it to the foreign partner in the form of a discounted relative price of the home export. Trade of this sort has the same beneficial efficiency properties as trade in parallel markets. Like trade in parallel markets, however, countertrade is riskier and uses up more resources than normal trade transactions. For this reason, countertrade is inferior to liberalized trade.

163. Although there is an important similarity between countertrade and parallel markets--both can be useful (though suboptimal) responses to distortions imposed by direct controls on trade and exchange--there is also a fundamental difference between the two phenomena. Parallel markets are essentially a private sector activity.[16] In contrast, countertrade in ESA is practiced mainly by marketing boards and other parastatals, under the surveillance of Reserve Banks and Ministries of Trade. This has two implications. First, countertrade in ESA is likely to be considerably less responsive to market signals for resource allocation than trade conducted by private traders. Second, countertrade is less likely to carry dynamic benefits in terms of development of private sector expertise than trade conducted through ordinary commercial channels.

B. Countertrade in ESA

164. The most common forms of countertrade among countries in ESA are barter and counterpurchase.[17] Bilateral clearing mechanisms are sometimes classified as a form of countertrade, but these agreements are far enough away from

barter that we do not consider them here. A barter transaction might work as described above, although such arrangements have generally involved official participation. Counterpurchase arrangements are typically agreements to buy goods of equal value from bilaterally negotiated product lists.

165. The record of countertrade between countries in ESA is mixed, as is the official stance of countries towards countertrade. Within SADCC, Tanzania and Mozambique are the most receptive to countertrade, and Botswana the least. Tanzania maintains bilateral counterpurchase arrangements with Mozambique, Zambia and Zimbabwe. The arrangement with Mozambique has had important effects on trade flows between the two countries; in the first two years (1979 and 1980), Mozambique failed to produce sufficient goods to cover the value of goods imported from Tanzania under the arrangement. In the following two years, as exports from Mozambique became available, Tanzania worked off the accumulated (nonconvertible) credit by drastically reducing its exports to Mozambique. The agreement with Zimbabwe, initiated in 1983, calls for each country to import 5 million Zimbabwe dollars of goods from a negotiated list of export products for the other country.

166. For most of the countries in ESA, countertrade arrangements are not encouraged officially. Governments worry about price determination and, particularly with respect to intraregional arrangements, about tying up foreign exchange on low-priority imports. Thus in Zimbabwe, for example, where countertrade proposals must be approved by a special countertrade committee within the Ministry of Finance, an experienced countertrader recently told a group of private traders that a realistic approval rate is "1 deal in 10 years" (CZI, 1986). The government generally allows countertrade to occur only in imports of high priority raw materials and consumer goods and exports of "distressed" commodities (e.g., certain grades of tobacco, maize, short staple asbestos, occasionally ferro chrome). In Zambia, where parastatals are heavily involved in trade, the government gives qualified support to countertrade, but not in metals. Even in Tanzania, where sympathy towards countertrade has a long history, countertrade is now restricted to nontraditional exports.

C. The Role of Donors

167. The U.S. has already been involved in at least one barter-style countertrade deal in the SADCC region, where U.S. wheat was shipped to Malawi in return for exports of white maize by Malawi to Mozambique. There have been difficulties on the distribution end, and in any case, Malawi does not appear interested in further tripartite deals. The SADCC Secretariat, on the other hand, was interested in countertrade possibilities in the region but was unable to articulate specific needs due to lack of information. The recent Nordic initiative with SADCC involves a study of countertrade possibilities, both between the Nordic states and SADCC and within SADCC. The study (which was to have been presented at the SADCC meetings in February 1987) should provide valuable information on the current status and potential of countertrade in the region.

168. Our view is that countertrade is likely to continue on a case-by-case basis as long as overvalued exchange rates tax exporters and foreign exchange shortages constrain import capacity. In this context it is likely to make some contribution to increasing trade and raising domestic capacity utilization levels. In some cases (for example, the Tanzania-Mozambique counterpurchase agreement) countertrade arrangements may serve as expressions of political goodwill. As a broad policy for increasing intraregional trade, however, countertrade would have substantial costs in terms of scarce government manpower, obscuring of incentives and diversion of official attention from needed policy reforms.

ANNEX 2
THE PTA CLEARING HOUSE

A. The Mechanics of the Clearing House

169. Most trade transactions in ESA still go through correspondent banks in the major American, European or South African financial centers. Figure 2.1 shows a transaction through these normal channels. (1) The importer in Tanzania obtains a letter of credit from his own commercial bank, denominated in convertible currency (U.S. dollars, for example), for the amount of the farm implements. (2) The goods are shipped and the Tanzanian importer pays the Tanzanian commercial bank in shillings at the official exchange rate. (3) On presentation of documents by the exporting Malawian firm to its own commercial bank, the Malawian commercial bank pays the exporter in kwacha (the payment could be in dollars, but Malawian residents are required to convert hard currencies into kwacha through an authorized dealer like a bank). (4) The Tanzanian bank then sells shillings to the Reserve Bank of Tanzania (RBT) in return for dollars in its account with a correspondent bank in New York or London. Along with the dollars, the Tanzanian bank sends instructions to the correspondent to credit the funds to the Malawi bank's correspondent account (which may be at a different bank). (5) The Malawian commercial bank then draws down the dollars from its correspondent account and sells them to the RBM in return for kwacha.

170. An alternative channel for payments is through correspondent accounts among the banks in the region. In this case, the commercial banks in each country would have accounts in other countries denominated in the local currency. Upon shipment of the goods, the Malawian exporter's bank would pay him in kwacha and debit the account of the importer's commercial bank. The importer's bank would then have to replenish its account by sending either dollars or kwacha (obtained by selling shillings to the RBT) to the exporter's bank. In the case of dollars, the Malawian commercial bank would sell these to the RBM in return for kwacha; in the case of kwacha, the RBT would at some point have to replenish its kwacha holdings by sending dollars to the RBM.

171. The PTA Clearing House envisions the use of regional banks with correspondent accounts and requires that exports be invoiced in the exporter's currency, the importer's currency, or UAPTA. In Figure 2.2, we go through the most common case, where the Malawian exporter invoices in his own currency. The Tanzanian importer (1) opens a line of credit at his commercial bank, denominated in kwacha. The goods are shipped, and (2) the Tanzanian firm pays his bank in shillings. The exporter presents shipping documents to his commercial bank and (3) is paid in kwacha, and the Malawian commercial bank debits the kwacha account of the Tanzanian bank. The Tanzanian commercial bank's account in Malawi is then replenished (4) by the Tanzanian bank paying shillings to the RBT. The RBT requests the RBM to replenish the account in kwacha, and (5) advises the Clearing House to debit its account in the

equivalent amount of UAPTA (calculated at the UAPTA/kwacha exchange rate quoted daily to the Clearing House by the RBM), and credit the account of the RBM.

B. The Economics of the Clearing House: Further Observations

172. We pointed out in the text that the PTACH has been plagued by underutilization. Our purpose here is to take a careful look at the incentives of various market participants to use the clearing house. We distinguish between the interests of exporters (since these determine the effects of the clearing house on supply/demand conditions in regional trade) and the interests of economic policymakers in the countries involved (since these determine import licensing decisions and official decisions about utilization of the clearing house).

1. Importers

173. As long as the process for allocating foreign exchange is distinct from that for obtaining an import license, the importer benefits because it is no longer necessary to obtain foreign exchange. This saves on administrative costs. More importantly, for the same price of the good in hard currency, the domestic price of the import should no longer reflect the (implicit) premium paid by importers to obtain scarce foreign exchange. This reinforces the effect of tariff preferences in lowering the relative price of imports from PTA sources and will increase the demand for regional imports (even if these are not on the Common List). The increase in import demand will be larger the more overvalued the importer's currency. Of course, this increase in demand will only be translated into increased imports if import licenses are simultaneously liberalized. If import licenses are unchanged, the increase in demand will simply be translated into increased scarcity rents for importers holding licenses.

2. Private Exporters

174. Under the PTACH, the exporter can invoice in his own currency. This means that he bears no exchange risk in terms of his consumption of domestic goods. He also benefits from the reduction in the price of his export due to the saving of the foreign exchange premium by the importer.

175. An important offsetting consideration is that national export promotion schemes tied to foreign exchange earnings have not always been adjusted to apply to PTA exports routed through the CH. This is true, for example, with respect to the foreign exchange retention schemes in Tanzania and Zambia. An adjustment of policy to extend similar privileges to PTA exports is under consideration in both countries.

3. Policymakers

176. The following observation is inescapable: holding the country's pattern of intraregional trade fixed, the optimal arrangement for any country is to

send all imports through the CH and demand hard currency for all exports. In fact, the practice of demanding hard currency has been common. At the October 1986 PTA Trade Fair in Nairobi, Mauritius cited demands by both Kenya and Zimbabwe that exports be paid for in convertible currencies. Until 1986, Zambia was requiring Zimbabwe to pay its US$ 20 million annual electricity import bill in convertible currency. Malawi has recently demanded U.S. dollars for its rice exports to Zimbabwe, citing Zimbabwe's refusal to use the clearing house for exports to Malawi. The list goes on and on.

177. The bias at the official level against exporting through the clearing house has two basic sources. First, the net exporting countries are understandably reluctant to extend interest-free credits. If the hard currency balances were held at New York banks rather than at the PTACH, they would earn the world interest rate. Second, all countries in the region, including the net exporters, are constrained in their access to hard currency. For a country currently limiting high priority imports due to an inability to borrow on international capital markets, an additional unit of foreign exchange today is worth more than the promise of the same unit in two months, even with interest.

FOOTNOTES

1. The members of SADCC are Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe.

2. Current members of the PTA are Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Mauritius has announced its intention to withdraw in 1987. Angola, Botswana, Madagascar, Mozambique and Seychelles are potential members. There is some chance that Zaire will also join.

3. The adjustment may also be away from trade, as in the case of the aggressive import substitution policy adopted by the UDI regime in the 1965-1980 period.

4. There has already been substantial development of national air transport capacity in the PTA region (see, e.g., SADCC Macro Survey, 1986 for data on the southern region). This seems an area ripe for regional cooperation in coordination of scheduling, regulations, etc. The PTA has also proposed formation of regional aircraft maintenance centers.

5. For Sub-Saharan Africa (excluding Nigeria and South Africa), for example, average gross capital formation fell from 20.2 percent of GDP in 1978-82 to 17.3 percent in 1983-86 (IMF, 1986, p. 186).

6. Examples: Tanzania, Zambia.

7. Businessmen in Malawi and Zimbabwe said that high transport costs through Tanzania significantly discouraged trade with Kenya. A Zimbabwean exporter of resins, for example, stated that transport costs to Zambia were 8% of the value of the goods; shipping the same goods to Kenya cost 25%.

8. Information is a public good in the sense that once ithas been obtained, it is difficult to exclude others from obtaining it at significantly lower cost. Profit-seeking individuals will therefore want to depend on the information gathering activities of others. This "free rider" problem will tend to lead to a suboptimal level of private investment in information gathering. This problem is less acute in markets with a small number of participants, which generally characterizes markets for manufactured goods in ESA.

9. The SADCC Secretariat seemed enthusiastic as well but acknowledged the need for The Nordic donors are currently doing a study on countertrade possibilities in the region, and may be more enthusiastic.

10. There is some possibility that the third member of the Gisenyi MULPOC, Zaire, will join the PTA.

11. The numbers are based on data reported by the Nairobi office of Deloitte, Haskins and Sells. The ultimate source and reliability of the data is unknown.

12. The reasons for Mauritius' withdrawal may be complex. One can make the following observations: (i) Mauritius has publiclycomplained about Kenya and Zimbabwe insisting on foreign exchange for their exports to Mauritius; (ii) Mauritius has also complained about difficulty in getting regional partners to grant import licences for Mauritius' exports. This may be particularly true in the textile and clothing industry, where countries want to protect their domestic producers against lower cost imports; (iii) The PTA treaty includes a provision allowing member states to suspend preferences on goods exported from a duty-free zone; such a zone has been an important source of Mauritius' export promotion success; (iv) the rules of origin, even with Mauritius' partial dispensation, hit Mauritius hard; (v) Zimbabwe has been strident in denouncing Mauritius' political and economic involvement with the UnitedStates and particularly South Africa.

[illegible] PTA [illegible] Fair in Nairobi (October, 1986) was that the import licensing issue was the most crucial economic issue.

13. The Treaty calls for the termination of existing bilateral or other payments arrangements among members by October, 1987. As yet, none of these have been terminated. It is worth notingthat given the net debtor limits associated with the PTACH, the termination of existing arrangements could in fact reduce the total credit extended by regional partners to the monetary authorities of net importing countries.

14. A natural extension of the analysis here would be to calculate a table like Table V.2 using trade flows at bi-monthly frequencies. We have not done this, given time and financial constraints.

15. A recent study on intra-African trade by Elliot Berg Associates (1985) estimates that unrecorded trade is probably of the same order of magnitude as recorded trade.

16. To be precise, parallel markets are developed and utilized by individuals in their private capacities.

17. Bilateral clearing mechanisms are sometimes classified as a form of countertrade, but these agreements are far enough away from barter that we do not consider them here.

Annex 3

Statement of Work

Background

The Southern Africa region is of strong economic and political importance to the United States and other Western countries, serving as it does as a major center of investment and as a major supplier of strategic minerals. United Sates policy objectives in the area include regional stability, promotion of market opportunities, economic growth and resource access. In 1982, the Southern Africa Regional Program (SARP) financed a study of the existing economic linkages in this region, with the primary focus being on trade links between South Africa and the nine member countries of the Southern Africa Development Coordination Conference. In light of recent political developments in the region and the possible diminution and/or cut-off of trade between South Africa and SADCC member states, it is imperative to update the existing database and develop a framework for effective assistance to SADCC in the trade and investment sector.

Article I - Title

Southern Africa Regional Trade Study

Article II - Objective

The objective of the work is to provide an analysis of inter- and intra-regional trade patterns existing within Southern Africa and of United States assistance to the region.

Article III - Statement of Work

1. Principal Analyst

In undertaking this study, the Contractor will address three principal questions:

1) What are the impediments to increased intra-regional trade in Southern Africa?*

2) What is the present role and future potential of regional organizations in stimulating trade and other forms of economic cooperation?

3) What can the United States and other donors do to increase intra-regional trade and cooperation?

The following specific questions should be given attention:

a) The present status and recent evolution of trade flows within the region;

b) The recent developments in the Preferential Trade Area and the SADCC and the future prospects of these organizations;

---

*For purposes of this study, "Southern Africa" includes Shaba Province in Zaire but excludes Angola, Namibia and South Africa.

c) **The actual and potential role of the recently created Eastern and Southern African Development Bank and the older PTA Clearing House;**

d) The experience with intra-regional countertrade arrangements, if any, and the existing stock of countertrade proposals, if any;

e) The desirability and feasibility of USAID assistance--for example, by provision of commodities that would release import constraints on specific countertrade proposals.

f) The views and recommendations of ECA and OAU staff on intra-regional trade and cooperation.

2. Senior Analyst

The Contractor shall:

Review draft report prepared by Principal Analyst and make any necessary changes or additions.

Make recommendations on what the United States and other donors can do to increase intra-regional trade and cooperation.

Article IV - Reports

The contractor will submit a draft report for review and discussion to the Southern Africa Regional Office (SARP) no later than January 15, 1987. The final report will be completed no later than February 15, 1987. The report will include annexes as appropriate. Ten copies of the final report will be delivered to AID/Washington for transmittal to USAID/Harare.

Article V - Relationships and Responsibilities

The Contractor will be responsible for completing the tasks described in Article III and preparing a final report as specified in Article IV. The Contractor will be briefed by and consult with the SARP Project Development Officer during the performance of the contract and the direction of the Contractor will be the responsibility of the RPDO. The Contractor will make all necessary travel arrangements and will provide for secretarial, word processing, interpretation and translation services.

Article VI - Terms of Performance

The work envisioned shall be for a period of fifty working days starting on or about August 29, 1986, and continuing through January 15, 1987, approximately.

ANNEX 4

TABLES AND FIGURES

Table II.1
Key Macroeconomic Indicators

SADCC	(millions) Population mid 1984	($millions) GDP 1984.0	($) GDP/capita 1984.0	Debt / Exports 1984	Debt Service / Exports
Angola	9.9	465.0	470.0		
Botswana	1.0	990.0	990.0	32.6	3.8
Lesotho	1.5	360.0	240.0	32.6	3.8
Malawi	6.8	1090.0	160.0	350.6 ***	23.0 ***
Mozambique	13.4	2814.0	210.0		
Swaziland	0.7	563.0	770.0	52.1	5.4
Tanzania	21.5	4410.0	200.0	675.3 ***	14.1
Zambia	6.4	2640.0	410.0	388.2	11.3
Zimbabwe	8.1	4580.0	570.0	153.8	20.0
NON-SADCC CURRENT PTA					
Burundi	4.6	1020.0	222.0	304.0 ***	7.5 ***
Comoros	0.4	75.0 *	220.0 **		
Djibouti	0.2 **	242.0 **	1224.0 **		
Ethiopia	42.2	4270.0	101.0	249.6	13.8
Kenya	19.6	5140.0	122.0	234.6	21.5
Mauritius	1.0	860.0	860.0	110.3	14.8
Rwanda	5.8	1600.0	276.0	153.7	3.3
Somalia	5.2	1364.0	262.0	1489.9	28.8
Uganda	15.0	4710.0	314.0	257.7	21.1 ***
OTHER					
Madagascar	9.9	2380.0	240.0	561.2 ***	24.3 ***
Seychelles	0.1	88.0 *	1354.0	71.7	4.4
Zaire	29.7	4700.0	158.0		7.7 ***

Sources: World Bank World Development Report 1986
Lewis (1986)

Notes: * denotes 1978 figures.
** denotes 1980 figures.
*** denotes 1983 figures.

Table II.2

Sectoral Breakdown of GDP, Selected Countries

	Agriculture	Industry	Manufacturing[1]	Services
SADCC				
Angola	NA	NA	NA	NA
Botswana	6	45	7	48
Lesotho	23	22	6	55
Malawi	37	18	NA	45
Mozambique	39*	43*	43*	11*
Swaziland	25*	31*	28*	38*
Tanzania	52	15	9	33
Zambia	15	39	21	46
Zimbabwe	14	40	27	46
PTA.nes				
Burundi	58	16	NA	26
Comoros	NA	NA	NA	NA
Djibouti	NA	NA	NA	NA
Ethiopia	48	16	11*	36
Kenya	31	21	12	48
Mauritius	14	25	17	61
Rwanda	NA	NA	NA	NA
[illegible]	[illegible]	11	6	39
Uganda	NA	NA	NA	NA
OTHERS				
Seychelles	NA	NA	NA	NA
Zaire	36	20	2	44

Source: 1984 figures taken from 1986 World Development Report

*: Denotes 1983 figure

Table II.3
Composition of Imports, Selected Countries
(Percentage Share of Merchandise Imports)

COUNTRY	YEAR	FOOD	FUELS	OTHER PRIMARY	MACHINERY AND TRANSPORT	OTHER MANUFACT
Malawi	1981	8	15	2	34	41
Tanzania	1980	13	21	3	35	28
Zambia	1982	9	19	1	34	37
Ethiopia	1982	9	25	4	31	31
Kenya	1983	9	36	4	23	28
Mauritius	1983	25	19	5	12	39
Somalia	1980	33	1	4	35	27
Uganda	1982	5	23	1	42	29
Madagascar	1982	16	24	3	30	27

Sources: World Bank, Toward Sustained Development in Sub-Saharan Africa (1984).
World Development Report 1986.

Table II.5

SADCC's Economic Ties with South Africa

	Percent Imports From S. Africa	Percent Exports To S. Africa	Trade Balance With S. Africa	Percent Traffic Using S. African Ports
ANGOLA	0	0	0	0
BOTSWANA	78.2	0.1	-493	62
LESOTHO	74.3	0.3	-362	100
MALAWI	42.6	0.1	-86	95
MOZAMBIQUE	13.3	0	-56	0
SWAZILAND	90	0.4	-215	70
TANZANIA	0	0	0	0
ZAMBIA	24	0	-1[illegible]4	55
ZIMBABWE	29.4	0.3	2[illegible]	85

Notes: 0's in this table represent unavailable statistics except in the case of Angola

Source: 1986 IMF Direction of Trade Statistics supplemented by Canadian International Development Agency statistics

Table II.6
Imports/GDP

SADCC	1975–79 Average	1980	1981	1982	1983	1984	1985
Botswana	0.69	0.63	0.72	0.81	0.73	0.62	
Lesotho	1.24	1.27	1.45	1.58	1.61		
Malawi	0.39	0.39	0.32	0.28	0.28	0.26	0.29
Swaziland	0.73	0.88	0.88	0.94	0.97		
Tanzania	0.27	0.26	0.19	0.18	0.17	0.17	
Zambia	0.42	0.45	0.41	0.36	0.32	0.35	
Zimbabwe	0.27	0.33	0.33	0.28	0.26		
non-SADCC Current PTA							
Burundi	0.20	0.21	0.20	0.25	0.24	0.26	0.20
Ethiopia	0.16	0.19	0.18	0.20	0.20	0.23	0.23
Kenya	0.34	0.40	0.35	0.30	0.26	0.28	
Mauritius	0.61	0.61	0.55	0.50	0.47	0.52	
Rwanda	0.20	0.26	0.22	0.21	0.18		
Uganda	0.08		0.07	0.14	0.11	0.20	
Other							
Madagascar	0.24	0.28					
Zaire	0.53	0.37	0.42	0.30	0.36	0.56	

Source: IMF International Financial Statistics.

Note: Data unavailable for Angola, Mozambique, Comoros, Djibouti, Somalia, and the Seychelles.

Table II.7
Nongold Reserves/Imports of Goods and Service

SADCC	1975-79 Average	1980	1982	1984	1985
Botswana	21.7 *	25.9	22.1	36.3	68.3
Malawi	11.9	8.1	3.9	10.9	8.3
Swaziland	17.4	13.7	7.6	9.4	
Tanzania	8.2	0.8	0.2	1.6	0.9
Zambia	5.0	3.1	2.5	3.9	15.9
Zimbabwe	8.7	7.7	4.5	2.1	
non-SADCC current PTA					
Burundi	42.0	29.3	7.2	5.5	7.9
Ethiopia	30.9	5.8	12.0	2.5	
Kenya	15.1	9.9	6.6	13.3	12.3
Mauritius	10.8	7.7	[illegible]	[illegible]	3.0
Rwanda	29.[illegible]	39.9	[illegible]	20.0	
Somalia	23.0	2.2	1.3	0.5	1.2
Uganda	9.7	3.0			
Other					
Madagascar	6.1	0.8	2.5	8.3	
Seychelles	9.6	9.7	6.9	3.2	
Zaire	9.4	12.7	4.2	10.6	

Source: IMF International Financial Statistics.
Notes: * denotes 1976-79 figure.
Data unavailable for Angola, Lesotho, Mozambique, Comoros, and Djibouti and for the years 1981 and 1983.

Table III.1 A

Intraregional Trade Shares
in SADCC, PTA, and Selected Countries

	Angola	Botswana	Burundi	Comoros	Djibouti	Ethiopia	Kenya	Lesotho
Angola								
Botswana			.0				0.2	
Burundi							2.0	
Comoros								
Djibouti			0.8			1.7		
Ethiopia			0.5		27.5		1.1	
Kenya	0.2	0.3	4.6	4.8	22.9	3.9		0.1
Lesotho								
Madagascar				0.2			.0	
Malawi			1.0			0.1	0.4	
Mauritius				1.0		.0	0.3	
Mozambique	0.6						5.1	
Rwanda			0.8				2.0	
Seychelles								
Somalia					1.0		0.1	
Swaziland			0.4				2.5	
Tanzania			2.1			0.2	1.0	
Uganda							1.6	
Zaire			1.8				0.3	
Zambia	0.2	0.2	5.3		0.3	2.6		
Zimbabwe	0.5	40.4	2.0	0.1			1.0	0.9

	Madagascar	Malawi	Mauritius	Mozambique	Rwanda	Seychelles	Somalia	Swaziland
Angola			.0					
Botswana					3.9			
Burundi								
Comoros	.0		0.5					
Djibouti			0.1			2.0	13.6	
Ethiopia			0.4					
Kenya	0.9	0.5	3.4	23.0	53.5	2.3	4.3	0.5
Lesotho								
Madagascar			0.8					
Malawi			0.2	5.1	0.4			
Mauritius	0.5	0.1				0.8	.0	
Mozambique		1.3					0.1	
Rwanda				0.1				
Seychelles			1.3					
Somalia			0.1					
Swaziland						0.5		
Tanzania	.0	0.4	0.2	2.1	1.3		0.5	
Uganda					1.1		.0	
Zaire					3.2			
Zambia		3.5		0.1				
Zimbabwe		14.3	3.2	14.9		0.8	0.2	1.2

Table III.1 A Cont'd

	Tanzania	Uganda	Zaire	Zambia	Zimbabwe
Angola					
Botswana	0.1			1.9	44.9
Burundi	1.1	0.5	2.3		0.2
Comoros					
Djibouti					
Ethiopia	.0				
Kenya	18.2	114.9	0.6	0.7	0.4
Lesotho					
Madagascar					
Malawi	0.4	.0	4.8	8.4	11.4
Mauritius	0.8		0.2		.0
Mozambique	0.7				14.0
Rwanda	.0	0.2	0.2		
Seychelles					
Somalia	0.1	.0			
Swaziland	0.2	0.8		2.3	1.8
Tanzania		1.8	0.4	0.8	
Uganda	2.5				.0
Zaire	0.1				1.2
Zambia	4.7		1.7		12.9
Zimbabwe	5.1		21.4	29.2	

Source: 1986 IMF Direction of Trade Statistics Yearbook. All numbers reflect numbers reported by the exporting countries except in the case of BLS countries where numbers were taken from importing partner countries.

Table III.1 A Cont'd

	Total Exports	Exports to SADCC	Exports to PTA	Exports to S. Africa	Total Imports	Imports from SAD	Imports from PTA	Imports from S. Africa
Angola	2,190.0	0.0	.0	0.0	1,319.0	1.3	0.9	0.0
Botswana	674.0	46.9	51.1	59.0	706.0	40.6	40.9	552.0
Burundi	112.0	1.3	3.8	0.0	199.0	10.8	17.5	0.0
Comoros	NA	0.0	0.5	0.0	NA	0.1	5.9	0.0
Djibouti	40.0	0.0	16.2	0.0	320.0	0.3	51.7	0.0
Ethiopia	357.0	.0	29.4	0.0	1,246.0	2.9	8.5	0.0
Kenya	1,269.0	43.9	232.7	0.0	1,558.0	10.1	12.0	0.0
Lesotho	24.0	0.0	0.0	8.0	498.0	0.9	1.0	370.0
Madagascar	316.0	0.0	1.0	0.0	316.0	.0	1.5	0.0
Malawi	302.0	25.3	22.2	23.0	256.0	19.5	18.8	109.0
Mauritius	433.0	0.8	2.2	1.0	522.0	3.6	8.0	0.0
Mozambique	174.0	16.6	21.2	8.0	480.0	22.2	45.3	64.0
Rwanda	116.0	0.1	3.0	0.0	235.0	5.6	56.3	0.0
Seychelles	44.0	0.0	1.3	0.0	62.0	1.3	6.4	0.0
Somalia	106.0	0.1	1.3	0.0	379.0	0.8	18.6	0.0
Swaziland	270.0	4.3	7.9	100.0	350.0	1.2	1.7	315.0
Tanzania	284.0	3.3	8.3	0.0	1,028.0	11.2	33.1	0.0
Uganda	395.0	2.5	5.2	0.0	323.0	2.6	118.2	0.0
Zaire	1,568.0	1.3	6.6	0.0	1,178.0	28.3	31.6	0.0
Zambia	738.0	21.6	29.3	5.0	538.0	42.6	41.4	129.0
Zimbabwe	798.0	106.5	57.2	212.0	625.0	85.0	26.7	184.0

Source: Numbers derived from country tables in 1986 Direction of Trade Statistics Yearbook in certain cases where they were unavailable, in which case, numbers were taken from Lewis, 1986.

Table III.1 B

Intraregional Trade Shares,
SADCC/PTA/Selected Countries

Percentages

	Exports to SADCC	**Exports to PTA**	**Exports to S. Africa**	**Import from SADC**	**Imports from PTA**	**Imports from S. Africa**
Angola	0.0	.0	0.0	0.1	0.1	0.0
Botswana	0.1	0.1	0.1	5.8	5.8	78.2
Burundi	.0	.0	0.0	5.4	8.8	0.0
Comoros	NA	NA	NA	NA	NA	NA
Djibouti	0.0	0.4	0.0	0.1	16.2	0.0
Ethiopia	.0	0.1	0.0	0.2	0.7	0.0
Kenya	.0	0.2	0.0	0.7	0.8	0.0
Lesotho	0.0	0.0	0.3	0.2	0.2	74.3
Madagascar	0.0	.0	0.0	.0	0.5	0.0
Malawi	0.1	0.1	0.1	7.6	7.3	42.6
Mauritius	.0	.0	.0	0.7	1.5	0.0
Mozambique	0.1	0.1	.0	4.6	9.4	13.3
Rwanda	.0	.0	0.0	2.4	23.9	0.0
Seychelles	0.0	.0	0.0	2.1	10.3	0.0
Somalia	.0	.0	0.0	0.2	4.9	0.0
Swaziland	.0	.0	0.4	0.3	0.5	90.0
Tanzania	.0	.0	0.0	1.1	3.2	0.0
[illegible]		[illegible]	[illegible]		[illegible]	[illegible]
Zaire	.0	.0	0.0	2.4	2.7	0.0
Zambia	.0	.0	.0	7.9	7.7	24.0
Zimbabwe	0.1	0.1	0.3	13.6	4.3	29.4

Table III.3

Trade Matrix for 1984, SADCC/PTA/Selected Countries

Exports from: / Exports to	Angola	Botswana	Burundi	Comoros	Djibouti	Ethiopia
Angola						
Botswana			.04(#2)			
Burundi						
Comoros						
Djibouti			.8*/.86			1.7X/1.87X
Ethiopia			.47*/.52		27.46X/30.2X	
Kenya	.2X	.3X	4.6*/5.05	4.8X	22.9X/25.2X	3.9X/4.31X
Lesotho						
Madagascar				.17X		
Malawi			1.03*/1.13			.08X
Mauritius				1.01		.01/.02
Mozambique	.56X/.6X					
Rwanda			.83/.21			
Seychelles						
Somalia			/.36		1.04X/1.2X	
Swaziland						
Tanzania			2.1/2.15			.2/.21*
Uganda						
Zaire			1.8*/1.95			
Zambia	.2X	.2X	5.3*/5.83			.3X
Zimbabwe	.5X	40.4X	2.0*/2.2	.1X		

Table III.3 Cont'd

	Kenya	Lesotho	Madagascar	Malawi	Mauritius	Mozambique
Exports from:						
Angola					/.04	
Botswana	(.2X)					
Burundi	1.98/2.2*					
Comoros			/.02X		/.46	
Djibouti					.1*/.16	
Ethiopia	1.11X/1.2X				.37*/.41	
Kenya		.1X	.9X/.97X	.5X/.58X	3.4*/3.75	23.0X/25.31
Lesotho						
Madagascar	.03X				.83*/.91	
Malawi	.38X/.4X				.16*/.17	5.14X/5.65X
Mauritius	.32/.4*		.50/.55*	.07		
Mozambique	5.05X/5.6X			1.34X/1.47X		
Rwanda	2.01X/2.2X					.07
Seychelles					1.3*/1.51	
Somalia	.06X/.1X				.12*	
Swaziland	/2.5X					
Tanzania	1.0/1.1*		/.03*	.4/.45*	.2/.01	2.1/2.33*
Uganda	1.59X/1.7X					
Zaire	.3X/.4X					
Zambia	2.6X/2.9X			3.5X/11.49X		.1X
Zimbabwe	1.0X/1.2X	.9X		14.3X/15.7X	3.2*/3.5	14.9X/16.41X

Table III.3 Cont'd

Exports from:	Rwanda	Seychelles	Somalia	Swaziland	Tanzania	Uganda
Angola						
Botswana	/3.94*				/.1	
Burundi					1.09/.4	.53/.58*
Comoros						
Djibouti		2.0Z/2.3T	13.6X/15.03X			
Ethiopia					.03*	
Kenya	53.5X/58.83X	2.27/2.3T	4.3X(4.71X)	.5X	18.2*/20	114.9X/126.35X
Lesotho						
Madagascar						
Malawi	.39*				.39*/.4	.02X
Mauritius		.81/.6R	.01		.75/1	
Mozambique			.05X		.70*/.8	
Rwanda					.02*	.15X/.16X
Seychelles						
Somalia					.11*/.1	.01X
Swaziland		/.5T			/.2	/.76X
Tanzania	1.3/1.4*		.5(.51*)			1.8/1.99*
Uganda	1.09X/1.19X		.01X		2.46*/2.7	
Zaire	3.2X/3.6X				.1*	
Zambia					4.7*/5.1	/.01X
Zimbabwe		.8Z/.9T	.2X(.21X)	1.2X	5.1*/5.6	/.02X

Table III.3 Cont'd

Exports from:	Zaire	Zambia	Zimbabwe
Angola			
Botswana		/1.9X	/44.9X
Burundi	2.3/2.5*		.23/.2*
Comoros			
Djibouti			
Ethiopia			
Kenya	.6X/.7X	.7X	.4X
Lesotho			
Madagascar			
Malawi	4.82X/5.3X	8.37X/6.4X	11.35X/11.4X
Mauritius	.17/.2*		.02
Mozambique			14.03X/14X
Rwanda	.23X/.3X		
Seychelles			
Somalia			
Swaziland		/2.3X	/1.8X
Tanzania	.4	.8	.2
Uganda			.01X
Zaire		1.2X/1.3X	.4X/.5X
Zambia	1.7X/1.9X		12.9X
Zimbabwe	21.4X/22.1X	29.2X	

[illegible] in [illegible] of [illegible] Statistics Yearbook. Notations correspond accordingly. Numbers reported to the left of the / represent numbers reported by the exporting country. Numbers to the right represent those reported by the importing country.

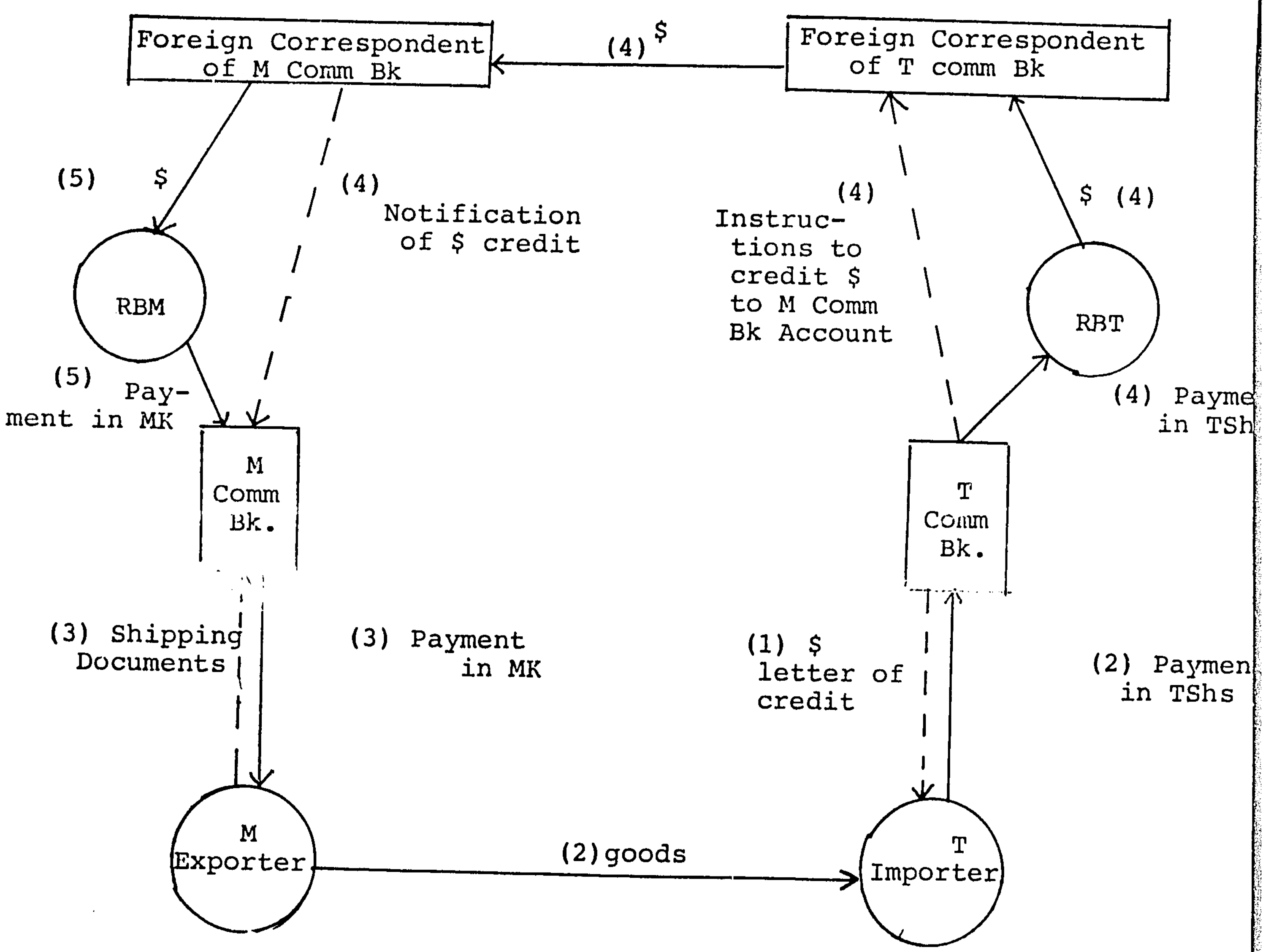
Table III.5

Regional Trade Balance
with SADCC, PTA and Selected Countries

	Balance of Trade Total	Balance of Trade with SADCC	Balance of Trade with PTA	Balance of Trade with S. Africa
Angola	0.0	(1.3)	(0.9)	0.0
Botswana	871.0	6.3	10.2	(493.0)
Burundi	(32.0)	(9.5)	(13.7)	0.0
Comoros	(87.0)	(0.1)	(5.5)	0.0
Djibouti	NA	(0.3)	(35.5)	0.0
Ethiopia	(280.0)	(2.9)	21.0	0.0
Kenya	(889.0)	33.8	220.8	0.0
Lesotho	(289.0)	(0.9)	(1.0)	(362.0)
Madagascar	(474.0)	(.0)	(0.4)	0.0
Malawi	0.0	5.7	3.4	(86.0)
Mauritius	46.0	(2.8)	(5.8)	1.0
Mozambique	(89.0)	(5.6)	(24.1)	(56.0)
Rwanda	(306.0)	(5.5)	(53.3)	0.0
Seychelles	(119.0)	(1.3)	(5.1)	0.0
Somalia	(18.0)	(0.6)	(17.3)	0.0
Swaziland	(273.0)	3.1	6.2	(215.0)
Tanzania	(80.0)	(7.9)	(24.7)	0.0
Uganda	(744.0)	(0.1)	(113.0)	0.0
Zaire	72.0	(27.0)	(25.0)	0.0
Zambia	390.0	(21.0)	(12.1)	(124.0)
Zimbabwe	200.0	21.5	30.5	28.0

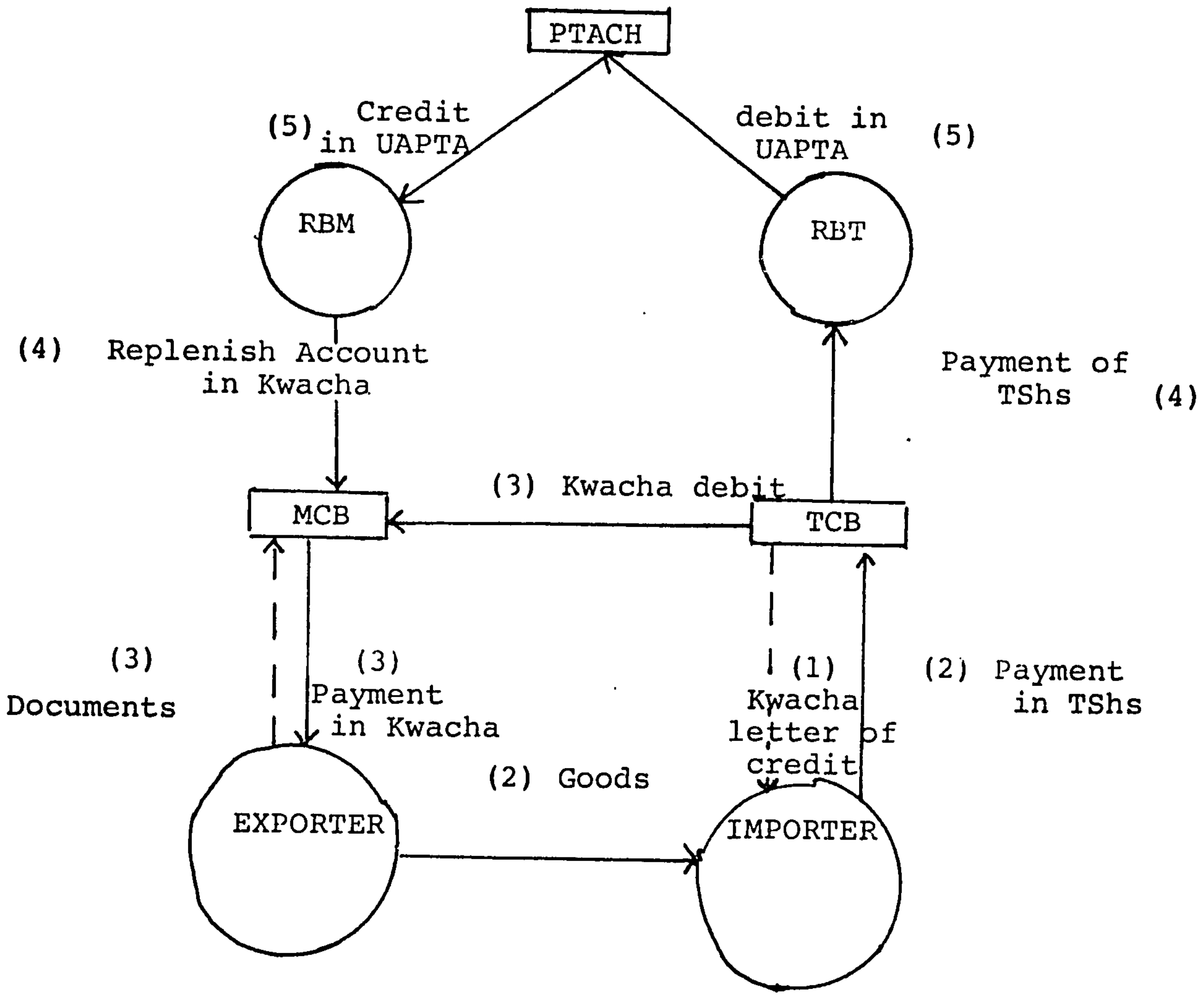
(): denotes a negative number.

Figure A2.1



Key: RBM and RBT: Reserve Banks of Malawi and Tanzania
M Comm Bk and T Comm Bk: Malawi and Tanzania Commercial Banks

Figure A2.2


PTACH
(5) Credit in UAPTA
debit in UAPTA (5)
RBM
RBT
(4) Replenish Account in Kwacha
Payment of TShs (4)
(3) Kwacha debit
MCB
TCB
(3) Documents
(3) Payment in Kwacha
(1) Kwacha letter of credit
(2) Payment in TShs
(2) Goods
EXPORTER
IMPORTER

REFERENCES

Anjaria, Shailendra J., Sena Eken and John F. Laker (1982), Payments Arrangements and the Expansion of Trade in Eastern and Southern Africa. IMF Occasional Paper 11, July.

Berg, Robert J. and Jennifer Seymour Whitaker (1986), Strategies for African Development (Berkeley University of California Press).

Christian Michelsen Institute (DERAP) (1986), SADCC Intraregional Trade Study (Chr. Michelson Inst., Fantoftvegen 38, N-5036 Fantoft-Bergen, Norway), January.

CIDA (1986), "The Impact of Economic Sanctions Against South Africa on the SADCC States."

Clarke, D. G. (1982), "Economic Linkages in Southern Africa," mimeo, Geneva, April.

Confederation of Zimbabwe Industries (1986), "Seminar on Countertrade."

Economist Intelligence Unit, Country Report: Kenya No. 3, 1986.

Elliot Berg Associates (1985), Intra-African Trade Study.

Elliot Berg Associates (1987), Compendium of Regional Organizations.

Group of Thirty (1985), Countertrade in the World Economy, edited by Robert Pringle, New York, Group of Thirty.

Hawkins, A. M. (1985), "South African Sanctions and The Zimbabwe Economy," mimeo, September.

Hawkins, A. M. (1986), "Trade and Development in Southern Africa," mimeo.

IMF (1986a) World Economic Outlook (Washington, D.C., IMF), April.

IMF (1986b) Exchange Arrangements and Exchange Restrictions (Washington, D.C., IMF).

J.G.P. Consultants (1986), "Countertrade and the Preferential Trade Area: Prospects and New Developments," (paper presented at workshop on countertrade organized by the Eastern and Southern Africa Trade Promotion and Training Centre, Nairobi, and the Friedrich Ebert Foundation, Nairobi), February.

Jansen, Doris J. (1983), Zimbabwe: Government Policy and the Manufacturing Sector (Study prepared for the Ministry of Industry and Energy Development, Harare, Zimbabwe), April.

Joshua, F. T. (1986), "Countertrade and Trade Expansion Among Developing Countries (with special reference to the developing countries of Eastern and Southern Africa): Some Observations," mimeo, (UNCTAD, Geneva), January.

Koester, Ulrich (1986), "Regional Cooperation to Improve Food Security in Southern and Eastern African Countries," Research Report 53, International Food Policy Research Institute, July.

Lancaster, Carol and John Williamson, eds., (1986) African Debt and Financing, Institute for International Economics Special Reports 5, Washington, D.C., May.

Langdon, Steve, "Industrial Dependence and Export Manufacturing in Kenya," in Ravenhill, John, Africa in Economic Crisis (reference given).

Lewis, Stephen R., Jr. (1986), "Some Economic Realities in Southern Africa (or, one hundred million futures), mimeo September 9.

Louis Berger International, Inc. (1985), "Southern Africa Regional Transportation Strategy Paper: Final Report," prepared for USAID Southern [illegible]

Malawi Government, Office of the President and Cabinet, Department of Economic Planning and Development (1986), Economic Report 1986 (Government Printer, Zambia, Malawi).

Manundu, M. (1985), Problems and Prospects of Intraregional Trade--The Case of the Preferential Trade Area (PTA), (Friedrich Ebert Foundation, Nairobi, Kenya, May 20).

Mazzeo, Domenico (1984), African Regional Organizations (Cambridge, Cambridge University Press).

OAU (1985) Lagos Plan of Action for the Economic Development of Africa 1980-2000.

Papers presented on country experience in countertrade: Uganda, Kenya, Ethiopia, Zimbabwe, Tanzania (Nairobi, Kenya, workshop on countertrade organized by ESA Trade Promotion and Training Centre and Friedrich Ebert Foundation).

Preferential Trade Area (PTA) for Eastern and Southern African States, Charter of the Eastern and Southern African Trade and Development Bank (Government Printer, Lusaka, Zambia).

PTA (1984), "Report on the Status of Construction and Financial Requirements of Inter-State Road Projects," Lusaka, Zambia, October.

PTA (1985), "Perspective (sic) Work-Plan and Phased Time Schedule for the Implementation of Projects/Programmes in the Short to Medium Term (1985-1990)," mimeo, Lusaka, Zambia, May (limited distribution).

PTA Secretariat (1986), "Preferential Trade Area for Eastern and Southern Africa Activities," September (distribution limited).

PTA (1986a), Report of the Eighth Meeting of the Council of Ministers (Lusaka, Zambia).

PTA (1986b), "Project of the Eastern and Southern African Trade and Development Bank for the Eastern and Southern African States," mimeo.

PTA (1986c), The Common List, (Government Printer, Lusaka), 10 September.

PTA, Treaty for the Establishment of the P.T.A. for Eastern and Southern African States.

Ravenhill, John, ed. (1986), Africa In Economic Crisis (New York, Columbia University Press).

Republic of Kenya, Central Bureau of Statistics, Ministry of Planning and National Development (1986) Economic Survey 1986, May.

Republic of Malawi, Office of the President and Cabinet, Economic Planning Division (1985), Transport System Study of the Blantyre-Dar es Salaam Corridor Draft Final Report, Vol. I, Main Report, February (by GITEC Consult GMBH, Duesseldorf, FRG).

Reserve Bank of Malawi (1986), Financial and Economic Review, Vol. XVIII, No. 1.

Reserve Bank of Zimbabwe (1984), "PTA Multilateral Clearing Facility," January.

Robson, P. ed. (1971), International Economic Integration (Middlesex, England, Penguin Books).

Rose, Tore, ed. (1985), Crisis and Recovery in Sub-Saharan Africa (Paris, Organization for Economic Cooperation and Development).

SADCC (1985) Macroeconomic Survey 1986.

SADCC Industry and Trade Coordination Division (1986a) "SADCC Industry and Trade Development Activities," (prepared for Regional Investment Promotion Meeting for SADCC Countries, Harare, 3-7 November 1986), Dar es Salaam, Tanzania.

SADCC Secretariat (1986b), Annual Progress Report: July 1985-August 1986, Gaborone, Botswana.

SADCC Secretariat (1987a), "Industry and Trade," Gaborone, Botswana, February.

SADCC Secretariat (1987b), "Investment in Production," Gaborone, Botswana, February.

Stephens, Jeanne (1986) "Rate Cutting and the Preservation of Dependence: South Africa's Response to Transport Initiatives in Mozambique and SADCC," mimeo, Institute for Development Studies, University of Sussex, February.

Trend Publishers, Ltd. PTA News, various issues (Nairobi, Kenya).

UNECA (1980), "Study on Intra-African Trade in Raw Materials for Basic Industries," mimeo, 5 November.

UNECA (1983), Intra-African Trade: Current Flows and Prospects, 14 August.

UNECA (Undated) The Preferential Trade Area for Eastern and Southern African States: Towards a Subregional Economic Community, (Government Printer, Lusaka).

USAID (1986), "Southern Africa--Development Constraints, Dependency and Possibilities for USAID Assistance," mimeo.

World Bank (1986) World Development Report 1986 (New York, Oxford University Press).