FOREIGN EXCHANGE AUCTIONING AS A MEASURE OF ECONOMIC LIBERALISATION FOR ADJUSTMENT IN ZAMBIA: PROBLEMS AND PROSPECTS FOR AFRICAN ECONOMIES.

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Last week, on the 27th of February 1987, a certain local newspaper, having been informed of the topic for tonight's meeting , decided to place on its strategic page four, a long article in which a World Bank official - well-cushioned in his career because of the spoils derived from the looting of Developing countries by the institution he works for - issued what the paper called the 'prosecution's case' against the countries of Sub-Saharan Africa. According to the paper the agreed facts were:

- that the economic pains of Sub-Saharan Africa were self-inflicted through wrong-headed policies adopted since independence;
- that these countries inherited healthy economies at independence (implying that colonialism had the mission of creating - 'good' economy) which were harmed by grievous errors, the most telling of which were:
  a) the rejection of capitalism and replacing it with statism; and
  b) buying political power and popularity by parastatalizing or nationalising 'successful' private enterprises and turning them into loss-making bases of politics and patronage;
- that these facts - which are the charges - aggravated the facts of lack of skill and lack of capital and technology. But there is the greatest crime - and here lies the 'prosecution's' final blow - the Africans ignored the basic fact that the human animal is selfish - and this failure led to the failure to utilise this basic attribute of human nature to the common good. Said the official:

> "The way to turn this selfishness to common good is not to ignore it, condemn it, or preach against it, but to tap it for the benefit of the country by letting it produce the goods and services first and then taxing away some of these benefits for the use of the nation as a whole".[1]

Typically, the prosecution - perhaps sensing that, actually, it is the one which should be the accused - runs away from its crime by a philosophical argument - that - philosophically speaking - human nature is basically selfish , therefore, there can be no prima facie case against the World Bank and the IMF for selfishly looting developing countries - for selfishly bringing upon Zambia, intolerable conditions for so-called adjustment.

And typically also, the said paper, which by the way I have so far not mentioned by name - but which I am sure you know of already - puts itself to be the judge listening to the "always right" prosecution, decides that the accused, (the countries of Sub-Saharan Africa) are indeed guilty, and guilty of twenty years of economic mismanagement - and asks the condemned if they have anything to say in mitigation - and they say they have, and they list the following:

a) that it is not all their fault since the wrong-headed policies were inherited from the colonial days;
b) that there are external factors that have played havoc on their efforts at economic development;
c) that they have no control of prices of their exports, the rise in the price of crude oil imports, etc;
d) that there are civil wars and wars of independence which are not of their own making;

e) that there are natural calamities and negative factor endowments like poor soils which are not in their control.

The paper stops there and the guilty are guilty.

I should not continue this seeming comedy. If we honestly look at the background to the auctioning of Zambian foreign exchange resources and the effects of that liberalisation measure, together with other measures meant to 'correct' 'distortions' in the Zambian economy, then we will see that in fact, the prosecutor should be the one in the dock and the 'accused' (here we mean governments of Sub-Saharan Africa) - as far as the masses of Zambia and of Africa, and of the Developing countries are concerned - should only be accomplices!

Let me bore you briefly with what Zambia inherited at independence - you know, the 'healthy' economy that our Mr Uche Mbanefo - now I have mentioned the Zambian based - World Bank bureaucrat by name - talks about.

Professor Seshamani,[2] submitted to the inaugural meeting of the Economics Association of Zambia that at independence, the new state inherited a mononuclear economy characterised by the dominance of a one export commodity - copper - the mainstay of the economy in terms of its contribution to GDP, its share of employment and of foreign exchange earnings. The allegedly healthy mononuclear economy had left Agriculture - a major sector - extremely backward and subsistence-oriented, operating in the main, outside the main-stream cash economy.

The vulnerability of such a mononuclear export-oriented economic structure is not difficult to see for those who believe that human nature is not basically selfish but that selfishness is historically formed and the form it takes corresponds to definite stages of social development; those who believe that the selfish capitalist of the World Bank or the IMF, or of the United States or the United Kingdom, is not a natural but a historical subject; those who believe that capitalism is not a natural system but a historically evolved one and one which is bound for exit from the stage of history.

For the first ten years of independence - when copper production and world prices were high - the vulnerability of the Zambian economic structu[r]e was not manifest. The structural weakness of an inherited colonial export-oriented economy, heavily reliant on copper and with no internal linkages, showed itself with the effects of the first oil shock of 1973 and the decline of copper prices since 1974.

First, those who had inherited the state apparatus and were using it to accumulate from the revenue brought by copper exports imagined that the setbacks were temporary. The 'invisible hand' would get the copper prices back on the right track and the upward trend in the economy would continue. But for two decades the 'invisible hand' visibly and invisibly fails to do this and it is only in the eighties that Zambia realizes that the copper prices will not improve meaningfully. It is this late that the need for restructuring to lessen the dependence on copper is realised. But the problems had deepened. The economy was now experiencing negative growth rates in real GDP; high rates of inflation, a high ratio of debts to exports, a drastic decline in agricultural production, a high degree of underutilization capacity in industry, soaring unemployment, accelerated fall of the workforce from the 'formal' to the 'informal' sector etc. The list of ills is ad infinitum.

In the drive to restructure the economy, two sectors were identified, Agriculture and Manufacturing. Agriculture was to be developed to achieve self-sufficiency in food while at the same time providing raw materials to the agro-industries which were seen as having potential for exports, and therefore, as possible alternative sources of foreign exchange. Manufacturing was seen as having tremendous potential for establishing linkages between primary production sectors (Agriculture and Mining) and secondary production sectors.

But, while previously neglecting the agricultural sector, the Zambian dominant bloc had long tried to industrialize, to build a manufacturing sector which - contrary to the theses of those who claim that inherited colonial economies were 'healthy' - was fairly small in Zambia. A United Nations team in 1964 - year of Zambia's independence- had indicated that this sector was insignificant. In 1984, however, after a vigorous drive by the state to build a manufacturing sector via Import Substitution Industrialisation (ISI) the World Bank reported that Zambia was one of the few Sub-Saharan African countries with a relatively large manufacturing sector. The country was in the top league of industrial production in the region.[3] Yet, as Mudenda says in his essay on this question, there were serious faults with this state-led import substitution industrialisation. First, it did not enter into branches of production that would be integrative and self-sustaining, that would establish linkages with other branches and sectors. Significantly, it did not go into basic metal production, chemicals and engineering. It remained heavily dependent on foreign inputs by way of raw materials and technology and failed to arm itself with a sober, conscientious and skilled management. With the energy crisis and the consequent increases in the prices of manufactured goods, the depressed prices of traditional exports and consequent shortages of foreign exchange, the ISI enterprises suffered bottlenecks while many operated heavily below capacity.

Seshamani emphasizes this point thus:

> "In 1982-83, the overall capacity utilization in manufacturing was 58 percent. This average is due to the high rates in the Textiles sector (72 percent) and non-metallic mineral manufacturing (70 percent) which is closely linked to the mining industry. In its annual report (---1985), the Industrial Development Corporation, (INDECO), the parastatal holding company, stated:
>
> 'Once again capacity utilization remained below economic levels, with many products registering a decline. Only 30 of 57 products registered utilisation of over 50 percent installed capacity. In a few cases the poor state of machinery had been the cause of such low capacity utilisation, while paucity of foreign exchange for processing raw materials was the single major contributory factor in most of the companies'.[4]

While the Zambian State had intervened in economic activities on the pretext that private enterprise was moving too slow in industrialising the country, and that humanism required an "active visible hand" to develop the economy for the benefit of "man", the World Bank suggested in 1984 that restructuring the economy with a focus on Agriculture and Mining required shifts in policies and development strategies seen as inappropriate. The World Bank diagnosed the malaise of the manufacturing sector as:

i) a trade strategy which emphasises import substitution supported by high levels of protection - this had to end;

ii) reliance on administrative mechanisms rather than the market forces in allocating resources - here you must note that the idea of foreign exchange auctioning was proposed by the World Bank and the IMF only jumped onto it later;

iii) reliance on large scale, public sector investment as a leading edge of industrial development - therefore deparastatalization and privatisation was necessary.[5]

All these were the points by the selfish World Bank which does not want to be accused of selfishness, for that is human nature! Many people in Zambia and elsewhere accuse the World Bank precisely for being selfish, and rightly so, never mind the opinion of the Bank itself and that of our Financial Gazette.

But let me hasten to add that the Bank and its allied institutions like the IMF have an accomplice - who by the way has little legitimacy to be prosecutor in this case - and that is the Zambian ruling bloc itself. Having inherited a colonial export-oriented monocultural economy and not changed one iota of it for two decades, and having established a significant state - controlled industrial base that achieved little in terms of real import substitution and that was grinding to a halt because of heavy external reliance, behind the backs of the broad sectors of the Zambian people, this ruling bloc allowed the imposition of difficult conditions on the people of the country by a selfish institution representing international capital.

Macro-economic Policies Between 1964 and 1980

Since independence, Zambia had a fixed exchange rate regime pegged to the pound sterling. From December 1971 onwards, it came to be pegged to the US dollar. The shortage of foreign exchange experienced from 1974 onwards forced stringent control of allocations. An importer had to first obtain a licence from the Ministry of Commerce and Industry and then obtain foreign currency from the Bank of Zambia (BOZ). Due to scarcity, an import licence was not a guarantee for obtaining the foreign currency. Black markets for foreign currency developed and the exchange rates exceeded greatly the official rates.

Nobody suggests that at the official level, there were no problems. Long delays, corruption and arbitrariness in allocations became rampant. Actual allocations, as Professor Seshamani and others note, turned out not to be ideal ones. They became biased in favour of essential consumer goods imports. Nobody denied that the overvalued Kwacha was making imports relatively cheaper, encouraging import-intensity, while also making the country's exports uncompetitive.[6]

Up to September 1985 the Central Bank was imposing ceilings on interests rates applied by Commercial Banks. Given the inflation rate, the interest rates became negative in real terms and thus failed to promote savings while at the same time favouring capital intensive investments (and therefore not creating jobs).

Up to December 1982, the Government was still pursuing its 'humanism' in which the "invisible hand" would not be left to determine wholesale and retail commodity prices. An "active visible hand" had to intervene to protect low income groups and curb excessive monopoly profiteering. Observers note that: "In practice, however, the fixed prices established on a 'cost-plus' approach led to inefficient allocation of resources".[7] Price controls plus the prevailing tarriff structures, led to negative effective protection for some goods whose production was discouraged as a result. Then, as in foreign exchange, a black market for goods developed with prices soaring well above the official prices. Most prices, especially of parastatal produced commodities led to reduced profitability, and thus making these enterprises have no accumulated resources to plough back for expanded reproduction. "Trading", as a leading Zambian economist notes, "... became more profitable than production".[8]

Tarriff barriers were erected to protect import substituting industry. Nominal tarriffs ranged from zero percent on priority items such as agricultural goods and essential consumer goods through 5-20 percent on intermediate and capital goods, to 50-150 percent on non-essential consumer durables. In 1977, an Industrial Development Act had been passed to promote industries through the use of local raw materials and skills, to develop linkages and diversify the industrial base and increase export earnings. In 1984 the World Bank complained that the Act was highly interventionist in tone and arbitrary with the discretionary powers of the minister concerned in granting import licences. The Bank argued that the Act discouraged investors and the transfer of technology and skill. Zambians on the other hand patriotically thought the Act was limited in its coverage and should have been wider to include development of a chemicals industry.

In conditions of near-stagnation, the combination of pressure from external bilateral and multi-lateral aid donors, including the World Bank and the IMF, a number of drastic liberalising reforms were gradually instituted. In December 1982 the Government decontrolled most wholesale and retail prices except for maize meal, wheat flour, bread and candles. Towards the end of 1986, even the prices of these were decontrolled. In January 1983 the Kwacha was devalued. In September 1985 the interest rate regime was deregulated and the Treasury Bill Rate was increased from 9.5 percent to 23.5 percent, and with this, the commercial lending rates shot up to between 30 and 33 percent.[9]

A Small Industries Development Organization had been set up in November 1982 to promote small-scale enterprises and local entrepreneurship. These were expected to be employment-generating through use of labour-intensive methods and appropriate technology. They were expected to foster the development of a genuine ISI and decentralize activities to the regions. An Investment Act was passed in 1986 to overcome the limitations of the Industrial Development Act (IDA) and curb arbitrariness in the discretionary powers of the Minister of Commerce. This new Act also provided for the creation of an Investment Committee to deal with the task of creating an environment conducive for greater foreign investment. Also, import substituting projects were to be overshadowed by a policy to open up the economy, and increase the export drive. An Exports Board was proposed to work on the promotion of non-traditional exports within the context of an Export-Oriented Industrialization Strategy (EOI).

It is in the context of these liberalisation measures that the introduction of foreign exchange auctioning should be understood. Zambian economists note that there was convergence of thought, both from external and internal sources, that the Kwacha was overvalued. There was however no such convergence of thought over whether devaluation via foreign currency auctioning was the road to adjustment. At first - say Sakala, Siwale and Ndulo - "there was continuous consultation between policy-makers in Zambia and external institutions". Yet they also sense that the contribution of internal thought and institutions was relatively small. These economists note that the World Bank thought the solution to the overvaluation of the Kwacha lay in the removal of import licensing and administrative foreign currency allocation

Extended discussion took place in the country with some elements in the state bureaucracy agreeing with the World Bank while officially, there was greater hostility to the auctioning idea. But by late 1984, the economy was in serious trouble and the World Bank and IMF insisted on a massive devaluation of the Kwacha. The Zambian policy-making sectors decide to investigate more on the idea of auctioning foreign currency. Say Sakala *et al*: "In December, 1984, a small team from the Ministry of Finance and BOZ went to Uganda to study the auction system. On its return in January 1985, it prepared an unpublished report which recommended *against* the adoption of an auction in Zambia".[11]

Now, we must note the selfishness of international capital, whose well-cushioned careerists are not even apologetic about it. In April 1985, the current IMF agreement with Zambia lapsed. The neo-colony, gripped head-to-toe by the tentacles of international monopoly capital, was in a dire need of external resources. Drawings on a World Bank US$102.5 million in loans for Agriculture and Industry were about to start. But before disbursements could be made, a more "rational system of allocation of the funds" was insisted on - i.e. - an auction system.

Come October 4, 1985, the neo-colony, beaten and defeated, announces the foreign currency auctioning. World Bank funds were disbursed. Other external donors, the USA, the UK, West Germany and Sweden also release their funds to finance the auction.

How Zambians Responded .

Clearly, the class position determined one's response, but generally, the public (the broad sectors of the people) including the mainly indigenous business community complained that they were not consulted.[12] Those connected to foreign capital - the so-called expartriate business community - welcomed the auction. Said Mr. Murry Sanderson, Chairman of the Lutanda Group of Companies, in a paper to the Economics Association of Zambia:

> "Thought, whether political, social or economic is subject to fashion. A few years back, government control was all the rage. Now there is a strong swing away from that towards market forces, towards the liberalization .... Is this just another fashion? Can we expect the pendulum to swing back sooner or later towards controls and dirigiste policies? Personally, I do not think so. I think the move back to liberalism is a move back to fundamental economic principles - I almost said to economic sanity - to principles which we in the less developed countries (LDCs) have neglected for many years, and I may add, have neglected with disastrous results. Among these principles is one which 30 years ago when I was a student, used to be declaimed by my economics lecturer, Peter Bauer ... Bauer never tired of repeating 'Supply and demand are functions of price....' At that time his was a voice crying in the wilderness. But truths remain true even when ignored".13

Economists and small business people opposed the auctioning system for its likely inflationary impact on the economy. Others thought the Bank of Zambia should at least control the exchange rate rather than leave it to the dictates of the 'invisible hand'. Yet others saw it as a way of destroying the parastatals, of demobilising the state completely from playing a meaningful role in economic development.

Many feared a likely direct recolonisation by foreign monopoly capital.

Advocates of the forex auction - mainly international finance capital and its internal and external supportive allies - argued that the new system, together with adopted structural adjustment measures would enable:

a) greater substitution of domestically available inputs for imported ones which would be costlier with the depreciated Kwacha;

b) greater substitution of labour for capital which, with increased interest rates, would prove costlier;

c) greater success of non-traditional exports whose prices would be internationally competitive;

d) greater foreign investment;

e) greater number of small-scale industries across all provinces; and

f) greater success in elimination of corruption and delay in allocation of foreign currency reserves and this, according to Mr. Sanderson of the Lutanda Group, brought planning back to 'the man on the spot' rather than the central government bureaucrat. By 'man-on-the-spot' he meant monopoly capital's managers who could draw up plans for their operations "in confidence that they can buy whatever foreign exchange they can afford".[14]

Dr. Mijere notes the concern of little capital, threatened by the auctioning system. The Chairman of the Zambia Federation of Employers declared to him thus:

> "Business operations have become uncertain and planning difficult
> due to the initial consequent instability of the Kwacha

and the linkage of all prices to the ruling foreign exchange rate. Entrepreneurs fear that as the resultant price increases passed onto the consumer, commodities will be beyond the reach of the majority of the people and thereby reduce the volume of business or even stagnate it".[13]

How the Auction Operated (See Table I)

In October 1985, the Kwacha was delinked from its basket of currencies and allowed to float on the auction floor. Imports were liberalised except for specified commodities. The decontrol of consumer and agricultural prices was broadened. From the same date the Bank of Zambia rationed forex through auctioning except for transactions like debt service, government operations, ZCCM mining requirements, Zambia Airways, IATA Bills and Tazara. Capital Account external flows were controlled. But, in January, 1986 the range of transactions brought under the auction was expanded to include Zambia Airways, IATA Bills, Oil and Tazara payments. Capital complained that this would distort the exchange rate.

Anybody could bid on the auction floor through their Commercial Bank provided they fulfilled administrative requirements which meant obtaining only a freely available import licence. Each week the BOZ announced the amount of forex available for auction and bidders applied stating how much they wanted and what for, and the Kwacha/dollar rate they were willing to pay. At the BOZ, a Foreign Exchange Management Committee processes the bids. A marginal rate is struck and it is that rate which exhausts the auction funds available.

Before the first auction the exchange rate of the Kwacha with the US dollar was K2.35 for a dollar. It depreciated by 113.2 percent with the first auction, then had an upward trend which was also subject to waddles. It reached a high of K15.25 to the dollar during week 60 of the auction. Policy makers were already stunned. They did not expect the exchange rate to depreciate beyond K7 per dollar during 1986. Traders panicked, bringing in quick-sale goods on the market in order to raise Kwachas for bidding. The exchange rate became even more distorted. The BOZ responded by policy instruments to influence the exchange rate. While it had resisted publicising details of the auction, it now did so hoping the 'selfishness' of high bidders would be curbed. But capital had wanted exactly this. The BOZ starts to reject some bids which it saw as intended to import non-essential quick-selling goods to raise Kwachas for bidding - e.g. - a firm's bid to import tyres and another's to import 1,000 pairs of shoes were rejected. The IMF intervened against these interventions. The BOZ tried to influence the exchange rate through the Treasury Bill Rates - and time and time again the Bank disbursed more funds than actually declared as available for auction in the week. In the first 52 weeks, there is actually no relationship between auctionable funds and disbursed funds, for example, in Auction 43 - the Bank declared $9 million as available but $20.7 million were actually disbursed. The Bank also delayed disbursing funds to successful bidders. But all this did not help the Kwacha.

Then the BOZ requested IMF imperialism to allow introduction of the Dutch auction system which was thought to have an in-built system of controlling high bids. So far this has not helped the Kwacha. And the BOZ has been intervening to stabilise the Kwacha. As I am speaking to you, the State has suspended the auction precisely because of the erosion of the value of the Kwacha and the bad effects this is having on the economy.

The Effects

True, the auction system eliminated subjectivity and corruption in allocation of forex. Firms now have wider and quicker access to forex. In July 1986, an official of Refined Oil Products was registering these successes. Spares and packaging materials could be obtained easier and quicker. Management could spend more time on productive operational matters than on pondering about financial issues. A number of big companies in similar standing recorded improvement in capacity utilization and operational efficiency.

Firms were enabled to charge economic cost-recovery prices. The State had warned parastatals to be competitive or collapse. Subsidies to them were no more. Some were indeed awakened. Agricultural Farm Equipment Limited shifted their import regime from high cost capital goods like tractors to increased imports of spare parts.

The monopoly of parastatals was broken forcing them into competition. For example, the Zambia Steel and Building Supplies Limited had a virtual monopoly in importing steel during the pre-auction days. After introduction of the auction, other firms like Lewis Construction obtained licences and now import steel directly, meaning the parastatal company can no more afford to be complacent and lethargic. Non-traditional exports are also picking up - cement, textiles and coffee were reported to be so while Mansa Batteries reported orders from Zimbabwe, Malawi, Kenya, Zaire and Burundi.[16]

But what are the negative effects? The World Bank had suggested there would be some 3 to 5 years or more before benefits start to show. But here are the costs. A most ubiquitous and conspicuous effect on industry has been a slump in demand. Decontrol of interest rates increased the cost of borrowing. The depreciation of the Kwacha, together with the change in the basis of duty and sales tax levies from f.o.b. to c.i.f., have tremendously pushed up the Kwacha value of imported inputs. All this combined to increase production costs. O.K., firms can charge cost-recovery prices - but the discrepancy is that the market simply cannot afford, thus, most firms face serious liquidity problems. They cannot sell unless they lower prices, but then the costs - already high - are unrecoverable. As a result, notes Seshamani,

> "Most parastatal and small firms with poor cash flows find it increasingly difficult to bid successfully on the Auction floor" [17]

Indeed, the participation of parastatal firms on the auction is insignificant given their dominance in the economy. With small firms, parastatals are being destroyed. Says Seshamani:

> "Already there is reliable anecdotal evidence that some small-scale enterprises have closed down".[18]

On the standard of living of the people, things got worse. The commercial capitalist sector was in a state of panic because of the uncertainty of the exchange rate and the amount of dollars to be auctioned. There were therefore price hikes on all commodities. Says Dr. Mijere:

> "By reducing subsidies on essential commodities, the government authorised price increases on commodities. For example, the price of mealie-meal was increased by 40 percent and 50 percent". [19]

Table 2 illustrates the increases on essential commodities. In its survey in mid 1986, the Prices and Incomes Commission reported that the basket of commodities which accounted for approximately 55 percent of the total consumer expenditure "measured by the consumer price index (CPI) for the low income groups" had gone up by 53.50 percent. The

Commission concluded that the consumer, who spent K100 on the basket of commodities prior to the auction system, had, during the month of June 1986, to pay K154 for the same basket. The majority of the working people whose wages were static since October 1985 could only buy 65 percent of what was bought prior to auctioning.[20]

The auction system had tremendously eroded the workers' buying power. While commercial capital observed the exchange rate in fixing prices of commodities, the workers' wages and salaries were not pegged to the weekly marginal rate. Immiserization of the people accelerated. The wage and salary increases which were awarded in November 1985 were too insignificant to alleviate the effects of the erratic price increases brought about by the auctioning of forex and decontrolling of prices. So you can understand why there were riots in Zambia at the end of last year.

As if this was not enough, one item in the IMF package for restructuring Zambia's economy was reduction of costs of production. The consequence of this 'rationalisation of costs' was retrenchment of thousands of workers. Table 3 gives an inexhaustive insight into the 'pruning' exercise. As recent as mid-February 1987, the local Financial Gazette was reporting heavy cuts in Zambia's civil service including demobilisation of thousands of teachers, allegedly in order to "minimise expenditure as well as improve performance".[21] Observers say the harmful effects of this attack on social services will be difficult to correct in future. The State, having been demobilised from control of economic activity and surrendered its power to the dictates of so-called 'market forces' (in reality the forces of monopoly capital), could no longer protect the jobs and the lives of its citizens. Mr. Chiluba, Chairman General of the Zambia Congress of Trade Unions (ZCTU) declared:

"Job security became the workers' nightmare".[22]

The question to pose in conclusion is: Is it possible for a small imperiali dominated developing country to make the liberalisation measures such as those Zambia embarked on and survive, let alone develop? Zaire has been on this road for over half a decade now and has given up after years of the state having surrendered to the IMF the power to direct the economic development of the nation.[23] Kaunda of Zambia is on record as warning against exploitation by international monopoly capital.[24]

Under conditions of monopoly capital domination, conditions in which developing countries, Zambia included, are net exporters of much needed capital, conditions in which prices of the major exports fall dismally at the world market (Zambia's chief export - copper - had its world price fall by 60 percent in real terms between 1974 and 1984), conditions in which exports face serious protectionism in the developed capitalist market economies,[25] no development is possible. No resources can be generated to finance internal restructuring and developmental projects.[26]

It must be concluded that all these factors point to a need for new political and economic strategies for development, strategies which are popular-based and internally oriented. Such strategies mean the need for political structures that are popular and dynamic, that demand from multilateral financial institutions and transnational corporations benefits for national development and are strong enough to reject the demands of imperialism where these contradict those of the nation.

Africa needs popular radical politics, it needs political regimes that place the people first, that realise the need to industrialise and develop national economies instead of leaving them as captive suppliers of raw materials, markets and cheap labour for international monopoly capital. Africa needs to curb the outward flow of its much needed capital and other resources. If this does not happen, an ominous social crisis looms large over the continent.

Table I

Auction Number	Bid Range	Kwacha Amount Offered	$ Amount Requested	$ Amount Secured	K/$ Rate Struck
1	2.75 - 15.0	79.7	16.9	4.8	5.01
2	3.11 - 12.0	82.8	12.5	5.0	6.10
3	2.44 - 9.15	69.1	10.3	5.2	7.00
4	4.6 - 9.0	70.1	9.6	7.5	6.44
55	4.22 - 8.51	53.0	8.0	6.1	6.25
6	3.5 - 7.5	30.8	4.8	4.13	6.03
7	4.22 - 7.5	31.2	5.1	3.96	5.80
8	5.0 - 7.05	30.0	4.85	4.16	5.75
9	4.52 - 7.0	27.3	4.59	4.2	5.74
10	5.5 - 6.65	30.71	5.2	4.6	5.75
11	5.6 - 7.05	27.35	4.63	4.3	5.77
12	5.6 - 6.65	21.05	3.52	3.51	5.70
13	4.95 - 6.50	29.46	5.01	4.59	5.76
14	4.52 - 6.50	31.9	5.36	4.08	5.86
15	4.52 - 7.50	41.53	6.65	3.3	6.01
16	4.52 - 7.50	65.71	10.18	4.7	6.40
17	4.0 - 7.50	40.58	6.48	6.06	6.36
18	4.0 - 7.11	44.24	7.22	3.87	6.51
19	6.0 - 7.15	45.21	6.65	5.17	6.68
20	5.05 - 7.50	75.67	11.06	7.54	6.78
21	5.54 - 7.50	71.53	10.2	5.36	7.01
22	6.0 - 8.00	55.9	7.72	5.85	6.90
23	6.5 - 9.50	53.16	7.44	5.62	6.75
24	6.0 - 7.65	76.23	10.8	8.77*	6.91
25	6.00 - 7.60	57.7	8.3	7.4	6.85
26	6.50 - 7.60	58.1	8.3	7.2	6.87
27	4.50 - 7.50	64.9	9.3	3.6	6.98
28	6.50 - 7.50	81.5	11.4	8.6	7.06
29	4.50 - 7.50	64.3	8.8	6.8	6.98
30	5.50 - 7.50	50.9	7.2	6.4	7.00
31	6.98 - 7.50	63.3	8.9	7.6	7.03
32	5.50 - 7.50	75.3	10.5	3.7	7.11
33	6.25 - 8.00	50.8	7.0	3.9	7.23
34	6.50 - 8.00	74.9	10.1	7.3	7.31
35	6.51 - 7.75	53.2	7.2	3.9	7.26
36	7.10 - 7.65	82.2	11.1	6.9	7.32

Auction Number	Bid Range	Kwacha Amount Offered	$ Amount Requested	$ Amount Secured	K/$ Rate Struck
37	5.00 - 7.61	90.2	12.2	8.0	7.39
38	5.50 - 7.70	92.2	12.3	6.9	7.51
39	5.50 - 8.10	116.6	15.2	7.6	7.71
40	5.50 - 9.00	103.1	12.9	3.9	8.07
41	5.00 - 9.51	135.6	16.7	4.4	5.03
42	4.01 - 9.53	166.6	21.6	7.5	6.08
43	5.01 - 9.10	169.0	24.0	20.7	5.01
44	4.01 - 7.53	99.3	17.5	10.2	5.35
45	4.50 - 6.85	89.4	15.4	5.9	5.76
46	5.00 - 6.85	111.3	18.2	3.8	6.26
47	5.00 - 7.75	136.7	20.4	8.8	6.87
48	5.00 - 7.99	164.9	22.8	13.6	7.00
49	5.00 - 8.01	94.7	12.9	10.1	5.64
50	4.50 - 7.83	101.5	16.3	3.1	6.37
51	5.10 - 8.00	136.9	20.1	6.0	7.09
52	5.04 - 8.11	165.1	22.8	5.3	7.64

Table 2

AVERAGE PRICES AND MOVEMENTS

COMMODITY	PRICES October 1985	PRICES June 1986	PRICES DEVELOPMENT
1. B/Meal (25 kg)	K19.78	K19.45	-1.7
2. R/Meal (25 kg)	K15.32	K15.59	1.8
3. Bread (800 g)	K00.90	K 1.87	107.8
4. Chicken (1 kg)	6.79	9.74	43.30
5. D/Kapenta (1 kg)	8.92	16.71	86.30
6. F./Kapenta (1 kg)	3.92	7.00	78.60
7. C/Oil (2.5 lt)	17.57	15.78	-10.20
8. Sugar (1 kg)	2.18	3.40	56.00
9. Tomato (1 kg)	1.23	2.55	107.30
10. Onion (1 kg)	1.53	4.65	203.90
11. Rape (1 kg)	1.79	1.98	10.60
12. Brisket (1 kg)	6.50	8.16	25.50
13. O/Mince (1 kg)	6.90	8.25	19.60
14. Mixed cut (1 kg)	5.53	7.44	34.50
15. D/Beans (1 kg)	3.26	5.02	54.00
16. Candles (1 x 6)	9.00	7.57	-15.90
17. Charcoal (1 bag)	7.75	12.00	54.80
18. F/milk (750 ml)	0.62	0.81	30.60
19. Egg (1 Unit)	2.75	3.60	30.90
20. Matches (1 box)	0.08	0.16	100.00
21. Tanganda (100 gm)	2.27	2.59	14.10
22. B/Bond (100 gm)	2.45	2.65	9.00
23. F/Salt (1 kg)	1.39	1.99	43.20
24. Detergent	2.35	4.37	86.00
25. Soaps (bar)	1.21	1.68	38.80

B/Meal	Breakfast Meal	C/Oil	Cooking Oil
R/Meal	Roller Meal	O/Mince	Ordinary Mince
D. Kapenta	Dried Kapenta	D/Beans	Dried Beans
F/Kapenta	Fresh Kapenta	F. Milk	Fresh Milk
B./Bond	Brooke Bond	F. Salt	Fine Salt

Source: Price Information bulletin No. 3, 1986 - Prices and Incomes Commission

Table 3

WORKERS DISMISSED

COMPANY	NO. OF WORKERS DISMISSED	REASONS GIVEN
ZCCM	3,000	As part of Company's cost saving measures, TOZ, 4/8/86
ZCCM	2.250	Dismissed in June 1985 because of the strike over the Mukuba Pension Scheme
The State	5.000	It is better to prune a few workers than the whole nation to sink.
ZAFFICO	400	As part of the World Bank recommendation for the company to retain a manageable labour force. 15/4/86
ZAMOX	120	To enable the firm to survive the present economic crisis.
Ministry of Works and Supply	600	As cost saving measures.
Kitwe District Council	200	As cost saving measures.
94 companies	3,000	To save operational costs.
Firms	3,511	To counter the unfavourable economic climate worsened by the lack of foreign exchange (TOZ, 3/7/86).

ZCCM Zambia Consolidated Copper Mines Limited
ZAFFICO Zambia Forestry and Forest Industries Corporation
ZAMOX Zambia Oxygen

Source: Times of Zambia (TOZ)

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2. Seshamani, V; Structural Adjustment in Zambia : Industrial Policy Issues. Paper presented to the Annual Conference of the Economics Association of Zambia. 12-14 December 1986. Lusaka. pp 1-2.

3. Mudenda; G; The Management of Import Substituting Industrialization in Zambia. Paper 13: Conference on Economic Policies and Planning Under Crisis Conditions in Developing Countries University of Zimbabwe, Department of Economics. Harare 2-5 September, 1985. p. 1.

4. Seshamani, ibid. p. 7.

5. ibid p.3

6. ibid pp. 8-9 (See also Sakala, M; et al; The Zambian Foreign Exchange Auction System and its Impact on Incentives and Production. Workshop on Economic Structure and Macro-Economic Management - December 8-12, 1986, Harare, Zimbabwe. p. 4.

7. Seshamani; ibid p. 10

8. Ibid

9. Ibid p. 12.

10. Sakala; et al; ibid pp. 4-5

11. Ibid pp. 5-6

12. Ibid p. 6

13. Sanderson, M; 'Zambia's Foreign Exchange Auction - The Liberal Prescription for Economic Recovery'. Paper given at the Annual Conference of the Economics Association of Zambia. 12-14 December 1986. Lusaka p. 1.

14. Ibid p. 9

15. Mijere, N.J.; 'African Socialist Ideologies and the IMF Policies for Economic Development ; The Case of Zambia'. Paper presented at the International Conference on the Arusha Declaration held at Arusha on 16-19 December, 1986, and also presented at the Annual Conference of the Economics Association of Zambia 12-14 December 1986. Lusaka, Zambia pp. 17-18.

16. Seshamani; ibid p. 18.

17. Ibid p. 19.

18. Ibid

19. Mijere: ibid p. 18

20. Ibid

21. The Financial Gazette 13/02/87 p.6

22. Mijere; ibid p. 25

23. The Financial Times of London reported on 15 December, 1986, the situation in Zaire in these telling words:

"Last October President Mobutu effectively renounced four years of the (IMF) Fund's tutelage, imposing a 10 percent ceiling on foreign earnings set aside to meet the country's $5-6 billion external debt, arguing that existing commitments were intolerable.

One does not need to be a sympathiser of Mr. Mobutu, who instigated a disastrous nationalisation policy in the mid 1970s and whose regime is notorious for corruption, to see that he has a point. Despite debt rescheduling and the disbursements of new funds, the country has remained a net exporter of capital. Without investment in Zaire's infrastructure a recovery cannot begin".

24. The Times of Zambia on 4/12/86 reported President Kaunda as having told a PTA Authority meeting on 3rd December, 1986 that: "Those (meaning transnational corporations) take investment decisions only in the economic interests of their mother companies in developed market economies, and not in the interests of balanced self-generating process of economic transformation in our one world". The local paper, The

Herald on 8/10/86 said:

"Zambian President Kaunda has warned that his country will continue to be exploited by capitalists if financial institutions like the International Monetary Fund and the World Bank are allowed to direct economic development --- (and) warned that Zambians stood to suffer if the creation of wealth in the country was left in the hands of these capitalist institutions".

5. See Seshamani; ibid pp. 30-32. Professor Seshamani has pointed out the limitations of the Export-Oriented Industrialisation strategy which presupposes that since devaluation of the local currency makes 'a country's exports attractive abroad. While this presupposition may be true, it ignores the fact that price is not the only variable in the promotion of exports. Seshamani says while some African countries like Kenya, Zimbabwe and Mauritius have made significant achievements on the export front, "no country in Sub-Saharan Africa has achieved significant export-led competitive industrialisation comparable to the NICs of Asia and Latin America ...". These NICs are usually used to persuade African countries to emulate them. I must add that the alleged success of these NICs is very often misleading. They now face very serious problems in that their industries (which were set up not by indigenous but foreign capital using excessively cheap and repressed labour) cannot find markets for their products because of protectionism in the developed capitalist countries. Markets for exports are therefore not guaranteed. Export-oriented industries become expensive white elephants in the end. Says Seshamani:

"As an illustration of protectionism against Zambia, one may consider the following. In April 1986 Zambia was one of the copper suppliers removed from the Generalised System of Preferences (GSP) which waives tarriffs on the import of listed goods to the USA. This was because of an increase in the Zambian copper sales to the USA to 87.9 million US dollars in 1984, well above the $68 million ceiling at which GSP status is automatically suspended. In 1985, US imports of Zambian copper totalled only $17.3 million and so the government applied for readmission to the GSP. But the application was turned down in April 1986 because of the 'import sensitivity' of the US copper industry which had long been pressing the Reagan administration for protectionist moves against Third World producers".

6. Seshamani, ibid; pp. 28-29. Seshamani notes that the operational conditions under which restructuring is undertaken in Zambia preclude any meaningful successes. For example, he cites the strategy of developing small-scale industries under the auspices of SIDO. He says that, SIDO, an organisation that was set up by government in 1982 has had budgetary allocations to it falling in this manner since its establishment:

1983 - K1.2 mn

1984 - K1.2 mn

1985 - K0.95 mn

1986 - K0.80 mn

This fact - apart from the unfavourable macro-economic environment, dominated by foreign monopoly capital - makes the strategy of building small-scale industries without an initial restructuration of the political economy at the macro-level, a non-starter.