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## MARKET MAGIC OR MARKET MANAGEMENT?

### Export and Fiscal Policy in a Region at War

Reginald Herbold Green

#### Introduction - Where Do The Divergences Lie?

On two basic points Professor Hawkins and I are in agreement. All Southern African economies need to expand earned import capacity (the counterpart of exports) rapidly and, except for Angola, non-traditional exports even more rapidly. This is not because all need export led growth but rather because all need to avert either import constraint throttled or import financier dictated development. Second present mechanisms of external international transaction intervention, control and management are less efficient (and effective) than could be achieved, in some cases catastrophically so.

In those two areas there is a major gap between our views on how: by the market magic propounded by the 1987 World Development Report (World Bank) and illustrated by Hong Kong and - less purely - Singapore or the detailed, interventionist market management practiced by Taiwan, South Korea and Brazil. Greater exports and greater efficiency are needed - whether the latter is best served in the context of Southern Africa today by less intervention and more laissez faire is quite another matter.

On three issues our disagreement extends to substantive goals. Zimbabwe's government borrowing requirement (including fixed investment) is wholly the result of war. Excess military expenditure plus revenue lost because that expenditure itself and the excess transport cost imposed by RSA and its bandidos armados reduce intermediate goods imports (especially to manufacturing) and thus import, sales and company tax are in sum equal to or greater than the entire deficit. There is no known case of a country fighting a major war without a high borrowing requirement. To view - as Professor Hawkins does - the deficit in abstraction from its war cause is totally unsound and ahistorical.

Zambia's 1984 and 1985-87 Structural Adjustment Programmes were foredoomed - as the World Bank has said in virtually so many words. Neither provided a net inflow of foreign resources and both required - given the level of under-financing against the Bank's minimum adequate targets - measures certain to rend the fabric of society and end the programmes. What is surprising is how long the 1985-87 effort survived.

Third, anyone who will believe after 1973-87 that national economies do not need shock absorbers in the form of public policy between them and the - manifestly imperfect and shock prone - world markets will believe a great deal. Anyone who will believe it in respect to the economies of Southern Africa will believe anything. WDR 1987 shows the most systematically interventionist poor economies - India and China - as the most stable and most able to speed up development over 1979-86. Similarly the sub-set of South countries which did best at protecting social and human conditions were also notably (or to neo-liberals notoriously) interventionist, e.g. South Korea and Tanzania (and outside WDR's set - Botswana and 1980-87 Zimbabwe).

#### Exports - How To Break Through

If anything Professor Hawkins understates the depth and breadth of the need for non-traditional export expansion in Southern Africa. For example on optimistic estimates Tanzania could restore and raise traditional exports to \$600-650 million with a 3 to 4% annual growth rate by the early 1990s versus a \$1,500 million base and 5 to 6% annual growth rate for imports to run the present economy near capacity with 5 to 6% annual growth. Zambia by 2000 needs to achieve doubled total exports while 75% of its present exports vanish with the rundown of its mines. Only Angola - in the absence of war - would have an adequate export base and expansion from hydrocarbon growth and restoration of coffee, diamonds and iron ore.

Processed and manufactured exports - whether based on existing raw exports or new domestic resource based products - will have to play a large and growing role in this expansion. The standard way of achieving such manufactured export breakthroughs has been by building up industry behind protection and

then using detailed, targeted state intervention (plus a neutrally or undervalued currency) to build export niches. Only Hong Kong and - to a degree - Singapore have used the alternative free trade route at this initial breakthrough stage. The UK, the USA, Imperial Germany, Japan, South Korea and Brazil all used protection and intervention. The commonest combination has been high home market profits on a protected market plus export incentives and low (marginal cost plus) pricing of exports. Import liberalisation has lagged long after export market establishment. Zimbabwe with its relatively undervalued currency, retention and revolving fund schemes and de facto export subsidies (e.g. on steel and via rail rates) is, perhaps not too coherently or efficiently, pursuing the standard route with some success.

#### Some Problems And Pointers

The first problem is that protection alone - even when an industrial base develops - is not enough to cause an export breakthrough. The prime case of the 1970s is all too near - RSA. An overvalued currency, a gold pillow and the high cost (even if low wage) of migrant de facto forced labour prevented more than a regional export breakthrough and also blocked rapid, cost lowering domestic market growth. The regional market export breakthrough was, however, vital - it accounted for over 25% of 1970s and early 1980s manufactured output growth.

What does the historic record (and that of RSA) suggest for SADCC member States and SADCC's trade sector?

- a. rational (tariff and/or quota and/or licensing) protection;
- b. joint producer/government identification of key export products and markets to promote;
- c. export incentives (e.g. access to credit, pre-export import finance revolving funds, retention schemes);
- d. movement to neutral or slightly undervalued exchange rates with managed

floats (e.g. Zimbabwe, Tanzania) to reach them and to prevent re-emergence of overvaluation;

- e. enterprise involvement in procedural formulation and monitoring and a reduction in the number of steps to get incentives/permits and the time for each but within a stronger analytical frame;
- f. using this approach to the regional SADCC market to reduce extra regional import requirements and intra-regional unused capacity and as a means to gain experience toward subsequent global export marketing.

The last point can be crucial. If broad frame agreements with target imbalances (or balances) and target commodities can be negotiated with enterprise advice and operated by enterprise transactions (with the cited incentives), substantial import capacity/exports and production can be gained. If settlement of unexpected imbalances is negotiated and centred on raising the lagging exports, the dead-end of blocked balances (and restricted trade) can be averted. But not by "free trade" and "free convertibility" - no Finance Minister or Central Bank Governor in Southern Africa will write open ended cheques in hard currency - a fact both the Lusaka Declaration and the SADCC trade sector programme underline.

In short - exports, yes; enhanced public policy efficiency, yes - but by market management recognising the reality of war and of market imperfections not mystic faith in market magic.

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Reginald Herbold Green now of the Institute of Development Studies (Sussex) has been a student of the political economy of development in Africa for 28 years. Over 1977-86 he was an advisor to the SADCC Secretariat and its predecessors and he is a co-opted member of SADCC's London Liaison Committee. He has also served from time to time as a consultant or advisor to the governments of Botswana, Mozambique, Swaziland, Tanzania and Zimbabwe and to SWAPO of Namibia.