STRUCTURAL ADJUSTMENT AND REGIONAL ECONOMIC INTEGRATION:

Toward Operational Programming
In Eastern and Southern Africa?

By Reginald Herbold Green
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EXECUTIVE SUMMARY

I.

What Interactions?

1. Structural Adjustment and Economic Regionalism are both important and perceived as important in Eastern and Southern Africa. It is, therefore, perceived as desirable that they should relate to each other.

2. Because structural adjustment's core is an overall macroeconomic consistency and balance framework backed by instruments to restore balance and growth, if economic integration is serious, the impacts it has on external balance and on levels and structure of output are of concern to the articulation of the structural adjustment programme. Further, because the articulation of the supply enhancement side of structural adjustment turns on sectoral programmes, serious regional/sub-regional sectoral coordination and prioritisation are a potential instrument for implementing or impeding structural adjustment.

3. From a regionalist perspective structural adjustment matters because as a macroeconomic framework it is central to resource allocation. Just as important it is crucial to mobilising external resources.

4. The difficulty in articulating either a SADC or a PTA role in respect to structural adjustment appears to flow primarily from:

   i. lack of explicit macroeconomic consultation or coordination and

   ii. implicit, rather than explicit, incorporation of national macroeconomic assumptions and targets into preferential trading/clearing arrangements and regional sectoral programmes.

These limit both PTA and SADC in defining and analysing interrelations which is a precondition for acting effectively to enhance positive interaction and to avoid or reduce tensions.
II.

National Structural Adjustment and Economic Regionalism

5. In general terms successful structural adjustment programmes have a positive impact on economic regionalism and vice versa. However, issues of sequences and timing as well as of the interaction of different national and/or regional initiatives mean that at specific policy and programme levels conflicts can arise. For example, the impact of rapid adjustment of an exchange rate on regional trade levels and directions can be disruptive in the short run.

6. To limit the problems requires identifying them in advance. That in turn rests upon:

i. analysing the regional impact of national macroeconomic measures;

ii. explicit examination of national macroeconomic underpinnings of national components of coordinated sectoral programmes and of their cumulative regional impact;

III.

Contributions, Contradictions, Interactions

7. Neither structural adjustment nor economic regionalism is an end in itself. Both are strategic means for organising and focusing economic policy and practice and - consequentially - for mobilising and allocating resources.

8. It is natural that analysts and practitioners whose chief concern is structural adjustment should perceive economic regionalism primarily in terms of the contributions it can make or (less frequently) obstacles it can raise to successful implementation of national structural adjustment programmes. The reverse also holds - perhaps even more so because International Financial Institution approved structural adjustment programmes are in practice a necessary condition for sustaining and increasing external resource transfers and also play a large part in determining their sectoral allocation.
9. However, basically the relationship is one of interactions. Most are, or can be made, positive - others require trade-offs. To engage in a rational decision taking/resource allocating process requires explicit attention to these interactions and, especially, to areas in which they are both significant and can be either mutually reinforcing or seriously at cross purposes.

IV.

Trade Liberalisation

10. Contrary to intuition it is not at all clear that preferential regional trade liberalisation (e.g. as pursued by PTA) and global trade liberalisation (as posited in most structural adjustment programmes) naturally march hand in hand. Rapid global liberalisation reduces the room for regional and the period during which it can play an 'infant region' role.

11. However, those aspects of regional trade liberalisation which promote higher production and lower cost sourcing or which reduce special obstacles to regional trade which have placed it in a disadvantageous position relative to extra-regional clearly are logical components of globally oriented liberalisation as well as of regional trade development.

V.

Clearing

12. Regional clearing at first glance would appear to be rendered unnecessary with liberalisation of payments regimes. That is, in fact, by no means clear. The PTA Clearing House - which is effective and significant in respect to intra-regional payments for regional goods and services (but not transit traffic payments or remittances) - serves primarily to level the playing field. Before its institution intra-regional payments were harder to make than external ones constituting a barrier to intra-regional trade.
13. Useful as it is, commercial clearing can - by its nature - not provide either medium term credits to bridge structural trade imbalances nor medium term trade finance working capital. Analytically that is evident, practically confusions do arise leading to extravagant (and contradictory) hopes for the results from clearing arrangements.

VI.

Currency Convertibility/Stability

14. The limitations on clearing arrangements have led to exploration of the potential for continental or sub-regional currency zones and unions. In fact the weak reserve positions, highly divergent inflation rates, heavy dependence on external resource flows to finance imports and radically different degrees of over-valuation in Eastern and Southern Africa make any such effort highly premature.

15. Coordination and consultation in a context of growing *de facto* convertibility and creeping approaches to less divergent valuations could be useful both to exchange experience and to avoid shocks which create uncertainties and damage confidence. To do that requires that PTA and/or SADC creates a senior official/ministerial macroeconomic sector forum comprised of senior Treasury and Central Bank personnel.

VII.

Fiscal Policy Coordination

16. Similar considerations pertain in the fiscal policy field. Full coordination of taxes or budgets is clearly not a plausible goal. A number of sub-topics ranging from investment incentives to trade creating (diverting) impact of very different direct/indirect tax system patterns could usefully be discussed. In a few a start has been made on an *ad hoc* basis but a more systematic process of consultation, exchange of information and limited concrete steps toward coordination would be desirable for both PTA and - probably especially - SADC.
VIII.

Macro-Coordination: Toward Practicable Perspectives

17. Macroeconomic policy turns on exchange rates, inflation, trade policy (in the Eastern and Southern sub-regional context(s) managed liberalisation both overall and regional), external debt, taxation and poverty reduction. These are not areas in which either SADC or PTA has a substantial history of successful coordination. They are areas of major concern to central economic coordinating ministries - Finance, Economic Affairs, Planning - which have not in the cases of several member States played a leading role in PTA or in SADC, especially in recent years.

18. It is timely to address the value of regional coordination, forum provision and data collection/analysis in these key macro areas:

   i. without such action, a regional grouping's ability to coordinate and to support national structural adjustment and transformation exercises will be limited;

   ii. involvement in the macro processes and knowledge of them is crucial to building up deeper and broader sectoral coordination as a means to articulating and responding to the enabling impact of macro structural adjustment. Lack of a macro context to which to relate is one reason that over 1986-90 the SADC integration and expansion of sectoral work from projects and project clusters to comprise a coordinated regional planning exercise based on coordinated national strategies and relating to operating enterprise as well as ministry levels has had uneven and, on the whole, disappointingly limited success;

   iii. greater involvement of central economic ministries would strengthen regional coordination and, more important, assist member States in taking full advantage of the potential for gains from sectoral, trade and other regional opportunities.

19. In each of the areas cited there is room for exchange of information. In some, concrete joint or coordinated action possibilities can be identified. In others it is likely these would emerge - as they have
done within SADC's sectoral programme areas – once a process of systematic consultation had been established.

IX.

Sectoral Macroeconomic Aspects

20. Macroeconomic strategy and praxis by itself may be adequate to restore balance and is necessary to enable growth. However, its positive structural and developmental impact rests largely on articulated sectoral strategies and policies. These have macro implications and inter-sectoral ones – if agricultural production lags then the balance of payments will be weak and agro-industrial expansion crippled by lack of adequate raw material supplies; if transport and communications or energy is unable to maintain, expand and improve services no amount of fiscal balance nor sectoral enabling policies in agriculture, industry, mining and commerce can achieve either sustained low levels of inflation, competitive unit costs or adequate GDP growth rates.

21. In 1986 SADC launched a strategy to develop its sectoral programmes into genuine indicative regional sectoral plans coordinating and strengthening creative interaction among national plans. It was envisaged not that emphasis on new or reconstruction projects would decline but rather that policies, operational efficiency and enterprise level action would be expanded. The results have been notably uneven, partial and often disappointing. The attempt to move toward coordinated regional economic planning by the creation of a set of interlocking sectoral plans has not been successful to date.

22. The reasons appear to be fivefold:

i. the lack of an explicit macroeconomic framework hampered any sectoral unit's perception of its role in relation to other sectors or the economy as a whole – a weakness exacerbated by the relatively passive role some Ministries of Finance, Economic Affairs and/or Planning have opted to play in national and regional level SADC activity;
ii. the external crisis and external financing source pressures of the middle and late 1980s led to a focus on macroeconomic measures not always adequately articulated to sectoral strategy, policy or praxis which exacerbated the first problem;

iii. While coordination with Ministries has usually, and interaction among them frequently, been strong, sectoral programme involvement with and catalysing interaction among enterprises (whether public or private) has been much more limited. Further, partly because of national Ministry-enterprise frictions, some enterprises have tended to view SADC's sectoral units (not least SATCC) as meddlesome, irrelevant, would-be regulatory bodies and have maintained only formal and diplomatic contact not substantive interaction, with resultant high costs to the enterprises and to the sectoral programmes in terms of opportunities for greater operational efficiency and strengthening of operational interstate economic interaction foregone;

iv. in several sectors, the Coordinating Units have not played (or have not continued to play) a catalytic role in making studies, putting up new approaches for consideration or facilitating negotiations on concrete action among member States or with cooperating partners and have sometimes appeared to be primarily minute takers, meeting arrangers and national proposal filing clerks;

v. for whatever reasons the sectoral coordinating units in Trade and in Manufacturing have to date failed to advance beyond repeated strategic and policy reviews and presentations and have not managed to proceed to actual implementation of any of the (frequently practicable and sensible) projects, policies and strategies analysed and formally adopted.

23. The road forward - both to strengthen the regional dynamic and to make it more valuable in respect to the sectoral real supply side aspects of structural adjustment - probably includes:

i. fuller discussion of macro-sectoral implications nationally;
ii. their explicit appearance in sub-regional sectoral discussions;

iii. a macroeconomic official/ministerial committee/council to review and coordinate the sectoral packages in terms of macroeconomic implications.

In addition coordinated regional sectoral planning requires rather broader presentation of data on purely national projects-programmes-trends. This would probably be largely background albeit exchange of information and experience and training workshops might be useful in some areas (e.g. design and management of labour intensive rural road construction and maintenance programmes). But mutual information is needed - e.g. on non-arterial routes and programmes in transport - for coherent coordination by sector, even though actual regional activities and financial mobilisation would remain centred on large project clusters directly affecting several states.

X.

Sectoral Planning Sequencing

24. The sectors for which movement to coordinated regional indicative plans is most important are those in which regional interaction in production/exchange is high. These include transport and communication, energy, trade, manufacturing and probably personnel development and tourism.

25. Important activity can be - and is, vide 1992 Food Security work by SADC in respect to drought identification and mobilisation/logistical coordination to avert famine - carried on. However, it is focussed on particular sub-sectors of knowledge production and exchange, individual projects (e.g. cross border animal disease control) or certain aspects of the sector (e.g. potentially external marketing strategies and downstream product development in respect to mining). Full scale coordinated indicative plans at regional level do to appear to be of high priority in these sectors.
XI.

Institutional Aspects

26. Both SADC and PTA face certain institutional adjustment challenges - in some cases (e.g. centralisation/decentralisation) the mirror images of each other. These, however, have relatively little to do directly with the issues addressed above. The institutional requirements of creating and servicing a macroeconomic official/ministerial sectoral forum are trivial. The real requirements turn on articulating a convincing initial agenda for consultation and action and achieving an ongoing dynamic.

XII.

South African Accession

27. Relationships with South Africa after the attainment of majority rule in that country will pose significant opportunities, challenges and potential problems both to SADC and - possibly more acutely - PTA. While some preparatory thinking and background paper preparation has taken place, it is unclear that either organisation has drawn up and agreed an articulated agenda for areas of discussion/negotiation with the new South African government.

28. One aspect which fairly clearly has not been explored is the impact of future South African structural adjustment on the other states of the region, especially Lesotho, Botswana, Namibia, Swaziland, Zimbabwe, probably Mozambique and perhaps Zambia and Angola. This presumably flows from the fact that South Africa does not have a structural adjustment programmes (IFI approved or homegrown); is supposed to be an economic power-house and that its economy is not well known in detail to Eastern and Southern African analysts and officials.

29. In fact South Africa has a very weak, maladjusted, deteriorating economy. It is, inevitably, going to enter into a protracted and difficult structural adjustment process.
30. How South Africa adjusts and how its trade relations with Southern Africa are restructured can affect both South and Southern Africa significantly - positively or negatively.

31. Therefore trade relations - especially building up South African regional sourcing of power, water, transport services, metals and some manufactures is a mutual South African/Southern African interest directly relevant to structural adjustment. The danger is that it may not be perceived as such.

32. SADC’s structures - especially if a macroeconomic consultation and coordination structure is added - are such that South African accession should pose few problems. Also its sectoral strengths include several areas in which coordinated development and, in particular, raising South African imports from the ten present SADC members States are urgently needed.

33. PTA faces somewhat greater problems. In principle a transitional period with South Africa extending full trade preferences (and using the Clearing House) but receiving only partial (probably both in coverage and amount) preferences in return should be negotiable. Doing so may not be easy and will be harder in the present absence of any broad agenda macroeconomic forum in PTA.

XIII.

Distributional Issues

31. Economic regionalism cannot be viable unless member States perceive themselves to be net beneficiaries. The fiscal transfer route to that end historically has failed in Africa and neither has been nor is likely to be attempted by either PTA or SADC.

32. Sectoral indicative planning backed by mobilisation of resources for priority projects backed up by coordinated information production and exchange can provide a positive sum game position in which member States perceive themselves (as well as being) net beneficiaries. SADC’s experience in this respect is positive.
33. Similarly, small, partly externally supported sub-regional organisation budgets closely tied to an ongoing programme member States perceive as providing significant benefits are unlikely to be the cause of serious problems - distributional or otherwise.

XIV.

Concluding Reflections

34. Economic regionalism can benefit from and interact positively with structural adjustment. However, these results are not automatic and there can also be tensions or conflicts.

35. To exploit potential gains, minimise conflicts and make reserved choices as to trade-offs, both the SADC and the PTA processes and programmes need to have a higher and more explicit macroeconomic content. While articulating what is feasible and mobilising Ministry of Finance interest in such an approach will require serious thought and effort, it should be practicable within both the PTA and the SADC processes and structures.
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I.

Introduction: What Interactions?

1. There is widespread acceptance that Structural Adjustment and Regional Economic Integration should be related to each other and, in particular, that sub-regional groupings should play a role in implementing structural adjustment. There is equally general agreement that to date this has not happened. On examination it becomes clear that behind this facade of generalisations there is a paucity of articulation as to what aspects of structural adjustment interact with which components of economic regionalism how and which actions taken jointly by member States of a sub-regional grouping would complement or render more efficient their several national structural adjustment programmes. In particular there is next to no articulation of the even more general proposition that structural adjustment should be good for and strengthen economic coordination and integration which, as made by inter alia the World Bank and ADB, hovers uneasily between an assertion as to fact and a suggestion for an element to be considered in designing structural adjustment programmes.

2. The starting points of the discussion do not appear to have been specific. Rather two propositions have been implicit:

   i. structural adjustment and economic integration are both important, good things; therefore, they must relate to each other, presumably positively;

   ii. structural adjustment provides a framework for a priori articulated programme deduction and thus for prioritising resource allocations and therefore if economic integration is to have a priority claim on resources it needs to be related to, deduced from and serving the purposes of structural adjustment.
3. The first proposition is valid in a broad sense but so loose, and so likely to be subject to qualifications and tensions in particular cases, as to be a remarkably inadequate guide to programming. It does demonstrate that national structural adjustment programmes and regional integration programmes should be carried on with exchange of information at the design as well as subsequent stages and that national structural adjustment programmes should be subjected to a regional economic integration impact assessment (and vice versa). Given that no such assessments are now done, that conclusion does represent an agenda for action item, but not the type of regional structural adjustment programming advocates appear to have in mind.

4. The second proposition is - except in a rather special sense turning on perceptions not realities - false. Because structural adjustment is important, two directional, iterative interaction studies with other major policies, programmes and projects are needed. Similarly, because financial, import capacity, knowledge and personnel resources are limited, prioritisation among uses with at least some cross comparison to ensure a certain harmonisation of marginal allocation benefit/cost ratios or (probably more important) a certain consistency of proposed outputs (of goods and services, of institutional capacities and uses) is needed. As a consistency, and balance projecting framework, structural adjustment's core macroeconomic and, in particular, budgeting procedures, are relevant to that exercise.

5. But to attempt to deduce and then articulate sectoral programmes from structural adjustment principles (either nationally or zonally) is not necessarily either prudent or efficient. For example, in the case of environment a ground-up approach identifying and grouping national problems and potentials from which to design instruments and activities to cope with/take advantage of them is likely to be much more efficient than one seeking to deduce a set of national and local actions from broad brush macroeconomic principles and global level environmental concerns. There is a case for iteration, but in most sectors an inductive, contextual basic starting point using relatively proven sectoral analytical tools is more plausible than to start with deductions from macroeconomic principles.
6. The immediate operational relevance of the second proposition turns on whether resource transferors (including the World Bank and ADB) believe and act on it - independent of its accuracy. To the extent they do, then it certainly is prudent for would-be transferees (national or sub-regional) to spell out the ways in which their proposals do further, or are important to sustaining structural adjustment, and are consistent with its macro logic. That - as noted in Para 3 - is worth doing for quite different reasons.

7. However, one thing these two propositions do is to give a clue as to what is usually meant by regional structural adjustment/regional involvement in structural adjustment programming. It is a regional macroeconomic programming face. To date, sub-regional economic integration does not to any significant extent operate on the macroeconomic policy front as such, but on two quite different (albeit related) ones:

i. trade and payments liberalisation and facilitation policies, institutional frameworks and programmes (the core of the Preferential Trade Area of Eastern and Southern Africa - PTA), and

ii. sectoral coordination and development based on exchange of information, coordination of policies, prioritisation of investment and creation of joint policies, programmes and projects when these are perceived as mutually beneficial and best (or only) carried out jointly rather than separately (the core of the work to the Southern African Development Community - SADC, formerly Southern African Development Coordination Conference).

8. The concept of a Regional Structural Adjustment Programme as including a combined budget, tax system, currency, interest, and exchange rate (including valuation/devaluation) policy and praxis operated by a joint institution needs only to be posed to be rejected - for the foreseeable future - as economically and structurally as well as politically both undesirable and impossible. It would require far more pooling of sovereignty than EEC and its predecessors have achieved in 45 years and go well beyond the proposed Maastricht Treaty in the degree of centralised federalism required. Even were it politically practicable, the diversity of economic structures of most sub-regional bodies'
member States and the limited (absolutely and in contrast with EEC) interactions among most elements within them, would make it economically undesirable. A Regional Structural Adjustment Programme would be not merely a bridge but a whole trans-African highway too far. While no one has actually proposed such a programme overall, some of the currency system and monetary fund suggestions are open to precisely the same criticisms plus the added ones that they would not have the backing of common interest rate/monetary and budgetary/fiscal policies making them even more vulnerable.

9. However, to argue that serious economic regionalism requires harmonisation of macroeconomic policy and that harmonisation can be facilitated by exchange of information and a forum for discourse on divergences of national macroeconomic policy likely to have significant negative regional consequences is a very different and relatively unassailable proposition. SADC's regional economic surveys - both the volume length ones by a de facto Council of Regional Economic Advisors and the shorter annual in-house exercises - do represent a first step toward providing a common ex post information (quantitative, qualitative and analytical) base. However, by their nature they do not include information on proposed changes. Nor are they linked to any fora in which national macroeconomic officials or ministers meet within a SADC context.

10. So too the proposition that sectoral Food Security and Animal Disease Control - as well as Transport and Energy - programmes have macroeconomic consequences which should be evaluated explicitly and - at some level - reconciled, harmonised prioritised is valid. At present SADC's sectoral programmes do flow from explicit national sectoral goals which rest in part on macroeconomic goals. However, projected results are related explicitly only to the sectoral goals (and not always in any very rigorous way to them) with macro consequences at best alluded to and usually entirely implicit.

11. In respect both to macroeconomic policy proper and to the macroeconomic impact of sectoral programmes areas the real problem is one of articulation and of identifying potentially fruitful initial activities and trajectories for developing them. That holds both for PTA and for SADC - a point both organisations realise and on which there has been a
certain of amount internal discussion and of discourse with member States but, to date, no agreed programmes of action.

II.

National Structural Adjustment and Economic Regionalism

12. Because structural adjustment - whether under an International Financial Institution (IFI) approved/designed programme or within a nationally designed analogue is important to overall economic policy, performance and net foreign resource inflows it necessarily affects economic regionalism. How is more complex.

13. First, failed structural adjustment efforts harm economic regionalism because they weaken the maladjusting economy. Whether they affect regional policies directly or not, they reduce overall regional economic performance and the capacity to participate of at least one partner State. Just as Zimbabwe's effective nationally designed SA programme over 1984-90 provided both the confidence to take a leadership role in SADC and to provide a relatively buoyant market for some of its neighbours, so too the horrendous 1991 descent into spiralling inflation/devaluation, output free fall and collapse of entrepreneurial animal spirits under a disastrously phased and sequenced IFI crafted second round SA attempt has weakened both the Southern African sub-region and Zimbabwe's role in it.

14. Second, economic chaos flowing from failure to adjust as a matter of policy and thus being adjusted by resultant constraints hampers coherent participation in any line of economic activity - including regional integration. Over 1980-1991 Zambia with a series of stop and go, half-heartedly acted on and prematurely abandoned SA programmes illustrates this quite clearly. So too does the adjacent economy South Africa whose economic policy and performance over the 1980s have been below the SSA (and especially the Southern African) average.

15. An economy with a viable initial set of balances (external, fiscal, monetary, price) and output growth rate with a policy stance responding to or pre-empting/exploiting exogenous events does not need to have an explicit Structural Adjustment programme. Botswana is perhaps the only
such case in mainland Eastern and Southern Africa albeit Namibia is a borderline one and Lesotho's economic structure (or rather lack of any autonomous of South African structures) is not really amenable to separate national structural adjustment programming.

16. **Successful structural adjustment programmes tend to restore** output growth, reduce fiscal and external imbalances (or, in Eastern and Southern Africa, plug them with grant aid replacing domestic bank borrowing and trade arrears) and to lead to some trade and payments regime relaxation. In general this is **positive regionally**, e.g. Tanzania 1984-1992.

17. The more detailed questions turn on **divergences of sequencing, timing and degree**. These cannot be predicted in detail **a priori** although fairly shrewd guesses can be made. For example, if a rapid devaluation of a single currency reduces its undervaluation from greatest to least there are likely to be disruptions to trade flows and directions and shifts from visible to invisible channels and vice versa. The net gains/losses to the region are not easy to estimate even as to sign. Similarly fiscal reforms reducing the number and average level of tariff rates (which are probably usually more trade liberalisation than revenue structure oriented) can erode the value of regional preferential schemes - and do so quite unequally if different national fiscal reforms diverge in speed and/or degree of change.

18. In both of the examples the country acting is likely to gain, i.e. on exports and on user cost of imports. However, if its reduction of preference area imports interferes with a **de facto** semi-balanced trade growth dynamic, its regional export gains may in practice be eliminated for the liberaliser and the losses to its regional suppliers be net losses to the region as a whole. The first round effect is fiscal losses but substitution of a broad based indirect tax on imports (general and preferential) and domestic production could offset the loss, but probably at the cost of additional effective regional preference erosion. In both cases **additional measures are possible to offset some of the unintended regional impact**, e.g. restructuring of tariff preferences or creating special access facilities for 90 to 180 day regional trade credit.
19. Again there is a strong case for prior consultation among senior officials and Ministers of Finance together with senior regional organisation professionals:

i. **totally uncoordinated sequencing and timing** is likely to lead to zig-zags and to leap-frogging both of which inhibit steady build-up of regional economic interaction;

ii. **offsetting measures** to mitigate or reverse unintended regional consequences are unlikely to be taken - or at least to be taken in good time - unless there is prior exchange of information on and discussion of the consequences of national structural adjustment measures;

iii. **major national policy shifts** are analogous - for the region and for member States other than the actor - to exogenous shocks. Shocks increase uncertainty - which is very damaging to enterprise forward planning and which enterprises seek to avoid. But prior consultation allows action to mitigate undesired impact of shocks and also makes earlier statements on the nature of changes (to avoid overreaction to ill-informed speculation/interpretation) prior to implementation of the policy changes.

20. The usual objection is that macroeconomic decisions are inherently secret or top secret. With a handful of exceptions - not much broader than exact exchange rates, exact indirect tax rates - the claim is unconvincing. There is no reason to conceal plans to institute a Mozambique/Tanzania/Zambia type bureau de change second window system nor to announce a tariff (or sales tax) restructuring plus an indication whether it is seen as revenue positive, neutral or negative. Such data would allow planning ahead (a good thing) but not be precise enough to allow sure-thing speculative killings on built up pre tax stocks (which given import constraints and lags are none too easy to inflate artificially).

21. The sectoral aspects of Structural Adjustment are more amenable to coordinated action within the parameters of existing regional organisation dynamics - especially in the case of SADC. World Bank structural adjustment is basically real supply side focused. It comprises macroeconomic enabling climate measures and analogous
sectoral ones (e.g. floor prices for or/and freeing prices to agricultural producers) but also concrete programmes made up of projects to enhance and alter the structure of capacity. Among the sectors regularly targeted are transport, communications, energy, agriculture/food security, skilled personnel development/training.

22. In these sectors - unlike macroeconomic policy - indicative regional structural adjustment planning are based on aggregation - and mutual adjustment of - national plans is at least partially and potentially practicable. Indeed some components already exist within SADC's stronger sectoral programmes. The SADC/SATCC port corridor priority plan is a relevant example especially as it is based on detailed use projections and paralleled by policy improvement and coordination fora. So is the Energy sector's gradual build-up of consciousness of the gains from border area and national grid integration to allow regional electricity sourcing - a consciousness whose rise is symbolised by the 1992 frame agreement on bulk Cahora Basa (Mozambique) power sales to Zimbabwe based on a coordinated approach to expanding generation and transmission capacity. It is fair to say that SADC has - admittedly with uneven success - been seeking to build up coordinated regional indicative planning across a wide range of sectors from 1986.

23. However, present SADC (and in some branches of transport, PTA) sectoral/sub-sectoral planning does not, in practice, take any overall structural adjustment framework or context into account, at least not explicitly. The national building blocs may - or may not - have structural adjustment assumptions built in, but these do not emerge explicitly in regional analysis and prioritisation.

III.

SA and Integration: Contributions, Contradictions or Interactions?

24. Much of the discussion on the structural adjustment/regional economic integration nexus has focused on contributions of regionalism to structural adjustment and on the contributions (positive or negative) of liberalisation to regionalism. This slightly curious approach probably flows from the origins of the discussion.
25. The World Bank in its capacity as SA's catalytic agent, manager and would-be Platonic guardian does tend to view all other policies and all institutional structures in terms of their contributions (or hindrances) to SA. This is as true of ones - including economic regionalism - to which it is favourably disposed as to others - e.g. public sector owned enterprises - in respect of which it has grave ideological and experimental reservations. Because the World Bank through Consultative Groups plays a dominant role in external transfer mobilisation, SADC has been very interested in making the case that its Programme of Action, properly understood, was not only contributory to but an integral part of structural adjustment. Its problem has not been so much the validity of the proposition as of making it be seen to be valid in the absence both of explicit 'structural adjustment impact assessments' and of a SADC macroeconomic sector committee of ministers. PTA's problem is slightly different since, historically at least, it has neither been, nor perceived itself as being, a resource mobilisation channel. While trade and payment liberalisation which are PTA's bread and butter are among SA goals/instruments they are in that context global not regional. The regional case (a second best one in traditional common market theory) turns on economies of scale and of specialisation which are essentially medium to long term and dynamic and on their contribution to altering the climate determining production structures. PTA's quite real tariff reduction and clearing successes have improved the climate and may be building up the posited gains and to a more competitive/export oriented regional industrial sector but this is inevitably hard to demonstrate on results to date.

26. On the other hand, proponents of regionalism (economic and/or political economic) tend to evaluate IFI, as well as national, policy in terms of its contributions to regionalism. Those who are also pro structural adjustment - or critics of its form and emphases rather than its overall thrust - have, therefore, sought to identify how (particularly by increasing transfers to support trade and payments liberalisation and to fund sectoral programmes) it could - with or without significant modifications - be useful to advancing economic and political economic regionalism. Inherently hostile critics of SA have used its real or supposed negative consequences for regionalism as another stick to beat it. This line of criticism may be valid, but given the paucity of empirical evidence and the complexity of indirect impacts is more a
part of a theological (albeit atheist or Cahorsin) perception of Structural Adjustment (or the dated, reductionist early IMF stabilisation model of it they set up to knock down) than of commitment to economic regionalism as a practical programme-policy-project dynamic.

27. Unless one supposes that Structural Adjustment and/or economic regionalism are ends in themselves or that either one is so dominant a means that all other policies and institutions should be wholly subordinated to (not harmonised with it) it, the "contribution" approach has distinct limitations:

1. both structural adjustment and regionalism are means rather than ends;

2. both - but especially regionalism - serve valid social and political as well as economic goals (indeed regionalism's social and political goals are much closer to being ends than its economic aspects);

3. structural adjustment is a medium term balancing and growth restoring strategic means while regionalism is medium to long term and transformation focused;

4. to evaluate each means primarily in terms of contribution to some other means is a procrustean approach, e.g. SADC's rapid and effective reaction to the drought and potential famine crisis of 1992 doubtless could be justified on the basis that mass starvation and consequential economic debilitation would not merely slow but could reverse structural adjustment, but the actual saving lives and laying a basis for rehabilitating livelihoods (e.g. provision of seed) entry point seems a more effective as well as a more end related one;

5. there is no reason to assume all valid means to all valid ends will be perfectly complementary rather than marked by tensions and necessities for trade-offs. Win-win situations do exist but to suppose they are the norm, let alone near universal, is pure escapism.
28. A more fruitful approach is to assess interactions in order to identify genuine win-win situations (and to capitalise on them), areas of parallelism, sectors of potential complementarity/potential divergence to allow maximisation of the former and reduction of the latter and points of tension in which syntheses (where attainable) need to be designed or trade-offs decided upon on the basis of an explicit decision based on as much evidence on gains and costs as can be provided in the relevant decision taking time frame. This is the standard rational decision taking process - it is the one the World Bank advocates within SA and which SADC pursues (sometimes explicitly) in its selection and prioritisation of regional coordination and action.

IV.

Trade Liberalisation - Access Revenue, Production

29. Trade liberalisation appears to be an area of obvious positive interaction between structural adjustment and regionalism. In practice - at least given the IMF's rapidly contracting timetables on second market/first market unification (over 12 months for Ghana, 30 odd for Mozambique, 7 for Tanzania, 4 for Zambia) and the Bank's for moving to low (say 20% average) and relatively uniform (say 10% to 40% range) tariffs this sector is in fact the most, not the least, problematic. It may well be that preferential licensing/remittance is a cost inefficient way to promote regional, trade but if regional export development is seen as providing a learning process and base for global, then tariff levels as low, as uniform and as soon as backed by the Bank are not self-evidently consistent with it.

30. PTA's progress with preferential tariffs will need to be refocused on absolute rather than proportional margins if substantial SA induced reductions become common. As a preference of say 20% would in that case wipe out all protection such a shift may prove difficult - the countries with the least developed manufacturing sectors will wish both protection and preferential access to relatively large and buoyant markets such as Mauritius, Zimbabwe and Kenya which are - unfortunately
for this purpose - likely to be (as Mauritius already is) the leaders in shifting to low standard tariff levels.

31. The emergence of a 'new' South Africa poses several special problems:

1. clearly South Africa under new management will be a welcome member State in SADC whose style of operation means its larger size and higher levels of technological and financial sophistication will not lead to domination;

2. but in the case of PTA - despite somewhat incautious statements about simple accession - special arrangements will be needed, i.e. mutually, but unequally, preferential access for a transitional period;

3. which will be problematic because, if typical tariffs come down to a 20% to 40% range, there is not really room for two meaningful preferential tiers;

4. equally problematic will be the timing and sequencing of South Africa's structural adjustments (in both the World Bank and the "affirmative action" senses) badly needed by one of SSA's worst performing 1980s and early 1990s economies and also beset by explosive economic inequities a perceptible start toward redressing which is a necessary condition for sustained structural adjustment in the IFI sense.

32. To the extent that the PTA Clearing House has given regional exporters an advantage of more assured prompt payment (through external suppliers discounting delay risks by raising prices whereas regional ones did not need to do so) moves to de facto current account convertibility and at least de facto (plus creeping de jure) Open General Licensing are already eroding that advantage. However, it can be argued that the primary promotion of regionalism by the Clearing House lies in reducing the previous bias against regional sources in which case the gains remain and - presumably - are made safer by the generalisation of expeditious payments.

33. SADC's operational approach to regional trade enhancement (as opposed to support in principle for preferential frame agreements) is consistent with liberalisation:
i. improved transport and communications may have disproportionately high positive effects for intra-regional trade but by levelling playing fields previously tilted in favour of extra-regional imports and exports;

ii. coordination of manufacturing sector development - e.g. by exchange of information leading to national cancelling of initiatives likely to result in too high regional production capacity in too many, too small plants - is efficient both from a regional and a structural viewpoint;

iii. raising the general internal profile of the region and of regionalism as a concern of people and enterprises - not just politicians - is, while hard to quantify, a step toward an enabling climate reversing a previous malign neglect of intra-regional trade opportunities based to a substantial degree on a lack of awareness leading to a failure to look for relevant commercial information. It is interesting to note that this generation of autonomous interest in the sub-region by groups of economic and social actors has repeatedly been discussed at some length by SADC including in preparation of the draft treaty;

iv. mobilisation of finance for intra-regional commercial transactions - whether in special facilities or otherwise - is in practice a playing field levelling approach quite consistent with (indeed a logical component of) global liberalisation because extra regional enterprises (exporters and importers) have more adequate access to (and pay less for) trade credit abroad than do regional ones at home and domestic exporters find it easier to raise credit regionally (and a fortiori extra regionally) for extra-regional than for regional sales. The snag is that SADC's assistance to mobilisation of resources for national funds to finance regionally direct exports has had limited success and the PTA's efforts to establish a regional trade development bank even less.

34. Similarly, PTA's work on customs and transit documentation simplification and harmonisation (through the ITO project in Malawi which also works with SADC) is facilitative of global liberalisation but particularly valuable to regional trade facilitation. The same is
true of the ongoing Indian Ocean - landlocked PTA members (counting Eastern Zaire as virtually cut off from the Atlantic) which now fall under the general PTA umbrella. PTA's rotating regional trade fair promotion is best seen as a regional business profile raising/commercial information exchange encouraging/ground levelling exercise.

35. Clearly the global liberalisation thrust of Structural Adjustment limits room for preferential (regional protective) tariff and payments measures (as it does for purely national ones). It does not eliminate them. By forcing more intensive consideration both of other measures in general and in particular of ones which reduce particular barriers to intra-regional trade which bias trade against regionalism, this may be useful. Tariff preferences are one means to promoting regional trade but not sufficient and arguably frequently not necessary. The physical side of trade facilitation - improved transport and communication and alteration of manufacturing output composition - constitutes an area in which structural adjustment and regionalism are likely to have similar targets. The same pertains to documentation simplification, exchange of information and enhanced trade credit access which are indeed relevant to trade liberalisation generally but also to levelling the field to redress existing structural bias impeding intra-regional sourcing and market targeting.

36. Trade liberalisation's impact on revenue is sometimes adduced as an objection to structural adjustment. While that result - if it pertains - is not specific to regionalism, member State revenue losses do weaken capacity to move toward closer economic links/greater regional economic integration. The same case is sometimes made against preferential tariff reduction within PTA - though rather ironically it is not made against the Botswana/Zimbabwe near free trade arrangements whose total revenue 'cost' must be significantly larger.

37. In fact, Structural Adjustment, combined with a modicum of indirect tax policy flexibility, should result in revenue enhancement not reduction:

1. devaluation (if effective) normally raises public revenue more than public expenditure unless the domestic proportion of government purchases (including wages) is quite low;
2. because structural adjustment is in fact correlated both with a rise in external resource transfers and a shift toward import support (usually leading to dutiable imports) and away from project tied allocations (which usually do not) it broadens the base on which tariffs are levied;

3. substitution of a broad based single point (importation or manufacture), non cascade sales tax on both domestic and imported goods is administratively practicable, perfectly adequate to replace lost customs revenue and quite consistent with the macroeconomic logic of structural adjustment;

4. increased import capacity (especially via import supports) allows enhanced capacity utilisation thereby boosting domestic sales/excise tax revenue and, often, profits tax on domestic market oriented manufacturing;

5. tariff (and sales tax) harmonisation lowers retail price differentials between states and therefore incentives to smuggle. Smuggled goods - by definition - yield no revenue on arrival (albeit they may result in producer/exporter sales tax gains).

38. The apparent implications for economic regionalism are:

1. increased emphasis on physical barrier reduction (e.g. transport and communications improvement) and supply enhancement (e.g. manufacturing and electricity sectoral coordination);

2. paralleled by measures reducing trade barriers disproportionately inhibiting to intra-regional exchange by improved provision of information on opportunities and access to credit and remittance facilities;

3. consultation on phasing and sequencing of tariff changes - and other of indirect tax rate and coverage alterations - to take advantage of positive and to minimise negative interstate side consequences;

4. implying either a senior finance official/minister committee within PTA, a similar committee/council within SADC or a de facto joint
set of meetings (e.g. two nominally separate meetings at the same time and venue).

V.

Trade Facilitation - Clearing

39. Clearing arrangements have historically played a substantial — but declining — role in African economic integration/coordination. The PTA's Clearing House represents the most functional of 1980s efforts to revive that role.

40. The early clearing role was in one sense not directly visible because it took the form of unified or freely inter-convertible pan-territorial currencies of which the varieties of African franc (excluding that of Djibouti which is, oddly, dollar linked) and the single currencies of the East African and Central African British colonial groupings were the most important. These arrangements clearly provided freedom from exchange rate risks and inter-convertibility plus clearing of inter-currency zone transactions on the same basis as national.

41. However, predictably, most such arrangements did not long survive independence (with the CFA francs of West and Central Africa exceptions):
   i. they were closely linked to free convertibility with a metropolitan currency which ensured their relative hardness and, thus, acceptability but also entailed the imposition of the metropolitan currency zone exchange controls against African states not linked to that metropolitan currency;
   ii. they — necessarily unless a deus ex machina willing and able to finance territorial external cash flow deficits existed — greatly constrained national fiscal policy;
   iii. by definition they prevented adjustment of currency values within the African zone even when highly divergent economic structures and inflation rates suggested that would be prudent;
iv. in practice, the franc linked currency unions have prevented even regional exchange rate changes against the French franc/convertible currencies in general while tying the CFA franc into the fluctuations of the French franc against other convertible currencies which turn on French policy and/or market evaluations of the French economy and its prospects only accidentally likely to parallel what would otherwise be African policy or evaluation of African economies and their prospects.

42. The South African Currency Union is a somewhat special case. When it was founded, Botswana–Lesotho–Swaziland were peripheral economic areas, and Namibia a *de facto* colony, of South Africa. The emergence of a significant national economy in Botswana led to its establishment of a national currency (for reasons other than trade or current account transaction controls) and — with independence — the same process is taking place in Namibia. Lesotho has no significant territorial economy not integrally linked to/dependent on that of South Africa while Swaziland which does has, at present, very small reserves and a weak external balance position precluding an independent currency at the same time as continued liberal trade policy. Certainly smaller SACU members have high trade with South Africa though not with each other — facilitated by the currency union, but the structural reasons for trade concentration are much deeper — vide the continued high levels of Botswana imports from South Africa — with the Customs Union and (quite imperfect) market mechanisms much more important in sustaining them.

43. The *interim phase of sub-regional currencies with exchange controls against all outside states* — including the ex-metropolitan power — existed in the 1960s in anglophone Eastern and Central Africa, but not anglophone West Africa where currency union as such had never existed and independence rapidly eroded *de facto* convertibility/ease of clearing via the common link to free convertibility into and out of sterling. However, the half-way house did not prove durable. In Central Africa the successor states to the Federation had for both political and economic reasons little commitment to sustained economic cooperation and high commitment to managed intertrade. In East Africa it survived longer — basically until the mid-1970s — but with national currency inter-convertibility within the zone becoming increasingly
secondary in priority and ultimately jettisoned in the 1974 oil price, drought and general terms of trade crises.

44. Because trade facilitation was of interest even to states also seeking national currency management powers, and because in sub-regional groups crossing colonial currency zone boundaries the common currencies actually impeded overall sub-regional trade, interest in clearing arrangements less ambitious than currency union arose. This trend was reinforced by two additional interlocking factors:

i. as an increasing number of currencies came to have both fluctuating cross rates with each other and restrictions on current account convertibility the risks in terms of value of receipts/cost of payments (depending on the currency of contract) for trade denominated in domestic currencies rose as did the delays/costs/uncertainties of securing effective payment;

ii. leading to denomination of contracts in foreign convertible currencies and clearance via external banks (quite often in less than transparent ways) and/or to a variety of barter-smuggling-countertrade devices all entailing costs to users and - more annoying to states/central banks - reducing both their ability to see and to manage/control/tax external transactions.

45. The resulting clearing house/clearing union proposals tended to muddle issues of currency of contract, channels of clearing, costs of uncertainty as to proceeds/payments and of delay with those of foreign exchange shortages and of market versus allocational prioritisation and management of external purchasing power flows. Further, on a correct (but not very precise) realisation that historically current account payments liberalisation via a clearing system had been important in post war Western European economic revival and the pre-history of EEC they called on that historic analogue. Unfortunately the historic study did not focus on the role of credit provisions, on their freezing in respect to structural debtors (especially Greece and Turkey) or on the role of Marshall Plan payments in financing the process. Thus they muddled the transaction gains from prompt/predictable payment with those from medium term credit extension and underestimated the working capital (in a broad sense) requirements of a formal clearing system.
46. The result has been that - excluding the surviving African franc arrangements operating through two zonal central banks and with working capital requirements partly, and increasingly conditionally, underwritten by Paris - all but one of the clearing arrangements have been de facto stillborn. The exception is that of the PTA.

47. The PTA Clearing House - physically located in the Bank of Zimbabwe - is functional, functioning and modestly useful. The majority of eligible transactions are cleared through it and, by and large, on time. As it approaches the end of its first decade it appears to have become stable, accepted and moderately sure of surviving.

48. The characteristics underlying this respectable record include:

   i. a substantial proportion of two-way transactions - especially those linked to Harare - which do cross-cancel

   ii. a high proportion of transactions between countries - notably Zimbabwe, Malawi and Botswana which either have relatively relaxed import controls and/or in which payment is reasonably automatic once import approval is secured;

   iii. three month clearing of balances averting the build-up of unmanageable sums;

   iv. exclusion of transit traffic payments;

   v. especially in the case of the Harare pole (perhaps less so in that of the Nairobi one) significant concern at enhancing multi-directional trade.

49. The fourth point demonstrates a limitation as well as a strength. The issue was debated with one major exporter of transit services (Tanzania) strongly favouring their inclusion in order to speed up recovery from Zambia and another (Mozambique) strongly opposing partly to speed up receipts and partly to avoid cross-cancelling its goods deficit with its transit traffic surpluses. Both Tanzania and Mozambique have now moved to a de facto hard currency before delivery billing system, facilitated by South African Railways' retreat from open ended credit provision.
50. The hope for a major developmental, as opposed to a useful transaction cost and risk reduction, role for the Clearing House rested on a basic divergence in understanding. Zimbabwe believed that by ensuring payment within three months it would reduce currency and payment delay risk thus providing a climate in which its relatively competitive industrial sector could and would rapidly expand exports. Zambia per contra quite frankly - if inaccurately - saw it as a channel for increasing import availability without having to worry about paying. In practice both have adjusted to cutbacks in those aspirations.

51. Clearing under balanced indicative trade promotion agreements - while not strictu sensu under PTA or SADC auspices - has been attempted in a number of bilateral arrangements. The standard format has been:

i. cross accounts between the respective Central Banks;

ii. exporters within the agreement paid on proof of delivery by their Central Bank which then debits the importer Central Bank's account;

iii. six monthly or annual clearing;

iv. hopefully largely cross-cancelling at or near target trade expansion values;

v. linked to a frame trade agreement specifying balanced (although an agreed imbalance would be possible in principle) trade levels with more or less articulated indicative lists of product groups and operating enterprises;

vi. with actual transactions (including volume, price and exact products) negotiated between the enterprises;

vii. and imbalances negotiated to result in target alterations (preferably by increasing exports of the shortfalling country) or - as a last resort - hard currency settlements.

52. SADC - as evidenced in its founding Lusaka Declaration - is favourably disposed to this approach, albeit it has never seriously envisaged creating a sub-regional multi country frame agreement forum nor has it actually created an occasion for simultaneous, parallel bilateral
agreement negotiation and coordination. The PTA was initially vehemently hostile to what it called (at least literally quite inaccurately) barter trade and, in principle, banned it under its Treaty with phase-out to be completed by 1990. More recently it has apparently either adopted a less ideological (and more low key) position or felt that the issue had become moot.

53. The experience with this type of clearing - which the IMF would clearly view with massive disenthusiasm and the World Bank accept only for a brief period during a more general payments liberalisation process - has been very limited. The agreements have had very little operational meaning except for that between Mozambique and Tanzania in the late 1970s and early 1980s which peaked at a two-way annual level of about $30 million. As perhaps two-thirds represented Tanzania exports there was a clear unprojected imbalance problem, although in cement and refrigerators Mozambique had two products with surplus capacity which were ones Tanzania intended to import from somewhere. After 1980, the pressures of war - including direct sabotage of the quarries serving the cement plants - more or less wiped out Mozambique's capacity to maintain, much less expand, export levels to Tanzania. So far as simplifying transactions and reducing risks to exporters went, the agreement worked smoothly while the non-clearing problem as the Bank of Tanzania faced it arose from exogenous events not enterprise inability to identify and to agree prices for potential Mozambique exports nor from Mozambican administrative barriers to exports. The verdict would appear to be not proven but the present IFI climate virtually precludes open state - as opposed to state encouraged but enterprise operated - balanced trade expansion type solutions to clearing problems.

VI.

Trade Facilitation - Currency Convertibility/Stability

54. The very limited success of clearing arrangements has led to examination of underlying reasons. These have not been hard to find:

i. lack of relevant exportables;
ii. **bureaucratic barriers** to exportation - especially to sub-regional destinations (e.g. several SADC/PTA countries at least for a time refused to grant retention allowances to exports to Clearing House countries on the logically incredible basis they neither earned nor saved foreign exchange!);

iii. **unattractiveness of exports** when import scarcity meant very high domestic relative to export prices and also de facto imposed output constraints limiting production to levels at or below domestic saleability;

iv. **very unequally over-valued exchange rates** creating significant barriers to mutually profitable transactions unless the same firms handled both the import and the export ends;

v. **barriers to securing import or export approval** which meant potentially viable transactions could not take place lawfully and therefore - if they did take place - could not be cleared.

55. The fourth and fifth (and to a degree the second and third) factors have led to generalised interest in **harmonisation of exchange rates**, in liberalising current account transactions and - on occasion - in exploring quasi or proto currency unions or monetary system rate management schemes. These have often tended to be simplistic (or simple minded) with - as usual - rather uncritical copying (in earlier years) of the IMF's "fixed but adjustable parity" formula and more recently of the 'rigid' EMS approach of EEC with little perception of the problems which had, or were about to overwhelm them in the North much less of the particular ones likely to pertain in Africa.

56. The basic point that unevenly over-valued (or for that matter under-valued) currencies are inimical both to trade development and to clearing is valid. They are also inimical to simple regional liberalisation because it would encourage cut price exports to relatively liberal countries either to build up balances or to pass on into hard currencies, e.g. via Gaborone or Windhoek in SADC (not PTA as both Botswana and Namibia have rejected membership as cost/benefit inefficient). The question is how to achieve coordinated currency valuations (e.g. all between - and 10% over-valued).
57. A clearing house evidently does not address this issue. Neither does a second window as in practice Clearing House rates are first window rates (a factor which sharply reduced the acceptability of PTA Traveller's Cheques in Tanzania in the period during which the bureau de change rate diverged by 20% from the first window rate). A currency union clearly does do so but can hardly be sustainable unless three conditions are met:

i. the national rates of inflation are within a narrow range and stay there;

ii. trade and exchange control barriers (visible and invisible) are roughly similar;

iii. imports are dominantly financed from export proceeds (not external transfers or investments) in all participating countries.

Unfortunately, to state the conditions is, in the actual African context, to suggest they cannot be met. The SADC sub-region with de facto current account convertibility at quasi market rates is the closest but even there the dominant factor in determining a sustainable Mozambican or Tanzanian exchange rate is net foreign transfer projections and proceeds.

58. In non-francophone Africa exchange rates have - especially over 1986-92 become less over-valued. (The reverse holds true in the franc zone where even a devaluation against the French franc has been blocked by the Treasury and the dependent zonal central banks - a factor seriously limiting exchange rate coordination contribution to regional coordination/integration within ECOWAS.) That is nominal exchange rates (prices of hard currencies) have in most cases risen faster than domestic inflation. Up to a point this should facilitate sub-regional trade, especially as the reduction of over-valuation has been paralleled by reduction of import and current account remittance controls. Up to a point. With inflation and devaluation rates, as well as real interest rates, varying widely, it is not necessarily true that the net result of liberalisation is to reduce biases against regional exports. Cross rates are highly unpredictable three months in advance (the clearing period). If real devaluation is taking place and
real interest rates are negative (or nominal ones below the rate of devaluation) exports denominated in a hard currency plus 90 to 180 days lag in collection is the most profitable option and one unavailable in zonal transactions (at least if put through a clearing house).

59. From the realistic perception that fluctuating cross rates impede trade — especially if the lag between completion of production or purchase by the exporting enterprise and effective receipt of proceeds is over 30 days — has come a yearning for monetary unions or fixed but (rarely) adjustable parities with zonal (or continental) monetary arrangements. The snag is that the implicit cure — stable inter-country exchange rates — is neither practicable nor prudent so long as two features of SADC and PTA remain:

i. significant numbers of rates (e.g. Ethiopia, Sudan, Zaire, Somalia and Angola) whose over-valuation is grossly disparate from others;

ii. sharply divergent rates of inflation (typically from 15% to over 100% in recent years);

iii. no credible foreign exchange fund to stabilise inter-state rates against a speculative crises (up to $1,000 million permanently blocked for that purpose might be needed). The collapse of the — in retrospect premature — attempt to turn EEC's EMS into a de facto fixed parity system should be a warning since while effective speculative pressures would be lower so would resources available to combat them and the initial divergence of valuations and of inflation rates is very much greater.

60. The most obvious route potentially open to SADC and PTA has not been pursued (or at any rate not agreed; within SADC it has been proposed from time to time over the past four years). This is meetings of member State Ministers of Finance and Central Bankers to discuss exchange rate harmonisation with the sub-regional secretariat as speaking observers and facilitators. In the case of SADC this is a particularly glaring gap because the organisation has a vocation for providing fora for sectoral ministers and senior officials to meet to exchange information, coordinate policies and prioritise projects/initiatives more effectively confronted jointly than
severally. Finance and Planning (the central macroeconomic sectors) are the evident absentees. In principle it could be argued that the overall Council of Ministers is such a forum, but in practice this is not the case for two reasons:

i. different member States have different lead ministers (Finance, Planning, Foreign Affairs, Regional Affairs, sectoral from the area of the State's special responsibility area) so that a SADC Council of Ministers meeting is not, in practice, a Finance Ministers' session;

ii. even if it were, the agenda relates to sectoral issues coming up from sectoral groups not to overall macroeconomic issues and in particular not to exchange rate policy coordination.

VII.

Regional Fiscal Policy Coordination

61. It is not entirely clear what is meant by Regional Fiscal Policy Coordination in the PTA or in the SADC context. Neither organisation has an own budget large enough to be relevant. The macro impact of regional priority list SADC projects is most handleable nationally. Nor are trade flows or their changes likely to be large enough before 2000 to allow, let alone require, budget coordination based on that factor. Certainly literal negotiation and agreement on the content of national budgets is neither a practicable nor a plausible idea. (Vide both the USA's and Nigeria's inability to do so at state/national level even within a federal context.) Nor is detailed discussion leading to unification - or specific agreed divergences - of indirect and direct taxes a likely area for fruitful operation in the short run. The old East African Community had such negotiations because it had - almost - uniform main line income and company tax, excise and customs rates within a common procedural legal framework and a joint collection system. The probability that either PTA or SADC will move rapidly in that direction is negligible.
62. Clearly certain tax or tax incentive (i.e. special or negative rates) areas do require discussion if there are not to be serious diseconomies of non-coordination. These include:

i. investment incentives. These are not in practice particularly effective for encouraging net increases in investment (external or domestic) except to the extent they provide relative clarity and certainty on rate and allowance structures and on the areas and parameters within which case by case negotiations are possible. But, if opaque, uncertain and divergent among countries they can increase investor ability to bargain down tax take well below what they would otherwise accept, raise uncertainty deterring investment and also distort the location of investment within the sub-region;

ii. indirect tax changes which are major enough to have significant impact on import/export levels and patterns (including shifts to or from sub-regional sourcing and marketing vis-à-vis global) which were discussed in section IV above in respect to trade liberalisation;

iii. overall - especially indirect - tax patterns to the extent they have substantial trade diverting effects. High total indirect taxes encourage purchases in adjacent low total indirect tax markets with de jure or de facto smuggling of the purchases. Such trade clearly does take place between Botswana and Zimbabwe. Other cases are less clear-cut because non-availability or non-comparable exchange rates play a much larger role than divergent tax systems. However, with greater liberalisation it is likely to increase in importance - e.g. between Kenya and Tanzania.

63. These clusters of fiscal issues in respect to which coordination would appear likely to be fruitful do relate to the macroeconomics of structural adjustment but are not central to them. Nor is their overall macro importance in Eastern and Southern Africa clear. What is clear is that significant divergences and visible trade impacts do exist and the latter provoke considerable anxiety on the part of some Treasuries leading to avoidable irritation with and suspicions of the actual intentions of neighbouring states. Both PTA and SADC have
attempted to address these problems in the context of investment incentives:

i. PTA has provisions intended to harmonise - or provide special defined divergences for the weakest economies - some aspects of investment promotion;

ii. SADC has published the investment codes of member States to make them more widely available to investors and - whether this was explicitly intended or not - contributed to national work toward clarification and updating and to some regional discussion on harmonisation.

PTA work on tariff harmonisation is a by-product of its work toward building a preferential system that actually does provide greater, and an acceptable distribution of, access. (A 50% preference on a basic rate of 100% is nominally very large while a 50% preference on a basic rate of 25% seems much smaller. However, in the first case even the remaining 50% may well be prohibitive while in the latter the 12½% margin may - or may not - be important vis-à-vis extra-regional suppliers.) It is not grounded in any general fiscal harmonisation context nor does it address indirect taxation applying both to imports and to domestic production except to the extent that their valuation or collection basis discriminates against regional imports.

64. In this area, as in that of Trade and Exchange Rate policy, the difficulty does not lie in finding a general list of topics on which common concerns potentially better addressed with an element of coordination do exist. Nor does it turn on inability to pick out some specific sub-topics. Rather it seems to turn on four other factors:

i. at present neither PTA nor SADC has a 'sectoral' forum for macroeconomic ministers and officials;

ii. nor is there a sub-regional data base adequate enough to provide background material for such meetings;

iii. macroeconomic policies are viewed as of great importance and as requiring a cloak of secrecy at least from after broad discussion until after actual pronouncement of decisions;
iv. fully fledged regional coordination of planning - even to the extent it already exists in PTA relative to tariffs and commercial clearing or in SADC in respect to arterial transport and electricity generation - in respect to macroeconomic policy is not perceived as either practicable or desirable for the foreseeable future.

65. Decisions by SADC and/or PTA to create 'Macroeconomic Sector' fora and to instruct the secretariats to produce regular regional economic surveys (including one to three year projections) as well as regional macroeconomic, fiscal and trade statistical series would remove the first two problems. If they did engage in serious discussions - even on secondary but useful topics - which were then seen to be valuable this would erode the third barrier and provide a set of parameters reassuring participating states that no unacceptable invasions of national Treasury or Planning Agency sovereignty were on the agenda. However, the "if" is a considerable one. A possible route to resolving it lies in an approach toward an OECD type consultative framework augmented by more specific, action oriented activity on certain topics for which coordination on a short term basis is more important.

VIII.

Macro Coordination: Toward Practicable Perspectives

66. Macroeconomic policy turns on exchange rates, inflation, trade policy (in the Eastern and Southern sub-regional context(s) managed liberalisation both overall and regional), external debt, taxation and poverty reduction. These are not areas in which either SADC or PTA has a substantial history of successful coordination. They are areas of major concern to central economic coordinating ministries - Finance, Economic Affairs, Planning - which have not in the cases of several member States played a leading role in PTA or in SADC, especially in recent years.

67. It is timely to address the value of regional coordination, forum provision and data collection/analysis in these key macro areas:
i. without such action, a regional grouping's ability to coordinate and to support national structural adjustment and transformation exercises will be limited;

ii. involvement in the macro processes and knowledge of them is crucial to building up deeper and broader sectoral coordination as a means to articulating and responding to the enabling impact of macro structural adjustment. Lack of a macro context to which to relate is one reason that over 1986-90 the SADC integration and expansion of sectoral work from projects and project clusters to comprise a coordinated regional planning exercise based on coordinated national strategies and relating to operating enterprise as well as ministry levels has had uneven and, on the whole, disappointingly limited success;

iii. greater involvement of central economic ministries would strengthen regional coordination and, more important, assist member States in taking full advantage of the potential for gains from sectoral, trade and other regional opportunities.

68. In respect to exchange rates, coordination of policy can be achieved when all rates are perceived as being roughly sustainable and not seriously over-valued, subject to continued downward floating (whether managed or massaged market) parallel to excess domestic inflation above the global average for SDR component economies. This may be closer within SADC - where the only remaining hyper-valued currency, the Angolan kwanza, probably will be brought into line moderately soon if peace is restored. Rather more seriously over-valued currencies (e.g. Ethiopia, Somalia, Sudan, Zaire) exist in the PTA. The exchange rate area is one in which coordination with South Africa as soon as politically practicable is important - rand valuation swings (via their trade impact) are seriously destabilising for at least five of their neighbours. Information exchange may be useful - Mozambique and Tanzanian have had far less traumatic experiences with managed transition to relatively free and - barring major exogenous shocks - sustainable rates than has Zimbabwe which over 1991-92 became trapped in a self-justifying expectation driven exchange rate/domestic price inflation spiral.
69. In respect to inflation it is hard to identify any practicable approach beyond exchange of information. The countries which have had rates fluctuating around 15% and, to a degree and the cluster fluctuating around 25% presumably have management experience of value to those experiencing much higher rates and to the ones with de facto suppressed inflation prior to fiscal and exchange rate structural adjustment. All might benefit from joint consideration-research-analysis on how to reduce 15% and 25% annual inflation rates to - say - 5%. This is very much a non-trivial point, successful structural adjustment programmes in countries with 25% or higher prior inflation have pushed the trend down to 25% but even in longer running cases - e.g. Ghana and Tanzania - a breakthrough to a significantly lower than 25% trends has proven much more elusive.

70. Trade 'Liberalisation' is a common policy approach in Eastern and Southern Africa. The real issues are not whether but how fast, in what sequence, with what residual management. The present patterns of trade restrictions - tariffs, import licenses, exchange controls - in PTA and SADC member States have grown up piecemeal over the past thirty to fifty years and have rarely been subjected to thoroughgoing review nationally. Nor have national operations and reviews benefited from dialogue on, or even detailed knowledge of, other partners' experience. Least of all have national discussions of change been informed by much thought on their regional implications for the state taking action or for its partners. There is general agreement that most systems have been less than efficient at allocating import capacity, avoiding price distortions or encouraging domestic production and regional trade. Therefore the general direction of change sought - and in most cases begun - is toward what is usually called liberalisation. Very different national contexts primarily in terms of adequacy of export earnings and access to other sources of foreign exchange, but also in respect to domestic production and market potential and divergent strategies mean that national programmes will vary as to scope, instruments and timing. Precisely because of both the historical and future programme divergence, consultation could be valuable to learn what works well for what purposes under what conditions (and, at least as valuable, what has high risks - e.g. Tanzania's 1977-8 dash for full liberalisation - and what works very badly - e.g. the mid-1980s Zambian and Ugandan forex auction experience). Similarly, coordination would
be prudent to ensure that national actions and their timing were mutually reinforcing and did not have unintended negative side effects on regional economic exchanges.

71. Among the relevant sub-topics are:

i. achieving greater speed and flexibility in import licensing as well as ensuring that key import priorities are met first before general allocations to minor products;

ii. examining how to remove distortions against producers (and in favour of small finished product importers) and against small producer enterprises which affect some systems;

iii. examining the roles, uses and possible abuses of retention allowances for exporters both to cover their direct import needs and to provide an enabling climate with incentives to export;

iv. the potential for phased product by product (and in some cases sectoral group by sectoral group) relaxation and/or removal of import licensing (restoration to Open General Licence) for spare parts and production inputs considered separately from any general commitment to an early return to full OGL;

v. the uses of high import duties as a protective device and also as a means to disenable amenity/luxury imports (as well as the alternative use of high excise or sales taxes to deter both importation and production of such goods);

vi. the management of foreign exchange plans by managed market or other instruments (budgets) to ensure that freely usable foreign exchange (or non-fungible import credits) are in fact available on a timely basis to allow enterprise and departmental planning on the basis of import permit allocations;

vii. the interaction of licensing, retention allowances and taxation in respect to a mutually consistent overall trade strategy.

The international climate of opinion (and pressure) while remaining very pro 'liberalisation' is increasingly pragmatic in respect to reasoned partial and/or phased approaches. Experience in this respect
(and on how to take advantage of such flexibility on the part of the World Bank and other sources of finance) varies by State and could usefully be exchanged, pooled and developed on a coordinated basis.

72. **Regional trade liberalisation** can be pursued on its own whatever the global policy. In the present SADC Region context, though less certainly in the PTA one, it is more likely to be a part of an overall approach. In that context it is important to coordinate to ensure that global liberalisation measures do not have negative unintended consequences for regional trade (e.g. non-granting of export retention allowances for regional exports, making moves to open general licence uniform globally with no regional preferential provisions and without levelling the playing field by providing equal access to credit and clearing facilities for intra-regional trade). This sector is one shared by SADC and PTA. The latter's focus is on tariffs and commercial clearing. Both can usefully operate across a larger region than SADC. Therefore, the relationship is or can be made to be complementary. The historic incidents which have limited SADC/PTA dialogue to attain such complementary should be seen as belonging to the past, and recent more cordial inter-communication continued and built upon. There is enough work for both organisations to do, and each has its own comparative advantages, at least for the medium term as explicitly recognised in the discussions surrounding the SADC treaty drafting.

73. A common approach based on discussion, parallel policies nationally and regional umbrellas would be useful. Key elements may include:

i. **cross credit accounts** at central Banks with rectification of untargeted imbalances by some method more likely to increase the deficit State's export levels (and to sustain those of the surplus State) than automatic 90 day hard currency clearing;

ii. **selective OGL** (open general licence) to regional member States (could be open to other PTA as - except for Kenya and on some products Mauritius - they aren't very relevant);

iii. **frame trade targets** (initially bilateral or trilateral but negotiated at multi country forum) - value, planned imbalance, probable main types of goods;
iv. closely linked to enterprises interested in buying (as well as selling) regionally;

v. with helping build up enterprise fora information flows and trading enterprises (private-mixed-public) oriented to general regional importing/exporting and looking for potential users (imports) and needs (goods-specifications-prices).

vi. re-activation of SADC (and/or institution of PTA) efforts to help mobilise funding for national pre-export forex cost working capital funds and possibly for a regional fund;

74. Regional Ministries of Finance could benefit from a coordinated approach to external debt. There would not be the same demands by each country because of very different situations, but that fact, leading to joint proposal packages such as perhaps Botswana not seeking relief; Zimbabwe more grant or very soft loans in future but limited renegotiation of past debt; Angola a once for all 'Polish' type 50% write-down of past export credits plus full servicing of new soft and export credit semi-soft flows; Mozambique/Tanzania 100% (including export credits and commercial debt) write-down or conversion by rollover to long/ultra soft loans would add to credibility. There are signs (Brady, Polish/Egyptian arrangements, Trinidad, London G 7) that serious debt write-downs for SSA are nearly on the agenda for negotiations. That makes revival of the earlier SADC initiative for member State discussion appear timeous. Agreement on main goals and parameters could then inform national positions when negotiating with creditors so that these were mutually supportive and donors could not by a coordinated approach to each one of the 10 member States separately bargain them down.

75. Elements for a common approach might include:

i. write-down of all bilateral loans and defaulted export credits 100% for debt distressed low income States and 40% to 70% for debt distressed middle incomes States. (In the latter case subject to State evaluation of whether write-off gain exceeded new flow access risk as it may for Zimbabwe and Namibia. Botswana is not debt distressed.);
ii. **parallel action** (perhaps by donor or international financial institution buy-backs) on *external commercial bank debt and trade arrears*. In the case of partial write-offs, the purchasers could renegotiate terms with the State concerned.

iii. **improved access to grant or soft credit flows** for middle income States which had serviced their external debt and did not seek write-downs (e.g. Zimbabwe, Botswana, Namibia).

iv. **mixed Fund/IDA Bank packages** to be available to all member States with under $1,000 (1990 prices) GDP per capita;

v. **speedy conversion of all IMF credits to member States to ESAF**;

vi. **freezing all payments due on loan categories eligible for full or partial write-off until negotiations on amount written off, and new terms (including 3 to 5 year grace period on principal and 4% to 8% maximum interest rates) had been completed**.

76. For the low income debt distressed States (including Tanzania, Mozambique, Malawi, Zambia, Lesotho and Swaziland), Trinidad and the G7 taken together appear close to such terms on bilateral debt and probably defaulted export credits. In practice, parallel buy-backs of commercial debt at high discounts have sometimes (e.g. Mozambique) been carried out for such countries. For middle income debt distressed (clearly Angola, also Zimbabwe if it wished to take this route) the Polish and Egyptian agreements do provide precedents, especially as they are explicitly intended to have commercial bank debt write-down exercises in parallel to the official loan and credit ones. The provision of additional soft finance for middle income countries with significant debt service burdens not seeking write-downs is - in Eastern and Southern Africa - a new proposal (applicable to Zimbabwe, Namibia).

77. **Taxation** (and fee systems) are, in general, not a likely short term area for coordination as such. However, a number of parallel problems have been approached in varying ways and with very different results. Exchange of experiences and explorations of ways forward could prove valuable, in, for example:
i. **Indirect taxation** instruments, particularly the choice among retail sales taxes, multi-level sales taxes, Value Added Taxes, excise duties and single point of import or manufacture sales taxes - each of which exists in one or more member States. In particular, the recent international fad for ill-prepared introduction of VAT contrasts with the relatively good experience with unified single point/multiple rate sales taxes;

ii. **rates, premia and rents** (on improvements and land use rights) as a means to creating both user contributions to local level services and a substantial revenue base suitable for urban and (potentially) rural local government collection and use;

iii. **income tax** trade-offs between complex allowances and deduction systems to enhance equity or provide incentives and both collection costs and the blatant inequity of facilitating massive avoidance or evasion by combining complexity with limited administrative and inspection capacity;

iv. **collection efficiency** improvement including approximation methods for estimating income and turnover, allocation systems to ensure that scarce personnel are deployed in ways maximising tax recovery (including, especially, more complete initial payment) and improvement in personnel numbers and training (not least in auditing, accountancy and legal/contract drafting). **Interstate cooperation** to reduce avoidance of tax by juggling taxable items out of the competence of any Treasury may be relevant in cases of companies and individuals operating in several member States;

v. **vehicle taxation** designed to introduce simplicity, collectability and predictability of revenue flows, none of which result from the typical present agglomeration of fuel, sales, registration and import taxes plus licenses and road tolls. Some consideration of revenue goals (e.g. the early 1970s Tanzania strategy of covering recurrent budget items, debt servicing and at least most cash construction costs from vehicle and vehicle use related taxes might be useful). Coordinated policies and practices on **interstate vehicle** licensing and charges (e.g. uniform sets of weight standards related to types of road, uniform vehicle condition/safety rules, agreed monthly or annual licenses for
vehicles regularly plying interstate) do relate to revenue (and road maintenance cost) as well as to trade and transport. Therefore it falls in part under this topic;

vi. Fees and charges policy designed to avoid proliferation of high collection cost (including personnel and accounting system), inefficient small charges and to devise better substitutes if non-tax means of collecting revenue (other than those from commercial sales) are, in fact, a priority. A related issue which appears to be inadequately explored is why direct user charges should be seen as inherently preferable to general local government taxes (e.g. rates) or central government revenues (e.g. sales taxes) whether used centrally or allocated to local government. The present (perhaps waning) international fashion for user fees has given rise to many with direct collection cost ratios above 25% (twice any acceptable level), plus probable diversion of personnel and accounting time adding on indirect costs through reducing other tax collection quite possibly exceeding gross fee receipts in addition to serious "side" problems of denial of access to basic services to poor persons or virtually unmanageable exemption of offset procedures.

78. Poverty Reduction is now perceived by the World Bank and many regional States as integral to Structural Adjustment. The "production by poor people"/basic services expansion/infrastructure rehabilitation/last resort transfer payment package is now fashionable and has some articulation. Bits and pieces are in place in most SADC and PTA member States. More to the point most view it as a strategic priority for social and political as well as economic reasons.

79. This is a new area in which by definition each country's experience to date is limited. Pooling of experience on a number of topics should prove valuable:

i. exploring how main line programmes (notably in agriculture, industry, commerce) can be redesigned to enable absolutely farmers, artisans and traders to benefit from them;

ii. identifying practicable phased expansion of access to primary health care (beyond limited topic campaigns), primary and
continuing/adult education, nearby pure water with special attention to ensuring that fees and other "user contribution" requirements do not make physical accessibility unreal for low income households;

iii. developing seasonal, labour intensive public works programmes to improve rural (and urban) infrastructure, to lower costs and to provide additional sources of cash income to households (e.g. in agriculture, fishing, artisanal activities) who are employed/self-employed but are unable to escape from absolute poverty on present income sources;

iv. exploring the possibilities of old age pensions for persons with no other retirement income (operational in Namibia) and/or other cash transfer payment schemes for absolutely poor households (including destitute or near destitute urban ones - operational in urban Mozambique);

v. addressing the special barriers confronting female-headed households (perhaps 25% of all households but of the order of 50% of those in absolute poverty) in securing adequate incomes from employment and/or self-employment.

vi. restructuring national emergency programmes to increase their efficiency, inclusion of post calamity livelihood rehabilitation and ability to incorporate external resources (official and NGO) into a coordinated whole rather than - as now happens in several countries - having national efforts fragmented and, in extreme cases, progressively decapacitated by external actors.

IX.

Sectoral Macroeconomic Aspects

80. Macroeconomic strategy and praxis by itself may be adequate to restore balance and is necessary to enable growth. However, its positive structural and developmental impact rests largely on articulated sectoral strategies and policies. These have macro implications and inter-sectoral ones - if agricultural production lags then the balance
of payments will be weak and agro-industrial expansion crippled by lack of adequate raw material supplies; if transport and communications or energy is unable to maintain, expand and improve services no amount of fiscal balance nor sectoral enabling policies in agriculture, industry, mining and commerce can achieve either sustained low levels of inflation, competitive unit costs or adequate GDP growth rates.

81. Discussion in this area necessarily focuses on SADC because for it, coordinated sectoral activities aspiring to the status of coordinated regional indicative plans has been central. PTA - beyond tariffs and clearing - has, in practice, engaged in little sectoral coordination. The apparent exceptions are finance and transport. However, it is hard to view the decade-long attempts to create a sub-regional trade/development bank as more than moribund. In transport two Indian Ocean-Interior corridors do involve coordinated sub-sectoral planning, action and - to a degree - rates policy. However, both pre-date PTA and have little real connection with or input from its secretariat. This is not to say that PTA should not or will not build up more sectoral operational capacity especially in respect to coordination among non-SADC members in the Horn, East Africa/Zaire or the Indian Ocean islands and/or on the SADC-Northern PTA interface. If it does so, the same general perspectives would pertain to its activities as to SADC's.

82. Historically SADC has recognised the importance of sectoral strategies and their coordination. Transport and communications were given top initial priority not primarily because they were well suited to mobilising external resources (true and useful as that proved to be), but because they were viewed as both central to integrating and enabling national economies and also as sectors requiring regional coordination to achieve their national aims efficiently - or in some cases at all. SATCC sectoral programmes were never simple shopping lists of national pet projects but prioritised clusters of nationally and regionally significant activities (e.g. the transport corridors) which would enable direct production and trade sectors to grow and to reduce costs. Concentration on making good deferred maintenance (later augmented by war damage) and on catalysing both greater coordination among, and operational efficiency by, transport enterprises were prominent on SATCC's agenda from the beginning of the 1980s - long
before they became widely accepted internationally either at intellectual or at donor support levels.

83. In 1986 SADC launched a strategy to develop its sectoral programmes into genuine indicative regional sectoral plans coordinating and strengthening creative interaction among national plans. It was envisaged not that emphasis on new or reconstruction projects would decline, but rather that policies, operational efficiency and enterprise level action would be expanded. The results have been notably uneven, partial and often disappointing. The attempt to move toward coordinated regional economic planning by the creation of a set of interlocking sectoral plans has not been successful to date.

84. The reasons appear to be fivefold:

i. the lack of an explicit macroeconomic framework hampered any sectoral unit's perception of its role in relation to other sectors or the economy as a whole - a weakness exacerbated by the relatively passive role some Ministries of Finance, Economic Affairs and/or Planning have opted to play in national and regional level SADC activity;

ii. the external crisis and external financing source pressures of the middle and late 1980s led to a focus on macroeconomic measures not always adequately articulated to sectoral strategy, policy or praxis which exacerbated the first problem;

iii. While coordination with Ministries has usually, and interaction among them frequently, been strong, sectoral programme involvement with and catalysing interaction among enterprises (whether public or private) has been much more limited. Further, partly because of national Ministry-enterprise frictions, some enterprises have tended to view SADC's sectoral units (not least SATCC) as meddlesome, irrelevant, would-be regulatory bodies and have maintained only formal and diplomatic contact not substantive interaction with resultant high costs to the enterprises and to the sectoral programmes in terms of opportunities for greater operational efficiency and strengthening of operational interstate economic interaction foregone;
iv. in several sectors, the Coordinating Units have not played (or have not continued to play) a catalytic role in making studies, putting up new approaches for consideration or facilitating negotiations on concrete action among member States or with cooperating partners and have sometimes appeared to be primarily minute takers, meeting arrangers and national proposal filing clerks;

v. for whatever reasons the sectoral coordinating units in Trade and in Manufacturing have to date failed to advance beyond repeated strategic and policy reviews and presentations and have not managed to proceed to actual implementation of any of the (frequently practicable and sensible) projects, policies and strategies analysed and formally adopted.

85. Casting blame is not useful, nor is repetitive review of acknowledged weaknesses without subsequent action to remedy them much better. Recreation of the forward sectoral momentum of 1979-84 is important as is review and revival of the 1986 drive for coordinated sectoral strategies. In the latter case a clearer macroeconomic strand in coordination is imperative, both because national economic operations now tend to be focused around structural adjustment and transformation cores and because the initial bottom up approach without a clearer macroeconomic parameter set was probably always overly optimistic. It is worth noting that the two sub-sectors in which national policy coordination and enterprise involvement have been carried furthest - telecommunications and electric power grid interconnection - are ones in which physical achievements, quality of service improvement and funding mobilisation relative to goals have been notably above average. The 1986 approach - adequately articulated and implemented - is practicable and does generate pay-offs. And it is highly relevant to Structural Adjustment thinking and practice as it has evolved over 1986-90.

86. To follow this approach requires:

i. fuller discussion of macro-sectoral implications nationally;

ii. their explicit appearance in sub-regional sectoral discussions.
iii. a macroeconomic official/ministerial committee/council to review and coordinate the sectoral packages in terms of macroeconomic implications.

In addition coordinated regional sectoral planning requires rather broader presentation of data on purely national projects-programmes-trends. This would probably be largely background albeit exchange of information and experience and training workshops might be useful in some areas (e.g. design and management of labour intensive rural road construction and maintenance programmes). But mutual information is needed - e.g. on non-arterial routes and programmes in transport - for coherent coordination by sector, even though actual regional activities and financial mobilisation would remain centred on large project clusters directly affecting several states.

X.

Sectoral Planning Sequencing

87. Not all sectors have equal priority for building up coordinated indicative regional plans. This does not relate primarily to sectoral absolute importance but to the degree of regional interaction. The key sectors in terms of regional planning would appear to be:

i. transport and communication

ii. energy

iii. trade

iv. manufacturing

v. less clearly) specialised personnel development (manpower) and tourism.

88. This does not imply that other sectors do not have fruitful areas for coordination. In some cases these turn primarily on the exchange and coordinated build-up of information (e.g. agricultural research), selected joint projects (e.g. animal disease control) and specialised policy/programme sub-areas (e.g. early warning system/logistical and
external mobilisation aspects of famine prevention). These are in several cases of very substantial value to SADC member States and arguably the drought warning - food shipment coordination - external mobilisation work of 1992 was the most important single activity SADC undertook over the past year. Equally because of the evident impact of external underfunding of emergency costs (to a greater extent than that which occurred) let alone mass famine on the social and economic base, it was an initiative highly relevant to and supportive of structural adjustment. However, coordination of national agricultural sector plans across the board is not perceived as likely to have a high payoff whereas some aspects of food security, information development and exchange and selected joint transborder projects are perceived as priority high benefit/cost ratio activities. The implications for effective sectoral programme development are quite clear,

89. Whether there is a close relationship of these selective sectors to Structural Adjustment is an empirical question varying in answer from case to case. Whether selective coordination will eventually evolve into coordinated sectoral planning is unclear - in the cases of most agricultural sub-sectors and of mining proper (excluding input and equipment, production, downstream processing/manufacturing and external marketing strategies in which clear potential gains from coordination are more apparent) the answer would appear to be not in the foreseeable future.

XI.

Institutional Considerations

90. Quite apart from more explicit involvement in structural adjustment both SADC and PTA need to achieve institutional structural adjustments. The SADC Treaty in fact clearly recognises and sets out to address this challenge.

91. SADC's institutional adjustment requirements are rather different from PTA's:
i. maintaining government involvement while transforming the specialised sectoral units into sub-regionally staffed, financed and managed institutions, perhaps on the SATCC model;

ii. reviving the momentum toward broader training and policy involvement as well as toward effective interaction with enterprises and coordinated regional indicative sectoral planning;

iii. achieving a viable initial programme in the macro-policy coordination area;

iv. agreeing on a medium term set of arrangements with the PTA based on specialisation and division of labour and partly on joint fora and/or activities. (SADC explicitly sees room for and advantages in two organisations until Eastern and Southern African interaction has progressed much further — especially in respect to the Horn and Indian Ocean states — than it has to date. Its conceptualisation seems rather like that of the former EFTA-EEC dynamic which presumably will lead to all former EFTA members being EEC members by — say — 2010 after a step by step process beginning in the 1970s but from 1993 on involving near total de facto unification in respect to trade.)

92. These issues do in fact include those — a macroeconomic 'sector' and coordinated indicative aggregated sectoral plans directly relevant to a structural adjustment role.

93. PTA's institutional adjustment challenges are rather different:

i. consolidating its preferential access and clearing base and extending it to trade promotion programming/policy coordination beyond tariffs, trade fairs and harmonisation of documentation;

ii. increasing decentralisation (to specialist units probably physically as well as operationally repositioned) and active government participation to offset what is widely perceived (not least by several member States) to be overcentralisation in and active discouragement of governmental initiatives by or even amendments to secretariat drafted policy proposals;
iii. developing viable sectoral programmes — probably particularly in energy plus transport and communications — either for its non-SADC member States or for clusters of them;

iv. agreeing on working relationships with SADC which quite clearly is not going to merge into PTA in the foreseeable future.

94. In practice there is little actual overlap between what PTA and SADC do. PTA sectoral programmes — especially to the extent they nominally overlap SADC ones — are not, to date, functional. SADC has never proposed instituting preferential tariff or clearing systems. The reasons for friction are largely historical and obsolete and have little relevance to present activities.

95. A short list of desirable inter organisational arrangements might include:

i. the two SADC member States who are not now PTA members joining to facilitate preferential and clearing system operations and to avoid the clear conflict that will arise if SADC members are required as PTA members to discriminate against Botswana and Namibia;

ii. regular meetings of the two Secretariats to review ongoing and projected activities, not simply to avoid conflict but to identify areas of potential joint or coordinated endeavours;

iii. either a joint macroeconomic forum or partly parallel sessions of PTA and SADC fora (e.g. day 1 PTA issues, day 2 joint, day 3 SADC issues);

iv. a joint working group or liaison committee on the build-up of institutional relationships with South Africa once majority rule is achieved.
South African Accession

96. Relationships with South Africa after the attainment of majority rule in that country will pose significant opportunities, challenges and potential problems both to SADC and - possibly more acutely - PTA. While some preparatory thinking and background paper preparation has taken place it is unclear that either organisation has drawn up and agreed an articulated agenda for areas of discussion/negotiation with the new South African government.

97. One aspect which fairly clearly has not been explored is the impact of future South African structural adjustment on the other states of the region, especially Lesotho, Botswana, Namibia, Swaziland, Zimbabwe, probably Mozambique and perhaps Zambia and Angola. This presumably flows from the fact that South Africa does not have a structural adjustment programmes (IFI approved or homegrown); is supposed to be an economic power-house and that its economy is not well known in detail to Eastern and Southern African analysts and officials.

98. In fact South Africa:

i. has averaged about 1% annual GDP growth over the past dozen years (with 1992 the third consecutive year of negative growth);

ii. can sustain external balance only at negligible growth rates;

iii. has a growing fiscal imbalance;

iv. suffers increasingly from deferred maintenance of physical infrastructure as well as massive health and personnel deficits from inadequate human investment;

v. appears to have a 15% inflation trend (swinging from 10% to 25%);

vi. has high and rising levels of un- and underemployment (far above those for any Southern or Eastern African country if displaced and refugee populations are excluded from calculation);

vii. suffers from levels of absolute poverty and of inequality which no successor government can tolerate and which choke off domestic
demand growth as well as increasing social and political tensions
and conflicts;

viii. cannot resolve these problems merely by reallocating the existing
state budget, through external aid and/or investment finance nor
by these two together.

A clearer case for structural adjustment/transformation would be hard
to imagine.

99. How South Africa adjusts will have a significant impact on Southern
Africa. A parallel to the 1991-92 Zimbabwe experience would be
disastrous. The danger of such a result is increased by the apparent
South African business and, to a degree, academic supposition that its
key manufactured export markets in Southern Africa are secure and
readily expandable. Since in general these goods are not price
competitive and have been sold partly under the umbrella of SACU,
partly as a result of lack of global (or even regional) sourcing
capacity in importing states and partly through sabotaging rail links
to Mozambican ports this is a rather surprising assumption. Further
the old pattern in which much of the goods import bill was offset by
migrant labour remittances can hardly continue, much less expand, in
the context of a representative government plus massive domestic
unemployment. Were South Africa's regional manufactured exports to go
into free fall and attempts to prop them up made by massive devaluation
and one or another variety of export subsidy (e.g. cheap guaranteed
export credit), the results could be catastrophic both for South Africa
and Southern Africa.

100. Therefore trade relations - especially building up South African
regional sourcing of power, water, transport services, metals and some
manufactures is a mutual South African/Southern African interest
directly relevant to structural adjustment. The danger is that it may
not be perceived as such.

101. SADC's structures - especially if a macroeconomic consultation and
coordination structure is added - are such that South African accession
should pose few problems. Also its sectoral strengths include several
areas in which coordinated development and, in particular, raising
South African imports from the ten present SADC members States are urgently needed.

102. PTA faces somewhat greater problems. In principle a transitional period with South Africa extending full trade preferences (and using the Clearing House) but receiving only partial (probably both in coverage and amount) preferences in return should be negotiable. Doing so may not be easy and will be harder in the present absence of any broad agenda macroeconomic forum in PTA.

XIII.

Distributional Issues

103. The preceding substantive discussion in fact includes a major institutional and processual assumption - that distributional acceptability will not be achieved by transfer payments within or parallel to the regional budget. This is in accord with PTA and SADC practice, but counter to the historic analytical assumption that transfer payments were a necessary means to ensuring equitable (or even any) gains to weaker customs union member States.

104. The reasons for avoiding that route are threefold:

i. historically the payments negotiable have never been large enough to ensure substantial gains;

ii. they have in negotiating terms been negative sum games with the transferors looking at the gross transfer costs (and underrating or ignoring the production and trade gains) and the recipients doing the reverse;

iii. the approach is very close to accepting the dominance of backwash effects in weaker economies as inevitable and seeking to palliate them by recurrent budget consumption transfers.

The one apparent exception - the Southern African Customs Union - in fact demonstrates the inherent problem with recurrent revenue transfers. Once the impact of lagged payment, import volume growth and inflation are taken into account, it is on the most favourable
calculation doubtful whether Botswana and Swaziland have a cash flow gain under SACU compared to what they would earn under independent Customs and Excise systems with analogous rates. Lesotho, which probably does have a cash flow gain, has no autonomous national (or even 'provincial') economy and is arguably prevented from achieving one by the pattern of links of which SACU is a major component. South Africa, however, tends to see the gross transfer as a cost and to make no serious counter entry for production (and tax) gains. In any case, the SACU model is only conceivable financially in the context of a single dominant economy and one or more much smaller peripheral ones. It could not be extended to the entire SADC, let alone PTA, zone.

105. To rule out recurrent transfers does not solve the distributional equity/acceptability problem. It does ease changing the focus to achieving equity in production gains - as enunciated in SADC (then SADCC)'s founding Lusaka Declaration. This has been, admittedly, particularly easy for SADC to date because it has avoided tariff preferences as a trade promotion device and secured a very high proportion of external funding for programmes and prioritised projects. Thus the evaluation by any member State tends to focus on identifiable gains with costs - if any - harder to estimate, i.e. a perceived positive sum game situation.

106. However, even when member State finance dominates recurrent programme spending (as is envisaged by SADC to be both inevitable and desirable) and is a larger proportion of priority project finance, agreed distribution focussing on production and service gain sharing is possible:

i. for the foreseeable future both capital and technical assistance external finance will have to be substantial especially for the type of project or programme most suitable for regional prioritisation;

ii. the prioritisation process can (when operating by de facto consensus has a built in tendency to) ensure a reasonable physical distribution of programmatic/production gains and - less certainly - doing so by moderately cost efficient selections (i.e. those in which the weaker economies have minimum absolute disadvantages, i.e. maximum comparative advantage);
iii. smaller (which in the SADC context, however, is not in fact correlated with poorer) economies do face higher unit costs from non-coordination and have greater need for market access than do larger so, in that sense, have a disproportionately high gain on the service/production benefits they do secure.

107. Sub-regional finance is an area in which distributional concerns and tensions are likely. The probable means to minimise these are:

i. maximise the coordinated but nationally operated expenditures relative to these through the regional institutions;

ii. decentralise so that each member State has at least one regional unit/area of responsibility;

iii. make use of technical assistance so that total regional institutional resources are substantially greater than member State contributions;

iv. assess on a simple formula probably based on GDP per capita and population. (SADC's historic equal charge per state can hardly remain viable once total expenditure is significant, sectoral units are brought into the regional budget and the percentage of external finance declines.)

So long as the regional institutional budget is low relative to total coordinated activity and each member State can and does identify production and service gains from economic regionalism, it is unlikely that regional operating finance will be a major issue of contention or at any rate not one threatening continued viability.

XIV.

Concluding Reflections

108. Economic regionalism and structural adjustment are both strategic economic priorities in Eastern and Southern Africa. Because both are means - not ends in themselves - to view either as dominating (or serving) the other is unlikely to be particularly productive. Nor is
it prudent to assume despite their broad complementarity — that no tensions or needs for trade-offs will arise.

109. What is needed is explicit examination of interactions leading to action to maximise complementarities, avoid collisions and minimise trade-off costs. That requires — both for PTA and for SADC:

i. explicit attention to macroeconomic frames and interactions implicit in sectoral programmes;

ii. a macroeconomic 'sector' both to coordinate/exchange information on national macroeconomic policy and to analyse/act on the macroeconomic aspects of sectoral programmes taken jointly as well as severally.

110. Neither of these two additions would pose inherent institutional structure problems for SADC or — probably — PTA. The problem is reaching agreement on parameters and agendas not on constituting committees and councils.

111. The urgency of action is increased because South Africa is likely to be entering into a difficult, medium term structural adjustment process almost as soon as it enters into representative governance. If this is pursued without coordination with the national and regional structural adjustment programmes of its neighbours, the costs both to South and to Southern Africa are likely to be high.