Regional Economic Integration and the Globalisation Process

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PREFACE

The process of the international integration of goods, technology, labour and capital, generally referred to as globalisation, is observed with growing concern in Southern Africa. Of the subcontinent's 53 million people, only 15 million are employed in the formal sector. For this reason, many believe that a vision shared by advanced and developing countries will not be possible.

While technological progress is forcing countries into tougher competition, and while attemts are being made to create a single economic world order, people in the developing countries fear that they will be increasingly left behind. Most people in the Southern African region do not believe that globalisation naturally promotes democracy and defends human rights, but rather that the growing economic inequalities pose a danger to their political systems. Most of the Southern African countries are of a very fragile nature due to low standards of education, multi-ethnicity and the lack of a democratic culture.

The process of regionalisation in Southern Africa must be viewed against the background of these developments and fears. It is obvious that the success of regional integration in the region will, to a large extent, depend on how its economies perform given the challenges of globalisation. Especially businesses will have to be transformed to enable them to compete globally without endangering regional stability or the fragile social contract between management and labour.

If countries in Southern Africa joined forces in a regional body such as SADC, would they then be better prepared to ride the waves of globalisation? Or is this just wishful thinking, given the power of transnational companies, whose economic power is greater than the national budgets of most states in Southern Africa? Or are regional trade blocs superfluous in view of the world-wide trade liberalisation under the umbrella of the World Trade Organisation?

The Southern African Conference on "Regional Economic Integration and the Globalisation Process", jointly organised by the International Monetary Fund and the Friedrich-Ebert-Stiftung, attempted to answer some of these questions. It was in fact the first time that the two organisations had joined forces in organising such an international conference, and the experience was new and encouraging for both.

The organisers hope that this publication, which contains the proceedings of the Southern African Conference, will contribute to the ongoing debate on the impact of globalisation on developing countries and will as such prove a valuable document.

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LIST OF ABBREVIATIONS

ADB	African Development Bank
ALPEGA/FACE	Forum de Auscultaçao e Concertaçao
AMETA	Assocation of Mauritian Exporters to Africa
ANDEAN	Andean Community
BFTU	Botswana Federation of Trade Unions
BIS	Bank of International Settlement
BOP	Balance of Payment
BWI	Bretton Woods Institutions
CACM	Central American Common Market
CARICOM	Carribean Community and Common Market
CBI	Cross-Border Initiative
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
DBM	Development Bank of Mauritius Limited
DTA	Double Taxation Avoidance
EEC	European Economic Community
EFF	Extended Fund Facility
EIA	Environmental Impact Assessment
EPZ	Export Processing Zone
EPZDA	Export Processing Zone Development Authority
ESAF	Enhanced Structural Adjustment Facility
ESAP	Economic Structural Adjustment Programme
EU	European Union
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
FISCU	Finance and Investment Sector Coordinating Unit
FTA	Free Trade Area
GATT	General Agreement on Trade and Tariffs
GDFCF	Gross Domestic Fixed Capital Formation
GDI	Gross Domestic Income
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GSP	Generalised Systems of Preferences
HIPC	Heavily Indebted Poor Countries
IAS	International Accounting Standards
IEA	Industrial Expansion Act
IFS	International Financial Statistics
ILO	International Labour Organisation
IMF	International Monetary Fund
IOC	Indian Ocean Commission
IOR-ARC	Indian Ocean Rim - Association for Regional Cooperation
ISA	International Standards of Auditing

MAI	Multilateral Agreement on Investment
MEDIA	Mauritius Export and Investment Development Authority
MERCOSUR	Southern Cone Common Market
MFA	Mauritius Freeport Authority
MFN	Most Favoured Nation
MIGA	Multilateral Investment Guarantee Agreement
MOBAA	Mauritius Offshore Business Activities Agreement
MSB	Mauritius Standards Bureau
MTPA	Mauritius Tourist Promotion Authority
NEDLAC	National Economic Development and Labour Council
NEPRU	Namibian Economic Policy Research Unit
NGO	Non-Governmental Organisation
NNCCI	Namibia National Chamber of Commerce and Industry
NTB	Nontariff Barrier
NUNW	National Union of Namibian Workers
OAU	Organisation of African Unity
OECD	Organisation for Economic Cooperation and Development
RSA	Republic of South Africa
RTA	Regional Trading Arrangement
SACTWU	South African Confederation of Textile Workers' Unions
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordinating Conference
SAF	Structural Adjustment Facility
SAI	Supreme Audit Institution
SAMOS	South African Multiple Option System
SAP	Structural Adjustment Programme
SATUCC	Southern Africa Trade Union Coordinating Council
SDR	Special Drawing Right
SEZ	Special Economic Zone
SIC	State Investment Corporation Limited
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
TDS	Technology Diffusion Scheme
TNC	Transnational Company
UNCTAD	United Nations Council for Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value-Added Tax
WEF	World Economic Forum
WEO	World Economic Outlook
WTO	World Trade Organisation
ZCTU	Zambia Congress of Trade Unions

Part 1

CONFERENCE PAPERS

OPENING ADDRESS

Rt. Hon. Hage G. Geingob
Prime Minister, Republic of Namibia

This conference has been organised to address three important questions related to regional integration and globalisation, as follows:

- First, what is the impact of globalisation on economies in southern Africa? Is there a future role for Africa in the globalised economy?
- Second, how will regional economic integration benefit southern African countries in the future? What potential does SADC hold for macro-economic stability and economic growth throughout the region?
- Third, what roles do international organisations, such as the International Monetary Fund and the World Bank, play in the regional integration process? How can they assist regional strategies to foster economic development?

No doubt, the many distinguished experts who have been able to join us will deliberate on these questions emanating from the challenges posed by the closing decade of the twentieth century. However, I cannot resist the temptation of sharing my views on broader issues of regionalisation and globalisation.

During the last few decades, we have seen a great deal of momentum towards a market economy, and the emergence of regional integration. In fact, over one-third of all the regional cooperation schemes that have come into existence since World War II have been negotiated in the 1990s alone. Some of the best-known examples of this trend include the European Union, NAFTA, ASEAN, MERCOSUR and, of course, SADC.

Regionalisation is also closely linked to another important phenomenon that dominates the discussion of our times - the phenomenon of globalisation. These developments are challenging the very basis of the state as an economic, and even political, unit. At the very least, globalisation has challenged decision-making processes in nation-states. States, no matter where they are, face global economic forces and developments that are out of their national reach. Their capacity to implement economic policies has diminished; global forces can hardly be rectified through national means and yet, the state is confronted with enormous tasks to cope with social change caused by globalisation.

Globalisation does not exclude Africa. The Asian contagion concerns the people of Africa as well. After Asia's temporary decline, the international economic community has redirected its attention towards this continent. Economic trends in some countries of Africa are indeed very encouraging.

According to the IMF, average real growth has increased from less than 1% in 1992 to more than 5,5% in 1996. Africa's growth rate has passed that of Latin America and Asia. Some African economies have single-digit inflation rates; average inflation is falling. External account deficits are decreasing, fiscal deficits have been cut. The political climate has changed as well. Many African governments are more stable than one or two decades ago.

However, there is little evidence to suggest that an improvement in macro-economic indicators is a result of globalisation. Indeed, we have offered incentives but no significant investment has been forthcoming; and our capabilities to take advantage of liberalisation have been somewhat inadequate because of our inability to achieve economies of scale.

As Gamani Corea, former Secretary-General of UNCTAD, observed, -

> ... market forces channel activities to where returns are high and not merely to where barriers are low. It should not be forgotten that policies of openness and liberalisation were pursued for long periods by many of the former colonial territories. This resulted in a kind of integration into the world economy through participation in commodity trade. But it did not lead to industrialisation or end the dualism in their economies. Nor did it lead to greater equality among trading partners.

Consequently, problems remain. Poverty is still the biggest challenge for many African countries, especially in the face of declining official development assistance and a crisis in the health sector. Population growth has not come down to an economically sustainable level in many parts of the continent. Social deficit continues to haunt the populations.

The issue is: How can African governments and societies respond to these divergent developments? It has been argued that, in today's world, economic factors are predominant, with all the costs and benefits that that entails.

As the Chilean Minister of Planning very bluntly, but quite accurately, put it, nowadays "nations are judged by the size of their markets and by their economic potential".

I feel that the salvation of African countries lies in strengthening regional blocs and promoting South-South cooperation, thus enlarging the size of our own regional market, and at the same time ensuring that we are able to take advantage of globalisation and liberalisation.

Although there is general agreement on this approach, the success of regional cooperation largely depends on the countries in the region consciously pursuing collective action, or spontaneous linkages emerging from accelerating growth rates.

As Gamani Corea said,

> Intra-South trade liberalisation by developing countries can serve two ends. It can stimulate economic growth by improving access to, as least, each others' markets and, at the same time, serve as a 'fast track' in a setting of more measured progress towards liberalisation in the global context. The enlargement of markets through intra-South trade liberalisation can encourage investment, both local and foreign, and impact positively on technological progress. It can, thereby, enable developing countries to take better advantage of the opportunities provided by globalisation and liberalisation.

Arguments in favour of regional cooperation are impeccable. However, promoting regional cooperation is another matter - and that is where our success has been rather meagre. For instance, -

- tariff barriers still exist but the barriers that we don't talk about, the human barriers, in the form of customs and immigration officials, are the worst.
- bureaucratic delays in removing bottle-necks are crippling and legislative frameworks for investors to move their plant and machinery from one place to another are not always easy to comply with. We therefore need to bring in more efficiencies and effectiveness in our civil services and synchronise our legislative instruments to allow for the flow of investment within the region.
- foreign exchange considerations continue to overwhelm certain countries. Common currency at this stage is not a particularly attractive answer. But, with more and more countries lifting exchange controls, this problem would hopefully be overcome in the not too distant future.
- cooperation outside a regional block, such as SACU, is not easy. In this regard, negotiations are already in progress and we remain hopeful that, in the near future, there will be a congruence of different regional blocs.
- we have done very little to achieve complementarities. There is reluctance to develop a shared vision by building on each country's comparative advantages. In this context, we need to work out a shared vision not only in the manufacturing sector, but also in agriculture, tertiary education, and the services sectors.

These are not insurmountable problems. What is required is the political will to address them. Quite frankly, it is amazing that even in today's changed circumstances, some of us continue aggressively to promote trade relations with countries with which we were tied up during the colonial era and do little to promote closer cooperation with countries next door.

It is vitally important for us to work towards free trade in the region to promote economies of scale and to prepare our region for global liberalisation whenever it comes. That is the challenge we must meet together.

Southern Africa is busy putting its house in order and is now poised for significant growth. As it builds its supply capacity in a diversified economy, it will become a more reliable partner in global trade. However, we must work together within the region to accelerate the process of change.

IMF PROGRAMMES IN SUB-SAHARAN AFRICA: OLD AND NEW THEMES

Ernesto Hernández-Catá
Deputy Director of the Africa Department, IMF

Since the mid-1990s the economic performance of many countries in sub-Saharan Africa has improved significantly: the region's per capita GDP increased at an annual rate of 1,5% from 1994 to 1997, following a decline of 2% a year during the first half of the 1990s; macro-economic imbalances have narrowed; and inflation has been reduced. It is true that these aggregate results conceal large differences among countries; and that even in those countries where performance has undeniably improved, poverty remains widespread. Nevertheless, the recent gains are encouraging because they have resulted not from favourable exogenous factors, but largely from the efforts of the African countries themselves and, more specifically, from better economic policies. These policies, I believe, have been generally in line with those advocated by the IMF and often have been implemented in the context of programmes supported by the IMF, particularly in the context of the Enhanced Structural Adjustment Facility.

The traditional principles underlying these programmes, in my view, continue to be relevant to the objective of sustaining and strengthening the improved performance of sub-Saharan Africa in the past few years, of achieving a lasting improvement in the standard of living of its population, and of reducing poverty. Let me first summarise what is old in these principles; and then I will comment on what is new.

First and foremost among the old conceptual ingredients of Fund programmes is the proposition that macro-economic stability is essential to a good economic performance. Large fiscal deficits must be avoided because sooner or later they will have severe adverse effects on economic performance: by crowding out private investment and exports if they are financed by issuing debt; or by generating inflation if they are financed by issuing money.

The second ingredient is based on the conviction that, in general, markets provide the most efficient mechanism for allocating resources. There are, of course, cases where the market fails, because of external economies or costs, and thus government intervention is justified. Undoubtedly, these cases can be important (for example in the event of activities resulting in environmental costs); but they are the exception rather than the rule. The corollary to this proposition is that a system where private participants operate in a free market environment generally will work better in allocating resources than a system where signals are distorted by government intervention; and much better than a system where resources are allocated by a centralised planning bureaucracy. Hence the emphasis on the deregulation of prices, on the elimination of government subsidies, on the privatisation of public enterprises, on the breaking up of monopolies; and hence the preference for a liberal foreign trade system.

This does not mean that governments do not have an important role to play in the economy. It means that this role must be reoriented. It must be shifted away from the direct involvement in the production of marketable goods and services, and toward the delivery of basic public goods - infrastructure, education and health - and a regulatory regime that ensures a level playing field and protects competition without imposing an excessive burden on the private sector. Therefore, liberalisation often must go hand in hand with a reform that reduces the overall size of the government but also improves its ability to fulfil its responsibilities.

These are, in summary, the old themes, the traditional propositions underlying the structure of Fund programmes. They are based on considerable experience and empirical evidence, and I believe that they remain relevant to Africa’s current situation. Indeed, they are particularly relevant in a world in which official development assistance is declining in real terms, and in which private investment will have to play an increasingly important role in fuelling growth.

There are also a number of new themes that are frequently mentioned in the context of Fund programmes in Africa. Some of them are really old themes that must now be revisited in greater force because recent developments in Africa and elsewhere have reminded us of their critical importance - for example, financial sector reform and debt reduction. As you know, the IMF and the World Bank have launched the HIPC initiative which aims at reducing the debt burden of highly indebted poor countries, provided they have a good track record of economic policies. In sub-Saharan Africa, Mozambique, Uganda, Cote d’Ivoire and Burkina Faso have been declared eligible for assistance under this initiative. As regards financial sector reform, recent events in Asia have underscored the crucial importance of solid banking regulation and supervision, and the Fund is in the process of intensifying the technical assistance it provides in this area to central banks, notably in sub-Saharan Africa.

There are other themes that are new, and sometimes take us into uncharted territory. Here, we must proceed cautiously, because we do not always have the tools and the experience required, but proceed we must, or the accomplishment of our goals will be seriously jeopardised. Let me mention a few of these newly discovered, or rediscovered, areas.

First, there is the emphasis on human capital formation as an essential complement to physical investment. Of course, in this as in many other areas, the World Bank has the experience and the resources that we lack, and we must rely on their advice and on their programmes. But the Fund also has an important role to play, namely to ensure that, within the limitations imposed by macro-stability considerations, the fiscal component of its programmes provides adequate room for spending on education and public health. In other words, programme design must be concerned not only with the size of government expenditure, but also with its structure.

Second is the theme of governance - a difficult and politically sensitive area, but one which we have been forced to consider because of recurring difficulties with the budgetary aspects of Fund programmes. How can adjustment programmes help to promote good governance? First, by eliminating the distortions that hinder the operation of markets, thus helping to get rid of the rents that allow a few members of society to acquire effortlessly undeserved profits at the only cost of bribing government officials. Clearly, if import quotas do not exist, nobody will be paid to assign them to a particular individual or enterprise; if there are no tax exemptions, no subsidies and no administratively directed credits, nobody will line up in front of ministries to obtain these privileges, and nobody will be tempted to grant them.

Of course, cutting the government's power to confer privileges selectively on the private sector is not enough. It is also important to ensure that public resources are not misappropriated, and that they are used in accordance with the law, with established budgetary procedures, and with the government's commitments under Fund programmes. This requires full accountability, and completeness and clarity in the presentation and the publication of fiscal data. In several countries in Africa - and elsewhere - we have insisted that there is no place, in the context of Fund programmes, for special, extrabudgetary accounts, and that all government transactions must be faithfully recorded in one, single, publicly available set of budgetary accounts. This is important for all countries, but particularly for those, numerous in Africa, that have been blessed with abundant natural resources. We must try very hard to ensure that these resources are not squandered but that they are wisely invested to improve the standard of living of present and future generations, following the commendable example of Botswana.

Finally, there are a few cases, and I hope there will be even fewer in the future, where we have had to delay or interrupt a programme because a major documented issue of corruption or fraud was unresolved. We would rather not venture into these waters, where we find it difficult to navigate, but in some cases we must get involved because the integrity of Fund-supported programmes is at stake and because, as the world has changed, so has the international community and our Executive Board. These days we cannot bring a programme to our Board and expect it to be approved if a major problem of governance casts doubt on whether it has a reasonable chance of being implemented faithfully.

The third theme is regional integration. This is not, I hasten to say, a necessary condition for successful development. Several developing countries have achieved high and sustained growth by relying predominantly on their own policy efforts, including unilateral trade liberalisation, before they seriously considered joining other nations into regional groups. Chile is an example that comes to mind. And there is, indeed, some recent empirical evidence indicating that countries that have opened up trade unilaterally have experienced particularly high growth. However, where there is a clear commonality of interests, and where the countries involved have shown a will to cooperate in the pursuit of common goals, the IMF tries to help. It can help by encouraging regional arrangements that promise gains from trade creation and economies of scale, and by supporting mechanisms and institutions that foster policy improvements by relying on peer pressure and on a common discipline. At the same time, the Fund will try to ensure that regional integration does not become an instrument for wall-building and isolation, but rather a vehicle to facilitate the region's integration into the world economy.

In this spirit, we have supported from the outset the Cross-Border Initiative and other regional initiatives. We also have been actively involved in the plan to introduce the Common External Tariff in the West African Economic and Monetary Union Tariff, assisting the member countries in estimating the impact on fiscal revenue of the prospective reductions in import duties, and helping to identify alternative sources of revenue. We also have indicated that if, in spite of a country's best efforts - and in the context of an otherwise strong programme - the reduction in import duties leads to a temporary balance of payments gap, the Fund will take this into consideration in identifying the necessary financing for the programme.

I believe our relations with the West African Economic and Monetary Union are a good illustration of the Fund's intention to intensify cooperation with regional groups that work towards freer trade and better policies. In recognition of the importance of West African regional institutions in the design and the implementation of economic policy - and particularly of the paramount role of the Central Bank of the West African States in conducting monetary policy for the region - we have established a process of regular policy consultations with these institutions that concludes with a discussion by the Executive Board of the IMF of a full staff report on economic developments and policies in the region. We are now in the process of upgrading in a similar way our policy dialogue with the institutions of the central African region and in particular with the Bank of the Central African States.

The fourth theme is that of the legal infrastructure underpinning economic transactions. Our experience in Africa and elsewhere in the developing world suggests it will be difficult for a strategy based on private investment and private financing as the primary engines of growth to succeed if the legal basis for contracts is absent, if loans cannot be properly collateralised, and if courts do not enforce the seizure of collateral when the debtor fails to honour his obligations. This is an area where we are just entering, but where we plan to be increasingly involved, for example by supporting the efforts of the OHADA, an initiative aimed at harmonising business law in 16 francophone African states.

To conclude, I would like to touch on a question that is often raised these days. If the East Asian countries that are currently suffering from the effects of a financial crisis were such good followers of IMF-sponsored policies, why do they find themselves in their current predicament? Without attempting to provide a full answer, I would like to make two observations.

First, countries like South Korea, Thailand, Malaysia and Indonesia were not exactly wedded to the policies recommended by the IMF in every respect. Their banking systems were poorly supervised; government interference in their economies was far-reaching; and their trade systems often were untransparent, complex and restrictive. Others in the region that followed better policies in those areas, like Hong Kong, SAR, Singapore, and Taiwan, Province of China, so far have fared significantly better.

Second, the East Asian countries did follow very good policies in certain areas. Their very high saving and investment rates, and the strong emphasis they placed on human capital formation did contribute to a large increase in incomes and an impressive reduction in poverty. These achievements have not been erased by the economic crisis in Asia, and they will provide a basis for future growth once the other policies have been adjusted.

AFRICA, REGIONALISM AND GLOBALISATION

Robert Sharer
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Introduction

I want to start by discussing Africa's participation in the global increase in trade and investment flows and then look at the role of regionalism. Yesterday, Mr Hernández-Catá talked about old and new themes in IMF programmes in sub-Saharan Africa, and there will be a further presentation tomorrow on structural adjustment and second-generation reforms. The objective of these programmes is to promote income and employment, and thereby raise living standards in member countries. The growth of trade and foreign direct investment (FDI) is central to this. Indeed, I am not aware of any country that has significantly raised living standards for the population as a whole on a sustained basis without also sharply improving its trade and investment performance. Liberal market-oriented trade and investment policies are critical to this. However, they do not work in a vacuum, but as a complement to a sound macro-economic framework and other structural policies to boost the supply response. With these elements in place, the broadening and deepening of trade liberalisation, both unilateral and in a regional context, is a crucial structural policy to attain high-quality sustained growth.

I will begin by discussing the globalisation of trade and investment flows and the participation of Africa in this process. Then, I will briefly overview the benefits of open trade systems and the need for trade reform in Africa. Thirdly, I will look at the role of regional integration, including the benefits and drawbacks, and the context for southern Africa. Lastly, I will offer some concluding remarks on the way forward.

Globalisation in Africa

The challenges and opportunities for Africa posed by globalisation are apparent from a comparison of trends in world trade and investment over the last two decades. In that period, there has been an enormous increase in global trade and in private capital flows to developing countries. African economies have not kept pace with this growth. Looking at the last 20 years, in each of the past two decades, 1976-86 and 1986-96, the average rate of export growth for Africa was slightly less than half the rate for non-African developing countries, at 5,9% compared with 12,6%. The position is very similar for southern Africa as for Africa as a whole (Figures 1 and 2). As a consequence, over this period Africa's share of world trade halved from about 4% to just below 2%. Liberalisation of the trade system is a key element of reform if Africa is to take advantage of the increasingly global pattern of production and trade.

Figure 1: Total Exports (Goods and Services), 1986-1996
Source: IMF World Economic Outlook

Figure 2: Annual Growth in Total Trade in Goods and Services, 1975-1996
Source: IMF World Economic Outlook

Over the same period, Africa has received a small share of private capital flows to developing countries, which have shown explosive growth. As shown in Figure 3, net private capital flows to all developing countries increased from $12 billion in 1980 to $23 billion in 1988 and $207 billion in 1996. In contrast, net private capital flows to Africa increased relatively little, from $6 billion in 1980, and $12 billion in 1988, to $13 billion in 1996. Put differently, net private capital flows to Africa, as a percent of inflows into all developing countries, fell from around 50% in 1980 and 1988 to only 6% in 1996. A liberal trade regime is a critical element of improving the investment climate. This works directly, through its impact on the incentive structure, and indirectly, through its impact on transparency and governance issues. The importance of attracting private capital inflows is highlighted by comparison with the trend in official capital flows. In the same period that private flows have exploded, official flows have stagnated, mainly because of the increased budgetary constraints faced by the major donor countries.

Figure 3: Net Private Capital Flows to Africa and Other Developing Countries, 1980-1996
Source: IMF World Economic Outlook

These developments point to a trend towards Africa's marginalisation in world trade and FDI. But I want to stress that they need not be seen as a cause for pessimism for the future. We see marked gains in the economic performance of many countries in Africa in recent years. Moreover, as a result of the recent financial crisis in Asia, foreign investment there has fallen substantially. Perhaps this will prove temporary, but nevertheless the timing is now propitious for Africa to capitalise on the trend toward globalisation, by adopting aggressive policies to promote trade and attract investment. The potential gains from this are very large.

Benefits of Open Trade Systems

I would like to deal very briefly with the benefits of open trade systems. The economic rationale for unilateral trade liberalisation is well known and supported by an ample body of theoretical and empirical literature. Open trade regimes expand trade and investment by allowing countries to specialise in and export those products in which they have a comparative advantage, i.e. goods they can produce most efficiently. This improves growth prospects because trade restrictions shift an economy to a less efficient mix of investment, production, and consumption. These distortions repress economic growth and their unilateral removal therefore unfetters growth potential.

Almost all recent empirical studies confirm the case for liberal trade policies. While the exact links of trade, export performance, and growth are sometimes not precise - because in economics everything affects everything else - the empirical links of open trade and improved export and growth performance are very clear and have been documented in numerous studies. Open economies do better because they are more competitive and have higher investment and growth than closed economies, and there is no recent example of a country achieving sustained high rates of growth on the basis of “closed” policies (Figure 4).

Figure 4: Real GDP and Export Growth, 1975-1995
Source: IMF World Economic Outlook

A recent IMF study[1] illustrates this with the experience of some "good practice" countries that moved from an initially highly restrictive position to open trade regimes over a period of 7-10 years. The move to open trade was accompanied by greatly enhanced competitiveness and sharply improved export and economic growth performance. The most clear-cut examples of these "star performers" were Chile, Colombia, New Zealand, and Singapore, but a number of other countries have followed a similar path. While there are no African countries with similar clear-cut track records in terms of sustained liberalisation and openness, several have begun to demonstrate the benefits of liberalisation. Uganda and Ghana are two clear examples among a number that have made significant progress in that direction. These countries have already liberalised their trade systems substantially, and if reforms currently envisaged are implemented, they would have an openness similar to the other good practice countries. Uganda and Ghana have already experienced a sharp improvement in competitiveness, trade, investment, and economic growth performance.

Another critical yet sometimes neglected advantage of open trade systems is improved governance and transparency. These are desirable in themselves, but they also play a key role in adding certainty to the investment climate, which is particularly important in attracting investment for small, low-income countries. Trade restrictiveness is very often at the behest of special interest groups. Complex trade rules and discretionary administrative requirements, particularly discretionary licensing and tariff exemptions, provide fertile ground for rent-seeking and corrupt behaviour. Broad-based liberalisation and simplification create openness and a level playing field. All in all, open trade regimes inspire confidence, promote economic efficiency, and improve governance. This is particularly important for smaller economies where a level playing field and transparency are key for attracting foreign investors.

The goal of trade reform should be to strive for a regime that minimises distortions and enhances transparency through moving to relatively low and broadly uniform tariffs, and the progressive elimination of nontariff barriers (NTBs) and discretionary actions and controls that affect the flow of goods and investment. This should be complemented by a stable macro-economic environment, which gives the right incentive to productive economic activity. Since exchange restrictions often act as substitutes for trade restrictions, the benefits of liberalising one are unlikely to be fully realised without liberalising the other. That is why efficient and effective financial systems and the regional integration of financial services and markets are also very important to achieving the benefits of liberal trade.

Open trade systems need to be a part of a comprehensive set of liberal, market-oriented, structural and other economic reforms that will result in high-quality, sustained growth. Structural reforms will be discussed in more detail by my colleagues tomorrow, but I will just briefly outline five key areas.

- First, and already mentioned, is trade reform.
- Second is abolishing distortions in the exchange system to eliminate parallel market premiums, nonmarket foreign exchange allocation, and surrender requirements.
- Third is improving the financial system by strengthening banking supervision, eliminating administrative controls on interest rates and the allocation of credit, and diversifying sources of funds and activities of the banking system.
- Fourth is dismantling all price controls and state intervention, especially in the marketing of fertiliser, petroleum products, major foodstuffs and export products.
- Fifth is public enterprise reform. Public policy is best served by promoting and fostering efficient private sector production and trade and investment, rather than the government undertaking these functions itself.

Fund staff studies have found that, among African countries where structural reforms have been pursued without substantial policy reversals, they have succeeded in making economies more flexible and enhancing competitiveness, trade, investment, and growth performance.

Trade Systems of Africa and the Need for Trade Reform

The trade systems of African economies are, on average, relatively highly protected compared with the average for all Fund member countries. The recent IMF study of trade liberalisation in Fund-supported programmes during the 1990s showed that, based on an index of overall trade restrictiveness developed in the study, African economies in the early 1990s were substantially more restrictive than the rest of the world.

Indeed, at the start of the period, some 70% of African countries had restrictive trade regimes, and most of these were in the most highly restrictive category, classified at the very top of the index. None of the African economies in the study had trade regimes that could be classified as broadly open. The study showed that, during the 1990s, many African trade regimes have been liberalised, often significantly. The average degree of trade liberalisation targeted in economic adjustment programmes was about the same in the African programmes as in Fund-supported programmes with countries in other regions. In the great majority of cases the targets were achieved. Thus, significant trade liberalisation did occur during these programmes in the early to mid-1990s. However, because they started from a much more restrictive position, most African trade regimes remained restrictive or moderate following these reform programmes.

Extending the analysis to the whole of Africa rather than just countries with medium-term Fund programmes, and using the most recent available data, indicates that a significantly higher proportion of Africa's trade regimes remains restrictive. The same is true for southern Africa viewed as a distinct region. Figure 5 illustrates this by comparing African and non-African countries classified as "restrictive", "moderate" or "open", based on the index of restrictiveness. Figure 6 illustrates the same comparison based on the most widely used measure of restrictiveness, namely, tariffs. For Africa, and for southern Africa, these average more than 20%, which is significantly above the non-African developing country and world averages. It is the last group of countries, with average tariffs of only 6%, that dominates world trade. These findings underscore the need for most African countries to go much further in targeting significant additional trade liberalisation.

The Role of Regional Integration

Regional Trading Arrangements (RTAs) and regionalism can be beneficial steps toward economic integration and higher economic growth. What are the benefits and drawbacks of regionalism? First, the benefits:

- RTAs can promote trade liberalisation among the regional trading partners.
- They lock in reforms. (This is a benefit only if the RTA includes the right reforms.)
- By bringing down regional barriers to trade on a consistent, permanent, and visible basis, they can create a much bigger potential market for investors, and also a better investment climate within that market because of the added security and certainty.
- RTAs almost always go beyond trade liberalisation in efforts to create broader economic synergies and political relationships, and cooperation.

Figure 5: Africa vs Rest of the World, Trade Restrictiveness*
Source: IMF Staff Estimates
*Based on the most recent available data, ranging from 1996-1998

On the last point, the enhanced economic synergies, political relationships and cooperation can be far-reaching. First, since RTAs are designed to promote economic integration in the region, they often include the streamlining, harmonisation, and general removal of a variety of impediments in areas such as customs and other border regulations and procedures, licensing procedures, integration of financial

Figure 6: Average Import Tariff Rates*
Source: IMF World Economic Outlook
*Based on the most recent available data, ranging from 1996-1998;
includes other discriminatory duties and charges

markets and improved trade settlement procedures, and harmonisation of tax treatments. These improvements will apply to all trade, and not just that with the regional partners. Moreover, the efforts may go beyond this into harmonisation, and include efforts to achieve broad consistency in areas such as tax and other investment incentives, tax treatment of domestic producers, and other economic policies. They could possibly extend to cooperation in areas such as transport, infrastructure, labour and immigration. This broadening out into a variety of economic and other areas is called "deep integration".

All this is to the good, and many of these factors are present to some degree in the various regional initiatives under way in southern and eastern Africa. These types of objectives are therefore comprised in the policy advice of the Fund and in the rules of the global trading system agreed between members of the World Trade Organization (WTO), most recently in the Uruguay Round. Specifically, these state that -

- RTAs should be all-encompassing, applying to virtually all trade between the partners - no sectors or categories should be exempted, i.e. no special carve-outs;
- rules of accession to the RTA should be simple and transparent;
- transition periods and phase-ins for the beneficial integration, harmonisation, and liberalisation should be short;

- the benefits should not be undermined by complex administrative and legal arrangements such as rules of origin or antidumping regulations; and
- deeper forms of integration are to be preferred.

There are two potential major drawbacks, one general and one specific to this region. The main general potential shortcoming is a very big one, namely, in the jargon used by economists, that RTAs should foster trade creation and avoid trade diversion. In plainer language, this means that RTAs should avoid transferring trade away from existing international partners, in favour of regional partners who produce goods that are not competitive, but are attractive only because the RTA cuts intraregional tariffs far below those applied to imports from outside the region. Transferring trade from international to regional partners because of discriminatory liberalisation negates the gains from trade and reduces welfare and competitiveness. Hence, it is essential that regional initiatives be implemented in a way that will harness them securely to the long-run goal of multilateral nondiscriminatory trade liberalisation on a most-favoured-nation (MFN) basis. Only by including this broad-based liberalisation can RTAs develop as “building blocks” toward liberal and efficient economies. There can be a (modest) regional preference, but unless RTAs also reduce trade barriers for all countries, then the benefits to trade and growth outlined above will not be achieved. What’s more, if external liberalisation is not included early on in the process, then regionalism can foster the very favouritism and special interests that trade liberalisation is supposed to overcome.

The need to include a clear timetable for external liberalisation is essentially important in the context of southern Africa. Firstly, as noted above, the economies start from a relatively more restrictive position. Secondly, because of their similar production structures, African countries trade much more with non-African countries than with African regional partners. Many African countries produce similar products to their neighbours, and this lack of complementarity reduces the number of goods that can be exchanged in trade. Turning again to the most recent data, Africa’s trade with other African countries represents only about 10% of its total trade. For southern Africa, this intraregional trade amounts to 12%. This contrasts sharply with the European Union (EU), where 61% of trade is with other EU member countries (Figure 7). Although regional initiatives may increase the share of intra-African trade, the scope is limited because of the lack of complementarity of production structures between African economies. This simply underlines the fact that external trade liberalisation is essential in the context of southern Africa. However, this is not adequately reflected in some of the regional initiatives in southern Africa, and not at all in others.

Can regionalism succeed in the context of the integration of small countries and a large dominant neighbour, or will the small countries of this region be overwhelmed by the dominant regional power? In this regard, I believe that the NAFTA model is instructive. All three countries, the United States, Canada, and Mexico, have benefited by specialising in areas of comparative advantage despite enormous disparity in the size and economic development levels between the parties. But I would like to stress that the members of NAFTA started from substantially more liberal trade systems than is the case in southern Africa, and have a much higher proportion of intraregional trade (44%), so regionalism gave stimulus to efficiency without the negative impact of trade diversion. Another, somewhat different, example would be the extent to which the smaller countries of Europe have benefited within the European Common Market. Again, the EU's aggregate trade policies vis-à-vis the rest of the world are liberal - the EU's average external tariff is about 5%. Small countries can certainly benefit from regionalism, but only if the policy guidelines mentioned above are broadly followed.

The other major problem with regionalism is particularly acute - almost unique - to this region, and that is an excessive number of uncoordinated initiatives or regional groupings covering the countries of southern and eastern Africa. These include the four major groupings in place: CBI, COMESA, SACU, and SADC (Figure 8). These four have differing overlapping memberships, conflicting membership obligations, different strategies and internal liberalisation objectives, completely inconsistent external liberalisation goals, different timetables and phase-in periods, different coverages, and different and conflicting rules and administrative procedures. What is more, these four are not the only initiatives. There are nine multicountry regional initiatives that involve trade, not including bilateral trade arrangements.

Figure 7:
Intraregional
Trade: Share of
Total Trade, 1996
Source: IMF

This plethora of groupings significantly negates the potential gains of regionalism and has the potential to seriously undermine the reform process. First, they negate one of the major gains of regionalism, namely the improved investment environment arising from the larger market area, added certainty, and improved transparency and clarity of operations. Worse, they actually reverse this process by adding confusion and uncertainty to regional trade. For example, how will rules of origin be designed and implemented when countries are members of more than one initia-

Country	SADC	COMESA	SACU	CBI
Angola	✓	✓		
Botswana	✓		✓	
Burundi		✓		✓
Comoros*		✓		✓
Congo, Dem. Republic of	✓	✓		
Djibouti		✓		
Eritrea*		✓		
Ethiopia*		✓		
Kenya		✓		✓
Lesotho	✓	✓	✓	
Madagascar		✓		✓
Malawi	✓	✓		✓
Mauritius	✓	✓		✓
Mozambique	✓	✓		
Namibia	✓	✓	✓	✓
Rwanda		✓		✓
Seychelles*	✓	✓		✓
Somalia*		✓		
South Africa	✓		✓	
Sudan*		✓		
Swaziland	✓	✓	✓	
Tanzania	✓	✓		✓
Uganda		✓		✓
Zambia	✓	✓		✓
Zimbabwe	✓	✓		✓

* Not a WTO member

SADC - Southern African Development Community; COMESA - Common Market for Eastern and Southern Africa; SACU - Southern African Customs Union; CBI - Cross Border Initiative

Figure 8: Southern African Membership in Regional Trade Agreements

tive; how will customs agents distinguish the treatment of imports of goods under COMESA or SADC if the originating country is a member of both; what policy will countries adhere to on reducing tariffs if they have conflicting obligations under different regional initiatives? The overlapping also leads to costly duplication of administrative efforts and destroys the reform momentum by dissipating the political capital needed to pursue reforms. The experience of Africa in this “overlapping regionalism” is in marked contrast to the role of regionalism elsewhere. For example, there is a very clear contrast with Asia and Latin America, two regions where trade performance has been particularly strong. In Asia there is only one trade-

Country	MERCOSUR	ANDEAN	CARICOM	CACM
Argentina	✓			
Bolivia	✓	✓		
Brazil	✓			
Chile	✓			
Paraguay	✓			
Uruguay	✓			
Colombia		✓		
Ecuador		✓		
Peru		✓		
Venezuela		✓		
Mexico			✓	
Antigua & Barbuda			✓	
Bahamas, The*			✓	
Barbados			✓	
Belize			✓	
British Virgin Islands			✓	
Dominica			✓	
Grenada			✓	
Guyana			✓	
Haiti			✓	
Jamaica			✓	
Montserrat			✓	
St Kitts and Nevis			✓	
St Lucia			✓	
St Vincent & Gren.			✓	
Suriname			✓	
Trinidad & Tobago			✓	
Costa Rica				✓
El Salvador				✓
Guatemala				✓
Honduras				✓
Nicaragua				✓
Panama				✓

* Not a WTO member

MERCOSUR - Southern Cone Common Market; ANDEAN - Andean Community; CARICOM - Caribbean Community and Common Market; CACM - Central American Common Market

Figure 9: Southern and Central American Membership in Regional Trade Agreements

oriented initiative, AFTA, and in Latin America and the Caribbean, the multicountry initiatives are region-specific and do not contain any overlap. This marked contrast is shown in Figure 9.

Conclusions

The above analysis points to the potentially major benefits of globalisation and the role of liberalisation. It also points to two significant factors that are negating the potentially dynamic role of regionalism: the overlapping and conflicting plethora of regional initiatives, and the lack of adequately ambitious and timely external trade liberalisation. However, these drawbacks need not be a cause for pessimism. I began by saying that Africa has not kept pace with the gains of globalisation over the past two decades. However, Africa's economic progress of the past few years and the evident fallibility of other regions makes the timing propitious to reverse past trends. The way for regionalism to contribute would be to integrate and make consistent the initiatives in place, and to include in them bold objectives for external liberalisation. The second-best solution would be to agree on a common set of objectives and timetables. Initially, this could cover the basic areas such as internal and external tariff reform, then subsequently move to broader aspects of the trade system and the harmonisation of other trade-related economic policies. In this way, I believe that regionalism can contribute to sharply enhanced economic performance.

Notes

1. IMF. 1998. Trade Liberalisation in IMF-Supported Programs.

FINANCIAL AND CAPITAL MARKET REFORM IN THE CONTEXT OF REGIONAL INTEGRATION

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Introduction

I would like to thank the organisers of this conference for inviting my colleague and me to this conference. In our day-to-day work environment, we particularly regard the IMF as a major force to contend with in efforts of regional economic integration. Notwithstanding the IMF's involvement in the Cross-Border Initiative (CBI), namely eight SADC countries excluding South Africa, which is jointly supported by the European Union, our contact has been mainly informal and tentative.

I would therefore like to take this opportunity to explain briefly what we are, and put that in context of the theme of this conference, namely Regional Economic Integration and the Globalisation Process; and maybe also start a dialogue with both the IMF and the FES on the themes that the Finance and Investment Sector has chosen and lastly, examine the challenges of globalisation to southern Africa and what we believe our combined response ought to be.

Context

It is important to place the present debate on regional economic integration in context - politically, economically and otherwise. A number of notable authors including Robson (as early as 1968), Mistry (1998) and El Shadawi (1997), have argued the relevance of economic integration at regional level. The experience of African economic integration efforts comes under criticism for its failure to deliver expected results. Mistry (1998) puts it ably by describing what he calls the first generation efforts at economic integration - which were politically driven and relevant at that time as an expression of African independence - and second generation efforts, which are now still driven by political imperatives, though economic reasons are also a major force. From this context, it is easy to understand why African economic integration efforts tended to fail. The substance of integration was shallow and national priorities were too important and narrowly focused to accommodate regional concerns. The “statement” as expressed by signing of accords, protocols, declarations of intent, memoranda of understanding, etc. was more important than the process of designing and ensuring that those accords were actually implemented. We are not surprised at the lack of results and the cynicism that accompanies present-day discussions on economic integration.

Noting the failures of past economic integration agendas, one has to understand the context of our efforts today. Firstly, the political arena has changed dramatically. Southern Africa is now characterised by multi-party democracies and relatively open-market economies. We are aware how fragile peace is in a number of our economies and how we therefore seem to be locked in the arena of "potential" and possibilities. For southern African democracies to succeed, it is important that democratic processes and institutions are strengthened. Multi-party elections would not yield expected successes if they are viewed as "the event" in the absence of a culture of democracy and supporting structures, like the FES, that seek to build and reinforce on-the-ground democratic culture and procedures.

Seondly, the context of economic integration has also changed. Economic liberalisation, which began in the 1980s for most southern African countries, has yielded mixed results. Often the success of liberalisation is questioned and the lack thereof is said to be in the failure of countries to adhere to all "prescriptions", the inappropriate sequencing of liberalisation measures, and sometimes, the lack of institutional support mechanisms.

There has been marked improvement in the economic growth performance in southern Africa from 1994-1997. On aggregate, SADC economies have been growing faster than the rest of sub-Saharan Africa. Macro-economic indicators seem to suggest that SADC economies are prudently managed through sound fiscal and monetary policies. Debt is still a major concern. For those economies that have adopted a cash budget (at least three: Malawi, Tanzania, Zambia) we have begun to witness encouraging budget surpluses. However, there is no scope for complacency. Budget deficits have proved to be a major obstacle in economic growth of the past and they will continue to be so. It is therefore encouraging to note that the macro-economic stability message is taken seriously by SADC governments and a number of initiatives have been designed at country level to address this. In South Africa, for example, the Growth Employment and Redistribution (GEAR) strategy was designed as a set of supply-side and demand-driven policies that seek to address macro-economic concerns in a way that addresses broader socio-political concerns.

The current preoccupation with the Asian crisis has led southern African countries to assess whether the economic gains made in the past three years can be sustained. Because the level of globalisation of our financial markets is not advanced enough, it would appear that our financial markets were not severely impacted upon. But, these are early indications. What is currently happening with the Rand indicates that there is cause for concern.

The Finance and Investment Sector Themes

In the light of the context explained above, it was not quite possible for the SADC Finance Ministers to adopt radical themes for economic integration. In this sense, I think our objectives and current work programme are close to what the IMF would like to see happening in our individual economies. Noting the constraints facing SADC, first as individual economies, and second, as a region, the approach to economic integration had to be pragmatic, informed by the meagre policy choices available, while simultaneously enhancing professionalism in the finance sector. Also, the question of demonstrated successes comes to mind: in the light of previous failures, it is important for us to undertake activities with a reasonable probability of success.

Macro-economic Management

The record of successive economic growth, low inflation, availability of foreign exchange, gradual liberalisation of the current and capital account, relative stability of the exchange rate and convertibility of SADC currencies suggest that lessons in macro-economic management are bearing fruit. It is notable that positive changes happened at the same time - with several time lags - without obvious coordination of policies at a political level. This seems to suggest that a positive contagion effect is possible. To reinforce this outcome, the SADC Finance Ministers adopted, as a principle, sound macro-economic management as a theme. To put this in practice, a number of practical projects were undertaken, from 1995 to now, to address the question of getting the economic fundamentals “right”.

Our initial problem in addressing macro-economic management was the lack of reliable, up-to-date economic and finance statistics. To this end, the SADC central banks started a project on creating a statistical database which will be used to draw comparisons on various economic indicators. In instances where data were available, we had serious discussions about validation. To compound the problem, the nomenclature used often differed considerably. This meant that comparisons are meaningless if, for example, the basket of goods used to measure inflation is considerably different. From 1996, central bank officials have been working diligently to compile statistics that are based on similar nomenclature. It is important to note that in all SADC Finance Sector endeavours, there is no attempt to create regional standards. Instead, the emphasis is on adhering to international standards as much as possible. In that spirit, devising and standardising common nomenclature was done using the International Financial Statistics (IFS) as a guide.

The second issue on macro-economic management was the observation of possible strengths created by a convergence of practices and, subsequently, of policies. This is happening in the bigger economic blocs such as the European Union, NAFTA, MERCOSUR and others. SADC thus had to discuss the desirability of convergence as a tool of economic integration. If convergence were deemed to be desirable, the next issue was how to construct elements of convergence as an explicit policy objective, in an environment where there was no enforcement mechanism to foster compliance. This would mean that SADC needed to articulate a regional growth strategy. Note was taken, however, of the considerable time (41 years) and investment that has gone toward the creation of the EMU: SADC convergence will take time and realistic objectives and timetables need to be set. That would give us time to accommodate our heterogeneous structures and performance, while devising a way of consolidating gains made through small integration structures such as SACU.

The assumption that regionalism should supersede national policies does not hold within SADC either because of historical factors or levels of development and recent performance. For SADC, a viable financial integration model would have to start from an assumption of small open economies with national policies capable of affecting external/neighbouring economies. This could, among other things, be a result of price distortions. It is thus essential, when addressing the question of spillover effects, to choose a convergence path set upon a choice of indicators which will be rigorously justified in theoretical and conceptual terms. There is empirical evidence that national adjustment policies have impact on sectors outside the country of origin.

The decision to adopt economic convergence, if taken, would have several implications for southern African economies. First, the choice of policy tools may be limited. Second, financial and human resource implications come to mind. Third, for the purpose of this conference, I would like to highlight the fact that our relations with multilateral institutions such as the IMF would have to change. I do not believe that it would be possible to contract a successful regional growth path without constructive dialogue with multilateral institutions. The support we seek will still be traditional BOP, compensatory finance for adjustment and the usual country assistance strategies that the multilateral institutions have been giving for the past years. But, added to that, we will now seek institutional and analytical support for building a conceptual framework for modelling and analysing regional integration strategies. We would request the IMF to consider, in any policy guidance proposed, adding a regional impact analysis in order to check the proclivity toward beggar-my-neighbour policies of the past.

Allow me to return to possible areas of cooperation later.

Financial Infrastructure

The second theme adopted by the SADC Ministers of Finance also has relevance to this conference. The need to address financial sector reforms from government's perspective has always been undermined by a lack of credible financial infrastructure. Financial intermediation in different SADC countries is hindered by less developed payment, settlement and clearing systems.

From 1994 to March 1998, South Africa was engaged in a process to modernise its payment systems in such a way that real time settlement occurs in at least one day. South Africa introduced its new electronic national payment system, called the multiple option system (SAMOS) on 4 March 1998. In 1995, when SADC Finance Ministers met for the first time, the issue of payment systems was deemed to be of crucial relevance to SADC financial markets development. To that end, the South African project was expanded to include all SADC member states. In this regard a survey has been completed on the payment systems which are currently used in the 12 SADC member states.[2] All the collected information will be published in a "Green Book", which will be a detailed survey of the status quo. Further developments in this project will pave the way for a regional payment, clearing, and settlement system.

To date, it appears that this is one of the most significant projects undertaken by Finance Ministers because in terms of financial sector developments, particularly money market developments, SADC has to address government cash management: low risk of loss or delay in transactions through, among other things, prudential supervision; transparency of financial information; enforceability of financial contracts; secure title transfer; and fast and secure payment systems. In developing government term-debt markets, SADC has to effect financial reforms that address the present problems of low liquidity, and risk associated with transactions. It is self-evident that reforms should be centred on prudential supervision, accounting standards and disclosure requirements, and security of title transfer together with good payment systems.

The role-players in the development of regional capital markets include the central banks, governments, stock exchanges and professional associations involved in accounting and auditing. In this regard, the SADC stock exchanges have already started cooperating in the area of dual listings, harmonisation of disclosure regulations, and settlement mechanisms. We are aware of the west African model of a regional stock exchange and the problems associated with such an undertaking. So far within SADC, there has not been a move toward the creation of a single regional stock exchange. The concept implies a higher degree of financial and monetary integration. What is applicable to us, at the moment, is a move toward cooperation - to be achieved through the adoption of similar practices and regulations, similar standards and modalities, etc. Even at a lower level of financial integration, there is an assumption that SADC economies will have to accelerate the pace of liberalisation - with particular emphasis on the removal and exchange controls (at least among each other) to allow for greater movement of capital and services within SADC borders.

Financial Management

The third theme adopted by the Finance and Investment Sector refers to issues of financial management. Governments within SADC have adhered to good financial practices without trying to coordinate activities of that nature. In 1997, the Ministers decided that financial management warrants regional effort. In that endeavour they decided to ask professionals in the field of accounting and auditing to work on ensuring that SADC economies reap the benefits of globalisation. To that end, the strategy on financial management will seek to achieve the following:

- application of International Accounting Standards (IAS) and International Standards on Auditing (ISA) in both private and public sectors;
- greater independence of Supreme Audit Institutions (SAIs) and efficiency of government internal audit systems;
- harmonised and comparable accounting, reporting and auditing systems (so that figures in one SADC country mean similar things in other SADC countries); and
- the harmonisation of laws, regulations and rules governing the establishment, management and liquidation of limited liability companies.

Cooperation with International Institutions

The expected outcomes seem daunting and may be slightly unrealistic when viewed in the context of challenges facing SADC and the lack of a record of achievement in the past. It is in this frame of mind that I would like to address myself to the civil society - here represented by trade unions, and multilateral organisations - here represented by the IMF. What kind of assistance does the SADC Finance and Investment Sector need to achieve its goals?

Similar to the first theme, there is a perceptible shift in the mind-set of policymakers on what elements are desirable in achieving an economic community. Among them are the following:

- The analytical tools needed to understand global events and trends: This effectively translates as promoting investment in human capital, particularly economic policy-making in all sectors (financial and real) for government officials. Effective policy changes have to be accompanied by a sense of ownership and confidence that governments know what they are doing. The fragile social contract now existing between SADC governments, labour and other elements of civil society on the one hand, and business, on the other, can easily be undermined by destructive criticism coming from multilateral organisations and international NGOs.
- Open dialogue between international organisations and regional economic groupings on the globalisation debate: In particular, where areas of competency are obvious and well-understood - as in payment systems - the involvement of the IMF and institutions like the Bank of International Settlement (BIS), is most welcome. In other areas such as the development of appropriate responses by African countries to the Multilateral Agreement on Investment (MAI), SADC needs independent advice on communication with the OECD, the WTO and others.

- Adopting regional economic integration and globalisation as a principle guiding the future relationship between the IMF and southern African countries: This would put in context future deliberations and the design of regional linkages in national policies.
- Standardisation: As I mentioned earlier, SADC Finance Ministers aim to undertake region-specific financial reforms while addressing international standards. Hence, the need for assistance to SADC should also address the need for incorporating a standardisation of practices and adherence to international standards in the field of accounting and auditing.
- Compatibility of regulatory frameworks: The level of intraregional trade presently stands at 12%. In the context of privatisation and liberalised capital accounts, this could be much higher. However, it would not serve SADC well if financial reforms are undertaken using incompatible regulatory frameworks. In other words, the kind of assistance that is sought is that which will aim at cross-referring to what is happening in neighbouring economies in respect of regulatory frameworks. This would have the immediate benefit of deepening economic integration.

Notes

1. SADC Finance and Investment Sector Coordinating Unit
2. Up to 1997, SADC had 12 member states. The Democratic Republic of the Congo and the Seychelles joined SADC in September 1997. At the commencement of the payment system project, it was not possible to include the last two members.

POLICIES TO FACILITATE TRADE AND FOREIGN DIRECT INVESTMENT IN SOUTHERN AFRICA

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Introduction

This paper deals with policies to facilitate trade and foreign direct investment in southern Africa with special reference to the experience of Mauritius. I would like to begin by making a few introductory remarks. Talking of policies, far from suggesting a recipe for developing countries, I propose to provide an overview of some policy measures taken by the government of Mauritius in the last two decades and which, combined with certain external favourable conditions, could be responsible for the unprecedented economic growth in the country. Overall, the experience is of an island economy subjected to many uncertainties from the perspective of growth and policy measures.

In the wake of rapid liberalisation of trade, finance and investment in the post-GATT era, the new economic order unleashes a number of challenges, difficulties and opportunities. As the momentum of globalisation accelerates, developing countries will need to make the necessary adjustments to their country policies to take advantage of new, favourable conditions.

Economic reforms, in general, would mean undertaking certain profound changes at various levels without the guarantee that they will produce the best results. Nonetheless, where the right policies have been put in place there are better chances that they will work. Development issues, including those at the level of macro-economic policies, economic cooperation and regional integration for sustained economic growth, will continue to rank high on the economic agenda of nations concerned with the well-being of their peoples. Indeed, many countries are undergoing changes.

Integrating into the global economy is no longer an option. The international free-flows of goods and services, capital, labour and technology in the process of globalisation have both hastened the pace of development and made economic adjustments and policy reorientations necessary. Moreover, international flows of technology, taking various forms of foreign investment, technical assistance and know-how, licensing arrangements and other technological hardware, continue to receive serious attention. Policies to promote these flows also need to be linked with the absorption capacity rate of the recipient.

Technological progress with the resultant improvement in productivity is the engine of economic growth. Technology transfers can effectively take place through investment in physical, human capital and trade development. The relevance of import substitution strategies creating protective walls through trade barriers, and the often wrong perception that high economic growth in isolation is possible, are increasingly being questioned in achieving rapid and sustainable development.

The role of the state in fostering economic growth and development would emphasise the need for government to do less in those areas where markets work or can be made to work reasonably well. It should probably restrict its role to creating the enabling environment for business to flourish, and engage itself in investing in education, health, family planning and poverty alleviation; building social, physical, administrative, regulatory and legal infrastructures of better quality; mobilising resources to finance public expenditures; and finally, providing the desired macroeconomic foundation and stability to inspire the necessary confidence for private investment.

Briefly on Mauritius

In the immediate post-independence period, Mauritius, essentially as a mono-crop economy based on sugar production, was faced with some serious socio-economic difficulties like so many other small economies in the developing world. The sugar industry, the backbone of the country, providing for the main source of livelihood, accounting for over 90% of export earnings, and employing 25% of the active labour force contributed a third to the Gross Domestic Product (GDP). The prospects of job creation in the sugar industry for the increasing number of job-seekers coming into the labour market were extremely limited; unemployment in the early 1980s was at its peak at 20% (more than 70 000 persons) of the labour force and the chronic adverse balance of payments further compounded the socio-economic problems in the country. Devoid of any mineral or natural resources, the country could only build on its human capital for its economic growth. The diversification from the sugar industry sector evidently took account of the available resources.

Through a programme of economic reform with assistance from international institutions, government was able to adjust some of the economic fundamentals in place, such that the country experienced rapid economic growth rates by the mid-1980s. With a population of about 1 million and an active labour force of 430 000, the country registered an average annual growth rate of 7% in the late 1980s and 6% during the period 1990-1996. GDP per capita in 1996 was US$ 3 500 compared to US$ 1 100 in 1982. Full employment was reached in the early 1990s and the country resorted to imported labour. Foreign exchange reserves which were down to barely two weeks of imports in the late 1970s swelled to 20 weeks in the late 1980s.

The sectoral contribution to GDP over the period 1976-1996 shows the declining importance of the agricultural sector (in particular, sugar), an increasing contribution of the manufacturing sector and the growing importance of the tourism sector (Table 1).

In 1996 the economy grew by 5,8%, largely due to increased activities in the different sectors - agriculture, manufacturing, tourism and financial services, which constitute the four main pillars of the Mauritian economy (Table 1). While tourism registered a high growth rate of 16%, the EPZ had 7%, the non-EPZ 5,1%, and sugar milling registered 9%. The EPZ earned Rs 21 billion, sugar Rs 8 billion and tourism generated Rs 9,1 billion. The financial services sector also contributed to overall GDP growth. Inflation was contained at 6,6% and unemployment was at 5,5%.

Based on the Westminster model of Parliament, elections are held every five years in Mauritius, and government adheres to the fundamental principles of democracy, good governance and the maintenance of law and order. The country has always enjoyed good social security and political stability.

Given the political stability, with an eye on emerging opportunities, commitment and good economic management, government was poised to be a facilitator and catalyst in creating an enabling business environment through constant dialogue with the stakeholders. In the following sections, I propose to look at some of the important measures taken by government at the level of macro-economic policies, trade, and investment promotion policies, and I shall attempt to highlight the importance of regional economic cooperation and integration, as well as other conditions for stimulating economic growth in the country.

Macro-Economic Policies and Stability

The overriding objective of a sound macro-economic policy framework is to promote economic growth by keeping inflation low, the budget deficit small, a sustainable current account and a stable fiscal system. Putting in place a stable macroeconomic foundation to ensure fiscal and financial stability for sustained development can be quite demanding and time-consuming, especially in a situation of excessive government expenditure, and large domestic and external borrowings.

Public Sector Deficit, Infrastructure and Exchange Rate

The Mauritian economy is characterised by a relatively large public sector, with a narrow resource base, an asymmetrical pattern of production, and high dependence on external markets. Diseconomies of small-scale production and distance from the main markets add significantly to production costs.

It is also to be noted that during the 1976-1979 period, aggregate demand and, therefore, volume of consumption continued to rise very rapidly at about 8% per annum, with a consequent decline in the savings rate from 19% to 14% of GDP. In the post-independence period, the government budget deficit grew larger on account of public sector expenditure made on national development plans for infrastructural works, and for the provision of continued social services which were mainly financed by large borrowings, both from overseas and local banks.

Moreover, through its capital budget, government made substantial investment in capital projects, especially to strengthen and build infrastructure, including housing, roads, schools, hospitals, water services, energy services and other facilities to enhance living conditions. Government even provided subsidised essential services.

Policies on the public sector deficit and fiscal stability could be effective instruments to promote macro-economic balance and stimulate growth. The size of the government deficit is of great concern and, according to the World Bank, it could be a reliable indicator of overall macro-economic stability. Such deficits manifest themselves and result in inflation, a shortage of foreign exchange, a foreign debt crisis or the “crowding-out” of the private sector. Public sector deficits call for efficient management.

Fiscal adjustment could mean excessive compression of public infrastructure investment that may in the process jeopardise the recovery of private investment and growth as a “wait and see” attitude may prevail on the part of the private sector. It could be argued that government, taking the lead, made some good investment in creating the necessary infrastructure in those early years of adjustments through increased expenditure in construction works, transport facilities and telecommunication systems (Table 2).

In the 1970s, the United Kingdom was a dominant trading partner for 75% of Mauritian trade. The Mauritian Rupee was linked to the Pound Sterling, whose fluctuations brought about a depreciation of about 8% in the real exchange rate, thus forcing government to review its exchange rate policy. The Rupee was instead pegged to a basket of currencies underlying the SDRs. More troubles started with the sharp deterioration in terms of trade resulting from the plunge in sugar prices on the world market and increases in the oil prices. The deterioration in terms of trade led to an increasing over-valuation of the Rupee at the prevailing exchange rate. A second review of the exchange rate policy was made necessary. In 1983 the Rupee was pegged to a trade-weighted basket of currencies more representative of the Mauritius trade pattern, thus marking the start of a flexible exchange rate policy.

Thus, the 1976-1980 period could be described as a worrisome and destabilisation phase of the Mauritian economy with all the adverse conditions prevailing then. This led to the devaluation of the Rupee on two occasions - by 30% in October 1979 and by 20% in September 1981. During the same period the consumer price index also increased at an annual average of 16%.

Stabilisation and Structural Adjustment Programmes (SAPs)

The process of a major economic reform was initiated under the twin guidance and arrangements of the IMF and the World Bank, through the Standby Agreement and the first Structural Adjustment Loan, respectively. The exercise was one of demand management and containment of public expenditure and, more specifically, one aimed at -

- reducing the overall level of public expenditure in order to gradually turn the deficit in the current budget into a surplus;
- limiting capital expenditure to levels in line with targets set for overall budget deficit; and
- monitoring public expenditure closely.

The implementation of successive SAPs in the 1979-1983 period was a time of austerity, especially with the strict control measures imposed by the IMF, including set targets in terms of an attainable growth rate, an acceptable inflation rate, a marginal rise in imports and export growth. The restrictive wage policy measure allowed for a wage award of only 3,5% against an inflation rate of 5-6%.

The 1983 SAP was successful in all respects, as the macro-economic indicators were all favourable. The economy gathered more strength to attain, in 1986, a deficit of 1,3% of GDP compared with 13,9% in 1980; real GDP grew at 8,9% per annum and inflation was down to 1,8% (Table 3). The external account showed a surplus at 1,8% of GDP for the first time since 1975. On the whole, therefore, this achievement was made possible, on the one hand, largely by following the various guidelines charted out under the agreements, namely (1) maintaining a flexible exchange rate policy and a restrictive wage policy; (2) decreasing net domestic credit; (3) gradually eliminating quantitative restrictions on imports; and (4) decontrolling prices on a large number of items; and, on the other hand, with the emergence of certain favourable external conditions.

In 1987 monetary policy also played an important role in the stabilisation process. It was instrumental in the revival of the economy through a sharp reduction in the rate of domestic credit - especially to the public sector, and an increase in borrowing by the private sector for investments - particularly in priority productive sectors. With respect to domestic credit to the private sector, government managed the banking system under strict regulation for the mobilisation of financial resources and their allocation in ways that supported its economic policy. It also checked on sectoral lending and the distribution of credit, and at the same time controlled lending to non-priority sectors.

The great moment of relief came when the positive signs of an economic recovery were in sight. These would be attributable mainly to rising exports, increased earnings from tourism and declining oil import prices. It is certain that management of the macro-economic elements and the participation of the nation in a spirit of solidarity and understanding, particularly during the austerity period, together with the consistent policy thrust of the successive governments, have all contributed significantly towards the successful recovery of the economy. As far as the prescriptions of the international institutions were concerned, they, too, have worked. Subsequently, government's special efforts to repay part of its loans before maturity contributed positively towards consolidating the economic performance further, and towards establishing a good credit rating for the country at an international level.

Trade Policies and Development

Trade for Survival

As an island state with a narrow resource base, the trade pattern of Mauritius is highly subject to external factors - to the extent that, if our clients and suppliers overseas sneeze, we are bound to catch the cold. Trade for Mauritius is certainly not a choice: it is a sine qua non condition for its survival. The country has been dependent on almost 90% imports of practically everything it needed; and the one major export item which paid for these imports was sugar.

Against the background of uncertainties and other external influences, Mauritius stood up to the challenge and managed to overcome some of the serious economic and financial difficulties of the 1970s, which were the combined effects of a number of external conditions caused by the decline in the terms of trade, coupled with bad weather.

The macro-economic reform, stabilisation efforts and the diversification programme of the 1970s to the 1980s contributed immensely towards increasing Mauritius's international trade. The net exports of goods and services showed a positive balance of Rs 1,3 billion in 1986 (6,5% to GDP) as against a negative balance of Rs 0,3 billion in 1982 (-2,8% to GDP). Mauritius is within the range of at least one severe cyclone every four to five years, which can seriously affect agriculture. This makes it precarious for the country to honour its sugar quota obligations.

The positive movement in the terms of trade has greatly increased the level of economic activities in the country. It may be noted that the terms of trade index (with 1982 = 100) averaged 102 during the period 1968-1972, and rose sharply to an average of 155 during the period 1973-1975. The deterioration in the terms of trade during 1976-1982, with an average of 119, was due mainly to falling sugar prices and partly to rising import prices. With greater access to the European and North American markets, coupled with the EPZ growth, however, the terms of trade registered a marked improvement during the period 1983-1990, with an average of 136, and continued to rise further to reach an average of 160 for the period 1991-1997 (Table 4).

Trade Policies

The restrictive import policy of the 1970s was designed in the context of stabilisation and structural adjustment programmes to remove the macro-economic imbalances caused primarily by an unfavourable balance of trade due to falling exports of agricultural products, deteriorating terms of trade and the currency appreciation. After economic recovery, followed by the industrial boom years of the late 1980s, government's policy is increasingly geared towards promoting a liberal trading environment with strong emphasis on export development. Diversification of the economy in other sectors, including international services, continues to be high on the economic agenda.

Sugar production and export date back to more than one-and-a-half centuries. Sugar exports and earnings derived from them were substantially increased under the Sugar Protocol Agreement following the signature of the Lomé Convention in 1975. The trade policy and regime in Mauritius can be summed up as measures -

- consisting of a levy on sugar exports and agricultural diversification;
- giving substantial protection to local firms producing for the domestic market, and later encouraging them to export; and
- providing strong incentives for exports of manufactured products.

Mauritius produces an annual average of 600 000 metric tonnes of sugar, of which 80% is exported to the European Union under the Sugar Protocol of the Lomé Convention. In addition about 50 000 tonnes of special sugars are also produced. Taking full advantage of the preferential treatment provided under the Lomé Convention for the export of sugar and other manufactured goods, is often cited as the basis on which the economic success of Mauritius has been built. Indeed, the sugar boom of 1973-75 provided an excess of available funds which was subsequently, and perhaps judiciously, invested by the sugar estates in non-sugar manufacturing units producing for exports or local markets. In the years that followed, a number of industrial zones have also been built by the sugar industry to further diversify their economic activities. Tax raised from sugar exports provided funds to the public sector to put up infrastructure as well as to support the diversification programme.

It could be argued that the thinking behind the sugar tax was mainly fiscal but it had one important subsidiary objective: that of promoting agricultural diversification. The incentives provided under the Agricultural Development Certificate, to promote agricultural diversification and thereby boost non-sugar crops, were primarily aimed at promoting self-sufficiency and creating a surplus for exports or, even, to meet the growing demand from an expanding tourism sector (hotels). Indeed, self-sufficiency was achieved in the production of maize, potatoes, onions, poultry, pork and venison.

The establishment of the import substitution industries did, to some extent, contribute to reducing the total imports of the country. Incentives provided to these enterprises took the form of fiscal concessions, tariffs and quotas, with the result that quite a few of them emerged as strong producers who now export to regional markets. Producing for the domestic market has in many instances provided a stepping stone to building production and export capabilities in terms of quality and competitiveness, thus facilitating access to regional and international markets.

The establishment of the Export Processing Zone Act marked the beginning of a new era of export-oriented industrialisation and greater trade development, through attractive incentives provided to manufacturers catering exclusively to the foreign markets. The incentives are mainly in the form of fiscal concessions, credit and import duty exemptions. Exports from the EPZ sector grew rapidly in the mid-1980s so that, in 1986, the EPZ sector even displaced the sugar sector in terms of gross export value. The sugar sector, however, continues to reign as a higher net foreign exchange earner, given that the EPZ relies heavily on imported raw materials, and intermediary and investment goods. The EPZ sector was primarily responsible for having virtually wiped out unemployment in the country in the late 1980s. By December 1997, it comprised 480 enterprises with an employment of more than 83 000 persons, and registered a total export performance of Rs 23 billion (Table 5).

Trade Liberalisation

Trade liberalisation is advocated for various reasons, particularly in the context of the globalisation process of the post-GATT era. It will remove inefficiencies in resource allocation and reduce waste; compel creativity, the development of new products, technologies, and information sources; and develop capabilities to cope with external shocks and be more export-oriented. Above all, it provides opportunities for expansion through capacity utilisation, and fosters linkages.

With the increasing momentum of trade liberalisation, it is only reasonable that the long-term trade policy now focuses on the integration of the EPZ and the non-EPZ (that is, the domestic manufacturing enterprises), the production of higher-value-added goods, and the consolidation, modernisation and expansion of the industrial base, as provided under the Industrial Expansion Act (IEA) of 1993. The IEA provides for the establishment of the Pioneer Status Enterprise, the Strategic Local Enterprise and the Modernisation and Expansion Enterprise to help in the industrial diversification strategy designed to promote such sectors as Electronics, Information Technology and Software Development, Printing and Publishing, Plastics and Light Engineering.

A number of measures have gradually been introduced as from 1984:

- All quantitative restrictions were dismantled during 1984-85, and price controls were gradually eliminated on all items except certain essentials; and in 1991, import licensing was lifted on a vast majority of products, except those related to health, sanitary or security aspects.

- With the enactment of the Sugar Efficiency Act, export duty was removed to allow for the modernisation and ownership restructuring of the sugar industry, which would bring about greater efficiency and output.
- The credit policy, which was employed to allocate preferential financing to priority sectors, that is, export industries, was liberalised.
- Customs tariffs consolidation of the three-column tariff structure, consisting of General, Preferential and Fiscal duties, was brought down to one column, with the result that the number of tariff rates was reduced from 60 to 8 and duties were lowered substantially. The import levy was also abolished.
- Licensing is selectively enforced in order to protect self-sufficiency objectives in the domestic market.
- Public tendering procedures were centralised with the setting up of the Central Tender Board. This meant that national firms no longer benefited from preferential treatment in public procurement contracts (except where authorised by foreign development agencies), thus increasing competition among suppliers.

Regional Trade Arrangements

There is a clear indication that trade energises the development process, and the benefits from trade arrangements can be substantial. Trade arrangements essentially seek to provide a firm foundation for greater trade cooperation. Trade development aims at developing, diversifying and increasing trade among member countries and improving their competitiveness in the domestic, regional, intraregional and international markets. Trade arrangements based on the principles of free market access and nondiscrimination, as provided under the SADC Trade Protocol as well, could lead to increased trade flows.

Greater consideration is given to trade development and regional integration as a means for accelerating the growth of regional economies. Facilitating the integration of our respective economies into the world economy has to be a gradual and smooth process, and undertaken in harmony with established priorities - given the precarious state of our narrow-based economies.

The Mauritius trade policy is one that emphasises increasing regional cooperation. Mauritius is a partner to a number of trade agreements, both bilateral and regional, and its association with these regional groupings has certainly paved the way to enhanced growth prospects.

Lomé Convention - Mauritius acceded to the Lomé Convention in 1975 which, undoubtedly, has been one of the most important steps forward in the unprecedented growth of the economy on at least two counts: 80% of sugar production is exported at a guaranteed price, and manufactured products have preferential (duty-/quota-free) access to the EU market, which presently absorbs 75% of the total EPZ exports. Besides this, Mauritius benefits from derogation for canned tuna exports as well as reduced restrictions on certain agricultural products (molasses, fruit and vegetables).

COMESA - Mauritius, as a member of the now defunct Preferential Trade Area, retained its membership of the Common Market for Eastern and Southern Africa (COMESA) which came into force in December 1994. COMESA is a regional group comprising 20 countries in eastern and southern Africa. Under the COMESA Treaty, member states have undertaken to phase out all customs duties and equivalent charges on imports from member countries by the year 2000 and establish a common external tariff by 2004. A target was set for member countries to apply a 70% reduction (from the 1984 base rate) by October 1994. Mauritius has, as a matter of fact, been applying this rate from November 1994. Systematic trade promotion activities in terms of market research, and opening offices and appointing representatives in a number of countries, have started to bear fruit. Mauritius has gradually been able to penetrate and make significant progress in exporting to the COMESA market: exports exceeded Rs 1 billion in 1995 compared with Rs 11 million in 1986.

SADC - In 1995, Mauritius joined the Southern African Development Community (SADC), which groups 14 southern African countries. One of the most important instruments for trade development in the region is the SADC Trade Protocol, which provides for greater trade cooperation through the elimination of tariff and nontariff barriers with a view to fostering regional economic integration. The Trade Protocol, while providing for trade facilitation, aims at removing all barriers to trade within a period of eight years. The Trade Protocol has so far been ratified by only three member states, while tariff-reduction impact studies are under way in member countries. The modalities for the implementation of the SADC Trade Protocol are evolving quite slowly although discussions continue with respect to the methods of tariff reduction.

Mauritius participates actively in meetings at various levels in all areas of cooperation as provided under the SADC Treaty. With regard to the SADC Trade Protocol, Mauritius has already ratified it, and has submitted its list of sensitive products. Maintaining the momentum of growth is the key to our success. The first set of trade figures for SADC states in relation to Mauritius is shown in Table 6.

Indian Ocean Commission - One of the objectives of the Indian Ocean Commission is to encourage trade among the island states of the Indian Ocean, namely the Comoros, Mauritius, Madagascar, Reunion and the Seychelles. The Integrated Regional Programme for Development of Trade (PRIDE) project seeks to develop a strategy whereby the movement of goods, services, capital and human resources will be facilitated. The EU provides financial support to the Commission, which has its headquarters in Mauritius.

IOR-ARC - Mauritius is a founding member of the Indian Ocean Rim - Association for Regional Co-operation (IOR-ARC) of which it currently holds the chairmanship. Mauritius has also provided for the Pilot Co-ordinating Mechanism office. Members of the IOR-ARC so far are the 14 countries whose shores are washed by the Indian Ocean. Among the projects identified for cooperation are trade development through the promotion of quality and standards, investment facilitation and academic exchanges.

Bilateral Agreements - Mauritius has signed and maintains bilateral trade agreements with a number of countries: the Central African Republic, Egypt, Hungary, Madagascar, Pakistan and Zimbabwe. Discussions are under way with other countries, namely Kenya, Russia, South Africa, Tanzania and Uganda, to conclude similar agreements with a view to enhancing trade cooperation with them.

Mauritius also benefits from the Generalised Systems of Preferences (GSP) Schemes of Austria, Australia, Canada, the EU, Japan, Norway, Switzerland and the United States of America.

Cross-Border Initiative - Mention may also be made of the Cross-Border Initiative (CBI), of which Mauritius is a member. The project comprises 14 member countries in the eastern and southern African and Indian Ocean region. The initiative constitutes a framework to harmonise policies with a view to facilitating the concept of economic integration in the region through accelerated cross-border trade and investment, and developing capacities for smooth integration into the global economy. The CBI project is co-sponsored by the African Development Bank, the EU, the IMF and the World Bank.

Export Promotion

While the macro-economic adjustments were being implemented, consideration was given to provide institutional support measures for strengthening the international competitiveness of the EPZ sector. Insofar as attracting investment is concerned, the focus has been on technology, markets and technical know-how. These supportive measures, along with trade arrangements, have thus stimulated the export of manufactured products.

Institutional Set-Up - The Mauritius Export and Investment Development Authority (MEDIA) was established in 1985. It is the agency responsible for attracting foreign investment in the manufacturing sector, promoting exports and developing industrial sites. The organisation provides assistance in the identification of investment opportunities, the organisation of business meetings, the promotion of joint ventures and start-ups, and the provision of market information as well as factory and site locations. Through its various offices in selected overseas countries, it is able to help the local and foreign business community interested in investment and exports. It has established offices in southern and eastern Africa, namely in Kenya, Malawi, Tanzania, Uganda, Zimbabwe and Zambia.

MEDIA has systematically pursued and undertaken a wide variety of promotional activities overseas to promote exports through the organisation of trade fairs and buyers'/sellers' meetings, as well as by carrying out a number of market surveys with a view to diversifying the export markets for manufactured goods. It also operates a Trade Information Centre and a special Africa Desk section to provide specific market intelligence support to the African and local business community. The exchange of information and the training of personnel of other similar African organisations have also been undertaken in the recent past. The Association of Mauritian Exporters to Africa (AMETA) has also been formed by a group of exporters with a view to further developing trade and other forms of economic cooperation with their African counterparts.

Technology and Quality Enhancement Schemes - The challenge ahead, for the export sector, lies in enhancing export competitiveness. Government, in collaboration with the World Bank, introduced a 50/50 cost-sharing Technology Diffusion Scheme (TDS) with a view to upgrading the technological base, design, quality, productivity and response time of manufacturing enterprises. The Export Processing Zone Development Authority (EPZDA) provides assistance in the upgrading of the productivity and production systems of manufacturing enterprises, particularly of small and medium size, by organising group programmes and in-plant consultancy. Knowledge-sharing and taking a group approach to problems have the merit of avoiding the same mistakes. The Design and Trend Forum is a platform for increasing awareness of new developments in the field of fashion and design. The forthcoming Forum will be given a regional dimension. The Mauritius Standards Bureau, in association with other local agencies/organisations in the private sector, has been engaged in providing assistance for the installation of quality management systems as well as the training of personnel. Total quality management and certification schemes are being given a boost as a means of further enhancing competitiveness.

Other Measures - Measures to further develop trade include the following:

- The Freight Assistance Scheme provided for a 50% rebate on freight costs for selected export items, which included agricultural and electronic products.
- Enterprises producing for the domestic market were allowed corporate tax concessions on their export business: the corporate tax rate was reduced by 2% for each 10% of output exported.

- A uniform 15% corporate tax was introduced for Development Certificate and EPZ enterprises as well as a greater tax-holiday period.
- The Electronic Trade Facilitation System is being introduced with a view to speeding up the process of trade documentation clearance and improving the competitiveness of the trading sector.
- Modernisation and renovation of the port facilities, including the construction and extension of the container park have been carried out to cope with increasing trade, since about 70% of trade is containerised.

Policies for Attracting Investment

Investment policy in Mauritius is closely linked to its economic diversification programme comprising mainly the industrial and service sectors, including tourism, financial services and free port operations. Initial investments have come mainly from local resources and funds obtained from the favourable prices of the sugar boom in 1975. Considerable legislation has been enacted to promote such investments, mainly through attractive incentives.

Infrastructure - Mention has been made in a previous section about government's heavy investments in infrastructural facilities and social services, which accounted for the bulk of government borrowing both from overseas and local sources. It may also be noted that during the SAPs' implementation, it was agreed to give priority to maintenance and rehabilitation of infrastructure and to postpone or cancel major new projects. Government was advised to put up industrial premises and facilities in evidence of support to the new industrial policy objectives. Investment in agriculture, tourism and industry received greater attention and made up for 20% of the total share of investment in 1983-1985. During 1980-1986, investment in infrastructure was 40% of total capital outlays.

Industrial Strategy - Alongside the economic reform being carried out, was the pursuance of the industrial strategy launched in the mid-1960s. In fact, government adopted a two-pronged industrial strategy designed to promote import-substitution industries to cater mainly to the domestic market, and to produce manufactured goods for exports. Two important laws were enacted to provide investment incentives to an expanded manufacturing sector that was in the making.

In 1964 the Development Certificate Incentives Act was promulgated. It provided for the setting up of import substitution industries which would benefit from protective import duties, exempted/rebated import duties on materials and equipment, and various fiscal incentives including income tax exemptions on profits and dividends. Besides these legal measures, subsidised credit through concessionary loans given by the Development Bank of Mauritius Limited (DBM) was also available. The state protected the local market in favour of the import-substitution industries, and kept control on consumer prices while ensuring a “reasonable” profitability to these enterprises.

The enactment of the Export Processing Zones Act in 1970 was a milestone in Mauritius’s industrialisation strategy. The limited scope of the import-substitution industries with the small size of the domestic market and other socio-economic factors, prompted government into establishing the EPZ.

Incentives - Determined to attract greater investments in all sectors of the economy, government systematically explored and launched the frameworks for all possible schemes and incentives, both fiscal and financial, for the agricultural, manufacturing and services sectors. They have largely been responsible for attracting local and foreign investments. It must also be pointed out that government has entered into Double Taxation Avoidance (DTA) treaties with a number of countries - out of 25 treaties signed 18 have been ratified - and signed the Investment Promotion and Protection Agreements. Provisions are made in legislation for investor protection, thus providing safeguards for Mauritius as a credible and safe haven for investments. Changes in the tax structure, including the lowering of the corporate tax level to 35% from 55%, and from 65% to 30% - including a reduction in the tax bands - in the personal income tax level, helped in mobilising savings for investment. Other recent changes included scheduled “manufacturing” industries, which now pay the same reduced rate of 15% corporate tax - thus providing for a level playing field.

Incentives in the agricultural sector were mainly directed towards the agricultural diversification programme, designed essentially to expand the non-sugar production sector both for the growing local market and for exports. All major investments made in this sector came from the sugar milling estates.

Manufacturing for Exports - The EPZ enterprises would provide foreign exchange and employment; and more importantly, they would enjoy preferential access to the European and the North American markets by virtue of the Lomé Convention and the GSP arrangement. While acknowledging the constraints of being far away from developed markets and the lack of know-how, experience, knowledge about markets and marketing skills, government offered investors in the EPZ sector fiscal and other incentives, subsidised rates on electricity and other utilities, access to preferential allocation of credit facilities, favourable transport costs and institutional support facilities. The EPZ sector expanded very rapidly, with impressive growth in terms of the number of units, employment and exports. The EPZ sector was able to attract sizeable investments both from local and foreign sources. The high sugar prices and profits in the sugar industry of the mid-1970s provided funds to local investors to invest in the EPZ alongside foreigners. The sugar industry companies contributed towards equity capital and made up for 43% of local equity capital in the EPZ.

Services Sector - During the early part of the 1980s, the number of tourists visiting decreased due to unfavourable international conditions. Measures taken to redress the situation included improving access to the island by air, strengthening promotional efforts in Europe, and expanding the hotel capacity. Later, government also introduced the Hotel Management Services Act to provide for the establishment of local, specialised management firms to promote professionalism and quality standards in the tourism sector.

Within the context of its strategy to further diversify and consolidate the economy to ensure sustained economic growth, government has introduced appropriate legislation to promote the international services sector through the setting up of the Stock Exchange of Mauritius, the Mauritius Offshore Business Activities Authority and the Mauritius Freeport Authority. Today, the country has a fast-developing offshore sector with over 6 000 entities on register, and an emergent class of professionals specialising in international business. Offshore activities range from aviation services to investment holdings, fund management, international trading, shipping and leasing insurance. Various fiscal and tax deductions are also allowed to promote savings and investments.

Investment Promotions - Investment promotion activities in the manufacturing sector have been undertaken by MEDIA. This government agency was established in 1985, specifically to carry out the functions of investment, export promotion and the provision of industrial sites. MEDIA carries out regular outward investment promotion missions and has established overseas offices in selected countries, including Africa, by appointing local representatives. A number of inward investment missions composed of potential investors having established export markets in Europe or Africa have also been organised. MEDIA, along with the DBM, provides industrial premises and sites with developed infrastructure. The Industrial Buildings Incentives Act has also given a boost to the creation of industrial space by the private sector. Moreover, MEDIA and the DBM have jointly established the Informatics Park with a view to promoting the Information Technology, Electronics and the Software Development subsectors.

Investment promotion missions are increasingly undertaken for the principal sectors of the economy, very often organised at high level in targeted markets, with the participation of the different institutions responsible for investments in their respective sectors.

If Mauritius has considerably increased its export of manufactured goods by taking full advantage of the EEC preferential arrangements on the one hand, on the other it has made good use of its relatively cheap, educated and versatile labour, its infrastructure and its entrepreneurial community. The momentum of EPZ activity slowed down considerably in the 1976-1980 period, which was followed by a decline in the volume of investment. The growth again resumed but then started declining once more. A review of industrial policy and its associated incentive framework is imperative for restoring the international competitiveness of Mauritian exports and for stimulating direct foreign investments.

Foreign Direct Investments - In the earlier years, foreign capital came to the EPZ sector by way of the textile and garment industry but it was never dominant. Foreign investors looked for lucrative business locations, which Mauritius could offer, together with its attractive package of incentives and abundant and versatile, cheap labour. In fact, very soon after the first few foreign companies had set up and Mauritian companies had acquired the necessary exposure to the new sector, local capital was soon mobilised and moved into the EPZ sector. Such capital now makes up for nearly 65% of total investment.

The EPZ sector was able to attract a sizeable amount of foreign direct investment (FDI), that is, Rs 1,2 billion. This represented a little more than half of the total FDI for the 1990-1997 period (Table 7), which came mainly from southeast Asia, India, and European countries. These investors are concentrated in the textile and garments industries. A marked decline in FDI in the EPZ sector over the past couple of years has been registered, however. This could be explained by the stiff competition for investments, arising from the emergence of new low-cost-producing countries which are direct competitors - especially in the field of textiles and clothing. UNCTAD's World Investment Report estimated that, in 1996, Mauritius benefited from Rs 458 million in inward investment, and an outflow of Rs 282 million. Stocks of investments were evaluated at Rs 5,8 billion inwards and Rs 2,1 billion outwards. As a percentage of Gross Fixed Capital Formation, inward investments stood at 1,9% in 1995 and outward investments at 0,4%. As a percentage of GDP, inward FDIs were recorded at 6,3% and outward investments at 2,4%. Compared with the figures for the NICs, in particular, Mauritius shows it is not able to attract enough FDIs for its industrial sector.

The Tourism sector, the third pillar of the economy, is recognised for its high potential for growth. Incentives to develop the sector have been tailored on the same lines as those for the EPZ. Investment in the sector was initially indigenous, with the government providing capital support to the tune of 50% to the private sector through equity participation. Foreign private investment accounts for 45% of hotel ownership.

Not only is Mauritius a member of the Multilateral Investment Guarantee Agreement (MIGA), the repatriation of invested capital, profits and dividends is also allowed without restriction. Procedures for such repatriation have been simplified and approval is obtained fairly easily as long as all applications bear the "approved status" in case of paid-up capital. Moreover, the stamp duty on capital appreciation, which was progressively reduced in the early 1990s, has been abolished since 1994.

The repeal of the Exchange Control Act in July 1994 lifted all remaining restrictions on capital movements, and dealings in foreign exchange are increasingly liberalised. For example since July 1997, the Sugar Syndicate, responsible for the marketing of sugar, is now authorised to manage its foreign exchange earned from sugar exports. Thus, it becomes another important player in the foreign exchange market.

Institutional and Legal Support - Besides the creation of MEDIA, other support institutions have also been established under appropriate legislation to implement government policies in the fields of agriculture, industrial development and services. Such support organisations include the Export Processing Zone Development Authority (EPZDA), the Mauritius Standards Bureau (MSB), the Mauritius Freeport Authority (MFA), the Mauritius Offshore Business Activities Authority (MOBAA), and the Mauritius Tourist Promotion Authority (MTPA).

A number of non-banking institutions have also been set up to promote investments. The State Investment Corporation Limited (SIC) manages the investment portfolio of government in the private sector and offers a wide range of services, including financing enterprises and joint venture arrangements, both with local and foreign partners. The Mauritius Leasing Company and the Mauritius Venture Capital Fund, as private sector initiatives, are other important players in the financial restructuring and investment in local enterprises.

It should be noted that the authorisation of the Prime Minister is required, as provided under the Non-Citizen (Property Restrictions) Act of 1975, prior to investment by the foreign investor. Recent amendments have been made to allow non-citizens and non-resident Mauritian nationals to acquire shares of companies listed on the Stock Exchange of Mauritius.

Investment Proposals - Applications for investment are considered by the different agencies and processed expediently. All applications for manufacturing enterprises seeking their establishment under the Industrial Expansion Act 1993 are processed by the Ministry of Industry and Commerce. The One-Stop Shop of this Ministry assists in obtaining the necessary clearances and permits prior to start-up. Local consultancy firms provide back-up and support for feasibility studies, and follow up on projects on behalf of foreign and local investors. Streamlining of procedures to facilitate investments and reviewing of the incentive package are given greater attention by the authorities with a view to promoting higher investment as well as attracting foreign direct investment, which is on a downward trend.

Concluding Remarks (Lessons and Challenges)

Globalisation and Regional Cooperation

Globalisation is a reality today; there is no escape from it and it needs to be reckoned with in all viable development plans. Globalisation has also blurred the demarcation between domestic and international markets with the dismantling of the protective tariff and nontariff barriers.

There is a growing and irreversible trend towards globalisation, explained by the increasing integration of the productive process through greater use of outsourcing, licensing, and subcontracting. Moreover, the breakdown of institutional barriers to international trade, followed by technological advances in information dissemination and telecommunication systems, is also contributing towards this process. International competitiveness will be a determining factor in successfully integrating into the globalised economy.

Regional cooperation, far from being just a buzzword, in concrete terms means promoting long-term, collective, self-reliant, self-sustained and integrated economic development, and greater regional self-sufficiency. It also makes a compelling demand for an evaluation of existing facilities, and the identifying of potential and complementarities in all relevant sectors of our respective economies with a view to judicious utilisation of scarce resources. More importantly, it will help build regional capabilities and preparedness to better meet the challenges of globalisation.

The policy for regional economic integration can also be perceived as a viable option and as a framework for industrialisation. Modern industry is large-scale and needs a certain minimum scale of operation for maximum efficiency. The national markets of most African countries, including that of Mauritius, are too small for large-scale industries. Resorting to regional economic integration would go a long way towards alleviating this difficulty as it provides greater opportunities for expansion through capacity utilisation, increased investments and joint ventures.

Government policy on fostering greater economic cooperation and integration stems from the need to optimise on the use of available resources and expertise. Trade with southern Africa is relatively low. Given the high potential of regional economic growth, greater partnership needs to be developed to make use of newer markets. The SADC Trade Protocol is a powerful instrument towards achieving this goal. Indeed, this key document is the door to a more meaningful and greater regional economic integration through sharing and complementarity. With the relatively free movement of people on account of their specialist skills, an increasing number of local professionals would be strengthening the intraregional or interregional ties, either by opening offices or by making joint ventures and alliances for the development of their services and the exchange of goods.

On the issue of intraregional trade: it should be recognised that there are a number of bottlenecks to its development. These range from inadequate trade support services to government policies and internal weaknesses of the local enterprises themselves. The “export or perish” attitude may be inculcated to encourage exports and augment marketing aggressiveness. Local enterprises catering mainly for the domestic market also need to be provided with adequate support measures to help them integrate and develop their export capabilities.

Public and Private Sector Partnership

The new paradigm for sustained development lies in fostering a partnership culture among all stakeholders, built on consensus and greater involvement. While ensuring the role of a facilitator and catalyst in providing general direction and policy guidelines, government also engineers consensus on national issues by approaching problems on a tripartite basis and drawing on the expertise and experience of the people concerned. The economic operators, through their respective association or representative, would very often find themselves around the same table.

Regular meetings and continuous dialogue take place between the public and private sector and the civil society. The Joint Economic Council is the coordinating body for various economic sectoral organisations/groupings, such as the Mauritius Chamber of Commerce and Industry, the Mauritius Chamber of Agriculture and the Mauritius Employers' Federation. Other associations, such as the Association of Hotels and Restaurant Operators, the Mauritius Bankers' Association, the Insurance Association and the Mauritius Export Processing Zone Association, also interact with their counterparts in the government.

The private sector also participates in government's major overseas trade and investment missions. Other private associations, such as the Mauritius Export Processing Zone Association, organise the annual National Quality Awards with a view to sensitising and promoting a culture of quality among the various sectors of the economy.

The state's role has not been restricted to policy formulation for the creation of attractive investment environment, but has also been vital in promoting regional cooperation and business expansion. The Minister of Economic Development and Regional Co-operation presides over the Regional Co-operation Council - a consultative Committee comprising all stakeholders - which meets regularly to examine relevant issues pertaining to regional cooperation. Currently the dossier relating to an offer by the Republic of Mozambique to Mauritius for the setting up of the Special Economic Zone (SEZ) in the Beira region of Mozambique is under study by government and the private sector.

Government Policies

Any programme of economic reform for sustained economic growth should also aim at restoring confidence, recovering private investment and supporting public expenditure in infrastructure development. Investment in social service infrastructure is equally vital. This would result in a number of positive spill-overs on both the demand and the supply side. Mauritius owes much of its economic success to the continued efforts made in sustaining the momentum in infrastructure-building, maintaining the necessary social cohesion and, above all, availing itself of the preferential market access under the Lomé Convention.

Keeping in mind country-specific situations, different levels of development and other external factors, experience shows that lessons about government policies point to -

- the designing of sound macro-economic policies with sustainable fiscal deficits; and
- creating a more conducive and business-friendly environment for private sector development.

Government should refrain from engaging itself in the production of goods and services. It should rather concentrate its efforts on providing the necessary basic services, granting positive support to the market, and expanding physical and social infrastructure. Its role is to maintain political stability, social cohesion and an environment that inspires confidence to investors. Finally, through the cooperation and involvement of all stakeholders, it would be possible to ensure an adjustment programme with a human face that could go a long way towards achieving economic stability.

Competitiveness

Trade liberalisation creates a new paradigm for the domestic manufacturing sector. The weakening of some of the growth-chain links (that is, erosion of certain advantages) also needs to be addressed. Tariff reduction arising out of the trade arrangements and increasing regional integration will call upon local enterprises to sharpen their competitive edge. It is imperative for those domestic enterprises in the region to recognise the challenges of liberalisation. Government support policies to these enterprises should aim at enhancing their capabilities and competitiveness by upgrading technology and skills, improving quality and productivity and diversifying into more value-added products.

It is also beyond doubt that trade liberalisation and globalisation, along with the various agreements arising out of the new WTO provisions, will blur Mauritius's competitive edge, particularly with the gradual erosion of certain advantages. Some major agreements like the one on Textiles and Clothing and on Agriculture will impact directly on either the volume or the value of exports. The dismantling of the MFA will place Mauritius and its competitors on the same footing on the EU market. Hence, measures to enhance the competitiveness of our industries must be seriously envisaged to fully avail ourselves of the opportunities of the post-GATT arrangement.

The financial turmoil in Asia brings in its wake the depreciation of currencies, unemployment and stockpiles of goods for exports at much cheaper prices, which will not only increase international competition but will also exacerbate the problems of Mauritius's export sector. Attaining the level of a good performer is not enough; and maintaining it is more difficult. The issue of enhancing competitiveness is vitally important and presents one of the greatest challenges for the country. No doubt it is so for other southern African countries engaged in exports as well.

African Optimism

After a long period of economic stagnation, "optimism" about Africa is growing as economic progress becomes a reality with a GDP growth rate of 3,5% for sub-Sahara African countries (Table 8). On the whole, African countries have not fared well in maintaining their share of the market. The need is greater than ever to create linkages and foster regional economic integration to avail ourselves of the vast opportunities unleashed by the process of liberalisation. The most serious threat facing Africa is the increase in competition for foreign resources. The opening up of a number of economies and policy changes in countries like India and China, together with large-scale attractions of investment in Asian NICs, have severely limited the pool of investible funds.

However, with the increasing economic reforms taking place in Africa and emerging improved conditions of political and economic stability, the creation of reasonably well-developed physical and institutional infrastructures, and the availability of high levels of human capacity, the enabling business environment is being fostered overall. A lower population growth rate and a revival of the GDP growth rate, together with greater international concern (such as the Africa Growth and Opportunity initiative of the United States) would, undoubtedly, put Africa on the path of its economic take-off.

Table 1: Sectoral Contribution to GDP, 1976-1996 (%)
Source: Central Statistical Office

	Agriculture	Manufacturing *	Tourism**
1976	22,5	15,2	1,8
1980	12,4	15,2	2,3
1984	14,4	18,1	2,5
1988	13,1	24,3	2,7
1992	10,8	23,5	3,4
1996	9,6	24,2	4,5

* Includes sugar milling
** Hotels and restaurants

Table 2: Gross Domestic Fixed Capital Formation (GDFCF)* by Public and Private Sector, 1976-1996 (current prices - Rs Mn)
Source: Central Statistical Office

	1976	1980	1984	1988	1992	1996
Public Sector	387	615	761	3 372	4 178	6 595
Private Sector	503	682	1 038	3 306	5 237	7 700

* Excludes expenditure on residential buildings

Table 3: Main Macro-economic Indicators (%) (Calendar Year)
Source: Central Statistical Office

Year	GDP Growth Rate (in real terms)	Inflation Rate	Deficit to GDP*
1976	16,2	13,4	9,0
1978	4,0	8,5	12,9
1980	-10,1	42,0	13,9
1982	5,8	11,4	9,4
1984	4,8	7,3	5,4
1986	8,9	1,8	1,3
1988	6,2	9,2	3,1
1990	7,3	13,5	1,9
1992	6,7	4,6	2,0
1994	5,3	7,3	3,7
1996	6,0	6,6	4,5

* Financial Year

Table 4: Terms of Trade, 1983-1997 (1982 = 100)
Source: Central Statistical Office

1983	109	1990	152
1984	108	1991	158
1985	113	1992	163
1986	147	1993	161
1987	158	1994	156
1988	155	1995	158
1989	145	1996	163
		1997	165

Table 5: Mauritius EPZ - Main Indicators (1987-1997)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996*	1997**
No of Enter-prises	531	591	563	568	586	558	536	494	481	481	480
Employment (Dec. 000's)	87,9	89,1	88,7	89,9	90,9	86,9	85,6	82,1	80,5	79,8	83,4
Exports (f.o.b., Bn Rs)	6,6	8,1	9,1	11,5	12,1	13,1	15,8	16,5	18,3	21,0	23,0
Imports (c.i.f., Bn Rs)	4,8	5,9	7,5	7,3	7,1	7,1	9,3	10,1	10,1	12,1	13,9
Net Exports (Bn Rs)	1,8	2,3	1,6	4,1	5,1	6,0	6,5	6,4	7,4	8,9	9,2
Net Exports to Exports (%)	26,9	28,0	17,2	36,0	441,8	45,5	41,1	38,8	40,6	42,0	40,0
Share in Manu-facturing (%)	51,9	53,4	51,1	51,1	50,3	50,4	51,0	50,2	49,6	49,5	50,1
Share in GDP (%)	13,1	13,5	12,7	12,5	12,2	11,8	11,9	11,7	11,7	12,0	12,2
Growth Rate (%)	+22,0	+12,0	+6,0	+7,0	+5,0	+6,0	+6,0	+4,0	+5,0	+7,0	+6,0
Investment (Mn Rs)	655	870	900	690	648	560	900	900	815	930	1 245
Partial Labour Productivity*** (1982=100)	87	91	98	105	110	117	129	140	149	160	—

* Revised
** Provisional
*** Partial labour productivity is the variation of value added per worker in constant 1982 prices

Table 6: Trade within SADC States, 1994-1996 (Mn Rs)
Source: Central Statistical Office

Country	1994		1995		1996*	
	Cif Imports	Fob Exports	Cif Imports	Fob Exports	Cif Imports	Fob Exports
Angola	-	0,3	-	-	-	-
Botswana	3,1	0,2	1,3	-	0,8	2,8
Lesotho	-	-	-	-	-	17,0
Malawi	0,09	21,8	2,3	9,2	8,1	67,8
Mozambique	-	18,7	2,1	3,4	-	0,6
Namibia	20,6	0,01	36,5	-	20,1	0,9
South Africa	4 114,3	90,1	3 825,3	116,2	4 892,5	238,8
Swaziland	58,3	3,4	61,2	1,8	66,2	0,3
Tanzania	16,4	2.6	28,0	16,3	4,1	83,7
Zambia	-	11,0	0,2	4,4	-	4,0
Zimbabwe	148,0	83,0	157,1	115,0	61,2	159,8
Total	4 361,6	231,2	4 114,0	266,7	5 053,0	575,7

* Provisional
Note: Exports refers to Total Exports excluding ships' stores and bunker.

Table 7: Foreign Direct Investments, 1990-1997 (Inflows)
Source: Bank of Mauritius (compiled information)

Sector	1990	1992	1994	1995	1996	1997
EPZ	270,2	207,3	62,1	409,4	128,8	28,9
Hotels	152,0	59,0	60,0	33,7	12,6	4,0
Offshore	103,4	16,4	34,2	-	37,3	157,0
Others	53,0	55,0	152,1	29,6	339,2	285,3
Total	578,6	337,7	308,4	472,7	517,9	475,2
% EPZ	46,7	61,4	20,1	86,7	24,9	6,1

EPZ - Export Processing Zone

Table 8: Macro-economic Indicators, 1975-1996, Sub-Saharan Africa
Annual Average in Percent
Source: World Development Report 1997

Year	GDP Growth	Ratio of Gross Domestic Investment/GDP	Ratio of Gross Domestic Savings/GDP	Inflation
1975-1980	3,8	24,0	22,9	18,9
1981-1985	1,2	12,0	19,3	20,2
1986-1993	1,5	17,1	17,3	20,4
1994-1996	3,5	17,3	9,6	20,4

Double Taxation Treaties Network
Tax Treaties as at December 1997

Ratified
- African Countries
- Botswana, Madagascar, Namibia, South Africa, Swaziland, Zimbabwe
- Asian and Middle-East Countries
- China, India, Malaysia, Pakistan, Singapore, Sri Lanka
- European Countries
- France, Germany, Italy, Luxembourg, Switzerland, Sweden, United Kingdom

Awaiting Ratification
- Mozambique, Lesotho
- Indonesia, Kuwait, Thailand
- Belgium, Russia

Treaties awaiting Signature
- Canada, Greece, Portugal, Uganda

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STRUCTURAL ADJUSTMENT PROGRAMMES: THE EXPERIENCE WITH ESAF IN AFRICA

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Since the IMF has broadened its attention in developing countries from short-term stabilisation to medium-term structural adjustment programmes, considerable experience has been gained in the design and implementation of these programmes. ESAF programmes have become the main vehicle for the IMF's support in Africa.[1] Since July 1988, some 75 three-year ESAF arrangements have been launched, of which more than 50 are in Africa alone. The amount of committed resources over this period for Africa was more than SDR[2] 5 billion, of which almost SDR 4 billion has been disbursed.

The Fund has recently reviewed the experience with SAF and ESAF programmes.[3] In addition, a group of external experts has conducted a separate evaluation of certain aspects of the ESAF, notably related to external viability, the impact of adjustment on the poor, and the ownership of programmes.[4] These reviews provide a rich source of information on how structural adjustment programmes have performed, in Africa and elsewhere, and they have generated a debate on what needs to be done to improve their design and implementation.

My contribution today will focus on three themes. First, I will discuss the main design features of structural adjustment programmes. Second, I will paint with a broad brush the record of performance under ESAF programmes in Africa in achieving macro-economic stability, external viability, and sustained economic growth. Third, I will make some remarks on the lessons that can be drawn from the experience with structural adjustment programmes and what is required for Africa's participation in the global economy.

The Design of Structural Adjustment Programmes

Although it is well known that preventive treatment is better and cheaper than curative medicine, the reality has been that many countries are only looking for IMF support when they are faced with an economic and financial crisis, which is almost invariably characterised by unsustainable fiscal and external imbalances, foreign exchange shortages, and often by high inflation, and negative economic growth. What distinguishes most developing countries, including those in Africa, is that these crises did not erupt suddenly, but were the culmination of an inward-looking development strategy of the 1960s and 1970s, which relied on government intervention in production and distribution, protection of domestic industries, and the effective elimination of the price mechanism in important sectors of the economy, including agriculture. It was believed that government planning and regulation worked better than free markets. That development model failed miserably, because it eliminated market discipline and incentives, and became increasingly unproductive, inefficient, and costly. As a result, poverty increased, social and human development indicators worsened steadily, and the physical infrastructure deteriorated sharply.

What structural adjustment programmes have tried to do in the 1980s and 1990s is to dismantle this model, and put in place a structure that emphasises the proper functioning of markets, reduces the pervasive role of government in production and distribution, and promotes the role of the private sector in development.

The initial conditions under which countries sought IMF assistance varied, of course, from country to country, but there is quite a commonality in the diagnosis of the troubles. Table 1 illustrates this point. It compares ESAF countries and non-ESAF developing countries with respect to a number of economic and social indicators. It tells a story of negative per capita income growth, low savings, double-digit inflation, large fiscal deficits, unrealistic exchange rates, a heavy external debt, high infant mortality, short life expectancy, and a high rate of illiteracy. It also tells an interesting story about the major changes that have taken place between the first half of the 1980s and the first half of the 1990s. I will return to this issue when discussing the record of performance.

From this summary diagnosis, it is not too hard to imagine what needed to be done to address these ills, although the political economy of change has not been easy to manage. Deep-seated problems cannot be changed overnight, there are winners and losers when the rules of the game change, and political resistance constrains the pace of reforms. In undoing a large part of the heritage of the past, structural adjustment programmes have tried to address the macro-economic stabilisation part through fiscal, monetary, and exchange rate policies, which work largely on the demand side of the economy. They have addressed the structural part, which works on the supply side of the economy, by measures to improve the productivity of labour and capital and the functioning of markets. Both parts need to work together to raise savings and investment, which in turn are essential for achieving sustainable growth and external viability. Designing a programme is more of an art than a science, although the macro-economics of it can rely on a fairly robust empirical basis. On the structural side, the process is fuzzier, but experience, common sense, and examples of "best practices" help in figuring out what works and what does not work.

The priority in macro-economic stabilisation was invariably to bring inflation under control by reducing fiscal deficits and controlling domestic credit expansion. Part of the structural reforms, but also an indispensable tool of macro-economic stabilisation, was the elimination of controls on prices, including those on exchange rates, interest rates, and agricultural producer prices, so that the scarcities in the market could be properly reflected. Structural reforms per se in most programmes concentrated on trade liberalisation, the elimination of marketing boards, reform of loss-making public enterprises, privatisation of parastatals, the restructuring of the banking sector, civil service reform, tax reform, and improving the quality of public investment and expenditure programmes. In sum, they focus on creating an efficient economy, with the potential for higher productivity and growth.

The Performance of ESAF Programmes in Africa

Structural adjustment programmes have accomplished a great deal in Africa. The continent has witnessed a fundamental reorientation of economic policies: markets and prices have been liberalised to a great extent; the role of government has been redefined; public enterprises have lost their dominance in many countries or are reducing their dead-weight losses on the economy; and the crucial role of the private sector in the development of the economy has been recognised. The macro-economic indicators confirm this turnaround (see Tables 2-5): fiscal deficits have been greatly reduced, inflation has come down, and per capita income growth has turned positive. The economic recovery appears to have taken hold, foremost as a result of improved economic policies in the 1990s. The external environment has generally not been favourable for developing countries, who have experienced a steady deterioration in their terms of trade. However, the economic recovery remains fragile and less than satisfactory progress has been made in achieving external viability. Notably, domestic savings have hardly improved and private investment has remained lacklustre. The question has been raised whether Africa can sustain its economic recovery.[5]

The experience with structural adjustment programmes has not been smooth, and outcomes have varied greatly across countries. One aspect in the review of ESAF programmes to which I would like to draw particular attention is the very frequent interruptions of programmes. In 28 of the 36 ESAF programme countries that were reviewed, programmes were interrupted 51 times because of failing commitments, political upheavals, policy reversals, and serious policy slippages. The importance of this phenomenon goes beyond the narrow confines of programme implementation, because these interruptions often signal a lack of consistency and credibility in policies, thereby affecting investors' confidence. They also raise questions about ownership, the pace of adjustment, and the role of conditionality.

On the structural front, firm progress has been made in the liberalisation of domestic markets and prices, external trade, and the exchange system.[6] Progress has been less impressive in many countries in public enterprise reform, bank restructuring, and civil service reform. The divestiture of public enterprises has been largely confined to small and medium-sized enterprises, while the largest enterprises have remained in government hands. Most of these, notably the public utilities, have continued to perform badly, which has had a major impact on the deterioration of the physical infrastructure. A recent study concludes that despite a fairly large number of privatisation transactions in African countries, their economic and financial impact has been limited.[7] Also, the banking system, with - in many countries - a substantial government stake, has remained weak, and unviable lending to public enterprises has led to a mounting share of nonperforming assets in their portfolios. Despite very costly bank restructuring operations in many countries, the banking sector continues to exhibit persistent operational and financial weaknesses, and its inefficient intermediation impairs private sector development. Vulnerable and unstable banking systems can severely disrupt macro-economic performance, as has been brought out by the recent crisis in Asia. Establishing a sound legal, regulatory, and supervisory framework is essential for banking soundness.[8] The record on civil service reform has not been good, and the efficiency of public administration leaves much to be desired. While fiscal consolidation efforts have succeeded in lowering the government wage bill in some countries, notably in the CFA zone, this has been accomplished by reducing real wages in the civil service and compressing wage scales, instead of retrenching excess civil service employment.[9]

Programme Design and Monitoring Lessons

The lessons to be learned from structural adjustment programmes should not only be placed in the narrow context of why things sometimes did go wrong, but more importantly of where Africa is heading relative to the rest of the world. Is Africa ready to participate in the globalisation process, and what needs to be done to accelerate the adjustment process? It has been noted before that Africa's economic recovery is still very recent and very fragile. The region has not benefited from the rapid expansion in world trade and direct foreign investment, notwithstanding the encouraging liberalisation of its trade and exchange regimes, including under the Cross-Border Initiative. Since the ideological and political barriers to the free flow of trade and investment have largely disappeared with the end of the Cold War, competition for foreign savings is more and more determined by rates of return, perceptions of economic stability, and confidence in the rule of law and the enforcement of contracts and property rights. Competition in the global economy implies that a country's performance is not so much measured against its own record of progress, but against conditions prevailing elsewhere, which raises the standards for everybody. This also means that a further strengthening of the adjustment efforts is unavoidable in order to effectively compete in the world economy. In this context, the issue of ownership has emerged prominently. The lack of ownership of programmes has been advanced by some as one of the principal reasons why structural adjustment programmes have gone so often off track. It is indeed imperative that policy-makers make them their own and do not present these programmes as something imposed from the outside. Let me conclude with the following thought: ownership of adjustment programmes comes at a price, and the transfer of property rights can only be fully consummated if they are implemented with conviction.

Notes

1. Concessional financial support for medium-term adjustment programmes became available in 1986 under the Structural Adjustment Facility (SAF) and in 1988 under the Enhanced Structural Adjustment Facility (ESAF). Since the establishment of the ESAF, the Extended Fund Facility (EFF), a nonconcessional medium-term facility, has only been used in sub-Saharan Africa in a few cases.
2. Special Drawing Rights
3. A summary of these reviews is contained in “The ESAF at Ten Years” (IMF. 1997. IMF Occasional Paper, No. 156. Washington: IMF) and “Fiscal Reforms in Low-Income Countries” (IMF. 1998. IMF Occasional Paper, No. 160. Washington: IMF).
4. Report of the Group of Independent Persons Appointed to Conduct an Evaluation of Certain Aspects of the Enhanced Structural Adjustment Facility, January 1998 (to be published).
5. See Fischer, S., E. Hernández-Catá & M. Khan. 1998. “Africa: Is this the Turning Point?”, IMF Paper on Policy Analysis and Assessment, No. 98/6. Washington: IMF.
6. As a measure of this liberalisation, today 36 African countries have accepted the obligations of Article VIII of the Fund’s Articles of Agreement, compared with only four countries at the end of the 1980s. Article VIII prohibits members from imposing restrictions on the making of payments and transfers for current international transactions, or from engaging in multiple currency practices or discriminatory currency arrangements.
7. White, O.C. & A. Bhatia. Forthcoming. Privatisation in Africa. World Bank.
8. See IMF. 1998. “Toward a Framework for Financial Stability”, World Economic and Financial Surveys. Washington: IMF.
9. See Lienert, I. & J. Modi. 1997. “A Decade of Civil Service Reform in Sub-Saharan Africa”, IMF Working Paper No. 97/179, Washington: IMF.

Table 1: Economic and social indicators in ESAF* and other developing countries (in % per year, unless otherwise indicated)
Source: IMF. 1997. "The ESAF at Ten Years", IMF Occasional Paper 156. Washington: IMF.

	ESAF Countries		Non-ESAF Developing Countries	
	1981-85	1991-95	1981-85	1991-95
Real per capita GDP growth	-1,1	0,0	0,3	1,0
Inflation (end-of-period)				
Mean	94,4	44,9	23,5	139,9
Median	11,7	11,6	9,1	10,3
Gross national savings (in % of GDP)	8,0	9,9	18,6	17,4
Budget balance (incl. grants) (in % of GDP)	-9,1	-5,6	-6,8	-4,8
Export volume growth	1,7	7,9	4,4	5,7
Debt-service ratio (actual) (in % of exports of goods and nonfactor services)	27,9	25,7	18,8	15,7
External debt (face value, in % of GNP)	81,9	154,2	55,7	75,6
Gross reserves (in months of imports)	2,0	3,5	4,7	5,6
Premium in parallel market exchange rate				
Mean	230,5	18,3	49,0	201,2
Median	28,6	8,2	53,2	211,0
Population growth	2,8	2,5	2,4	2,2
Life expectancy (years at birth)	51,5	55,0	59,7	63,6
Infant mortality (per thousand live births)	111,9	87,5	71,8	52,7
Illiteracy (in % of population age 15 or above)	54,8	47,3	32,2	23,0

* The ESAF countries in the table refer to Albania, Bangladesh, Benin, Bolivia, Burkina Faso, Burundi, Cambodia, Côte d'Ivoire, Equatorial Guinea, Ghana, Guinea, Guyana, Honduras, Kenya, Kyrgyz Republic, Lao People's Democratic Republic, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mongolia, Mozambique, Nepal, Nicaragua, Niger, Pakistan, Senegal, Sierra Leone, Sri Lanka, Tanzania, The Gambia, Togo, Uganda, Vietnam, and Zimbabwe.

Table 2: Africa - Selected Economic Indicators 1981-97
(annual averages)
Source: IMF, African Department Database, December 1997

	1981-85	1986-90	1991-95	1996	1997
(percentage change)					
Real GDP growth	2,0	2,8	1,8	5,2	3,4
Real per capita GDP growth	-1,0	-0,6	-1,5	1,9	0,7
Inflation	15,2	17,0	32,3	23,8	14,1
(in % of GDP)					
Fixed capital formation	24,0	20,3	19,2	19,3	19,6
Of which: Private investment	11,3	10,3	11,9	11,3	11,4
Domestic savings	21,4	18,9	18,1	18,9	18,6
Overall fiscal balance (incl. grants)	-4,9	-5,2	-5,7	-3,7	-2,9
Overall fiscal balance (excl. grants)	-5,4	-6,1	-6,6	-4,5	-3,6
Broad money growth	16,8	19,7	30,1	25,4	15,3
Curr. account balance (incl. grants)	-3,9	-2,4	-2,9	-1,9	-2,0
Curr. account balance (excl. grants)	-4,6	-3,9	-4,4	-2,9	-2,9
External public debt	31,5	52,7	61,2	57,0	54,0

Table 3: Sub-Saharan Africa - Selected Economic Indicators 1981-97
(annual averages)
Source: IMF, African Department Database, December 1997

	1981-85	1986-90	1991-95	1996	1997
(percentage change)					
Real GDP growth	1,2	3,1	2,0	4,5	3,6
Real per capita GDP growth	-1,6	-0,4	-1,4	1,3	0,7
Inflation	17,8	20,5	31,9	31,9	18,1
(in % of GDP)					
Fixed capital formation	22,0	17,9	17,4	17,8	17,9
Of which: Private investment	12,4	11,8	12,5	11,7	11,7
Domestic savings	19,0	18,2	16,5	17,4	17,0
Overall fiscal balance (incl. grants)	-6,0	-5,9	-6,4	-4,0	-3,5
Overall fiscal balance (excl. grants)	-6,7	-7,2	-7,6	-5,0	-4,5
Broad money growth	16,6	23,5	36,9	32,5	17,5
Curr. account balance (incl. grants)	-4,1	-2,7	-3,2	-2,5	-2,3
Curr. account balance (excl. grants)	-5,1	-4,4	-5,1	-3,8	-3,5
External public debt	28,0	52,1	60,0	55,8	52,7

Table 4: Sub-Saharan Africa excluding South Africa and Nigeria
Selected Economic Indicators 1981-97 (annual averages)
Source: IMF, African Department Database, December 1997

	1981-85	1986-90	1991-95	1996	1997
(percentage change)					
Real GDP growth	2,1	3,0	2,2	5,8	4,3
Real per capita GDP growth	-1,0	-0,4	-1,5	2,3	1,4
Inflation	19,0	22,6	47,6	41,9	20,2
(in % of GDP)					
Fixed capital formation	15,1	16,6	17,1	18,8	18,9
Of which: Private investment	7,2	9,3	10,8	12,2	12,3
Domestic savings	12,8	12,5	11,4	14,2	14,9
Overall fiscal balance (incl. grants)	-5,4	-7,1	-7,3	-4,8	-3,8
Overall fiscal balance (excl. grants)	-6,9	-9,4	-9,9	-6,9	-5,9
Broad money growth	20,8	25,8	47,5	42,5	17,6
Curr. account balance (incl. grants)	-5,1	-6,0	-6,5	-6,2	-5,0
Curr. account balance (excl. grants)	-7,2	-9,2	-10,7	-9,3	-7,9
External public debt	49,4	75,1	109,4	113,5	106,8

Table 5: CFA Countries - Selected Economic Indicators 1981-97
(annual averages)
Source: IMF, African Department Database, December 1997

	1981-85	1986-90	1991-95	1996	1997
(percentage change)					
Real GDP growth	4,4	0,8	0,9	5,1	4,3
Real per capita GDP growth	0,6	-2,1	-1,9	1,8	1,6
Inflation	9,0	1,3	7,7	5,2	3,5
(in % of GDP)					
Fixed capital formation	21,9	17,8	16,0	19,5	19,2
Of which: Private investment	11,9	11,0	11,3	14,7	14,0
Domestic savings	22,1	14,6	15,4	18,5	22,3
Overall fiscal balance (incl. grants)	-3,1	-6,8	-6,1	-1,3	-0,9
Overall fiscal balance (excl. grants)	-4,3	-8,6	-8,2	-3,4	-2,7
Broad money growth	13,1	-0,9	7,9	8,6	6,7
Curr. account balance (incl. grants)	-5,1	-7,9	-5,8	-6,8	-3,1
Curr. account balance (excl. grants)	-7,9	-10,6	-8,2	-8,6	-4,4
External public debt	52,3	64,3	96,4	107,7	105,3

LABOUR MARKET REFORM IN THE CONTEXT OF REGIONAL INTEGRATION

Mr Morgan Tsvangirai
Secretary-General, SATUCC [1]

Introduction

In this era of adjustment, deregulation and flexibility have become the buzzwords. Substantial labour market reforms have been instituted, especially in those countries undergoing structural adjustment programmes. The necessity for labour market reforms is hardly disputed. Such reforms are essential to achieve greater efficiency, equity and effectiveness in resource use and distribution. The motive behind these reforms is to improve the functioning of the labour market. It is, however, the content of labour market reforms that has been contentious. Divergent opinions on the contents of labour market reforms arise from different interpretations of what constitutes a well-functioning labour market.

The Orthodox/Neo-Liberal Version of Labour Market Reforms

Real Wage, Employment and Functional Flexibility

The content of labour market reform is largely influenced by one's understanding of what constitutes a "well-functioning" labour market. Within the orthodox paradigm, the labour market is viewed like any other commodity market. In this case, the demand for labour (employment) is dependent on the price of labour (the wage rate). In this context, the focus of labour market reform is on "getting the price of labour right". Consequently, flexibility of the labour market is narrowly conceived in terms of the extent to which quantities (employment) respond to changes in prices (the wage rate). This form of labour market flexibility is often referred to as numerical flexibility.

In this framework, the flexibility of wages plays a central role in achieving an employment response. Beyond wage flexibility, this form of labour market reform demands that regulatory constraints (such as minimum wages, security of employment regulations and other perceived distortions to the labour market induced by either government intervention or unions) be removed so that an employment response can occur (employment flexibility). Where these "distortions" exist, they are blamed for the failure of employment to respond to changes in wages.

It is this view that has informed labour market reforms under structural adjustment programmes sponsored by the IMF and World Bank. In this context, the fall in real wages should be cause for celebration because it will place more people into jobs. Thus, the World Bank (1989:29) described the collapse in real wages in sub-Saharan Africa as -

> ... a brutal but necessary adjustment to reflect labour underemployment caused by a growing labour force that has outstripped job creation and the need to become internationally competitive …

Paul Collier,[2] an orthodox scholar, summarised real wage developments in Zimbabwe from this perspective. According to his assessment (1995:5), -

> ... certainly, inflation has been faster during the liberalisation than prior to it, and so it is reasonable to conclude that the liberalisation has contributed to the decline in real unskilled wages. Note that this is not a decline in the equilibrium real wage, but rather an acceleration in what was already a gradual adjustment to the equilibrium. Such an adjustment raises employment. The transfer from wages to profits may also raise savings …

On the lack of employment response following the decline in real wages, the IMF bemoans the slow progress made in dismantling labour market regulations, contending (1993:39) that -

> ... the persistence of high unemployment in a large number of countries remains a visible indication of the lack of progress in increasing the flexibility of labour markets …

The second form of flexibility often associated with adjustment is functional flexibility. Functional flexibility refers to the internal labour market of the firm. It involves the flexibility of working practices and job structures, among other things. Under threat from competing imports arising as a result of trade liberalisation, local firms are under pressure to restructure their internal labour markets so as to survive. In order to improve the quality of their products, companies have been forced to introduce new technologies. The introduction of these technologies has meant that new forms of work organisation have to be adopted. Even in those firms where the high cost of both domestic and imported capital arising from high domestic interest rates and exchange rate depreciation, respectively, has made it difficult to introduce new technologies, the economic hardships have necessitated some form of adjustment. A forthcoming study by the Zimbabwe Congress of Trade Unions, the Employers' Confederation of Zimbabwe and the International Labour Organisation's Southern African Multi-disciplinary Team found that most companies have adjusted to competition through downsizing their workforce (the lean-mean approach). Most countries in the region, notably South Africa, are going through similar processes. Work has to be reorganised amongst the retained employees.

A Critique of Orthodox Labour Market Reforms

Countries undergoing structural adjustment have deregulated their labour markets to facilitate both real wage and employment flexibility. Employment security regulations have been eroded, and the dispute- and grievance-settling machineries have been streamlined to ensure that industrial disputes are dealt with as quickly as possible. In the main, real wage flexibility was achieved. Table 1 below summarises the trend in real average earnings in Zimbabwe for the period before and during the implementation of economic reforms.

Table 1 shows that in virtually all sectors, real average consumption earnings have declined substantially over time. In virtually all sectors, real wages increased and reached a peak in 1982; that level was not achieved again as real wages declined. For the economy as a whole, real wages declined from an index of 122 in 1982 to an index of 63 by 1996. Thus, real wage rigidity, which is often blamed for unemployment, did not exist in the case of Zimbabwe.

Table 1: Trends in Average Real Annual Consumption Earnings, 1980-95 (Indices)[3]
Source: Calculated from Quarterly Digest of Statistics (various issues)

Sector	1980	1982	1984	1986	1988	1990	1992	1994	1996
Agriculture	100	164	143	137	130	130	70	75	86
Mining	100	130	113	116	113	116	97	90	78
Manufacturing	100	117	101	103	101	103	83	74	65
Electricity	100	110	90	93	96	94	79	85	162
Construction	100	120	107	98	85	78	57	46	49
Finance	100	103	85	87	89	93	89	78	85
Distribution	100	115	92	94	88	85	70	58	57
Transport	100	108	79	82	80	90	66	61	52
Publ. Admin.	100	89	66	63	62	61	41	35	32
Education	100	59	69	73	77	82	64	49	37
Health	100	102	79	85	81	90	68	56	50
Domestic	100	115	82	100	92	82	48	31	21
Other Services	100	107	85	81	76	80	62	55	52
Total	100	122	100	102	101	103	78	67	63

In fact, as shown in Table 2 below, income was redistributed in favour of owners of capital, which in orthodox theory is expected to result in higher levels of investment and employment creation. Clearly, the share of wages and salaries in gross domestic income declined from a high of 64% in 1987 to 40% by 1996. On the other hand, the share of profits increased markedly, overtaking that for wages and salaries in 1993. The share for rent remained static during the period under review. Thus, as suggested in Tables 1 and 2, workers were disadvantaged by the implementation of ESAPs. Orthodox theory is not worried about this trend, arguing that the loss in real incomes will be more than compensated for through greater employment creation.

Table 2: Functional Distribution of Gross Domestic Income, 1985-96 (%)
Source: Calculated from Quarterly Digest of Statistics (various issues)

	1985	1987	1989	1990	1991	1992	1993	1994	1995	1996
Wages, salaries	56	64	57	56	51	51	47	43	43	40
Rent	2	2	3	2	2	3	2	2	2	2
Profit	45	37	43	44	49	48	53	58	56	60
Bank charges	-3	-3	-2	-2	-2	-2	-2	-3	-2	-2
GDI	100	100	100	100	100	100	100	100	100	100

According to orthodox theory, the combined effect of real exchange rate depreciation and trade liberalisation is to promote the expansion of labour-intensive production relative to import-intensive production, and such changes should favour the employment of unskilled labour. As the price of labour (the real product wage) falls, this is expected to encourage a favourable quantity (employment) response. In addition, the rising cost of capital relative to labour, resulting from both high interest rates and real exchange rate depreciation, should encourage the promotion of labour-intensive production. In this regard again, orthodox theory expresses no concern about falling real wages, as these are expected to be more than compensated for through rising employment.

Table 3 shows the trends in employment growth rates following the adoption of economic reforms in Zimbabwe in 1991. In line with theoretical predictions, the rate of growth in employment in the tradable goods sector accelerated from an annual average of -0,7% during the pre-reform period 1981-90, to an average rate of growth of 1,3% during the reform period 1991-96. However, the rate of growth in employment changed by only 2 percentage points if one compares 1981-90 with 1991-96. At subsectoral level, while the rate of growth of employment accelerated during the period of ESAP compared to that prior to reforms, that in the manufacturing sector decelerated from an annual average growth rate of 2,1% during 1981-90 to -0,9% during 1991-96. This raises serious concern, especially considering that the manufacturing sector was expected to benefit most from the removal of market “distortions”. In the nontradable goods sector, at both aggregate and subsectoral levels, the rate of growth of employment appears, on average, to have decelerated following the period of reforms.

When other sectors that do not respond to market signals are included, total employment decelerated from an average growth rate of 2,7% during 1981-90 to 1,4% during 1991-1996.

As Toye (1995:vii) observed, “... if a pervasive impact of adjustment policies is a reduction in the real wage, then, unless labour-intensive employment expands strongly, income distribution is likely to worsen …”. Thus, with close to 300 000

Table 3: Trends in Rates of Growth in Employment
before and during Economic Reforms, 1985-96
Source: Calculated from Quarterly Digest of Statistics (various issues)

Sector	1981-1984	1985-1990	1991-1996
Tradables of which	-2,9	1,5	1,3
Agriculture	-4,5	1,2	2,3
Mining	-4,6	-0,9	2,6
Manufacturing	1,2	2,9	-0,9
Nontradables of which	3,0	4,0	1,5
Electricity	2,2	3,0	5,9
Construction	2,1	9,2	0,6
Finance	5,9	2,0	2,9
Distribution	3,4	3,1	0,6
Transport and communications	2,4	1,0	-0,8
Other sectors			
Public administration	7,1	0,8	-3,8
Education	-2,4	4,4	1,0
Health	6,0	3,9	0,7
Domestic	0,7	0,7	0,0
Other services	-2,9	5,0	3,4
Total	3,0	2,4	0,7

school-leavers joining the labour market each year, and the economy creating on average only 16 375 new jobs between 1981 and 1991, unemployment is set to rise, notwithstanding the liberalisation of markets.[4]

There has also been a marked tendency towards "casualisation" and informalisation of employment (see ILO, 1993; World Bank, 1995a & ZCTU, 1996). This tendency has been pronounced in large-scale private agriculture. Whereas permanent workers represented 71% of agricultural employees in 1985, the level declined to 60% by 1990 and 45% by 1996. Increasingly, job security has been eroded with "casualisation" of employment.

Considering that wages have other important roles, such as being a reward for labour services, an instrument for allocating human resources across sectors, regions and occupations, and an inducement for greater effort and productivity, falling real wages may have adverse, unintended effects. Falling real wages, and especially in government, have often triggered adverse adjustments that negate efficiency, thus hindering the recovery process. Such adverse reactions include moonlighting, declining morale, shirking, absenteeism, high labour turnover and outright corruption.[5] The often-quoted case in this respect is the extreme example from Uganda, where civil servants are reported as having spent only a third or half their normal working time on government duty. The Public Salaries Review Commission (1982, Uganda, quoted in Lindauer et al., 1988:21 & Schiller, 1990:85) established that -

> ... the civil servant had to survive either by lowering his standard of ethics, performance and dutifulness, or remain upright and perish. He chose to survive …

In this regard, Singer (1992:34) contends that -

> ... it does not follow that squeezing wages is the best way of getting labour out of non-tradables and low productivity sectors ... exploitation wages must themselves be treated as a labour market "distortion" …

A recent study of labour markets and adjustment by the World Bank (Horton et al., 1991:5) came to a similar conclusion, observing that -

> ... beyond a certain point the macroeconomic consequences of real wage declines may lead to an additional cost of adjustment that relies too heavily on labour markets …

In the case of Zimbabwe, where about 80% of manufactured products are for the local market, falling real incomes imply declining demand, which depresses product markets.

The projected employment response did not occur, effectively adding to the social costs of adjustment. This lack of employment response is not unique to Zimbabwe, as it has been found elsewhere where such programmes have been applied (see Turnham, 1993). Take a very interesting example from Botswana, which has followed a development strategy very close to that espoused in orthodox approaches: the high levels of economic growth experienced have not translated into high levels of employment growth. As the then Minister of Finance (now President), Festus Mogae (quoted in SAPEM, Vol. 6, No. 12, 1993:13), conceded -

> ... we still have a long way to go on the path to development. There are still too many Batswana without adequate incomes and our economy is relatively undiversified and vulnerable to extreme fluctuations due to climatic conditions and swings in international markets for our mineral and non-traditional exports …

In addition, the expected switch from capital intensity to labour intensity may not occur due to the fact that firms had already adjusted to the absolute shortage of foreign exchange in Zimbabwe by employing an "optimal" workforce. Any further shifts towards labour intensity would adversely affect the quality of products (see

Muzulu, 1993). In any event, promoting the extensive use of unskilled labour is no longer suitable in a world economy where competition is increasingly skill-driven (Lall, 1990; Carnoy et al., 1993). Thus, sustained growth is increasingly associated with the building of technological capabilities, the provision of incentives - especially for research and development, and the establishment of requisite institutions.[6] Within the current division of labour, the location of production is influenced much more by the existing level of technological capacity, and in particular the level of human resource development. In this context, "... labour tends to be seen as much as an innovatory resource whose potential has to be maximised than as a factor whose cost should be minimised …" (Kaplinsky & Posthuma, 1993:1).

Labour Market Reform and Regional Integration

Regional integration is certainly enhanced when economies within the region pursue similar development strategies. In the case of SADC, development strategies at the national level are divergent, with some countries pursuing more independent and pragmatic approaches (South Africa) and the majority either pursuing structural adjustment programmes at the behest of the IMF and World Bank (Zimbabwe, Mozambique, Tanzania, Zambia, Malawi) or orthodox approaches (Botswana, Swaziland, Lesotho). The pursuit of labour market flexibility in most countries in SADC has resulted in a "race to the bottom". Labour standards have been undermined, creating an adversarial industrial relations environment in individual countries. This "race to the bottom" is best illustrated by the introduction of EPZs in the region, with countries competing to offer more attractive incentives. Tanzania, Namibia and Zimbabwe are already implementing such zones while Zambia, Botswana and Mozambique are considering their introduction.

The use of labour-related incentives such as the nonapplication of the Labour Relations Act in Zimbabwe, or the prohibition of the right to strike and lock-outs for five years in Namibia, is a clear violation of trade union rights. Ironically, it is at a time when the challenges of globalisation, and the demands for the observance of labour and environmental standards face them, that individual SADC member states are opting for the cheap wage route. The Mauritius Employers' Federation conceded in its 1997 Annual Report (1997:35) that -

> ... the EPZ is now at cross roads - face to face with an increasingly fierce international environment, it should necessarily review and revamp its strategy and pattern of production. Fortunately a number of enterprises have already made the right move with intensive investment in high technology and an enhanced emphasis on quality and productivity …

Mauritius has made a conscious effort to shift towards high-value-added and high-skill products such as electronics. The realisation that she cannot survive on her own has driven Mauritius to join SADC. This position contrasts sharply with the race to establish EPZs in other SADC countries. It has been feared that the race to create EPZs in the SADC region could deepen division and competition between member states. As Dot Keet[7] (quoted in the Zimbabwe Independent, 26/7/96) rightly observes, "... the creation of EPZs could exacerbate such tensions by fostering narrow nationalist approaches and competitive relations between members of SADC …".

The collapse of real incomes, especially in countries that are implementing structural adjustment programmes (e.g. Zimbabwe and Zambia) has led to substantial levels of labour migration to neighbouring countries, especially into South Africa. This has resulted in the development of protectionist tendencies in the host economies, which does not foster regional integration. For the liberalisation of labour in the region to be sustainable, a gradualist approach to labour mobility is called for. The pace of liberalising regional labour mobility should be dictated by the level of development in the countries of emigration. This will also depend on the extent to which the countries of emigration successfully adopt active labour market policies to deal with unemployment.

Essentially, the goal of regional integration will be enhanced if SADC member states follow the example of Mauritius and South Africa in adopting the high-wage, high-skill (intelligent-production) route as opposed to the current pursuit of the low-wage, low-skill approach. The two routes are contrasted below:

Table 4: The High-Wage, High-Skill and Low-Wage, Low-Skill Routes Contrasted
Source: "The Workplace Challenge". In: NEDLAC. 1997. A Report of the National Economic Development and Labour Council, South Africa, page 31.

High-wage, high-skill (intelligent-production route)	Low-wage, low-skill (lean-mean route)
1. Focuses on a multifactor definition of productivity, including management, capital and labour productivity	1. Focuses on reducing the number of people employed
2. Emphasis on inclusive, participative management, transparency and information disclosure	2. Hierarchical and authoritarian management structure - high ratio of supervisors to workers
3. Emphasis on workers' contribution to the productivity process and tries to access their skills and knowledge to the benefit of the company	3. Lack of worker empowerment - workers' intellectual contribution to production process not acknowledged or used
4. Emphasises training and development and career-pathing to ensure that workers are empowered and productive	4. Low skills and limited training, lack of career paths for workers and rigid job descriptions
5. Use of incentive schemes and gain-sharing so that workers have a stake in ensuring productivity improvements occur	5. Limited benefits and wages and long working hours

The Adoption of Minimum Labour Standards: The Case of the SADC Social Charter on Fundamental Rights

Reflecting on the paradoxical nature of the term flexibility, Standing (1986:6) observed that -

> ... a very flexible system is potentially a very unstable system, since it is highly sensitive to external or internal shocks that may be short-lived or random. But to be flexible is to be responsive to pressures and incentives and to be able to adapt to them ...

In this regard, it is important to ensure that social concerns are equally considered. Thus, labour market flexibility should not be ideologically driven. To meet the various competing objectives, which may be contradictory, labour market flexibility should be negotiated. Regulated flexibility therefore offers a better chance of adjusting to changing circumstances as well as ensuring that minimum labour standards are maintained (see Standing & Tokman, 1991).

In the case of SADC, a Social Charter has been accepted and will be finalised at the Tripartite Employment and Labour Sector Conference in 1999. Through this Charter, the region seeks to harmonise labour standards and ensure minimum internationally-accepted standards prevail. It may be necessary at this stage to recall that the Employment and Labour Sector of SADC, which is the only tripartite sector in SADC, has as its main objectives to -

- ensure that the sector retains the tripartite structure of the three social partners, namely government, employer and worker organisations;
- promote the formulation and harmonisation of legal, economic and social policies and programmes in member states which contribute to the generation of productive employment opportunities and incomes;
- promote labour policies, practices and measures in member states which facilitate labour mobility and remove distortions in labour markets, as well as enhance industrial harmony and increase productivity;
- provide a framework for regional cooperation in the collection and dissemination of labour market information;
- promote the establishment and harmonisation of social security schemes;
- harmonise regulations relating to health and safety standards at workplaces across the region; and
- promote the development of institutional capacity as well as vocational and technical skills in the region.

To achieve these objectives, the Employment and Labour Sector formulated a regional Social Charter wherein governments, employers and workers in the region recognise the universality and indivisibility of basic human rights as stipulated in the United Nations Universal Declaration of Human Rights, the African Charter of Human Rights and International Labour Standards. These basic rights are spelt out as follows:

- freedom of association and collective bargaining;
- freedom of movement;
- ratification of core ILO Conventions and Recommendations;
- equal treatment for men and women;
- protection of children and adolescents;
- provision of protection for elderly persons, disabled persons and social protection for all workers;
- improvement of working and living conditions;
- protection of health, safety and environment;
- democratisation of the workplace, provision of information, and consultation and participation of workers;
- encouraging the adoption of a freely-chosen occupation and an equitable (living) wage; and
- enhancement of workers' education, training and skills development, including paid study leave.

The implementation of the charter is a tripartite responsibility involving the national tripartite institutions and existing regional structures. The implementation of these issues is being done through the annual Employment and Labour Sector Conferences. Interestingly, therefore, the emphasis of the regional labour market approach is on democratising decision-making such that all social partners are involved. Creating a new culture of consensus-building is not easy, as the slow pace and delaying tactics that have been experienced at the Employment and Labour Sector Conferences suggest. Take, for instance, the issue of the Social Charter: it has been on the agenda since 1992. However, there is no going back on these issues. The provision of a minimum floor of labour standards is becoming international practice and is the only sustainable way to go.

An Example of Negotiated Labour Market Reforms from Ongoing Tripartite Discussions in Zimbabwe

It is increasingly accepted that ESAP failed largely because it narrowly focused on the formal sector and did not bring benefits to the majority of the people. According to the World Bank (1995c:18)[8], -

> ... unless the programme is seen to be generating benefits for everybody in Zimbabwe, it might not be possible to follow through with and maintain the

> momentum of many of the recent policy changes. This will require dealing more effectively with poverty and with the social dimensions of adjustment …

The failure of ESAP to redress the inequalities inherent in the Zimbabwean economy means the majority of the people cannot take advantage of the opportunities offered. This constitutes a major impediment to the success of reforms. “Trickle down”, often argued to be the route through which the majority will benefit from reforms, has not occurred in a manner that raises the welfare of Zimbabweans (see ZCTU, 1996, Chapter 1).

Interestingly, a recent World Bank “performance audit” of ESAP (1995c:11) concedes that -

> ... the concerns, however, go beyond the issues of pace and design: the comprehensiveness of the program seems a fundamental issue, especially given the objective of reducing poverty. Given the highly dualistic nature of Zimbabwe’s economy (where the white majority dominates formal sector economic activity and owns two-thirds of high potential land, and the black majority is concentrated in rural, communal areas and the urban informal sector), it would appear that some basic questions were not explicitly addressed at the outset. First, would ESAP, predicted on the formal sector acting as an engine of growth, create sufficient jobs, quickly enough, to address the serious problems of employment? ... Even realisation of the most optimistic scenarios for formal sector growth will not provide a quick solution to the unemployment problem …

As the ZCTU (1996) rightly observed, by focusing exclusively on the formal sector as the engine of growth, ESAP neglected the sectors with greatest potential for employment creation: the informal, small- and medium-sized enterprises. It is estimated that the cost of creating a formal sector job is around Z$100 000, while that of creating a job in the small- and medium-scale enterprises (SMEs) is only Z$10 000. In addition, these sectors, apart from being labour-intensive, make small demands on high-cost imported inputs.

Worldwide, it is now accepted that growth alone, while necessary, is not a sufficient condition for sustainable job creation. The focus is on promoting deliberate policies geared towards employment creation, the so-called active labour market policies. A standing committee on active labour market policies in Zimbabwe identified the way forward as follows:

Organisation of Labour Market Policy Activities

- Setting out goals, roles and responsibilities at national, regional and local levels;
- Putting in place systems for management and monitoring of labour market policies and programmes;

- Establishing models for tripartite cooperation between government, employers' organisations and trade unions;
- Finding methods for cost-effective administration; and
- Adopting methods for the recruitment, training and development of staff.

Targeted Labour-market Programmes to Support Groups With High Unemployment

There is a need to focus on the kinds of programmes that correspond to the specific demands of the labour market in Zimbabwe, for instance:

- Specific programmes to facilitate the job placement of new young entrants to the labour market;
- Measures to support the situation of women on the labour market;
- Methods to counteract long-term unemployment;
- Methods to provide training aimed at strengthening individuals and satisfying enterprise demands; and
- Activities to stimulate the creation of new small businesses.

Upgrading of Computerised Labour-market Information Systems

This entails the creation of effective methods to produce high-quality labour market information as a solid basis for the following:

- Job-matching operations;
- Formulation of labour market strategies;
- Activity planning;
- Statistical labour market analysis;
- Forecasting; and
- Monitoring/evaluation of labour market programmes.

Creation of Employment Service Agencies

This project seeks to support one or two Employment Service Centres in their development of cost-effective organisation and working methods, also serving as good examples for the development of the Employment Service Centres themselves.

The focus will be on job-matching operations and on providing active labour market programmes.

Notes

1. Southern Africa Trade Union Coordinating Council
2. The fall in real wages is acceptable to the World Bank because earlier studies (1981:92-93) had diagnosed that "African wages are high compared with those of Asia ... Higher African wages reflect ... government policy, which in many countries sets industrial wages

above the level they would otherwise be. African labour productivity also tends to compare unfavourably with many other parts of the world ...".

3. Earnings data include wages and salaries and all obligations of employers with respect to employment.
4. The rate of unemployment is currently estimated at around 44% (ZCTU, 1996).
5. The Public Service Review Commission of 1989 found that these reactions already exist in the public service in Zimbabwe (see Kanyenze, 1993).
6. These involve human skills - entrepreneurial, managerial and technical - required to operate industries efficiently (Lall, 1990).
7. Dot Keet is a senior researcher at the Centre for Southern African Studies at the University of the Western Cape, South Africa.
8. Already, government has announced that laws pertaining to retrenchment will soon be further tightened and that public sector employment may have to be, contrary to ESAP prescriptions raised, and calls for protecting local firms are rising.

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CHALLENGES AND PROSPECTS FOR REGIONAL INTEGRATION STRATEGIES IN SOUTHERN AFRICA

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Regional Integration: A Condition for Development

In southern Africa, as in other parts of Africa and the world, cooperation aimed at regional integration has become an indispensable stage in the development process of developing countries. This is because successful regional economic integration can help the countries concerned to attain economies of scale, rationalise production structures, encourage specialisation in production on the basis of comparative advantages, create a wider economic space, enhance industrial efficiency and reduce transport costs. As a result, a number of regional organisations have been established throughout the world to spearhead the process of regional integration.

However, both in Africa and other regions, the process of regional integration is faced with numerous challenges and difficulties, not only at the conceptual and design stages, but, more specifically, in the subsequent efforts to implement the objectives expressed in the respective arrangements.

Integration in Africa

At the conceptual and design stages, there is usually the debate on approaches. In Africa, there were two schools of thought for the implementation of integration strategies. These were -

- the pan-African, all-embracing approach, which envisaged the immediate creation of a continental economic arrangement; and
- the geographically narrower approach that would focus on integration at the subregional levels first, building on existing subregional cooperation arrangements. In the context of that approach, integration for Africa as a whole would be tackled during a second phase, once subregional integration was achieved.

After a protracted debate, it was the geographically narrower, subregional approach that was adopted.

Principles of SADC Integration

For southern Africa, the basic issue is on what principles and terms integration will happen. Closer economic cooperation and integration have become no longer merely desirable, but imperative for growth, development and, indeed, survival. While it is realised that different approaches to regional integration are possible, the SADC member states believe that economic integration in southern Africa should follow the development integration approach, with the emphasis on promoting investment, production and market integration. This implies that the creation of a larger economic space with freer movement of capital, goods and labour must be accompanied by efforts to strengthen the production base in member states.

SADC, in many respects, is fortunate to be able to draw on the solid foundation created by SADCC. Infrastructure development projects undertaken by SADCC have contributed to a large extent to overcoming a number of significant constraints to regional development. In addition, member states have learnt to effectively work together in such areas as transport and communications, agricultural research, food security and energy. These long years of working together have helped to forge a strong sense of regional identity and common belonging, which, to a large extent, has made southern Africa a unique region of peace and stability. Now the quest for democracy and popular participation in the management of public affairs is entrenched and spreading fast and wide. The countries of southern Africa have adopted a framework of cooperation based on -

- deeper economic cooperation and integration, on the basis of balance, equity and mutual benefit, providing for enhanced investment and trade, and freer movement of factors of production, goods and services across national borders;
- common economic, political, social values and systems, enhancing enterprise and competitiveness, democracy and good governance, respect for the rule of law and the guarantee of human rights, popular participation and the alleviation of poverty; and
- regional solidarity, peace and security, in order for the people of the region to live and work together in peace and harmony.

In view of the above, there is, therefore, a critical need to develop among all the countries and peoples of southern Africa, a vision of a shared future within a regional community. While it is true that regional integration has a potentially important contribution to make to growth and development, it is equally true that many African integration schemes in the past were conspicuous failures. There is a need, therefore, to draw useful lessons from the earlier experiences to avoid repeating the same mistakes. At present, the most critical factor in the economics of integration within SADC is that tangible benefits accrue to all participating countries. This is the real challenge for SADC, especially in view of the SADC Treaty calling for economic cooperation and integration to be based on the principles of equity, balance and mutual benefit.

It is well known that SADC member states are quite diverse in terms of their size, population, GDP per capita, resource endowment and level of development. It is, therefore, not possible at the early stages of integration that all member states derive the same benefits. Some countries, by virtue of their level of economic development and capacity to supply goods and services will, no doubt, derive more benefits in the context of regional integration than others. But this does not mean that the situation will be static over the years if a pragmatic approach to integration is adopted.

Approaches to Regional Integration

There are basically three main approaches to regional integration. The first and most common is the market integration approach. It envisages trade liberalisation between the member countries in the form of a Preferential Trade Area, Free Trade Area, Customs Union, Common Market, Economic Union or Community or, eventually, a Political Union (each arrangement representing a higher level of integration than the one mentioned before).

The second approach has been described as integration through project cooperation. This often explicitly avoids trade liberalisation, arguing that the theory of trade or market integration was appropriate for developed countries. Asserting that priority among developing countries should be given to promoting projects to enhance production and infrastructure, this approach encourages cooperation through regional development projects, as a step or catalyst to regional integration. This does not necessarily imply indifference to trade issues. It is often accompanied by efforts to increase trade among cooperating parties, but tends to favour a bilateral approach, seeing this as potentially more appropriate for accommodating country-specific issues than a region-wide multilateral approach.

The third approach, development integration, can be seen as an elaboration of the project integration approach. It sets out from the premise that incompatibilities arising from underdeveloped production structures and trade patterns make it impossible to promote integration through laissez faire policies. Conscious efforts by the member states to define the scope and sectors of cooperation and identify strategies and mechanisms to overcome existing disequilibria are seen as essential to overcome impediments to integration. Accordingly, this approach stresses the need for close political cooperation at an early stage of the integration process, in contrast to the market integration approach, under which this only emerges at a rather late stage.

The development integration approach also stresses the need for equity and mutual benefit. It argues that trade liberalisation should be complemented by compensatory and corrective measures, orientated particularly towards the least-developed member countries. It also sees a need for market integration to be predicated on coordinated regional industrial development and a regional fund to support development in the least-developed members. Provision is made for some coordination of macro policies at an early stage, particularly in relation to incentives for investment.

SADC, as indicated earlier, adopted the development integration approach, which provides for the formulation of coordinated sectoral policies and plans and an active trade and market integration component aimed at creating a unified regional market. It is appropriate to its specific needs and allows groups of countries within SADC to move faster than others in different fields of activities. The SADC approach is pragmatic and calls for active participation of all member states in the formulation and execution of the regional programme of cooperation. SADC operates under a decentralised system in which each member state is responsible for the coordination of SADC activities of at least one sector. The debate now is how to rationalise the SADC programme of action to ensure that it is supportive of the regional integration process.

The case for economic integration rests on the gains to be derived from mobilising investment and expanding intraregional trade within the region. Gains would accrue from substantial cost savings resulting from rationalising and coordinating investments in the region's physical infrastructure in such sectors as transport and communications, mining, energy, water resources and environmental management, and education and health facilities. However, there is a need to have a coherent approach for formulating sector strategies, priorities and policies in SADC.

ADB Study on Economic Integration in Southern Africa

The African Development Bank's study on economic integration in southern Africa advances a number of arguments relevant for formulating policies and strategies for economic integration with a view to avoid the further marginalisation of developing countries, especially in the context of globalisation.

First, it argues that with respect to sectoral project cooperation, implementation can proceed almost immediately and on a multi-speed approach. This is what SADCC did from 1980 to 1992, before it was transformed into SADC.

Second, in any form of economic integration, priority must be accorded to investment in production, to expand productive capacity in all sectors and to build the necessary infrastructures. This approach is followed by SADC and represents a significant departure from past attempts at African economic integration which have placed undue emphasis on trade liberalisation.

Third, for any integration scheme to be successful, sustainable macro-economic convergence should be pursued by member states with the objective of harmonising fiscal and monetary policies, reducing inflation rates and ensuring market-determined exchange rates.

Fourth, a conducive, enabling environment needs to be created for the private sector to play its full role and take responsibility in the regional integration process.

Finally, the strategy chosen must incorporate the concept of variable geometry, allowing for multi-speed implementation of agreed decisions. Nevertheless, steps must be taken to assist the slow-moving countries to catch up with the fast-moving ones.

The integration strategies followed by SADC are very much in line with the ADB line of thinking. Significant progress has already been achieved, as a result of which the world attention to southern Africa - especially by international private sector investors - has been increasing considerably.

Performance of SADC Economies

Since 1995, the economic performance of the SADC economies has improved quite significantly. In 1996, the average growth rate of all SADC economies was quite impressive - only three countries (South Africa, Swaziland and Tanzania) recorded growth rates of less than 5%. Six countries (Botswana, Mauritius, Mozambique, Namibia, Zambia and Zimbabwe) achieved growth rates between 5% and 8%, and three countries (Angola, Lesotho and Malawi) extraordinary rates of around 12%. The overall SADC growth rate for 1997 was about 4,6% compared to 3% in 1994; 3,7% in 1995 and 4,1% in 1996. However, since this overall growth rate will not be enough to make a dent in poverty, SADC's objective is to reach a still higher sustainable growth rate by the turn of this century. It is for this reason that SADC countries have embarked upon implementing reforms aimed at improving the overall economic situation of the region.

Implementing tighter monetary and fiscal policies in the SADC region bears fruit, as reflected in the 1997 annual inflation rate and the government budget deficits, as percentages of GDP. In 1997, only one country (Angola) recorded an annual inflation rate above 25%. Even for Angola, prudent macro-economic policies have brought down inflation levels, from a hyperinflation of 1 650% at the end of December 1996 to 64% at the end of December 1997. Only three SADC countries (Zimbabwe, Zambia and Tanzania) recorded inflation above 10%. The other SADC economies recorded one-digit annual inflation rates.

The decline in inflation rates mirrors efforts to improve economic management, in particular the commitment to transforming SADC economies to face the challenge of globalisation. Declining levels of SADC government budget deficits bear testimony to this commitment.

Foreign exchange reserves increased in most of SADC's member states. Import cover varied from as high as 37 months' cover to as low as 2,4 weeks', reflecting the disparities among the SADC member states' economies.

Improved macro-economic management, in conjunction with the opening up of markets, has created new opportunities for traders and investors. SADC has a population of 190 million people and a combined GDP of over US$ 160 billion. Intra-

SADC trade, as a percentage of total SADC trade, is estimated above 20%, quite a high figure for any regional grouping. It is for this reason that SADC is expected to spearhead the so-called African renaissance.

Trade Development and Regional Integration in SADC

Sustained investment and development will depend on SADC industries' ability to compete within the domestic, regional and international markets. SADC's integration strategy must accept globalisation as a fact, documented by the growth of world trade, unification of capital markets and the revolution in information, communications and other technology. Greater market openness at the regional level, through a SADC FTA, creates opportunities for expanding production, improving productivity and enhancing competitiveness in regional trade. This, in turn, opens new employment opportunities in the nontradable and service sectors, with multiplier effects on employment and consumption.

However, SADC represents a group of countries whose size is highly disparate and their economic development is at very different stages. The population of five member states (Botswana, Lesotho, Mauritius, Namibia and Swaziland) is below 2 million; four countries (Angola, Malawi, Zambia and Zimbabwe) have populations of between 9 and 11 million; and the largest three have 17 million (Mozambique), 30 million (Tanzania) and 41 million (South Africa) inhabitants, respectively.

There exists a similarly wide discrepancy in member states' GNP per capita: five countries have per capita GNPs of over US$ 1 000 (Botswana, Mauritius, Namibia, South Africa and Swaziland), three of which with GNP/capita higher than US$ 3 000 (Botswana, Mauritius and South Africa), while GNP/capita of the remaining seven is below US$ 800, and, in the case of three, (Malawi, Mozambique and Tanzania) even below US$ 170. It needs to be stressed that the last-mentioned three countries' population together is 55,6 million, equivalent to 41,2% of SADC's total population.

All these discrepancies represent root causes for pronounced differences between member states' industrial development, their value-added export potential, their quality and quantity of socio-economic infrastructure as determinants of their international competitiveness and, finally, their respective national monetary demand market size.

These root causes of economic strength have profound bearings on the SADC countries' respective preparedness for regional trade integration, the economic gain and losses they expect from it and their concern with respect to dynamic processes which may be unleashed by trade integration working to their disfavour. A worst-case scenario of trade integration would represent a further deepening of the already existing polarisation within SADC, which would not only render integration unsustainable politically, but would also contradict the SADC Treaty which calls for “equity, balance and mutual benefit”.

In addition, SADC states are members of a multitude of overlapping trade arrangements which involve different degrees of trade liberalisation, sometimes of a non-reciprocal nature, among two or more SADC member states. These trade arrangements have already gone a long way towards effectively freeing large proportions of intra-SADC trade from tariff and nontariff barriers.

The web of trade arrangements within SADC is quite dynamic and provides for progressive trade liberalisation over time, bringing member states gradually closer to a SADC free-trade zone as trade barriers are effectively being dismantled. It is this reason why, in the SADC Trade Protocol, any new preferential trade agreements within SADC are welcomed.

However, at the same time, the trade agreements make the preferentiality of intra-SADC trade more and more dispersive in terms of product coverage, tariff structures and free-trade quota so that, from that point of view, they run counter to the multilateral SADC FTA objective of rationalising and harmonising intra-SADC trade concessions.

Another important element makes a web of bilateral agreements clearly a second-best option relative to a multilateral agreement, even if the web of bilateral agreements were to provide for the same degree of effective trade liberalisation as the multilateral arrangement. The latter ensures a much greater degree of long-term stability and legal reliability (based, e.g. on the future existence of a SADC Tribunal) and, thus, provides for essential ingredients of investors’ and traders’ confidence.

An analysis of SADC’s intra-SADC trade[2] showed that, in 1995, -

- intra-SADC imports account for just 21,3% of SADC countries’ global imports;
- some 70% of intra-SADC imports were effected within SACU and were, therefore, duty-free;
- imports within SADC by its non-SACU members amounted to a mere fraction of 2,8% of intra-SACU trade;
- intra-SADC imports by the non-SACU subgroup from the SACU subgroup accounted for 22,1% of intra-SADC trade, while the respective reverse trade flow of goods from the non-SACU subgroup to the SACU subgroup represented only 6,8% of total intra-SADC trade;
- intra-SADC imports subject to tariffs higher than 10% accounted for no more than 3,2% of SADC countries’ global imports and some 15% of member countries’ intra-SADC imports, respectively;

- In Malawi, Zambia and Mozambique, the proportion of intra-SADC imports subject to tariffs higher than 20% was clearly lowest, accounting for just 5,2%, 7,8% and 11,4%, respectively. That same proportion was highest for Mauritius, Zimbabwe and SACU with 38,2%, 37% and 24,1%, respectively.
- Tariff rates on intra-SADC trade were highest in the same three countries or country groupings (SACU, Mauritius and Zimbabwe), subjecting 8,3%, 2,4% and 0,4%, respectively, of these countries' intra-SADC trade to tariffs higher than 50%.

Conclusion

These data show that tariff liberalisation of intra-SADC trade has already gone such a long way that only minor proportions of intra-SADC trade continue to be subject to higher tariffs. It should be stressed that this is the result of a static analysis and that trade creation and trade diversion under conditions of free trade could well increase the proportions of intra-SADC trade in those commodities which, today, are subject to high tariffs. In fact, it can be argued that at present more than 70% of intra-SADC trade takes place at tariffs below 10%, and that by the end of 1999, SADC can easily achieve a partial free trade area covering some 70-80% of intra-SADC trade. The remaining 20-30% of trade can then be brought down to a zero tariff on a gradual basis through careful negotiations by member states.

Notes

1. Southern African Development Community
2. Stahl, H.-M. 1997. "'Hard-core' tariffs on intra-SADC trade and their elimination in the context of the implementation of the SADC Trade Protocol".

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Part 2

SUMMARY OF PAPERS AND DISCUSSIONS

SUMMARY OF PAPERS AND DISCUSSIONS

Robin Sherbourne
Consultant, Namibia

Opening Ceremony, 10 June 1998

Welcoming Address
Mr Arnold Wehmhörner - Resident Representative, FES Namibia

Mr Wehmhörner opened the conference by welcoming all participants. He pointed out that the FES and the IMF had arrived at a common appreciation of the importance of civil society as a prerequisite for carrying out their work effectively. For the FES it was not enough to support organisations in the nongovernment field if the political environment in which they had to live and work was not supportive of the ideals of democracy or if the economy was distorted, preventing efficient resource allocation and growth. The IMF and the World Bank had learnt that Structural Adjustment Programmes could be more effectively implemented if civil organisations, especially trade unions, were involved in the development of country assistance strategies.

The process of regionalisation in southern Africa had to be seen against a background of fear of the possible negative effects of globalisation – tougher competition, greater inequality and the threats these pose to democracy and human rights in still fragile societies. He looked forward to debating the challenges of globalisation with the IMF, one of the major players in the process of furthering globalisation.

IMF Programmes in Sub-Saharan Africa: Old and New Themes
Mr Ernesto Hernández-Catá - Deputy Director of the Africa Department, IMF

Mr Hernández-Catá of the IMF drew attention to sub-Saharan Africa’s improved economic performance since the mid-1990s, which had been brought about largely through the efforts of African countries themselves with the support of the IMF. He reiterated the long-standing principles behind IMF programmes: that macro-economic stability is essential to good economic performance and that markets provide an efficient mechanism for allocating resources. These principles, he stressed, were based on considerable experience and empirical evidence.

However, to these old themes had to be added several new ones in the light of more recent experience. These included financial sector reform and debt reduction - actually old themes which were now being revisited with greater force, as well as human capital, governance, regional integration issues, and legal infrastructure - themes which were taking the Fund into uncharted territory. The first of the new themes meant that the Fund now had to take an interest not only in the size of government expenditure but also in its structure. The second involved cutting the government's power to confer privileges selectively on the private sector, as well as ensuring public resources were not misappropriated and that budgets were transparent and complete. The third, although not a necessary precondition for successful development, was to help spur good economic policy and growth. The fourth emerged as a fundamental precondition for private sector-led growth strategies. All four themes were of particular importance for sub-Saharan Africa.

Opening Address
Rt Hon. Hage Geingob - Prime Minister, Republic of Namibia

The Prime Minister shared his thoughts on regionalisation and globalisation, expressing his belief that the salvation of Africa lay in strengthening regional blocs and promoting South-South cooperation in order to enlarge regional markets. The success of this strategy, however, depended upon countries consciously pursuing collective action as well as spontaneous linkages emerging from accelerating growth rates. He admitted that success in integration so far had been limited and problems still existed in the form of tariff barriers, bureaucratic delays, and foreign exchange controls. What was needed to overcome them was sufficient political will. Southern Africa was busy putting its house in order but regional integration had to be accelerated.

Day 1, 11 June 1998

Introduction to the Seminar
Dr Manfred Bardeleben - Director, FES New York

Dr Bardeleben described how the tremendous suspicion of the IMF by many parts of civil society had come about through a lack of transparency and an absence of constructive dialogue. This, the IMF had always argued, was due to their defined role and function but the situation had begun to change since the Berlin Annual Meeting in 1988. He stressed the importance of humanising and demystifying the IMF's image in helping country governments deal with the IMF. This could be achieved through greater contact with more stakeholders as well as more devolved authority to resident missions.

He raised the question of whether regional cooperation, on the one hand, and stabilisation programmes and SAPs, on the other, were intrinsically opposed to each other. Would a focus on global liberalisation complicate the process of regional integration as a necessary first step towards multilateral cooperation, especially in Africa? He wanted to stress that the conference was intended to be a collaborative effort to address some very serious issues rather than be a critical examination of the IMF.

Mr Bruno Mauprivez of the IMF briefly thanked the FES for organising the seminar and stressed the importance the IMF attached to listening to what others had to say about its work.

Africa, Regionalism and Globalisation
Mr Robert Sharer - Chief, Trade Policy Division, IMF

Mr Sharer started by reiterating that the objectives of structural adjustment programmes was to promote income growth and employment and thereby raise living standards in member countries. The growth of trade and foreign direct investment was central to this and he knew of no country that had significantly and sustainably raised living standards without also sharply improving its trade and investment performance. However, the past few decades had seen Africa's trade and investment performance decline and Africa as a whole become marginalised. He stressed that this need not be a cause of pessimism, however, since the situation could be reversed through aggressive policies to promote trade and investment.

Empirical studies confirmed the case for liberal trade policies. Open economies did better because they were more competitive and had higher investment and growth than closed economies. Open economies also enhanced governance and transparency which added considerably to the investment climate.

Five main areas of structural reform could be identified: trade reform, abolishing distortions in the exchange system, improving the financial system, dismantling all price controls and state intervention, and public enterprise reform.

Mr Sharer showed that African economies in the early 1990s were substantially more restrictive than the rest of the world, demonstrating the need for Africa to go much further in targeting significant additional trade liberalisation. Regionalisation could promote trade liberalisation, lock in reforms, and create larger markets. International experience suggested that regional trading arrangements almost always went beyond trade liberalisation to creating broader economic and political relationships.

However, regional integration had to foster trade creation and avoid trade diversion if it was to enhance welfare and competitiveness. This meant that, although there could be modest regional preferences, regional arrangements had to reduce trade barriers for all countries if the benefits to trade and growth outlined earlier were to be achieved. This was especially true in the case of southern Africa, where regional complementarity was low and trade with countries outside the region was so important. There had to be a clear timetable to achieve the reduction in trade barriers.

Southern Africa had two important characteristics which made integration difficult: a dominant economy and a plethora of different integration initiatives. On the first point, NAFTA provided a good example of where economies of vastly differing sizes had benefited from greater liberalisation. On the second, “overlapping regionalism” was clearly a handicap and needed to be rationalised.

Discussant 1 - Dr Moses Banda - Zambia

Dr Banda emphasised that sub-Saharan Africa had been further marginalised whilst the world had witnessed a global increase in FDI and trade. There was a clear need for free trade and macro-economic stability. He accepted that trade restrictions hampered growth.

Although Ghana and Uganda were examples of good performers, he doubted whether they were also examples of good governance. Countries undergoing SAPs often had the impression that the IMF and the World Bank were shifting the goal posts along the way. Governance issues were clearly critical, as governance critically affected confidence.

As far as regional integration was concerned, one of the main factors hindering integration was the widespread fear of dominance by the Republic of South Africa (RSA). He asked how the playing field could be levelled. Countries of the region produced similar goods, which meant that benefits from greater regional trade would in any case be limited. He shared Mr Sharer’s view on the confusing multiplicity of regional groupings but pointed to the fact that each grouping’s bureaucracy had an interest in keeping itself going at the expense of the region as a whole. There was a clear need for regional leadership.

Finally, Dr Banda expressed the view that the economics literature failed to satisfactorily explain Africa’s poor economic performance. He wondered whether the main factor was not the shortage of human capital still prevalent in the region. Economists had an important responsibility to explain the economic events shaping the lives of people in the region but he felt that, so far, they had not risen to this challenge.

Discussant 2 - Dr Dirk Hansohm - Namibia

Dr Hansohm described a conference hosted by the Namibia Economic Policy Research Unit (NEPRU), at which attendees were asked to state what their expectations were of the future. One of the main outcomes was that people were extremely uncertain about future relations in southern Africa and were equally uncertain of the costs and benefits associated with greater integration.

He wondered whether the IMF had undertaken work on the distribution of costs and benefits resulting from SAPs as well as the impact the process of globalisation had had on poverty.

Dr Hansohm welcomed the Prime Minister’s upbeat speech on regional integration but suspected many people privately had doubts about the process. He agreed that the potential dominance of the RSA was certainly an issue, but at the same time stressed that notions of self-sufficiency, although well meant, were unrealistic. He mentioned that the EU had developed mechanisms for redistributing the benefits of closer integration and suggested that the relations to the RSA should be seen in the context of the colonial past. The Common Monetary Area (CMA) and SACU were generally negatively perceived, yet both had positive economic aspects. SACU was certainly the best-functioning trade system in the region, which suggested it should form the building block for future efforts at integration.

Dr Hansohm wondered whether Namibia could benefit from having gained independence relatively late by learning from the mistakes of others, or whether each country had to make its own mistakes. He strongly believed that the notion of countries “going out of business” if they missed the globalisation “bus” was wrong. Liberalisation had to be home-grown if it was to work on a sustainable basis.

Mr Hernández-Catá stated that there was considerable literature on the costs and benefits of trade liberalisation. A good example of economic structural change could be seen in the way that the United States and Russian military sectors had been wound down. The unambiguous winners from trade liberalisation were consumers whilst rent-owners and workers in uncompetitive sectors and other concentrated interest groups were the losers. Presently, no unemployment insurance existed in sub-Saharan Africa. Ways had to be found to ease the transitional costs of structural change through, amongst other things, retraining programmes.

Mr Jauch questioned the social implications of structural adjustment. It was his view that NAFTA was hardly a good example of successful change. Having attended a conference in Brazil on the social consequences which had clearly hit SMEs in Mexico, he felt that the only clear winners appeared to be transnational companies. He suggested that there needed to be safeguards to avoid the further concentration of wealth, which was the very last thing sub-Saharan Africa needed.

Dr Kanyenze also wondered about the social implications of SAPs and whether only a minority of people benefited from change. Interestingly, when the implications of SAPs began to take effect, business expressed dissatisfaction. Government had to reverse policies in Zimbabwe, for example, as a result of pressure from the CZI against the dumping of textiles. It was also questionable just how short the transition period would be. He asked what exactly was meant by the short term in economics. He agreed that one of the major problems facing regional integration was that the countries of the region were all producing the same things. Time was, therefore, needed to prepare for integration and build capacity.

Mr Sharer cited research indicating that global changes in income distribution were far more a consequence of technological change than trade liberalisation. He questioned the view that only big transnational companies benefited from trade liberalisation, quoting examples of the small farmers in Mexico who had emerged as winners as a result of such liberalisation. It was impossible to deny the benefits of trade. Moreover, Asia had linked to the rest of the world and had reduced poverty dramatically.

Financial and Capital Market Reform in the Context of Regional Integration
Ms Bongi Kunene - Director, FISCU, South Africa

Ms Kunene started her talk by briefly summarising experiences of integration in Africa to date. She outlined the reasons for the lack of results and the cynicism that accompanied present-day discussions. However, southern Africa was changing and was now characterised by multi-party democracies and relatively open market economies. In the areas of finance and investment, SADC had adopted a pragmatic approach and had limited itself to activities that had a reasonable probability of success. These included the adoption by Finance Ministers of sound macro-economic management as a theme. Reliable economic and finance statistics had to be collected within a framework of regional standards based on the IFS. The question at present was whether SADC should adopt an explicit policy of macro-economic convergence. This would necessitate a constructive dialogue with multilateral institutions, traditional multilateral institution support and additional institutional and analytical assistance.

A second major area of reform was that of the financial sector, accompanied by the need to build a credible regional financial infrastructure. A regional payment, clearing and settlement system was envisaged. SADC stock exchanges had already started cooperating, although there had not been a move towards the creation of a single, regional stock exchange which would imply a higher degree of financial and monetary integration.

Thirdly, a strategy on financial management had been adopted, including the application of international auditing standards, greater independence of audit institutions, and harmonisation of laws, standards, and regulations.

Finally, Ms Kunene outlined areas where civil society and multilateral institutions could assist the SADC finance sector. These involved, amongst other things, the analytical tools needed to understand economic events, open dialogue on globalisation, the adoption of regional integration as a principle guiding the future relationship between the IMF and southern Africa, and assistance to SADC in standardisation and regulatory reform.

Discussant 1 - Mr António Souto - Mozambique

Mr Souto stated that globalisation was an old concept taken to new extremes. Colonisation was a form of imposed globalisation where raw materials left Africa to be processed elsewhere. It was impossible to stop the process of globalisation now under way. Likewise, regionalisation was an old concept practised by many southern Africans who had been trading for years across national boundaries.

Risk was a critical factor in determining investment, as were other “noneconomic” variables like human capital and politics. He stated the view that SADC did not yet exist in economic terms, and that a very pragmatic approach was needed to take integration forward. He added that it was important to recognise financial systems as being at the heart of an economic community.

Discussant 2 - Mr Thomas Gibson - IMF, Malawi

Mr Gibson stressed that the existence of safety nets was clearly important when undertaking structural adjustment. There were different views on freeing-up the capital account and a far greater downside existed to capital account development. He reminded the conference of Mr Camdessus’ view that capital account reforms had to be bold in vision yet cautious in implementation. Strong prudential policies, good information and strong institutions were necessary to ensure successful liberalisation.

Mr Maisiri emphasised the disparities that existed between SADC countries and the fact that little trade actually took place within the Common Market for Eastern and Southern Africa (COMESA) and SADC. He put forward the view that practical issues, like tax harmonisation, needed to be tackled. He wondered whether greater regional mobility of labour was required. Meetings of central bank governors and ministers of finance to discuss trade and finance would also be a useful step forward. He was worried that too many cosmetic measures were being taken and suggested further research was needed to study regional issues, perhaps through a regional research unit. There was also a clear need to establish regional links with international institutions as well as more business linkages in the region.

Ms Kunene informed the conference that central bank governors from the region did in fact meet twice a year and had a public work programme as well as links with the World Bank and the ADB. Much regional research was already being conducted on tax issues. There were indeed many synergies and much scope to reduce inefficiencies. She suggested that the CBI required strengthening. The World Economic Forum (WEF) showed that business people were already pushing politicians to take SADC forward: it was certainly not government that was driving many SADC agendas.

Mr Patel was interested in the Chilean experience of “speed bumps” imposed on capital outflows and wondered whether SADC might adopt similar regulations.

Dr Sinare was interested to hear of SADC achievements to date and agreed that there was a need to focus on concrete measures in more areas. She emphasised the need to promote trade and investment across countries and, therefore, to pursue capital account liberalisation. She suggested that RSA dominance should be viewed more as an opportunity than as a threat. Lastly, there was an urgent need to address the multiplicity of regional groupings.

Mr Souto responded by emphasising the importance of strengthening regional entrepreneurship.

Policies to Facilitate Trade and Foreign Direct Investment in Southern Africa
Mr Jairaz Pochun - Consultant, Mauritius

Mr Pochun described how Mauritius, a small island economy of 1 million people, had transformed itself from a mono-crop economy based on sugar production to a more diversified economy where incomes were growing at 6% a year. This had been achieved through a combination of economic reform (with the assistance of the IMF and the World Bank through a Structural Adjustment Loan), political stability and democracy, as well as a number of favourable circumstances such as generous sugar quotas and political changes in Hong Kong.

Economic policy aimed to achieve macro-economic stability by keeping inflation low, the budget deficit small, a sustainable current account, and a stable fiscal system. Exchange rate policy was flexible.

Mr Pochun pointed out, however, that the Mauritian development strategy did not follow a pure IMF/World Bank recipe. For example, a sugar export tax was introduced to finance public infrastructure and diversification. Fiscal concessions, tariffs and quotas were introduced to boost self-sufficiency in certain agricultural and other products. It was the EPZ sector that had been responsible for wiping out unemployment in the late 1980s. Trade had been progressively liberalised since 1984 with the elimination of quantitative restrictions, price controls and import licensing.

Mauritius's trade policy emphasised regional cooperation and Mauritius belonged to SADC, COMESA, the IOC and IOR-ARC, the CBI, as well as being party to a number of bilateral agreements and Lomé. Mauritius had a number of policies for attracting investment, including special industrial infrastructure, an industrial strategy, fiscal incentives, and special support to service sectors, as well as investment promotion initiatives.

Finally, he emphasised that, whilst government should refrain from engaging itself in the production of goods and services, it nonetheless had a critical role to play in fostering political stability, social cohesion and an environment that inspired investor confidence.

Discussant 1 - Mr Robert Sharer - IMF

Mr Sharer stated that globalisation was a reality and, with the right policies, would be beneficial for the region. He noted that the Mauritian example may have been a special case as its success had been built on favourable terms of trade (which cannot be relied upon) and sugar and textile quotas (which are on their way out due to CAP and WTO reforms).

There was certainly a need to give attention to the social aspects of structural change but a social consensus was necessary.

He argued that openness did not cause unemployment but agreed that structural economic change always required changes in employment as resources were redeployed. He warned that delayed change generally increased the cost of change. What were necessary were affordable social safety nets, unemployment insurance, and other alternatives.

On the question of the impact of globalisation on income distribution, he noted it was hard to single out the effects of trade liberalisation. However, it was clear that trade promoted investment and growth. Trade could similarly help those who were usually the last to benefit, as demonstrated by the advantages to smallholder peasants and rural incomes that liberalisation had often brought about.

He also argued that liberalisation would lead to growth and, therefore, growth in government revenues, which would allow greater social spending. It was not, however, a panacea to poverty.

Mr Van Til wondered how good a development model Mauritius was and what made it different to other SADC countries. He also wanted to know more about the micro-economic management the government there had undertaken in the course of structural adjustment.

Mr Gibson suggested that political continuity had been important in Mauritius. He added that employment growth was even more impressive when one considered that female participation rates had increased dramatically. Banking sector reform had also been significant, as was the greater withdrawal of government and general liberalisation.

Mr Patel disagreed with the argument that openness did not cause unemployment. He also questioned the statement that growth would lead to greater revenues, given the lower tax rates and tax holidays by which liberalisation programmes were often accompanied. He was more interested in an active industrial policy and thought Mauritius provided a good example of effective intervention. The aim of having a constant deficit-to-GDP ratio was mistaken and did not allow countries to adapt to their own circumstances. He was convinced that the Mauritian example provided a model which went against the IMF orthodoxy.

Mr Sadien made the point that trade unionists in Mauritius often operated in a climate of fear: a number were actually sent to jail in 1989. There was no doubt that Mauritius, in spite of its success, suffered from severe social problems and needed to temper growth with social development. Far more needed to be done in this regard, and economic measures such as the introduction of VAT on electricity and water from September 1998, often represented a step backwards.

Ms Elago stated that timing and planning were crucially important for successful reform.

Mr Sharer agreed that the process of structural reform needed to be managed properly. Employment loss generally occurred in uncompetitive industries. On the question of tax revenue growth he argued that, whilst programmes might seek to change the incentive mix through change in taxation, economic growth undoubtedly led to higher tax revenues. Finally, he underlined the view that a time-scale for liberalisation needed to be announced beforehand.

Mr Pochun emphasised the need to live for the future and was conscious of the erosion of trade preferences. Mauritius had just established a productivity and competitiveness council and was aware that the days of cheap labour were gone. He confessed that Mauritius had benefited from a certain amount of good fortune in that Hong Kong's being given back to China was something that other countries could not repeat. Economic development had put enormous pressure on families and this was something now being addressed with the establishment of state crèches. He confirmed that political consensus, the existence of a strong opposition, press freedom and a spirit of understanding had all played a significant role in the Mauritian success story.

Structural Adjustment Programmes and Regional Integration
Mr Reinold van Til - Assistant Director of the Africa Department, IMF

Mr Van Til described the main design features of structural adjustment programmes, summarised the experience of ESAF programmes in Africa, drew lessons from the experience with SAPs, and identified the requirements for Africa's participation in the global economy. He drew attention to the fact that many countries only went to the IMF when they were already facing an economic and financial crisis.

SAPs had tried to put in place an economic structure that emphasised the proper functioning of markets, reduced the pervasive role of government in production and distribution, and promoted the role of the private sector in development.

Structural adjustment in Africa had succeeded in bringing about a fundamental reorientation of economic policies, resulting in a fragile economic recovery in an external environment which was generally not favourable. Worryingly, domestic savings had hardly improved and private investment remained lacklustre. However, programmes had been subject to frequent interruptions - indicating a lack of consistency and credibility, which affected investor confidence. Furthermore, progress had been limited on public enterprise reform, bank restructuring, and civil service reform.

Finally, Mr Van Til argued that a strengthening of the adjustment effort was unavoidable to effectively compete in the world economy. To achieve this it was critical to create a greater sense of programme ownership - which to date had been rather limited.

Discussant 1 - Dr Godfrey Kanyenze - Zimbabwe

Dr Kanyenze remarked on the fact that even the leaders responsible for SAP success stories denounced them in public forums such as the OAU. There was clearly little ownership of these programmes. However, he questioned what was meant by ownership and argued that an ignorance of SAPs on the part of the mass of people as well as government officials was a major weakness. This suggested that the IMF should have more contact with people other than a few select government officials. He further suggested a need for mechanisms to involve locals, along the lines of programmes such as NEDLAC in the RSA. This was important because the immediate impact of policy changes such as price deregulation would hit people hard and create resistance to the rest of the programme. Furthermore, the ESAP in Zimbabwe could not produce new jobs fast enough, which led to only a few people benefiting and greater resistance to further reform.

He pointed out that there was often no supply response to the new policies, and cited small farmers in Zimbabwe as an example. The World Bank had recently admitted that ignoring the role of community development programmes led to failure. Furthermore, it was the large percentage of white farmers in Zimbabwe who had benefited more from exchange rate policies.

It was clear that restructuring required capacity and time. Phasing was critical and there was much debate on whether to adopt the “big bang” or a more gradualist approach. Zimbabwe had had a long history of being a closed economy and there was, therefore, little by way of an export culture. It had been difficult to adapt to the new conditions and widespread retrenchments had been the result.

The situation at present was such that many civil servants were moonlighting. It was also by no means guaranteed that privatisation would eliminate rent-seeking behaviour. Often, those that benefited from privatisation and those that benefited from the previous dispensation, were the same people. He concluded that the data shown by Mr Sharer seemed to imply that non-ESAP countries had outperformed ESAP countries.

Discussant 2 - Dr Hawa Sinare - Tanzania

Dr Sinare made four main points.

The first was that she agreed that SAPs had responded to a crisis. The focus was very much on macro-economic stability but the side-effects of suddenly abolishing subsidies had been harsh, e.g. high unemployment. She made the point that Tanzania had undergone 20 years of the closed economy approach, which had failed dismally. SAPs were not bad per se, but they needed to pay more attention to side-effects and required support from civil society. This represented a significant challenge to the World Bank and country leaderships. Unfortunately, it still proved popular to attack programmes in spite of the fact that national leaderships had responsibility for them. There was little doubt that, in the case of Tanzania, the economy needed to have been restructured anyway.

The second point was to recognise that SAPs had helped to achieve what attempts at regional integration had failed to do for decades, namely a macro-economic convergence and greater scope for trade.

The third was that the World Bank, the IMF and governments were beginning to recognise the importance of addressing micro-economic issues such as human capital development, respect for the rule of law, the enforceability of contracts, and business law.

Fourth, regional development initiatives were still akin to 1960s and 1970s programmes and were often completely at variance with national-level programmes. It was important that the type of activities that regional institutions undertook were of a facilitative nature, which implied a need to rethink present strategies. The amount of duplication was also remarkable, with 10 or 12 organisations responsible for various regional initiatives. Once created, such institutions were difficult to kill.

Finally, she made two points on the lessons of SAPs. The first was the importance of getting the economic fundamentals right. The second was the need to build capacity to deal with globalisation, the importance of government interacting with the business community, and the ability to analyse and correct market failures.

Dr Kanyenze talked about the Zimbabwe experience. He stated that the increase in poverty had come about during the ESAP, but that the main reason had been inflation - caused by the budget deficit of 12% of GDP. Government policies were, therefore, at fault.

The question of ownership was critical but it had to be understood how difficult it was for the IMF to go out and explain what was going on. Governments often refused to contemplate the possibility of doing so. This accounted for the lack of consultation with social partners. With heads of state speaking negatively about their own SAPs it was impossible to forge commitment. With Zimprest, the government was showing it was finally learning. Privatisation was a complex process and there was a danger that whites would buy up all the shares, something which ran counter to the programme of indigenous ownership.

Dr Banda argued that the real owners of programmes were not so much the supposed stakeholders but the bureaucrats, who often also acted as consultants in the process. There was a pressing need to involve civil society. It was clearly unrealistic to expect farmers who had been growing maize for 30 years to change overnight. On environmental matters, an Environmental Impact Assessment (EIA) was necessary before projects could be taken forward. No such equivalent study was required for SAPs. However, there needed to be a contract between people and the BWIs.

A further problem was that the expertise necessary to run privatised companies could only be obtained from those who had mismanaged the companies in the first place.

Mr Tsvangirai asked whether the problem with SAPs was their design and structure, or their management, and further, whether it was possible to proceed with economic reform before political reform. The same political people had to manage the economic problems they themselves had helped to create. It was probably also useful to distinguish short-term from long-term measures in respect of tackling reform.

Mr Ritter argued that the critical issue was the management of SAPs. It was impossible to create commitment if leaders did not believe in the programmes they themselves were pursuing.

Mr Jauch responded that the problems with SAPS were ones of structure, design, and philosophy. SAPs invariably targeted education and health first.

Mr Mauprivez countered that the IMF always pressed for cuts in military spending. Of 52 countries with SAPs, military spending had declined by 3,1% whilst social spending had increased by 1,2%. Generally speaking, countries with SAPs increased the share of expenditure on social programmes.

Mr Souto stated that SAPs were curative, and not preventative, medicine. SAPs required two partners: the IMF and the governments concerned. However, the origins of crises generally originated from bad governance.

Mr Hernández-Catá questioned the statement that SAPs hurt the poor first. Although he had yet to acquaint himself with southern Africa, this was certainly not the experience in other countries such as those in Latin America, where the two greatest champions of SAPs were the Peronistas in Argentina and the working class in Peru. The truth, he stated, was that programmes were agreed upon by willing governments to improve the chances of the working class to earn a living. Small farmers ended up receiving more, whilst the incomes of those classes that did not contribute to value-addition, were generally reduced. The intention of SAPs was most definitely to increase - not reduce - expenditure on education.

Mr Timana was of the opinion that the debate touched on the heart of the problem. Africa still suffered from the Cold War and colonialism. African governments still lacked the management skills, and the middle classes were not built on industry. The

IMF was bringing liberal economics to Africa, which had neither the industrial class, the skills, nor the infrastructure.

Mr Patel wanted to know what the costs of SAPs had been. Africa had for long been an exporter of raw materials and had, therefore, participated in the global economy. The real question to be addressed was how Africa’s position in the global economy could be influenced, and how it could move into a better position.

Dr Kanyenze argued that SAPs had some serious design faults and put too much faith in markets. It was necessary to have targets for expenditure reduction and to go further on ownership. He recommended that the IMF be more involved in the detail, and that such involvement should be part of the conditionality. Participatory structures should be created, and there should be a departure from the tradition of non-involvement.

Dr Sinare reminded the conference that countries went to the IMF, and not vice versa. African village socialism had been rejected in Tanzania in favour of SAPs. There should be room to review SAPs to take new developments into account. Tanzania had for long refused to address the real problems and was discovering that the solutions were not that simple to apply. However, it was equally clear that the liberalisation of markets alone would not solve Africa’s problems.

Day 2, 12 June 1998

Labour Market Reform in the Context of Regional Integration
Mr Morgan Tsvangirai - Secretary General, SATUCC

Mr Tsvangirai outlined orthodox theories of labour market economics and went on to offer a critique of these theories based on recent evidence from Zimbabwe, where real wages had declined significantly whilst the rate of growth of employment had decelerated following the period of reform. There had also been a marked tendency towards casualisation and informalisation of employment, most pronounced in large-scale private agriculture. Falling real wages in the government sector had often led to moonlighting, declining morale, shirking, absenteeism, high labour turnover and outright corruption. The degree to which employment could be created through unskilled labour-intensive techniques was in any case questionable in a world economy where competition was increasingly skill-driven.

He went on to argue that the pursuit of labour market flexibility in most countries in SADC had resulted in a race to the bottom as far as labour standards were concerned. But Mauritius served as an example where a shift towards high-value-added, high-skill products was taking place. The collapse of real incomes in SAP countries had unintentionally led to substantial levels of labour migration to neighbouring countries, resulting in protectionist tendencies which hindered regional integration. The goal of regional integration would be enhanced if SADC states followed the example of Mauritius and South Africa in adopting the high-wage, high-skill rather than the low-wage, low-skill approach.

Mr Tsvangirai put forward the case for the SADC Social Charter to be finalised at the Tripartite Employment and Labour Sector Conference in 1999. He argued that the provision of a minimum floor of labour standards was becoming international practice and was the only sustainable way forward.

Discussant 1 - Mr Ebrahim Patel - South Africa

Mr Patel put forward three points. The first was to contrast SADC and NAFTA. In SADC the strongest supporters were the trade unions, whereas in NAFTA, the trade unions were the strongest opponents. The reason why organised labour reacted so differently in these two cases was that trade unions in southern Africa acted more strategically as a result of their participation in the liberation struggle. NAFTA was solely concerned with trade and investment as the engine of the treaty whereas SADC contained economic, social and political dimensions. This strong sense of ownership gave SADC a tremendous advantage.

Mr Patel went on to make a detailed critique of orthodox labour market theory offering an alternative approach which concentrated on institutions of social dialogue with real power such as NEDLAC. These institutions had authority over a whole range of issues and were involved in, for example, a small-business export drive, a housing deal between the state, business and the trade unions to build one million homes, industrial relations legislation, affirmative action and black empowerment, and monetary and fiscal policy. He stressed the importance of entrenching labour rights in a broader culture of human rights and civil society. Labour market policies had to coexist with higher-value-added goods, for example, transforming textile production from T-shirts to fashion items, and argued that this could be achieved through social dialogue.

The second element consisted of an active industrial policy consisting not simply of export promotion but also of exploiting opportunities in domestic markets.

The third element envisaged expanding the domestic market through wage policies and achieving lower unit-labour costs. Productivity increases would be achieved by concentrating on human resource development and business-labour teams would be charged to come up with new policies. This had already led to dramatic changes in the workplace, including multi-skilling, multi-tasking and flexibility. In this strategy, training was the engine that drove the process. It required major changes by workers.

Finally, there was a clear need for more effective institutions. The Commission for Arbitration in the RSA had already achieved a 60% decline in strike man-days. This represented an entirely different perception on how to improve the working of the labour market. There was a major role for centralised dialogue and discussion. This had all been achieved as a result of the unique consensus that existed in the RSA.

Discussant 2 - Dr Robert Franco - IMF Zimbabwe

Dr Franco thought Mr Tsvangirai's paper could be divided into four parts.

He reminded the conference of the IMF's first Article, which put income growth as a priority for the Fund. In the short term, there were undoubtedly costs associated with economic reform but all SAPs included provisions for safety nets. It had to be remembered that a refusal to adjust would eventually lead to economic collapse.

Many developing countries had copied their labour codes from their former colonial masters. This often resulted in them being completely inappropriate for local conditions but it was difficult to encourage governments to revise these codes.

It had to be remembered that high inflation led to declines in purchasing power and had universally come about due to governments' inability to control their deficits.

As far as the data on supply and demand for labour in Zimbabwe was concerned, it did indeed show a decrease in formal employment but the data had little to say on the increases in informal employment, which had probably increased. However, employment creation also required investment and, therefore, a need to create an environment to boost investment and make up the savings shortfall. This meant there was a need for foreign investment and that macro-economic stability was required to achieve this. Governments had to give the right signals, and give them consistently.

Dr Franco argued that it was important for SADC countries to move together, but warned that the gains would not be equal for all countries. There was little doubt that the reluctant liberalisers would do less well.

Mr Timana stated that it was important to remember the Mozambican tradition of supplying labour to the mines in the RSA. The RSA occupied a privileged position as an industrialised and powerful country but this had led to a one-way flow of labour from poorer neighbours to the RSA. Imbalances between the RSA and its neighbours had to be reduced; moreover, major investors were starting to arrive in Mozambique. Trade unions had to be more involved in the process. He argued that workers were the main engine of economic development and that governments and the IMF therefore had to recognise the value of labour. Mr Timana accused governments of hiding behind the IMF and stressed the need for the IMF to press for trade union participation in efforts at regional integration.

Mr Maisiri suggested that a research unit for trade unions was needed to look into the need for training, the harmonisation of employment regulations, and the issue of companies in the region relocating. Little research was being done in the region, with the exception of the RSA. There was a need for trade union leaders to be brought into the confidence of stakeholders, and information needed to be shared.

Dr Banda argued that the classical labour theory still remained valid but stressed that it was the composition of labour that determined value. Investment could be attracted by low wages or high skills.

Mr Esau raised the point that many stakeholders lacked capacity. This applied to trade unions but perhaps even more to employers' federations. This represented a significant obstacle in the way of centralised bargaining.

Mr Dammert asked whether NEDLAC decisions were generally endorsed by Parliament.

Mr Tsvangirai responded to the debate by stating that productivity was fundamental to raising incomes. Countries needed to set up productivity centres. On the question of labour standards he thought that, although it would never be possible to have equal standards in the region, it was possible for all standards to be moved upwards. The question of capacity was clearly important but enormous differences existed in the region. A high-skill strategy was required, as well as minimum labour standards and a social charter. Even more important, however, was the need to implement these things.

Mr Patel responded by saying that NEDLAC decisions were endorsed if they had been reached by consensus but Parliament reserved the right to change them. Capacity-building was addressed as the result of dialogue and funds were made available for trade unions and business for training, as the need to increase the value of labour was understood. There was also an understanding that the RSA needed to move investment up the value chain along with human resource development. He asked Dr Franco whether the IMF supported SADC's Social Charter. A further critical question was how to increase savings and their efficient use. Mr Patel cited Singapore as an example of a country following its own path: it had successfully managed to increase wages whilst at the same time increasing the component saved.

Dr Franco responded that he was speaking in a personal capacity when agreeing with the Social Charter.

Dr Stahl drew attention to the harm inappropriate labour standards could do, with those in formal employment gaining at the expense of others. However, he also questioned whether SAPs were really accompanied by safety nets. He cited the example of Mozambique, where this was, from his experience, not the case.

Mr Tsvangirai underlined the need for growth and redistribution strategies and saw no reason why the unemployed should suffer as 80% of domestic demand arose from formal employment.

Dr Franco defended ESAPs saying they all had safety nets although, in cases like Zimbabwe, they suffered from micro-economic failings. He also stressed the commitment to protecting education and health.

The Evolving Role of the International Monetary Fund
Mr Bruno Mauprivez - Senior Public Affairs Officer, IMF

Mr Mauprivez noted that the IMF seemed to have been created with globalisation in mind. The IMF Charter stipulated that it facilitate the promotion of growth of international trade, promote exchange rate stability, ensure that currencies could change hands without restrictions, and provide financial assistance to countries that experienced balance of payments problems. To this day, IMF membership was still reserved exclusively to countries, and only their governments could receive IMF financial assistance. Membership was voluntary, and members could leave whenever they pleased. IMF financial assistance was still not forced upon its recipients but made available only when requested and under certain conditions. IMF advice and policy recommendations were still the expression of the consensual views of its entire membership, and its resources the exclusive property of its member countries: thus, IMF loans had to be repaid.

IMF policies had remained consistent over time, urging countries to promote growth through sound money and low inflation, prudent fiscal policies and a sustainable current account position. The IMF pressed governments to ensure the rule of law, dismantle monopolies and special protections for the benefit of the few, discourage lax credit policies, increase transparency, improve the quality of public expenditure, and encourage flexible labour market policies.

The IMF recognised the social costs of adjustment and worked with national authorities to review the budgetary provisions for social transfers to protect the most vulnerable. The IMF helped design social safety nets that were well-targeted and cost-effective. It also pressed governments to set appropriate military spending. Studies had shown that IMF programme countries had declining military spending and a higher proportion of social spending in the budget. Ultimately, however, there was only so much the IMF could do and the choices were up to governments and people.

Discussant 1 - Dr Henning Melber - Namibia

Dr Melber asked whether it was possible to continue the process of the last 50 years with the deterioration of the terms of trade. He questioned whether globalisation led to less inequality as the rich seemed to get richer and the poor poorer. He cited the example of Germany where company profits had risen whilst unemployment remained high.

He agreed that the activities of the state needed refocusing but wondered what this would involve and how it would be achieved. Mentioning good governance was insufficient: he questioned what was meant by the concept as well.

He quoted a Swedish economist to support the view that new schools of thought had not paid enough attention to social capital and the "software" aspects of development. Clearly, institutions were critical in development. He warned that assistance could be dominant and prescriptive.

Dr Melber went on to suggest that it was not possible to universalise the present model of development. He stated that it was simply not possible for China to enjoy the level of car ownership seen in the West, for example.

The basic question remained how globalisation could benefit the domestic economy. He suggested that IMF prescriptions were simply old wine in new bottles. He posed the question of whether there was a need to look for new wines.

Discussant 2 - Mr Sylvester Tembo - Zambia

Mr Tembo, whilst subscribing to the rule of law, transparency, and democracy, also wondered what the measure of good governance might be. He congratulated the IMF on taking up the debate on good governance but warned that it was one thing to pronounce, but quite another thing to practice democracy. Parties which swept to power on a democratic ticket often forgot about democracy once in office. This was especially the case when the party won large majorities. In Zambia the new government had ended up criminalising dissenters.

He was of the opinion that those lending money had to be more open. He quoted the example of Zambia again, where reducing the civil service took place with the discovery that civil servant pension funds had disappeared. The IMF had asked countries to provide audits of their public services but the people carrying out the audits tended to be the corrupt senior accounting officers. The rule of law ended up being what best suited politicians at the time, although citizens would have a quite different view. Furthermore, the politicians who borrowed were not the ones who paid back the loans. The issue of governance had to begin with people and civil society, and he praised the extent of discussion on good governance that had started at the conference.

Mr Mauprivez stated that globalisation could not be reversed. The real question was whether or not one wished to board the train. He was convinced that most people were clearly better off today than 50 years ago. Although inequality had increased, he wondered whether this was due to globalisation. He agreed good governance was a vague concept but could not agree that the IMF was going back to 1960s models. The IMF view was that the role of the state should be limited to what the private sector could not do. He was not sure people wanted models. The IMF was accused of not following the model in Mauritius but at the same time of slavishly following models elsewhere.

Realistically, there was a limit to what the IMF could do about internal policies. They were already accused of imposing policies. Likewise, there was little they could do if governments could not or did not produce accurate numbers. As far as debt was concerned, IMF loans needed to be repaid with three to five years, although ESAF loans could be extended for up to 10 years.

Dr Sinare accepted that the world had already globalised but this had been done in a way that was not beneficial to many countries. The question was whether there was anything countries could do to change those relationships. The subregion had to look at practical ways of improving trade relations. Africa should certainly not fall victim to rigid models but should follow pragmatic policies. As far as the IMF was concerned, Dr Sinare wanted it to go beyond macro-economics into more micro-economic issues and press for more transparency, good governance and an independent judiciary and press. Institutional reform was not a question of new or old wine but how to achieve transparency, eliminate corruption and establish the rule of law. It was important to look at the real problems on the ground. Speaking frankly, she stated that it took the IMF and the World Bank to tame many countries' bureaucracies' lust for money.

Mr Hernández-Catá put forward that the principles the IMF put into practice were based on empirical analysis and on what had and had not worked. Industrial policy and import substitution had been disastrous, he said. As far as governance was concerned, he reminded the conference that the IMF's role was limited. It certainly was not the policeman of the world but had to respect government sovereignty and deal with governments, although it was now trying to improve its dialogue with other elements of society. IMF programmes tried to remove distortions that allowed government officials to steal. He stated that the IMF required government agencies to provide accurate information, especially on the budget. Any government wanting help had to eliminate special accounts. There had been cases where programmes had had to be delayed because of poor data. The IMF governors would refuse to lend in cases of fraud although, before the fall of the Berlin Wall, this had not always been the case. No executive director would disburse funds in cases of corruption.

Mr Stetten agreed that there were very clear limits to what the IMF could do. More clarity was needed on exactly what this was. He asked whether the IMF cooperated with organisations like the ILO.

Mr Van Til informed the conference that the IMF cooperated with the ILO on labour market reforms.

Mr Mauprivez mentioned that the IMF had endorsed core labour standards and that there was considerable concern about this in the IMF.

Mr Tsvangirai said that the globalisation train had left: the question, now, was whether one sat in the first or the fourth class compartment. On the issue of governance, it was important not to forget issues as they arose and to set clear goals. He asserted that the IMF's perceived negative image was now breaking down, helped partly by changes in the patronising attitudes of the IMF itself.

Mr Jauch expressed his surprise at the attitude of the IMF delegation, and quoted a UNDP report which showed 80% of the world population was moving towards poverty. SAPs were still very much the model, and organisations such as the IMF were still not looking at local conditions. Indeed, the World Bank in the RSA had recently admitted that SAPs were a blunt instrument. The IMF was dominated by a few power blocs and people, and this needed to be changed. He agreed that there was a need for practical solutions.

Mr Stetten asserted that there was no disagreement about moving up classes of compartments: clearly everyone wished to be in the first class compartment. The market-oriented policies which had been tried in SADC had been found wanting. However, there was no question that southern Africa desired growth and had adopted market-oriented policies to achieve it.

Mr Mauprivez argued that it was unfair to say the IMF had not adapted. The very term structural adjustment had only been used since 1982. The IMF had adapted to the various crises which had occurred during the past decades, including the oil crisis, the debt crisis, the collapse of communism and the East Asian crisis. Every IMF programme was reviewed by the IMF to see what had gone wrong and what had succeeded. The IMF was representative in the sense that every member country was represented and every decision was voted on. A total of 182 countries are voluntary members of the IMF.

Dr Melber came back to the point that it was clear everyone could not own a car and a fridge. In his view, the world was dominated by unequal exchange and exploitation arising out of power relations.

Mr Tembo questioned the basis of democracy in southern Africa. He asked whether southern African schools were democratic, for democracy started in the classroom. The lack of democracy had the potential to change people into monsters.

Challenges and Prospects for Regional Integration Strategies in Southern Africa
Dr P. Ramsamy - Chief Economist, SADC
(presented by Dr Heinz-Michael Stahl, SADC)

Regional economic integration could help countries attain economies of scale, rationalise production structures, encourage specialisation on the basis of comparative advantages, create wider economic spaces, enhance industrial efficiency and reduce transport costs. The long years of working together under SADCC had led to effective cooperation in transport and communications, agricultural research, food security and energy, and had also forged a strong sense of regional identity within SADC.

SADC had chosen to follow the development integration approach, with the emphasis on promoting investment, production and market integration. The development integration approach could be seen as an elaboration of the project integration approach, which stressed the need for close political cooperation at an early stage as well as the need for compensatory and corrective measures and coordinated, regional industrial development.

Discussant 1 - Mr Wonder Zindoga Maisiri - Zimbabwe

Mr Maisiri welcomed the new spirit of economic endeavour and argued that economies could do better if there was more commitment to make timeous decisions. SADC could undoubtedly become more powerful if it had a sound macro-economic focus. Governments already met regularly but private sector representation was lacking. If programmes were to be implemented, growth would accelerate. The core problem was a lack of economic and political commitment.

The region experienced low GDPs and trade complementarity was low. Much lip service was paid to SADC programmes. Trade information was lacking and regional projects stayed at the planning stage. SADC had to learn from other regions such as the EU. Most governments in the region had large deficits.

He pointed out the need to empower black entrepreneurs and create the proper enabling environment. This would involve infrastructural projects. A new cadre of more technocratic leaders was needed, and the capacity of business needed strengthening. He raised the question of whether a regional parliament would be necessary.

Mr Van Til responded to the argument that SADC's underlying philosophy was first to become strong, and then open up. This suffered from the same problems as the "infant industry" argument and was probably not beneficial. Regional integration suffered from vagueness and deadlines were not adhered to. Differences between various regional groupings created possibilities for trade diversion and smuggling. He asked what the timetable was and to what extent it was determined at individual members' discretion.

He admitted he had difficulties understanding the development integration approach. The concept of variable geometry was also problematic. Macro-economic convergence was a good thing but he hoped it would be based on the strongest performers. He ended up asking what SADC's priorities were and what was going to be done about the "spaghetti mix" problem (i.e. countries belonging to several regional bodies simultaneously).

Dr Stahl suggested that SADC and the IMF should be in closer discussion. The priority had to be to do away with overlapping organisations. It was, however, up to the member countries to decide how to do this. He stressed that it was not a question of opening up internally first before opening up to the outside. The plan was to open up internally faster than externally. Some member countries had already opened up and other members were already open to the RSA. The envisaged FTA would probably take place after trade ratification, perhaps by 2006. SADC needed a common external tariff sooner rather than later. He clarified the development integration approach by stating it involved project coordination, policy dialogue and far more than just lowering tariffs.

Dr Stahl went on to emphasise that stakeholders had to press governments for change. It was a fact that the RSA frightened the rest of SADC more than in COMESA. It was also a fact that colonialism meant that African countries traded more with the EU than with each other. He argued that private sector involvement was key. One shortcoming of the otherwise excellent CBI initiative was that it did not involve the RSA.

Mr Sharer was of the opinion that Africa was already benefiting from globalisation but that it could undoubtedly benefit more. It was clear that the way to do so was to pursue outward-looking policies and trade liberalisation. Countries that pursued outward-looking policies fared much better than those pursuing inward-looking ones. This represented the only way to move up the value chain. He went on to say that intra-SADC trade was good but that the focus should be on trade liberalisation. It was important to recognise the damage done by the various regional groupings and timetables. If these persisted, investors would not see the region as one market and would, therefore, be forced to seek special deals. In Tanzania, taxes had gone up due to a plethora of special deals and avoidance.

On the question of whether Africa was at a turning point, Mr Sharer stated it was, but added that it depended on adopting the right policies. He was certain that what he had heard during the day's discussions did not take the matter far enough.

Mr Ritter accused SADC of being nothing more than a talking shop. Clearly, the private sector had to become more involved but there was little commitment to SADC from the private sector in the RSA.

Dr Banda argued that SADC was fast becoming irrelevant as most countries had started wanting to export outside the region. To counter this, SADC required a change in mind-set.

Mr Tsvangirai lamented the fact that the private sector was not committed. He warned that unless business and labour forced governments to adopt policies, national policies would remain weak.

Mr Esau supported the development integration approach. He wanted to know why, although SADC had now established structures, other social partners were not participating in areas other than labour. He was unsure if the growth registered by SADC had led to increases in employment.

Mr Souto argued that trade and investment were becoming more balanced. The biggest trader and investor in Mozambique was the RSA. This was partly due to the fact that the South African financial sector was extremely well developed.

Dr Oesterdiekhoff asked whether funding was available for the measures necessary to pursue the development integration approach.

Mr Van Zyl thought that the role of globalisation in reducing inflation should not be underestimated. This was especially true in Namibia.

Mr Maisiri argued that most SADC countries were small and needed to cooperate in areas such as tourism. Joint representation to foster investment should be considered, which would help the effort to downsize government. He worried about high interest rates in the region as a result of high deficits.

Dr Stahl insisted that trade liberalisation had to be the most important area of reform within SADC. Trade integration was already happening through the CBI and COMESA. SADC had to bring SACU on board. Dr Stahl countered Mr Ritter's assertion that the RSA private sector was not interested in SADC, saying that exports from the RSA to SADC had increased dramatically. He informed the conference that the Council of Ministers' meetings discussed all sectors and all policies. Clearly, more than trade liberalisation needed to be undertaken and this was why organisations like FISCU had been set up. Finally, he agreed that compensatory measures were desirable but it was unrealistic to expect the RSA to foot the bill.

Panel Discussion

Panelists
Mr Tom Alweendo - Governor, Bank of Namibia
Dr Heinz-Michael Stahl - Advisor, SADC
Mr Ernesto Hernández-Catá - Deputy Director of the Africa Department, IMF
Dr Moses Banda - Economic Association of Zambia
Mr Morgan Tsvangirai - Secretary General, SATUCC

Mr Alweendo summed up the issues at stake in the conference by saying that globalisation could not be stopped. The important questions were who would win, who would lose and by how much.

Dr Stahl summarised his views by welcoming the chance to bring together such diverse actors as the IMF, SADC, the trade unions, and business people. He agreed that globalisation was a fact but wondered how best the challenges it presented should be met. Practical steps towards gaining competitiveness included further regional integration, involving a rationalisation of production structures and opening up to trade, complementary policies such as those to strengthen the financial sector, the need to involve the private sector, stable and transparent market-oriented policies, good governance and minimal corruption, and more attention to social policies. He thought it was necessary to take steps towards regional SAPs.

Mr Hernández-Catá saw little alternative to further liberalisation. Some countries, such as North Korea, had tried to isolate themselves from the rest of the world and this had ended in disaster. The question was how countries lived with globalisation. Capital account outflows were the price of failure and inflows the price of success. Chile was one country which had experienced enormous success, but that had brought its own problems.

He went on to state his belief that industrial policy had been a dismal failure in East Asia and in its most extreme form in Eastern Europe, for the simple reason that governments could not pick winners. Countries as diverse as the US, Chile, Singapore, and Hong Kong had developed through market-oriented policies and those countries had been successful.

Historically, dialogue between the IMF and member governments had been in secret. The IMF was managed by executive directors drawn from a wide range of countries. He assured the audience that the IMF would continue to do its best to improve transparency and accountability, but citizens also had a role to play.

He accepted there were differences between the attitude of organised labour towards SADC and NAFTA and was happy to accept that trade unions in southern Africa had a social and political role to play. He pointed out that many people who had opposed NAFTA had done so purely for xenophobic reasons.

He ended by stating that the IMF was not as powerful as people thought, and that there were many important factors completely outside its control such as history, colonialism and earthquakes.

Dr Banda was also of the view that open economies had performed better, even in Africa. He felt “noneconomic” factors were very important and also that the economics literature had not adequately addressed the fact that the Far East had performed better. Governance issues were clearly critical, and vulnerable groups needed protecting. The role of trading agreements required instruments that added value. He ended by urging that the conference not be the last, and that, next time, more government officials should attend.

Mr Tsvangirai felt the conference had witnessed very constructive engagement. He pointed out that trade unions should not be seen as being part of the problem but, rather, part of the solution. Likewise, people had to stop seeing the IMF as a threatening figure: it had made an undoubted contribution to macro-economic stability.

He went on to assert that the rules of the international trade game should allow every country to become a winner. It was important to coordinate macro-economic policies and uplift the people. Furthermore, the regional focus had to start from national focuses. Finally, there was a need to build capacity in trade unions, business and government.

Mr Van Til asked whether there was a consensus at the conference on the objectives of macro-economic policy, the need to increase saving and investment, and whether SAPs represented an approach that was fundamentally sound.

Dr Melber asked to what extent the world was now witnessing new dimensions of the gospel of liberal economics.

Mr Esau wondered whether there was not a predicament between the EU-RSA FTA and regional integration.

Mr Hernández-Catá argued that the globalisation of trade, information and financial markets was driven by technology, the decline in the cost of information, and the reduction in the size and weight of goods. These technological realities were beyond anyone's control.

Dr Stahl thought that the quality of globalisation was now different. Capital flows were larger and more volatile, and the information available, more plentiful. The penalties for macro-economic mismanagement were severe and a problem in one country could create repercussions for others.

Mr Tsvangirai said there were problems with the structure, design and management of SAPs but there was undoubtedly consensus on their general direction. World capitalism was currently adjusting to current conditions and accelerating the pace of change. Clearly, the EU-RSA FTA complicated an already complex regional picture. The region had to decide what it wanted and how it was to deal with the regional "spaghetti mix".

Dr Banda agreed there was consensus on macro-economic stability, but argued that SAPs should be demand-driven by civil society and be a product of the communities themselves.

Members of the audience asked whether Africa was ready for either regional integration or globalisation. The region had to be ready to move together and investors had to be able to move wherever they wanted within the region. Others wondered what the role of women would be in globalisation and whether they would be excluded from the mainstream of economic activity.

Mr Hernández-Catá thought that an important question was how governments should behave within the globalisation process. Cutting red tape was clearly necessary, as was rationalising regional organisations. He wondered how globalisation would permeate to the lives of ordinary people. Africa was still technologically behind, which meant it would continue to act as an agent rather than a producer.

Mr Imam reminded the conference that Karl Marx had talked glowingly about globalisation but had been less hopeful about how social and political systems would deal with it. He wondered how the deleterious effects of untrammelled world capitalism should be countered.

Dr Banda responded on the role of women by saying that, hitherto, they had been confined largely to the informal sector but that they clearly had to be brought into the mainstream and move into higher-value production.

Dr Sinare wondered whether the region had the capacity to compete.

Dr Stahl mentioned the Beijing Conference as an example of globalisation. She added that SADC had already adopted a charter on gender issues and women were taken into account in all policy-making. This was part of effective democratisation.

Mr Tsvangirai stated that the best form of defence was attack and that if one were to wait, one would never be prepared. Globalisation was coming anyway and if one adopted the ostrich stance one stood to lose. He added that Africa needed to debate the issues and was convinced women should play an active role.

Mr Hernández-Catá was not convinced by the “first get strong” argument. He cited the examples of Chile and Mexico, which had undergone liberalisation and had gained strength in the process. He suggested countries should liberalise unilaterally. He accepted there was a fear of liberalisation but quoted the example of Ecuador which, 10 or 15 years ago, had been in a very weak position but was now a major exporter of bananas.

He further mentioned several measures which were being enacted to help Africa, such as reducing protection in G7 countries and introducing an anti-corruption treaty. He asserted that internal legislation had to deal with the question of labour standards, but that these should represent a reasonable compromise. He warned that if a country wanted to invite capital in, good policies were necessary. The Chilean experience was mentioned in this context.

Dr Stahl countered that Zambia had liberalised but was still not doing well. He disputed whether SADC was following the “first get strong” argument. SADC was simply liberalising faster internally than externally.

Mr Van Til stated that Zambia was diversifying away from its dependence on copper, as a result of liberalisation. The economy had experienced two years of growth in the last two years. He thought countries could improve their record on governance and liberalise at the same time.

Dr Melber thought the world was dominated by power relations and asserted that it was the major players who set the rules of the game.

Mr Hernández-Catá explained that the IMF was a public international organisation, whose bosses were the ministers of finance from member countries. They delegated power to an executive board of 13 members who had to approve each programme. People joined the IMF because they believed that they could diminish human suffering. There was little doubt in his mind that the IMF, the World Bank and donor organisations helped smooth reform, and brought far better results than if they had been absent.

Mr Kalenga, on behalf of the NUNW's 95 000 members, took note of the IMF's willingness to discuss the issues and make changes. The conference had sent a clear signal that social dialogue was needed. He stated that organised labour was aware of the need to take the bitter with the sweet, but that the role of labour had to be properly recognised. He hoped the results of the conference would not simply gather dust.

Part 3

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