Comment on "Regional Dimensions of Adjustment in Southern Africa," by Percy S. Mistry

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It is difficult to comment on such a rich paper in fifteen minutes, especially when there is so much in the paper with which I agree. I will therefore concentrate on a few points and emphasise points of disagreement.

The main question posed in the paper is why structural adjustment programmes have fallen short of expectations in Southern Africa. There are many answers that could be given to this:

- One is that expectations were too high. Africa is different, and it will take a lot longer.
- A second is that structural adjustment programmes were poorly designed; there was a lot of experimentation in Africa.
- A third is that critical elements missing, in particular, fiscal adjustment, parastatal reform and utilisation of the energy and resources of minority business communities.
- And the fourth, which is the key point of the paper, is that structural adjustment programmes have taken insufficient account of the regional dimension.

Expectations were too high: A lot of people thought that if you got the prices and the macro-framework right, growth would take-off in Africa. From the time of the Berg Report in 1980, it has been clear that, while you cannot develop if the prices are wrong, even if you get the prices right, you are still going to face all of the difficult, long-term development issues which were the bread and butter of development economics around the time of independence. In a sense, you are just getting back to where you started. But obviously there are a lot of people who had much higher expectations. *Poor design and experimentation:* There have been a lot of poorly designed adjustment programmes, particularly with regard to sequencing. I think that most people feel that we have been trying to use the lessons learnt elsewhere, but no doubt it comes across as experimentation at times. *Missing elements:* I think the main failure on the adjustment side has been a failure to achieve fiscal stabilisation. This is due, in large part, to a failure to redefine the role of the state and especially the role of state enterprises. *Regional dimension:* The regional dimension has not been

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a major factor, but it could play a role in improving the effectiveness of adjustment programmes.

The Bank and the Fund are frequently accused of giving either too much finance, or giving too little finance; financing programmes which are not owned, or not giving the benefit of the doubt; using a cookie-cutter approach, or being inconsistent. All of these can be true in particular cases, but I think it's difficult for them all to be true in general.

Coming now to the regional dimension, I agree with Alieu Jeng that there is a difference between a regional dimension and a regional approach. I don't think the paper suggests that we should negotiate a regional adjustment programme, but that we should be conscious of the regional implications of national structural adjustment programmes.

Fiscal policy has been weak in most of the adjustment programmes in Southern Africa. Lesotho has achieved stabilisation and sustainable fiscal balances in part because of its policy links with South Africa – it's locked into an agreement which forced it to achieve fiscal stabilisation. Mauritius has done it alone, and so has Zambia. The other countries, particularly Zimbabwe and Malawi, have not achieved fiscal adjustment.

What is the regional dimension here? I think that the question of harmonisation of tax and tariff legislation is certainly important, and regional cooperation in this harmonisation could facilitate adjustment and prevent the kinds of arbitrage discussed in the paper. On the other hand, trade integration may make fiscal adjustment more difficult because it implies an important loss of revenue for many of the countries, and that implies attention for tax reform.

I will leave most of the comments on *monetary and exchange rate policies* to Mohsin Khan, but I want to say that I question some of the comments made in the paper about the devaluation-induced inflationary spirals of, particularly, Angola, Mozambique and Zambia. First, most of those devaluations were simply bringing the official rate into line with a parallel rate to which much of the economy had already adjusted. Second, devaluation in most economies in Southern Africa has actually had a positive effect on the budget. And third, I would contest the statement that the devaluation/inflation cycle has created aid dependency. Devaluation and inflation are more often a reflection of dependency on large capital inflows to finance domestic imbalances.

On the issue of *debt and aid dependency*, we have to distinguish between gross and net flows of aid. In the case of Zambia, the agreed debt strategy is to defer the problem for the time being and employ stop-gap measures of high flows of balance of payments assistance to fund debt service as long as Zambia continues its adjustment efforts. There is no viable exit strategy at the moment for Zambia, but Zambia is the only country in Southern

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Africa which actually has a multilateral debt problem. This has prompted us to examine the multilateral debt issue. The Bank and Fund are working on this together, and we expect to present some proposals on this within the next few months. I agree that aid dependency is a major problem in Southern Africa, and that donors, African governments, and the Bank and the Fund need to be looking at a strategy for the excessive levels of aid transferred to Africa.

The paper argues for greater harmonisation of *exchange rate policyand* for using more fixed rates. Obviously, this argument occurs in most countries of the world, and it depends on making sure that countries actually converge on their other policies. It also has particular implications for the rate of the South African rand, because the rand would be the most likely anchor for most countries. If South Africa manages its affairs in its own interests, there can be a divergence of interests, as indeed there has been between Botswana and South Africa, leading Botswana to abandon parity with the rand.

Labour and wage policy have not typically featured in adjustment programme conditionality. The paper suggests that freeing-up labour markets could enhance labour flexibility in South Africa. I think this is true, but for that very reason, it will be a politically difficult thing to do. South African labour tends to resist trade policy integration, which would imply the movement of production of labour-intensive goods to neighbouring countries, the short-term loss of employment in some sectors, and migration of unskilled labour. It might be possible to convince the South African polity that the dangers of migration are so great that trade integration is necessary, but this would not be an easy thing to do.

With respect to the proposal for funding large-scale, employment-generating schemes for housing and other infrastructure in South Africa, we have done some modelling of restructuring of expenditures in South Africa, and concluded that if this is funded by external capital inflows, the employment effect is adverse because of the appreciation of the exchange rate which would result from funding predominantly local cost expenditures.

Regional cooperation is often taken to be synonymous with *trade integration.* I believe that regional trade integration can play an important role in economic development provided that the trading group is not predominantly inward-looking. Trade integration can facilitate development of infant industries, but if the ultimate aim is not to compete in the world economy, then the result of regional trade integration will be detrimental to development. In essence, we are talking about three issues: (i) how much protection and for how long? (ii) what additional measures can be taken to promote exports to the outside world consistent with the level of trade protection? and (iii) what countries are to be included. The World Bank supports trade integration and other forms of regional cooperation through the Cross-Border Initiative, but trade integration may not be the most important form of regional cooperation in Southern Africa. Cooperation in infrastructure investment and harmonisation of policies may be more important.

On *agricultural sector policy*, a lot can be done to harmonise regional policies, particularly in maize marketing and pricing. The proposal for land transfers to South African farmers is worrying because it seems to be based on a faulty premise that large-scale agriculture is more efficient than small-scale, and it gives too little regard to the political problems that arise such as the potential for abuse of land alienation.

State enterprise reform would indeed be easier to do on a regional basis, but you would face exactly the same issues, namely, if you privatise a state enterprise in Zambia or Malawi and it is bought by someone else in the region, it will still be perceived as foreign investment.

Finally, it is true that economic integration requires a vision, but outside organisations cannot provide that vision. The vision has to come from within Africa. International organisations can support African efforts at cooperation and integration, but they cannot use conditionality to insist that it takes place. This is not the role of international organisations.

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