Floor Discussion of the Mistry Paper

Philip Clayton, an economist at the Standard Bank in South Africa, began the discussion with a plea for concrete action on regional integration. "We've been talking about regional integration for quite some time, and if forums and conferences led to economic growth, Southern Africa would be a world leader in economic growth and development. We should take the Nike slogan as our motto, 'Just do it!' The Southern African Development Community (SADC) has an economy approximately a third the size of the city of Los Angeles. The case for economic integration is clear, and we need to seize the opportunities to achieve the benefits.

We also need to make it easier for private sector firms to get involved in the region. Standard Bank has had some experience in doing business in Southern Africa, and we have found that there are many irksome things that make it difficult for business to grow across the region. These obstacles need to be addressed. The politicians must make decisions and implement those decisions at home. Free up the business community because they should be able to do a fair amount to make this region grow. We'd all like to see Southern Africa grow and develop, and we could all become richer at the same time."

Patrick Ncube, a consultant from South Africa, dwelled on the role of financial institutions. "There is such uneven development in financial sectors in the region. Four years ago, you couldn't even talk about the financial sector or financial institutions in Mozambique. The central bank was doing everything; it acted as a commercial bank, a development bank; everything. To move from that situation to creating a financial sector is a big step. And it is an even bigger step to develop financial institutions in Mozambique, Tanzania and Angola that are comparable to those of South Africa. How can we can deal with this extreme unevenness? Besides Zimbabwe and South Africa, most of the money markets is just the government selling treasury bills. So it is difficult to talk about money markets, let alone capital markets because they are completely non-existent.

With regard to the development banks in the COMESA/SADC region, I think that all of them have reached a checkmate position and that they should be scrapped. This particular question was raised at another meeting where the Chinese delegation suggested a moratorium on aid to Africa because the way we are going is completely ridiculous. I support that position, and I hope that the financial institutions will seriously consider this question of aid and aid dependence and our inability to use credit. The fact

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FONDAD, The Hague, 1996, www.fondad.org

is that we don't understand the concept of credit – we take credit and then we go and ask for forgiveness. This type of behaviour cannot continue."

Sam Asante, from the UN Economic Commission for Africa, praised Mistry for bringing the two key issues of adjustment and regional integration together in his paper. He then focussed on Jeng's comment regarding the position of South Africa. "Sometimes we seem to see South Africa as a country with one-way traffic to the Southern African region or the rest of Africa. I find this incredible because it's a two-way street. There are a number of things that South Africa needs and the rest of Africa has. So we have to be careful when we talk about South Africa as if it is a self-sufficient entity.

Another issue is how to design and negotiate the regional dimension of adjustment. In fact, negotiating is an impossibility. How can one apportion the amount of money provided by the World Bank for sustaining the implementation of adjustment in each individual country?

An additional question is: will adjustment contribute to or hinder regional integration? This issue requires careful examination because structural adjustment is focused on the country level. There is simply nothing like regional structural adjustment. As a matter of fact, when I examine the impact of structural adjustment on regionalism, the results have been more than chaotic because in Africa, our borders are very porous. A devaluation undertaken by one country has an impact on the devaluation of the other. A clear case in point is the devaluation of the kelasi in Gambia which had a terrible impact on Senegal's relationship with Gambia. Nigeria devalued its currency on two occasions and this resulted in strained relations between Nigeria and Niger and also Benin. It seems to me that structural adjustment has had a deleterious impact on this whole question of regionalism in Africa.

There is also a central dilemma faced by African countries in that some parts of the liberalisation policies pursued under structural adjustment are incompatible with the objectives of promoting collective self-reliance through regionalism. This results because we have the tendency to reinforce rather than transcend Africa's historical role in the international division of labour. Regardless of which liberalisation aspects of structural adjustment you examine, you come to the conclusion that structural adjustment programmes won't be helping African countries in the same way as regionalism.

I don't think you can negotiate structural adjustment on a regional basis. I feel strongly that now that we all believe that regionalism is a key to African development, and if we strongly believe that structural adjustment can also contribute, then it becomes a major preoccupation of COMESA and SADC and other regional organisations to deal with the links between integration and adjustment."

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Dag Ehrenpreis, Chief Economist at SIDA, reacted to Ncube's remark about aid dependency. "There's no doubt that the issue of aid dependency is gaining exposure, also in donor circles. The concept of donor fatigue has been used a lot in recent years, and the aid dependency syndrome is, of course, part of that. Donors, and tax payers, want to see some results of their efforts. And after all, this year, things don't seem to be getting much better, although there are some moves in the right direction. But the problem of aid dependency is certainly getting worse over time. It's clear from a lot of studies that the closely connected issues of aid dependency and the debt overhang need to be resolved. As has been said, there needs to be an exit strategy.

However, I don't think it is possible for us as donors to say, 'Look, now we're tired of this, we've been doing this for too long' or, 'Aid dependency is just increasing; we'll stop tomorrow'. The Chinese may have said that, but it would create terrible consequences which we would not like to be associated with. On the other hand, we don't want to go on like this either. What do we do? We don't know yet. In the new SIDA, which has recently been set up as merged agencies in Sweden, we have commissioned a study of aid policy for the next twenty years under a project called 2015. One of the key issues that we're looking at is this issue of aid dependency and how to reduce it. It is also coming out as one of the main three topics being studied by a new scientific development advisory council that the Swedish Ministry for Development Cooperation has set up, with international expertise. So there's obviously a lot of concern and a lot of work going on in this field.

When one discusses this and the very modest results of the more than a decade of structural adjustment paradigm in Africa, one also needs to consider the issue of the deteriorating terms of trade in the last ten to fifteen years. The studies I have seen on the price development of the commodities that Africa exports reveal the longest and the deepest decline that has ever occurred, even compared to the Great Depression in the 1930s. This obviously has contributed to the lack of progress of structural adjustment programmes.

Benno Ndulu of the African Economic Research Consortium has examined the flow of aid to sub-Saharan Africa during the 1990s up until 1992. If one compares the net transfer figure to the terms of trade development, one sees an actual decline in the flow of finance including exports and aid. This problem of declining purchasing power of the African economies is a serious problem which explains part of the development problems and the increase in debt and aid dependency."

Ehrenpreis returned to the issue of the unevenness of liberalisation policies across the continent. "I expected an analysis of the issue of sequencing

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of trade liberalisation between neighbouring countries, particularly in the Southern African region. It is an obvious problem that trade liberalisation has occurred in – sometimes forced on – countries in an uneven manner and at different times so that those who had to do it first also suffered most in terms of de-industrialisation; this is the impression one gets at least. But the argument here, of course, is precisely that what is rational on a global basis applied to one country may result in consequences that are not optimal in the long run for that country – and indeed for the region as a whole. It might lead to closing-down companies which could have remained open if their main export markets had liberalised at the same time, particularly in the region.

There are obviously a lot of institutional and political economic factors which are restrictive to the adjustment programmes, and Percy makes a very powerful argument for including such factors much more systematically in the analysis behind these programmes, particularly the regional dimension. I view Percy's paper more as saying that one needs to consider the regional dimension in structural adjustment rather than advocating regional structural adjustment programmes as a whole which would, at this stage at least, be very difficult to carry out institutionally."

Mohsin Khan from the IMF explained how he had read Mistry's paper. "The first thing I did was to look at the bibliography; holding my breath while doing so and hoping that I was not referenced in any way and relieved to find I wasn't. Only then did I know that I could read it without the risk of being savaged. Percy is a master at polemical writing. You just have to get past the polemics – I've read a lot of Percy's papers and after a little bit of practice you can. My rule is, and you may wish to try it at some point, don't read the first paragraph or the last paragraph of each section and skip the footnotes. That way you will get the meat of the paper – and there is a lot of meat in this paper. In fact, I would even go as far as saying that there are sort of gems of brilliance in the ideas that are put forward, as always. I just want to make some general points about criticisms that come out of Percy's paper; and then a few additional points.

First of all, are structural adjustment programmes effective in achieving some notion of improvement in whatever variable you wish to look at? It is typically growth, but it may be productive capacity. There is a continuous debate, not only externally but internally as well, on the effectiveness of programmes. This is nothing new, and there are various statistical methodologies that have been put forward to assess effectiveness. No one is suggesting that we believe the programmes are effective everywhere all of the time. Clearly some programmes are unsuccessful in achieving their objectives. It may be that their objectives are too ambitious. This is often true. But even if you take some basic standard, they may not be leading to

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any appreciable improvement in the variables that you are trying to affect. Thus, they aren't successful, and they may even worsen things.

What could be the cause? Well, it could be design, it could be implementation or it could be exogenous factors such as terms of trade. I'm just categorising but these are the three basic possibilities.

In the operational side of the Fund, and certainly in the research side where I am, design issues are constantly on the table in order to figure out how we can improve the design of Fund programmes. Percy's paper raises the point that in design issues, you ought to be looking at the regional dimension, in other words, groups of countries. Even though you may not be able to negotiate with the group, because of legal restrictions, you may indeed think about the regional level when you negotiate a programme with an individual country. Maybe you ought to incorporate a regional dimension and look at neighbours and what they're doing when designing the programme for a country. It might then be wise, however, not to let the country know that you are looking at his neighbours as well.

Another example of a design issue has to do with sequencing. For quite some time, people talked about optimal sequencing. I can tell you that an awful lot of research has been expended on this idea of sequencing of policies. It is with some regret that I admit to having contributed to this discussion because, ultimately, it led to nothing. In the end, this whole debate about sequencing is, in my view, vacuous. It's a meaningless debate. Now we look at it more pragmatically. We propose a whole set of policies to a country and discuss them. The country's authorities make decisions on these policies as to what is feasible, institutionally and politically, and we consider the constraints. Whatever sequence emerges is, in fact, optimal. We can come up with a lot of nice theories of what should be done first and what should be the optimal sequence, but in the end the sequence will be determined in the negotiating process.

I have a few small points on the paper specifically. First of all, I buy into the argument about the neighbourhood effects because it intuitively makes sense. I do not, I hasten to add, buy into the Easterly Levine results. I think if you look carefully at the paper, the whole thing is being driven by the use of dummy variables and residuals. Percy is right. There's correlation and not causality, and I even have trouble accepting the correlation. Intuitively, it seems to make sense even though there are sufficient counter examples to this neighbourhood effect; the fact that Chile is doing great; Argentina only recently; Uruguay is not; Peru is just coming out. We don't have a theory of this neighbourhood effect but it may be right.

On the combined fiscal policies, Percy made the point that you should worry about fiscal coordination etc., but it is extraordinarily difficult to do. These are very tricky issues. It is even more difficult to do in monetary

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coordination. What you can do is fix the exchange rate between the two countries that you are concerned with, agree on fiscal targets, and monetary policy will then automatically be coordinated over time. But can you get agreement on fiscal deficit targets between countries? I think that is very difficult; macroeconomic management across countries is very difficult.

As for fixing the exchange rate, there is, as Gene Tidrick pointed out, an ongoing debate on this issue of fixed versus flexible. It's very tempting to say yes, fix the rate provided certain preconditions are met. In other words, you must have sufficient reserves to support the rate that you fix. And two, you have to have the fundamentals right. Again I'm going back to my point, you must agree on fiscal deficit targets; monetary policy is being driven by these two variables, the exchange rate and fiscal policy. If you've got your fundamentals right, then you fix the rate. This is a very appealing argument, and it has been made previously. But I think for developing countries to fix the rate for any length of time is extremely dangerous. These countries have massive shifts in their equilibrium real exchange rates, relative to industrial countries. Let's take the case of commodity price changes. All changes and tariffs affect the equilibrium ratio and the rate you fix. If you have a deterioration in commodity prices during that period, you will find that very soon your equilibrium real exchange rate is now depreciated and your actual rate is appreciated. Flexibility is probably the way for developing countries to go and not fixing, except if you are Angola, and you may wish to stabilise inflation suddenly. But for most developing countries, any long-run fixing will cause problems. Very few countries have been able to do that for long periods of time. Businessmen do not like high volatility of exchange rates and that may be an argument for intervention on the exchange rates, but it is not an argument for fixing."

It was suggested by Samuel Wangwe of the Economic and Social Research Foundation that SAPs are a special case of a broader issue. "We could just as easily call this paper 'Regional Dimensions of National Policy Making' and in the case of SAPs, it would still be valid. I think an important point is: To what extent does national policy making, whether it be SAPs or national plans, have a regional dimension? When we did the study on SADC, we looked at the national plans which were supposed to be the guiding instruments for policy making. We looked at all of the national plans in the nine countries, and there was no single plan which referred to the regional dimension. Aid dependency has worsened this neglect of the regional dimension in national policy making. Even when projects are not appropriate, the recipient accepts them in order to receive the aid.

If implementation doesn't work, it could come from two sources. One,

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we implement without being committed. Two, the programmes could be ill-designed. Unfortunately, because of aid dependency, we didn't question the design of the programmes and we didn't question the commitment to implement the programmes. So I agree with the thrust of this paper, but I would like to cast it in the broader context of national policy making and aid dependency, this being a special case of those two pillars."

Tekalign Gedamu, the former Vice President of the African Development Bank, challenged the participants to think in more concrete terms about pushing forward economic integration. "This subject has been discussed for the last 36 to 37 years. Some results have been obtained, but it's very clear from all the papers that have been presented at this meeting that the efforts that have gone into economic integration have not really produced commensurate results. I think in an area like this, progress comes in incremental steps. You cannot expect Africa to integrate by a particular year, the year 2000 or 2025. We should continue to make efforts which will push the process marginally, modestly, and each one of us should ask ourselves, 'What do we do at the end of this conference?'

There are useful suggestions in the papers which can be forwarded to policymakers and particularly to institutions which are in a position to promote the process of integration. I know the World Bank has said that there is not much they can do to promote economic integration through the conditionalities in the loans they provide to African countries, but there are institutions in Africa, in particular the African Development Bank, which have the mandate to promote economic integration in Africa through the financing of multinational projects.

With regard to concrete suggestions, first, Percy Mistry is the first to say that his ideas are still at a preliminary stage. What do we do to with his suggestion of viewing structural adjustment programmes in a regional context in order to accelerate the process of integration? I believe that an institution like the AfDB has a duty to pick up ideas like this and carry the process forward. It is established, and it is mandated to do this kind of thing; it has the financial instruments to carry out studies to more advanced stages. I believe we could promote the process of economic harmonisation and integration by picking on some of the useful ideas which have been made during this meeting and passing them on to institutions which are in a position to implement them in collaboration with groups of governments or individual governments."

Alieu Jeng from the African Development Bank supported Gedamu's plea for concrete action, and then turned to the issue of design raised by Khan. "With regard to designing a regional dimension in the structural adjustment programme, it's fine, but I don't think it is wise not to inform the country that you are looking at his neighbour's performance as well.

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We should want to ensure that Uganda knows that the name of the game is regional dimension of structural adjustment and that you are going to look at what is happening in Kenya or in Tanzania as well. This is something we have to state very clearly. You don't design programmes by yourself without the country being aware of what the parameters are. If you do, you end up with a programme that is not really home-grown, and ownership becomes a problem for a programme like that."

Edward Tiagha from the UN Economic Commission for Africa followed up on Gedamu's concrete proposals saying he had drafted an action matrix for enhancing regional integration efforts in Africa. "In this action matrix, I have a column which deals with the policy issues that should be addressed by governments at a national level, actions by regional economic communities and NGOs and actions by external development agencies and the UN system."

Lynn Salinger, a senior economist from a US-based research institute pointed out some of the positive results from structural adjustment programmes in Francophone West Africa. "I admit that I too, have had a few doubts about the regional wisdom of some of the structural adjustment programmes, particularly in agriculture with which I've been associated. When you tell all three countries of the Magreb to increase citrus exports to Europe and you then realise that the common agriculture policy of the EU and the external tariff that they face would probably prevent all three of them from realising that objective, you start to have a few doubts. But as one of the few people here who has had some practical experience in Francophone West Africa and particularly in the agricultural sector, let me just remind you of some of the amazing things that have gone on in that part of this continent.

With regard to liberalisation of economies, in many instances we have eliminated official prices for commodities, disbanded marketing boards, privatised processing facilities, and gotten rid of import or export bans which were often arbitrarily imposed by governments. When I first started working on regional integration analysis, we were worried about a common external tariff vis-à-vis rice imports into the region; the region was being flooded by rice imports. Today, what are we working on? We're talking about promoting Malian rice exports into the region. You have trade flows that are now viable from the Sahel to the coast and back up again. So let's not kid ourselves that the last ten years have produced nothing of value.

Of course, I understand that there are numerous research issues which remain to be explored, amongst which I might just cite political economy of multilateral development bank relations with countries. If we're honest with ourselves and we look at the evaluations that have been done of

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adjustment programmes in various countries, we realise that the conditionalities were not always upheld. We need to think about implementation therefore and not just about the design of reform programmes.

One issue I would put out on the research agenda has to do with revenue generation in Africa. Let's face it, most of the governments in sub-Saharan Africa are extraordinarily dependent on trade taxes and yet those same taxes have nefarious effects on the incentives regime for producers and traders.

To sum up, I would ask whether we would be here today insisting that the private sector come to the table and discuss regional integration with us if it hadn't been for the events of the last ten years? And my contribution to the concrete actions list would be that we agree not to hold another conference like this without first identifying the private business, and in some countries, the labour interest. They're intimately involved in deliberating these issues."

Patrick Ncube believed that the criticism directed at the World Bank and the IMF for the the poor design of structural adjustment programmes was misplaced. "As far as I'm concerned, there is nothing wrong with the Bank and the Fund. We have not elected the Bank and the Fund to safeguard the interests of the African people. We have elected individuals to public office who are supposed to safeguard the interests of the African people. If these people have failed, they should resign. The buck should not be shifted from these politicians back to the Bank and the Fund. Those who have been elected must take positions and try to protect the interests of the people rather than trying to blame outsiders."

Phakamani Hadebe, a deputy director at the South African Department of Finance, was not convinced that structural adjustment held any promise for the continent. "Percy, according to your paper, it still looks as if SAP is the only solution to the sub-Saharan Africa problem. Unfortunately, your paper then becomes an extension of a package that has already been used and proven to be a failure. Would you not agree with me that sub-Saharan Africa requires something different? Maybe if you can try and look at the domestic regional conditions, it would be a step forward.

A couple of years ago, an African alternative framework for structural adjustment analysed economic trends and the impact of structural adjustment in Africa. It was interesting that they came up with a conclusion that was totally different from that of the World Bank. They concluded that the weak-adjusting countries had done better than strong-adjusting countries. The reason was that the weak-adjusting countries had, to a certain extent, been able to mold the structural adjustment programme to their domestic needs. I ask you, therefore, shouldn't we try to come up with something more tangible.

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Maybe the problem is that Africans have not been vocal enough, but the African alternative framework tried to highlight these problems and I think they were ignored. Shouldn't we try to look at something else before we turn to integration because fusing regional integration to structural adjustment programmes won't win; I don't see it progressing. In fact, I don't see any positive outcome out of it."

Response by Percy Mistry

"Well, I think that at the end of an exhausting conference and the end of a particularly exhausting session, I would probably be thrown out if I attempted to answer all the questions that arose. I'll have to be selective in my response.

First of all in response to Gene Tidrick who said, by a process of *reductio ad absurdum* reasoning, that I was in favour of stronger conditionality. I think this statement needs to be more nuanced. I would have been in favour of stronger conditionality for much faster privatisation in particular areas; no question. But the whole issue of stronger or weaker conditionality and the issue of conditionality itself bothers me a great deal because in Africa in particular, conditionality is a mirror reflection of the degree of ownership, and conditionality is also dependent on design. Sometimes it's overdone because of expectations that implementation will not occur. In so many programmes that I've been intimately involved with, particularly in Zambia, Tanzania and – so far as design is concerned – Zimbabwe, there has been an unfortunate game being played. It's a political game of financial programming and financial upmanship. The Bank and the Fund start off being very reasonable about what the financial requirements for a particular set of adjustments will be, given the magnitude of adjustments that you want to see. At the end of the day, when you add the numbers up, you know it's politically impossible to raise that money, so all you do is go back and change your elasticities and come back with the same programme objectives, which is eminently unfinanceable. As a result of this, you have programmatic failure because of the way the game is played. In two projects that we did for SIDA, we have documented this, almost programme by programme, at least to the satisfaction of the people who've read the reports. So I know whereof I speak on that. In general, I don't think that one can characterise me as being in favour of stronger conditionality; it depends on the condition and the design.

On the issue raised by Alieu Jeng of regional dimension or regional approach, I would agree that it is attractive to think that Southern Africa might eventually have a structure amenable to a regional programme, but I think this is 'blue sky' thinking. What I have literally said in the paper is

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that when adjustment programmes in the different countries in the region are put together, it would behove the governments as well as the Bank and the IMF to ask, 'Supposing we were doing a regional adjustment programme, would these things fit?' Then they should negotiate national programmes which are regionally coherent. I prefer the term regional dimension, except in the case of sectoral investments where I deliberately use the term regional approach because I think a regional approach would actually yield better results.

With regard to SAPs, I keep hearing that we need something different than SAPs and we need something different than integration. Whatever you call it, there is absolutely no question in my mind that you need to transform production sub-structures. If Africa can come out with a better solution, go for it. Unfortunately, there has not yet been enough intellectual investment in African economics.

Patrick Ncube raised the point of good governments. I don't believe in unregulated markets; I don't think that governments need to withdraw. But the role of the state needs to change. As for the nature of that change, I think it depends very much on the country's case or the regional case.

Sam Wangwe's point about this suicidal scorpion dance that donors and recipients have gotten themselves locked into is a valid one. They're unwilling to break out of this embrace because it is damaging to them both – yet they know they must break out of it.

On the points that Dag Ehrenpreis made, I agree with just about everything he has said. I would only add some nuance to his point about Africa's vulnerability in terms of trade. The question to me is, 'Why does Africa's production structure remain so static that it is still the most highly vulnerable region in the world in terms of trade?' After thirty five years, at least this should have changed. I think everybody is at fault, but I agree with Patrick, the primary fault lies with the Africans for not asking more of the Bank and the Fund when expected progress was not made.

There was one other issue that Mohsin Khan raised which I disagree with. The distinction between design and implementation is not quite discrete as it appears. The sad part is that many of these adjustment programmes are designed by people who haven't a clue how to manage a national economy. This ivory tower mentality of Washington, that what happens to people is really a problem for politicians and not for them is something that needs to change.

I hope that just as my multilateral debt paper (published by Fondad in early 1994) started an avalanche which I hadn't quite predicted, that this paper will start a similar avalanche with people thinking about the connections between adjustment and integration which seem to be very powerful indeed."

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