THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

OCCASIONAL PAPER

(New Series) No. 2

A special study on:

THE SADC ECONOMIES – WAITING FOR SOUTH AFRICA

Gavin Maasdorp
and
Adrian Saville

Professor Gavin Maasdorp is Director of the Economic Research Unit, University of Natal, Durban. He has been closely associated with the SAIIA for many years, being a former Chairman of the Durban Branch and still serving on the Editorial Advisory Board of *The South African Journal of International Affairs*. He has worked as a consultant in Southern African countries for 25 years, and has written widely on problems of economic development in the region, focusing particularly on economic integration and co-operation. He is the co-author of *South Africa and its Neighbours* (Lexington, 1985), and the co-editor of *Towards a Post-apartheid Future: Political and Economic Relations in Southern Africa* (Macmillan, 1992) and *Rethinking Economic Integration in Southern Africa: Trade and Investment* (Konrad Adenauer Stiftung, 1993).

Adrian Saville obtained a Masters degree in economics *cum laude* at the University of Natal in 1994. He is currently a tutor and lecturer in the Department of Economics at that university.

It should be noted that any opinions expressed in this publication are the responsibility of the authors and not of the Institute.

THE SADC ECONOMIES -

WAITING FOR SOUTH AFRICA

by

Gavin Maasdorp

and

Adrian Saville

ISBN: 1-874890-57-9

July 1994

The South African Institute
of International Affairs
Jan Smuts House
P.O. Box 31596, Braamfontein
Johannesburg, 2017
South Africa

CONTENTS

PREFACE i

1. THE ECONOMIC PERFORMANCE OF THE SADC COUNTRIES 1

    1.1 INTRODUCTION 1
    1.2 WHAT WENT WRONG? 3
        1.2.1 Non-Economic Factors 3
        1.2.2 Government Intervention 4
        1.2.3 Quality of Economic Management 5
        1.2.4 Macroeconomic Policies 6
        1.2.5 Terms of Trade 8
        1.2.6 Summary 9
    1.3 STRUCTURAL ADJUSTMENT PROGRAMMES 10
        1.3.1 Aims and Rationale 10
        1.3.2 The Process 11
        1.3.3 Role of the State 12
        1.3.4 Problems 13
        1.3.5 Results in SADC Countries 15

2. THE SADC COUNTRIES AND SOUTH AFRICA 15
    2.1 SOUTH AFRICA IN THE REGIONAL ECONOMY 16
    2.2 STATE OF THE SOUTH AFRICAN ECONOMY 18
    2.3 ECONOMIC POLICY 19
    2.4 RELATIONSHIPS WITH SOUTHERN AFRICA 20
    2.5 CONCLUSION 21

APPENDIX - COUNTRY ECONOMIC SUMMARIES

1. ANGOLA 22
2. BOTSWANA 28
3. LESOTHO 34
4. MALAWI 39
5. MOZAMBIQUE 45
6. NAMIBIA 51
7. SWAZILAND 57
8. TANZANIA 63
9. ZAMBIA 69
10. ZIMBABWE 75

BIBLIOGRAPHY 81

PREFACE

The brief to the first-named author was to produce a paper on the SADC economies which would be informative to members of the SAIIA and to the South African public in general. As the paper has evolved, the main text has been kept brief in order to present an easily readable overview of the economic position, policies and problems of the SADC countries. Rapid political change in South Africa itself has prompted the inclusion of a short section on South Africa's economic relations with the region. An economic summary is then given of each of the ten SADC countries, and this should provide readers with a picture of the main features of each economy. As South Africa will be joining SADC in August 1994, this publication should appear at an apt time.

The first-named author is grateful to Adrian Saville for agreeing to join him in this project. The authors wish to acknowledge assistance received from Mark Goddard, Alan Whiteside and Nick Wilkins, the typing skills of Kay Pedley, and above all, the patience of Alan Begg in waiting for this manuscript.

Gavin Maasdorp
Adrian Saville
Durban, July 1994

1. THE ECONOMIC PERFORMANCE OF THE SADC COUNTRIES

1.1 *INTRODUCTION*

Sub-Saharan Africa has persistently lagged behind the rest of the world in economic growth since the 1960s when the wave of independence swept through the continent. This poor economic performance has resulted in stagnating or falling incomes per capita and lower standards of living. Between 1950-1988, for example, real per capita GDP growth in sub-Saharan Africa averaged about 0.3% per annum, while the corresponding figure for less-developed countries as a whole was about 2.5% (see Table 1.1).

Table 1.1 Growth Rates of Real Per Capita GDP, 1950-1988 (% p.a.)

Region	1950-1960	1960-1970	1970-1980	1980-1988	1950-1988
Developing countries	1.8	2.8	3.3	1.9	2.5
Latin America	1.9	2.9	3.3	1.9	2.5
South Asia	2.0	1.7	0.7	3.5	2.0
East Asia	2.7	3.0	4.3	6.8	4.2
Sub-Saharan Africa	1.2	1.3	1.2	- 2.5	0.3

Source: World Bank database; Easterly and Levine, 1994

The growth rate of real GDP - 2.1% per annum - in sub-Saharan Africa between 1974-1990 fell short of the rate of population growth. Thus, of 46 sub-Saharan African countries for which data are available, 28 suffered falling real GDP per capita in the 1980s (World Bank 1994). It is clear, then, that Africa has lurched backwards at a time when poor countries elsewhere have advanced.

The experience within the Southern African Development Community (SADC) has been varied. Table 1.2 gives growth in real GDP for the SADC countries for the period 1980-1991.

Table 1.2 shows that SADC is comprised of a mixed bag: some countries have improved their incomes, others not. More important, once one has accounted for population growth only two countries stand out as having achieved significant increases in per capita GDP

between 1980-1991, namely, Botswana and Swaziland, while two achieved moderate improvements, namely, Malawi and Zimbabwe. Lesotho, Namibia and Tanzania more or less stood still, but per capita GDP in Mozambique, Zambia and Angola (although accurate figures for the Angolan economy are not available) declined. In fact, in 1992 Mozambique and Tanzania had the lowest per capita GDPs in the world. However, the problem does not end with per capita incomes; these countries also suffer numerous other problems associated with poverty, ranging from illiteracy to disease and malnutrition.

Table 1.2 Average Annual Growth in Real GDP, SADC Countries, 1980-1991

Country	% p.a.
Angola	n.a.
Botswana	9.3
Lesotho	2.7
Malawi	3.5
Mozambique	-1.1
Namibia	1.6
Swaziland	6.8
Tanzania	2.0
Zambia	0.7
Zimbabwe	3.6

Source: *The Economist*, 5 March 1994; World Bank, 1993

The picture is disturbing particularly when one looks back to the 1960s, or even the 1970s, when leading economists were predicting a bright future for Africa. Clearly, however, things went wrong, and the purpose of this section is to examine the reasons for this as well as the policy reforms which have been prescribed in order to reverse the process of economic decline.

1.2 WHAT WENT WRONG?

A number of factors, economic and non-economic, are responsible for poor growth rates.

1.2.1 Non-economic Factors

One of the more obvious explanations for the poor economic performances of most SADC countries is *natural disasters* which have ranged from droughts to cyclones and flooding. Severe droughts in the early-1980s and then again a decade later caused widespread crop and livestock losses throughout the region, having serious consequences for agricultural exports and the balance of payments. In 1984, Cyclone Demoina severely damaged crops and physical infrastructure in Mozambique and Swaziland. Natural disasters hit the rural areas hardest, and this is especially disturbing in view of the fact that, throughout SADC, countries tend to rely heavily on the agricultural sector, the majority of the population being involved in subsistence agriculture. For this reason, any natural disaster is potentially devastating.

Obviously, countries cannot prevent disasters but they can soften the blow. Thus, for example, a number of irrigation schemes have been undertaken in an attempt to protect crops from drought. However, such schemes usually require large capital outlays, and cash-strapped governments have found it increasingly difficult to finance projects. Consequently, they have had to rely on international funding which has come either in the form of long-term loans or aid. These, in turn, give rise to two further problems, namely, donor-conditionality and over-borrowing. These issues will be looked at in more detail later.

Political instability (including coups and civil wars) in countries with heterogeneous populations and colonially drawn boundaries has often served to constrain economic growth. Two SADC countries which stand out here are Angola and Mozambique, both of whose economies have been devastated by civil war/ insurrection. The pre-independence periods in both Zimbabwe and Namibia were characterised by lower-level conflicts which impeded investment and economic growth.

1.2.2 Government Intervention

The State has frequently played a leading interventionist role in the economies of sub-Saharan Africa, and there are two main reasons for this. First, the training and background of many new political leaders left them suspicious of the market. Governments tended to favour the concept of a planned economy, and felt that the State could act as both an owner and operator of enterprises. This also, of course, fitted in with the political interests of the new rulers, that is, for an emergent elite to benefit economically. Second, they saw in the State the opportunity to increase local control and ownership as well as to redress inequality. The net result, however, has been economic inefficiency and financial mismanagement. The reasons for this are well-known and are outlined below.

(i) Since the 1960s, government expenditure typically increased as a proportion of GDP but much of the capital spending went into inefficient projects which turned out to be white elephants. Just as worrying was the increase in government consumption - this led to a massive increase in the public sector which also served a political purpose, namely, patronage to supporters. In Zimbabwe, for example, the civil service increased from 40,000 at independence in 1980 to almost 200,000 today.

(ii) The establishment of parastatals became common, not just in utilities but also in mining, agricultural marketing and manufacturing. However, these parastatals have generally not been profitable and, moreover, have led to economic inefficiency. The reasons for this failure include government interference in management, subsidisation of losses, managers acting as civil servants rather than entrepreneurs, and parastatals being used as instruments of patronage as well as cash-cows and tax-nets.

(iii) Statism also manifested itself in the form of increased government regulation of the private sector, and regulatory instruments have included industrial licenses, import quotas, export licenses, credit controls, price controls (over wages, interest rates and commodities) and foreign-exchange allocations. In short, governments have stifled private-sector activity.

In line with the above, it is possible to identify two different categories within SADC, namely, those countries which have favoured strong government intervention and those which have opted for a limited role. The former category includes Angola, Mozambique, Tanzania, Zambia

and (to a lesser extent) Zimbabwe, while in the latter group are Botswana, Lesotho, Malawi, Namibia and Swaziland. Not surprisingly, the latter group generally had higher economic growth rates than the former (see Table 1.2). The evidence, then, tends to favour less, rather than more, government intervention, and without exception intervention has recently been reduced in all countries in the first category.

1.2.3 Quality of Economic Management

A major cause of economic decline is that, when countries gained independence, they did so with a severe shortage of skilled personnel. This was a result of two factors: first, there was a large exodus of skilled manpower because of civil war or political change, as was the case in Angola, Mozambique and Zimbabwe, and second, some governments adopted rapid localisation policies, putting locals into jobs previously filled by more experienced expatriates, e.g., in Tanzania and Zambia. This left countries with a largely inexperienced civil service. This shortage of experience and skills severely reduced the ability of governments to manage the economy or devise sound policies, and the situation was exacerbated by the poor and unreliable statistics produced by the civil service. However, Botswana, Malawi and Swaziland stand out as countries which, after independence, managed to retain a large pool of skilled expatriates whilst training local citizens. The position in Namibia and Zimbabwe post-independence reveals a contrast: the former retained most of its skilled personnel while the latter suffered a continued exodus which had begun in the 1960s. Again, it is not surprising that the countries fall into two rough groupings of higher-growth and lower-growth economies with those which have been more cautious in localisation belonging to the first group.

The above should not be taken to insinuate that expatriates are inherently more capable managers of an economy than are the citizens of SADC countries. However, there is no substitute for training and experience, and for various reasons some governments in the region have been more aware of this than others.

1.2.4 Macroeconomic Policies

1.2.4.1 Prices

'Getting prices right' is now generally regarded as being absolutely crucial for economic growth and development. Perhaps the most critical price of all is the exchange rate, and in most countries governments did not adjust this rate to changing economic circumstances, namely, inflation and indebtedness. Thus, the exchange rate became over-valued, making imports relatively cheaper compared with local products and non-tradeables such as labour, and creating a strong incentive to invest in capital - rather than labour-intensive activities. In some countries, however, a parallel exchange rate developed which was higher than the official rate. This has had the effect of creating opportunities for bribery and corruption, and has generally undermined economic efficiency. At the beginning of March 1994, for example, the parallel exchange rate in Angola stood at a 500% discount to the official rate. The corresponding, albeit less dramatic, figures for Malawi, Mozambique, Zambia and Zimbabwe were 55%, 15%, 26% and 18% respectively (*Africa Analysis*, 1994a, 16).

Apart from exchange controls, governments have also followed policies of price, wage, investment and interest rate controls. The net result has been a general stifling of private-sector activity which has been worsened by high individual and corporate tax rates.

1.2.4.2 Agriculture

Policies have also tended to discriminate against the agricultural sector. In countries where marketing boards were set up, these became statutory monopoly buyers controlling crop and livestock prices at levels below world market prices. Thus government in effect taxed farmers in order to boost its own revenue which was then used to subsidise urban and industrial growth. The response of farmers was predictable - investment in agricultural production slowed down or declined, leading to a fall in agricultural exports and foreign-exchange earnings, and hence foreign debt accumulated. Here, the cases of Zambia (under Kaunda) and Malawi provide an interesting contrast.

Zambia and Malawi have approximately equal populations but the former is six times larger in area; moreover, at independence Zambia had one of the largest industrial bases in Africa as well as a large mining sector. By contrast, Malawi relied almost entirely on peasant

agriculture. However, Malawi's GNP grew at 6.1% per annum between 1965-1980 and 3% per annum between 1980-1987; Zambia could only muster a 1.8% per annum growth rate in the former period and a decline of 1.1% per annum in the latter period.

The explanation for these vastly different growth performances lies in the respective governments' attitudes towards the agricultural sector. After independence, Zambia neglected agriculture, establishing a government-controlled marketing system with food subsidies for the urban population. It remained dependent on copper for exports and government revenue, and failed to diversify the economy. Thus, when the price of copper fell, Zambia first printed money to cover its budget deficit, then resorted to borrowing. Its external debt increased and it had a high debt-to-exports ratio. Gross domestic investment fell. Further, the acute foreign-exchange shortage that evolved had a serious effect on the mining industry because of persistent shortages of spare parts, fuel and explosives. Consequently, when the copper price increased in the late-1980s, output had fallen to about 60% of its peak, and the cost of lost exports was high. Moreover, rural infrastructure had deteriorated as a result of neglect, and therefore one-third of the bumper harvest in 1988 was spoilt by rain as it waited to be transported by a parastatal monopoly.

Malawi, by contrast, stressed agriculture, especially during the period 1964-1979. It built rural roads for the marketing of produce and the transporting of subsidised fertiliser to small farmers. It also followed a policy of budgetary restraint. As a result, the economy grew rapidly through the 1960s and 1970s. Malawi did, however, run into problems in the 1980s, and economic growth slowed, but this was largely the result of exogenous factors such as the destabilisation of its transport routes to the sea and an influx of about 1mn Mozambican refugees which placed a strain on the country's resources.

1.2.4.3 Industry

Governments in sub-Saharan Africa have tended to follow import-substituting industrialisation (ISI) policies long after they had been abandoned by the rest of the world. For most SADC countries these policies have proved a dismal failure due to a number of adverse factors: over-capacity which raised unit costs; small domestic markets; foreign-exchange shortages which denied industry necessary raw materials and spares; and the skills shortage extant in many of the countries. Further, in a number of instances governments nationalised

foreign-owned assets, and this proved to be disastrous: the nationalised companies lost access to international input (skills, technology and capital) markets and output (export) markets. Moreover, nationalisation ensured that foreign direct investment, which is often so crucial to the development of economies, did not flow into these countries.

1.2.5 Terms of Trade

The poor economic performance within SADC is often blamed on declining terms of trade (the ratio of export to import prices). In this regard it is argued that the frequent foreign-exchange crises experienced by sub-Saharan Africa have been brought about by both falling international prices of primary product exports (the region's principal revenue earner) and rising prices of consumer and industrial goods (the region's main imports).

Two points should be noted here. First, although some countries did suffer falling terms of trade from 1975 onwards, for Africa as a whole the terms of trade in the 1980s were more favourable than in the 1960s. Second, whilst it is true that world prices of many primary products fell between 1960-1990, this was often the result of exporters flooding international markets in an attempt to boost foreign-exchange earnings; the increase in supply, however, resulted in falling prices. So, although sales increased, weaker prices left revenues unchanged or lower. In these instances the situation was exacerbated by the fact that, within SADC, countries tend to be heavily dependent on just one or two primary products, including oil (Angola), diamonds (Botswana, and to a lesser extent, Namibia), copper (Zambia), sugar (Swaziland) and tobacco (Malawi and, to a lesser extent, Zimbabwe).

Explanations aside, numerous members of SADC were faced by growing foreign-exchange shortages that threatened to, and often did, disrupt economic activity. This, in turn, produced a further crisis in these countries. In order to overcome foreign-exchange shortages, governments borrowed on international capital markets. The funds, however, were often used to finance recurrent rather than capital spending. This left borrowing countries with massive debt mountains (Table 1.3) for which they had little to show.

Table 1.3 Total External Debt ($m): SADC (1991)

Country	Debt	GDP	Debt:GDP
Angola	8,775	7,579	1.15
Botswana	543	3,335	0.16
Lesotho	428	578	0.74
Malawi	1,676	1,986	0.84
Mozambique	4,700	1,219	3.86
Namibia	374	2,051	0.18
Swaziland	258	902	0.29
Tanzania	6,459	2,223	2.91
Zambia	7,297	3,831	1.90
Zimbabwe	3,429	5,543	0.61

Sources: *World Development Report*, 1993; World Bank Debt Tables, 1992-1993.

The situation was exacerbated by rising interest rates in the 1980s which led to sharp increases in debt-servicing outflows. This further drained economies of already scarce foreign exchange. Here again, the SADC countries which have suffered under heavy government intervention display high debt-to-GDP ratios, with Angola, Mozambique, Tanzania and Zambia all having ratios greater than 1.

1.2.6 Summary

The above discussion shows that there are a number of causes of the poor economic growth performance of some countries. However, poor macroeconomic management is often the central cause, leading to a vicious spiral of economic decline. The only way out is to stabilise the economy. Some governments have taken timeous steps to do this while others have had such measures - now commonly termed 'structural adjustment programmes' - virtually forced upon them by *donor and commercial bank conditionality which requires recipients* of international capital flows to adopt certain economic reforms.

1.3 STRUCTURAL ADJUSTMENT PROGRAMMES

Because structural adjustment programmes (SAPs) have become so controversial, it is necessary to devote some space to an assessment of them.

1.3.1 Aims and Rationale

The aims of SAPs are to reduce the budgetary and balance-of-payments deficits, reduce inflation, adjust exchange rates and promote the agricultural sector, thereby promoting economic restructuring and creating the conditions for long-term economic growth. The above are to be achieved through, *inter alia*, reducing recurrent government spending by cutting the civil service and privatising parastatals, encouraging export-orientated industrialisation (EOI) with the aid of foreign direct investment, repaying foreign debt, curtailing money supply growth, devaluing the currency, and raising agricultural commodity prices.

The first point is that SAPs are not as unique as they are often made out to be: all countries have to adjust and adapt their economies to changing circumstances. One reason for the controversy surrounding SAPs is that they have tended to be associated with a diktat from the 'Bretton Woods institutions', i.e., the World Bank and International Monetary Fund. Now, although these institutions did coin the term 'structural adjustment programme' in the 1980s, they were merely following a market-orientated policy adopted by East Asian countries in the 1960s. Moreover, whilst the World Bank and IMF have played a major role in designing many SAPs, governments can independently adopt, design and implement such programmes. SAPs are often a precondition for further lending from multilateral and donor institutions as well as from financial institutions, but this is the result of wrong policy choices made by governments in the past. Clearly, it is better to make policy adjustments in good time rather than to be forced into such a situation: the cost of waiting is high. SADC countries which have adopted and designed their own SAPs are Zimbabwe, Malawi and Swaziland, while Tanzania and Zambia have had to accept SAPs designed by the World Bank and IMF.

There is now a convergence of views between the World Bank/IMF and the early doubters and critics of SAPs: the opportunity of adjusting must be seized in order to preempt further economic damage. In reality, governments have no alternative but to stabilise their economies and

remove obstacles to economic growth. No credible alternatives exist to stabilisation and prudent development policies; slogans and idealism are certainly no substitute.

1.3.2 The Process

Let it be very clearly stated, however, that although SAPs may lay the ground for economic growth, other policies also need to be designed and implemented. A SAP is merely a process of economic liberalisation and cannot achieve results overnight. The important point is that policies have to begin to change in the right direction. Luders (1994) points out that, whilst SAPs create the necessary conditions for development, there is a long-term process of fine-tuning and implementation, comprising structural and institutional reforms.

Structural reforms consist of liberalisation measures, getting the prices right and introducing fiscal discipline, the objectives being to reduce inflation and shortages, increase international competitiveness and exports, boost the private sector (through privatisation and cutting the public sector) and thus stimulate economic growth. Reliance is placed on the market and the private sector to lead the growth process (although the State also has a key role as discussed below). However, these structural adjustments are not enough - they are not a sufficient condition for renewed growth. The institutional reform stage is critical, the objective there being to reinforce international competitiveness, increase participation in the economy, promote social justice through reforms in education, health, justice and labour relations, privatise social security where possible, and stimulate research and development (R&D). Whilst structural reforms can be implemented relatively quickly, institutional reforms take a long time. They require political stability and are more complicated than trade and fiscal reforms.

The results of SAPs in sub-Saharan Africa are controversial, largely because people are impatient for results and do not appreciate that the process will take time. The test rests in time - the reform measures have not been in place for long enough adequately to test the relationships between aggregates. By contrast, East Asian countries started the process in the 1960s and Chile in the early 1970s, and now have something positive to show.

It is important that a government persists with its SAP. If it abandons the SAP at an early stage, the country could be worse off than before, as was the case in Zambia in 1987 and 1991. Evidence shows that it

takes at least two years for the economy to improve because various key parties take time to do the things they have to. These parties include: agricultural producers (crops have to be planted, new export markets developed, rural infrastructure and telecommunications improved); donors (various feasibility studies need to be undertaken); government (cutting the civil service and privatising State-owned enterprises are politically difficult and require time in less-developed countries where jobs and capital are scarce); and foreign investors (who may be reluctant to return, especially in view of some countries' previous nationalisation policies). As noted by the World Bank: adjustment is not just a one-off affair - achieved by devaluing one day and selling parastatals the next - but a never-ending process of fine-tuning monetary and foreign-exchange policy, stimulating the productive sectors of the economy, encouraging farmers and industrialists, reducing the dead weight of the administrative bureaucracy, and improving the general standards of governance (*Africa Analysis*, 1994, 14).

1.3.3 Role of the State

Much of the criticism of SAPs in sub-Saharan Africa has been aimed at their market/private-sector focus, and has alleged that SAPs downplay the role of the State. Yet this role is a crucial one in the success of SAPs, as is illustrated by the East Asian economic 'miracle'.

One of the fundamental reasons for the rapid economic growth of the East and South-East Asian regions is that the bureaucracies have been efficient. They have operated free of political control, and have been able to be flexible and pragmatic in implementing macroeconomic policies. Not for them the dead hand of Prebisch as in Latin America or of socialist ideology as in parts of sub-Saharan Africa. Asian governments were committed to economic growth, and obtained social consensus (among intellectuals, bureaucrats and businessmen) around growth; it was a profit-seeking approach as opposed to the rent-seeking governments and bureaucracies of much of Africa riddled with corruption and nepotism. African governments have been far too concerned about the ownership of enterprises whereas the efficiency and profitability aspects are the important ones. All East and South Asian countries (including China and India) are trying to privatise but, as the case of Singapore illustrates, State ownership is not necessarily a problem so long as public enterprises are obliged to operate along private-sector lines. Singapore has allowed bankruptcy and lay-offs of staff in its public enterprises.

Asian governments have also been willing to correct their mistakes as soon as these have become apparent. They have played a key role in providing market and technology information to industry, treating information as a public good. Sound relations between the public and private sectors has been a major aim of governments in Asia, with the result that these sectors have been able to cooperate in economic policy.

To succeed, a country needs a government which has the political will to get the macroeconomic settings (fiscal and monetary policies, inflation and exchange rates) right, and follow sound trade and sectoral policies, human resource development policies (education, health and labour), and infrastructural policies. One reason why SAP performances in sub-Saharan Africa have been so varied is that governments have not had the political will to recognise the problem in time so that the medicine has been nasty. As a consequence they have also not had the political commitment fully to implement the SAPs. Instead, they have opted for half-hearted measures, not for a full dose of the remedy. This stop-go approach has reduced the credibility of SAPs and increased the problems. Selective implementation has destroyed the consistency of the programmes, and thus SAPs have often failed to trigger economic growth. This in turn has exacerbated political instability and reduced investor confidence further.

1.3.4 Problems

Sub-Saharan Africa's economic problems should not be blamed on SAPs - the position would have been worse without them. This is not to say, however, that there are no problems with SAPs. On the contrary, these have been well documented, and are accepted by the World Bank and IMF which have shown a fair amount of flexibility in adjusting SAPs to overcome the problems.

A major problem with SAPs has been one of expectations - the time frame required for economic recovery is longer than had been anticipated when they were introduced. Most countries implementing SAPs have not been granted sufficient debt relief to enable them to devote their resources to development rather than to debt servicing. As a consequence, the financial resources required for the programme have been inadequate, thus causing socio-political strains during implementation. Anti-poverty programmes have now been included, but are still not part of the core SAP, remaining an adjunct. A further problem is that national SAPs have not been designed so as to

harmonise with attempts at regional economic integration.

SAPs are intended to benefit exporters and producers of goods competing with imports. Devaluations shift relative prices in favour of exports and against imports. But, as recent experience in Zimbabwe shows, short-term problems occur: import prices rise, interest rates rise and thus the cost of credit increases and, further, the cost of imported inputs, machines and spares rise which can render new exports uncompetitive. Moreover, SAPs cause sharp increases in the cost of living for the urban salaried class, and this makes these programmes unpopular and politically sensitive.

SAPs have also been accused of ignoring the plight of households, farmers and small businesses - exactly the people they are intended to help. The reasons for this range from the education and health spending cuts required to reduce budget deficits, to the private monopolies that often replace State-controlled marketing boards. Some examples of these problems have recently been quoted (*The Economist*, 1994, 23):

(i) since Zimbabwe's government introduced fees at health clinics, three times as many women at Harare Central Hospital have died in child-birth, and

(ii) since Zambia dismantled its State marketing monopoly for maize, private barons have staked out informal monopolies in the eastern region and now pay farmers well under one-half the old State minimum.

Because of such problems, the World Bank has shifted its stance and now emphasises 'adjustment with a human face' and 'poverty-reducing' growth. Nonetheless, SAPs are still accused of failing to take cognizance of the extreme fragility of the adjusting countries' administrative structures, of showing a naive belief in the authority and credibility of their governments, and of offering identical 'broad-brush' solutions to countries that are diverse and so experience different problems which require unique solutions. However, the critics fail to put forward any convincing alternatives to SAPs. The fact is that the medicine to cure a sick economy is nasty and problems do arise, but it must be taken and mitigating measures should be introduced to make it as painless as possible.

1.3.5 Results in SADC Countries

As far as SADC is concerned, three countries are argued to have achieved varying degrees of success through SAPs, namely, Malawi (through the 1980s), Tanzania (since 1986) and Zimbabwe (since 1991). For Zambia, however, the story is somewhat different. It implemented a number of SAPs from the mid-1980s but with little success, mainly because it repeatedly abandoned the programmes for political and other reasons before the political change of 1991 led to a determined effort to adhere to a SAP. For some countries (notably Botswana) it has not been necessary to follow the SAP path. The record of SAPs is reviewed more extensively in the country economic summaries.

2. THE SADC COUNTRIES AND SOUTH AFRICA

Despite the patchy record of economic growth in the SADC countries in the last decade or so, there is considerable growth potential in the region. What is clear, however, is that if countries are to unleash this potential a number of constraints must be removed, with or without the aid of SAPs. These are outlined below.

(i) It is crucial that political stability is achieved and maintained, particularly in Angola and Mozambique. However, with the exception of Botswana and Namibia, no country in the region appears at present to be without some political problem.

(ii) Economic liberalisation must be vigorously pursued in an effort to facilitate greater economic freedom and encourage private-sector activity (especially in the neglected agricultural and manufacturing sectors). As noted, in most countries such steps are currently being taken by governments throughout SADC.

(iii) Governments must move their economies away from over-dependence on primary products by promoting economic diversification, and here the private sector (and particularly foreign direct investment) will play an important role.

(iv) Internal and external deficits must be reigned in and external debts reduced. At the same time capital spending, particularly on infrastructure, must be stepped up. Such moves, however, are often difficult as they generally involve cutting the civil service and privatising parastatals (which are often snapped up by

foreign investors) and both are, of course, politically difficult steps for government.

(v) Local skills must be developed more rapidly in an effort to close the skills gap between the region and other parts of the world.

(vi) Most countries are faced with the problem of small domestic markets, and accordingly governments must abandon their inward-looking policies and look outwards to export markets.

If the above reforms are brought about, then there can be little doubt that SADC as a grouping has the ability to achieve strong, sustainable economic growth. Angola and Mozambique, in particular, have the natural resource potential to grow significantly; this would, of course, be from a very low base given the decades of war damage, and a major reconstruction and development programme would be required in both these countries.

This, then, is the state of the SADC economies as the organisation waits for the new South Africa to become a member. The remainder of this section considers the position of South Africa in the regional economy, the state of the South African economy, economic challenges facing the new government, and the effect of likely policies on relationships with the rest of Southern Africa.

2.1 SOUTH AFRICA IN THE REGIONAL ECONOMY

South Africa has by far the largest economy in the region as is shown in Table 2.1.

As this table illustrates, South Africa has 30% of the population of Southern Africa, but over three-quarters of total GNP and almost two-and-a-half times the average regional per capita GNP. The contrast is further illustrated in Table 2.2 which depicts trade flows between South Africa and the SADC countries in 1992.

Table 2.1 SADCC and SA - Area, Population and GNP, 1991

Country	*Area* (m km²)	*Population* (m)	*Total GNP* (US$m)	*GNP per capita* (US$)
Angola	1.25	9.5	6,175	650
Botswana	0.58	1.3	3,289	2,530
Lesotho	0.03	1.8	1,044	580
Malawi	0.12	8.8	2,024	230
Mozambique	0.80	16.1	1,288	80
Namibia	0.82	1.5	2,190	1,460
Swaziland	0.02	0.8	840	1,050
Tanzania	0.95	25.2	2,520	100
Zambia	0.75	8.3	3,486	420
Zimbabwe	0.39	10.1	6,565	650
SADC	5.71	83.4	29,421	350
South Africa	1.22	38.9	99,584	2,560
TOTAL	6.93	122.3	129,005	1,050
South Africa % of total	16.60	31.8	77.2	243.8
South Africa % of total + rest of PTA	10.00	14.0	63.0	449.1

Source: World Bank, *World Development Report*, 1993; *Africa Analysis*, Nos. 189 and 191, 1994.

South Africa enjoys a favourable balance of trade with the region, the ratio running at 5.4:1 in its favour. The Southern African Customs Union (SACU) countries have especially close trade ties with South Africa, followed by Zimbabwe and Malawi, both of which have bilateral agreements with Pretoria. The SACU markets were particularly important, absorbing 10% of South Africa's foreign trade by value and 25% of its manufactured exports by value.

Table 2.2 South African Trade with SADC Countries, 1992 (Rm)

Country	Exports	Imports	Total	Ratio X/M
Botswana	4,284.6	496.1	4,780.7	8.6
Lesotho	2,541.0	152.8	2,693.8	16.6
Namibia	3,873.2	734.6	4,607.8	5.3
Swaziland	2,233.8	804.1.(a)	3,037.9	2.8
SACU	12,932.6	2,187.6	15,120.2	5.9
Angola	365.2	-	365.2	100.0
Malawi	698.0	134.0	832.0	5.2
Mozambique	678.2	51.0	729.2	13.3
Tanzania	27.7	10.3	38.0	2.7
Zambia	1,112.2	44.6	1,156.8	24.9
Zimbabwe	1,553.4	762.6	2,316.0	2.0
Non-SACU	4,434.7	1,002.5	5,437.2	4.4
Total SADC	17,367.3	3,190.1	20,557.4	5.4
SACU %	74.5	68.6	73.6	-

Source: South African Reserve Bank, Pretoria
Note: (a) 1991 figure

2.2 STATE OF THE SOUTH AFRICAN ECONOMY

The new South African government has inherited an economy weakened by almost twenty years of low growth. Apart from a brief spurt between 1979-1981 (the result of a short-lived boom in the price of gold), real economic growth has been disastrously low since 1975. It averaged only 1.2% per annum in the 1980s and in 1993 the growth rate was positive (1%) for the first time since 1988. Because the economic growth rate has fallen well short of the population growth rate since 1975, real per capita incomes have declined.

The main reasons for the low growth have been political factors associated with apartheid, low world economic growth rates, and poor economic policies. The last-mentioned category includes the high degree of control in the productive sectors, the high levels of protection for local industry, and the policy of cheap capital. A policy of liberalisation in the last few years has done little to stem the exodus of foreign and domestic capital, the emigration of skilled individuals, and the deepening of open unemployment and poverty.

A number of indicators illustrate the poor economic performance. These include: low levels of gross domestic savings and gross domestic fixed investment, a decline in formal-sector employment in the 1990s, a stagnation of manufacturing employment since 1975, declining productivity levels, and a falling exchange rate. On the positive side, however, there has been a decline in taxation rates (although South Africa remains one of the more highly taxed countries), the rate of inflation has fallen to single digits since late-1993, the country is under-borrowed, and non-gold exports have increased.

2.3 ECONOMIC POLICY

The government of national unity faces a daunting challenge: it will have to follow pragmatic, prudent macroeconomic policies if it is to gain the confidence of investors (both local and foreign), but it will also have to make rapid, demonstrable progress towards relieving the sharp interracial imbalances in economic welfare.

The ANC's thinking on these issues is perhaps best set out in its *Reconstruction and Development Programme* (RDP) (ANC, 1994). This document will be the subject of a White Paper : it will be debated in parliament, and will be tempered by the views of other parties, business, government departments and the international community. In the meantime, the first budget of the government of national unity, which on the whole was well received by the private sector, has placed considerable emphasis on RDP spending. However, it failed to lower the deficit to the 6% required in terms of the commitment to the IMF, and the Reserve Bank is concerned about the country getting into a debt trap. Although the ANC has stated that it is committed to economic liberalisation, many investors are likely to wait for the second budget of the government of national unity before committing themselves; they will be particularly interested in future policy on taxes, government spending, monetary policy, exchange control, the banking and financial sector, manufacturing industry, labour and anti-trust legislation. In the meantime, local business appears quietly confident while there is a show of significant interest on the part of foreign governments and investors. At what point this interest is translated into actual investment, however, remains to be seen. It is clear that rapid economic growth would solve a number of problems, and that this should be a top priority, but it is not yet clear what the costs of the RDP and the methods of financing it will be. There is as yet no sign of any savings in departmental expenditure as a result of

the scrapping of apartheid structures such as the tricameral parliaments and the homelands, and the new provinces might have insatiable demands on the exchequer.

2.4 RELATIONSHIPS WITH SOUTHERN AFRICA

Although SADC was formed (as SADCC) in 1980 with the aim, *inter alia*, of reducing its economic ties with South Africa, in reality these ties have persisted. They have been particularly close in trade, investment, employment and transport.

On the trade side, South Africa's relations with Botswana, Lesotho, Swaziland and Namibia in the Southern African Customs Union (SACU) date back to before Union in 1910. The five member countries committed themselves in 1993 to a thorough re-examination of the Agreement, and this can now be expected to move ahead rapidly. All the governments have indicated their wish to improve the Agreement. It is possible that the new South African government might also request that the Common Monetary Area (with Lesotho, Swaziland and Namibia) be examined simultaneously. A number of bilateral agreements concluded solely for political reasons - with Zimbabwe, Malawi and Mozambique - might not survive for much longer, and it is expected that preference might be given to multilateralism.

Once the SACU Agreement has been renegotiated, the question of the relationship of this group to SADC (and perhaps also to the PTA) will have to be tackled. South Africa will join SADC in August 1994, but it might take a more cautious view towards the PTA since there appears to be some scepticism in Pretoria regarding the PTA's transformation into a Common Market of Eastern and Southern Africa (COMESA) with a common external tariff.

The RDP refers to the 'democratisation' of economic relations with Southern Africa, and the ANC has always been sensitive to the fears of the SADC countries of economic dominance by South Africa. As mentioned above, merchandise trade flows are heavily skewed in South Africa's favour but there could be scope for offsetting such flows by South African purchases of services and utilities (tourism, water, electricity, transport from the region), although this would involve a considerable investment in some of these sectors. South Africa has been attracting significant investor interest in recent times, and SADC countries fear that investors will concentrate on South Africa to the detriment of the rest of the region. It seems clear that South Africa will

receive the bulk of foreign direct investment going to Southern Africa: if this exacerbates the polarisation of industry, neighbouring countries will have to concentrate on further liberalising their economies and improving the climate for foreign investment. South Africa itself has been a major foreign investor in the region, but ANC spokesmen have warned on a number of occasions that the country does not have sufficient capital to continue being a source of investment funds for the region. It is possible that the new government might bring pressure to bear on the Reserve Bank to tighten up on foreign investment by South African companies.

Equally worrying for neighbouring countries is the future of migrant labour and the flight of skilled individuals to South Africa. As the demand for labour on the mines has fallen, the number of foreign migrant workers has declined from 475,000 in 1973 to 166,000 in 1991. By contrast, a brain drain from SADC countries has occurred with South Africa being the beneficiary, while illegal migration has also increased. With South Africa facing an unemployment crisis of its own, it has been speculated that the new government might adopt a far tougher line towards foreign Africans in the economy.

In the field of transport, there should be little in the way of greater cooperation between SADC countries and South Africa. There is certainly no reason why bulk exports from landlocked countries should not use their natural ports provided transport efficiency is improved. Maputo could well regain its erstwhile position as the port for the Southern and Eastern Transvaal, and transport services could again be an important revenue earner for Mozambique.

2.5 CONCLUSION

It is in the interests of Southern Africa that South Africa's economy succeeds in attaining a high rate of growth since it is likely to be a more generous neighbour the more prosperous it is. Although ANC officials have warned that South Africa may not be able to meet the expectations held by many in the SADC countries of being the 'engine of growth' for the region, it is possible that, as in the case of Japan in South East Asia, so too could there be a spillover effect of growth and investment from a prosperous South Africa to its neighbours. An important role which the individual countries, and SADC as a grouping, could play in the next few years is to pressurise the government of national unity to follow sound macroeconomic policies which will win investor confidence and result in rapid economic growth.

APPENDIX

COUNTRY ECONOMIC SUMMARIES

1. ANGOLA

1. BACKGROUND

Angola in mid-1993 had an estimated population of 10.9 million. The economy has the potential to become one of the richest in the region with massive oil reserves, many hydroelectric possibilities, valuable mineral reserves, plentiful agricultural land, rich fishing waters, large livestock resources and important forest areas. However, since gaining independence from Portugal in 1975, economic progress has been severely hampered by a devastating civil war between the ruling party, the Movimento Popular de Libertacao de Angola-Partido do Trabalho (MPLA-PT), and Uniao Nacional para a Independencia Total de Angola (UNITA). Economic growth in the last few years has been off a low base and primarily due to high growth in the enclave oil sector which has remained relatively unaffected by the war. The rest of the economy remains in ruin as a result of war. For example, the onset of the war led to a mass exodus of skilled expatriates, creating a skills shortage which has stunted economic growth. The war has also produced a serious health problem through disease and malnutrition; and the indiscriminate planting of mines has earned Angola the dubious distinction of having the largest number of amputees per capita in the world. Further, the war has rendered government's education programme largely unsuccessful and has led to a severe deterioration in the country's infrastructure. Finally, the adverse effects of war have been compounded by a failed experiment in 'central planning' which was eventually abandoned by the government in 1987.

2. ECONOMIC INDICATORS

	1986	1987	1988	1989	1990
GDP:					
Current prices (NKz bn)	167.7	196.2	210.5	237.0	271.5
Real Growth (%)	12.3	12.6	14.3	1.8	2.8
Oil sector	26.2	28.1	24.7	0.3	4.6
Non-oil sector	2.7	-0.6	2.9	3.7	0.5

ECONOMIC INDICATORS (continued):

Structure of production: GDP contribution (%) (1991):					
Agriculture, forestry and fishing					10.3
Mining and oil					58.2
Services					17.5
Others					14.0
Total:					**100.0**
Foreign Trade: Trade balance ($m)	504	1030	1095	1367	1981
Main exports: Crude Oil (90%); *also diamonds, refined petroleum, gas and coffee*					
Main imports: Consumer goods (40%), raw materials (15%), capital goods (15%), transport equipment					
Main trading partners: Exports - USA (52%), France; Imports - Portugal (26%), France, USA, Brazil					

Source: Economist Intelligence Unit, *Country Profile*, 1993/94.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Until the mid-1970s, Angola was a large net exporter of agricultural products, being self-sufficient in all food crops except wheat. Since then, however, the sector has been on a steady decline which has had serious consequences for the 7 million Angolans who are directly dependent on agriculture for survival. A number of factors are responsible for this decline, but two stand out as particularly significant. First, the civil war has disrupted production and destroyed the country's infrastructure. This has led to a decline in area planted and average crop yields. Second, a drought between 1988-1990 saw output in the five principal grain crops (maize, sorghum, millet, rice and wheat) fall, in some areas, to one-quarter of 1973 levels. The sector did start to recover with the end of the drought and the signing of a peace accord in mid-1991, but this was nullified by renewed fighting in late-1992. Food aid requirements were thus put at 100,000 tons for 1992/93.

In terms of export crops, coffee production has fallen dramatically since independence when Angola was the fourth largest producer in the world. In fact, in 1991 Angola only produced about 2% of its 1975 level. A slide in world coffee prices exacerbated this problem: in 1990 the value of coffee exports was only $4.6m compared to $164m a decade earlier (Economist Intelligence Unit, 1993a, 26). This decline in coffee production has been accompanied by similar declines in the production of other cash crops such as sisal, cotton, oil palms, tobacco, bananas and citrus. Since 1992, government has attempted to reverse this adverse trend by liquidating and breaking-up inefficient State-owned farms and selling them off to small farmers; further, government has made attempts to encourage foreign investment in this sector. Two other potentially important sectors have also been devastated by war: in 1991 livestock output was only one-fifth of 1973 levels, and output in the forestry sector was just 5% of the 1973 level (Economist Intelligence Unit, 1993a, 27).

Angola's 1,650 km seaboard means that there are substantial fishing resources, and before 1975 fishing was a major industry. However, the outbreak of civil war saw most of the modern fishing fleet sail away with refugees; further, most processing plants have been destroyed. The situation was worsened by a severe foreign-exchange shortage and a pricing system that discouraged production. Since 1980 significant investments (particularly by the European Community) have been made, but the industry has not recovered for a number of reasons. First, previous overfishing in the area has left stocks depleted. Second, there have been adverse shifts in ecological conditions in the area. Finally, processing plants still suffer under foreign-exchange problems which render them unable to import necessary spare parts. In 1991 the total catch of 171,000 tons was far below the 450,000 tons which the Ministry of Fisheries estimates as the sustainable annual catch (Economist Intelligence Unit, 1993a, 28-29.

3.2 Mining

Angola is particularly rich in mineral resources, possessing deposits of more than thirty minerals. Of those though, only diamonds and iron ore have been mined on a major scale. In 1975, Angola was the world's fourth largest producer of diamonds, and has potential reserves of 350m carats. However, the sector, like most others, has been adversely affected by the civil war. Numerous efforts have been made to revitalise the industry, including attempts to attract foreign investors which, so often, are important to the mining sector of developing

economies because of the capital, skills and technology they have to offer. Foreign companies have, however, been reluctant to invest. In 1990, diamond production had reached 1.2m carats and was worth $254m to the economy. However, the industry suffered a severe setback in 1991 with the occupation of mine sites by UNITA forces who have used the mines to earn revenue to fill their near-empty war coffers. Although potential iron ore output is high, mining has not taken place since 1975 when the industry was shut down due to security problems, a deteriorated infrastructure and depressed world markets.

3.3 Energy

Since 1973, oil has been Angola's principal export and, because Angola is not a member of OPEC, it is not constrained by the producer organisation's production quotas. Production increased through the 1980s, climbing steadily from 134 million barrels in 1980 to reach 541 million barrels in 1992 (Economist Intelligence Unit, 1993a, 33-34). Because the industry is primarily located in the enclave of Cabinda, it has remained relatively unscathed by war, and foreign companies have continued to invest. For that reason it is not surprising that the industry typically accounts for over 40% of GDP and earns over 90% of Angola's foreign exchange.

The hydroelectric potential in Angola is enormous, but the industry has suffered serious setbacks as a result of sabotage on installations, lack of investment and lack of skilled personnel. Currently, however, major investments are being undertaken which aim to double thermal generating capacity in Luanda and rehabilitate the existing grid. A $1.5bn-$2bn hydroelectric dam being built on the Kwanza river is due for completion in the mid-1990s and will generate an additional 520 mw (Economist Intelligence Unit, 1993a, 38).

3.4 Manufacturing

Since 1975, the manufacturing sector has been reduced to a fraction of what it was before independence. The major factors responsible for this decline have been insufficient investment; foreign-exchange shortages; infrastructural decay (especially disruptions to energy and water supplies); price controls which failed to stimulate production; an over-valued exchange rate; and skills shortages. Manufacturing contributed just 2.5% of GDP in 1991 and employed fewer people in

1990 (120,000) than in 1973 (1,251,000) (Economist Intelligence Unit, 1993a, 39). In the early 1990s most plants were operating at only 20-30% of capacity. There is clearly enormous potential for expansion here, and industry is starting to benefit from government policies which include price liberalisation; privatisation of inefficient State-owned companies; and devaluation of the exchange rate to stimulate exports. However, the sector is still stifled by foreign-exchange shortages, difficulties in gaining access to finance, and soaring import costs because of the exchange rate devaluation.

4. GOVERNMENT POLICY

After the MPLA's second congress in December 1985, the government committed itself, on paper, to economic reform measures aimed at reversing the performance of the economy. These measures included an agricultural policy shift towards support for peasant farmers and away from State farms; privatisation of the bulk of wholesale and retail trade; increased financial autonomy for State enterprises; regional decentralisation; liberalisation of the rigid price control system; improved incentives for foreign investors; and devaluation of the kwanza (Kz). However, implementation of these policies was extremely slow, primarily due to a preoccupation with the civil war.

In August 1987, President dos Santos announced a new plan for *saneamento economico e financeiro* (SEF) or economic and financial cleansing. The plan marked the end of 'Marxist-Leninist' policy-making in Angola, and by 1989 the country had joined both the IMF and World Bank. But only in 1990 were the first real reforms implemented. These included devaluation of the kwanza (which was trading at almost 100 times the official price on parallel markets) by introducing the new kwanza (NKz); liberalisation of price controls; and privatisation of State-owned companies. One of the major setbacks to this programme, however, has been government's inability to reign in its large budget deficit which stood at 30.2% of GDP in 1992 (although this was lower than the 1991 figure of 42.7%.); and continued monetisation of this deficit led to inflation reaching an annualized rate of 1,200% by the end of 1993 (Economist Intelligence Unit, 1993b, 5). In early 1994, government announced plans to implement a structural adjustment programme to help resuscitate the economy. The centre-piece of the plan is devaluation of the exchange rate and, in line with this, the currency was devalued by 400% (although the official exchange rate was still stood at a large premium to the parallel market rate) (*Africa Analysis*, 1994, 16). Again, though, government has tended to remain

preoccupied with political, diplomatic and military imperatives, and shows little real concern for economic policy-making - this is perhaps best evidenced by government allocating over $1bn to military spending in 1994.

5. PROSPECTS

Late 1993 saw a renewed peace initiative , providing grounds for cautious optimism of a peaceful settlement between the government and UNITA. However, even if this comes about, Angola continues to be faced by bleak economic prospects in view of:

(i) a lesser-known dispute that requires settling, namely the demands for an 'independent' Cabinda - the province accounts for about 55% of current oil output and holds two-thirds of known oil reserves;

(ii) the major humanitarian crisis caused by the war;

(iii) a high public external debt of $8,240m in 1991 - Angola's GDP in the same year was $7,600m (SADC, 1993, 71);

(iv) falling foreign-exchange revenues caused by declining world oil prices and rising foreign-exchange outflows (primarily the result of continued capital outflows and high debt-servicing payments) have resulted in a continued acute balance-of-payments crisis;

(v) a continued employment crisis: total formal-sector employment in 1990 stood at just 600,000 out of a population of over 10m people; government accounted for approximately 75% of this total. The crisis is likely to worsen since IMF and World Bank conditionality requires that government reduce the budget deficit by shedding jobs. Politically, however, this has proved very difficult for the Angolan government; and

(vi) a continued skills shortage.

These problems aside, Angola has tremendous economic potential. Its economic recovery could be important for the region despite the fact that, historically, very little trade has taken place between Angola and other SADC members. Peace and the successful introduction of economic reforms should see the economy achieving a high sustainable growth rate.

2. BOTSWANA

1. BACKGROUND

Botswana in mid-1993 had an estimated population of 1.4 million. Formerly the British protectorate of Bechuanaland, Botswana gained independence in 1966 and has been governed by the Botswana Democratic Party (BDP) since that time. At independence, Botswana was one of the 20 poorest countries in the world, with virtually no infrastructural development and a predominantly subsistence economy. Government revenues were critically dependent on foreign aid and the remittances of male migrant workers employed in South Africa. Dominated by a few large-scale, predominantly expatriate, farmers, the commercial livestock sector was the largest contributor to GDP and export earnings (Brown, 1993, 166). To make matters worse, the country is landlocked (surrounded by Namibia, Zimbabwe and South Africa) and suffers from low and erratic rainfall. In spite of these adverse factors, during the 1980s Botswana's economic performance exceeded that of all other non-petroleum producing countries in Africa. GDP rose by an average 11.3% per annum between 1980-1990 (Brown, 1993, 166). This exceptional record was partly due to the rapid expansion of the beef industry, but the overriding factor was the discovery and development of valuable mineral resources, especially diamonds. Apart from enhancing the export base, the development of the mining sector has also helped to stimulate and finance the development of infrastructure, the manufacturing sector and social services. By 1991 Botswana had become an upper- middle-income country under World Bank definitions (Brown, 1993, 166).

More recently, the country has run into difficulty and is faced with three serious problems. First, Botswana's diamond Central Selling Organisation (CSO) quota has fallen to 85% of what it used to be - this has serious implications for the diamond-dependent economy. Second, the agricultural sector has recently suffered the adverse consequences of drought. Third, and perhaps most important, there is evidence of growing corruption, incompetence and inefficiency.

2. ECONOMIC INDICATORS

	87/88	88/89	89/90	90/91	91/92	92/93
GDP:						
Current prices (Pm)	3796	5472	6130	6995	7810	-
Constant prices (1985/86) (Pm)	3005	3402	3596	3915	4168	-
Real growth (%)	14.0	13.2	5.7	8.9	6.5	1.8
Real change per capita (%)	10.2	8.7	2.5	4.8	3.4	-1.2

Structure of production: GDP contribution (%) (1991/92):	
Agriculture, forestry and fishing	5.1
Mining and quarrying	39.3
Manufacturing	4.4
Construction	5.9
Trade, hotels etc.	15.1
Public admin/government	21.8
Other	8.4
Total	100.0

	1988	1989	1990	1991	1992
Foreign trade: Trade balance (Pm)	503	764	-167	-209	-186

Main exports:
Diamonds (78%), copper-nickel, meat products, soda ash.

Main imports:
Consumer goods (9%), transport equipment, machinery, selective goods.

Main trading partners:
Exports - Switzerland (76%), Norway, Zimbabwe, South Africa.
Imports - South Africa (81%).

Sources: Republic of Botswana, *Statistical Bulletin*, 1993; Economist Intelligence Unit, *Country Reports - Botswana, Namibia, Swaziland and Lesotho*, 1988-1993, *Country Profile - Botswana, Lesotho 1993/94*; World Bank, *World Development Report*, 1994; *Barclays Botswana Economic Review*, 1/1994.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Botswana suffers from low and erratic rainfall which makes the country susceptible to drought, and this is a serious hindrance to the

development of the agricultural sector. The limitations imposed by rainfall make much of the country more suitable for rearing livestock, especially cattle. For this reason it is not surprising that the cattle industry typically contributes roughly 80% of agricultural GDP. The industry has, however, recently been affected by drought: since 1985, Botswana has been able to fulfil no more than 70% of its annual European Community quota (granted by the Lomé Convention) of beef (Brown, 1993, 166). There is some potential with regard to the rearing of sheep, goats and poultry.

The drought of 1991/92 reduced the area planted with food crops by 70%-80%; and erratic rainfall in the 1992/93 season also affected harvests (Brown, 1993, 166). To date the country remains heavily reliant on food imports. However, over the longer term, the economy has substantial potential. For example, it is estimated that in eastern Botswana approximately 4.5m ha are suitable for cultivation, yet only 10% of this land is actually cultivated (Hutcheson, 1993, 163). Thus, Government aims to develop irrigated agriculture in order to improve food security, and has continued with its Arable Land Development Programme aimed at improving conditions for subsistence farmers.

3.2 Mining

Minerals have provided the basis for the country's high level of economic growth; Botswana is currently the third biggest mining producer by value in Africa (behind South Africa and Zaire). Diamonds are the largest export, and earn about 80% of foreign exchange. Botswana now has two diamond-cutting and polishing factories which opened in mid-1992 and mid-1993 respectively; these factories treat uncut gems which would otherwise have been worked in Puerto Rico.

In recent years government has realised the importance of widening the country's economic base, and so has encouraged exploitation of other natural resources in which Botswana is considerably rich. The country has abundant reserves of coal, copper-nickel, soda ash, potash, salt, plutonium and sodium sulphate, and more modest reserves of gold, silver and a variety of industrial minerals. However, these resources have yet to be exploited on any significant scale. Production of copper-nickel matte peaked in 1988 and has been on a downward trend since then; output is refined in Norway and Zimbabwe under long-term sales contracts. Plans to exploit Botswana's extensive coal reserves have been restricted by the low level of international prices; a long-term possibility lies in the production of oil from coal. Botswana has recently

begun to exploit is vast reserves of soda ash through Soda Ash Botswana. The company has, however, run into a number of difficulties including sub-standard quality, falling demand in the important South African market, and weak international prices as a result of price-cutting by the American Natural Soda Ash cartel. In line with this, Soda Ash Botswana showed a large loss in the year to December 1993 (Robertson, 1994). Gold has been mined for many years in Botswana but on a very small scale.

3.3 Manufacturing

Manufacturing contributed just 4% to GDP in 1991/92. The main constraints to growth of this sector include a small domestic market, limited export outlets, and skills shortages. However, the sector has started to show significant growth as a result of diversification and concerted government efforts. In this regard, government efforts include the Financial Assistance Programme (FAP) (Brown, 1993, 168). Inaugurated in 1982, the programme aimed to encourage industrialisation through the provision of subsidies and the implementation of a foreign investment code. The FAP has, so far, led to the creation of 30,000 jobs (or 10% of the 1991 level of total formal-sector employment). The Botswana Development Corporation (BDC) is also a major investor in partnership with local and foreign firms. Regional development programmes encouraging export-orientated activities are being implemented.

3.4 *Energy*

A major project is currently being undertaken by the Botswana Power Corporation to considerably expand the capacity of Moropule power station; the project is expected to carry through until 2000. Botswana imports limited amounts of electricity from South Africa. Various foreign-funded projects are also being undertaken to improve water availability. The government is presently investigating Botswana's potential for producing petroleum and natural gas.

4. GOVERNMENT POLICY

Over the last decade Botswana's economy grew substantially. However, this growth was based on two factors that cannot be sustained over the long run, namely, high price levels for diamonds on

international markets, and high levels of government spending. Clearly, diversification within the economy is crucial to the long-term success of the country. For this reason government plans to encourage the development of the manufacturing and tourism sectors, both of which hold tremendous potential. More specifically, the Seventh National Development Plan (1991-1997) (Brown, 1993, 166) aims to bring about a successful transition from the rapid, but diamond-dependent, growth of the past to a more sustainable and diversified pattern of development whose benefits are more widely shared. One objective of the Plan is to raise earnings from the mining sector sufficiently to support a doubling of government expenditure. Rural development continues to be an area that receives considerable attention, and special efforts are being made to assist female-headed households and disadvantaged groups.

5. PROSPECTS

The future success of Botswana's economy hinges on government's ability to move the economy off its historic diamond-dependent growth path and onto a new one based on diversified economic activity. This will be achieved by directing efforts in three main areas. First, it is necessary that government stimulates the agricultural sector, particularly by bringing new areas under irrigation. Second, the government must continue to encourage exploitation of natural resources other than diamonds. Third, and possibly most important, it is necessary that the potential of the manufacturing sector is realised - and here adding value to raw materials is an area that perhaps deserves particular attention.

The economy does, of course, have a number of factors working in its favour. First, Botswana has abundant foreign reserves relative to the size of the economy; this will enable government to continue to finance development, at least over the short term. Second, the relatively good balance-of-payments position is aided by the country's low debt burden of $530m at the end of 1991 (SADC, 1993, 71). GDP in that year was equivalent to $3,335m. Third, government continues to maintain a cautious approach to spending: the budget has shown a surplus each year since 1983/84 and is expected to balance in 1994/95. Fourth, Botswana stands out as one of the few countries in the region that has managed to attract and keep well-selected expatriates to run the country's administration (Malawi and Swaziland are perhaps the only other examples). Finally, Botswana continues to display a high degree of political stability and, despite the recent corruption scandal, it is

likely that the BDP will maintain office after the 1994 elections and, in so doing, move into its sixth term of office. It is likely that Botswana will continue to be one of the economic successes of the SADC group of countries.

3. LESOTHO

1. BACKGROUND

The Kingdom of Lesotho, formerly a British protectorate known as Basutoland, became an independent nation in October, 1966. Lesotho is a very small country, covering no more than 30,355 sq km, and is home to 1.87 million people (mid-1993 estimate). It is completely surrounded by South Africa. For this reason it is not surprising that, economically, Lesotho is heavily dependant on South Africa; for example, migrant remittances account for 40%-45% of GNP, and migrant workers outnumber local wage employees by about 3.5:1. This dependence on South Africa is underscored by the fact that Lesotho is part of the Common Monetary Area, comprised of South Africa, Lesotho, Swaziland and Namibia. This provides for the free flow of funds, access to South African money and capital markets, and the application of similar foreign-exchange measures. However, in spite of this high degree of dependence on the South African economy, and an extremely volatile political climate, Lesotho's economy has managed to avoid the same prolonged recession that South Africa experienced between 1989-1993. Rather, between 1985-1992 real economic growth averaged 6.8% per annum. A number of factors are responsible for this strong economic performance. First, over the past few years, government has succeeded in encouraging both foreign and private investment in the manufacturing sector. Second, major investments have been made in the construction sector. Finally, diversification into high-value crops has taken place in the agricultural sector. This diversification in various sectors has proved important (if not crucial) to the economic success of Lesotho, since the country has few resources other than labour and the water and hydroelectric power of its rivers.

2. ECONOMIC INDICATORS

	1988	1989	1990	1991	1992
GDP:					
Current prices (Mm)	631	1287	1506	1644	2120
Constant prices (1985/86) (Mm)	372	413	434	451	487
Real growth (%)	12.8	11.0	4.9	4.0	8.0
Real growth per capita (%)	9.8	8.5	1.6	1.2	5.2

ECONOMIC INDICATORS (continued):

Structure of production: GDP contribution (%) (1991):					
Agriculture					14.8
Manufacturing					15.1
Building and construction					23.7
Wholesale and retail					9.7
Government and services					30.7
Others					5.9
Total					100.0
	1987	1988	1989	1990	1991
Foreign trade: Trade balance (Mm)	-860	-1184	-1142	-1655	-2069
Main exports: Manufactures (80%), food and live animals, wool and mohair					
Main imports: Consumer goods (33%), food, capital goods, intermediate goods					
Main trading partners: Exports - South Africa (42%), EC (28%); Imports - South Africa (94%)					

Sources: Central Bank of Lesotho, *Annual Report*, 1991; World Bank, *World Development Report*, 1993; *Trade Monitor*, No.3, August 1993; Central Bank of Lesotho, *Quarterly Review*, December 1992; Economist Intelligence Unit, *Country Reports: Botswana, Namibia, Swaziland, Lesotho*, 1988-1993, *Country Profile - Botswana, Lesotho 1993/94*.

3. ECONOMY

3.1. Agriculture, Forestry and Fishing

Agriculture provides employment for over 60% of the domestic labour force. As a proportion of GDP, agriculture fell gradually from 50% in 1973 to a mere 15% in 1990. The rural economy was further devastated by the 1991/92 drought, and 1992/93 saw these dry conditions persisting. In 1992, the failure of the maize, sorghum and wheat crops left a shortfall of 19,000 tonnes of cereal to be imported. The impact of the drought becomes even more serious when one considers that agriculture is the principal economic activity despite the fact that only 13% of the country is arable. Furthermore, soil erosion

continues to pose major problems.

Government has adopted a number of programmes in an attempt to improve the performance of this sector, but so far little has been achieved. Subsidies on inputs are now being phased out and higher producer prices are being introduced to encourage farm output. The main crop is maize, although limited attempts have recently been made to diversify production into high-value, high-yield crops for export. Thus, Lesotho now produces small amounts of quality asparagus, peaches and strawberries. In livestock a number of projects are underway to improve cattle stock for rearing, although stocks decreased by 30% as a result of the 1991/92 drought. In forestry, a woodlot project is underway under the auspices of the Ministry of Agriculture. Commercial fishing is of negligible value in Lesotho.

3.2 Mining

Diamonds are the principal mineral of commercial value. However, mining ceased in 1992 when Lesotho's mines were rendered uneconomic by falling world prices. Deposits of peat, lead, iron ore and uranium exist but are not exploited on any significant scale. Minor deposits of coal, galena, quartz and agate are also known to exist but are of little commercial value. Lesotho's large clay deposits are being exploited for brick manufacture. In short, Lesotho is generally a resource-poor country. However, mining has played an important role in the economy in a different manner: traditionally, Basotho men of working age have sought work in South African gold mines, and their earnings have been a major source of income for Lesotho. Unfortunately, more recently the numbers have fallen, as South African mines retrenched workers as part of cost-cutting efforts, from a peak of 113,000 in 1987 to roughly 85,000 in mid-1992. In line with this, mine workers income fell from R472.4m in 1990 to just R270.0m in 1991 (SADC, 1993, 79). Prospects of finding work at home, apart from on the Lesotho Highlands Water project, are dim, and unemployment remains a real problem for Lesotho. The economically active population comprises 590,000, of whom only 7% (or 40,000) were formally employed in Lesotho in 1990 (SADC, 1993, 79).

3.3 Manufacturing

The manufacturing sector contributed just over 15% to GDP in 1991; the sector employs about 18,000 people. Firms in this sector are

mostly small and in joint ventures with the Lesotho National Development Corporation (LNDC). Government has persistently aimed at encouraging local and foreign private investment in this sector, and to a large extent has been successful. In particular, a number of clothing and footwear factories have been established in recent years, and manufacturing earnings from exports now top the list of foreign earnings, accounting for 74% of total earnings in 1991. Government is continuing in its efforts to encourage new investment in the sector; the most recent incentive involves a dramatic lowering of the corporate tax rate for manufacturing from 37.5% to 15%. A number of restrictions are also in place which aim to curtail imports and encourage local production. The LNDC has also recently announced that it will proceed with a M30m wool and mohair processing plant.

3.4 Energy

Lesotho has abundant water resources which offer enormous potential with regard to generating hydroelectricity. Lesotho's Highlands Water Scheme (HWS) is an attempt to utilise the country's largely undeveloped water resources. The hydroelectric project, a joint venture with South Africa, aims ultimately to generate 200mw of power with a throughput of 77 cubic meters of water per second (Economist Intelligence Unit, 1993c, 40). The project has important implications for the economy. First, the scheme has stimulated the construction sector significantly: between 1987-1991 the contribution of the construction sector to GDP increased from roughly 11% to 24%, and construction is likely to play an increasingly important role in the economy as the project proceeds. Second, the sale of water and electricity to South Africa is expected to earn Lesotho around M200m a year from 1996 rising to M800m (1990 prices) by 2020 (SADC, 1993, 79). Third, the project is also expected to create 3,000 permanent jobs. Government expects the scheme to promote tourism in the area; the LNDC intends to develop a major ski resort-casino complex in the HWS area during this decade.

The project, however, has not gone unopposed. About 30,000 people have been displaced or had their livelihoods affected with disputable levels of compensation; employment creation has not been great (about 1,800 jobs to date); and tension has arisen over the large influx of expatriate managers and skilled workers. This opposition, however, has not affected progress on the project. The HWS is crucial to Lesotho's future since the HWS is the only possible large project, and earnings from it will greatly improve the financial position of the government.

4. GOVERNMENT POLICY

There have been four development plans since independence; these plans, however, have been overshadowed by political events and the approval of a Structural Adjustment Facility (SAF) by the IMF in mid-1988. Under this agreement, the Lesotho government was required to bring growth in the money supply under control and cut the budget deficit through a series of measures to raise revenue and cut recurrent spending. The programme was largely successful, with government reducing the deficit from 18% of GDP in 1988/89 to less than 1% by 1991/92. Furthermore, government was also successful in turning a balance-of-payments deficit of 15% of GDP in 1988 to an 8.5% surplus in 1991 (SADC, 1993, 79). A follow-on Enhanced SAF (ESAF) was approved in June 1991; this programme aims to increase the efficiency of the public sector and improve private sector incentives through tax reforms.

5. PROSPECTS

The future economic success of Lesotho hinges on a number of factors. First, the HWS is important in that not only will it provide considerable government revenue but it will also encourage further diversification of the narrow economic base by promoting the tourism and construction sectors. Second, government must continue in its efforts to promote the agricultural sector which does have potential in view of Lesotho's abundant water resources. Third, and perhaps most important, is the performance of the manufacturing sector. Lesotho has an abundant labour resource that must be used to continue the expansion of and diversification within this sector: the sector has the potential to become a substantial foreign-exchange earner. That aside, it appears that Lesotho's economic future depends on closer integration with South Africa. Some observers now argue that its political future, too, will depend on some type of confederation with South Africa, and this may be the most important development for a country that continues to be plagued by political instability.

4. MALAWI

1. BACKGROUND

In 1964, the British protectorate of Nyasaland gained independence and became Malawi; in mid-1966, the country officially became a republic and a one-party state. Malawi in mid-1991 had an estimated population of 8.5 million. Despite still being one of the poorest countries in the world, it is one of the development successes of Africa. This success hinges mainly upon the fact that, during the 1970s, Malawi enjoyed a sharp rise in investment, favourable government policies, and an influx of foreign investment and aid (Brown, 1993, 517). These factors ensured that between 1970-1990 the country enjoyed moderately high, sustained economic growth. However, over the past few years the economy has run into several difficulties. First, the war in Mozambique led to the closure of Malawi's route to the sea in 1984; both imports and exports then had to be rerouted through South Africa at considerable additional cost to Malawi. Second, the economy's problems have been compounded by a massive refugee problem: Malawi has, until recently, been the temporary home to 1 million Mozambican refugees, and this has created a massive drain on the country's resources. Third, 1992 saw the onset of a severe drought which, coupled with industrial unrest, dealt a crippling blow to the agriculture-dependent economy. Finally, and perhaps most important, growing internal and external discontent with the one-party state and abuses of human rights led to a sharp decline in international aid upon which Malawi is heavily reliant. (*Southern African Economist*, 1994, 13). In light of the above problems, it became obvious that economic survival depended upon re-attracting international capital, and it is hoped that recent multi-party general elections, which resulted in a change in government, will lead to renewed capital inflows and economic growth.

2. ECONOMIC INDICATORS

	1988	1989	1990	1991	1992
GDP:					
Current market prices (MKm)	3418	4388	5070	6102	6175
Constant factor cost (1978) (MKm)	389	935	979	1056	973
Real change (%)	3.2	4.1	4.7	7.8	- 7.9
Real change per capita (%)	0.0	0.9	0.0	3.4	-10.7

Structure of production: GDP contribution (%) (1992):	
Agriculture	28.3
Manufacturing	14.6
Distribution	13.3
Transport and communications	6.1
Financial and professional services	7.3
Government services	15.9
Other	14.5
Total	100.0

	1987	1988	1989	1990	1991
Foreign trade:					
Trade balance (MKm)	-328	-658	-464	-637	-1074

Main exports:
Tobacco (73%), tea, sugar, coffee, cotton

Main imports:
Industrial inputs and capital goods (60%), commodities and consumer goods

Main trading partners:
Exports - United Kingdom (18%), Japan, Germany, USA, South Africa
Imports - South Africa (32%), United Kingdom (21%)

Sources: Economist Intelligence Unit, *Country Profile*, 1993/94; World Bank, *World Development Report*, 1994.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Malawi possesses some of the most fertile soils in south-central Africa, and therefore it is not surprising that the economy is heavily dependent upon agriculture (Hutcheson, 1993, 515). The sector contributed 28.3% to GDP in 1992, employed an estimated 78% of the population

in 1985 and normally accounts for over 90% of export earnings (Brown, 1993, 517). It is made up of two sub-sectors: smallholders, who mainly grow food crops such as maize and groundnuts; and estate farmers who are primarily involved in growing export crops including tobacco, sugar, tea, coffee, cotton, and maize.

Malawi is the second largest producer of tobacco in Africa after Zimbabwe. The crop sustains some 6,500 estates and provides a cash income for about 66,000 tenant smallholders. It is by far the most important export, accounting for 65% of foreign exchange earnings between 1987-1990 (Brown, 1993, 518). International tobacco prices have, however, recently come under pressure; and the performance of the sector has also been adversely affected by drought in recent years. Maize is a staple crop for Malawi, although fluctuations in producer prices led to many farmers changing from producing maize to other crops in the 1980s. Maize production was further reduced by the drought in 1992. Malawi is, after Kenya, Africa's second largest producer and exporter of tea. In 1989 Malawi had about 18,000 ha planted with tea: 90% of the land under cultivation was controlled by large estates, and the remainder by 4,800 smallholders. Output of tea reached a record 40,500 tons in 1991 (Brown, 1993, 518). Sugar is the third major export, and Malawi has preferential access to the United States and European Community markets. Because of a rapid increase in domestic consumption (10% per annum), there are plans to expand production levels to 300,000 tons per annum; production in 1993 was forecast at 196,000 tons.

As far as livestock production is concerned, Malawi is self-sufficient in beef, pork, mutton and lamb; beef production has the potential to expand as a result of a diversification project for the tobacco estates. Fishing from Lake Malawi contributes about 70% of animal protein consumption, and the industry employs (directly or indirectly) an estimated 220,000 people. In 1989, a MK12m six-year project was undertaken to boost catches which had been progressively declining since 1987.

3.2 Mining

The mining sector is not important relative to other sectors of the economy; however, investigations are being made into its development. Deposits of a number of minerals, including bauxite, gemstones, uranium, vermiculite and graphite, have been discovered, but only a few industrial minerals have been exploited to any extent.

Coal mining takes place on a small scale by the State-owned Mining Investment and Development Corporation (MIDCOR); limestone deposits have been exploited by the Portland Cement Company (Malawi); trail mining of gypsum commenced in 1990; and in 1989 the largest and highest-quality phosphate reserves in the SADC were identified. However, to exploit these deposits requires an estimated capital investment of $880m (1989 prices) (Economist Intelligence Unit, 1993d).

3.3 Manufacturing

In 1992 manufacturing contributed 14.6% to Malawi's GDP. The bulk of manufacturing activity could be termed agricultural processing. The government aimed to rapidly expand the industrial base of the economy after independence, and was largely successful, through the 1970s, with the sector registering growth of 11% per annum (Brown, 1993, 518). Most of this growth resulted directly from Malawi being successful in attracting foreign direct investment, often in collaboration with the Malawi Development Corporation (MDC). However, the sectoral growth rate slowed substantially through the 1980s to just 3% per annum. The main factors responsible for this decline were a shortage of foreign exchange and, despite very favourable concessions, a declining rate of foreign investment because of a small domestic market. Government has recently renewed its efforts to encourage the manufacturing sector by introducing a number of restrictions on imports. Malawi's main imports include vehicles, pharmaceutical goods, dairy products, agricultural machinery, printed matter and stationery; footwear; diesel fuel and petrol. Again, the success of this programme is likely to be limited owing to the very small domestic market. Currently, the country's main products include textiles, cigarettes, beer, sugar, ethanol, pharmaceuticals and cement.

3.4 Energy

Malawi's lakes and rivers have largely been exploited for their considerable hydroelectric and irrigation potential, and a number of new hydroelectric schemes are under development. In 1989 an ambitious donor-supported ten-year National Energy Plan was introduced. The Plan has seen the construction of three new hydroelectric stations on the Shire river, and two additional power stations have been commissioned for 1997 and 1999. Furthermore, the Electricity Supply Commission of Malawi (ESCOM) is planning major investment in new

capacity to meet increased demand through the 1990s and to reinforce the existing grid (Brown, 1993, 519). Finally, MIDCOR is developing a new coal mine at Rumphi as well as planning other new ventures.

4. GOVERNMENT POLICY

Malawi has no official development plan as such; rather, since 1981, government has operated a rolling five-year development programme. The programme tends to focus mainly on achieving improvements in the areas of transport (government recently announced a plan to privatise the railways), education, health and agriculture. For the most part, however, government has accepted the country's dependence on agriculture, and this is where the bulk of policy-making is focused. In this regard, government aims to increase commercial production of crops and hence rural incomes by the expansion of commercial smallholding schemes and the National Rural Development Programme (NRDP) (Brown, 1993, 517). Implemented in 1977, the NRDP now involves 80% of smallholders, and aims to increase crop yields by encouraging the use of fertilizers, irrigation and pesticides. The programme also aims to achieve self-sufficiency in food production for smallholders and, ultimately, a surplus for sale to the market. The programme, however, was suspended in 1988 because of inadequate access to credit for smallholders; undersized plots; inadequate infrastructure; and financial difficulties faced by the government. In that same year, Malawi obtained a four-year enhanced structural adjustment facility (ESAF), and in conjunction with this facility the government introduced a number of reforms aimed at cutting the budget deficit, reducing the balance-of-payments deficit, and reorganising some of the major parastatal bodies (Brown, 1993, 517). The programme was initially successful, raising GDP growth to 4.5% *per annum* between 1988-1991 and substantially reducing the budget deficit. However, drought, industrial unrest and the cessation of non-humanitarian aid flows from the west saw the economy decline by 7.9% in 1992.

5. PROSPECTS

The economy should recover once the adverse effects of the 1992 drought have worked themselves out of the system. However, it continues to suffer under a number of more serious, long-term constraints that must be addressed if the country is to achieve substantial economic growth. First, Malawi has to reduce its

dependence on the agricultural sector and international aid flows; both these factors make the economy particularly vulnerable not only to international economic trends but also international sentiment. The problem is, of course, compounded by the fact that Malawi has no real mineral wealth. That said, only 50% of arable land in Malawi is currently under cultivation; clearly, enormous expansion potential exists here. Second, faced by a serious skills shortage, it is crucial that Malawi raises education standards. In the country's favour, however, is the fact that it has been one of the few SADC countries that has been able to attract and retain skilled expatriates. Third, the economy suffers under the constraint of a small domestic market, and for this reason government must look outwards to export markets if it is to stimulate growth in the manufacturing sector. Perhaps the most important recent development in this regard is government's decision, in early 1994, to float the kwacha on foreign-exchange markets. Finally, Malawi is landlocked; this has placed a serious constraint on the economy, particularly when Malawi lost its route to the sea through war-torn Mozambique. However, this route has now been restored. With the above factors in mind, it is expected that over the short term, the economy should recover and enjoy moderate growth. Over the longer term, however, economic success hinges on government successfully removing the constraints imposed by the abovementioned problems.

5. MOZAMBIQUE

1. BACKGROUND

The Portuguese coup of April 1974 led to Mozambique acquiring independence, without an election, from Portugal in June 1975 under the government of the Frente de Libertacao de Mocambique (FRELIMO). Almost immediately (an undeclared) war broke out between 'socialist' Mozambique and the Resistencia Nacional Mocambicana (RENAMO) which was strongly supported by the white Rhodesian and South African governments. The situation was worsened by the mass exodus of the Portuguese community which had operated the *administration of the economy; this left a massive skills gap. By 1980,* economic activity could only be described as minimal, and a severe drought between 1982-1984 served to heighten the economic crisis. In an attempt to resuscitate the economy, the government appealed to both the Soviet bloc and Western countries to assist in stabilising the country; introduced a liberal foreign investment code; joined the IMF and World Bank; and, in a final bid to secure peace, signed the Nkomati Accord (a non-aggression pact with South Africa). The Accord did not produce the desired result; however, peace initiatives continued which, in 1992, met with apparent success. But Mozambique has, according to the World Bank, been reduced to the poorest country in the world. In 1992, GDP per capita stood at just $80; one in three Mozambicans live below the poverty datum line; and 375 out of every 1,000 new-born babies do not see their fifth birthday (SADC, 1993, 85). Nevertheless, the potential for economic recovery is great. Mozambique has vast areas of arable land of which only 5% is under cultivation; a potentially large fishing industry; strong tourism potential; and considerable mineral wealth. It covers an area of 801,590 sq km and, in mid-1993, had an estimated population of 15.9m.

2. ECONOMIC INDICATORS

	1987	1988	1989	1990	1991
GDP:					
Current prices (MTbn)	467	787	1282	1712	2572
Constant prices (1980) (MTbn)	65	68	72	73	74
Real growth (%)	4.7	5.4	5.4	1.2	0.9
Real change per capita (%)	2.3	2.2	2.2	-2.1	-2.2

ECONOMIC INDICATORS (continued:

Structure of production: GDP contribution (%) (1991):					
Agriculture					38.5
Industry and fishing					22.9
Construction					12.2
Transport and communications					10.3
Commerce and others					16.1
Total					100.0
	1988	1989	1990	1991	1992
Foreign trade:					
Trade balance (*$m*)	-633	-703	-751	-737	-751
Main exports:					
Shrimps/prawns (47%), cashew nuts, cotton, sugar					
Main imports:					
Consumer goods (40%), raw materials (25%), equipment (23%), spare parts (10%)					
Main trading partners:					
Exports - Spain (30%), USA, Japan					
Imports - South Africa (23%), USA					

SOURCES: Economist Intelligence Unit, *Country Profile, 1993/94*; World Bank, *World Development Report*, 1994.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Agriculture is the mainstay of the economy; in 1991 it contributed over 38% to GDP and employed 85% of the workforce (mainly at the subsistence level). However, a number of problems have severely curtailed agricultural production, including the collapse of the transport and marketing systems as a result of internal conflict; a spate of natural disasters ranging from drought to cyclones and flooding; a skills shortage; and the displacement of farmers by conflict. For these reasons, only 5% of arable land is cultivated, and it is evident that the sector has the potential to provide a massive boost to the economy (Smith-Morris, 1993, 585). The main crops include cassava, tea, sugar cane, coconuts, vegetables, sorghum, cotton, sisal, copra, cashew nuts, oil seeds and maize. Only 15% of production is accounted for by the formal sector (State farms), the remainder being produced by

subsistence farmers. Livestock is still of secondary importance, owing primarily to internal conflict and the prevalence of the tsetse fly over about two-thirds of the country.

The potential for forestry production in Mozambique is being recognised, and provincial forestry enterprises are being set up. Reafforestation programmes are planned and the role of the private sector has been more clearly defined. Timber production has, however, continue to decline in recent years, mainly as a result of a poor security situation in the countryside. Various South African companies have entered into management contracts and rehabilitation programmes with Mozambican saw mills since the late-1980s.

Fishing is a relatively recent development along the extensive Mozambican coast, but the industry has quickly come to play an important role in the economy. The main reason for this is that, whilst other sectors of the economy have been devastated by both war and drought, the fishing industry has managed, to a large extent, to escape the adverse effects of both. Shrimps and prawns are the most important foreign-exchange earner for the country. The industry has the potential to expand significantly: in 1989 fish catches were about 5% of the potential catch (Smith-Morris, 1993, 586). The fishing industry has, however, suffered recent setbacks, including the Katina P oil spill in early 1992.

3.2 Mining

Mozambique has considerable mineral resources including coal, iron ore, tantalite, ilmenite, bauxite, manganese, graphite, fluorite, platinum, nickel, asbestos, diamonds, natural gas and gold. However, exploitation of these resources has been severely limited due to internal conflict and transport problems. In 1990, the sector contributed just 0.21% to GDP; in recent years Mozambique's mineral exports have not risen above $2m, and account for less than 2% of export earnings (Smith-Morris, 1993, 587). With internal conflict now removed, government is currently attempting to vitalise the sector by encouraging foreign investment through the introduction, in 1993, of an internationally competitive tax regime for the petroleum and mining sectors. Government is also attempting to restore the war-damaged infrastructure. There is a great deal of interest among potential investors, but few new investments have been made owing to continued problems with transport, infrastructure and outdated equipment. Various foreign companies are, however, currently

undertaking exploration for oil off the coast. The sector has the ability greatly to increase its contribution to GDP.

3.3 Manufacturing

The manufacturing sector accounts for about 20% of GDP and employs 20% of the workforce. Manufacturing activity is concentrated in the production of textiles and beverages and food processing. There is also small-scale production of light consumer goods (soap, cigarettes, batteries and so on) and some heavy industry which includes cement, paper, fertilizer, tyres, and truck and bicycle assembly. The sector continues to suffer from raw materials shortages, low effective demand, lack of competitiveness with imported products (of which South Africa is a major supplier) in terms of price and quality, and a weakening of the agriculture-processing industry as a result of the recent drought. These difficulties have meant that production in most plants is generally below 50% of capacity, the implication being that the sector is well positioned to meet any increase in demand with relatively little investment. It would first be necessary, however, to remove the constraints pertaining to raw materials shortages, competitiveness and so on. In this vein, a number of projects and plans aim to improve the performance of the manufacturing sector: in late-1992, government introduced special incentives to encourage business to set up along the transport corridors linking Mozambique's ports with neighbouring countries (SADC, 1993, 85). By 1993 government was also considering the establishment of export processing zones (EPZs) as well as approving new legislation aimed at promoting foreign investment with the ending of the war. Recently, the cement industry has been revitalised with the aid of foreign funding.

3.4 Energy

Government has recently undertaken a project to rehabilitate the Cahora Bassa power scheme to restore the supply of electricity to South Africa; during the war the power lines were frequently sabotaged by RENAMO forces. In early-1992 an agreement was also signed for Zimbabwe, which faces a power shortage, to buy electricity from Cahora Bassa; the project, which will involve the construction of a 350km power line, is expected to cost in the region of $200m (Smith-Morris, 1993, 588). Another project is to irrigate 1.5m ha along the northern reaches of the Cahora Bassa dam. Other minor hydroelectric schemes exist.

4. GOVERNMENT POLICY

In January 1987, government announced its adoption of a three-year economic rehabilitation programme, Programa de Reabiliticao Economica (PRE). The main aim of the PRE was to arrest the decline in economic activity and restore production levels; priority was, of course, given to agriculture. The plan aimed to achieve the above through improved economic efficiency and reduced internal and external deficits. These, in turn, were to be achieved through the liberalisation of prices; a devaluation of the metical; a reduction in the budget deficit through the lowering of government subsidies and the raising of tax rates; the linking of wage increases to productivity increases; placing stringent controls on money supply growth; and putting both export-promotion and import-replacement programmes in place. The programme was initially successful, and economic growth did not fall below 4.5% between 1987-1990. However, this success was short-lived as the Mozambican economy faltered in 1990 as a result of a continuation of civil war, drought and a global recession. The government, however, has adhered to the programme, believing that the PRE will bring enormous benefits to the economy with the ending of the civil war; and in 1992 it announced a further three-year plan to sharply curtail government spending, which was to be facilitated through privatisation of State-owned enterprises (Smith-Morris, 1993, 585).

5. PROSPECTS

Following the cessation of hostilities, the country has the potential to realise phenomenal economic growth. It has vast unexploited natural resources. It also has abundant, uncultivated fertile land, rich fishing grounds and a potentially prosperous forestry industry. Moreover, Mozambique has the necessary ingredients to create a highly successful tourist industry. To boot, the manufacturing sector, with its large unused capacity, has the ability to grow rapidly with relatively little new investment. However, the country is faced by a number of problems. First, expansion will depend crucially on the availability of scarce capital and skills, although foreign investors will be eager to offer both to this potentially wealthy country with the ending of the civil war. Second, it is necessary that Mozambique restores the war-damaged infrastructure; this again will require vast amounts of capital which, it seems, international donors and agencies are happy to supply. Third, the country has a massive debt burden: in 1991 total external debt stood at $5,400m, whilst GDP was equivalent to a mere

$1,163m (SADC, 1993, 71). Even substantial economic growth will not relieve this massive burden, and again it will have to be international capital that comes to the rescue. Finally, it is of utmost importance that Mozambique maintains peace; it simply cannot afford to be plunged back into war. In this regard, it appears as if the parties are doing all they can to avoid further conflict, and indications are that Mozambique's first multi-party elections will go ahead in October 1994. In short, if Mozambique is able to achieve and sustain peace over the long term, there can be little doubt that it has the ability to achieve high, sustainable economic growth and, in so doing, create substantial wealth not only for its people but also for the region.

6. NAMIBIA

1. BACKGROUND

Namibia, formerly South West Africa, in mid-1993 had an estimated population of 1.48 million. It has had an uneasy political history, only gaining independence from South Africa in March 1990 when the South West Africa People's Party (SWAPO) came to power. Namibia became a member of SADCC, which in 1992 reorganised itself to become SADC, at the same time its membership of the SACU and CMA was formalised. It later also joined the PTA. Namibia is relatively well-off in the African context, the primary reason for this being a prosperous and diversified mining sector. This diversification means that Namibia tends to ride the storm of world recession more easily than some neighbours. Moreover, despite frequent drought, the agricultural sector usually manages to generate surpluses, particularly of products for export markets. The economy is extremely extractive (90% of output is exported) and badly integrated (90% of goods used are imported) (Sparks, 1993, 605). The performance of the economy depends primarily on the state of international export markets and the performance of the South African economy. For instance, between *1985-1990, the Namibian economy grew at an average rate of 2% per* annum, and this sluggish performance was primarily the result of depressed international prices for exports and the weak growth of the South African economy over that period. Clearly, with both the international economy and the South African economy starting to recover, short-term prospects for Namibia are relatively good.

2. ECONOMIC INDICATORS

	1988	1989	1990	1991	1992
GDP:					
Current factor cost (N$m)	4010	4604	4762	5301	6007
Constant market prices *(1985) (N$m)*	*3214*	*3202*	*3298*	3465	*3586*
Real growth (%)	6.2	-0.4	3.0	5.1	3.5
Real change per capita (%)	3.1	-3.4	-	1.9	0.4

ECONOMIC INDICATORS (continued):

Structure of production: GDP contribution (%) (1992):					
Agriculture					9.2
Mining and quarrying					20.1
Manufacturing (incl. fish processing)					6.1
Wholesale and retail trade, hotels					12.2
Financial institutions					8.2
Government/public administration					25.2
Other					19.0
Total					**100.0**
Foreign trade: Trade balance (N$m)	390	282	-41	398	315
Main exports: Diamonds (35%), other minerals, fresh fish, canned fish and fish products, meat and meat products, livestock					
Main imports: Capital goods (29%), food and beverages					
Main trading partners: Exports - Switzerland* (37%), South Africa (25%); Imports - South Africa (90%)					

NOTE: * All diamonds exported via Switzerland.
Sources: Economist Intelligence Unit, *Country Reports: Botswana, Namibia, Swaziland and Lesotho, 1988-1993, Country Profile, Namibia and Swaziland, 1993/94*; Bank of Namibia, *Annual Report*, 1990; Africa Institute, *Namibia 1990*; *Southern African Economist: SADC Top Companies Report*, 1993.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

While agriculture only contributes about 10% to GDP, it provides roughly 70% of the population with their livelihood, either directly or indirectly. It is estimated that in 1988, the sector accounted for roughly 20% (or 36,000 jobs) of formal-sector employment and that over 250,000 people were engaged in subsistence agriculture (primarily in the north). Agricultural development has, on the whole, been hampered by a number of factors, including a lack of infrastructure; frequent droughts and inadequate water supplies; the war between Angola and South Africa, during which Namibia was used as an operational base by South Africa; overgrazing; the use of unscientific

farming methods; inadequate access to credit; and an ecology that is very fragile and generally only able to support livestock. For the last reason, more than 90% of commercial agricultural output comprises livestock production (Sparks, 1993, 607). The most important agricultural product is beef, which is an important earner of foreign exchange. In 1990, following independence, Namibia signed the Lomé Convention, agreeing to supply an EC quota of 10,300 tons in 1991 and 1992, rising to 13,000 tons in 1993 (Sparks, 1993, 607). Slaughtering and processing facilities were due to be expanded during the early-1990s; however, cattle numbers were sharply reduced by the effects of the 1991/92 drought. In the southern half of Namibia, farming is based on karakul sheep; karakul pelts have been an important earner of foreign exchange, although a slump in international prices meant that in 1990 earnings from this source were one-half their value in 1980. Priorities for this sector include maintaining and diversifying commercial farming output; shifting available resources to the development of food production by small farmers; and providing better marketing outlets for black livestock owners. High priority is also being given to increasing the production of cereals and other food crops, and a number of irrigation projects have been implemented. However, it is accepted that food self-sufficiency is an unattainable goal. Subsistence crops include beans, maize and potatoes.

Namibia possesses potentially the richest inshore and deep-water fishing zones in tropical Africa. In 1975, fishing contributed 10% to GDP. However, massive overfishing took place because South Africa's illegal occupation of Namibia deprived the territory of an internationally recognised fishing zone. By 1985, the total catch was just 3% of its peak, and 80% of the industry's workforce had been laid off (Sparks, 1993, 607). Since independence, however, measures have been undertaken to revitalise the industry, and a new Ministry of Fisheries and Marine Resources was created in 1991. This provided an important boost to the status of the sector. The recent handing over of Walvis Bay to Namibia by South Africa will provide a further significant boost to this rapidly growing industry.

3.2 Mining

The mining sector is the most lucrative in the economy: currently there are approximately 40 mines producing 30 different minerals. The sector contributes roughly 20% to GDP and, in 1988, accounted for 78% of export earnings. Diamonds are Namibia's principal mineral export: the country produces one-third of the world's gem-quality diamonds.

Namibia has the world's largest single uranium mine and is a large producer of lead, cadmium, zinc and copper. Tin, silver, gold, salt and semi-precious stones are also mined. There are important deposits of hydrocarbons, lithium, manganese, tungsten, and vanadium, but these have not yet been exploited. Historically, foreign investment has played an important role in the sector, and has been encouraged by the fact that Namibia places no restrictions on foreign inventors bringing funds into or out of the country. In late 1992 the Minerals (Prospecting and Mining) Act was passed, and aims to attract a greater level of investment in the mining sector.

3.3 Manufacturing

The manufacturing sector is very underdeveloped. In 1992, it contributed just 6.1% to GDP and, in 1988, employed a mere 9,400 people out of an estimated labour force of 550,000. The sector is not well integrated with the mining industry although some processing of minerals does take place. Other activities include the processing of fish and meat for export. The main constraints on the sector include a small domestic market, high energy and transport costs, and a shortage of skills. Attempts are currently being made to attract foreign direct investment to manufacturing. Government has announced the establishment of an export processing zone (EPZ) at Walvis Bay, but lack of water will be a major impediment to this scheme. If successful, however, such a scheme would generate significant employment and foreign exchange. The signing of the Lomé Convention in 1990 has provided Namibia with access to important export markets.

3.4 Energy

The electricity sector is somewhat more integrated and developed than one might expect in a country with such a small manufacturing sector. The principal mines and towns are linked to a national grid which draws its power from three main stations. Namibia also draws supplies from Zambia and South Africa. In 1991, Namibia and Angola signed an agreement on the further development of the Kunene river as a source of energy. Construction of a new hydroelectric plant at Epupa commenced in 1993; upon completion this will ensure Namibia's self-sufficiency in energy and also permit substantial exports of power (Sparks, 1993, 607). Namibia has considerable reserves of natural gas, and exploration for on-shore and off-shore oil reserves is currently being undertaken (SADC, 1993, 87). The construction of an oil refinery

with a capacity of 10,000 barrels per day is also under way.

4. GOVERNMENT POLICY

The overall emphasis of economic policy is placed on reviving and restructuring the economy to improve living and employment opportunities for previously disadvantaged Namibians. Various programmes aim to improve the performance of the agricultural sector through encouraging diversification of commercial output, promoting production by smallholders (black farmers), raising food production and stimulating the potentially massive fishing industry. In the mining sector, government has passed the Minerals (Prospecting and Mining) Act which aims to substantially raise the level of investment in the sector. Finally, with regard to manufacturing, government is attempting to stimulate the sector by encouraging foreign investment and creating an EPZ. Government has not adopted a nationalisation programme, and indications are that its policies are aimed at avoiding an exodus of whites which would further widen the existing skills gap.

5. PROSPECTS

Namibia's economic future looks bright. The continued revival of the international and South African economies in 1994 will pull Namibia's economic growth rate up. This will be further assisted by the rapidly recovering fishing industry: in 1994 fishing is expected to grow by some 36% and the associated fish processing industry by over 50% (SADC, 1993, 87). The handing over of Walvis Bay to Namibia will also provide an important boost to the economy. Moreover, growing interest and prospects in the oil industry will stimulate the economy further. All factors considered, Namibia's economy is expected to grow in the region of 7%-8% in 1994.

Over the long term, Namibia's success hinges on a number of factors. First, unless the economy is able to delink from the South African economy, which seems highly unlikely, its performance will depend to a large extent on that of its 'big brother' neighbour. Second, economic success will depend on government maintaining stability in the country, and in this regard, it appears that the upcoming 1994 elections will pose few problems with 70%-80% of the population supporting the ruling party. Third, if the economy is to achieve any real success, it is crucial that diversification and expansion takes place in both the agricultural and (most important) manufacturing sectors. Foreign

investment will be particularly crucial in achieving both diversification and expansion of the manufacturing sector, and it appears as if Namibia is being successful in attracting foreign capital. In short, the Namibian economy has the potential to realise strong economic growth over the long term; success, however, will largely depend on the performance of the South African and international economies, and on the ability of government to promote diversification and growth in the manufacturing sector.

7. SWAZILAND

1. BACKGROUND

The Kingdom of Swaziland gained independence from Britain in 1968. Swaziland is the second smallest sovereign state on the African continent, covering an area of just 17 363 sq km, with an estimated population of 900,000 (mid-1993). Yet, Swaziland enjoys the sixth highest GDP per capita in Africa. This relative prosperity is the result of steady economic growth which, in turn, is primarily the result of diversification of economic activity. Between 1986-1991, the economy grew at an average rate on no less than 6.1% per annum. The economy is very open: exports accounted for 85% of GDP in 1990 (Matthews, 1993, 847). More recently, the economy has run into a number of problems, and growth has slowed. First, a severe drought in 1992 set economic growth back substantially. Second, the economy is heavily reliant on one industry, namely, sugar; this obviously renders it vulnerable to international commodity markets and this, as is well known, can cripple the most robust of economies. Third, the country has become increasingly reliant on the South African economy for formal-sector employment. This has now become a serious problem because employment of migrant Swazis on South African mines is falling rapidly. The problem has been compounded by the fact that, with the lifting of sanctions, Swaziland has lost much of its attraction to foreign investors in manufacturing - the engine of growth in the last decade. Finally, the above difficulties were exacerbated by increased political tension which do not appear to have been altogether defused by the 1993 elections. That aside, Swaziland has potential for further development of its perennial rivers and its abundant reserves of coal.

2. ECONOMIC INDICATORS

	87/88	88/89	89/90	90/91	91/92
GDP:					
Current prices (Em)	1118	1576	1742	2400	3000
Constant factor cost (1985) (Em)	852	907	955	1003	1022
Real growth (%)	17.9	6.5	5.2	5.0	2.0
Real change per capita (%)	14.0	3.0	1.8	1.6	-1.4

ECONOMIC INDICATORS (continued):

Structure of production: GDP contribution (%) (1992):						
Agriculture						21.0
Manufacturing						18.3
Trade, hotels, etc.						13.1
Transport and communications						7.0
Financial services						11.0
Government services						18.0
Other						11.5
Total						**100.0**
	1987	1988	1989	1990	1991	1992
Foreign trade: Trade balance (Em)	110	57	-57	-86	-142	-257
Main exports: Sugar (29%), other foods (29%), woodpulp, fruit, minerals, cotton						
Main imports: Capital goods (27%), minerals, fuel and lubricants, foodstuffs, manufactures						
Main trading partners: Exports - South Africa (47%), EC; Imports - South Africa (91%)						

Sources: Economist Intelligence Unit, *Country Profiles: Botswana, Namibia, Swaziland and Lesotho*, 1988-1993, *Country Profile - Namibia and Swaziland 1993/94*; World Bank, *World Development Report*, 1993; Swaziland, *Development Plan 1994/95-1996/97*.

3. ECONOMY

3.1 *Agriculture, Forestry and Fishing*

Agriculture and forestry typically account for about 20% of Swaziland's GDP although the sector's contribution has been declining steadily since 1980. Nonetheless, agriculture remains the backbone of the economy, accounting for 27% of formal-sector employment in 1988 with a large portion of the population still engaged in subsistence agriculture. Sugar is the major agricultural output, and in 1990 provided almost 32% of total export earnings, with the bulk of output being sold to the European Community under the terms of the Lomé Convention. More recently, however, a greater portion of output has

been sold and refined in Swaziland owing to the relocation of Coca Cola's soft drink plant and Cadbury's confectionery factory from South Africa, as well as the establishment of a new refinery in 1987 (Matthews, 1993, 848). Maize is the major food crop, and output increased steadily through the 1980s. However, a drought in 1992 dealt a severe blow to production, with output falling to just one-quarter of annual consumption needs. Since then production has not recovered because of the persistence of dry conditions and the inability of peasant farmer producers to purchase fertilizer and seed. Both the citrus and pineapple industries are important to the economy but were severely damaged by Cyclone Demoina in 1984. Although the industry recovered strongly through the 1980s, the 1992 drought wreaked havoc, with output falling substantially. This posed further problems to agro-industry, with companies such as Swaziland Fruit Canners being faced with serious viability difficulties, and Swaziland Food Distribution was forced to close (SADC, 1993, 89). The cotton industry has experienced a similar fate, with drought halving production in 1992. In September 1993 the World Food Programme (WFP) announced a $4m aid programme to provide relief to Swazis affected by the lingering drought. The sector did, however, start to show signs of modest recovery in late 1993.

Swaziland has 103,566 ha of man-made forest, covering roughly 6% of the country's total land area. The industry is important, and in 1989/90 contributed 1.5% to GDP. Production of woodpulp ran at a steady 170,000-180,000 tons per annum through the 1980s, but fell to 140,000 tons in 1990 as a result of production problems; output has since recovered (Matthews, 1993, 848).

3.2 Mining

The contribution of mining and quarrying to GDP steadily declined from 10% in the 1960s to a mere 1.5% in 1988/89. Diamonds are mined mainly for industrial purposes and, in 1991, became Swaziland's most important mineral export. The industry has, however, recently been faced with the problem of falling international prices, and output has now ceased. Asbestos has traditionally been a major foreign-exchange earner for Swaziland. However, production has been hampered by labour and financial difficulties, and the situation has been exacerbated by the identification of health problems associated with the mineral. Coal holds the country's most important mineral potential, but mining has only recently been resuscitated. Quarry stone is produced to meet the needs of the local construction industry.

3.3 Manufacturing

In 1989/90, manufacturing accounted for nearly 20% of GDP. The sector, however, is relatively underdeveloped. Until the mid-1980s it was dominated by agro-industry: in 1985 four-fifths of manufacturing's value-added derived from agro-industry of one kind or another, ranging from sugar, timber and woodpulp mills to fruit, cotton and meat processing plants (Matthews, 1993, 848). Several important developments from the mid-1980s onwards saw the sector begin to diversify. First, government introduced a programme of incentives for investment, and replaced the National Development Corporation of Swaziland by the highly effective Swaziland Industrial Development Company (SIDC). Further, government undertook a programme that promoted Swaziland as an internationally competitive investment location. Second, government's efforts were assisted by the growing unattractiveness of investing in South Africa's 'homelands', which had previously captured large amounts of both foreign and local investment. Third, the imposition of sanctions against South Africa resulted in a number of firms relocating into neighbouring countries in an effort to avoid the potentially crippling effects, and Swaziland, with its relatively well-developed infrastructure, was an obvious site. Accordingly, between 1985-1990 numerous small factories producing a wide range of products were established, and formal employment in the sector grew at an annual rate of 5.7% over that period (Matthews, 1993, 849). Since 1990, however, growth has slowed, primarily as a result of decreased investment rates and a strained infrastructure, although in 1992 the SIDC approved 11 new projects valued at about E95m.

3.4 Energy

In 1990, the Swaziland Electricity Board (SEB) imported from South Africa 78% of the power it supplied (Matthews, 1993, 849). The situation has not changed much since then and, although government has plans to upgrade and expand existing facilities, these plans have been seriously hampered by the chronic inability of government to meet its capital spending targets.

4. GOVERNMENT POLICY

Swaziland has had six development plans in total. In 1989, the fifth development plan broke with the past by launching the first annually

revised rolling plan; and in early 1994, the sixth such rolling plan, which covers the three financial years 1994/95-1996/97, was presented. The Plan details public-sector development programmes that are to be carried out within the overall macroeconomic and fiscal parameters. The Plan also sets out development programmes for the most important sectors of the economy; generally these programmes aim to boost exports, encourage investment through by improving investment incentives, create jobs, raise rural incomes, increase domestic skills and upgrade infrastructure (Economic Planning Office, 1993). In 1989, government established the Public Enterprise Unit within the Finance Ministry in order to review the performance of public-sector companies and advise on policy in this regard. As far as government finances are concerned, the budget showed large, albeit unexpected, surpluses between 1986 and 1992, and government has used these surpluses to reduce both internal and external debt which, in the early 1980s, were threatening to cripple the economy. However, drought in 1992 served to deplete government revenue significantly, resulting in a budget deficit in 1993/94, and continued over-spending will see the deficit reach approximately E202m in 1994/95 (*Times of Swaziland*, 1994, 5). Government has recently announced its intention to introduce its own 'structural adjustment' measures very similar to those imposed by international agencies but argued to be more likely to succeed as they are 'home grown' and will be introduced more gradually than is usually the case.

5. PROSPECTS

Swaziland's economy has grown relatively rapidly since independence in 1968. However, in more recent years a number of problems have emerged that must be dealt with if it is to achieve long-term growth. First, infrastructure is strained, and this has placed a constraint on economic growth. In line with this, substantial capital investments are needed. Yet, in spite of large budget surpluses, government has shown an increasing inability to spend the investment budget, and this is a structural problem that goes to the heart of the administrative inefficiency inherent in the dichotomous nature of Swaziland's governance. Second, in view of the fact that the 'windfall' investments of the 1980s are unlikely to be repeated, it is vital that the country continues to attract foreign investment capital, particularly into the relatively underdeveloped manufacturing sector. Third, Swaziland's economic performance continues to be plagued by a growing trade deficit, although the situation is likely to reverse itself with the ending of the drought. Real growth rates of 3% and 2% respectively are

anticipated in 1994-1995 and 1996 (Swaziland, 1994), but real GDP per capita would decline. The country's continued growth will depend on the judicious utilisation of its renewable resources and its ability to attract foreign investment in post-apartheid Southern Africa.

8. TANZANIA

1. BACKGROUND

The United Republic of Tanzania incorporates mainland Tanganyika and a number of offshore islands, including Zanzibar and Pemba. The total population is some 27 million. Tanzania is the world's second poorest country after Mozambique and, between 1961 (when it gained independence) and the mid-1980s, the main preoccupation of the nation's policy-makers was on lifting the majority of the population out of illiteracy, poverty and disease (Van Buren, 1993, 859). The Arusha Declaration of 1967 put even greater emphasis on eliminating these ills through 'ujamaa', a policy of 'socialism and self-reliance'. But, by the mid-1980s the programme had proved to be a disastrous failure, and the economy was on the verge of collapse. Government abandoned its 'socialist' stance and ushered in more-pragmatic, less-idealistic policies. The most important of these policies included a three-year structural adjustment programme, prepared in conjunction with the World Bank (Van Buren, 1993, 859-860). The main objective of the programme was to free-up the economy, encourage production and reduce the budget deficit. The programme has largely been successful, with the economy growing at an average rate of 4% per annum between 1986-1992. With the problem of socialism seeming to have resolved itself, two further problems that have historically hampered Tanzania's economic performance also seem to be going away. First, 1992 saw political pluralism replace the one-party state; and second, the shaky and unconstructive 'marriage' between Zanzibar, Pemba and Tanganyika seems to be on the rocks. With these factors in mind, it would seem as if Tanzania is likely to continue to enjoy the relative economic prosperity it has experienced over the last few years.

2. ECONOMIC INDICATORS

	1987	1988	1989	1990	1991
GDP:					
Current prices (TSh bn)	205	291	344	411	592
Constant factor cost (1976) (TSh bn)	27.0	28.3	29.2	30.2	31.4
Real growth (%)	5.1	4.8	3.2	3.4	4.0
Real change per capita (%)					
- Mainland	2.2	1.4	0.4	0.7	1.0
- Zanzibar	0.3	-1.9	-0.3	0.3	1.8

ECONOMIC INDICATORS (continued):

Structure of production: GDP contribution (%) (1991):				Mainland	Zanzibar
Agriculture				62.5	48.1
Manufacturing and construction				6.1	9.2
Trade, hotels, etc.				14.5	24.6
Transport and communications				8.2	-
Public administration				6.0	12.9
Other				2.7	5.2
Total				100.0	100.0
Foreign trade: Trade balance ($m)	-797	-812	-815	-1037	-1115
Main exports: Coffee (21%), manufactures, cotton, minerals, tea					
Main Imports: Consumer goods (23%), machinery, transport equipment					
Main trading partners: Exports - Germany (16%), India, United Kingdom and Belgium/Luxembourg (8% each) Imports - United Kingdom (13%), Germany and Japan (9% each)					

Sources: Economist Intelligence Unit, *Country Profile*, 1993/94; World Bank, *World Development Report*, 1993.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Agriculture is the principal source of income in Tanzania, and contributed over 60% to GDP in 1991 and 84% to export earnings in 1990. The sector accounts for 16.5% of formal-sector wage employment, and approximately 80% of the country's labour force (12.3m people) are involved in subsistence agriculture (Van Buren, 1993, 860). The main products include coffee, tea, cotton, sisal, cloves, pyrethrum and cashew nuts. Coffee output has fallen steadily to about 80% of the 1980/81 peak; this is primarily the result of falling international market prices. Cotton production grew rapidly in the late-1980s, mainly due to foreign-funded rehabilitation programmes. However, 1990 and 1991 saw output fall by 35% as a result of transport bottlenecks, but production recovered in 1992 with the aid of foreign funding which was essentially used to upgrade transport

facilities. Tea production has become increasingly important in recent years, and output now stands at twice the 1970 level. This recovery is the direct result of fresh foreign investment flows, stronger international market prices, and the rehabilitation of tea estates (Van Buren, 1993, 860-861). Cloves are the main export of Zanzibar, earning 80% of the island's foreign exchange. Sales, however, have fallen dramatically since 1983 when Indonesia, the world's largest consumer of cloves, became self-sufficient; accordingly, a variety of new crops have been planted to replace clove production (Van Buren, 1993, 861). Sisal production has increased over recent years as a result of stronger world prices, privatisation of State-owned estates and the growth of foreign investment. However, output is still hampered by machinery and spares shortages. In 1987, cashew nut production stood at just 10% of the 1973 level; this was primarily the result of low international prices as well as disease, poor husbandry and lack of imported inputs. Production has since started to recover along with international prices. Pyrethrum production fell by 80% between 1960 and 1986/87; since then production has recovered slightly due to improved world prices, government assistance to producers and the rehabilitation of the Arusha processing factory (Van Buren, 1993, 861). Maize is the main subsistence crop, and sugar and tobacco are important traditional crops. The livestock industry has generally performed poorly over recent years. Limited commercial fishing takes place, but in 1990 East African Agro Industries was formed to trawl for fish in Lake Victoria, and the company has plans to export 20-25 tons of fish per day (Van Buren, 1993, 862).

Although Tanzania is plagued by low and erratic rainfall, which in the past has affected crop production, the country did manage to escape the ravages of the 1991/92 drought. That aside, government aims to increase the area under irrigation from the current 6.2m ha to 10m ha by 2000, and here the Rufifi River, which runs through southern Tanganyika, offers enormous irrigation (as well as hydroelectric) potential. Furthermore, government is attempting to provide an additional boost to the sector by upgrading the transport and marketing infrastructures, and in 1991, a five-year $871m road project, funded primarily by the World Bank, was started.

3.2 Mining

Mining and quarrying contributed no more than 1.2% to GDP in 1991, and accounted for just 0.8% of formal-sector wage employment in 1989. The sector has, however, started to grow, and in 1991 minerals

accounted for 11% of exports (as opposed to just 3.5% five years earlier). Tanzania primarily exploits diamonds, gold and gemstones. The production of both diamonds and gold fell steadily through the late-1960s and 1970s; this was mainly caused by dwindling investment and output being sold into parallel markets where prices were well above official rates. However, production of both recovered strongly over the late-1980s when government aggressively attacked parallel markets by raising official purchase prices to well above parallel market rates. An important further boost was provided by renewed foreign investment flows which have helped to revitalise the mining sector. Tanzania has large deposits of gemstones, and production has increased steadily since 1986. The country also exploits soda ash, iron ore, tin, coal, salt, phosphate, nickel, copper, cobalt, gypsum and kaolin (although all on a small-scale). Tanzania has confirmed reserves of uranium, niobium, titanium and vanadium, but these are not exploited.

3.3 Manufacturing

The manufacturing sector accounts for roughly 4% of GDP but over 18% of formal-sector employment, and for this reason government has been particularly anxious to generate growth in this sector. However, growth has been sluggish, hampered primarily by foreign-exchange shortages (denying the sector necessary inputs, capital equipment and spares) and frequent interruptions in water and electricity supplies. As a result, factories tend to operate at 20%-40% of capacity. The sector is based on local commodities and import substitution. More recently, however, the export of some industrial goods to neighbouring countries has taken place, and in 1988 Tanzanian companies broke into both the Swedish and German markets (Van Buren, 1993, 861). This was an major development for these firms as well as the sector. Moves are currently under way to stimulate the sector by abolishing price controls and raising duties on some imports. These moves will secure an IMF loan which will provide a further boost to the sector by relieving the foreign-exchange shortage. Moreover, at the end of 1992, a 1992-1994 privatisation programme was made public by the World Bank Mission. The programme identified 60 government companies that were to be liquidated and sold off to the private sector. Collectively, these developments should result in strong growth in manufacturing over the next few years. Principal industries include food processing, textiles, brewing and cigarettes.

3.4 Energy

More than 70% of Tanzania's electricity is generated by hydro-power. An eight-year investment programme for the development of the power sector was launched in 1991, and involves an investment of $408m (Van Buren, 1993, 862). In 1990, the Tanzania Electric Supply Company (Tanesco) also commenced with a five-year, $300m development programme. Prospecting for natural gas and petroleum has been carried on for many years. Some natural gas reserves have been found, but results of petroleum exploration have so far been disappointing.

4. GOVERNMENT POLICY

In 1982, Tanzania made an important break with the past by adopting a three-year structural adjustment programme (SAP) prepared in conjunction with the World Bank. The new approach of government was reconfirmed in 1986 when it announced a three-year Economic Recovery Programme (ERP) which closely adhered to IMF and World Bank conditionality (Economist Intelligence Unit, 1993). In brief, these programmes aimed to stimulate the economy and restore the basis for sustainable economic growth by *inter alia* devaluing the currency and boosting exports; reducing the government's budget deficit; privatising inefficient State-owned companies; raising producer incentives by abolishing price controls and increasing import duties; improving the availability of inputs; and attracting fresh aid and foreign investment inflows. In January 1990, the successor to the largely successful ERP, the Economic and Social Action Programme (ESAP), was announced by government (Van Buren, 1993, 860). This placed greater emphasis on alleviating the social costs of economic adjustment, but continued with reform by further liberalising pricing, marketing and foreign-exchange mechanisms, as well as reducing the size of the civil service.

5. PROSPECTS

With Tanzania having abandoned socialism and implemented a number of important economic reforms, it would appear that the economy is poised to grow considerably in both the short- and long-term. In this regard, reforms should help to substantially improve the performance of the potentially large manufacturing and agricultural sectors. Moreover, recent reforms have seen the mining sector start to show signs of recovery. The tourism industry also has the potential to grow

considerably and become an important earner of foreign exchange. The economy does, however, have an important hurdle to clear if growth objectives are to be realised. Tanzania has a massive external debt problem: in 1991, total external debt amounted to $6,459m, whilst GDP was equivalent to just $2,424m (SADC, 1993, 71). Both debt-servicing and capital repayments are likely to impose a considerable constraint on growth unless the problem is adequately dealt with. However, if Tanzania is able to successfully dispose of this problem, the economy should achieve substantial long-term growth.

9. ZAMBIA

1. BACKGROUND

The Republic of Zambia, formerly Northern Rhodesia, is a land-locked state in south-central Africa. The country had an estimated population of 8.3 million in mid-1993. It shares boundaries with no fewer than eight countries, seven of which are members of SADC. Zambia gained independence in October 1964, with the United National Independence Party (UNIP) coming to power. In 1972, Zambia became a one-party state, and this political set-up remained until 1991. The period of one-party rule was marked by internal hostility, riots and a preoccupation by government with suppressing all political opposition. On the economic front, matters were not much better. The copper-dependent economy, which had grown rapidly through the 1970s as world prices rose, contracted equally rapidly as prices tumbled. Matters were made worse by the fact that falling foreign-exchange revenues left the country unable to service its foreign debt or import necessary inputs. Finally, as if to add insult to injury, global oil prices rose substantially through the 1970s, which served only to place additional pressure on Zambia's severely depleted foreign-exchange reserves. The economic crisis resulted in Zambia adopting a structural adjustment programme (SAP), negotiated with the World Bank and IMF, in the mid-1980s. The programme aimed at stimulating economic growth by promoting economic diversification; lowering government budget deficits; reducing public-sector employment; and freeing up price controls to revitalise industry and agriculture. The reforms, however, placed severe strain on the economy and, in 1987, government abandoned the policy. Once again, however, the country ran into acute balance-of-payments problems. Accordingly, in September 1990, a new reform programme was adopted. This programme was as severe as the first: GDP fell by an average of 2.5% per annum over the three-year period 1990-1992. Despite a change of government in 1991, when UNIP abandoned one-party rule and was defeated by the Movement for Multi-Party Democracy (MMD), this highly unpopular (and still largely unsuccessful) programme remains in place.

2. ECONOMIC INDICATORS

	1988	1989	1990	1991	1992
GDP:					
Constant prices (1985) (ZKm)	9218	9306	9376	9193	8938
Real growth (%)	1.9	1.0	0.7	-2.0	-2.8
Real change per capita (%)	-1.7	-2.6	-2.9	-2.0	-7.6
Structure of production: GDP contribution (%) (1992):					
Agriculture, forestry and fishing					7.9
Mining and quarrying					22.9
Manufacturing					20.1
Trade, hotels, etc.					14.0
Transport and communications					7.6
Real estate and business services					14.8
Public administration/other services					3.0
Total					100.0

	1987	1988	1989	1990	1991
Foreign trade:					
Trade balance ($m)	14	-9	-612	-674	173
Main exports: Copper, cobalt, zinc					
Main imports: Fertiliser					
Main trading partners: Exports - Japan (17%), India (10%); Imports - South Africa (20%), United Kingdom (18%), Saudi Arabia and Japan (10% each)					

Sources: Economist Intelligence Unit, 1993/4; World Bank, *World Development Report*, 1993

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Zambia has considerable agricultural potential which was not developed prior to independence because the colonial administration placed emphasis on mining in mineral-rich Northern Rhodesia (Zambia) and agriculture in Southern Rhodesia (Zimbabwe). Since independence, however, government has continually stressed the need for agricultural growth. Yet, *in spite of government policies emphasising* the

importance of agriculture, the sector has underperformed. The main reasons for this include severe droughts in 1982/83, 1987 and 1992; a lack of skilled manpower; inadequate marketing and transport facilities; rural-urban migration, especially of better-educated and younger people; price controls which, historically, have kept agricultural output prices depressed; inadequate access to finance; and the failure by government to clarify the role of the National Agricultural and Marketing Board (Namboard). As a result, only 6m of a potential 46m ha are currently under cultivation. More recently, the sector has started to show signs of growth, particularly after the lifting of price controls on all crops (except maize) in 1989. Provisional figures show that the sector's contribution to GDP climbed from 13% to 16% between 1988-1991 before drought in 1992 reduced the figure to just 8% (Colclough, 1993, 943-944). The agricultural sector accounted for 10% (equivalent to 39,000 jobs) of all formal-sector wage employment in 1990, and subsistence agriculture employs over 50% of the total labour force (estimated to be 3,860,000 people).

Principal crops include maize, millet, sorghum, cassava, soya bean and tobacco. Zambia has the ability to produce in excess of 12m bags of maize annually which should render the economy self-sufficient. However, production has frequently been severely reduced by drought, and in 1992 was just 4.5m bags (Colclough, 1993, 949). Currently, attempts are being made to remove government from its role as the sole maize marketer. The tobacco industry has experienced similar difficulties, although revenues have been further affected by falling world tobacco prices. Soya bean output has grown rapidly since 1980 and, because this crop is drought resistant, many farmers have switched to it. Other products include wheat, sugar cane, potatoes, sweet potatoes, coffee, cassava, onions, tomatoes, sunflower seed, pulses, groundnuts, rice, and cotton. Cattle-rearing is also important, and a small beef export market has continued to develop. The industry has, however, been affected both by drought and frequent outbreaks of disease. Finally, although Zambia has large fish resources in various lakes and rivers, production remains low.

3.2 Mining

Mining typically accounts for about 20% of GDP. The focus of the mining sector is on copper, but other minerals are also exploited, including zinc, lead, emeralds, amethysts, limestones and some industrial minerals. As noted, copper mining (and its by-product, cobalt) is particularly important, accounting for over 90% of activity in the

sector and earning roughly 80% of Zambia's foreign exchange. For this reason the fate of the Zambian economy has largely been determined by world copper prices; and with copper prices falling steadily since the 1970s, the net result has been devastating. Further, copper production has fallen off dramatically since the 1970s. This has been the result of falling yields, aging capital stock, foreign exchange shortages, lack of maintenance, reinvestment and skills shortages. To make matters worse for the copper-dependent economy, economically recoverable reserves will probably be exhausted by 2010. For this reason government is encouraging diversification; as a result some new activity has taken place, including cobalt production; coal mining (although the industry is in desperate need of re-equipping and modernisation); and small-scale mining of manganese, silver and gold. Large emerald deposits exist, but government has failed to control illegal mining and smuggling. The 1994 budget introduced lower tax rates for mining companies in order to attract foreign direct investment which will, in turn, assist government's efforts to bring about diversification.

3.3 Manufacturing

Manufacturing contributed just over 20% to GDP in 1992, and is the second largest formal-sector employer after mining with an estimated workforce of just under 51,000 in 1990. As much as 75% of Zambia's manufacturing activity is accounted for by the State-controlled Industrial Development Corporation of Zambia (INDECO). INDECO's principal activities, of which a number are undertaken in conjunction with foreign partners, include a car assembly plant, a chemical fertiliser plant, an oil refinery, an explosives plant, a textile mill, a glass bottle factory, batteries and brick-making and a copper-wire manufacturer (which is the first substantial domestic user of Zambian copper) (Colclough, 1993, 950). Since 1975 the sector has shared in the general economic decline, the major constraint being a shortage of foreign exchange. Despite government introducing various measure to promote manufacturing growth, including the announcement of an export processing zone in 1990 and the Investment Act of 1991, the sector continues to underperform as a result of crippling foreign-exchange shortages.

3.4 Energy

In 1974, Zambia became self-sufficient in hydroelectric energy; this was the result of a massive expansion of output from Kafue Gorge. At the same time, Zambia began exporting power to Zaire and Rhodesia. Expansion in hydroelectric power continued into the 1980s, such that by 1982, electricity output stood at ten-times the 1971 level; and in 1989 electricity exports to Zimbabwe were worth $12m per annum (Colclough, 1993, 951). However, a fire at Kafue Gorge in 1989 destroyed the main power cables, reducing output significantly, and exports to Zimbabwe were stopped. Although production has been fully restored, exports have recently been hampered by the 1992 drought. No major expansions are currently planned.

4. GOVERNMENT POLICY

Since 1966, Zambia has implemented four National Development Plans, the most recent being that of 1988 (Economist Intelligence Unit, 1993f). However, that plan was superseded by a three-year shadow interim economic recovery programme (ERP) implemented in conjunction with the IMF in 1990. The ERP committed government to stringent economic reforms designed to reduce recurrent government spending, cut the budget deficit, bring inflation down, boost productivity and promote non-traditional exports so as to reduce the country's reliance on copper. As a result, 1990 saw the introduction of a dual exchange rate, trade liberalisation measures, the announcement of privatisation plans, the introduction of stringent credit and monetary controls, and the reform of maize and fertiliser marketing. In early 1991 a second policy framework was agreed upon with the IMF and World Bank, setting out policy targets based on experiences in the first year of the shadow programme. A major aspect of the new framework was the speeding up of structural adjustments, with most deadlines being brought forward from 1992 to 1991. However, with the 1992 elections approaching, government backed down on a number of reforms, and the World Bank froze disbursements. By mid-1993, however, foreign-exchange shortages had forced the new government to revive the programme. Government accordingly lifted all price controls and retrenched 10,000 civil servants. The privatisation programme, however, has proceeded slowly.

5. PROSPECTS

Growth in both the agricultural and manufacturing sector should come about once the adverse effects of the 1992 drought have worked themselves out of the economy, and this should be sufficient to produce at least weak economic growth in the short run. However, over the long run, prospects for economic growth are bleak as the Zambian economy is faced by a number of problems that will take many years to resolve. First, the economy remains heavily reliant on copper, with little real diversification having taken place. Second, foreign-exchange shortages resulting from falling copper prices continue to constrain manufacturing activity. Falling copper earnings have, of course, also reduced government revenue which, in turn, has reduced government's ability to finance development. Third, the fiscal situation has been exacerbated by the country being heavily over-borrowed: in 1991, total external debt amounted to $7,280m, whilst GDP was equivalent to just $3,394m (SADC, 1993, 71). Fourth, like so many other less-developed countries, Zambia suffers from a skills shortage, and this skills gap is widening as a result of the growing number of Aids victims. Finally, and most important, government still has to tackle the task of major economic reform. For these reasons, then, Zambia's economic growth prospects do not look particularly good, even over the longer term.

10. ZIMBABWE

1. BACKGROUND

Zimbabwe is a landlocked country with an estimated population of 10.8 million (mid-1993). Zimbabwe gained independence in 1980 when Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) won the general election. Although the ZANU-PF held a 'Marxist-Leninist' view on economic policy, Mugabe, in an attempt to restore stability in the country, disavowed rapid change towards his socialist goals. Government has increasingly moved away from its socialist stance and towards what it terms 'pragmatic socialism' and 'indigenous capitalism'. This trend has been reinforced by government introducing an economic structural adjustment programme (ESAP) in 1991. That aside, over the 1980s the economy grew unevenly, with major setbacks coming in the form of drought and fluctuating world prices of exports. However, Zimbabwe has an abundance of natural resources, a well-developed infrastructure and the ability to easily recoup short-term setbacks. Moreover, the country has the capacity to develop water resources to combat the ravages of drought; large-scale irrigation works in the south-eastern lowveld, for example, have provided a major development region. Thus, there is substantial development potential in Zimbabwe.

2. ECONOMIC INDICATORS

	1988	1989	1990	1991	1992
GDP:					
Current prices (Z$m)	10184	12114	14702	19587	25706
Constant prices (1980) (Z$m)	4144	4332	4426	4641	4284
Real growth (%)	7.3	4.5	2.2	4.9	-7.7
Real change per capita (%)	4.5	1.7	-0.6	2.3	-14.7

Structure of production: GDP contributions (%) (1992):	
Agriculture and forestry	22.1
Manufacturing	30.2
Distribution and hotels	8.3
Other	39.4
Total	100.0

ECONOMIC INDICATORS (continued):

	1987	1988	1989	1990	1991
Foreign trade: Trade balance (Z$m)	368	616	345	-297	-1900
Main exports: Tobacco (27%), gold, ferro-alloys, nickel, cotton					
Main imports: Capital goods (41%), manufactures, chemicals, fuel					
Main trading partners: Exports - United Kingdom (12%), Germany (9%), South Africa (10%) Imports - South Africa (25%), United Kingdom (15%)					

Sources: Economist Intelligence Unit, *Country Report*, 1993, *Country Profile 1993/94*; World Bank, *World Development Report*, 1993; Reserve Bank of Zimbabwe, *Quarterly Economic and Statistical Review*, Vol. 14.

3. ECONOMY

3.1 Agriculture, Forestry and Fishing

Zimbabwe has a diversified and well-developed agricultural sector which employs roughly 70% of the total labour force. Agriculture, including forestry and fishing, accounted for 10% of GDP in 1992 (Van Buren, 1993, 970). Although the sector was severely affected by drought in 1992, production has since rebounded strongly. This recovery has been further bolstered by the deregulation and restructuring of State marketing boards. The main food and cereal crops include maize, wheat, millet, sorghum and barley. Maize production has grown steadily since 1980 but experienced setbacks in 1987 and 1991/92 as a result of drought. Consequently, total production in 1991 stood at 1.2m tons and, with domestic consumption needs of just under 2.0m tons, Zimbabwe faced a food-security problem (Van Buren, 1993, 970). For this reason the Grain Marketing Board (GMB) is currently expanding food-storage capacity to ensure food security in times of drought. Production has also been adversely affected by low producer prices paid by the GMB and prospects for 1994 look bleak: the GMB only has finances available to buy 7,000 tonnes of maize out of an expected crop of 2m tonnes (*Africa Analysis*, 1994, 13). In most years, however, Zimbabwe is a net exporter of maize. Barley production grew rapidly over the 1980s

to reach 30,000 tons in 1989, but the 1991/92 drought reduced output to just 15% of that level. Production has since recovered strongly. The principal cash crops are tobacco, cotton and sugar. Tobacco generates over 60% of the agricultural sector's export revenue and employs 12% of the workforce. Although drought did affect the crop, output climbed in 1992 as a result of 19% more farmers planting tobacco on 17% more hectarage than in 1990/91 (Van Buren. 1993, 970-971). Revenues have, however, been affected by falling world prices, and some farmers are now replacing tobacco by paprika. Cotton production reached record levels in 1987/88, but has since slumped as a result of drought and inferior seed purchased by farmers from the Cotton Marketing Board (CMB). Sugar is an important export, and in 1990 earned Z$308m; however, drought reduced output in 1992 to just 10% of normal levels. An irrigation scheme has been proposed to protect this crop from future droughts. Zimbabwe exports beef to the EC.

Since independence, the distribution of land ownership has been a major issue. One of the election platforms of the ZANU-PF was a promise to provide peasants with access to productive land; this was to be achieved through redistributing land away from commercial white farmers. The programme has, however, only been moderately successful: about 52,000 families have been 'resettled' on 2.7m ha obtained from commercial farmers, and this constitutes about 30% of the target. About 4,000 commercial farmers still occupy over 50% of the most productive land. Moreover, in April 1994, a 'land grab' scandal, in which government is involved, was exposed (Edlin, 1994). The scandal involves 90 farms seized or already owned by the State, which were allocated to cabinet ministers and ZANU-PF cronies and not the peasants for whom they were originally intended. This has not only damaged the government's image but also scared off a number of potential foreign investors.

3.2 Mining

Mineral production is relatively diversified, and production for world markets rose significantly by 56% between 1980-1991. Mining accounted for just more than 7% of GDP in 1992, and earned 23% of Zimbabwe's foreign exchange in 1990 (Van Buren, 1993, 971). More than 40 different minerals are currently produced, the most important of these being gold, nickel, asbestos, coal and platinum. Gold production has risen steadily since the mid-1980s and is the main source of revenue in the mining sector. Revenue has, however,

recently been affected by a lethargic international gold price. Nickel production grew rapidly in the second half of the 1980s, spurred mainly by strong international demand. Since then production has levelled out. Asbestos production ran steadily at about 180,000 tons in the late-1980s, but production has fallen off since 1990 with the association of asbestos with lung cancer (Van Buren, 1993, 971). Coal production has increased steadily in recent years, and in 1991 exports were worth Z$174.8m, some 70% higher than earnings in 1987 (Van Buren, 1993, 971). The largest known reserves of platinum in the world outside of South Africa lie in a mineral belt in central Zimbabwe, and platinum holds significant revenue potential. A mine has been developed and production began in 1992. The mine has a projected life-span of 70 years, and production is forecast to earn Z$272m per annum in foreign exchange. The mine also produces palladium, rhodium, gold, nickel and cobalt. Zimbabwe also exploits iron ore, copper, chromite, silver, tin, graphite, and lithium; and a British company has recently found significant diamond deposits. In short, Zimbabwe is resource-rich, and the mining sector holds enormous economic potential, particularly if backward and forward linkages are exploited.

3.3 Manufacturing

The manufacturing sector accounts for about 27% of Zimbabwe's export earnings and is the second largest employer after agriculture, accounting for 16.6% of formal-sector employment. In 1992 manufacturing contributed 24.3% to GDP. It is one of the largest and most diversified in sub-Saharan Africa. Until 1990, one of the government's objectives was to increase State participation in the sector. These plans were shelved when government introduced an economic liberalisation programme in 1991. The reforms, however, are proceeding slowly, resulting in many firms losing out on opportunities (particularly in export markets). The manufacturing sector has also been constrained by little direct foreign investment; this is primarily the result of a lack of any real investment incentives, and the situation has been compounded by corruption and bureaucratic inefficiency. The sector remains constrained by foreign-exchange shortages, which result in firms being unable to import essential raw materials. In an attempt to reduce foreign-exchange constraints, government introduced Corporate Foreign Currency Accounts (FCAs) in January 1994; this allows exporting companies to retain 60% of their foreign-exchange earnings. The main industries include textiles and ginning, metals and minerals processing, and clothing and footwear. The

clothing industry has started to make significant inroads into European markets.

3.4 Energy

Zimbabwe shares with Zambia the huge Kariba dam. For many years Kariba's only hydroelectric plant was on the Zambian side, and Zimbabwe imported some Z$20m worth of power from Zambia annually (Van Buren, 1993, 973). In 1987, Zimbabwe expanded local capacity and notified Zambia of its intention to end imports; however, a fire at the Zambian power station eliminated Zambia's export capacity. Since then, Zimbabwe has continued to expand capacity. Current plans include a Z$500m hydroelectric extension facility at Kariba South, a Z$1,000 joint Zambia-Zimbabwe hydroelectric facility and a Z$154m plan to rehabilitate three thermal power plants. Fuel is one of Zimbabwe's principal imports (Van Buren, 1993, 973).

4. GOVERNMENT POLICY

Since 1990 the Zimbabwean government has moved away from a system of controls and intervention and towards free markets. This was confirmed by government introducing the ESAP in 1991 (Economist Intelligence Unit, 1993g). The programme aims to liberalise the economy by halving the budget deficit, abolishing price controls, privatising parastatals, cutting the civil service, freezing social service expenditures, boosting exports through an export-incentive scheme, and widening investment incentives in an effort to promote export-orientated investment. The programme was initially relatively successful, as economic growth was lifted from 2.2% in 1990 to 3.6% in 1991. Drought, however, ensured that this success was short-lived, and the economy shrank by 11% in 1992 as a result of sharply lower agricultural activity. Economic recovery has, however, resumed with the ending of the drought.

5. PROSPECTS

The Zimbabwean economy has considerable growth potential: the country's mining, manufacturing and agricultural sectors are all relatively well-developed and diversified. Moreover, the country is resource-rich and is likely to benefit substantially from the development of mining and water resources (particularly in the area of irrigation). It

also possesses a relatively well-developed infrastructure. Finally, government has introduced an important reform programme that should substantially improve the economy's performance. However, a number of factors stand in the way of Zimbabwe realising its development potential. First, by mid-1993 public debt amounted Z$21.5bn, or 62% of GDP. This massive debt is the result of large budget deficits, high interest rates and devaluation of the exchange rate (which pushes up the value of foreign borrowings); and, with annual interest payments now at Z$2.1bn, the situation is threatening to push Zimbabwe into a debt trap. Second, government's domestic borrowings used to finance the budget deficit have reduced the cash-strapped private sector's ability to raise finance from local financial institutions. Government is, however, addressing this issue by reducing the budget deficit and switching to foreign financing. Third, the civil service remains bloated and inefficient, and corruption is rife. Government is tackling the issue, but the financing of civil service retrenchments will stretch government's finances to the limit (although privatisation of State-owned companies should assist in improving government's financial position). In short, the Zimbabwean economy has the ability to record strong growth in both the short- and long-term. However, Zimbabwe must first overcome an enormous financial hurdle that has the potential to cripple the economy.

BIBLIOGRAPHY

Africa Analysis, 'Zimbabwe Wonders how to Buy a 2m Tonne Crop', No. 191, 1994.

Africa Analysis, Currency Checklist, No. 192, 1994a.

Africa Analysis, 'World Bank Sticks to its Holy Writ', No. 193, 1994b.

ANC, *Reconstruction and Development Programme*.Johannesburg: ANC, 1994.

Barclays Botswana Economic Review, First Edition, 1994.

Botswana, *Statistical Bulletin*, 1993.

Brown, R., 'Botswana Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications.

Brown, R., 'Malawi: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.

Colclough, C., 'Zambia: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.

Easterly, W. & R. Levine, 'Is Africa Different? Evidence from Growth Regressions'. World Bank, 1993.

Economist Intelligence Unit, *Country Profile: Angola, 1993/94*, 1993a.

Economist Intelligence Unit, *Country Report: Angola, 4th Quarter*, 1993b.

Economist Intelligence Unit, *Country Report: Botswana, Lesotho, Swaziland, Namibia, 4th Quarter*, 1993c.

Economist Intelligence Unit, *Country Profile: Malawi, 1993/94*, 1993d.

Economist Intelligence Unit, *Country Profile: Tanzania 1993/94*, 1993e.

Economist Intelligence Unit, *Country Report: Zambia, 3rd Quarter*, 1993f.

Economist Intelligence Unit, *Country Profile: Zimbabwe, 1993/94*, 1993g.

Economist Intelligence Unit, *Country Profile: Botswana, Lesotho 1993/94*, 1993h.

Economist Intelligence Unit, *Country Profile: Mozambique 1993/94*, 1993i.

Economist Intelligence Unit, *Country Profile: Tanzania, Comoros 1993/94*, 1993j.

Economist Intelligence Unit, *Country Profile: Zambia 1993/94*, 1993k.

Economist Intelligence Unit, *Country Profile: Namibia, Swaziland 1993/94*, 1994.

The Economist, 'Africa: A Flicker of Light'. March 5, 1994.

Edlin, J., 'Farmers Scandal Scuppered Mugabe's Plea to Investors', *Sunday Times*, 17 April, 1994.

First Merchant Bank of Zimbabwe, *Quarterly Guide to the Economy*, March 1994.

Hawkins, A., 'Economic Integration in Southern Africa', Africa Regional Workshop on Economic Integration, Cape Town, 1994.

Hutcheson, A.M., 'Physical and Social Geography' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.

Killick, T., *The Adaptive Economy: Adjustment Policies in Small, Low-Income Countries*. Washington, D.C.: World Bank, 1993.

Luders, R., 'Economic Reform and Liberalisation in Latin America: Lessons for Africa'. Paper presented at Conference on 'Economic Reform and Liberalisation: Perspectives from the African Experiences'. International Centre for Economic Growth and Southern African Regional Institute for Policy Studies. Harare, June 1994.

Maasdorp, G.G., *A Vision for Economic Integration and Cooperation in Southern Africa*. Pretoria: Department of Trade and Industry, 1994.

Maasdorp, G. & A. Whiteside, *Rethinking Economic Cooperation in Southern Africa: Trade and Investment*. Konrad Adenauer Foundation, Occasional Papers, 1993.

Matthews, G., 'Swaziland: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.

Reserve Bank of Zimbabwe, *Monthly Bulletin*, Vol. 2 No. 3, 1994.

Robertson, D., 'Botswana's Soda Ash Strains AECI', *Sunday Times*, 20 January, 1994.

SADC Press Trust, *SADC Top Companies Report 1994*.

Smith-Morris, M., 'Mozambique: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.

Southern African Economist, 'Moving in the Right Direction', Vol. 7, No. 2, 1994.

Sparks, D., 'Namibia: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. Europa Publications, 1993.

Swaziland, *Development Plan 1993/94-1995/96*, Ministry of Economic Planning and Development, Mbabane, 1993.

Swaziland, *Development Plan 1994/95-1996/97*. Ministry of Economic Planning and Development, Mbabane, 1994.

Times of Swaziland, '1994 Budget Speech', 17 March, 1994.

Van Buren, L., 'Tanzania: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.

Van Buren, L., 'Zimbabwe: Economy' in *Regional Surveys of the World: Africa, South of the Sahara*. London: Europa Publications, 1993.