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Payments Arrangements and the Expansion of Trade in Eastern and Southern Africa

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I. Introduction

In late 1979, the African Center for Monetary Studies, on behalf of the Association of African Central Banks (AACB), requested the Fund staff to prepare a study describing the existing payments, exchange control, and exchange rate arrangements in the proposed 17-nation Preferential Trade Area (PTA) of Eastern and Southern African States, analyzing any payments obstacles to trade in this region, and recommending improvements in payments arrangements that would promote intraregional trade. 1/ This paper contains a slightly revised version of the report prepared in response to that request. 2/

Much of the information used in this report was obtained in the course of a Fund staff visit in May-June 1980 to four of the PTA countries, viz., Ethiopia, Kenya, Tanzania, and Zambia. National authorities were sent a questionnaire and the responses received formed a main input for the report. 3/ Use was also made of Fund documents and information available at headquarters.

The report was completed in August 1980 and presented to the meeting of Governors of central banks of Eastern and Southern Africa held in Arusha, Tanzania, in July 1981. By the time of that meeting, the PTA negotiations had resulted in the formulation of a draft "Treaty for the Establishment of a Preferential Trade Area for Eastern and Southern African States," which establishes the objectives and institutional framework for the PTA region. The PTA negotiations encompass not only tariff reductions of 10-70 per cent on selected commodities traded in the region, but also other wide-ranging cooperation agreements. These are contained in 12 protocols annexed to the draft Treaty: (1) Protocol on the Reduction and Elimination of Trade Barriers on Selected Commodities to be Traded Within the Preferential Trade area; (2) Protocol Relating to Customs Cooperation within the Preferential Trade Area for Eastern and Southern African States; (3) Protocol on the Rules of Origin for Products to be Traded Between the Member States of the Preferential Trade Area; (4) Protocol on the Re-export of Goods within the Preferential Trade Area; (5) Protocol on Transit Trade and Transit Facilities; (6) Protocol on Clearing and Payments Arrangements; (7) Protocol on

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1/ The original 17-member states participating in the PTA negotiations were: Angola, Botswana, the Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, Tanzania, Uganda, and Zambia. Zimbabwe joined the PTA negotiations in June 1980, just prior to the completion of this study, and its participation could not be taken into account in the original study.

2/ The principal changes consisted of updating the description of the exchange and trade systems where more recent information was available, and inclusion of selected indicators of Zimbabwe's external trade.

3/ Questionnaire responses were not received in time for inclusion in this report from: Angola, Lesotho, Madagascar, Mauritius, Mozambique, Somalia, Swaziland, and Uganda.

Transport and Communications; (8) Protocol on Cooperation in the Field of Industrial Development; (9) Protocol on Cooperation in the Field of Agricultural Development; (10) Protocol on Simplification and Harmonization of Trade Documents and Procedures; (11) Protocol on Standardization and Quality Control; and (12) Protocol Relating to the Unique Situation of Botswana, Lesotho, and Swaziland.

In preparing the study, the staff team has benefitted from previous Fund staff work relating to regional monetary cooperation. However, the present report has some important limitations. Time and data constraints and the number and diversity of countries involved necessarily rendered the investigation less complete than would have been desirable. While every effort was made to present the latest available information, in some instances important recent changes in payments arrangements and restrictive systems could not be reflected in the report.

The remainder of this paper is organized as follows: Section II outlines the main conclusions of the report. Section III describes the pattern of intraregional trade and the main factors that have influenced it. Section IV describes the payments systems, exchange and trade restrictions, and channels of intraregional settlements available in the region. The final section discusses the main considerations involved in assessing the need for, and usefulness of, a regional clearing scheme, and its key features. 1/

II. Summary and Main Conclusions

Intraregional trade is small, accounting for only 4 per cent of the combined trade of the 17 countries in the region. Although the share of intraregional trade in total trade varies across countries, it does not exceed one fifth in any country; for most the proportion is 5 per cent or less. Intraregional trade is unbalanced, and characterized by persistent surpluses of one or two countries. As in many developing regions, the foreign trade of countries in this region is hampered by their reliance on a few basic primary commodities, the lack of complementarity of the region's economies, transport and communications difficulties, and the paucity of trade information and contacts.

The development of the East African Community (EAC), consisting of Kenya, Tanzania, and Uganda, had a significant influence on the size and direction of trade in the region until its demise in 1977. The three countries' comprehensive effort at integration included the removal of trade and exchange restrictions on mutual trade. There existed a close

1/ Supporting tables on regional trade may be found in Section III and in Appendix I. A summary description of the trade and payments systems of the countries in the region is given in Appendix II. Appendix III summarizes the key features of some other clearing arrangements among developing countries.

network of banking relations, both among the commercial banks and at the level of the central banks. This, along with the operation of certain common institutions and the maintenance of close contacts and cooperation among traders, undoubtedly facilitated intra-EAC trade, which by 1976 had reached some three fifths of trade in the PTA region.

Notwithstanding the significant accomplishments of the EAC, the diversity of economic performance and uneven trade expansion among the three members, as well as disputes over the distribution of costs and benefits of memberships, led to its break up in July 1977. Subsequently, there have been important shifts in the pattern of participation in regional trade by the three countries. Broadly speaking, the break up of the EAC led the three countries to increase their trade with countries outside Africa; as a result, the portion of intra-PTA to total trade declined. In this sense, the disintegration of the EAC represented an important setback for integration efforts in the region, which the present PTA negotiations are aimed at overcoming.

Among the remaining countries, transport and communication problems are a particularly severe constraint on trade expansion for Zambia, Ethiopia, Djibouti, and Somalia, whereas the island economies, some of them relying to a considerable extent on goods supplied by the continental countries (especially Kenya), by and large continue to find regional outlets limited to the neighboring island economies. The regional trade of Botswana, Lesotho, and Swaziland is, of course, strongly influenced by their participation in the customs union with South Africa.

Given the diversity of factors that has historically influenced trade patterns in the PTA region, it is difficult to assess the prospects for intraregional trade expansion. However, existing economic structures and physical barriers to intraregional trade would appear to rule out any pronounced shift in trade flows in the immediate future. In the longer term, the realization of the region's export potential would depend upon the openness of partner countries' markets and its ability to pay for imports. Recently, many of the countries have been facing balance of payments problems, which in some cases have led to the emergence of external payments arrears. The delays in effecting payments have harmed international confidence and regional cooperation efforts. In many instances, the general level of trade or payments restrictions has been intensified recently in efforts to cope with pressures on the external sector. While the potential for trade expansion varies considerably among countries, intraregional trade expansion will in future be constrained by factors similar to those that have hindered it in the past.

A main finding of this paper is that the reasons for the present low volume of intraregional trade and its uncertain future potential are generally not to be found in the nature or application of trade and payments regulations in the region. Therefore, establishment of an alternative

system for channeling intraregional settlements would not by itself lead to an expansion of intraregional trade. National trade and payments systems in the region are, with a few notable exceptions, restrictive, and are generally directed toward protecting local industry and conserving foreign exchange. With two exceptions (Djibouti and Seychelles), all Fund members in the region avail themselves of the provisions of Article XIV of the Fund's Articles of Agreement, under which member countries may maintain and adapt to changing circumstances exchange restrictions in effect when they became members. In most cases, the trade and payments restrictions are nondiscriminatory and generally have not been used to influence the direction of trade and payments. Most intraregional payments are denominated in convertible currencies and usually channeled through the commercial banking network of branches and correspondents, which is reportedly sufficiently widespread and flexible to accommodate the present or an increased volume of intraregional settlements. The general consensus of bankers, traders, and authorities visited by the staff team was that intraregional and other settlements for trade transactions take place efficiently, at relatively low cost, and on a timely basis (except in countries with payments arrears); this applies even when intraregional payments are channeled through banks in London or New York. Although the establishment of new clearing facilities could lead to more rapid and less costly settlements, the extent of increased efficiency or financial saving would probably be small. The beneficial impact of a clearing facility on the size of convertible currency working balances required to be held for trade settlement purposes is also likely to be insignificant.

Even so, the establishment of a new clearing facility may be justified on other grounds. A clearing facility would be based on regional institutions, and this would be useful as a means of promoting intraregional contacts and cooperation, particularly in the monetary area. Regional cooperation in the payments field could lead to wider cooperation in other fields. Also, the liberal and more flexible links that could form among groups of developing countries following the establishment of a regional clearing facility may be considered as a further stage in the post independence evolution of financial and economic relationships. The facility itself should not be a mechanism for balance of payments support nor should it restrict payments or create discriminatory currency arrangements. The specific features of a clearing facility, some of which are discussed in the final chapter of this paper, would need to be given careful consideration, so that it could gain wide acceptance, both by national authorities and by banks and traders.

Finally, a clearing arrangement established in support of agreements in other areas would signal a willingness to maintain a certain degree of openness toward regional partners. Such a stance, however, would not be sustainable over the longer term in the absence of appropriate policies to overcome present financial difficulties and promote economic growth and will require a high degree of political commitment.

III. Regional Trade Trends and Policies

1. The structure of global and regional trade

Intraregional trade in the PTA countries is relatively small, and of limited importance to most countries in the region. In 1973, intraregional trade (exports plus imports) amounted to US$575 million, or almost 7 per cent of total trade (Table 1). 1/ By 1979, mutual trade is estimated to have risen to US$644 million, but this implies a fall in the share of intraregional trade in total trade over this period by almost one half. Taking exports and imports separately, in 1979 the share of intraregional exports in total exports was 4 per cent, and the share of intraregional imports, 3.6 per cent (Appendix Table II).

The major trading countries in the region are Kenya, Uganda, and Tanzania, the former members of the East African Community (EAC), which together account for some two thirds of all intraregional trade (Table 2). Kenya's intraregional trade has been about US$200 million annually or about one third of intraregional trade. In terms of their participation in intraregional trade, the other key countries are Zambia, Ethiopia, Djibouti, and Mozambique, whose combined intraregional trade approaches US$120 million annually. The remaining countries' combined intraregional trade is substantially below US$100 million.

The significance of intraregional trade for the different countries varies widely, although its share has rarely exceeded one fifth of total trade in any country (Table 2 and Appendix Table I). Exports to regional partners are especially important for Djibouti, Kenya, and Tanzania. Uganda depends heavily on the region's suppliers, which accounted for over one half of its total imports in 1979 (Appendix Table II). Imports from the region are also of some importance for the small economies of the Comoros, Djibouti, and Seychelles, although even for them their share is no more than 15 per cent. The varying importance of regional trade for PTA countries is reflected in the shares shown in Table 2: in recent years, for 11 of the 17 countries intraregional trade has represented 5 per cent of total trade or less.

Regional trade flows are highly imbalanced, and a few countries--particularly Kenya--are major net exporters. The predominance of certain countries as net exporters in the region implies that bilateral trade surpluses are by and large not offset by bilateral trade deficits. Table 3 illustrates this for 1979: Kenya's exports to Uganda accounted for almost two thirds of its regional exports, and there was a substantial surplus on the trade with Uganda in Kenya's favor. Kenya also had bilateral trade surpluses with virtually all other countries in the region. To some extent, this pattern also holds for the second largest regional exporter, Tanzania, which had export surpluses with Mozambique, Uganda, and Zambia, and only a relatively small trade deficit with Kenya. Similarly, the regional trade

1/ Exports are measured on an f.o.b. basis, imports on a c.i.f. basis.

Table 1. PTA Countries: Trends in Total and Intraregional Trade, 1973-79

(In millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979 1/
Total trade (exports plus imports)	8,411	11,446	10,652	10,622	12,725	14,384	17,063
Intraregional trade	575	699	595	637	569	506	644
Share of intraregional trade (per cent)	6.8	6.1	5.6	6.0	4.5	3.5	3.8

Source: Appendix Table I.

1/ Preliminary estimates.

Table 2. PTA Countries: Involvement in Intraregional Trade, Annual Average 1973-79

(In millions of U.S. dollars and per cent)

	Intraregional trade		Share in own total trade	
	Value	Rank	In per cent	Rank
Angola	8.9	11	0.5	16
Botswana	7.4	12	1.6	13
Comoros	4.0	16	14.3	3
Djibouti	24.3	6	14.6	2
Ethiopia	29.1	5	4.6	8
Kenya	204.9	1	11.5	5
Lesotho	--	17	--	17
Madagascar	7.0	13	1.1	15
Malawi	16.7	8	4.6	9
Mauritius	15.6	9	2.3	12
Mozambique	19.4	7	2.7	10
Seychelles	6.8	14	14.1	4
Somalia	15.0	10	5.1	7
Swaziland	4.6	15	1.3	14
Tanzania	88.9	3	7.6	6
Uganda	103.1	2	17.0	1
Zambia	47.9	4	2.6	11
17 countries	603.0		5.0	

Source: Appendix Table I.

Table 3. Trade Flows of Major Trading Countries, 1979 1/

(In millions of U.S. dollars)

	Kenya	Uganda	Tanzania	Zambia	Ethiopia	Djibouti	Mozambique	Malawi	Other PTA	Total PTA
Kenya										
Exports		101.0	10.9	15.6	6.3	--	1.2	0.9	28.2	164.1
Imports		2.1	0.3	3.3	6.0	--	1.4	0.6	3.1	16.8
Balance		98.9	10.6	12.3	0.3	--	-0.2	0.3	25.1	147.3
Uganda										
Exports	1.9		--	--	--	--	--	--	1.7	3.6
Imports	111.1		14.7	--	--	--	--	--	0.9	126.7
Balance	-109.2		-14.7	--	--	--	--	--	0.8	-123.1
Tanzania										
Exports	0.5	13.4		17.5	0.2	--	15.7	0.1	4.9	52.3
Imports	10.1	0.1		7.3	0.1	--	1.8	--	0.9	20.3
Balance	-9.6	13.3		10.2	0.1	--	13.9	0.1	4.0	32.0
Zambia										
Exports	4.0	--	6.6		--	--	0.2	2.7	4.5	18.0
Imports	11.6	--	19.0		--	--	0.2	3.0	4.3	38.1
Balance	-7.6	--	-12.4		--	--	--	-0.3	0.2	-20.1
Ethiopia										
Exports	0.6	--	--	--		24.6	--	--	2.8	28.0
Imports	7.6	--	0.4	--		2.0	--	--	0.2	10.2
Balance	-7.0	--	-0.4	--		22.6	--	--	2.6	17.8
Djibouti										
Exports	--	--	--	--	1.3		--	--	5.6	6.9
Imports	--	--	--	0.3	27.1		--	--	--	27.4
Balance	--	--	--	-0.3	-25.8		--	--	5.6	-20.5
Mozambique										
Exports	1.3	--	1.6	0.1	1.7	--		2.4	2.0	9.1
Imports	1.3	--	17.3	0.2	--	--		0.4	0.1	19.3
Balance	--	--	-15.7	-0.1	1.7	--		2.0	1.9	-10.2
Malawi										
Exports	0.8	--	1.2	5.8	--	--	0.3		0.3	8.4
Imports	1.6	--	0.2	4.8	--	--	2.6		--	9.2
Balance	-0.8	--	1.0	1.0	--	--	-2.3		0.3	-0.8
Other PTA										
Exports	3.1	--	--	4.2	--	0.3	--	--	9.2	16.8
Imports	36.8	1.2	2.9	9.2	--	6.2	0.3	2.3	9.7	68.6
Balance	-33.7	-1.2	-2.9	-5.0	--	-5.9	-0.3	-2.3	-0.5	-51.8

Sources: IMF, Direction of Trade Yearbook, 1980; data provided by the national authorities; and staff estimates.

1/ Preliminary estimates. Data from different sources are sometimes inconsistent. For certain countries (especially Botswana, Lesotho, Swaziland, the Comoros, and Djibouti) estimates of intraregional trade may be subject to significant error.

deficits of Uganda with Kenya, of Zambia with Tanzania, of Djibouti with Ethiopia, of Mozambique with Tanzania, and of the remaining countries in the region with Kenya were not offset to any significant extent by export surpluses with other regional trading partners.

The low volume and uneven pattern of intraregional trade is in large part due to the lack of complementarity in the production structures of the different economies. The general pattern of production and trade in the region is similar to that of many other developing regions: for most countries, exports consist mainly of agricultural or mineral products and imports primarily of foodstuffs and manufactured capital and consumer goods. Dependence on a single primary product to generate export earnings in 1978 ranged from 30 per cent of total exports in Kenya (coffee) to 88 per cent in Zambia (copper) (Appendix Table III). One, or at most two, commodities accounted for at least one half of exports for 13 of the 16 countries for which data are available. Even in the two countries with a relatively diversified production base--Kenya and Tanzania--primary products remain important. In Kenya, coffee and tea together represented 46 per cent of exports, and in Tanzania, coffee and cotton, 47 per cent. According to available information, exports from Djibouti consist of live animals and hides and skins.

As a result of this production structure, the principal markets for the exports of the region are in Europe and North America. For some countries, the European Economic Community (EEC) has become an increasingly important export market, partly as a result of tariff preferences granted under the terms of the Lome Convention. For example, the share of Kenya's exports to the EEC rose from 31 per cent to 49 per cent between 1973 and 1979, while the EEC's share of Tanzania's exports rose from 27 per cent to 48 per cent. Over the same period there was a shift in the direction of Uganda's exports from the EEC to Japan (Appendix Table IV).

As might be expected, the industrial countries are the major source of supply for imports to the region, particularly for capital goods. This reflects the limited development of manufacturing capacity within the region itself, the traditional economic ties with the ex-metropolitan countries, and the easier availability of financing from the industrial centers. South Africa has been an important supplier to countries in the southern part of the region. The greater part of the import needs of Botswana, Lesotho, and Swaziland (the BLS countries) are met by South Africa, the dominant member of a customs union between the four countries. In the last three years, imports from South Africa have accounted for almost two fifths of total imports in Malawi, and 17 per cent of imports in Mozambique, 13 per cent in Angola, 12 per cent in Mauritius, and 7 per cent in Zambia. Except for Mozambique and Zambia, these shares have increased from the levels recorded in 1973, particularly in the case of Malawi. 1/

1/ Based on information contained in IMF, Direction of Trade Yearbook, 1980.

An important obstacle to intraregional trade has been the absence of an effective transportation and communications network within the region. For the landlocked countries particularly (Malawi, Uganda, Zambia, and the BLS countries), the main priority of the transportation system has been to obtain the most direct access to the sea, and transportation links with neighboring countries not on such routes have been given less attention. Roads provide the major transport network within the region, but their condition varies widely; an all-weather road link between Kenya and Ethiopia, for example, has only recently been completed. The rail network is not extensive, despite the completion of the Tanzania Zambia Railway (TAZARA) in 1976, while limited inland water transport facilities have discouraged trade between countries separated by Lake Victoria and Lake Malawi. Land transport links have been vulnerable to security problems and political developments in the region, such as the breakup of the EAC, the conflict in the Ogaden region, and the independence movement in Zimbabwe. One result of these difficulties has been the growing use of airfreighting for intraregional trade, which adds considerably to transportation costs. Coastal countries and the island economies have been better placed for intraregional trade, although reportedly coastal trade has been hindered by congestion and delays at two of the major ports, Dar es Salaam (Tanzania) and Maputo (Mozambique). The island economies have also been handicapped by the lack of regular shipping services, attributable partly to the low volumes of trade involved.

Another barrier to intraregional trade emphasized in the countries visited by the staff team is the irregular nature of some intraregional trade, particularly in basic foodstuffs. Climatic, transport or other difficulties occasionally force countries to turn to surplus producers in the region to satisfy domestic demands, but these needs are often temporary and do not necessarily lead to regular trading arrangements. The sparse network of trade information and contacts within the region also impedes trade.

2. The evolution of intraregional trade

Intraregional trade is affected not only by the general factors discussed above, but also by some key economic and institutional influences whose role has varied in importance across different groups of countries. It is convenient, for expositional purposes, to consider these influences separately for the three former EAC members, for a second group of countries (consisting of Djibouti, Ethiopia, Malawi, Mauritius, Mozambique, Somalia, and Zambia) which have certain features different from those of the first group, and, finally, for the remaining seven countries with a relatively limited share of intraregional trade.

a. The East African Community (EAC) countries

The most significant influence on the size and direction of trade in the region has been the development and subsequent demise of the EAC consisting of Kenya, Tanzania, and Uganda. The EAC was established in 1967. By 1976 intra-EAC trade had grown to US$384 million (compared with US$250 million in the EAC's first year of operation in 1968), and represented some three fifths of trade within the PTA region. This growth was the result of comprehensive and far-reaching efforts at regional integration, which involved the removal of trade and exchange restrictions on intra-EAC trade, some harmonization of monetary and fiscal policies, coordination of economic planning efforts, and specific measures to promote balanced industrial development. Intra-EAC trade was also facilitated by the use of local currencies, freely exchangeable at par, for invoicing and settlement; a close network of banking relations, including correspondent accounts among the commercial banks and reciprocal accounts among the central banks; the operation of several common institutions, particularly in transport and communications; and the frequent consultations and contacts among the national authorities at several levels.

The growth of intra-EAC trade until 1976, however, was not accompanied by a reduction in the persistent trade imbalances between the partner states, despite the attempts to harmonize regional development. In 1976 Kenya's trade surpluses with Uganda (US$78 million) and with Tanzania (US$50 million) were the largest recorded since the Community came into operation. (By that time, trade between Tanzania and Uganda had virtually ceased.) This reflected Kenya's relatively greater self-sufficiency in agricultural production, and its success in developing a broadly based manufacturing sector capable in many cases of supplying both its own needs and those of its partner states. In 1976 Kenya's imports of agricultural products were less than 5 per cent of its total imports. Because of the strong competitiveness in the structure of agricultural production in the Community, only a quarter of these agricultural imports were supplied by Tanzania and Uganda, themselves major agricultural exporters. The Community provided an important outlet for much of Kenya's manufacturing production, absorbing over 40 per cent of its manufacturing exports in 1976, and over a third of its exports of petroleum products. This Community trade represented 6 per cent and 10 per cent, respectively, of Kenya's total exports in that year.

The large trade imbalances, dissimilarities among the partners in the level of development, the inability to agree on the distribution of the costs and benefits of Community involvement, and other problems, led to the breakup of the EAC in July 1977, following Tanzania's closure of its border with Kenya in February of that year. As a result, intra-EAC trade fell sharply, to an estimated US$266 million in 1979 which, nonetheless, still represents over 40 per cent of total intra-regional trade. The breakup has also led to shifts in markets and sources of supply for the three countries.

(i) Kenya 1/

Kenya's exports to Tanzania have declined dramatically following Tanzania's virtual ban on imports from Kenya. In contrast, Kenya's exports to Uganda, about half of which are petroleum products, have continued to increase in nominal terms, although their share in total exports has slipped somewhat between 1976 and 1979. Kenya has attempted to develop new outlets for its manufacturing activities elsewhere in Africa. 2/ However, a number of constraints to the further growth of Kenya's exports were identified in the interviews given to the staff team. These included: the inability of many of the relatively high cost industries developed behind the protective barriers of the Community to compete in other markets; the shrinking import capacity of some neighboring countries (especially Zaire, Zambia, and Sudan) resulting from their own balance of payments difficulties; and the physical difficulties involved in transshipping Kenyan goods southward through Tanzania. Despite these problems, there was some shift in Kenya's trade in favor of neighboring countries, mainly outside the PTA group, although the PTA region remains a major market for Kenyan manufactures. Outside the PTA region, Kenya found growing markets in Rwanda (mainly for petroleum products and cement), Burundi (petroleum products and cigarettes), and Sudan (petroleum products, steel parts, and paper). This shift, however, was insignificant compared to the loss of the Tanzanian market, and Kenya's dependence on export markets outside Africa jumped from 68 per cent of total exports in 1976 to 77 per cent in 1979. The breakup of the EAC has also led to greater dependence on non-African sources for Kenya's imports. In 1979 Kenya still accounted for 28 per cent of total intraregional trade. By then, however, Rwanda had become Kenya's second most important export market and its most important supplier (mainly of tea) in Africa.

(ii) Tanzania 3/

Following the EAC breakup, Tanzania has also looked outside Africa for new sources of import supply, and at the same time has pursued an active import substitution policy designed to overcome its previous reliance on Kenya, particularly for basic manufactures. As a result, Tanzania's imports from African countries have declined even in nominal terms, while imports from industrial countries, especially the EEC, have increased sharply. It is significant that the imports originating in Kenya, to the extent they could not be substituted domestically, were substituted by imports from non-African countries.

1/ Data on the direction and commodity composition of Kenya's trade are contained in Appendix Tables V, VI, and VII.

2/ Throughout the report, the terms "Africa" or "other Africa" exclude South Africa, Egypt, Algeria, Libya, and Nigeria.

3/ Data on the direction and commodity composition of Tanzania's trade are contained in Appendix Tables VIII, IX, and X.

For example, during 1976-79, Tanzania's imports from Kenya declined from US$80 million to US$10 million, but its imports from all other African countries increased only from US$3 million to US$11 million.

In contrast, Tanzania's exports appear to have recovered from the loss of the previously important Kenyan market, with exports to PTA countries other than Kenya increasing from US$7 million in 1976 (or 1.4 per cent of total exports) to US$52 million in 1979 (or 10.3 per cent of exports). In comparison with Kenya, Tanzania supplies a smaller share of its exports of basic manufactures to the PTA region. In 1979 Tanzania's major export market in the region was its traditional customer Zambia, although much of this trade represented the re-export of petroleum products and transportation equipment, and the sale of maize to meet a shortfall in domestic production. Much of Tanzania's improved export performance in the region appears to be based on its special relationships with Mozambique, under the terms of a bilateral trade agreement, and with Uganda, following the cessation of hostilities in that country. In 1979 Tanzania's exports to Uganda totaled US$13 million, or 2.7 per cent of total exports. The main items exported to both Mozambique and Uganda were foodstuffs and basic manufactures. In 1979 Tanzania accounted for some 12 per cent of regional trade. Outside the PTA region Tanzania exports mainly refined petroleum products to Burundi, Rwanda, and Zaire.

(iii) Uganda

Uganda's involvement in intraregional trade has been confined largely to its trading links with Kenya (Appendix Table XI). In the early years of the EAC, Kenya provided an important market for Uganda's exports of basic manufactures, particularly cotton products and building construction materials, but this trade has virtually disappeared following the steady deterioration in Uganda's manufacturing capacity in recent years. Uganda's main exports to the region are tea and electrical energy. In 1975 Sudan replaced Kenya as the most important export market within Africa, and since then Uganda's exports to that country alone have exceeded its total exports to the PTA region. On the other hand, Kenya remains Uganda's largest single supplier of imports, and this dependence has increased sharply in recent years. Kenya now meets almost half of Uganda's import needs, compared with just over a third up to 1976. Petroleum products, a wide range of manufactured goods, and some basic foodstuffs are the major items imported. In 1979 Uganda accounted for about 20 per cent of total intraregional trade.

b. Other significant trading countries

Other countries whose intraregional trade averaged more than US$15 million between 1973 and 1979 were Zambia, Ethiopia, Djibouti, Mozambique, Malawi, Mauritius, and Somalia. In 1973, these countries accounted for 26 per cent of intraregional trade, and the proportion had risen to 34 per cent by 1979. Except for Djibouti, however, this trade accounts for no more than 5 per cent of the total trade of each of these countries.

Among the group, Zambia has the most extensive trading relationships in the PTA region. Its major export markets--mainly for metal alloys, cement, and tobacco--are Kenya, Malawi, and Tanzania, but these markets have averaged less than 2 per cent of Zambia's total exports (Appendix Tables XII and XIII). This low proportion is the direct outcome of Zambia's heavy dependence on copper exports, for which only very small markets (less than 1 per cent of exports) exist in Africa. Among the African countries outside the PTA region, Zaire has been an important buyer of crude minerals (gravel) and petroleum products. Zambia's dependence on neighboring markets for import supplies is relatively small, and has fallen from previous levels. This pattern reflects the heavy weighting of sophisticated intermediate goods--particularly for the mining sector--in Zambia's import requirements, and the vulnerability of Zambia's transportation links. Zambia's import capacity has also been under considerable strain since 1976. Kenya has been the major regional supplier to Zambia, particularly for lubricants, paper, and basic manufactures (Appendix Table XIV). However, Kenya's share of total imports has fallen since the closure of the Kenya-Tanzania border, which has forced Kenyan exporters to use airfreight, or the longer road route via the port of Dar es Salaam (Tanzania). In 1979 Tanzania became the major regional supplier to Zambia, and although much of the increased trade involved the re-export of petroleum products and transportation equipment, there was also a sharp increase in imports of essential foodstuffs and manufactured goods. This redirection of supply sources was partly the result of improved road links with Tanzania, following a doubling in the number of operational road vehicles over the first half of 1979; this additional capacity helped to offset the deterioration in the efficiency of the Tanzania Zambia Railway over the same period.

Ethiopia's main trading partner in the region is Djibouti, which, with its very narrow resource base, depends heavily on Ethiopian supplies of fresh vegetables, other foodstuffs, and chat, a narcotic leaf (Appendix Tables XV, XVI, and XVII). This trade declined sharply in 1977 and 1978, as a result of hostilities in the south which forced the closure of the rail link between the two countries, but it recovered strongly in 1979 when the link was reopened. Lack of regular coastal shipping services is reportedly an obstacle to increased exports of Ethiopian fruits and vegetables to countries in the immediate area. Except for Kenya, Ethiopia has very few sources of supply within the region, and since 1973 regional imports have met only 2 per cent of Ethiopia's import needs. (Recorded imports from Djibouti include a significant proportion of goods in transit.) Imports from Kenya--particularly of tea--have risen steadily over the period, despite disruptions caused by the hostilities in the south, which have led to a greater use of air and sea freight.

Mozambique's intraregional trade dropped as a result of the economic dislocations associated with the achievement of independence in June 1975, but rebounded in 1978 and 1979. Its major export markets--particularly for coal and cement--are Tanzania, Malawi, and Kenya.

Since 1978, Tanzania has also become a substantial supplier of a wide range of basic foodstuffs and manufactures, primarily maize and cotton and other textile articles.

For Malawi, the importance of intraregional trade has declined steadily, with intraregional exports falling from 10.3 per cent of total exports in 1973 to 4.2 per cent in 1979, and the share of intraregional imports falling even more sharply, from 7.8 per cent to 2.4 per cent over the same period. Its major trading partner is Zambia, to which it exports fish, rice, and other foodstuffs, and basic manufactures, often in exchange for tobacco, for which it provides storage and shipping facilities. Mozambique has also been an important supply source, although the land trade links between the two countries have been subject to disruption in recent years. The value of Mauritius' trade with the PTA region has been rising slowly, although its contribution to total trade has remained very small. PTA exports have accounted for little more than 1 per cent of total exports since 1973; the main item is the sale of tea to the neighboring island economies of the Comoros, Madagascar, and Seychelles. Dependence on regional imports over the same period has been only slightly higher (3 per cent on average), the flow consisting largely of cement and other basic manufactures from Kenya. Somalia's intraregional trade has grown steadily since 1973, despite the break in its relations with Ethiopia, formerly an important trading partner, since the second half of 1977. Except for Djibouti, Somalia has the smallest export base of the seven countries in this group, and exports to the region have averaged only US$1.2 million between 1973 and 1979 (about 1.5 per cent of total exports). The region supplies about 7 per cent of Somalia's imports. Kenya is an important regional supplier, mainly of tea, cotton, and plastics. Recorded imports from Djibouti may include transit trade.

c. Countries with limited participation in intraregional trade

For the remaining countries in the PTA region, viz., Angola, Botswana, the Comoros, Lesotho, Madagascar, Seychelles, and Swaziland, intraregional trade is small in absolute terms, averaging less than US$9 million annually for each country between 1973 and 1979. In 1979 these countries accounted for some 7 per cent of intraregional trade, the same share as in 1973. Two of the island economies, however, depend heavily on the region for their import needs. Regional suppliers, mostly Kenya, provide over 16 per cent of imports by Seychelles, although this share has been falling since 1976. In the Comoros, regional imports, mainly from Madagascar, represent almost one fifth of total imports. 1/ Both countries have very small regional export markets. In contrast, Madagascar appears to have very limited trading contacts in the PTA region.

1/ However, this proportion may include goods transhipped through regional ports but originating elsewhere.

The trading relationships of the BLS countries are governed by their participation in the customs union with South Africa. The natural advantages of the customs union of having a well-established transportation network and a diversified production base, combined with a common external tariff, explain the limited trade between the BLS countries and other African countries. Even so, Botswana has developed markets in the region for its leather and meat products (mainly in Zambia), although this trade was recently curtailed by the outbreak of foot-and-mouth disease in the Botswana herd; Swaziland has also obtained a market in Tanzania for its fertilizer industry. These markets are, however, very small in relation to the total exports of both countries. Lesotho does virtually no trade with the PTA region largely because of its geographical isolation.

Reliable statistical data on the trade of Angola are difficult to obtain. It is likely, however, that there has been a fall in intra-regional trade since 1976, following the eruption of civil war and the closure of the Lobito rail route, which provided Angola's major transport link with the PTA region.

d. Unrecorded trade

The main unrecorded trade flows are thought to take place along Kenya's borders with Uganda, involving primarily the exchange of textiles for Ugandan coffee, and with Somalia and Ethiopia, involving the exchange of basic utensils for live cattle and hides and skins from both countries, and cow peas as well from Ethiopia. Border trade also takes place along Zambia's frontiers with Tanzania, Malawi, and Zimbabwe, and along Tanzania's borders with Rwanda and Burundi; much of this is apparently associated with the purchase of basic foodstuffs. Some consumer goods (cigarettes and alcohol) are reportedly smuggled from Djibouti to Ethiopia. Some of this trade may be of considerable economic significance in the regions concerned, although little hard information is available and opinions differ as to its importance. There is also little information on unrecorded trade along other borders in the region.

One reason advanced for such trade was the existence of traditional cultural and other links between the same or related communities settled on two sides of a national frontier. Border trade may also be associated with movement of food supplies from surplus to deficit areas. Disparities in the availability of goods may also be more generally associated with differences in exchange control practices and exchange rates which may not reflect market forces. The trade may be paid for in banknotes exported (usually illegally) by residents of the country in which the unofficial exchange rate with the neighboring country is at a discount in relation to the official exchange rate; it may also take the form of barter transactions. The officials visited stressed the difficulty of adequately controlling the movement of goods or funds across long and largely unpatrolled frontiers, as well as the high costs that would be entailed in attempting to bring such transactions under official control.

While border trade for traditional cultural reasons would almost certainly be difficult to control, effective elimination of parallel markets for goods or currencies would not be feasible in the absence of direct efforts to correct the causes of the imbalances which lead to such flows.

3. Trade arrangements and commercial policies

Trade arrangements and commercial policies in the region have certain common features. 1/ First, most countries maintain relatively high tariff and nontariff barriers for the protection of local industry, with no regional preference. Only Djibouti levies a customs duty, of 5 per cent, on imports from non-EEC countries. The protection of manufacturing industry, while allowing time for new industries to develop and encouraging diversification, may result nevertheless in perpetuation of relatively high-cost domestic production which can discourage trade in general. The customs tariff also serves as an important revenue source for many of the countries. Excluding the BLS countries, the contribution of customs duties has ranged from about 10 per cent of government revenue for Tanzania, Uganda, and Zambia, to as high as 50 per cent for the Comoros, Seychelles, and Somalia. In the BLS countries, trade arrangements and commercial policies are aligned in accordance with their membership in the customs union. There are generally no restrictions on goods moving between the four countries in the customs union, while imports into the union are subject to a common tariff. Customs union receipts have been a major, though variable, source of revenue in the BLS countries, averaging about 40 per cent of government revenues in Botswana, one half in Swaziland, and up to three fourths in Lesotho.

Second, many countries emphasize the promotion of exports as a matter of policy. The most active export promotion policy is pursued by Kenya, particularly since the emergence of surplus manufacturing capacity after the breakup of the EAC. An important element of this policy has been a subsidy for certain manufactured exports. In the 1980/81 budget, the coverage of this scheme was considerably widened, to include all but traditional exports; at the same time, the subsidy rate was doubled to 20 per cent on the f.o.b. value. Kenya is also planning to introduce an export credit insurance scheme for Kenyan exporters, which might be of particular benefit to exports of the manufacturing sector. A number of other countries take active steps to encourage exports, usually by giving drawbacks on duties paid for imported raw materials, or by disseminating information on prospective export markets both in the region and outside. Mauritius is also considering the institution of an export credit insurance scheme.

Third, all countries in the region--with the exception of Angola and Mozambique--are signatories to the Lomé II Convention between 58 African, Caribbean and Pacific States (ACP countries), and the EEC,

1/ Appendix II summarizes the key features of the trade and payments systems in the region.

covering the five-year period through February 1985. This Convention, which supersedes the Lomé I Convention but continues its main provisions, guarantees duty-free access to the EEC market for almost all ACP agricultural exports, and for a specified list of manufactured exports meeting minimum local content requirements. The Convention also widened the coverage of the Stabex System, which provided for the stabilization of earnings of the more important agricultural exports; the new list does not, however, include tobacco, Malawi's major export. A production stabilization scheme applying to minerals was also introduced in the Lomé II Convention.

4. The scope for expansion of intraregional trade

The prospects for expansion of intraregional trade are difficult to assess. However, the staff team concluded--and this conclusion was shared by most officials and traders visited--that existing economic structures and physical barriers to intraregional trade militate against any pronounced shift in trade flows in the immediate future, despite the proposed tariff preferences of 10-70 per cent on a limited common list of imports. In particular, the dependence of most countries on one or two traditional exports to markets outside the region is likely to change only slowly. The scope for intraregional trade expansion may thus be largely in nontraditional products, particularly manufactures and basic foodstuffs. For this reason, Kenya, with its installed manufacturing capacity already geared to producing for the regional market, would appear to be poised for export expansion, a conclusion supported by the range of Kenyan exports included in the proposed common list for tariff reductions. Of the 102 items on this list, Kenya has expressed an export interest in some 44 goods and for almost all of these, it has already established markets within the region. Thirty-two of these goods are nonagricultural products, about half the total of such products on the common list. Kenya's proposed export credit insurance scheme may also serve to facilitate trade with the region, in particular, by making it feasible for a trader to resume or commence exports to countries subject to unusual uncertainties or trade risks. Tanzania and Zimbabwe, both of which have relatively diversified production structures, could also benefit from the opening up of regional markets. Tanzania's export interest in the proposed common list covers 39 items, divided almost evenly between agricultural and nonagricultural products. (The trade interests of Zimbabwe, which joined the PTA negotiations only in June 1980, had not yet been incorporated into the proposed common list.) For most of the PTA countries, however, rapid expansion of PTA exports does not appear feasible. This is particularly so for the smaller economies in the region, which have only a limited resource base; Djibouti's export interest in the common list was confined to 7 items, and of the Comoros to only 3 items. Nevertheless, in a few countries selected industries may be in a favorable position for expansion although the analysis required to identify such prospects lies outside the scope of this report.

The realization of any export potential depends on the openness of partner countries' markets and their ability to pay for imports. In this respect, measures designed to encourage economic growth and diversification will play a key role. Policies to resolve pressing balance of payments problems and promote the production of exportables will encourage countries to open markets to regional producers and give confidence to importers that supplies will be available on a regular and secure basis. A very important barrier to the future expansion of intraregional trade, emphasized in the staff team's discussions in the countries visited, is the lack of competitiveness with outside suppliers of many of the products of regional producers. An appropriate exchange rate policy can play a key role in correcting the lack of export competitiveness arising from currency overvaluation.

Over the longer term, the degree of industrial cooperation will have a major bearing on the rate at which new industries develop in response to larger regional markets. The importance of industrial cooperation has been recognized in the PTA negotiations, and its need is evident from the existing duplication of production capacity within the region, especially in products such as footwear, clothing, cement, and furniture. However, regional industrial cooperation may impinge on national import substitution policies, and considerable goodwill is required to resolve any potential conflicts. Until confidence in the certainty of access to regional markets is established, any increase in intraregional trade even following the introduction of the proposed tariff preferences will remain largely confined to items with already established markets in the region.

IV. Existing Payments Facilities and Practices in the Region

1. Exchange systems

a. Exchange rates

All countries in the Eastern and Southern African region, except Angola and Mozambique, are members of the International Monetary Fund and maintain their exchange rates fixed within a relatively narrow margin of selected currencies or currency baskets. 1/ The currencies of Djibouti, Ethiopia, and Somalia are pegged to the U.S. dollar, the currencies of the Comoros and Madagascar to the French franc and the currencies of Lesotho and Swaziland to the South African rand. The currencies of Kenya, Malawi, Mauritius, the Seychelles, Uganda, and Zambia are linked to the SDR. Tanzania pegs its currency to a basket of currencies of its main trading partners, Zimbabwe to a currency-weighted basket, and Botswana to a basket of currencies consisting of

1/ Zimbabwe applied for membership in the IMF on May 6, 1980. The application was approved by the Governors on July 28, 1980 and Zimbabwe became a member on September 29, 1980.

the special drawing right and the rand. Angola and Mozambique establish exchange rates for the kwanza and the metical 1/ against the U.S. dollar.

The U.S. dollar serves as the intervention currency for 12 countries (Botswana, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Somalia, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe), the French franc for the Comoros and Madagascar, and the pound sterling for Mauritius and Seychelles.

Although the various practices pertaining to currency pegs have posed no major problems for intraregional settlements, experience in other regions indicates that regional integration would be facilitated by harmonization of pegging practices so as to promote exchange rate stability within the region.

Three countries maintain multiple currency practices. While it is difficult to single out the purposes served by the multiple currency practices, by taxing or subsidizing exchange receipts and payments these measures can distort the price-cost structure in the economy and, perhaps what is as relevant in the present context, can lead to trade practices inconsistent with international agreements. 2/ In Ethiopia, levies on transactions with the public result in a spread of approximately 3 per cent between buying and selling rates for all currencies quoted. In Kenya, the advance import deposit scheme, the export compensation scheme and the levying of fees on purchases of travel tickets represent multiple currency practices. In Zambia certain agricultural producers are eligible for incentives in the form of foreign exchange. There is, however, no prima facie evidence that these specific practices have adversely affected intraregional trade.

b. Prescription of currency

All the countries in the Eastern and Southern African region, except Djibouti and Seychelles, have prescription of currency requirements. There are variations among the countries as regards the currencies authorized for use in making international settlements but, in general, these requirements limit export receipts to convertible currencies, but are more liberal in permitting foreign payments to be settled in a wider range of currencies.

In Kenya, Malawi, Somalia, Tanzania, Uganda, and Zambia, payments to nonresidents may be made in the currency of the paying country to the credit of an external account maintained by the recipient or in any

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1/ The metical replaced the Mozambique escudo as the currency of Mozambique on June 18, 1980.

2/ In this context, it is interesting to note that the General Agreement on Tariffs and Trade (GATT) contains provisions specifically designed to avoid situations whereby actions in the exchange field by contracting parties which are also Fund members frustrate their commitments under the GATT in the trade field (GATT Article XV).

convertible currency traded by the paying country. Payments from residents of other countries may be received in local currency from an external account maintained in the receiving country or in any convertible currency.

For prescription of currency purposes, Mauritius distinguishes between former sterling area countries (comprising, in its definition, the United Kingdom, the Channel Islands, the Isle of Man, and the Republic of Ireland) and External Account countries. Settlements between residents of Mauritius and residents outside the former sterling area may be made either by debit or credit to External Accounts in Mauritius rupees or to a Sterling Account in sterling or in any nonsterling area currency.

In the Comoros, the Institute of Issue maintains an Operations Account with the French Treasury; settlements with France, Monaco, and Operations Account Countries 1/ are made in Comoros francs, French francs, or the currency of any other Operations Account country. Settlements with all other countries are usually made through correspondent banks in France in any of the currencies of those countries or in French francs through foreign accounts in France.

The Comoros, Ethiopia, Kenya, Madagascar, Seychelles, Somalia, Tanzania, and Uganda prohibit settlements with South Africa.

The main reason cited for the prescription of currency requirements was the pattern of imports which originate overwhelmingly in traditional markets in Europe, North America, and Japan, and for which convertible currencies must be acquired and held as working balances. Moreover, as discussed below, with some exceptions traders prefer invoicing and settlement of intraregional trade in convertible currencies, and the prescription of currency requirements can in a sense be looked upon as a reflection of this preference. Therefore, under the present system of channeling intraregional settlements, liberalization of prescription of currency requirements would not by itself lead to greater use of regional currencies in intraregional trade.

c. Bilateral payments agreements

The proportion of overall intraregional trade being conducted under bilateral payments agreements is relatively small, although in one or two instances a substantial part of bilateral trade may be carried out under bilateral payments agreements. There is only one identified instance of a bilateral payments agreement between countries in the region, viz., an active agreement between Mozambique and Tanzania. All payments between the two countries are settled through clearing accounts maintained by the respective central banks and to date no settlement

1/ Benin, Cameroon, the Central African Republic, Chad, the Congo, Gabon, Ivory Coast, Mali, Niger, Senegal, Togo, and Upper Volta.

has been made in convertible currencies. It is understood that according to the terms of the arrangement, both countries may accord priority to each others' goods in respect of "tolerable" margins in prices and quality.

The bulk of such arrangements involve non-Fund members of the region and are with partners outside the PTA region. Angola has bilateral payments agreements with Zaire and Cape Verde. Mozambique has active agreements with Bangladesh, Egypt, Iran, Pakistan, Romania, Syrian Arab Republic, and Vietnam, and an inactive agreement with the People's Republic of the Congo. Somalia maintains an agreement with the U.S.S.R. In addition, both Angola and Mozambique have long-term economic cooperation agreements with other non-Fund member countries which may involve bilateral payments features, although no official information regarding them has been obtained.

A common feature of many bilateral payments agreements is that payments for imports are made by crediting the exporting country's clearing account, which may be denominated in U.S. dollars or pounds sterling. As trade under these agreements is usually not balanced, there is a constant risk that the net exporting country will build up inconvertible balances in its favor which it could not use for making settlements with any other country as it could if its exports had been paid for in convertible foreign exchange. Often the only way to reduce an inconvertible foreign balance is to import goods which otherwise would have been imported--whether for price, quality, or other reasons--from elsewhere. Although such agreements are not very common for the settlement of intraregional trade, they run contrary to the objective of liberalizing intraregional trade and payments to the extent that they involve granting of preferential treatment to one country vis-a-vis the others.

d. Export and import controls

Djibouti and Seychelles excepted, all countries in the region maintain restrictions on exports and imports which appear to have been intensified in the last few years as a result of balance of payments difficulties in many of the countries. Lesotho, Swaziland, and South Africa together form the Rand Monetary Area and the three with Botswana, a Customs Union. No restrictions are applied to payments among these countries; these are uncontrolled and unrecorded. Furthermore, goods of domestic origin may move freely between Botswana and Malawi provided they are not intended for re-export. Exports to and imports from South Africa are prohibited in the Comoros, Ethiopia, Kenya, Madagascar, Seychelles, Somalia, Tanzania, and Uganda.

Most exports are subject to licensing, mainly to ensure domestic supplies of needed goods and of certain strategic materials such as implements of war, certain minerals, and petroleum products. In some countries the licensing system is used to ensure that foreign exchange receipts are surrendered and that export receipts are received in an

appropriate currency. Surrender of export receipts is required in all countries except Djibouti and Seychelles. In general, proceeds from exports to foreign countries must be collected within 90-120 days of shipment; in the landlocked countries of Malawi, Uganda, and Zambia, up to 6 months are allowed for surrender. However, in Madagascar export proceeds become due not later than one month after arrival of the goods at their destination, and in Tanzania proceeds must be collected within one to two months from the date of exportation. In certain countries (Ethiopia, Somalia, and Tanzania), state enterprises are the sole agents for the exportation of some goods.

Most countries with import restrictions maintain relatively high tariff and nontariff barriers and no regional preferences are accorded. The general aims of restrictions are to conserve scarce foreign exchange, and to protect domestic industries and promote import substitution in the manufacturing sector. The degree of nontariff protection varies between countries and commodities and ranges from no restrictions to total prohibition. Foreign exchange is sometimes not made available for imports of goods considered to be nonessential or readily substitutable by domestic products.

Imports may be controlled through exchange allocations, import licensing, or both. In general, importers are required to obtain either general or specific import licenses prior to placing orders abroad. Import licensing aims at containing imports within yearly or half yearly exchange allocations established by the authorities. The authorities administer the foreign exchange plans, adjusting the license quotas according to foreign reserve developments and the availability of financing. Once the import license has been obtained, foreign exchange is generally granted freely. In Ethiopia, in addition to an import license, importers have to obtain an exchange license which determines the amount and value of goods to be purchased.

Even in countries where a relatively important role has been assigned to central planning, there is a general desire to obtain supplies from the most competitive sources in terms of price and quality. In Kenya, Tanzania, and Zambia, all consignments of imports exceeding certain amounts are subject to quantitative and qualitative inspection and price comparison by a private company acting as agent for the importing countries.

As a result of balance of payments difficulties, some countries in the region, namely Madagascar, Somalia, Tanzania, Uganda, and Zambia, have recently developed external payments arrears. In settling overdue import payments these countries generally do not differentiate between suppliers, effecting payments only in chronological order and according to certain priorities. In some instances where trade is denominated in regional currencies and settled through reciprocal accounts maintained

by central banks, in practice regional suppliers may receive payment more quickly than suppliers who have invoiced in convertible currencies and must therefore enter a queue for payments. The existence of arrears threatens trade and payments relations generally and may be particularly detrimental to the development of new institutions for regional cooperation and trade expansion where confidence inevitably plays an important role. The general consensus of bankers and traders was that the existence of payments arrears--a symptom of acute foreign exchange difficulties--has discouraged intraregional trade as it does all trade generally. In particular traders have probably been reluctant to establish or maintain commercial links or expand their exports where there has been uncertainty about eventual payment. Although the establishment of export credit insurance facilities can be generally helpful in promoting confidence of traders, it would be difficult for governments or central banks to support a facility whose viability could be jeopardized by the existence of payments problems in countries with potential markets for their exports.

2. Banking relationships in the region

a. Commercial banks

Commercial banks in the region maintain relationships both with each other and with banks in major financial centers, primarily London, Paris, and New York. Branch relationships in these countries are generally with foreign banks. The location of branches is influenced both by historical ties with the ex-metropolitan country and by the perceived potential for expansion of financial and commercial links between countries. The foreign banks with the widest network of branch/subsidiary relationships in the region are those headquartered in the United Kingdom (Table 4). Of the regional banks, only the Commercial Bank of Ethiopia and the Commercial and Savings Bank of Somalia have extra-territorial branches, both in Djibouti. Only 9 out of 17 countries in the region have branches or subsidiaries of foreign banks.

The absence of a more extensive branch network in the region is not a significant hindrance to intraregional trade since widespred correspondent or agency relationships among banks enable most of the normal business of international settlements to be effected. However, settlements between countries having only correspondent relationships are reported to take somewhat longer than between countries where there are branches of the same bank. Correspondent relationships involve the issuance of telegraphic or mail transfers or letters of credit, forwarding of bills of collection to each other, drawing drafts on each other, and the provision of trade information. Correspondent relationships in the region appear to be extensive among the countries with the largest volume of reciprocal payments (Table 5). Banks in Kenya, the largest exporter in the region, have correspondent relationships in all other countries in the region.

Table 4. Principal Branch or Subsidiary Relationships of Foreign Banks in the Region

Bank	Countries in which there are branches or subsidiaries
Barclays	Botswana, Lesotho, Mauritius, Seychelles, Swaziland, Kenya, Uganda, Zambia
Standard Bank	Lesotho, Kenya, Seychelles, Botswana, Swaziland, Uganda, Zambia
Citibank	Kenya, Mauritius, Seychelles
Grindlays Bank	Kenya, Uganda, Zambia
Habib Bank	Kenya, Mauritius, Seychelles
Bank of Baroda	Kenya, Uganda
Banque Nationale pour le Commerce et L'industrie	Djibouti, Mauritius
Bank of Credit and Commerce International	Djibouti
Banque de L'Indochine et de Suez	Djibouti
British Bank of the Middle East	Djibouti

Sources: Information supplied by the national authorities; and The Bankers' Almanac and Yearbook, 1978-1979.

Table 5. Correspondent Relationships in Selected Countries in the Region

Banks in	Regional correspondent relationships in
Kenya	All countries
Ethiopia	Kenya, Tanzania, Zambia, Uganda
Tanzania	Kenya, Malawi, Mozambique, Somalia, Uganda, Zambia
Zambia	All countries except Angola and Comoros
Botswana	Kenya, Zambia, Malawi, Zimbabwe, Swaziland, Lesotho

Source: Information supplied by the national authorities.

Another aspect of correspondent relationships is the maintenance of accounts with each other in the other's currency. The size of these accounts usually depends on the volume of trade between the two countries but may be limited by official regulations on holdings of foreign exchange by commercial banks. 1/ Maintenance of accounts with correspondent banks in the region avoids the need to settle each individual transaction through London or New York. Balances accumulated in these accounts above official limits are generally transferred to respective central bank accounts in the same country. If the amount in the correspondent bank is not sufficient to cover the demand for that currency, the central bank concerned usually replenishes the account through the sale of convertible currencies for the local currency.

In general the consensus of bankers, traders, and authorities interviewed was that international settlements for trade transactions took place efficiently and that the commercial banking network, including branches, subsidiaries, and correspondents, was sufficiently extensive to handle intraregional settlements. Furthermore, all bankers emphasized the relative ease with which new correspondent relationships could be opened, should the volume of transactions so warrant.

1/ Regulations either place absolute limits on the commercial bank's foreign exchange position or require the commercial banks not to maintain a spot foreign exchange position in excess of their short-term commitments.

b. Reciprocal accounts maintained by central banks

Although most payments for intraregional trade are channeled through the commercial banks and settled in convertible currencies, several central banks in the region have established reciprocal accounts on a bilateral basis with other central banks in the region. These account relationships probably originated largely during the operative period of the EAC when the central banks of Kenya, Tanzania, and Uganda each maintained reciprocal accounts in shillings with the other two central banks to clear payments within the Community.

Reciprocal accounts are now maintained between the central banks of Kenya and Zambia, Kenya and Swaziland, Kenya and Tanzania, Kenya and Uganda, Kenya and Ethiopia, Zambia and Malawi, Zambia and Botswana, Zambia and Tanzania, Zambia and Swaziland, Tanzania and Ethiopia, Tanzania and Uganda, Tanzania and Somalia, and Malawi and Swaziland. 1/ Where there is a sufficient volume of trade, such accounts are also maintained with other neighboring countries outside the region.

In general, the balances in these accounts may be used in settlement for imported goods and services, for transfer to other external accounts, and for purchases of foreign exchange. 2/ Payments through the accounts

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1/ Based on information supplied by the countries.

2/ These reciprocal accounts generally operate in the following manner: Central Bank Y maintains in its books an external account denominated in Y's currency in the name of Central Bank X and Central Bank X similarly maintains an external account in its books denominated in X's currency in the name of Central Bank Y. Initially, each of these accounts is usually funded by payment of U.S. dollars to the credit of the receiving Bank's account with the Federal Reserve Bank of New York or by reciprocal credit of each other's currency.

Each of these current accounts is considered a nonresident external account for the purpose of exchange control. Hence, the balance may be drawn down to effect payments to residents of the country in which the account is held in settlement for goods and services imported, for transfer to similar nonresident accounts held by commercial banks, or for direct payments for government expenses. Most reciprocal accounts have specified minimum and/or maximum balances. In theory, if the balance exceeds the maximum agreed, the excess balance is adjusted by sale of dollars to the creditor. Each country has the right to call for settlement of any creditor balance in excess of the minimum limit in convertible currencies at any time. It could not be established whether in practice any such requests are made, and it was understood that in effect usually balances are converted only above the maximum limits. If the balance of any account is insufficient to meet anticipated payments, the central bank maintaining the account advises the central bank in whose name the account is kept and the latter replenishes the account by payment of U.S. dollars to the credit of the former's account with banks abroad.

are generally effected at the rate calculated from the middle rate of each currency on the day the transaction is advised, without any commissions or charges. Each central bank quotes daily exchange rates for currencies in which it maintains reciprocal accounts. In Kenya and Ethiopia, most of the transactions go through commercial channels rather than through the reciprocal accounts. However, in Zambia most imports from the countries with which Zambia maintains reciprocal accounts are setted through these accounts. This presumably stems from the existence of payments arrears for imports: the exporter is assured of payment without entering the foreign exchange queue if the settlement is effected through these accounts. In Tanzania, reciprocal accounts are used primarily for replenishing the Tanzanian commercial bank accounts in partner countries and to make direct payment for government expenses, rather than for settlement for goods and services, since the Bank of Tanzania attempts to minimize direct involvement in actual payments for international trade. In Uganda, payments for imports are channeled through these reciprocal accounts.

The maximum and minimum limits of reciprocal accounts are agreed by the countries concerned and vary depending on the volume of trade. For example, Kenya's accounts with Ethiopia, Tanzania, Uganda, and Zambia have minimum and maximum limits of K Sh 1 million and K Sh 10 million, respectively (or equivalent amounts in partner country currencies). Kenya's account with Burundi has a minimum limit of K Sh 100,000 and a maximum limit of K Sh 500,000, and its account with Swaziland has a minimum limit of K Sh 8,000 and a maximum limit of K Sh 800,000. The accounts between Kenya and Rwanda have no minimum limit but have a maximum limit of K Sh 4 million. In practice, these accounts may sometimes be drawn down below the agreed minimum limits, but no overdrafts are permitted. There is no offsetting of debits and credits and no automatic provision for periodic settlement of balances below the maximum. In many instances, the maximum limits to which the accounts are subject do not exceed the equivalent of 1-2 months' bilateral trade between the countries concerned.

These reciprocal accounts are considered by central banks to have provided an important link and a framework for more frequent contacts and consultations between them and in some cases as having been helpful in facilitating prompt payment to exporters during periods of uncertainty. The accounts are also thought to provide needed flexibility in bilateral trade relations. For example, a recent agreement consolidated Zambia's payments arrears vis-a-vis Kenya that had arisen as a result of a buildup of balances in the account of the Central Bank of Kenya at the Bank of Zambia. Under the agreement, the Central Bank of Kenya paid off Kenyan exporters and Zambia obtained a longer term repayment facility for about K Sh 50 million. At present Tanzania's reciprocal account arrangement with Uganda is dormant since virtually all trade takes place between the two governments. The Bank of Tanzania operates a temporary trade credit facility allowing Uganda's imports from Tanzania to be financed on overdrafts for 90 days. However, it is expected that this

facility would be discontinued and trade would revert to the usual commercial instruments of bills and letters of credit as trade in Uganda shifts back to the private sector.

To the extent that reciprocal accounts are replenished periodically with proceeds of sales of convertible currency, there is as a rule no net saving in working balances held in convertible currencies for trade settlement purposes. Some saving in convertible currency working balances may result from the reciprocal funding of the accounts in local currencies. Moreover, to the extent that convertible currency settlement is avoided, there is a saving of transaction costs. In relation to the value of the transaction, however, the amount saved is likely to be small. No reciprocal credit as such is envisaged in the system of reciprocal accounts. However, a small implicit credit may arise in favor of the net importing country to the extent that on average it holds lower balances of its partner's currency than the latter holds of its currency.

3. Other aspects of payments and trade financing

a. Currencies used in settlements

Information obtained through questionnaires or during the discussions with the officials visited helped to identify the currencies used in trade, although detailed data on the currency composition were not available for all countries.

In general, both intraregional and international trade is invoiced and settled in convertible currencies. The main reasons cited for the use of convertible currencies were: inconvertibility of most of the regional currencies; nonexistence of forward markets or possibilities of forward exchange cover for regional currencies; 1/ overvaluation of certain regional currencies; low volume of trade within the region; and the practice of invoicing certain traditional exports in convertible currencies.

Table 6 gives the currency composition of international trade for five countries that were able to supply detailed statistics. However, no separate breakdown was available for the currency composition of intraregional settlements.

It was apparent from the discussions that at least 90 per cent of intraregional trade transactions are settled in convertible currencies. Among the convertible currencies, the U.S. dollar and the pound sterling are the main trading currencies accounting for 60-85 per cent and 10-45 per cent, respectively, in the various countries. Trade is also denominated in the French franc and the deutsche mark; however, their use is not widespread for intraregional trade.

1/ Except in Kenya, Mauritius, Uganda, and Zimbabwe.

Table 6. Currency Composition of International Trade in Selected Countries in the Region

(In per cent of total)

	Kenya		Botswana 1/		Malawi 2/	Seychelles	Zambia
	Receipts	Payments	Receipts	Payments			
U.S. dollars	60	36	83	1	34	25	60
Sterling	15	32	10	2	25	45	20
French franc	7	4	3	--	--	)	)
Deutsche mark	2	2	--	--	7	)	)
South African rand	--	--	4	88	29	)30	)20
Others 3/	16	26	--	9	5	)	)

Source: Information supplied by the national authorities.

1/ Based on 1978 data.
2/ Based on 1979 data.
3/ Including regional currencies.

The South African rand is used generally for trade settlements in Botswana, Lesotho, Swaziland, and Malawi, owing to the heavy volume of trade with South Africa, and only marginally in Zambia. Almost 90 per cent of payments by Botswana are settled in rand.

In general, the currency in which contracts are invoiced is also the currency in which payments are effected. Some intraregional trade is invoiced and settled in regional currencies, especially among countries where the central banks hold reciprocal accounts with each other. The Kenya shilling is the most widely used of the regional currencies in settlements with countries where reciprocal accounts are maintained. Some trade between Djibouti and its regional trading partners (Ethiopia and Somalia) is settled in their respective regional currencies. Invoicing of trade in regional currencies is in principle encouraged by the authorities concerned.

Even though the amounts involved are reported to be insignificant, local currency notes are probably used widely in border trade. The use of such notes has the advantage of ensuring prompt settlement, compared to administrative complexities, delays, or prohibitions involved in using official channels. The use of currency notes in border trade is officially recognized in some countries.

b. Methods of payment

With a few exceptions, there are no official regulations prescribing one or another method of settlement. 1/ As in international trade generally, the methods of settlement for intraregional trade are determined by the degree of previous contact and confidence between the exporter and the importer. Where trade with a new importer in the region is concerned, the first few transactions typically take place under letters of credit. If no difficulties are experienced in settlement, the exporter may move to a less rigorous arrangement, which could involve surrendering the documentation to the bank to collect payment on his behalf. Trade on open account basis is insignificant within the region and is confined mostly to transactions between foreign companies and their subsidiaries.

Given the serious balance of payments difficulties of many of the countries, suppliers--whether in the region or outside--have tended to prefer settlements under confirmed letters of credit. There are two advantages to trade under letters of credit: first, it gives the exporter an assurance of payment on due date that derives from the guarantee by the bank opening the credit, and second, it facilitates access to trade financing. However, it is also relatively costly, as shown below.

1/ Except in Malawi, payments against sight letters of credit and sight bills of exchange are not permitted; and in Uganda, all import payments are made under letters of credit.

Most countries were not able to provide a classification of regional payments according to the method of payment, but indicated the predominance of trade under letters of credit. Almost all trade in Ethiopia, Uganda, and Zambia is done under confirmed letters of credit, and in Tanzania about 90 per cent of imports and 50-60 per cent of exports are covered by letters of credit. In Djibouti, an estimated 60-70 per cent of trade transactions are covered by letters of credit. The proportions are much smaller for Kenya and Malawi, amounting to about 50 per cent and 25 per cent, respectively. Some trade in Botswana, Kenya, Malawi, and Seychelles takes place on a bills for collection basis.

Usually, the head offices of international banks limit the amount of letters of credit opened by branches in accordance with their exposure limits. However, in cases where the importing country allocates the foreign exchange at the time of opening of the letter of credit, exposure is not affected. Bankers interviewed affirmed that exposure limits for the countries in the region have been set sufficiently high, and would not be threatened even by a substantial increase in intraregional trade.

c. Cost of intraregional payments

Costs of effecting international settlements are broadly similar for intraregional and other trade. Charges and commissions of banks in the region for typical bank services rendered in connection with international settlements, such as opening or confirming letters of credit, negotiation under letters of credit, handling of bills for collection, etc., are roughly comparable to, although occasionally slightly higher than, charges for for similar services rendered by banks in London or in other financial centers for local clients. Generally, they are similar between banks in the region and reportedly constitute an insignificant fraction of the value of the underlying transactions.

Bank charges and commissions associated with international transactions occasionally vary depending on the size of the transaction or on the customer-banker relationships involved. Available information on various direct charges in connection with intraregional payments is shown in Table 7. The main charge is the commission for opening letters of credit, widely used for trade transactions in the region. Typically, this charge is 1/2 per cent per quarter, although it ranges from 1/4 per cent for government transactions in the Seychelles to 1 per cent in Ethiopia and Zambia. Banks charge a flat fee for postal and cable expenses, and for advising and amending letters of credit.

The other charges paid by traders are for the costs of converting domestic currency into foreign currency and vice versa. These are reflected in the buying and selling rates of banks. If a payment is effected in a third currency, such as U.S. dollars or pounds sterling, the transaction is subject to the exchange spread both in converting the local currency into dollars or sterling, and then in converting these into the trading partner currency. Where transactions are invoiced

Table 7. Banking Charges and Commissions Levied on Commercial Transactions in Kenya and Botswana

	Kenya	Botswana
Letter of credit		
Outward		
Establishment commission	1/2 per cent per quarter	1/2 per cent per quarter minimum of ₱10
Inward		
Confirmation fee	1 per mil per quarter	1 per mil per quarter minimum of ₱25
Negotiation of documents	1/4 per cent with minimum of K Sh 100	1/4 per cent on first ₱10,000 1/8 per cent on balance
Bills for collection		
Negotiation commission	1/8 per cent	1/4 per cent
Acceptance commission	1/8 per cent	1/4 per cent

Sources: Compiled from information supplied by the national authorities and Commercial banks.

in the currency of a trading partner, the cost of converting domestic currency at one end is saved. In the relatively few instances in which transactions are channeled through the reciprocal accounts maintained by central banks and the contracts are invoiced in either trading partner's currency, there is an additional saving if one party to the transaction is allowed to purchase or sell foreign exchange at selling and buying rates quoted by the central bank.

Regarding the determination of exchange rates, most central banks quote daily buying and selling rates for the U.S. dollar, and the buying and selling rates for other currencies are determined on the basis of appropriate rates in international markets. Most central banks do not deal in foreign exchange directly with the public. In their dealings with commercial banks, central banks charge a commission on sales and purchases of foreign exchange. Authorized banks are permitted to charge an additional margin on either side for sales and purchases of foreign currencies when quoting their rates to customers. In Ethiopia, the National Bank of Ethiopia deals with authorized banks at the official rate. However, authorized banks in dealing with the public levy prescribed commission charges, which accrue to the central bank, as well as service charges for their own account.

Commission charges on exchange quotations for some countries are given in Table 8. These charges vary substantially from one country to another. For example, a customer importing goods would pay 0.6 per cent as commission charges in Mauritius, whereas in Zambia an importer would pay 1.5 per cent when payment is in U.S. dollars or 2 per cent in other currencies.

An important element in the ease of settlements is the transit time required, i.e., the time that elapses between the issuing of a payments instruction by one party to a transaction and the receipt of funds by the other party. 1/ The normal transit time in effecting payments does not vary substantially between payments to countries in the region and other countries, and those interviewed in the countries visited did not express dissatisfaction over the time taken in making intraregional settlements under existing arrangements.

Transit time for settlements generally ranges around 2-3 days for telegraphic or telex transfers, the most commonly used method of effecting payments both in intraregional and other trade, especially for large amounts. Also, the time required is the same irrespective of whether the settlement is made in U.S. dollars or pounds sterling or in one of the currencies of the region where the paying bank has branch or correspondent relationships with banks in the receiving country. In settlements

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1/ When there are arrears on import payments, the usual concept of "transit time" loses its relevance as it is the nonavailability of foreign exchange, rather than the technical efficiency of the payments process, that determines the delay in effecting settlements.

Table 8. Commissions Levied on Foreign Transactions in Selected Countries in the Region

(In per cent)

	Botswana	Ethiopia	Mauritius	Uganda	Zambia
In central bank dealings with commercial banks					
Buying	0.125	--	0.125	0.25	0.25
Selling	0.125	--	0.25	0.125	0.50
In commercial bank dealings with the public					
Buying	0.5	0.5 plus 0.25 1/	0.25	2/	1.0, 1.50 3/
Selling	0.5	1.5 plus 0.75 1/	0.35	2/	1.0, 1.50 3/

Sources: Compiled from Fund documents; and information supplied by the national authorities and commercial banks.

1/ The first figure indicates the amount which accrues to the central bank.
2/ Authorized foreign exchange dealers levy a service charge of 1 per cent.
3/ One per cent for U.S. dollars and 1.5 per cent for other currencies.

involving correspondent relationships, the receiving bank acts immediately on payments instructions up to agreed limits without waiting for confirmation of provision of cover. However, where correspondent relations between banks do not exist, payments made through major financial centers may take longer. As already noted, however, correspondent relationships generally exist wherever the volume of trade justifies it.

Payments by mail are subject to varying delays and the transit time ranges from 7-14 days. Mail transfers are more frequently used for invisible transactions than for visible trade. However, the customer usually decides the method used.

d. Financing of intraregional trade

External trade credit facilities are generally available for financing the region's imports from outside the area but not from within the region. Although, in principle, discounting on behalf of exporters of bills for collection, mostly documentary drafts, can be done by branches or subsidiaries of major international banks, the impression given was that discounting of bills in intraregional trade is not very frequent. A small proportion of trade is financed by foreign companies which have subsidiaries in the region.

Although commercial practice in both intraregional and other trade would call for the exporter to extend credit terms of between 60-180 days for most imports, and longer terms in many cases for imports of capital equipment or durable goods, foreign exchange difficulties in many countries have obliged the authorities to require exporters to repatriate export proceeds within shorter periods. In some cases, these restrictions have worked to the disadvantage of the regional exporter, in comparison with an exporter from outside the region able and willing to extend longer credit terms. Moreover, the availability in industrial countries of financial accommodation to the exporter during the credit period--often aided by an export insurance scheme such as that provided by the ECGD--enables him to receive payment, after discount, of the value of his export. This facility is in practice not available for intraregional trade.

As for domestic facilities for providing financing of intraregional trade, most of the financing of exports is done by commercial banks through discounting of export usance bills drawn under letters of credit. During the discussions, it was indicated that much of the discounting was done for traditional exports, such as coffee, tea, and copper, etc., which are exported to metropolitan areas.

As already mentioned, Kenya is in the process of establishing an export credit insurance scheme which will apply to exports to any destination. It should serve to facilitate trade with neighboring countries, e.g., provision of export insurance under the scheme should enable exporters to obtain unconfirmed letters of credit drawn on importers or commercial banks in neighboring countries, which they are not able to do at present.

Bankers, traders, and the authorities in the countries visited attributed the paucity of credit facilities in the region to the low volume of intraregional trade and the acceptable credit terms provided by outside suppliers for the bulk of the region's imports.

V. A Regional Multilateral Clearing Arrangement

1. Main considerations

Several arguments have been advanced for the establishment of regional clearing arrangements. Also, various reasons have been given why regional clearing facilities in developing countries may not always produce the hoped-for results. This section examines some of the main considerations that would influence the establishment and operation of a clearing facility in the Eastern and Southern African region.

a. Possible advantages of clearing arrangements

A key consideration often advanced in support of establishing a regional clearing facility is that the working balances in convertible currencies held by each country could be reduced, since convertible currencies would be used only for settlement of net balances at the end of each settlement period. However, the importance of this consideration is frequently exaggerated. The argument is valid to the extent that deficits with one country or a group of countries are offset by surpluses with others. As already noted, trade in the Eastern and Southern African region tends to be unbalanced, with certain countries having substantial trade surpluses not just with one or a few regional trading partners but with nearly all of them. As may be seen in Table 9, the ratio of compensable trade to total intraregional trade varies considerably among countries, and averages 34 per cent for the region as a whole. Thus, roughly two thirds of intraregional trade could not be compensated under a clearing facility, given the unbalanced trade patterns in the region, and would continue to be settled in convertible currency. 1/

The size of the possible saving of convertible currency balances is related also to the share of intraregional trade in total trade. In the Eastern and Southern African region, this proportion is quite low (less than 4 per cent in 1979). In addition, working balances held in convertible currencies for trade settlement purposes are only a small portion of a country's total foreign exchange reserves, and a

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1/ These calculations are based on annual data. The actual settlements during a year would equal the sum of the settlements made in each settlement period. The amount to be settled in one year may therefore differ depending on the distribution of receipts and payments in different settlement periods.

Table 9. Trade Turnover, Compensable Trade, and Net Balance to Settle, 1979

(In millions of U.S. dollars)

	Total regional trade (exports plus imports)	Compensable trade 1/	Net trade balance to settle
Angola	5.6	0.8	-4.8
Botswana	12.0	9.6	-2.4
Comoros	4.4	1.2	-3.2
Djibouti	34.3	13.8	-20.5
Ethiopia	38.2	20.4	+17.8
Kenya	180.9	33.6	+147.3
Lesotho	--	--	--
Madagascar	6.5	6.0	-0.5
Malawi	17.6	16.8	-0.8
Mauritius	21.8	9.4	-12.4
Mozambique	28.4	18.2	-10.2
Seychelles	8.3	0.6	-7.7
Somalia	23.2	1.6	-21.6
Swaziland	3.6	2.8	0.8
Tanzania	72.6	40.6	+32.0
Uganda	130.3	7.2	-123.1
Zambia	56.1	36.0	-20.1
Total	643.8	218.6	425.2
		Of which,	
		Net surpluses	197.9
		Net deficits	227.3 2/

Source: Table 3.

1/ Compensable trade is defined as two times the value of exports or imports, whichever is lower, and represents trade flows which "cancel" each other and do not require settlement in convertible currencies.
2/ The sum of regional trade surpluses is less than the sum of trade deficits because imports are reported c.i.f. and exports are reported f.o.b., and because of timing differences.

fractional reduction in these is unlikely to reduce the need to hold foreign reserves. For these reasons, the beneficial impact of a multilateral clearing scheme on convertible currency working balances will probably be minimal. Moreover, the clearing facility would not reduce the need to hold foreign exchange reserves for balance of payments reasons--i.e., it would not affect the balance between overall foreign exchange receipts and payments over a period, but only the timing of some receipts and payments within that period.

Another reason advanced for a regional clearing arrangement is the saving in the cost of effecting intraregional settlements that would accrue to individual traders. A saving arises from a reduction in the number of conversions. As already noted, the invoicing of intraregional trade in convertible currencies such as the U.S. dollar requires traders to bear the cost of conversion from the importer's currency to U.S. dollars, and from U.S. dollars to the exporter's currency. If trade under a clearing arrangement were invoiced in either trading partner's currency, the cost of conversion at one end would be saved. The cost of conversion, however, is not a significant proportion of the value of the underlying payment. Another saving concerns fees and commissions (other than the exchange spread) charged by banks. According to information obtained in the field, bank fees and commissions generally are not higher for intraregional settlements than for other payments. On the whole, there are unlikely to be very significant direct savings in transaction costs under a clearing facility. Apart from this, there may conceivably be an indirect benefit, if a clearing facility induces greater confidence among traders in the regional payments system and thereby indirectly encourages them to shift away from settlements under letters of credit to other, somewhat less costly, methods of payment (such as under clean bills for collection).

A related argument sometimes advanced is that settlements under regional clearing arrangements would avoid payment of certain charges and commissions to banks in London or New York. The staff team was unable to identify any specific charges on individual transactions (apart from conversion charges already mentioned) that are levied by New York or London banks in their dealings with their own branches, subsidiaries, or correspondents in the region, where purely intraregional transactions are concerned, even when the invoicing and settlement take place through New York or London in convertible currencies. The bank services most frequently used for effecting intraregional payments involve the payment of charges to banks located in the region itself. Occasionally, special services performed by a foreign bank for a regional bank with which it does not have a correspondent relationship could involve a special charge. An example of such charges may be a small charge levied for transferring funds from the account of the paying bank to the account of the receiving bank. However, as already noted, most intraregional settlements are likely to be undertaken by correspondent banks under standing arrangements. Another charge payable to non-regional banks may be for letters of credit confirmed by them.

An argument for the creation of a regional clearing facility has been that it would promote the use of regional currencies. As already mentioned, this could result in some saving in the cost of settlements. If, however, channeling of transactions through a clearing facility is not mandatory, increased use of regional currencies would depend on whether traders are more confident about receiving payments on time. This in turn is related to the efficiency of the clearing mechanism itself, as well as the pursuit of policies that promote confidence in the currencies of each trading country.

b. Possible difficulties

As already noted, most countries in the region maintain exchange and trade restrictions, although the severity of the restrictions varies. Most payments restrictions in the region are, however, nondiscriminatory. Two countries maintain no exchange controls. A regional clearing facility which entails the introduction of payments restrictions or discriminatory currency arrangements would not find general acceptability in the region. Such restriction or discrimination might arise, for example, if channeling of transactions through the facility is mandatory in countries with no exchange control. Similarly, payments systems may become more restrictive, and therefore hamper and distort trade, if the facility leads to the build up of inconvertible foreign assets. However, these difficulties could be avoided by making the new facility sufficiently flexible and not obliging traders to channel transactions through it. The parallel existence of more than one available channel for effecting intraregional settlements would avoid the introduction of undue rigidity in payments. A liberal and open clearing arrangement would also be beneficial to other countries, especially those in balance of payments difficulties, as it would help ensure that trade flows did not get distorted in such a way to lead to importation of costly or poor quality goods from the region.

It is sometimes mentioned that channeling of regional trade through a clearing arrangement could have an adverse effect on the availability of financing for regional banks from banks abroad, such as the lines of credit or overdraft facilities that may be obtained from banks with whom compensating foreign exchange balances are maintained. This argument does not, however, appear to have general validity, as no banker interviewed appeared to be concerned about the loss of financial accommodation in New York or London, given the low volume of intraregional trade. A related point concerns the availability of external trade credit to a regional importer. To the extent that a clearing facility remains simply an alternative method of channeling settlements, rather than a means for influencing the direction of trade, it should not necessarily reduce available trade financing for the bulk of the region's trade which would continue to be with the traditional trading partners outside the region. This does not preclude the establishment of a separate regional export financing and/or credit insurance facility, the absence of which was often cited as an obstacle to intraregional trade expansion.

A point that has a bearing on the attractiveness of a clearing facility proposal is that net creditors in a multilateral system tend to have reservations in accepting very long settlement periods. At the same time it is in the interest of the net debtors to seek to extend the settlement period. However, it is obvious that a clearing facility cannot serve as an instrument of balance of payments financing and the provision of medium-term credit must be considered quite separately from the clearing facility itself. In some regions, multilateral clearing facilities are associated with credit facilities designed to help finance net debtor positions. The CARICOM Multilateral Clearing Facility enables a member to defer settlement of up to 50 per cent of its net debtor position to the following settlement period. Under the Multilateral Financial Assistance Agreement among 12 Latin American countries (known as the Santo Domingo Agreement) a member may draw upon lines of credit made available by other members up to an amount not exceeding its deficit with partner countries in the clearing system in the previous settlement period. In both cases, other criteria--including fixed limits on each participant's credit limits--are also applied. However, the establishment of a credit facility does not presuppose the existence of a clearing scheme; for example, the balance of payments credit facilities of the Arab Monetary Fund and of the Andean Reserve Fund do not involve the operation of any multilateral clearing system.

A specific concern that has arisen recently is that unfamiliarity with the procedures and mechanisms involved in channeling transactions through a clearing facility could result in delays, and that this would be counter to the objectives of the facility to promote intraregional trade and payments. In this context, the experience of the West African Clearing House, where certain delays were experienced, can be helpful in devising efficient and easily understandable procedures. Furthermore, as already mentioned, voluntary channeling through the new facility would in effect help ensure that any unavoidable delays in the processing of payments do not hamper trade.

2. Principal features of a clearing arrangement

This section sets forth the principal features of a possible clearing scheme for the Eastern and Southern African region. If it were decided to set up such an arrangement, further detailed discussion and analysis of the various possible provisions would, of course, be required. 1/

a. Coverage

Participation should be based on the principle that inclusion of natural trading partners in the region in a broad-based facility would help ensure the success of the facility. The specific country composition of participation would, of course, be a matter of negotiation

1/ For reference, the principal features of several existing clearing arrangements are summarized in Appendix III.

and national choice. However, countries with virtually nonexistent or highly imbalanced intraregional trade are unlikely to be significant beneficiaries of participation. Also, a number of African countries that are excluded from the definition of "Eastern and Southern African States" have relatively important trading links with countries currently participating in the PTA negotiations and the benefits of including them in a clearing facility should be considered. 1/

Given the virtual nonexistence of intraregional transactions other than for trade and related freight, insurance, transport, etc., capital transactions could be excluded from the scope of the facility. Among the trade and trade-related transactions to be covered, exceptions should be as few as possible. In some regional clearing facilities, payments related to the supply of petroleum and petroleum products are excluded from the scope of regional clearing.

Although mandatory channeling of payments through the clearing scheme may appear to be helpful to achieve maximum use of the facility, voluntary use by traders is in practice likely to prove more advantageous. By retaining alternative methods of settlement, the authorities will be helping to ensure wider acceptance of the new facility among traders since the facility will have to provide a channel for settlements that is at least as efficient as the present system. Also, optional use of the facility is less likely to cause disruption in intraregional payments in the initial stages of the new facility. Phasing out of any existing arrangements contrary to the objectives of the new facility will also be easier under a flexible system.

b. Unit of account and exchange rate guarantees

The clearing facility would post debit and credit items to reflect transactions among participants in a unit of account acceptable to the parties concerned. Both the Asian Clearing Union and the West African Clearing House use a unit of account based on the special drawing right (SDR), which seems suitable for a relatively diverse group of countries whose currencies are pegged to different currencies or baskets of currencies. The unit of account is based on the U.S. dollar in the CARICOM Multilateral Clearing Facility and the Central American Clearing House, where participants' currencies are generally pegged to the U.S. dollar. Procedures could be worked out for possible changes in the definition of the unit of account if warranted.

As regards invoicing, two alternatives are available: mandatory invoicing in the unit of account, or invoicing in either the unit of

1/ For example, Appendix Tables V, VIII, and XI indicate the importance of trade with Burundi and Rwanda for Kenya, Tanzania, and Uganda. In 1979, the PTA region (mostly Kenya and Tanzania) absorbed 4 per cent of combined exports of Burundi and Rwanda, and supplied 18 per cent of their imports (Appendix Table XVIII).

account or in one of the trading partner's currencies, at the option of the traders. The first method of invoicing would simplify the bookkeeping of the clearing house, but would require traders and banks to have thorough familiarity with the unit of account being used since in its absence trade could be impeded. The second alternative would avoid possible discouragement to traders, but would render necessary a detailed agreement on the valuation of invoices denominated in regional currencies in terms of the unit of account for compensation and settlement purposes.

As each participating country would retain the freedom to determine its own exchange rate and pegging policy, the arrangement would contain provisions safeguarding each country's claims on the others in the event of an exchange rate adjustment by a country vis-a-vis the unit of account. The general principle would be that in the event of an exchange rate adjustment, all outstanding claims would be settled among participants at the previous exchange rate. Provisions would also have to be worked out for determining what constituted an "exchange rate adjustment," since with different pegging practices of regional currencies, some day-to-day fluctuations in cross exchange rates between regional currencies would be inevitable. In the long run, adoption of a common currency or basket for pegging the region's currencies would be helpful in promoting exchange rate stability between the regional currencies while simplifying the accounting of clearing operations.

c. Channeling procedures

In a typical transaction, the exporter would be reimbursed by his bank upon presentation of valid documentation. Subsequently, the exporter's bank would obtain reimbursement from its central bank, which would receive a credit by the clearing facility by debit to the account of the importer's central bank. The latter would be reimbursed by the importer's commercial bank and ultimately by the importer himself. It will be essential to work out precise procedures as to the timing and sequence of notifications involved in the above process, in order to ensure that the exporter is paid in local currency at least as promptly under the clearing arrangement as under normal commercial practice. The responsibility of the parties to the transaction in the event of failure of the importer or his bank to reimburse the central bank in the importing country, and related procedures for reversing the transactions in the clearing facility's books, would also need to be spelled out.

At the end of an agreed settlement period, the debit and credit positions of each of the participating countries would be offset and the clearing facility would strike the net position of each participant vis-a-vis the others. Settlement of net positions should initially be made at relatively short intervals, such as one month. As greater experience is gained, the settlement period could be gradually lengthened. A short settlement period is desirable initially to encourage wider country coverage of the scheme.

d. Interim credit limits

In most clearing arrangements, limits are placed on each participant's net debtor positions and net creditor positions. The purpose of the limits is to enable only settlements up to those amounts to be postponed to the end of the interim period between settlement dates. If between two settlement dates, a participant's net debtor position exceeds the preagreed limit, that country is required to pay the excess in convertible currencies to the net creditors in the system in proportion to their creditor positions. If, on the other hand, a participant's net creditor position exceeds a certain limit during the interim period, it could have the right to request or to receive payment of the excess by the net debtors in proportion to their debtor positions. It may be considered desirable to deal with the eventuality that at certain times between settlement dates creditors may have the right to obtain payment of excess over net creditor limits, but the corresponding debtor positions may be apportioned in such a way as to remain below the net debtor limit of each debtor participant. This possibility could be dealt with by setting up a special fund in the name of the clearing facility to meet such demands of net creditors. In any event, on each settlement date, all net positions would be settled. If it were desired to introduce a bilateral or multilateral credit facility in conjunction with the clearing arrangement, provision could be made, for example, for the net debtor position of a country seeking financial accommodation to be settled by drawing down on a medium-term line of credit negotiated separately for this purpose.

The net debtor and creditor limits may be determined as absolute amounts negotiated among the participants, or as a percentage of actual or estimated intraregional trade flow. The latter method of fixing limits is preferred, since it would result in automatic periodic revision as warranted by new information or shifts in trade flows.

The purposes of the facility may also be served by omitting the interim credit limits altogether, since it could be argued that with a short settlement period of about one month, net positions could not, in any case, become greatly unbalanced. The administrative burden of too frequent calculation of net positions could also thereby be avoided.

e. Other features

In order to generate confidence among the trading community and banks, it may be helpful to include provisions in the scheme whereby individual payments channeled through the clearing facility are backed by the guarantee of the central bank or the government of the participating country. Other substantive provisions of the facility would include: (i) provisions for payment of interest to participants with net creditor positions; (ii) definition of instruments of payment acceptable for channeling through the scheme; (iii) provisions in case of default by an importer, a bank, or a central bank; (iv) provisions for ensuring consistency with existing international obligations of participants--e.g., the Fund's Articles; and (v) choice of central bank to perform the clearing function.

Table I. PTA: Trends in Total and Intraregional Trade, 1973-79 1/ (Continued)

(In millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979 2/
Angola							
Total trade (exports plus imports)	1,345	1,854	1,358	981	1,726	2,146	2,640
Intraregional trade	18	16	9	3	5	5	6
Share of intraregional trade (per cent)	1.3	0.9	0.7	0.3	0.3	0.2	0.2
Botswana							
Total trade	252	305	361	385	456	575	937
Intraregional trade	5	5	3	7	11	9	12
Percentage	2.0	1.6	0.8	1.8	2.4	1.6	1.3
Comoros							
Total trade	20	35	33	22	25	31	39
Intraregional trade	3	4	4	4	5	4	4
Percentage	15.0	11.4	12.1	18.2	20.0	12.9	10.3
Djibouti							
Total trade	88	135	162	194	212	230	276
Intraregional trade	21	22	32	29	21	11	34
Percentage	23.9	16.3	19.8	14.9	9.9	4.8	12.3
Ethiopia							
Total trade	459	551	551	636	684	762	1,000
Intraregional trade	27	31	37	31	24	16	38
Percentage	5.9	5.6	6.7	4.9	3.5	2.1	3.8
Kenya							
Total trade	1,091	1,629	1,540	1,766	2,475	2,728	2,739
Intraregional trade	189	230	215	243	205	171	181
Percentage	17.3	14.1	14.0	13.8	8.3	6.3	6.6
Lesotho							
Total trade	103	129	161	209	229	297	371
Intraregional trade	--	--	--	--	--	--	--
Percentage	--	--	--	--	--	--	--
Madagascar							
Total trade	406	525	659	563	690	828	1,024
Intraregional trade	5	10	8	7	6	6	7
Percentage	1.2	1.9	1.2	1.3	0.8	0.7	0.6
Malawi							
Total trade	243	307	387	372	440	520	575
Intraregional trade	21	21	13	15	14	15	18
Percentage	8.7	6.8	3.2	4.1	3.3	2.9	3.1

Table I. PTA: Trends in Total and Intraregional Trade, 1973-79 1/ (Concluded)

(In millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979 2/
Mauritius							
Total Trade	304	621	630	624	756	815	892
Intraregional trade	7	12	13	15	20	20	22
Percentage	2.2	2.0	2.0	2.4	2.7	2.4	2.4
Mozambique							
Total trade	690	766	608	746	407	719	787
Intraregional trade	21	30	13	12	5	28	28
Percentage	3.0	3.9	2.1	1.6	1.2	3.8	3.6
Seychelles							
Total trade	28	35	38	47	56	71	109
Intraregional trade	4	6	8	7	7	8	8
Percentage	14.3	17.1	21.0	14.9	12.5	11.3	7.3
Somalia							
Total trade	157	192	251	250	289	348	616
Intraregional trade	7	10	13	14	17	21	23
Percentage	4.4	5.0	5.4	5.5	5.9	6.1	3.7
Swaziland							
Total trade	203	316	375	394	408	512	603
Intraregional trade	5	7	4	4	4	4	4
Percentage	2.5	2.2	1.1	1.0	1.0	0.8	0.7
Tanzania							
Total trade	829	1,233	1,230	1,148	1,394	1,622	1,583
Intraregional trade	110	129	111	120	42	37	73
Percentage	13.3	10.5	9.0	10.5	3.0	2.3	4.6
Uganda							
Total trade	473	540	475	521	842	679	692
Intraregional trade	81	93	74	83	144	117	130
Percentage	17.1	17.2	15.6	15.9	17.1	17.2	18.8
Zambia							
Total trade	1,720	2,273	1,833	1,764	1,636	1,501	2,180
Intraregional trade	51	73	38	43	39	35	56
Percentage	3.0	3.2	2.1	2.4	2.4	2.3	2.6

Sources: IMF, Direction of Trade Yearbook, 1980; data provided by the national authorities; and staff estimates.

1/ Data from different sources are sometimes inconsistent. For certain countries (especially Botswana, Lesotho, Swaziland, the Comoros, and Djibouti) estimates of intraregional trade may be subject to significant error.

2/ Preliminary estimates.

Table II. Value of Intraregional and Total Trade, 1979 1/

(In millions of U.S. dollars)

	Exports		Imports	
	To region	Total	From region	Total
Angola	0.4	1,557.3	5.2	1,083.0
Botswana	4.8	433.3	7.2	503.7
Comoros	0.6	12.2	3.8	26.8
Djibouti	6.9	27.2	27.4	248.8
Ethiopia	28.0	423.5	10.2	576.3
Kenya	164.1	1,103.1	16.8	1,635.7
Lesotho	--	41.0	--	330.0
Madagascar	3.0	360.4	3.5	663.5
Malawi	8.4	197.1	9.2	377.6
Mauritius	4.7	371.8	17.1	520.7
Mozambique	9.1	394.8	19.3	392.2
Seychelles	0.3	22.2	8.0	86.7
Somalia	0.8	181.7	22.4	434.6
Swaziland	2.2	234.4	1.4	368.6
Tanzania	52.3	503.3	20.3	1,080.1
Uganda	3.6	450.4	126.7	241.9
Zambia	18.0	1,331.4	38.1	772.9
Total	307.2	7,645.1	336.6	9,418.8

Sources: IMF, Direction of Trade; data provided by the national authorities; and Fund staff estimates.

1/ Preliminary estimates. Data from different sources are sometimes inconsistent. For certain countries (especially Botswana, Lesotho, Swaziland, the Comoros, and Djibouti) estimates of intraregional trade may be subject to significant error.

Table III. Share of Principal Export Products in Selected Countries, 1978

(As percentage of total exports)

	Principal Exports	Share
Angola 1/	Crude petroleum	48.3
	Coffee	20.2
Botswana	Diamonds	41.1
	Copper-nickle matte	27.3
Comoros	Vanilla	34.9
	Perfume	30.2
Ethiopia	Coffee	79.3
Kenya	Coffee	30.1
	Tea	16.0
Lesotho	Diamonds	55.6
Madagascar	Coffee	39.7
	Cloves	18.8
Malawi	Tobacco	56.4
Mauritius	Sugar	67.4
Mozambique 2/	Cashew nuts	23.1
	Cotton	21.1
Seychelles	Copra	66.9
Somalia	Live animals	82.8
Swaziland	Sugar	35.5
	Woodpulp and forestry products	19.5
Tanzania	Coffee	35.5
	Cotton	11.5
Uganda	Coffee	84.9
Zambia	Copper	88.2
Zimbabwe 3/	Tobacco	13.5
	Gold	12.6
	Iron and Steel	10.3
	Ferro-alloys	9.7
	Asbestos	8.8

Sources: National sources and Fund documents.

1/ 1974 data.
2/ 1973 data.
3/ 1980 data.

Table IV. Kenya, Tanzania, Uganda: Direction of Trade by Major Sources and Destinations, 1973-79

(In per cent of total)

	United Kingdom			Other EEC			United States			Japan			Africa 1/		
	1973	1976	1979	1973	1976	1979	1973	1976	1979	1973	1976	1979	1973	1976	1979
Kenya															
Exports	12.3	10.9	20.3	18.7	25.0	28.4	4.5	5.5	4.6	3.0	1.9	2.0	34.9	31.5	22.5
Imports	23.5	19.2	24.4	22.4	21.5	24.0	7.8	5.8	4.1	12.0	11.0	8.5	6.8	4.1	1.9
Tanzania															
Exports	10.3	9.6	14.9	16.6	29.7	32.8	7.6	9.5	5.2	3.6	2.3	3.9	18.8	10.6	12.5
Imports	14.4	12.6	19.7	20.0	22.1	30.9	2.8	6.0	4.1	8.2	7.8	7.6	10.8	12.8	1.9
Uganda															
Exports	20.8	20.5	8.2	19.5	21.4	27.7	19.9	33.4	17.1	6.6	6.3	10.4	8.5	2.8	2.8
Imports	17.4	15.3	18.3	15.8	16.9	12.5	1.9	3.9	0.3	5.4	4.0	3.5	41.0	50.5	53.0

Sources: IMF, Direction of Trade Yearbook, 1980; and data provided by the national authorities.

1/ Excluding South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

Table V. Kenya: Trends in Intraregional Trade, 1973-79

	1973	1974	1975	1976	1977	1978	1979
			(In millions of U.S. dollars)				
Total exports	474.3	602.9	601.8	793.1	1,186.0	1,022.3	1,103.1
Of which: Coffee	(102.2)	(107.7)	(96.0)	(223.4)	(493.8)	(307.9)	(296.1)
			(As per cent of total exports)				
Exports to PTA 1/	31.6	30.5	29.5	26.0	16.3	15.3	14.9
Of which: Tanzania	(10.2)	(8.9)	(9.5)	(10.1)	(2.0)	(0.7)	(1.0)
Uganda	(13.4)	(12.8)	(12.2)	(10.0)	(10.6)	(9.7)	(9.2)
Zambia	(4.3)	(5.1)	(3.7)	(2.7)	(1.4)	(1.4)	(1.4)
Exports to other Africa 2/	3.3	3.9	5.5	5.5	4.3	6.1	7.6
Of which: Burundi	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.9)	(1.1)
Rwanda	(0.9)	(1.4)	(2.2)	(1.9)	(1.2)	(2.0)	(2.1)
Sudan	(0.6)	(0.4)	(0.8)	(1.3)	(1.0)	(1.8)	(1.9)
			(In millions of U.S. dollars)				
Total imports	616.4	1,026.3	938.6	972.9	1,289.1	1,705.9	1,635.7
Of which: Mineral fuels	(65.0)	(231.2)	(263.2)	(250.1)	(285.4)	(307.5)	(386.5)
			(As per cent of total imports)				
Imports from PTA	6.4	4.5	3.9	3.7	0.9	0.9	1.0
Of which: Tanzania	(3.6)	(2.6)	(2.8)	(3.1)	(0.3)	(0.1)	(--)
Uganda	(2.2)	(1.0)	(0.8)	(0.2)	(0.1)	(0.3)	(0.1)
Zambia	(0.3)	(0.6)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Imports from other Africa	0.4	0.3	0.2	0.4	0.6	0.5	0.9
Of which: Rwanda	(--)	(0.1)	(--)	(0.2)	(0.2)	(0.4)	(0.5)

Sources: IMF, Direction of Trade Yearbook, 1979 for data up to 1977; thereafter, data provided by the Kenyan authorities.

1/ Excludes Angola, Botswana, Comoros, Djibouti, and Lesotho, which cannot be separated from "Other Africa" in Direction of Trade series. For 1979, Kenya's exports to these five countries totaled US$10.3 million on preliminary figures, while imports were less than US$0.1 million.

2/ "Other Africa" excludes South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

Table VI. Kenya: Commodity Composition of PTA Trade, 1978

(In thousands of U.S. dollars)

	Ethiopia	Madagascar	Malawi	Mauritius	Mozambique	Seychelles	Somalia	Tanzania	Uganda	Zambia	Total trade	PTA trade	PTA share
Exports 1/													
0. Food and live animals	1,731		23	766	1,066	275	1,532	130	4,480	2,155	592,575	12,158	2.1
1. Beverages and tobacco	33	4	1			7	41		121	5	2,770	212	7.7
2. Crude materials excl. fuels	19	212	11	54	5	49	642	509	837	119	85,397	2,457	2.9
3. Mineral fuels, etc.	969		1	1,092		4,476	1,447	1,136	53,003	7,258	185,263	69,382	37.5
4. Animal, vegetable oil, fat							12		161	214	964	387	40.1
5. Chemicals	2,156	1,922	293	468	126	188	954	338	12,966	2,598	43,299	22,009	50.8
6. Basic manufactures	918	174	445	5,493	15	830	2,652	2,729	13,342	1,156	74,995	27,754	37.0
7. Machines, transport equipment	870	90	44	5	59	156	541	1,533	11,532	576	22,879	15,406	67.3
8. Misc. manufactured goods	291	25	233	45	1	108	1,292	749	2,869	649	13,471	6,262	46.5
9. Goods not class. by kind											654	--	--
Total	6,987	2,428	1,050	7,923	1,272	6,091	9,111	7,125	99,311	14,730	1,022,265	156,028	15.3
Imports													
0. Food and live animals				278			46	100	2,806		55,345	3,231	5.8
1. Beverages and tobacco			522								19,336	522	2.7
2. Crude materials excl. fuels	170						5	459	796	1	36,703	1,431	3.9
3. Mineral fuels, etc.					2,628				1,133		307,477	3,761	1.2
4. Animal, vegetable oil, fat								1			41,670	1	--
5. Chemicals	1							3	61	142	178,979	207	0.1
6. Basic manufactures	57	8	44	21				146	50	3,869	286,771	4,195	1.5
7. Machines, transport equipment	1,335	7	6	27				177	262	38	691,148	1,852	0.3
8. Misc. manufactured goods	28	1	19	23	4			27	3	23	86,823	128	0.2
9. Goods not class. by kind						9				1	1,670	10	0.6
Total	1,592	16	590	350	2,631	9	52	914	5,111	4,073	1,705,923	15,338	0.9

Source: Customs and Excise Department, Annual Trade Report, 1978

1/ Includes re-exports.

Table VII. Kenya. Major Commodities Traded with Neighboring Countries, 1978

	Exports	In thousands of U.S. dollars	Imports	In thousands of U.S. dollars
Uganda	Milk	456	Tea and mate	2,768
	Milk for infants	462	Skins (other than calf)	599
	Margarine and shortening	525	Electric energy	1,133
	Petroleum products	51,836		
	Natural gas	411		
	Medicaments and drugs	657		
	Perfumes and toiletries	507		
	Cleaners	755		
	Disinfectants	579		
	Insecticides	2,199		
	Exercise books	448		
	Cement	706		
	Other steel parts	2,796		
	Road motor vehicle	775		
	Ships and boats	460		
Rwanda	Petroleum products	7,084	Tea and mate	5,692
	Cement	1,142	Pyrethrum	339
	Flat iron plates	972		
	Batteries and cells	1,196		
Sudan	Milk (solid)	345		
	Lumber	329		
	Petroleum products	2,907		
	Uncoated paper rolls	700		
	Cement	560		
	Other steel parts	808		
Zambia	Milk for infants	1,244	Copper (worked)	600
	Petroleum products	6,657	Lead (unwrought)	285
	Medicaments and drugs	448	Zinc (unwrought)	2,972
	Soaps	766		
Ethiopia	Tea and mate	1,309	Engines for aircraft	1,147
	Petroleum products	965		
	Medicaments and drugs	586		
	Insecticides	362		
	Batteries and cells	629		
Mozambique	Infant food	428	Coal	2,628
	Tea and mate	592		
Somalia	Tea and mate	685		
	Cotton	407		
	Floor sheets	408		
	Other plastic articles	563		
Other	Seeds for planting (Tanzania)	506	Tobacco (Malawi)	522
	Cigarettes (Burundi)	855	Cotton (Tanzania)	452
	Petroleum products (Burundi)	3,390		
	Petroleum products (Seychelles)	4,476		
	Cement (Seychelles)	405		
	Paper bags (Mauritius)	573		
	Cement (Mauritius)	4,699		

Source: Customs and Excise Department, Annual Trade Report, 1978.

Table VIII. Tanzania: Trends in Intraregional Trade, 1973-79

	1973	1974	1975	1976	1977	1978	1979 1/
			(In millions of U.S. dollars)				
Total exports	340.8	420.2	387.8	492.1	554.4	477.4	503.3
Of which: Coffee	(70.5)	(52.5)	(65.2)	(153.1)	(224.5)	(169.5)	(148.8)
			(As per cent of total exports)				
Exports to PTA	17.4	15.4	12.7	7.5	2.3	5.0	10.4
Of which: Kenya	(6.5)	(6.4)	(5.9)	(6.1)	(0.7)	(0.1)	(0.1)
Mozambique	(--)	(--)	(0.1)	(0.2)	(0.3)	(2.4)	(3.1)
Zambia	(9.7)	(7.2)	(5.6)	(0.7)	(1.1)	(1.2)	(3.5)
Exports to other Africa 2/	1.4	2.9	3.1	3.1	2.3	2.0	...
Of which: Burundi	(0.8)	(1.2)	(1.4)	(1.5)	(1.5)	(1.3)	(2.1)
Zaire	(0.3)	(0.8)	(0.6)	(0.7)	(0.4)	(0.3)	(...)
			(In millions of U.S. dollars)				
Total imports	488.5	812.8	842.5	656.1	839.8	1,144.2	1,080.1
Of which: mineral fuels	(48.2)	(140.7)	(76.9)	(103.1)	(102.4)	(126.5)	(...)
			(As per cent of total imports)				
Imports from PTA	10.5	7.9	7.3	12.7	3.4	1.1	1.9
Of which: Kenya	(9.9)	(6.6)	(6.5)	(12.2)	(2.8)	(0.3)	(0.9)
Mozambique	(--)	(--)	(--)	(0.1)	(0.2)	(0.4)	(0.2)
Zambia	(0.4)	(1.1)	(0.3)	(0.4)	(0.3)	(0.2)	(0.7)
Imports from other Africa	0.3	0.2	0.2	0.1	--	--	--

Sources: IMF, Direction of Trade Yearbook, 1979 for data up to 1977; thereafter, data provided by the Tanzanian authorities.

1/ Preliminary estimates.
2/ "Other Africa" excludes South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

Table IX. Tanzania: Commodity Composition of PTA Trade, 1978

(In thousands of U.S. dollars)

	Ethiopia	Kenya	Madagascar	Malawi	Mauritius	Mozambique	Seychelles	Somalia	Swaziland	Uganda	Zambia	Total trade	PTA trade	PTA share
Exports 1/														
0. Food and live animals	284	29		68	32	7,925	4	4		81	463	269,736	8,890	3.3
1. Beverages and tobacco						4		128				30,315	132	0.4
2. Crude materials excl. fuels		6			26	56		2,106			19	100,765	2,213	2.2
3. Mineral fuels, etc.						1,343					558	11,242	1,901	16.9
4. Animal, vegetable oil, fat								12			234	1,480	246	16.6
5. Chemicals	5				7			94			565	3,796	671	17.7
6. Basic manufactures	74	4	6		21	813	50	3,473		110	564	52,714	5,115	9.7
7. Machines, transport equipment		222	29	33		121		22		24	3,031	5,322	3,482	65.4
8. Misc. manufactured goods	2	15	2	10		969	26			5	40	1,531	1,069	69.8
9. Goods not class. by kind						14					83	481	97	20.2
Total	365	276	37	111	86	11,245	80	5,839		220	5,557	477,383	23,816	5.0
Imports														
0. Food and live animals		29		14		243		386			76	64,650	748	1.2
1. Beverages and tobacco	13											763	133	1.7
2. Crude materials excl. fuels	30	176				56					56	23,732	318	1.3
3. Mineral fuels, etc.		498									25	126,510	523	0.4
4. Animal, vegetable oil, fat						150						19,359	150	0.7
5. Chemicals		182				2			1,429		42	132,347	1,655	1.3
6. Basic manufactures		1,642	6	6		3,616	5			1	1,291	229,507	6,567	2.9
7. Machines, transport equipment	19	578	67	69	5	469	7	3	62		856	499,755	2,135	0.4
8. Misc. manufactured goods	1	377	2	27		91	12	6	1	2	441	46,332	960	2.1
9. Goods not class. by kind											23	1,194	23	1.9
Total	63	3,482	75	116	5	4,627	24	395	1,492	3	2,810	1,144,150	13,092	1.1

Source: Tanzania Customs and Excise, Annual Trade Report of Tanzania, 1978

1/ Includes re-exports.

Table X. Tanzania: Major Commodities Traded with Neighboring Countries, 1978

	Exports	In thousands of U.S. dollars	Imports	In thousands of U.S. dollars
Mozambique	Sugarcane	115	Skimmed milk	243
	Coffee	238	Coconut oil	150
	Cocoa beans	405	Cement	3,579
	Maize	7,104	Refrigerators	342
	Tires and Tubes	310		
	Textiles	213		
	Women's clothes	296		
	Other cotton garments	635		
Zambia	Coffee	417	Copper products	153
	Petroleum products	558	Zinc (unwrought)	963
	Of which:		Copper conducting wire	448
	re-exports	(392)	Footwear	211
	Coconut oil	234		
	Glues	286		
	Metal plates	266		
	Batteries	188		
	Transportation equipment (re-export)	2,830		
Burundi	Refined sugar	663		
	Cigarettes	1,048		
	Salt	751		
	Petroleum products	756		
	Cement	790		
Rwanda	Cigarettes	449		
	Cement	164		
	Batteries	1,156		
Somalia	Raw cotton	2,095	Fish	386
	Aluminum utensils	3,332		
Kenya			Lubricants	365
			Tarpaulins	453
			Motor vehicles	105
			Books	280
Other	Tea (Ethiopia)	278	Fertilizers (Swaziland)	1,429
	Raw cotton (Zaire)	388		
	Petroleum products (Zaire)	805		

Source: Tanzania Customs and Excise, Annual Trade Report of Tanzania, 1978.

Table XI. Uganda: Trends in Intraregional Trade, 1973-79

	1973	1974	1975	1976	1977	1978	1979
			(In millions of U.S. dollars)				
Total exports	310.4	327.0	278.1	360.6	594.9	370.3	450.4
Of which: Coffee	(179.7)	(219.5)	(188.6)	(297.2)	(548.8)	(314.5)	(417.1)
			(As per cent of total exports)				
Exports to PTA	4.8	3.5	2.2	0.7	0.6	1.7	0.8
Of which: Kenya	(4.4)	(3.2)	(1.8)	(0.5)	(0.4)	(1.3)	(0.4)
Somalia	(0.2)	(0.2)	(0.3)	(0.2)	(0.1)	(0.3)	(0.2)
Exports to other Africa 1/	3.7	2.5	6.0	2.1	2.0	2.2	2.0
Of which: Rwanda	(0.2)	(0.2)	(0.1)	(0.2)	(--)	(0.3)	(0.3)
Sudan	(2.7)	(2.2)	(2.5)	(1.6)	(1.0)	(1.8)	(1.6)
			(In millions of U.S. dollars)				
Total imports	162.5	213.1	196.6	160.3	246.9	308.2	241.9
			(As per cent of total imports)				
Imports from PTA	40.9	38.2	34.3	50.2	57.1	35.8	52.3
Of which: Kenya	(39.2)	(36.3)	(33.8)	(49.5)	(56.7)	(35.5)	(45.9)
Somalia	(--)	(--)	(--)	(0.1)	(0.2)	(0.1)	(0.2)
Tanzania	(1.5)	(1.7)	(0.4)	(0.6)	(0.1)	(0.1)	(6.1)
Imports from other Africa	0.1	--	0.1	0.3	0.4	0.5	0.7
Of which: Zaire	(--)	(--)	(--)	(--)	(0.2)	(0.4)	(0.5)

Sources: Direction of Trade Yearbook, 1980; and partner country trade data.

1/ "Other Africa" excludes South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

Table XII. Zambia: Trends in Intraregional Trade, 1973-79

	1973	1974	1975	1976	1977	1978	1979
			(In millions of U.S. dollars)				
Total exports	1,136.4	1,406.6	811.5	1,043.8	897.3	832.1	1,331.4
Of which: Copper	(1,076.2)	(1,303.1)	(733.5)	(965.3)	(817.4)	(734.4)	(1,139.6)
			(As per cent of total exports)				
Exports to PTA	1.2	1.9	1.2	1.7	1.7	1.8	1.4
Of which: Kenya	(0.2)	(0.3)	(0.2)	(0.3)	(0.5)	(0.4)	(0.3)
Malawi	(0.5)	(0.5)	(0.7)	(0.6)	(0.3)	(0.3)	(0.2)
Tanzania	(0.2)	(0.8)	(0.2)	(0.7)	(0.4)	(0.4)	(0.5)
Exports to other Africa 1/	0.6	0.9	1.5	1.0	1.1	1.5	0.9
Of which: Zaire	(0.5)	(0.8)	(1.4)	(0.9)	(1.0)	(1.2)	(0.8)
			(In millions of U.S. dollars)				
Total imports 2/	530.9	787.4	928.7	654.8	671.6	607.8	772.9
Of which: mineral fuels	(51.3)	(94.9)	(126.1)	(101.8)	(102.7)	(107.0)	(114.1)
			(As per cent of total imports)				
Imports from PTA	5.8	4.9	2.5	3.2	2.9	3.0	4.5
Of which: Kenya	(2.9)	(2.4)	(1.2)	(2.1)	(1.4)	(1.4)	(1.4)
Malawi	(0.8)	(0.7)	(0.6)	(0.5)	(0.7)	(0.7)	(0.3)
Tanzania	(0.7)	(0.7)	(0.2)	(0.2)	(0.3)	(0.2)	(2.0)
Imports from other Africa	2.5	0.2	0.2	0.2	0.1	--	--

Sources: IMF, Direction of Trade Yearbook, 1980; data provided by the Zambian authorities; and partner country trade data (for 1979).

1/ "Other Africa" excludes South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

2/ Imports are measured on an f.o.b. basis.

Table XIII. Zambia: Commodity Composition of PTA Trade, 1977

(In thousands of U.S. dollars)

	Angola	Botswana	Ethiopia	Kenya	Lesotho	Malawi	Mauritius	Mozambique	Swaziland	Seychelles	Tanzania	Total trade	PTA trade	PTA share
Exports 1/														
0. Food and live animals	4,063					1					60	4,851	4,124	85.0
1. Beverages and tobacco						1,484						7,331	1,484	20.2
2. Crude materials excl. fuels		9		4							59	11,021	72	6.5
3. Mineral fuels, etc.				10		113					12	2,683	135	5.3
4. Animal, vegetable oil, fat												126	--	--
5. Chemicals				49		217					15	3,236	281	8.7
6. Basic manufactures		35	157	4,502		254	2	80			2,985	865,994	8,015	0.9
7. Machines, transport equipment		40		26		294	1		11		229	1,872	601	32.1
8. Misc. manufactured goods		12		26	6	25					36	287	105	36.6
9. Goods not class. by kind												9	--	
Total	4,063	96	157	4,617	6	2,387	3	80	11		3,395	897,410	14,817	1.7
Imports 2/														
0. Food and live animals	207	440		1,076		2,579	2		463		881	36,342	5,648	15.5
1. Beverages and tobacco							1					1,115	1	0.1
2. Crude materials excl. fuels	63			66		42		51	672		22	11,163	916	8.2
3. Mineral fuels, etc.				2,224						8		102,681	2,232	2.2
4. Animal, vegetable oil, fat		319		182							4	11,544	505	4.4
5. Chemicals		45		3,086		291	224				292	74,691	3,938	5.3
6. Basic manufactures		119		1,857		1,234	60	12	70		544	149,383	3,896	2.6
7. Machines, transport equipment		151	2	475		191					433	259,967	1,252	0.5
8. Misc. manufactured goods		503		400	6	293					37	24,412	1,239	5.1
9. Goods not class. by kind				5								440	5	1.1
Total	270	1,577	2	9,371	6	4,631	287	63	1,205	8	2,213	671,737	19,632	2.9

Source: Central Statistical Office, Annual Statement of External Trade, Vol. II. 1977

1/ Includes re-exports.
2/ Imports are measured on an f.o.b. basis.

Table XIV. Zambia: Major Commodities Traded with Neighboring Countries, 1977

	Exports	In thousands of U.S. dollars	Imports	In thousands of U.S. dollars
Kenya	Copper (worked)	450	Milk for infants	495
	Lead (unwrought)	256	Lubricating oils	2,093
	Zinc (unwrought)	3,672	Soda ash	354
			Medicaments	333
			Soap	962
			Surface-acting agents	735
			Paper for printing	597
Malawi	Tobacco	1,484	Fish	378
	Lime	177	Rice	995
			Tea, in bulk	268
			Cotton fabrics	480
			Iron and steel wire	228
			Matches	245
Tanzania	Cement	1,103	Fish	246
	Zinc (unwrought)	1,727	Tea, in bulk	451
	Insulated wire	211	Aluminum plates	356
			Cells and batteries	433
Botswana			Meat products	402
			Tallow	303
			Leather and plastic containers	264
Zaire	Maize	478	Oilseed, cottonseed	226
	Gravel	2,503		
	Petroleum products	1,960		
	Bitumen	296		

Source: Central Statistical Office, Annual Statement of External Trade, Vol. II, 1977.

Table XV. Ethiopia: Trends in Intraregional Trade, 1973-79

	1973	1974	1975	1976	1977	1978	1979
	(In millions of U.S. dollars)						
Total exports	240.1	266.7	240.0	280.9	332.8	306.1	423.5
Of which: Coffee	(91.7)	(73.4)	(73.8)	(156.8)	(250.9)	(242.7)	(292.2)
	(As per cent of total exports)						
Exports to PTA	8.6	8.4	12.9	9.3	5.1	1.7	6.6
Of which: Djibouti	(7.3)	(6.9)	(10.7)	(8.5)	(4.8)	(1.3)	(5.8)
Kenya	(0.4)	(0.4)	(1.8)	(--)	(0.3)	(0.3)	(0.1)
Somalia	(0.5)	(0.4)	(0.3)	(0.3)	(--)	(--)	(--)
Exports to other Africa 1/	0.5	1.1	0.5	0.4	0.1	0.1	0.1
Of which: Sudan	(0.4)	(1.0)	(0.2)	(0.3)	(--)	(--)	(--)
	(In millions of U.S. dollars)						
Total imports	218.4	284.1	310.8	355.2	351.6	455.4	576.3
Of which: Petroleum	(20.3)	(49.1)	(68.5)	(53.6)	(75.7)	(62.7)	(110.5)
	(As per cent of total imports)						
Imports from PTA	2.7	3.2	1.8	1.3	2.0	2.5	1.8
Of which: Djibouti	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Kenya	(1.7)	(2.5)	(1.4)	(1.1)	(1.6)	(1.7)	(1.3)
Malawi	(0.3)	(0.2)	(0.2)	(--)	(--)	(--)	(--)
Imports from other Africa	0.2	0.5	0.4	0.1	0.1	0.2	0.2
Of which: Sudan	(0.2)	(0.5)	(--)	(--)	(--)	(--)	(--)

Sources: IMF, Direction of Trade Yearbook, 1979, for data up to 1977; thereafter, data provided by the Ethiopian authorities.

1/ "Other Africa" excludes South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

Table XVI. Ethiopia: Commodity Composition of PTA Trade, 1979

(In thousands of U.S. dollars)

	Botswana	Djibouti	Kenya	Mauritius	Tanzania	Total trade	PTA trade	PTA share
Exports 1/								
0. Food and live animals		8,601	469	2,779		321,864	11,849	3.7
1. Beverages and tobacco		1				2	1	50.0
2. Crude materials, excl. fuels		5,661	1			82,992	5,662	6.8
3. Mineral fuels, etc.		10,058				14,223	10,058	70.7
4. Animal, vegetable oil, fat						1,962	--	--
5. Chemicals						615	--	--
6. Basic manufactures		186	28		3	1,014	217	21.4
7. Machines, transport equipment		35	65			247	100	40.5
8. Misc. manufactured goods		102	6		1	331	109	32.9
9. Goods not class. by kind						248	--	--
Total		24,644	569	2,779	4	423,495	27,996	6.6
Imports								
0. Food and live animals		5	2,116		240	29,524	2,361	8.0
1. Beverages and tobacco		11				7,043	11	0.2
2. Crude materials, excl. fuels	174	15	94		125	17,513	408	2.3
3. Mineral fuels, etc.		1,705	999			110,569	2,704	2.4
4. Animal, vegetable oil, fat			3			5,019	3	0.1
5. Chemicals		11	2,247		7	85,328	2,265	2.7
6. Basic manufactures		159	624			84,648	783	0.9
7. Machines, transport equipment		27	956			212,741	983	0.5
8. Misc. manufactured goods		104	584			21,278	688	3.2
9. Goods not class. by kind		1				2,667	1	--
Total	174	2,038	7,623		372	576,330	10,207	1.8

Source: Data provided by the Ethiopian authorities.

1/ Includes re-exports.

Table XVII. Ethiopia: Major Commodities Traded with Neighboring Countries, 1979

	Exports	In thousands of U.S. dollars	Imports	In thousands of U.S. dollars
Djibouti	Fresh vegetables	1,768	Petroleum products	1,705
	Live animals	845		
	Sugar and honey	4,978		
	Oilseeds	420		
	Chat	5,095		
	Petroleum products	10,051		
Mauritius	Coffee	2,779		
Egypt	Fresh vegetables	255		
	Coffee	1,127		
	Hides and skins	256		
Kenya	Fresh vegetables	430	Tea and mate	870
			Barley	314
			Maize	421
			Food preparations	429
			Petroleum products	999
			Inorganic chemicals	226
			Dying and tanning extracts	349
			Medical products	667
			Soaps	323
			Disinfectants	351
			Metal manufactures	481
			Other electrical machinery	349
			Parts and accessories nes	458
			Office and stationery supplies	271

Source: Data provided by the Ethiopian authorities.

Table XVIII. Burundi and Rwanda: Trade with PTA Countries, 1978 and 1979

	Burundi		Rwanda	
	1978	1979 1/	1978	1979 1/
	(In millions of U.S. dollars)			
Total exports	67.0	99.9	69.3	142.4
	(As per cent of total exports)			
Exports to PTA	--	2.8	7.9	5.6
Of which: Kenya	(--)	(2.8)	(7.9)	(5.6)
Exports to other Africa 2/	2.0	1.4	0.1	0.1
Of which: Rwanda	(1.2)	(0.9)	(--)	(--)
	(In millions of U.S. dollars)			
Total imports	104.7	127.4	182.4	186.0
	(As per cent of total imports)			
Imports from PTA	17.1	20.2	14.6	15.9
Of which: Kenya	(9.3)	(10.5)	(12.4)	(13.5)
Tanzania	(6.5)	(8.9)	(1.3)	(1.4)
Imports from other Africa	0.8	0.7	1.1	1.2
Of which: Zaire	(0.5)	(0.5)	(0.5)	(0.5)
Burundi	(--)	(--)	(0.6)	(0.6)

Sources: IMF, Direction of Trade Yearbook, 1980; and partner country data.

1/ Preliminary estimates.
2/ "Other Africa" excludes South Africa, Egypt, and the oil exporting countries of Algeria, Libya, and Nigeria.

Table XIX. Zimbabwe: External Trade Indicators

(In millions of U.S. dollars)

Total exports	1,415
Exports to PTA countries 1/	82
(As per cent of total)	(5.8)
Total imports	1,260
Imports from PTA Countries 2/	80
(As per cent of total)	(6.4)
Direction of Trade 3/	
	(As per cent of exports) 4/
Extraregional	
South Africa	17.1
Federal Republic of Germany	10.8
United Kingdom	5.1
Italy	4.6
Belgium	4.3
Japan	3.2
PTA Region	
Botswana	3.4
Malawi	1.3
Zambia	1.1
	(As per cent of imports)
Extraregional	
South Africa	27.4
United Kingdom	8.4
United States	7.3
Federal Republic of Germany	6.7
Japan	4.2
France	2.0
PTA Region	
Zambia	3.1
Malawi	1.6
Botswana	1.3
Mozambique	0.4

Source: Central Statistical Office, Monthly Digest of Statistics, July 1981.

1/ Includes only exports to Botswana, Malawi, and Zambia.
2/ Includes only imports from Botswana, Malawi, Mozambique, and Zambia,
3/ Based on data for August-December 1980 (Direction of Trade data are not available before this period).
4/ Other than gold.

I. Regional Exchange and Trade Systems

This Appendix summarizes the main features of the exchange and trade systems of the 16 countries in the Eastern and Southern African region that are Fund members. Further details may be obtained in the 1981 Annual Report on Exchange Arrangements and Exchange Restrictions, (AREAER). In a few instances, very recent or announced impending changes in the regulations were not taken into account. Angola and Mozambique are not members of the Fund, and hence general information about their restrictive systems has been obtained from unofficial sources.

II. Fund Members

See Appendix II, Table I, page 66.

I. Summary Features of Exchange and Trade Systems of Fund Members in the PTA Region

(As of December 31, 1980)

	Botswana	Comoros	Djibouti	Ethiopia	Kenya	Lesotho	Madagascar	Malawi	Mauritius	Seychelles	Somalia	Swaziland	Tanzania	Uganda	Zambia	Zimbabwe
A. Acceptance of Article Status																
1. Article VIII	-	-	x	-	-	-	-	-	-	x	-	-	-	-	-	-
2. Article XIV	x	x	-	x	x	x	x	x	x	-	x	x	x	x	x	x
B. Exchange Arrangement																
1. Exchange rate maintained within relatively narrow margins 1/ in terms of:																
(a) U.S. dollar	-	-	x	x	-	-	-	-	-	-	x	-	-	-	-	-
(b) pound sterling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(c) French franc	-	x	-	-	-	-	x	-	-	-	-	-	-	-	-	-
(d) South African rand	-	-	-	-	-	x	-	-	-	-	-	x	-	-	-	-
(e) a cooperative exchange arrangement (under mutual intervention system)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(f) a composite of currencies	x	-	-	-	x	-	-	x	x	x	-	-	x	x	x	x
2. Separate exchange rates for some or all capital transactions and/or some or all invisibles	-	-	-	-	-	x	-	-	x	-	-	x	-	-	-	-
3. Import rate(s) different from export rate(s)	-	-	-	x	x	-	-	-	-	-	-	-	-	-	-	-
4. More than one rate for imports	-	-	-	-	x	-	-	-	-	-	-	-	-	-	-	-
5. More than one rate for exports	-	-	-	-	x	-	-	-	-	-	-	-	-	-	x	-
C. Prescription of Currency 2/	x	x	-	x	x	x	x	x	x	-	x	x	x	x	x	x
D. Bilateral Payments Arrangements																
1. With members	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. With nonmembers	-	-	-	-	-	-	-	-	-	-	x	-	x	-	-	-
E. Payments Restrictions																
1. Restrictions on payments for current transactions 3/	x	x	-	x	x	-	x	x	x	-	x	-	x	x	x	x
2. Restrictions on payments for capital transactions 3/ 4/	x	x	-	x	x	x	x	x	x	-	x	x	x	x	x	x
F. Cost-Related Import Restrictions																
1. Import surcharges	-	-	-	-	x	-	-	x	x	-	x	-	-	-	x	x
2. Advance import deposits	-	-	-	-	x	-	-	x	-	-	-	-	-	-	-	-
G. Surrender Requirement for Export Proceeds	x	x	-	x	x	x	x	x	x	-	x	x	x	x	x	x

Source: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1981; and data provided by national authorities.

1/ Margins of approximately 2.25 per cent on either side of parity.
2/ Including prescription of marketable or convertible currencies.
3/ Restrictions (i.e., official action directly affecting the availability or cost of exchange, or involving undue delay) on payments to member countries, other than restrictions imposed for security reasons under Executive Board Decision No. 144-(52/51), adopted August 14, 1952.
4/ Resident-owned funds.

III. Non-Fund Members

1. Angola

a. Exchange system

The currency of Angola is the Kwanza, the value of which is currently about Kwanza 31.4 = US$1. Exchange control is administered by the Central Bank, the Banco Nacional de Angola.

Beginning in 1977, Angola signed bilateral economic cooperation agreements with Bulgaria, Cuba, the German Democratic Republic, Hungary, Poland, the U.S.S.R., and Yugoslavia. These agreements involved the negotiation of annual trade protocols and bilateral payments arrangements. In December 1979, Angola and Zaire signed an agreement for the establishment of a bilateral payments agreement denominated in U.S. dollars.

b. Imports

All imports must be licensed by Importang, the Government import agency, as a condition precedent to obtaining foreign exchange from the Central Bank. Each Government ministry is required to submit lists of desired imports to Importang which allocates approval between them. Imports must be insured by ENSA, the national insurance company and a preshipment inspection service was introduced effective March 1980.

c. Import taxation

Information is not available on the current schedule of import duties. Charges for customs clearance in effect since mid-1979 vary from 0.5 per cent to 2 per cent of customs value with a minimum charge of Kwanza 250.

d. Exports

Detailed information on export control is not available. Ministries and other Government entities are understood to play a major role in both import and export trade.

2. Mozambique

a. Exchange system

The currency of Mozambique was changed from the Escudo to the Metical effective June 1980. The Metical's exchange rate in December 1980 was MT 30.30 per US$1. Mozambique mine workers were given a more favorable rate for the South African rand.

All foreign exchange operations are controlled by the State Bank, the Banco de Mocambique, which holds all accounts in foreign exchange and is the only bank allowed to open letters of credit.

Mozambique has long-term economic and technical agreements with Romania and the U.S.S.R., which involve the negotiation of annual trade protocols and bilateral payments arrangements. Mozambique also has a bilateral payments agreement with Tanzania; all payments between the two countries are settled through clearing accounts maintained by the respective central banks.

b. Imports

According to available information, import permits were required for all goods valued in excess of MT 2,500. Five degrees of priority govern the issuance of licenses: (a) goods essential for consumer needs and economic development (pharmaceuticals, agricultural products); (b) goods essential for the well-being of the nation (raw materials); (c) less essential goods; (d) nonessential goods; and (e) goods considered luxuries or superfluous. Capital goods in excess of MT 500,000 could be imported on a deferred payments basis. Payment is usually over three years but may be spread over a period of five to seven years.

In 1978 four import-export companies were established to handle foreign trade in metallurgy, machinery, electronics, and electrical engineering; fish products; motorcars, motorcycles, light and heavy vehicles, machinery for agriculture and construction; chemical products and plastics and materials for construction and mineral industries.

c. Import taxation

Mozambique has a single column tariff based on Customs Cooperation Council nomenclature. "Minimum tariff" duties are applied to countries accorded most-favored-nation treatment; "maximum tariff" duties, computed at twice the minimum rate, are applicable to other countries. Duties may be ad valorem, based on the c.i.f. value less discount, or specific, based mainly on net weight.

There is a general customs surcharge of 5-7 per cent ad valorem. A commercial maritime tax was levied at the rate of MT 2.50 per ton. Additional taxes are levied on luxury and nonessential items.

d. Exports

See note under Imports regarding role of State companies in foreign trade.

Multilateral Clearing Arrangements Among Developing Countries: Main Features

Arrangements/ Characteristics	CARICOM Multilateral Clearing Facility	Central American Clearing House	LAFTA 1/ Payments Agreements
Unit of Account	U.S. dollar	The Central American Peso ($CA), equal to US$1	U.S. dollar
Eligible payments and transfers	(a) All purchases and sales of CARICOM currencies by the commercial banks covering transactions approved by each participant; (b) payments relating to such other transactions as may be approved by the Board; and (c) intergovernmental grants, intergovernmental loans, and other government payments may be included by mutual agreement between the participants for payment through the agent.	All current and capital transactions within the Central American Common Market for which payment is made on the national currencies of member countries.	The current and capital transactions agreed to between each pair of participants paid exclusively in U.S. dollars, subject to national exchange regulations.
Scope of multilateralization	Full multilateral clearing and settlement	Full multilateral clearing and settlement	Multilateral settlement after bilateral clearing
Period of settlement	Every six months (June 15 and December 15)	Every six months (June, December)	Every four months
Currencies used for settlement of net balances	U.S. dollar	U.S. dollars, but participants making and receiving final payment may agree bilaterally on any other convertible currency	U.S. dollar
Credit and swing balances	Fixed amounts of credit and debit limits in U.S. dollars agreed upon by each participant; settlements by debtor participants not to be less than 50 per cent of the debtor's net position at the end of the settlement period.	(a) Limit of automatic (net) credit granted by a member--fixed amount of US$6 million subject to unilateral voluntary increases; and (b) limit of automatic (net) credit received by a member--no specific limitation; in theory, the net credit received by a single participant might reach US$24 million.	(a) Limit of automatic (net) credit granted by a member: fixed amount in U.S. dollars agreed bilaterally between participants; and (b) limit of automatic (net) credit received by a member: fixed amount in U.S. dollars agreed bilaterally between participants.

1/ The Latin American Integration Association (LAIA), founded on August 12, 1980, superseded the Latin American Free Trade Association (LAFTA).

Multilateral Clearing Arrangements Among Developing Countries: Main Features

Arrangements/ Characteristics	West African Clearing House (WACH)	Great Lakes Economic Community (CEPGL)	RCD Union for Multilateral Payments Arrangements	Asian Clearing Union
Unit of account	Unit of Account of West Africa (UCAO), whose parity value must be fixed by the governing Committee of the West African Clearing House, currently equal to SDR 1.	SDRs	U.S. dollar	The Asian Monetary Unit (AMU), equal to SDR 1.
Eligible payments and transfers	All current transactions among countries of the participants, except (a) such transactions as may be declared ineligible by the governing Committee of the WACH; (b) payments related to the re-exportation of goods originating in a country whose central bank or monetary authority is not a member of the WACH; and (c) payments arising from transactions among the member countries of the West African Monetary Union are not subject to the provisions of the Agreement of the WACH.	All current transactions plus other transactions agreed between the parties	All current transactions except (a) invisible payments; (b) border trade; (c) payments for war materials; and (d) trade in petroleum and petroleum products.	Current international transactions except (a) payments for petroleum, petroleum products, natural gas and natural gas products; and (b) specified invisible transactions declared ineligible by any participant at the time the ACU agreement was signed.
Scope of multilateralization	Full multilateral clearing and settlement	Partial multilateral settlement after bilateral clearings	Partial multilateral settlement after bilateral clearing	Full multilateral clearing and settlement.
Period of settlement	Every month	Every three months	One year	Two months. The Board of Directors may by unanimous vote change the length of the settlement period.
Currencies used for settlement of net balances	Any convertible currency mutually agreed upon between the participants making and receiving final payments	Convertible currencies	Any convertible currency	Any international reserve asset specified by the Board of Directors of the ACU, or the currency of the creditor subject to its specific consent.
Credit and swing balances	Limit of automatic (net) credit granted by a member: 20 per cent of the combined annual value of imports (c.i.f.) from and exports (f.o.b.) 1/ to the other participating countries. 2/ 3/ Limit of automatic (net) credit received by member: 10 per cent of the combined annual value of imports (c.i.f.) from and exports (f.o.b.) 1/ to the other participating countries. 2/	Not available	Limit of automatic (net) credit granted by a member--US$2 million; limit of automatic (net) credit received by a member--US$2 million.	Limit of automatic (net) credit granted by a member: one-twelfth of annual visible exports 4/ to other participating countries; and limit of automatic (net) credit received by a member: one-twenty-fourth of annual visible imports from other participating countries. 4/

1/ The total of such exports and imports is calculated as a simple arithmetic average of the trade figures for the three years immediately preceding the year of calculation.
2/ Except for special arrangements between the Central Bank of Mali and the Central Bank of the West African States (BCEAO).
3/ Any bank on its own initiative may increase the amount of credit line.
4/ Excluding petroleum, petroleum products, natural gas, and natural gas products.

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