This work is licensed under a
Creative Commons Attribution-NonCommercial-
NoDerivs 3.0 Licence.

To view a copy of the licence please see:
http://creativecommons.Org/licenses/by-nc-nd/3.0/

(a) UNIVERSITY OF NAIROBI
(b) INSTITUTE FOR DEVELOPMENT STUDIES
(WORKING PAPER NO. 453
(232)
RESERVE

THE PREFERENTIAL TRADE AREA (PTA) FOR EASTERN AND SOUTHERN AFRICAN STATES: STRATEGY, PROGRESS, AND PROBLEMS

By

Susan Hall

WORKING PAPER NO. 453

INSTITUTE FOR DEVELOPMENT STUDIES
UNIVERSITY OF NAIROBI
P.O. BOX 30197
NAIROBI, Kenya

September, 1987

INSTITUTE OF
29 APR 1988
DEVELOPMENT STUDIES
LIBRARY

Views expressed in this paper are those of the author. They do not have official standing as such. This paper is protected under Copyright Act, Cap. 130, Laws of Kenya.

ISN = 14105

IDS/ WP 453

THE PREFERENTIAL TRADE AREA (PTA) FOR EASTERN AND SOUTHERN AFRICAN STATES: STRATEGY, PROGRESS, AND PROBLEMS

Susan Hall

ABSTRACT

The Preferential Trade Area (PTA) of Eastern and Southern African States is a relatively new economic grouping of states that is designed to foster subregional cooperation and integration. This paper discusses the strategy that lies behind the establishment of the PTA, provides an overview of subregional trade and obstacles to trade before the formation of the PTA, describes the progress of the PTA since it became operational in July, 1984, and assesses that progress and the problems that have been encountered. While there are many aspects of the PTA, including industrial and agricultural cooperation, this paper focuses primarily on subregional trade and trade-related issues.

IDS Information Resource Unit
University of Sussex
Falmer, Brighton BN1 9RE, UK

PLEASE RETURN BY

25/5/92
5.6.93
/ m
21/6/93
18/4/94
2.3.99

INTRODUCTION

With academic attention currently fixed on Africa's international debt crisis, IMF conditionalities, and the World Bank structural adjustment programs that have been instituted in half the states of Africa, very little analysis is being done today of Africa's domestically-designed strategy for development. In 1980, the same year that the World Bank introduced the concept of structural adjustment laoans, the African states adopted the Lagos Plan of Action, which is designed to foster self-reliant and self-sustaining development through regional cooperation and integration. The Preferential Trade Area (PTA) for Eastern and Southern African States is one of the subregional economic groupings established within that framework. As such, it is expected to so coordinate and harmonize its development strategies, plans, and policies, both within the subregion and with other subregions, that it will become part of a continent wide African common market by the end of this century.

The PTA became operational in July, 1984, and has made considerable progress in some areas toward its ultimate goals. This working paper is intended to provide (1) a discussion of the strategy that lies behind the establishment of the PTA, (2) an overview of subregional trade and obstacles to trade before the formation of the PTA, (3) a description of PTA operations since its inception three years ago, and (4) an assessment of progress made and problems encountered. Because the major emphasis of the PTA in its first stage is the promotion of intra-regional trade (although, as will be seen, there are many other aspects of the PTA), the major focus of this paper in its later sections is on subregional trade and trade-related issues.

The Strategy behind the PTA

The African Perspective

In 1985 the Governor of the Central Bank of Kenya attributed Africa's economic crisis to "a wide range of internal weaknesses, a hostile external economic environment, and, in recent years, climatic factors."[1] Since 1980, 25 African states have begun to address their internal weaknesses by instituting policies aimed at structural changes in their economies. Similarly, the issue of increasing food production has been given top priority as a result of the severe drought that hit many African states in the early 1980s. External economic factors, however, are generally perceived to be more intractable, as the African states collectively have not

yet mobilized sufficient leverage to change the rules of the game.

From the African perspective, and that of the Third World generally, the most serious constraint on development is the structure and organization of the international economic system. In this view, external factors over which African states have little or no control, such as unpredictable fluctuations in commodity prices, deteriorating terms of trade, rising protectionism in the North, decreasing foreign investment in Africa, and declining levels and more stringent conditionalities of aid, have combined to produce, and will continue to reproduce, many of the negative trends in Africa's economic development.

The depth of Africa's economic crisis is reflected in part in the debt problems of the African states. In 1983 Africa's level of debt service reached 59 percent of exports. For the first time in its history, more capital flowed out of Africa than came in, as principal and interest repayments exceeded the continent's combined export earnings, foreign direct investment, and foreign aid. (Kenya faced this problem for the first time in 1986). At the same time, an increasing number of African countries found it necessary to institute austerity programs prescribed by the International Monetary Fund (IMF) in order to secure desparately needed infusions of hard currency. Ten African states, double the number in the previous year, were forced to reschedule their external debts in 1983,[2] ten more in 1984, another ten in 1985.[3] Partly as a result of austerity measures instituted in many of these states,[4] the combined deficit of the African states fell by the end of 1985,[5] although their debt-export ratios remained alarmingly high. Nevertheless, despite this short-term trend toward stabilization of the debt crisis, the IMF and World Bank's most optimistic scenarios for economic development are unfavorable. Indeed, the World Bank's most recent high-case prediction for Africa's per capita growth rate is only 0.8 percent.[6] Therefore, many political leaders and development economists continue to insist that changes must be made in the structure and organization of the international economic system, in which, they contend, structural adjustments currently must be borne by its weakest members.

Early Attempts to Change the System

For more than two decades African leaders have joined their Third World counterparts in attempts to change the international economic system, particularly with regard to trade. In the mid-1960s, when it

became apparent that the goals of the First UN Development Decade would not be realized, the developing countries began to search for a new approach to development that would transform their relations of economic dependence into relations of interdependence with the developed states. They gradually evolved a strategy that embraced two concepts: collective action and collective self-reliance.

Collective action consists of (1) formulating a united position from which to negotiate with the developed states, and (2) translating that position, using their collective economic power, into political pressure for structural change in the international economic system.[7] From a relatively inauspicious beginning at the first meeting of the UN Conference on Trade and Development (UNCTAD) in 1964, at which a Third World caucus group, the Group of 77, was formed, it became standard procedure for the developing states to work out a common Third World position prior to negotiations with the developed states in international fora. This strategy produced its greatest achievement at the Sixth Special Session of the UN General Assembly in 1974-- following OPEC's success in raising oil prices--at which the developing countries pushed through resolutions calling for a New International Economic Order.[8]

The strategy of collective action had an inherent weakness, however, It proved difficult for a large group of states characterized by great diversity and important cleavages--the Group of 77 now has well over 100 members--to maintain a unified bargaining position. This became immediately apparent at the next UN Special Session, at which a compromise resolution was adopted, calling for the strengthening of the existing international economic system.[9] This outcome was produced because a number of moderate states within the Group of 77 prevailed in the view that obtaining concrete action in those areas in which such action seemed possible was a better policy than continued confrontation.[10] Similar splits among the developing states in subsequent negotiations have continued to undermine the effectiveness of collective action.[11]

This left the African states with two options: to continue to press for change from within the system, but in a less unified manner, and/or to work toward collective self-reliance.

Regionalism as a Strategy for African Development

When it became clear in the mid-1970s that the strategy of collective action would not succeed, African leaders began to give more attention to a second strategy, collective self-reliance, which is also aimed at changing the structure of the international economic system. Collective self-reliance is aimed at altering international political, economic, and sociocultural structures so that they link the developing states with one another rather than to the developed countries. The goal is economic interdependence among the developing states rather than their dependence upon the developed states. This interdependence is to be used both to promote greater trade among the developing states and to enhance their collective economic power--and hence their bargaining power--vis--a-vis the industrial states in order to alter what are perceived to be the external constraints on development. Thus, regionalism is advocated as the means to achieve non-dependent development.[12]

For 25 years the United Nations Economic Commission for Africa (ECA) has promoted regionalism as the preferred strategy for African development. To this end, it has sponsored regional institutions for education, training, technical services, administrative support, and collective action.[13] It has also funded studies since the early 1960s that have recommended (1) measures to overcome physical obstacles to trade among the African states, such as subregional transportation and communication networks to link African states with one another rather than to their external trading partners; and (2) measures to unify small, economically non-viable markets, in order to encourage (3) the organization of viable manufacturing sectors, which the ECA considers necessary for the transformation of African economies.[14]

According to the ECA view, regional groupings in Africa should be comprised of a large number of states in order to "provide markets of sufficient size to ensure capacity production in industry and other sectors of the economy."[15] Therefore, despite the proliferation of small, overlapping groupings, especially in West Africa, the ECA has worked unceasingly toward the formation of five groupings, but more recently four[16]--North, West, Central, and East-and South--that would encompass the entire continent, with the exception of South Africa. Since 1970, when the ECA ministerial conference adopted a resolution entitled "A Development Strategy for Africa in the 1970s," the ECA has periodically proposed "master plans" for the establishment of a new international economic order in Africa, and the OAU has in turn endorsed them as it moved closer to the ECA position. In 1976, for example, the OAU adopted the Kinshasa Declaration, which called for the "progressive establishment of an African community", in 1977 it endorsed the ECA's revised "master plan"; and in 1979 it organized a collaquium of experts in Monrovia, whose recommendations were embodied in the 1980 Lagos Plan of Action, calling for the establishment of an African economic community by the year 2000.[17]

The Lagos Plan of Action

The Lagos plan of Action is an agreement that was signed by the African Heads of State at a special economic summit of the OAU in April, 1980.[18] It affirms their

> commitment to set up by the year 2000, on the basis of a treaty to be concluded, an African Economic Community so as to ensure the economic, social and cultural integration of our continent. The aim of this community shall be to promote collective, accelerated, self-reliant and self sustaining development of Member States, co-operation among these States and their integration in the economic, social and cultural fields.[19]

This Plan of Action is to be implemented in two stages. During the 1980s, existing regional economic communities will be

strengthened, new regional groupings will be established, and sectoral integration at the continental level will be promoted, as well as coordination and harmonization among all economic groupings. During the B 90s, further sectoral integration will be promoted by harmonizing economic development plans, strategies, and policies, particularly fiscal and monetary policies, leading to the establishment by the year 2000 of an African common market.

There are well over 100 intergovernmental organizations in Africa that deal with a variety of regional issues, including agriculture, industry, trade, customs, banking, transportation, communication, health, natural resources, and research.[20] The Lagos Plan, however, implicitly applies to three very large economic groupings, two of which have been created since the Plan was adopted: the Economic Community of West African States (ECOWAS) whose treaty was signed in 1975; the Preferential Trade Area (PTA) for Eastern and Southern African States, 1981; and the Economic Community of Central African States (CEEAC), 1983. The potential membership of these three groups includes all African states except eight: South Africa, Namibia, Sudan, and five North African states, Algeria, Egypt, Libya, Morocco, and Tunisia.[21]

While the Lagos Plan of Action is a declaration of intent to proceed toward self-reliant development by means of regional cooperation and integration, it is also an economic development strategy at the continental level. Of relevance here are the recommendations regarding industry, which clearly run counter to external prescriptions. Whereas the World Bank, for example, has urged African states to abolish protective tariffs in their industrial sectors, to expand their exports in sectors in which they have comparative advantage (most often in primary commodities), and to use their increased foreign exchange to import capital and consumer goods from the most economical sources, the Plan has been described as "import substitution writ large

for the whole continent".[22] The only difference from past policies is that, rather than establishing industries to satisfy national needs, the African states are to work cooperatively to satisfy regional needs. The larger markets are intended to support not only light industries, but also intermediate and heavy industries, that ultimately will be allowed to develop within subregions that are protected by common external tariffs. In the meantime, every effort is to be made to increase trade within and among subregions in order to support the development of such industries.

Intra-Regional Trade in Eastern and Southern Africa

Before proceeding to a discussion of the formation and operations of the Preferential Trade Area, a brief overview follows of intra-regional trade in eastern and southern Africa before the PTA was established. Also included is a short didcussion of structural constraints that inhibit expansion of intra-regional trade.

Volumes of Intra-regional Trade, 1973-1980

As the negotiations for the establishment of the PTA proceeded from 1978 to 1980, it became very clear that the goal of reorienting the external trade of the PTA states toward their regional partners would require a massive structural change within the region. Although Africa as a whole is more highly dependent on foreign trade than any other developing region in the world, levels of intra-African trade in the modern era have never been high.[23] Among the eastern and southern African states,* moreover, intra-regional trade as a percentage of the region's total trade has been particularly low, accounting for only about four percent between 1973 and 1980.[24] This has varied across countries, as trade within the region has been quite uneven. The figures for the period 1973 to 1980 range from a high of 20 percent for Comoros, a small island economy that purchases a substantial share of its imports from Kenya, to a low of 0.3 percent for Swaziland,

which is almost totally dependent on South Africa.

The share of intra-regional trade in total trade in the PTA are dropped significantly in 1977 when the East African Community (EAC) collapsed, as reflected in the following table.

Table 1. Preferential Trade Area (original potential members) Trends in Total and Intra-regional Trade, 1974-1980[1] (in millions of U.S. dollars)

	1974	1975	1976	1977	1978	1979	1980[2]
Total trade (exports plus imports)	11,367	10,559	10,429	12,323	14,012	16,750	20,[illegible]93
Intra-regional trade	691	590	613	556	407	579	851
Share of intra-regional trade (percentage)	6.1	5.6	5.9	4.5	2.9	3.5	4.1

Source: Anjaria, et al, p. 4 (see footnote 24).

[1] Zimbabwe's exports and imports are included only to the extent that they were shown separately in partner country statistics, which distorts the data to some extent, particularly after the 1980 normalization of trading relations with Zimbabwe.

[2] Preliminary estimates.

*Note that the statistics used in this section include trade figures for potential PTA states that have not yet joined (Angola, Botswana, Madagascar, Mozambique, and Sychelles), and omit those for Rwanda and Burundi, which were not originally expected to become PTA member states.

After their common border was closed, both Kenya and eanzania increased their trade with non-African states, which had a significant impact on intra-regional trade as a whole because of the high volumes previously traded among the EAC partners.

As the figures for 1980 in Table 2 below indicate, the values of intra-regional trade vary enormously among PTA states.

Table 2. Preferential Trade Area Countries (potential members) Value of Intra-regional Trade, 1980 (in millions of U.S. dollars)

Country	Exports to Region	Imports from Region
Angola	0.5	6.0
Botswana	4.0	5.0
Comoros	0.5	8.1
Djibouti	0.2	10.0
Ethiopia	38.6	7.8
Kenya	234.5	67.9
Lesotho	-	0.1
Madagascar	3.4	13.5
Malawi	19.7	22.6
Mauritius	4.7	22.0
Mozambique	19.6	32.2
Seychelles	0.7	2.4
Somalia	0.8	30.7
Swaziland	1.0	2.1
Tanzania	38.0	26.7
Uganda	6.0	178.6
Zambia	19.3	23.8
Zimbabwe	107.7	97.9
Total	499.2	557.4

(Source: Anjaria, p. 30)

There are clearly two dominant economies, Kenya and Zimbabwe, which run favourable (and in the case of Kenya, substantial) balances with the region as a whole. Although Tanzania ran a deficit with Kenya in 1980, this was offset by its trade surpluses with Mozambique, Uganda, and Zambia, so that Tanzania was a net exporter to the region. Ethiopia was also a net exporter, because of Djibouti's dependence on Ethiopian commodities. All other states were net importers, with Uganda suffering the largest regional deficit due to its heavy reliance on Kenya for both imports and transit goods. Between 1976 and 1980 (except in 1978), Kenya provided 40 to 50 percent of Uganda's imports,[25] and Kenya's export levels to Uganda averaged over 63 million Kenya shillings annually

between 1980 and 1984.[26]

As indicated by the figures in Table 3 below, Kenya's value of intra-regional trade for the period 1973-1979 was the highest in the PTA region, over 33 percent of values traded (excluding Zimbabwe), although its share of intra-regional to total trade placed it fifth among other states.* Until the collapse of the

Table 3. Preferential Trade Area Countries (potential members) Involvement in Intra-regional Trade Annual Average 1973-1979

	Value of Intra-regional Trade		Share of Intra-regional Trade in Own Total Trade	
	US$ million	Rank	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	0	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

(Source: Anjaria, p.5)

*Note that these figures are somewhat distorted, as Table 3 does not include statistics for Zimbabwe because of the embargo prior to its independence in 1980. From the figures for 1980 in Table 2 above, which include Zimbabwe, Kenya's share of values traded in the PTA region was 28.6 percent, Zimbabwe's was 19.5 percent, and the three former EAC countries together accounted for 52.2 percent.

East African Community, trade among the three partner states accounted for three-fifths of trade within the PTA region (again excluding Zimbabwe),[27] and Kenya's favourable balances with Tanzania and Uganda were always substantial.[28]

As shown in Table 4 below, the sahre of Kenya's intra-regional trade relative to its total trade began to decline after the first oil-price increase in 1973, which resulted in a contraction of foreign exchange reserves and hence manufacturing output. With the break-up of the EAC and the closure of the border between Kenya and Tanzania, Kenya lost not only the Tanzanian market, but the Zambian as well. Consequently, Kenya's share of intra-regional trade to total trade dropped precipitously, as did Tanzania's and, temporarily, Uganda's. Kenya immediately began to search for new regional markets and gradually increased its exports to Rwanda and Burundi within the PTA region and to Sudan, Zaire, and Egypt outside the region. By 1980 Kenya's share of intra-regional trade to total trade had climbed back to its 1977 level.

Table 4. East African Community Countries
Intra-Regional Trade as Percent of Total Trade 1973-80

	1973	1974	1975	1976	1977	1978	1979	1980
Kenya	17.3	14.1	14.0	13.8	8.3	6.3	6.1	8.7
Tanzania	13.3	10.5	9.0	10.5	3.7	2.0	3.4	3.3
Uganda	17.1	17.2	15.6	15.9	17.7	4.5	13.5	19.0

(Source: Anjaria, pp. 28-29)

Obstacles to Intra-Regional Trade

The transportation and communication networks inherited by African states at independence were geared to move exports to Africa's ports for transshipment to Europe. Consequently, links among some PTA states are simply not adequate to facilitate intra-regional trade.[29] Although the PTA is giving transportation within the region second

priority after intra-regional liberalization of trade, and feasibility studies on 60 projects have been completed and submitted to aid donors for consideration,[30] improvement of the basic infrastructure will be a very long-term undertaking. Several sets of negotiations among the former EAC partners and Rwanda and Burundi since 1984 have produced agreements to reopen and improve transport arrangements in the northern corridor, but this has merely served to reinstate the network that had been in place before the collapse of the East African Community. In the southern part of the region, the members of the Southern African Development Coordination Conference (SADCC) have been grappling with the transportation problem since their grouping was formed in 1979, as they have attempted to reorient their trade away from South Africa. Thus far, however, little has been accomplished beyond further studies, as renovation of Mozambique's railroads, the core of SADCC's immediate plans, has been sabotaged periodically by the Mozambique National Resistance (MNR) as part of South Africa's destabilization strategy.[31]

The heavy reliance of most PTA states on one or two export commodities is another constraint. As a result of the region's production structure, and of the preferences granted to African states under the Lome Conventions and the EEC . transfers of funds intended to compensate for the deterioration of commodity prices, the EEC has increasingly become an important export market.

With the exception of Zimbabwe, which has a relatively diversified production base, primary products are the major source of export earnings for all PTA members. Given this complementarity in production, the scope for expansion of intra-regional trade is "largely confined to non-traditional products, particularly manufactures and basic foodstuffs."[32] For this reason, Kenya, and to a lesser extent Zimbabwe and Tanzania, will benefit from a larger regional market. However, the problem of excess capacity must also be taken into account, especially in footwear, clothing, cement, and furniture.[33] Excess capacity in the region increased after the demise of the EAC, as both Kenya and Tanzania attempted to become independent of each other's markets.[34]

A further constraint on the expansion of intra-regional trade is the fact that most states in the region maintain high tariff barriers to protect their local industries. This has been a disincentive for local industries to diversify production, improve quality, and become competitive with suppliers from outside the region. Further, most states, prior to joining the PTA, did not give regional preferences. The most important exception is the participation of Lesotho and Swaziland (and Botswana, a non-PTA member) in the Southern African Customs Union (SACU). With a common tariff and no restrictions on goods moving between its members, the customs union provided in the years prior to 1980 about 50 percent of government revenues in Swaziland and up to 75 percent in Lesotho.[35] In recognition of how difficult it will be for these states to reorient their trade toward the PTA, the Treaty granst them "temporary exceptions" while they remain participants in SACU.[36]

The subregion also suffers from poor communications, weak links among essential services that facilitate trade such as banking and insurance, and a lack of coordination among states with regard to customs regulations and documentation.

Finally, there are foreign currency constraints in most PTA states that are only partially addressed by the establishment of the PTA Clearing House (to be discussed below). Lack of convertible currency serves to reduce import capacity generally, and is also reflected in reduced industrial output and lower volumes of intra-regional trade.

Formation and Operations of the PTA

Formation of the PTA

The creation of the PTA grew out of the long-term strategy of the ECA to create two large regional groupings,[37] one in eastern Africa, the other in southern Africa, and out of the collapse of the East African Community in 1977. Soon after the EAC's demise, leaders

from both areas met and discussed the formation of a larger single group that would serve to reduce the significance of disputes among the East African states. In early 1978 the region's ministers of trade, finance, and planning adopted the Lusaka Declaration of Intent and Commitment on the Establishment of a Preferential Trade Area (PTA) for Eastern and Southern African States. This document outlined plans for more than intra-regional liberalization of trade, as the name might imply. It envisaged a series of steps toward the creation of a common market and the eventual establishment of a regional economic community.[38]

It was originally intended that the draft treaty would be ready for signing by early 1980, but negotiations took a year longer than anticipated. Seven negotiating meetings were held between March 1978 and June 1980, at which agreement was ultimately reached on all but five Protocols, which related to the rules of origin, clearing and payments arrangements, the BLS states, reduction of trade barriers, and the list of commodities to be traded within the PTA.[39] The lack of consensus on the contested issues grew in part out of the asymmetrical levels of development among the PTA states. Experience in other preferential and free trade areas has shown that this leads to the more industrially advanced states, in this case Kenya and Zimbabwe, not only running favourable trade balances against their less developed partners, but also treating them as captive markets for their manufactured goods. In the PTA case, industrial development among the member states varies enormously, ranging from Djibouti and Ethiopia, which "(do) not at present have any goods 'originating' in their territories to export to the other Member States,"[40] to Kenya and Zimbabwe, whose industrial production accounts for 13 and 25 percent of GDP, respectively.[41] Disagreement also grew out of the varied political and economic systems of the member states, ranging from socialist Ethiopia and Tanzania, where industrial production is for the most part controlled by the state, to Zimbabwe and Kenya, where market forces are allowed freer rein, and where foreign direct investment is a significant factor.

Perhaps the most contentious of the unresolved issues, and the most pertinent to this discussion, was the Protocol on the Rules of Origin. Those states that own and control their industrial sectors, such as Ethiopia and Tanzania, wished to avoid two typical consequences of creating a preferential trade area without appropriate safeguards: that non-nationals, i.e., foreign investors, will attempt to secure its benefits,[42] and that (eligible) traders will seek to obtain regional preferences for ineligible goods. Kenya and Zimbabwe agreed that the rules should benefit only locally-owned firms, but argued that they needed time to restructure ownership and management in their foreign-dominated industrial sectors.

The rules of origin that were ultimately adopted are of two types. The first is aimed at preventing external interests from securing benefits at the expense of PTA members. It defines as eligible for PTA preferences those enterprises whose ownership and management are at least 51 percent locally controlled. This requires that at least 51 percent of the equity of a firm be held by a national or nationals of a member state, its government, or an agent of its government, and that management of the firm be localized by the same percentage.

The second type of rule is intended to ensure that goods and commodities that receive preferential tariff treatment within the subregion are actually entitled to them. Products that are eligible for reduced tariffs fall into two categories. The first contains products that are "wholly obtained" from a member state. These are defined as products that have been grown, harvested, or extracted in a PTA state or manufactured without imported content.[43] The second category includes products that contain imported materials or components that have been transformed by local processing. To be eligible for preferential treatment, however,

> transformation is regarded as being sufficient if the value of imported materials and components does not exceed 60 percent of the total cost of materials used in production of the goods, or if the value added in the process of production accounts for at least 45 percent of the total ex-factory cost of the final goods.[44]

Because of reservations about the rules of origin and certain other Protocols, only ten of the 18 (subsequently 20) potential members signed the Treaty on December 21, 1981. Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Somalia, Swaziland, Uganda, Zambia, and Zimbabwe.[45] Lesotho and Swaziland reportedly hesitated, and Botswana in fact declined, to sign the Treaty, which was attributed to their membership with South Africa in SACU and their uncertainty about how their joining the PTA in its early stages would affect their relations with South Africa. Lesotho and Swaziland signed the Treaty, however, and subsequently so did Comoros, Djibouti, and two late-comers, Rwanda and Burundi, bringing the number of signatories to 14.[46]

The fifteenth member, Tanzania, did not sign the Treaty until March, 1985. When its representative announced in 1981, on the day before the Treaty was due to be signed, that Tanzania would not sign the document, it was stated that Tanzania needed more time to study the effects of PTA membership on its commitments as a member of the Frontline States and SADCC. At that time, the settlement of the assets and liabilities of the East African Community had not been completed, and the border between Kenya and Tanzania remained closed. President Nyerere of Tanzania was on record as having said that the border would not be reopened until a settlement was made, and he reportedly prevailed on Angola, Madagascar, Mozambique, and the Seychelles to refrain from signing the PTA Treat as well.[47] Even after the EAC matter was well on its way toward resolution, however, and the border had been reopened, Tanzania remained reluctant to join the PTA. While still considering such a move in April, 1984, Nyerere stated, "If we have doubts about our ability to carry out the commitments of an agreement, we would rather not enter into it".[48] It is likely that Tanzania's experience in the EAC and dissatisfaction with the commodities contained in the Common List (to be discussed below) greatly influenced this position. It is interesting to note, however, that even after signing the Treaty, Tanzania did not begin to use the PTA Clearing House facilities until after mid-1986.[49]

There are still five potential members of the PTA: Angola Botswana, Madagascar, Mozambique, and Seychelles. Angola participated in the negotiations for both CEEAC and PTA, and although its representative indicated that Angola would eventually join CEEAC,[50] it is unlikely that Angola wants to alienate its co-members in SADCC, five of whom are PTA members, by joining another economic grouping. Botswana, a member of SACU and heavily dependent on trade with South Africa, is more committed to reorienting its trade regionally within the framework of SADCC than to joining PTA. As the late President of Botswana, Sir Seretse Khama, stated the case, "Intra-regional trade can increase without the creation of a free trade area or a common market." Citing the experience of SADCC states in defunct economic unions and in SACU, he noted that "all have served to limit our development, to enrich externally based firms and interests, and to hamper national planning."[51] The economy of the third potential PTA member, Mozambique, has suffered so severely, first from years of civil war, then climatic factors and ongoing destabilization by the MNR, that it is doubtful that a decision about joining the PTA is high on its agenda. Mozambique has also entered into several barter trade agreements with Tanzania, and, due to its lack of foreign exchange and its negative trade balance with neighboring states,[52] it is not likely that Mozambique will soon be able to undertake the commitments required by the PTA. Madagascar and Seychelles are small economies whose shares of intra-regional trade as percentages of their total trade are quite low and, in the case of Seychelles, declining.[53]

Despite the uncertainty about its ultimate membership, the PTA came into being in September, 1983, upon the ratification of its Treaty by more than seven states. Its design with regard to trade is to accord preferential treatment to goods originating in member states relative to non-members' goods. Tariffs will gradually be reduced on goods produced within the subregion, making them more competitive than goods imported from outside the Preferential Trade Area. (See the discussion below on tariff reductions and the Common List.)

Initially, therefore, the PTA will be more limited than, but will work toward becoming, a free trade area, which is characterized by free internall tariff,"[54] which would upgrade the PTA to the status of a customs union. It also calls for the eventual establishment of a common market, which would require unrestricted internal movement of capital and labour; and the ultimate establishment of an economic community, which would add monetary and fiscal union.

Institutionally the PTA is similar to ECOWAS, with ultimate decision-making power residing in an Authority comprised of the Heads of State and Government, which must meet once a year. Each year, by rotation, one of these leaders becomes the Chairman of the PTA. Below the Authoity is a Council of Ministers made up of ministers of trade and finance from the member states. The Council meets at least twice a year and is responsible for reviewing the operations of the community and making recommendations to the Heads of State on matters of policy. An executive officer, the Secretary General of the PTA, has been appointed,[55] and headquarters have been established in Lusaka, Zambia. Actual implementation of PTA policies is being handled by an Intergovernmental Commission of Experts assisted by Several technical committees charged with such matters as trade and customs, clearing and payments, agriculture, industry, transport, and communications. Disputes among member states will be adjudicated by a Tribunal appointed by the Authority.[56] In addition, two PTA-related institutions have been created, the PTA Multi-lateral Clearing Facility and the PTA Trade and Development Bank, both of which will be discussed below.

Unlike ECOWAS and the defunct East African Community, the Secretariat of the PTA is to be kept relatively small, although not so small as that of SADCC, which is almost non-existent. As of mid-1986, the staff of the PTA was comprised of "about 14 professionals." Consultants from within and without the subregion are used on a short-term basis, however, and a great deal of technical assistance is also provided by the Multinational Programming and Co-operation Centre (MULPOC) of the ECA, which is based in Lusaka.[57]

Operations of the PTA

The PTA Treaty established the Preferential Trade Area "as a first step towards the establishment of a Common Market and eventually of an Economic Community for Eastern and Southern African States."[58] The final step toward common market status was originally to be considered by the Council in 1991, with a target date of 1992. While the time-table undoubtedly will be changed, as will be discussed below, the ultimate goal will still be approached in stages,

> beginning with inter-linkages among the participating countries in those sectors amenable to quick results and building on successes thus achieved to higher stages of economic integration.[59]

Therefore, the major emphasis in the first stage is to be the promotion of intra-regional trade, with secondary emphasis on expansion and harmonization of the agricultural and industrial sectors that supply trade, and improvement of intra-regional transport links that facilitate it.[60]

The initial steps toward the liberalization of trade require member states to:

--- reduce and finally eliminate customs duties in respect of selected commodities produced in the area;

--- establish appropriate payment and clearing arrangements among themselves that would facilitate trade in goods and services;

--- intensify co-operation in the fields of transport and communications;

---simplify and harmonise their trade documents and procedures;

--- standardise the manufacture and quality of goods produced in the area;

--- abolish quantitative and administrative restrictions on trade among themselves (such as the imposition of quotas, for instance);

--- promote direct exchange of information among their commercial and industrial organizations;

--- enact laws and regulations facilitating transit trade within the preferential trade area, while establishing conditions regulating the re-export of products within the region,

--- progressively adapt their commercial policies in accordance with the provisions of the PTA treaty.[61]

With the exception of measures to standardize the manufacture and quality of goods produced in the subregion, many important steps have been taken in all of these areas. This discussion will focus, however, only on the most contentious ussues and some of the more difficult technical obstacles encountered during the first three years of the PTA's operations. A short discussion of the clearing and payments arrangements is provided first in order to describe the procedures and consider the results.

--- The PTA Clearing House

On February 1, 1984, in preparation for the operational phase of the PTA, a Multilateral Clearing Facility, or Clearing House, was established, using the facilities of the Reserve Bank of Zimbabwe. The latter is being paid by the PTA to settle the trade accounts for member states, although at a future date the Clearing House may become an independent institution.[62] Because the operation of the Clearing House was hampered at the start, however, by poor management and co-ordination, a Manager was appointed in May, 1986, to oversee operations, which was expected to improve performance.

In addition, a new monetary unit has been created, the UAPTA (Unit of Account of the PTA), similar in concept to the IMF's Special Drawing Right (SDR). Pegged to the SDR, the UAPTA is quoted daily against the currencies of member states and is being used to record trade debits and credits among them.[63] Each member state has a net debit limit, the amount it can owe other states, and a net credit limit, the amount it can be owed, which reflect past volumes of trade within the subregion. The credit limit is 25 percent of the average value of a state's total annual subregional trade (exports and imports) for

the previous three-year period; the debit limit is 20 percent of that figure. The limits for the first year, effective February 1, 1984, are shown in Table 5 on the following page.

No funds actually pass through the Clearing House. Its function is to record in UAPTA all transactions among members and balance the books every two months. Day-to-day transactions are invoiced and paid through the commercial banks of the subregion--just as they would be for all trade deals, except that they are denominated in the national currency of the exporter, or in UAPTA, and no foreign exchange is handled by the commercial banks. Rather, after the importer has paid his own bank in local currency for the goods, his bank instructs the exporter's bank to pay the exporter in his local currency and at the same time replenishes that currency in the account of the exporter's bank through a funding arrangement with the central bank in the importing country. The central banks in both countries report this debit/credit to the Clearing House, which, at the end of each two-month transaction period, balances the accounts in UAPTA. The central banks of the net debtor states are then required to settle their negative balances in hard currency through the U.S. Reserve Bank in New York. Settlements must be made within 15 days, and members face progressive rates of interest, suspension from the Clearing House, and "Such additional sanctions as may be contained in the rules and regulations prescribed by the (Clearing and Payments) Committee" if they fail to settle their accounts within the prescribed period.[64]

While there are clear benefits to all parties in this arrangement, there are also some serioud problems. On the positive side, the exporter invoices in his own currency and is protected from later fluctuations in exchange rates. He also receives prompt payment, once the importer has paid the invoice, even if the importing state is slow in settling its Clearing House account. Ideally, the importer, too, should be relieved of some of the consequences of foreign exchange

Table 5. Preferential Trade Area Multilateral Clearing Facility Net Credit and Debit Limits, Feb. 1984, in UAPTA 000's.

Country	Credit Limit	Debit Limit	Share
Burundi	5.310	4.248	2.8
Comoros	1.110	0.888	.6
Djibouti	13.963	11.170	7.4
Ethiopia	9.635	7.708	5.1
Kenya	57.183	45.746	30.2
Lesotho	0.268	0.214	.1
Malawi	10.280	8.224	5.4
Mauritius	4.203	3.362	2.2
Rwanda	11.193	8.954	5.9
Somalia	4.455	3.564	2.4
Swaziland	1.763	1.410	.9
Uganda	28.255	22.604	14.9
Zambia	18.528	14.822	9.8
Zimbabwe	23.370	18.696	12.3
	189.516	151.610	100.0

Note: Tanzania was not yet a member
(Source: PTA Multilateral Clearing Facility Operational Procedures Manual, January 1984)

shortages in his own country, as the importing state enjoys a foreign exchange savings if it has maintained a general balance between imports and exports. Finally, member states that are net importers receive up to 75 days of interest-free credit (two-month transaction period plus 15 days for settlement) before they are required to settle their negative balances in hard currencies, which serves to provide them with additional liquidity. All these measures should facilitate increases in intra-regional trade.

Most states in the PTA, however, face severe foreign currency constraints and are hard-pressed to meet short deadlines to pya for trade deficits. Some of the hardest-hit are the same states that run chronic trade deficits with their regional partners. Zambia, for example, suffered a $ 12 million deficit with Zimbabwe during the first six months of the Clearing House's operations.[65] When Zimbabwe took no steps to increase its imports from Zambia, the latter retaliated by substantially reducing its imports from Zimbabwe,[66] thereby reducing its ratio of intra-regional trade to total trade--a step backward in terms of the goals of the PTA. There are also potential problems for the net exporting states. First, although an exporter is protected from fluctuating exchange rates, his member state is not. Countries such as Kenya and Zimbabwe that maintain flexible exchange rates may suffer losses when their accounts are balanced with states whose currencies are overvalued.[67] Second, many firms in Kenya and Zimbabwe produce goods that contain high percentages of imported raw materials and components, which must be paid for in hard currencies. Ideally, PTA preferences could encourage these firms to increase their local inputs, which would eventually reduce the importance of this problem. In the meantime, however, a not uncommon view is that "barter(ing) these goods through the PTA payment system would constitute a drain on... foreign exchange."[68]

These problems are reflected in the fact that only UAPTA 42.8 million in total trade transactions were channelled through the Clearing House in its first year of operation. Given the total debit and credit limits that had been established, which themselves were set at 20 and 25 percent, respectively, of average annual subregional trade, "this meant that only about 20% of the potential of the clearing facility had been used."[69] The same underlying problems are also reflected in the high percentage of trade deficits that had to be settled in convertible currencies during the first two and one-half years of the Clearing House's operations (see Table 6 on the following page), although it should be noted that these percentages began to decline in September, 1986. (Several reasons for this improvement will be

discussed below.)

Table 6. PTA Clearing House Transactions, Feb. 1984 - Apr. 1987 (in UAPTA millions)

	Gross Trade Financed through Clearing House	Total for Transaction Period	Net Settlement in Foreign Exchange	% Settled in Foreign Exchange
Feb 1984	2.1			
Mar	3.5	5.6	1.3	23.2
Apr	2.8			
May	4.9	7.7	5.4	70.1
Jun	5.6			
Jul	4.1	9.7	9.1	93.8
Aug	4.5			
Sep	2.0	6.5	6.0	92.3
Oct	5.1			
Nov	2.4	7.5	5.9	78.7
Dec	0.2			
Jan 1985	5.6	5.8	5.0	86.2
Feb	3.9			
Mar	1.6	5.5	5.0	90.9
Apr	2.8			
May	3.7	6.5	5.6	86.2
Jun	4.8			
Jul	2.9	7.7	6.8	88.3
Aug	7.2			
Sep	3.3	10.5	8.9	84.8
Oct	6.5			
Nov	4.2	10.7	9.1	85.1
Dec	2.4	2.4	1.7	7.8
Jan 1986	1.9			
Feb	1.9	3.8	2.9	76.3
Mar	2.8			
Apr	2.0	4.8	3.8	79.2
May	4.4			
Jun	8.9	13.3	6.1	45.9
Jul	3.6			
Aug	2.8	6.4	4.2	65.6
Sep	6.3			
Oct	8.5	14.8	7.4	50.0
Nov	6.8			
Dec	9.5	16.3	6.3	38.7
Jan 1987	6.9			
Feb	4.0	10.9	3.2	29.4
Mar	7.3			
Apr	5.8	13.1	6.0	45.8

(Source: PTA Clearing House)

The low value of trade transactions in the first two years also reflects the fact that most of the member states were slow to begin active participation in the PTA. Only six states-- Ethiopia, Malawi, Mauritius, Swaziland, Zambia, and Zimbabwe-- used the Clearing House facilities during the first six months of its operations.[71]

The high percentages of foreign exchange required to settle trade deficits also indicate a significant imbalance of trade within the region. In 1984 the imbalance was primarily between Zimbabwe and its trading partners, as Kenya directed only six transactions through the Clearing House during the first year.[72] Kenya increased its export transactions to 53 in 1985, valued at just over KSh. 13.5 million, and increased them again in 1986 to 60, although the value dropped to slightly more than KSh. 12 million.[73] These low values, approximately UAPTA .8 and .635 million respectively, were only small fractions of the the totals traded through the Clearing House in those years, UAPTA 48.9 million in 1985 and UAPTA 59.4 million in 1986. In fact, they represent only .5 and .4 percent of Kenya's exports to the PTA states in 1985 and 1986, respectively,[74] and indicate that Kenyan businessmen were very slow to use the PTA clearing facility. In the first six months of 1987, however, the export transactions that Kenyan firms were to channel through the Clearing House jumped to 277, valued at almost KSh. 52 million, approximately UAPTA 2.5 million.[75] From these figures, it is clear that Kenya's trade will now begin to further increase the imbalance of trade handled by the PTA clearing facility.

While periodic publication of the Clearing House settlements, as reproduced in Table 6 above, served to confirm the fears of the less-developed states that Kenya and Zimbabwe would dominate the PTA to the detriment of the weaker economies, those two states continued to insist that the rules of origin should be modified to allow their foreign-owned industries to participate. After recording only six PTA transactions in 1984, the Kenya Ministry of Commerce announced in January, 1985, that Kenya had requested a reduction from 51 to 30 percent in the

local equity-ownership rule.[76] The Ministry then undertook a survey[77] whose results appeared to support theKenya position. The results indicated that "77.4% of all intra-P.T.A. exports (reported in the survey) for the year 1983" had been made by foreign-controlled firms that did not qualify to trade through the Clearing House. While these results should be treated with extreme caution,[78] they do indicate that a high proportion of Kenyan firms had been excluded from participation in the PTA.

As we have seen, the issue of how to frame the rules of origin had been one of the most contentious during the negotiations to establish the PTA, and there was considerable resistance to derogation of the ownership rule. Nonetheless, the PTA Inter-governmental Commission of Experts undertook a study and recommended to the Council of Ministers in July, 1985, that the member states accept "a general derogation of equity from 51 per cent to 30 per cent" and lower percentages for Comoros, Djibouti, and the BLS states.[79] This compromise would have served to give a small advantage to the less-developed states--although not significant in the face ofe entry into PTA trade on the part of large foreign-owned firms in Kenya and Zimbabwe--in return for allowing time for Kenya and Zimbabwe "to mobilise resources to acquire the 51 per cent equity and to restructure their economies."[80] Consesus could not be reached, however, and the study was rejected in favour of another that was to be submitted to the Council six months later.[81]

Ultimately, because agreement was not possible at the level of the Council of Ministers, the issue had to be referred to the Heads of State at an extraordinary summit meeting of the PTA Authority in Bujumbura in May, 1986. As will be seen, disagreement and lack of progress in several areas had become so serious that political decisions were required to keep the PTA moving forward. In fact, just prior to the Bujumbura summit, Mauritius had issued a notice of intent to withdraw from the PTA altogether, reportedly because the "organisation serves the interests of the larger states in the region."[82]

With regard to the rules of origin, the issue was resolved in favour of a grace period and a sliding scale of preferences. For a five-year period, those firms whose equity is 51 percent locally owned will receive 100 percent of the PTA tariff reductions, as before. Firms with 41 to 50 percent local ownership will receive 60 percent of these preferences; firms with 30 to 40 percent local ownership, 30 percent of the reductions. This move was vigorously opposed, however, by some of the smaller states.

The major problem in the PTA's clearing and settlement arrangement has been, and continues to be, the fact that payments for relatively few transactions have been channelled through the Clearing House. At first, this was because only a few states had begun to use the facility, and there is still a lack of knowledge among commercial banks and businessment about PTA procedures. The derogation of the rules of origin in May, 1986, however, contributed to an immediate increase in the value of trade handled through the clearing facility. As indicated in Table 6 above, the value for June, 1987, UAPTA 8.9 million, was double the value for the prior month. The increase has since been sustained, as the figures show that the value of all transactions from May, 1986, through April, 1987, UAPTA 74.8 million, increased by 71.6 percent over the value for the prior 12-month period, UAPTA 43.6 million.

Not all of the increase can be attributed to trade, however. In an effort to bolster the Clearing House even further, it was also decided at the Bujumbura summit that, rather than limit the clearing facility to those transactions eligible for PTA preferences, it should be used to cover any authorized transactions between member states,[83] "including contributions and subscriptions to PTA institutions."[84] The Clearing House therefore opened accounts in August, 1986, to receive and disburse the contributions of the member states to the PTA Secretariat, the Clearing House itself, and the PTA Trade and Development Bank. Between August, 1986, and April, 1987, contributions of UAPTA 5.5 million were credited to these accounts. This figure is 9.5 percent of total transactions for this period, which means that

trade transactions increased by 58.9 percent in the last 12 months reported over the prior 12-month period.

There are still states, however, that insist on invoicing their exports in U.S. dollars rather than in their own currencies, which precludes settlement through the Clearing House. Three states, Comoros, Djibouti, and Somalia, have not yet begun to use the Clearing House at all. Rwanda and Tanzania have only recently begun to use its facilities, but not to the extent expected.[85] Others, such as Uganda and Zambia, have suffered from unstable currencies, so that, in addition to their need for foreign exchange, they prefere to avoid invoiding their exports in their own currencies, which are declining in value. The value of Malawi's currency has also been declining, but its preference for dollars is also due to its need to pay in hard currency for goods imported from South Africa.

Nonetheless, there has been decided progress in the use of the PTA clearing facility. After the Bujumbura summit, the Secretary General of the PTA announced that the proportion of intra-regional trade handled by the Clearing House had increased from five percent in 1984 to 65 percent in mid-1986. He anticipated that by mid-1987 the Clearing House would be handling 80 to 90 percent of all intra-regional trade transactions.[86] While this optimistic prediction has not been realized, it exemplifies a legitimate tendency to focus on how much progress has been made in only three years rather than on how far short that progress has been from the ultimate goal. The root causes of the slow progress experienced by the Clearing House, however, remain: the weak economies of most of the member states and the major imbalances of industrial production within the subregion, problems that will be exacerbated now that Kenya's PTA trade is increasingly being channelled through the Clearing House.

--- Facilitation of Trade

Other factors that have contributed to the PTA's slow start have been lack of information and slow implementation of measures that facilitate trade, not only at the intergovernmental level, but also in the private sector. In many cases, for example, central and commercial banks have not established reciprocal and correspondent accounts, respectively, with their counterparts in other member states. One reason for the commercial bankers' disinclination to open correspondent accounts -- "that there was not adequate business to warrant doing so" -- was noted at the June, 1987, Council meeting.[87] Another may stem from the fact that the commercial banks lose a source of earnings when payments are channelled through the PTA Clearing House, as PTA payments between commercial banks and their customers are in local currencies. This precludes the commercial banks' charging commissions on the foreign exchange that they purchase from central banks on behalf of importers, as they do in most non-PTA transactions.

Steps have been taken in the service sector to remedy some of the obstacles to trade, however, and the situation is improving, albeit rather slowly.[88] Some commercial banks, for example, have instituted training programs for their personnel to prepare them to handle intra-regional trade matters. In addition, the PTA Federation of Chambers of Commerce undertook a survey of banks that had opened correspondent accounts in order to advise its member organizations.[89] Nonetheless, disemination of such information to businessmen has been exceedingly slow, and in early 1987 members of the Kenya business community were still finding it difficult to obtain banking advice and services for PTA transactions. In Kenya, the m primary reason for this may be that the Central Bank is dealing only with the head offices of commerical banks on PTA matters,[90] and many banks have designated only one officer to coordinate their PTA business. As a result, branch banks, particularly outside Nairobi, tend to be completelt unfamiliar with PTA operations. Exporters interviewed in Nairobi also complained about delays in payment, which should not occur when PTA arrangements are used. Many commercial bankers, however, have not yet fully understood its procedures.[91] There seems to be a general tendency, among bankers as well as businessmen, to confuse the 75 day settlement period among states and their central banks with the prompt payment that should be provided to exporters by the commercial banks once all the necessary requirements have been met.

Another obstacle to trade in the service sector has been the harmonization of insurance throughtout the subregion. A PTA third party motor vehicle insurance scheme became operational only on July 1, 1987, after nine states signed the agreement.[92] One of the factors that caused this delay was the fact that the Northern Corridor states and the SADCC states each had their own subregional arrangements, and neither group was inclined to change to the PTA formula.[93] Nonetheless, a "yellow card," to be completed and certified by a national bureau, represented by a designated insurance company in each state,[94] has been devised and should be accepted in the coming months at most customs control points throughout the subregion.

It is likely, however, that its acceptance will be slow, as has been the case with the subregional Road Customs Transit Declaration (RCTD). Although this document was adopted by the PTA in July, 1985,[95] only two states were using the RCTD by the end of October, 1986, and Rwanda was complaining that its hauliers were being required by transit countries to produce both the old and the new documents.[96] While such delays mya stem from reluctance on the part of some member states to implement PTA decisions, they are also due to the fact that routinization of new procedures takes time, particularly on the part of personnel who man customs posts where FTA traffic is infrequent. Working out and implementing common agreements with regard to other service and transit-related issues will therefore be a long-term process. These issues include common bonding arrangements, as well as common rules, regulations, and standards f r vehicle specifications, axle loading and tariffs, road design, road tolls, and road traffic regulations.[97]

Lack of information and experience among businessmen is also a major obstacle to intra-regional trade, and the Chambers of Commerce and Industry and other professional organizations in the subregion -- which not surprisingly have been among the most enthusiastic supporters of the PTA -- have attempted to address this problem. National Chambers in some states began immeately to hold seminars to inform their members of PTA regulations and advise them how to participate in the new trade arrangements. Other states, however, have not developed well organized and active professional business organizations. To help rectify this, the PTA Federation of Chambers of Commerce and Industry was established in September, 1985, to "assist in the development and strengthening of all the national Chambers", as well as to "represent its members ... at all relevant form with the aim of rpomoting their business interests".[98] The Federation is also designed to undertake a variety of activities aimed at collecting and disseminating information to its members, as experience with regard to subregional markets and trading opportunities has been limited in the past to a small number of mostly transnational corporations. High on the Federation's list of priorities, therefore, are publication of trade directories, trade

catalogues, handbooks, and trade and investment journals;[99] promotion of PTA Trade Fairs, which are designed to familiarize businessmen with the goods and services available in the region,[100] and the organization of buyer/seller meetings based on demand and supply surveys currently being conducted under the auspices of the PTA Trade Information Network.[101]

By far the most successful trade-promotion enterprise to date has been the first PTA Trade Fair held in Nairobi in September/October, 1986, at which "over 1000 products from 800 companies of the subregion were displayed, resulting in a potential business turnover of US $166,850,000".[102] Trade fairs may well continue to be the best means of promoting sales until businesses find it economically feasible to invest in subregional advertising, sales forces, and other means of marketing and distribution.

From this brief discussion of some of the measures taken to facilitate trade in the subregion, it becomes clear just how rudimentary were the intra-regional service facilities and transport and communications networks that were inherited from the colonial era. In soke areas, both the governments of the member states and the private sector are almost starting from scratch. In others, they must cooperate to undo barriers to trade that were initially instituted to protect colonial revenues and infant industries, and that have been perpetuated and complicated by the independent states fro similar reasons. This brings us to the final focus in this section, the progress made toward reduction and eventual elimination of intra-regional tariffs.

--- Reduction of Tariffs and the Common List

As the PTA entered tits operational phase in July, 1984, i.e., when the tariff preference took effect, the Secretary General announced tariff reductions on a Common List of 212 categories of goods that qualified for preferential treatment within the region. Tariffs on these items, which fall into ten groups ranging from luxury goods to capital goods, were reduced 10 to 70 percent.[103] (See Table 7 on the following page). The Treaty calls for the List to be amended and expanded periodically.

The most recent Common List, incorporating all the changes after January, 1984, was published in September, 1986, and contains 325 items.[104] The original intention, as will be discussed more fully below, was to expand the List gradually so that all goods produced by PTA states would be included by 1992, while customs duties on the commodities already on the list were to be reduced by 25 per cent every two years and abolished completely by 1992.[105]

Table 7. PTA Common List
Classification of Goods and Initial Tariff Concessions

Group	Classification	Reduction (%)
Group I	Food (excluding luxury items)	30
Group II	Raw Materials	
	(a) Agricultural	50
	(b) Non-agricultural	60
Group III	Intermediate Goods	65
Group IV	Manufactured consumer goods (excluding luxury items)	
	(a) Durable consumer goods (excluding (c) and (d) below)	40
	(b) Non-durable consumer goods (excluding (c) and (d) below)	35
	(c) Highly competing consumer goods	30
	(d) Consumer goods of particular importance to economic development	70
Group V	Capital goods (including transport equipment)	70
Group VI	Luxury goods	10

Source: PTA Treaty, Annex 1, Article 4).

Behind this progress, however, lies another area of major disagreement. The issues of which commodities to place on the Common List and under what conditions were strongly contested by the less developed states from the start. They feared that, if the List were open to all products that member states wished to export, their own markets and infant industries would be swamped by goods produced in Kenya and Zimbabwe, while they would gain very little in return, having fewer goods to offer.

Just as serious is the fact that most states in the sub-region derive a substantial portion of their revenues, reportedly 30 percent in some cases, from customs duties.[106] Lesotho and Swaziland's dependence on customs revenue is even higher, as discussed above, although their trade with PTA states is till rather limited. Kenya, which has reduced its dependence on this source of revenue from 20 percent of gross receipts in the recurrent account in 1981/82 to 13 percent in 1985/86,[107] is in a much better position than most other states in the subregion to absorb the revenue losses that will result from lower tariffs on PTA trade. Kenya is also a net exporter to the subregion and will therefore reap more benefits than it will suffer losses. There are states in the subregion, however, whose PTA imports are much higher in relation to total imports and for whom the PTA tariff reductions will have a much greater impact. Notwithstanding the fact that intra-regional trade is a relatively small share of total trade throughout the subregion, there seems to be a generalized fear that the losses to government revenue entailed in PTA tariff reductions cannot be absorbed by states that are already faced with overwhelming debt burdens and shortages in foreign exchange.

In the seven conferences held before the Treaty was signed,[108] the negotiators failed to resolve the issues related to the Common List and tariff reductions, even though the key wording specified that "the Common List shall include selected commodities which are of both export and import interest to the Member States."[109] To further protect two of the least developed states, a provision was included that granted Comoros and Djibouti the right to reduce their customs duties by only 25 percent of the overall PTA reductions for a period of two years, after which the matter was to be renegotiated at two-year intervals.[110] Even so, there were last-minute

changes in the final version of the Treaty, which included the elimination of wording that provided most favoured nation treatment for commodities that do not appear on the Common List. The treaty as signed accords this treatment only to items contained in the List.[111]

Although they signed the Treaty, some of the states that had most vigorously contested these issues took refuge in non-implementation of the technical measures that are required to initiate active participation. By the end of the PTA's second year, five states -- Comoros, Djibouti, Ethiopia, Mauritius, and Somalia -- had not published the legal notices that are necessary to enable customs officials to handle goods eligible for preferential treatment.[112] Tanzania adopted a different tactic and simply refused to sign the Treaty until additional agricultural and mineral products of particular interest to Tanzania (Group IIb) were added to the Common List in 1985.[113]

The Treaty provides that the Common List "shall be amended from time to time by the Council on the recommendation of the (Customs and Trade) Committee."[114] The process of adding new items to the List has been, however, one of the most serious sticking points to further progress. Kenya and Zimbabwe continued to oppose the requirement that an item must have export interest from at least one country and import interest from another before it can be added. But in July, 1985, Ethiopia and Tanzania reserved their positions on a proposed amendment to the Treaty which allowed the addition of commodities that are of either, rather than both, export and import interest to the member states.[115] Although the amendment was passed, some of the less developed states reportedly continued to approach the issue as if such commodities must not duplicate goods manufactured in the importing state.[116] To settle the question, the Heads of State agreed in Bujumbura in May, 1986, that the "export and import interest" requirement would be retained for five years.[117] This was a clear victory for the less developed states, which helped to offset their loss at the same meeting on the rules-of-origin issue. In return for allowing participation of foreign-owned firms in the PTA for five years, the less developed states were to receive some protection of their infant industries for the same period of time.

This was not the end of the matter, however, The argument prevailed that the original wording in the Treaty was restrictive and negated other of its objectives, namely, the achievement of a common market and a zero intra-PTA tariff by 1992. This presumes that all items traded within the subregion would be on the List before that date.[118] It was therefore agreed at the June, 1987, Council meeting that

> commodities for which trade was already taking place among the member states should be submitted for inclusion in the Common List since there was already an import and e port interest.[119]

The automatic inclusion of commodities already being traded means that the List will expand much more rapidly and that future reductions in tariffs will have a much greater impact on the customs revenues of the member states. For this reason, three studies have been undertaken in an effort to fix an acceptable time-table for the elimination of intra-regional customs duties. In December, 1984, the Council of Ministers approved a formula specifying that tariffs on commodities on the Common List were to be reduced by 25 percent every two years, beginning October 1, 1986, so that a zero tariff could be reached by 1992. By December, 1985, however, some of the states had already begun to question whether this would be feasible, and the Council called for a second study. While that study was in progress, the original date for the first 25 percent further reduction came and went. By that time, five of the member states had not published the basic reductions (as in Table 7 above), and Ethiopia was arguing for a delay. When the second study was presented to the Intergovernmental Commission of Experts (ICE), Ethiopia insisted that the study was flawed for a variety f of reasons, but it was nonetheless approved by the Council of Ministers. The Heads of State, however, in the interest of moving forward in unity, overturned the Council's recommendation in December, 1986, and called for a third study.[120]

The third feasibility study attempted, inter alia,

> to undertake an analysis of the impact of the PTA trade liberalization process on the economies of the member states, with particular reference to revenue collection, balance of payments and overall economic activity.[12]

In addition to the negative aspects of revenue loss, the study attempted to take into consideration the benefits that would accrue from increased subregional trade, as well as

> to formulate special and differential arrangements where necessary, bearing in mind the agreement to undertake a study on measures for correcting, in the medium and long term development disparities existisms for ensuring equitable distribution of costs and benefits arising from the implementation of the provisions of the Treaty.[12]

The Study Team attempted to project the losses of total government revenue that would result from liberalization of intra-regional trade. Reproduced in Table 8 on the following page are selected figures from the study. The percentages for 1985, indicating PTA customs revenues as a percentage of total government revenue, are based on actual intra-regional trade and therefore encompass all commodities traded, whether they appear on the Common List or not. The figures for 1986, showing losses in revenue as a percentage of total government revenue, incorporate the originally-planned 25 percent reduction, but as also reflect the comparatively limited number of items currently on the Common List. The figures for 1992 represent PTA-related revenue losses as a percentage of total government revenue, assuming that PTA tariffs were eliminated completely by that date and that the Common List were to be expanded to cover all commodities traded within the subregion. The losses indicated for 1986 and 1992 are overstated, however, because there would also be gains from the liberalization of trade in terms of additional employment, increased taxes on incomes, profits, and sales, and overall economic expansion. These gains would vary by country and would be quite marginal in some of the less developed states.

Table 8. PTA Customs Revenue as a % of Total Government Revenue and Its Loss as a % of Total Government Revenue Selected Years (see text for explanation)

Country	As % of Total Government Revenue		Loss as % of Total Government Revenue
	1985	1986	1992
Burundi	1.60	.56	3.30
Comoros	2.90	1.82	7.93
Djibouti	11.20	2.60	9.84
Ethiopia	.50	.10	.90
Kenya	.80	.20	.45
Lesotho	.001	.10	.38
Malawi	1.50	.40	2.20
Mauritius	1.00	.25	1.23
Rwanda	6.30	1.48	3.97
Somalia	4.10	.80	4.70
Swaziland	.04	.05	.69
Tanzania	.30	.10	.60
Uganda	3.30	8.40	.10
Zambia	.90	.20	.80
Zimbabwe	.40	.08	.45

Source: PTA Study on the Feasibility of Eliminating Customs Duties, April 1987, Tables III and IVa.

The figures projected for 1992 indicate that eight of the PTA states would have lost less than one percent of total government revenue in that year if the original 25 percent reduction had been instituted as scheduled. (Included in this group, interestingly enough, is Ethiopia). The impact on Mauritius would not have been significant either, as its loss would have been just over one percent. Even with increasing international debt burdens, these states could have absorbed the projected losses. Despite the fact that Malawi and Burundi would have lost 2.2 and 3.3 percent, respectively, of their total government revenue, these states

indicated their support for meeting the 1992 target date.[123] This leaves four countries whose government revenues would have been significantly affected by intra-PTA trade liberalization: Comoros, Djibouti, Rwanda, and Somalia. Of these, Comoros and Djibouti were granted by the Treaty the right to reduce their customs duties in the first two years by only 25 percent of the PTA reductions, with subsequent reductions to be renegotiated. Nonetheless, these four states are obvious candidates for compensation.

In its conclusions the study steam noted that;

> even though the study revealed that relative shares of revenue cuts are actually small compared to total government revenues ..., this fear is still a reality and a key factor in approaching the issue of trade liberalization in the subregion, particularly when some member countries are keen not to be exclusively captured as markets for others.[124]

It therefore concluded that the 1992 zero-tariff option was feasible only if some type of comensatory mechanism were instituted, and suggested several alternative arrangements. Because the compensatory fund that it found preferable could not be implemented in a relatively short time, however, the study team recommended that PTA tariffs be reduced by 20 percent every two years, beginning in 1988, to reach a zero intra-regional tarif in 1996.[125]

When this study was presented to the PTA Technical Committee on Trade and Customs in April/May, 1987, all member states except Ethiopia and Somalia endorsed this recommendation. Ethiopia insisted on yet another study on the grounds that the selection of competent consultants had been flawed, and Somalia supported the call for a further study. The technical Committee was of the view, however, that the points raised by Ethiopia were not correct and therefore referred the matter to the higher policy organs for consideration.[126]

At the Council meeting in June, 1987, a representative of UNCTAD, which had provided one of the consultants on the study team, pointed out that,

> given the role of economic integration and trade liberalisation as indispensable strategies for sub-regional economic recovery and growth, it was essential that the momentum should be maintained and that progress should not be determined by the ability of the weakest member States to move in unison with the strongest.[127]

Nonetheless, the less developed states required assistance "to cope with the adverse impact of their participation in the PTA trade liberalisation arrangements."[128] Various compensatory mechanisms were outlined, including

--- derogations such as allowing some members to liberalise at a slower pace than other member states;

--- arrangements to relieve Least Developed Countries (LDCs) from commitments that can be seen to have serious adverse effects on their budgets;

--- preference to LDCs with respect to the application of the Rules of Origin;

--- identification of certain products from LDCs for duty free admission into the markets of the more developed member states on a non-reciptocal basis; and

--- preference to LDCs in the location of industrial enterprises and other institutions.[129]

Fiscal compensation, however, was not recommended because it involved "inherent complexities and had not worked satisfactorily in other economic integration groupings".

The UNCTAD representative stressed that, whatever compensatory mechanisms were chosen, they should be implemented simultaneously with the first tariff reductions in 1988. His report and recommendations were supported by the representatives of the Council of Mutual Economic Assistance (CMEA, or COMECON) and of the Economic Community for Latin America (ECLA).

In the extensive discussions that followed, differing views were put forward concerning simultaneous implementation of compensatory mechanisms and further tariff reductions. The Council noted that at the prior ICE meeting, the majority of the delegates had agreed that

> corrective measures and derogations should be incorprorated in the trade liberalisation process but ... should not be a precondition .. but ... consequential to the effects of the trade liberalisation process. They further pointed out that it would be f difficult to institute compensation, derogation or corrective measures before the type and extent of damage or cost arising therefrom was known.[130]

Delegates from some of the less developed states had argued at the ICE meeting, however, that "it was necessary to put in place corrective measures and derogation before the implementation of the first further tariff reduction in 1988."[131]

Ultimately, the Council agreed to dilute the tariff-reduction process and postpone and zero-tariff target date to the year 2000. Therefore, effective October, 1988, member states will further reduce intra-PTA tariffs by 10 percent every two years through October, 1996, for a total reduction of 50 percent; and then institute a further 20 percent reduction in 1998 and a further 30 percent reduction in October, 2000. In the meantime, a study of "mechanisms required to ensure equitable distribution of costs and benefits" will be expedited and presented not later than the end of 1988; and the situation will be reviewed in 1996.

These decisions were not unanimous. Comoros and Djibouti reserved their positions, Comoros because of the simultaneity issue, Djibouti because it "could not accept the tariff reduction programme before the results of the study were known".[132]

Evaluation of Progress and Problems in the PTA

In summarizing the trade-related operations of the PTA to date, one can point to clear progress in a number of areas. Trade transactions handled trhough the PTA Clearing House have increased by 70 percent in the last year iver the prior 12 month period, and the net settlements in hard currency have been significantly reduced. In the last six months for which figures are available, an average of 62 percent of all transactions were settled in local currencies, which produced a savings in foreign exchange for the member states. In addition, valuable experience has been gained as business firms have begun to trade through the Clearing House; and the service sector has begun to organize itself for subregional trade. A highly successful PTA Trade Fair has been held; a second Fair is in the planning stage; and an information network with regard to trade opportunities in the subregion is being established. As a result, intra-regional trade as a proportion of total trade has increased from 4 percent in 1973-1980 to 6.5 percent in the 1980-1985 period.[133] As shown in Table 9 on the following page, the sharp decline in intra-PTA trade that occurred in the early 1980s slowed significantly in 1984, the year that the PTA became operational, and an increase of 4.9 percent in intra-regional trade was recorded in 1986. Further increases can be expected as promotion of subregional trade continues and more experience is gained.

Table 9. Intra-PTA Exports and Imports 1980-1986 (Excluding Lesotho and Swaziland) (in millions of U.S. Dollars)

	1980	1981	1982	1983	1984	1985	1986
Exports	572.30	504.79	412.64	384.87	378.38	367.37	385.91
Imports	558.49	517.07	525.10	445.93	433.97	432.25	452.58
Total	1130.79	1021.86	937.74	830.80	812.35	799.62	838.49
% Change		-9.6	-8.2	-11.4	-2.2	-1.6	4.9

Source: IMF Direction of Trade Statistics Yearbook 1987

Further, the PTA summit meeting in Bujumbura in May, 1986, provided evidence that the political will still exists among the region's leaders to compromise on highly contentious issues in order to keep the PTA functioning. The derogation of the rules of origin, however, and the slowing of the time-table for tariff reductions reflect serious conflicts and major underlying problems. In fact, the latter calls into question whether a common market can be achieved by the new target date, if it can be achieved at all, as Ethiopia has suggested the year 2005 as a more appropriate date and Somalia the year 2014.[134] Meanwhile, the PTA is already beginning to slip behind the schedule envisioned in the Lagos Pla of Action.

Perhaps the best way to assess the progress of the PTA is to put it in comparative perspective. Organizationally, it falls between SADCC and ECOWAS. The former has deliberately avoided establishing a treaty and creating an expensive bureaucracy in favor of close and frequent ad hoc meetings among its Heads of State,[135] whereas ECOWAS adopted an elaborate and, in some key areas, rather vague treaty and spent the next four years building its subregional institutions and refining its procedures before

beginning its trade liberalization program.[136] The PTA states have created a small Secretariat comprised of a handful of professionals and short-term consultants.[137] They have chosen to proceed immediately toward the liberalization of internal trade, which has the advantage of avoiding the tedium experienced in ECOWAS in its first years, but which may serve to halt the process integration more rapidly.

The PTA approach to intra-regional trade, like that of ECOWAS, is to progressively reduce internal tariffs to zero before instituting a common external tariff, but, unlike ECOWAS, before measures for positive integration begin to have an effect. Progressively reducing internal tariffs gives freer rein to market forces and competition, which experience in many economic communities has shown leads to a further polarization of growth within the subregion, as the more developed states are the main beneficiaries.[138] To counteract this negative outcome, most attempts at economic integration in the last two decades have included measures both to overcome the locational effects with regard to new industries and to compensate the less developed states in the subregion for revenue losses sustained in reorienting their trade toward their more advanced partners.

The PTA Treaty contains two important mechanisms to address these problems. The first is a provision for "co-operation in the field of industrial development" to promote "complementary industrial development."[139] Studies have therefore been undertaken to find suitable sites in the subregion for heavy basic industries such as steel milling and fertilizer production,[140] but such a program is a long-term undertaking that will not produce even potential gains for the less developed states before they begin to suffer losses in the liberalization of trade. There is, however, an interesting provision in the Treaty for the establishment of "multinational industrial enterprises" within the subregion, i.e., joint ventures "wholly owned either by two or more member states or by nationals of two or more Member States."[141] This is an opportunity for the more developed states to participate more quickly in new enterprises in the less developed states, but it points up the fact that there is as yet no subregional industrialization strategy.

The second provision in the Treaty of a compensatory nature is the PTA Trade and Development Bank, which has been established in Bujumbura and was scheduled to become fully operational in July, 1987.[142] One of its objectives, according to the Treaty, is to "further the aims of the Preferential Trade Area by financing, wherever possible, projects designed to make the economies of the Member States increasingly complementary to each other."[143] Referring to the less developed states, the Secretary General of the PTA has said that investment policies would be "weighed in their favour", and that the PTA Bank would be used for this purpose.[144] Again, however, the less developed states will not benefit from Bank-financed projects in the immediate future, although it should be noted that the choice of Burundi as the site for the PTA Bank in itself represents a step toward spreading regional benefits to the less developed states.

In the meantime, the PTA seems to have dismissed the creation of a redistributional mechanism or a compensatory fund, such as the Protocal on Compensation for Revenue Loss annexed to the ECOWAS Treaty or its Fund for Co-operation, Compensation and Development.[145] Even with these measures, there was evidence within a year after trade liberalization was begun in ECOWAS that the less developed states of that community were beginning to resist implementation of the program.[146] The PTA economic integration process could grind to a halt for the same reasons.

The question therefore remains open as to how far and how fast the more advanced states of the PTA can push their own interests before the less developed states turn from foot-dragging to withdrawal. Already, Kenya and Zimbabwe's insistence that the rules of origin be relaxed to accommodate foreign-owned firms, and their successful push to expand the Common List, have met with non-implementation of PTA provisions in some states, a delay in the tariff-reduction process at the insistence of two states, and a threat of outright withdrawal from another. Given Kenya's increase in manufacturing production in 1986 and the current decline in Zimbabwe's output,[147] Kenya is in a position to so dominate intra-regional trade in the next several years that the worst fears of the smaller states could be confirmed. The only direct means of redressing

Kenya's large imbalance in trade is for Kenya to increase its imports from the PTA states. There is evidence that this has occurred, but Kenya's exports to the sub-region are still six times the value of its imports. In the meantime, ways must be found to provide compensation or "side payments" to the less developed states before the integration process stagnates. Unless the more advanced states work for the benefit of those that are less developed, they will jeopardize the health of the regional organization.

Ultimately, of course, the more advanced states and the less developed states alike must approach the PTA, in the words of the team that conducted the study on tariffs, as

> the means for recovery and not something to be achieved after recovery in each country .... Costs of economic integration and collective self-reliance should be viewed like any other development cost, as investmenets which will yield positive and lasting results, even though their gestation period might be long.[148]

NOTES

1. Philip Ndegwa, Governor, Central Bank of Kenya, Address to Symposium of the Association of African Central Banks and the International Monetary Fund, Nairobi, 16 May 1985.

2. See IMF, World Economic Outlook 1984 (Washington, D.C.: International Monetary Fund, 1984); and International Bank for Reconstruction and Development, Sub-Saharan Africa: Progress Report on Development Prospects and Programs (New York: Oxford University Press for the World Bank, 1983).

3. IBRD, World Development Report 1986 (New York: Oxford University Press for the World Bank, 1986), p.52.

4. Some analysts argue that the deficit decrease merely reflects increasingly restricted access to private loan markets, but others contend that this outcome is due to reductions in imports, which have severely restricted African development programs. See, for example, Ndegwa, Address to Symposium.

5. IMF, World Economic Outloook, April 1985 (Washington, D.C.: International Monetary Fund, 1985), p.50 and Tables 32 and 33.

6. Ibid., Chapter III, pp.72-96; and IBRD, World Development Report 1986, pp.49 and 54.

7. Catherine B. Gwin, "The Seventh Special Session: Toward a New Phase of Relations between the Developed and the Developing States?" in The New International Economic Order: Confrontation or Cooperation between North and South? ed. Karl P. Sauvant and Hajo Hasenpflug (Boulder,

8. United Nations, General Assembly, 6th Special Session, 1 May 1974, Declaration on the Establishment of a New International Economic Order (Resolution 3201 (S-VI)), and Programme of Action on the Establishment of a New International Economic Order. (Resolution 3202 (S-VI).

9. United Nations, General Assembly, 7th Special Session, 16 September 1975, Development and International Economic Co-operation (Resolution 3362 (S-VII)); and see Gwin, p.111.

10. Gwin, p.106.

11. The "internal divisions and the defense of specifix interests" among the ACP negotiators at Lome two years ago is an example, where various representatives adopted "a purely defensive strategy aimed at safeguarding acquired rights". From Telex Africa Bulletin, quoted in Kenya Times,, 27 may 1985. This, incidentally, was also the case in previous Lome negotiations, in which the Francophone states negotiated separate bilateral agreements with France, which effectively undermined the cohesiveness of the African bloc. Africa Confidential 24, 20 (5October 1983):5.

12. Karl P. Sauvant. "Toward the New International Economic Order", in The New International Economic Order: Confrontation or Cooperation, p. 5.

13. United Nations, Economic Commission for Africa, The Role of ECA in Economic Expansion and Social Growth in Africa, January 1969, pp. 4-5.

14. Ibid., pp. 7-8.

15. Africa News: 20, 13 (28 March 1983): 6.

16. The original regional groupings endorsed by ECA were North, West, Central, East, and South (excluding South Africa). As late as 1976, the OAU passed a resoultion to divide the continent into five such regions, with the composition stll to be decided. See organization of African Unit, Resolution of the Twenty-Sixth Ordinary Session of the Council of Ministers, 23 February - 1 March 1976, CM/Res.464 (XXVI). After the break-up of the East African Community in 1977, however, it was decided, because of the rivalry between the East African states, whose number was small, that the area should be enlarged. Therefore, the eastern and southern regions were merged. This may have reflected, also, the fact that Kenya, the most highly developed state in the eastern region , would have dominated the other less developed countries in the area, but had already developed trade arrangements in Zambia and Zimbabwe. Merging the two regions provided two poles of growth, Kenya and Zimbabwe.

17. Africa News 20, 13 (28 March 1983): 9-10.

18. For the Lagos Plan of Action, see United Nations, General Assembly, 11th Special Session, 21 August 1980, Assessment of the Progress Made in the Establishment of the New International Economic Order and Appropriate Action for the Promotion of the Development of Developing Countries and International Economic Co-operation (A/S-11/4), Annexes 1-111. This document includes the Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa (Annex 1), the Final Act of Lagos (Annex II),

and the resolutions adopted at the second extraordinary session of the Assembly of Heads of State and Government of the Organization of African Unity (Annex III), held in Lagos, Nigeria, 28-29 April 1980.

19. Lagos Plan of Action, Annex II, p.4.

20. In 1976 the ECA identified 120 such organizations, and since that time the number has increased. See B. W. Mutharika, "A Case Study of Regionalism in Africa", in Regionalism in the New International Economic Order, ed. Davidson Nicol, Luis Echeverria, and Aurelio Peccei (New York: Pergamon Press, 1981), p.91.

21. The Permanent Consultative Committee of the Maghreb, whose membership consists of Algeria, Morocco, and Tunisia, could form the nucleus of an economic grouping that might later include Libya, Egypt, and Sudan. Current political hostilities among some of these states, however, preclude serious thought at this time about regional cooperation in this area, despite the fact that this would fulfill the long-held aim of the ECA.

22. Carol Lancaster, "The Search for a Growth Strategy for Africa," Africa Report 29, 2 (March-April 1984): 51.

23. For an extensive history of intra-African trade to 1970, see Jonathan H. Chileshe, The Challenge of Developing Intra-African Trade (Nairobi: East African Literature Bureau, 1977).

24. For 1973-1980, see Shailendra J. Anjaria, Sena Eken, and John F. Laker, "Payments Arrangmeents and the Expansion of Trade in Eastern and Southern Africa," Occasional Paper II (Washington, D.C.: International Monetary Fund, July 1982), p.2.

25. Anjaria, et al, p.8.

26. Kenya, Economic Survey 1985, p.97.

27. Anjaria, et al, p.7.

28. See John Ravenhill, "The Theory and Practice of Regional Integration in East Africa", in Integration and Disintegration in East Africa, ed. Christian P. Potholm and Richard A. Fredland (Washington, D.C.: University Press of America, 1980), p.61.

29. Transport and Communication constraints are particularly severe in Zambia, Ethiopia, Djibouti, Somalia, and the island states. Anjaria, et al, p.2.,

30. On studies to improve links between states in eastern Africa, see Africa News 16, 13 (30 March 1981): 6-8 and 10. For finalized studies, see Standard, 14 April 1987.

31. On SADCC's rail projects, see African Business 70, June 1984, p. 74. On South African sabotage, particularly of transport and communications links, in southern Africa, see Africasia 1, January 1984, pp.20-21.

32. Anjaria, et al,, p.11. Emphasis added.

33. Ibid.

34. See J. Kungu, "Prospects for INIncreased Trade in East Africa Following the Opening of the Tanzania/Kenya Border", paper presented at Regional Cooperation and Development Workshop, Friedrich Ebert Foundation, Nairobi, 15 May 1984.

35. Anjaria, et al, p.10.

36. Douglis G. Anglin, "Economic Liberation and Regional Co-operation in Southern Africa: SADCC and PTA," International Organization 37, 4 (Autumn 1983): 690.

37. According to the 1987 PTA Business Diary (Nairobi: Kenafric Diaries, P. O. Box 10460, Nairobi, 1986), "The didea for an East African PTA was first mooted in 1975 by the Economic Commission for Africa (ECA). It was the particular concern of the ECA Executive Secretary, Adebayo Adedeji". See p. 52.

38. Weekly Review, 25 November 1983, p.11.

39. See United Nations, Economic Commission for Africa, Proposed Treaty for the Establishment of a Preferential Trade Area for Eastern and Southern African States, Memorandum by the Executive Secretary of the United Nations Economic Commission for Africa to The Second Extraordinary Conference of Ministers of Trade, Finance and Planning of the Eastern and Southern African States, Kampala, Uganda, from 27 October to 1 November 1980, p.9. The introduction of this document contains a brief summary of the reservations of some fof the states regarding certain provisions of the draft treaty. See pp.1-16. Referred to hereafter as Proposed Treaty.

40. Ibid., p.10.

41. African Business, November 1985, p.52.

42. For a discussion of such consequences, which concludes that penetration by external private capital will increase when regional trade is liberalized based on free trade principles, see Philippe C. Schmitter, "Autonomy or Dependence as Regional Integration Outcomes: Central America," Research Series No.17, Institute of International Studies, University of California, Berkeley, 1972.

43. Included in this category are food and other crops, minerals, livestock, livestock products, and scrap and waste resulting from local manufacturing.

44. Weekly Review, 15 February 1985, pp.15-16 of Financial Review Supplement. See Treaty, Annex III, Protocol on the Rules of Origin, Rule 2, p.62. (See Note 45 below).

45. United Nations, Economic Commission for Africa, Treaty for the Establishment of the Preferential Trade Area for Eastern and Southern African States, Lusaka, Zambia, 21 December 1981. Referred to hereafter as Treaty.

46. There is a discrepancy between reports of the Treaty signing and the signatures actually affixed to the Treaty on 21 December 1981. See Weekly Review, 25 November 1983, pp.11-12; and 1987 PTA Business Diary, p.52. Both indicate that only nine states signed the Treaty on 21 December 1981.

47. Weekly Review, 25 November 1983, p.12.

48. Asked why Tanzania ahad not joined the PTA, Nyerere amade the following statement: "The problem from our point of view is that we are worried about the size and ambition of the PTA at this stage. We have until now felt that we should concentrate on consolidating and developing our regional cooperation within the framework of the SADCC. For when Tanzania enters into international agreements, it takes them very seriously. If we have doubts about our ability to carry out the commitments of an agreement, we would rather not enter into it. The embarrassment in this case comes from the fact that we did take part in in the original negotiations for the PTA." From "Total Unity Will Come," Interview with President Julius Nyerere of Tanzania, p. 72, in "A Union for All Seasons," Special Supplement, Africa 152, April 1984, pp.46-72.

49. PTA News (Nairobi), July 1986, p.30.

50. Africa News 21, 19 (7 November 1983): 1-3.

51. See Amon J. Nsekela, ed., Southern Africa: Toward Economic Liberation (London: Rex Collings, 1981), p.xii.

52. For trade figures to 1980, see Anjaria, et al, Appendix 1, Table II, p.30.

53. Ibid., Table 10, p.28.

54. Treaty, Article 14, p.14.

55. The first Secretary General, Moses Semyano Kiingi, a former executive director of the IMF, was suspended in December, 1983, by President Kaunda of Zambia, acting in his capacity as Chairman of the PTA? for alleged "high-handedness in decision making". The management of the PTA was temporarily placed in the hands of the ECA until the PTA Authority appointed a new Secretary General, Dr. Bax Nomvete. See Africa 148, December 1983, p.34.

56. Weekly Review, 25 November 1983, p.11.

57. PTA News (Nairobi), September 1986, p.8.

58. Treaty, Chapter Two, paragraph 1 of Article 2, p.3.

59. Weekly Review, 17 February 1984, p.24.

60. Ibid.

61. Weekly Review, 25 November 1983, p.11.

62. Initially the Reserve Bank of Zimbambwe was to act on behalf of the Clearing House for a two-year period. See Africa 152, April 1984, p.78; and African Business 67, March 1984, p.29.

63. See PTA Multilateral Clearing Facility Operational Procedures Manual, Reserve Bank of Zimbabwe, January 1984, p.7.

64. Treaty, Annex VI, Protocal on Clearing and Payments Arrangements, Article 6, p.121. For procedures of the PTA Clearing House, see Note 63. See also African Business 67, March 1984, p.29; 1987 PTA Business Diary, pp.3-4; and PTA News (Nairobi), July 1986, p.30. For similar payments arrangements in ECOWAS, see Peter Robson's description of the West African Clearing House in Integration, Development and Equity: Economic Integration in West Africa (London: George Allen & Unwin, 1983), pp.159-162.

65. African Business, December 1984, p.51.

66. Nation, 27 June 1985.

67. Weekly Review, 21 March 1986, p.27.

68. PTA News (Nairobi), July 1986, p.30.

69. PTA Report of the Sixth Meeting of the Council of Minister, July 1985, Bujumbura, Burundi, p.12 (referred to hereafter as PTA/CM/VI/5).

70. G. K. Ikiara, "Preferential Trade Area Gets Off to a slow Start," Nation, 31 January 1985, p.10.

71. PTA/CM/VI/5, p.12.

72. Interview, Kenya Ministry of Commerce, July 1987.

73. Kenya, Ministry of Commerce, PTA Certificate of Origin Yearly Returns, 1985 and 1986.

74. Calculated from Kenya Annual Trade Report, 1986.

75. Kenya, Ministry of Commerce, PTA Certificates of Origin Monthly Returns to July 1987.

76. Nation, 24 December 1984; Standard, 26 January 1985.

77. Kenya, Ministry of Commerce, Department of External Trade, P.T.A. Rules of Origin Study, September 1985.

78. The survey was based in responses to a questionnaire and, as only 268 firms responded, the results are not at all comprehensive. In addition, because Kenya was pressing for relaxation of the Rules of Origin at the time that the survey was done, it was in the interest of the foreign-owned firms to respond. Therefore, they may be overrepresented in the sample.

79. PTA/CM/VI/5, p.4.

80. Ibid.

81. Ibid., pp.4-5.

82. PTA News (Nairobi), August 1986, p.2. For reported South African pressure on Mauritius to withdraw, see African Business 99, November 1986, p.11. For the reasons for withdrawal given to a PTA Ministerial Mission in April, 1987, see PTA Draft Report of the Council of Ministers, Addis Ababa, Ethiopia, 18-22 June 1987, pp.4-5 (hereafter referred to as PTA/CM/X/4).

83. PTA News (Nairobi), July 1986, p.28.

84. Executive Secretary's Report, PTA Clearing, June 1987.

85. PTA News (Nairobi), July 1986, p.30; and interview with Barclays Bank Officer, March 1987.

86. PTA News (Nairobi), September 1986, p.8.

87. PTA/CM/X/4, p.23.

88. As an example, more than a year after Tanzania had joined the PTA, it was announced that three Kenyan commercial banks had recently opened correspondent accounts with banks in Tanzania and that the Central Banks in the two countries had established reciprocal accounts. Weekly Review, 11 April 1986, p.24.

89. Weekly Review, 13 September 1985, p.23.

90. Circular letter dated Lo 10 October 1984 from Manager, Foreign Department, Central Bank of Kenya, to Kenya Commercial banks.

91. A. Ogana, Business Development Officer, Barclays Bank, Marketing Executives Seminar, Nairobi, 25 March 1987.

92. Mauritius advised that it would not sign the agreement due tp its "unique geographical position"; Comoros may not sign for the same reason; and Lesotho will consider the matter, despite the fact that its territory is surrounded by South Africa. Other states that had not signed the agreement by June, 1987, were Djibouti, Malawi and Somalia. PTA/CM/X/4, p.25.

93. Interview, Kenya Ministry of Commerce, July 1987.

94. Each state will have a "national bureau" to administer the scheme. In Kenya the bureau is the Kenya National Assurance Company Limited. Kenya Times, 29 August 1987.

95. PTA/CM/VI/5, p.11.

96. Draft Report, Third Meeting of PTA Federation of Chambers of Commerce and Industry, Addis Ababa, Ethiopia, 17-19 November 1986 (referred to hereafter as PTA/FCCI/III/7), pp.17-19.

97. Ibid., p.18.

98. From the Proposed Amendments to the Charter of the Federation of Chambers of Commerce and Industry, Annex 1, pp.3 and 5, of PTA/FCCI/III/7.

99. Ibid., pp.8, 11 and 14. This is also a revenue-generating activity for the organization.

100. Ibid., p.8.

101. Ibid., p.14. The demand and supply surveys are being conducted by the International Trade Centre UNCTAD/GATT (ITC), which is providing technical assistance to the PTA Secretariat in Lusaka. See 1987 PTA Businsess Diary, p.16.

102. Ibid., p.12.

103. Treaty, Annex 1, Protocol on the Reduction and Elimination of Trade Barriers on Selected Commodities to be Trac within the Preferential Trade Area, Article 4, pp.44-45.

104. The Common List: Commodities to be Traded under Prefer tial Treatment within the PTA Subregion, 10 September 1986.

105. E.A. Report on Trade & Industry, July 1984, pp.5-7; Standard, 17 May 1985; and 1987 PTA Business Diary, p.203.

106. E.A. Report on Trade & Industry, December 1986, p.7.

107. Kenya, Economic Survey 1986, p.65.

108. Proposed Treaty, p.9.

109. Treaty, Annex 1, paragraph 2 of Article 3, p.44. Emphasis added

110. Ibid., paragraph 3 of Article 4, p.45.

111. Ibid., paragraph 5 of Article 4, p.45.

112. PTA News (Nairobi), July 1986, p.6.

113. Nation, 11 March 1985 and 7 April 1985.

114. Treaty, Annex 1, paragraph 3 of Article 3, p.44.

115. The amendment refers to Ibid., paragraph 2 of Article 3, p.44. See PTA/CM/VI/5, pp.5-6.

116. PTA News (Nairobi), September 1986, p.9.

117. 1987 PTA Business Diary, p.202.

118. Interview, Kenya Ministry of Commerce, July 1987.

119. PTA/CM/K/4, p.13.

120. From interview, Kenya Ministry of Commerce, July, 1987; PTA/TC/CT/VIII/3, p.1 (see Note 121); and Standard, 6 December 1986.

121. PTA, Eighth Meeting of the Customs and Trade Committee, Study on the Feasibility of Eliminating Customs Duties and Non-Tariff Barriers to Intra-PTA Trade by September 1992, Lusaka, Zambia, 28 April 4 May, 1987 (hereafter referred to as PTA/TC/CT/VIII/3), p.2.

122. Ibid.

123. Ibid., pp.7 and 14.

124. Ibid., p.24.

125. Ibid., pp.24-27.

126. Interview, Kenya Ministry of . merce, June 1987.

127. PTA/CM/X/4, p.9.

128. Ibid., p.10.

129. Ibid.

130. ibid., p.11.

131. Ibid., emphasis added.

132. Ibid., pp.11-12.

133. Anjaria, et al, p.2; Standard. 14 April, 1987.

134. E.A. Report on Trade & Industry, December 1986, p.7. Several persons interviewed after the meeting indicated their belief that these dates are not based on concrete plans by Ethiopia and Somalia, but merely reflect their desire to forestall greater involvement in the PTA.

135. On SADCC, see Anglin; and Reginald Green.

136. Robson, Integration, Development and Equity, pp.88-123 and 167-170.

137. See Note 108.

138. Notable examples include the East African Community, Communauté Économique de l'Afrique de l'Ouest, and the Central American Common Market. See Peter Robson, The Economics of International Integration (London: George Allen & Unwin, 1980), p.152.

139. Treaty, Article 24, p.20.

140. PTA News (Nairobi), July 1986, pp.6 and 28.

141. Treaty, Annex VIII, Article 24, Protocol on Co-operation in the Field of Industrial Development, Article 1, p.137.

142. Nation, 24 December 1984; and PTA News (Nairobi), October 1986, pp.19 and 21.

143. Treaty, Article 33(c), p.27.

144. PTA News (Nairobi), October 1986, pp.19 and 21.

145. Robson, Integration, Development and Equity, pp.105-109.

146. Ibid., p.169.

147. For Kenya, see Central Bank, Quarterly Economic Review for July-September 1986. On Zimbabwe's economy, see Nation, 19 April 1987.

148. PTA/TC/CT/VIII/3, p.23.