THE IMPACT OF INTER-STATE RELATIONS ON THE USE OF THE PTA CLEARING HOUSE

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A THESIS SUBMITTED IN PARTIAL FULFILLMENT FOR THE MASTERS OF ARTS DEGREE IN INTERNATIONAL RELATIONS AT THE UNIVERSITY OF NAIROBI, KENYA

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1992

ACKNOWLEDGEMENT

I am grateful to the University of Nairobi for offering me a chance to undertake this study. Special appreciation goes to Professor J.B. Ojwang, the former Director of Postgraduate studies, Dr. J.D. Olewe Nyunya, the Chairman of Government Department and Professor Muriuki, the former Dean of Arts for the encouragement and welcome they accorded me during my masters course.

This was because everyone else discouraged the idea of going back to school, given that the first masters degree I already possessed could have sustained me in my present job or even found me a better position elsewhere.

I specifically want to thank Dr. A Anangwe, the first supervisor for making constructive criticism on the various drafts of my thesis. He spent some of his precious hours going through my work, therefore I am indebted to him.

I sincerely want to thank Dr. Olewe Nyunya, my second supervisor, whose decision to offer me a place in the Masters Programme not only assisted me to join the University, but also was resourceful at the various stages of my degree course. In fact, I could not have successfully finished this study without his persistent encouragement.

To all members of the department and Institute of Diplomacy and International Studies, their co-operation cannot go unmentioned.

Lastly, is the health services of the University, who solved all my real and imagined health problems; my success is partly due to them.

Last but not least, a word of thanks goes to my parents Sospeter Mwangi and Doris Wanjiru, who always reminded me that my school work comes first.

My daughter Hellen who, though desperately, understood why mum could not go to see her on a number of Sunday-out occasions.

As is customary in academic writing, the responsibility for mistakes that remain and conclusions reached in this study is mine.

ABBREVIATIONS

ACP-African Caribbean and Pacific

BLSS States-Botswana, Lesotho, South Africa and Swaziland States

CMA-Common Monetary Area.

EACB-East African Currency Board

EEC-European Economic Community

EFTA-European Free Trade Association

GSP-Generalized System of Preferences

KETA-Kenya External Trade Authority

PTA-Preferential Trade Area for Eastern and South African States

UAPTA-Unit of Account of the Preferential Trade Area.

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ABSTRACT

African integration systems are aimed at promoting economic development through both political and economic means by bringing together of hitherto autonomous regions or countries into an integrated whole. Usually such systems are perceived purely in economic terms and therefore economic concepts are used to interpret and regulate interstate trends.

The reality, however, is that politics plays a bigger role in the central mechanism, direction and existence of such economic integration systems. This also is the case in the Preferential Trade Area for Eastern and Southern African States (PTA) and particularly the creation, operation and expansion of the Clearing House which is an integral part of the PTA.

This study looks at PTA with a central focus on the Clearing House, which is viewed as the most important organ of the institution.

The development of the Clearing House is affected by the monetary co-operation in the region. The increased or decreased use of the Unit of Account of the PTA, is a vital variable that is discussed in the study.

The development of the Clearing House is also affected by the rules of origin and the common-list both of which were initially introduced with an aim to promote the regional co-operation.

They, however, affect the institution negatively and have therefore reduced the utilization of the Clearing House.

Other regional organizations like the SADC and South African Monetary area have surely an effect on the PTA. These organizations are discussed to the extent in which they negatively affect the PTA.

The study concludes by noting that politics has a greater impact than economics in the development of not only the PTA Clearing House but also in other Economic integration systems. Various recommendations and suggestions for further study have been included. The study was found favourable and timely particularly because it was carried out at a time when the whole world was regrouping itself into regional integration blocks.

CHAPTER ONE

1.0 STATEMENT OF THE PROBLEM

The multilateral clearing house or facility became operational in February 1984. During this time, "only six states; Ethiopia, Malawi, Mauritius, Swaziland, Zambia, and Zimbabwe used the clearing house in the first six months of its operations".[1] By July 1985, the number had increased to nine as "Burundi, Kenya and Lesotho joined membership".[2]

Presently (1992), sixteen member countries are already using and contributing to the PTA clearing house.[3] The problem this research will study is:-

1. Is the clearing House underutilized?

2. How has the inter-state relations reduced the utilization of the clearing house?

1.1 OBJECTIVES

i. General: The general objective of the study is to investigate the cause-effect in the establishment, existence and expansion of the clearing house as related to the interstate relations of the PTA member countries.

ii. Specific: The specific objectives are:-

a. to investigate the origin of the clearing house.

b. to investigate and explain the activities, rules and objectives of the PTA clearing house.

c. to investigate and explain the introduction and use of the Unit of Account of the PTA (UAPTA).

d. investigate and explain the impact of interstate relations on the clearing house.

e. to investigate and explain the impact of the rules of origin on use of the clearing house.

f. investigate and explain the impact of the common-list on the PTA Clearing house.

1.2 LITERATURE REVIEW

Whereas there is a growing body of literature on the PTA, very little has been done by way of detailed analysis of the clearing House.

Most writers have continuously picked on a few issues on the initial objectives and functions of the multilateral clearing house, as concerns for their studies. This study takes the clearing house as the unit of analysis and therefore attempts to give a detailed investigation in order to fathom properly the nature of the relations of the PTA member countries.

According to Kiruthi, the "clearing house" is a very important organ of the PTA with a primary function to facilitate international payments for imports of export proceeds".[4] He however explains that "experts" were to give details about the clearing house, meaning that he did not go far enough. However, none of the other presenters in the seminar gave any detailed analysis of the clearing house, nor on the political implications on the PTA institution in general.

Hall, dealt with the formation and operation of the PTA. She however did not focus on the clearing house and the implication of the interstate relations on it (sic).

Ngunyi in his analysis of Rule 2 (i) a of the Rules of Origin did not explicitly explain the importance of the clearing house and particularly did not stress on the impact of interstate relations on the clearing house. He dealt much more on the foreign investments as an attempt to explain whether the PTA economy would invite foreign investors or not.[5]

Asiko noted that "the sudden creation and its (PTA) birth was not really preplanned"[6] She continued to argue that politics disunite and brings controversy in the activities of the PTA sub-region. She however failed to note that politics can unit as much as it could disunite, and that the formation of the PTA was actually politically motivated, though it was shrouded an economic garb. The fact that she acknowledges that "the PTA operations phase was not launched by the PTA Authority until July 1, 1984 in Lusaka .... where lack of consensus on contested issues grew,"[7] suggests that at the back of her mind, political implications on the formation and existence of PTA looked.

Asiko did not however clearly dwell on elements of the clearing house or on the political implications on the clearing house.

Issues on economic integration are viewed as an important concern in this study.

Regional Cooperation

Since World War II, there has been a tremendous interest in integration between nations, and in particular in economic integration. The enthusiasm for international cooperation has been stimulated largely by the success of the European Common Market, which was itself inspired by the success of the United States economy (Keegan 1984: 143). In fact, economic integration between sovereign states has some claim to be regarded as one of the leading aspirations of international economic policy in the mid-twentieth century so much so that this era has ben termed "the age of integration" (Harberler 1964:1).

The interest has been felt by all continents of the world and several attempts have been made to emulate the European Community. However, the reasons behind all these attempts at regional cooperation are varied as outlined below.

Rationale for Regional Cooperation

Broadly speaking, economic, political and social factors have had a serious impact on individual countries. These countries, individually cannot overcome the pressures brought about by these factors, but hopefully, can do so collectively as a group (Robson 1968:69).

At the political level, the basic motivation for integration springs from the assumption that for all but a few larger states, considerations of modern and genuine independence render some form of international cooperation or interdependence inescapable. For example, in Africa, during the colonial period this cooperation took the form of a dependence of African states upon foreign powers. In post-colonial Africa, there exists a fairly widespread desire to free the continent from its external dependence and to provide the safeguards and benefits of interdependence through a continental, or, at the very least, a wide geographical system of institutions capable of harmonizing the common interests of African states and presenting a unified front in external affairs (Rosbon 1968: 11).

Political amenability among countries is a basic requisite for the development of a supranational market arrangement. In fact, even though economic considerations provide the basic catalyst facilitating the formation of cooperation arrangements, political elements are also important. Participating countries must have comparable aspirations and general compatibility if they are to give up any part of their national sovereignty (Cateora & Hess 1979:301). For example, the uniting of the original European Community countries was partially a response to the outside threat of Russia's great political and economic power - the countries of Western Europe were willing to settle their family squabbles and present a unified front to the Russians.

Although the interplay of political interests including a desire for greater international bargaining power undoubtedly accounts for some widespread interests in integration at the present time, t he primary motives are commonly economic.

At the economic level, integration involves the removal of tariffs and other trade barriers like quotas, discrimination and exchange controls among trading partners with the aim of enhancing trade. Thus every form of economic integration shares the development and enlargement of market opportunities as a basic orientation. Usually markets are enlarged through preferential tariff treatment for participating members or common tariff barriers against outsiders (Kibera & Waruingi 1988:227). Enlarged and protected markets stimulate internal economic development by providing assured outlets and preferential treatment for goods produced within the union.

Furthermore, wide markets may make it possible to attract more foreign capital and to increase employment (Cateora & Hess 1979) through multinational cooperations. Without mass marketing facilities and mass markets, modern mass production capacity cannot be successfully employed and it is on this basis that most multinationals operate (Keegan 1984:169).

In addition, regional economic groupings allow countries the advantages of economies of scale and facilitate more efficient division of labour among the countries forming them (Harberler 1964). This is made easier when there is a free movement of goods, capital and people, as seen in the European Community. Thus countries are able to enjoy the fruits of larger markets while maintaining their individual identities and political systems (Cateora & Hess 1979:301).

Other advantages include diversification of output, which, it is hoped, may contribute to economic stability as well as to growth. If instead, each country tries to develop separately behind its own national tariff barriers, low per capita incomes, small populations and narrow resource bases will in many cases make the achievements of their objectives more costly, if not impossible (Kennedy 1959:45). Expansion of market also leads to capacity utilization and gains from economies of scale (Makanda et al 1987:7). For consumers, there is a wider variety of goods available which are usually of higher quality and sell at competitive prices.

Integrated countries can also benefit from coordinated planning in the fields of research and communication.

<u>Types of Regional Cooperation Arrangements</u>

There are many degrees of economic cooperation ranging from simple agreements of two or more nations to reduction of barriers to trade, to the full-scale economies. Economic integration, is a term to which economists have attached a variety of meanings, embracing several forms of international economic cooperation from free trade areas to political unions, as outlined below.

i. Free Trade Areas

In such an arrangement, a group of countries agree to abolish all internal barriers to trade such as tariffs and other quantitative restrictions such as tax systems and monetary systems between member countries, but the member countries can, and do, maintain independent trade policies vis-a-vis third countries (Kibera & Waruingi 1988:228). To avoid trade diversion in favour of low-tariff members, a system of certificates of origin is used. A good example of a free trade area is the European Free Trade Association (EFTA), where member countries retain their own tariff structures for non-EFTA countries (Keegan 1984:144). Another example is the Latin American Integration Association, (The Economist Dec. 1981:64).

ii. Customs Union

A customs union involves not only free trade between its members, but also a common external tariff applicable to non-member countries (Kibera & Waruingi 1988:228) and is thus the logical evolution of the free trade area. When fully implemented, a customs union results in members of the group treating the goods produced in other member countries as if they had been produced within their own borders. Thus tariffs or other types of discrimination based on national origin cannot be placed upon imports of merchandise coming from other member countries. Within the confines of a customs union, merchandise is as free to move as it is between the states of the United States of America (Cateora & Hess 1979). Today there is no significant form of a customs union in operation, although a union is a logical stage of development in the transition from a free trade area to a common market (Keegan 1984:145).

iii. <u>Common Markets</u>

This is a more developed form of integration in which in addition to free trade, obstacles to the movement of some or all of the factors of production within it are also removed (Lipsey 1960:496). The EAC, the EEC and the PTA all share a common objective in that they all aim or aimed at setting up a common market.

iv. <u>Economic Union</u>

This is the most advanced form of economic integration. Here fiscal, monetary and other instruments of economic policy are also harmonized or integrated, as a further build-up on the elimination of the internal tariff barriers and the establishment of common external barriers. It also seeks to coordinate economic and social policy within the union to allow free flow of capital from country to country (Keegan 1984:145). Thus an economic union is a common market place not only for goods but also for services and capital. The full evolution of an economic union would involve the creation of a unified central bank, use of a common currency, and common policies on agriculture, social services and welfare, regional development, transport, taxation, competition and mergers (Kibera & Waruingi 1988). The best-known and most successful example of an economic union is the EEC. Others include the Caribbean

Community and Common Market (CARICOM), and the Central American Common Market (Keegan 1984:146).

All these forms of economic integration, however share two essential characteristics:-

i. they facilitate expanded specialization and exchange between groups of independent countries by means of elimination or substantial reduction of barriers to trade among them;

ii. they entail discrimination against non-member countries (Robson 1968:26).

Integration may thus be defined as a situation having these characteristics.

Problems of Regional Cooperation

All cooperation arrangements face problems and these differ greatly depending on the objectives of the cooperation, the stages of development the member countries are in, and the different political, economic and socio-cultural influences. In addition each member country faces its own unique problems which sooner or later become the regional cooperation's problems.

The most difficult problems of integration arise from the fact that it is likely to affect different members differently. Because countries invariably progress at different rates, economic integration is bound to make matters worse when no attempt is made to "regulate" the market forces in the interest of balanced development. There is likely to be a tendency for development to be polarized in a few member states, and this situation will reinforce itself because the countries whose exports are rising will tend to attract even more investment (Todaro 1982).

An unequal distribution of the benefits of integration is not inevitable, but it is particularly likely to occur when the union is between countries of substantially different levels of development.

This is clearly pointed out by Guy Martin with respect to the Economic Community of the West African States (ECOWAS) when be says that,

"the member states of ECOWAS differ greatly in size and specialization, economies of scale, augmentation, factor input and opportunities to improve market structures ..... economic integration, then tends to yield unequal benefits".

It must be noted that integration is not necessarily the cause of this unequality - it just seems to make it more obvious. Unless ways and means of distributing the benefits are defined *a priori* benefits may go to one or two countries leaving other impoverished (Makanda et al 1984:4).

Integration is made more difficult where member countries have diverse political interests as this brings about great differences in perceptions of economic and social policies which are implemented at a national level.

All nations of the world cherish their national sovereignties (Mutugu Nov. 1988). This is a serious problem in regional cooperation.

Perhaps the most serious problem, and indeed a major cause of regional cooperation failure, is the lack of sensitivity to individual member countries benefits, or at the very least priority being given to regional benefits, with national benefits more often than not looked at only after regional benefits have been assessed.

Other problems worth mentioning, although they need not necessarily arise in regional cooperation arrangements include geographical proximity of member countries which affects transport and communication between member countries; multiple institutional memberships hence member countries having divided loyalties, diverse language and socio-cultural differences affecting marketing and other issues.

1.3 THEORETICAL FRAMEWORK

Theory is a systematic body of generalizations to describe, explain and prescribe value. Every field therefore requires the development and use of theory for analysis and comprehension of the phenomena in that field.

Various theories that are applicable in the market integration system have been found inadequate in this unit in the integration system, specifically the effect of the interstate relations on the use of the clearing house.

The PTA trade is viewed as closely related to barter trade. This means that money may not be a necessary factor if the full objectives of the PTA are arrived at.

It is therefore important to note the laissez-faire nature of trade within the sub-region. In this type of trade as argued by Adams Smith,

"trade rather than gold or treasure are the true measures of the wealth of a nation"[8]

and that all countries would gain from international division of labour as opposed to the mercantilistic theory that:-

"in international trade, one country gain only at the cost of the other country"[9]

Smith Advocates harmony of interests among countries in the international trade where free trade, like honesty would come out as the best policy for all.

In Smith's classical theory of international trade, a country should produce goods which have absolute advantage in production. In the case of the PTA sub-region, one country should be able, therefore, to produce that commodity that has minimum cost of production in comparison to another country producing the same commodity at a higher cost. The former country would enjoy the economies of scale in producing a type of good cheaper than other countries and therefore the price of that commodity will be cheaper in the sub-regional markets than if it was produced by the latter country. In this theory, the welfare of every individual country unequivocally improves with free trade.

However, considering that "some trade is better than no trade, and free trade than restricted trade",[10] each country can still produce similar commodities under the conditions that no country has enough capacity to adequately supply the sub-regional demands.

This method where all countries produce and sell any commodity available is argued out by Ricardo in his comparative advantage model. He argues that if a country would not have absolute advantage in any line of production over others, international trade would (still) be beneficial and bring gains from the participating countries".[11] Both David Richardo's theory of comparative advantage and Smith's theory of absolute advantage are experienced in the PTA sub-region. It is one of the considerations that interstate relations could be banked on.

First and foremost is that the region falls under similar geographical, historical and economic conditions. The whole region mainly produces and exports primary commodities. These products include tea, coffee, cotton, among others. The majority of countries had a similar colonial master.

Duplication of items in production is therefore expected, although the PTA institution is coming up with specialized production units for the member countries e.g. leather industry in Ethopia and steel products in Zimbabwe.

Both Adam Smith's and David Richardo's theories are therefore relevant in the PTA sub-region. These theories imply strong trading links among the trading partners. Each country is expected to depend on the other for both export and import of goods and services, which are either in big or short supply.

The sovereignty of every member state within the sub-region cannot be ignored and therefore the extent of interdependence is to a larger extent left to the decisions of political leaders - Interstate Relations.

Nye, argued out, "inter-dependence ... involves two or more actors. There is normally some degree of mutuality or reciprocity inherent in any relationship".[12] On the issue of reciprocity, Nye continues to explain that "interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries, ... which does not refer to situations of mutual benefits only, ... is not free from

distributional conflict whether expressed in terms of maximization of benefits or costs".[13]

In such a sub-regional co-operation institution like the PTA, the question of relative distribution of gains and losses should not be the very centre of interest. This does not however call for a "zero-sum-game" type of a trade where one country gains at the expense of the other, but should be a "variable-sum-game" where many possible combinations of gains and losses for either side may occur and therefore, all countries gain in totality.

The success of such a block of co-operating countries will create a dynamic process with certain "spill-over" effect which will make necessary to intensify the co-operation and gradually spread it to cover other sectors as well. The co-operation will, little by little, be more politicized, and increasingly powerful regional institutions will be

created. This would reduce tensions among member countries and improve the inter-state relations of the member states.

1.4 JUSTIFICATION OF THE STUDY

Nations, like most of the PTA member states, that attained their independence three decades ago must be able to note the changes that have occured in the world.

Reasoning from the premise that the dynamic world politics is the clash of great arguments about how mankind should live, most of mankind is now agreed that the more open and freer the economy is, the better for the development of the welfare of the nations.

The creation of the PTA and its institutions therefore, could not have come up more timely than now. Of great importance is the clearing house that by transacting the trade without the use of the foreign currencies, makes the member countries an adhesive group capable of satisfying some of their basic demands without resorting the developed countries for foreign currency or related assistance.

The creation of the clearing house allowing the use of national currencies in the subregional trade, justifies this study in that the PTA sub-region can now more actively facilitate development, trade and labour movement.

This massive block of PTA countries creates a force that cannot be ignored by the rest of the world and surely creates a lot of goodwill among its members, who in turn would try to reduce their political tensions for the co-operation and welfare of each individual member state. The clearing house established under the PTA umbrella, makes the PTA institution unique in that sub-regional trade can now be transacted with less need for foreign exchange. People can also move easily by use of the PTA currency. The mode of existence among the PTA member states is completely changed and therefore the study is comprehensively justified.

1.5 HYPOTHESES

Three hypotheses were formulated in this study;

a. That the greater the use of the clearing house, the less the use of the foreign currency and therefore, the greater the flow of the volume of trade in the PTA sub-region.

b. The greater the flow of the volume of trade, the greater the use of the clearing house and therefore, the greater the gains from the trade in the sub-region.

c. The greater the gains from the trade, the more the member states would want to unite and the more the states would respond to improve the policies in the use of the clearing houses.

Three variables surface from this hypothesis; trade, the clearing house and the politics among member countries. Under this hypothesis, that politics becomes the independent variable, the volume of trade will depend on the political climate and other economic factors in the region while activities in the clearing house depends on both the political intervention and amount of trade transacted through it (sic). It therefore becomes the dependent variable.

1.6 METHODOLOGY

Both primary and secondary data are used, although there is more reliance on primary sources than secondary data.

Primary data has been collected through interviews with the commercial attaches and first secretaries in embassies of PTA member countries based in Nairobi; the foreign desk senior officials of Kenya Export Trade Authority in the Kenya Ministry of Commerce; the PTA co-ordinator in the Ministry of Planning and National Development; the PTA secretariat officials in the trade and customs department in Lusaka

Zambia; and lastly, with the PTA clearing house manager in Harare, Zimbabwe.

A questionnaire was also used to guide discussions in the PTA clearing house (Harare) to so elicit information.

Secondary sources include; PTA summit papers, technical reports from related workshops, seminars, etc. PTA journals, magazines, local media statistical abstracts, annual trade year books have also been used.

END NOTES

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11. Ibid.

12. Ibid, p. 5.

13. Comments made by an Official in the Zimbabwe Embassay, Nairobi, October, 1991.

CHAPTER TWO

THE CONCEPT OF HARMONY AMONG USERS OF CLEARING HOUSES

2.1 Introduction

The idea of a clearing house originated many years ago when the job of some of the clerks in various banks in London was to take from one bank to the other bank officials, bundles of cheques for payment. Initially, the clerks would meet at a coffee house for refreshment and it was here they soon realized that they could exchange cheques among themselves, and acknowledge receipt of payment in cash of the difference due to or from each bank.

Representatives realized that there was really no need for them to call at each other's offices, as the same result could be achieved over the refreshment table. The idea was so good that it was soon adopted by the London bankers.[1]

The above story shows that there was a lot of harmony among the clerks who formed the idea of a clearing house. A lot of harmony is therefore needed in the prototype clearing house as its basis was close friendship and collegiality among the bankers.

To form a clearing house, harmony amongst the major participants is therefore a prerequisite factor.

2.2 HARMONY AMONG THE BANKS AS A PREREQUISITE IN THE FORMATION AND EXISTENCE OF CLEARING HOUSES

Despite the huge sums involved, the bankers clearing system works very smoothly. To illustrate the machinery of settlement, one bank at the end of the day delivers to the clearing house cheques drawn on other banks for a total of #10,000,000. In exchange, this bank receives from the clearing house cheques drawn on itself for a total of #9,500,000.

The bank is thus owed #500,000 and this is settled by way of transfer of this amount from the account of the main clearing house to its own account.

A clearing house can actually be described as an association of banks, created to facilitate the clearing of cheques, drafts or other systems amongst the members. It also formulates policies and rules for the mutual benefit of all members. This fact shows that a clearing system cannot work properly without harmony among the members involved. For example, Kenya threatened to trade by use of direct, bilateral methods with Uganda when political tension had highly increased in 1984.

This was because Kenya was getting dissatisfied "over not getting immediate foreign currency payment, this led Kenya in refusing Uganda the right to use the clearing house for bilateral trade".[2] This shows that political harmony is an important factor for consideration in the use of the clearing house amongst nations.

Under such circumstance, the economically poorer country suffers. In this case, Uganda suffered because almost one-third of her imports came from Kenya. The implication on Kenya's resort to direct bilateral trade was that Uganda had to pay with hard currency and in fact, had to pay immediately from Kenyan goods. As will be noted in a later chapter, trade through the clearing house makes the debtor to enjoy up to seventy five (75) days interest free credit. While it is a joy to the debtor, it is a sacrifice by the creditor.

2.3 ECONOMIC AND POLITICAL RECIPROCITY IN CLEARING HOUSES

Exchange clearing agreements can be bilateral or multilateral.

Bilateral clearing arrangement lead to a system of international trade and payments of a barter nature. For example in the 1930's, German coal producers arranged for the export of coal worth 9 million marks to Brazil and they obtained in exchange, an equal value of imports of coffee from Brazil; similarly, German fertilizer was exchanged for Egyptian cotton".[3] In fact, to try to alleviate the foreign exchange shortage which reduces production and trade, several (SADCC) states have entered into bilateral counter-trade. As Thompson notes, "Mozambique and Tanzania have the most developed arrangements. They pay each other in local currency until one reaches surplus limit. That partner is then asked to settle the account by purchasing more. Tanzania also has counter-trade arrangements with Zambia and Zimbabwe; Zimbabwe has further counter-trade with Zambia and Mozambique".[4]

There has been little or no political tensions between the trading partners in the Eastern and Southern Africa. Both political and economic harmony is therefore believed to be the main factors behind the success of the bilateral trade among the members involved.

This information shows that if barter trade continued, there would not be any balance of payments (BOP) or surpluses in any country. There would be no need to use money or foreign exchange in settling international trade. However, this presupposes that political and economic harmony exists amongst the trading nations.

Nonetheless, PTA sub-region is discouraging the use of bilateral payments arrangement within the member countries by encouraging the multilateral payment arrangement through the clearing house. This was confirmed by the sixth meeting of the authority when it was noted that "the continuation of maintenance of reciprocal accounts between member states ... violated the provisions of the treaty and the decisions of the policy organs of the PTA and should therefore be discontinued".[5]

Multilateral clearing arrangement or payment union was expertised by the sterling area, composed of the United Kingdom (UK) and most of the common wealth countries. The European payments union which existed from 1950 to 1958 also used multilateral payments agreements.

The multilateral arrangements therefore entails automatic restoration of trade balance. This "restoration cannot however be maintained without some degree of political and economic interdependence".[6]

The issue of political harmony among the PTA member countries is therefore imperative for the increased utilization of the clearing system and the political relationships, remain both a means and an end to each other. Trade as an intervening variable is a means for both the clearing house and the political factor as earlier mentioned. As earlier noted, the study cannot ignore the fact that the volume of the flow of the trade could be adversely affected by political tensions and failure to property use the clearing house.

2.4 THE PTA CLEARING HOUSE

The PTA Clearing House was set up under Article 11 (c) of the PTA treaty which stipulates that there shall be a Clearing House. It became operational from first February 1984[7]. The objectives of the clearing house include:-

a. "to help economize on the use of the foreign exchange by member states by promoting the use of national currencies in the settlement of all transactions among member states.

b. to encourage the member states to promote and facilitate trade among themselves; and

c. to do such other things as from time to time may be required of it by the protocol".[8]

The objectives show that the Clearing House is an institution that caters for the welfare of the PTA member states.

2.5 POLITICAL FACTORS IN THE USE OF THE CLEARING HOUSE

The above objectives do not address the political factors enshrined in the formation and use of the clearing house but rather show how to combat the shortage of foreign currency, and how member states will trade. Trade however, is influenced by the use of the clearing house and the political co-operation within the sub-region.

The use of the clearing house has created a lot of goodwill among the member states and in turn, governments have passed policies to their trading institutions and central banks that respond to the greater use of the clearing house. This idea is supported by the fact that all member countries have carried out workshops in an attempt to make the participants aware of the existence and operations of the PTA and particularly the use of the Unit of Account of the PTA, that is used to transact and record business in the clearing house.

This awareness raised on the PTA, has resulted to the increased use of the UAPTA and increased flow of the volume of trade through the clearing house as will be noted in a later section. Politics and economics of most PTA countries are seen to play a see-saw game in the implementation of these factors. For example, in 1987, Burundi resolved to break most of its bilateral trade relations in the region whilst Ethiopia by 1986, had become a major user of the clearing house; Mauritius had a number of problems in implementing the use of the clearing house policies; Lesotho and Swaziland could not restrict their traders to invoice exports in their national currencies due to their position with South Africa, while Tanzania started to use the clearing house only after 1986.

Notably, political factors are seen to have a greater play on the above countries than economic factors. However, economic factors seem to have played a greater role in the following countries: Djibouti, while for a long time did not have exchange control measures; Rwanda, which had little to export to the PTA sub-region and therefore could not use the clearing house effectively; Somalia, which has had a lot of uncontrolled border trade, could not invoice its exports in the Somalia shilling as required by the customs and trade regulations.

The activities of the clearing house, in fact brings to the surface the interplay of both political and economic factors such that, the fact that one country trades more within the sub-region than others, or a country increases or reduces its trade through the clearing house, does not arouse jealousy and tension among others members.

One of the activities of the clearing house is to undertake operations for all transactions expressed in the Unit of Account of the PTA, of goods and services among member states. For example, the clearing house in 1988 found out that "Zimbabwe and Zambia continued to account for about half of the clearing operations".[9] In fact, Zimbabwe continued to dominate (over 30 percent) the use of the clearing house for the first few years. This can be explained firstly by the existence of the clearing house while the law of the land (Zimbabwe) contributed by empowering its use.

Economically, Zimbabwe is also a power house within the Southern Africa region (excluding South Africa), and therefore has a higher production of a number of commodities (manufactured) needed by the other PTA member countries. The membership and effective use of the clearing house by PTA member states has been irregular and unpredictable. Many issues like the economic and political set ups to some extent, stand in the way of the member states. A number of countries including Kenya, could not join in the use of the clearing house till 1985. The continuing analysis will attempt to explain why and how the countries behaved this way.

The countries that utilized the clearing house in the first year of "its operation in 1984 were only six in number. These countries included; Ethiopia, Malawi, Mauritius, Swaziland, Zambia and Zimbabwe".[10]

In 1985, the number of member states utilising the facility increased to 9 when Burundi, Kenya and Lesotho began to use the clearing house. Djibouti started using the clearing house in May, 1990 bringing the number of users to 15.

However, Djibouti, Comoros and Somalia continued (1991) to utilize the clearing house only in settling payments for UAPTA travellers cheques and for making contributions to the PTA institutions. Comoros and Djibouti first participated in the clearing house in 1987, when it used the clearing house for payment of its contributions to the budget of the PTA institutions.

2.6 ACTUAL USE OF THE CLEARING HOUSE

The greatest user of the clearing house in 1984, 1985 was Swaziland which channelled 56.2 per cent and 77.5 per cent of her intra-PTA trade respectively through the clearing house. The member countries used the clearing house to transact different amounts of trade.

The table below explains the changing positions of the member countries in the use of the clearing house. From the table, it is clear that the various countries have changed positions with countries such as Zimbabwe, Zambia, Malawi, Swaziland appearing to feature prominently.

Table I KEY PARTICIPANTS IN THE USE OF THE CLEARING HOUSE

	1984		1985		1986		1987	
POSITION	COUNTRY	%	COUNTRY	%	COUNTRY	%	COUNTRY	%
1	Swaziland	56.2	Swaziland	77.5	Malawi	78.6	Zimbabwe	59.2
2	Zambia	51.6	Zimbabwe	50.2	Zimbabwe	61.2	Swaziland	52.3
3	Zimbabwe	38.4	Malawi	50.1	Swaziland	47.5	Malawi	51.7
4	Malawi	1.5	Zambia	39.8	Zambia	31.8	Zambia	46.9
5	Ethiopia	5.5	Ethiopia	2.1	Ethiopia	9.5	Rwanda	25.0
6	Mauritius	00.2	Kenya	0.3	Kenya	3.9	Lesotho	24.0

SOURCE: PTA SECRETARIAT - LUSAKA (1991)

% - is the Percentage of the total intra-PTA trade.

The slow progress in the use of the clearing house reflects the inability of members monetary Authorities to enforce the use of the clearing house. At the outset Table I above in 1984, Zambia and Zimbabwe dominated the clearing house operations, accounting for nearly 90 per cent of its operations, with Zambia and Zimbabwe dominated the clearing house operations, with Zambia as the number one user and dominant net - debtor. In the subsequent years (1985-1987), Zambia swapped positions with Zimbabwe. During 1985, Malawi increased its use of the clearing house nine-fold to swap positions with Swaziland. Malawi retained the third position through 1986, only to give way to Kenya in 1987 when it reverted to the fourth position. Kenya's move to the third position during 1987 was accompanied by spectacular (nine and six fold) rises in Rwanda's and Tanzania's use of the clearing house respectively during the same year.

Uganda's use of the clearing house during 1987 declined by over 30 per cent while that of Somalia remained marginal and unchanged.

During 1988, Kenya appears poised to move up to the number two position and actually catch up with Zimbabwe. Table II shows these positions.

Table II KEY PARTICIPANTS BY VOLUME OF TRANSACTIONS THROUGH THE CLEARING HOUSE

	1984		1985		1986		1987	
POSITION	COUNTRY	%	COUNTRY	%	COUNTRY	%	COUNTRY	%
1	Zambia	46	Zimbabwe	43	Zimbabwe	44	Zimbabwe	31
2	Zimbabwe	43	Zambia	28	Zambia	21	Zambia	21
3	Swaziland	7	Malawi	20	Malawi	20	Kenya	18
4	Malawi	3	Swaziland	7	Kenya	7	Malawi	13
5	Ethiopia	0.7	Ethiopia/ Kenya	1 1	Ethiopia	5	Swaziland	3
6	Mauritius	0.3	--	1	Swaziland	2	Ethiopia	2

SOURCE: PTA SECRETARIAT - LUSAKA (1991)

% - Percentage of the total volume of intra-PTA trade in a given member country.

Table 1 compared to table (2) shows the difference in the use of the clearing house by the countries. For example, according to the Kenya's Ministry of Commerce, only about 20 per cent of Kenya's trade passes through the clearing house. This to an extent explains Kenya's number last position in the years 1985 and 1986. In 1984, Kenya had not yet started using the clearing house (she started 1985) while in 1987, Ethiopia and Kenya were replaced from the list of the top users of the clearing house by Rwanda and Lesotho respectively.

These changing positions can also be explained by the fact that a net debtor will be reluctant use the clearing house, or will reduce trade activities due to the bitterness of having to pay in hard currency for goods which might be cheaper in the other third world countries.

This may be explained by the fact that "Kenya and Zimbabwe, the two most industrialized countries have a constant trade surplus with their less developed states such as Zambia and Rwanda who have a perpetual deficit. Comoros and Djibouti complain that they produce virtually nothing that can be exported to the other countries. Lesotho and Swaziland are unable to implement any tariff cuts in the near future because of their customs union with South Africa, in which they are both economically independent.[11]

The latter case implies that goods from South Africa are cheaper than those in the sub-region. A similar case was experienced by "Zambia one of the few countries to go ahead and issue import license without foreign currency backing for PTA trade, and ran up a bill of $12 billion with Zimbabwe was not importing from Zambia. Zambia had to pay in hard currency. Zambia has subsequently put brakes on its imports from Zimbabwe forcing some awareness here that its a two-way game".[12]

The putting of brakes on further import from Zimbabwe by Zambia was because of economical constraints that may also be seen as having been politicized. This is particularly so because in the PTA region, political stability supersedes economic stability. However, political and economic stability move together and therefore a nation may respond to one of the issues which look more urgent and critical while ignoring the other.

2.7 TRADING THROUGH THE PTA CLEARING HOUSE

Despite the political and other problems faced by the clearing house, its utilization has increased since the inception in 1984.

"Total payments settled through the clearing house since its inception stood at UAPTA 905. 9 million at the end of September, 1991 with UAPTA 58.8 million accounted for by UAPTA travellers chêques transactions".[13] On a cumulative basis, "total payments channelled through the clearing house since its inception stood at UAPTA 726.5 million at the end of September 1990. UAPTA travellers cheques transactions accounted for UAPTA 33.3 million of the cumulative total payments".[14]

The total payments settled through the PTA clearing house in the year 1990, amounted to UAPTA 194.5 million and the proportion of gross transactions settled in hard currency was 42.3 per cent.

In 1989, total payments settled through the clearing house amounted to UAPTA 220.5 million accounting for about 56.6 per cent of total intra-PTA trade. 1990 compared to 1989 shows that total payments were down by UAPTA 26.0 million or 12.0 per cent and foreign currency usage for settlement declined by 5 per cent points to 42.5 per cent reflecting that the bulk of transactions channelled through the clearing house in 1990 were settled in national currencies.

In terms of trade turnover, including contributions to PTA institutions, performance by participating member countries ranged from UAPTA 23.1 million debit for Zambia, to UAPTA 25, 7 million credit for Zimbabwe. This is indicated on the attached matrix in table 3, showing the PTA Clearing House transactions in millions of UAPTA.

PTA CLEARING HOUSE

Transaction

Millions of UAPTA

Table 3:

Period	Gross Transactions Finance through the clearing House			
February, 1984 to December 1985	Monthly Total	Total for Transactions Period	Net Settlement Foreign Exchange	Net Settlement in Foreign Exchange as % of Gross Trade Finance
February 1984 March	2.1 3.5	5.6	1.3	23.2%
April May	2.8 4.9	7.7	5.4	70.1%
June July	5.6 4.1	9.7	9.1	93.8%
August September	4.5 2.0	6.5	6.0	92.3%
October November	5.1 2.4	7.5	5.9	78.7%
December January 1986	0.2 5.6	5.8	5.0	86.2%
February March	3.9 1.6	5.5	5.0	90.9%
April May	2.8 3.7	6.5	5.0	86.2%
June July	4.8 2.9	7.7	6.8	88.3%
August September	7.2 3.3	10.5	8.9	84.8%
October November	6.5 4.2	10.7	9.1	85.1%
December	2.4	2.4	1.7	70.8%
Total from February 1984 to December 1986	86.10	86.10	69.8	81.07%

Period 1986				
January 1986	1.9			
February	1.9	3.8	2.9	76.3
March	2.8			
April	2.0	4.8	3.8	79.2
May	4.4			
June	8.9	13.3	6.1	45.9
July	3.6			
August	2.8	6.4	4.2	65.6
September	6.3			
October	8.5	14.8	7.4	50.0
November	6.8			
December	9.5	16.3	6.3	38.7
TOTAL	54.40	59.40	30.70	51.68
Period 1987				
January 1987	6.9			
February	4.0	10.9	3.2	29.4
March	7.3			
April	5.8	13.1	6.0	45.8
May	5.8			
June	6.3	12.1	6.5	53.7
July	8.4			
August	6.7	15.1	8.8	58.3
September	10.9			
October	10.1	21.0	14.5	69.1
November				
December	7.0	15.7	9.2	58.6
	8.7			
TOTAL	87.9	87.9	48.2	64.84

Period 1988				
January 1988	8.1			
February	5.4	13.5	7.8	57.78
March	9.9			
April	4.6	14.5	8.9	57.78
May	7.9			
June	7.8	15.7	8.8	56.05
July	11.9			
August	19.0	30.9	11.6	37.54
September	18.4			
October	17.4	31.6	15.2	48.10
November	15.8			
December	15.8	31.6	15.2	48.10
	8.7			
TOTAL	142.0	142.0	71.1	50.07
Period 1989				
January 1989	15.1			
February	11.6	26.7	13.0	48.69
March	20.5			
April	12.2	32.7	19.6	59.94
May	15.9			
June	18.6	34.5	16.2	46.82
July	18.3			
August	17.3	35.6	17.0	47.75
September	17.6			
October	20.1	37.7	15.6	41.37
November	25.1			
December	28.2	53.3	22.2	41.65
TOTAL	220.5	220.5	103.6	47.0

2.8 INTERDEPENCENCE AMONGST M/S IN THE PTA COUNTRIES IN CLEARING MECHANISM

PTA member states and businessmen rely on one another in the use of the multilateral clearing facility to the extent that the latter calls for not only interdependence, but also reciprocity in the trade. In such a trade, all members are supposed to gain, and at least a country should not gain excessively at the expense of the other member country.

The clearing house comprises a set of three major procedures/stages in its business transactions:-

i. The first stage entails the settlement of bills for individual transactions. After a deal has been concluded, the importer in the PTA country pays his bank in his national currency. The bank then instructs its counterpart bank in the exporting country to pay the exporter in his national currency. The process continues until the counterparts account is run down.

ii. In the second stage, the importer's bank arranges through its central bank to credit its correspondents bank account in the exporting country. In turn, the central bank in the importing country credits the correspondent's bank account in the exporting country.

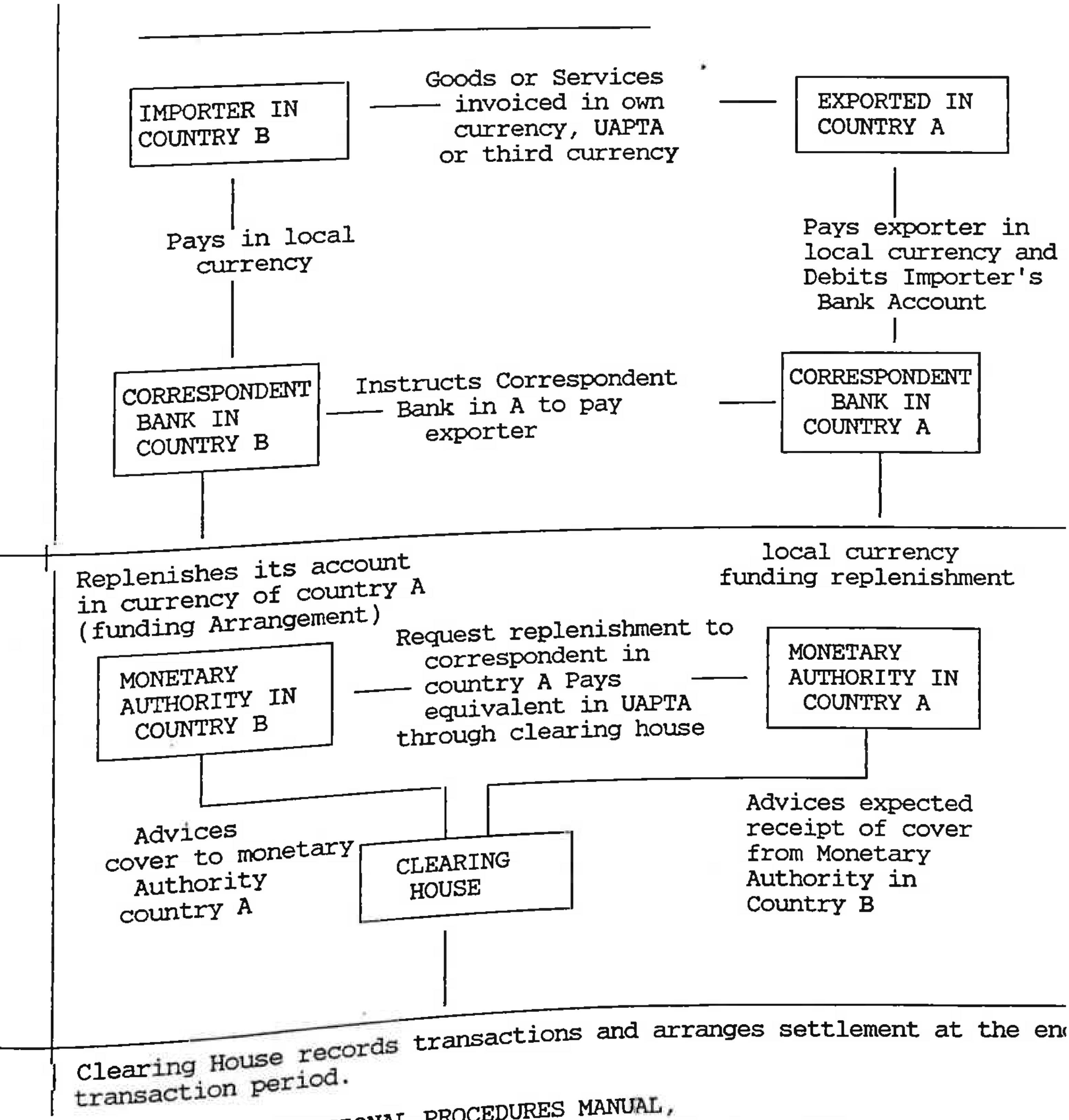
iii. The third stage involves the recording of all inter-central bank (monetary authority) transactions and the settlement of outstanding balances at the end of the transaction period in convertible currencies. *Correspondent'is a term used for the exporter's bank account.

All intra-regional transactions are expressed and recorded in the PTA Unit of Account (UAPTA).

The transactions are monitored on a daily basis to ensure that the balance of each monetary authority's account does not exceed the agreed maximum debit and credit. These limits which are reviewed annually are the best currently available information on trade patterns between participating states during any previous three years.

The above mechanism has been found quite workable from reports given by the clearing house. It is here that information on trade from the PTA countries is received by telex every other minute. The central banks too, have no problems in receiving statements from the clearing house's records. In fact, the commercial banks that are directly involved with the exporters and importers confirmed that there was no significant problem faced in the transactions. Attached is Table 4, a shows the flow of the operations in the clearing house.

CHART OF THE OPERATIONAL PROCEDURE FOR THE CLEARING HOUSE



SOURCE: PTA OPERATIONAL PROCEDURES MANUAL, (Reserve Bank of Zimbabwe, January 1984, PP12).

A number of observations may be made from the cart; that the exporter and the importer have to use their individual commercial banks; that the commercial banks have to liaise with the central banks; and lastly that the central banks have to liaise with the clearing house.

The flow of activities depicted in Table 4 is undoubtedly facilitated by economic and political harmony.

2.9 POLITICAL VERSUS ECONOMIC PROBLEMS IN THE USE OF THE CLEARING HOUSE

The issue of the underutilization of the clearing house was discussed in Bujumbura by the first extra ordinary summit of the PTA Heads of State and government in May 1986, and at the PTA's Authority's meeting in the subsequent sixth and eighth meetings in Kampala, Lusaka in 1987 and 1988 respectively.

A high-powered team was formed to undertake a review on the clearing house operations as well as the factors behind the non-implementation of the PTA decisions for achieving full utilization of the clearing house and how the situation could be remedied. Some of the findings are discussed in the following paragraphs:-

a. Part of the findings showed that the economies of the sub-region were not yet developed to full-capacity and therefore could not just allow the implementation of PTA policies.

b. However, it was noted that most of the factors that constrained the clearing house were political, and therefore it meant that the use of the clearing house was a highly political matter for example;

i. It was noted that by November 1988, most Monetary Authorities had not issued instructions to their commercial banks to settle all intra-PTA transactions through the clearing house
- as had been agreed upon by the eighth meeting of the council of ministers and the first Extra-ordinary Summit of the PTA Authority. Only Burundi, Comoros, Ethiopia, Malawi, Mauritius, Rwanda and Swaziland had issued such instructions. The Monetary Authorities of Djibouti, Kenya, Lesotho, Somalia, Tanzania, Zambia and Zimbabwe had not;

ii. These countries had not even advised their exporters to invoice the export in their national currencies or in UAPTA. Worse still, was Zimbabwe which had informed the study group that this had been done, but had not given a copy of the circular to the Zimbabwean exporters to show that such action had been taken. In fact, the commercial banks of these countries informed the study team that they had never seen such circulars;

iii. It was also discovered that, where such instructions had been given, there was no follow-up action to ensure that such instructions were adhered to. In addition, none of the monetary authorities had yet developed such follow-up mechanism by November 1988;

iv. Most of the export/import business was still left to the traders initiative to channel through the clearing house. Some central banks, for example in Kenya and Mauritius argued that traders were given discretion because they believed in trade liberalization and exchange control;

v. To make it worse, "the National Bank of Djibouti stopped the study team from visiting Djibouti by stating that it was pointless for the study team to visit Djibouti as local banks did not use the clearing house significantly in that the volume of intra-PTA trade transactions was too small to warrant the use of the clearing house or the setting up of mandatory procedures for the banking system. Trade and exchange policies were said to be fully open to all traders by the National Bank of Djibouti".[15] This meant that trade could not be controlled or directed through the clearing house.

c. Export Retention Scheme used by a number of countries as an incentive to promote non-traditional exports, works against the use of the clearing house. Under this scheme, exporters are allowed to retain a certain proportion (usually 50 per cent) of the export proceeds in convertible currency to enable them to import the needed intermediate inputs and spare parts for production.

Specifically, the study noted the following:-

i. that such schemes were practised in Somalia and by the end of 1988, exporters in Somalia were still allowed to retain 40 per cent of their export proceeds in an export promotion account and surrender 60 per cent to the Central Bank of Somalia. On the same strength, nationals receiving funds from abroad were allowed to hold foreign currency accounts with commercial and savings banks of Somalia.

The 60 per cent export proceeds surrendered to the Central Bank have been used by the government to meet its imports and other government obligations such as foreign debt servicing. Under such trade conditions, a businessman who trades through the clearing house feels cheated by the fact that he will receive only his national currency or UAPTA. The policies in Somalia government are in this case seen as a major constraint as they do not enforce the use of the clearing house;

ii. In Tanzania, the case is even more interesting in that, Tanzania publicly stated that exporters to PTA countries were also eligible to retain part of their export proceeds in any convertible currency. However, problems arose on what to retain because the Export Retention Scheme has an in-built automaticity in that the exporter retains part of his export proceeds from the currency he invoiced in. Hence, if invoiced in Tanzanian currency or in UAPTA, then the percentage retention will also be in either of these currencies.

iii. Zambia tried the same, but realized that, according to regulations of the clearing house, an exporter could only be paid in foreign currency after a period of more than three months from the date of export. When not using the clearing house, an exporter who invoices exports in hard currency obtains a certificate of surrender of foreign currency from his commercial bank at the very time the export proceeds are received by his commercial bank. This certificate is presented to the Foreign Exchange Management Committee (FEMAC) and the exporter gets his allocation of foreign currency without delay. Exporters have therefore preferred to invoice their exports in foreign convertible currencies even if the exports are to PTA countries.

The above factor brings another reason for the under-utilized of the clearing house; traditional and trade patterns and payments arrangements.

d. The clearing house has hardly lasted a decade since its inception in 1984. Discussions revealed that, "the business community is reluctant to exchange the existing trade patterns tested (by time and experience) payments arrangements with a PTA clearing mechanism that they do not even understand. There is lack of understanding that has contributed significantly to the preservation of existing trading and payments arrangements".[16] The businessmen would like some assurance of good business before they can fully adopt the PTA trade system.

e. Foreign currency allocation and licensing scheme is another hindrance to the use of the clearing house. For example, in Kenya, the selling of foreign exchange is centralized in that, each commercial bank consolidates all its customers' requirements and goes to the Central Bank of Kenya with a request for foreign currency allocation for the consolidated amount.

The Central Bank of Kenya sells the consolidated foreign currency amount to each commercial bank which in turn, allocates it to its individual customers. Thus, the Central Bank of Kenya does not know the destination of the individual amounts involved. The usual reduction by this latter bank may mean reduction or not giving foreign currency to an individual who needs raw material from other countries, having already traded his goods within the intra-PTA sub-region in exchange of the UAPTA or the national currency. This may discourage/demoralize the individual from engaging in intra-PTA activities.

f. Zimbabwe too, has got a foreign currency allocation, there is a global quota and a PTA quota. Under the global quota allocation, importers are granted import licenses for goods which can be sourced from any country in the world including PTA countries. Imports under the global quota allocation are paid for in hard currency and do not pass through the clearing house, even if the goods are sourced from a PTA country. There are no problems with import licenses granted under the PTA quota, but such imports have to strictly pass through the clearing house.

Given the two quotas, the global and PTA, Zimbabwean businessmen rush for the global one for the obvious reasons already discussed above. This is why the presence of the global quota and PTA quota does not encourage transactions through the clearing house.

g. This (above) constraint is closely related to the competing payments arrangement which has continued to frustrate the operations of the clearing house. This explains why although all bilateral payment arrangements between member states were supposed to be terminated in favour of the multilateral payment arrangements, Uganda and Rwanda still signed the "Barter Protocol", a trade agreement between the two countries in Mid-1988. This was a contravention of the decisions of the PTA policy organs and against the PTA spirit. Although the decision was caused by economic factors, politics had played a critical role and was indeed, meant to discourage the use of the clearing house.

h. All countries who transact through the clearing house, are supposed to have corresponding accounts in each member state that they trade with or intend to trade with. Most of the exchange control regulations of member states do not allow commercial banks to maintain foreign currency except in the advanced western countries.

Where commercial banks are allowed to start a fixed account, this is usually not large enough to cover all the other commercial banks they deal with world-wide. Thus, funds are just enough to cater for one transaction. This causes hold-ups and leads to delays in effecting payment for the intra-PTA trade.

i. Sometimes delays are caused by the monetary authorities themselves who purposely delay provision of cover for transactions being pushed for settlement through the clearing house in order to limit the volume of imports which may be due for settlement at any one transaction period. This problem could be solved politically and economically by allowing the monetary authorities to open correspondent accounts for which zero balances (that is accounts with no funds), could be maintained while the monetary authorities could speed up the provision of cover, once they are approached by the commercial banks for funding.

k. Business people (exporters) need confirmed letter of credit from the importer's bank. The confirmed letters of credit create mistrust between traders. The letters of credit are usually demanded by the commercial banks of the importers. This practice tends to limit the flow of trade because this letter has to get to the corresponding bank (of the exporter) before exports are dispatched. Banks usually delay the issuance of these letters which is frustrating and has a negative effect to the use of the clearing house.

l. Most member countries are unwilling to sell their traditional exports to PTA countries through the clearing house, since these are their most important foreign exchange earners, and therefore cannot barter them for local currencies. Most member countries are reluctant to export goods of high import-content through the clearing house because they (goods) can easily sell through the use of the hard currency.

m. In Kenya, the Certificate of Origin, a requirement in order to trade with other PTA countries, is only given by the Kenya Export Trade Authority (KETA) of the Ministry of Commerce. This complicates trade because businessmen who trade with other third world countries can get approvals of certificates of origin either from KETA or from the Chamber of Commerce and Industry and at times from the Ministry of Industry. Exports like tea, coffee, pyrethrum, etc. need special approval if they have to be traded within the intra-PTA region, in exchange of the national currency or the UAPTA. Traders therefore, prefer to trade out of the PTA rules and regulations, which is less cumbersome.

n. Illegal and clandestine activities within the sub-region continue to be practised by traders who evade exchange control regulations. The first method of this movement is practised by exporters who seek to get commissions of some percentage of the value of the exports from their customers by asking the latter to remit to their accounts with foreign banks abroad.

This has been normal practice in international trade for the exporter to agree with his customer to remit the commission involved to an account of the exporter with a foreign bank abroad for example a Swiss Bank.

Under this circumstance, there is under-invoicing of exports and over-invoicing of imports issued in order to remit funds abroad. This activity is also found in most member countries whose Ministries of Commerce and Industry are dominated by non-citizens who have long-term economic stake to their motherlands, and hence, they promote the under-invoicing and over-invoicing of commodities in order to remit as much funds as possible to their countries of origin. This means that very little of the proceeds from the export comes back to the country of the exporter. The governments therefore earn very little in form of tax and foreign currency from such distorted (forged) export proceed figures. Such an activity cannot occur under any circumstances, in the PTA trade. Traders used to such illegal activities would therefore not wish to trade through the (PTA) clearing house.

The second clandestine method concerns the traditional "smuggling" or blackmarketeering across the borders. Some borders are so outstretched, for example Somalia, Kenya, Tanzania borders, that it becomes difficult for such countries to give effective border controls. Some of these activities are facilitated by some complex settlement patterns of the border population, particularly when a certain ethnic group extends beyond the border of one country, for example, the Somali's both in Kenya and Somalia. Such a phenomenon make it difficult to redirect cross-border trade through the clearing house easily, although the trade may be extensive.

2.10 CONCLUSION

Harmony amongst trading partners is a prerequisite in the establishment, existence and expansion of a clearing. For the establishment of a PTA clearing house, the interplay of both political and economic factors for the welfare of the sub-region were seen to work.

Trade has therefore flowed or not flowed between the borders of the PTA member countries because of these factors. However, there has been interstate interaction and a willingness to minimize the political differences, amongst the PTA states.

Response to the use of the clearing house by member states has been gradual. The amount of trade transacted for each member state has varied from time to time as previously noted. However, despite the increase of trade in the intra-PTA sub-region and an increase in the volume of transactions in the clearing house, the clearing house remains under-utilized due to policies affecting traders as they scramble for the rare hard currency. Many PTA countries have made monetary policies which are insensitive to the existence of the UAPTA and consequently to the use of the clearing house.

A number of elements in the clearing house have also impinged its use in various ways. Elements of the clearing house include: the monetary co-operation particularly in the use of UAPTA travellers cheques; the rules of origin that determine whether goods are originating from the member countries or not in order to qualify for preferential treatment; the common-list that enlists all goods and their respective tariffs. The following three chapters attempts to show how the three elements have reduced the inflow of trade in the region therefore reducing the use of the clearing house.

ENDNOTES

1. The story was narrated by the foreign desk of Central Bank of Kenya, (Nairobi, November 1991).

2. Kenya Times, 3rd December 1984.

3. Mannur, H.G. International Economics Theory and Practice. (India: Vishal Printers, 1983), pp. 315.

4. Thompson, B.C., Article Current African Issues, No. 4, (Geneva, 1986).

5. PTA Secretariat: Report of the Sixth Meeting of the Authority, (Kampala, PTA/AUTH/VI/6. 1987), p. 11.

6. The comment was made by a Tanzanian Embassy staff (interviewee) in Nairobi, November, 1991.

7. The PTA Charter Article, Article 4.

8. Ibid.

9. PTA Secretariat: Report of the Technical Committee, Arusha, 1988, pp.13–14

10. Hall Susan, PTA for Eastern and South African States: Strategy, Progress and Problems. Working Paper No. 3, Institute for Development Studies, University of Nairobi (Nairobi, September 1987).

11. The Kenya Daily Nation, 5th December, 1988, p. 8.

12. Ibid.

13. PTA Secretariat: Report on the Study Mission on Implementation of the Decision of the PTA Policy Organs for Achieving full Utilization of the Clearing House, (Arusha 1988, p. 1(d).

14. Ibid, p.5.

15. Comments made by an Official in the Zimbabwe Embassy, Nairobi, October, 1991.

16. Comments made by an Official in the Zimbabwe Embassy, Nairobi, October, 1991.

CHAPTER THREE

MONETARY CO-OPERATION IN THE PTA SUB-REGION

3.1 Introduction

Chapter Two has revealed that various factors have to work harmoniously a clearing house like that of the PTA can be fully utilised. The monetary cooperation in the region, particularly the poor response to use the UAPTA travellers cheques, hampers the full utilisation of the PTA clearing house.

The economic benefit of international currency are substantial. The political benefits probably varies as the countries making up the currency area change, implying that monetary and political sovereignty are intimately, associated. If there is to be an international currency, there must be decisions as to how it is to be issued, in what amounts and to whose benefit. In fact the issue of what area by size, political characteristics or economic behaviour are some of the factors that were considered by the OAU in 1980 at Lagos, when Africa was divided into 5 economic groupings.

For the African continent, the PTA offers the best hope of a regional trading grouping that can stand any chance alongside the European Community, the North American Free trade Area and a South Asian block which seems to be slowly forming around Japan.

The PTA aims at a greater measure of monetary stability to facilitate economic integration and to provide for sustained economic development within a monetary Union.

One method of achieving this, is the introduction and use of a common currency whose use is directed by the clearing house.

As noted in the previous chapter the basic objectives of the PTA clearing house is to promote the use of the national currencies in the settlement of payments for all intra-PTA transactions in goods and services without using the foreign exchange between member states.

The UAPTA is one such common currency, and, therefore it is of paramount significance that as all intra-regional transactions are expressed in it, it should be in turn pegged to the Special Drawing Rights (SDR) of the international monetary fund.

A dominant question looms; what is the optimum currency area, within which there should be a single or common money? A political answer given by Kindleberger is that the "optimum currency area is the one with sufficient macroeconomic power to manage its affairs plus a regional compromise"[1]. Indeed, Kindleberger argues that "If international money is adopted, it maybe a commodity such as gold, a national currency such as dollar, the pound sterling or a specially created unit adopted by sovereign nations as a Political act of will"[2] This, therefore means that the establishment of a common or a single currency can only be created when there is a political will. Experience shows that although economic reasons may also influence such a decision, the continuity and use of the common or single currencies can only be sustained through politics and political compromise among the political heads of the member states.

The need for single and common currencies is not new, in fact all countries of the world have at one time or another participated in such currency arrangements. The major factors underlying their formation, existence and destruction, was largely political. Nonetheless, countries that have formed such currency arrangements

have had general characteristics of "geographical proximity and certain degree of cultural and historic links".[3]

3.2 PAST COMMON CURRENCIES IN THE PTA SUB-REGION

The issue of common currency and its importance in interstate trade is not new in the PTA sub-region. In fact, recent measures in the region to find appropriate financial mechanisms to facilitate intra-PTA trade had precedents in the region's recent past. This has been to the extent that the imperatives of international trade would probably require supportive financial arrangements and, no matter what historical epoch, such arrangements remain fundamentally the same.

In this chapter, an attempt is made to trace the past and present currency systems within the region with a view to making the point that common currency in the PTA region is necessary and to identify the kind of difficulties such system encounter, given the political complexities exist. The present currencies implige difficulties in the use of the clearing house.

3.3 THE SOUTHERN RHODESIAN CURRENCY BOARD AND THE BANK OF RHODESIA AND NYASALAND

During the early phase of the colonial period, Zimbabwe (then Southern Rhodesia), Zambia (then Northern Rhodesia) and Malawi (then Nyasaland), had a common currency, the pound sterling. However, when Britain went off the Gold standard in September 1931, the three countries abandoned gold such that by 1933, they had a variety of notes that needed to be consolidated.

In 1938, the Southern Rhodesian currency was introduced which consolidated the currency system in that it bought and sold Southern Rhodesia currency in exchange for sterling at a fixed rate of one pound. The sterling counterpart was placed in a currency fund which was managed by the board and used as its external investment security. The aim of the currency board system was, to devise a system from which the member countries would benefit in terms of profit and ensure speedy and certain convertibility of local currency into sterling at a fixed rate of exchange.

The Southern Rhodesia currency Board was replaced by the central Africa currency Board in 1954 while the Bank of Rhodesia and Nyasaland was formally established in 1956. The bank was empowered to regulate the monetary system of the federal area, exercise sole right over the issue of notes and coin, to exchange local currency for sterling on a one to one basis and to maintain 25 percent of its foreign assets in gold and foreign exchange, as a means of safeguarding the external value of the local currency. The Bank of Rhodesia and Nyasaland was empowered to administer exchange control regulations, and authorized to make loans and buy bills and other securities of federal and territorial governments.

The head office of the bank was at Harare but it maintained branch offices in Northern Rhodesia, (today's Zambia) and in Nyasaland (Malawi). The bank did not face any special management problems. A number of issues may be raised about this currency area:-

a. That the existence of sterling pound as a common currency in the region was because Britain was the colonial master of the three countries. Also, that the abandonment of sterling pound by Britain was a political, as well as an economic move, in that Britain was withdrawing from these countries politically and did not therefore wish to manage the currency as before.

b. That the creation of the Southern Rhodesia currency was a political as well as an economic move with great influence from Britain. Britain's withdrawal from these countries, was also both political and economic moves.

c. That both the sterling pound and the South Rhodesian currency were similarly a common and convertible currency within the region for trade and for mobility.

The above facts reveal that to create a single or a common currency, politics and economics play an important role.

3.4 THE RAND MONETARY AREA

The countries covered by the Rand Monetary Area included South Africa, Lesotho, Swaziland and Botswana (until 1975), which today form the common monetary area. The Rand was introduced in South Africa in 1960 by replacing the pound. Botswana, Lesotho, Swaziland used rand without any formal agreement and continued even after they became independent from Britain.

On agreement these countries (after independence) compromised on a unified monetary area "rand area" within which the rand was the only currency in circulation. There were no restrictions on payments or on the movement of notes and coins. South Africa agreed to pay compensation to Lesotho and Swaziland for allowing the criculation of the rand in their territories. Lesotho and Swaziland also agreed on the right of recognition and circulation of their currencies maloti and Lilangen within their two territories. Inside South Africa only rand was in circulation.

In 1986, the Rand Monetary Area was replaced by the common monetary area. When the new Trilateral Monetary agreement was signed, the rand ceased to be a legal tender in Swaziland and latter Swaziland reserved the right to institute its foreign exchange regime. However, the Common Monetary Area (CMA) was retained. The rand continued to circulate in all the three member countries. The rand is used by Lesotho and Swaziland side by side with their national currencies up to date.

Again just like the Rhodesia Nyasaland currencies, the rand was a political move by South Africa in its attempts to extend its economic control over Lesotho and Swaziland. The fact that the rand (a South African Currency) was made a legal tender in the two countries,while maloti and lilangen (currencies) of these countries could not (can not even to-date) be recognized as "money" in South Africa, shows the use of political power in monetary areas. The political elements continues in the monetary areas and this usually arises because of the feeling that one country (in this case South Africa) "dominats" the activities and "rips off" the economies of the others. In other words, the natural unequal distribution of benefits though mainly an economical problem precipitates politics.

3.5 THE EAST AFRICAN CURRENCY BOARD

The East African currency board (EACB) came into being in 1919 and was centered in London. EACB formed by the British, operated the "common currency area" covered Kenya and Uganda and was later extended to include Tanganyika (now Tanzania). After the British occupation of Italian Somaliland and Ethiopia, the two countries also joined the board. Somalia continued to use this board until 1961 when she introduced her own currency.

In the 1900, the currency circulating in Kenya and Uganda was the Indian rupees, which was equivalent to the German rupee used in Dares-salaam in 1905. After world war I, there were fluctuations in the value of the Indian and German rupees and therefore the East African currency Board was established to end the circulation of these unstable currencies. The new the currency in East Africa was of course to be linked with the British monetary system, as Britain had already started the process of colonising East Africa.

The new currency, the East African shilling was deemed to be equivalent to one British pound. In fact the idea of shillings 20, being referred to as a pound emanated from this exchange rate. During the period 1919 - 1955 the EACB acted as a money changer, with a guarantee of converting the East African shilling into sterling and vice-versa. In September 1955, the Board's constitution was amended in order to allow borrowing from the Board by the governments of the constituents' territories. The EACB issued currency against the securities of the governments and other specified inter-governmental organizations. Consequently the increase in the currency did not have to correspond with a rise in foreign exchange reserves. Under this circumstance, trade and travel activities occurred within the region without much concern for the presence and value of the foreign currencies.

In fact Dr. Edwin Blumenthal, a consultant from the German Federal Bank, appointed by the government of Tanganyika soon after independence in 1961, to study the East African Monetary system and make proposals of its future, actually "recommended continuation with the East African currency Area, with a supra-national central

Bank replacing the EACB, with each country having a central Bank of its own".[4]

Despite this very positive and well-appraised report some discussion among the three East African countries and an International Monetary Fund (IMF) team that took place in February 1965, abandoned the idea of setting up a central banking system that would continue with the activities of the common currency. In fact, in the second half of the year, each of the finance ministers in Kenya, Uganda and Tanzania announced separately in their budget speeches that their governments intended to establish their own central banks, which would carry out the traditional functions of a central bank. This signalled the end of the East African Currency system in fact by April 1969, the East African currency bank notes had ceased to be legal tender.[5]

Again, the formation of the East African currency board was a political move by the British colonial masters in order to have an integrated control over the economies of her East African colonies. The break-up of the board after independence was again a political move, and was seen as an act of "real Independence" by the member states despite the sound advice given by Dr. Edwin Blumenthal for them to continue with the Board on economic grounds.

3.6 THE EAST AFRICAN SHILLING

The East African community rose from the demise of the East African currency board. The three nations were still closely held by the common assets and intra-regional trade that had earlier existed within the area. In fact by June 1967, the three heads of state met in Kampala and signed the Treaty of the East African co-operation. In December the same year, the East African community was formed by the three partner states. The institutions of the community were broadly classified into the self-contained services" consisting of the Railways, Harbours, Airways and

Post and Telecommunications and the "General Fund services" consisting of Administrative revenue collection, research and other services.

The Principal executive body of the community was the East African Authority consisting of the three Presidents whose Chairmanship rotated among the three members. It was assisted in the performance of its functions by the three East African Heads of States and five councils composed ministers from partner states. Article 24 of the Treaty for East African co-operation stipulated that "the partner states were to undertake to make arrangements through their central bank, subject only to exchange control laws and regulations which was not to conflict with the treaty whereby:-

i. Their respective currency notes were to be exchanged without delay within the territories of the partner states but were to be exchanged at the official rate without exchange commission, unless otherwise authorized by the finance council".[6]

ii. This offered the smooth and quick flow of people, goods and even money within the community, since the existence of the three currencies did not hamper transactions amongst the countries of the community.

The East African community however collapsed in 1977 when Tanzania and Uganda were discontented about the unequal distribution of benefit, with a feeling that Kenya was "dominating" the East African markets in a way that she "ripped of" the economies of the other two countries.

Political causes in the creation, operations, and collapse of the East African community are prominent. In fact the Authority was the chief executive arm of the community meaning that the community could collapse at any moment that political compromise was unattainable among the leaders.

The issue of the PTA came up only three years after the collapse of the East African Community. In fact, discussions on how to share liabilities and assets among the three countries continue to-date. In 1984, a lot of hope, especially by Kenya and Tanzania, was put on a possible revival of the East African Community; the hope was thwarted, however, until the end of 1991 when proposals about such revival of the community were floated again. This shows that the economic benefits and prosperity of an area with little or no restrictions in trade movement and money is good enough and lingers in the minds of the political heads, when confronted by economic problems, that direct such leaders to political compromise, for economic gains. The see-saw continues when priority changes from political to economic and vise-versa, hence explaining when issues relating to economic compromise are reached and when such compromise are broken.

3.7 THE PREFERENTIAL TRADE AREA AND THE USE OF UAPTA

PTA is the largest sub-regional economic grouping in Africa and in the world in terms of the number of member states. In fact, "The Gross Domestic Product of all the countries of the PTA is over six times that of any of these countries taken individually".[7] This shows that if the area's potential is fully utilized, then the countries could well be on the thresh-hold of economic take-off. A number of institutions have already been established within the PTA subregion which include the PTA Bank of Trade and Development in Bujumbura, the PTA Clearing House and a common currency, the UAPTA.

The establishment of the PTA has been seen as a dream come true by the leaders within the region. As noted earlier, to create monetary institutions, political leaders must lead the way. This view is also held by a local news media which stated that, "our political leaders, more than others will lead the way, that is to the day when the PTA will emerge with the other regional trading blocks on the continent to make the whole of Africa a tree trade zone for all Africans",[8] while another media noted that "... the success of PTA depends on the political commitment of the member states.[9]

The introduction of UAPTA travellers cheques is therefore also seen as a political venture, in an attempt to reduce the economic constraints of the foreign exchange and debt burden in the sub-region. This was partly touched on by the President of Tanzania in the eighth summit meeting held in Nairobi, Kenya in December 1989 when he revealed that "Africa's debt burden had risen to US$ 230 billion from US$ 158 in 1984, because ... the major industrialized countries has arrogated themselves the right to direct world trade and to manipulate currencies to their advantage.[10] In the same meeting, President Moi of Kenya "called on African countries to uphold their dignity by strengthening their unity and striving to improve the living standards of the common man".[11]

The two issues are clearly indicated in the quoted information that political unity goes hand in hand with economic unity. However, the former supersedes the latter, and the latter implies formulating a method of trade among the African countries with an African currency to stop the industrialized world from manipulating the currencies to their advantage.

The feeling of insecurity because of the lack of a common currency was solved in 1st August 1988 when the "UAPTA" was formerly launched during the second trade fair which was held in Lusaka, Zambia, by the President of Uganda, Yoweri Museveni. Among the major objectives of introducing the UAPTA was to respond to the problem of shortage of the foreign exchange which had led many of the member states to impose restrictions on external travel so as to conserve their limited foreign exchange earnings.

The payments made by use of the travellers cheques are settled through the clearing house. In fact, the UAPTA has met its objectives so well that there is already visible increase of interaction between the nationals of the member states of the PTA sub-region. UAPTA is also expected to increase the volume of intra-PTA trade and generate inter-state linkages in complimentary production enterprises.

UAPTA Travellers Cheques are issued in denominations of 100s, 50s, 20s and 10s. A commission of 1 per cent of the face value of the cheue is collected by the commercial bank, 0.7 by the PTA bank and 0.15 by the clearing house. This has however been found too constraining on the part of commercial banks management, and hence, new commissions have been introduced since 1st January, 1992. According to the new commissions, "UAPTA travellers cheques fund will be charged 0.5, Commercial banks 0.3, PTA clearing house 0.2,"[12] in accordance to the sole body that deals with the monetary harmonizaton issues in the PTA institution.

It is noted that each monetary authority (central banks) orders its requirements from the PTA bank in Bujumbura which in turn, advises the Fiderlity printers of Zimbabwe about each monetary authorities requirements. Fidelity printers send the UAPTA travellers cheques directly to each monetary authority with a record of serial number of the UAPTA travellers cheques issued, being advised again to the clearing house and the PTA bank. After issue to travellers, the cheques can be encashed with any agent authorized to deal in foreign exchange.

According to the head of management of the clearing house there are no problems experienced in the clearing house in the use of the UAPTA. In fact, Mr. Morape noted that;

> "Virtually all PTA states are now using the PTA Travellers cheques for Travel within the sub-region"[13]

The use of the UAPTA in the clearing house has actually reduced the use of the hard currency except when settling net balances after a trasnaction period of two months.

It was noted that the use of the clearing house improved markedly due to the use of the UAPTA travellers cheques since 1989. In fact "the volume of UAPTA travellers cheques used by the travelling public within the PTA in the five months of 1988, amounted to UAPTA 2.8 million and in the first two months of 1989, to UAPTA 1.1 million, in the third two months to UAPTA 2.7 million, in the months of July and August UAPTA 3.1 million and in the months of September and October to UAPTA 3.1 million; this represented quite a significant improvement.[14] Commissions which had been earned by the PTA trade and development bank amounted to UAPTA 52,111.01, at the end of 1989.

While the UAPTA has increased the movement of the nationals and trade amongst the member countries, the harmonization of the many different currencies within the sub-region is seen as an enormous task that is done through the clearing house. The present sixteen member countries that use the clearing house and the UAPTA have currencies that differ in value and make against the dollar, that has for a long time made each individual country distinctive from the other. This has now been solved by the use of UAPTA to balance the values. The following is a record sent by the exchange rates of some PTA national currencies against the UAPTA.

Table 6: Currency Exchange rates per UAPTA (3rd December, 1991)

Zimbabwe Dollar	7.251024
Zambia Kwacha	N/A
Malawian Kwacha	3.808073
Kenyan Shilling	40.117456
Swaziland Lilangen	3.93305
Ethiopian Birr	2.967552
Uganda Shilling	1390.59
Mauritian Rupees	21.1924
Lesotho Maloti	N/A
Comoros Frances	370.71
Djibouti Francs	254.78
Somali Shilling	335.3190
U.S. Pound	0.763162
Sudanese Pound	20.88

Source: Kenya Central Bank, Foreign Desk Records, Nairobi, December 1991.

A number of conclusions may be deduced from the above exchange rate per UAPTA:
Firstly, that the UAPTA is stronger than any of the PTA member states currencies;

- The UAPTA is even far stronger than the dollar 0.763162 of US dollar equals to one UAPTA; that the Swazi Lilangoni, Ethiopian Birr, Malawian Kwacha and Zimbabwe dollar are some of the very strong currencies in the sub-region.

- The exchange rate is given daily and only for those countries that have traded through the clearing house at that particular day and therefore explains the "not applicable" (N/A) remark on the Kwacha and Maloti, meaning that the two did not use the clearing house on 3rd of December, 1991.[15]

On top of the exchange rates per UAPTA, PTA current rates against the national currency of a particular country has to be given to the business community of the country, and therefore publishing of such rates in the local media has become necessary. On the same day 3rd December, 1991, mean exchange rates for PTA countries' currencies against the shilling were printed as follows:-

Table 7: Currencies Mean Exchange Rates Against the Kenya Shilling

		Kenya Shillings
1	Zimbabwe Dollar	5.5317
1	Zambia Kwacha	0.3104
1	Malawian Kwacha	10.5027
1	Swazi Lilangen	10.2078
1	Ethiopian Birr	13.6066
1	Rwanda Franc	0.2343
1	Burundi Franc	0.1469
1	Mauritian Rupee	1.8819
1	Comoros Franc	0.1071
1	Ugandan Shilling	0.0290

Source: Kenya Central Bank, Foreign Desk Records, December, 1991.

Again Table 6 above shows the disparities of the currencies within the PTA area against the shilling and indicates that the Ethiopian Birr, Malawian Kwacha, Swazi Lilangen, the Zimbabwe dollar and Mauritian Rupee are stronger than the Kenya shilling.

The amounts of UAPTA allocation to member states show the purchasing power which is also political power for the purposes of this document. This allocation has shown similar trends from 1989 to 1991, with Kenya as the highest purchaser in 1991 of an amount 520,230.00 (January-February) 36,750.00 (March-April), 385,830.00 (May-June), 1,026,740.00 (July-August), a decline of Kenya's purchase of UAPTA is noted in 1991 although she remains the highest purchaser at 492,940.00 (May-June), 549,450.00 (July-August) both in 1991. This position is seen in the below diagram (Table 7 a,b,c,d,e,f).

Table 8: A. STATISTICS FOR UAPTA TRAVELLERS CHEQUES TRANSACTIONS JANUARY - FEBRUARY, 1990

Member Country	Purchase	Sales	Commission for PTA Bank	Commission PTA Clearing House	Net Position
Burundi	58,360.00	305,070.00	2,135.49	457.63	(249,303.12)
Comoros	290.00	-	-	-	290.00
Djibouti	-	-	-	-	-
Ethiopia	42,070.00	24,340.00	170.38	36.53	17,523.90
Kenya	520,230.00	17,680.00	123.92	26.55	502,399.53
Lesotho	5,660.00	890.00	6.23	1.33	4,762.44
Malawi	241,770.00	94,200.00	659.40	141.33	146,769.27
Mauritius	36,760.00	-	-	-	36,760.00
Rwanda	170,430.00	214,730.00	1,503.12	322.10	(46,125.22)
Somalia	-	-	-	-	-
Swaziland	69,630.00	5,010.00	35.07	7.53	64.577.40
Tanzania	202,590.00	29,610.00	245.86	52.70	172.681.44
Uganda	78,830.00	232,510.00**	-	348.63	(153,938.63) **
Zambia	57,350.00	476,360.00	3,334.52	712.74	(421,778.37) *
Zimbabwe	214,140.00	332,100.00	2,327.22	498.81	(120,786.03)
Total	1,698,110.00	1,732,500.00	10,541.21	2,605.88	

Include amounts of (+UAPTA 1,280.80) and (-UAPTA 1.91) being reversal entries passed the previous transaction period.

* Excludes commission of UAPTA 1,627.58 which as refunded.

** Includes reversal entry of UAPTA 90.00 passed in the previous transaction period.

STATISTICS FOR UAPTA TRAVELLERS CHEQUES TRANSACTIONS MARCH-APRIL, 1990

Member Country	Purchase	Sales	Commission for PTA Bank	Commission PTA Clearing House	Net Position
Burudi	34,170.00	312,670.00	2,188.69	469.02	(228,157.71)
Comoros	6,520.00	250.00	1.75	0.37	22.12
Djibouti	-	-	-	-	-
Ethiopia	6,520.00	31,820.00	222.60	47.73	(25,570.33)
Kenya	361,750.00	12,090.00	84.61	18.13	349,557
Lesotho	24,800.00	5,320.00	37.24	9.97	19,434.79
Malawi	84,970.00	122,470.00	857.29	183.73	(38,541.02)
Mauritius	32,120.00	-	-	-	32,120.00
Rwanda	81,700.00	137,070.00	959.49	205.61	(56,535.10)
Somalia	250.00	10,470.00	73.60	15.80	(10,309.40)
Swaziland	59,340.00	3,770.00	26.39	5.66	55,537.95
Tanzania	198,840.00	30,460.00	231.89	49.72	168,098.39
Uganda	56,650.00	128,460.00	-	192.69	(72,002.69)
Zambia	229,510.00	655,120.00	4,585.84	982.72	(431,178.56)
Zimbabwe	259,920.00	148,310.00	1,038.11	222.45	110,349.44
Total	1,430,770.00	1,598,280.00	1,038.11	2,401.60	

TABLE 8: STATISTICS FOR UAPTA TRAVELLERS CHEQUES TRANSACTIONS MAY - JUNE 1990

Member Country	Purchase	Sales	Commission for PTA Bank	Commission PTA Clearing House	Net Position
Burudi	55,940.00	558,300.00	3,908.10	837.49	(507,105.59)
Comoros	400.00	-	-	-	400.00
Djibouti	-	-	-	-	-
Ethiopia	29,440.00	39,380.00	275.66	59.09	(10,274.75)
Kenya	385,830.00	18,280.00	127.97	27.41	367,394.62
Lesotho	26,760.00	4,600.00	32.20	6.89	22,120.91
Malawi	256,170.00	177,720.00	1,244.04	266.61	76,939.35
Mauritius	52,140.00	-	-	-	52,140.00
Rwanda	140,030.00	99,730.00	698.39	149.66	39,481.95
Somalia	6,520.00	700.00	4.90	1.05	5,814.05
Swaziland	137,850.00	6,640.00	46.48	9.97	131,154.11
Tanzania	237,790.00	33,290.00	232.97	49.92	204,217.11
Uganda	73,340.00	128,100.00	-	192.15	54,952.1
Zambia	41,140.00	29,720.00	208.08	44.59	11,167.37
Zimbabwe	297,230.00	224,240.00	1,572.08	336.88	71,081.04
Total	1,740,580.00	1.320,670.00	8,350.83	1,981.71	

* Includes amounts of (+UAPTA 1,280.80) being reversal entry passed in the previou transaction period.

b. STATISTICS FOR UAPTA TRAVELLERS CHEQUES TRANSACTIONS MARCH-APRIL, 1990

Member Country	Purchase	Sales	Commission for PTA Bank	Commission PTA Clearing House	Net Position
Burudi	31,990.00	410,810.00	2,875.67	616.23	(382,311.90)
Comoros	-	-	-	-	-
Djibouti	325.15	-	-	-	325.15
Ethiopia	20,157.61	16,320.00	114.24	24.49	3,698.88
Kenya	492,940.00	139,520.00	976.67	209.29	352,234.04
Lesotho	7,692.28*	3,263.85	18.97	4.88	4,404.58
Malawi	209,460.00	143,990.00	1,007.93	216.03	64,346.04
Mauritius	87,251.19*	-	-	-	87,251.19
Rwanda	700.00	164,722.48	838.39	246.03	(165,271.60)
Somalia	250.00	-	-	-	-
Swaziland	59,340.00	9,850.00	68.95	14.80	115,381.85
Tanzania	198,840.00	-	-	-	189,780.00
Uganda	56,650.00	6,800.00	-	10.20	23,259.80
Zambia	229,510.00	432,450.00	3,027.15	648.69	(271,395.84
Zimbabwe	259,920.00	255,828.06	1,563.25	383.86	39,678.22
Total	1,430,770.00	1,593,554.39	10,491.22	2,375.09	

Power within the region is also noted through the contributions to the clearing house. As will be noted in the diagram, Kenya paid UAPTA 46,493.00, followed by Uganda that paid UAPTA 31,336.00 followed by Zimbabwe with UAPTA 3,220.00 then Rwanda with UAPTA 26,454.00 and Zambia with 26,315.00. The contribution to the budget is derived from the activities (transactions) of member countries through the clearing house. This shows a very interesting position in which budgetary contributions keep changing. In fact, Kenya's budget changed from an amount of UAPTA 40,387.00 in 1990 to UAPTA 46,493.00 in 1991.

This explains that despite the fact that only about 20 per cent of Kenya's trade is intra-PTA trade, Kenya still transacts much more trade through the clearing house than the rest.of the member states.

3.8 POLITICS IN THE USE OF THE "UAPTA"

The twelfth meeting of the council of ministers held in Kampala in June 1988, has recommended that "UAPTA travellers cheques in any other convertible currency, and advised the monetary authorities of the member countries to instruct all authorized foreign exchange dealers in their respective countries to accept UAPTA travellers cheques for all transactions, including payment for transport and communications services such as airport taxes, transit charges and others."[16]

Despite this policy, it was noted at the fifteenth meeting of the Council of Ministers that most member countries had not implemented this decision, particularly with regard to the payment of transit charges and airport charges. Kenya had not responded to this decision and it was also noted that in Kenya, UAPTA travellers cheques had to be converted into shillings and then into US dollars for the purpose of paying airport tax. In Somalia and Tanzania, there was no change as regards payments of airport tax in UAPTA while in Zambia, air port tax could be paid in local currency.

Burundi, Rwanda, Tanzania, Uganda and Zambia were reported that they did not accept UAPTA travellers cheques for payment of transit charges.[17]

By the time of this study (June 1991), none of the visited countries, Kenya, Tanzania, Zambia and Zimbabwe accepted UAPTA travellers cheques as airport taxes. In fact none of the countries duty free shops of these countries accepted UAPTA for the payment of any purchase.

This shows that the UAPTA travellers cheques have not been given full acceptance. The introduction of UAPTA was driven by economic factors, that is, the shortage of the foreign exchange, the need to trade and the need tohave a common market in the region in the future. Yet, political will to use UAPTA extensively has been lacking and hence, increased use of the UAPTA can only be realized if supportive political remedies taken. This is supported by the fact that central banks act in accordance to their governments' legal framework regarding such activities. This explains why the Central Bank approved all the money requested by the researcher, but gave part of the money in US dollars (US$40) to cater for the airport taxes, that is US$20 for each country, Kenya and Zimbabwe, the expected exists, and the rest of the money in UAPTA travellers cheques. This means the Central Bank knows that the airport has to be paid in hard currency, in both Kenya and Zimbabwe.

First and foremost all these countries continue to face the problem of foreign exchange and therefore wish to tap it from all possible sources, particularly at the exits like the airports.

It was also noted that "UAPTA" is only given to those travelling members of public and business community who are not influential in their governments and in their central banks. In fact most delegates going for Council of Ministers meeting and to summits, receive the dollars and the pounds. This tells whoever gets the "UAPTA" that he/she is of lesser importance and, therefore, given a currency of lesser strength.

The businessman who would use the UAPTA feel insecure in using a currency whose esistence has hardly lasted a decade, and whose business record is not clear and hence, look at it as an animal not well understood. In fact, business people prefer the exchange of goods than accepting the UAPTA.

Except for a very limited number of hotels in Zimbabwe, like Kenturky (near the airport) a number in Zambia like Ridgeways, Intercontinental and Pamodzi, other hotels like in Kenya, knew little or nothing about the UAPTA. Most of the Kenyan hotels would rather hold the personal effects of a customer, and allow the customer to go to the bank to change UAPTA into Kenya shillings than accept it directly.

Survival of the UAPTA can only depend on the political will of the member states. Most of the countreis have however, carried out seminars and workshops from as early as 1985 to educate the bank staff, members of the chambers of commerce and industry, and those in the external trade departments of the ministries of commerce on the existence and use of UAPTA. But seminars and workshops alone, without a political solution are not enough.

This explains why only about 23 banks in Kenya handle UAPTA travellers cheques. Some banks like the Algemene ABN, Trade, Oman, Post and Trust banks only encash to those travellers who call on their banks. While many of the banks are issued with less than 100,000 UAPTA by the Central Bank; only Kenya Commercial Bank was issued with over a million worth of UAPTAs. As Table 8 below shows, those banks with greater relations with the Commercial Bank, Standard Bank. Grindlays Bank International, National Bank of Kenya were issued more of the UAPTA probably because they handle more of government transactions, and the Central Bank refers customers to them (after approval) for buying and the collection of the travellers cheques.

The UAPTA travellers cheques are a means to economic prosperity and in turn, to political compromise after the gains from trade. According to the earlier chapter, volume of trade had continued to increase until the second half of 1990, when the trend started to decline and continued to the following year of 1991. If the expected result has to come, then politics should arrest the situation.

Table 9: SUMMARY OF PTA TRAVELLERS CHEQUES TRANSACTION BY COMMERCIAL BANKS AS AT 30TH SEPTEMBER 1991

BANK	ISSUE	SALES	ENCASHMENT
NBK	363,000	111,370	1,077,890
CBA	52,000	19,720	438,120
KCB	1,002,000	257,440	1,796,190
PAB	76,000	28,650	27,850
TNB	25,500	9,010	25,850
HABIB	4,000	3,720	20,470
CO-OP	21,000	2,610	8,530
BBK	444,000	185,030	2,583,770
UNION	22,000	2,850	1,760
DELPHIS	140,000	3,370	15,050
CITIBANK	18,000	11,790	58,270
BIASHARA	4.500	-	200
BARODA	17.500	2,410	13,980
STD	365,500	89,560	928,540
GBI	242.000	3,010	4,610
ALGEMEN ABN	-	-	8,360
INDIA	18,000	9,990	2,970
TRADE	-	-	135,890
A.M. BANK	18,000	560	-
OMAN	-	-	1,040
POST	-	-	1,950
TRUST	-	-	17,070
	2,857,000	745,810	7,170,240

3.9 CONCLUSION

The introduction of a monetary area is not new in the world. The introduction of the UAPTA in the PTA sub-region was a noble idea and it has to be given an enabling environment by the politics and political leadership in the sub-region in order to promote and provide sustained economic development in the sub-region. The collapse of the Southern Rhodesia currency and the rand monetary area only to be survived by the common monetary area that exist today with the countries, South Africa, Botswana, Swaziland and Lesotho. the collapse of the East African currency board, East

African shilling, only to be survived by the Unit of Account of the PTA, shows that the demands of a common monetary area is an economic prerequisite for sustainable economic integration systems.

Politics has played a great role in all the monetary systems, meaning that although a monetary system is an economic demand, politics plays a great role in the formation, existence and continued use of a common currency. For the Unit of Account of the PTA to survive, PTA sub-regional politics need to offer it an enabling environment.

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CHAPTER FOUR

THE IMPACT OF THE RULES OF ORIGIN OF THE ACTIVITIES OF THE PTA CLEARING HOUSE

4.1 Introduction

Any block of countries created is guided by a set of rules in order to achieve the aims and the objectives of the group. Trading partners like the European Free Trade Association (EFTA), the Caribbean common market, the Generalized System of Preferences (GSP), the African Caribbean and Pacific, European Economic Community (ACP - EEC) and the Preferential Trade Area (PTA), are all guided by rules that give preferential treatment and protection for goods traded within each of the group. These rules are established to ensure that the benefits from such group's trade accrue to the member states. In all the above cited trade groupings, rules for trade are called "rules of origin", however, a thorough study of these rules has revealed that despite a number of similarities the applications differs in principle.

The PTA rules of origin has hampered the use of the PTA clearing house. In many trade groupings rules of origin are common for Preferential Trade arrangements.. Politically, Heads of state and government play the major role in the formation of rules of origin, and give similar contributions in the formation of the initial trade groupings. The PTA falls within the category of trading blocks where leaders called for regional co-operation to be made a reality for the region to accrue benefits and where political leaders, more than others are expected to lead the way to the day when the PTA will merge with other regional trading blocks on the continent to make the whole of Africa a free trade zone for all Africans.

The chapter attempts to explain the objectives of the PTA Rules of Origin and the content over their existence bearing in mind the experience of other trade groupings with such rules, and their inter-state relations during and after the formation of such rules.

4.2 CONTENTION OVER THE RULES OF ORIGIN

The rules of origin were stipulated by Article 15 of the PTA treaty and a number of articles of the protocol Annex of the rules of origin, particularly rules 2 1 (a) and 2 1(b). Under the PTA rules of origin, "goods are given preferential treatment if they originate in the member states and are contained in the common list.[1]

The objectives of the Rules of Origin are:-

i. "to promote and encourage optimum exploitation and utilization of local resources;

ii. to promote greater inter-state trade in locally produced goods including agricultural products and raw materials;

iii. to promote development and expansion of indigenous industries through effective participation in the intra-PTA trade;

iv. to facilitate linkages and complementarity in the development of industries in the member states so as to rationalize the existing high-cost/below capacity production units with a view to attaining viable and full capacity production, both in industry and agricultural sectors;

v. to encourage inter-country specialization in the creation of basic strategic industries as well as agricultural production on the basis of comparative advantages amongst the member states.

vi. to protect the PTA markets from the third country's products with suitable and similar products which are locally available provided this does not result in protection of inefficient industries within the member states.

vii. in combination with other provisions in the treaty, to provide appropriate machinery for collective action in the promotion of self-reliant and self sufficient economic growth and development for the P.T.A. sub-region".[2]

The PTA rules of origin had been the major bone of contention in 1985 and 1986. This was because while all PTA member countries agreed that there should be rules governing trade, some members disagreed at the mode of application of these rules of origin. In fact this study found that in the very poorly attended summit meeting in Lusaka in 1985, the rules of origin and the common - list were the main agenda. Only four out of the fifteen heads of states and governments, attended this meeting namely Kenneth Kaunda of Zambia, Ali Mwinyi of Tanzania, Jean Baptiste Bagaza of Burundi and Robert Mugambe of Zimbabwe. A Kenyan local media referred to this issue as the "PTA member states have differed in action on key issues following a disappointing two-day summit meeting marked by the absence of the most of the group's leaders two major items on the agenda were a "common-list" of more than 200 items eligible for preferential trade and the "rules of origin" which define the amount of local content products must have to qualify for the common list".[3] The common list and the rules of origin in fact hinder the full utilization of the Clearing House.

In fact the Tanzania News Agency was even more explicit when it commented that "the fact that only four countries out of 15 signatories were represented by their Heads of State at Lusaka summit has left many skeptical over the seriousness of the whole (PTA) affairs" .... it was the closest thing to disaster"[4]. The following year's summit meeting held in Bujumbura (Burundi) in May 1986 where 9 (75 percent) out of the 15 heads of states attended, the attendance and the deliberation was so good that it was later on referred to as a "Shot in arm" meaning that the PTA had been given an injection for survival. It was in this meeting that the initial requirements of the PTA rules of origin were suspended for 5 years and new conditions were given a 5 year grace period of application, to be reviewed in June 1991 (were in fact reviewed in Lusaka in January 1992).

The differences in attendance between the two meetings reveal a number of issues:-

a. that all member states knew the agenda of the Lusaka meeting and therefore absented themselves in order not to be party to the decisions ont he rules of origin and the common list.

b. that the rules of origin were of great importance to the existence of the PTA and therefore the non-existence of these rules may as well have meant non-existence of the PTA as a whole.

c. that there were political divisions and most member states were not in the harmony expected among trading partners under the PTA.

The Bujumbura summit suspended the Rule; 2(1) (a) which stipulates that "goods shall be accepted as having originated in a member state if they have been produced by enterprises which are subject to management by a majority of nationals and to at least 51 per cent equity holding by nationals of member states, or institutions, agencies, enterprises, or corporations of such Governments,"[5] for five years. During this period preferential treatment would be granted in relation to the degree of local equity holding of the production.

LOCAL EQUITY HOLDING		PREFERENTIAL TREATMENT
- 51% and above	-	100%
- equal to or greater than 40% but less than 50%	-	60%
- equal to or greater than 30% but less than 40%	-	30%.

Although the suspended section of the rules of origin seemed apparently more harsh than the new condition, the new condition has very little difference from the old one, and therefore there is need for a deeper explanation of the political and economic relations among member states within this period.

4.3 POLITICAL AND ECONOMIC FACTOR IN THE FORMULATION OF THE RULES OF ORIGIN

In addition to economic difficulties among member states at the time of the formation of the PTA, two other major events were taking place within the sub-region. These were the collapse of the East African Community (EAC), and the formation of Southern African Development Co-ordinance Conference (SADCC) both of which had an effect on the formation of the PTA and particularly on the rules of origin. The three situations had long-lasting effects on the formation and actual response by member countries to intra-PTA) issues.

First and foremost, leaders appeared set in the 1980s to rebuild the sub-regional relations after the tensions of the late 1970s. The experience of the period had taught them that the achievement of their domestic goals depended on the sub-regional stability and inter-state co-operation more than anything else. This, however, did not prevent the political squabbles of 1983 and the economic problems that stood on the way of the East African Co-operation. Tanzania's economy had for instance been adversely affected by her involvement in the 1978/79 war against Amin, while Uganda's economy was in shambles following Amin's eight years of misrule.

Kenya, on the other hand, had lost considerable trade particularly in Zambia and Tanzania following the closure of the border with the latter and was in the early 1980s facing a "deepening economic recession". In fact The Economist summarized this situation as; "All the three countries needed any help they could get: Kenya's economy is showing its ribs. Tanzania's is far past that, and Uganda's, is in desperate conditions."[6]

It is noted that the PTA, came up at the time of the collapse of the East African Community in which Kenya was apparently more advanced and was accused of "ripping off" the economy of the rest two countries. This was seen as an issue that caused jealousy against Kenya by the other two countries. This was worsened by the fact that there was also ideological differences amongst the three East African countries; socialism in Tanzania, Zambia and Somalia which could not reconcile with capitalism in Kenya. It was under this condition that Kenya, supported grudgingly by a "just independent"

Zimbabwe and by a not well decided mauritius, signed the rules of origin, while others later signed and adopted. The significant issue here was that the socialist oriented economies and that of Uganda, had little or no adequate capacity of significantly affected by the rules of origin. The production of the capitalist economies mainly Kenya, Zimbabwe and Mauritius and high foreign investment and therefore were prevented from the intra-PTA trade by the requirements of the rules of origin.

Similarly, the formation of SADDC was partly a way of checking success of the PTA within the sub-region. The preparation for the formation of the PTA started off in the 1975 when the Economic Commission for Africa (ECA) established Multinational Planning and Operation Centres (MULPOCS) which identified the five economic divisions of Africa and specified most countries of the Eastern and Southern Africa under the Lusaka-based MULPOC. In March 1978, the ECA held its first extra-ordinary conference of ministers of trade, finance and planning in Lusaka, Zambia, which initiated the negotiations for the PTA[7]. In fact in this meeting the PTA treaty was negotiated. A year after, the SADCC was formed in July 1979 with the "Open Motive" of a "Counter-Countellation" to P.W. Botha's "Counstellation" for the Southern African states. The SADCC was seen as an institution against PTA mainly because of Tanzania's major and influential role in the former; Julius Nyerere was very active in matters of SADCC and in fact opened the flowerly SADCC meeting in 1985, the same year the Tanzania's News Agency was skeptical about the affairs of the PTA as mentioned earlier in this chapter.

Secondly Tanzania "did not sign the (PTA) treaty until March, 1985 partly because of its commitments as a member of the Front Line States and SADCC. In fact "President Nyerere of Tanzania reportedly prevailed on Angola, Madagascar, Mozambique and the Seychelles to refrain from signing the PTA Treaty"[8]. On the same note, Tanzania was justifying its position on the PTA when it was quoted by one of the Kenyan daily paper "Dar Speaks out on PTA, ... the fact that Tanzania has not joined the Preferential Trade does not mean it cannot develop and strengthen bilateral trade with Kenya ... but it is still studying the economic pros and cons before reaching a firm decision" (i.e. of signing the PTA treaty)[9].

The above information shows that there was lack of agreement over the formation of the PTA and particularly over the dominance of better economies like that of Kenya, a dominance that could be checked by an instable PTA institution with unworkable rules as the rules of origin or by parallel institution - the SADCC that duplicated its activities. In fact it was later realized that the SADCC came up with similar missions like those of trade in the PTA where Tanzania was given the mandate to co-ordinate trade.[10]

The rules of origin have been found to be detrimental to growth and flow of trade within the sub-region because of a number of factors.

A study on the rules of origin undertaken jointly by consultants from Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Zimbabwe, UNCTAD, UNCTC and the PTA Secretariat in 1985 found that:-

- "Although the PTA member states vary in a number of respects that they have all experienced a series of common factors over the past decade which have adversely affected economic growth and development. These include economic slow down in the industrially advanced countries which has not only limited the demand for many exports from PTA region but also reduced the quantity and quality of aid being made available.

- The reduction of price primary commodity exports with a simultaneous rise in the import price of fuels and manufacturing products.

- The region has continued to struggle with a poor infrastructure heritage which has largely been oriented to facilitate extra-regional rather than intra-regional partnership.

- Most of the region has been beset by a crippling drought which has affected agricultural production directly and industrial production indirectly.

- Most member countries are experiencing heavy debt burden and are also beset by internal financial constraints.

- South Africa's explicit policy of destabilization which has severely disrupted development effort cannot be ignored"[11]

These problems influenced the implementation of the rules of origin by member states. The rules of origin themselves were found not adequate to promote trade due to the nature of investments within the region.

The study (on the rules of origin) found that from the 182 enterprises studied in Kenya some 107 met both the equity and management requirements of the rules of origin. The remaining 75 did not qualify because 12 of them could not satisfy both equity and management criteria, 45 could not satisfy the equity requirement and the management criterion. It was realized that the few companies which failed to quality had a large share of trade capacity (as high as 85%) to the PTA market.

In Zimbabwe 270 enterprises were submitted for analysis. 108 qualified while 102 failed to quality. However, 88% of those that did not qualify did not meet the equity requirement while 12% did not meet both equity and management criterion. From 26 enterprises analyzed in Zambia only 3 met the requirements. 96% of the remaining enterprises did not meet the equity and management criteria.

In Zambia, 65 enterprises analyzed, 30 qualified under the requirements. 10 enterprises that did not meet the requirements had the greatest potential for intra-PTA market.

Somalia was unique in that all its 72 enterprises analyzed, qualified under the rules of origin requirement. However, their production and potential was low to the extent that Somalia could not significantly use the clearing House for her trade except for marketing payments to the other PTA institutions.

In Ethiopia most of the companies qualified under the rules of the origin. However, 14 of the 91 enterprises did not meet both the equity and management criteria.

In Burundi, from 38 enterprises analyzed, 24 fully qualified. It was noted that those enterprises with export potential within the PTA were among those which did not meet the requirements of the rules of origin.

In Malawi, from 75 enterprises, only 18 qualified. It was noted that exports to PTA member states was adversely affected because the high export producing enterprises were among those that did not qualify.

The above description show that in addition to worsened political climate, the rules of origin have prevented most of the export producing enterprises to trade within the PTA, and enjoy any preferential treatment of their goods. The rules have therefore hampered trade expansion in the PTA sub-region. This was confirmed by another study in April 1991 that found that:-

1. "the rules of origin were cumbersome for traders because it was difficult to ascertain the origin of the goods especially when the same people are not involved in the manufacture of

the traded goods. Secondly where most of the industrial sectors in the member states have high foreign ownership, the goal of encouragement and increase of intra-PTA trade may not be achieved within the PTA rules of origin since many prospective business operators would have to be left out[12].

The percentage levels for goods to qualify for preferential treatment were found to be too high for developing countries. In fact, the Kenya Association of Manufacturers argued that the "Kenya government encouraged joint ventures between foreign investors and the Government, its parastatals and nationals. The Government did not insist on majority holding of over 50% by government or its nationals. The government also openly looked for foreign investors and such investments were genuinely protected by Law"[13] In fact, the Association expressed that some of the provisions were difficult to be understood due to the difficult legal language used. Specifically ordinary exporters like the agents could not understand the whole of rule 4 on the application of percentage of imported materials and value added criteria, and rule 5 "on the processes not conferring" and its application.

The study group found that most of Kenyan exporters predominantly went to non-PTA countries because, "there was available market, greater transport facilities, better rules of origin which were more flexible, tariff and non-tariff preferences also provided, and lastly, the payment was in hard currency.[14]

4.4 EXPERIENCE OF THE RULES OF ORIGIN ON OTHER TRADE SYSTEMS

a. Generalized System of Preferences (GSP)

This system has rules of origin very close to the rules of origin of the PTA. Preference is given to two kinds of goods. The first type are the "wholly obtained products" i.e. entirely grown or extracted from the soil of the exporting country which are given a 100% preferential treatment due to the total absence of imported components or materials.

The second type of products made from imported materials, parts or components termed as "products with import content". These products qualify as originating if they undergo "sufficient working or processing". This last phrase is left to the discretion of the individual member country to interpret and determine the amount of preference to give.

This shows that there is a major difference as compared to the PTA rules of origin that are defined by the PTA institution for application by all member states. Under the GSP, each member country has formed a "Single-list" of working or processing to be carried out on non-originating products to enable the products appearing in that list to obtain originating products to enable the status and if not indicate the amount of preferential treatment. The countries involved are Australia, New Zealand, Bulgaria, Canada, Czechoslovakia, USA, Hungary, Poland and the former USSR.

b. ACP - EEC CONVENTION

Under the above convention, products are said to be originating if they have been either "wholly obtained" or is in the result of "sufficient working or processing" in ACP or EEC states. If non-originating products are sufficiently worked on or processed, then they may be given originating status. The specified working or processing results are specified in the "single-list" provided in the Annex III of the lome IV convention. In this system, products can change from one tariff head to another due to the working or processing, which means that these rules of origin are more flexible than the PTA rules of Origin.

c. THE CARIBBEAN COMMON MARKET (CARICOM)

CARICOM has rules of origin, that are quite similar to those of the PTA. However, it has tailored some of these rules in order to integrate the economies of its member states and achieve greater economic interdependence and competitiveness. The single-list of CARICOM is divided into three parts.

The first section stipulates exceptions, i.e. which goods to grade in without restrictions. the second provides for certain changes to enter into force after a transitional period, i.e. after goods have undergone substantial change through processing. The third section offers the option of the percentage value added or change of tariff heading rule for the goods in that part.

These provisions sections are not found in the PTA rules of origin.

d. <u>EUROPEAN FREE TRADE ASSOCIATION (EFTA)</u>

EFTA convention works hand in hand with the free Trade Agreement (FTA) between individual EFTA countries and the European Community. EFTA covers Australia, Finland, Norway, Sweden and Switzerland. The European Community includes Belgium, Denmark, France, the Federal Republic of German, Greece, Ireland, Italy, Luxeburg, the Netherlands, Portugal, Spain and the United Kingdom.

The system is very similar to the above three discussed systems in that goods "wholly obtained" are goods that are "sufficiently worked or processed" given the status of "originating". Where intensive processing does not change the tariff heading, then list A and list B are provided in the Annex B of the EFTA convention and in the protocol to the FTA's that deal with the rules of origin.

List A indicates the negative exceptions, calling for more processing to make the product originating. List B indicates that a certain manufacturing process has taken place while not resulting in a change of tariff heading, nevertheless, confers the status of originating products. Production process must take place in either EFTA or FTA countries and must not undergo change or further processing in non-member countries. For example an originating cloth would lose its status of originating products, if it went for dyeing into a country which is not a party to the Free Trade Agreements. This system too is apparently more flexible than the PTA rules of origin because it tends to use the lists A and B to assist in making products undergo change to become "originating" and enjoy full preferential treatment.

4.5 CONSTRAINTS IN THE USE OF THE RULES OF ORIGIN IN THE PTA SUB-REGION

The main purpose of the rules of origin in any system is to ensure that the benefit of preferential treatment are confined to products which originate in the participating countries. The products that are normally regarded as "originating" are those which have been either wholly produced or manufactured in the member countries. In the PTA area these include "any product which has been entirely grown, extracted from the soil, harvested within PTA member-states or manufactured there, exclusively from any of these products.[15] These therefore include such products as minerals, vegetable products, live animals born or raised in member-states etc. The other criteria for PTA is the equity holding where the nationals of member state should own 51% of the enterprises for products from such an enterprise to acquire a hundred percent preferential treatment. This requirement is difficult to be met because the most developed economies with enterprises whose products have an export capacity for intra-PTA markets are mainly foreign owned. As compared to other trade systems discussed earlier-on, this requirement of the PTA cannot be justified because unlike in developed countries where there are few of foreigners in the PTA sub-region is the mode of industrialization. In fact none of the other systems require the equity holding or management to be held by majority of the nationals of the member states.

On the value-added criteria, the PTA institution has given some exceptions in order to cater for some specific situations; goods of particular importance to the economic development of member states, whose value-added requirements would be 25 percent; and goods consumed in large quantities in short supply, the value-added requirement would be 30 percent.

The council of ministers has introduced new regulations for dealing with specified goods of particular importance to economic development on goods consumed in large quantities as explained above.

The customs and trade committee negotiates for these products with those member states that demand such goods, then it sends the list to the council for approval and are included in the "special lists" as an addition to the common list. This means that those products that would not qualify for preferential treatment under normal criteria can therefore benefit when included in these special lists.

shows that there was a high degree of harmony and trust, as the personnel for the study groups were drawn from most member states and some governmental organizations. As meetings continue annually, the secretariat (composed of personnel from most member states), civil servants and political leaders have come together, compromised and in every session came up with issues and matters for approval and implementation.

The intra-PTA trade (though slowly) has increased as evidence in the previous chapters indicates, despite the presence of the rules of origin. The business community has interacted more and has become more united in the business endeavours especially the Federation of the Chamber of Commerce and Industry and the Association of Manufacturers who have been brave enough to indicate the trade constraints brought about by the use of the rules of origin.

The study can safely conclude that, the rules of origin have a greater extent hampered the PTA business. As earlier noted, the two study teams on the improvement on the rules of origin found that; the enterprises with commodities tradeable within the PTA sub-region did not qualify under the rules of origin, therefore, preventing the products from being traded through the use of the clearing house; secondly, the language used in the phrasing of the rules of origin is too complicated for the business people. The other global systems discussed that also the use of rules of origin have tailored them to suit the nationals of member states and to protect a non-member from full benefits from such trade. It is therefore expected that PTA policy makers, particularly the political leaders, understand fully the mechanisms of the rules of origin and re-tailors of them in order to increase the flow of the volume of trade within the sub-region, for the benefit of the nationals of the PTA member states.

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CHAPTER FIVE

IMPACT OF THE COMMON-LIST ON THE USE OF THE PTA CLEARING HOUSE

5.1 INTRODUCTION

"Regional economic integration involves the progressive elimination of discrimination between national borders normally accompanied by the creation of new institutions with power to make certain decisions on behalf of the integral parts".[1]

This idea was well conceived by the founders of the PTA institution and that of the treaty that calls for the ratification by member states. These decisions were, however, influenced by the politics of each member state and, therefore, Ernst Haas' idea that "integration is the process whereby political actors respond to distinct national activities towards a new and large centre, whose institutions, possess and demand jurisdiction over the pre-existing national states",[2] indicates the influence of the national states in such processes.

This, therefore, implies that, economic integration cannot be achieved without the surrender of a bit of the national sovereignty that will allow member states to be committed to their pledges in the integration process. Shedding off a bit of national sovereignty has not been easy for the states and as one of the local media noted, "the greatest single obstacle has been the reluctance of the regions political leaders to shed a bit of their national sovereignty in order to strengthen the (PTA) organization".[3]

The clinging to national sovereignty has prevented the proper development and interaction within the sub-region. This is particularly sad with the revelation that, "the PTA region produces a substantial amount of world's gold, diamonds, platinum, chrome, manganese, etc. It is also believed that the region holds more than 300,000 million tones of phosphates, over 100,000 million tones of iron ore deposit, 170,000 cubic metres of natural gas, 60,000 million tones of coal and more than 200,000 million tones of petroleum together with large quantities of uranium, nickel, copper and cobalt".[4]

This amount of wealth can only be exploited and be made to improve the welfare of the sub-region if the PTA member states shed off some of their national sovereignty. Very little of national sovereignty has been shed and therefore only less than 10 per cent of the sub-regional trade has been transacted within the region.

This shows that, if the potential of the region is fully exploited, the member states would be on the threshold of economic take-off. Apart from the holding back of national sovereignty, what else has prevented this economic take-off? The following sections explicitly examines this question.

5.2 RESTRICTION ON TRADEABLE GOODS

Chapter Four analyzed the rules of origin which goods have to meet before they can enjoy preferential treatment in the PTA market. Further to these rules, such goods should be prior listed on the so called "common-list", which classifies the goods and determines which goods can actually be tradeable and also indicate which products are to be given import licenses, be allocated with foreign exchange and therefore finally pass through the clearing house.

The clearing house is therefore, closely related to the common-list in that, the clearing house handles goods from the member states which have been enlisted in the "common-list". The common-list is apparently similar to the "single-lists" of the General Systems

Preference (GSP), the European Economic Community (EEC), and the African Caribbean and Pacific (ACP) systems.

The issue of the "common-list" within the PTA came into being at the early operational stages of the PTA (December 1983), when member states introduced the process of reducing and progressively eliminating customs duties and non-tariff barriers to the trade of a number of goods. Such goods were to be identified from a list then called the "common-list".

The common-list was also meant to help in the gradual evolution of a common external tariff in respect of all goods imported from non-

PTA- countries with a view to the eventual establishment of a common market amongst member states.

The adherence to a common list requires co-operation, PTA member states have been obliged to come together in harmony, make policies and implement them although not in a similar manner. Some of the first policies made, were the inclusion of a common-list of 319 initial commodities, and a further response to elimination of both tariff and non-tariff barriers. Presently (1992), the common-list contains over 700 commodities. The expansion of the number of commodities as per tariff heading will be determined after every 2 years, 1992, 1995, 1997 and 1999. It is expected that by the year 2,000, the common-list will be in all embracing list containing all commodities traded within the PTA sub-region, which by then, will have become the free trade area status.

The time frame for the elimination of tariff barriers for trade among the PTA member states was established by the PTA summit in December 1987. This frame indicated the reduction of tariffs as follows:-

10 percent	reduction	October 1988
10 percent	reduction	October 1990
10 percent	reduction	October 1992
10 percent	reduction	October 1994
10 percent	reduction	October 1996

This reduction of tariff was to be on the goods in the common-list that were divided into six categories and was reviewed again in 1990 to show reductions as shown in Table 10.

Table 10

CUMULATIVE PTA TARIFF REDUCTION RATES, 1984 - 2000

PTA/TC/CT/XII/10

		1984 %	1988 %	1990 %	1992 %	1994 %	1996 %	1998 %	2000 %
I	Food	30	37	44	51	58	65	79	100
II	Agricultural Raw Materials	50	55	60	65	70	75	85	100
	Non-Agricultural Raw Materials	60	64	68	72	76	80	88	100
III	Intermediate	65	68.5	72	75.5	79	82.5	89.5	100
IV a.	Durable consumer goods	40	46	52	58	64	70	82	100
b.	Non-durable consumer goods	35	41.5	48	54.5	61	67.5	80.5	100
c.	Highly competitive consumer goods	30	37	44	51	58	65	79	100
d.	Consumer goods of particular interest to economic development	70	73	76	79	82	85	94	100
V	Capital goods	70	73	76	79	82	85	91	100
VI	Luxury goods	10	19	28	37	46	55	73	100

Source: PTA-study on alternative ways of giving preferential treatment in issuing import licenses and allocating foreign exchange for commodities in the common list. Lusaka. PTA/TC/CT/XII/10. August, 1990: p.2.

The member states reviewed a number of issues in an attempt to remove the non-tariff barriers in the trade. This included: "not to impose any tax on foreign exchange transaction in respect of intra-PTA trade; earmarking a portion of their foreign exchange reserves for the financing of their intra-PTA imports as from 1st January 1986: the granting of meaningful quotas to PTA suppliers as from 1st January 1086; and the granting of preferential treatment to PTA supplies in the issuing of import licenses as from 1st January, 1986".[5]

These responses were given by member states because it was realized that the restrictive import licensing and foreign exchange licensing were the worst trade barriers within the sub-region. These two restrictions were imposed by member states in response to the serious shortage of foreign exchange that each one of them experienced. In fact this study underscores that member states are reluctant to relax import and foreign exchange licenses.[6]

It is, therefore, noted that there has been considerable trade taking place between the PTA countries and the outside world, particularly with the developed countries than amongst the PTA member states themselves, although intra-PTA has been increasing. In fact, during the period 1980 - 1988, over 90 per cent of the trade of the PTA countries was with the outside world. This is explained by Table 11 and 12.

Table 11: Global and Intra-PTA Trade 1980 - 1988

	ACTUAL FIGURES								
PE OF INDICATOR	1980	1981	1982	1983	1984	1985	1986	1987	1988
TOTAL WORLD EXPORTS	1,895,500	1,835,600	1,720,200	1,681,300	1,786,600	1,811,500	1,978,800	2,353,300	2,707,500
TOTAL WORLD IMPORTS	1,946,400	1,923,400	1,793,400	1,788,500	1,849,700	1,890,300	2,063,700	2,433,000	2,793,100
TOTAL WORLD TRADE	3,841,900	3,777,000	3,513,600	3,419,800	3,636,300	3,701,800	4,042,500	4,786,300	5,500,600
TOTAL PTA EXPORTS	6,236	5,951	5,820	5,315	5,306	5,003	6,183	6,289	7,338
TOTAL PTA IMPORTS	8,945	10,087	9,457	7,891	7,760	8,043	9,040	10,240	11,415
TOTAL PTA TRADE	15,181	16,038	15,286	13,206	13,066	13,046	15,223	16,529	18,753
INTRA PTA EXPORTS	605	623	510	434	400	400	445	503	587
INTRA-PTA IMPORTS	649	665	639	502	428	428	485	548	654
TOTAL INTRA-PTA TRADE	1,254	1,288	1,149	936	889	828	930	1,051	1,241
INTRA-PTA Exp. as % of Total PTA Export	9.70	10.47	8.75	8.17	7.69	7.99	7.20	8.00	8.01
Intra-PTA Imp. as % of Total PTA Import	7.25	6.59	6.75	6.36	6.22	5.32	5.37	6.37	5.73
Intra-PTA Trade as % of Total PTA Trade	8.26	8.03	7.51	7.09	6.81	6.34	6.11	6.36	6.62
Total PTA Exp. as a % of Total PTA Imp.	69.71	59.00	61.64	67.36	68.38	62.20	68.40	61.42	64.28
Total PTA Trade as a% of Total World Trade	0.42	0.42	0.44	0.39	0.36	0.35	0.38	0.35	0.34

Source: PT Clearing House, 1991

The table shows that intra-PTA as a percentage of total PTA trade accounted for 6.62 per cent in 1988 which represents a substantial decline from its 1980 level estimated at 8.26 per cent.

If the same annual average growth rate during the period 1980-88 continues during the 1990s, trade with non-PTA countries will continue to grow by "an average of 3.2 per cent annually, while intra-PTA trade will grow on average by only 0.68 per cent annually during the period 1989 - 1995"[7]. In fact, total intra-PTA trade as a percentage of global PTA trade will decline from 6.46 per cent in 1989 to 5.56 per cent in 1995 as indicated by the table.

TABLE 12: GLOBAL AND INTRA-PTA TRADE 1989 - 1995
PTA/TC/CT/XII/10

PE OF INDICATOR	1989	1990	1991	1992	1993	1994	1995
Total World Exports $ Millions	2,840,169	2,979,338	3,125,327	3,278,469	3,439,115	3,607,633	3,784,408
Total World Imports $ Millions	2,930,864	3,075,432	3,227,112	3,386,282	3,553,304	3,728,563	3,912,467
Total World Trade $ Millions	5,771,032	6,054,761	6,352,438	6,664,751	6,992,419	7,336,196	7,696,875
Total PTA Exports $ Millions	7,528	7,772	7,921	8,126	8,336	8,551	8,772
Total PTA Imports $ Millions	11,830	12,260	12,706	13,168	13,647	14,144	14,658
Total PTA Trade US$ lions	19,358	19,982	20,628	21,294	21,983	22,695	23,430
Intra PTA Exports US illions	590	592	594	597	599	601	603
Intra PTA Imports Millions	660	666	672	679	685	692	698
Total Intra-PTA Tra. Millions	1,250	1,258	1,267	1,275	1,284	1,293	1,301
Intra-PTA Exp. as a f Total PTA Imp.	7.83	7.67	7.50	7.34	7.19	7.03	6.88
Intra-PTA Trade as of Total PTA Trade	5.58	5.43	5.29	5.15	5.02	4.89	4.76
Intra-PTA Trade as of Total PTA Tra.	6.46	6.30	6.14	5.99	5.84	5.70	5.56
Total PTA Exp. as a f Total PTA Imp.	63.63	62.98	61.34	61.71	61.08	60.46	58.84
Total PTA Trade as of Total World Trd.	0.34	0.33	0.32	0.32	0.31	0.31	0.30

Source: PTA Clearing House, 1991

It was noted that, in 1988, the estimated intra-PTA trade potential for commodities on the common-list was alone US$1 billion. Imports from the non-PTA countries accounted for US$1.117 billion and exports to the non-PTA countries for the same commodities accounted for US$1.252 billion.

A number of commodities imported from the non-PTA countries are actually available in the PTA sub-region. These include unmilled maize, sawn lumber, common salt, asbestos, mixed vegetable oils, bovine and sheep leather, cordage, cable, rope and twine, copper bars, wire and watches".[8] These products represent only 8 per cent of the products identified which are traded between the PTA and non-PTA countries.

In terms of value, this represented only 1.4 per cent of the total value of import from third countries and 9 per cent of the total value of exports to non-PTA countries. Table 12 shows the countries which are importers and exporters of those products as well as the value of imports and exports during the year 1988.

TABLE 13

SAMPLES OF TRADE WITH THIRD COUNTRIES

COMMODITY	EXPORTING	VALUE OF EXPORTS US $ 000	IMPORTING	VALUE OF IMPORTS US $ 000
Maize Unmilled	Kenya Mauritius Mozambique Zimbabwe	7160 1346 579 9618	Ethiopia Mozambique Somalia Zimbabwe	206 2442 1184 186
Lumber Sawn	Mozambique Tanzania	983 900	Mauritius Somalia	1331 131
Common Salt	Ethiopia	672	Zimbabwe	310
Asbestos	Zimbabwe	36047	Ethiopia	135
Fixed Vegetable Oils	Mozambique	740	Ethiopia Tanzania	266 214
Bovine and Sheep Leather	Ethiopia Kenya Somalia Tanzania Zimbabwe	7917 29646 574 215 9813	Mauritius	1388

Cordage Cable, rope & twine	Tanzania	8154	Ethiopia Kenya Mauritius Mozambique Tanzania	336 298 360 827 397
Cooper bars and wire	Mozambique Zambia	109 1606	Ethiopia Kenya Tanzania	404 1607 202
Watches	Mauritius	2894	Djibouti Kenya Tanzania Uganda Zambia	104 1150 202 414 110

SOURCE: PTA study on alternative, ways of giving preferential treatment in issuing import licenses and allocating foreign change for commodities in the common list (Lusaka, PTA/TC/XII/10 August, 1989: pp. 9).

This table also reveals that countries with the greatest potential to export to the PTA market are Kenya, Mauritius, Malawi, Mozambique, Tanzania and Zimbabwe. The combined value of their exports to non-PTA countries represent 92.6 per cent of the total common-list of the PTA exports to non-PTA countries.

On the other hand, the countries which have the greatest potential to import from PTA countries are Ethiopia, Kenya, Mauritius, Mozambique, Tanzania and Zimbabwe as deduced from the table. The combined value of their imports from non-PTA countries represent 73.8 per cent of the total common-list of the PTA from the third countries.

Further to this, the concentration of imports in terms of value was in food excluding luxury items (21.9%), intermediate goods (21.3%) and consumer goods of particular importance to economic development other than capital (25.9%). These three groups combined to constitute 69.1 per cent of common-list imports by member states.

The limited number of goods in the common-list is due to the low trade among member countries. This is mainly because the common-list is established on the basis of matching import and export interests. Member states have for instance, restricted the imports of some category of goods.

For example, "the import value of highly competing consumer goods was only 2.6 per cent (1987) of the total intra-PTA common-list imports which is obviously on the lower side."[9]

These restrictions on the free flow of trade explain the loud cries from most business people interviewed; "free the trade, PTA is still on paper,

government are hypocritical in their pledges about the PTA, the PTA paths appears endlessly strewn with more hundles than parapet".[10]

These restrictions on the free flow of trade explain the loud cries from most business people interviewed: "free the trade, PTA is still on paper, government are hypocritical in their pledges about the PTA, the PTA paths appears endlessly strewn with more hundles than parapet".[11]

In fact, an industrial review magazine argued that "if the PTA has to work and work well, the movement of people and their products must be made less spastic and much smoother"[12] and added that, "the countries of the European Economic Community decided it was even better to do away with all cross-border controls with their common market. If only the countries of the PTA would go a fraction of the distance that the EEC has done, the flow of people and their products would improve considerably because trade flows best when those engaged in it can move freely into and out of the various markets".[13]

5.3 ACTUAL RESPONSE BY MEMBER STATES ON TARIFF REDUCTION

The authority meeting in Kampala in December 1987, composed of five heads of state and of high powered delegates representing the absent heads of states, was informed by a study team on issues concerning tariff reduction, how member states had responded and the irregularities of this response by some member countries as follows:-

> "although the initial tariff reductions in respect of commodities in the common-list should have been effected by all member states as from July 1984, only 4 countries namely; Kenya, Malawi, Zambia and Zimbabwe had complied. One country, Uganda, published its reduced tariff rates six months after the target date, in January 1985. Five countries, Burundi, Ethiopia, Somalia, Tanzania and Rwanda delayed for at least one year and that Mauritius, had not yet published its rates. Comoros and Djibouti, which were given a derogation and were therefore required to reduce their rates by 25 per cent of the percentage provided for in the treaty as from 1st July 1986, had not complied. Lesotho and Swaziland, which were covered by special protocol had also not complied".[14]

In this meeting, it was also found that some states had published some tariff columns without including all commodities in the collectively approved initial common-list which was amended in 1984.[15] In fact, in contravention of the treaty, members had selected from the established common-list, commodities of their preference and thereby established their own individual common-lists. To confirm this, Rwanda was reported in the authority's meeting (December 1987) to have excluded two commodities approved in the common-list. Ethiopia, Kenya, Malawi and Somalia had excluded from their tariff rates 20 commodities in the amended PTA common-list gazetted in July 1984. Tanzania had excluded from its

published rates 144 commodities in the initial PTA common-list and 10 commodities in the amended list.[16]

In fact, no member stated had responded to a policy approved in June 1987, requesting all member states to provide the national rates that would apply to these commodities on the date the commodities were approved, for additional to the common-list and for the publication of the initial PTA tariff rates on these commodities by January 1988 (to the PTA Secretariat).

This irregularity, especially for the case of Kenya, Mauritius, Tanzania and Zimbabwe which had not even submitted the tariff handbook, made the secretariat's work very difficult. These irregular responses to rules approved by the same policy making states, suggests deep rooted by the same policy making states, suggests deep rooted domestic and inter-state factors. Irregular responses to the common-list are well analyzed in the following last section.

5.4 RESPONSE BY MEMBER STATES TO CUSTOM AND TRADE

By the end of 1990, all member states were supposed to have published fully the initial, first and second tariff reduction on the three-tier system for commodities in the common-list, except for additional commodities which were included in June, 1989.

An improvement was found in that, "10 member states that included Burundi, Ethiopia, Kenya, Malawi, Mauritius, Somalia, Tanzania, Uganda, Zambia and Zimbabwe had already published the above tariffs as recommended".[17]

Rwanda and Mozambique had not yet published the initial PTA tariffs and the first further tariff reduction. Sudan had just joined the PTA and had therefore not published the PTA tariffs.

While Mozambique's case was well understood and was given derogation on tariff reduction by 10 per cent across the board in 1991 , and to start this reduction from June 1991 (due to the war situation in 1990 in Mbabane-Swaziland). Somalia's status of the publication of the second further tariff reduction could not therefore be established.

Most countries who had responded well to the tariff reduction complained that some countries were not complying with the PTA policy organs decisions. Such complaints came from Burundi, Zambia and Ethiopia. In fact Burundi stressed "that some member countries which had not published the tariffs were not accepting Burundi's commodities, particularly by refusing to issue import licenses for such goods.[18]

5.5 CONCLUSION

This chapter has reviewed a number of issues on impact of the inter-state relations of the PTA member countries on the use of the common-list that specifies the goods and the tariff reduction rates for the trade within the sub-region.

Firstly, all member countries are apparently ready to make policies that affect them jointly. Such policies include the formulation of the common-list which is more or less similar to the 'single-list' of the developed countries.

Secondly member states have passed resolutions on how the goods in the common-list would be increased to be an all-encompassing list by the year 2,000, when the sub-region is expected to acquire the free trade area status. In addition to issues pertaining to the common-list, decisions on customs and trade tariff reduction and elimination have been passed unanimously by member states.

The issue of interdependence and harmony in passing resolutions is therefore highly noted among the member states. The question of irregular or non-implementation of decisions jointly passed, is well explained in the chapter. Such explanations show that a number of countries restrict the issuance of the import licenses and also restrict the foreign exchange allocation for a number of commodities. In fact, some countries left out a number of commodities in their individual countries' common-lists. This implies that such goods left out cannot be licensed or actually be exported or imported to other PTA countries.

Worse still, is the response to the tariff reduction which the study team found that while some countries like Zimbabwe had published the initial, first and second tariff reduction measures, countries like Rwanda and Mozambique had not yet published the initial PTA tariff: while Sudan had not published any due to its newness to the institution, Somali's status as regards the publication of the tariffs could not be established because it was not represented in the meeting and neither did it communicate its status.

Again, in the formulation of decisions and responses, the PTA states have been found to be in harmony and with a lot of understanding of the constraints and economic problems of each member states. For example, Lesotho and Swaziland are covered by a special protocol due to their inevitable economic relations with South Africa, while Mozambique was given a grace period of 5 years, within which it would organize itself from the present war situation, after which it would implement the policy decisions, just like other states.

The question that arises is why do PTA members states behave in this manner (i.e. make decisions jointly, but fail to implement them accordingly. What are the factors underlying their responses to the implementation of the issues related to the use of the clearing house? What are the factors that make and change inter-state relations of the PTA member countries? This is that will be discussed in the next section.

ENDNOTES

1. Akinrinade, O. and Barling, J.K., Economic Development in Africa. International Efforts, Issues and Prospects (London, 1960 pp.99-112).

2. Ibid.

3. Kenya Times, 7th January, 1991, pp. 10.

4. Ibid.

5. PTA Secretariat, Report of the Trade and Customs Committee. (Lusaka, 1985).

6. PTA Secretariat, Report of the Sixteenth Meeting of the Council of Ministers Committee, (Mbabane, PTA/CM/XVI/2, November, 1990.

7. PTA Secretariat, Report of the Trade and Customs Committee, (Lusaka, 1985).

8. PTA Secretariat, Study on Alternative ways of giving Preferential Treatment in Issuing Import Licenses and Allocating Foreign Exchange for Commodities in the Common List (Lusaka, PTA/TC/CT/XII/10, August, 1990 p. 12.)

9. PTA Secretariat, Report of the Trade Customs Committees, (Lusaka, 1985).

10. Ibid.

11. These comments were made by a number of Business People in Nairobi in the Months of October and November, 1992.

12. The Weekly Review, Industrial Review: Is the PTA Working? (Nairobi, November 1989 p.2).

13. Ibid.

14. PTA Secretariat, The Sixth Meeting of the Authority, (Kampala, PTA/AUTH/VI/6, December, 1987: pp. 17).

15. The common-list which was amended in 1984 was added 20 more commodities to make a total of 232 commodities which was the initial number of commodities before the additional list. The list increased from 231 to 325 to 12th July 1985 and therefore the member states should have amended and published the additional commodities that Rwanda excluded and in fact had been published in the PTA official Gazette issued on 31st January, 1984.

16. The same List no. 15 is Referred to without specifications of which commodity by name.

17. PTA Secretariat. Report on the Sixteenth Meeting of the Council of Ministers Meeting, (Mbabane, November 1990).

18. Ibid.

CHAPTER SIX

INTER-STATE RELATIONS IN THE EASTERN AND SOUTHERN AFRICAN STATES

6.1 INTRODUCTION

The foregoing chapters have explicitly dealt on the clearing house, the UAPTA travellers cheques, the rules of origin and the common-list. Relations between the present eighteen member states of the PTA have profoundly been involved in the establishment of the institutions and issues concerning the PTA.

For these member states to come together to form the PTA and ratify the treaty, both diplomacy and foreign policy have been seen to work. Relations between states only occur under some form of communication and interaction, which in real sense, means the use of diplomacy and foreign policy.

The two terms have very similar meanings, although Harvey, et al described foreign policy as "what you do and diplomacy as how you do it.[1] The two terms are closely intertwined. Harvey explains further the differences between the two terms by arguing that "diplomacy is however considered as the central political technique because it involves direct government to government interactions. The issues of "how" in international relations as far as diplomacy is concerned, is the direct communication between official representatives of two or more governments. ... diplomacy's central feature is its communicative function.[2] Foreign policy and diplomacy are significant terms in the study of inter-state relations.

As Dunn Frederick explains, international relations"may be looked upon as the actual relations that take place across national boundaries, ... questions that arise out of the relations of nations". "It includes international politics which "is concerned with special kind of power relations that exist in a community; .... deals with trade across national boundaries that are complicated by the uncontrolled actions of sovereign states; ... is concerned with knowledge that is relevant to the control and improvement of a particular set of social conditions, ... knowledge for the purpose of moulding practical events in the desired directions".[3]

These explanations of diplomacy and foreign policy poses a number of questions may; what factors determine inter-state relations and which among these factors, determine and continue to determine the relations between PTA member countries?

In the background, the Eastern and Southern African states are all affected or have been at one time affected by the "decline of world prices for many primary commodity exports with a simultaneously rise in the import price of fuels and manufactured products;

The region has continued to struggle with poor infrastructural heritage which has largely been oriented to facilitate contact with extra-regional, rather than intra-regional partners;

Much of the region has been beset by a crippling drought which has affected agricultural production directly and industrial production indirectly.

There has been a series of conflicts in the region, especially as a consequence of South Africa's explicit policy of destabilization ....

Many member states are experiencing heavy external debt burden and are also beset by internal financial constraints".[4]

The PTA member countries who are or have in the recent past experienced political and economic crises, coup d'etat, large scale violence, massive strikes have little, or few economic resources. Such countries that include Uganda, which is almost a pure market for Kenyan goods. Uganda experienced harsh development times during Amin's eight year rule after the coup d'etat in 1971. The personality and style of Idi Amin's leadership affected the substance and direction of Uganda's foreign policy, which is now slowly recovering.

The conflict between the Kenya and Zanzibar in 1978, changed the foreign policy and development between the two states. This is because the border closure in 1978 did not just mean a stoppage of people's travel across to the two states. It also meant harsh diplomatic relations; it meant a change in decision making and propaganda against each of the two states and lastly, meant a stoppage of Kenyan goods to the Southern corridor, particularly to Zambia.

The war situation in Ethiopia, Sudan and Somalia meant lack of concentration in the development efforts in the sub-region; it means harsh foreign policy towards those nations that may tend to support any faction(s) of the warring groups against the government of any one of these states. A similar case is experienced in Mozambique such that, other PTA states reached a consensus to allow Mozambique not to implement the tariff reduction schemes as vigorously as the other member states, in consideration of the war disrupted economic status, as noted in the previous chapter.

The debt situation has a harsh effects on the PTA institution. In fact it promotes the under-utilization of the clearing house in that, member states have to look for the foreign currency in all their institutions that have entry and exit positions, export, import capacity so as to assist in the generation of the very much needed foreign currency to repay debts. The debts are so high as noted by the economic commission for Africa, "... for 41 African countries for which comprehensive data are available, the debt service obligation are now about $23 billion per year – a level clearly much too high for these countries."[5]

Other factors that have significantly affected the inter-state relations among PTA member countries is the existence of other regional co-operations with similar objectives as those of the PTA. These include the SADDC and SACU.

6.2 EFFECT OF SADCC ON THE PTA

SADCC is an indigenous organization that was created by the Southern African states (10 in number) with a major objective to reducing dependency on South Africa.

Of recent, the formation of SADCC has been sometimes seen as an action to reduce the power and activities of the PTA. This is partly confirmed by Guy Martins argument that "the 15th member, Tanzania, did not sign the treaty until March, 1985 partly because of its commitments as a member of the front-line state and SADCC. President Nyerere of Tanzania reportedly prevailed on Angola, Madagascar, Mozambique and the seychelles to refrain from signing the PTA treaty".[6]

Another way of looking at this factor is that, the founders of SADCC has prior knowledge of the formation of the PTA in that, such states as Tanzania and Zambia were in the 1978 ECA meeting in Lusaka, where the idea of Mulpoc's and specifically, the idea of the PTA was generated.

The quick formation of SADCC (1979) and later the functions incorporated, have at times threatened the very existence and continuation of the PTA.

Although SADCC, unlike the PTA believes that trade should follow production, there is very little difference in the activities of both institutions in the final analysis. For example, in 1985, "SADCC approved and prioritized 398 projects out of a list of more than 500. Out of those prioritized, over half are at various stages of implementation. The approved projects have been divided up among member countries: four countries have responsibility for agricultural concerns. Zimbabwe co-ordinates the food security sector, Botswana is the base for agricultural research and animal disease control: Lesotho deals with soil-water conservation and land utilization, while Malawi handles forestry, fisheries and wildlife, Tanzania is supposed to co-ordinate trade".[7]

This parallel development, promotes conflicting political and economic loyalties among a number of PTA states who are also members of the SADCC. For example, "ideological divisions occur in the Southern corridor between those states that are believers in PTA, which include Malawi, Lesotho and Zambia, with the skeptics that include five front-line states: Mozambique, Zimbabwe, Angola, Tanzania and Botswana".[8]

The above differences may therefore give an indication that the P.T.A. has so broad membership that it lacks the urgency and political will, which accompanies SADCC. This fact was similarly noted from an interviewee who noted that "the P.T.A. lacks the political and social good will that accompanies SADCC. In U.S.A., just like in Kenya SADCC countries, Embassy officials have created "SADCC clubs" that offers social gatherings to those involved, in their residents rotationary".[9]

Although the difference between the two institutions are apparently subsiding, the unexpressed foreign between the two economic integrations systems are significantly felt, especially when both hold meetings (although at different venues) to discuss almost similar issues at the same time. This was particularly outstanding in January 1992, when "the PTA summit meeting held in Lusaka, Zambia discussed among other issues, about merging SADCC with the PTA, while a similar meeting of SADCC was held at Mozambique that did not discuss anything about the merger".[10]

In fact the seventeenth meeting of the council of ministers held in Lusaka from 24th to 27th January 1992, noted the need for the member states to pool their resources, including financial resources, in order to collectively solve the common problems that face them and realized that only through unity, member states could transform their economies and attain sustainable growth.

As earlier mentioned, duplication of regional organizations in the sub-region hinder rather than enhance the process of integration. Under these circumstances, the council of ministers meeting recommended to the PTA. Authority at its Tenth meeting "that PTA and SADCC be merged into a common market for Eastern and Southern Africa".[11] This idea is most welcomed by the staunch PTA believers. In fact when the actual merge occurs, inter-state relations between member states will as well change. This may mean that the position of South Africa may be the next issue to be discussed after the merger.

The sub-region has had various experiences due to the effect and presence of South Africa. This will be discussed in the next sub-section.

6.3 EFFECT OF SOUTH AFRICA ON THE PTA

The formation of SADCC has a major objective of reducing dependency on South Africa. However, except for the strengthening of sanctions against South Africa little has been observed as reduced dependence. This is because South Africa is more developed than other national states in the Southern corridor.

States in the Southern corridor has directly or indirectly been affected at some time by the presence of the Southern African Customs Union (SACU) and the Rand Monetary Ara (RMA). These two institutions created by South Africa have had greater effects on Botswana, Lesotho and Swaziland (BLS) states. SACU was meant to promote regional co-operation through trade, the employment, transport and monetary and fiscal co-operation. The geographical and economic positions have dictated the BLS states to remain to some extent under SACU. The rand remains a convertible currency in the BLS states, despite the collapse of the rand monetary area which meant that Lesotho and Swaziland have to follow South Africa's interest rate structure which has deterred industrial development and economic growth in both these countries.

The effect of South Africa is generally felt in the front line states. In fact, the diplomacy of the frontline states has been re-directed to accommodate the effect from South Africa. This include absence of a lot of political instability which created pressures in the form of greater military spending, and greater spending on aid for the flood of Southern African refugees which exacerbated the existing economic and political problem of these countries. Such incidents as interlocking Southern African transportation network has been imperative for the economic survival of the front line states since most of them are land locked and depend on South African ports and railways for the transport of their exports and imports.

The Effect of the Interstate Relations on the PTA Clearing House

SADD countries that include the BLS states, just like most African countries, have been experiencing economic problems since the 1970's. These include deteriorating terms of trade, declining net financial flows, slow or negative growth in export volume, trend rate of expansion in food and agriculture below those of population, drought and desertification and the unviability and unsustainability of a number of projects.

In fact SADCC member states reveal a sad history of economic integration in Africa that does not offer much hope for these countries. This explains the fact that "Zimbabwe and Zambia maintained trade missions with South Africa even when they were in the forefront of calling on economic sanctions against South Africa". Relations with South Africa have an enormous effect on the use of the clearing house in that the Southern corridor countries continue to trade for cheaper goods from South Africa in exchange for foreign currency. This means that such countries cannot concentrate on the intra-PTA trade through the clearing house in exchange for the UAPTA or for their national currencies.

CONCLUSION

In conclusion, the interstate relations of PTA member countries has a great impact on the use of the clearing house. The external factors like debt and relations with non-PTA member countries like South Africa has an even greater impact not to mention that duplication of activities in other economic integration systems like SADCC and SACC within a similar region definitely affects the operations of each other.

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CHAPTER SEVEN

CONCLUSION

7.1 INTRODUCTION

The idea of the establishment of the PTA and the creation of the clearing is a noble idea according to this study. This is mainly because the whole sub-region is in short supply of the foreign currency, on which it has solely depended on, for any type of transactions. The introduction of the UAPTA, that is dispensed by the clearing house, makes the PTA an important economic integration system. Despite this fact, the clearing house has faced a number of problems and therefore continues to be under-utilized. Some of these problems have been explained in the foregoing chapters.

Chapter One explained the problems that the study has undertaken, the objectives, literature review, theoretical framework, justification of the study, hypothesis and methodology.

Chapter Two discusses the concept of harmony in the clearing house. The study reviewed that the clearing house was established under Article 11 of the PTA treaty and therefore become a politically established institutions, because the treaty came into force only after its ratification by the heads of states of the PTA member states.

Chapter Three discusses the monetary co-operation within the subregion with special reference to UAPTA. The use of UAPTA, the

PTA currency used for travelling within the region and transacting goods and services in (launched by the President of Uganda Museveni in 1988) for economic reasons. The response by member countries is politically influenced because the UAPTA is ordered from the clearing house by the Central Banks of member countries which are all headed by "Governors" who are politically appointed. They therefore adhere to the political requirements rather than to economic demands which explains why use of "UAPTA" and other African countries currencies are appear to be merely "soft currencies", because they are only convertible among themselves but not exchanged with hard currency unless on a special order, under political influence.

The Chapter Four reveals the impact of the rules of origin on the activities of the PTA Clearing house. The Rules of origin was found even more influenced by the politics of member countries. Incident on the two major meetings (1985 in Lusaka and 1986 in Bujumbura) show that the rules could still have existed although probably in a less strict manner. This is because other similar economic integration systems in the developed countries also have the rules of origin. However, the failure of attendance to the first meeting that was to discuss the rules of origin, and the actual failure of the meeting to resolve any policy, showed that the rules of origin could only hold through a political bide.

Chapter Five discusses the impact of the common-list on the PTA clearing house. The common-list was found to be worst hit because as noted in chapter five, most countries literally omitted more than

100 commodities of the official common-list in the list of their individual countries. Import licenses and foreign currency allocation was restricted completely from those goods that earn foreign currencies by most member countries. In fact no country involved trade with the traditional export commodities like Tea, coffee etc. (which earns the foreign exchange). The present trend has been trade of the surplus or for those commodities that have no market in the third or non-PTA member countries.

Chapter Six mainly discusses the effect of SADCC and S.A. on the PTA and emphasis of the effect of interstate of the PTA Clearing house.

This study has reviewed a number of issues.

i. The establishment of the PTA and particularly the clearing house has brought a huge block of countries to harmony, compromise and solve political and economic problems together. This is particularly indicated by the response to apartheid in South Africa, the consideration of Lesotho and Swaziland under a special protocol due to their membership in SACU; the provision given to mozambique to allow it to move easily out of war situation etc. This unity was called for by economic problems but has been achieved through political harmony and compromise.

ii. The study also found that member countries are getting even more united because of coming together during PTA meetings. The idea of merging the PTA and SADDC apparently has deep roots emanating from the activities within the PTA, particularly those of the clearing House.

iii. Thirdly the operations of the clearing House as shown in chapter two has increased. This means that the transaction of goods and service including travelling within the region though with fluctuations has increased. The use of UAPTA travellers cheques and the goods in the common-list have also increased tremendously.

The unity that has emanated from common activities that makes all member countries gain in totality, has promoted political unity and economic sharing among member states therefore reducing conflict and increasing co-operation among them. It automatically means that, the more the co-operation, the more gains, while the more gains, the less the states want tension among themselves and therefore the more the countries want to unite to achieve greater gains. It was however noted that policies of member countries need to be revised in order to offer an enabling environment to the activities of the clearing house.

7.2 SUGGESTION FOR FURTHER STUDY

First and foremost a similar study should be carried out after 10 years, from the submission of this research work to:-

a. See if the trend of political and economic behaviour has changed in a second decade of the existence of the PTA.

b. See the position of the UAPTA, rules of origin, the common-list as related to their position of disagreement in the first decade of PTA's existence.

c. See if the political factor will still have a greater interplay than the economic factor in the second decade of the use of the clearing house.

d. See how the autonomous clearing house will or will not have improved trade matters within the sub-region, considering that the clearing house has been dependent on the Reserve Bank of Zimbabwe in the first decade.

Other possible studies that can be carried out immediately include:-

a. The role of the businessmen within the PTA institution.
b. Comparative study PTA versus, the East African Community.
c. Comparative study PTA versus European Economic Community.
d. The role of the environment in the PTA sub-region.
e. The role of governmental and non-governmental organizations in the development of the PTA institution and region.
f. The role of the federation of chambers of commerce and industry on the regional business activities.

The studies may reveal:-

a. That without active participation by businessmen, the PTA practices still remain in paper (as it has been in the first decade of existence).

b. The factors that brought about the fall of the East African Community may still be jeopardized be within the PTA. The EAC was composed of only three states, how will the PTA composed of 24 potential states survive?

c. The European Economic Community seems to be doing well, a study should investigate what factors need to be incorporated "raw" to the PTA and which should be "modified" for the success of the integration system in the developing countries of Eastern and Southern Africa.

d. The economic potentials within the PTA sub-region are many. However, drought, civil wars and relation with new and former colonial masters influences any original idea of development within member states. A related study should review all such factors and indicate how the PTA environment can be utilized for internal gains by sub-regional member-state.

e. SADCC and PTA may be found to have had different origins and initial objectives. However, since the beginning duplication of activities may be found among the two institutions. Conflict among the two institutions may be traced from the expression of a number of political leaders that may therefore explain why the two cannot promote the region without an immediate merger.

The merging of both institution has in fact been pronounced in January 1992 in the PTA summit meetings held in Lusaka. The causes of this pronouncement and the probable result of merging the two should be established through a study before the actual merging. This will direct the modalities of merging or find out whether the two institutions should actually be merged or not.

g. According to the business communities the Federation of the Chambers of Commerce and Industries (FCCI) should take a more visible stand in the policy making matters of the PTA for PTA sub-region. This may be found particularly so because, FCCI knows what rules, goods, travel conditions, currency use, business people, need (they themselves being business people) much more than the civil servants and political leaders who have previously made policies with little or no contributions from the FCCI. This may explain why PTA trade remains low. A study on the role of the FCCI may establish this fact.

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