

WORKSHOP ON RECONCILIATION OF CAPITAL FLOWS AMONG THE SACU MEMBER COUNTRIES

Gaborone, June 29-30, 2000

Chairman of the Workshop Organizing Committee

Co-coordinator of the Workshop

Facilitators

Distinguished Participants

Distinguished Guests

Ladies and gentlemen

It is a great pleasure for me to welcome you to Botswana and to this first workshop whose overall objective is to launch a project aimed at enhancing technical cooperation among the Southern African Customs Union (SACU) member countries and, in particular, to promote the sharing of expertise in monitoring and analyzing capital flows.

I am informed that this workshop is part of a project organized by the Centre for Research into Economics and Finance in Southern Africa (CREFSA), and that what you are embarking on today is groundbreaking for Southern Africa. In fact, I am told this type of project has not been attempted in many parts of the world. It will not be surprising, therefore, that when all is said and done, many countries and international organizations will be very interested in the outcome of this project — both in terms of the results of the data reconciliation and in the methodologies you will have adopted. As you go about the business of the workshop, you should be aware that you are establishing a benchmark with which you want to be associated and which others will want to emulate. I have no doubt that it will be a good one.

As you all know, the Government of Botswana strongly supports initiatives aimed at regional cooperation and coordination of efforts. I have no doubt that the other SACU member countries are fully supportive in this respect; hence they are represented at this workshop. Indeed, it is in recognition of the importance of the workshop and what it is about that the SADC Finance and Investment Sector Coordinating Unit (FISCU) is also represented.

Needless to say, South Africa has a vital role to play in this project. Given that it is, by far, the dominant economy of the SACU member states, invariably the other members have most of their investment transactions with it and, therefore, it is the country with most to do when it comes to resolving differences in the statistics. It is very encouraging to learn that the South African Reserve Bank is committed to the success of this project and is represented in the workshop.

I am sure that I am talking to the converted, but I wish to stress the importance of complete and reliable statistics – particularly in the area of balance of payments. As both compilers and major users of these statistics, we are well aware of the importance of good coverage, consistency and accurate measurement of international transactions.

Just to illustrate the point, I wish to refer to the May 27 issue of the Economist, which has an article entitled "War of the worlds," highlighting the fact that the world has been in an impossible situation of having a huge current account deficit with itself. What is even alarming is that the deficit has been increasing; the forecast by one of the major investment firms, J.P. Morgan, is that the deficit will be USD245 billion or 3 percent of world exports of goods and services in the year 2000 alone.

The article goes on to explain why the world is facing this problem. First, it suggests that there is a problem with the way trade in goods is measured; the surge in sales over the internet is alleged to have worsened recording problems because such sales are difficult to track. Second, the continuing relaxation of exchange controls worldwide makes the task of measuring trade transactions increasingly difficult. Against the background of the 1997 Asian crisis, there is also greater uncertainty about exchange rates which tends to make exporters understate export revenues, thus exporting capital illicitly.

Whatever the reason for the current problems in measuring world trade data, it could lead to the formulation and adoption of an unwarranted harsh and restrictive policy to curb a wrongly measured and, therefore, perceived rise in imports.

The same measurement problems are likely to be reflected in the estimates of financing transactions in the balance of payments. As we all know, we live in a world of ever-increasing integration of capital markets. There is more freedom of international flows and innovation in financing. Therefore, understanding and monitoring the type, direction and magnitude of foreign investment activity is vital to sound macroeconomic analysis as a basis for the formulation of appropriate policies for any economy.

It is for this reason that we in Botswana and the region as a whole, welcome the CREFSA project as it is geared towards helping in the identification of problems as we seek solutions to the inadequacies in our statistics. Indeed the workshop will make the job of the balance of payments statistician a little easier.

It is important to point out that as we try and make reconciliations in the data, we should avoid the temptation of simply tidying up the loose ends for the sake of making the numbers add-up. While big statistical errors and omissions raise eye-brows, it is better to acknowledge the differences and leave it to the user to judge the effect of the discrepancies on policy consideration, rather than forcing the data to agree where there is no sound basis on which to do so. In the long run, being open about the shortcomings of the data is more likely to bring about needed changes to the methods used in the

collection of the data; it should also encourage the use of additional resources in improving data collection.

In conclusion, I wish to commend CRESFA for getting this project underway. It is very likely that, without their leadership, the project would have remained a pipe dream for some time. Please remember the importance of getting this first step right as it will set the pattern for the work that is to come.

I look forward to hearing about the outcome of this workshop, particularly since I intend to follow up on future developments of the project with keen interest.

You clearly have a lot to do in a short time, and I think I should leave you get on with it.

I wish you a successful workshop.

Thank you for your attention.