CONFERENCE MINISTERIELLE AFRICAINE SUR LE COMMERCE ,LE DEVELOPPEMENT ET LES PROBLEMES MONETAIRES

Abidjan, 9 - 13 mai 1973

AFRICAN MINISTERIAL CONFERENCE ON TRADE, DEVELOPMENT AND MONETARY PROBLEMS

ADB/OAU/ECA/CONFMIN/SC/WP/9

Abidjan, 9 - 13 May, 1973

OBSTACLES TO INTRA-AFRICAN TRADE AND DEVELOPMENT "SOME PRELIMINARY VIEWS"

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Report presented to the meeting of the group of experts responsible for the preparatory studies

Abidjan, 26 - 28 February, 1973

OBSTACLES TO INTRA-AFRICAN TRADE AND AFRICAN DEVELOPMENT; SOME PRELIMINARY VIEWS *

The purpose of this short paper is to raise and discuss, (a) certain issues pertaining to the problems of intra-African trade, (b) the intra-African monetary obstacles to its expansion, and (c) the effects on African countries (whether singularly and collectively) of their membership in the larger international monetary system.[1]

Intra-African Trade.

According to an E.C.A. study,[2] the extent Africa exports to itself in 1969 represented 5.8% of the region's total exports to the world. It had been estimated to be growing at an average annual rate of about 11.4%, which would seem to compare favourably with the annual rate of growth of Africa's total exports of about 10.7%. This estimate of the magnitude of intra-African trade, however, is without question on the low side. Based on the U.N.'s Monthly Bulletin of Statistics and the U.N.'s Yearbook of International Trade Statistics (which are themselves based on official African Government Statistics), it excludes a major part of intra-African trade which goes largely unrecorded. The location of such trade is fairly well known; it is most prevalent between countries with a common large uncontrollable boundary, and encompasses previously economically integrated regions which have been artificially divided by arbitrary colonial boundaries : Northern Ghana and Upper Volta, Northern Nigeria and Niger, Eastern Ghana and Togo, Sudan and Chad, are a few such examples. An idea of the extent of this trade, for example, is given in an interesting study by Heuser.[3] He attempted to estimate the extent of unrecorded trade between Ghana, Nigeria and the Entente countries (Niger, Upper Volta, Ivory Coast, Togo

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* The views expressed in this paper are those of the authors.

and Dahomey). His calculations show that unrecorded trade among these countries is at least as much (if not more) as the trade which is officially recorded. Nor can we really trust the recorded growth rate on intra-African trade, since it may simply be a reflection of increasing official coverage of intra-African trade flows.

But even if we were to adjust intra-African trade to be as high as 8% of total African exports to the rest of the world (as most experts would put it), it remains the case that it is unsatisfactory compared to the share of developing countries' exports going to developing countries (17.9%), Asia to Asia (21.3%), and Latin America to Latin America (11.8%).[4]

The nature of intra-African (both recorded and unrecorded) is relatively well known. For the West African subregion, for example, it involves trade between countries of the hinterland (Mali, Niger, Upper Volta) and the countries along the coast (Senegal, Nigeria, Ivory Coast, Ghana) and consists primarily of trade in commodities. Characteristically, the interior countries export livestock and a few other food products in exchange for light manufactures, food, beverages and tobacco, which are either manufactured in the coastal countries or re-exported from the metropolitan centres.[5] Relatively speaking, trade among countries along the coast is insubstantial.[6]

The Case for Intra-African Trade

The first approach that suggests itself is that African countries could better serve their objectives of development by creating a strong basis of trade and exchange among themselves as a group. This will help them to gradually disengage themselves from the international system to which they have been wedded as a result of previous colonization[7] and which has impeded rather than stimulated the development of the third world of which

Africa is a part. The nefarious manifestation of the international trading pattern; the deterioration in the terms of trade of the commodities exported by the African countries to the advanced countries, the unequal distribution of the gains from trade in favour of the advanced countries, and the dependence of the African countries on the unpredictable, but nevertheless secularly declining export earnings (which obviates any possibilities of economic planning), and the unwillingness of the advanced countries to grant even the minimum demands of the third world as regards trade suggest that a new strategy is called for, not only among African countries but the whole of the third world.

The negative impact of trade on the third world, in our opinion, is not to be explained by the dependence of this part of the world on the export of primary commodities (which it is generally agreed has met with declining terms of trade etc.) but by the very structure of their economies vis à vis those of the advanced countries. By this we mean the structure of production and of consumption which are not compatible, i.e., Africa produces goods which it does not consume and consumes what it does not produce. It is this fact that makes African economies particularly dependent on trade and vulnerable to the vagaries of world markets[8]. The question, therefore, is not one involving identifying the right commodities to produce for export, but essentially reallignment of production and consumption structures which would help reduce dependence on trade with countries of obviously superior might.

It is in this light that the import substitution policies adopted in many African countries after independence must be evaluated:

i. The experience of these countries has shown that the quality of import substitution policies undertaken has perpetuated this dependence through the perpetuation of the existing colonial structures.

ii. Import substitution industrialization policies have not led to a reduction of the need to import. On the contrary, they have simply led to a structural change in the composition of imports in favour of capital goods and raw material inputs[9] (i.e. technological dependence).

iii. Furthermore, these import substitution policies were undertaken without regard to the limitations imposed by the size of the countries' markets, the available financial and human resources, without realizing the significance of (thus taking advantage of) cooperation among African countries[10] to exploit the advantages of economies of scale and wider markets, thus leading to duplication of effort.

The case for intra-African trade, therefore, can be made rather simply; (1) it will reduce the dependence of the African countries on the metropolitan centres. (2) It will permit the internalization of surplus in Africa (hopefully also, that with trade between African countries, the gains from trade might be more equitably distributed since the assymetry of economic might that currently exists between Africa and her major trading partners will be reduced). (3) It will enable a better exploitation of the economies of scale to be gained in the production of the goods chosen.

Obstacles to the Expansion of Intra-African Trade

Attaining such desired and legitimate objectives on the level of Intra-African trade is, of course, no easy task. Aside from the long standing trading relations of African countries with the metropolitan centres which favour the purchases of goods of European origin, (due to the development of preferences and tastes for such goods, preferential tarrif arrangements of Associated African and Malagasy States to members of E.E.C. in the context of their association etc.) there are other problems within the African context itself that inhibit the expansion of intra-African trade. These problems may be broken into two; monetary and real, We note at the outset, however, that (a) the distinction between problems originating from the African context, and those originating from Africa's relations with the outside world is artificial, (b) nor can monetary problems be discussed without reference to their effects on the real problems inhibiting African trade and development.

The monetary obstacles inhibiting intra-African trade are definitely not to be only found in the fact that there are a considerable number of currencies issued in Africa. Rather they are to be found in the fact that there are differing degrees of control that each country of a given currency zone has on monetary matters. We note that in the West African sub-region for example, countries of the Franc Zone and Liberia have next to no control in monetary matters, while the case is slightly better in the countries of the Sterling Zone. As is well known, the Entente countries, along with Senegal and Mauritania belong to the West African Monetary Union, the main features of which are:

(a) A common central bank (BCEAO) and a common currency.

(b) A central bank which may not grant loans to the national treasuries except in very narrow limits.

(c) The maintenance of an Operations Account by the BCEAO with the French treasury in which all the foreign exchange reserves of these countries are pooled.

(d) The existence of commercial banks (branches of metropolitan banks) with unlimited freedom to transfer funds to parent banks.

The deleterious effects on the domestic economic policies of these African countries as a result of their being members of the West African Monetary Union has been analyzed elsewhere.[11] What concerns us here, however, is its inhibiting effects on the expansion of intra-African trade; these are:

1. the limit set on any meaningful monetary cooperation (e.g. in exchange rate realignment etc.) between countries of the Franc Zone and others outside it.

2. The limit set on members of the Franc Zone on their ability to pursue independent development strategies which would be a prerequisite to any meaningful development of complimentarities to promote intra-African trade.

This second point foreshadows our conviction that in the final analysis, the real obstacles to the expansion of intra-African trade are more decisive. We may put this point aside for the moment, however, in order to address ourselves to the first point.

To use the West African sub-region again as an example, it is our conviction that (a) in spite of the fact that Ghana and Nigeria currently have trade deficits vis à vis members of the Entente countries, (b) in spite of the fact that in the parallel market for goods and currencies the Ghanaian cedi commands a lower price vis à vis the official rate for the CFA franc, the CFA franc is actually overvalued vis à vis the Nigerian pound and the Ghanaian cedi.[12] An expansion of intra-African trade along the lines of 1) a declaration of a free trade zone, 2) a common trade policy, 3) common tariffs with respect to goods from overseas origin, must also include a devaluation of the CFA franc (among others) if persistent payments problems are to be avoided.

There are of course other problems in the monetary sphere that currently impede the free flow of goods in Africa. These include payments delays (for example, between Ghana and Upper Volta), exchange controls between African countries, lack of convertibility between currencies etc... These obstacles could be greatly tempered down if the African countries could and would adopt a Payments Union along the lines suggested by Triffin[13] with the qualification that the Payment Union(s) (i.e. global or sub-regional) be adopted side by side with the institution of currency realignment, the adoption of common tariffs and trading policies etc.

As we mentioned above, however, the obstacles to the expansion of intra-African trade are definitely more real than monetary:

(1) By the very nature of the international division of labour which relegates to the African countries the role of producing and exporting primary commodities (goods that are largely not consumed in Africa), African countries have had little to offer each other.

(2) The absence of regional economic cooperation between African countries with a view to a restructuring of their economies, and, therefore, be able to offer goods to each other - an absence of which has led to the establishment of parallel industries with underutilized capacities.

(3) The lack of adequate infrastructure; transport and communication links, the absence of commercial information as to the availability, price and quality of goods supplied by others.

(4) The existence of fiscal and commercial practices which militate against free inter-African movement of goods and which may not be separated from Africa's ties with metropolitan centres.

(5) The fact that quite a number of African countries are unable to pursue independent economic policies as a result of their ties with the metropolitan centres[14] which we argue above is a prerequisite for any future regional coordination of investment and production policies.

(6) National pride and sentiments which encourage a go-it-alone strategy, as well as the fears on the part of the less developed African countries of domination by their economically more developed African neighbours.

The need for the elimination of the first five obstacles to the expansion of intra-African trade is obvious, which makes it all the more important that the sixth obstacle be highlighted. For while we are of the opinion that regional economic cooperation is an absolute necessity if Africa is to have a more rational industrialization policy, to embark on the route from underdevelopment to development, and from dependence to independence, in the final analysis, regional cooperation will only be realized if the delicate issue of the equitable regional distribution of projects is borne in mind.[15]

THE INTERNATIONAL MONETARY SYSTEM: ITS EFFECTS ON AFRICAN DEVELOPMENT

Besides the obstacles discussed earlier, African trade and development is affected indirectly by its participation in the world monetary system as it is represented by the International Monetary Fund.

As is well known, before independence, the economic and monetary policies of the African countries were conducted as part of the colonial system. The rules of colonial monetary management were simple; all monetary matters were handled at the metropolitan centres, foreign exchange reserves were accumulated (through forced austerity on the part of the colonies) for the use of the metropolis, rather than for the development of the colonies from where these reserves originated.

On the eve of independence, most African countries found themselves with huge accumulated reserves. The accumulated reserves did not last, however. The suppressed development and consumption needs of the former colonies, expressed themselves after independence in the accelerated expenditure on (at times badly conceived) development projects and the acquisition of foreign consumption goods. The net result was that by the mid to late sixties, few African countries had any reserves to speak of.

Until the depletion of these reserves the African countries had little need (in most cases) to resort to the various form of foreign finance such as those of the I.M.F. (of which they were now members) and to whose rules-of-the-game they had to adhere to.[16]

What are the rules of the international monetary system? Although the I.M.F. in its relation with members seems to have the sole objective of promoting consultation and collaboration on international monetary problems, it seems no exaggeration to say that the main role played by the I.M.F. pertains to its role in international monetary adjustment,[17] more specifically the balance of payments adjustment. Subsidiary to this main objective, the I.M.F. seeks to promote reductions in trade restrictions; i.e. to enhance the free flow of goods on the international market, to encourage reductions in foreign exchange restrictions etc. Within the area of balance of payments adjustment, the question of exchange rate policy looms high. It is thought that the exchange policy of one country affects all others. Moreover, the cooperation of members through the Fund is the most effective means of obtaining and maintaining a pattern of exchange rates suitable to the world economy.[18]

It, therefore, seems that the overriding consideration in the Fund's view, is the maintenance of a pattern of exchange rates suitable to the world economy. It is in this context that we wish to highlight the relationship between the African countries and the international monetary system as represented by the Fund.

The Fund views an external imbalance of a given country as a reflection of an inflationary trend resulting from internal domestic imbalance between aggregate demand for goods and supply. Therefore, it is necessary for a country in deficit to take certain measures often <u>deflationary</u> in nature, (and/or to devalue, in the case of a fundamental disequilibrium in the country's balance of payments). These measures are to operate on the demand side since in the Fund's view, the supply side cannot be substantially affected in the short run. This means controlling the expansion of aggregate demand (e.g. reduction of the government's overall deficit, reduction of bank credit to the private sector, increases in taxation) by various brakes on the economy, often leading to stagnation. The experiences of Latin America and Indonesia clearly support this point.[19]

The Fund, in exchange for these measures, will arrange in consultation with the country concerned the provision of financial assistance; i.e. 'Standby Arrangements' to help cope with the internal and, therefore, the external balance. The inadequacy of such help is pointed out by the U.N.E.C.A.;[20]

> 'Resort to Standby Arrangements with I.M.F. cannot be viewed as a real alternative solution to the balance of payments constraints impinging on African countries....'

It is, moreover, believed that the adoption of such deflationary measures over a period of time, will help to stabilize the economy and prepare the ground for long run development. It must be stated here that as a result of the preoccupation of many African countries with their balance of payments and exchange rate situation, attempts at development and the restructuring of the economy have had to be relegated to a much lower priority.

It is our contention that there is an inherent bias[21] in such an adjustment mechanism against the deficit countries. It imposes on such countries the whole burden of their being in deficit. Furthermore, various studies referred to earlier, have shown that the strict austerity forced on the deficit countries to curb inflation (thus to restore international equilibrium) on the contrary leads to a paradoxical situation aptly termed 'deflationary inflation', This is especially true when the causes of the inflation are structural, which they invariably are. We also contend that even when (only) devaluations are resorted to curb the foreign imbalance, they do not lead to any appreciable change in the country's external balance. Rather, the main beneficiaries are the domestic exporters and/or (more likely) the commercial sectors which more often than not may be foreign-owned. For the domestic private investors, the rise in the domestic currency cost of capital equipment and imported raw material inputs can only be expected to have a negative impact on their activities. Yet another deleterious effect is on the servicing of foreign debt, not to mention the temporary inflow of foreign capital (perhaps giving a temporary repreive) which creates more problems in the long run by enhancing indebtedness.

This in brief is the present world monetary system as we see it. But how are the prospective reforms of this system going to affect the African countries, if at all?

According to R. Triffin,[22] the prospective reform in the international monetary system will be carried on along two broad directions;

a) International Reserve Asset composition

b) The balance of payments adjustment mechanism.

As to the restoration of the balance of payments equilibrium, we have little doubt that the new system will still insist on the adjustment of internal demand and cost policies to do the lion's share of the job. It does not seem, therefore, that the bias imposed on deficit countries (i.e. to carry on deflationary policies) will be eliminated.

In the event, however, that the internal adjustments are insufficient to restore equilibrium and external adjustment have to be resorted to, the very best the African countries could hope for, could be a symetrical adjustment policy where the burden falls both on the deficit and surplus countries. This is a formula advocated by the U.S. Thus the possibility of its being instituted may not be far fetched.

If, however, that in the new system, SDR is going to play an important role as an international reserve asset, then it becomes even more important for the African countries to strongly question the basic criteria for the allocations of SDR. It is no secret that under the present allocation criteria "the lion's share goes to the richest and the crumbs fall to the poor."[23] For so long as the present criteria still remains, the question of the so-called link become relatively immaterial.

It is, therefore, clear to us that any prospective reform of the international monetary system will not be so fundamental as to take into consideration the primary needs and aspirations of the African economies, or even those of the third world.[24] We note, that the primary concern of the advanced countries in pushing for international monetary reform has been to assure the smooth functioning of the international monetary system and trade (i.e. to enable the IMF to play its current role even better) and not in the promotion of development policies or in the furnishing of development aid to the currently underdeveloped countries. Thus the hopes of the underdeveloped countries that somehow in the new monetary order, a link may be created between the SDR and development financing, for example, seems misplaced. The results of UNCTAD III bears this out.

CONCLUSION

The historical and present orientation of most African countries has been that of blind faith in the potential goodness of the world system. This in our view is unfortunate, past experiences show that many of these countries' objectives have not been (and are unlikely to be) furthered by such an externally-oriented development strategy.

The problems facing intra-African trade are in essence indistinguishable from the overall problem of African development. It is through the enhancement of intra-African trade that the African countries, will be able to restructure their economies and thus break the existing asymmetry between structures of production and consumption, structures that we argued above made Africa what it is.

Of course no African country denies the need for cooperation if such required restructuring is to be achieved. Much has been added to the stream of words, but very little done. We might, therefore, suggest some policies to be adopted now, as a preliminary step towards the achievement of the long run objectives of cooperation among African countries.

Various studies have already been carried out which demonstrate the possibilities of economic cooperation among different regional groupings in Africa. Since this is hardly the place to argue the question of optimal subregional groupings, we may adopt the U.N.E.C.A. subregional grouping as a first approximation.

For these subregional groupings, we suggest negotiations to bring economic cooperation into active existence. As first steps the negotiations should aim at :

1. the establishment of a Clearing Union,
2. the creation of Free Trade Zones,
3. currency realignment,
4. the adoption of Common External Trading policies.

These measures will be trade facilitating and diverting as opposed to trade creating; which can only be achieved with active harmonisation of investment policies among the countries of the region aimed at trade expansion.

As soon as these measures are adopted, further negotiations should be carried towards the furthering of the aims of intra-subregional trade expansion. Measures that could be adopted may take the form of:

a) The setting of quantitative import targets from within the sub-region to be achieved by each member of the subregional group in some finite time period. These targets must, of course, be feasible and will serve the purpose of making trade expansion an integral part of African national plans, towards which investment policies will be geared.

b) In conjunction with this a Payments Union and/or a Reserve Centre may be established. By reserve centre we mean an institution in which African countries surrender at least all foreign exchange earned through trade with members of the sub-region (but preferably a certain part of their foreign exchange earnings with the non-African members as well). By being empowered to grant temporary interim credits (and hopefully long-term credit) to member countries which incur debts in their trade with other members, it will remove fears of trade imbalance which may in the long-run sabotage attempts at intra-trade expansion.

The current African posture which is basically externally-oriented and moving towards trade liberalisation with the metropolitan centres, removal of exchange restrictions and promotion of currency convertibility and foreign investment, etc., are luxuries which the African countries can scarcely afford.

It is unquestionaly time to start negotiations on, at least, minimum forms of cooperation and in the process learn to live together. This is much better than going around seeking trade preferences and waiting to see what the world system has to offer.

Footnotes

1. By the international monetary system we mean what is known as the 'IMF System', 'the adjustable-beg exchange rate system' or 'the gold exchange system'. See S.J. Wells, 'International Economics', London, 1969, p.218.

2. U.N.E.C.A., 'Restructuring of Africa's Foreign Trade, E/CN.14/WP.1/42, OAU/TRAD/41, 28th July, 1971, Geneva.

3. Henry Heuser, 'Towards Closer Cooperation Among Separate Monetary Systems in West Africa. Abidjan, August 1971. See also Peter Ady, 'Trade and Liquidity in Africa' Pearson Conference, Dec. No. 9, Colombia University Conference on International Economic Development, 1970.

4. Restructuring of Africa's Foreign Trade, op. cit., P.7

5. Henry Heuser, op. cit., p.11.

6. This excludes, however, a substantial amount of cladestine trade between countries along the borders; resulting from differentials in import duties, export taxes and different prices offered to producers of such export goods as (e.g. Groundnuts in Senegal and Gambia, Cocoa in Nigeria and Niger).

7. We are of course aware that even in Africa there were diferences in the forms of integration into the capitalist system. We do agree with those who argue that the differences were less a matter of degree than of the form of dependence. See for example S. Amin, 'Underdevelopment and Dependence In Black Africa; Their Historical Origin and Contemporary Form, IDEP/REPRODUCTION/277, Nov. 1971.

8. The argument has been made which we subscribe to that trade between countries of unequal stage of development permits productivity increases in the metropolitan centres to be reflected in higher money wages and those in the third world periphery to be reflected in lower prices for these goods. See P.P. Streeten, 'The Terms of Trade Are Not Made On Paper' In Ceres, FAO Review, Vol. 5, No. 2 March/April 1972

9. See the study be A.F. Ewing, Industry In Africa, Oxford University Press, 1968.

10. An extensive literature exists on the importance of economic cooperation for African countries, especially those prepared by the U.N. Economic Commission for Africa, and others prepared by consultants to the E.C.A. such as Professors P.P. Streeten and R. Triffin.

11. S. Amin, A Note on the Adaptation of the Franc Zone System for the African Countries.

12. The overvaluation of the Franc vis-à-vis the other two currencies does not result in trade deficits for the Entente countries, primarily because of the high tariffs imposed on exports from these two countries. Furthermore, the Cedi is not convertible while the CFA Franc is. Thus there is always a constant supply of Cedis on the parallel market.

13. See R. Triffin, 'Report on the Possibilities of Establishing A Clearing and Payments Union In Africa, E/CN.14/APU/14th Feb., 1964. See also, U.N.E.C.A., 'African Payments Union,' E/CN.14/WP.2/4, E/CN.14/AMA/12 11th. January 1966.

It is worthy noting that the Asian countries of the U.N. ECAFE region have taken steps to negotiate the implementation of a Payments Union along the lines suggested by R. Triffin.

14. This is primarily the case of those African countries in the Franc Zone.

15. Most of the studies on regional cooperation seem to gloss over this issue, which in our opinion is a real problem inhibiting, inter alia, the initiation of cooperation between certain countries in Africa.

16. There are 41 African countries (excluding South Africa) who are members of the IMF. 32 of these countries became members after 1962.

We are aware that in its relationship with its members the IMF does not force implementation of any of its corrective measures, especially as relates to the removal of trade and currency restrictions and practices. We note, however, that more often than not such an implementation is more or less a pre-condition to the granting of Stand-by arrangements. (See for example the IMF's own publication titled, 'The International Monetary Fund and Africa; Washington, Undated, where it says that, 'Therefore, purchases and standby-arrangements are often made conditional upon the adoption of programmes of financial stabilisation. p.10) It is equally true to say that the acceptance of such stabilisation programmes, which imply seriousness on the part of the country concerned, is very favourably viewed by the World Bank and other aid/loan giving institutions and/or countries.

17. See W.R. Allen, 'The International Monetary Fund and the Balance of Payments Adjustment,' in Oxford Economic Papers, June 1961, p.149.

18. W.R. Allen, op. cit., p.149

19. See studies by E. Eshag and R. Thorp, 'The Economic and Social Consequences of Orthodox Policies In Argentina in the Postwar Years,' in Bulletin of the Oxford University Institute of Economics and Statistics, XXVII, (Feb. 1965), also, R. Thorp, 'Inflation and Orthodox Policy in Peru,' in B.O.U.I.E.S., XXIX, (Aug. 1967). See also E. Utretchet, 'Mass Firing Combat Inflation,' in Information on Indonesia, Vol. 1. No. 1, 1970.

We note, however, that because of the very recent association of the African countries with the IMF, the success or failure of such stabilisation policies adopted by about 12 African countries (involving the sum of about $650 million), have not so far been analysed. But we would be surprised if the experience of African countries were to be substantially different from those of the Latin American countries. The authors of this paper have begun (on a modest scale) to assess the effects of such policies in the countries of Somalia, Ghana and Sudan.

20. U.N.E.C.A., International Financial and Monetary Issues; Implications for Africa's Trade and Development, E/CN.14/WP.1/35, OAU/TRAD/34, E/CN.14/AMA/30-31, 15th July 1971, p.39.

21. This inherent bias is very clearly analysed by E. Eshag. 'Present System of Trade and Payments Versus Full Employment and Welfare State' Blackwell, Oxford, 1966.

22. R. Triffin, "International Monetary Collapse and Reconstruction In April 1972,' in Journal of International Economics, 2 (1972), North-Holland Publishing Company p. 381.

23. R. Triffin, op. cit., p.382.

24. This seems very much obvious from the trends of the present discussion between major industrial countries and the group of 20, which is supposed to work out recommendations for world monetary reform.

The authors would like to thank Dr. J. Saigal who read a preliminary draft of this paper and offered some very useful suggestions. Whatever weaknesses are there in this paper, are entirely the responsibility of the authors.