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TRADE AND DEVELOPMENT IN EAST AFRICA.

I.

I. 1. In order to raise the living standards of people in East Africa the thing to do is to increase the production of those things which we can produce. This does not mean that we produce the maximum we can consume, but, rather, we produce as much as possible and try to sell abroad what we can't consume. This is the logical link between foreign trade and economic development and the principle of Comparative Costs neatly falls into this. This is not the place, however, of giving a detailed treatment to this classical doctrine, - although one feels tempted to make one or two cursory remarks about this doctrine for in East Africa we are not so concerned with trade today but, rather, potential trade in East Africa, with the neighbouring countries, with the rest of the African Region and with overseas countries. We shall overcome this temptation.

I. 2. The purpose of this short note is to give a general framework of the strategy which I intend to use in my research topic - with the hope that the other research fellows will be able to help me by pointing out where the emphasis should be laid, what should be left out and what should be included. In the sort of research we are engaged in it is imperative that each research fellow knows, at any rate roughly, what the others are doing so that in the end it should be possible to dovetail all the topics and come out with a clear (and one hopes comprehensive) picture of the structure of the East African economy and the possible changes in this picture which might be expected.

II.

II. 1. The starting point, obviously, will be to have a thorough look at the existing trade data. In East Africa trade data are, for each territory, divided into two major groups:

- (a) Foreign trade statistics.
- (b) Inter-territorial trade figures.

The foreign trade figures are shown under the following categories:

i. Direct Imports. These figures show the imports directly consigned to each territory from outside East Africa (O.E.A.). The figures include goods which are subsequently re-exported or transferred to other parts of East Africa.

Book Number	011131	rts. These figures show Imports from . plus net territorial transfer of n imported goods i.e. direct imports ay, Uganda plus those Kenya's and Tanza-'s direct imports which are subsequently ferred to Uganda minus those Uganda's t imports which are subsequently trans-d from Uganda to the rest of East Africa.
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Classification		

Actually in the case of Uganda Net Imports are a good deal greater than her direct imports - for she gets about 40% of her net imports by transfer from Kenya. Kenya, in fact, has been importing approximately 50% of East Africa's direct imports.

- iii. Retained Imports. This category shows Net Imports minus Re-exports.
- iv. Transfers. These figures show the foreign imported goods which are subsequently transferred from one East African territory to another one. These figures are not included in re-exports.
- v. Domestic Exports. These figures show the exports of each country to O.E.A.
- vi. Re-exports. These are foreign imported goods which are subsequently re-exported without change of form to O.E.A.

The intra-East Africa trade data show the exports and imports of each territory to and from each of the other territories.

There are thus, three 'parts' of trade in East Africa which will have to be examined in great detail in my work:

- (a) Foreign trade i.e. transactions between East Africa and countries O.E.A.
- (b) Transactions between the East African countries involving foreign imported goods.
- (c) Inter-territorial trade involving locally produced goods.

II. 2. Valuation.

- (a) Imports are valued c.i.f. port of entry into East Africa. These values include insurance, cost and freight charges and any commission, except buying commission, up to 5%. The values do not, however, include customs duties charged by East African Governments or the landing charges payable to East Africa.
- (b) Exports and Re-exports. These are valued f.o.b. port of departure from East Africa irrespective of the territory from which they originated. Export taxes are included.
- (c) Inter-territorial transfers. Where possible, these are given original importation values. Where this is impossible, they are given 75% of the consigners' declarations.
- (d) Parcel post Imports. Before August 1952, all parcel post imports valued at more than £50 were shown by category of articles. Since then all parcel post imports are lumped together and not grouped by articles. It is therefore quite likely that the value and quantity of individual articles imported are understated to the extent of trading by parcel post.

II. 3. Appraisal:

- i. In a number of ways the trade figures in East Africa are excellent e.g. we are shown very interesting classifications of imports - by country of origin, by value of currency group, where government or private, by stage of production and use (for Kenya), etc.. The same treatment is given to our exports - although it should be pointed out that whereas our exports are simple and fall into a small range of categories, our imports are complex and have to be grouped in many categories. (The introduction of the S.I.T.C. in 1954 has helped very much in the classification of our trade figures. This, however, makes it difficult to make comparisons in cases of certain articles - for the years after 1954 and earlier years.) It can be said without much hesitation that it is fairly easy to analyse the pattern and direction of trade in East Africa.
- ii. Figures are not, however, shown of the amounts of money which East Africans spend on foreign imports - for foreign imports figures do not include customs duties and landing charges. It should not be difficult to find out this information.
- iii. Coverage. For the external trade, coverage is good but there are three exceptions: (a) Parcel post trading e.g. some goods exported by this method (e.g. wood carvings) are left out of the Annual Trade Reports. (b) Undutiable imports by air of less than £25 are left out of the Trade Reports. These, however, are mainly newspapers and the like. In Kenya the value of this category is estimated on the basis of a survey of ten booksellers in Nairobi. (c) Trade between East Africa and the neighbouring territories of barter type is impossible to record accurately.

For the inter-territorial trade, however, the unrecorded trade must quite substantial. It is difficult to record all the inter-territorial trade because of a number of factors:

 - a. the extensive land frontiers which would be very expensive to control.
 - b. smuggling is easy.
 - c. same currency.
 - d. barter trade must be quite substantial.
 - e. people in East Africa often travel with goods - not just luggage.
- iv. The series of figures since 1949 (the time of the formation of the East African Customs Union) are not easily comparable because:
 - a. After 1956, in order to speed up the publication of the East Africa Monthly Trade and Revenue Report and to allow for its expansion, territorial imports have been put down as Direct Imports whereas in the earlier years they were shown on the Net Imports basis. For the retained imports, however, the figures are comparable.

- b. For Kenya and Uganda: from 1959 the interterritorial transactions and transfers exclude excise duty on excisable goods (e.g. sugar and tobacco) and, as far as possible, customs duties on imported raw materials used in the production of locally produced manufactured goods. Prior to 1959 these duties and customs were included. In the case of Tanganyika, however, excise duties and custom duties on the raw materials used in the production of locally manufactured goods are included. In fact most Kenya and Uganda figures are more comparable and are built on similar basis whereas those of Tanganyika are built on a somewhat different basis - the possible reason being that until the formation of the East African High Commission Tanganyika was, for trade records purposes, regarded as a foreign country.
- v. The whole system of valuing imports c.i.f. port of entry and exports f.o.b. port of departure irrespective of the territory to which and from which the goods are going brings a number of problems when trying to compute the real value of imports and exports and, hence, grave difficulties in the computation of the territorial balance of payments.

III.

What I intend to do.

- III. a. First of all analyse the factors which have influenced the trade pattern and its direction in East Africa. Here it will be necessary to look at:
 - i. the so-called Congo Basin ('Open') treaties and the way they have influenced the pattern of the East African trade. Have they been influential in the right way i.e. have they been beneficial ?
 - ii. Political factors - especially our trade with Britain.
 - iii. Legislation e.g. the avoidance of, through import licensing and restrictions, trade with Japan and Eastern Europe.
 - iv. Monetary Area - for East Africa is a member of the Sterling Area and therefore there are and have been a number of obligations.
 - v. Cultural factors - Englishmen in East Africa trading with Englishmen "at home"; the local Indians trading with Indians in India, etc.
 - vi. Transport e.g. it is cheaper to send goods to India than to Sudan. etc.

All these factors apply to the whole of East Africa. For each individual territory we have to add two more factors: internal arrangements of the Common Market and the individual territory's Statutory Marketing Organisations and policy.

- III. b. Another very important aim is to give a rigorous and comprehensive analysis of the inter-territorial trade. The historical development of this trade is of particular interest - for this trade, in the recent years, has been increasing all the time e.g. even when money incomes from exports of Uganda fall, her imports of Kenya goods have continued to increase - at the expense, so it seems, of foreign imports.

It has already been observed that the unrecorded inter-territorial trade must be quite substantial - but I see little use in spending a lot of time in estimating it in detail. My plan is therefore to concentrate in finding out the structure of the recorded intra-East African trade (by commodities) and then do a bit of projection, in the light of what has so far happened, about its possible future magnitude and structure. The most important part of the whole exercise will be to find out any changes, quantitative and qualitative, which have been and are taking place in this trade e.g. to establish the magnitude and the possible effects of the increasing importance of manufactured goods such as steel doors and windows, footwear, paints, etc. The emergence of the manufactured goods into this trade is of great significance for, although we should not fall into the error of naive identification of agriculture with poverty, trade in the agricultural produce is not as promising as trade in the manufactured goods. (In the external trade the analysis of structural changes in our imports - and to a lesser extent exports - will also be important e.g. are we importing more machinery and capital goods in general, when our incomes rise, instead of simply consumption goods? Is it possible to expand our inter-territorial trade in manufactured goods at the expense of foreign imports of consumption goods and use the saved foreign exchange for importing capital goods? In other words, what are the possibilities of import substitution on an East African basis? This is an important question for 1/3 of money incomes in East Africa are spent on foreign imports. It is true that a good part of these incomes are spent on goods which we cannot produce at present (e.g. cars) but about £40m a year is spent on goods which we could possibly produce. It will therefore be necessary to analyse foreign imports by end use. This should be helpful for planning and policy formulation.

The prospects of intra-East Africa trade are good - given:

- a. better communications by road, rail, water and air - in that order.
- b. technical improvements e.g. refrigeration.
- c. inter-territorial economic co-operation and co-ordination.
- e. emergence of new local goods - especially from foreign import substitution.

The whole of this part of the exercise should lead to an examination of:

- i. the effects of greater East African trade to individual countries e.g. loss of customs revenue which is so important in some cases.
- ii. the tariff structures.

- iii. the effects which the entrepot trade performed by East Africa for the neighbouring countries (and by Kenya for the rest of East Africa - Kenya imports about 50% of total direct imports to the whole of East Africa) have on the expansion of trade in 'Greater East Africa'.
- iv. the internal trading and distribution system - for the local produce and foreign imports.

III. c. Another aim will be the examination of the present pattern and direction of trade between East Africa and O.E.A. countries and then try and do a bit of projection. This will involve:

- a. Analysing and projecting East African trade with 'outside-Africa' countries - especially U.K., E.E.C. countries, Asia, U.S.A. and Eastern Europe. The actual analysis should not be difficult - nor should the projection of the East African demand for imports from these countries. (Actually it seems as if an annual growth rate in G.N.P. of 5% brings about an annual increase in imports of about 10% per year). But I envision some difficulties in trying to project the demand of these countries for our exports - for there are so many factors involved. This is almost paradoxical - for we only export a narrow range of goods whereas our imports are complex and their range is much wider.

Under this head there will be an analysis of the factors which have so far influenced the pattern and direction of trade. For example our trade with Asia seems to have been influenced by:

- i. Resources e.g. oil from the Persian Gulf.
- ii. Communications - e.g. the main shipping lines between Asia and Africa (and Asia and Europe) have to pass near the East African ports.
- iii. Ethnic connexions e.g. Indians in East Africa finding it easier to trade with Indians in India and Pakistan (as already observed).
- iv. Trade Policy e.g. former quantitative restrictions. on Japanese imports.

There are a number of factors which should be interesting here e.g. (1) that Uganda exports 47% and 27% of her cotton and copper respectively to India while the cheap Indian exports of textiles to East Africa will necessitate greater protection to Uganda's textile industry. (2) In trying to encourage trade with the centrally planned economies we will have more and more state-trading and bilateral agreements (on trade and technical aid perhaps) with these countries - for that seems to be the pattern elsewhere in Africa. An interesting point about these bilateral agreements is that they seem to be aimed at diverting the African trade from the traditional directions.

- b. Analysing (by commodities) and projecting trade between East Africa and the neighbouring 9 countries. So far this trade seems to have been held back by:
- i. Poor communications. The Colonial masters built communications for administrative rather than economic reasons.
 - ii. Little complementary of production between the countries.
 - iii. Lack of information about the possibility of exchange of goods.
 - iv. Different monetary areas and, in some cases, Colonial masters.
 - v. In the case of Mozambique, nearness and economic ties with more developed areas - Southern Rhodesia and Transvaal.

In the years to come, given better communications and, one hopes, economic co-operation, trade with these countries should be very important. East Africa has a vested interest in its expansion. At present the bulk of this trade is between Uganda on one hand and the Congo-Ruanda-Burundi on the other; between Tanganyika and the Congo-Ruanda-Burundi-Northern Rhodesia and Nyasaland. There is also a bit of trade (growing) between Kenya and the Rhodesia, Somalia and Ethiopia.

A very useful part of the exercise should be to look at the individual goods traded in, the external imports (and to a lesser extent exports) of the neighbouring countries and then speculate on possible magnitude, pattern and direction of the trade between these countries and East Africa.

- c. An analysis of trade between East Africa and the rest of African countries not included in (b) above. At present most of this trade is with South Africa. On the whole East Africa has:
- i. An unfavourable balance of payments with 'overseas countries'.
 - ii. A favourable balance of payments with the neighbours.
 - iii. An unfavourable balance of payments with the rest of Africa - chiefly because of South Africa.

IV.

Another aim will be to estimate the territorial balance of payments and, also, see whether the East African Balance of Payments could be improved and then try to project the possible trend. (In the post war period the balance of merchandise trade has been unfavourable - except for years 1950-51-52 and 1958-59. There has also been a persistent deficit in invisible items. Add the two and you get a persistently unfavourable balance of payments in the current account). This should be fairly difficult, laborious and time consuming, but it should be very useful for policy and planning purposes.

We have, as we all know, estimates of the balance of payments of the whole of East Africa for the years 1956, '57, '58 and '59. The first estimate (1956) which was the result of a condition laid down by the I.B.R.D. for its \$24m loan to E.A.R.H., was very rough but more information and improved methods of estimation made the future estimates more reasonable.

The interesting thing is that although virtually all statistical information is collected and published by territory, there are not, as yet, any published estimates of territorial balance of payments. The balance of payments positions of the three countries must be quite different - Tanganyika and Uganda being more similar with Kenya completely in her own category. The fact that there are no estimates of territorial balance of payments published makes it difficult to know exactly how much each territory has in way of resources for development purposes.

Any attempt to estimate the territorial balance of payments is bound to be fraught with many difficulties - mostly practical e.g. common currency, common banking system, inter-territorial firms which can and do move funds from one territory to another, extensive boundaries making it difficult to estimate the total amount of inter-territorial trade, migrant workers, common and joint services, the way the figures are collected e.g. Uganda exports and imports are valued f.o.b. and c.i.f. Mombasa respectively - thus exports are overvalued and imports undervalued and this should have a significant effect on this country's apparently favourable balance of payments. Another difficulty is that even the records of transfers of imported goods between territories are not complete.

The above difficulties should not, however, prevent an attempt to estimate territorial Current Account balance of payments. Here the current account includes:

- i. current receipts and payments by the residents of one territory for goods and services sold and bought from the rest of the world.
- ii. Services - transportation, insurance, tourism, education, as well as return on investment.
- iii. Re-current donations e.g. migrant workers' remittances.

On the capital account however, the difficulties seem quite formidable and little time will be spent on this.

It is worth re-emphasising the importance of projection of the balance of payments in East Africa. So far we have not had balance of payments crises in this area - chiefly because of the monetary organisation. But when we have our own central bank (with powers to issue a large element of fiduciary issue) and thoroughgoing development efforts, balance of payments crises will very likely occur from time to time.

It is also worth pointing out that most countries these days seem to adjust their balance of payments (in time of crises) by resorting to import licensing and exchange controls. In East Africa no country can do this without the agreement of the others. This could be quite a problem in a customs union - especially one which does not have a common currency. Even where there is a common currency

it would be unrealistic to think that conflicts of interest in the field of balance of payments could not arise.

V.

A rather important part of my work will be the examination of the world markets for the chief East African exports. Most of our exports are, and will continue to be for some time, primary products. It is from these exports that we shall depend very much for our foreign exchange. At present there is a persistent imbalance between the supply of and demand for the most important primary products - and there are huge and accumulating stocks of most of these commodities - for a fall in the price of these commodities does not lead to quick reduction in supply (i.e. supply is inelastic) or, alternatively, to a greater consumption (i.e. demand is inelastic. In fact the only goods which have shown an expanding proportion in the world trade are machinery, scientific equipment, chemicals, mineral oils and transport equipment. It seems therefore very easy to fall into the error, as already mentioned, of identifying agriculture with poverty - for fast technological advance and stability of prices seem to be confined to manufactured goods while agricultural prices seem to be on secular downward trend. Actually it is not agriculture as such which should be identified with poverty but, rather, poor agriculture. In trying to improve agricultural productivity in East Africa markets should be analysed. In fact the whole of the agricultural policy should be worked out in the framework of total development effort - the ultimate aim being industrialisation and the diversification of the economy. For the time being, however, we have to think of stabilization in the conventional sense. We will have to examine the various international stabilisation devices e.g. i. the International Coffee Agreement approved by the Conference in 1962 and the way the quota system agreed on will affect us. ii. The Inter-African Coffee Organisation (aimed at primarily maintaining the prices of robusta coffees) of which each of the East African territories is a member - the other members being Congo (Braz.), Ivory Coast, Angola, Madagascar, Cameroun, Dahomey, Togo and the Central African Republic.

The world markets to be examined will be those for cotton, coffee, sisal, (these three provide 2/3 of East African exports), tea, pyrethrum and sugar. Sugar should be included for if the existing intentions about sugar production are realised, East Africa should be more than self-sufficient after a few years.

It will also be necessary to examine how the E.E.C. agricultural policy and the wide spreading agricultural protectionism are likely to affect us.

In the whole of this analysis we should not confine ourselves to the traditional markets and directions of trade. Rather, we should give serious thought to the possibility of getting new markets. New and sizeable markets for our exports are, however, not likely to be found very quickly e.g. the communists are not very great coffee drinkers - except East German. Even where we could possibly sell tropical things which they consume the prospects are not bright e.g. the Soviet Union intends to completely wipe out any imports of tea. Actually it would be correct to say that the Communist countries, although accepting at times payments for their loans in

kind, plan to reduce dependence on tropical products.

In this part of my work I envisage that the projection of supply of these commodities will be fairly easy while projection of demand for these commodities will be very difficult.

CONCLUSION.

Personally I am not really happy about the above outline. It could be said that I am trying to do too much but I do not think so. A really good study on trade is necessary in East Africa and I hope that I can do a bit of brain picking and come out with something not really too bad.
