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Consequences for the Agricultural Sector of the Treaty for East African Co-operation

By

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The Treaty for East Africa Co-operation, signed in Kampala on the 6th. of June this year, is, according to the preamble, an attempt to "strengthen the unity of East Africa". This aim is to be achieved by co-operation "in the economic, political and cultural fields" which is to be brought about by the continuation of the work of the East African Common Services Organisation and the Central Legislative Assembly in the new East African Community. On the economic front, this Community embodies a Common Market, the principles of which are to be continuation of the common external tariff, abolition, "in the long term", of all restrictions on trade between the East African countries, and broad harmonization of commercial, industrial and other economic policies.

The existence of a "de facto" common market in the region has long been recognized and applauded as an example to the many other parts of Africa where individual countries are far too small to be economically viable. In the short period since independence, however, weight has been lent to the theory that the framework of regionalism, imposed as it was by the colonial power, would soon be discarded by the new nations as tensions grew over the way in which the system operated. It was, in fact, the recognition that the common market was in danger of disappearing through a process of attrition which prompted the three Governments to attempt to stabilize the situation by signing a formal Treaty.

While it would be wrong to decry this recognition of the need for regionalism by independent African countries, it must be realized that the Treaty does not usher in a new era of free trade and unselfish collaboration in East Africa. Though a Common Market is recognized as a way "to foster and encourage the accelerated and sustained industrial development of all of the said countries",(1) and the three countries declare themselves " resolved to abolish certain quantitative restrictions which at present affect trade between them" (2), this is viewed as a long-term aim. The immediately important thing about the Treaty is that it accepts the idea of restrictions on East African trade as a way "to reduce existing industrial imbalance" (3) between the three countries.

(1) Treaty p.I, para 5

(2) Treaty p.I para.6

(3) Treaty p.I. para.5

Any complete analysis of the East African Common Market must, therefore, consider whether its provisons will be adequate to bring about more balance in the levels of development of Tanzania, Uganda, and Kenya, as well as judging whether any substantial gains will be attainable from full co-operation in the long-run. Indeed it would appear that the short-run problem is the more important since, if a more equitable distribution of the gains from the Common Market is not forthcoming, the Community is likely to dissolve without the high-flown phrases about full co-operation ever being put to the test.

Agriculture in the Common Market.

Since several of the statements in the Treaty quoted earlier refer specifically to industrial development, it may be doubted that the Treaty has any relevance to the agricultural sector. The importance of agriculture in the East African economies and of trade in agricultural commodities as a proportion of total inter-East African trade (illustrated in Table I) makes it inevitable, however, that any attempts at economic co-operation and any removal of the trade barriers will have repercussions on agriculture.

TABLE I

		(a) Inter - E.A. trade in agric. & agric - based* commodities	(b) Total inter-E.A. Trade	(a) as a % of (b)
Ken. to Ug,.& Tan	1964	16,563	25,880	63.6%
	1965	16,278	29,426	55.3%
	1966	15,154	28,901	52.4%
Ug. to Ken. & Tan.	1964	8,356	9,786	85.3%
	1965	7,923	9,727	81.4%
	1966	7,950	10,437	76.0%
Tan. to Ken & Ug.	1964	3,860	5,131	75.2%
	1965	4,480	5,915	75.7%
	1966	3,225	4,648	69.6%

* "agric. - based commodities" includes the products of various industries engaged in processing agricultural raw materials.

The prohibition of "one channel marketing", "dumping", discriminatory taxing of a Partner State's goods and discriminatory purchasing [1] are all relevant in this context, as are the provisions for common negotiations of concessionary trade agreements [2] and for compensating the Partners for loss of trade resulting from foreign barter deals [3]. The continuation of the common external tariff and industrial location policies, as well as the long-term aims of economic coordination and the creation of a "single system of prices and a network .... of marketing services and facilities" are also worthy of consideration [4]. The greatest impact in the short period is, however, likely to come from two major provisions of the Treaty, the right to impose quantitative restrictions on certain agricultural goods [5] and the right to levy "transfer taxes" on specified industrial products [6]. It is these two measures which are dealt with in the remainder of this paper.

The Agricultural Quota Commodities

Despite the signatories agreement that the aboliton of all quantitative restrictions on inter-Common Market trade is desirable, they felt it necessary to preserve their rights to impose such quotas on certain agricultural products. The intention behind this important depature from the general principle of the Treaty is far from clear. Article 13 states that the goods concerned are "basic staple foods or major export crops, subject to special marketing arrangements" yet several of those listed in Annex III of the Treaty seem to fall outside this definition. Neither castor seed nor wattle bark can, for example, possibly be considered as staple food crops nor, to judge from recent trade statistics, are they major export commodities, while bixa is so small an item in East African trade that it is not considered worthy of separate mention in the Annual Trade Reports. It would seem that some of these small items must have been included purely for fear of the difficulty of immediate adjustment to loss of protection. This appears to be borne out by the fact that most of the less important commodities are only eligible for protection for a period of one year from the coming into force of the Treaty. Nevertheless it seems a pity to have encumbered the arrangement with these relatively unimportant restrictions instead of adhering to the criteria laid down in Article 13.

As some indication of the importance of these quotas, Table 2 shows the proportion of each country's inter East African exports which are composed of the commodities liable to restriction under Article 13. It appears from these figures that although Kenya has the largest absolute amount of trade in these goods, Tanzania is the most reliant on them and Uganda depends least upon them. If the restrictions allowed are fully applied, Tanzania's agricultural exports to her two neighbours will suffer a severe set-back, as indeed will her total volume of inter-East African exports.

(1) Article 16., pp 10 - 11 of Treaty.
(2) Article 7 p.5
(3) Article 8., p.5.
(4) Article 14., p.9.
(5) Article 13., p.9
(6) Article 20, p. 12.

TABLE

Importance of the Annex III quota commodities in inter - E.A. Trade 1964 - 66

£'000

		A Trade in Annex III	B Total inter - E.A.	C A as % of B	D Trade in agric.-based products	E A as % of D
Kenya	1964	1,081	13,299	8.1	8,516	12.7
to	1965	1,051	14,087	7.5	7,490	14.0
Tanzania	1966	372	13,282	2.8	6,511	5.7
Kenya	1964	1,190	12,581	9.5	8,047	14.8
to	1965	1,909	15,339	6.7	8.788	11.8
Uganda	1966	1,761	15,619	11.3	8,643	20.0
Uganda	1964	277	7,344	3.8	6,295	4.4
to	1965	195	7,135	2.7	5,901	3.3
Kenya	1966	287	7,317	3.9	5,518	5.2
Uganda	1964	86	2,442	3.5	2,061	4.2
to	1965	54	2,592	2.2	2,022	2.7
Tanzania	1966	232	3,120	7.4	2,432	9.5
Tanzania	1964	781	4,110	19.0	3,163	24.6
to	1965	851	4,569	18.7	3,504	24.0
Kenya	1966	604	3,806	15.9	2,782	21.6
Tanzania	1964	164	1,021	16.2	697	23.3
to	1965	190	1,346	14.4	976	19.5
Uganda	1966	92	842	10.9	443	20.4

Source; E.A.C.S.O. Annual Trade Reports

Note Delineation of "agric-based" products is based on arbitrary and unsatisfactory criteria which must be remedied in later stages of this research. The over-estimation on col. D. is greatest for Kenya and may be as large as 10%.

Uganda can be expected to derive the greatest benefit from the arrangement since a small proportion of her exports to her partner will be restricted while a relatively large proportion of her imports from them can be controlled. Since one of the major aims of the Treaty is to remedy the imbalance at present existing between the three countries, it is surprising that Tanzania, whom, it is generally, agreed, has fared worst from the operation of the "de facto" common market until now, should be placed so disadvantageously in this protective system.

With regard to the short-term problem, which, as noted earlier, may be the most important one for the success of the Common Market, this quota arrangement does not seem likely to help in bringing about a more even balance of economic activity between the regions of East Africa. While we might expect Kenya's agricultural sector to be adversely affected by the loss of trade outlets, Tanzania's agriculture will suffer a proportionately greater loss. Table 2 shows that the major part of Tanzania's agriculture -based trade is with Kenya and that over 20% of her exports to her Northern neighbour are likely to be lost. Tanzania is also likely to lose 20% of her very small agriculture-based exports to Uganda and will only be able to restrict somewhat less than 10% of her much larger level of imports from Uganda.

Purely from the point of view of the agricultural sector then, Uganda is likely to be able to narrow the gap between herself and Kenya as a result of these quotas but these two will draw further away from Tanzania. The provisions of Article 13 appear, therefore, to be inadequate to help in achieving the Treaty's immediate aims.

Nor do these restrictions appear wise from a long-term point of view. The imposition of protective quotas on several major agricultural products probably arose out of a desire for individual self-sufficiency but it will be inimical to the development of regional specialization in food production which could be one of the most important gains from the Common Market. Further research will be needed to show for which of the food crops regional specialization would help to increase the reliability and the total quantity of supply but the importance of maize, wheat, rice, leguminous vegetables, meat, milk and millet in present East African trade may indicate that the isolation of the national markets will entail a loss for East Africa as a whole.

The "Transfer Taxes"

Unlike the restrictions on agricultural trade, which are primarily aimed at promoting national self-sufficiency, the sole purpose of transfer taxes is declared to be to encourage "industrial balance between the Partner States"[1]. The transfer taxes are, in fact, tariffs, to be imposed only on manufactured goods by any Partner experiencing a deficit in her total East African trade if, and only if, she is already producing, or expects shortly to be producing, the goods concerned. From Table 3 it can be seen that only Tanzania and Uganda will be able to impose the taxes in the immediate future.

TABLE 3.

Balance of inter-East African trade £'000

	Tanzania			Uganda			Kenya		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
inter-E.A.expts.	5,131	5,915	4,648	9,936	9,727	10,437	25,880	29,426	28,901
inter-E.A.impts.	15,741	16,679	16,402	13,602	16,685	16,461	11,454	11,704	11,123
Balance	-10,610	-10,764	-11,754	- 3,666	- 6,958	-6,024	+14,426	+17,722	+17,778

The relevance of these taxes to the agricultural sector lies in the fact that many of the manufactures liable to them, listed in Annex IV, are processed agricultural products. The development of such processing industries has long been recognised as a method by means of which underdeveloped countries, heavily dependent on agricultural primary production, can embark on the industrialisation of their economies. Both as a means of increasing the value of agricultural products prior to their export and as a method of substituting for imports from more developed countries, the idea is an attractive one.

The purpose of the transfer taxes cannot, however, be to encourage import-substitution since it does not increase the extent to which East African processing industries are protected against imports from the rest of the world. Indeed further protection of this sort is not necessary for most of the products with which we are concerned in Annex IV. Of the 24 processed agricultural commodities listed there, only five are not yet produced in all three East African countries and for only one of them is production not established anywhere in East Africa; these items are detailed in Table 4.

Bearing in mind the fact that the Treaty declares that the promotion of a more equitable industrial balance is its aim, the reasons for including many of the agriculture-based manufactures in AnnexIV are to say the least, not immediately apparent. As already mentioned, nineteen of the twenty-four products of this type are being produced in all three East African countries. More detailed investigation may reveal inequalities between the national out-puts of each product but, until this is shown to be so, we can only assume that the reason for giving protection to these industries is to ensure that productive capacity remains fairly evenly distributed between the three countries. In other words, the transfer taxes appear to be aimed at

T A B L E

Agriculture-based manufactures subject to transfer taxes, production of which was not established in all three East African countries, 1966.

S.I.T.C.	COMMODITY	IMPORT - SUBSTITUTION POTENTIAL	PRODUCTION NOT YET ESTABLISHED IN
022 1	Milk or cream(in liquid or semi-solid form)evaporated or condensed, including butter-milk & whey but excluding skimmed milk	not specified	Uganda
002 2	Milk & cream dry(in solid form such as blocks or powder) including buttermilk, skimmed milk and whey.	Ken. medium Tan. not specified Ug. medium	Tanzania
032(part)	Fish & fish preparations (including crustacea & molluscs) in airtight containers.	Ken. small Tan. small Ug. small	Kenya Tanzania Uganda
073	Chocolate & other food preparations containing cocoa or chocolate n.e.s	Ken. medium Tan. medium Ug. medium	Tanzania
075(part)	Spices (ground only) (Part of larger industrial group, all of which has an* I-S.P of :-	Ken. large Tan. medium Ug. medium	Tanzania

* Import-Substitution Potential here is meaningless since spices are a product of industrial group 209-3 (by I.S.I.C.) which also includes "feeding-stuff for animals", "margarine & shortening" and "food preparations n.e.s.".

SOURCES.

Import-substitution Potential P.Maitra "Import-Substitution Potential in East Africa", E.A.I.S.R. Occasional Paper No. 2 1967.

Large Potential = imports greater than £500,000 P.A.

Medium Potential = imports greater than £100,000 P.A.

Small Potential = imports less than £100,00 P.A.

Production established

i) Maitra ---- using Kenya Census of Manufactures 1963, Uganda Census of Industrial Production 1963, Tanganyika Census of Industrial Production 1961 and the Exports of Manufactures from E.A.C.S.O. Annual Trade Report 1963. Maitra's "established" and "initiated " industries" classed as "established" here (ii) Up- dated as far as possible from Exports of Manufactures, Annual Trade Report, [illegible].

preserving national self-sufficiency in agricultural processing industries rather than at encouraging completely new industries to come to East Africa or at destroying an existing concentration of these industries in one of the members of the Common Market.

The Treaty is misleading then when it claims that transfer taxes are " a measure to promote new industrial development" (1), at least with regard to processing industries. They seem more likely to maintain the existing balance of development than to drastically change it.

The disadvantage which might be expected to arise from protection of this type (hindering of industrial development in cases where the minimum scale of operations is so large as to require a potential market greater than that provided by any of the individual economies) may not be relevant here. The fact that so many of the industries are already operating in more than one of the East African countries indicates that they are economically viable at a relatively small scale of operations, given the present degree of protection against imports from outside East Africa. If this is indeed so, the transfer taxes will not cause any important reduction in the benefits which processing industries could be expected to receive from the enlargement of their market consequent upon the creation of the Common Market.

This conclusion will, however, be in-valid to the extent that the present distribution of processing factories has been influenced by restrictions on trade in operation prior to the Treaty. Unfortunately information on these restrictions is diffcult to obtain since many of them were imposed via the administrative machinery rather than by tariffs or other overt means. The operation of import-licensing in such a way as to restrict the flow of goods was, for instance, widely used. Fuller study of such pre-Treaty arrangements will be necessary before any definite statement can be made on this point but, purely as preliminary indication, the fact that, of the twenty-four processed agricultural products listed in Annex IV, nine were subject to import licensing by Uganda before her recent removal of some licensing requirements in preparation for December Ist., is sufficient to arouse suspicions.

A decision on whether or not the transfer taxes will maintain an undesirable level of protection is not, therefore, possible with information presently available. The answer to this long-term question must await further investigation.

(1) Article 20 para.1, p.12.

CONCLUSION

To summarise the conclusion on these two provisons of the Treaty then, we can say that their effects on the gains by the agricultural sector in the long-run are uncertain. The Annex III quotas seem likely to reduce the chances of regional specialisation but a conclusion on this demands more inspection of the production characteristics of the crops concerned. Similarly, a considerable amount of further work is needed before the prospective gains and losses from the transfer tax system can be estimated.

With regard to the, possibly more important, short-term aim of equalising the levels of development of the Partners, however, this discussion leads to the conclusion that these two measures are unlikely to bring about a more even distribution of agricultural activity. Transfer taxes on processed agricultural products will, at best, only preserve the status quo and may, if they represent a reduction in inter-East African protection compared with the pre-Treaty situation, even worsen the maldistribution. As for the quota system, while it may allow Uganda's agricultural sector to catch up with that of Kenya, it seems certain to cause Tanzania's agriculture to fall even further behind.

This conclusion is a somewhat gloomy one if the assumption that the continuing existence of the Common Market depends upon a more equal distribution of the gains from it among the members. Unless the industrial location machinery operates more effectively than it has in the past, there seems little else in the Treaty which might redistribute income.

Since agriculture is do dominant in the East African economy, the effects of the Treaty in ensuring a more even distribution of industrial activity will have to be very considerable if the Common Market is to survive. The granting of more positive assistance to the agricultural producers of Uganda and Tazania might have been a much more effective method of solving the problem.

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