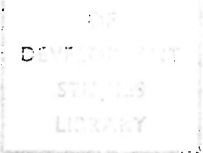


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INDUSTRIAL LOCATION AND THE EAST AFRICAN COMMON MARKET

Introduction.

This paper is a brief summary of an attempt to analyse the relationship between the common market and the location of industry in East Africa. The relationship is a complex one insofar as it is a two-way process - the common market has had a profound influence on the pattern of industrial location in East Africa as a whole while at the same time, the pattern of industrial location has determined, to a significant extent, not only the mode of operation and institutional configuration of the common market but has also led to a questioning of its rationale and the usefulness of its continued existence.

To understand and explain any given situation it is necessary to analyse those historical factors which were of importance in shaping and determining what is now accepted as the status quo. From this point of view, it can be argued that the situation in East Africa in the 1960's was the outcome of continuing historical processes, the origins of which can be traced to the period between 1890 to approximately 1930. The paper therefore begins with a short discussion of the major political and economic forces which were responsible for shaping the development of East Africa.

The Historical Background.

The construction of the railway provides us with the key to an understanding of both the early development of the region and subsequent events. The building of a railway into the interior had been an early ambition of the Imperial British East Africa Company, and the usefulness of such a link in consolidating British influence in Uganda, supressing the slave trade and (perhaps most important) developing legitimate trade could not be denied. The initial survey work began in 1892 and was completed in March 1893, the estimated length of the railway being 657 miles at a total cost of £2,240,000. The British Government did not come to any immediate decision concerning construction, but with the declaration of a Protectorate over Uganda in April 1894 the fear of international rivalry (it was felt that if the British did not build a railway to Lake

Victoria, the Germans would) and the desire to exploit the economic potential of the area took on a greater urgency, and by 1896 a Bill had passed through both Houses of Parliament, authorising the expenditure of £3 million.

Rapid progress was made impossible by the nature and vegetation of the terrain over which the railway passed and it took 22 months to lay out the first 200 miles of line. (1) But by May 1899 the rails had reached what was to become Nairobi, and it was there that the headquarters of the railway were established in July of that year. In December 1901 the first locomotive was run through to the shores of Lake Victoria to Port Florence (Kisumu), but another two years were to pass before the railway could properly be regarded as completed, and in October 1903, the responsibility for running the railway was handed over to the administration of the East Africa Protectorate.

The choice of Nairobi as the headquarters of the railway administration and the future capital of the East Africa Protectorate (the "civilian" administration had been transferred from Machakos to Nairobi soon after the coming of the railway) was a controversial one. The plain on which the town was built was swampy and difficult to drain and consequently, in the rainy season, it became very unhealthy. Water supply was poor and the following passage is illustrative of the difficulties that had to be faced in the early days: "There was an immense amount of work to be done in converting an absolutely bare plain, 327 miles from the nearest place where even a nail could be purchased, into a busy railway centre. Roads and bridges had to be constructed, houses and workshops built, turn-tables and station quarters erected, a water supply laid on, and a hundred and one other things done which go to the making of a railway township. Wonderfully soon, however, the nucleus of the present town began to take shape, and a thriving bazaar sprang into existence with a mushroom-like growth. In this, however, a case or two of plague broke out before very long, so I gave the natives and Indians who inhabited it an hour's notice to clear out, and on my own responsibility promptly burned the whole place to the ground." (2)

But in spite of constant criticism, the inertia of development secured Nairobi's existence and by 1901 it was a town of 8,000 inhabitants. By 1906 the population had increased to 11,500 and even at this early stage in its development, Nairobi was beginning to assume the functions it was to perform as the future capital city.

A logical and natural corollary to the construction of the railway was the opening up of the area for trade and settler immigration. It was soon realised that the Asian immigrants (3) either could not or would not develop the natural resources of the area and thus European settlement was seen as the only means of making the railway ultimately profitable. Large

areas of land were offered at ludicrously cheap prices and by 1903, there were about 100 Europeans settled in or near Nairobi. South Africans began arriving in relatively large numbers in 1904, and the end of the First World War brought a new influx of settlers under the Soldier Settler's scheme.

The European settlers were responsible for the early agricultural processing projects. A bacon factory (Uplands) had been established at Limuru and was taking all the pigs the settlers could rear. In 1908, Lord Delamere formed a company (Unga Ltd.) to begin wheat milling and later diversified his interests, opening butchers shops in Nairobi, Nakuru and Mombasa and securing a contract to supply mutton to ships calling at Kilindini. The future for the production of dairy products appeared to be good and in 1909 the soda deposits at Magadi were inspected with a view to exploitation.

The East African Customs Union: Early History

The increasing concentration of Europeans in Nairobi and the "White Highlands" (the latter being so defined originally to exclude Asians rather than Africans) led to a similar concentration of political power, and the Kenyan Europeans were thus able to dominate effectively customs union economic policies. It has been pointed out elsewhere (4) that the customs union was not the end product of lengthy economic deliberations; on the contrary, it was the child of historical accident and unco-ordinated administrative decisions, although the area did have a history of administrative and commercial contact, based on varying forms of co-operation and the Congo Basin Treaties did give a certain imperialist unity to the area.

In 1900, Uganda had imposed a 5% rate of ad valorem duty on all goods entering the Protectorate. Goods entering Uganda via German East Africa were regarded as being in transit to the border and thus no duty was paid to the German authorities. But goods passing through Mombasa were liable to customs duties which were collected and retained by the East Africa Protectorate authorities. No rebates or allowances were made in respect of duties already paid at ports outside the Protectorate with the exception of Mombasa - if importers could produce a receipt from that port, no duties were collected by the Ugandan authorities. Although in 1900 imports reaching Uganda via Mombasa were negligible, once the railway reached the shores of Lake Victoria, Mombasa assumed greater importance with the diversion of trade away from the southern, German ports. Uganda thus found herself in the unenviable position of having an increasing volume of imports while at the same time, the collection of import duties was decreasing. Customs duties were raised to 10% ad valorem on all imports in 1904 but revenue still fell short of expenditure and it was not until 1909 that Kenya agreed to reimburse Uganda for the revenue thus collected, leading to a more than three-fold increase in Uganda's revenue in the period 1908/9 to 1917/18. (5)

In 1917, when Uganda's revenue collections had become negligible, the customs authorities of Kenya and Uganda were amalgamated and free trade, both in local and imported products, was established between the two territories. The major aim of the external tariff was to raise revenue, rather than to protect local industry and at this time, the inter-territorial transfer of local products was virtually negligible.

In 1921, with Tanganyika now under British control, the basic rate of duty was raised from 10% to 20%. This increase appears to have been for the sole benefit of Kenya because of her need to raise revenue, and Uganda would certainly have benefited from a reduction of customs duties in order to offset the substantial rail charges incurred in transporting her imports from the coast. But the balance of political power had altered (at the end of the 19th century, Uganda had been the centre of British interests in East Africa) and Kenyan (European) interests were not dominant.

A major feature of the history of European settlement in Kenya was the repeated attempts of the settlers to grasp both political and financial control, especially in the formulation of government policy, and the growing economic difficulties of the 1920's appeared to provide them with such an opportunity. An Economic and Finance Committee (the Bowring Committee) was appointed by the Kenya Government in 1922, a major recommendation of which was a policy of high tariff protection for agriculture. A new tariff was proposed which combined both specific and ad valorem duties, the main purpose of which was to protect the Colony's agriculture and promote the development of industry within Kenya. When the new tariff structure was introduced in 1924, highly protective duties were imposed on the import of butter, ham, ghee, timber, sugar, wheat and other grains and, to quote Kennedy, "...there can be no doubt that these duties did prove to be highly successful in encouraging a number of Kenya's industries in a period when world economic conditions were far from conducive to agricultural development." (6)

The Kenya Government appointed a further committee in 1928 to consider the whole question of protective duties and the future of the customs union. The Report concluded that it was essential to retain the principle of protection and that every possible effort should be made to "...entrench the position in respect of a Customs Union for Eastern Africa provided that the principle of adequate protection is maintained." (7) Statistics were quoted illustrating the impressive growth of Kenya's agriculture and agricultural processing industries in the period 1922 to 1928 and particular reference was made to the increased production of bacon, ham, butter, cheese, sugar, timber and sawmilling and wheat and flour. But the members of the Committee were not unanimous in their praise of protective policies. The Minority Report alleged that protective duties were too high and were penalising consumers in all three territories and that the main beneficiary of the duties,

especially in the case of wheat and butter, was the European farmer. Needless to say, these objections did not come from a European member of the Committee but from the President of the Indian Merchants Chamber in Mombasa.

The Uganda Government counter-attacked with a report of its own. (8) The Committee recalled the many objections voiced by Ugandan interests against the imposition of protective duties in 1924, and reiterated Uganda's "laissez faire" position with respect to international trade. If locally produced goods could not compete with imported articles with only the natural protection of transport costs, it was considered to be completely unjustified to develop artificially these industries by means of preferential railway rates and import duties, which benefited one country at the expense of others. If a government thought that an industry was deserving of support, assistance should be given by means of a bonus or subsidy at the expense of the country concerned.

It is of interest to note that the Ugandan report attached greater importance to the continuation of the common market arrangements than was the case with the Kenya Tariff Committee Report. Thus although the Ugandan report recommended a general tariff of not more than 10% ad valorem or its equivalent, it realised that this would not be acceptable to Kenya and in order to preserve the customs union, it was prepared to accept a general rate of duty of 20% ad valorem or its equivalent. But this was as far as the Committee was prepared to go: "If...the tariff recommendations generally, which we have made, fail to satisfy our neighbours, we are unanimously of the opinion that there should be a departure from the principle of a Customs Union, much as we should regret such a decision." (9)

The controversy between Kenya and Uganda petered out with the onset of the world depression with Uganda abandoning her free trade position. A revised tariff was introduced in 1930, a major objective of which was to aid the establishment of local industry. The Customs Tariff Ordinance of 1930 introduced a system of "suspended duties" which were included in the schedules of the Common Tariff but were not imposed by the Tariff Ordinance itself. Rather, they were imposed by Proclamation, issued by the Governor with the approval of the Legislative Council in any of the three territories. They were in fact a surtax, levied over and above the common basic tariff, on imports into that territory alone from abroad and were effective with respect to the following products: butter, cheese, wheat in the grain, wheat ground, bacon and ham, ghee, joinery products, wood and timber, sugar and rice in the grain.

Uganda imposed duties on only two of the product categories - ground wheat and bacon and ham. Kenya imposed the duty on all the listed products (in some cases doubling the rate of duty charged on imports) and Tanganyika imposed them on all the products with the exception of butter, cheese and wheat in the grain.

Tanganyika had become a League of Nations Mandated Territory under British control in 1922. It adopted the common basic tariff of 20% in the same year but full agreement on the local transfer of imported goods was not reached until 1927 and it is from this date that the customs union took on all its essential characteristics, except for the actual amalgamation of Tanganyika's customs department with those of the other two territories which did not take place until 1949. In two essential respects, Tanganyika's position within the customs union was different from that of Uganda:

- a. her geographical position vis-a-vis Kenya meant that she was dependent on Kenya for neither port nor rail facilities, and,
- b. because transport costs on imported goods were lower, the outcry against high import duties was not as marked as in Uganda.

In the Tanganyika Government's Annual Report for 1932 (10), the customs union was strongly defended. The absence of barriers was considered to be a matter of the utmost convenience to traders in the three territories and the union was of definite advantage in "promoting the development and prosperity of the whole area." (11) The Report went on to state that: "Without the protected markets in Kenya and Uganda provided under the Agreements, not only could there be a little expansion in the Tanganyika production of rice, ghee, etc., but the disposal even of existing produce would be very difficult...(and)...further, the absence of a Customs barrier enables producers in Tanganyika of articles intended for export overseas to avail themselves of manufacturing processes which are available in Kenya." (12)

The Tanganyika Government Report attempted to answer the criticisms of Sir Sydney Armitage-Smith (13) who had alleged that the tariff was harmful to both consumer and producer interests in the territory. He noted that import duties were very high on all protected articles, especially on foodstuffs and the cheaper kinds of cotton goods and he admitted that, on a priori grounds, the concept of a large East African Territory, without customs barriers and open to the free exchange of goods, was extremely attractive. But such a concept had to be subjected to the test of fact and experience and his conclusions as to the workings of the customs union were definitely unfavourable. Revenue had been falling while imports, especially of bacon, ham, sugar, tea and butter, had been rising quite substantially. The actual loss of customs revenue through the free imports from Kenya and Uganda of sugar, wheat, flour, tea, butter, bacon and ham, cheese and timber was estimated at £58,359 for 1931, and this loss was not offset "by the advantage to its (Tanganyika's) producers of exporting rice and ghee to the neighbouring territories free of duty." (14)

This would appear to be an early recognition and isolation of one of the major problems facing the Raisman Commission in 1960, although Armitage-Smith's proposed solution to the problem was more direct than that recommended

by the Raisman Commission. He recommended that Tanganyika immediately take steps to levy customs import duty at the same rate on foodstuffs imported from Kenya and Uganda as those chargeable on foodstuffs imported from foreign countries, thus ceasing "to deplete her revenue and impoverish her citizens by protecting the products of her neighbours." (15) But his recommendation was accepted with respect to sugar imports only, with a consumption tax at the rate of Shs.3/- per 100 lb. being imposed on all sugar not manufactured in Tanganyika.

Two further areas of controversy which can only be given brief mention here were the structure of railway rates and the proposals for closer political union. Upto 1920, the profits earned on the operation of the railway were siphoned off into the Kenya Treasury, but the Colonial Office ruled that this policy should be discontinued and that future surpluses from the railway were to be used for renewals, upkeep and betterment, future loan charges and the reduction of railway rates. Uganda also alleged that the rate structure was used as a protective instrument for Kenyan agriculture and industry (adversely affecting Ugandan development) but this charge was never satisfactorily proven. (16)

The federation/closer union issue was a protracted and complicated issue. The arrival of European settlers in Kenya Colony was a mixed blessing to the British Government. European settlement meant the economic development of the area and the consolidation of British influence but in the political sphere, tensions soon arose between the settlers and the British Government. The settlers demand for a greater degree of independence in political and financial matters could not be accommodated by the British Government and although in 1922, Winston Churchill (then Colonial Secretary) had announced that he saw no reason why Kenya should not become "a characteristically and distinctively British Colony looking forward in the full fruition of time to complete responsible self-government" (17) the White Paper of 1923 declared that self-government was out of the question in the near future (although this status had been given to the Rhodesian settlers in that year) and asserted the paramouncy of African interests.

A number of commissions and individuals reported on the prospects for political federation in the 1920's and early 1930's (18) and although their conclusions as to the advisability of political federation differed, they all agreed that the time was not yet ripe for such a move. The final commission to consider this question - a Joint Select Committee of both Houses of the British Parliament which reported in 1931 - decided against any radical move towards political federation or close union for the following reasons:

- a. it was inopportune on purely financial grounds - East Africa was passing through a serious economic depression and anything that added to the overhead expenses of government was viewed with disfavour;

.....

- b. the Africans of Uganda and Tanganyika were still opposed to any form of closer association with Kenya;
- c. lack of communications would impose a serious limitation on the authority of any organization with executive functions throughout the area, and,
- d. the vast majority of all the communities were still concerned mainly with the affairs of their own particular territory and only among certain elements in the European community could there be said to be a growing East African consciousness.

From 1930 onwards the three Governors met annually and in addition to discussing the shared services (the Kenya and Uganda Railway, customs, defence, posts and telegraphs) dealt with a wide range of topics including the co-ordination of African taxation, transport and communications and industrialisation. But the earlier grandiose ideas on federation were quietly shelved, if only temporarily, mainly because of the world economic depression.

The Second World War made it essential for the East African territories to pool their resources for a combined war effort and in 1940, the Governors of Uganda, Kenya, Tanganyika, Zanzibar, Northern Rhodesia and Nyasaland agreed to establish a joint economic council, with its own secretariate, thus enabling East Africa to operate as one economic and commercial unit. A number of ad hoc bodies, operating on an East African basis, were established (19) and the organisations under the Governors' Conference were extended.

At the end of the war it was decided that the whole question of future economic co-operation should be investigated, with particular emphasis being placed on the operation of the common services between the three countries. The Colonial Office published a paper in 1945 (20) outlining proposals for the organisation and form future co-operation should take. Political union in any form was rejected but it was thought necessary to establish a constitutional and juridical framework for the inter-territorial services, including a joint legislature. The proposed racial composition of the latter (it was proposed to give the three main races numerical equality in the unofficial representation in the central legislature) caused an outcry among Kenyan Europeans and revised proposals were consequently drafted and published in 1947. (21) These abandoned the idea of numerical parity and severely reduced the powers of the proposed central legislature and weakened its financial structure. The proposals of Colonial No.210 were accepted and subsequently implemented by the East Africa (High Commission) Order in Council, 1947 and came into operation on January 1st, 1948.

It is fair to say that an important opportunity for the further strengthening and development of the customs union was lost by the specific form the establishment of the High Commission took. If it had been empowered

to act in a positive role in the co-ordination of economic affairs and policies, the pattern of development in East Africa would probably have taken a completely different form. An attempt was made to resolve differences of interest relating to industrial development with the establishment of a system of industrial licensing, but this system has not been particularly successful and has certainly had no influence on the pattern of industrial location within East Africa. This is not to deny the important role played by the High Commission and the Central Legislative Assembly in East African affairs but the conditions the organisation laboured under, namely the lack of its own source of revenue and the restricted list of subjects with which it could deal, limited its usefulness for expressing an "East African point of view" (22)

The Report of the East African Economic and Fiscal Commission. (23)

During the late 1950's, the existing arrangements in East Africa were increasingly criticised by Uganda and Tanganyika. The major problem considered by the Commission was that posed by the rapid development of import substituting industries in Kenya which adversely affected the fiscal revenues of the other two territories while benefiting Kenya. The Commission concluded that although Kenya had benefited to the greatest extent from the operation of the common market, it was unlikely that Uganda and Tanganyika had actually lost on income account (owing to the "spill-over" effects of Kenya's faster rate of growth of income on the income of the other two countries). The Commission proposed the creation of a Distributable Pool of Revenue to offset the losses incurred by Uganda and Tanganyika on revenue account but this was essentially a temporary measure because it did not go to the root of the problem i.e. the uneven rates of industrial development of the three countries. But in general, the proposals of the Commission were of importance insofar as they ensured the continuation of inter-territorial institutional co-operation (the East African Common Services Organisation was established in 1961) and they also helped to generate a climate favourable to foreign investment. Although the Raisman Commission did not produce a lasting solution to the problems of the common market, its proposals did provide a significant short term relaxation of tensions and given the general limitations on the power of any official commission and the political climate of the time, one could not reasonably expect more than that.

The Failure to Federate and the "Kampala Agreement".

With the coming of Independence to the three countries, the problems of inter-territorial economic co-operation and political federation again assumed prominence. The common market had always been a colonial animal, imposed by Britain on the three East African countries and it was not immediately clear whether the three countries, as independent units, would opt for greater economic and political co-operation or whether existing institutions would break up and the three states go their separate ways. African opposition

towards the High Commission had gradually waned and even as early as 1960, the idea was put forward that the High Commission might form the basis of a political federation. The concept of political federation had been opposed by the nationalist leaders as it had always been associated with the political ambitions of the Kenyan and Rhodesian settlers but in 1960, Julius Nyerere came out strongly in its favour and even indicated that Tanganyika might postpone the date of her own independence so that the three countries could achieve independence and unity at the same time.

The discussion of federation culminated in the Nairobi Declaration of 5th June, 1963. President Nyerere and Prime Ministers Obote and Kenyatta stated their intention of establishing a federation by the end of 1963. The failure to federate is now well known and the reasons for the failure have been well documented by J.S. Nye, Jnr. (24). What is of importance to the present discussion is that the collapse of the negotiations forced the Tanganyikan leaders to make a serious reappraisal of the whole common market/federation question. They were not so completely disillusioned as to exclude entirely the possibility of federation at some future date, but national self-interest came to play an increasingly important role in their deliberations. The decision was made that, in the absence of federation, the common market arrangements could not be allowed to remain unchanged if Tanganyikan development was hindered as a result of them.

In March 1964, a meeting of the Joint Economic Committee was convened at Entebbe at the request of the three Heads of Government and the Tanganyikan delegation announced its intention of pursuing a line of economic policy which would in effect remove that country from the common market. This announcement led to an urgent meeting of the Heads of Government and their economic Ministers and it was decided to appoint an Emergency Committee of Ministers of Finance and of Commerce and Industry, the purpose of which was "to enquire into the measures necessary to bring about a trade balance between the three East African countries." (25) The Emergency Committee met immediately in Dar es Salaam and was reconvened in Kampala in April 1964, to agree on the detailed proposals which have since become known as the "Kampala Agreement".

The "Kampala Agreement" was essentially an attempt to redress the inequalities that had arisen through the three countries' different rates of industrial development, rather than an attempt to impose bilateral trading conditions on inter-territorial trade. It proposed, inter alia, the expansion in the deficit countries of production by certain inter-territorially connected firms, the immediate territorial allocation of certain major industries, the application of a system of quotas and suspended quotas whereby exports from surplus countries could be progressively decreased and local production stimulated in the deficit countries and early agreement within the common market on a system of

inducements to allocate industry between the three countries to ensure a more equitable distribution.

The detailed proposals of the "Agreement" are well known and need not be documented here. The "Agreement" was never formally ratified by Kenya, but almost immediately, Tanganyika began imposing quotas on imports of manufactured goods from Kenya and Uganda. The direct result of the application of the quota system - the loss of the Tanganyikan market to many Ugandan and Kenyan firms - led, in many cases, to substantial cuts in production and the threat of dismissal to large numbers of workers. This was a process that occurred in virtually all the major firms in a wide variety of industrial activities - miscellaneous foods, soap and detergents, paints and varnishes, spinning and weaving, clothing, biscuits and confectionary, chemicals and insecticides, matches, paper and packaging materials, cigarettes, bicycle tyres and tubes, industrial gases, brewing, miscellaneous textiles and metal and engineering products. A number of cases were noted of the actual physical movement of firms located in Kenya moving to Tanganyika.

The provisions of the "Agreement" concerning the immediate allocation of certain industries were never completely carried out and the proposed appointment of a committee of experts to formulate proposals for the future allocation of industry was never heard of again. The "Agreement" did result in a quite substantial increase in Tanganyika's industrial capacity but at the cost of the development of surplus capacity elsewhere in East Africa and the disruption of trade. The common market ceased to be a common market in the true sense of the term and it is obvious that such disruptive conditions could not have continued for any substantial length of time without the complete disintegration of East Africa as a single economic unit.

Industrial Location and the Common Market.

The analysis of the pattern of industrial location in East Africa is made within a least-cost framework. An earlier paper (26) has attempted (albeit rather primitively) to apply modern theory i.e. theories of location based on monopolistic control considerations, to location within East Africa, but it was concluded that the theory was not of practical use in explaining the locational pattern established and the lack of relevant data severely limited the extent to which sophisticated criteria could be used. The analysis thus assumes that most firms sell to a single buying centre and determine their location with reference to that centre on least-cost principles.

Two questionnaire surveys were carried out in Kenya, one attempting to collect data on transport costs and the other attempting to determine the major factors influencing industrial location, with particular reference to common market industries i.e. those industries requiring the whole of the East African

market to operate profitably.

The transport cost survey did not produce good results and only eight firms (out of a total of over fifty) provided data sufficiently comprehensive for analytical purposes. Although it is not possible to generalise on the basis of such meagre information, it appeared that raw material transport costs were rather small and the transport cost differential on imported raw materials between a Nairobi and a Kampala location did not increase total production costs by more than 0.6% in all cases except two. Distribution costs i.e. the cost of bulk transport of the finished product to the distribution centre, were the most important element in transport costs. The results of survey thus implied that much industrial activity was to a large extent "shiftable" in the sense that raw material transport costs did not tie it to any particular location and that nearness to the major market area was the dominant location factor.

This argument had already been substantially confirmed by the results of the Uganda survey of industrial location (27) and further supporting evidence was obtained in the Kenya survey. In the latter, questionnaires were sent to 126 firms, each employing over fifty persons, and a 6% response rate was achieved. At least 30% of the Kenyan firms replying depended to a very large extent on exports to Uganda and Tanganyika.

Particular attention was paid to the growth and development of Nairobi (28). Nairobi is the largest concentration of industrial activity in both Kenya (44% of all firms employing over five persons are located in Nairobi) (29) and East Africa, and the common market based firms located in Nairobi were virtually unanimous in stating that the market factor was the locational determinant of prime importance. Nairobi, as the administrative, commercial, financial and industrial centre of Kenya (and, to a large extent, East Africa), offered the largest market and its geographical position offered excellent opportunities for the export of manufactured goods to Uganda and Tanganyika.

The question of the role of "external economies of scale" in Nairobi's industrial development is an elusive and controversial one. Even the concept itself is sometimes difficult to pin down, but for the purposes of the present discussion, it is sufficient to examine four relatively distinct variations, viz: Technological external economies, pecuniary external economies, market enlargement external economies and external economies arising from vertical integration. (30).

It is usually assumed that Nairobi enjoys the benefits accruing from the existence of significant external economies. B.F. Massell (31) for example, in discussing the relative gains to be expected from the development of new industry, confidently asserts (although he produces no evidence to support his

argument) that "...the advantage of Nairobi's becoming a large industrial centre may provide some benefits to Uganda and Tanganyika as well as Kenya. For example, the existence of skilled technicians and engineers and the availability of spare parts and components in Nairobi facilitates the establishment of new industry elsewhere in East Africa. But while this is undoubtedly true, it is also true that the externalities are stronger in Nairobi than elsewhere." Massell further asserts that beyond some "critical point" external diseconomies arise and development becomes more diversified, but he does not attempt to define further that "critical point" nor does he say whether or not Nairobi has reached it or is near such a point in its development. He later casts doubt on his earlier generalisations concerning "externalities" when he admits that "The biggest question mark is the external economies factor...(and)...until economists know a great deal more about these phenomena, we shall be unable to quantify the gains from externalities."(32).

The only concept of "external economies" that appears to have relevance to Nairobi is that of market enlargement external economies i.e. mass consumption industries mutually support one another to a certain extent insofar as they provide markets for each other's products. The dividing line between this concept and the simple market orientation factor is not a clear-cut one and confusion would arise if the location of a particular industry was ascribed exclusively to either factor. External economies arising from vertical integration are not at present of practical importance within Nairobi, (33) but could arise in the relatively near future as the "depth" of Nairobi's industrial development increases. Scitovsky's technological external economies are present in all East African industrial centres insofar as one assumes that industrial labour markets did not exist before the establishment of the first industrial enterprises and that all subsequent enterprises freely enjoyed the benefits of the labour market created by the pioneer industrialists. Similarly, pecuniary external economies, if they exist at all in East Africa, are certainly not more significant in Nairobi than elsewhere.

The intention of the above discussion is not to deny the fact that "There are frequently large gains from an industry's choosing a site with well developed ancillary industries, a trained labour force, and social overhead capital facilities...(and)...the presence of some firms in an area will enhance the area's attractiveness to newcomers, and in this way industrial clusters will develop." (34) What is being questioned is the commonly accepted notion that Nairobi has attractions of an external economies nature not found in the other industrial centres of East Africa and that these factors explain, to a very large extent, Nairobi's attractiveness to new industry.

Indeed, a strong case can be made for the existence of significant external diseconomies of scale in Nairobi. Land prices and labour costs combine to make Nairobi a high cost location (relative to other centres in Kenya) in

terms of processing costs, and it can be argued that it is only the market factor that more than compensates for the high processing costs of a Nairobi location. The factor that was unique in Nairobi's development was the strong European influence. Both directly and indirectly, the Europeans generated the market for manufactured goods, and their political strength permitted them to dictate economic policies within East Africa which were to their direct advantage. The fact that Nairobi is a "European" city (compared to Kampala and Dar es Salaam) is probably of some significance but it is felt that it would be misleading to place too much emphasis on this factor.

The higher African per capita incomes in Uganda (especially Buganda) (35) attracted two large industries whose main orientation was towards the African consumer (bicycle tyres and tubes and agricultural hoes), but in general, the concentration of purchasing power in the Nairobi region dominated the pattern of industrial location in East Africa. Tanganyika has enjoyed the benefits of neither an economically and politically powerful European community nor a relatively wealthy and geographically concentrated African market and thus has not been successful in attracting large scale, common market based, industries.

With the growth of incomes in East Africa (or as in the case of Tanganyika, with the cutting off of existing markets), industry is likely to become more widely distributed between the three countries, although Kenya is likely to remain the most industrialised partner. But it is felt that market forces alone will not be strong enough to bring about a distribution of industry in the near future that will be acceptable to all three countries and it is thus recommended that a policy of planned industrial allocation and location should be put into effect as soon as possible. It is further suggested that, in the absence of Government direction, some system of transport cost subsidies would appear to be the most effective way of persuading firms to establish themselves at a location they had not originally chosen.

A Note on the Treaty for East African Co-operation.

The Treaty for East African Co-operation represented an extremely important step forward in East African political and economic relations. The provisions of the Treaty include, inter alia, the creation of an East African Community and a strengthened common market within that Community, the establishment of four statutory corporations within the Community to administer the shared services, the abolition of quantitative restrictions on inter-territorial trade (with certain exceptions) and the introduction of a transfer tax system aimed at eliminating inter-territorial trade deficits in manufactured goods, the establishment of the East African Development Bank, the harmonisation of fiscal incentives and (less specifically) the formation of co-ordinated policies towards large single plant industries requiring the whole of the East African market and the decentralisation of the headquarters of the various

institutions of the Community and the common market.

An important aspect of the Treaty is the abolition of quantitative restrictions on inter-territorial trade. Although it could be argued that there is no essential difference quantitative restrictions and the transfer tax system, the latter will at least allow some degree of inter-territorial trade and competition in manufactured goods which had previously been subject to quotas or outright prohibition. But both systems are subject to the criticism mentioned earlier in the paper - they tend to encourage competitive, rather than complementary, industrial development, leading to excess capacity and the probable misuse of scarce resources. Taking into account political considerations, such development appears to be inevitable, but it must still be labelled "undesirable" rather than "desirable".

It is of interest to note that industrial location per se is not mentioned in the Treaty and in this respect, the Development Bank will have an important role to play. The Bank is required to loan, guarantee or otherwise invest as nearly as is possible, 38 $\frac{3}{4}$ % of its total investments in Tanzania, 38 $\frac{3}{4}$ % in Uganda and 22 $\frac{1}{2}$ % in Kenya, in order to accelerate the industrial development of the relatively less industrialised Partner States, with the proviso that such development should be complementary, rather than competitive, in nature. But the mere fact of specifying different investment ratios between the three countries does not mean that existing industrial imbalances will automatically be reduced. If the Bank is more successful in attracting private capital into joint venture schemes in Kenya than it is in the other two countries, nothing will be done to reduce the inequitable distribution of industry and it is possible that it will be increased. The need for a co-ordinated and comprehensive policy of industrial allocation between the three countries is still essential, for economic, social and political reasons, and if a wider and more equitable distribution of industry is not achieved, the future foundations of the common market may prove to be as weak as those of the past, resulting once more in political tensions and economic disruption.

Conclusion.

This paper has attempted to analyse briefly the relationship between the location of industry and the common market in East Africa. Stress has been laid on the historical continuity of certain factors and it has been argued that the problems that have arisen in the 1960's are essentially the outcome of political, social and economic developments, the origins of which can be traced to the early part of the 20th century. Throughout its history, the common market has demonstrated a remarkable resilience to the tensions and potentially destructive forces which have been generated by its operation and the Treaty for East African Co-operation is an indication of the extent to which

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antagonisms in both the economic and political spheres have been overcome and an affirmation of the strength and importance of the ties that have for so long bound the three countries together.

Reference

- (1) M.F. Hill, The Permanent Way: The Story of the Kenya and Uganda Railway, 2nd Edition, EAR. & H., Nairobi, 1961, p.117.
- (2) Lieut.-Colonel J. H. Patterson, The Man-eaters of Tsavo, Macmillan & Co. Ltd., 1934, pp.295-6.
- (3) Contrary to popular belief, the majority of Indian railway workers returned to India on completion of the railway, and out of 31,983 imported for the construction, only 6,724 remained in East Africa. Hill, op. cit., p.240.
- (4) T.A. Kennedy, 'The East African Customs Union: Some Features of its History and Operation', Makerere Journal, No.3, 1959, p.22.
- (5) Kennedy, op. cit., p.24.
- (6) ibid., pp.25-26.
- (7) Report of the Kenya Tariff Committee, May, 1929, Colony and Protectorate of Kenya, Sept. 1929, p.11.
The Report was also concerned with the structure of the railway tariff but space does not permit a full discussion of this particular problem.
- (8) Report of Customs Tariff and Railway Rates Committee, Uganda Government, Entebbe, 1929.
- (9) Report of Customs Tariff and Railway Rates Committee, op. cit., p.10.
- (10) Report of H.M. Government of United Kingdom to the Council of the League of Nations on the Administration of the Tanganyika Territory: For the Year 1932, Colonial No. 81, H.M.S.O., London, 1933.
- (11) Tanganyika Government Report, op. cit., p.128.
- (12) ibid., p.128.
- (13) Report by Sir Sydney Armitage-Smith, K.B.E., C.B., on a Financial Mission to Tanganyika, 26th September, 1932, Cmd. 4182, H.M.S.O., London, 1932.
- (14) ibid., p.25.
- (15) ibid., p.25.
- (16) Although the rate fixing policy had always been intimately concerned with the general promotion of economic development, the resulting rate structure i.e. low rates for exports and high rates for imports, was broadly similar to the structure that would have resulted if the policy of charging what the traffic would bear had been fully adopted. See Arthur Hazlewood Rail and Road in East Africa (Monograph No.7) Oxford University Institute of Economics and Statistics and E.A.I.S.R., 1964, pp.31-33. Professor Hazlewood further shows (Chapt. VII, pp.82-101) that if a Cost-Tapered Actual Tariff was introduced, there would be a general shift in the structure of railway charges to the disadvantage of Uganda traffic. It is in the light of these two considerations that the arguments advanced by Uganda must be considered.
- (17) quoted in G. Bennett Kenya: A Political History: The Colonial Period, Oxford University Press, London, 1963, p.48.
- (18) the major reports were: Report of the East Africa Commission, 1925, Future Policy in Regard to Eastern Africa, 1927, Report of the Commission on Closer Union of the

- Dependencies in Eastern and Central Africa, 1929, Report of Sir Samuel Wilson, G.C.M.G., K.C.B., K.B.E., on his Visit to East Africa, 1929, Statement of the Conclusions of H.M. Government in the United Kingdom as regards Closer Union in East Africa, 1930 and Joint Committee on Closer Union in East Africa, 1931
- (19) for greater detail see A.J. Hughes, East Africa: The Search for Unity, Penguin African Library, London, 1936.
- (20) Colonial Office Inter-Territorial Organisation in East Africa, Colonial No.191, London, 1945.
- (21) Colonial Office Inter-Territorial Organisation in East Africa - Revised Proposals, Colonial No.210, London, 1947.
- (22) for a fuller discussion of the organisation and role of the East African High Commission see Jane Banfield, 'The Structure and Administration of the E.A. High Commission and the E.A. Common Services Organisation' in Leys & Robson (Eds.) Federation in East Africa: Opportunities and Problems, Oxford University Press, Nairobi, 1965.
- (23) Cmnd. 1279, London, 1961. Usually referred to as Raisman Commission Report.
- (24) J.S. Nye, Jnr., Pan-Africanism and East African Federation, Harvard University Press, 1963, especially Chapt.6.
- (25) United Republic of Tanganyika and Zanzibar, Kampala Agreement, Information Service, Dar es Salaam, 1964.
- (26) F.I. Nixon 'Location Theory Applied to Industrial Development in East Africa', EDRP 84, 1965
- (27) see F.I. Nixon 'Some Results of a Survey of Industrial Location in Uganda', EDRP 108, 1966, and 'Factors Influencing the Location of Industry in Uganda', Conference Papers, 1966.
- (28) this topic has been comprehensively covered by Dorothy M. Halliman & W.T.W. Morgan, 'The City of Nairobi' in W.T.W. Morgan (Ed.) Nairobi: City and Region, Oxford University Press, Nairobi, 1967.
- (29) Republic of Kenya, Census of Industrial Production 1963, Nairobi, 1965.
- (30) major references are: Allyn Young 'Increasing Returns and Economics in Economic Growth', The Economic Record 1955; T. Scitovsky 'Two Concepts of External Economies', Journal of Political Economy, 1954; J.E. Meade 'External Economies and Diseconomies in a Competitive Situation', E.J., 1952; V. Fleming 'External Economies and the Doctrine of Balanced Growth', E.J., 1955.
- (31) B.F. Massell, Economic Union and Industrial Development in East Africa, University of East Africa Conference on Public Policy, Nairobi, Nov.1963; p.23.
- (32) ibid., p.23
- (33) D.A. Lury has pointed out that in Kenya, inter-industry activities would be zero or negligible in 75% of the boxes of an input/output table. Cyclostyled note, Input/Output in Kenya, University College, Nairobi, 17.7.66.
- (34) Massell, op. cit., p.20.
- (35) see D. Ghai 'Some Aspects of Income Distribution in East Africa', EDRP 52, 1964.

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