Makerere Institute of Social Research. EDRP. No. 21 (85)

Economic Development Research Project

E.A.I.S.R.

PREFERENTIAL TRADE ARRANGEMENTS AMONG DEVELOPING COUNTRIES

by

Philip Ndegwa

I. Nature of the Policy Problem

1. The central question to be considered in this paper is whether it would contribute to economic development in Uganda and the other East African countries to enter into preferential trade arrangements with other developing countries, and hence whether international recognition of such preferential arrangements would be desirable. A number of major issues about such arrangements are under current discussion. Do the special trade problems of developing countries warrant international acceptance of the principle of preferential arrangements? Should preferences be extended uniformly to all developing countries, or be graduated according to differences in stage of development among developing countries, or be granted to groups of developing countries which can reach a mutual agreement? Should preferences be recognised only as part of a program leading to a free trade area or customs union, or should they apply to particular classes of products, or even to specific products?

2. This paper approaches these general issues by analysing three types of preferential arrangements in which Uganda, Tanganyika, and Kenya might be interested. They are a full customs union, represented by the existing East African Common Market; a preferential agreement with a group of countries at a similar level of development, represented by fifteen neighbouring African countries; and a preferential agreement with some more industrialised developing countries, represented by India. The "Neighbours" for this purpose are defined as Zanzibar, Somalia, Ethiopia, Sudan, Congo, Rwanda, Burundi, Northern Rhodesia, Southern Rhodesia, Nyasaland, Mozambique, Madagascar, Mauritius, and Seychelles.

II. General Grounds for Interest in Preferential Trade arrangements.

1. The analysis in this paper is influenced by four general hypotheses about development strategy.

(a) Larger markets obtainable by preferential trade arrangements are urgently required in order to benefit from economies of scale. In East Africa and neighbouring countries there is not a single country, as yet, with sufficient domestic demand to support really large-scale modern industries (e.g. a modern large-scale iron and steel plant). This means that if each country were to follow a policy of throughgoing autarchy the plants to be established would be either small-scale or in chronic excess capacity. This would mean, in turn, high costs and therefore less demand and uncompetitiveness in foreign markets. It may be that in future some of these countries will have sufficiently great [illegible]mand to satisfy the requirements of [illegible] industries, but this is certainly not [illegible]ay. If what is wanted is industrialisation [illegible] to be appreciated that a formidable [illegible] the limited scale of operation of

/industries

industries based on the domestic market. This limitation can be removed by greater international trade.

(b) For most underdeveloped countries, and certainly for East Africa and her neighbours, industrialisation will have to come through the process of deliberate import substitution. To all intents and purposes this means that these countries will have to start with consumer-goods manufacturing. This hypothesis is easily defended. Firstly, consumer-goods industries are, by and large, less capital-intensive than producer-goods industries. This is attractive, since underdeveloped countries are, or should be, trying to economise on capital. Secondly, consumer-goods industries demand, again by and large, less skill and sophisticated technology. Thirdly, in many cases consumer-goods industries rely more on local raw materials than producer-goods industries - at any rate in the early stages of development. This becomes especially important when initial investments are designed to stimulate others because of "backward linkages". Finally, in the early stages of development the demand for manufactured goods, being direct demand, is more easily assessed (e.g. through the examination of the import bill). Moreover, since for most manufactured consumer goods income elasticities are high, this demand can be expected to expand as the development process proceeds.

(c) Manufactured goods from underdeveloped countries are not initially competitive abroad and cannot be expected to be for some time yet. There are a number of reasons for this situation. Manufactured goods from underdeveloped countries have the disadvantages of being produced on a small scale (and therefore at high cost), by inexperienced industrialists, not in full knowledge of demand patterns abroad, and unable to maintain attractive packaging standards and expensive advertising campaigns. Moreover, demand patterns in industrial countries are very diversified and fashions shift rapidly. There is tremendous competition from alternative supplier. Finally, there are tariffs, in most developed countries, against imports from underdeveloped countries. If imports rise too rapidly, it now seems accepted that any developed country can in order to avoid "market disruption" violate the professed declaration of liberalization of trade and impose additional restrictions. All this is not to suggest that the developing countries should not attempt to sell abroad - on the contrary. But in their attempt to do so they will need the help of the developed countries themselves. Actually one of the really effective ways in which the developed countries could help underdeveloped countries would be to offer them markets. This would make financial aid meaningful.

(d) ~~The ultimate hope of underdeveloped countries,~~ if they are to raise their national incomes per head and remove both unemployment and underemployment, must lie in industrialisation. The underdeveloped countries' share in total world trade has been falling - because of both deterioration in their terms of trade (9% from 1950 to 1960) and slow expansion of their volume of exports (3.6% per year from 1950 to 1960, or about half the rate for developed countries and a third that of centrally planned economies). The share of developed countries not only in total world trade, but even in total world exports of primary products, has been increasing. These trade trends are taking place at a time when capital goods are becoming more expensive relative to primary products, there is mounting foreign indebtedness in underdeveloped countries; the expectations of the people are high and rising. The fundamental way to break away from these trends is sponsored industrialisation,

2. The possible attractiveness of preferential trade arrangements is further suggested by the very small volume of present trade among underdeveloped countries. Grouped together, their trade with each other is only 10% of their total trade, and this proportion would be even smaller but for the substantial trade in rice among Asian countries. Intra-African trade, excluding inter-country trade in East Africa and the now dismantled Federation of Rhodesia and Nyasaland, is also 10% of the total trade of African countries. Moreover, half of intra-African trade is between South Africa and the Rhodesias and Nyasaland. A good part of the rest is between the French-speaking West African and North African countries. Most of the intra-African trade (60%) is in food, drink, and tobacco, and the rest is distributed as follows: raw materials 15%; manufactured goods and machinery 19%; fuel 3%; and chemicals 3%. The trade in manufactured goods and machinery is almost entirely confined to the trade between South Africa and the Rhodesias and Nyasaland.[1]

3. There are several reasons why the trade of the East African countries and the Neighbours is oriented primarily towards world markets rather than toward other African countries. Firstly, climate and geological similarities make these countries competitive rather than complementary-competitive in the sense that production for export is concentrated on similar primary products to be sold to developed countries. Secondly, communications are poor, e.g. between Kenya and Ethiopia. In fact the connexions are mainly via the Indian Ocean and hardly at all by land. Difficult communications make it cheaper to export goods to countries abroad than to inland neighbours. Removal of this obstacle would require not only building trans-frontier roads and in some cases railways, but also standardisation of highway codes. Thirdly, different fiscal and monetary systems have inhibited growth of trade. This difficulty has been increased in recent years by currency instability in Congo, Rwanda and Burundi ever since

/these

[1] For information on intra-African trade see E/CN.14/247, Report of the E.C.A. Industrial Co-ordination Mission to East and Central Africa.

these countries achieved independence. Hostilities and social upheavals have also hindered trade - except in so far as the coming of International Forces into Congo led to an increase in imports, especially food, from East Africa and the Rhodesias. Fourthly some countries which might have increased their exports to neighbouring countries have not seriously attempted to do so because they have had better markets elsewhere. For example, the former Federation of Rhodesia and Nyasaland directed its exports to the rapidly growing South African market, and Kenya has been finding a substantial market in East Africa. It should also be mentioned that the Rhodesias and Nyasaland had, until recently, a preferential tariff agreement with South Africa. The elimination of this preference has no doubt contributed generously to the drop of almost £10 million in South African exports to the former Federation between 1960 and 1962. Fifthly, a factor of great importance has been the lack of economic co-operation, except within East Africa, among these countries. A substantial measure of economic co-operation is required in order to deliberately increase trade - and thereby promote economic development in this whole area.

III. Present Trade with East Africa and with the Neighbours

1. The starting point for considering what Uganda, Tanganyika, and Kenya may have to gain from preferential trade arrangements is their present pattern of trade. The present distribution of exports among the various markets gives an indication of the importance in the near future of relative improvements in different directions, and the commodity composition of exports to various markets is suggestive of their contribution to the industrialisation process.

2. Table 1 shows the exports of Uganda, Tanganyika, and Kenya to the rest of East Africa, to the Neighbours, to India, to other underdeveloped countries, and to developed countries. This table brings out the relative present importance of each part of East African trade. It will be noticed that the order of importance for all three countries as a group starts with trade with the developed countries, then inter-country trade among the East African countries, then trade with India, then trade with other underdeveloped countries, and lastly trade with the Neighbours. The order differs somewhat for the individual countries; thus for Uganda exports to the Neighbours are relatively large, while Tanganyika exports to E.A. relatively small. But the broad implication is reasonably clear: in the immediate future similar relative improvements in market access would be most important in the case of exports to developed countries, next in importance in the case of exports within the East African common market, and last in importance for exports to underdeveloped countries, including the Neighbours. Longer-run trade potential, on the other hand, will be examined in Part IV of the paper.

3. It is clear that inter-country trade among the East African countries is of great importance. In 1962, for instance, Uganda's exports to the rest of East Africa were about 5 times her exports to the Neighbours, and the corresponding ratios for Kenya and Tanganyika were 7 and 2 times respectively. In the aggregate East African inter-country exports were about 6 times exports to the Neighbours. On the import side (see Table 3) we get the same information. Again in 1962 Uganda's imports from the rest of East Africa were 34 times her imports from the Neighbours, while the corresponding ratios for Tanganyika and Kenya were 19 times and 6 times, respectively.

4. The figures in Table 3 also show that East Africa's trade with the Neighbours is predominantly in one direction - she is the supplier. If we include re-exports, in 1962 East Africa's total exports to the Neighbours were £10.7 million while her total imports from these countries were only about £2 million. The peak of the Neighbours' exports to East Africa was reached in 1961, when they were worth just over £3½ million - due largely to a great import of maize from Rhodesias and Nyasaland to overcome a sudden food shortage. In fact irregular fluctuations from year to year are a notable characteristic of East African imports from the Neighbours, and illustrate their position as marginal imports.

5. The really important point for the purpose of this paper, however, is the commodity structure of exports to the various markets (see Table 2). For all three East African countries, exports to developed countries are overwhelmingly food products and crude materials, counting copper in the case of Uganda and diamonds and gold in the case of Tanganyika as really primary rather than manufactured products. Exports to all developing countries, and to the Neighbours, have a similar commodity pattern in the case of Uganda and Tanganyika, but include relatively more manufactures (S.I.T.C. sections 5+5+7+8) in the case of Kenya. On the other hand, for East African inter-country trade, which is shown in further detail in Tables 6, 7, and 8, it will be noticed that manufactured goods play a much greater relative part in the case of all three

countries, and especially Kenya and Uganda. Thus in 1962 East Africa's inter-country exports of manufactured goods were worth over £11.6 million, while the corresponding exports to the Neighbours were less than £1.2 million. The more favourable commodity composition of inter-country trade within East Africa (from the standpoint of industrialisation) is surely in good part a consequence of the common market with protection against outside suppliers. This observation reinforces the presumption that import substitution is the most immediately accessible route to industrialisation in countries such as Uganda, Tanganyika, and Kenya.

6. At the same time, we should notice from Table 4 that East Africa's re-exports of manufactured goods to the Neighbours - indeed total re-exports too - were more than domestic exports. Now trade in re-exports, while not unimportant, is not comparable with domestic exports. In re-exports East Africa gets only the traders' margin - because she is only passing on to the neighbouring country what has been produced by someone else. It is the domestic exports which embody East Africa's resources, so that she gets the total value(less any import content)of what they sell for. Actually it is difficult to imagine re-exports becoming a really important source of income in East Africa. In fact a rough calculation (assuming that the trader's margin is 20% and using 1962 trade figures) suggests that the total value of re-exports to the Neighbours would have to increase fourfold in order to bring to East Africa as much income as she gets from even her present domestic exports. Such an increase is unlikely in the near future. But re-exports do serve one useful purpose: they indicate, to some extent, the sorts of goods which East Africa could produce to sell to the Neighbours. Production of such goods would certainly help to bring about industrialisation.

7. But pointing out that inter-country trade within East Africa is much larger than trade with the Neighbours and that manufactured goods figure more prominently is not to say that the Neighbours can be neglected. Re-examination of Table 1 will show that if we leave out India, about 50% of Uganda's exports to the underdeveloped countries is absorbed by the Neighbours; and when we leave out India and Hong Kong, the Neighbours again absorb half of Tanganyika's exports to underdeveloped countries. The same thing is true of Kenya. Thus in any general program of expanding East African trade with developing countries, the Neighbours would play a substantial role. East African trade with India will be discussed in Part V of the paper.

8. It should also be noted that the Neighbours take all or nearly all of certain East African exports to underdeveloped countries, e.g. tobacco and beverages (S.I.T.C. section 1), animal and vegetable fats (S.I.T.C. section 4) and manufactured goods and machinery (S.I.T.C. sections 6 and 7). Thus in the case of Kenya the Neighbours took 70% of her exports in S.I.T.C. section 6 to underdeveloped countries. The corresponding proportions for Uganda (if we leave out copper) and Tanganyika were even higher, about 80%. It should also be noticed that food still plays the largest part in East African exports to the Neighbours. Thus in 1962 S.I.T.C. section 0 contributed £3 million in East Africa's total exports to her Neighbours of £4.9 million. On the import side (see Table 5) imports from Neighbours were only £.9 million - a small figure compared to inter-country food imports of £8.6 million and total foreign food imports (i.e. from outside East Africa) of £12.3 million.

IV. Possibilities for Trade with East Africa and with the Neighbours

1. The expansion of markets resulting from the existing East African Common Market, and the further expansion which might be tapped at least to some degree by preferential trade arrangements with Neighbours, are very large relative to single national markets in Uganda, Tanganyika, and Kenya. Table 9 gives a rough indication of these market relationships by comparing gross domestic product and population for each of the three East African countries, for East Africa as a whole, and for individual neighbouring countries and the Neighbours as a whole. East Africa, of course, has GDP and population roughly three times that of any single East African country - with highest ratios for Uganda, next Tanganyika, and lowest ratios for Kenya. The Neighbours as a group have GDP in the order of 4 times East Africa and population in the order of 3 times.

2. For the purposes of this paper the really relevant consideration is the level of total imports, however, as well as their structure and origin. Unfortunately detailed figures on comparable basis for recent years in all countries are not readily available, but the data shown on Table 10 give the situation in 1959. In 1959 imports of these countries were £610 million. Since then imports in a number of countries have increased, notably Sudan and the East African countries, while others have decreased, notably Congo. In 1962, the total was approximately £650 million.[2] The East African import market was about twice that of Kenya, three times that of Tanganyika, and five times that of Uganda, considered separately. Moreover, the Neighbours as a group had a total import market nearly four times that of East Africa. Of course there is no suggestion that the scope for import substitution is anything

---

2. Imports of the following countries in 1962 in £ million were:

Kenya	69.49
Uganda	26.21
Tanganyika	39.82
East Africa	135.52
Rhodesia & Nyasaland	143.00
Zanzibar	5.32
Congo	76.26
Sudan	91.79
Mozambique	48.57
Ethiopia	36.79
Madagascar	43.57
Mauritius	23.71
Reunion	22.61

Imports of the following countries in 1961 were:

Somalia	7.08
Rwanda & Burundi	5.43
Neighbours (excluding Seychelles)	504.13

Sources:
a. 1962 Annual Trade Report of Kenya, Uganda and Tanganyika.
b. UN Monthly Bulletin of Statistics, Dec.1963.
c. E/CN. 14/247, Report of the ECA Industrial Co-ordination Mission to East and Central Africa.

like £650 million. But within this whole range of goods there surely are possibilities which are substantial compared to, say, present inter-country trade in East Africa of £27 million.

3. Let us turn now to examine recent trends in exports within East Africa, exports to the rest of the world, and exports to the Neighbours. Table 11 presents these data for the last five years. Considering East Africa as a whole, it is clear that inter-country trade has been expanding fastest, then exports to the Neighbours, and last exports to the rest of the world. In fact a longer series of figures would make this point even more strongly. In 1952 the value of inter-country trade was only £11.1 million whereas the corresponding figure for 1962 was £26.8 million. Over the decade inter-country trade has been increasing at an average rate of 10.6% a year - or about three times the rate of increase of East Africa's external trade.

4. The trade patterns of Kenya, Uganda, and Tanganyika have not been the same, however. Between 1958 and 1962 Kenya's exports to the rest of East Africa increased by 60%, whereas exports to the Neighbours increased by 75% and those to the rest of the world by 30%. Uganda's exports to the rest of East Africa expanded quite rapidly too - 45% - and her exports to the Neighbours 30%, while the value of exports to the rest of the world fell 15%. Finally, Tanganyika's exports to East Africa and to the Neighbours have remained essentially constant, at low absolute levels, while her exports to the rest of the world have risen by 25%. Thus Kenya has had the most buoyant trade in all three markets; Uganda has done quite well with East Africa and with the Neighbours, which has been particularly important at a time when the world markets moved unfavourably; and Tanganyika has participated very little in either the East Africa or Neighbours market, while doing well in the world market.

5. There are several factors which have led to this great increase in inter-country trade in East Africa. Such factors as the existence of a common currency, better communications, and common business traditions have no doubt been important, but the most important factors have certainly been the existence of a customs union, and a measure of tariff protection governing import substitution. This trend of increasing importance of inter-country trade can be expected to continue, and is an exceedingly healthy development in the economy of East Africa.

6. One unsatisfactory aspect though (as already hinted) is that the three countries have not benefited equally from the customs union. Apart from the divergence in trends noted above, the relative benefits from the customs union are linked to the countries' shares in the inter-country exports. Kenya's share in inter-country exports was 65% in 1962, while those of Uganda and Tanganyika were 26% and 9% respectively. Thus considering both trends and absolute value, Kenya has recently been benefiting the most, Uganda has benefited to a lesser degree, while it is not certain whether Tanganyika has not actually lost from the customs union. The evidence for this view is even stronger if we look only at inter-country exports of manufactured goods. In these exports the relative shares for Kenya and Tanganyika were 76%, 20% and 7% respectively in 1962.

7. The East African experience should convince us (if proof were needed) that whereas a customs union is more or less certain to benefit the entire area covered, it does not follow necessarily that each country in the union gains - - let alone getting a share of the benefits proportional to its population or GDP. This is something to be kept in mind when thinking of preferential trade arrangements among developing countries - - and certainly in the case of East Africa and any arrangements with the Neighbours. In principle the way out of such difficulties, while retaining the overall stimulating effect of a customs union, is to adopt cooperative economic policies which compensate for any tendency of one of the parteners to lag behind. Coordination of development planning and agreement to use tax and other measures to influence industrial location can modify the way the customs union works.[3] In arrangements short of a customs union, on the other hand, the same problem may have to be handled with other means.

---

3. For a discussion of this problem in East Africa, see P.G. Clark, "Next Steps for Industrialization in East Africa", EDRP paper 12, E.A.I.S.R., 4 December, 1963.

---

8. Preferential tariff treatment in inter-country trade in East Africa is internationally accepted because there is a full customs union. But a full customs union with the Neighbours is not likely - - at any rate in the next few years. Moreover, two cautions are worth keeping in mind: firstly, that an abortive attempt to bring about a customs union could be quite harmful; secondly, that approaches to the Neighbours should not reduce the possibility of creating a really effective common market in East Africa. The question then is: what kinds of trade arrangements short of a full customs union are possible? It seems as if there are three main possibilities, although they are not mutually exclusive. First, an across-the-board percentage tariff preference could be used, e.g. Northern Rhodesia's exports might pay only 50% of the duty levied on foreign imports entering East Africa, while Northern Rhodesia would do the same thing for East African goods. Second, East Africa and some of the Neighbours could agree simply to have free trade in certain commodities, or classes of products. Third, East Africa and some of the Neighbours could come to an agreement about the location of various large-scale industries among them, using licensing to control competition, and then have free trade in the products of these industries.

9. The first and second methods have the advantage of avoiding conflicts in the allocation of industries, which are inherent in the third method, and may present grave problems. They also have the additional advantage of permitting competion and therefore, presumably, pressure toward efficiency. On the other hand, the third method has the advantage of economical use of scarce capital through avoidance of duplication. Moreover, successful allocation of industries would also ensure that each participating country benefits from the co-operation. The main disadvantage of the first method, which is really a partial customs union, is that inequality in the distribution of benefits is quite possible. The second method is better in this respect; since only some commodities are affected by tariff preference, we can presume that in the process of negotiation each country will make sure that she has some industries which will benefit.

10. Although any of these three methods is better than no cooperation at all, it seems as if, leaving out political integration, the second and the third methods offer greater possibility of mutual benefit between East Africa and some of her neighbours. The second method could be applied to small-scale industries (and perhaps food) while the third should be used for large-scale industries only. Such an arrangement would make it possible to increase the rate of industrialisation while ensuring that each participant is getting a share of it.

11. What can be said about the possible commodity composition of future import substitution in East Africa and the Neighbours? Concrete investment and trade decisions of course require more specific study than is possible here, but some general points can be made. The commodity composition of East African imports is shown in Table 12. In each of the three countries over 70% consists of manufactured goods in S.I.T.C. sections 5,6,7,8, and the total value is £99 million. We have already noted that existing inter-country exports, at least for Uganda and Kenya, contain a distinctly larger proportion of manufactured goods than do general exports, though their absolute value is still only £12 million. Moreover, a number of the products which are still imported in significant amounts are already being produced in East Africa. The following eleven products alone amounted to about £25 million of 1962 imports: paints and varnishes, manufactuered fertilizers, disinfectants and insecticides, paper and paper board, cotton fabrics (piece goods), blankets and travelling rugs, corrugated iron sheets, other iron sheets and plates, footwear, clothing, soaps and cleaning preparations. Presumably the rising trend of inter-country manufactuered exports in the last five years still has a long way to go.

12. The breakdown of imports into S.I.T.C. sections for the Rhodesias and Nyasaland, Zanzibar, Sudan, Madagascar and Mauritius is shown in Table 13, and a rougher breakdown for the imports of Ethiopia, Somalia, and Congo-Rwanda-Burundi in Table 10. Again the dominance of manufactured imports is general, yet as shown above, only Kenya now exports a significant proportion of manufactuered products to the Neighbours. Another way of looking at the scope of import substitution is to look primarily at consumer-goods imports. For Rhodesia and Nyasaland, for instance, the proportion of consumer-goods in total exports has been about 30% for the years 1960, 1961 and 1962. If we take this as about the proportion which these countries can aim to produce locally, it would mean a potential market in the order of £150 million for the Neighbours. (It should also be mentioned that although consumer goods are more amenable to import substitution than capital goods in general, there are some capital goods such as simple agricultural implements which could be produced in the near future.) Finally, the Neighbours import more than £60 million worth of food. Trade in food among East Africa and the Neighbours could be quite valuable, for most food imports now come from outside, and it is possible to step up this trade fairly easily given tariff preferences arrangement.

13. It therefore seems sensible to think of three categories of import substitution: food products; small-scale industries whose outputs are not, by and large, beyond the domestic market· and large-scale enterprises whose minimum scales of outputs are beyond the likely domestic demand for an individual country. It is likely that most countries would be able to replace food imports largely from domestic supplies, though the value of East Africa - Neighbours trade could still rise from its present low level, given tariff preferences. As to small-scale industries, several of the countries we are discussing have a sufficient market and already have an impressive number of these industries. Preferential trade arrangements of the second kind discussed above - preferences for certain commodity classes - could stimulate them further, mainly by offering the possibility of larger sales through competitive efficiency.

14. It is in the third category of activity, large-scale industry, that a combination of trade preference and economic co-operation could produce the most substantial benefits to the whole area. The recent E.C.A. mission to East and Central Africa recommended that the following industries be established in the various countries.[4]

---

4. See E/CN 14/247, "Report of the E.C.A. Industrial Coordination Mission to East and Central Africa, 24 December 1963.

Steel and Iron - - an integrated plant	Southern Rhodesia.
Steel and Iron - - a smaller plant	Uganda.
Copper manufactures	..Northern Rhodesia.
Phosphatic fertilisers	. S.Rhodesia & Uganda.
Nitrogenous fertilisers	Northern Rhodesia
Potassium phosphate	Ethiopia.
Coal distillation complex	Tanganyika
Sul huric acid	Rhodesia & Uganda.
Aceton, acetic and methane from wood	Kenya.
Pulp and Paper	Kenya, Ethiopia & S. Rhodesia.

It is not possible to judge here the feasibility or the relative advantages of locating these industries in the countries recommended. (Note that Congo and Sudan are regarded by the E.C.A. as outside the East and Central Africa sub-region.) Very likely these and other large-scale industries would still be established even without trade preference and economic co-operation. The important difference is that in that case many of the industries established would be operating on small scale of output, and the costs would be unnecessarily high. This is then the field for the third kind of preference system discussed above - allocation of industries and free trade in the products.

15. The forms of trade preference and economic co-operation which are discussed here would call for a network of agreements between the governments concerned. Given the uncertainties of such negotiations, it would be in the interest of most African countries to have international acceptance of the principle of preferential arrangements with a wide range of possible terms. It should be acceptable to arrange agreements with only a limited number of developing countries and for only certain products or product classes.

V. Possibilities for Trade with India

1. The preferential trade arrangements examined up to this point in the paper - a customs union such as the East African Common Market, or various forms of partial preferences such as might be possible with the Neighbours - have been discussed on the implicit assumption that all the participants are at a broadly similar early stage of industrialisation. Let us now turn to East African trade with India, to represent possible trade arrangements with more industrialised developing countries.

2. Present East African trade with India, broken down by S.I.T.C. section, is shown in Table 14. India already ranks first among all underdeveloped countries in East African trade. For instance, in 1961 India imported £10.7 million of East Africa's produce (more than double the Neighbour's imports from East Africa) and exported to East Africa goods worth £6.8 million (also about double the Neighbours' exports to East Africa in 1961, but triple their normal exports). There are a number of reasons why India is so important in the trade of East Africa, e.g. the fact that Indian merchants in East Africa regard it as natural to trade with their mother country, and good communications between East Africa and India through the Indian Ocean. But the most important reason is that although India's per capita income is not higher than that of East Africa, she has a much bigger and more sophisticated manufacturing sector - relatively as well as, of course, absolutely. This difference is revealed in the composition of her total world trade (see Table 15). Of her total exports of £482.7 million in 1961, £215.3 million were manufactured goods in S.I.T.C. sections 5, 6, 7, 8. This is a dramatic difference from East Africa and the Neighbours.

3. Thus with India having a bigger and more sophisticated manufacturing sector, we can expect her exports to East Africa to include a large proportion of manufactuered goods and her imports to be mainly primary products. This is indeed the case. In 1961 71%, or £7.6 million, of East African exports to India were crude materials in S.I.T.C. section 2, with raw cotton alone contributing £7.0 million. At the same time 86%, or £5.9 million, of India's exports to East Africa were in S.I.T.C. section 6, manufactured goods classified by material. Another way of looking at this is to notice that whereas in 1962 26% of East Africa's exports to India were food and there were no exports of machinery, food contributed only 6% but machinery contributed another 6% to India's exports to East Africa.

4. The problem thus presented for trade arrangements with India is that the products which India now mainly exports are those that East Africa has to protect in order to develop these industries herself. This is particularly true of textiles - and is being done already. But it should not be forgotten that India is also a very important market for some East African goods - - especially raw cotton, cashew nuts, sisal fibre and tow, and wattle bark - and that her demand for raw materials should grow as she industrialises further. It would therefore seem that some understanding between India and East Africa could be mutually beneficial.

5. An agreement with a more industrialised developing country like India would have to cover only selected product classes. It might be arranged on the following lines: that India gives tariff preference to certain East African primary products while East Africa does the same for certain Indian capital goods and certain consumer goods which demand sophisticated technology. An agreement of this sort would have to be checked carefully for the quality of any capital goods, and to be sure that India could supply spare parts and servicing facilities. Furthermore such an agreement should be subject to change periodically as East Africa became able to establish a domestic industry replacing an Indian import. But a periodically amended agreement would probably continue to be mutually beneficial for a long time. If it contributed to production of cheap but reliable capital goods suitable for underdeveloped economies, it could be a boon on an even broaden scale.

6. Consideration of the Indian case again suggests that for most African countries freedom of action to enter into preferential arrangements for selected products is important. At the same time, the need to protect early-stage East African manufacturing industries in such an agreement emphasizes that automatic extension of any tariff concessions to all developing countries is not desirable.

IV. CONCLUSIONS.

1. There is a general need for sponsored industrialisation through a policy of deliberate import substitution in order to bring about greater rates of economic growth in underdeveloped countries. Preferential tariff arrangements among these countries could be of great help in overcoming the limits set by the small sizes of individual domestic markets.

2. Examination of the various markets for East African goods reveals that in absolute terms the present order of importance is: developed countries, the East African market, India, the other underdeveloped countries, and last the Neighbours. For rates of growth, however, it is the East African market itself which has expanded fastest - - followed by the Neighbours. As to commodity composition, there are more manufactured goods, absolutely and proportionately, in inter-country exports than in the exports to the other markets. The Neighbours also take more manufactured goods proportionately (and absolutely in most cases) than other developing countries.

3. The rapid growth in inter-country trade in East Africa shows the powerful contribution of a full customs union to trade expansion and development. However, the divergent percentage shares in inter-country exports show that the benefits accruing from the customs union have not been equally shared. There is therefore a need for co-operative economic policy in order to rectify this unevenness.

4. East Africa and the Neighbours could mutually profit from preferential trade arrangements providing a larger market than any individual country can at present offer. Three methods of granting trade preferences are discussed: an across-the-board percentage tariff preference; free trade in certain commodities or groups of products; and allocation of industries among the participants with free trade in the products of those industries. The second and third methods seem most likely to create mutual benefits - - the second method for small-scale industries and food products, and the third method for large-scale industries.

5. The scope and feasibility of import substitution would be greatly increased if East Africa and the Neighbours co-operated. Within East Africa imports of just eleven manufactured products which are already produced here are still twice inter-country trade in these products. Among the Neighbours, imports of consumer goods alone are about six times present total inter-country trade within East Africa.

6. With developing countries at higher stages of development such as India, there is scope for trade preferences along the lines that East Africa gives preference to some Indian capital goods and some consumption goods demanding sophisticated technology, while India does the same for East African primary products. Such an arrangement would have to be limited to selected products and amended periodically in order to avoid inhibiting the emergence of early-stage manufacturing industries in East Africa.

7. Uganda, Tanganyika, Kenya and other African countries have great interest in international acceptance of the principle of tariff preferences among the developing countries. It is desirable to permit such preferences even though limited to specific products; and it is not desirable to require automatic extension of preferences to all developing countries.

TABLE 1

EAST AFRICAN EXPORTS, 1962 IN £

A = Exports to rest of East Africa.
B = Exports to "neighbours".
C = Exports to India.
D = Exports to other underdeveloped countries.
E = Exports to developed countries.

	Kenya	Uganda	Tanganyika	E.Africa
A	17,319,525	7,054,043	2,390,595	26,764,163
B	2,369,034	1,451,706	1,110,739	4,931,479
C	1,048,143	4,569,554	3,596,069	9,213,766
D	2,382,259	1,781,289	4,870,233	9,033,781
E	32,113,652	29,348,572	41,663,924	103,126,148
Total Domestic Exports.	55,232,613	44,205,164	53,631,560	153,069,337
Re-Exports	7,234,512	3,316,548	2,333,964	12,885,024
of which to B	1,664,843	2,585,863	1,562,230	5,812,936
Total Exports	62,467,125	47,521,712	55,965,524	165,954,361

Source: Annual Trade Report of Kenya, Uganda and Tanganyika.

which year?

TABLE 2.

EAST AFRICAN DOMESTIC EXPORTS IN 1962 - SITC DISTRIBUTION IN £

A = Rest of East Africa.
BCD = Developing Countries.
E = Developed Countries.
B = Neighbours only.

K E N Y A.

		A	BCD	E	B
Food	0	5,106,055	1,925,842	20,649,300	1,206,986
Bev. & Tab.	1	2,628,135	28,727	4,911	28,667
Crude Materials	2	201,244	1,468,036	9,333,053	129,158
Fuels	3	44,723	3,520	-	3,520
Oils & Fats	4	197,687	4,832	28,240	4,609
Chemicals	5	2,061,860	1,172,237	945,655	160,978
Mfd.Goods	6	4,302,676	966,579	806,791	672,189
Machinery	7	123,622	14,597	3,381	14,424
Misc. Mfd. Goods	8	2,552,575	199,596	149,142	135,758
Misc. Transac.	9	100,948	15,470	193,179	12,745
TOTALS:		17,319,525	5,799,436	32,113	2,369,034

U G A N D A

		A	BCD	E	B
Food	0	2,474,441	2,371,897	21,119,943	1,282,213
Bev. & Tab.	1	1,168,052	8,841	23	8,841
Crude Materials	2	78,139	5,115,530[b]	5,280,418	66,468
Fuels	3	317,875	-	-	-
Oils & Fats	4	844,702	12,899	242	12,899
Chemicals	5	151,851	6,228	-	4,871
Mfd. Goods	6	1,943,892	280,405	3,415,573[a]	70,165
Machinery	7	23,536	1,173	-	1,173
Misc. Mfd. Goods	8	46,116	5,076	1,121	5,076
Misc. Transac.	9	5,439	500	14,752	-
TOTAL:		7,054,043	7,802,549	29,348,572	1,451,706

T A N G A N Y I K A.

		A	BCD	E	B
Food	0	1,126,642	3,009,671	12,297,892	512,454
Be.v & Tab.	1	77,843	32,472	72,412	32,396
Grude Materials	2	368,468	5,964,480	22,101,053	337,122
Fuels	3	49,748	-	-	-
Oils & Fats	4	234,977	13,318	119,282	13,153
Chemicals	5	41,614	337,706	78,510	17,226
Mfd. Goods	6	231,285	175,042	5,538,651[c]	163,008
Machinery	7	2,188	767	67	767
Misc. Mfd. Goods	8	253,502	43,585	79,151	34,613
Misc. Transac.	9	4,328	-	1,376,906[d]	-
TOTAL:		2,390,595	9,577,041	41,663,924	1,110,739

Source: Annual Trade Report of Kenya, Uganda and Tanganyika.

Notes:
a. £3,406,974 of this was copper
c. £5,424,801 of this was diamonds.
d. £1,270,405 of this was gold.

b. Cotton to India £4,343,553.

TABLE 3

EAST AFRICAN TRADE WITH NEIGHBOURS, 1962 in £

	Kenya		Uganda		Tanganyika	
	Exports	Imports	Exports	Imports	Exports	Imports
Zanzibar	315,918	259,653	105,905	605	316,825	88,843
Reunion	66,867	-	446	-	43	
Mauritius	383,190	9,140	4,844	-	36,400	1,697
Madagascar	28,970	73,318	198	9	3,370	60,276
Seychelles	33,610	708	954	-	3,108	3,299
Somalia	227,077	17,640	111,227	-	30,022	2,140
Ethiopia	130,464	80,042	-	2,079	829	4,318
Sudan	274,708	12,618	990,529	3,285	70,605	5
Congo	332,989	300,991	194,707	31,529	97,645	21,659
Ruanda & Burundi	311,936	381	23,779	58,447	217,455	40,400
Rhodesia & Nyanaland	190,630	362,291	10,444	109,291	280,535	391,998
Mozambique	72,675	95,577	8,673	22,235	53,902	6,940
Total Neighbours	2,369,034	1,212,559	1,451,706	227,480	1,110,739	621,575
Total Re-Exports	7,234,514		3,316,548		2,333,964	
Re-x to Neighbours	1,664,843		2,585,863		1,562,230	

Sources: Annual Trade Report of Kenya, Uganda and Tanganyika.

TABLE 4

EAST AFRICAN DOMESTIC EXPORTS AND RE-EXPORTS TO "NEIGHBOURS" IN 1962

S.I.T.C. DISTRIBUTION, IN £

	Kenya	Uganda	Tanganyika	E. Africa	E. Africa Re-exports.
0	1,206,986	1,282,213	512,454	3,001,653	296,882
1	28,667	8,841	32,396	69,904	90,284
2	129,158	66,468	337,122	532,748	89,442
3	3,520	-	-	3,520	2,630,741
4	4,609	12,899	13,153	30,661	20,669
5	160,978	4,871	17,226	183,075	96,070
6	672,189	70,165	163,008	905,362	1,362,545
7	14,424	1,173	767	16,364	721,638
8	135,758	5,076	34,613	175,447	48,470
9	12,745	-	-	12,745	8,244
Total	2,369,034	1,451,706	1,110,739	4,931,479	5,796,785

TABLE 5

EAST AFRICAN IMPORTS FROM NEIGHBOURS IN 1962

S.I.T.C. DISTRIBUTION, IN £

	Kenya	Uganda	Tanganyika	E. Africa.
0	506,655	75,713	276,493	858,861
1	2,160	19	528	2,707
2	160,888	89,935	89,526	340,349
3	189	-	-	189
4	342,994	27,617	17,462	388,073
5	9,144	570	1,393	11,107
6	83,697	2,155	46,753	132,605
7	71,370	27,755	157,686	256,811
8	34,720	3,668	31,037	69,425
9	742	48	697	1,487
Total	1,212,559	227,480	621,575	2,061,614

TABLE 9

POPULATION AND G.D.P. OF EAST AFRICA AND NEIGHBOURS, 1962

	Population (thousands)	G.D.P. (mil. U.S. $)
Kenya	8,636	582
Uganda	7,016	411
Tanganyika	9,560	468
East Africa	25,212	1,461
Madagascar	5,730	596
Mauritius	680	133
Seychelles	43	n.a.
Reunion	346	n.a.
Zanzibar	320	30
Ethiopia	21,000	799
Sudan	12,831	915
Somalia	2,000	101
Congo	14,797	1,168
Rwanda	2,665	133
Burundi	2,600	115
Mozambique	6,640	420
Rhodesia, Southern	3,880	
Rhodesia, Northern	2,550	1,275
Nyasaland	2,950	
Neighbours	79,032	5,655
Total	104,244	7,116 or £2,541.4 mil.

Source: Population: Demographic Yearbook 1962
G.D.P. GATT, Document INT(63) 548, 13 December, 1963.

TABLE 10.

IMPORTS OF EAST AFRICA AND NEIGHBOURS IN 1959.

	Total Imports (£,000)	Food Beverages & Tobacco	Basic Materials	Mineral Fuels	Chemicals	Textiles	Metals	Machinery & Transport Equipment.	Other Manufactures
		% of Total Imports.							
Kenya	61,508[a]								
Uganda	25,554[a]	8.1	1.3	10.9	6.9	14.0	9.9	26.1	22.8
Tanganyika	34,456[a]								
East Africa	121,498[a]								
Zanzibar	5,400								
Reunion	15,800								
Mauritius	21,000								
Madagascar	42,700	15.5	3.3.	5.3	8.6	15.3	9.5	22.4	20.1
Somalia	11,000								
Sudan	58,500	24.9	2.6	8.8	5.8	20.1	8.3	17.8	11.7
Ethiopia	30,000	10.4	2.2	10.9	4.7	21.4	7.4	29.0	14.0
Congo									
Rwanda	110,000	15.5	1.8	9.5	7.1	9.4	6.2	27.8	22.7
Burundi									
Rhod. & Nyasaland	150,100	9.8	3.9	6.5	8.2	7.6	9.0	35.0	20.0
Mozambique	44,300								
Seychelles	680								
Neighbours	489,480								
TOTAL	610,978.								

Source: UN E/CN.14/97/11 A supplement on African Statistics in Economic Bulletin for Africa, June, 1961.

Notes: a = Net Imports.

TABLE 11

EAST AFRICAN DOMESTIC EXPORTS TO VARIOUS MARKETS, 1958 TO 1962. in £.

A = Rest of East Africa
BCDE = All other Countries
B = Neighbours only

KENYA

	1958	1959	1960	1961	1962
A	10,745,000	12,296,850	13,770,866	15,948,276	17,319,525
BCDE	29,299,607	33,305,962	35,190,640	35,326,027	37,913,088
B	1,345,258	1,610,984	1,956,507	1,993,552	2,369,034

UGANDA

	1958	1959	1960	1961	1962
A	4,826,000	5,227,651	6,694,256	6,855,278	7,054,043
BCDE	45,409,024	42,091,433	41,588,403	39,195,350	37,634,621
B	1,133,585	1,271,230	1,576,788	1,389,760	1,451,706

TANGANYIKA

	1958	1959	1960	1961	1962
A	2,592,000	2,573,713	2,324,390	2,233,311	2,390,595
BCDE	41,706,596	45,286,622	54,853,920	48,649,160	51,240,965
B	1,202,135	1,009,443	1,266,799	1,142,069	1,110,739

EAST AFRICA

	1958	1959	1960	1961	1962
A	18,163,000	20,098,214	22,789,512	25,036,865	26,764,163
BCDE	116,415,227	120,684,017	131,632,963	123,170,537	126,788,674
B	3,680,978	3,891,657	4,800,094	4,525,381	4,931,479

Sources: Annual Trade Reports of Kenya, Uganda and Tanganyika.

TABLE 12.

EAST AFRICAN IMPORTS BY S.I.T.C. SECTIONS, 1962, in £.

SITC SECTION	KENYA		UGANDA		TANGANYIKA.	
	Net Imports.	Imports from E.A.	Net Imports	Imports from E.A.	Net Imports.	Imports from E.A.
0	6,890,545	3,201,224	1,249,032	2,440,307	4,178,727	3,065,607
1	721,793	884,485	258,249	800,448	249,602	2,189,097
2	695,837	322,113	389,067	217,136	309,890	108,602
3	8,222,001	367,583	2,262,121	31,652	3,856,574	13,111
4	1,041,364	862,852	326,391	152,306	260,879	262,208
5	5,215,665	134,542	2,098,615	1,085,536	2,396,429	1,035,247
6	19,173,158	1,274,876	9,044,026	1,920,588	14,308,546	3,282,389
7	19,053,000	7,827	6,874,568	65,902	9,966,682	75,617
8	4,938,695	275,767	2,511,759	1,000,256	3,084,394	1,576,170
9	3,542,215	7,969	1,192,388	25,645	1,205,225	77,101
TOTAL:	69,494,273	7,339,238	26,206,216	7,739,776	39,816,948	11,685,149

TABLE 13.

Imports of Selected Neighbours by S.I.T.C. Sections, 1961, in thousand £.

Rhodesia & Nyasaland.

0	13,164
1	1,141
2	4,958
3	9,200
4	946
5	13,450
6	39,853
7	51,825
8	16,573
9	3,896
TOTAL	155,006

Source: Monthly Digest of Statistics, Central Statistical office, Salisbury.

Madagascar.

0	3,017
1	2,159
2	578
3	1,964
4	527
5	3,329
6	11,485
7	8,916
8	4,837
9	101
TOTAL:	36,913

Source: UN Yearbook of International Trade Statistics.

Mauritius.

0	6,691
1	634
2	612
3	876
4	771
5	2,705
6	5,761
7	4,100
8	2,115
9	52
TOTAL:	24,317

Source: UN Yearbook of International Trade Statistics 1961.

Zanzibar.

	Tatal Imports.	From East Africa.
0	1,829	402
1	271	32
2	755	312
3	351	3
4	72	11
5	210	7
6	1,076	61
7	804	4
8	566	13
9	384	22
TOTAL	6,318	866

Source: Zanzibar Annual Trade Report, 1961.

Sudan, 1962[a]

0	11,703
1	1,077
2	1,682
3	6,045
4	232
5	6,372
6	31,520
7	27,316
8	5,399
9	50
TOTAL:	91,396

Note: a. These figures have been calculated by taking £1 Sudanese to equal £1.0257 sterling.

Source: Foreign Trade Statistics, Department of Statistics, Khartoum.

TABLE 14.

EAST AFRICAN TRADE WITH INDIA, 1962, in £.
S.I.T.C. DISTRIBUTION.

Exports to India.

	KENYA.	UGANDA	TANGANYIKA	EAST AFRICA.
0	91,801	-	2,318,759	2,410,560
1	-	-	-	-
2	407,781	4,359,314	1,039,818	5,806,913
3	-	-	-	-
4	35	-	-	35
5	543,957	-	237,471	781,428
6	4,490	210,240	-	214,730
7	-	-	-	-
8	79	-	21	10
9	-	-	-	-
	1,048,143	4,569,554	3,596,069	9,213,766

Imports from India.

0	273,218	39,277	72,227	384,722
1	6,931	161	260	7,352
2	32,464	1,536	15,104	49.104
3	-	-	-	-
4	6,207	-	3,184	9,391
5	75,504	27,167	32.063	134,734
6	2,809,375	531,826	2,016,043	5,357,244
7	60,495	9,936	29,102	99,533
8	271,508	18,225	71,781	361,514
9	26		-	26
	3,535,728	628,128	2,239,764	6,403,620

Source: Annual Trade Report of Kenya, Uganda and Tanganyika.

TABLE 15

INDIA'S IMPORTS AND EXPORTS BY S.I.T.C. SECTIONS, 1961, in £ mil.

	IMPORTS	EXPORTS
0	92.9	157.5
1.	1.2	11.0
2.	95.2	86.8
3.	70.5	4.3
4.	6.3	4.8
5.	65.3	5.8
6.	156.7	199.2
7.	256.5	2.9
8.	14.8	7.5
9.	4.2	3.1
Total	763.4	482.7

Note: Published figures have been converted from Indian Rupees to East African pounds by taking 1 Rupee to equal Shs.1.47

Source: U.N. 1961 Yearbook of International Trade Statistics.