

EAST AFRICAN ECONOMIC INTEGRATION:

BENEFITS, COSTS, PRIORITIES

By Reginald Herbold Green

The proponents of any major economic policy measure in an underdeveloped economy are under an obligation to show how this measure will stimulate growth.

- Dudley Seers¹

(The goal is maximising) development creation and minimizing development diversion which means diverting development potential to an already developed country.

- F. Andic, S. Andic, D. Dosser²

I

The first problem of dealing at all effectively with analysis of economic integration in East Africa is the state of the art i.e. of economic analysis both theoretical and applied. The barriers are threefold: theoretical inadequacy, empirical paucity, and political economic unreality.

Standard "customs union" theory³ assumes gains result from marginal increases in efficiency and scale of production for particular products within moderately altered set of national and regional structures of production, demand, and international trade. Trade diversion from outside economies is classed as a negative result (on global welfare and resource allocation criteria) while transitional problems are abstracted from by use of before union and well after union two point comparative static analysis. Rather more sophisticated versions do exist but the general principles of marginal change, opposition to trade diversion, and under-emphasis on institutional and transitional problems remain.⁴

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The theoretical analysis in respect of economic integration among developing countries has however improved markedly over the past decade - largely it is worth noting from the contributions of economists primarily concerned with development and in particular with industry, structural change, and economic independence, not of international economic theory specialists. In this development there are two somewhat disparate strands - modified traditional⁵ and structuralist.⁶

The broadened traditional approach exemplified by Andic and Dosser⁷ drops the Say's Law thread of international trade theory and treats gains from development diversion to poor countries through integration as genuine ones. The structuralist case - e.g. in Linder and Seers⁸ - reaches the same conclusion on the somewhat different ground that there is no genuine diversion away from industrial economies as the "import floors" of poor economies will, even with economic integration, be contained by their "export ceilings" and, as argued later in this paper, the latter are likely to be raised by well designed integration. Thus improving, not worsening, efficiency of world resource allocation can be expected from closed economic integration of structurally under-developed (but not of industrial) economies even on the "diversion" side.

Further, the broadened traditional approach breaks away from the rather rigid "customs union" mould to consider areas other than trade and forms other than a total customs union or free trade area. The goal to be maximised is defined as development (more appropriately in the case of most such writers, though not necessarily of countries, growth of gross national product).

The structuralist approach appears at first sight to have two strands - industrialisation (e.g. Ewing, La Croix, Seidman and Green, Urquidi⁹) and import saving (e.g. Linder, Mikesell¹⁰). However, these are interlocking strands - as seen in particular in Seers, Griffin and Amin¹¹. If structural change is to build up sectors with high rates of demand growth and of economic "linkage" (ie. pole de croissance) it must, in most cases, be heavily industrialised in orientation. Ultimately this logically leads to world market oriented industrial exports but in the short run national and then regional preferential markets are more practicable. Because the capital and intermediate ^{good import} requirements of rapid economic

growth (especially when it has a large industrial component) are high, the import capacity constraint imposed by low growth of traditional exports will not become easier - quite the reverse in a majority of cases¹² - and either import reduction by de facto national rationing of foreign goods and/or broadening independent markets by preferential intertrade with similarly placed developing economies becomes essential.

Quantitative estimation of economic integration gains and costs is limited, partial, and often misleading. Some - e.g. pure trade - definitions fail to measure net gains (from lower costs or higher levels of economic activity in the region) at all. Other pieces - e.g. estimation of the share of costs and benefits for particular services¹³ - share the same weakness (do the services cost less jointly and if so how much?) and also fail to treat the impact of expenditure location on national welfare (e.g. if a service for Kenya is performed in London this is clearly seen as not affecting Kenya's national income as if it is in Kenya - the same principle holds true within an economic community). The one systematic overall attempt to estimate East African regional and national gains from all integrated economic activity required numerous heroic assumptions to arrive at any results.¹⁴ Very few such studies exist for other economic union ventures (including those among industrial economies) so that the methodology and experience needed are not developing very rapidly.

Much economic integration theory has been marred as far as easy applicability goes by abstraction from political economic reality. Political economy is basically about who gets what, where, when, why and how. Few areas of economic analysis are less subject to abstraction from the political content of such issues than economic integration. This is even more the case for modern structurally underdeveloped economy integration analysis which is much more a branch of economic development analysis and programming than it is of the main body of trade theory. This is now borne out by the growing body of writing on economic cooperation in Africa.

In the East African context it is necessary to consider economic integration within a framework including:

- a. economic growth, i.e. rate of increase of national output;
- b. structural change,¹⁶ i.e. creation of a more nationally integrated, complex, and productive economy;
- c. economic independence,¹⁷ i.e. reduction of unilateral dependence on external economic units (public or private);
- d. other major national goals which may or may not be identical among the polities involved in economic co-operation and or partial integration e.g. income distribution, mode of production.

Evidently all of these goals are dynamic in the sense of being continuing changes over time and political economic in the sense of necessarily being of prime concern within the political process, however narrowly or broadly defined.

II

Gains from economic integration can be divided into short and medium and long term. However many previously achieved medium and long term gains do represent continuing short term gains and the costs of breakup are always likely to be different from, and larger than, present gains (or losses). Further embodied past gains and losses become very hard to evaluate¹⁸ because they may cease to be dependent on the existence of economic integration - e.g. Nytil and the Uganda sugar industry were heavily dependent on the Kenya market in the early 1960's but this is no longer true - and because the alternative (e.g. importation from outside source, domestic production for national market, alternative economic grouping) are difficult to define, much less analyse, except with considerable vagueness.

Short term gains for a new economic grouping - including expansion in depth or in breadth as exemplified for depth if the EAC broadened its common market ambit to cover cereals and for breadth if Zambia becomes a member - arise from efficiency via reduction of overheads or excess capacity, efficiency from closing weak units to the benefit of strong, competition, and greater variety of local goods. The first could be important e.g. in an EAAC - Air Zambia merger or a Rwanda - EAC trade agreement allowing Rwanda's animal vaccine plant to operate at capacity to meet EAC economy demand now covered by overseas imports. The second and third are

largely unrealistic - few if any moves towards economic integration resulting in significant output or employment losses on existing units are politically practicable in Africa while the likelihood of intense price competition is rather low. The last may be relevant if the range of new "local" (i.e. regional) goods available increases production efficiency (e.g. Tanzanian coal for Zambian smelting) or significantly increases consumer satisfaction (e.g. broadens the range of food and textile types on offer thus reducing pressure for imports).

Medium and long term gains are much more important for both existing economic communities (if they are to become relatively more important to their members and, in some cases even to survive), for expansion measures and for new communities.

A secondary source of long and medium term potential for reinforcing growth flows from short term gains in efficiency e.g. if at the time Zambia joined the EAC she had a coal fired, export oriented smelting industry and Tanzania an export oriented metallurgical coal industry, the immediate efficiency gains would be likely to lead to a growth reinforcement for both industries (lower cost of smelting for Zambia and broader base to spread overheads for Tanzania increasing export competitiveness and lowering marginal cost so as to allow additional linked domestic users to operate or expand) but not to any radical alteration in scope or development potential.

The primary long term gains are quite different - and much less likely to be realised under neo-laissez faire much less under neo-laissez faire heavily influenced by national planning on the one hand and foreign investors on the other. They turn on changing the structure of production and the basic rate of economic growth significantly by:

- a. making viable units which would not be practicable nationally e.g. a plastic raw material complex in East Africa;
- b. reducing cost for units viable but very high costs on a national market basis e.g. an integrated iron and steel industry in East Africa;
- c. through a and b broadening the scope for viable production by users of the otherwise unavailable or high cost goods and services e.g. various

branches of heavy engineering and metal fabrication in East Africa;

- d. to the extent that a-b-c effects are planned to fit together, by reducing the level of imports required for any given level of national product and rate of growth combination thus allowing higher output and growth at any given export level, e.g. pump, telephone equipment, and internal combustion engine industries in East Africa;
- e. through broadening the range of viable industries increasing the likely range and level of competitive exports to outside countries again easing the foreign exchange constraint on growth e.g. a breakthrough into plastic products exports flowing from a plastic raw material industry and its cost reduction impact on fabricators;
- f. widening the range of products available and/or marketable from inter-dependent economies within a full or partial coordinated policy planning frame and thus reducing unilateral dependence on external suppliers or buyers including suppliers of knowledge and technology.

These gains are not limited to industry - they can apply to agriculture (although probably only in cases in which comparative costs are very different and alternative rural development prospects exist in any area disadvantaged by a particular aspect of integration), to transport, and to specialist technical services. Indeed the last deserves far more attention than it normally receives. No East African economy can afford either a sound technical - engineering consulting firm or an independent - agricultural- technological applied research capacity over a broad front. As a result high consultancy fees (often for low quality work) and - more critical - a dependence on (often relatively inappropriate) foreign knowledge are increasing and increasingly worrying aspects of development. A first rate core consulting firm and applied research capacity for a selected number of key areas might just be within the joint market and financial capacity of Kenya-Uganda-Tanzania and would certainly be within that of

that trio plus Zambia - Malawi - Madagascar - Mozambique - Rwanda - Burundi - Ethiopia - Zimbabwe - Mauritius - Somalia - Botswana - Swazi.¹⁹

The common characteristics of these potential gain areas are that all:

- a. relate to development by structural rather than marginal change;
- b. fall into areas which - in East Africa - are of concern to, and influenced by, national planning processes;
- c. have relatively long (say five to eight year) gestation periods before significant gains are likely to be evident;
- d. require continued market (and supply) access for justification of initial investment;
- e. relate to units of production which are economically, politically and psychologically highly desired and therefore must be distributed in a manner acceptable to all partner states;
- f. relate to units of production whose economies of location often derive either from government incentives or from created and duplicable factors (e.g. economies of agglomeration of supply and service industries, labour pool, urban infrastructure) and therefore can be allocated without destroying the potential gains;
- g. require planning coordination and positive joint decisions to be realised.

.. These characteristics are much less true of the more immediate marginal, and static gains on which traditional customs union analysis concentrates. Equally, they are less relevant in the context of a neo-laissez faire national political economic frame.

III

The political aspect of the political economy of integration requires an examination of the meaning of political economic sovereignty in the context of rational economic development and economic independence. At first glance any very close form of economic co-operation or integration would appear to be a significant derogation from sovereignty; however on closer examination it appears likely that the operational level of

economic sovereignty, development planning, and economic independence achievable under partial pooling and acceptance of specified limits on national and joint action can be greater than those available on a national basis.²⁰

This conclusion is underlined by the worsening international economic climate - the road from UNCTAD I through UNCTAD II through the Pearson Report to UNCTAD III is one which has seen rising obstacles and declining aid in surmounting them so far as the international economic system relates to developing economies.²¹ At Santiago the position of the Group B (industrial capitalist) economies and of the Soviet Union was - with a number of honourable full or partial exceptions - very close to a root and branch rejection not only of Pearsonism but on their own previous commitments in principle.

The radical worsening of the international economic situation - precipitated and to a significant extent caused by food supply and price increase and petroleum price increase shocks - makes international and regional action by poor countries even more urgent. The 1972-73 commodity boom is in full reverse except for temperate foodstuffs and oil, Western industrial economy output is stagnant and inflation soaring, competitive import and capital flow restrictions are probable. The "Bright New World" so glowingly promoted by UNCTAD I and the Pearson Report is dead. With the Western industrial (and to a lesser extent the Socialist European) economies unwilling and the new oil rich unlikely (on any adequate scale) to meet the trade, finance and food flows necessary to sustain even the moderate ldc growth dynamic of 1960-1973, the poor nations must act more collectively and effectively or accept that most will face economic stagnation or decline and many literal starvation.²²

In the formal sense economic co-operation may not reduce the rights inherent in sovereignty and ownership. Even in a fairly intensive economic community - e.g. the East African Community - there can be a system of national veto rights. However, in reality, no serious and sustained form of co-operation is possible unless a considerable degree of willingness exists both to seek out acceptable compromises and to accept net losses on individual joint decisions without vetoing them (so long as one sees the

the framework as creating the opportunity to achieve larger gains on other decisions). The East African Community could hardly continue to function were the actual use of veto powers the normal end to discussion of any issue on which interests were not identical.

Supranationality therefore involves a more complete and more formal merging of sovereignty in certain specified fields, not a complete change in kind from the realities of effective, sustained co-operation. Indeed, even with the veto powers, some sovereignty may be pooled in the sense that unless agreement on some course of action can be reached either the status quo or inactivity are the only possible courses of action other than withdrawal from cooperative relationship - a number of common market provisions of the EAC and the activities of the Cooperations are cases in point.

It is therefore idle to deny that supranational institutions in particular, and close cooperation in general, do result in a reduction of effective formal rights to take decisions based on sovereignty and ownership. The case for arguing that economic cooperation and economic integration can increase the degree of economic independence attainable by African states rests on their ability to increase decision making and implementing power and capacity by assisting in capturing economies of scale, division of labour, and specialisation.²³

Economic size is crucial to political and economic power to bargain and to enforce decisions. (It is not the only factor in potential power, much less in utilised power - economic independence in Africa is hardly uniquely correlated to economic size). The only generally available rapid way to achieve quantum changes in economic size is through economic cooperation of an intensity approaching economic integration. The potential future gains are also significant because larger economic units have wider realistic arrays of both strategic and project choices open to them and can benefit from economies of scale even in sectors and productive units viable on the smaller national market scale.

Further, economic cooperation should be a means of increasing both effective decision making and implementing capacity. Some activities can be carried out jointly - e.g. the East African Research Institutes and the Community Secretariat. Others will benefit from sharing of experience whether in joint action or in exchange of data and advice in respect of basically national areas of action - e.g. an exchange of detailed information among African states on the negotiation of foreign firm "takeovers" and of management agreements could be highly valuable. Finally, specialisation of activities can permit a focussing of personnel, education, and research development e.g. if industries requiring metallurgical engineering talent were largely concentrated in Uganda, chemical in Tanzania, and mechanical in Kenya the education, training, servicing, and research capacities could be more easily developed nationally than if the same industries existed with smaller units in each of the states.

If gains in terms of power and capacity can be made, then the ability of each state to exercise rights of sovereignty and ownership may well be greater after their partial merger than when exercised separately but with weaker power and capacity backing. To the extent that the dynamic gains from economic integration are realised and opportunities for achieving greater economic independence are utilised, the effect of economic cooperation on the potential for higher levels of economic independence will tend to grow over time. This contention is likely to be especially valid because the experience of past experiments in close economic cooperation is that successful operation tends to lead to expanded sectors of cooperation and to closer integration of decision making and implementing within existing ones.

However, two dangers must be faced. Not all forms of economic cooperation are conducive to the promotion of economic independence by all parties to the venture. Cooperation between tiers monde and industrial economies is very likely to increase dependence and freeze existing patterns not the reverse. This is probably most true of economic integration or quasi-integration relationships - most evidently the colonial relationship but also

at least some elements of the EEC Association arrangements - but is also an ever present danger in the less formalised "special relationships" whether commercial, capital transfer, or educational/cultural in content.²⁴

The same result can occur from cooperation with individual foreign firms - many are economically larger than most of their "host" developing economies.²⁵ It can also arise even among African states if some partners are very much weaker in terms of economic capacity and/or power. The Sahel-Benin Entente, at least potentially, has this danger (because the Ivory Coast is much stronger economically than its four partners taken together) and the partial breakup of the Central (Equatorial) African Customs and Economic Union (UDEAC) flowed to some extent from it.

The second danger is in assuming that minimisation of pooling or surrender of sovereignty is achieved by cooperation within a basically laissez faire framework and that such a framework is consistent with maximising gains of power and capacity. Neither assumption will bear serious examination - at least in developing economy context and probably more generally.

A neo-laissez faire framework does require less joint decisions. However, by laying down either rules for non-intervention or for no joint intervention (or both) it maximises conflicts between national political economic planning and the mechanism of cooperation. Economic community rules designed to ensure "pure" free trade may hamper regulation of both production and trade in ways which would serve the interests of the Community and of its members individually, they may even make impossible steps to ensure net gains to all members and thus create stresses threatening the Community's existence - a situation which clearly did develop in the unregulated pre-Treaty East African Common Market.

Further, the absence of significant areas of joint planning will tend to limit the degree to which the joint economic size of the partners can be brought to bear on problems of external negotiation, specialisation, and capturing of economies of scale. Either cut throat competition among the members - often ably abetted by external "partners" or would be "partners" in particular projects - or a simple frittering away of potential gains is likely to result.²⁶ No developing area economic community appears

to have adequate forums for common discussion aimed at achieving national decisions to coordinate, much less powers to coordinate, national political economic planning and to create a regional strategy. The divergence currently lies between those with negligible abilities to act in these areas - e.g. the Central African Economic and Customs Union (UDEAC), and the Latin American Free Trade Area (LAFTA) - and those with both some coordinative capacity and experience combined with a mutual concern for their expansion - e.g. the East African Community and the Andean Pact.

Briefly then, while effective cooperation, especially over a broad front and to a high level of intensity, necessarily involves a de facto or de jure pooling of certain facets of sovereignty and limitations on certain aspects of ownership rights it can - especially if the parties are of relatively similar economic strength and engage in serious joint or coordinated planning - achieve significant increases in power and capacity to take and implement decisions. Therefore, it can play - and in the African context should play - a major role in the pursuit of higher levels of economic independence and of effective national economic planning and political sovereignty.

The foregoing analysis suggests several working guidelines for the political organisation of economic integration:

- a. areas vital to operation of the integration scheme should be defined with care and rules for action and methods of reaching binding decisions in disputes laid down in advance e.g. the Common Market sections of the East African Treaty;
- b. areas in which it is hoped speedy progress can be made should be identified and a working framework for elaboration and development provided but left open enough to permit alternative roads forward e.g. the Economic Consultative and Planning Council and the Fiscal Harmonisation sections of the Treaty;

- c. provision should be made - and put in practice - for adding new rules and procedures if these are vital to continued effective functioning of the joint arrangements e.g. the State Trading rules adopted by the Common Market Council in 1971;
- d. the addition and subtraction of individually useful but not critical areas of joint action or operation in the light of changing circumstances should be expected and facilitated e.g. the University of East Africa and the East African Income Tax administration on the subtraction side and the East African Development Bank and the Management Training Institute on the addition list;
- e. preservation of an ultimate veto power on changes seen as conflicting with vital national interests should be accepted as a necessary element in having any real powers conferred on joint bodies but its actual use (including pressing an issue to the point at which another party feels forced to use it) should be as rare as possible and take place only after serious attempts to arrive at a mutually agreeable solution or package of solutions;²⁷
- f. forums (formal and informal and at technical, official, and public as well as political levels) for coordination of action and exchange of information on areas formally outside as well as those within joint decision taking should be provided to avoid unexpected clashes, gain through informal or special case joint action and pooling of information, strengthen the habit of working together, and explore possible new areas for formal joint action e.g. the East African Committee of Planners, Treasury consultations on currency parities, East African Community Study Seminars;
- g. areas of basic direct or indirect national policy divergence should not be brought into the ambit of joint decision taking e.g. given different tax and

mode of production policies. A joint East African currency could not endure even if created and it is hardly essential - nor even critical - for normal commercial transactions;

- h. where some aspects of issues involving basic divergences must be handled jointly, define the scope as narrowly as is consistent with efficient operation of the areas of joint economic policy and activity e.g. EAC and Corporation wages and salaries probably must be jointly set but given the very different wages and salaries policies of Tanzania and Kenya (and to a lesser extent Uganda) to seek to broaden the area of joint wage and salary determination would be nugatory or counterproductive.

IV

Economic integration is not costless - no serious political economic strategies or goals are. However, care must be taken to compare the results (evaluate the costs) in contrast with an attainable and maintainable alternative situation. In East Africa two common errors in cost calculation are to contrast present and/or proposed arrangements with:

1. a laissez faire common market (at least for industry) with free producer choice of location like the pre-1964 East African Common Market. If this were a viable solution it would maximise Kenyan and short-though probably not long-term regional gains. It is not a viable solution because it would lead - as it did from the 1920's onward - Uganda and Tanganyika to believe they suffered net losses and - as they did from 1964 through 1967 - to react by raising ad hoc trade barriers and de facto plant location controls. Thus to say the transfer tax hinders trade is true in the abstract but quite false when compared to the 1967 level (let alone trend) of restrictive licensing which was the actual alternative.²⁸
2. A planned economic community with each decision taken so as to maximise the gains to one state doubtless would be ideal for the state deciding (usually the state of the person miscalculating costs in this way) but hardly for the region or the other states. Its implausibility is evident when stated in this form. However, it is the implicit basic used in approaching allocation (of industries or institutions) on the basis of estimating the loss of not having each separate individual unit (on a national or a regional basis) in one's own state as opposed to comparing the costs and benefits of a possible joint location of joint units solution to those of a probable actual purely national institution/market outcome.

One evident cost of economic integration is its staffing and servicing - at national and regional level - in terms of high level personnel and time at least as much as of money. Certainly much of the cost, though not all, could be redirected to alternative national policies and institutions. This implies that if a service or a policy is not more efficient (in terms of cost per unit of service or product produced) regionally it is a waste of "overhead" costs to seek to regionalise it or to keep it regionalised - a probable example today is the East African Examinations Council:

and a more striking one was the East African Income Tax service once national income distribution strategies and resultant fiscal policies - not just rates - differed significantly.

A second cost is loss of speed in decision taking and implementing. To co-ordinate the positions of three states takes longer than for one to reach a decision. The Dar and Mombasa Port development plans in the present Harbours Corporation development plan would be further advanced had the ports been nationally administered - a cost to be set against the (probably larger) general gains from greater ease in securing finance and spreading overhead costs on the combined operation and the special gain arising from the fact that Uganda as a landlocked state can most easily and effectively participate in harbours policy through a joint corporation, a gain which would also apply to several potential members.

A third cost is the need to avoid policy measures which - whatever their formal legality under integration arrangements - would in practice destroy the basis of economic co-operation. For example had Kenya (the regional trade surplus partner) devalued in 1967 without parallel moves by Tanzania and Uganda the entire trade balancing fabric of the treaty would have been destroyed by Kenya's competitive price gain and the bringing into force and initial operation of the Community rendered, at the least, immeasurably more difficult and in practice probably impossible.

A fourth cost is the acceptance of policy compromises or partner policies which have real costs in terms of ones own goals and policies. For example capital account exchange control by Uganda and Tanzania has real costs to Kenya as did the (partly related) absence of a sales tax in Kenya before 1973 to Uganda and Tanzania. The need to maintain a common structure of EAC and Corporation wages and salaries geographically and among institutions poses different costs to Kenya and Tanzania. The former - with national salary scales above the EAC and Corporation ones - faces union pressure for boosts and difficulty in ensuring that senior Kenyan personnel seek community posts; the latter finds the salary inflation pressures of the much higher EAC - Corporation scales (wage scales are in fact not above Tanzania levels except for semi-skilled port workers who are, on a skill basis, out of line with the rest of EAC - Corporation wage earners as well) a serious corrosive force against its incomes policy. This is exacerbated by the tendency to make changes in huge e.g. 20-30% - chunks which leads to parallel domestic pressures which overlook the 5 - 8 year gaps between the changes and compare them directly with Tanzania's typical annual awards of 5% even though over 5 - 8 years the latter exceed the former.

The 1973-74 Turner Committee Report on Community Wages and Salaries recommended parallel Community and Corporation scales, more frequent and uniform adjustments, abolition of special fringe benefits (different from national provisions) with partial compensation in basic salaries. It also advised that scales (other presumably than those governed by minimum wage legislation) be at an agreed "average" of partner states, not equal to the highest nor 10-20% above the highest as had been the "traditional" policy which EAC staff wished restored.

Evidently there are limits to the costs of this last type which can be borne. If co-operation in a particular area has very high policy costs this may mean that it should not be attempted whatever the potential gains. A unitary East African Central Bank is a clear case in point, at least on the cost side. In this instance, the potential gains may not really be all that great compared with what is possible through co-ordination among Central Bank and Treasuries plus Treaty rules on exchange control and compulsory loans among partner states. National credit and foreign exchange planning diverges widely among the partner states. In Tanzania they are now integral to the overall planning process and to the central goal of transition to socialism and could not be surrendered to an external body unless all its members had strategic socio-political goals and approaches similar to those of the Arusha Declaration and Mwongozo.

However, some apparently "sensitive" areas can be occasions for joint operation if the gains are evidently likely to be high even though national policies diverge. Foreign investment and technology transfer regulation and control in the Andean Pact seems to be an example. There the demonstration of the huge cost of tied purchases, royalties, and other fees (totally dwarfing subsidiary local profits) has apparently led to at least minimal acceptance or working the regulations by even the more foreign investor oriented member states.

The number of "no go" areas will depend on how similar the socio-political goals and strategies, as well as the objective structural characteristics, of partner states are. Total economic integration is not possible except under conditions which would allow total political integration as well. However, even rather wide divergences do not prevent partial economic integration much less more limited cooperation agreements so long as these identify correctly areas of joint concern in which mutual agreement on action will not prejudice key national policies.²⁹ The members of the Organisation of Petroleum Exporting Countries operate that body very effectively indeed but to propose an Iraq-Iran economic union (or a Saudi

Arabia-Libya one) would clearly be fatuous.

The most relevant rules of thumb in evaluating costs of economic integration appear to be three:

1. Be certain the cost is assessed in comparison with a genuinely attainable alternative;
2. Evaluate the cost in relation to the benefits expected and thus calculate a benefit/cost ratio, however approximate;
3. Avoid areas in which costs are not only clearly high but likely to prove open ended and escalating over time (e.g. in Central Banking the costs of a single bank now would be many times as high as when the issue was actively debated in the early 1960s).

V

Evaluation of overall gains (or losses) regionally and territorially from the East African Common Market and Common Services has always resembled an expedition into a mine field - data were scanty and ambiguous, convictions firm and conflicting. Basically gains arose from economies of scale and efficiency, e.g. one Customs and Excise service versus three and one flexible rolling stock and traffic allocation system for the unified railway system, and from economies of location, e.g. concentration of sugar production in Uganda. Costs arose from location - regionally if siting was altered to suit distributional pressures, as in the case of the switch of BAT's main plant from Uganda to Kenya, and nationally if concentration in large units meant net movement of production of goods and services from one territory to another as in the pre-1968 uniform location of all Headquarters in Kenya - and from cross subsidisation if one territory had systematic losses on joint self contained services as opposed to profits elsewhere as in the case of the railways portion of Railways and Harbours where Kenya surpluses covered Uganda and Tanganyika deficits.³⁰

The general conclusions of studies on pre-Treaty economic co-operation in East Africa were that modest regional gains (1-3% of Regional Product was the range usually explicitly or implicitly suggested) did exist; these arose from common services as much as from trade; Kenya was the largest gainer; gains were rising over time. In Tanzania the general view was that on balance she lost from the arrangements, a view shared less forcefully in Uganda.

Kenya opinion was that all parties gained though Kenya was the largest gainer.

Academic analysis was equally divided. Ghai³¹, Newlyn³², Robsen³³, and Green³⁴ concluded Tanzania did lose with Ghai and Robsen finding a smaller Uganda loss and Newlyn and Green's results showing a net gain or loss for Uganda so small as to be within the error margin of the estimation process used. Ndegwa³⁵ and Hazelwood³⁶ - the latter surprisingly given his opposite conclusions in the relatively similar case of Malawi and Zambia in the Federation of Rhodesia and Nysaland - concluded that all three territories had net overall gains, though Ndegwa did at least imply that they were unbalanced and that larger Uganda and Tanzania shares (out of a growing total) were politically desirable and economically possible.

All the academic analysts agreed that short term breakup costs would be high enough to make the immediate results of collapse of co-operation expensive to all three territorial economies - a view the successful outcome of the Phillip commission negotiations suggests the three governments shared. All also agreed that regional gains could be expanded in the future in such a way that all three partners benefitted.

The following table summarises the most detailed extant study of gains and losses.³⁷ It is in respect of 1964 - the last year before stresses led to the creation of various trade barriers. Its preparation required extensive assumptions on efficiency and scale gains and location costs and benefits. The general assumption was that the alternative to regional production and services was national production and services not importation.

COMBINED STATIC GAINS/LOSSES (£'000)¹
1964

	Tanzania	Kenya	Uganda	East Africa
I. Common Market - Industrial	-4420	9440	-1960	3060
II. Common Market - Agricultural	10	-2560	3940	1390
III. Common Market - Invisibles	-1730	3610	-1050	830
IV. Common Services	1670	8750	- 470	9950
V. Raisman Transfers	400	- 680	290	10
Total Economic Community Gains/Losses	-4070	18560	750	15240
1964 Monetary GDP	170000	213000	141000	523000
% Gain/Loss	-2.4	8.7	0.5	2.9
% of Economic Community - Net Gain	- 27	122	5	100
Public Sector²				
Common Market ³	-1230	1990	510	1270
Common Services	4210	2560	1060	7830
Raisman Transfers	250	-440	190	-
Total Public Sector	3230	4110	1760	9100
1964 Government Domestic⁴				
Recurrent Revenue	31000	48200	35000	116600
%⁵ Public Sector Gains to recurrent revenue	10.4	8.6	5.0	7.8
Private Sector⁶				
Common Market	-4910	8500	420	4010
Common Services	-2540	6190	-1530	2120
Raisman Transfers	150	-240	100	10
Total Private Sector	-7300	14450	-1010	6140

Source: Computed from National Accounts and Government Accounts: Tanzania, Kenya, Uganda, E.A.C.S.O.

- Notes:
1. Rounded to nearest 10 except GDP nearest 1,000. Government Domestic Recurrent Revenue nearest 100.
 2. Includes EACSO, EAR and H, EAP and T, EAA, UEB.

3. Includes Invisibles.
4. The East African total includes Reisman Formula direct payments to EACSO. 1964 estimated by simple averaging 1963/64 and 1964/65 Fiscal Years.
5. The relevance of this comparison stems from the fact that economic union provides net public sector gains (including tax receipt gains/losses) of this order of magnitude in relation to Central Government recurrent receipts. If services were maintained at present levels and at present charges on a national basis this would have been the order of additional effort required on recurrent account in the absence of Economic Community.
6. Includes para-statal bodies not listed in 2. Only Uganda Development Corporation was - in 1964 - significantly involved in economic community activity primarily in textile and asbestos product exports.

Even granted the partial statistical data available and the rather heroic assumptions necessary - especially on cost savings and on common market invisibles in general - the exercise does yield results of practical as well as of theoretical interest. While more accurate or complete data or moderately altered assumptions would change them in degree, radically different assumptions would be needed to alter their nature.

1. The overall East African static gain from economic community was neither negligible nor as massive as often assumed.
2. Common services were the dominant contributors to net regional gains. However, the centralisation effect in this sector was such as to make Kenya - not Tanzania - the largest gainer, and, probably, to leave Uganda a net loser.
3. Common market net regional gains were limited by the absence of significant number of industries actually requiring the joint market. As a result centralisation in Kenya relocated regional product more than it enhanced it. The same held true a fortiori of the commercial and financial segments of Common Market invisibles.
4. The agricultural Common Market, while partial and with a much lower trade volume than the industrial, was significant for exports from all three states and the source of Uganda's main gains from economic community.

5. The Raisman Formula for fiscal redistribution had proven quite inadequate to offset the location of income generation effects of economic regionalism.
6. All three states gained significantly on public sector account but only Kenya showed a positive private sector balance.
7. Kenya, and especially large segments of her manufacturing, agricultural and processing, and service - commercial sectors, benefitted substantially from the economic community. For her the 1964 status quo was not only viable but highly desirable in economic terms.
8. Uganda had a marginal overall gain dependent on a few commodities: textiles, cottonseed oil, tobacco, sugar, hydro-electric power.
9. Tanzania had a substantial loss concentrated on her industrial and service - commercial sectors. However, she did have considerable and potentially growing stakes in both the Common Market and Common Services.
10. Because the dominant effect of economic community had been to centralise rapidly growing manufacturing and service activities in Kenya, the dynamic effects of East African economic co-operation in its 1964 form would not have erased Tanzania's static loss or increased Uganda's marginal gain. Rather they would, by allowing a relatively more rapid growth of the Kenyan economy, have tended to aggravate the existing economic imbalance and resultant political tensions.
11. Given the short run costs of breakup Uganda clearly and Tanzania, almost as clearly, would not have stood to gain. Certainly, their rather fragile and sluggish domestic revenue collection systems were viewed as being incapable of overcoming the public sector revenue effects, meeting new capital requirements for decentralised services, and carrying on expanding Development account programmes at the same time. This may have been an underestimate of the Tanzanian fiscal capacity - 1965/74

revenue trends certainly are subject to such a reading. However, 1961/64 Actual and 1964/69 Projected revenues were much lower and less buoyant.

With the East African Treaty four main changes have taken place: headquarters shifts, decentralisation, East African Development Bank creation, and trade freeing from quantitative barriers within the transfer tax framework. Two envisaged areas of change - fiscal harmonisation and revised industrial location procedures - have not to date achieved fruition.

Headquarters shifts - Harbours to Dar, Posts to Kampala (where the newly created EADB is sited) and Community to Arusha - have resulted in significant expenditure location shifts in favour of Uganda and Tanzania. It is now probable that headquarters expenditure (for the Community and Corporations together) is approximately proportional to revenue derived from each state with a possible small net gain for Tanzania.

The 1974 EAC study on Financial flows in fact supports this conclusion. Unfortunately it presents gross interstate and external flows in a rather simplistic manner which obscures this fact. When account is taken of per cent of facilities used by each state and of external payments met from interstate flows, Tanzania probably breaks even, Kenya gains, Uganda still has a loss on headquarters and related transfer expenditure account. This is probably the largest single shift in distribution of benefits resulting to date from the Treaty.

Decentralisation of services and corporations - excluding the headquarters location balancing - has probably not affected inter-territorial distribution of gains. Whether it has effected net regional gains adversely depends on whether it has improved performance since costs have risen. As the EASCO, self contained service structure almost certainly was overcentralised and decentralisation has been the occasion rather than the real cause of many of the cost increases, it is doubtful that significant loss of gains from regionalism has, in fact, transpired.

The East African Development Bank has to date played a marginal role both in respect of distribution of gains and of enhancing them. To do the latter it must attract substantial

soft foreign finance and/or be an effective catalyst for industries possible only on a three country market basis while in respect of the former its investment allocation target weighted to Uganda and Tanzania can hardly have a major impact until net investment in projects which EADB is instrumental in promoting or in financing (not simply a contributory lender to) reach - say - Shs. 200,000,000 a year. However, as tangible evidence of a commitment to more territorially balanced and more regional market oriented industrial development the EADB is probably of a qualitative significance greater than its present quantitative weight would suggest.

EADB has taken its role of promoting joint industrial planning and or joint industrial ventures seriously. It has produced a well articulated bench mark study of East African industrial patterns and gaps with numerous pre-feasibility level identifications of areas in which a single plant (or two plants) could serve the community market more efficiently than national ones and also of possible coordination/specialisation of units within multi-plant industries. In the absence of actual state action, these studies have not yet had much practical impact.

Trade freeing was, and is, a major success of the Treaty arrangements. After falling rapidly from mid 1965 through 1967, interterritorial trade recovered and is running above its 1963-1965 high point albeit without much evidence of any further rapid expansion and without really halting its downward trend as a share of total external trade. Tanzanian-Kenyan trade (in both directions) has responded particularly strongly with reductions in percentage and even absolute imbalance flowing almost totally from expansion of Tanzanian exports to Kenya and thus indicating progress toward balancing by buoyancy not erosion. The growth of Tanzania exports included industrial products, e.g. pipes, tyres, textiles, and was thus doubly positive in a structural sense. Kenya-Uganda trade has behaved differently. Supply problems - especially in sugar and textiles - have hit Ugandan exports and at the same time interacted with external trade problems to cause a sharp rise in imports from Kenya. Neither the export nor import results have much relation to EAC influences.

The transfer tax's real importance appears to date to be serving as a way out of the 1964-67 competitive quantitative restriction raising impasse. It may marginally have helped a few Tanzanian and Ugandan industries establish themselves and may - even more marginally - have harmed a few Kenyan manufacturers, but it has not been a major force for change in location of specific existing industries.

Assessing the 1964 summary again for 1974 appears to lead to the following tentative conclusions:

1. Overall regional gains are probably slightly higher because of expanded joint service and corporation activity and shifts in trade flow toward goods to which the Common Market is more critical;
2. The corporation and EAC services sector is even more clearly than before the main producer of net gains.³⁸ With headquarters balancing and reduction of Tanzanian sector deficits³⁹ (changed to surpluses in the case of Harbours,), Kenya probably remains the largest gainer because it is the largest user but the Tanzanian and Ugandan share of net benefits has risen;
3. The industrial goods common market has shifted its make up and commodity flow patterns sharply probably in a manner increasing present static gains despite a lower quantitative level than in 1964. Tanzania's loss from this sector has fairly clearly declined, Uganda's may have risen at least in the short run. Commercial and especially financial services have been increasingly territorialised reducing both regional and transfer gains;
4. The agricultural common market has seen a sharp fall in sugar and a rise in vegetable oil trade. Uganda - for supply side reasons - now probably gains less from it and Tanzania more;
5. Fiscal redistribution has ended;
6. The gains by the government-community-corporation (public) sector seem to have increased for each state; while for the directly productive (now heavily parastatal

- in Tanzania and more so than in 1964 in Uganda and Kenya) changes are less clear - Kenya's gain and Tanzania's loss seem likely to be smaller but Uganda's loss larger;
7. Kenya clearly remains the largest relative and absolute net gainer and the economy whose industrial sector, and balance of payments are most dependent on positive development of East African economic regionalism. However, largely because of headquarters transfers (not transfer tax) its absolute gains may well be smaller than in 1964;
 8. Uganda's marginal gain of 1964 has clearly not increased significantly - as before any overall quantitative assessment would surely yield a result within the margin of error of the estimation process;
 9. Tanzania has almost certainly primarily through Headquarters Transfers and increased exports to its partners - wiped out its 1964 static loss and may now have a small gain. This is the greatest stabilising achievement of the Treaty regime as no economic community with a net loser among its members can be viewed as having a secure future;
 10. The dynamic gains balance may have shifted with Kenya still the largest gainer but Tanzania improving its relative share. Certainly Kenyan and Tanzanian growth rates for sectors other than agriculture tend to be relatively comparable with a Tanzanian percentage (not absolute) lead in industry; but Uganda's appear to be rather lower. Indeed it is meeting Ugandan, not Tanzanian, minimum gain requirements which could pose the greatest future problems here. Future changes - both as to net regional gains and distribution - are likely to turn on what comes of continuing efforts to devise industrial allocation plan for large units either requiring or much more economically efficient at trinational market scale;
 11. Breakup costs would be as high or higher today than in 1964, with the probable exception of the Tanzanian railway system, and still provide a very real incentive for making the Community work.

VI

A variety of political economic reasons have been advanced as to why the East African Community is - supposedly - in danger of disintegrating. The resurgence of trade following the coming into force of the Treaty and the general resilience of the fabric of cooperation and integration over the 1971-1974 period are, in themselves, sufficient to cast doubt on any claim that economic regionalism in East Africa is crumbling, but some of the specific arguments do merit somewhat more detailed attention.

State trading and one channel marketing are asserted to be, if not incompatible with the Treaty (which they clearly are not in all cases), irreconcilable with a common market. As all three partners use institutions and systems of these types to a considerable extent (Tanzania did so before the signing of the Treaty), this argument is serious, if valid. However, it rests either on confusion of free trade in the community sense with an unregulated private market system or between the possible and actual uses of state trading and confinements. The dominant themes of these approaches in Tanzania have turned on furtherance of a transition to Socialism and in Kenya and Uganda on Africanisation of commerce plus intervention in specific markets. Obstacles to trade and a few cases of overt discrimination have arisen but there is no evidence that any partner is systematically using state trading to discriminate against products from the others.⁴¹ The same holds true of the often related field of commodity purchase credits (aid tied to purchases ranging from specific commodity linkages as in USA PL 480 to fairly general source tying as in the local cost covering commodity loan-portion of Chinese finance for TAZARA) which were also foreseen and provided for in the Treaty and which, to date, raise various problems of detail rather than any basic threat to East African intertrade. The successful elaboration and adoption by the Common Market Council of rules for the non-discriminatory conduct of state trading (non-discriminatory that is vis a vis sources of supply in other partner states) demonstrates awareness of the potential difficulties involved and the need for a clear reference frame, but even more clearly - it shows a will not to have altering commercial sector

patterns serve as a de facto Common Market dismantling operation.

Slow progress toward fiscal harmonisation falls into two parts. On the one hand, the Treaty requirement for arriving at an agreed regional framework for national tax (and implicitly related) incentives to producers has not yet been implemented, albeit the technical study and preliminary discussion phases are virtually complete. So long as the three states continue (whether from commitment to EAC, disinclination to give away actual or potential revenue, or sheer habit) to operate rather conservative incentive policies⁴² and to eschew "competition" for investors, minor differences in national policies and the lack of regional frame are fairly minor limitations on present levels of integration albeit more serious ones to further advances in the industrial coordination field.

The other area of fiscal non-harmonisation, divergent indirect tax policies resulting in market price differentials not representing production cost inequalities, was more serious before 1973 because of the incentives it provided for smuggling and for the use of controls to prevent smuggling which, as unintended but at least partially inevitable side effects, create administrative and procedural tediousness for legitimate trade. With radically unequal market prices resulting from fiscal divergences combined with long borders smuggling is inevitable; to control smuggling with limited resources necessitates barriers to the free use of foreign notes and of one's own notes in other partner states (to allow checking the legitimacy of transactions even if all current account transactions are automatically cleared for settlement over bank accounts once identified). Kenya's adoption of a general sales tax has significantly reduced this branch of the problem.

Duplication of industries - most notably recently in the case of tyres - better organised on a full regional than a limited national market basis is indeed a threat to economic integration in East Africa but more to its growth and contribution of full potential gains than to continuation of present patterns of cooperation and level of benefits. Because of the very large share of services (including Community corporations) in net gains and the addition of new trade items (individually often small in value but significant as a group) replacing these - e.g. cement - in which

new plants in new areas are reducing interterritorial trade, there is no reason to assume that failure to agree on regional large scale industrial planning and siting coordination will cause a rapid erosion of trade or of net gains. However, it will limit their growth and could easily lead to the non-renewal of the Common Market in 1982 when it must be renegotiated or expire.⁴³ Runaway increase in EAC spending - which is a first charge on partner state revenue collected by East African tax departments - was prior to 1973 a source of considerable national (especially national Treasury) perturbation. However, it is not an issue dividing the three partner state among themselves and is one in which tighter scrutiny of the General Fund estimates was seen as an easier and more likely, as well as a more efficacious, remedy than trying to dismantle joint services.⁴⁴ The 1972-73 Estimates and the consultations leading to them marked the beginning of a favourable trend in this field.

It is sometimes contended that EAC organs are unable to reach decisions rapidly enough to surmount challenges effectively and that ultimately this will lead to a sudden collapse or gradual gangrenous rotting away of economic regionalism. In its extreme form the argument asserts that on a number of occasions key decisions - for whatever reasons - piled up until a near crisis situation prevailed and were only cleared just in time to avoid chaos and too late to avert serious costs and continues that presently a situation will arise in which a last minute solution will prove impossible. Even granting the description as having some elements of truth (it is clearly rather overdrawn) two points can be made: the problem of delayed decisions plagues each member state as well as EAC and second, experience in clearing piled up decisions and issues is at least as likely to lead to more speedy future resolution or to continued and growing ability to judge when action must be taken to avoid really serious costs of further delay as to be a prelude to a debacle.

In its less extreme form, the argument does not maintain that a major breakdown is likely or that issues vital to continued functioning of present critical areas will fail to be reached.

Rather it asserts that because partner states bargain "too well" - i.e. do not speedily move to possible agreed compromise positions which an informed observer, or in some cases even an involved participant, could readily identify as the likely final outcome almost as soon as the initial negotiating positions were known - the flexibility and pace needed to seize new opportunities and to adopt changing circumstances is lacking and with the result that potential new gains are lost during prolonged negotiations as to how they should be achieved and divided. This, of course, is not a breakup but a stagnation/erosion type threat. It is a real danger, especially in respect of major expansion of breadth or depth.

Overly cautious (or suspicious?) bargaining certainly exacerbated EAC problems in 1973-74. First, it allowed EARR to play off Tanzania and Kenya blunting the force of the former's efficiency oriented attack by suggesting Tanzania was really seeking more top posts. The resulting slippage of time (with Tanzania blocking rate increases until reform was begun on the grounds the old system would simply waste the money) worsened the ultimate extent of the problem revealed in the fall of 1974 by a preliminary analysis of physical and financial competence and capacity. Second, it made one state too cautious, when another in 1972 and subsequently suggested a joint official technical party to seek agreement on road vehicle loading because IBRD - AID and other independent engineering studies suggested overloading led to a true cost of the order of \$10-20 million a year for extra repairs and premature replacement. Had such consultations taken place, the 1972 Tanzania draft road user weight limitations - not actually put into force until late 1974 - might have been agreed and the late 1974 Kenya shutting off of trade to Tanzania and Zambia averted. Third, a minor EAH labour relations mistake (actually not clearly related to citizenship but to procedures for advancement) of 1972 was allowed to drag on with rising ill will because the two labour Ministries were unwilling to knock EAH (the silliest party) and Union heads together for fear of losing face. Thus by late 1974 this dispute was much worse and became mixed with the previous road traffic regulations one.

A final thesis - related to that immediately preceding - is that the Community will ultimately dissolve or slip into innocuous desuetude (or at best a peripheral role) because of failure to grasp the point that it must either move forward or slide backward. Present joint services will over time become less important or more appropriate for national operation. Unless new additions are identified and brought into being, what have to date been East African regionalism's key sources of net gains will be eroded relative to the productive force bases of the partner states and possibly absolutely as well. Similarly, unless specific attention is paid to creating a regional industrial strategy designed to maximise gains from integration and inter-territorial trade, the importance of Common Market trade (and quite possibly its absolute levels) will shrink as national markets broaden and national production patterns become more similar.

This line of criticism clearly does have merit. Static institutions do tend to fossilize and become peripheral or vestigial, an unchanging set of areas of economic co-operation in the context of dynamic national economics both growing absolutely and developing structurally would almost certainly lose relevance. 1965-67 saw a tremendously dynamic reformulation of East African economic regionalism in order to surmount a series of key problems highlighted or caused by political economic change. 1968-70 witnessed the running in and consolidation of the gains encompassed in the Treaty and spadework at study and technical consultation level for potential future expansion - of membership, of areas for joint decision taking, and of policy harmonisation. 1971-74 saw several crises surmounted and, with major advances in national development strategies and in Southern African liberation, a growth in the future potential of broader and deeper co-operation but at best peripheral progress on moving toward realising those gains. If 1975-77 see several of these come to fruition, the "withering away" critics will have been refuted; if not they are very likely to be proved right.

VII

In the context of the preceding political economic analysis of regionalism in East Africa what are priority areas for broadening or deepening EAC's scope? Seven have at times been suggested: transport and communication, external finance, tourism, agriculture, industry, technological services, and expansion of membership.

Transport and communication - at least when abstracted from expansion of membership - poses few opportunities for major new gains but may be critical for EAC survival. Improved corporation planning and co-ordination of road transport policies and interterritorial route construction do offer solid - if probably not dramatic - means for building on present benefits. Work along these lines is already - but somewhat desultorily - in progress; probably the highest priorities (and the most urgent) are achieving more effective current operation and forward planning of EARC and better co-ordination of road use control, especially as to weight limits.

External finance, with the possible exception of soft loans for directly productive purposes via EADB or EAC (for on lending to corporations), does not appear to be a potentially high benefit field and would entail substantial costs in agreeing on allocation of funds secured. Reconsideration of Corporation external financing is, however, a matter of some importance - 7 $\frac{1}{4}$ % World Bank loans are (as the analysis of World Bank economic surveys shows) too expensive a basic source in terms of foreign exchange impact. No partner state has a mix of foreign finance as "hard" as that of the corporations.

Tourism may well be a field in which theoretically achievable gains are high. However, in practice it has (and has had, witness previous efforts at regionalism) high costs as well. National tourism strategies and especially their concept of its role in development, differ widely.⁴⁵ Further, the present imbalance is so great that, combined with the divergent emphases on expansion, it would be likely to preclude agreement on allocation of programme costs or identification of territorial programme components. Consultative forums for government and industry personnel on an East African level might prove useful to exchange views and data and to agree on ad hoc parallel courses of action in specific cases - e.g. a regionwide increase in Game Lodge and Park charges to non-residents would almost certainly prove profitable but is deterred in each

state by fear the others would not follow.

Agriculture may ultimately offer scope for co-ordinated or joint action (including much freer trade) than at present. However, in the short term, the costs of a common agricultural production policy on a broad front appear prohibitive. More detailed examination of areas relating to common exports (whether on promotion, marketing, pricing, quotas, market access, negotiation, or storage and transport) in which at least co-ordination and possibly joint policies or institutions would yield significant benefits seems more immediately promising. The EEC Association discussions both before and pursuant to the Arusha Convention illustrate the potential gains from joint action.

The collapse of the sisal market in 1970, when first Kenya producers and then TASMA dumped stocks, probably illustrates an avoidable cost of non-coordination. So may the (on the face of it) unreasonable differentials between Nairobi auction and London market prices for East African tea.

Pyrethrum is an example of an area in which co-ordination or joint corporate units could be beneficial. Kenya and Tanzania produce well over 50% of the world's raw pyrethrum. (A side agreement with Rwanda and Burundi could raise the share.) Both have now taken over first stage processing and marketing from the former MNC owner-manager-marketer. But neither has final stage processing plant nor the capacity to identify and promote the new uses the ecological emphasis in the West should have opened for pyrethrin based insecticides. Joint action could lower processing costs, tighten market control, split development cost, and make agreeing with a product development/promotion partner easier and on better terms.

Only with more detailed data than are now to hand can a priority sequence for action in general and on specific products be proposed and discussed with much chance of practical decisions resulting.

Industry is probably the key area for the future of the Community. It is difficult to envisage a growing ratio of interterritorial to international trade without major new regional market oriented industries just as it is difficult to avoid foreseeing a slowdown of industrial progress within a decade, if production remains

concentrated on industries capable of (or forced to) operating within a single territorial market. However, in the absence of some agreed basis for industrial allocation to improve upon the expired industrial licensing legislation,⁴⁶ it is likely that industries best served by a single regional plant will be split into territorial units producing at a higher unit cost and industries which cannot operate territorially will simply not be established. The same principle holds for articulated vectoral industries e.g. iron ore/coal/limestone - raw steel - steel rolling - steel sheet/rods - final construction and household inputs/engineering - machinery and spares. In many cases the location of stages beyond the initial manufactured good (raw steel in the case cited) does depend on the presence or absence of joint industrial planning and further can be varied a good deal in the interest of "balancing" industry packages without major real cost escalation.

This is an urgent area because for a joint planning and allocation system to be seen to be working it needs to have had up to five years of plant operation behind it or a total of eight years counting the time gap between the decision to build and production. As the Common Market expires in December 1982 unless renegotiated, 1974 was the latest prudent time for having the regional industrial planning and allocation machinery in operation and failure to be in sight of agreeing on at least the institutional/allocational frame by 1977 could well result in irreversible decisions fatal to the EAC. A very considerable amount of detailed preparatory work both on machinery for joint decision taking and on suitable industries has been done, the present problem appears to be for each state to mobilize the time and energy required to bargain out an acceptable framework within which to operate a regional large scale industrial policy and to achieve a first round "allocation package". This area interlocks with expansion of membership as present applicants - particularly Zambia - do, and potential ones - e.g. Mozambique - are likely to, lay particular emphasis on arrangements which would ensure that their economies shared in regional industrial expansion following their accession to, or association with, the present East African partners.

Additional technological services potentials relate to a substantial extent to industry but not simply to regional market

industries. Serious applied research over a selected range of topics and technological applications and technical consultancy units capable of handling virtually all projects with a core staff plus temporary specialist backup are probably beyond the capacity of Kenya, Uganda, or Tanzania taken separately.⁴⁷ At least in the second area, jointly financed and used operations would be possible and viable. However, in both the research and consultancy fields, gains are likely to arise only if the regional activity is viewed as central with national units integrated with, or complementary to, an agreed regional plan of action. As supplements to national institutions or as operations with only EA Corporation and regional market industry customers and consumers, they would have very high unit costs and the present situation of heavy, expensive, and often ineffective dependence on imported technology and consultancy would remain little altered.

Proposals in both of these fields exist, albeit one may wonder whether realism as to startup cost may not have led to unrealistically low initial size and scope identification.

Expansion of membership which received relatively massive attention at all levels before 1971 evidently could offer significant regional, present member, and new member (associate) gains. Unfortunately because accession or association (especially the former) requires parallel decisions on a wide range of issues and areas, it is by its nature exceedingly time consuming. As mentioned in discussion of industry, if expansion is to go beyond relatively marginal preferential trade and research sharing agreements it is probably necessary to devise mechanisms to ensure that some industrial gains are located in the new members or associates - a result not possible under the presently existing EAC powers and mechanisms.

The resurgence of the advance of African liberation in 1974 has radically raised both the potential of, and the need for, EAC expansion. Mozambique, Malawi (assuming it comes to terms with the implausibility of remaining a South African satellite), Botswana, Swazi, Rhodesia (on independence), join Zambia - Burundi - Rwanda as likely potential full or special members. This alters the entire potential scale. The 11 country group would approach 60 million population and \$11 billion joint product even excluding the less clearcut possibilities of Somalia, Ethiopia, or Malagasy joining

in the enlarged grouping. On the other hand, the failure to capitalise on this opportunity could confront Tanzania with membership in a 7 - 9 country group (excluding Kenya - Uganda) or the existing 3 country one. In that choice - unlike 1965 or 1971 - the African unity argument would be two edged not the most telling argument for EAC, and a Mozambique - Tanzania - Zambia - Rhodesia - Malawi - Botswana - Swazi group with joint industrial planning would be considerably more promising economically than a Uganda - Kenya - Tanzania one without. Time is running - whether toward a major breakthrough or a gradual breakdown remains to be seen. The 1982 Common Market renewal or lapse point is the symbolic deadline but the basic decisions are more likely to be taken by 1980 at the latest.⁴⁸

VIII

In the case of industry and industrial allocation a few more comments may be useful:

- a. the greater the potential costs of national versus regional market units, the less likely it is that an industry will be established without some common industrial planning and the easier it should be (in benefit/cost terms) to agree on a regional allocation decision;
- b. the lower the existing capacity and commitments, the higher the net gains and the lower the costs of adopting a regional approach broader than marginal rationalisation of product lines and marketing patterns among existing units;
- c. it is unrealistic to assume that national attempts to preempt industries of the regional market type will generally meet with success. Either duplicative plants are likely to be created or external tariff changes necessary to safeguard the regional market will not be available from the non-producing states; both results radically lower the net regional gain available for distribution to anybody;
- d. because the benefits of a regional market (vs a national) exceed the costs of second best (not any) sites for most large scale industries, a regionally determined location policy to share plants on a politically agreed basis is likely to be economically viable;

- e. such a policy requires that once an industry is listed as regional no partner state seeks or accepts a plant not allocated to it (an easy condition for any state actually wishing to implement it, because-given industrial licensing and incentive procedures-positive action is necessary before a firm can or will evade location policy). Without this self denying rule the system will break down in a way similar to the Kampala Agreement new industry allocation scheme.⁴⁹ Special provisions on time limits within which to start an allocated plant and on periods after which new plants (whether allocated or not) are to be allowed in other states would also be needed generally or on an industry by industry basis;
- f. in the case of East Africa, approximate equality of gains and of benefit/cost ratios to partners appear to provide the sharing principles most likely to prove acceptable for multi-national market industries while addition to gross national product (value added less depreciation plus purchases of non-exportable local inputs) would appear the most critical benefit;
- g. allocation must be based on (at least) detailed pre-feasibility studies if it is to be effective, otherwise delays and cancellations will inevitably bring the system into disrepute;
- h. there is no necessity for each state to weight different types of gain e.g. net exports, import savings, job creation, linkage impact, value added capital inflow, identically to its partners. Indeed if national goal priorities for industry vary somewhat, it may be easier to arrive at package deals since preferences for particular industries will then vary;
- i. allocation should take place on a package basis - perhaps annually - because without a number of industries and plants to allocate the twin aims of approximate equality of gains and picking reasonably technically sound locations for each plant will not be attainable;
- j. the ultimate decision on the acceptability of any package is a political one.- technical data and analysis are means to informing that decision and making it less likely that it will be regretted later;
- k. some forum for agreeing approximate prices and pricing policies, minimum guaranteed supplies and orders, and - in some cases -

annual or multiyear contracts will be needed. The twin facts that most relevant industries will need tariff concessions (upward on their own output and downward on inputs) and that price controls to prevent nullifying or exploiting tax changes are increasingly used in Kenya and Tanzania provide leverage over, and a basis from which to build, such forums;

1. joint ownership of allocated industries by the partner states could be one way of securing continuing agreed decisions on major policies after industry establishment, but it is not the only way and may raise difficulties of its own when foreign private partners are involved;⁵⁰
- m. the technical problems of achieving a workable set of procedures and of implementing them in the regional industrial planning and allocation field are fairly clearly of a lesser order of magnitude than those relating to the Transfer Tax system and offer a far higher potential payoff both nationally and, a fortiori, regionally. Politically too the choice should be easier as one is basically allocating potential gains which in many cases cannot be achieved at all without agreement rather than, as in the Transfer Tax case, potentially reducing total regional and national gains.

IX

The general conclusion on the state and prospects of economic integration in East Africa must be a qualified but tentatively positive one. Gains have been made and maintained; major challenges to the continued existence of the system have been surmounted, particular arrangements have been altered when necessary to preserve major gains or avoid unacceptable costs.

In 1965 it would have been hard to be as positive. The EACSO-Self Contained Services system then appeared to be on a road leading to breakup. In 1968 an evaluation might well have been more positive, but this would have stemmed from somewhat unreal euphoria flowing from the successful restructuring of the fabric of economic regionalism to surmount the strains which threatened to rend it in 1965. 1967-1970 was a period of consolidating gains; 1971-1974 has been one of running a basically unchanged system and balancing quite marginal losses and gains. Major strains have arisen in 1971, 1972, 1973, 1974 over interstate political relations,

airways, income tax, railways, interstate EAC and Corporation transfers, and interstate road transport but none has been such as to defy solution: only serious miscalculation by one or more states would have allowed any of these to escalate into a breakup dynamic. However, the lack of clear gains on new members and joint industrial development planning becomes ever more dangerous as 1982 approaches; a danger reinforced by the greater potential now open to an expanded and deepened EAC acting together with the independent states to the south of its present members.

What is most needed is a sense of direction and a perceptible rate of purposive change so that East African and Eastern African economic regionalism is, and is generally seen to be, an increasingly central theme in national planning, structural change, trade development, and industrialisation. Exactly where an institution stands at any given moment is often less critical than whence it has come and where it is about to be; the theoretical perfection or completeness of programmes of change usually matters rather less than achieving some minimum mass and rate - so long, of course, as the overall thrust of change is in the right direction.

It would be wrong to be unconcernedly optimistic. Tanzania's political commitment to East Africa as a step toward African unity has never been one of whose wisdom all of its leaders or technical officials were convinced. With the alternative potential of a Southern looking integration strategy, the apparent consensus to accept the quite considerable costs of EAC membership and problem resolution procedures might not prove as strong as the 1960-1974 record would suggest.

Uganda has always been less involved in EAC (as opposed to the Kampala - Nairobi - Mombasa transport link) than its two partners. It is still more peripherally placed in respect of geographic (though not functional) expansion. And its political concerns since 1971 have not centred on EAC so that its lack of firm positions has served to impede Kenya - Tanzania bargaining on new initiatives rather than to serve as a springboard from which to launch compromise or synthesis proposals.

Kenya remains the prisoner of its history as the colonial era's near vice regal centre for East Africa. Change is (sometimes rightly) seen as dangerous to Kenyan interests and Tanzanians' self confident calls for change believed (usually wrongly) to be callable bluffs or

ill disguised envy. On the other hand, Kenya does realise EAC's demise, and still more the loss of the chance to expand, it would have more serious repercussions on its manufacturing present and potential than on that either of Tanzania or Uganda and has to date always been quite unwilling to carry take it or leave it bargaining tactics beyond the point of no return.

In each case there are limits to the costs and compromises which will be accepted - in none are these fully clear even to that country, much less to its partners. The conditions for serious miscalculation do exist. The longer EAC's affairs centre on overcoming crisis to hold on to what already exists the higher the levels of petty irritation, which can provoke, and the lower the glow of joint new achievement, which can prevent, such miscalculation.

The challenge implicit in the potential gains from expanded regionalism and the problems in attaining them was clearly posed by President Nyerere in his 1967 Cairo Lecture:

the problems which threaten to overwhelm us individually become containable in a wider context. The people of Africa are the only justification for African unity and they are the only means through which it will be attained. Africa must be free. And Africa's freedom will come only through united action. Any step to unity is a help provided that the ultimate goal of a united Africa is not precluded.

Any step possible in the short and medium term will be imperfect and incomplete. Yet, if a growing number of such steps are taken, while avoiding dead ends which give limited short term gains only at the price of blocking further progress, a genuine forward dynamic will be achieved. Just as designing a cathedral or a mosque is more dramatic and faster than building it (and requires substantially fewer personnel) so with the designing and building of economic regionalism in East Africa, Eastern Africa, and Africa. Without the construction, the design remains a disembodied vision; without a careful working out and application of feasible (even if imperfect) means, ends remain visionary secular New Jerusalems glimpsed from afar.

NOTES

1. "The Limitations of the Special Case", Bulletin Oxford University Institute of Economics and Statistics, May 1963.
2. A Theory of Economic Integration for Developing Economies, London, 1971, p. 41.
3. e.g. J. Viner, The Customs Union Issue, New York, 1971; J.E. Meade, The Theory of Customs Unions, N. Holland, 1956; R. Lipsey, "The Theory of Customs Unions: A General Survey", Economic Journal, September 1960.
4. e.g. J.E. Meade, Trade and Welfare, Oxford University, 1955 and (in a somewhat special sense) H.G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining, and the Formation of a Customs Union", Journal of Political Economy, 1965.
5. This includes the bodies of trade and trade union analysis basically descending from Ricardo whether through the neo-classicists or through Marx. A considerable portion of Marxist writing on trade and development falls into this category or else treats an externally dependent capitalist mode of production as virtually the only structural problem invalidating neo-Ricardianism.
6. The structuralist approach-exemplified by Prebisch in Latin America, Sachs among Socialist European Economists, Amin among African economists concentrates on production, demand, institutional, linkage, and external constraint structures and their alteration. For fuller discussion see D. Seers, "Normal Growth and Distortions: Some Techniques of Structural Analysis", Oxford Economic Papers, March 1964; K. Griffin, Underdevelopment In Spanish America, MIT, 1969; A. Seidman and R. Green, Unity or Poverty: The Economics of Pan-Africanism, Penguin, 1968; R. Green, "Political Independence and the National Economy" in C. Allen and R. Johnson, African Perspectives, Cambridge University, 1970.
7. op cit.
8. S.B. Linder, Trade and Trade Policy for Development, Praeger, New York, 1967, Seers, "Comparative Rates of Growth in the World Economy", Economic Journal, March 1962.
9. Industry in Africa, Oxford University, 1968 (Ewing); Industrialisation Au Congo-La Transformation des Structures Economiques, Mouton, Paris, 1967 (La Croix); op cit

- (Seidman and Green); (V. Urquidi), Free Trade and Economic Integration in Latin America, California, 1962.
10. op cit (Linder); "The Theory of Common Markets as Applied to Regional Groupings Among Developing Countries" in Harrod and Hague (ed) International Trade in a Developing World, MacMillan, London, 1963.
 11. Seers, "The Stages of Economic Development of a Primary Producer in the Middle of the Twentieth Century", Economic Bulletin of Ghana, 1964; S. Amin, Afrique de l'Ouest Bloquee, IFAN, Dakar, 1971; Griffin, op cit.
 12. cf Seers, "Comparative Rates of Growth...", op cit.
 13. The best summary of the rather extensive literature on this topic in relation to East Africa is in P. Robson, Economic Integration In Africa, Allen and Unwin, London, 1968, pp. 139 ff. and works cited therein.
 14. R. Green "Economic Union in East Africa: Principles, Prices, and Proceeds" - especially the Appendix, University of East Africa Social Science Research Conference, 1965, Proceedings (EASIR Paper 353). The data used hereafter are from a revised but unpublished version of that paper.
 15. Robson, op cit; Seidman and Green, op cit; A Hazelwood, African Integration and Disintegration, Oxford University, 1967; K.G.V. Krishna and R. Green, Economic Co-operation in Africa: Retrospect and Prospect, Oxford University, Nairobi, 1967; P. Ndegwa, The Common Market and Development In East Africa, Revised Edition, East African Publishing, Nairobi, 1969, are among the most complete works and cite a large number of other studies.
 16. cf Seers, "Stages of Development..." op cit; R. Green, Stages in Economic Development: Changes in the Structures of Production, Demand and International Trade, Bank of Sudan, Khartoum, 1968 for fuller exposition of the concept.
 17. For a comprehensive discussion see D. Ghai (ed) Economic Independence in Africa, East African Literature Bureau, Nairobi 1973 especially papers by D. Ghai, B. Van Arkadie, J. Saul, R.H.Green.
 18. It is possible that, at the time of founding, industries need the entire regional market but with growth presently need only national ones.. Thus any snapshot estimate of gains will understate the degree to which industrialization has been enhanced by economic integration and thus

the net gains arising from its past existence because some industries ultimately nationally viable were established initially in the economic union context.

19. There is no need for the coverage/membership of such service unites to be identical to that of a customs union/free trade area. Evidently that would be simpler but it is not essential.
20. See Seidman and Green and Krishna and Green, opera cita for full discussions.
21. This case is argued in respect of UNCTAD I and (given the actual outcome UNCTAD II) by the author in "UNCTAD and After: Anatomy of a Failure" Journal of Modern African Studies, 1968 and in respect of Pearson in "Pearson and Jackson: Anatomy of Two Reviews", African Review, No. 2, 1971. UNCTAD III more than fulfilled the gloomiest possibilities envisaged in the two articles.
22. See G.K. Helleiner (editor) Disillusion And Disorder: the New International Economics of Development, Cambridge, 1975 and especially Helleiner "Introduction", R.H. Green, "A View From The Extreme Periphery"
23. See Co-Operation Against Poverty, Tanzania Government Printer, for 1970 Lusaka Conference of Non-Aligned States; T. Szentes, "Socialism and Status Quo", Proceedings 1970 Conference of Universities of East Africa Social Science Research Council, Dar es Salaam.
24. See Seidman and Green, op cit, Part II; T. Hayter, French Aid, Overseas Development Institute, London, 1966; K. Griffin, op cit, esp. Introduction, Part III.
25. For more detailed studies see K. Widstrand (editor), Multinational Corporations In African, Scandinavian Institute of African Affairs, Uppsala, 1975.
26. For a fuller discussion see Seidman and Green, op cit, Part IV.
27. To attempt to link different items is not to engage in bazaar haggling but to seek to arrive at a package in which each participant gains on the agreed issues taken as a whole but not necessarily on each taken separately. This approach widens the number of particular areas and issues on which joint action can be taken by waiving the requirement that each participant come out ahead on each item.

28. Both Community (Hazlewood) and Tanzania (Segal - Economic Research Bureau, University of Dar es Salaam) studies and most Kenya manufacturers have concluded the direct trade impact of transfer taxes has been low - at least compared to prior quantitative restrictions which had caused an abnormally low 1966-1967 base. If that is the case, the net direct and indirect effect has been highly positive by allowing a dismantling of wider and more restrictive controls.
29. See R. H. Green, "Economic Independence and Economic Co-Operation: A Political Economic Model and Some Implications" in D. Ghai (ed), op cit.
30. At that point definitional and assessment problems arise - attribution of revenue and routing patterns (and thus route revenues) differ under a unified system and may do so in ways increasing the apparant Nairobi-Mombasa line operating surplus while understating those of the Mwanza-Dar es Salaam and/or Kampala-Nairobi lines.
31. "Territorial Distribution of the Benefits and Costs of the East African Common Market" in Federation In East Africa, C. Leys and P. Robson, editors, Oxford University, Nairobi, 1965.
32. "Gains and Losses in the East African Common Market", Yorkshire Bulletin, November, 1965.
33. op cit., loc cit.
34. "East African Economic Union-An Approximate Balance Sheet", Economic Development Research Project Paper 93, Makerere University College, 1966. (The author at the time of writing that paper was neither an official of nor a consultant to the Tanzanian Government).
35. op cit.
36. op cit., Chapter 3. (For his analysis of Rhodesias-Nyasaland see Chapter 6.)
37. A later version of "An Approximate Balance Sheet". The complete tabular section runs to 28 pages largely consisting of detailed methodological and source notes which cannot be reproduced here for lack of space.

38. Herein lay the basic danger in the Airways and (still far from resolved) Railways crises. In both cases horrendously bad management masked by late and poor reporting (itself compounded by distinctly inadequate external audit reports) threatened to make the corporations burdens on the partner states. It is notable that the 1968-1972 querying of EAAC affairs and decisions and the 1972 onward parallel querying of EARR by Tanzanian politicians and officials was dominated by financial and quality of service (not division of gains or posts) concerns and led by the most notably pro EAC individuals. Equally, this means that the successful 1972-74 turnaround of EAAC and the initial steps in 1974 toward a parallel EARR exercise are significant EAC achievements.
39. This does pose a danger in that it removes a negative incentive for Tanzania to support the joint framework. By 1974 with its probable share of the EARR cash flow deficit in the 30-35% range and alternative maintenance facilities at TAZARA, Tanzania could for the first time indicate it did not necessarily see division of EARR as a major financial or physical service disaster. A real danger arose at that point that this genuine change of position would be believed to be a bargaining bluff leading to a breakdown of EARR reform discussions.
40. There is reason to believe that the Stamp Report on basic industry (especially metals - chemicals - fertilizers) development and location completed in 1970/71 underlines this problem. The logical way out would probably be to broaden the package to include high labour value added, low import content engineering industries which could be located in Uganda without significant costs above those at a coastal site.
41. Indeed Tanzania's State Trading Corporation through 1969 or 1970 tended to discriminate in favour of large suppliers of name brands with strong marketing units and thus, de facto, in favour of Kenyan and Ugandan subsidiaries of major foreign concerns and against independent Tanzanian producers, a perverse form of trade creation by any definition.

42. World Bank and International Monetary Fund studies almost all comment with some surprise on how few and how limited the tax incentives are. They evaluate this situation favourably because the evidence that long tax holidays and massive raw material duty concessions actually do stimulate much additional national product is notably thin and dubious.
43. What expires in December 1982 is not simply the Transfer Tax system but the whole of the Common Market provisions. If no renegotiation is carried out the subsequent position would be of three economies with full tariffs against each other, not of a totally free customs union/common market. The intent - or at least hope - of the Treaty clearly is that the provisions will be renegotiated and that the post 1982 situation will be at least as free of trade barriers as the 1967-82, but the achievement of that intent depends largely on 1967-82 experience.
44. There is a real danger in activities (especially in the field of research) being approved at Community level that would not make their way into any national budget. Because Community research is not a direct charge on national technical ministry budgets, they operate the weaker test "Might this research be of some use?" rather than the stronger "Is this of enough priority to use some of our limited research allocation on it?"
45. Kenya sees tourism as a key export sector contributing to an export led growth process. Tanzania views tourism as a secondary export and, more critical, sees exports as a means to meeting foreign exchange needs of domestic demand led growth.
cf R.H. Green, "Tourism and African Development", African Institute of Economic Development and Planning, Dakar, 1974.
46. The main (and virtually posthumous) success of the expiring East African licensing system was textiles. The allocation in this case ultimately did benefit the partner with the weakest trade balance (Tanzania) most and the intermediate partner (Uganda) next while concentrating Kenya's allocation in synthetic/manmade fabrics where its lack of a basic cotton industry did not pose a cost disadvantage.

47. Tanzania is seeking to develop national consultancy institutions with some success but probably would still prefer the more specialised technological (as opposed to technical institutions - Financial - marketing - training - management) consultancy work handled by a joint corporation, a route it proposed in 1971/72.
48. This is not to confirm the rather hysterical December 1974 Nairobi rumours that Tanzania had already decided to realign. Its goal as of the end of 1974 was an expanded EAC and its aim to avoid the need to choose between EAC and a new community. But the need to choose, could be forced on Dar es Salaam (or Dodoma).
49. The Kampala Agreement was not a total failure. Its adjustment of existing plant capacities worked out rather well. In a certain sense it gave experience in the dangers of quantitative restrictions leading to the substitution of the less corrosive transfer tax in the Treaty. Even in respect of new industries, Kenya and (partly) Tanzania did establish theirs; only Uganda had targeted for a set which proved unattainable. Incompleteness, haste, failure to put institutional forms in place, lack of attention to headquarters balance not a basically wrong direction seems the better judgement.
50. Some formula for frequent (not automatic) use could be devised along the lines:
- a) 60% ownership of equity (20-20-20) by partner states or their nationally owned development corporations;
 - b) 31% additional ownership by bodies acceptable to (chosen by) the partner state in which the plant is located. (These could be local private, foreign private, or parastatal.)
 - c) 9% leeway for technical partners, additional participation by a partner state which is a major supplier or customer, etc.