

ECONOMIC INTEGRATION AND ECONOMIC DEVELOPMENT
TOWARD A GENERALIZATION OF COMMON
MARKET ANALYSIS

Economic integration has been a field of substantial theoretical and applied theoretical writing for half a century. Major figures in international economic analysis - notably Viner and Meade - have treated it in some detail albeit rarely as an issue of primary significance. Today it has even arrived at the dignity of possessing a substantial textbook synthesis of theoretical issues and analysis.

More recently,* economic integration has again become a live issue in political economy and public policy and, therefore, the subject of a growing body of topical and applied analytical writing. Western Europe (European Economic Community, European Free Trade Area), Eastern Europe (COMECON), Latin America (Central American Economic Union, Latin American Free Trade Area), Asia (rather vague common market proposals), and Africa (East African Customs Union, West African Free Trade Area, Equatorial Customs Union, Market Economic Coordination Committee, Continental and sub-continental Common Market proposals) are all the scene of new institutions, proposals, and schemes for strengthening existing economic coordination or union on a required basis. Economic advantages have been cited - not always realistically or accurately - on behalf of an array of successful and unsuccessful federations**e.g. West Indies, Nigeria, Malaysia, Cameroon Federal Republic, Mali Federation, Rhodesias - Nyasaland. Articles, documents, and volumes - official and unofficial, academic and popular - have appeared and continue to appear in profusion on the policies and potential (or lack of it) of these institutions, states and proposals.

On reading both the theoretical and applied literature two points rapidly stand out. First there is very little use of the theoretical base either in actual policy formulation or even in applied writing. Second, policy and applied work - with the partial exception of EEC - is remarkably patchy, tentative, and ad hoc. Serious attempts to apply the theoretical model to actual cases or to formulate broad long term policy perspectives and

* The body of theoretical writing on economic integration is, itself, considerably more recent than the Zollverein, and the attainment of German and Italian economic union, much less the economic aspects of the debate on United States federal union.

** This is not to argue that economic issues were primary in the formulation - or dissolution - of these federations. It might better be argued that faulty or absent economic analysis and policy in regard to economic union has contributed to their weakness or disintegration.

alternatives are rare. In the cases of Asia, Africa, and Latin America they can virtually be counted on the reader's fingers.

Most theoretical writing suffers from concentrating on what are - in fact - secondary or irrelevant analytical issues, from a lack of specific attention to the significance of economic structures and institutional patterns, and from a failure to reexamine what economic ends might be furthered - or are in fact sought - through economic unification. An example of each weakness may help to clarify the limitations they impose.

The principal gain assumed to result from economic integration is increased static efficiency in the production of larger quantities of a basically unaltered mix of outputs. Even in West Europe any calculation of potential static efficiency gains yields very low values, in general about 1%. In primary export dependent economies, with limited industrial sectors, this line of analysis cannot bite at all because major changes in the output mix of the united economies taken together are essential for economic unification to be meaningful.

Part of the forgoing weakness results from the implicit assumption that economic union takes place among technically advanced industrial economies. Even when other types of economy are treated the conclusions flowing from the "industrial economy" assumption, e.g. in regard to initial and final production patterns of each economy and of the union, are usually carried on despite the inapplicability of the premises from which they flow. Similarly the effects of competition between industries within a union are given a significant role in theoretical analysis of "customs unions". The - admittedly pervasive in most branches of theory - institutional assumption of perfect or at least substantial competitions seems singularly unrealistic and its removal certain to other analytical results. In structurally advanced economies cartellization or central planning, not free competition, is almost certain to dominate plant location, expansion, and closure decisions vide the European Iron and Steel Community and, Czechoslovak-Polish production rationalization and coordination agreements. In structurally underdeveloped economies both market size and the presence of subsidiaries of international firms on the one hand and central planning - at least in the public sector - on the other are likely to relegate the impact of competition to a secondary, if not negligible, role.

Equally the analytical concern with world welfare gains and losses is largely irrelevant to actual policy decisions especially as it usually proceeds in static terms. Even in regard to EEC, it is unrealistic to think marginal world economic losses - if proven - could (or can) greatly alter policies designed to secure national and (secondarily) European economic gains. Furthermore, if EEC raises both the rates of growth of community national product and of imports then static diversionary harm to other economies is likely to be swamped by dynamic spillover effects. Even more glaringly nonapropos are criticisms of economic unions among primary export economies on the grounds that they cannot gain by exchanging their present exports. While correct enough, this line of argument clearly ignores the stated aim of such proposals to facilitate or make possible new lines of production.

As a result, the topical, descriptive, and policy writing on economic unions - existing, proposed, or defunct - tends to be extremely non-systematic. Pro forma bows to theory if economic union are followed by extremely ad hoc and usually equally extremely partial analysis of specific cases. What theoretical basis is adduced is much more likely to stem from input - output and production pattern analysis such as that of Chenery, development foci (ⁿpoles des croissances) formulations such as that of Perroux, or "terms of trade" trade growth rate, and related spread-backwash effect writings such as those of Prebisch, Myrdahl, Maizels, and Seers. Even this theoretical base is usually utilized either on a very abstract level hand rather vaguely at that) or in a very patchy and a hoc way to share up specific conclusions.

Per contra much of the applied economic literature retains certain of the artificial assumptions and imposed limitations of the theoretical analysis which appear singularly unfortunate in the study of political economic reality. Economic Union is treated as if it were separable from other elements of national unification despite a rather considerable historical record - and a body of analytical writing - to show that the economic and political strands in national unification are integrally linked.* Similarly neither the socio-political aims nor the socio-economic and economic institutional and production-trade structures of the economies concerned are treated explicitly by a majority of the writers.** This limitation is particularly severe in that carrying initial economic structures, institutions, and aims may not merely weaken or strengthen but basically change the impact of economic unification.

With the sole exception of EEC, policy formulations have tended either to the remarkably general (and indeed the remarkably cloudy, or to the extremely ad hoc and partial - sometimes in the same document. Vagueness and generality have characterized not only proposed unions but also the agreements creating or altering operating ones. Precise formulation of goals to be attained, institutions and policies for their attainment or the

* Political science writings on multi-national unification show a distinct tendency toward a parallel weakness. They often abstract from the economic institutional, structural, and division of gains issues involved in union to a quite unrealistic degree. The history and present situation of European unification is clear evidence that in the thinking of union proponents, the policies of states, and the pattern of unifying and fragmenting forces economic and political factors and institutions are inherently interrelated to an extent requiring explicit consideration of their interaction in both economic and political science studies.

** The exceptions are more numerous in the case of the various European economic union schemes and bodies. This is perhaps not surprising in that the institutional and structural factors as well as the socio-political aims of these states are more familiar to many of the writers. Unfortunately, by the some token, the assumed aims - institutions - structures used in African and Latin American studies are more likely to be substantially unrealistic and to lead to erroneous analysis and conclusion.

time periods for reaching reasonably definite points en route to the desired pattern of economic union are notable by their absence.

The more specific policy statements have tended to deal with narrow individual issues or issue groups e.g. the Raisman Report and its implementary legislation, the Kampala Agreement, without any clear statement of the relationship between the immediate proposals and any broader or wider objectives or policies. In at least a number of cases - including the above examples - while the vaguer discussion posed basic issues, the policy proposals dealt in symptoms and stopgaps without formulating any longer range attack on the basic problems.

As a result proposed and initiated economic unions have tended to become bogged down in a welter of unresolved tensions temporarily eased by expedient compromises but growing in underlying seriousness. At the same time the vagueness of broader policy and aspiration statements - including these somewhat loosely linked with the more ad hoc policy programmes - lends itself to conflicting national interpretations of what has been agreed leading to rising mutual recriminations and bitterness.

These limitations in theoretical, applied, and official policy writings are, in varying degree, general. However, the concern of the present paper is with the possibility of developing a more relevant analytical framework and a more systematic body of applied studies of the effects and uses of economic unification among basically non-industrial, primary export dependent economies, particularly those of Africa. Four foci for reexamination and recasting the present theoretical approach are:

1. An evaluation of the analytical characteristics, institutional and structural assumptions, and chief concerns of customs union writing in regard to their limitations when applied in the tiers monde;
2. An investigation of the conditions under which economic integration is likely to be and to be seen as a topic of significance by governments and of the relevance or irrelevance of economic union analysis of gains to stated national objectives;
3. A preliminary sketch of the most significant structural characteristics of African economies and of the constraints on rapid and sustained growth rising out of them to provide a framework in which to evaluate the potential relevant gains from economic unions among African economies;
4. Reformulation of the potential impact of economic union with particular attention to growth and structural change effects largely outside the present analytical model;
5. Evaluation of these potential effects in terms of this contribution to easing the constraints in development;
6. Isolation of the critical issues or issue cluster which must be resolved to create or maintain an economic union capable of realizing these gains;

7. Application of this approach to the present tensions and proposals within the East African joint economy to evaluate whether and under what conditions (if at all) it can remain viable or become more significant and what approaches to creating these conditions appear practicable.

The present paper will concentrate on the third through sixth of these foci. A subsequent paper will examine the first two in more detail and a third the East African regional applications and implications.

II

If, as argued above, one of the limiting characteristics of economic union analysis is its use of economic structural and institutional assumptions appropriate only to the "special case" of the industrialist would any attempt to redirect and apply the analysis to African economic reality should take account of the production, demand, trade, and institutional structures which make up that reality. These can be grouped into a coherent pattern whose interaction with proposed policies is examinable. Clearly African economies are not identical either in degree of development (however defined) or basic policy formulations. While these divergences create real conflicts of interest within a joint possibility of gain through economic unification and clear divergences of view on fields of economic action which must be harmonized if union is to work, they should not be allowed to blur the basic similarities which exist.

Briefly* these include:

1. Lack of economic size. Independent African states average about 5 million in population and £30 in per capita national product with over half having national products below £100 million and only five (of 35) in excess of £500 million. (Even taken as a single economic unit, East Africa has a total product of about £600 million.*)
2. Factor Scarcities and Rigidities. Capital - other than direct labour investment, as in tree crops, which is highly immobile - is limited in quantity and concentrated in enclosures. Labour while mobile geographically and highly responsive to economic incentives is unskilled and - partly because of low wage policies - often hampered in acquiring them because of non-wage sector ties. Entrepreneurship and management - public and private - is usually unimaginative and often lacking any long term outlook or goal pattern.
3. Pattern of Production. The primary sector ranges 40-60%, the tertiary 25-50%, the secondary (including construction and export processing) 5-20%. A series of biases in favour

* A more detailed listing appears as an appendix at the conclusion of this paper.

* By way of yardstick the Central American Economic Union (Costa Rica, Nicaragua, El Salvador, Guatemala, Honduras) has a "regional" product of £1.4 billion with a population of 13 million and an average per capita product of over £100 or four times East Africa's.

of export production pervade the productive, infrastructural, and financial institutions. Agricultural response to demand - apart from the very large plantation or settler units - is lagged and/or distorted by transport, marketing, and credit weaknesses. Intersectoral relationships are notable for their extreme numerical paucity and quantitative insignificance. I.E, the "national" economy is typically structurally "dis" - integrated.

- 4. Productivity-Research-Education. Output per unit of labour, of capital, and of natural resources tends to be low. Technical knowledge, adaptation, and dissemination is limited and uneven (again export biased). Research capacity is low, non-coordinated and rather quixotically allocated.* Educational levels are low and the supply of skilled labour, technicians, and professional manpower is a major and increasingly severe bottleneck. Low educational levels combined with poor health and nutrition hinder labour flexibility, in use, morale, and productivity.
- 5. Ownership and Control Patterns. Foreign ownership dominates large scale export production and the older import substitution manufacturing sectors as well as large scale finance and commerce. Public ownership usually in the hands of autonomous bodies - dominates infrastructural services and is important in export marketing, manufacturing, and sometimes commerce and finance. Private national ownership is usually small scale and either agricultural or service - commercial. The local business classes (including African planters and African managers of foreign or state firms) are closely linked with higher civil servants and politicians to form a much stronger "political class" than their own capital base could support alone. Widespread and detailed Public control of private business and national economic planning are virtually universally accepted (as they are not in say Asia or Latin America), widely attempted, and rarely consistently and effectively implemented. Capacity for control and planning is increasing but often bogs in a net of semi-independent and conflicting state and quasi state implementation bodies.
- 6. International Trade Dependence. African economies are irrelevantly competitive in primary exports, marginally complementary in food and labour. National autarchic development will lead very rapidly to high competitiveness and destruction of existing intra-Africa trade. Extra-African exports are dominated by a limited number of primary products - in virtually all African states the top 6 account for 75-90% of export and 15-60% of total monetary sector earnings. World demand for African exports cannot be expected to grow more than 3-4% a year nor African proceeds from these goods in their present form more than - say - 6%.

Extra-African imports are predominantly consumer, intermediate (especially fuel and construction), and capital goods with open economy income elasticities well above unity. From 1953 to 1962 the balance of trade predictably - moved from a large favourable figure to a large negative (25%) continentally with the rate of deterioration linked to the pace of attempted broadly based national development. Every country - except Zambia - mounting a major development programme faces, or will within three to four years face, a foreign exchange bottleneck of crisis proportions.

7. Patterns of Demand and Income Distribution.

Income distribution by race, nationality, and occupation is highly unequal and barely mitigated or even accentuated by tax effects. Real wages have not risen significantly from 1920 to 1960 except for the new professional-technical elite but a rising relative size of the modern sector has raised real consumption and a fortiori real consumer import per capita levels. Urbanization grows more and wage employment less rapidly than national product creating growing urban-rural and secure wage labour-other inequalities as well as rapidly growing open unemployment.* Structural and institutional barriers result in rising domestic food prices and growing food imports despite low rural incomes and high potential peasant capacity (land interest) in larger sales. Local manufactures are distrusted by both consumers and distributors even when price and quality are competitive.

8. Savings and Investment. Private domestic saving is uniformly low (2-4% GNP) while public savings (negative to 15%) and investment (say 2 to over 20%) are much more scattered as is foreign sector savings (nil to 20%) and investment (negative to say 20%). In all except the mineral enclaves and certain totally stagnant landlocked states public investment exceeds private but this is less true in directly productive investment.

Allocation of resources - between and within the consumption and investment sectors - is relatively to exceedingly inefficient with neither acceptable market nor state mechanisms existing. The high (50-90% counting direct and indirect effects) import content of investment creates a rigorous foreign exchange limit on investment albeit organizational and human investment (personnel) constraints are at the moment still the limiting factors in a number of economies.

9. Economic Aspirations and Discontents. National goals have been cited earlier. Acceptance of austerity to meet them is limited both geographically and in degree. The failure of - excessive - "independence gain" hopes to materialize fully, or often at all has led to rising mass discontent. This is particularly true of the relatively well off but also relatively well organized wage labour sector.

Even this sketchy structural panorama highlights the chief barriers to rapid economic growth. These include:

* In Lagos - Ibadan - Onitsha open unemployment is probably over 40% of would be urban labour force, in Leopoldville, Dakar and Brazzaville - Pointe Noire perhaps 50%, in Douala - Yaounde over 25%, in Accra - Tema - Kumasi - Tekoradi 10%, in Nairobi and Lusaka at least 20%,

1. Import capacity and the ability to allocate it to investment and to necessary import components of modern industrial and agricultural sectors;
2. Market sizes inadequate for sustaining efficient manufacturing establishments or large scale agricultural development schemes;
3. A current structure of production such that internal and external demand for it cannot be expected to keep pace with rapid (say 6-8%) increases in output;*
4. Inadequate national economic size for successful bargaining internationally or with foreign investors often economically stronger than African states;
5. Investible surpluses - including capital imports - not adequate to sustain rapid development i.e. 15-20% of national product and expanding 6-8% annually. This bottleneck is in part institutional resulting from tax systems with a buoyancy of less than unity in relation to GNP and foreign trade and exchange policies which fail to secure reinvestment of the bulk of foreign sector profit;
6. Low productivity stemming from inadequate technology and both low average levels of education/training and specific middle and high level manpower deficiencies.
7. Inadequate growth of employment and of the real purchasing power of politically effective groups leading to massive open unemployment and levels of socio-political discontent incompatible with effective implementation of any policy.

The particular constraints most operative today vary from state to state as do the responses. It seems fair to characterize African economies as lying along a continuum with four or five distinguishable typologies*:

1. Open export dependent economies without substantial trade balance problems whether because they are colonies, stagnant, or able to maintain high rates of growth of exports plus capital imports;
2. Open economies under severe balance of payments pressure resulting from attempts to accelerate or maintain growth of national product in the face of sluggish growth of import capacity;
3. Formerly open economies rapidly closing and attempting to formulate a set of workable and less trade dependent policies to sustain more rapid growth of GNP than of import capacity;

For much more extended discussion of this hypothesis see the authors Stages in Economic Development: Changes In The Structural of Production, Demand, and International Trade (Bank of The Sudan, Khartoum, 1965 - in press) and D. Seers "Stages of Economic Development of a Primary Producer in the Middle of the Twentieth Century", Economic Bulletin of Ghana, 4, 1963; and "Normal Growth and Distortions: Some Techniques of Structural Analysis", Oxford Economic Papers, March 1964.

4. Largely closed economies with autonomous national economic policies and deliberate planning for structural change but still subject to import capacity growth constraints;
5. Regionally oriented economies with heavy interdependence with neighbouring states.

(A sixth "stage", the basically open flexible industrial economy with global markets for its industrial sector is not present in Africa.)

While, there is no inherent linear progression in the system stages one through four do represent a sequence followed by poor economies seeking to attain and maintain development in the face of slow growth of import capacity. Stage five would be the result of regional (or continental) economic union and has partially characterized Kenya and Southern Rhodesia. The implementation of stages three and four - in Latin America and Asia as well as in Africa - has been severely hampered by the constraints noted above.*

To bear on these constraints and tendencies the potential effects of economic union need to be re-examined in the terms proposed by H. Kitanura of ECAFE:

"Economic integration is a progress in which an attempt is made to create a desirable institutional framework for the optimization of economic policy as a whole"

III

What are the possible beneficial effects of economic union including both its static (short run) and dynamic (growth creating) considerations? Four categories seem of interest: Static allocational efficiency and scale gains of existing sectors; Dynamic efficiency; Growth reinforcement, and Development potential creation. Certain results e.g. creation of larger markets have multiple effects but these four categories appear useful for organizing types of impact on the pre-union economies and in relating them (or noting their non-relevance) to the economic development constraints listed above.

Static allocational and scale efficiency

Gains of existing sectors are, in fact, analyzed reasonably well in standard union theory and its EEC variants. Comparative advantage of existing factors can be more fully utilized; concentration of production in fewer location may allow economies of scale internal either to the plant or the industry; per contra an increased number of firms (in the union as appeared to any pre-union territorial unit) may lead to greater competitive pressure for efficiency,

Unfortunately none of these gains is likely to be very significant in Africa. The problem - at least today - is not substantial sub-optimal or sub-capacity industrial sectors (as it is to a degree in Chile, Argentina, Brazil, and Mexico) but rather the virtual absence of substantial industrial sectors.

* See the Appendix for a tentative grouping of African economies in terms of this categorization.

Some rationalization - indeed perhaps a good deal - might be possible in agriculture as part of a broader programme, but not alone, nobody will abandon agricultural self sufficiency if it is the most practical way to economize on foreign exchange demand. Few African markets - even on a regional or sub-regional - basis are large enough for one to have much faith in competition as a major spur to economic activity even ignoring the historical tradition against it from colonial Africa and the problems involved in reconciling it with state productive sectors.

Dynamic efficiency gains - or increases in average productivity stemming from economic union relate to alterations in the structure of production and demand and the rate at which more efficient technology will become economically viable for the economy in question. If increased market size allows introduction of sectors with higher average output per capita and/or draws previously unused (unuseable) factors into use economic efficiency will be raised. Similarly absolutely larger markets and absolutely larger annual increases in market size will allow a continuously more rapid capturing of economies of scale dependent either on mass production technology, industrial internal but firm external economies, and larger production runs. Economies of scale are also likely in research education and supporting (services - infrastructure) sectors.

These potential gains from union are considerably more relevant to Africa. Certain highly productive sectors are beyond the scope of present national markets. At least some of the natural and labour resources for exploiting them are available (or easily developable) but remain either unemployed or engaged in much lower productivity uses. Import substitution in African markets tends to result in less than the optimum plant size (for almost all industries judging by Puerto Rican or Japanese plant size Distributions), a fortiori for less than optimum industry size, and for such low absolute growth after the initial substitution market is filled that new investment incorporating new technology cannot take place except with a long lag. Supporting infrastructure and services (including repair capacity) are either underutilized and ergo high unit cost or must be imported (e.g. servicing and routine spares production) with high foreign exchange and lost production time costs. The limited research facilities and middle-higher level manpower training facilities suffer from distinctly sub-optimal scales and therefore high costs of very scarce resources per unit output e.g. in medical schools as well as total gaps e.g. mining schools.

Growth reinforcement effects tend to spring largely from static efficiency gains and psychological factors. Cost reductions from unit expansion and external (to the producing unit) economies will - as noted in recent standard analysis - raise profit levels and expect - ations providing both an incentive and a source of surpluses for increased fixed investment. Expansion of market size and increased certainty of access to all portions of it will tend to lower risks and lead to both real and psychological improvements in expectations.

Defined in this way growth reinforcement is of limited significance to Africa - though clearly of substantial importance in E.E.C. and potentially in both LAFTA and CMEA (planners' decisions are also influenced by objective and subjective expectational and market certainty considerations¹)

This is hardly surprising in that these gains are closely related to those flowing from static efficiency effects.

Growth potential creation gains are linked to broadening economically viable sectors of production and to increasing real resource availability. Market unification should increase the number of products with an adequate "threshold" or higher, demand level. Over time, higher growth rates will lead to a more rapid passing of "threshold" levels for additional products. To the extent that these sectors and products have income elasticities equal to or greater than unity, the autonomy and domestic buoyancy of the economy will be increased. Similarly the import demand at any level of income and its absolute growth with additions to income will fall. If intermediate and investment good production are among the sectors whose range of viable outputs is substantially widened, a significant direct fall in the import component of investment will result. In any event, lower consumer import demand - at any income level - will allow a reallocation of import capacity to intermediate and capital goods.

Effective real resource availability is subject to three favourable influences: previously uneconomic raw materials and unemployable labour will become economically significant, raw material and semi-finished inputs from the whole union will be more readily supplied to any productive unit within it, foreign resource transfers (whether private investment or public loans related to project viability studies) will tend to increase. Further, to the extent real resource costs per unit output are reduced, the same quantity of real resource inputs will lead to a higher level of output e.g. any given investment programme can have a higher incremental product result.*

These gains are evidently of primary potential significance in Africa. In conjunction with the dynamic efficiency goals they are relevant - in varying degrees - to each of the constraints cited above **

1. Import capacity will be increased absolutely to the extent additional capital inflows are included. Even more critically, any given level of import capacity will be compatible with a higher absolute real national product and any rate of increase with larger absolute (and probably per cent) increases in national product. Finally, out of any given level of import capacity more will be available for capital and intermediate goods imports at any given level of total (domestic plus imported) consumer goods supply.
2. Market sizes will be increased (albeit as will be noted later substantial institutional and especially transport facility changes will often be necessary to take advantage of the increase.)

* This could be equally properly be classed as a dynamic efficiency gain.

** This does not imply that "Economic Union" is or can be a deus ex machina for the achievement of rapid growth and development. It can ease constraints and increase the import of serious development effects on a national basis but it is in no way a substitute for - as opposed to a part of - overall development policy and planning.

3. The newly viable lines of production will - in empirical fact - have average income elasticities of demand greater than unity. (Almost any non-food manufactured good - consumer, intermediate, or capital has this characteristic in African conditions.)
4. National economic size and therefore potential bargaining power can be increased. Not only will the market have greater economic power but the gains from being admitted to - or allowed to expand within it will be increased. Further uniform investment and concession legislation and a pooling of tax data and expert accountants could greatly increase tax revenues from the foreign sector.*
5. Investible surpluses could be augmented from higher profits resulting from lower unit costs (given selling price), from additional capital inflows, and from higher tax receipts both from the foreign sector and from the additions to income accruing to expansion of economic activity. At the same time economies of scale, specialization, and more efficient technology should increase the real increase in output attainable from any given investible surplus.
6. Productivity can be increased by the addition of new lines of production with greater average output per unit input than those of the present economic structure. Certain economies in research and education could be attained.
7. Greater economic activity and higher growth rates should have at least a marginal impact on employment problems. A large supply of domestic manufactures at lower cost should make possible a more significant increase in real consumption standards and variety than would be possible solely through imports and autarchic production.

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Viewed in this light economic union is highly relevant to development goals and their attainment. Its position as a substantial policy concern of many African states is fully justified. The pressing question becomes - how (if at all) can these potential gains be achieved?

* African Corporation tax return procedures - even in the stricter states such as Ghana - are terrifyingly inefficient to anyone with the vaguest idea of the operation of US or UK corporate tax structures. Rarely does return "investigation" go beyond checking internal computational accuracy.

*+ It can, quite fairly be argued that the gains cited remain those derived from economizing on the use and maximizing the productivity of scarce resources and, in this sense, the standard customs union analysis is intrinsically correct. However, all economic analysis is basically concerned with such economization and maximization problems and the particular setting for and importance of different types of gain posited is radically different from standard common market theory.

Isolation and formulation of the most important issues facing a proposed economic union in the Tiers Monde has been remarkably sketchy. Specific problems and ad hoc solutions on the one hand and sweeping generalizations boiling down to saying that since a potential gain has been shown progress toward its attainment is self-evidently possible have predominated. Unfortunately, the difficulties in creating a workable economic union are both numerous and relatively intractable. On the face of it, they appear quite insurmountable if tackled piecemeal and with a lazy perception of their overall nature. At least nine such issues or issue clusters can tentatively be singled out for specific attention in any attempt to create, extend, or maintain an economic union aimed at furthering rapid development through structural change.

One, the initial programme must be large enough to create a momentum toward further union. To do this it must cover truly significant economic sectors, e.g. joint telecommunications institutions while useful are rather irrelevant to attaining economic union. Only if the initial programme leads to significant gains and growing inter-dependency among union members will it generate a dynamic tendency to expand either in breadth (new members) or depth (new sectors). Equally the initial programme must be internally consistent e.g. it is hard to envisage a common market with no productive unit location policy in conjunction with national, non-integrated industrial development plans as viable.

Two, not only must the union economy as a whole gain but each member economy must gain and be seen to gain. Proportional (to national income or population) distribution of gains may be neither possible nor desirable but the concentration of the bulk of union gains in one of two economies especially if this results in their attaining higher growth rates and widening intra-union "economic distance" is not compatible with stable, let alone harmonious, union operation. There is no a priori reason to expect distribution of gains to "take care of itself" whether the member economies are neo-laissez faire, planned or both. Indeed, the most probable result of a policy by inaction is for gains to be highly centralized and the poorest or least developed initially of the members to suffer from backwash more than it gains from spread effects vide the recent studies by Professor Newlyn and D. B. Ghai on distribution of common market gains in East Africa.

Three, geographic coverage - both initial and if different, finally desired - should be reasonably clear. Neither private nor public bodies can make national plans for an erratically changing market. This implies that an economic union will be increasingly effective as confidence in its continuation (and probably in its expansion) grows and vice versa. If a union is likely to disintegrate no decision making unit can afford to assume the contrary and de facto dissolution by attrition will ensure.

Four, a clear understanding of these sectors and policies in which unification or coordination is essential and these supplementary ones in which it is desirable (as well as of the distinction between them) is needed if recurrent conflicts and recriminations are to be avoided. National plans must be coordinated and harmonized in these sectors producing for or serving (power, transport, commerce) union markets. Monetary and fiscal policies - at least to the extent they affect prices - must be roughly similar. Free mobility of factors and a common currency are per contra possibly desirable but not essential.

Identical plan growth rate targets are certainly not essential and probably not generally desirable.

Five, production unit location must - given the distribution of gains issue - be planned on a union basis for those sectors in which substantial inter-relationships are posited. Optimal economic location criteria should be followed subject to the constraint that all states benefit substantially at each stage of integration. This implies that any initial industry allotment agreement must have at least as many productive units to locate as countries participating. (This is not advocacy of any rigid equivalence of numbers of productive units or productive volume allocation per state.) The failures of the West African Industrial Location Conference (Bamako, 1964) and of its West African Steel Agreement are integrally related to failure to recognize and act upon this imperative.

Six, the inadequacy of a neo-laizzez faire common market even if most or all member economies are neo-laizzez faire (rather unlikely in Africa but vide the Sahel-Benin Entente of Ivory Coast, Upper Volta, Niger, Dahomey and (?) Togo) must be faced squarely "Invisible hand" distribution of gains - quite apart from any specific (or eschatological!) questions about its efficiency or morality - will almost inevitably result and fairly quickly "blowout" either formally or by demanding an ever increasing number of "exceptions" and "special temporary provisions." Agreed production unit location requires an interventionist union economic agency supported by a technical and research staff capable of making both macro-projections and micro-studies at the union economy level.

Seven, the stages, method, and pace of progress from the initial (or extant) degree of unification to the final goal level should be spelled out with some precision if not in great detail. For example if a central bank is to be added a broad agreement on its initial and ultimate powers and a definite date (or limited time range) for its establishment decided upon either initially or in the first year or two of union. Piecemeal advance is likely to maximize confusion and misunderstandings (unintentional and otherwise), and to minimize and delay actual attainments.

Eight, the fact of conflicting national interests should be openly recognized and their nature and approximate quantitative significance explicitly set out. Quite possibly this procedure will demonstrate that they are less than hazy speculation suggested and markedly less than achieved and prospective gains. Equally possibly it will lead to the discovery of ways in which some conflicts can be reconciled. In any event, until the conflicts are explicitly recognized and precisely formulated no intelligent bargaining or compromises are possible. Papering (almost literally) them over only delays their solution and maximizes friction and distrust. In practice, it fails even to gain time because the time gained cannot be used to find lasting solutions when the conflicts at issue have been swept under a growingly uneven and unsafe carpet of platitudes.

Nine, an institutional framework adequate for the operation of an economic union including the resolution of the eight preceding issues must be established and given adequate powers, personnel, and information to carry out its functions. The minimum set of such institutions would appear to include a plan coordination and productive unit location body with its own technical and

research staff, an administrative body or bodies to operate common services and directly productive projects (e.g. multinational river basin development, an industrial complex with different stages of production in more than one member state); a financial coordination and clearing agency (whether a common central bank and tax collection body or a more restricted one); a union policy adoption body with clearly defined, binding power to act on specified union economic policy and programme issues with expert information and advice provided either by a staff of its own or (probably preferably) largely by the other union bodies.

The case for the first three bodies is reasonably self-evident. The case for the fourth is no less strong. Unless union policy is determined at a Union level and by a union body - even if still subject to de facto national veto* - it will tend to dissolve into incoherent intra-state negotiations on all issues at all times. A heads of state body is hardly workable for practical time pressure reasons. Once adopted, policy must be binding on member states or both chaos and distrust will ensure. This applies both to formal acceptance and to implementation. Moreover, a probable result of combining a very weak union policy making body with a substantial union administrative apparatus is the delegation of properly political-economic policy decisions to administrators with neither the appropriate responsibility nor the data framework for taking them. For example, the East African Railways set rates on a basis supposedly designed to promote certain types of development and to favour certain regions, yet they have neither the data to assess the actual effect of the rates chosen nor the proper political responsibility to determine which products or areas to subsidize or tax in this way. An opposite effect will be inability of anyone to take specific decisions e.g. the weakness - and redistribution of productive units total non-operationality - of the East African industrial licensing committee.

It is idle to suppose that states will lightly transfer significant powers to a union body, even one on which they are represented, but still more idle to suppose a union can operate without substantial policy making power or that such power would knowingly be transferred to an autonomous group of union administrators.** The pre-conditions for convincing states to accept such a merging of critical economic decision making power appear to be:

* In a union of four or less members, single state veto power is virtually inevitable. National delegations are most unlikely to be divided, especially in the African political setting, and "voted" as opposed to bargained decisions of two or three to one are likely to be unacceptable.

** Indeed it would appear probable that willingness to entrust specific decisions in implementation of policy guidelines to administrators is greatest precisely when a strong and accepted policy making and review forum exists.

One, a clear recognition of the potential gains from economic union;

Two, an understanding of the operational reasons requiring substantial union administrative and policy making powers to secure these gains;

Three, substantial confidence in the good faith and of the level of economic understanding and competence of other economic union member governments.

(A Subsequent paper will seek to interpret the current stresses and potentially viable ways of resolving them in the East African economic union with reference to this framework.)

APPENDIX: Notes Toward A Structural Frame.

The application of the analytical approach to economic union outlined in this paper requires identification of key structural characteristics in the national economy and its major (geographic or product) sectors, and on the economic union level.

The following preliminary catalogue and grouping of characteristics is intended, not as a definitive scheme for all Africa or any African economy, but as a tentative identification of critical structural elements and clusters for more detailed study. Even as the catalogue now stands it has considerable utility as a check on the realian and potential operationality of would-be dynamic economic union integration policy proposals.

1. Economic size:-

- a. Independent African states average little over 5 million in population and only three exceed 20 million;
- b. No African state except South Africa has a national product exceeding \$1,500 million while over half have national products of \$100 million or less;

2. Factors of Production:-

- a. Labour is largely unskilled or possessed only of highly specific skills (e.g. tree crop cultivation), illiterate, geographically mobile but not flexible in occupational qualification;
- b. Skilled manpower both at the high and the medium level is in extremely short supply;
- c. Land use patterns and availability very widely. In a majority of areas reasonably secure tenure prevails and latifundism/rural debt are not dominant. However, in the ex-settler colonies and the Congo land alienation has upset this pattern while in numerous scattered areas distinct rural overpopulation exists;
- d. Large scale private capital (predominantly foreign) is concentrated in the export (including production and processing) - import (including distribution) sectors and in

certain cases secondarily in light industry while public capital is concentrated in infrastructure predominantly designed to serve the export-import sector;

- e. Small scale private capital is concentrated in trade and services, housing and tree crops;
- f. Organisation (entrepreneurship and management) is distinctly weak. Public bodies appear to lack clear economic goals, private (national) entrepreneurs are neither numerous nor able to mobilize large bodies of resources for single projects.

3. Pattern of Production:-

- a. The primary sector average 40-60%, the secondary (including construction and export processing) 5-20%, the (including government services) 25-50%;
- b. Agriculture is largely mixed self-cash production but with substantial cash (export and urban food) and subsistence segments in all countries and dominant basically cash or largely subsistence patterns in same. Units of production are very large (settler farms, plantations, state farms) or quite small with very few medium sized units. Foreign ownership is limited to certain parts of the large scale subsector and is fairly rapidly declining in independent states. Production response to price incentives - especially in the small scale sector - is substantial but often legged or "distorted" because of marketing and transport deficiencies;
- c. Mineral, raw metal, and oil production are significant in perhaps half the states and constitute dominant sectors in at least five cases (Gambia, Swaziland, Liberia, Libya, possibly Gabon and Algeria). The sector is virtually 100% foreign owned has few linkages with the rest of the economy except through tax and royalty payments (and thereby foreign exchange);
- d. Manufacturing is limited in scope, scale, sector size. Parallel to it is a stagnant or declining craft sector which is often as larger as modern industry. Export processing, light consumer import substitute products, and construction materials account for 90% of manufacturing value added in all but 3 cases (U.A.R., South Africa, Zimbabwe).
- e. Infrastructure (physical overhead capital) is unevenly provided, heavily biased toward the export-import sector. While virtually 100% public owned its expansion has not been very clearly linked to development policy on the micro-level;
- f. Inter-sectoral relationships are notable for their paucity and low level i.e. the "national" economy is typically structural "dis"-integrated.

* Clearly the U.A.R. - as well as South Africa and Zimbabwe - does not fit this pattern. The African states with any significant manufacturing activity are Kenya, Zimbabwe, South Africa, Congo (Leopoldville), Nigeria, Ghana, Cote d'Ivoire, Senegal, Algeria, Tunisia, Uganda.

4. Productivity-Research-Education:-

- a. Output per unit of capital and labour input tends to be low;
- b. In some major sectors - particularly non-plantation tropical agriculture and basic surveys - a very limited body of useable data exists. In others - e.g. manufacturing, construction - both applied research and generalization of best currently used techniques remain inadequate;
- c. Research capacity is low, non-coordinated, somewhat quixotically allocated, and duplicative (nationally as well as regionally);
- d. Educational expenditure in most states is high relative to public revenue and substantial in relation to G.N.P. but present levels of literacy and of more advanced standards of education are low and the overall educational level of the population is rising very slowly;
- e. Low educational levels, poor health, and poor nutrition (sometimes in terms of calories as well as diet) are serious detractors to the occupational flexibility, ability to work, and morale of the labour force;

5. Ownership and Control:-

- a. Foreign ownership is dominant in the modern export-import tied sectors and important or dominant in manufacturing except in states having undergone very radical social change; e.g. U.A.R. and except for their mineral enclaves Guinea and Algeria;
- b. Foreign firm influence through domestic investment, external market and supply control, and investor government backing is major to dominating;
- c. Private national ownership is largely rural agricultural but urban housing, internal road transport, and medium to small scale commerce are substantial and are the centers of interest of the "national bourgeoisie". The local business classes (including African planters and foreign or state firm managers) are, in a majority of cases, linked with higher civil servants and some politicians into a much stronger "political class" than their own capital base would warrant;
- d. Public ownership is dominantly through state corporations (cooperatives are distinctly secondary) with widely varying degrees of autonomy but fairly general lack of coherent integration into the planning and policy target setting mechanism;
- e. Public control is exercised on a broad (and widening) front by a large - and often conflicting - complex of bodies with uneven, but usually increasing success;

- f. National economic planning is virtually universally accepted but the degrees of real commitment and implementational capacity varies widely. Not more than 6 serious overall indicative plans with definite serious quantitative sectoral target levels have been formulated (U.A.R., Tunisia, Ghana, Tanzania, perhaps the Sudan and Senegal) while probably three more (Uganda, Zambia, Kenya revision) are being drafted and three other states (Algeria, Mali, Guinea) have attempted to formulate plans of this type.

6. International Trade:

- a. The national economies are (irrelevantly in terms of joint development) competitive in primary exports and marginally complementary in food and labour;
- b. National autarchic economic development would lead rapidly to high overall competitiveness, regional development to growing complementarity;
- c. Existing regional trade is low overall (10%), important for a limited number of countries and sectors, and threatened by agricultural and simple consumer goods self sufficiency targets;
- d. A limited array of primary products account for substantial (10% or more) share of export earnings and the top half dozen account for 75-90%;
- e. World demand for these products at constant prices can be expected to grow not more than 3-4% a year. In the short run higher growth is possible for individual states by increasing their share but for Africa as a whole this appears unlikely to result in an export growth rate over 4-6% per annum over the next decade;
- f. While overall export prices for Africa have not fallen appreciably over the past decade certain countries e.g. Ghana, U.A.R., Sudan, Uganda, Senegal, have suffered sharply from the price trends of their key exports;
- g. Extra-regional imports consist primarily of manufactured consumer and capital goods with income elasticities of demand greater than unity and without present close domestic substitutes;
- h. Imports grow much more rapidly than exports from 1953 through 1962 reversing initial current accounts surpluses and wiping out "excess" reserves. By 1962 there was an average 25% current account gap closed by borrowing, foreign investment, and aid;
- i. Foreign aid and investment peaked in 1961-62 but exports (after three stagnant years) rose in 1963 and 1964 so that the overall balance of payments situation has slightly improved;
- j. Every country mounting a major national development programme (except South Africa and Zambia)

is facing or is about to face a severe overall balance of payments crisis. So, in fact, do several of the stagnant economies.

7. Income Distribution and Demand Patterns :-

- a. Income distribution is highly unequal - in the wages and salaries sector the most unequal of any continent - while tax structures are significant redistributive devices in only a few cases e.g. Ghana, U.S.R.;
- b. The large basically self-consumption sector lives near subsistence as do the unskilled rural and urban labour sectors into which it can shift;
- c. Real wages (unskilled) have not risen significantly since 1920 (1948-1958 increases partly reversed previous losses and partly have been erased since) but skilled and African real technical worker wages and professional - managerial salary earnings have risen sharply increasing African income inequality;
- d. The urban (and in some case e.g. Zambia the mining) skilled labour force is a relatively small and privileged class in economic terms;
- e. Urbanization is occurring at a substantial pace, virtually always at a level above the growth of urban employment opportunities;
- f. Wage employment grows less rapidly than national product;
- g. Open unemployment is increasing and in particular a body of unemployed with five or more years of education is growing;
- h. The demand for consumer hard and soft manufactures is rising more rapidly than national product as a result of increasing salary and "high" wage groups and of urbanization;
- i. Rising population, near unitary income elasticity of demand for food by broad groups in the population, and urbanization combine with poor internal transport and marketing to cause rising (relative) domestic food prices and in the absence of strict quantitative controls) rising food imports;
- j. Prestige of local manufactures in low - both distributors and purchasers display a bias for extra-regional products from traditional sources of supply.

8. Savings and Investment:-

- a. Private (domestic) saving is low - perhaps 2-4% of E.N.P. while private (foreign) saving reinvested locally is usually even lower except for expanding mineral economies.

- b. Public savings and investment exceed private usually by wide margins except for a few mineral enclave economies (Liberia, Libya, Gabon, Mauritania), a handful of totally stagnant states (e.g. Central African Republic, Chad, and two "settler" economies (South Africa, Zimbabwe). The general range is from 50 to 90% with no close correlation to economic ideology (e.g. Mali and Senegal are both around 90%, Ghana about 75%, Ivory Coast about 60%, Sudan 60%).
- c. Gross domestic investment lies in the range 8-20% and substantially exceeds gross domestic savings with the sole exception of South Africa;
- d. The allocation of resources between consumption and investment and within the investment total is relatively to highly inefficient, neither acceptable market mechanism nor reliable state allocational techniques nor a combination exist with the partial exception of the U.A.R.*
- e. Import content of investment is high (direct import component 30-80% and indirect plus direct 50-90%) placing a strict ceiling constraint albeit organisational and human investment inadequacies not foreign exchange are the effective immediate constraint in some countries e.g. Zambia. In all cases those factors decrease the efficiency of investment and of capital stock use substantially.

9. Economic aspirations and Discontents:-

- a. Rapid creation of national, economically independent, technologically advanced economies with rising per capita product is universally a stated goal with varying degrees of urgency attached to it. The seriousness of its pursuit is closely correlated with the breadth of the governing group and the level of mass organization and communication.
- b. Acceptance of current austerity to marshal investible surpluses is less widely accepted and politically difficult e.g. Ghana, Tunisia, to politically suicidal, e.g. Dahomey to implement;
- c. Expectations of radical economic gain held by workers and peasants during the nationalist struggle and at the time of independence have not been fulfilled, or at best have been fulfilled, or at best have been fulfilled less rapidly than they have grown, and the level of discontent is usually high and (probably without exception) rising;
- d. Urban workers are better organised than farming groups and have short run conflicts of interest with them and with maximum investment programme. As a result narrow "business type" trade unions (in general the ICFTU Pattern) will inevitably clash with any government committed to rapid, radical national development in close concert with the state (in general the AATUF pattern)

* The South African market cum state intervention mechanism does work reasonably efficiently given the economically, socially, and morally a rational goals of the state.

will inevitably face discontent from workers and more colonial trade officials;

- e. Very considerable urban-rural and cash crop-self consumption sectoral differentials exist and (with fairly massive reinforcement from private investment and state investment and current expenditure patterns) are steadily broadening creating further frictions and frustrations.*

A tentative listing of African economies by stage follows:

Stage 1a - Open/Standard Colonial

Angola	Portuguese Guinea and Islands
Mozambique	South West Africa
Reunion	Comoro Islands
Equatorial Guinea and Islands (Spain)	

Stage 1 - Open

Chad	Central African Republic
Voltaic Republic	Ivory Coast
Libya	Gabon
Mauritania	Swaziland

Stage 2 Open/Pressure

Liberia (returning to 1)	
Basutoland	Bechuanaland
Ethiopia	Malawi
Niger	Cameroon Republic
Congo (Leopoldville)	Nigeria
Gambia	Malagasy Republic
Sierra Leone	Togo
Morocco	Mauritius

Stage 3 - Closing/Toward National Outlook

Senegal (2-3 border)	
Congo, Brazzaville	(2-5 border)
Dahomey	(2-5 border)
Zambia	Sudan
Kenya, - Uganda - Tanzania	**

Guinea	{ border $\frac{3}{4}$ Economic Size Barrier }
Mali	{ " " " " " }
Tunisia	{ " " " " " }
Algeria	{ " " " " " }

Stage 4

Ghana
U.A.R.
South Africa.

* A curious case of this appears to be Congo (Brazza) where a radical but trade union based government has a stated development policy that will benefit almost solely urban and town workers but will be financed substantially from taxes bearing on peasants. In Kenya, on the other hand attempts to correct urban-rural and racial income inequalities have resulted in a capital expenditure programme heavily biased to agriculture and against industry. The Sudan, because of the special opportunities for large scale irrigated agriculture, is partial exception to the urban-rural rule but South and West Sudan Vs Central (Fr Roseires - Khartoum - Atbara axis) Sudan differentials are increasing. (see next page for footnote**)

Stage 5 Regional Market Oriented

Zimbabwe (Reverting to Stage 2)

Stage 6 Global Market/Industrial Open.

None.

**(See last page)

Taken separately Tanzania is a 3-4 border case and Uganda, assuming acceptance of 1965 Draft Plan, nearly at the same point. Kenya has shared 2 and 5 characteristics and is the least "advanced" in stage 3.