

ECONOMIC UNION IN EAST AFRICA: Principles, Prices, and Proceeds.

by
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Economic Union in East Africa has the advantages and disadvantages of being an exceedingly topical as well as an important analytical subject. At least since 1961 it has become increasingly apparent that maintenance of economic union by independent East African states would require basic alterations in aims, institutions, operations, and division of gains. The 1964 Kampala and 1965 Mombasa Conferences and the 1964-1965 increase in quota restrictions plus the decision to replace the Currency Board with separate Central Banks and currencies underline the failure to achieve these alterations to date. The present East African Commission in evidence of the continued will - of all three states - to continue the search.

One of the apparent failings of previous attempts to deal with the problems of economic union in East Africa has been their ad hoc and piecemeal nature. Both the Raisman "distributable pool" formula and the Kampala Agreement firm relocation of production, quota, and allocation short list provisions share this weakness. A firmer base for evaluation would appear to lie in an analysis of the principles which have underlain economic union in the past and those which should guide it in the future, of the historic and of the acceptable future costs of economic integration, and of the past, present and acceptable future proceeds of integration. The following sections of this paper attempt a first approximation to such a base.**

* This is the third in a series of papers analyzing principles, problems, and potentials of economic union. The first two: "Economic Integration and Economic Development: Toward a Generalization of Common Market Analysis" and "Customs Union Theory, Political Economy and Tiers Monde Reality: a Critique Toward a Revision of Economic Integration Analysis" have appeared as EDRP Paper No.81, Part I and Part II. The author wishes to express thanks to the participants in the University College Nairobi - Conference of Cultural Freedom International Seminar on Economic Coordination in Africa (December 14-17, 1965) and especially to Author Hazlewood, J.H. Mensah, and Miguel Wionczek for their valuable criticisms, comments, and suggestions on earlier formulations offered in discussion at the Seminar. They are not, of course, responsible for remaining errors and misconceptions.

** Four recent analytical studies make important contributions to this effort: A. Hazlewood "Economic integration in East Africa" (Nairobi Seminar, to appear in Studies in African Integration, RIAA, edited by the author; W.T. Newlyn, Gains and Losses In The East African Common Market" (EDRP Paper 79, 1965); J.S. Nye "East African Economic Integration", (Journal of Modern African Studies Volume 1, No.4, December 1963); and B.F. Massell East African Economic Union: an Evaluation and some Implications for Policy, (Memorandum RH-3800-RC) California, Rand, Santa Monica, December 1963. Each has a narrower focus than the present paper and treats the topics with which it deals in more detail than is possible in it.

The question of principles needs to be approached both historically - the bases for East African economic cooperation-union have shifted over time even before independence - and topically in terms of why, what, where, how, where, and when. Why union? What economic sectors unified? How has union functioned institutionally and through market forces? Where have the gains gone? When have there been significant changes?

The case for economic union was originally part of the Kenya settler - Kenya government drive for a "White Dominion" in East Africa. Even following the failure of that attempt, the groups which had sought it remained the most influential in shaping East African policy with definite results both objectively on pre-1961 economic union policy and economic structure and subjectively on attitudes toward economic union in all three territories.*

Until 1956 the general line of argument was that Kenyan agriculture needed wider markets and Kenyan industry needed bolstering e.g by the partly politically motivated 1956 moving of half East African cigarette production from Kampala to Nairobi and by bulk sale of Owen Falls Power to Kenya at rates well below those charged to Ugandan industries.** The case was, in fact, by no means self-evidently weak at this time. Pre-war interterritorial trade never significantly exceeded £1 million with a rather small net trade balance to Kenya. Post-war trade until 1956 saw Uganda fairly regularly the leading interterritorial exporter and in surplus with Kenya on the basis of cigarette, sugar, and - in some years - maize exports. Tanganyika was consistently in the position of being far more a market than a source of supply to Kenya and Uganda but after 1950 her imports from Uganda rose to exceed those from Kenya until the 1956 cigarette factory transfer.*** While Kenyan industry did benefit by the 1924 Union Tariff **** and in manufacturing outside agricultural processing Nairobi early established a dominant position, it was processed agricultural products which then dominated East African trade in manufactures and Ugandan cigarettes and sugar came to outweigh Kenyan meat, dairy products and beer.

* Neither the policies nor a fortiori the structures and attitudes changed automatically with independence. A definite proprietary and status (or perhaps more accurately movendus) quo view has tended to remain in Nairobi, a well defined suspicion in Da es Salaam, with rather mixed attitudes in Kampala. Neither historically nor structurally are these views unreasonable, they represent a fairly acute - if not very precise - evaluation of what East African economic union has meant and of the short run effects of its present form on national economic interests.

** The rates were fixed by negotiation but the UEB failed to secure prices approximating either its average cost of generation or the opportunity cost of substitute power to Kenya.

*** See Annual Trade Reports, Kenya, Uganda, Tanganyika.

**** Cf T.A. Kennedy "The East African Customs Union: features of its history and operation", Makerere Journal No. 3 (1959).

Agricultural objectives of East African economic union have always been limited or vague. -- Both the desire to protect Kenyan agriculture e.g. in maize and (now) in sugar and the colonial administration penchant for a variety of controls on production, pricing, and distribution have consistently prevented the common market from functioning fully in agriculture even in principle and and have even further limited it in practice.*

Joint planning of potential interterritorial and international export agriculture to create an optimal production, transport, and use pattern has been suggested in the case of sugar but has met a very mixed reaction effectively blocking joint development and raising the question of de facto protected higher cost production in one territory displacing the established (and probably lower cost) inter-territorial exports of another.**

Coordinated policy in regard to foreign market agricultural exports has operated in at least one case - coffee under the old 1961-1962 East African quota. In fact, by pooling national quotas gains can be made - and were in 1962 - through ensuring that the highest price grades are sold first and only lower price coffee left to the residual "free market." This potential use of East African economic union was ended - or at any rate interrupted - with the separate national quotas of 1963.***

* Would be exporters have contributed to this result as well - e.g. Uganda's 1962 export ban on maize which led to a breakdown in the 1955-1961 pattern of free and growing Uganda - Tanganyika trade in agricultural commodities. It is of course not the controls, e.g. Marketing Boards, in themselves, which prevent a common market in agriculture any more than it is planning per se which threatens the common market as a whole. The problem has been the divergence in institutions and policies, e.g. of prices in the different territories, the failure even to attempt to arrive at agreed quantities and prices to be traded in certain key commodities, e.g. maize, and the tendency to autarchic attitudes in the agricultural policies of all three territories.

** Cf: C.R. Frank "The Production and Distribution of Sugar in East Africa". East African Economics Review, No.2, 1963 and The Sugar Industry in East Africa, EAISR East African Study, East African Publishing House, Nairobi, 1966; D.G.K. Belshaw "Agricultural Production and Trade in the East African Common Market" in Leys and Robson (Editors) Federation in East Africa, Oxford University Press, Nairobi, 1964, pp. 96-97; P. Newman, "The Economics of Integration in East Africa" in ibid, pp. 67-68. Frank's production cost data have been challenged but, even assuming Kenya costs to be as low as Ugandan (a point not all Kenyan investigators would support), a case for joint planning to minimize transport costs and maximize sugar agreement quotas and export revenues exists. Certainly inducing Ugandan growers to develop new capacity in Kenya rather than Uganda is neither an inherently optimal planning device from the East African point of view (much less the Ugandan) nor a step well designed to solidify economic union, threatening as it does one of Uganda's major inter-territorial exports.

*** Cf. Belshaw, op cit, pp. 98-99.

Promoting the establishment of industry was always a goal of East African economic union policy but became more prominent after World War II.* The cases presented have been a) the East African market is large enough to attract industries which no one territorial market would interest and b) within the three territories advantages of location exist making for a more efficient pattern of industrial location than would be possible on an autarchic basis.

The 1945 proposals interpreted the second argument to call for an overall industrial licensing and location policy in the context of a joint industrial development plan. In fact, industrial licensing as introduced in 1948 was not only limited in coverage but also permissive rather than inducive and no attempt at overall industrial location or industrial development planning was again made until the 1964-5 Kampala - Mbale Agreements.** However, in general concern has centered on the inducement effect of the larger market with a laissez faire location policy favoured by Kenya, a direct state participation approach followed by Uganda through the Uganda Development Corporation, and a specific inducement cum subsequent exclusive scheduling procedure advocated by Tanzania. More active development planning has increased state involvement all round, but Kenya still supports a more competitive (or entrepreneurial free choice) approach to industry siting and Uganda as well as Tanzania a more pre-planned approach of allocating specific East African industries to each state to promote. These approaches probably do correspond to territorial interests. Because Kenya is located between the other two markets (in terms of transport links) and has the largest single market, purely marketing and imperfect competition considerations will tend to result in concentration of production there unless Uganda or Tanzania production cost advantages or the importance of transport costs is large. UDC has been the most effective of East African promotional bodies; Tanzania's main successes in securing regional market directed firms have come under the allocation section of the Kampala-Mbale Agreement.

Inducement of additional foreign investment as a goal tends to turn on the same concerns as industrial growth promotion. Other sectors are either not particularly dependent on East African economic union, e.g. export agriculture, or are likely to be made more attractive by economic union through its promotion of industrial production e.g. commerce, finance, road transport. This case is therefore not an additional why to promotion of production but a necessary condition for such added production and a probable result of the additional opportunities for profitable output opened by economic Union.

* See Inter-Territorial Organisation in East Africa, Colonial 191, London 1945; Revised Proposals, Colonial 210, 1947; HMSO; East Africa Royal Commission 1953-5: Report, Cond. 9475, HMSO, 1955. East Africa, Report of the Economic and Fiscal Commission, Cond. 1279, HMSO, 1961.

** Even then the list of allocated industries was short, the long term industrial study commission was not appointed, and serious problems have arisen in regard to national acceptance of the allocation provisions.

The argument for East African economic integration based on savings derived from more efficient operation of a wide range of services on a joint basis is primarily of post-World War II vintage. The 1945 Proposals put forth this case most strongly and led not simply to the High Commission institutional structure of 1948 but also to the actual consolidation of the services both self contained and EACSO.* Since 1945, this has been the one area in which there has been relatively little overall national divergence on the reality of East African and national gains although a series of overall and particular disagreements on the reality of national gains from joint operations (including tourist promotion) and the weakening of at least two more (including the University of East Africa).**

If the above examination of historic and present "whys" appears somewhat fragmentary, imprecise, and loosely organized this is precisely the impression left by official reports, the CLA debates, the public discussion as covered in the press, and indeed - some of the academic analyses. A more unified set of goals to be sought from union is needed not simply for intellectual neatness but to provide a more satisfactory operational framework for policy and institutional formulation. The post 1962 focusing on the attainment of higher rates of development as the primary raison d'etre of economic union is a step in this direction although there has been a related tendency to center on the industrial sector to the exclusion, e.g. of agricultural raw products and processed goods and of tourism and a quite misplaced emphasis on bilateral trade balancing as a goal.

The attainment of the socio - economic goals set by all three East African governments requires both rapid growth in national output and the development of new structures of production and employment.***

* Some consolidation between Kenya and Uganda e.g. the Mombasa - Nairobi - Kampala Railroad did exist but the post 1948 scope of joint activity was very much broader both geographically and functionally.

** Arguments have indeed arisen over whether railroad route and rate policies have favoured one state at the expense of another. These controversies were perhaps sharpest in the 1920-1939 period when Uganda challenged the roundabout route of the Kampala extension and the low rates for Kenya settler products - particularly maize - as injurious to her interests. Tanzanian voices have, in recent years, sometimes queried the routing of some Meshi-Arusha area exports and most imports via Mombasa instead of Kenya. Controversy over the tariff structure is endemic but stems as much from a lack of data on what costs (and therefore subsidies and taxes to particular goods) are, as on territorial inequities. Nonetheless, the balance of opinion in each state since 1948 has been that it benefitted from railway unification. If A. Hazlewood, "The Co-ordination of Transport Policy", in Leys and Robson (Editors), Federation In East Africa, Oxford University Press, Nairobi, 1965, and Road and Rail in East Africa, Blackwell, Oxford, 1964 and M.F. Hill Permanant Way.

*** See EDRP No. 81, Part I for a more detailed development of this point.

The most relevant "why" for economic union in East Africa today lies in the contribution it can make to increasing these rates of growth and development in the future for East Africa as whole and for each territory individually.

The potential growth rate gains - like the sectoral gains usually considered in static terms - flow from the increased economic size of East Africa as opposed to any one territory. These are not, however, the static comparative efficiency - economy of scale relocation gains central to most customs union discussion. Eight contributions - five primarily linked to creating opportunities for higher growth and development rates and three primarily to financing them - can be distinguished:

1. Certain lines of production which would not be economically feasible on a territorial basis become possible (demand passes minimum economic threshold) regionally;*
2. Advantages of location in the industry and agriculture (natural e.g. raw materials or created e.g. infrastructure, market, transport) will be greater within the union especially as some markets in each territory are logically served from another and certain inputs for processing and manufacture could likewise be traded advantageously;
3. Specialization - in particular industries or complexes of related industries and raw material producing units on the one hand and in particular sub-lines within broadly defined products on the other - is possible to a greater degree in the roughly tripled market. The cross trade in both textiles and shoes almost certainly flows from efficiencies of specialization within product lines, gains which for industry (and possibly certain types of agriculture) are more important than the broader static comparative advantage specialization gains. These created advantages of scale and of concentration of effort tend to become increasingly significant as industrialization progresses;**
4. Increased efficiency in terms of speedily adopting new techniques - as well as incorporating efficient ones at the time of plant construction - becomes possible with larger absolute increases in annual demand for particular products whether from a larger base market or a higher growth rate;
5. The new product lines made possible under the first category and the types of change within product lines made possible by the second through fourth will result in a make up of domestic market production with a higher than previous average income elasticity of demand and, by and large, a lower import component. On the one hand, this means that for any rate of growth of national product (including exports) there will be an increased rate of growth of demand for domestic market output and, on the other, that for any level of import capacity a higher level of national product is compatible with international balance.

* On the threshold concept in re protection Cf H. Myrdal
"Infant Industry Arguments For Assistance Industries
In The Setting of Dynamic Trade Theory" in Horrod and
Hague (Editors) International Trade Theory In a
Developing World. Macmillans, London, 1963.

** Cf. B. Balassa "Trade Liberalization and 'Revealed'
Comparative Advantage" Manchester School, May 1965.

5. Greater efficiency in the provision of services can provide a flow of investible surplus (public via surpluses on services and greater auto-financing by them or private via lower charges) which would otherwise be required for public recurrent and private intermediate expenditures;
7. Changes in efficiency levels will affect, not only recurrent costs per unit of output but also capital costs per unit of capacity so that the new pattern of production possibilities will, in general, be characterized by lower capital-output ratios and thus a higher growth rate for any given level of investment;
8. Additions to economically viable lines of activity and increased efficiency in others should, by and large, attract certain types of foreign private capital and of project viability oriented public loans or grants on a larger scale.

The possibility creating and financing gains are not exclusive. Once lines of production benefit by gains two through four, their lower costs (presumably resulting in higher profits as well as - or more than - lower prices) result in additions to the flow of investible surplus for financing growth.

The question of what sectors to view as part of the East African union economy has flowed and presumably will continue to flow from the "why" case advanced.

Rail and air transport, the bulk of tax collection, and a number of research - administrative - economic - social services have been operated jointly since 1948 under High Commission and Common Services (broadly defined to include the self-contained services directly responsible to ministerial committees and the CLA) auspices. Clearly the reason has been the capture of expected gains in efficiency (scale, overhead spreading, seasonal scheduling, etc.) from East African as opposed to territorial operation. Almost equally clearly - albeit exact data have never been compiled - those gains have been of some significance.*

* What estimates there are of gains on joint services tend to be either purely approximations to cross-subsidization of particular territorial losses by the joint services (which clearly net to nil for East Africa) or mixed guesses as to subsidies and true efficiency gains. This unfortunate emphasis on redistributive effects netting to zero e.g. in trade balance and income effect of industrial location calculations, rather than the net gains to East Africa from greater efficiency or additional productive activity made possible, pervades the entire post - Reisman discussion with fairly obvious negative results in attitude conditioning.

Fiscal policy has been - increasingly from the 1917 creation of the Kenya - Uganda free trade area - coordinated because of its relevance to effective common market operation. A united - or at least a united minimum * - external tariff is necessary for protection ** and common (or at least approximately common) excise rates are needed to allow free interterritorial goods flows without tax evasion. The common company tax has been viewed as a necessary base for free location in accord with (laissez faire) economic principles within the common market and the common income tax as a parallel base for allowing market forces free play in attracting (basically expatriate) skilled and professional manpower.***

Common currency and - with the 1955 and subsequent broadening of currency Board Powers - closely coordinated though not identical monetary policy (the uneven use of fiduciary issue rights has already introduced some difference) have been operated to facilitate common market transactions and to preclude trade and payments disruptions caused by differing rates of cost and price changes.

Trade in industrial products and in several interterritorial agricultural exports of the Kenyan settler sector **** has consistently been free. Other agricultural trade - for reasons noted earlier - has been less uniformly treated with varying restrictions especially on the part of Kenya.

Modifications of industrial free trade have taken the form of location scheduling (both permissive as under the licensing system and active as under the Kampala Agreement), of more or less forced relocation of production by political suasion (as with cigarettes in 1956 and with cement, beer, shoes, cigarettes in 1964), and of quota restrictions (Kampala Agreement). The first, of course, alters the balance of trade but not necessarily the level (given a constant volume of production) while the latter two necessarily decrease interterritorial trade at a given level of output.

* At times duty surcharges - largely by Kenya for territorial market protection - have been allowed. These, in effect, represented a special Kenyan but not East African protected market and were thus fragmentary in impact. Revenue surcharges, however, would be possible without any market fragmentation especially on goods not produced in East Africa.

** As the previous note suggests it is by no means evident that a common external (revenue) tariff on products wholly imported into a common market is a logical or economic necessity. It is, of course, a requirement for G A T T approval!

*** Under free market and free selection of location conditions, the common rates fairly certainly have tended to polarize activity. To decentralize production and reduce the Nairobi - centric preferences of expatriate personnel within a basically free market mechanism lower company and income tax rates should have applied in Uganda and - a fortiori - Tanganyika.

**** For a more general view of the settler influence on Kenyan economic policy of which economic union policy forms a significant but secondary part see E. Brett "Economic Policy in Kenya Colony: a Study in the Politics of Resource Allocation", EAISR, Conference Papers, Kampala, 1965.

Tourism was partially a joint sector but the East African Tourist Travel Association was limited to joint external promotion and did not undertake either coordination of territorial facility development or the creation of inducements to visit more than one territory. As a result, what unification existed ended in 1963 with Uganda's withdrawal on the grounds that she received 9-10% of the tourists but paid 25% of promotion costs.* In practice, East African Airways has kept a minimal joint tourist promotion service in being.

The future pattern of unified economic sectors will be shaped both by the minimum degree of joint economic action needed to achieve any of the gains cited earlier and by the willingness of East African states to unify greater or lesser portions of their economic sovereignty. The latter factor depends not merely on the gains they expect to accrue from such action but on the limits on desired economic policies they see as ensuing and on the overall climate of political relationships in East Africa.

Clearly if gains from new lines of productive activity are to be secured there must be - at the least - a designated product common market ** for those products and their raw and intermediate inputs. Further some degree of coordination (though not joint operation) of transport and communication is necessary to make trade physically practicable and economically viable.*** Similarly, coordinated monetary, fiscal, and exchange policies (but neither a common currency, a common central bank, nor identical taxes) are needed to maintain a common external protective tariff, to avoid monetary and clearing hindrances to trade, to prevent radically different overall price level movements, to limit factor and goods flows based on tax avoidance incentives, and to prevent one country serving as a channel for capital flight or other exchange control evasion by residents of another.

In the case of East Africa, certain additional areas of joint action are, if not necessary, highly desirable. Given the net gains from the joint services most - if not all - should remain in the unified portion of the East African economy. There is a strong likelihood of unequal gains from large scale industry. Further there are both locational and specialization advantages for industries which could, in principle, operate on a national market basis which are likely to be even more unequally distributed territorially.

* As the tourist revenue in question was £80,000 and the promotion contribution £6,000 while the minimum for effective UK tourist advertising appears to be £20,000, it is not clear the Ugandan decision was sound. Absolutely it may well have been a costly error.

** The concept was originally advanced by Prebisch in relation to Latin American Integration. It has been developed in East African context by J. Ilett in "Designated Product Common Markets", East African Economies Review, December 1962.

*** These economic union in production and trade facilitating roles do not, of course, constitute the bulk of EARRH operations. EARRH is basically an external export - import trade facilitating service and, indeed, provides distinctly patchy facilities for East African commerce, especially between Uganda and Tanzania.

In part these gains can be divided "more equitably" (on a "politically more acceptable" basis?) by a joint location planning policy. However, in addition, there is a case for adding more sectors in which net gains to East Africa are likely and in which substantial gains will be seen to accrue to Tanzania and Uganda. Two examples are coordinated tourism development - including joint East African tour package and facility planning - and selected agricultural specialization (a designated product union agricultural sector). Two obvious advantages of broadening union economic sectors in this way are that it allows greater attention to economic efficiency in the location of any particular productive unit and also the "evening" of territorial gains by increasing the total rather than redistributing it.*

It is not essential that each state gain on each individual union economic activity, nor that interterritorial trade be bilaterally balanced, nor that state overall gains be precisely equal. It is essential that each state gain significantly on the sum of union economic activity, that the productive location and structure imbalance of which trade imbalance is a symptom be reduced, and that there be an agreed division of gains much closer to equality than the present pattern.

The how of East African economic union has been largely laissez faire, albeit in the case of the services, public neo-laissez faire. This particular structure has created two problems: the visible and impressive EACSO - Currency Board mechanisms have created an illusory sense of overall economic control while the laissez faire basis of the union has become increasingly inconsistent with the growing commitment to planning in each of the territories.**

The Common Market - prior to the Kampala Agreement - had no institutional structure and still has no statute base (the draft treaties prepared following the Mbale continuation of the Kampala talks have not been seriously considered to date). Admittedly the CIA can discuss the common market but it cannot legislate about it and if the East African Authority were to act on it they would do so - as at Kampala and Mbale - as heads of state not within any ongoing institutional framework.

* For a somewhat similar analysis of necessary and desirable additional areas of union economic activity of Hazlewood op cit.

** The inconsistency is least in the case of Kenya for two reasons. First Kenyan industrial development policy is largely an inductive one aimed at maximizing private action and a laissez faire common market coupled to Nairobi's historic (and partly artificial) advantages is an inducement to Kenyan industrial development. Second, planning on the basis of Kenyan industrial leadership is possible within a laissez faire union framework because the centralizing tendencies allow fairly accurate predictions of additional demand for Kenyan manufactures resulting from Ugandan and Tanzanian development so long as these states do not hinder the laissez faire dynamic equilibrium pattern (as of course Tanzania has by its quotas and bans on Kenyan and, peripherally, Uganda manufactures).

At least in principle two exceptions exist - quotas and industrial licensing. In practice the quota committee set up to approve proposed restrictions allowed by the Kampala Agreement has not been particularly functional. None of the three sets of Tanzania restrictions (nor for that matter the very recent Uganda ones) actually went through the agreed process before imposition*. The industrial licensing - as noted above - has been passive not active as originally proposed in 1945. As a result it has not significantly affected location. Further, for over a decade before 1964 no new industries were scheduled because each proposed one was blocked by one of the states not having the initial plant (each of the three states appears to have vetoed one or more proposals). Recently the licensing board has been somewhat more active and, at least in textiles, may have approved - encouraged an additional capacity programme weighted toward Tanzanian and Ugandan industrial expansion.

One result of the laissez faire nature of the common market has been that all "amendments" to date have been either passive, e.g. licensing, or restrictive, e.g. agricultural barriers, cigarette plant move, Kampala quotas and production switching with the single exception of the 1964-5 industry allocations. Without a mechanism for operating a planned common market, this trend to death by attrition is almost inevitable as planning becomes more important and market force obstacles more apparent.

The late Currency Board was - until 1955 - a pure laissez faire body. It functioned adequately given colonial economic policy and British branch bank willingness to finance expatriate economic activity expansion. With the waning of at least the first and the lessening relevance of the second after the mid - 1950's, the Currency Board began to change toward a central bank with fiduciary and bank rate powers.** The basic problems was not that the Board could not be converted into a central bank, but that the original linking of Central Bank and Political Union created an atmosphere in which subsequent disagreements on degree of territorial vs central control over monetary policy, size and definition of fiduciary issue, and exchange control could not be resolved except by creating three separate banks.

* This is not to judge whether the restrictions were as envisaged in the Agreement or not. At least the bulk of the Tanzanian ones appear to be appropriate in principle but more sudden in incidence (and thus likely to lead to non-East African imports until Tanzanian capacity expands) than postulated. Further after the spring of 1965, the new Tanzania quotas have been linked to Kenya's non-passage of legislation on the scheduling of the Kampala - Mbale allocated industries; at least the fall 1965 restrictions apparently would have been withheld had such legislation been passed. Discussion of "responsibility" for the cumulating breakdown here is pointless - neither state wished it but both acted and reacted in ways contributing to it.

** Cf. W. Newlyn and A. Rowan, Money and Banking in British Colonial Africa Oxford, 1954; Mc. William; "Is There a case for an East African Central Bank", EAFB, January 1959; Hazlewood, op cit, Section V.; Newlyn, "The Significance of Separate Monetary Systems In East Africa", this volume.

*** Cf. Currency Board Reports 1963, 1964, 1965; Paul Clark, "The Role of an East African Central Bank in Accelerating Development", EDRP 46, 1964; E. Blumenthal, The Present Monetary System and its Future, Government Printer, Dar-es-Salaam, 1958; W. Newlyn "Monetary Systems and Integration", EAFB, June 1964; Hazlewood, op cit, V and VIII.

No state wanted complete disintegration and each sought to avoid it, but each believed its own positions on degree of decentralisation, exchange control, and fiduciary issue to be incompatible with those of at least one other state.*

EACSO and the self-contained services do, indeed, have massive structures but almost wholly of administrative and autonomous business enterprise management natures. For the services this may well be appropriate and for EACSO's actual operations it is not necessarily inappropriate, ** but the result is that an impression of union economic organization results which does not correspond to reality.

EACSO has had an economic research and advisory unit for little over five years and even today it is far from adequate for presenting a detailed analysis of union economic problems, realities, prospects, and opportunities. Indeed, it is not really seen in that light but as a special study service body to the inter-territorial ministerial committees somewhat vaguely and peripherally linked to EACSO. The EACSO statistical department is less hampered by lack of staff but has no powers to secure adequate data - even from the self-contained services - to provide a base for economic analysis of union, let alone the authority to seek to develop a definitive balance sheet of East African and territorial gains and losses from union economic activity as a whole.

The CLA - despite its apparant powers - was created almost solely as a device for avoiding the difficulties inherent in enacting identical legislation in three parliaments.*** It was and is intended to formalize agreed inter-state decisions not to initiate nor substantially to revise legislation. While it has served a certain role as a "talk shop" for East African economic union its net legislative contribution is at best low and concentrated in the field of tax legislation marginal modifications.*** The facade of debate hides the absence of constructive substance and the technical possession of legislative authority the absence of any real territorial delegation of power to their CLA members.

* This judgement is based partly on press and Currency Board Report statements of position and partly on 1964 and 1965 interviews. It is not clear that the disagreements were as basic as supposed; the actual Tanzania Central Bank foreign reserve requirements and fiduciary issue limitations, for example, show how far from the truth it is to view Tanzania as a proponent of "development by printing press." What was (and is) basic was the belief that basic divergences existed and that in a unified Central Bank one could not always protect ones own national interests.

** In fact rather too much authority has been delegated to apolitical administrators with very vague "politico-economic" goal frameworks. Cf. Hazlewood, op cit, and "The Coordination of Transport Policy" in Leys and Robson, cp cit. This is, of course, quite in keeping with the overall laissez faire pattern of East African economic union.

*** Cf. Hazlewood op cit; also discussion with one of legal experts involved in 1961 creation of EACSO and associated CLA revisions.

**** Conceivably it is negative, vide the recent amendments to the proposed 1965 Income Tax Bill passed over unanimous ministerial opposition, which will weaken the act so far as additional fund raising is concerned.

Real agreement making power lies in the inter-territorial ministerial committees and the EA Authority. Composed of busy men, meeting rarely and briefly, and with inadequate East African advisory staffs, these do not constitute an East African Forum or even a channel for developing agreed union policies but only for at best compromising pre-formed nation positions or - at worst - sharp clashes preventing agreement.

To liken the EACSO CLA Ministerial Committee to EEC's Authority - Assembly - Delegates Council is dangerously misleading. The European Authority has the very real power to make proposals based on community joint interests and - equally critical - the technical and economic staff to formulate them convincingly and operationally. The national delegations have not simply pre-set positions but real leeway to negotiate and to reach decisions which - except in very unusual circumstances - will be ratified by their governments. Further the entire frame of operation is basically and increasingly that of a semi-planned, not a laissez faire, economic union.*

If East African economic Union is to be maintained - let alone expanded - a new outlook and an appropriate institutional structure will be needed. The outlook hinges in the acceptance of a simple, but apparently still imperfectly perceived,** premise: Any economic union must be based on an economic philosophy - policy structure consonant with that of its member states. A laissez faire customs union is appropriate only if the member states pursue (allow?) laissez faire internal policies.

The economic union appropriate to national economic planning focused on development is a planned economic union (including planned general levels and makeup of trade and of location for union market production) centered on union economic development and its equitable (acceptable) distribution.

An institutional pattern appropriate to this outlook could include:

- 1.) Coordination of national East African policy in each state under a Minister for East African Affairs with a staff to supercede the partial, uncoordinated (nationally), and part-time scattering of such affairs. Related to this could be an Assistant Secretary for East African issues in each relevant ministry;
- 2.) Revision of the Central Legislative Assembly to make it a genuine forum for decision making. National delegations - headed by the East African Affairs Ministers and composed of persons whose primary responsibilities were for East African (and presumably, at present, East African economic) affairs should be informed in detail on national goals and positions and given significant leeway to bargain and to reach agreed decisions without referral of all substantive issues back to their capitals.

* Cf. e.g. U. Kitzinger "Regional And Functional Integration", International Seminar of Economic Co-Operation In Africa, Nairobi, December 1965.

** Cf. e.g. the discussion of planning as a disintegrative force in A. Mazrui, "Political Commitment and Economic Integration", Nairobi Seminar. The logic of the position is sound only if the Union is laissez faire. Admittedly plan coordination is harder - by its nature - than laissez faire coordination but it is also potentially more rewarding.

A strengthened East African research and advisory staff could both service the CLA and submit studies directly to the governments via the Ministers of State. The revised CLA would substitute a more specialized, informed, and union oriented body for the present ministerial committees;

- 3.) Planning and policy coordination committees, a union market production location body, and all joint services would be responsible to the CLA. Basic frameworks for their decisions - especially an production location*- would be set by the CLA and their specific decisions reviewed and approved (or amended) by it;
- 4.) The East African research and advisory staff to service the CLA and the committees would be responsible for analysis and proposals concerning the union economy and its policies with particular reference to accelerating development. It would have the authority (and resources) to undertake an ongoing overall programme and to initiate specific studies as well as to carry out specific CLA or committee requests.

The where of East African economic union gains has probably changed over time. On the whole it is hard to locate any substantial gains either net or redistributive in the pre-World War II period. Common market trade flows were low. Kenya had a steady surplus and industrial leadership but at this stage the smallness of the market and the concentration of purchasing power in the Nairobi - Highlands area would probably have prevented national protective policies in Uganda or Tanganyika from working. Kenya then probably had a modest net gain in industrial output and resultant multiplier effects and Uganda - Tanganyika little or no net loss on this account. However, Uganda and Tanzania can hardly have gained substantially from added exports to Kenya and lost some tariff revenue through substitution of Kenya goods. Uganda and Kenya both gained by the joint operation of their railroad system.

From 1945 through 1955 Uganda improved her position and probably became the key gainer. Here sugar and cigarette exports were critical. Kenya continued to gain from her industrial sector's serving East African markets but at least vis a vis Uganda there was a balanced (or Uganda biased) division of union market operations. All three states benefitted from the joint services - at least on direct effects. The Kenyan concentration of expenditure and related income effects may have cancelled most of the gain for Uganda but not for Tanzania which received de facto transfers covering deficits in rail, post and telegraph, and - later - air services. Whether a Tanzanian industrial protection policy could successfully have been instituted at this stage is doubtful. Net gains to East Africa were - for the first time - significant but probably below 1% of combined territorial products.

* See the final section below for elaboration of this point.

After 1955 the size of Kenya's share in net gains rose steadily at least until mid - 1965. Direct service coverage of de facto territorial deficits benefitted Tanzania (and peripherably Uganda) but the expenditure concentration and income effects from the services redistributed income to Kenya. Net gains on joint as opposed to national service operations (EACSO and self-contained) were probably substantial and, of course, were net for East Africa unlike the deficit and redistributive income effects.

Since 1955 the Common market has been of significant value to Kenya and to Uganda. After 1969 it came to be of some significance for Tanzania. The basic question is how much of the Kenyan based East African industry could have been relocated in Uganda or Tanganyika under national protective policies and at what cost. As Professor Newlyn has pointed out,* industrial census data show very few industries dependent on regional markets. Typically the average plant size is below the consumption of any one East African State. Thus in the cases in which interterritorial exports are significant it would appear feasible to have located one or more plants in the importing territories without any significant loss of scale economies. Given the multiplier effect of the incomes generated in the industrial sector and the low Kenyan marginal propensity to import from Uganda and Tanganyika, a case exists for believing Kenya made quite significant, Uganda real but small, and Tanganyika negative gains from the Common Market.**

Overall, East Africa benefitted to some extent from economics of location and of scale in production. However, even in 1964 tentative calculations suggest only a 1.4% net addition to East African regional real product. This level raises the issue - considered in the concluding section - of whether the potential net proceeds of economic union are large enough to justify major effort to maintain it.

* See W. Newlyn "Gains and Losses" cp cit.

** This argument is based on the assumption that protected national production - not substitution of extra regional import sources - was the alternative to the East African Common Market. In this case, value added and multiplier effects of "shiftable" trade measure transferred gains and losses between states while scale and location efficiency savings result in net regional gains.

If one assumes - as Tanganyika and Uganda did, at least in part, prior to 1961 - that extra regional import sources would be substituted rather than territorial protection, the importing state's transfer loss approximates the external duty which would have been collected if regional imports had come from abroad. The "transfer" gain calculation remains the same but may now be greater or less than the transfer loss. The conclusion of clear net Kenyan and East African gains, marginal Ugandan gains and clear Tanzanian losses remain true under this alternative assumption.

Kenya appears to have gained perhaps 3-4% of GNP by the overall effects of economic union and Uganda about 1 $\frac{1}{2}$ % while Tanzania may have lost 1% *. However, taking solely public revenue and expenditure gains all three states benefitted. The Kenyan dominance was in private production and income effects not cost savings or tax revenues.

The previous analysis indicates the answer to the last question: when? East African Economic Union history and effects fall into four major periods: 1917-1939; 1948-1955; 1956-1961; 1962-65. The first period was one in which the economic effects were distinctly limited. 1948 marks the beginning of joint services (following the 1945 proposals); 1955 marks the shift from Ugandan - Kenyan balance (or Ugandan leadership) in production for East African united markets to growing Kenyan dominance.

1961 is not significant for the creation of EACSO - which was a technical and derivative change - nor the Raisman Report which notably failed to lead to a reversal of the growing imbalance in division of gains. It did mark the advent of East African national states with active, territorially oriented development policies inevitably inherently in conflict with the laissez faire basis of existing East African Union. The pattern of growing tensions, recurrent attempts to reach solutions, and narrowing of union by erosion (e.g. tourism), major subtraction (e.g. currency), and growing attrition (e.g. quotas) has continued to date.

III

The price of economic union is partly economic and partly political. In both cases, the less is partly in terms of limitations on freedom of choice and partly in specific transfers of economic benefits or power. Few of these are precisely calculable and none can even be approximated usefully without some idea of the alternatives to economic union posited and the range of seriously considered policy choices for closed by economic union.

* The gains are discussed in more detail in the concluding section. While the calculations are rough the overall orders of magnitude suggested are of interest as only very different assumptions about either economics of scale, degree of industry shiftability, or multiplier effects could alter them radically. The detailed sectoral calculations and the assumptions underlying them are presented in Appendix B.

Tanzania's loss appears fairly certain on a static basis. Given the very low spill over effect of Kenyan demand to Tanzania, the dynamic effect of earlier East African (Kenyan) industrial establishment can hardly have offset this. However the extent of the loss may be overestimated if one believes industrial census categories result in overstating the number of shiftable industries.

For purposes of this assesment it will be assumed:

- 1.) that the alternative to East African imports of "shiftable"* industry products is protected national production;
- 2.) that each state proposes to persue semi-comprehensive development planning with a substantial public and a substantial private sector role;
- 3.) that no state intends to pursue "development by inflation" as a goal and that all regard relatively stable or, at most, slowly rising, price levels as a significant goal.

At least six areas need some attention: political sovereignty, economic severeignty, economic coordination, economic disclosure, current national product maximization, growth of national product maximization. In each case the attempt should be to compare results with East African economic union to those plausibly attainable without it, recognizing the limitations of East African national action quite apart from (and very much more important than) economic union.

Political sovereignty in the abstract sense of nationhood is not substantially effected by economic union. In the sense that economic means vital to socio - political ends are limited by union, this issue becomes one of economic severeignty.

On the other hand, certain real political limitations (costs) do exist. Radically divergnt socio - political systems e.g. neo-laissez faire capitalism and even fairly revisionist Marxian socialism are probably incompatible with effective economic union on any broad frent. However, the divergence of East African political systems does not appear to be of this order of magnitude nor likely to become so in the near future.

Internally, real problems may arise in explaining (justifying) decisions agreed to in a joint body when the individual decision does not benefit the country in question. The temptation is to shift criticism by blaming ones partners or economic union per se. Should this line of justification be taken, vide the Uganda government's reaction to 1962 tariff and excise decisions,** the entire union structure tends to be endangered. As a result certain limits on the handling of critisism directed to joint decisions are imposed and these may have fairly high short term political costs.***

* A "shiftable" industry is defined as one:

- a) in which typical East African plant size is below national demand; and
- b) for which production is physically feasible and economically viable given a protective tariff not more than 25%, or the present East African duty plus 10: ad valorum whichever is higher.

The latter point is highly arbitrary but some assumption on protection levels is vital to define shiftability and the ones made would still be relatively low vis a vis typical protective duty level in South Asia, Latin America, or West Africa taken as a measure of additional cost acceptable to secure national production.

** Cf. J. Nye, "Extent and Viability of East African Co-operation, op cit, pp. 53-54.

*** This is particularly critical today in Uganda with a multi-party system and substantial disagreements within the government party. Defending an unpopular East African economic agreement could conceivably cost an election either in the country or within the party and most certainly could result in the "responsible" minister being jettisoned. For any individual minister a parallel risk pertains in Kenya and possibly Tanzania.

More basic challenges to union stem from the belief that economic union is inseparable from full surrender of political sovereignty, e.g. in re overall foreign policy military and defense issues,* party systems, election patterns, press and information control (or its absence). This - as EEC demonstrates is not necessarily true at least in the short and medium run.** What is necessary - and can be confused with political union - is the necessity for a joint economic decision making machinery whose actions will have real, but limited, political implications.***

East African economic sovereignty is limited jointly and even more limited nationally. It is not at all implausible to argue that - defined as effective control over the nature and pace of economic decisions affecting their economies - national economic sovereignty can be effectively greater within economic union. However, at present, the costs are more in evidence or at least more immediately perceived by East African governments, particularly that of Tanzania with its less developed economy, more ambitions and state centred development plan, and unsatisfactory position vis a visa economic union gains.

Economic union imposes limitations on:

- 1.) Overall economic strategy in re programmes of industrial and agricultural development, public - private sector relationships and roles, redistributive effects of fiscal policy, and - probably - overall growth rate targets;
- 2.) Fiscal and monetary policy both as it affects specific commodity prices and overall rates of price change;****

* Indeed one common market (Central America) continued to function more or less normally throughout a period of de facto war between two of its members, admittedly a rather extreme case. In East Africa, Kenyan and Tanzanian relations with Somalia are distinctly different without apparent strains on economic union resulting.

** The present EEC problems do arise from a conflict of French nationalism with supranational economic proposal making (the European Commission) and decision adoption (the qualified removal of national veto power). However, the conflict is on the economic, more than the general political sovereignty issue and - vide the presidential election campaign and results - is not a necessity based on French public opinion but a largely personal choice by President de Gaulle which, on balance, reduces his internal political strength.

*** Some of the East African discussion on Federation and on economic union suggest such a confusion. however, for the separation to be valid one must assume that distributive controls to secure appreciable (politically acceptable) benefits to all participants are possible within the limited framework of economic - without political - union. At present, all three East African governments accept this assumption at least as an initial starting point although serious doubts as to its validity exist in Tanzania and possibly in Uganda.

**** The specifically economic union limit can easily be overstated. Given the porous frontiers, radically different tax and price policies would cause serious illicit trade problems under any circumstances - as they already do for agricultural commodities excluded from the Common Market e.g. maize.

- 3.) International economic policy especially in re bilateral agreements and counterpart aid based on the sale of granted or loan commodities and financing of public programmes with the proceeds.*

These limitations are real but, how significant they are in East Africa today may be questioned for two reasons. First the cost imposed by Union is rarely identity of policy but only parallelism and avoidance of major discrepancies. This can allow considerable leeway on such issues as state role in industry, trade agreement use, nature of taxation and specific tax levels, overall growth rate goals, and income distribution objectives. Second East African economic policy choices - partly because of external constraints - are not radically divergent and are least similar precisely in the areas cited in which fairly considerable divergences can be compatible with planned economic union.

On the plus (proceeds or negative costs) side, to the extent that economic union augments the range of viable productive possibilities and/or external bargaining power available to East Africa, each state's effective economic sovereignty is increased. Two recent ECA reports ** suggest that very substantial gains may be found along the first course while a proposal by Dudley Seers appears relevant in regard to one portion of the second.***

Economic coordination and disclosure costs are real but more matters of personnel and time and of specific procedural changes than of overall conflicts of interest. Personnel and time are, in fact, one of the constraints on how broadly based an economic union in East Africa can be in the near future. The formulation of consistent, detailed national plans is still barely within national capacities; their total regional coordination remains beyond them. However only certain key economic decisions need to be coordinated i.e. large scale industry, major agricultural programmes, trunk communications, broad monetary and fiscal policy. Given the will, the manpower for such action either exists or could be recruited by the states for a central union research - advisory body while the time loss in coordination need not be excessive given the detailed discussions necessary internally in any event.

Coordination - by its nature - limits certain decisions. However, to the extent these concern production for the union market, ending the union would narrow not widen the choices available. E.g. if the East African economic union can support one efficient nitrogenous fertilizer factory, one integrated iron and steel industry, and one agricultural machinery plant, union plan coordination will probably mean that each state can develop only one.

* Again the limits are often overstressed. So long as the common external tariff is applied and commercial prices set (which most trade agreements including those of socialist states do) protection is not per se weakened. A problem does arise if credit terms are such as to cause substitution of such imports for common market production e.g. PL 480 grain in Kenya for Ugandan or Tanzanian.

** Report of the East and Central African Industrial Coordination Mission, E/CN.14/247, 1963; Industrial Coordination In East Africa: A Quantitative Approach To First Approximations, E/CN. 14/INR/102, 1965.

*** "Big Companies and Small Countries : A Practical Proposal" Kyklos, No.4. 1963.

However, if union dissolves each state can choose none not three because of their non-viability on a national market basis. To the extent "shiftable" productive units are concerned, an equitable distribution of gains should imply that choices of domestic production foreclosed, e.g. of Kenyan sugar, by coordination are balanced by choices of union exports, e.g. of Kenyan clothing and tinned foods, opened by parallel limitations of choice on other parties.*

Income level and growth maximization costs can be treated a) in the absence of and b) with effective mechanisms for allocating production to allow equitable distribution of overall net union gains. At present, the first situation pertains; attempts e.g. Raisman, Kampala, to rectify imbalances are marginal or attritionary, not effectively redistributive.

To the extent that economic union relocates production in a way resulting in the total direct output and income effects (including additional demand generated by the gaining state's higher income) in one state being negative that state loses by economic union. To the extent that the real costs of causing "shiftable" production to return to the loser state are less than its present loss, the state will make a short run gain by leaving the economic union and following tariff - tax policy (or a state investment - import quota policy) resulting in the shift. Tanzania believes herself to be in this position, almost certainly correctly.

These losses are not readily evaluatable from overall trade returns. In the first place, additional raw material output demand plus industrial value added represent the initial gain to the exporter not gross export proceeds. Second multiplier effects (probably about 2 for industry and agriculture and 1.5 - 2 for services) increase the initial adjusted value added gains through demand generated for other products of the producing territory. Third these gains/losses will be partially offset/a portion of the resultant national product is spent on products of the territory away from which union has initially shifted certain productive units.

On a dynamic basis the territories away from which the most rapidly growing sectors of production have been shifted by union will find that with a given effort their national product will grow less rapidly than that of the territory gaining from the shift. As a result initial divergences will tend to become cumulative and apparent static gains may mask real dynamic losses through low growth rates.

Taking the present East African structures of production, positing a 6.5% overall growth rate for regional output, and applying plausible rates of growth in demand sector by sector suggests the growth rate cost of laissez faire economic union in East Africa may have become considerable for both Tanzania and Uganda. The territorial results consistent with Kenyan maintenance of its present share of East African industrial production and equal development effort by each state are Kenya 6.9%, East Africa 6.5%, Tanzania 6.35%, Uganda 6.1%.** As industry became a larger share of total output in the region, the divergence would increase. This effect is unlikely to have been significant before 1960 because of the low share of non-processing manufacturing in any East African state.

* In this case Kenya's limit is Uganda's new opportunity and vice versa.

** See Appendix B - Section V for a more detailed presentation.

With a production location mechanism designed to prevent radically unequal distribution of gains these costs are avoided.* "Losses" on imports are balanced by "gains" on exports (or on other sectors e.g. services, tourism) and the net advantages of additional viable production, scale, and location remain to accrue in some roughly agreed proportion to all participants. It should be emphasized that unless such net advantages are substantial no form of common market can be of significant value to one member except at the expense of the others.

In this case, the true costs of union in regard to income levels and growth collapse back to those of coordination. Certain particular opportunities are forgone, but are balanced by others gained. To attempt to "secure" the forgone opportunities will destroy the balance in gains distribution and, in the end, break up the economic union.**

IV

The most appealing aspect of any policy, programme, or institution is that of its proceeds. Discussion of gains from East African economic union has followed two conflicting - but equally analytically unsatisfactory - paths. On the one hand there has been a tendency to discuss overall gains in glowing terms leading to the impression they are rather larger than calculations suggest to be the case. On the other detailed discussions - partly because these have tended to be within the context of debate on equity of shares and partly because not efficiency, scale, location gains are difficult to quantify even approximately - have concentrated on transfer gains and losses (e.g. subsidies to Tanzanian services), production and trade effects of "shiftable" industry location, which net to zero for East Africa as a whole. Further the discussion both tends to avoid serious examination of production location and pattern influences on territorial growth rates.

* In the long run this is true even for the "gaining" state e.g. Kenya. Heavily unequal distribution of gains will eventually (if not much sooner) lead to breakup. At this point the "gainer's" regional market oriented industrial capacity will face a crisis. Certain Kenyan firms appear to have been confronted with precisely this situation as a result of Tanzanian quotas and some bankruptcies and falls in profits have been directly attributed to loss of free access to regional markets.

** This is the danger inherent in such actions as Kenya's apparent signing of an agreement to build an East African market nitrogenous fertilizer plant when the industry was allocated to Uganda at Kampala (and is apparently in the new Uganda Plan) and to import substitute for Uganda sugar. Unless specific new opportunities are provided for Uganda, her gains from the Common Market - expected re fertilizer, actual re sugar - will be substantially reduced and her national interest in remaining in it weakened. Further, the unilateral nature of the Kenyan decisions (as with the Tanzanian quotas) raises doubts - whether justified or not - as to her willingness to weight joint interest seriously enough to make continued economic union viable.

A definitive balance sheet cannot be drawn up on the basis of presently available (at least publicly available) data either for East Africa as a whole or for the individual territories. Drawing up such an accounting should be given high priority by the present East African Commission because without it rational discussion of how gains are divided - or even of what their total is - much less of how they might be more equitably distributed are extremely imprecise and subject to honest national differences of opinion which tend to deteriorate into veiled distrust or even open recriminations.

Existing net gains from the economic union appear to be on the order of £10.4 million a year, i.e. 1.4% of East African product. Somewhat over half of this can be attributed to lower costs of joint services and the income - profit effects of the airline (which could not exist as three separate bodies). Another third derives from the common market in industrial goods and an eighth from that in semi-processed and processed agricultural commodities. Both in industry and processed agriculture the scale effect appears much less critical than than the location effect. The only national industries clearly dependent on East African markets for their viability (as opposed to specific plants in multiplant industries with inter-territorial trade larger than any one plant's output) are blankets, aluminium products, and plastic shoes in Tanzania.

In all other national industries the typical plant size is below the consumption of each territorial market so that net gains - if any - result from internal and external economies of location. These industries are "shiftable", possibly - if the advantages of Nairobi are either overestimated or man made and resulting from industrial concentration itself - at relatively low costs. "Shiftable" means that the value added and domestic raw material content in imports of such goods plus the income effect associated with their production is a loss to the importing territory, and a gain to the exporting as opposed to a situation of territorial protection. In the latter case, however, both would lose the net gains from location and/or scale.

This analysis shows that "trade balancing" has a certain relevance: if trade is approximately equal "shiftable" gains and losses may more or less cancel out for each territory and net gains remain. However, it also shows that for there to be net gains one must seek trade balance by raising exports from deficit territories not by lowering those of surplus ones which tends to erode net gains to the vanishing point.

The "shiftable" of Kenya's industry and of Uganda's processed agricultural production (with rather different domestic base or price gain components) provides a basis for the conclusion that Uganda as well as Kenya draws a net gain from the Common Market but that Tanzania has a very large loss on the industrial side and a cancelling of gains and losses on the agricultural.*

The actual figures computed do not appear of the same importance as the sign and direction, thus their relegation to Appendix B. D.G.R. Belshaw, "Agricultural Production and Trade" op cit, calculates the agricultural sector gains as rather more favourable to Kenya and less so to Uganda than does the author. The overall "balance" would however not be changed, Uganda would remain a net gainer on processed agricultural trade and from East African Economic Union as a whole.

The services account shows substantial net gains, somewhat lesser "transfers" to meet what otherwise would be territorial losses, and income effect "transfers" resulting from centralization of expenditure intermediate in value. All three states gain on the first head, Tanzania on the second (at the expense of Kenya and Uganda), and Kenya on the third (at the expense of Tanzania and Uganda). Kenya therefore - perhaps surprisingly - gains most by the joint services (self contained and EACSO) Tanzania gains appreciably (but probably less than a third as much), and Uganda more or less breaks even.

Raisman formula direct transfers * benefit Uganda by about £.3 million and Tanzania by about £.5 million. Counting related income effects the total Raisman gains to Uganda are £.5 million and to Tanzania £.9 million. These are transfer gains at the expense of Kenya.

Total Kenyan East African economic union gains approximate £10.0 million (97% of the Regional net total), Uganda gains £2.6 million (25%), and Tanzanian losses £2.3 million (-22%). However, because almost all of the net gains on services (£5.8 million) as well as the direct Raisman formula transfers (£.8 million) are on government account either as cost reductions or revenue increases, each state gains approximately £2.1 million on government account.** The dominant role of income effects (only 20% of which can be assumed to end as public revenue) via centralization of service expenditure and "shiftable" industry location results in an £7.9 million Kenyan gain, a £.4 million gain for Uganda, and a £4.4 million loss for Tanzania in the private sector. Overall net government public sector gains are probably about £6.4 million and private £4.0, depending on assumed multiplier and marginal tax incidence assumptions.

The status quo is not viable for three reasons:

- a) The distribution of net gains is not politically acceptable;
- b) The growth rate effect outlined in the previous section makes the static imbalance even less acceptable;***
- c) The net gain is not large enough to justify the amount of political and civil service time, energy, policy, and focus placed on it. No redistribution of present gains could meet criteria a and b and yield any state enough to be an economic gain of first priority - two large textile mills or one oil refinery could add almost as much to annual product.

* See Appendix B - III for details of calculation. EACSO costs now met from the distributable pool are assumed to benefit the three states in the same ratio as total EACSO expenditures: 45% Kenya, 29% Tanzania 26% Uganda. Cf. A. Hazlewood, 'Economic Integration ...' op cit, section IV for a more detailed discussion of the Raisman formula and benefit calculations on alternative assumptions

** e.g. Uganda gains on the static balance. If, however, the dynamic loss is even half the .4% (vs EA "average") a year the data suggest the static gain is only equal to six years dynamic loss from lower growth rates.

*** See Appendix B for a more detailed presentation.

Should one then conclude that East African Economic Union is, at best, of secondary concern and that the major effort needed to maintain or expand it could better be spent elsewhere?

Probably not. The history of economic coordination in East Africa does suggest a steady rise in net gains and, indeed, that if the approximation of gains had been made in 1954 not 1964 the total would have been on the order of half the size. This record at least renders the hypothesis that net gains will rise (or more to the point in a planned union, can be raised) in the future, tenable.

If net gains are to be maximized and distributed on a politically acceptable basis, production, trade, and aid are the key areas for coordinated or union planning, and additions to current output and growth of output (nationally and regionally) the critical indices of success or failure.

1. Large scale industrial opportunities open to East Africa but not to one state appear likely to be significant in the future even if they are not so in the present industrial pattern. Economies of scale and location in agricultural production, processing, and external marketing are far from fully utilized. Joint tourism promotion and development could quite well yield net gains of £2,000,000 or more each year even if it resulted in only a 15% net addition to tourism.

Taking the value added and income effects of even a relatively modest large scale industrial sector (especially if financed largely by new capital not otherwise attainable), the gains from improved efficiency in agriculture - processing - marketing, and the net addition to tourism a 1971 net addition to Economic Union gains of £23 million * seems well within reach from these areas alone. This rate of increase would step up the Regional growth rate by .6% a year and, assuming the success of the joint industrial sector, lay the base for even more substantial gains thereafter (only 20% of the 1965-1971 investment in industry has been assumed to be in the joint or union market sector, a share which would tend to grow toward at least 40% judging by the ECA studies).

2. Trade and distribution of gains are integrally linked. Unless union market production location is so distributed as to result in substantial income gains to Tanzania and Uganda as well as to Kenya the potential regional gains is unrealizable because irrelevant to the economic national interest of two states. (As seen in the earlier evaluation, neither services gains nor the Raisman formula could be expected to provide adequate compensatory effects.)

* Industry	a	16,000,000
Agriculture	b	4,500,000
Tourism	c	2,500,000
		<u>23,000,000</u>

a. Capital invlved -say- £25,000,000. Output: £20,000,000. Value added (40%): £8,000,000. Multiplier: $2(8,000,000) = £16,000,000$.

b. New markets from industry (10%) £1,250,000. Overseas marketing gains: £500,000. Multiplier $2(1,750,000)$. Cost reductions in location and scale: £1,000,000. 20% on £5,000,000 of additional interterritorial trade in this sector.

c. Net gain to tourist revenue from joint promotion (£2,000,000) less 40% import content (£800,000) times multiplier: (2) plus additional East African airways profit (£300,000).

Clearly it is not vital that each state gain substantially on services, on manufacturing, on agriculture, and on tourism taken separately - the total net territorial gains are the critical element.* However, the structure of production built up must be such as to increase each territory's growth rate which implies division of high growth sectors (i.e. large scale industry, tourism) and avoiding having any one state (e.g. Uganda) depend solely on agricultural production gains unless a fairly comprehensive joint food and raw material policy to ensure rapid growth in her territorial exports of these goods is possible (a doubtful assumption given the need to improve rural production per capita possibilities confronting each state - an absolute need both on political and social as well as mass market creation and employment grounds).

Trade flows then become a matter of facilitating the realization of agreed gains and the question of exact balance drops out - after all the net gain on a pound of one export can be very different from that on another so that balanced trade would be far from ensuring balanced gains.** Similarly monetary and clearing policy becomes a matter of ensuring that neither widely divergent national price movements nor the technical process of converting different currencies hampers the trade needed to ensure realization of joint proceeds from economic union. In practice, given the growing importance of the planned joint sector and its need of market data, annual inter-territorial trade quantities and values by principal commodity could usefully be estimated for each coming year and on three to five year perspective. This would both provide an early warning allowing steps to avoid any danger of steadily growing imbalance and, more directly, a guide to the clearing levels to be anticipated by each state in planning overall external and interterritorial foreign and regional exchange budgets.***

3. Foreign aid can be made an instrument of cementing regional economic union if long run net gains are likely to be substantial and if aid sources are interested in increasing economic development in East Africa at the lowest long run cost to themselves.**** The first condition appears to be met, about the second there may be differences of opinion and of the policy of various aid sources.

* The gains on public account must be positive in each case too but this is a lesser problem as that criterion is met today.

** E.g. the value added in petroleum refining is rather low and in sugar growing and processing near 100%. If, then, Kenyan petroleum exports to Uganda balanced reverse sugar exports, Uganda would gain substantially more in both income and foreign exchange position than Kenya.

*** Imports from within the region save direct foreign exchange but - by clearing surplus reduction or deficit increase - reduce the foreign exchange available for extra-regional imports. i.e. if Tanzania purchases £1,000,000 of steel from Uganda not Germany her foreign exchange requirements are reduced by £1,000,000 (more or less depending on comparative prices) but so is the available supply of exchange for foreign purchases as her clearing balance with Uganda is worsened by the same £1,000,000.

**** This line of argument was stimulated by William Clark's presentation at the Nairobi seminar and has benefitted by Auther Hazlewood's comments.

The immediate problem confronting East African Economic Union is that Tanzania must receive larger (i.e. positive) gains on a static basis and Uganda and Tanzania on a dynamic to make its continuance viable. Further, the three national growth rates - at equal levels of national effort - should either be equal or inversely related to DDP/Capita i.e. Tanzania, Uganda Kenya in descending order of growth rates e.g. 7.0, 6.5, 6.0.

However, this cannot be achieved through larger fiscal transfers from Kenya nor sharp reduction of the Kenyan growth rate which Kenya can ill afford economically and its government not at all politically.*

While expansion with agreed location can bring all round gains it may not be able to do so fast enough to save the union - states, or more precisely their governments, necessarily have fairly high time discounts, because of the pressure for rapid development of services and income levels requiring a parallel rapid growth in production.

However, a joint foreign aid policy toward East Africa - based on joint East African advances - might finance the short run gap before overall gains and their allocation became acceptable. Additional funds could be sought to finance projects directly linked with union economic sectors and priority given to Tanzania and Uganda in the allocation of these additional resources to specific projects. This device, if successful, would provide additional short run static and growth gains to Tanzania and Uganda at no net cost to Kenya.

The mechanism of allocation presents problems because two criteria need to be fulfilled jointly:

- a) the location policy should result in acceptable gains (and ergo added productive capacity) for each state;
- b) so far as possible lowest cost (in medium or long run after purely historic or transitional cost disadvantages are overcome) considerations should guide location.**

To be effective, the allocating body should have the power to make decisions - based on detailed technico-economic studies - on specific location issues, subject to reversal by the proposed revised CLA. To be given such power for specific cases, the allocation commission must be given an overall framework with which the sum of individual decisions must be compatible.

* This is particularly true in that the average African cash income in Kenya is distinctly lower than that in Uganda and somewhat below that in Tanzania. Further, it has the most pressing urban unemployment problem.

** This may lead to a problem on location of allocated industries within states. For union market purposes, Tanga, Arusha, Moshi, and - with transport improve Mwanza are better sites for many industries than Dar-es-Salaam or a fortiori any central or southern interior town. In practice the balance of Tanzanian industry is already shifting toward a larger share in these areas and a lesser in Dar.

This might be a fairly simple formula stipulating e.g. that over each three year period the estimated value added of (or the investment in) union economic sector projects allocated to each state must represent a share of total allocations within the range $\pm 2\%$ of its population share * or a more complex weighted formula.

Ideally the commission would deal with all union market production facilities - including joint agricultural programmes and tourist development - but large scale industrial project identification, feasibility testing, location evaluation, and external finance promotion represent the essential core.

The most serious challenge to joint allocation - which is in principle accepted by all three East African governments - raised to date is that so long as substantial outside capital and management is required location must be left up to individual firms.** Two obvious historic - if partial - refutations of this thesis exist. Uganda - via the Uganda Development Corporation industrial cum large scale agricultural cum financial empire - has fairly clearly augmented the total industrial activity and foreign industrial capital in Uganda (not necessarily at Kenya's expense but probably partially so in textiles and cement for both of which the Kenyan market is larger than the Ugandan).*** Tanzania has secured all three of its Kampala - Mbale allocated industries with full or substantial private sector participation including new investment from abroad e.g. by Phillips in radio assembly.

In principle, the argument is not particularly sound on several counts. If the whole East African market is attractive and the choice is a site in a particular state or the loss of the market (quite possibly to a major competitor) it will require very uneconomic site selection to cause a rejection.

-
- * Since Tanzania and Uganda have smaller GDP/Capita levels than Kenya this would give both - especially Tanzania - a relatively greater gain vis a vis GDP. Similarly, since Kenya is the largest single industrial market, it would tend to improve Uganda and Tanzania trade balances with Kenya. The latter point on joint allocation has also been made by Dr. Jelic of EACSO.
 - ** Unfortunately this argument is heard most frequently in Nairobi voiced in terms of no private firms being willing to locate in Tanzania which - especially in the context of 28 substantial private or joint venture Tanzania plants under construction - results in suspicions as to the meaningfulness of the acceptance of joint allocation in principle by Kenya. This is not to imply that the author endorses these doubts; simply that they exist and represent a real threat to economic union.
 - *** The securing of Nyanza Textiles for Jinja - and quite possibly for East Africa was, in particular, a personal triumph of Governor Sir John Hall, architect of the Owen Falls Dam - UDC based Uganda industrialization policy.

Given technical competence on the allocation commission's part, this position would imply that there are no substantial body of large scale industries for which Dar-Arush a-Moshi-Tanga or Kampala - Jinja-Tororo costs are within 10% of Nairobi-Mombasa, a highly unlikely proposition.*

Private investment policies - particularly guarantees against the risk of nationalization sans compensation - are not radically different in the three states. The share of proposed state investment in industry does differ with Tanzania and Uganda significantly more active in state and joint venture participation than Kenya. Combined, these two policy trends should both ensure that some private capital and expertise will find Tanzania and Uganda allocated projects attractive and that a relatively higher share of public capital will be made available to complement them.

The structural reforms proposed may appear drastic. They are, in fact, the minimum likely to be adequate on the assumptions: a) in the medium run East African economic union can be of significant value to all participating states; b) to ensure this not only must distribution be improved but total East African gains to distribute must be raised rapidly; c) in the context of national development planning only a planned economic union can be a net aid rather than a hindrance to national economic policy; d) the critical issue, both of planning for growth and of distribution of static gains, is agreed allocation of major productive units selling on the East African market level. The projected gains by 1970 (as well as the 1954-1964 total gains trend) would appear to bear out a. The post 1961 history and the approximations of present East African and state gains support b and c and at least imply d in that only the possession of an acceptable share of union oriented productive activity can guarantee securing a parallel share in direct and multiplier income effect proceeds.

APPENDIX A: East and/or Eastern African; Alternatives or Complement.

In considering the future of East African economic union, the question of geographic expansion has become increasingly important. Rather vaguely it can be traced to certain of the Pan African Freedom Movement for East and Central African (PAFMECA later PAFMECSA) discussions and perhaps more critically to the habit of common viewing of issues built up by some of its participants. Similarly from at least 1962 on, the idea of economic cooperation between Zambia and Tanzania (within or as a substitute for East African economic union) has attracted recurrent and - especially with the Tanzania rail proposals - increasingly precise interest. In 1963 UNECA floated a rather more definite set of proposals for East and Central African industrial coordination.**

* Cf. E/Cn.14/INR/102 and E/CN.14/247 in re this point. They, in fact, find more large scale industries with cost advantages in Tanzania and Uganda than in Kenya - also perhaps a rather extreme position.

** E/CN.14/247, op cit.

However, the Greater East African Economic Union idea remained a concept rather than a real alternative until the October 1965, Lusaka Conference based on a much more detailed set of ECA proposals concerning industry *, transport and communications, and trade. The Lusaka Conference resulted in a resolution calling for an Economic Community of Eastern Africa with moderately specific proposals for a treaty and institutional structure and rather sweeping but vague descriptions of the economic areas to be coordinated or unified.** However, a series of resolutions *** on specific areas of joint action in industry, agriculture, transport (including airline amalgamation), tourism, and trade went some way both toward spelling out in what fields the Interim Council of Ministers and Interim Economic Council are to formulate practical proposals and to giving an indication of seriousness of purpose at least on the part of the states represented by senior ministers.**** Four questions arise:

- a) Is there a serious commitment to Eastern African action and if so by what date?
- b) Would a broadened setting ease tensions among the East African states?
- c) Are there significant gains in an Eastern as opposed to East African frame of joint action?
- d) Are East and Eastern African economic unions alternative choices or potentially meldable approaches?

The first question cannot be answered until there is more discussion of the joint industrial development plan. If the allocation proposed - or some modified version of it - can be approved then there is every reason to expect the EAEC to become a reality. However, this cannot be much before 1970.

While a qualified yes can be given to the second question, it is perhaps not so hopeful a point as at least one East African state believes it to be. Specific historic factors and personal misunderstandings would loom less large but present disagreements on productive unit allocation stem primarily from national economic interest not personal pique.

* E/CN.14/INR/102, op cit.

** "The Economic Community of Eastern Africa", E/CN.14/LU/ECCP/Res.1, November 1965. It is perhaps significant that the Kenyan delegation were strong proponents of a treaty rather than an agreement form for the community and of clear retification methods and implementation responsibilities.

*** E/CN.14/LU/ECOP/Res. 2-25.

**** Apparently Kenya, Tanzania, Uganda, Zambia, Malawi, and probably Burundi and Ethiopia. Rwanda, Somali, Mauritius, and the Malagasy Republic were - at least in principle - represented but apparently were less enthusiastic according to some reports.

With more countries it is true that such conflicts between any pair of states would be less numerous (and joint interests possibly more numerous) but in total more, not less, positive balances of gains over losses would have to be achieved to satisfy each participant (any state not so satisfied would either not become, or soon cease to be, a participant).

There are, judging by the background papers and resolutions, quite real gains attainable in the Eastern but not the East African frame. Certain industries would require the larger market for efficient operation, some services gain by the greater scale. While very substantial transport development expenditures would be entailed, in part this represents a re-focusing of national transport development plans to serve regional goals as well rather than a net addition to transport capital costs.

However, there are also a number of fields in which East African cooperation is not competitive with Eastern African. For some productive units the larger market is not needed, in the case of other areas immediate East African links (e.g. in tourism, transport, power) could readily be broadened once EAEC became a going concern.

The logical approach would appear to be active promotion of firmer and broader East African Economic Union within a medium term perspective of broadening participation in an Eastern African production unit location and transport link plan if adopted (including of course specific major industries and routes not simply principles for selection). There is no inherent conflict. By its nature, the EAEC will for a number of years be a de facto or de jure "designated product" (not necessarily solely in manufactures) common market and its joint planning extremely selective.

So long as the broad paths of both EAEU and EAEC policy can be projected for ten to twenty years, there is no inherent reason the East African states cannot continue more extensive economic union among themselves gradually merging into the wider Eastern African Economic Community as its designated areas of activity become more inclusive. Certainly an EAEC as functionally comprehensive as East Africa's present economic integration can hardly be achieved before 1975-80 and nothing would be gained by marking time, on Uganda - Kenya - Tanzania economic integration until that time, even were the status quo viable and stable.

The following estimates of regional, territorial, and sectoral gains and losses resulting from East African economic union are presented as approximations indicating orders of magnitude not precise calculations. The assumptions used in obtaining them are indicated in the notes to individual tables. These estimates seek to consolidate the various partial calculations of gains and losses which have been attempted* and to escape from the balance of interterritorial trade based approach which almost inevitably results in estimating only transfer gains and losses between territories, without taking account of the net gains to East Africa as a region which are the justification for economic union. They are intended to serve five purposes:

1. To provide a picture of total regional gains and their source;
2. To provide a parallel picture of the territorial divisions of gains (losses) both overall and divided between public and private sectors;
3. To supply a quantitative basis for evaluating contentions about the results of the economic union and their relative importance;
4. To illustrate the impact of different structures of production - at least partly the result of economic union - on territorial growth rates;
5. To demonstrate the possibility and hopefully the value of more detailed calculations by an impartial, official body with fuller access to statistical data and greater resources.

With the exception of the table illustrating the differential effects of production structures on growth rates, all of the calculations concern static gains and losses. They are based on the following assumptions:

1. That the alternative to economic union in the common market field would be three protected national markets not extra-regional importation of present interterritorial imports. This assumption means that "tariff revenue loss" calculations are irrelevant;
2. That in the service field the same levels of services would be provided on a national basis with the exception of the international operations of East African Airways which would be utterly unviable as three competing national units.

The conclusion that present breakup of economic union would lead to immediate territorial gains and losses as indicated is not valid. Substantial time and capital would be required to relocate production and service facilities. In the short run the regional and territorial costs of breakup would be substantially larger than present net regional gains.

* Among the more interesting of these are - W. Newlyn, "Gains and Losses in the East African Common Market", op cit; A. Hazlewood, "Economic Integration in East Africa", International Seminar on Economic Co-operation in Africa, Nairobi, December, 1965 and "The Territorial Incidence of the East African Common Services" in Oxford University Institute of Statistics Bulletin August, 1965; D.G.R. Belshaw, "Agricultural Production and Trade in the East African Common Market", op cit; and D. Ghai "Territorial Distribution of Benefits and Costs in the East African Common Market", op cit. Professor Newlyn's paper directly stimulated the present attempt to achieve at least approximate quantitative data on the overall level and distribution of gains from East African economic union.

Several important conclusions do emerge from the data:

1. The overall East African static gain, while not negligible, is only 1.7% of regional product. The basic reason for this is the limited number of industries which are regional market dependent as opposed to shiftable.
2. Substantial large scale industrial development in East Africa would radically increase the net regional gain and could - if appropriately distributed - reduce the inequality in territorial distribution. On the other hand if the present industrial location pattern were to continue, the inequality of distribution would increase absolutely and probably relatively.
3. All three states are substantial gainers on government sector account when cost savings and tax receipts are taken together.
4. Only Kenya is a substantial gainer on private sector account, while Tanzania is a substantial loser.
5. Overall Kenya has a substantial (3-4% of GDP) net gain, Uganda a marginal (1.3% of GDP) net gain, and Tanzania a marginal (some-what under 1% of GDP) net loss.
6. The services sector fails to redress common market gains inequalities, because transfer effects resulting from location of facilities make Kenya the largest net gainer. Tanzania is a net gainer on services, Uganda breaks even.
7. The Raisman transfer effect - while by no means insignificant - is not adequate to provide net gains to all three territories, much less an approximately equal division of net regional benefits.
8. Uganda's net gain is dependent on the sale of textiles, sugar, tobacco, cotton-seed, oil, and electric power to Kenya. Kenyan self sufficiency in sugar, textiles and power would convert the gain to a loss of at least equal magnitude.
9. Tanzania has achieved a significant stake in regional market dependent industry, although not one large enough to offset losses on shiftable industry income effects. This stake will increase when the tyre and tube and radio assembly plants scheduled under the Kampala/Mbale Agreements come into production.

All calculations have been made from national or EACSO published statistics when available and from unofficial estimates in other cases unless specifically noted to the contrary. 1964 has been used as a base year with minor adjustments in cases for which 1964 trade patterns were markedly typical.

The net gains from the industrial common market are probably underestimated. Existing industrial statistics have very broad classifications which may result in some plants dependent on regional markets appearing to be part of multi-plant shiftable industries. Corrections for this factor would appear most unlikely to alter the overall regional or territorial gains (losses) from the industrial common market by more than 10-15%.

I. SERVICES (2) (All figures in £000)

	<u>TANZANIA</u> (1)	<u>KENYA</u>	<u>UGANDA</u>	<u>EAST AFRICA</u>
A. Railroad and Harbour				
Main Line Losses	+1000	-500	-500	-
Diversion of Traffic from Moshi-Arusha to Mombasa and from Tanga	-500	+250	+250	-
Operating Expense Savings (10%)	600	600	600	1800
Workshop Expense Savings (10%)	100	100	100	300
Income Effect of Central- ization: Headquarters (3) Workshop	-80 -645	+150 +1290	- 80 -645	- -
TOTAL RAIL AND HARBOUR	+475	+1900	-275	+2100
B. Airline				
Territorial/Interritorial (4) Losses	325	-	125	-
Profits	125	275	50	-
Net Effect Consolidation	+200	-275	+75	-
Overseas Operations (5) Profit	200	200	200	600
Income Effect	100	200	100	400
Internal Operation (6) Expense Savings 15%	240	210	150	600
TOTAL AIRLINE	+740	+335	+525	+1600
C. Posts and Telegraph				
Territorial Losses	250	-200	-50	-
Current Cost Savings (7) (10%)	280	320	200	800
TOTAL POST AND TELEGRAPH	+530	+120	+150	+800
D. EACSO				
Services Cost Savings (8)	350	350	350	1050
Income Effect of Central- ization of Operations (9)	-1000	+2200	-1200	-
TOTAL EACSO	-650	+2550	-850	+1050
E. Hydroelectric Power				
Income Effect (10)	-	-400	+400	-
Cost Savings (11)	-	250	-	250
TOTAL POWER	-	-150	+400	+250
SERVICES GAINS & LOSSES (11)	+1095	+4755	-50	+5800
SPILOVER EFFECT (13)	115	-345	190	-40
TOTAL SERVICE SECTOR GAINS	1210	4410	340	6010

	<u>TANZANIA</u>	<u>KENYA</u>	<u>UGANDA</u>	<u>EAST AFRICA</u>
GOVERNMENT COST/REVENUE EFFECTS (14)				
Cost Savings	2520	855	1175	4550
Airline Profits	200	200	200	600
Power Sales	-	-150	400	250
Effect on Tax Revenues of Income Transfers (20%) (15) and Net Additions	-305	700	-325	70
GOVERNMENT GAINS	2415	1605	1450	5470
PRIVATE SECTOR GAINS/LOSSES (16)	-1205	2805	-1310	290

NOTES

1. Tanzania with the exception of certain EACSO services, refers to Tanganyika only. Zanzibar is not a member of the Common Market nor does it participate in the self-contained services.
2. Railway and Harbour, airline and post and telegraph data represent "Educated guesses" based on regional data and unofficial statements on territorial breakdowns. No official territorial cost and revenue data are available. CF somewhat different "educated guesses" by A. Hazlewood, op cit, p. 24.
3. Additional incomes generated are estimated at two times Headquarters Expenses (perhaps £120,000) plus Workshop Value Added ($\frac{1}{3}$ of £2,900,000 gross output). The transfer is computed as the difference between a 33-33-33 division and the present 0-100-0 distribution. The Workshop Value Added Figure is probably estimated too conservatively. 1961 Net output was £960,000.
4. Losses are sustained on intraterritorial flights in Tanzania and Uganda and on the Entebbe-Dar service. Profits are earned on the Nairobi-Mombasa, Nairobi-Dar, and Nairobi-Entebbe runs. The 1964 EAA report suggests that these profits and losses approximately net out and that the overall net profit of £600,000 is totally derived from international flights.
5. The alternative to one international airline is assumed to be none. The gain from joint operation is, therefore, the net profit plus the income generated by regional component of expenditure on behalf of international services. This is very roughly set at £200,000 divided 25-50-25 with an income multiplier of 2.
6. It is assumed that roughly .5 of total costs are incurred for intra and inter territorial services three territorial airlines would continue to operate. The savings rate of 15% is divided 35% (T), 40% (K), 25% (U) on estimate of share in these flights.
7. Savings divided 35% (T), 40% (K), 25% (U) on estimate of expenditure pattern.
8. Estimated at 10% on Social and Ancillary Services, 20% on Administration, 25% on Economic Services. The cost contribution transfer effects of Union are considered in analysis of Raisman formula effects.

9. The income effect is estimated as 2 times the difference between local expenditure incurred on behalf of a state and expenditure in that state. The difference is computed from the data in A. Hazlewood, op cit, P. 22 with adjustments for expenditures outside East Africa on behalf of each state, i.e. £500,000 of services to Tanzania and £600,000 of services to Uganda are carried on in Kenya and have their income effects there.
10. The income effect is treated as equal to net sales. This assumes Uganda has insignificant additional current expenditures from generating the power and uses the revenue to meet external obligations of the UEB.
11. The UEB charges Kenya approximately 60% (per unit) of its average internal rate for power. Kenyan generation costs would appear for substitute power to be at least equal to the Ugandan internal tariffs.
12. Cost reductions are treated as additions to real domestic product throughout.
13. Spillover effect results from the propensity to spend additions to domestic income on products of the other territories. It is here computed on transfer and net income effects only, not on cost savings, airline profits, or power sales. The estimated spillover gains are:
- | | | |
|----------|--------------------------------------|--|
| Tanzania | 3% of additions to Kenyan income | Negligible re
Uganda |
| Kenya | 10% of additions to Tanzanian income | 10% of additions
to Ugandan income. |
| Uganda | 5% of additions to Kenyan income | Negligible re
Tanzania. |
14. Airline profits (but not income effects) and UEB power sales are here included in the Government Sector.
15. Average territorial tax revenue slightly exceeds 20% of Gross Monetary Product. Marginal tax revenue from additional Gross Monetary Product tends to be below the average rate. However, the Union economic sectors appear to bear a somewhat above typical tax incidence. A 20% marginal rate is, therefore, used. This rate is applied to net and transfer income effects but not to cost savings, airline profits, or UEB sales.
16. Strictly speaking this sector is Private plus Autonomous Public Corporations not specifically included in the Government Sector. For purposes of the present analysis this lumping has no serious detrimental effects and the isolation of the impact of Union on individual autonomous corporation profits would be virtually impossible.

II. COMMON MARKET

(£000)

	<u>TANZANIA</u>	<u>KENYA</u>	<u>UGANDA</u>	<u>EAST AFRICA</u>
Industrial				
A. Inter-territorial Trade in "Shiftable" (National Market) Industries				
Income Effect (1)				
Tanzania Exports	1000	-700	-500	-
Kenya Exports	-6500	13500	-7000	-
Uganda Exports	-1200	-2900	4100	-
Cost Savings of Present Location (2)	770	360	730	1860
TOTAL A	-5930	10260	-2470	1860
B. Regional Market Industries Not Viable on National Basis				
Tanzania (3)	1200	-	-	1200
TOTAL A AND B	-4730	10260	-2470	3060
C. Spillover Effects (4)	310	-720	515	105
TOTAL INDUSTRIAL	-4420	9540	-1955	3165
Selected Foods, Agricultural Raw Materials (5)				
A. Inter-territorial Trade in Shiftable Production				
Income Effect (6)				
Tanzania Exports	1605	-1140	-470	-
Kenya Exports	-1300	2290	-995	-
Uganda Exports	-430	-4570	5005	-
Cost Savings of Present Location (7)	190	635	160	990
TOTAL A	70	-2785	3705	990
B. Non-Shiftable Component of Interterritorial Trade				
Income Effect (8)				
Tanzania Exports	160	-85	-35	40
Kenya Exports	-95	230	-75	60
Uganda Exports	-30	-340	500	125
TOTAL B	30	-195	390	225
TOTAL A AND B	100	-2980	4095	1215
C. Spillover Effect (9)	-90	420	-150	180
TOTAL FOODS, AGRICULTURAL RAW MATERIALS	10	-2560	3945	1395
TOTAL COMMON MARKET GAINS/LOSSES	-4410	6980	1990	4560
GOVERNMENT SECTOR				
Tax Revenue 20% (10)	-880	1390	400	910
PRIVATE SECTOR (11)	-3530	5590	1590	3650

NOTES

1. Shiftable industries are those in which viable plant size (typical East African plant) is below national market demand. The income effect from exports is calculated at 2 times industrial value added plus raw material production (e.g. for dairying, flour milling) dependent on industry; dairy and meat products are included in the industrial sector in these estimations. The capital employed in founding these industries is assumed to have been foreign or regionally mobile - East African in origin while expansion is believed to have come basically from re-invested profits.
2. Cost savings from present - as opposed to three separate territorial market location patterns are estimated at 20% of the adjusted value added of shiftable industry imports. This is, if there were three separate markets with tariff barriers against each other, selling prices of manufactured goods now imported from other territories would be higher because of higher cost.
3. Bata Shoe (plastic shoes), blanket factory, aluminium product plant. Income effect 2 times total value added.
4. See I - Note 13. Computed on A plus B.
5. Sugar, tobacco (unmanufactured), Maize and Millet, Wheat, Vegetable Oils, Animal Foodstuffs.
6. 80% of interterritorial trade is taken as shiftable production. value added ratio is taken as 90%. A multiplier of 2 is used.
7. Cost savings from present location pattern are estimated at 20% of shiftable imports.
8. The non-shiftable component of 20% is taken to be the share of products physically not produceable in the importing territory (e.g. lack of land, unsuitable climate) or produceable only at 50% or more additional cost. The same 90% value added ratio and multiplier of 2 are used.

The base gain to the exporting state is, however, assumed to be the difference between territorial proceeds and world market proceeds (less transport costs) estimated at 40% of non-shiftable exports. The base cost to the importing state is taken to be the difference between the East African cost and the world cost (including additional transport) taken at 30% of non-shiftable imports.

In this case the alternative to production for the Regional market is production for the world market and the alternative to Regional imports, world market imports.

9. See I - Note 13. Computed on A plus B.
10. See I - Note 15.
11. See I - Note 16.

Rounding

In Industrial A and B income effects have been rounded to the nearest 100 because of the extreme difficulty in making precise estimates of adjusted value added. Cost savings have been rounded

to the nearest 10. Spillover effects have been rounded to the nearest 5. In Foods and Agricultural Raw Materials all figures have been rounded to the nearest 5.

Comment:

The extremely limited number of Regional Market (Non-Shiftable) industries is a priori suspicious. However, the bulk of East African interterritorial trade is, in fact, in goods produced in clearly shiftable industries. Adjustments from the Shiftable to Regional Market category resulting from a more detailed set of industrial classes would be positive but probably involving about 5% of interterritorial industrial trade as a maximum.

Nytil (Uganda) was formerly in the Regional Market category but this is no longer the case especially as a substantial portion of Nytil's cloth exports to Kenya return to Uganda as finished clothing and this clothing industry segment is clearly shiftable.

III. RAISMAN FORMULA TRANSFER EFFECTS (1) (£000)

	<u>TANZANIA</u>	<u>KENYA</u>	<u>UGANDA</u>	<u>EAST AFRICA</u>
A. Direct Fiscal Transfer Effect (2)	305	-550	245	-
B. EACSO Cost Redistribution (3)	180	-215	35	-
DIRECT TRANSFER EFFECT	485	-765	280	-
C. Multiplier Income Effect (4)	485	-765	280	-
D. Spillover Effect (On A, B, C) (5)	-45	155	-75	35
TOTAL RAISMAN FORMULA EFFECT	925	-1375	485	35
GOVERNMENT COST/REVENUE EFFECTS				
Direct Transfer Effect	485	-765	280	-
Tax Revenue Effect - Multiplier and Spillover Incomes (20%) (6)	88	-122	41	7
GOVERNMENT GAINS/LOSSES	573	-887	321	7
PRIVATE SECTOR GAINS/LOSSES (7)	352	-488	164	28

NOTES:

- Based on 1964-65 estimates. Calculations A, B, C, D rounded to nearest 5. For alternative calculations (re B) of A. Hazlewood, op cit, pp. 18-19.
- Difference between half payment into Distributable Pool and receipts from Pool (1/6 of DP).

3. Difference between half payment into Distributable Pool (the share paid to EACSO) and share of EACSO services benefiting territory. EACSO benefit calculation (from A Hazlewood, op cit, p.22, benefit distribution data) is 29% (T), 45% (K), 26% (U). Assumption is that in absence of pool each territory would bear full cost of its share. Alternative assumption of 33-33-33 contribution equal in total to distributable pool would make B 303 (T), -547 (K), 243 (U) but this appears an unrealistic way to compute present territorial gains from pool.
4. It is assumed that the net additions to (including subtractions and EACSO cost reductions or increases) government funds available are expended and generate an equal multiplier income in private sector.
5. See I - Note 13.
6. See I - Note 15.
7. See I - Note 16.

IV. COMBINED BALANCE SHEET - STATIC GAINS AND LOSSES FROM ECONOMIC UNION

	(£000)			
	<u>TANZANIA</u>	<u>KENYA</u>	<u>UGANDA</u>	<u>EAST AFRICA</u>
I. Services	1210	4410	140	5760
II. Common Market	-4410	6980	1990	4560
III. Raisman Formula	925	-1375	485	35
GRAND TOTAL STATIC GAINS/LOSSES-	2275	10015	2615	10355
% of GDP	- .9 (244,000)	3.6 (278,000)	1.3 (203,000)	1.4 (725,000)
GOVERNMENT SECTOR				
I. Services	2415	1605	1450	5470
II. Common Market	-880	1390	400	910
III. Raisman Formula	573	-887	321	7
TOTAL GOVERNMENT SECTOR	2108	2108	2171	6387
PRIVATE SECTOR (1)				
I. Services	-1205	2805	-1310	290
II. Common Market	-3530	5590	1590	3650
III. Raisman Formula	352	-488	164	28
TOTAL PRIVATE SECTOR	-3483	7907	444	3968

NOTES:

1. See I - Note 16.

V. IMPACT OF DIFFERENTIAL INITIAL STRUCTURES OF PRODUCTION ON TERRITORIAL GROWTH RATES

A. Initial (1964) Structures of Production (%)

	<u>TANZANIA</u>	<u>KENYA</u>	<u>UGANDA</u>	<u>EAST AFRICA</u>
Primary and Mining (1)	61.2	42.2	67.3	55.9
Manufacturing (2)	2.4	9.6	3.9	5.7
Construction	3.1	1.6	1.8	2.0
Trade-Transport-Power	16.4	23.2	13.6	18.2
Services	3.5	8.1	6.9	6.2
Rents	2.1	3.4	2.0	2.6
General Government	11.3	11.8	4.5	9.6

B. Sectoral Growth Rates Consistent with 6.5% Annual Growth of East African Output.

Primary and Mining	5%
Manufacturing	12%
Construction	15%
Trade-Transport-Power	8%
Services	5%
Rents	8%
General Government	8%

TOTAL GDP 6.5%

C. Resultant National ^{Growth} Rates if Sectoral Imbalances within Region Persist on present lines and each State sustains an equal level of Effort toward growth.

Tanzania (3)	6.4%
Kenya	6.9%
Uganda	6.1%
East Africa	6.5%

D. Annual Gain or Loss from differential growth effects of structure of Production (4)

Tanzania	Loss	£ 360,000
Kenya	Gain	£1,110,000
Uganda	Loss	£ 810,000

Over time the divergencies in growth rates and structural dynamic gains or losses of product would tend to increase with the increasing relative weight of manufacturing. (5)

NOTES

1. Includes coffee curing, cotton ginning, sisal decorticating, and (except for Kenya) sugar manufacture.
2. Excludes primary processing listed in Note 1.
3. This rate rather overstates the relative Tanzanian position. The pickup in construction in Tanzania was more advanced for 1964 than in the other two territories where it remained at semi-depressed levels.

4. The difference between total gains and losses results from rounding in calculation of A and B.
5. It is not contended that this growth pattern is probable. Present plans call for distinctly unequal levels of effort and for structural changes. The attempt is to give a rough order of magnitude to the dynamic gains and losses resulting from the present structure of production and therefore to a substantial extent from economic union.