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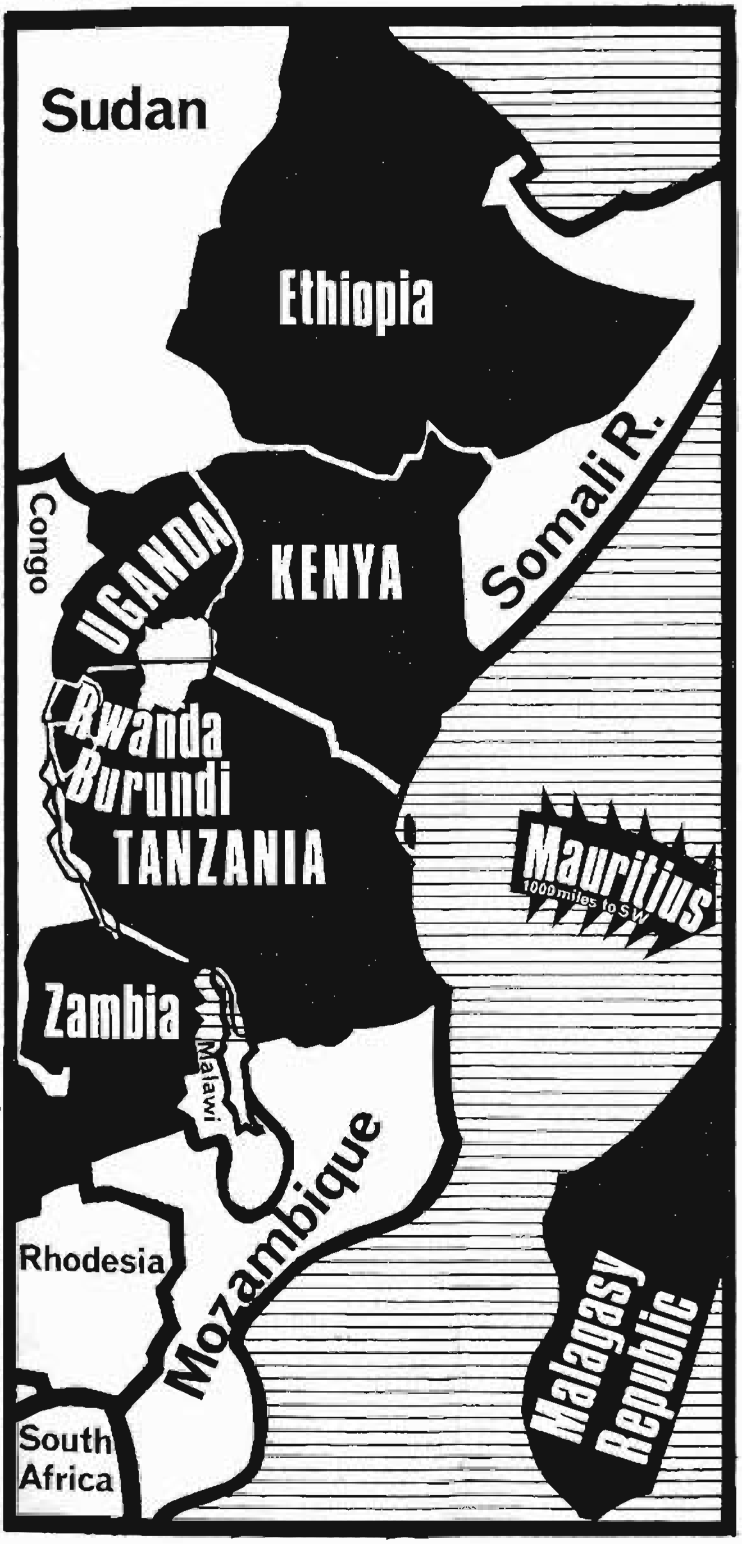
EAST AFRICAN ECONOMIC UNION

Break-up or breakthrough?



FROM 1960 THROUGH 1963 hopes for speedy attainment of East African Federal Union waxed high. Then they began to dim and by 1965 to die away. As first Uganda and later Kenya voiced increasing reservations about the largely Tanzanian drafted proposals, the focus of attention has turned to whether the existing East African Economic Union can long survive the failure of political federation proposals. The doubts are reinforced by the fact that one of the main aims of federation was to secure a more equitable distribution of the gains from economic union.

A series of events are cited to show that economic union is already in the process of breakup: Tanzania's 1964 warning that it would leave the common market unless an agreed industrial location policy was attained; the quota limitations on regional free trade provided for in the resultant Kampala-Mbale Agreements and Tanzania's sweeping imposition of them on Kenyan (and peripherally Ugandan) manufactured goods; the failure of the East African Industrial Location Study Commission (called for in the Agreements) to materialise and that of Kenya to pass legislation implementing the limited degree of agreed industrial location which formed another key section of the Agreements.

Parallel disintegrative trends are seen in the divisions over monetary, fiscal, and exchange control policy. These blocked successful completion of East African Central Bank discussions. In 1966 they lead to the substitution of three national central banks and currencies for the unified monetary system of the East African Currency Board. At the autumn 1965 meeting of the East African Central Legislative Assembly, President Julius Nyerere warned that only honest appraisal of the weaknesses and inequities of economic union as it existed could prevent breakup. The ensuing Mombasa Conference was marked by sharp divergences of viewpoint with Uganda as well as Tanzania highly critical of the *status quo* and of what they viewed as Kenya's attempts to maintain it. Out of the Mombasa Conference, however, there also arose the present East African Commission to study and advise on the future of economic union.

AN ALMOST EQUAL LIST can be compiled to illustrate the increasing value of East African Economic Union and the very real commitment of all East African governments to its continuation. 1964 interterritorial exports set a record of £41 million (20% of total exports). Ugandan and Tanzanian exports to Kenya have grown rapidly since 1962 — albeit the absolute gap in their trade balance with Kenya has increased as well. And in 1964 and 1965 Tanzania's emergent common market industrial exports rose sharply as the first plant (aluminium products) allocated by the Kampala Agreement came into production. The operations of jointly operated services (transportation, communication, fiscal, educational, research, and economic) reached £53 million (7% of East African Regional Product). Fiscal transfers from Kenya to Uganda and Tanzania under the 1961 Raisman Formula arrangements totalled £0.8 million.

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Mwalimu Nyerere's frank warning of the need for reform was welcomed by the other two states especially as it was coupled with an affirmation that economic union could be viable if reformed even though speedy political unification was no longer in sight. Despite divergences, the Mombasa Conference agreed not on a process of breakup but on a study of means to reform, maintain, and strengthen economic union. Subsequent selection of national ministerial delegations (headed by Finance Minister Amir Jamal and Finance Minister L. Kalule Settala of Uganda) was marked by the inclusion of senior cabinet members with responsibility for and competence in economic affairs. The selections also showed a desire to reduce the danger of personal clashes and avoid the appearance of rigid preset positions both in terms of those included and in at least one notable omission from each team. An independent chairman — Professor Kjeld Phillip of Denmark and the UN — was speedily agreed upon and a technical advisory staff for the Commission formed largely from UN Economic Commission for Africa personnel. Meanwhile at the October-November Lusaka Conference, the three East African states (plus Zambia) were the leading proponents of a broader Eastern African Economic Community extending from Ethiopia through Zambia and from Rwanda and Burundi through Mauritius and the Malagasy Republic. In addition to a declaration of principles, the conference agreed on an interim council and technical staff charged with a series of concrete studies to determine feasible areas of joint action in the fields of industrial development, transportation, and trade with 1967 as a target for initial concrete implementation.

WHAT IS ONE TO MAKE of these disparate trends? Is East African Economic Union about to break up? To breakthrough to a new basis of broader co-operation possibly involving more states? What are the gains from union and — if they are substantial — why is there dispute over its continuation?

Benefits of economic union to East Africa as a whole fall into several main categories: lower cost operation of joint (as opposed to separate national) services; creation of a market area large enough to justify lines of production not viable on the basis of the Kenyan, Tanzanian, *or* Ugandan market alone; lower production costs in agriculture and industry based on specialisation, economies of scale, and locational advantages. In addition, however, any one state may benefit at the expense of the others if the pattern of production — especially in industry and in certain service operations — is altered in its favour by economic union. The long standing plaint of Uganda and Tanzania is that such an unbalanced location pattern has emerged with industry, railway, airline, and East African Common Services Organisation overconcentrated in Kenya. A symptom of this imbalance is Kenya's 1964 interterritorial export surplus of £15 million on total interterritorial exports of £26 million. Another is the £4 million net of expenditures on services which were provided *to* Tanzania and Uganda, but which were made *in* Kenya, generating income and employment effects there rather than in Uganda or Tanzania. While it is perfectly true that economic union need not mean bilateral balancing of trade nor equal division of expenditures on joint services, the degree of imbalance and inequality shown in trade and service accounts does raise serious questions as to the net impact of economic union on Uganda and, particularly, Tanzania.

A detailed balance sheet of gains and losses prepared by the author shows net East African benefits from economic union in 1964 as £10.4 million (1.4% of Regional Product of £722 million). Somewhat over half of net gains were derived from joint service operations, about a third from the common market in industrial products, and perhaps an eighth from the (partial) common market in agricultural products. However, the division of gains was extremely unequal: Kenya gained £10 million (96% of the net total), Uganda £2.6 million (26%) but Tanzania lost £2.3 million (-22%).

Rather surprisingly each state gained about £2.1 million on government account, the imbalance resulting from very different results in the private sectors. Government savings came largely from lower costs of service operations and the initial imbalances were basically corrected by the Raisman Formula transfers. In the private sector the concentration of production in Kenya was very marked *vis à vis* Tanzania. Under economic union, Tanzania appears to have lost industrial, agricultural, and service production to Kenya (and peripherally to Uganda), as opposed to what it could have achieved as an autonomous protected economic unit. Uganda's position is much more balanced, with gains in the fields of textiles, hydroelectric power, tobacco, sugar, and vegetable oils offsetting losses in services and manufacturing.

THIS SKETCH OF THE SOURCES, levels, and distribution of gains highlights the basic problems confronting East African Economic Union:

1. Tanzania's national interests are ill served by an annual loss of 0.9% of its national product of £244 million;
2. Uganda feels the division of benefits to be inequitable and is, in fact, less than convinced that she is a net gainer (1.3% of

[*Continued on page 86*

her £203 million 1964 product);

3. Kenya — with a gain of 3.6% (1964 product £278 million) and with about a quarter of her total industrial production directed to Tanzanian and Ugandan markets — tends to oppose any radical changes. Her government cannot afford a subsequent increase in urban unemployment and also points to the fact that — even after economic union transfer gains — the *per capita* cash income of her African citizens is below that of Uganda's and barely equal to that of Tanzania's.
4. The overall level of gains, while substantial and growing (in 1955 it probably did not exceed £4-5 million or 1% odd of regional product), is not large when compared with the growth rate goals of 5.5% to 7.5% set by the three states or with actual growth over the past five years.
5. Simply relocating production as it would have been in the absence of union would, indeed, wipe out transfer problems but at the expense of the net gains. Economic union should alter production patterns in each unit, the problem is the achievement of a union distribution resulting in net gains to each state.

In short, a real divergence of national interests combined with a rather limited total gain to distribute underline the tendencies to breakup evident since 1963 far more than any differences in political ideology or style or than personal frictions. These factors are compounded both by the dynamic effects of present production patterns on future growth rates and by the *laissez faire* structure of the common market itself.

The present East African structure of production is highly unbalanced with nearly two thirds of total industrial value added (excluding primary agricultural processing) in Kenya. This is the sector whose output will grow most rapidly as East Africa develops. Should the regional pattern of production remain basically unchanged and total regional output grow 6.5% a year the resultant national growth rates would be 7% for Kenya and 6.25% for Tanzania and Uganda. In other words Kenya would tend to have a dynamic gain of £1 million and Tanzania and Uganda dynamic losses of £0.5 million each culminating with the imbalance already seen in the division of static gains.

In fact both Tanzanian and Ugandan development planning seeks to alter their structures of production in favour of increasing shares of industrial output. The present *laissez faire* common market is increasingly seen as an obstacle to such planning. Its steady erosion through quotas and pressure for relocation of production in existing industries is evidence that national planning, *not* regional economic union is the dominant national goal when the two conflict.

THE QUESTIONS THESE REALITIES pose to advocates of continued East African Economic Union — including the three governments — are threefold: *Can economic union be made compatible with national development planning? What steps can be taken to ensure positive gains for all three states in the immediate future and a more equitable division of additions to net regional benefits from union? Are there reasons to believe that economic union can afford either substantially larger static gains or a more positive impact on economic growth than it has to date?*

National economic planning is *not* incompatible with economic union *per se* but with *laissez faire* common markets. The form of economic union appropriate to Uganda, Kenya, and Tanzania — each now seriously committed to comprehensive development plan implementation — is one with joint or union economic activities subject to union planning and control. By no means all plan questions would fall into the union sector: large scale production (agricultural or industrial) for regional markets, main transportation and communications networks, tourism, hydroelectric power, broad lines of fiscal-monetary-tax policy, international economic policy including tax incentives, and technological (including economic) research and education are the areas in which union planning, plan co-ordination, and — in certain instances — joint operation are likely to yield the greater gains. Joint planning need not imply joint implementation, operation, or facility ownership. The existing services, however, do benefit from economies of unification and other areas of joint operation e.g. hydroelectric power generation and distribution, staple food marketing boards appear to deserve serious consideration.

Even a limited degree of joint planning will require substantial changes in the East African institutional structure. At present EACSO is basically a service-operating body as are the self-contained services (rail, harbour, post, telecommunications, airways). There is no institutional structure to the common market. A planning body will need a substantially larger economic, technical, and statistical staff than EACSO's present advisory and statistical units can provide. Only with such a staff can it prepare detailed feasibility studies and proposals for the sectors cited. Further, for joint planning to be both acceptable and operational some regional decision-making body must be created. The present structure of an East African Authority (Heads of State), ministerial committees, and a Central Legislative Assembly is doubtfully adequate for its present role much less for formulating guideline directives to a planning unit, approving or amending its proposals, or overall overseeing of union economic areas and progress. The heads of states and ministers cannot devote enough time to carry out these functions especially as they are not now supported by any adequate research and information facilities. The CLA is basically a decision-ratifying rather than initiating body with its national delegations rarely given any real authority to engage in bargaining over decisions.

THE SIMPLEST SET OF REVISIONS would include each state's centralising its East African policies under a Minister (or Minister of State) for East African Affairs with a limited staff of his own and contact with Undersecretary level East African divisions in relevant ministries. Headed by these Ministers, the national CLA delegations could be given both guidelines for negotiation and leeway for bargaining adequate to avoid the time-consuming referring of all substantive issues to their home governments. Further, with specialised delegations, the CLA could develop real competence in East African economic affairs and replace the ministerial committees with more effective CLA committees on specific policy and programme areas. Such a body is essential because joint planning does involve pooling of significant aspects of economic sovereignty, a step no state will take without ensuring full participation in joint decision making (and in the case of East Africa probably an ultimate veto over major decisions).

The proposals for joint planning in itself provides a potential answer to the problem of attaining more balanced productive unit location. Within a context of regional planning of large-scale productive units (especially in industry), an agreed location policy is technically fairly simple and probably politically practicable. It would, of course, have to take into account both raw material and power availability and other locational cost factors and the need to secure an agreed distribution of total additions to production. This is especially true because the establishment of these units would be dependent on the maintenance of economic union and an absence of agreement on location would mean that no state could establish them.

IF THE DEGREE OF JOINT PLANNING outlined can be attained, future regional benefits appear likely to be much larger than at present. Let us assume £25 million potential investment in industries practicable only for East African (not for Kenyan, Ugandan, or Tanzanian) markets — a figure approximately 20% of planned 1965-70 industrial investment. Let us also assume limited additional co-ordination of agricultural policy, and the creation of a joint policy for the tourist industry, for developing promotion and facilities. In these circumstances, by 1971 East African net gains from economic union could rise to about £35 million. At that level it would represent an annual static gain of 3% of the regional product while over 1966-71 the addition to regional gains would boost the growth rate by about 10%.

With substantial new gains to be allocated, both the Kenyan goal of averting dislocation of its present industrial sector and the Tanzanian of expanding its stake in regional market-oriented production and achieving substantial net gains from union could be met. The rate of growth of national gains from economic union would be lower in Kenya than in Uganda or Tanzania but all three states would both increase their net benefits and insure themselves against the dislocations and costs which would result were present negotiations to fail and breakup to result.