Problems and possibilities for East African economic integration

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PROBLEMS AND POSSIBILITIES FOR EAST AFRICAN ECONOMIC INTEGRATION

by

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I. Potential Gains from Unity

There is widespread agreement that given the conditions of modern technology, regional economic integration would permit more rapid economic development using existing resources, markets, capital and labour. It would facilitate the task of reshaping the regional economy to end dependence on exports and the building of an integrated domestic economy geared to increasing productivity and higher levels of living for the entire population of the area.¹

A. The Foundations of a Regional Development Strategy

In particular, regional economic unification would permit the establishment of optimum-sized producer goods industries and large-scale poles of growth with adequately planned linkages. This could set off a chain of growth leading to more rapid economic reconstruction and balanced internal development throughout the entire region. Increased production of certain essential industrial inputs could contribute significantly to expanded productivity in both industry and agriculture. At the same time, the planned expansion of productive capacity and increased incomes in every part of the region could be expected to stimulate increased effective demand for the growing industrial and agricultural output.

A few selected examples² may serve to indicate how regionally planned economic development could accelerate industrial growth throughout the entire area. Iron and steel products are essential for a wide range of constructional and industrial activities in a rapidly expanding economy. East Africa as a whole imported about £8.7 million worth of iron and steel products in 1961. With the plans for rapid development, this was expected to expand at 8-11 percent a year so that about 300,000 tons would be required by 1970. Although the diversity of steel products required would render it impossible to produce all the final output in one plant, an integrated iron and steel project would produce the basic steel requirements. These could then be processed in a variety of smaller plants.

There are two major potential sites for the establishment of an integrated iron and steel works in East Africa. One is in Uganda where both high-grade ore and cheap hydro-electric power are available. The alternative, with the construction of the Tanzam rail link, is the development of Tanzanian ore deposits using Tanzanian coal. In either case, the minimum-sized market for an optimum-sized iron and steel project would involve heavy capital investment and require the markets of all three countries. Along given present known technologies, neither the Tanzanian nor the Ugandan market could consume the potential output of the required large-scale plant.

* A plant was established in Rhodesia when it was still a British colony; but it cannot be considered a feature of regional industrial development until that country is liberated.
Chemical industries, taken together, constitute another essential producer goods industry which could contribute to the acceleration of East African development. Such an industry could use local raw materials to end the expensive import of foreign fertilizers, permitting the more rapid spread of the use of fertilizers to augment agricultural output. Its establishment could constitute the first phase of the creation of a chemicals industry, an essential feature of modern industrial development. In the early 1960's, East Africa as a whole spent about 5 million to import chemical products, of which about half was for agriculture including fertilizers and insecticides. An East African chemicals industry should eventually be diversified to produce dyestuffs for textiles; caustic soda and soda ash for glass production and soap manufacture; sulphuric acid; etc. The most important branch which should be initially constructed in East Africa would probably be an optimum-scale fertilizer plant. But the entire anticipated market in East Africa for basic fertilizer ingredients, nitrogen (N) and phosphates (P\textsubscript{2}O\textsubscript{5}) would, for the next decade, barely be adequate to support a project large enough to take full advantage of modern technology at relatively low costs per unit of output.

Both Tanzania and Uganda have phosphates deposits which could ultimately be processed in an optimum-sized fertilizer industry to meet the needs of the entire East African market. But the market of neither country, alone, is adequate to support such a project.

<table>
<thead>
<tr>
<th>Table 10-1</th>
<th>East African Anticipated Consumption of Basic Fertilizer Ingredients: 1970, 1980 in Tons</th>
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<tr>
<td></td>
<td>1964</td>
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<tr>
<td>N</td>
<td>14,800</td>
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<tr>
<td>P\textsubscript{2}O\textsubscript{5}</td>
<td>13,200</td>
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In later stages, the coal deposits of Tanzania are suitable for construction of a coal distillation industry as a potential basis for a chemicals complex producing coal tar and eventually drugs, dyes, pharmaceuticals and plastics. Kenya's forest reserve would make it a natural area for development of a wood distillation complex to supply East Africa with gas, acetone, acetone acid, methanol and tar. These industries, too, would require major capital investments and regional markets; none of them could be realized by any of the individual countries alone.

Other industries, whose location is less dependent on raw materials than on markets, sources of power, and the costs of transporting the final products, include engineering industries and textiles. Given the formulation and implementation of a region-wide plan to locate industries, the relative
flexibility possible in determining the location of these industries should permit the establishment in each country, and even each major area within each country, of a pole of growth of sufficient size to set off a significant chain of development.

Engineering industries form a highly complex group producing a large variety of goods from bicycles and tractors to lorries. The minimum efficient size is usually large. In the early stages manufacture may be limited to last stage assembly of components for a limited market. A large market as well as more capital is required in later stages of development to produce the components. Related industries should be planned simultaneously to establish a joint demand for such components as well as to provide adequate repairs and servicing. Together, these could create the linkages necessary to make construction of more technically advanced engineering industries viable.

In East Africa as a whole, a considerable range of mechanical and electrical activities would be feasible. Tractors, initially probably excluding the engines, and bicycles could be economically produced. The establishment of a steel industry would facilitate the local production of component parts. Standardization of parts for tractors, bicycles and lorries would permit establishment of units to produce components; this implies that the present import of widely differing types of tractors and other mechanical equipment should cease, since they require differing components and hence limit the standardization required to establish local production units.*

Cotton textiles may be produced on a relatively small-scale from raw cotton through spinning, weaving and finishing. The best possible use of regional resources suggests that such industries should be established as poles of growth in areas where resources may not be available for other kinds of industries. In other words, the location of textile industries should be planned within the framework of an overall plan for industrial allocation, to ensure that all areas participate in growth of productivity, employment and incomes.

Industries producing cement, which constitutes a major cost element in many construction projects, need to be located near the necessary raw materials, especially limestone, as well as the markets for the final products, since transport costs are heavy both before and after processing. Japanese experience suggests that such plants may work efficiently at about a 50,000 ton capacity. Hence they may be established on a relatively small-scale near appropriate natural resources to facilitate low-cost construction of development projects in separate areas. Construction of cement plants should be planned to facilitate building programs designed to fulfil the requirements of the overall regional plan. Their construction may in effect contribute to creation of demand for their output in the sense that, once they are built, projects using cement may become economical where they might otherwise never have come into existence.

* This clearly has implications for purchasing and import policies, an important reason for co-ordinating the national import policies of the three countries.
Production of flat glass on an optimum-scale is estimated to require a plant size of about a six million ton capacity. The estimated domestic consumption of glassware in all three East African countries in 1963 was less than 15 thousand tons, although it was expected to increase to 22,000 tons in 1970 and 27,000 in 1979. In other words, the entire East African market could barely support an optimal-sized modern flat glass plant; if possible, it would be preferable to establish one for a much larger region including other neighboring countries.

The Economic Commission for Africa recommended that a large-scale glass plant should be built in Mombasa or Dar es Salaam, since both Kenya and Tanzania have most of the necessary raw materials. Sand, soda, ash, lime felspar, and dolomite are required to make glass. Of these, sand is the most important. Dar es Salaam's sand is not of as high a grade as Kenya's and Tanzania would have to import dolomite and soda ash. While all the ingredients are available in Kenya, they are scattered in various parts of the country. Location of the plant at a port would facilitate imports of additional materials required as well as the export of any surplus production.

A long list of possible industries might be incorporated into an East African development plan. The region as a whole has adequate natural resources, markets, capital and labour to initiate industrial expansion on a fairly broad front. Smaller, more labour-intensive projects could be linked into an overall plan which provided for larger pole of growth factories. The key element in such a plan would be to ensure that, following detailed feasibility studies, each area of the region benefitted from the creation of an adequate industrial sector to enable it to participate fully in integrated region-wide growth.

Expanding agricultural production should also be planned to support industrial development within an increasingly integrated East African economy. The linkages between proposed industries and agriculture should be planned to ensure that: (1) adequate agricultural raw materials would be available for new industries as they were established; (2) the supplies of food would be adequate for the growing regional urban labour force; (3) a sufficient share of regional surpluses would be invested in critical industrial projects; (4) the cash incomes of farmers throughout the region would expand steadily to provide a market for the increased output of consumer goods and farm inputs produced by the regional manufacturing sector; and (5) ultimately - as regional industrial sectors grew - agricultural labour would be released to work in the new factories.

Once the planned pattern of investments, particularly in crucial industries located throughout the region, had been agreed upon, the Governments would need to enforce appropriate institutional controls over investment - domestic and foreign - to ensure that the plan was carried out. No longer could the Government's vie with one another in creating "an hospitable investment climate" to the extent of trying to attract private investors - mainly foreign - without regard to the regional plan. The Governments themselves would need to agree to invest sufficient amounts of capital - regardless of decisions by foreign investors - to ensure that the plans would in fact be implemented. Joint public control of pole of growth industries would be essential.
In reality such an approach would simply be broadening the specialization and exchange required for industrialization from the level of each country to the regional level; but on the regional level, the potential for benefitting from the larger regional markets, accumulations of capital and skilled manpower would be far greater than on a national level.

B. The Necessity of Altering Regional Trading and Financial Institutions

Within the framework of the regional plan, the entire pattern of trade would need to be shifted to support expanding regional industry and agriculture. No longer could the inherited institutional pattern be permitted to direct trade through the export enclaves centred predominantly on Nairobi. The three states would need to co-ordinate their efforts to create new trading institutions to ensure that trading links between them expanded in a manner calculated to contribute to balanced industrial and agricultural development.

The pattern of export-import trade would need to be fundamentally shifted. The import of luxury items should be reduced sharply releasing foreign exchange to permit the expansion of the import of capital goods and equipment to build pole of growth industries and associated projects throughout the region. Exports should be planned on a regional basis to avoid competitive overproduction in relation to slowly growing world demand; and should be increasingly processed in regional factories to raise their unit value. In the case of such exports as lumber, paper pulp from sisal, and cement, a growing share of the output might be used to meet domestic needs. Expansion of exports could be facilitated by long-term contracts with foreign buyers linking imports of capital goods and equipment to specific exports; this would undoubtedly necessitate governmental action to shift import patterns from traditional suppliers.

This shift in the pattern of export-import trade could not simply be left to the market forces operating in the prevailing dual economies of the region. The entire institutional structure shaped in the colonial era to meet the needs of the large foreign trading firms would need to be altered. The participating governments would need to obtain a sufficient degree of control over export-import trade to direct it along the lines appropriate to the growth of the regional plan. The pattern of internal trade, too, would need to be altered to contribute effectively to regional integration. Joint internal trading institutions, particularly at the wholesale level, would be necessary to ensure that internal markets expanded throughout the region for newly built industries, regardless of in which country they were located.

This is particularly true because no East African state could afford to invest its own funds in an optimal-sized project based on the assumption that it would benefit from regional markets unless it had some form of guarantee that the markets would be in fact be available. This would require a high level of agreement among participating states to ensure that industries, once established, could sell a planned portion of their output in the region. State control of importing firms would, again, need to be sufficient to ensure that such agreements were not undermined by the import of competing products into any of the three nations.
The implementation of a regional plan, like that of the plan in any given country, requires sufficient changes in the inherited complex of monetary and financial institutions to ensure that investible surpluses are retained and directed towards building the poles of growth and essential linkages as well as financing the new trading pattern. This could not be left to chance, since the implementation of any part of the regional plan depends on the implementation of the whole plan. No one state could give up the opportunity to invest in its own industry, even on a basis less advantageous than for a regional market, unless it could be assured that the major investment decisions of all three states would be directed to implementation of the regional plan for regional specialization and exchange. Sufficient joint control of commercial banks, insurance firms and financing houses would need to be attained to end the inherited pattern of the outflow of investible surpluses. Foreign exchange would need to be consciously directed to purchase of essential capital goods and equipment. Governmental agreement concerning foreign investments would be essential to ensure that such funds contributed to projects meeting the requirements of the regional plan. The three governments would need to agree, too, on a region-wide incomes policy and tax program which would end the inherited distorted pattern of income distribution. Agreed tax and government salary schedules would need to be formulated to direct surpluses formerly accumulated by high income groups to creation of essential new productive facilities designed to meet the needs of the entire regional population.

In sum, if the East African countries are to accelerate their pace of development through regional co-operation, they must achieve a sufficient level of control of critical regional institutions to plan and carry out a region-wide strategy of industrial and agricultural growth. They will need to agree on the appropriate institutional changes which will be required to shift the inherited patterns of partially separated dual economies to a regionally-integrated economy capable of achieving increased specialization and exchange designed to raise levels of productivity and living standards throughout. This will require adequate institutional control over decision-making in industry and agriculture to ensure that the development strategy is implemented. It will require sufficient institutional control over trade - especially wholesale trade - to ensure that regional markets are expanded along with the growth of industrial and agricultural output. It will necessitate major alterations in the monetary and financial institutions to ensure that investible surpluses produced are not drained out of the country or captured by a domestic elite, but are, instead, directed to implementation of the overall plan.

II. Obstacles to East African Economic Integration

Despite extensive agreement as to the potential advantages of East African economic integration, present political-economic realities indicate significant obstacles to their attainment. The plans of the separate countries are drawn up separately with little or no consultation. Each group of national planners concentrates on immediate possibilities in their own country for domestic development. In some instances these are quite contrary to those which might be realized by broader co-operation. Even more important,
many critical investment decisions, which would be essential to attain the goals of regional economic integration, are left to private interests - domestic and foreign - primarily directed to capturing short-term gains. As a result major investments are still made to take advantage of the existing inherited market patterns, determined by past export enclave expansion, rather than contributing to essential economic reconstruction. The underlying difficulty appears to be the lack of political agreement, backed by essential institutional changes, to attain overall regional development directed to raising productivity and levels of living throughout the entire region.

A. Lack of Substantial Agreement

The Kampala Agreement for regional industrial allocation was reached at a meeting of Ministers in Kampala in April, 1964, modified in subsequent meetings, and confirmed by the Heads of Government at Mbane on 14 January, 1965 for embodiment in a formal legal convention. The Agreement outlined measures to protect the development position of the less developed East African countries, particularly in relation to the large privately-owned firms manufacturing tobacco, footwear, beer and cement; arrangements with these private firms were reported to have contributed to specific actions by private firms which would reduce Tanganyika's 1963 net trade imbalance with Kenya by 24 per cent (Ll.8 million). Similar efforts with regard to cigarettes, shoes and beer were expected to reduce the Ugandan 1963 net trade imbalance with Kenya by 23 per cent (L650,000).

In the area of allocation of new industries, the agreement proposed a rather ad hoc list with relatively little attention given to determining even the most appropriate kinds of industries to establish, far less the possibility of establishing poles of growth and associated backward and forward linkages.

1. Tanzania was to be allocated a monopoly of production of plain aluminium sheets, circles and foil;
2. Uganda was to have sole rights to manufacture bicycles and assembly firms elsewhere would have to buy from Uganda those parts manufactured in Uganda;
3. Kenya was to have exclusive rights to manufacture electric light bulbs, and might apply for scheduling neon and fluorescent tubes as well;
4. Tanzania was to have exclusive rights in radio assembly and manufacture and existing assembly firms would purchase from Tanzania parts manufactured there;

* Several breweries were involved in Kenya's trade with Uganda, and separately owned breweries existed in Uganda, so the quota system was to be applied, rather than utilizing direct contacts with the companies; in the case of cement no direct action could be taken with the companies because there were no ties between them, but quotas would probably be established since both countries were expected to have surplus capacity after Tanzania's plant was built.
5. Uganda was to have exclusive rights for manufacture of nitrogenous fertilizers;

6. Tanzania was to have exclusive rights to manufacture motor vehicle tires and tubes.

A quota system was to be established to limit export from surplus countries to deficit countries. This was not expected to be a permanent feature of the East African Common Market but only to redress temporarily trade imbalances. Other industries which could only be feasible if they had access to the entire East African market were to be allocated by a panel of industrial experts on the basis of the need for an equitable distribution of industry throughout the region. The panel would also consider the appropriate system of industrial incentives.

The Kenya delegation declared that its acceptance of the recommendations was subject to certain assumptions, including the establishment of a common currency. Tanzania's delegation rejected the inclusion of these assumptions in the Report because some were outside the terms of reference of the Committee considering the Report had not been discussed. Whether the Kampala Agreement would have provided a sufficient degree of joint control to attain regional planning and more development was never tested. Ultimately, the Kampala Agreement was not accepted by the Kenya Government.

The Treaty for East African Co-operation which created the present East African Community, came into effect at the end of 1967 after further negotiations. The joint activity carried on during the next year and a half, however, was not really sufficient to set in train effective planned regional reconstruction. Actions taken were essentially limited to the co-ordinating of programs for research and extension of existing regional infrastructural facilities.

The Economic Consultative and Planning Council met a few times in an effort to define its advisory role in relation to long-term planning. It had no power to ensure implementation of its proposals by any of the national plan authorities. The planners in Kenya and Tanzania formulated the next round of national plans with little or no serious consultation about overall strategy, far less about specific projects.

The establishment by the Research and Social Council of a Working Party to investigate research priorities might be expected to contribute to adaptation of modern technologies to African agricultural and industrial requirements. It could not, of itself, ensure the necessary plan co-ordination to incorporate the results of such research into actual productive capacity in the region. The Communications Council met several times. Plans for the extension of railways, harbours and telecommunications facilities were agreed upon. The Boards of the autonomous parastatals responsible for carrying out these broad plans were to arrange essential financing. In any event, however, such plans were confined to providing infrastructure to meet the needs of existing productive capacity; it could not be expected to ensure the creation of new productive capacity required to restructure the regional economy.
The Common Market Council met several times primarily to deal with the operation of the Transfer Tax. It managed to resolve most disagreements satisfactorily; only one issue was referred to the Common Market Tribunal. Agreement to permit individual Common Market members to establish transfer taxes appeared unlikely, however, to do much to alter the prevailing trends towards autarky. It might be expected, on the contrary, to accelerate such trends since the transfer taxes were essentially designed to protect projects established by less developed partners in competition with existing ones in more developed countries.

One observer commented\(^\text{11}\) that the transfer taxes are "more likely to preserve the existing balance than to improve it by encouraging completely new industries to come to East Africa." In some industries small scale plants protected by transfer taxes might not necessarily be inefficient, and, it might be argued, could contribute to competition. Nevertheless, the fact that many of such processing plants are subsidiaries of large firms which, given completely "free trade," would have a monopoly of the East African market renders "an argument based on competition meaningless." This observer concluded that, in the last analysis, "the really staggering fault of these measures is that...the implementation of them is left to the individual countries... As things stand, it seems likely that the community and its various organs will be reduced to making general statements on the need for unity while the decisions which actually determine the extent of unity will be made by three separate governments whose primary responsibility is national and not regional."

Another economist argued\(^\text{12}\) that, given the possible alternatives of either erecting its own tariff barriers or continuing its quantitative restrictions on Kenyan goods, "Tanzania does seem to have been hammered down in the bargaining to the point or close to the point at which membership would have been a matter of indifference to it." Kenya and Uganda derived positive gains in so far as maintenance of the common market was essential to their existing industries, so that "Tanzania has certainly made great sacrifices relative to the other two members for the achievement" of the "higher objectives of East African Unity."

The East African Development Bank was established as a major new institution designed to contribute to the stated objective of providing finance and technical assistance to promote industrial development within the Community.\(^\text{13}\) By May 1969 the Bank had approved six projects totalling about L1.2 million.\(^\text{14}\)

Two kinds of proposals dominated the initial requests for finance: (1) import substitution projects which, the Bank declared,\(^\text{15}\) might raise costs to the national economies since they generally required quota or tariff protection permitting establishment of near-monopoly conditions "perhaps without adequate controls;" and (2) export processing projects directed towards overseas markets.

The Bank announced\(^\text{16}\) its intention of trying in the future to identify industries and projects which could accelerate the overall growth of the Community's industrial sector, making possible reduction of existing
imbalance between Partner States in the context of a high industrial growth rate for the entire Community. In this respect, however, the effectiveness of Bank action was likely to be limited by the lack of coordination and effective implementation of the plans of the three member Governments. Major projects can not be financed in any one of the three countries unless the other two agree to purchase an adequate share of their output to ensure their continuing viability - which implies that the other two must agree not to permit construction of competing ventures (whether by government or private investors) in their territories. Hence the effectiveness of the Bank in attaining its stated goals appeared to depend essentially on the co-ordination of the national plans backed by a sufficient degree of joint government control of key institutions to ensure their implementation in critical respects.

B. Lack of Co-ordinated Planning

The actual degree of co-ordinated planning and institutional changes among the three East African Governments has, however, remained inadequate to carry out a program designed to contribute effectively to restructuring the economy of the region. Uncertain as to the possibilities of obtaining either the markets or capital needed to build optimum-scale producer goods industries for regional domestic markets, the planners of each country have tended to emphasize import substitution industries, frequently using imported materials and parts as well as capital goods. Not infrequently, such projects have been established in more than one of the three countries in competition with those already existing in another. Overseas exports of manufactured goods, though desired by all three, are limited by relatively high production and sea transport costs in some cases (very high in Uganda's case because of the long haul to the sea). In addition, many of the developed countries maintain tariff barriers against the import of goods manufactured in developing countries.

The history of the tobacco industry provides an early example of the way the expansion of output in two East African countries reduced the possibility of expansion of existing capacity in a third. Establishment of cigarette plants in Kenya and Tanzania clearly reduced Ugandan exports to those countries and led to an initial reduction of Ugandan output.

In the cement industry, Kenya's exports to Tanzania were replaced by Tanzanian production; and Kenya's cement producers, confronted by a slump in domestic consumption, raised domestic prices to subsidize exports overseas.

More recently, all three countries have expanded textile output, although none made exact location calculations in terms of their contribution to national, far less to regional, planned economic growth. Initially Uganda sold a considerable share of its textile output to Kenya and Tanzania, but as those countries expanded their output, this possibility was reduced. Uganda has recently begun to report surplus textiles stocks. At the same time, East African production costs are reported to be 20-25 per cent higher than cif prices of fabrics imported from Japan, Hong Kong, India, China and
Pakistan, so that the only probable export market would be to neighbours in an African common market. Kenya's proposed production of rayon and poplin materials may increase dependence on imported new and semi-processed materials contributing to the reduction of integrated East African development.

The rapid expansion of sugar production throughout East Africa in the post-independence era, initially stimulated by rising world prices, approximately doubled sugar output in the region, and is beginning to produce a surplus. In all three countries, government intervention has involved relatively heavy investments as well as regulation of prices and distribution; but prices have not been set at the lowest possible competitive point, nor has each government even pursued an independent policy in relation to sugar production within the framework of national economic goals. The high prices of East African sugar are likely to limit export potential so that whatever surplus is produced will need to be absorbed in Africa itself at the expense of the local consumers; otherwise excess capacity in the sugar industry, too, may be expected to lie idle.

On the other hand, establishment of producer goods industries, which require the entire regional market to become viable, appears likely to lag or even be postponed indefinitely. In some cases the separate governments are making decisions which may actually hamper their ultimate establishment. Uganda's small-sized steel scrap rolling mill appears likely to be duplicated by a 30,000 ton project in Tanzania and another similar project in Kenya. Both will be based, not on East African ores, but on imported scrap. Uganda's Tororo fertilizer plant which requires the entire East African market for proposed expansions, was to be duplicated by a plant in Kenya but it was postponed due to lack of market. Tanzania is planning another, again based initially, not on domestic phosphate deposits, but imported materials. It has been held that the present markets of Kenya's oil refinery in Mombasa, and Tanzania's in Dar es Salaam are both too small to justify the expensive installation of equipment to produce lubricating oils and greases. Those installations would require a minimum capacity of 75,000 tons a year, while the estimated 1975 regional consumption of these items will be only 38,500 tons. Nevertheless, Kenya now appears prepared to encourage investment of about KSh 8 million in such a project in hopes of finding alternative markets in Africa.

In the case of rubber tires Tanzania's National Development Corporation contracted with a U.S. firm, General Tire Corporation, to build a plant (80 per cent financed by NDO) using imported materials with the stated aim of producing enough tires to meet the entire East African demand. This would have been in accord with the earlier Kampala discussions. Within a year of this announcement, however, another U.S. firm declared, and this was confirmed in Kenya's 1970-74 plan, that it had Kenyan government permission to invest L5.7 million in a similar plant with expectations of exporting a significant share of its output. If both investments are in fact made, it is evident that over-capacity is likely to result; and in Tanzania's case this could result in significant losses of scarce government investment funds.

Another consequence of the failure to attain plan co-ordination was the continued competitive emphasis on agricultural expansion for export. All three countries, seeking to earn enough foreign exchange to buy needed capital
planned expansion of tea, coffee, cotton, pyrethrum, and tobacco. The potential expansion of these exports is limited by slowly growing world demand, as well as the rapid expansion of output by competitors in other parts of the developing world. Great care must be exercised to avoid further over-production in relation to the relatively inelastic demand in world markets. This consideration appeared to urge major efforts to plan expansion of regional agricultural exports jointly in conjunction with regional plans to build processing industries (especially since such industries may need to be capital-intensive to compete with other world producers). It also underlined the importance of joint efforts of East African countries, together with other developing nations, to arrive at suitable producer quotas and reasonable prices for major agricultural exports in order to acquire foreign exchange earnings for their industrial growth.

On the other hand, East African efforts to reduce imports have been directed to attainment of self-sufficiency in food production, not infrequently by limiting imports from East African neighbors. Kenya's maize price and production policies have in the past been criticised as being conducive to keeping relatively high priced larger Highlands farms in business, while hindering sales of lower cost maize from neighboring states. One critic of Kenya's self-sufficiency maize policy added that it results in a misallocation of resources within Kenya itself, but has got repercussions on the efficient allocation of resources in neighboring countries, and to a certain degree intensified their trade imbalance with Kenya, thus forcing them to retaliate. These countries import a lot of animal products and manufactured goods from Kenya in which Kenya has comparative cost advantage, but they find that they are not allowed to expand their maize exports to Kenya in which they too possibly have a similar advantage.

Kenya's 1970-1974 plan to expand maize exports appeared premised on the assumption of the possibility of reduced costs; but, nevertheless, it appeared likely to conflict with Tanzanian and perhaps Ugandan efforts to produce sufficient maize at least to meet their own needs. Furthermore, Tanzania and Uganda had both begun to expand dairy production to reduce imports from Kenya. Tanzania has been expending funds to encourage domestic wheat production to reduce Kenyan imports. Local sugar and tobacco production in Kenya and Tanzania has had the effect of reducing Ugandan sales in these countries.

C. Lack of Agreement Concerning Needed Institutional Changes

At bottom the problem seemed to rest, not merely on the fact that each country was now taking steps essentially based on a policy of going it alone, but on the underlying political-economic reality. The three Governments have not achieved a sufficient degree of political unification to ensure that plans for economic reconstruction could even be formulated, far less that they could be effectively implemented.
East African experience since independence suggests that, unless the inherited institutional structure in each country was fundamentally altered, economic reconstruction throughout the region was unlikely to take place. The mass of available evidence suggested that private decision makers - the largest of them still foreign firms - were likely to make investments, if at all, which would of necessity be oriented towards existing markets. As a result, such investments were likely to extend existing export enclaves. For the most part, they tended to be in expanded agricultural produce for export, sometimes accompanied by simple processing; and limited manufacture of consumer goods - mainly luxuries and a few widely used necessities. Mostly the latter tended to be located in existing export enclaves, especially at Mombasa and Nairobi in Kenya, where there exist external economies and concentrations of higher income groups. Private African entrepreneurs usually lacked the know-how and funds to invest in projects to contribute significantly to economic reconstruction. For the most part, they tended to invest in trade and speculative real estate. A few became associated directly with large foreign firms as minor shareholders or lower level managers. Such investments contributed little to the essential restructuring of the economy.

Each of the Governments of the East African countries, confronted with these realities, pursued different approaches. Initially, they all sought to attract foreign capital and know-how through tax incentives, import duty reduction, and similar devices. No significant changes appeared to be taking place in the structure of the economies.

After several years, the Tanzania Government, in accord with the new approach formulated in the Arusha Declaration, intervened more directly to change the structure of key institutions. Nevertheless, Tanzania's efforts could not be expected to alter the fundamental factors contributing to private decisions to concentrate investment in the limited developed sectors of Kenya and, to a lesser extent in Uganda; under the circumstances, Tanzania could only hope to plan reconstruction in a manner calculated to lessen its own dependence on exports, increasing productivity and living standards throughout its own economy.

Inevitably, this implied that Tanzania's growth potential would be somewhat slower than would have been possible given full East African Community co-operation to plan for establishment of large-scale industrial projects capable of setting off more rapid chains of development. Unable to rely on regional allocation of industries based on available resources to ensure an optimal pattern of development, Tanzania appeared to have little choice but to rely on its efforts to reconstruct its economy unilaterally. As a minimum, it appeared essential to avoid acceptance of common market policies which would undermine these efforts.

The possibility of greater co-operation between Uganda and Tanzania emerged in 1970 when Uganda's President announced that his Government sought to attain greater control of the commanding heights of his country, especially banks, export-import trade and basic industries. If the two countries could begin to link their development strategies more closely, backing them with sufficient agreed-upon institutional control to implement joint plans once
formulated, it became possible that together they could accelerate their efforts to restructure their economies.* This possibility was somewhat reinforced by the improvement of Tanzania's infrastructure potentially opening more direct trade channels with Uganda. How Kenya might be expected to react in the event that its neighbors began to move in this direction remained unclear.

III. Summary

East African experience since independence suggests that, unless the inherited institutional pattern could be fundamentally altered, efforts to stimulate development of an integrated regional economy would be doomed to frustration. The existing institutional complex was founded upon and reinforced the dual economies shaped in the colonial era.

Analysis of post-independence efforts to achieve development in East Africa suggests that, to the extent that the institutional structure is left unaltered, the dual economies are likely to persist. Export enclave expansion is unlikely to contribute significantly to increased productivity either throughout individual countries or throughout the region. The elites, who stepped into the place of the departing colonial administrators, might temporarily benefit from the high incomes generated by maintenance of the status quo. But, as world market prices fall due to oversupply in relation to limited demand, stagnation and unrest are likely to spread.

The crucial need, on the regional as well as the national level, is to determine what kinds of institutional changes must be made in the key areas - basic industry, export-import and internal trade, and money and finance - to attain integrated economic development capable of increasing productivity throughout in order to attain higher levels of living for all inhabitants.

* It could not be altogether ruled out, either, that the opening of the Tanzam road and railroad would provide for greater independence of action by Zambia which might then conceivably participate in developing a regional strategy with Uganda and Tanzania.
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1. For the arguments and bibliography relating to economic integration in Africa, see R. H. Green and W. W. Seidman, Unity or Poverty? The Economics of Pan Africanism (Harmondsworth: Penguin African Library, 1968); for East African possibilities, see Economic Commission for Africa, E/CN/14/247.


4. For evidence relating to current Government industrial policies, see Chapter VI above.

5. See Chapters III and VIII above.


16. Ibid.

17. See Chapter VI above.

18. This has been an issue at every UNCTAD meeting, but few significant changes have been made in the tariff structure of East Africa's major trading partners; in fact the U.K. has actually increased tariffs on some exports in an effort to improve its own balance of payments situation. Cf. Tanzania, Economic Survey, 1968, p. 11; and official reports of UNCTAD meetings in Geneva and New Delhi.


22. Uganda, Background to the Budget, 1968-69; see also Helmschrott, "The Textile Industry in East Africa."


27. Stoutjesdijk, "Prospective Demand for Manufactures in East Africa," p. 28.


30. See plans of all three countries re agricultural output, outlined in Chapter VII above.

31. Cf. Green and Seidman, Unity or Poverty, Part I; for terms of trade 1950-1962, see International Monetary Fund, Annual Report, 1963, p. 58; also UN Statistical Yearbooks. For East African experience, see Chapters VII and VII above.


