Regional Economic Integration and the Unequal Sharing of benefits: Background to the disintegration and collapse of the East African Community.

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> The Plain fact is the world is too big and the individual nation is too small. Regional groupings are a natural occurrence.
>
> —Anonymous

> The spread effects (sometimes called the spill-over effects) of an industrializing Kenya to her less developed neighbours however, tended to strengthen the satellite-periphery-centre relationship.
>
> —J.F. Rweyemamu

> It is easier to negotiate if there is in each partner state a clear determination to pursue Africa's political objective of complete independence.
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> —Mwalimu Nyerere

INTRODUCTION

One of the problems facing the developing countries is heavy dependency (technological, financial, markets, entrepreneurial, etc.) on the industrialized world arising in part from a limited internal market, little, if any, sizeable industrialization, low bargaining power, etc.

One of the options out of this predicament has been regional economic integration. The resultant Common Markets between partner-states with geographical proximity, but differing levels of economic development, not to mention structural and ideological differences, have brought distributional problems of benefits, with the lion's share accruing to the partner able to attract more investments, i.e. with greater economies of scale, both internal and external; better infrastructure both physical and social; a higher level of industrial growth, etc.

Such was the case with the now defunct East African Community (E.A.C.). The unequal sharing of benefits were apparent in both the East African Community predecessors — the East African High Commission and the East African Common Services Organisation, as the various Reports — the East African Royal Commission (1947), the Raisman Commission (1961) and the Phillips Commission (1967) testified.

The Kampala Agreement of 1964 (which was never implemented) and the Treaty for East African Cooperation (1967) were directed at

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solving some of these imbalances. Despite the 1967 Treaty and its devices for redressing the imbalances, the dissatisfaction among the Partner States continued, and reached a crisis situation in the mid seventies with unilateral break of its provisions, an attempt at its review, and its sudden collapse in mid 1977.

PRE-COMMUNITY DAYS

The East African Community predecessors were coordinated from Nairobi and the Governor of Kenya chaired the Governors' Conference and made decisions on behalf of London and the Governors. Suffice it to point out that the closer Union of Kenya, Tanganyika and Uganda which the (Kenya) settlers strived for was one which they would dominate. (reminiscent of the now defunct Salisbury-dominated Central African Federation) and this was adversely received especially in Tanganyika.[1] After independence, as internationally she strove to build as self-reliant economy, Tanzania challenged Kenya's dominance in the affairs of the Common Market, an "equalization" effort mistaken in Kenya to mean jealousy or a domineering stance.[2]

States form Common Markets in search of the following benefits: (a) expansion of trade, incomes and employment due to the free movement of goods, labour and capital between states (b) greater division of labour and specialization in production, (c) greater possibilities of technological advance and innovation (d) a cheaper and more efficient transportation system (e) minimization of duplicaiton (f) greater bargaining power, etc. In East Africa, Kenya took the lion's share of these benefits and the autarchic checks might have been at the expense of growth in the region as a whole. Thus Kenya (the "White Highlands" and Nairobi in particular), with its concentration (and centralization) of "superior" economic, social and infrastructural facilities, experienced greater "spread effects", and was at independence, already asserting herself as "the workshop of East Africa".

Indeed, this perpetual concentration of benefits should be seen as a necessary cost of trying to build a Common Market in a capitalist setting rather than of arbitrary decision-making. To quote Amon Nsekela:

> These imbalanced, exploitative, geographical relations are a fundamental characteristic of capitalist development and not, as some would have us believe, an accidental and easily compensatable accompaniment.[3]

The Raisman Commission, referring to difficulties in running the Common Market, reports vis-a-vis duties on agricultural products in the 1920s.

> strong protests against these duties from Uganda where the predominant interest in most of the protected commodities was that of consumer rather than producer, and to a smaller extent, Tanganyika also.

Differences concerning the application of tariff (and other) protection and industrial licencing, the Raisman Report noted,

> emerged as the territories most dependent upon exports — Uganda and Tanganyika — have found their incomes from that source falling (or at best stagnant) instead of rising, and as Kenya has accordingly been seen to benefit, relatively, from her greater and more rapidly growing concentration of manufacturing industry and financial and commercial activity.

Worse still,

> since protected industries, displacing imported goods from the East African market, have developed more strongly in Kenya than elsewhere, the loss of import duty which this development entails has fallen upon all the territories, whereas the increases in revenue due to the protected industries themselves, and their stimulation of the surrounding economy, have accrued mostly to Kenya.[4]

Raisman's option of fiscal compensation (i.e. redistribution of income tax benefits from Kenya) failed to physically channel resources into Tanzania and Uganda. And so did the Kampala Agreement (or disagreement) of 1964 on planned geographical allocation of new industries. The Kenya parliament did not even ratify it.

Tanzania's trade deficit with Kenya which stood at Shs. 142/- million in 1961, has risen to Shs. 184/- million in 1964. By 1967, the inter-state trade figures were showing a trade surplus for Kenya of Shs. 254.5/- million, while they showed Uganda and Tanzania with trade deficits of Shs. 59/- million and Shs. 195.5/- respectively.[5] With the failure to distribute industries, Tanzania increasingly introduced trade restrictions; the logic of which is implicit in Mwalimu's own words:

> Each of our three Governments is answerable to the people of its own country — regional loyalty has sometimes to come second in our national responsibilities.[6]

R.H. Green and Ann Seidman have argued along these same lines, that economic integration can further African economic development and Pan-Africanism, but that it should not be a substitute to the essential efforts of individual partner states to achieve development.[7]

THE TREATY FOR EAST AFRICAN COOPERATION

The inequalities, reflected in industrial imbalances and trade deficits for the less industrialized, were tackled by the Phillips Commission, following the Treaty signed in Kampala on 6 June, 1967 establishing the Community on 1 December, 1967. If neither Rome was built, nor the Treaty of Rome implemented in a day, the E.A.C., despite its comparative youth, was in some respects more advanced than the European Economic Community, having had from the outset a common external tariff, absence of internal tariff with the sole exception of transfer taxes (in the short-run), the common services, etc.

In a way, the Treaty called, not for equal sharing of the benefits, but for unequal sharing in favour of the economically less developed. To this end, four main devices were instituted, namely:

(a) a system of transfer taxes on manufactured goods entering inter-state trade imposable by a partner state sustaining a deficit in its trade with the other partner-states,

(b) the East African Development Bank (EADB) with its differential investment formula ($22^1/_2$ per cent of the funds to be invested in Kenya and $38^3/_4$ per cent in each of the other two partner states),

(c) the "decentralization" of the Community institutions hitherto concentrated in Nairobi,

(d) harmonization of fiscal and monetary incentives.

Several weaknesses of the Treaty, some of which were realized by the signatories, can be spelt out:

(a) The Treaty did not guarantee the free movement of labour among the partner states; thus making it more of a Customs Union than a Common Market,

(b) The transfer tax as an internal levy represented a selective deviation from internal free trade and therefore violated the Common Market ideal of absence of internal trade restrictions,

(c) Despite the transfer tax and the EADB, the Treaty did not provide for any central means of industrial allocation or a common scheme of fiscal incentives,

(d) The Treaty made little progress towards achieving a common agricultural policy. (In both (c) and (d), the intentions to do so were just stated),

(e) While tax coordination means were established by the Treaty, there was nothing in the Treaty to prevent the three countries from having different tax systems with the exception of external tariffs and excise taxes,

(f) The coordination of some vital matters of the Community were left to the Councils, often without specific guidelines. For example, the Economic Consultative and Planning Council was charged with the task of assisting the national planning efforts of the partner states through consultations (Article 23) but was not given the specific task of coordinating these efforts, let alone focussing, as would be expected, on an East African Development Plan; and in the event little was done by the Council,

(g) Other weaknesses, more or less of a political and administrative nature persisted.

Differential development levels were inherited and reinforced and were bound to attract more investments for the more developed. For instance, at independence Kenya had a railway station and workshop in

Nairobi which was larger in every respect than those in Tanzania and Uganda combined. Was Kenya expected to demolish part of the station to bring herself into line with the other two countries?

The contribution of the manufacturing sub-sector to the monetary GDP at factory cost for instance rose from 4.7 per cent in 1963 to 7.6 per cent in 1967 for Tanzania, from 9.7 per cent to 10.9 for Uganda, and 12.9 per cent to 14.7 per cent for Kenya in the same period. These increases, coupled by an unplanned Common Market,[8] led to increased differential rates of industrialization, reflected in deficits in inter-state trade in manufactures. Inn1962, Kenya had 76.4 per cent of all inter-territorial exports of manufactures, Uganda 20 per cent and Tanganyika a tiny 3.6 per cent.[9]

Despite these imbalances (Uganda and Tanzania are among the UNCTAD's 25 least developed countries; and the latter, among Africa's 16 least developed countries), Kenya did not appear willing to 'mark time'.

DECENTRALIZATION

The "distribution" of the Headquarters of the various organs (Tanzania: E.A.C. Headquarters and E.A. Harbours; Kenya: E.A. Railways and E.A. Airways; Uganda: E.A. Posts and Telecommunications, and East African Development Bank) did not significantly change the old pattern of sharing benefits. The Headquarters of the East African Post and Telecommunications, for example, moved to Kampala, but Nairobi remained the "nerve centre" of the Corporation — with most of the installations and from where most purchases were made. The Harbours Headquarters were established in Dar es Salaam, but Kenya unilaterally installed a Deputy Director — General in Mombasa who encroached on the power of the Headquarters. Kenya (perhaps 'aided' by the disparity — Mombasa served about twice as many ships as Dar es Salaam, employed about half of the 12,000 dockworkers in 1971 and its tonnage was 6,350,000 as against Dar es Salaam's 2,790,000 -) spent lots of East African Harbours Corporation money on buying the most expensive equipment exclusively for Mombasa port. Whether the transfer of the Community General Fund Services (GFS) officials from Nairobi to Arusha did, for example, significantly increase the demand for local products in Arusha is subject to further research work.

Theoretically, the Corporations were East African property whenever they happened to be located. But certain tendencies, e.g. the 1973- 75 transfer of funds crisis, would indicate that theory and practice were at variance. To paraphrase President Nyerere:

> When we disagree — even on matters quite outside the Treaty — it is sometimes tempting to use the accidental location of jointly owned East African property, or the necessity for unanimous agreement on Community matters, as a bargaining counter, or a pressure point.[10]

Nor was the decentralization of the Railways effected as fully as envisaged in the Treaty which provided for "strong and functionally comparable Regional Railway Headquarters, including revenue and accounting services" in the capital cities, which was belatedly taken up with the aid of Canadian consultants following the 1973 crisis in the Corporation.

One interesting "decentralization" (dissolution) was the breakup of the East African Income Tax Department (Ref. Income Tax Management (Disapplicaiton) Bill, 1973) the background of which illustrates many of the themes in this paper. Tanzania was eager to have a more progressive tax system, exemplified in the Income Tax Bill (1973) in which privileges to the elite such as marriage and children allowances were abolished, while Kenya desired to offer more attractive terms to foreign capital (and partly because her share of total monies deducted to run the General Fund Services was proportionally much bigger than either Uganda's or Tanzania's). Rather prophetically, Prof. Senteza Kajubi (Ugandan MLA) saw the split as an omen for worse things to come.[11]

INTER—STATE TRADE

The importance of inter-state trade differs among the partner states. In 1953-58, Kenya's exports to the outside world increased by $13 million, sales to the rest of the Common Market by $7 million and gross capital formation increased also by about $7 million, increased sales to the partner states constituted about a quarter of the total.[12] The Raisman Commission estimated that "something like a third of Kenya's recent growth may have depended upon encreased sales, or the prospect of increased sales, to the other two Territories".[13] In 1964, Kenya had a favourable balance of inter-state trade amounting to 290.5 million, whereas Uganda and Tanzania had trade deficits of 79.1 million and 211.4 million respectively. In 1967, inter-state trade amounted to 32.8 per cent the value of Kenya's total domestic exports, and 16.3 per cent and 4.9 per cent for Uganda and Tanzania's exports respectively.[14]

The launching of the Treaty in 1967 did not lead to a rapid Vinerian internal trade expansion; indeed in 1968 and 1969, it was more or less static, and in fact less than the two immediate pre-Treaty years. Despite attempts to change this pattern, the percentage share of the market continued to increase in favour of Kenya which, in 1973, had 74 per cent while Tanzania and Uganda had 16 per cent and 10 per cent respectively. In 1974, inter-state trade amounted to 1,259/- million of which Kenya accounted for 966.7/- million. compared to Tanzania (217.6/- million) and Uganda (75.5/- million).[15] Uganda's imports from Kenya of goods subject to transfer tax more than doubled during 1973. Kenya's negative external trade is mainly a result of the structure and magnitude of her internal demand and production. Her enormous trade surplus in inter-state trade helped her offset her huge deficits in her trade with the rest of the world.

Was Kenya's growth achieved at the expense of others? Would Tanzania and Uganda have been better off without the Common Market or Kenya's growth? Are there enterprises attracted to Kenya which could have gone to Tanzania or/and Uganda? Have Tanzania and Uganda suffered through buying from Kenya instead of buying from other countries? Has Kenya's growth drawn existing enterprises from the other territories?

The Raisman Commission was of the opinion that:

> without the Common Market, many enterprises which have established themselves in Kenya would probably not have done so, but it is even less likely that they would have established themselves in either of the other territories.
>
> There are very few instances of an actual shift of economic activity from the rest of the market into Kenya; the most striking is the movement of a cigarette factory from Kampala in 1956.

But all "enjoyed rates of capital formation which, in relation to their incomes are highly credible". Tanzania and Uganda "have bought certain Kenya goods (both manufactures and agricultural products) at prices higher than those which they could have bought them from elsewhere, and this in itself involves an obvious loss".[16]

The transfer tax aside, no duty was imposed by the originating country. However, because of existing laws, some products, e.g. Uganda's "waragi", could not find access to the other partners without permit; otherwise inter-state trade was at least in theory quite liberalized.

INDUSTRIAL IMBLANCE.[17]

Raisman's fiscal Commission of 1961 stated categorically that the benefit's of the Common Market had been unequally distributed and recommended an improvement through a distributable pool of revenue on equal basis (after deducting half of the pool as an independent income to the East African High Commission), a proposal which was rejected (for different reasons) by the partner states. Uganda and Tanzania wanted, not compensation (Scitovsky's or otherwise), but more economic and manufacturing activity.[18]

With the failure of the Kampala Agreement of 1964, Tanzania imposed restrictions on certain imports from both partners and, later, all the three agreed on a system of quotas for specified goods. With the industries of the Kampala Agreement continuing to be duplicated with much diseconomies, the East African Legislative Assembly (EALA) passed an Act in 1970, whereby licensing of some scheduled industries was to be done by the East African Licensing Council at the Community level.[19]

Unfortunately, since most industries are "finishing touch", assembly or "screw driver" industries with very high import content, high surplus leakage and little local value added, the Common Market did contribute to opening up East Africa to much more effective exploitation by foreign capital. If industries were channelled through a central agency (ensuring greater cooperation than competition) "there would be", to quote Peter Newman (Economic Advisor to the East African Common Services Organization):

> much less risk that foreign businessman, by playing off each nation's natural enxiety to industrialize rapidly against the other's similar desires, would secure far greater concessions than are actually necessary to induce them to start operation in East Africa.[20]

Suffice it to relate the importance of the industrial sector to the economies of the partner-states. In 1967, manufactured goods accounted for 5.8 per cent of the total value of Kenya's overseas exports, 8.9 per cent for Uganda and 17 per cent for Tanzania. Trade in manufactured goods accounted for 46 per cent of the total value of Uganda's inter-state export, 50 per cent for Kenya and 35 per cent for Tanzania in 1967. In relation to the total domestic exports, both overseas and inter-state, the manufactured goods accounted for 18 per cent of the value of Tanzania's exports, 23 per cent for Kenya and 15 per cent for Uganda in 1967.[21] In 1964, out of the total value of manufactured goods exported from Kenya, some 80.2 per cent were transferred to the partner states, for Uganda the percentage was 32.9 per cent and for Tanzania 19.2 per cent. By the end of 1967, these proportions had altered mainly as a result of trade restrictions to 75.1 per cent for Kenya, 47.3 per cent for Uganda and 7.3 per cent for Tanzania.[22]

Kenya's attraction of industries should not be under-estimated. According to Sharkansky and Dresang:

> Kenya is an attractive target for money. Outsiders rank it as an attractive target with the highest 'absorptive capacity'. This reputation stems from its relative wealth and the skills and markets which enable it to make profitable use of new funds — it offers Western-oriented African capitalism in contrast to Tanzania's overtly socialist path to development.[23]

Studies had been made by the Common Market, aided by UNIDO,with a view to rationalize, amongst others, the textile, tyres, bicycles, etc. industries for which there was wasteful duplication and overcapacity. A policy of developing on East African basis a selected number of industries requiring the entire East African market and with 'actual' and 'potential' gains feasible could have been an answer to the industrial imbalance problem, and hopefully a challenge to foreign monopolies penetration and an 'insurance' against the Community break-up.

Uncoordinated industrial development led to duplications, misallocation of resources, in-built inefficiency behind high protective tariff walls, preference for import substitution industries rather than resource-based industries, etc.[24] Coordinated industrial development could have taken the following forms: (a) joint ownership of multi-national projects (b) market-sharing agreements, products specialization and selective protection. Feasibility studies and ear-marking of three large capital-intensive industries (namely, iron and steel, chemicals and automobile assembly) which could operate under category (a) was made, but the actual launching of the projects was plagued by Kenyan petty bourgeois nationalism vis-a-vis costs and benefits-sharing criteria, the location of industries, etc. The EEC's common(despite its capitalist framework) ownership of iron and steel complexes and her European Atomic Energy Community (EUROTOM) has lessons to offer in this regard. It even would have been more appropriate to have each country receive a list of "Community projects" and develop them either on behalf of the Community or on its own behalf. President Nyerere, in an address to the East African Legislative Assembly (EALA) in February 1972, favoured the latter alternative:

> Industries of equal value could be found and allocated one to each partner state, doing this as often as it becomes possible to consider local production of this kind of manufacturing .....Each industry would be owned within the state concerned, and under national control, and in accordance with each nation's economic philosophy, but its products would be marketed freely throughout the three territories.[25]

Kenya, even in the Treaty Review Commission, did not move a step to allow measures which would have redressed the industrial imbalance.

THE EAST AFRICAN DEVELOPMENT BANK.

The EADB was intended to assist industrial development in the whole of East Africa, but with a bias in favour of the less industrially developed Tanzania and Uganda in its loan offers, for, while each partner state made an equal contribution to its funds, Article 13(c) provided that in the five year period following its inception, only $22^1/_2$ per cent of investments should go to Kenya, while Uganda and Tanzania received $38^3/_4$ per cent each.[26]

The Bank's operating principle was principally to finance economically viable and technically feasible industrial projects with Cost-Benefit analysis as a key investment criterion. Theoretically at least, the bias in favour of the less privileged in loan offers was a step forward, but the problem was the meagreness of the funds. What is 240/- million (or even 400/- million) (initially) for the industrial development of the whole of East Africa? Nor did the Bank achieve its supplementary role of financing projects "designed to make the economies of the partner states increasingly complementary in the industrial field". With the stress on manufacturing, industry did not include for instance some of the crucial physical infrastructure, eg. transport, which would have speeded the pace of integration of our economies and laid ground for the industrial development of the future (in which there would be no trade barriers).

In between 1969 and 1972, and despite the statutory limits, of the total commitments of shs. 210,315,000/- million, about Shs. 46.5/- million, representing 34 per cent, had been invested in Uganda; and Shs. 54.7/- million and Shs. 35.2/- million, representing 40 per cent and 26 per cent, had been invested in Tanzania and Kenya respectively. The reduction of imbalances in this regard, presupposed the availability and priority, and the positive response by government ministries, development institutions, eg. banks, to ensure sufficient flow of project proposals to sell to the Bank and the capacity to mobilize additional resource investments.

Of the 17 projects approved by 1970, ten were manufacturing, three assembly and four processing; and their selection was not influenced by backward and forward linkages with agriculture, forestry, fishing, etc. Thus the financing of agriculture, ranching, building and construction, transport etc. did not fall under the umbrella of the Bank's operation, apparently being presumed to be in the realm of national institutions. We could add that perhaps just as important as the Bank's own financial commitments to projects is its ability to generate funds by attracting other interests in the projects and its possible coordination and rationalization roles.

Although agriculture is the backbone of economic activity in East Africa, it is mentioned only marginally in the Treaty where just the *intention* to seek a common agricultural policy is noted. If the huge food imports of 1973-75 (about 1,200/- million for Tanzania in 1973/74) is anything to go by, agriculture should be a key economic activity for the Bank. The Treaty was very inexplicit vis-a-vis agriculture: it was not explicit on the aim and extent of cooperation (it just stated intentions), but it was not clear whether the end in view was free trade in agriculture or structural change. When it mentioned agriculture, it mainly referred to agricultural policy harmonization and trade, which left them rather remotely abstract. Although the Treaty did not specifically refer to the agricultural imbalance in East Africa, Article 13, by implication, recognized agricultural inequality between the partner states, and the fact that if the less developed partners were not allowed to develop their agricultural potential, then their market would largely be a preserve of Kenya.

Could these imbalances in agriculture (Kenyan agriculture is more advanced than that of Tanzania and Uganda) be used to offset the imbalance in industry? This is as much dependent on the kind of industry as on the imputs used. If agricultural raw material-based industries were developed, this would be more likely. The EEC's regional policy to help "distressed areas" could have been emulated by the Community, whereby, funds preferably from a special division of the EADB could be provided to carry out feasibility studies on areas suitable for different crops, and furthermore, carry out certain concrete agricultural projects at an East African level.

TRANSFER TAX

The Vinerian approach to economic integration practiced in the developed world — implying stress on abolition of trade barriers, facilitated competition, etc - has left much to be desired when put to test in the less developed countries because of lack of sufficient internal capital formation and, therefore, heavy dependency on foreign capital, poor infrastructure, lack of both actual and potential complimentarity, differential levels of economic development, different political and ideological orientations, etc. In the case of East Africa, rather than complete trade liberalization, some kind of guarded protectionism in the form of the transfer tax was introduced to raise Tanzania's competitiveness and to some extent Uganda's, both of which are not able to compete with Kenya where industrial production is relatively more established.

Transfer taxes could be imposed only if a partner states was in deficit in manufactured goods with the other partners. Kenya, therefore, did not qualify for this "privilege". Transfer taxes were imposed only on manufactured goods a country was producing or would produce within three months on a significant scale, i.e. 15 per cent of its domestic needs or a value of output of 100,000. The rate of the transfer tax was on the discretion of the tax-imposing country, but it could not exceed 50 per cent of the external tariff on that commodity (the Community maintained a common customs and excise tariff), and expired, unless earlier revoked, eight years after the date it was first imposed.

Thus the transfer tax was conceived as a temporary device and its working was due for review after five years, and all unexpired taxes would be revoked 15 years after its launching. If a protected industry managed to export 30 per cent of its total sales to the rest of East Africa, then the transfer tax would be removed. The argument for this regulation was presumably that an industry able to produce that much was already protected (or competitive). In such a situation, the most efficient units would expand, coupled by diversification for the less efficient, the pre-requisite being, of course, non-imposition of new trade restrictions through their state Trading Corporations or other arrangements. The transfer tax was supposed to be the only restriction on inter-community trade — but some infant industry protection was also allowed for new industries with small output.

The aim, in a nutshell, was to encourage (location of) industries in the protected market since imports in such a market would be more expensive and, in addition, such industries would be sure of a market of at least two countries, if not three; and hopefully this would not cause import demands from the partner states to be directed to non-East African sources. Although the transfer tax represented a slight departure from free "internal" trade, it was not supposed and (according to Common Market spokesmen) "has not interfered with the free flow of trade and is therefore behaving as envisaged by the signatories of the Treaty".[27] Far from introducing "other restrictions" on inter-state trade, the Treaty under Article 12 provided for the removal of some restrictions previously in force. Indeed, Article 16 provided a further incentive to the flow of trade by recognizing that practices such as discriminatory purchasing, eg. giving preference to foreign goods when suitable goods of East African origin were available on comparable terms, were incompatible with the Treaty. Although under this arrangement certain Kenyan goods were subject to transfer tax in both Uganda and Tanzania and to a lesser extent Uganda's in Tanzania, the transfer tax was much less disruptive of inter-state trade than the pre-Treaty quota and quantitative restrictions.

Inter-state trade on manufactures increased between 1967 and 1970, disapproving those who maintained that transfer taxes would decrease inter-state trade in manufacturers. In absolute terms, the imbalances in trade, especially Kenya's surplus vis-a-vis Tanzania and Uganda, were larger in 1970 than in 1967; while Uganda's surplus with Tanzania changed to a deficit (and this not necessarily because of the transfer tax, but of other factors). Uganda's transfers fell because she relied on too few products, the main one—cotton fabrics—was severely restricted in Tanzanian markets and, to some extent, there was increased production capacity in Kenya. Indeed, in the aftermath of the coup, Uganda directed most of her exports to countries out-side East Africa to finance the "Economic War", including, and especially, the procurement of military hardware.

The transfer tax had on the whole not hindered trade in East Africa. It is a different matter, however, whether it helped to correct industrial imbalance among the partner states. A Community seminar held at Makerere University, Kampala in June 1972, was of the opinion that although the transfer tax had not adversely affected the volume of inter-state trade, it had "not achieved its primary goal of promoting new industrial development in those partner states which are less industrially developed".[28]

Why has the transfer tax failed to achieve its primary objective? We ahve seen its many pre-conditions and complications. The aim of the transfer tax was to foster production in Tanzania and Uganda, but it was not designed, so it appears, to greatly influence the allocation of new industries in those less privileged partners. Rather, it psychologically fostered the proliferation of numerous small and medium-sized industrial units which operated at comperatively high costs and geared, not to some sort of complimentarity within the Common Market, but to national self-sufficiency. The aim, it seems, was to foster production that was already in existence in Tanzania and

Uganda's it did not seem to foster new large scale industrial location in the less privileged countries in which it would be unprofitable to stand out a second on in East Africa. If, for example a completely new plant was established in Kenya then neither Uganda nor Tanzania would be able to impose a transfer tax against its products, for the tax was imposable only if the commodity was being produced or was about to be produced to a large extent in the tax-imposing country. This raises the question ofnwhether the tax was so inducive, or whether the situation was such that even in its absence Kenya would manufacture such goods. Industrial allocation is related to who owns the industry and hence, in most cases, it is beyond the control of the terms ofnthe Treaty — more so since Kenya favours multinational corporations while the other two states are less enthusiastic.

Hence the need to find out, for example, whether Tanzania did establish industries for those goods which fell under the transfer tax; to see whether in Kenya and Uganda such industries suffered or whether they continued to prosper, and check exactly whether there are some industries which have rose up because of the tax; if it had not done some of these things, then it should have been abolished unless Tanzania and Uganda held it for revenue purposes.[29]

Unfortunately, even the revenue accruing from this source was perhaps not commensurate with Kenya's protests over transfer taxes. Net transfer tax collection amounted to Shs. 17/- million in 1970, an increase of 36 per cent to over the 1969 total; Tanzania's collections rose by over 7 per cent to Shs. 10.4/- million. We submit that despite its shortcomings, the tax gave the less industrialized some advantage (at least money-wise) which would not have been there, had the tax been non-existent. Unfortunately, this little money was not used in aiding industrialization; rather, it went to the Treasury as Government finance. Only 1975/76 did Tanzania establish a special Development Fund, financed by revenue from the transfer tax and manned by the Tanzania Investment Bank.[30]

HARMONIZATION OF FISCAL AND MONETARY INCENTIVES

A pre-requisite for a Common Market with free flow of funds is definitely the existence of harmonious tax and fiscal policies. The Treaty envisaged this and enjoined the partner states to try to harmonize such policies. Economic and fiscal incentives were (and are) yet to be harmonized.

Harmonization of fiscal incentives vis-a-vis the transfer tax industries, for instance, would have involved giving incentives as well to enterprises which wanted to avoid transfer taxes to invest in Tanzania and would expect such investors to come since Kenya would not be allowed to impose transfer taxes: but that is only true if Kenya did not give other incentives which Tanzania did not give. Thus there was need to have some common incentives structure and /or to harmonize such incentives. More disheartening was the misinterpretation of the Treaty. Both Uganda and Tanzania had interpreted "harmonization" of fiscal incentives to mean giving preferential terms to potential investors in their own countries so as to rectify the past imbalance against them, whereas Kenya had equated "harmonization" with "uniformity" of legislation in the three countries with respect of fiscal incentives, knowing fully well that such a system would give Kenya an edge over the others!

In 1970, the Community established a Working Party on Possibilities for Closer Harmonization of Monetary/Fiscal and Payments Policies within the EAC.[31] In its report, the Working Party noted that the Partner States exchange control system in respect to international transactions was basically similar but differed in application to Kenya as the msot liberal, while the others subjected inter-state payments to stringent exchange control. It singled out factors which had prevented a smoother flow of trade: bureaucratic procedures, trade credits, contractual commitments and state trading confinements. Of interest here is the Working Party's conclusions on the last two items, especially in consideration of earlier complaints more or less directed at Tanzania.

On contractual commitments, they stated:

> The examination of contractual commitments was limited to the TAZARA Agreement, being the largest and most discussed area of trade and aid in the Community. On the whole, the Agreement conflicts little with inter-state trade because most what is imported from China is not available for trade within the Community. It was estimated that between 1970 and 1971, the change in level of potential trade within the Community on account of products imported from China but also produced in East Africa was no more than Shs. 18.2/- million. On the whole, the Commodity Credit Agreement may not be considered as a short-run threat to the functioning of the Common Market, and in the longer run, the completion of the railway will be of significant benefit to all three Partner states, as East African trade with Zambia will increase.[32]

On state trading confinements they concluded:

> Statistical analysis has indicated that state Trading confinement is not as serious an impediment to the smooth functioning of the Common Market as it is often believed. There are a certain number of products which have declined in inter-state trade and for which some protective or external import orientation may have developed, but the evidence is not conclusive to the extent that the Corporations can be blamed for violating the spirit or rule of the Treaty.[33]

THE FINANCIAL IMBALANCES IN THE EAC CORPORATIONS AND THE GENERAL FUND SERVICES

There were several ways in which the Corporations contributed to local economic activity: (a) differential tariffs (less on exports and more on imports, etc.) to boost the economies, (b) differential rates on the domestic market-carrying certain commodities below their real costs (c) the in-built taper principle (especially for the Railways) (d) capital formation (e) employment generation (f) foreign exchange earning (g) economies of scale (greater in the transport and communications sector due to the large size of the units involved).

The Railways offered alternative transportation of low-rated commodities which could have been uneconomical for road transport to carry. Passenger fares on the Railways (even its buses) were below profit margin. There were several lines (seven in the early 1970s) running with deficits but operated because these were spread over the entire system, and/or subsidized. With individual transport systems, the long-haulage would bear higher cost if fixed and variable costs were to be fully recovered.[34]

In a nutshell, the E.A.C. was unable to effectively regulate the transport system in East Africa, and decisions taken at national level sometimes impinged on the railways (and other Corporations) joint-service. The "differential tariff", for example, was weakened by road competition; just as the Mombasa-Nairobi pipeline had an adverse effect on the business of the Railways. For, although in the final years each Region was responsible for its own financial performance, they were required to submit funds in excess of operational costs to the Nairobi Headquarters.[35]

There have been complaints that railway engines that had been declared scrap in Kenya were sent for use in Tanzania; that Railway authorities always looked first at Kenya (eg. in the provision of diesel locomotives, which were for many years a preserve of the Mombasa-Nairobi line). There was also the "over-development" of the railways in Kenya (at one time even the feasibility of electrifying the Nairobi-Mombasa line was being envisaged).[36] Nor were such complaints limited to the Railways. The Harbours Corporation exhibited much inherited (and reinforced) inequality. Despite Dar es Salaam's growth especially following Rhodesia's UDI and and the increased traffic to Zambia, Mombasa still handled more traffic than all Tanzanian coastal ports combined together in 1973 (Dar es Salaam: 3,214,000 tons, Tanga: 280,000 tons, Mtwara: 170,000 tons; as against Mombasa's 6,724,000 tons), and this of necessity affected investments (relatively) in favour of Kenya. This unequal access to benefits was sometimes open and deliberate. Witness Kenya's unauthorized withdrawal of the corporation's funds at Mombasa.[37]

Unlike the Railways, the East African Airways did not subsidize traffic as such; but the airline undertook certain domestic flights whose route profitability might not have been necessarily attractive. The E.A.A. Act provided for the operation of scheduled services within East Africa (operated whether there was full or partial load). In the opinion of Kenya, Tanzania benefited more from this subsidization in that it was a larger country and operated internal routes which were not economical.

The money raised in Tanzania and Uganda, whether from domestic or international flights, was not necessarily spent in those Regions, but went to Nairobi to offset Headquarters expenditure, training and workshop maintenance which were concentrated there. In other words, if you took the revenue, knocked off operating expenditures, and capital undertakings (none of significance in the 1970s except putting up terminals in Dar es Salaam and Kampala), the rest was transferred (at least before the transfer of funds crisis) to Nairobi to meet E.A.A. commitments.

The East African Airways earned more from international flights taking off from Tanzania than they spent in the country. Whether inter-territorial subsidization was at par is an open question, but a closer look at the movement of funds indicated that Kenya might in fact have benefited more. Kenya got a lot of indirect benefits. To take one example, the E.A.A. international flights were profitable and tended to boost tourism from which Kenya benefited at Tanzania's expense.

Indeed, there were indications, especially in early 1969 and in 1972, of powerful magnates among the local bourgeoisie and foreign capitalists in Kenya pressurizing the Kenya Government to withdraw from the East African Airways and establish her own "national" airline — a sectional challenge obstructed by the intervention of President Kenyatta (with Mwalimu Nyerere's influence) which could, as it did, materialize at a later date.[38]

Like the Railways, the East African Posts and Telecommunications tariffs were not established on a cost-oriented basis. The distribution was involved.[39] The EAP&T's distribution of capital development expenditure, like the Harbours, did not take into account regional contribution to gross earnings of the Corporations. At least before the transfer of funds crisis arose, the Headquarters would call for money from whichever source had it and allocated it to whichever Region was in demand, with the result that there was a certain element of inter-territorial subsidization which was then absorbed into the entire system.

The question of the phasing of the projects (for the sooner the better) is also important: allocations by EAP&T in rural trunk lines and exchanges, for example, in the Corporation's seven year Plan (1973-79) were as follows: Kenya 3.6 per cent, Tanzania 35.6 per cent and Uganda 27.6 per cent. The pattern of expenditure in the first two years (receipts) were: Kenya 43 per cent, Tanzania 40 per cent and Uganda 17 per cent.[40]

THE TRANSFER OF FUNDS CRISIS (1973—75)

Before the transfer of funds problem started with the East African Railways Corporation in 1973, the agreement, under Article 25 of the Treaty, was that all surplus funds not required by the Corporations should be remitted to Headquarters for Recurrent and Development Expenditure. Then a stage was reached when Kenya thought that because they had revenue-generating Corporations within their territories, e.g. Harbours (Mombasa), E.A.A., EAP&T etc, they would lose if they sent out all this money. They decided to stop the transfers and Tanzania and Uganda retaliated. On the surface, the problem essentially involved foreign exchange. At the end of 1974, Kenya had a foreign exchange deficit of Shs. 1,000/- million, and she claimed that she was using her foreign exchange to run the E.A.C. corporations. Kenya then stopped making remittances to the headquarters of the Corporation and said that unless there was a basic reason for the transfers, which the headquarters should justify, the funds should not be transferred.

Kenya might attribute her non-remittal of funds to Kampala to fears of reckless spending by the military authorities, for instance; but neither did they send the funds on behalf of EAP&T to Crown Agents in London. The IBRD that had invested heavily in the Corporations pressed and a joint Finance and Communications Council meeting was held in Arusha in July 1974. The meeting devised the "pro-rata" formula of transferring funds and provided for the remittance of funds from the regions of the corporations to the headquarters in accordance with the needs of such headquarters (salaries, loan servicing, foreign obligations, etc.). The funds so transferred would be the surplus balances of each region, arrived at after deducting the monthly working balances and overhead costs of the regions. The corporations were supposed to call for these surpluses in the ratio of the surpluses, so that the region with more surpluses paid more to the corporation. After three months, Kenya said the formula overtaxed her unduly! The foreign exchange problem notwithstanding, common ownership of the corporations entailed that a region earning more ought to at least pay more.

The IBRD intervened again in January 1975, and the Mtei Committee[41] was formed. It found that Kenya was not bearing much of the costs of running the headquarters as she claimed, and in addition, it set out the manner of sharing such costs.

The immediate reaction to the Mtei Report was vacillation (on the part of Uganda and Tanzania) amidst insistence that if you get more, pay more. Kenya stressed that in order to minimize the interstate transfers, the activities of the headquarters should be scaled down. It was clear this was an attempt to fight for more and more decentralization, but with an ulterior motive as exemplified by her stand on future financing of the capital development programmes and external obligations of the corporations which, Kenya argued, should be financed by the Regions, and not the Headquarters as had hitherto been the case. This was unacceptable to the other two partner-states: in the past, the E.A.C. invested more in Kenya — the latter now wanted Tanzania for example to develop Dar es Salaam port alone while Mombasa was developed by all the partner-states.

Was the root cause of the problem foreign echange really? If a region assumed its own responsibility in external loan servicing for example, it would still pay foreign exchange, the only difference being that now it paid overseas straight instead of the headquarters. A piecemeal solution (which would ensure to some extent that a dishonest partner did not receive the transferred funds and refuse to transfer herself) would have been transfers between corporations within the regions, e.g. Harbours (Mombasa) would have transferred to the E.A.A. Headquarters in Nairobi instead of transferring to the Harbours headquarters in Dar es Salaam, and to reciprocate E.A.A. (Tanzania Region) would transfer to the Harbours Headquarters in Dar es Salaam and so on. But with such an arrangement (assuming such transfers were at par) we would not be running the corporations as entities in themselves. Indeed, once a departure was made from the principle of the Region with more surplus paying more, even the non-surplus generating ones could be told to pay more (with the Treasuries' subsidization perhaps)!

Then came the call, first by Kenya, of the need to review the Treaty, which was accepted by the Authority. Uganda and Tanzania (the latter had been prepared to discuss the Mtei Report on the development programmes and loan servicing issues), now argued for a return to the July 1974 pro-rata financing of the corporations transfer formula, and shelve everything else until a review of the whole Treaty was made. Kenya insisted that this review (of the mechanism of financing the headquarters) be done there and then on the basis of the Mtei Report (an obvious attempt to exploit the fact that the Mtei Report did not touch such issues as the development programmes and loan servicing, for which Kenya wanted to go it alone!)[42] Meanwhile, the corporations were almost paralysed, with development programmes at standstill, except where the region was still liquid, e.g. Harbours (Mombasa) where the region had kept Shs. 120/- million in a 'secret' account while the Corporation as a whole was so much in the red that an East African Legislative Assembly Select Committee was appointed to probe the matter.[42]

The figures below illustrate many of the contentions made above and, in particular, expose as a lie the Kenyan claim of its carrying the foreign exchange burden of financing the corporations.[43]

Table 1: Net Results of Operations (Surplus (+), Deficit (-) Shillings Million).

KENYA	GFS	EAAC	EAHC	EARC	EAP&T/EX	TOTAL
1973	+12.93	—105.45	+53.31	+35.22	+150.93	+146.94
1974	+16.02	—78.32	+173.37	+29.07	+141.82	+281.96

TANZANIA						
1973	+9.12	+115.08	—38.50	+100.68	+82.09	+268.47
1974	+5.23	+152.21	—31.43	+116.89	+90.56	+323.46
UGANDA						
1973	+4.08	+100.26	—0.66	+53.95	—64.37	+93.26
1974	+6.65	+134.85	—0.56	+38.58	—127.12	+52.40
TOTAL						
1973	+26.13	+109.89	+14.15	+189.85	+168.65	+508.67
1974	+27.90	+208.74	+141.38	+184.54	+105.26	+667.82

Notes: (a) Based on difference between Gross Operating Revenue and Gross Operating Expenditure.
(b) Headquarters figures are included in the Region where they are located.

Source: *Mtei Committee Report* op. cit.

DIFFERENTIAL CONTRIBUTION BY THE PARTNER STATES

After the abolition of the Income Tax Department, a differential interim formula was used for the financing of the GFS, i.e. Kenya 48 per cent, Tanzania 32 per cent and Uganda 20 per cent. Available data show that of the Shs. 518.6 million surplus realized by the E.A.C. Corporations in 1973, Shs. 284.5/- million or 55 per cent was realized from operations in the Tanzania region. The corresponding figures for Kenya and Uganda were Shs. 185/- million (36 per cent) and Shs. 47.6/- million (9 per cent) respectively. In 1974, Shs. 286.8/- million or 51 per cent surplus was the contribution of the Tanzania region to the total surplus of Shs. 756.6/- million.

Tanzania's Finance Minister, put it in a better perspective in his 1975/76 Budget speech:

> Comparing revenue and surplus generated in 1974, it can be observed that for every Shs. 100/- of revenue from Community operations in Kenya, Shs. 75/- is swallowed by expenditure. For the operation in Uganda, expenditure absorbed 88/- out of every Shs. 100/- of revenue. In other words, although 51 per cent of total Community surplus is generated in Tanzania, the expenditure in Tanzania is only 21 per cent of her total expenditure and 17 per cent in Uganda.[44]

What is certain is that Kenya received more than she contributed. To quote Silas Munabi (Ugandan), then E.A.C. Deputy Minister for Common Market and Economic Affairs:

> ...although Kenya contributed more to the Funds of the GFS, the Community's expenditure in Kenya had, all along been more than Kenya's con-

tribution, and the Community's investments in Kenya were more than in both the other partners.[45]

POLITICS, IDEOLOGY AND OTHER FACTORS

In the decade or so since the pledge for an East African Federation was made, the forces of disintegration have been on the ascendancy. So divisive were the events of 1963-75 (and particularly the coup in Uganda) that there is no doubt whatsoever that politically, East Africa had by the mid-1970s moved very far apart than it was in the early 1960s.

Could the creation of a political federation minimize the problems which faced the Community? Perhaps it could inject a feeling of oneness which could help reduce Common Market problems. But meaningful federations can only be constructed on the basis of a common ideology, and socialist ideology at that; otherwise there would always be the danger to their very stability and survival.

Is it possible to have a successful economic integration if all the partners follow a capitalist policy? Under such conditions, a Common Market could be feasible, but an "equal and independent" fully integrated Community is impossible — not even when backed up with federal arrangements. In the event of such an attempt, under capitalism, there would be a build up of pressure which would threaten its very survival and East Africa itself already offers some evidence.

Nsekela, in his reflections on "The Economic Aspects of East African Federation"[46] was of the opinion that even the pre-requisites for federation were not there. And he listed them as: (a) a reasonabls common ideological base between the partner states, implying a broader measure of agreement on certain key issues such as the nature and causes of underdevelopment, the implications for social relations of various economic systems, etc. (b) the will and ability to confront regional problems of distribution and minimize them.

The East African Legislative Assembly Select Committee on East African Federation, in its report in June 1975, mildly proposed that the E.A.C. be adopted as a nucleus for a federation and argued that the principles of the Community be modified so as to give the Community some form of statehood.

The Treaty provisions were not necessarily the best possible, but the best acceptable solutions which the partner-states could endorse. There was therefore always room for improvement. Indeed, the Treaty made provisions in various ways for its own improvement by way of amendments to existing provisions (Article 94), or by way of review of existing institutions such as the Transfer Tax (Article 20.16) and the industrial licensing system (implied in Article 23.2). The crucial thing was perhaps the direction of change. Amendements without far-reaching structural changes would not create the desired thing-what Prof. Guruli [47], in his pioneering work on the issue, termed "an equal and independent East African Common Market" — a Community independent of foreign monopoly capital and its accomplices — the national bourgeoisie, and *equal* in the sense of equitable sharing of the fruits of the Community.

It is fitting to refer to Prof. Yash Tandon's rather prophetic question in 1973 on the Community: "Is the Survival of the Community at Stake?"[48] Tandon argued that the survival of the Community, despite the Uganda-Tanzania post-coup alienation, should not be taken as a *raison d'etre* for the co-existence between the doctrine of bilateral conflict and multilateral cooperation. He contended that the Community survived (in the most literal sense of the word, at that stage) because of the special circumstances concerning Uganda-Tanzania relations (low linkage by way of transport and communications, trade, etc.) and that, should there be (as it did) an occasion of conflict between Kenya and her partner(s), neither the Community nor the doctrine had much hope of survival.

Much more significant than this was perhaps the damage caused to the long-run designs of the Community as laid down in the Treaty. To quote Tandon:

> The Treaty presumes, although it does not say so in so many words, a tactical alliance between Uganda and Tanzania in the rectification of the historical imbalance against them, and it is the basis of this aliance that has been destroyed, I think, (permanently) by the Uganda-Tanzania hostility of 1971-72.[49]

Tandon was of the opinion that many of inter-state squabbles referred to were areas where if the UPC Government was still in power, Tanzania and Uganda might have joined hands at twisting Kenya's arms, for despite the guidelines set for operations of things like the transfer tax, the EADB, the Corporations, etc., in reality the decisions were subject to competitive negotiation between the member states. Tandon argued that the demise of the "informal" Uganda-Tanzania alliance had considerably strengthened Kenya's hand in these competitive negotiations. Dresang and Sharkansky, in the work quoted earlier, used the greater investment allocations for Kenya by the different corporations to substantiate this argument.

One must take exception to some of these contentions, for much of this trend would have been there, coup or no coup, as it was before 1971. Indeed, in practice, even at the height of the tension between Tanzania and Uganda, there was a lot of cooperation in the councils and other organs of the Community between Uganda and Tanzania, in an "alliance" of the least privileged.[50]

The adoption of the Treaty did not remove the differences in attitudes (of mind, to say the least) to socialism and capitalism, to the great socialist and capitalist powers, to the non-citizens, to the organization of economic life in the town and countryside, etc. The Treaty offered the possibility of taking common economic decisions at

E.A.C. levels, an attempt to make different economic systems co-exist without ill-effects, which, as things turned out, was impossible.

What of the effects of the E.A.C., given its "demonstration effects" on the development of socialist institutions in Tanzania? Several problems highlighted in the paper exist, and so one cannot quite agree with Yaffey's[51] conclusion that the Treaty would not inhibit Tanzanian aspirations towards a socialist society; or with the contention elsewhere, that the EADB would assist Tanzania attain her socialist objectives.[52]

Guruli,[53] taking a strictly anti-neo-colonialist position in the debate on the Community and the wider issues of development and self-reliance in the three countries, unfolds three major causes of difficulties in bringing about economic integration in the LDCs, namely a historical cause, the choice of path of development and the dominating role of foreign monopolies. He explains that as a result, the market is limited due to a poor transport system, the dominance of the subsistance sector and the fact that income is skewedly distributed with the result that really effective market is concentrated in a tiny minority of the intelligensia and the petty bourgeosie. He makes three recommendations:

(a) nationalization of the key industries in the whole of East Africa and participation of the states in such a way that they can make key decisions.

(b) the East African states should follow a socialist path of development.

(c) there should be co-ordinated planning and especially a coordinated industrial strategy.

While the attainment of these proposals could be mere wishful thinking as the Federation appears now, their importance cannot be underestimated. Meanwhile, these countries ought to opt for the second-best alternative and work out some kind of economic integration within the constraints noted above. And one would stress the need to arouse the political consciousness of the people and to intensify "class struggle" as a pre-requisite for a stable, independent and equal Economic Community.

While Tanzania could form another Community (already there is close economic cooperation with Zambia and Mozambique) with her southern relatively more progressive neighbours — Tanzania is a member of the Southern Africa Development Coordination Council (SADECC) — Kenya will now be exploited more by the multinational corporations (especially those of the EEC block) who, it seems, have welcomed or were indifferent to the EAC collapse. Influencial industrialists in Kenya seem to think that Kenya is "developed" enough to trade at par with EEC Block's NMCs rather than pin hopes on neighbouring African countries. At any rate, the break of the E.A.C. will give the resident business tycoons an opportunity to fill some, if not all, of the vacuum left by the demise of these "socialized" E.A.C. enterprises, of course, with foreign participation.

FOOTNOTES

1. As Mwalimu Nyerere saw it: "Whatever protestations were made by the Colonial Secretary to the contrary, we were certain then and are still certain today that the proposed East African Assembly was a step towards the final amalgamation or federation, in one form or other, of the East African territories. All the Africans and all the Indians were opposed to a closer Union, mainly on the ground that such a Union with Kenya would make the Kenya White Settlers dominate. All the affairs of East Africa". "The Race Problem in East Africa" in *Freedom and Unity,* Oxford University Press, 1966, p. 24 In his reflections on the subject, Oginga Odinga, the former Vice-President of Kenya, is affirmative: "In the colonial era, Federation would have meant tigher control over the African people of the three territories and the extension to Uganda and Tanganyika of Kenya's most virulent form of settler domination and racialism". *Not Yet Uhuru, London Heinemann,* 1967, pp. 275.
2. Among the decisions which Tanzania took-decisions which had been long overdue but "postponed" in view of the federal aspirations — were: the establishment of a national Central Bank (and issuing of a national currency) replacing the East African Currency Board, the imposition of exchange control regulations, etc. As recent as July 1975, a Kenyan Minister, in a Louis XIV's style, could utter what amounted to saying that Kenya was the Community and vice versa. He told Parliament: "The Repulic of Kenya is the Community. There cannot be an East African Community without Kenya. Therefore, the other partner states of Tanzania and Uganda must realize that it was Kenya that was making it possible for the Community to exist". Mr. K. Munyi, Assistant Minister for Power and Communications, Daily News, 3 July 1975.
3. Nsekela Amon, "The Economic Aspects of East African Federation", Address to a Public Workshop at the University of Dar es Salaam, 30 November, 1975.
4. East Africa: *Report of the Economic and Fiscal Commission* (Raisman), London, February 1961 pp. 8-9.
5. East African Development Bank: *Annual Report,* Kampala, 1968.
6. J.K. Nyerere, "Problems of East African Cooperation," Speech to the E.A. Central Legislative Assembly, August 1965, published in *Freedom and Socialism,* Oxford University Press, 1968, p. 61.
7. R.H. Green and Ann Seidman, *Unity or Poverty: The Economics of Pan-Africanism,* Penguin Books, 1968.
8. *EADB Annual Report,* 1968.
9. *EAC Annual Report,* 1969.
10. *Daily News,* 15 May, 1974. Witness the hold-up in Kisumu, Kenya, of six EA Railways vessels operating on Lake Victoria as the conflict over the transfer of funds to the EARC Headquarters deepened, *Daily News,* 27 June, 1975.
11. See N.R.L. Mwase "How the Community's tax department declined and fell", *Africa,* January 1974, Vol. 8, No. 2. See also Silas Munabi, "Reflections on the Dismantling of the East African Income Tax Department", (mimeo), East African Community, Arusha, 1974.
12. *EADB Annual Report,* 1969.
13. Raisman, op.cit. 23-26.
14. EADB *Annual Report,* 1968.
15. Annual Reports of the EAC Minister for Common Market and Economic Affairs for 1973 and 1974.
16. Raisman, op. cit. 23-26.

17. One of the issues often raised is whether the index of trade in manufactured goods is an appropriate guide to industrial imbalance. F.J. Ejow in his work, *"EADB and the Industrial Development of East Africa"* disagrees and argues that the partner states will become industrially alike not when their industrial outputs are equal, but when the relative importance of the industrial sector to their economies are similar. A common problem in such an approach would be the availability, the reliability and comparability of statistics in the three East African states.
18. See A.D. Monteiro and F.J. Ejow, "Industrial Strategy for EAC: Retrospect and Prospects" in *The Uganda Economic Journal,* Vol. 1, No. 2, December 1972.
19. The scheduled industries were (i) textiles (cotton yarn, cotton piece goods and blankets other than knitwear, woollen piece goods) (ii) steel drums (iii) glass ware (iv) metal ware (metal windows, and frames, metal door and frames) (v) enamel hollow-ware, (vi) caustic soda.
20. Newman, Peter: "East African Economic Growth", *East African Journal,* April 1964, pp. 13-17.
21. EADB *Annual Report,* 1968.
22. Ibid.
23. I Sharkansky and D.L. Dresang "Public Corporations in Single-Country and Regional Settings: Kenya and the East African Community", *International Organization,* Vol. 27, No. 3, 1973.
24. Unfortunately, the breaches of the Treaty were not examined and checked by the Common Market Tribunal. One possibility which would have helped heighten adherence to the Treaty provisions would be to institute sanctions against a partner state which did not implement EAC decisions. In this context, di Delupis has made a comparison: "Even a rudimentary organisation like the European Free Trade Association (EFTA) provides for such sanctions, and it is perhaps surprising that the East African Community should have omitted such provisions." (di Delupis, *The East African Community and Common Market,* Longmans, 1969).
Conversely, there should have been injuction provisions which might be used to prevent such "punishment" should the victim feel that such verdict is not fair. To take one example, there were no provisions in the Treaty, for instance, to enable a country subjected to a transfer tax to appeal against it should she feel that such imposition was against the Treaty.
25. *The Standard* (Dar es Salaam) 9 February, 1972.
26. The Caribbean Free Trade Association (CARIFTA) Development Bank (incidentally the 1975/76 EAC Treaty Review Chairman, William Demas, is its Director-General) is modelled more or less on the EADB, the important difference being that while lending more to the less developed members, as the EADB does, the more developed partners contribute more to its funds.
27. Robert Ouko "The Role and Future Prospects of the Common Market in the Development of East Africa", talk given to the University of Dar es Salaam Economic Association 13 October, 1972 and subsequently published in *Economic Reflections,* Journal of the Association, Vol. 1, 1972, p. 17.
28. Ibid.
29. Mark D. Segal, "The Revenue Effect of East Africa Transfer Taxes (Tanzania), *ERB Paper* 71.5.
30. Speech by the Minister for Finance introducing the Estimates of Public Revenue and Expenditure for 1975/76 to the National Assembly on 12 June, 1975, Government Printer, Dar es Salaam.

31. *A Report of the Working Party on Possibilities for Closer Harmonization of Monetary/Fiscal and Payments Policies within the East African Community*, EAC CMEAS, November 1973.
32. Ibid.
33. Ibid.
34. See *East African Railways Corporation Economy Report, 1970-71*, presented to the Communications Council, 21 October, 1971.
35. The manner in which the financing of the Headquarters and the relations with the Regions would take place following the 1973 crisis in the Railways Corporation was a subject of study by a Canadian consultancy team appointed to recommend the economic regionalization of the system (decentralizing to the Regions all those functions and responsibilities which for economic reasons or otherwise can be decentralized) without dividing the Corporation into three national entities. It was too late (and too little), for Kenya's new thinking to go-it alone was taking shape.
36. *The Standard* (Dar es Salaam), 16 August, 1967.
37. N.R.L. Mwase "Prospects and Problems of Regional Economic Integration in East Africa", unpublished M.A. thesis, University of Dar es Salaam, July 1975. See also, *Daily News*, 14 February 1975.
38. D.L. Dresang and I. Sharkansky, op. cit. In fact, it is an open secret that some rich and powerful Kenyans wanted to form their own private airline(s). *Daily News*, 4 July 1975).
39. This type of arbitrary allocation could sometimes be due to political pressure which at times could be quite positive. A case in point could be responses to complaints raised over the provision of poor services in some Regions. Zanzibar in particular had been quite vocal on this. As the Zanzibar EALA member, Usi Haji, told the EALA in February 1972: "While others are talking about STD, we are still using primitive telephones which require winding to get a number." *(Daily News*, 16 February, 1972). This was followed later in the year by a resolution at the ASP Party Congress at Chake Chake, calling on the EAP&T to improve services in the Isles or else Zanzibar would do it herself.
40. Dresang and Sharkansky, op. cit.
41. The Mtei Committee was the one appointed by the joint EAC Finance and Communication Councils in January 1975 (Under the Chairmanship of EAC Secretary General, Edwin Mtei, and comprising the Permanent/Principal Secretaries to the partner States Treasuries and the Governors of the Central Banks) to study the Corporation's inter-state transfer of funds crisis.
42. East African Community, *Reports of the Committee on Inter-State Transfer of Funds for Community Institutions*, 1975.
43. *Report of the EALA select Committee on the East African Harbours Corporation*, June 1975.
44. Speech by the Minister for Finance, Ndugu C.D. Msuya, introducing the Estimates of Public Revenue and Expenditure for 1975/76 to the National Assembly on 12 June, 1975, Government Printer, Dar es Salaam.
45. *Daily News*, (Dar es Salaam) 4 July, 1975.
46. Nsekela, op. cit.
47. Guruli Kassim, "Towards an Independent and Equal East African Common Market," a paper presented to a seminar on Legal Aspects of Economic Integration in East Africa held in Uppsala, Sweden; and subsequently published in Cliffe and Saul; *Socialism in Tanzania* (eds), Vol. 1, Nairobi, East African Publishing House, 1972.
48. Yash Tandon, "Is the Survival of the Community at Stake?", *Economic Reflections*, University of Dar es Salaam, 1973.
49. Ibid.
50. The continued cooperation between Uganda and Tanzania in the different Councils of the Community, despite the bilateral conflicts, has been narrated to me by people who were themselves deeply involved in these affairs, notably Ibrahim Kaduma, who served as a Board member in several of the Community Corporations; Wadada Nabudere, former chairman of the E.A. Railways Corporation; and Simon Mbilinyi and Kassim Guruli, who were veteran members of the East African Legislative Assembly.
51. M.J.H. Yaffey, "The Treaty for East African Cooperation — An Economic Commentary", in *Private Enterprise and the East African Company*, P.A. Thomas (ed.), Dar es Salaam, Tanzania Publishing House, 1969.
52. *Mbioni*, Journal of Kivukoni College. Dar es Salaam, July, 1967.
53. Guruli, op. cit.