The East African Community: An Economic Analysis of the integration scheme

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INTRODUCTION

> It shall be the aim of the Community to strengthen and regulate the industrial, commercial and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities the benefits whereof shall be equitably shared.[1]

The East African Community (EAC) came into existence on December 1, 1967. The three pillars of the Community were the Common Market, the Corporations and the General Fund Services. From its inception, the EAC was a unique form of integration in Africa; unique in two senses which are closely related: one, it evolved from a long past of colonial history, dating back to the Berlin and Brussels conferences. Two, the integration scheme comprised communications and transport, i.e. the four corporations: the East African Railways Corporation (EARC), the East African Habours Corporation (EAHC), the East African Posts and Telecommunications Corporation (EAP&TC) and the East African Airways Corporation (EAAC). Nowhere in Africa and, indeed, the whole world was there as integration scheme which included in its areas of integration the four corporations mentioned above. In most integration schemes where these areas have been included, it has been by way of coordination only rather than total integration.

The purpose of the paper is to attempt to make an economic analysis of the integration scheme which came into being on December 1, 1967. It is not intended to measure the benefits and costs of the integration scheme. The main argument of the paper is that the Treaty for East African Cooperation establishing the EAC contained the seeds of destruction of the very institution it was intended to give life to. The long historical past of the pilars of the EAC which came into being on December 1, 1967 was such that benefits of integration had tended to accrue more one partner, i.e. Kenya.[2] The Treaty for East African Cooperation, as the quotation at the beginning of this section confirms, aimed at establishing a 'new' order in East Africa which would ensure that the benefits of integration are equitably shared. Unfortunately, and needless to say, it was the practical implications of this aim which led to the collapse of the EAC. For example, and as analysis later on in the paper will show, it was the attempt to decentralise the corporations that brought about the squables about how much money should be transferred from the Regions to the Headquarters and the consequent transfer of funds problems. By pointing out that implementation of the provisions of the Treaty for East African Cooperation is largely to explain the collapse of the Community which we witnessed in early 1977, I am not saying that the provisions were necessarily wrong or bad. I am more concerned with explaining what happened and why it happened and providing empirical evidence concerning the difficulties encountered in trying to bring about an equitable distribution of the benefits of an integration scheme formed by members who are already enjoying the benefits inequitably. The outcome in this case has been catastrophic, i.e. the collapse of the EAC.

In addition to the Introduction, the paper contains three sections. The second section deals with a brief history of the E.A.C.; the third section deals with an analysis of the three pillars of the EAC and a synoptic conclusion is given in the fourth section. A more thorough economic analysis has been hampered by non-availability of data for public use of very important aspects like the value of assets of the four corporations and how they are apportioned to the three countries by location, revenue earned by each corporation in each of the three countries, employment in the Community institutions by nationality etc. Nevertheless, it is my hope that the data I have managed to gather will sufficiently serve to illuminate the main argument of the paper.

THE EAST AFRICAN COMMUNITY: A BRIEF HISTORY

Of the three pillars of the EAC, the commonmarket was the first to come into existence. The common market was given the first lease of life at the Berlin and Brussels Conferences which settled issued related to the scramble for Africa. Through the Congo Basin Treaties, the trading policies in East Africa were standardized. The common market was given further lease of life with the formation of a customs union between Kenya and Uganda in 1917, to be joined by Tanganyika in 1927. By 1949, there was only one customs administration in East Africa when the customs administation of Tanganyika became fully amalgamated with the customs administration of Kenya and Uganda set up way back in 1917. The Headquarters was in Mombasa, Kenya

Early problems with the East African Customs Union were connected with the protective aspect of the external tariffs which were meant to encourage local production in East Africa as a whole, but in actual fact encouraged local production and hence industrial development in Kenya only. (This issue has been discussed at length in other writings by others and the author.[3]) These early trading policies are considered to be the early cause of uneven economic development of the three countries.

After the second world war, the uneven economic development

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arising from the earlier trading policies became so obvious that the High Commission (made up of the three governors) decided to establish an Industrial Council which would operate an industrial licensing system. The objective of the industrial licencing system which emerged in the consideration of and was expected to supplement an E.A. development plan (never produced), was to induce industries to set up in East Africa by regulating competition through issuing licences for the scheduled industries, having regard to both the applicant's resources and the general interest of East Africa. However, the council lacked the authority to enforce its decisions, and as a result nothing was achieved.

The uneven economic development went on unchecked into the 1950s, and Uganda and Tanganyika grew more and more unhappy with the arrangements because, as Table I below shows, Kenya was making big strides in industrial development and was monopolizing inter-state trade by exporting more to partners than she bought from them.

TABLE I: BALANCE IN INTERTERRITORIAL TRADE - 1956

	Mill.£
Kenya	+ 4.9
Tanganyika	- 4.2
Uganda	- 0.7

Source: Annual Trade Report 1956.

The Raisman Commission was established in 1960, and it reported in 1961 with a proposal to establish a distributable pool in which wealth from Kenya would be redistributed to the other industrially lagging partners.[4] This arrangement also proved unsatisfactory. In 1964, Tanganyika threatened to pursue an economic policy which would eventually pull her out of the common market. This threat led to negotiations which resulted in the Kampala Agreement whose major objective was to deliberately distribute industrial activities in East Africa in favour of the industrially lagging partners, i.e. Uganda and Tanganyika[5]. This Agreement was never ratified by Kenya and, therefore, the important part of the Agreement never took off the ground. Failure of the Kampala Agreement led to the commissioning of the Philip Commission which was given the task of reviewing the entire package of E.A. Cooperation and lay down a new legal base.

The four corporations, i.e. the EARC, the EAP &TC, the EAHC and the EAAC (in early days otherwise known as the self-financing or self-contained common services), were established at different times between the late 1890s and 1946. The first inter-territorial service was the Uganda Railway, later on renamed Kenya and Uganda Railway. The Kenya and Uganda Railway was administered under a General Manager as a department of the Kenya Government with Headquarters in Nairobi, and its revenues and expenditures were combined with the other finances of the Government. In 1925, a Railway Advisory Council with equal representation from the two territories was established to take care of the interests of the two territories. Moreover, the post of High Commissioner of Transport to be occupied by the Governor of either of the two countries was created. As a result of these two measures, an agreement to separate the railway finances from those of the Kenya Government was reached. Another problem during the early days of the Kenya and Uganda Railway was related to the structure of the railway tariff. For Uganda, the structure of the charges, with high rates for imports, protected Kenya industry at the expense of Uganda consumers, and there was insufficient 'distance taper' in the tariff rate, thus favouring Kenya exports and discriminating against Uganda exports.[6]

During the same decade (1920s), Mombasa harbour which had been administered by the Kenya Government was transferred to the railways administration, which was renamed Kenya-Uganda Railways and Harbours. The Tanganyika Railways and Harbours administration was amalgamated with the Kenya-Uganda Railways and Harbours administration in 1946, and gradually up to 1950, a solid East African Railways and Harbours Administration was established with headquarters in Kenya (Nairobi), and sub-head-quarters of the Harbours in Mombasa.

The 1920s saw the amalgamation of the Posts and Telegraphs Departments of Kenya and Uganda. In 1933, the Kenya-Uganda Posts and Telegraphs Department was amalgamated with that of Tanganyika to form an East African administration for both postal and telecommunications services, albeit dependent on the governments for its finances up to 1949 when it was established as a self-contained and self-financing Department under the Postmaster General with Headquarters in Nairobi.

The nucleus of what was later to become the EAAC was provided in 1929 when internal air services began to be provided. This nucleus grew into a fully-fledged corporation when the E.A. Airways Corporation was established in 1946 with its headquarters in Nairobi, Kenya. The EAAC remained so until its break-up in early 1977.

The General Fund Services is a mixed bag of the Community institutions which are sometimes known as the non-self financing institutions of the Community. Essentially, these institutions were there to render supportive services to the common market and to the corporations as well as to provide social services at East African level, like carrying out researches in areas which trouble East Africans and whose research findings, therefore, were of benefit to the three countries. The objective of having these research institutes, e.g. Medical Research Institute, was to enable each of the three countries to economize on research funds and personel by having one research institute for the whole of East Africa. Another characteristic of these General Fund Ser-

vices was that they were financed by contributions from outside the institutes, e.g. from Government contributions and foreign grants as during the time of the E.A. High Commission, or from a Distributable Pool as during the time of the E.A. Common Service Organisation, from 1961 onwards.

The General Fund Service Institutions came into being at different times during the history of the EAC. The Court of Appeal was the first to be established in the 1910s, with Tanganyika joining it in the 1920s. The 1920s saw the establishment of an East African Office and a Trade Commissioner in London, the E.A. Meteorological Department, a permanent Secretariat for the E.A. Governor's Conference (1926) - later to become the Secretary General, with a statistical adviser to provide the Secretariat with statistical services. A Central Veterinary research organisation was established in 1939, the E.A. Industrial Research Organisation as well as the E.A. Income Tax Board were established during the Second World War. Many research institutions were established after the second World War. Of significance, however, was the establishment of the E.A. Directorate of Civil Aviation in 1946, and the unified E.A. Customs and Excise Department on January 1, 1948. All in all, by the time the Treaty for East African Cooperation came into being on December 1, 1967, there were the following services to be run under the name of the General Fund Services: The Secretariat of the Community, including services relating to the Common Market and the Chambers of the Counsel to the Community; The E.A. Directorate of Civil Aviation, the E.A. Meteorological Department; the E.A. Customs and Excise Department; the E.A. Income Tax Department; the E.A. Industrial Council; the E.A. Literature Bureau; the Auditor General's Department; the E.A. Community Service Commission; the E.A. Legislative Assembly; the Inter-University Committee for East Africa; the E.A. Agriculture and Forestry Research Organisation; the E.A. Fresh-water Fisheries Research Organisation; the E.A. Marine Fisheries Research Organisation; the E.A. Trypanosomiasis Research Organisation; the E.A. Veterinary Research Organisation; the E.A. Leprosy Research Centre; the E.A. Institute of Malaria and Vector-Borne Diseases; the E.A. Institute for Medical Cesearch; the E.A. Virus Research Organisation; the E.A. Industrial Research Organisation; the E.A. Tropical Pesticides Research Institute; the E.A. Tuberculosis Investigation Centre; Services related to the operations of the E.A. Currency Board;[7] Services for the administration of grants or loans made by the government of any country, any organisation or any authority for the purposes of projects or services agreed between the Authority and the Partner States; services, including statistical services, for the purposes of coordinating the economic activities of the Partner States; services related to providing machinery to facilitate the coordination of the activities of the Partner States on any matter of common interest; services for the purposes of the E.A. Industrial Court.

Mention should be made here that prior to 1967 the headquarters

of the E.A. Common Services Organisation, later to become the E.A.C., as well as those of most of the institutions mentioned above were in Kenya.

The main problem with these service oriented institutions had been finance. During the time of the E.A. High Commission, i.e. the time when the three Governors started to meet, the general fund services were financed through contributions from the three governments plus Zanzibar as well as from loans and grants mainly from the U.K. This arrangement was considered as being not ideal and by 1961, when the E.A. Common Services Organisation came into being, the Raisman Commission came up with the idea of a Distributable Pool of which 50% was to be allocated to the High Commission to run the non-self contained services, hence giving the Commission an independent source of finance, as the Raisman report put it:

> Possession by the High Commission of an independent revenue would assist these services in their activities by providing them with a greater certainty of funds, and it would also promote a more efficient use of funds between services by enabling the High Commission to function as a single authority, able — with the advice of its various boards, councils and committees — to administer its services from the point of view of the interests of the whole of East Africa rather than as an agency of territorial government."[8]

Since most of the funds were to come from the money-making institutions, the Distributable Pool was expected to come from the industrially advanced country, Kenya (because of the provision that the pool was to draw on 40% of the annual proceeds within the territories of the income tax charged to companies on profits arising from manufacturing and finance, plus 6% of annual revenue of the three territories on customs and excise). It was felt that she would shoulder a greater burden of running the non-self-contained services at the advantage of the industrially lagging partners, Tanganyika and Uganda.[9] As experience showed, the arrangement was not an ideal one and a new method of financing the General Fund Services had to be devised by the Philip Commission.

In conclusion to this section, we can say that the early history of the E.A.C. witnessed a concentration of the integration institutions in Kenya. This was because of the settler influence in Kenya with that of the British Government which was instrumental in fostering integration in East Africa. With administrative and economic structures well established in Kenya, the British Government found it convenient to make Kenya (Nairobi in particular) the centre of the integration scheme in East Africa. Unwittingly, the British Government was engaged in establishing a sub-centre for the East African countries with the hope (proved wrong by history) that the centre in the periphery would be a nucleus of development for the whole of East Africa through spill-over effects. The several attempts prior to 1967 at establishing a meaningful integration scheme had failed. The Treaty for East African

Cooperation of 1967 contained many provisions which were aimed at restructuring the integration. During the process of implementing these provisions, and largely because of this, the E.A.C. collapsed. The next section discusses the three pillars of the E.A.C. as provided for in the Treaty of 1967.

THE E.A.C. AN ECONOMIC ANALYSIS

The preceding section has dealt with the background history of the EAC in order to illuminate what was attempted by the Philip Commission by way of introducing a new order in the integration scheme. In the previous section, we have found that Kenya (Nairobi) was the headquarters of the integration scheme. All the four corporations (three before the break-up of the E.A. Railways and Harbours into two) had their headquarters in Kenya. Most of the institutions under the General Fund Services were based in Kenya; and so was the Secretariat of the E.A. Common Services Organisation. It is obvious that all the spill-over effects of these institutions with their headquarters in Kenya went to benefit Kenya. Employment opportunities for the common cadre (lower and middle grade workers) were enhanced. Moreover, the existence of these institutions stimulated economic activity in order to provide ancillary services like food supply for workers, construction services, etc. This fact went further to widen the gap in economic development among the three countries.

The Philip Commission reviewed the whole package of integration arrangements, and the first measure which was recommended in order to introduce a new order supposed to help redress the imbalance in economic development was the reallocation of the headquarters of the various institutions to the three countries. After breaking up the E.A. Railways and Harbours into two corporations, i.e. the E.A. Railways Corporation and the E.A. Harbours Corporation, and after establishing a new institution, the E.A. Development Bank, the headquarters for the six major institutions of the E.A.C. were divided up as follows: Tanzania was given to host the headquarters of the E.A.C., i.e. the Secretariat and the headquarters of the E.A. Harbours Corporation; the towns chosen were Arusha and Dar es Sálaam respectively. Kenya was to host the headquarters of the E.A. Railways Corporation and the E.A. Airways Corporation. Uganda was to host the headquarters of the E.A. Posts and Telecommunications Corporation and the E.A. Development Bank. Through this arrangement, it was expected that each country would be able to benefit from the spill-over effects which are associated with having the headquarters of the various institutions on one's soil. In addition to reallocating the headquarters of the important institutions among the three countries, maximum decentralization was recommended in respect of the four corporations. In order to understand what the provisions in the Treaty of 1967 were intended to achieve and what difficulties were encountered in implementing them, let us discuss each of the three pillars of the community separately.

THE COMMON MARKET

The main problem with the Common Market had always been the inequitable distribution of its benefits to member countries because one member i.e. Kenya, due to the advanced nature of her administrative and economic structures, could take advantage of the common market arrangements more easily than the others. What had become obvious by 1966 when the Philip Commission was set up was that Kenya was industrializing fast and the gap of uneven development was becoming unbearable to other members. Attempts to redress the imbalance in economic development through the Distributable Pool recommended by the Raisman report in 1961 and the Kampala Agreement in 1964 had not been successful, partly because implementation of the measures was half-hearted, and partly because the measures were fundamentally ineffective in tackling the problem of imbalance in economic development.

Three measures were recommended and provided for in the Treaty for East African Cooperation in order to tackle this problem of imbalance. The first measure was the transfer tax system — an intra-common market protective tariff to be imposed by a dificit country against the surplus country in intra-regional trade. The conditions under which tariffs were to be imposed were quite restrictive so much so that only a small percentage of intra-regional trade was affected and as a result, only little revenue was realized by the deficit countries from this tax. Consequently, as the studies by a good number of students of the E.A. integration scheme (including the author)[10] have revealed, the system proved a flop in achieving its objective, besides being another explanation for the tendency for industrial capacity in East Africa to be duplicated.

The second measure which was provided for in the Treaty was the establishment of the E.A. Development Bank which was mandated to play a redistributive role in order to influence negatively the imbalance in industrial development. The Bank's success in redressing this imbalance through a policy which favoured Tanzania and Uganda (by allocating 38.75% of the funds to Tanzania and Uganda and 22.5% to Kenya during a period of five years) depended on factors completely out of its control. Indeed, the Bank did not succeed because it had limited funds to lend and it was not the sole source of investible funds at the disposal of the Partner States.[11]

The third measure was harmonization of monetary and fiscal policies. A committee of experts was set up to study how to implement this clause, and by the time the community collapsed, its findings had not yet been made public.

Immediately after the EAC was established, the common market secretariat commissioned a study on the possibility of establishing E.A.

Industries. These were to be large scale industries to benefit from scale economies by producing for the whole of the E.A. market basic and intermediate goods. This was an attempt to introduce planning at an E. African level. The report of the study was submitted to the Economic Consultative and Planning Council, a sister council to the Common Market Council; however, no agreement as to the acceptability of the recommendations and commitment to implement them could be reached. Should the three countries have accepted the idea of E. African industries and implemented it, it is obvious that they would have made a significant step towards solving the problem of industrial imbalance among the Partner States.[12] (It is perhaps interesting to note that Tanzania's stand concerning the common market during the meetings of the E. African Treaty Review Commission was that the idea of E. African industries be written in the Revised Treaty and that Kenya, the industrially advanced Partner, as during earlier meetings of the Economic Consultative and Planning Council, was not enthusiastic at the idea at all. In fact, negotiations on the revised common market were stalled by Kenya's refusal to accept the idea of common market industries).

The provisions aimed at improving the common market were ineffective as the following Tables will show:

TABLE 2: EXPORTS TO PARTNERS AS % OF A COUNTRY'S TOTAL EXPORTS

	1965	1966	1973	1974
Tanzania	8	5	7	8
Uganda	13	13	4	3
Kenya	38	34	24	23

Source: Calculated from data obtained from Annual Trade Reports.

TABLE 3: IMPORTS FROM PARTNERS AS A % OF A COUNTRY'S TOTAL IMPORTS

	1965	1966	1974	.1974
Tanzania	25	20	10	6
Uganda	29	29	40	39
Kenya	11	9	5	3

Source: Calculated from data from Annual Trade Reports.

The following can be deduced from the two Tables. The first is that Kenya as an exporter has had the biggest share of the E. African market both before and after the establishment of the E.A.C.; however, she had been importing very little from the Partners both before and after the formation of the EAC. Second, the role of the least developed country, Tanzania, as an exporter has remained roughly the same before and after the establishment of the community. However, he role as an importer has shown a considerable decline not because she has been importing less amounts from the Partners, but because her import volume, most of which could not be met by production in E. Africa, has increased by larger amounts in comparison with the increase in imports from Partners. We can get a better picture of the situation by considering the three countries' share in intra-regional trade in the following tables:

TABLE 4: % SHARE IN INTRA-REGIONAL TRADE AS AN EXPORTER

	1965	1966	1973	1974
Tanzania	13	10	16	17
Uganda	22	23	9	6
Kenya	65	67	75	77

Source: Calculated from data from Annual Trade Reports.

TABLE 5: % SHARE IN INTRA-REGIONAL TRADE AS AN IMPORTER

	1965	1966	1973	1974
Tanzania	37	36	32	30
Uganda	37	39	44	49
Kenya	26	25	24	21

Source: Original data from Annual Trade Reports.

What is more obvious now is Kenya's dominating position of the common market as an exporter and her smallest share as an importer, both before and after the formation of the EAC. Again, this may not be as illustrative as when one considers the balance of trade in intra-regional trade as the Table below will show.

TABLE 6: TRADE BALANCE IN INTRA-REGIONAL TRADE (MILL. SHS.)

	1965	1966	1967	1974	1975	1976
Tanzania	-216	-236	-196	-154	-234	-219
Kenya	+354	+380	+254	+691	+1104	+750
Uganda	-138	-144	-58	-537	-870	-531

Source: Annual Trade Reports.

Considering the situation both before and after the formation of the EAC, Kenya's balance in intra-regional trade had been positive showing a big surplus increasingly at the expense of Uganda. Tanzania's contribution towards Kenya's trade surplus in intra-regional trade has remained substantial, reflecting minor fluctuations. This shows that attempts to redress the industrial imbalance (and hence economic imbalance) have not been successful for reasons which have already been well-documented, ranging from ineffectiveness of the measures to ability of the more advanced Partner to defeat the attempts at redressing the imbalance by moving on to productive activity in lines beyond the economic ability of the deficit country.

THE CORPORATIONS

The most serious obstacle to a more thorough economic analysis of the four corporations is lack of data easily accessible to the general public. However, what is worth noting are the following facts: one, prior to 1967, all the four corporations had their headquarters in Kenya and what the Treaty did was to reallocate the headquarters of two of them, i.e. that of E.A. Posts and Telecommunications to Kampala (Uganda) and that of the E.A. Harbours Corporation to Dar es Salaam (Tanzania) with the E.A.R.C. and E.A.A.C. headquarters remaining in Kenya. Two, the Treaty also provided for the decentralization of some of the activities of the corporations performed at the headquaters to the Regions, and development projects to be undertaken by the corporations were to be biased towards the least developed members of the Community.

The Treaty for E.A. Corporation, aware of the lop-sided development that had taken place in respect of the four corporations, provided as follows: for the E.A.R.C., strong and functionally comparable regional railway headquarters, including revenue and accounting services, were to be established in Dar es Salaam, Kampala and Nairobi; the Board of Directors and the Communications Council were to give high priority to the development of Mwanza as the headquarters of the Inland Marine Services (with workshop and dockyard in Kisumu) and the establishment of diesel locomotive facilities and carriage and wagon depots in Uganda; the Board of Directors and the Communications Council were to give preference to Tanzania and Uganda in establishing new services and facilities during the initial period; the Board of Directors and the Communications Council were to give consideration to the initiation of a preliminary economic and engineering survey of a possible new line of communication between Musoma and Arusha.

Ironically, it was the attempts, initiated by Tanzania, to decentralize the activities of the corporation in the manner suggested by the Treaty that started the arguments and counter-arguments that Tanzania wanted to break-up the E.A.R.C.. Decentralisation of the E.A.R.C. would have meant that revenue which used to be collected by the headquarters would then have been collected by the Regions, and decisions as to how to spend it would have been made by the Regions. Besides being left with the responsibility of providing major and specialized repair services for which the Regions would be paying, the headquarters would have lost most of its powers and control. Through delaying tactics, revenue and accounting services were not established in the Regions for a number of years. Tanzania decided unilaterally to establish her own revenue and accounting services around 1974. Then the problem of how much money should be sent to the headquarters and for what services rendered to the Region set in. The problem of transfer of funds started with the E.A.R.C. because it was left that the headquarters was asking for more money from the Regions than what was necessary for either paying for services rendered to the Region and/or maintaining the headquarters.

As regards the E.A. Harbours Corporation, the Treaty provided that the Board of Directors and the Communications Council were, when considering the capital development programme of the Corporation, to give special consideration to the development of harbours in Tanzania. This provision notwithstanding and contrary to the spirit of the Treaty, more capital development was undertaken in Mombasa than in the harbours of Tanzania

This was achieved through (a) refusal of the harbours authorities in Mombasa to transfer all the headquarters facilities to Dar es Salaam; (b) establishment of the post of Deputy Director General who was an authority unto himself in Mombasa and (c) refusal of the Mombasa authorities to send money to the headquarters allegedly in retaliation for Tanzania's refusal to send money to the E.A.R.C. headquarters in Nairobi, but actually the money was used to further expand the port-facilities in Mómbasa. (Since Mombasa used to earn by far the greatest amount of net revenue, failure to get this revenue at the headquarters meant that there would be less money for development purposes in Tanzania).

Concerning the E.A. Posts and Telecommunications Corporation, the Treaty provided that strong and functionally comparable regional headquarters, including revenue and accounting services, were to be established in Dar es Salaam, Kampala and Nairobi. Up to the collapse of the E.A.C., the Corporation was still more or less in the same form as at the time of writing the Treaty in 1967. Most of the technical services, e.g. revenue and accounting services, were still being done in Nairobi and not Kampala which was supposed to be the headquarters of the corporation. In this regard, therefore, neither the actual transfer of the headquarters of the Corporation from Nairobi to Kampala, nor the establishment of strong and functionally comparable headquarters which included revenue and accounting services had been carried out.

Concerning the E.A.A.C., the Board of Directors and the Communications Council were to ensure that future development would be sited in Uganda and Tanzania, with priority being given to Uganda

where a workshop for the overhaul of all Pratt and Whitney piston engines and the maintenance and overhaul base for Friendship, Dakota and other piston engined aircraft were to be established. Until the collapse of the E.A., all maintenance and repair work for the aircraft was done in Nairobi. Of all the four corporations, this was the most highly centralized and, as a result, when Kenya decided to ground the aircraft, Tanzania, with the largest airspace for domestic flights, was caught with her "pants down."

The 1967 Treaty provided for a new order in the integration scheme as regards the corporation. It called for quite a subtantial change from the past. As a result, implementation of the provisions had been met with foot-dragging and grudging cooperation from the Partner who used to benefit from the former arrangements. This foot-dragging had been met by confrontational demands from the Partners who would be the beneficiaries of the new arrangements. A tense situation had been generated and it degenerated into the collapse of first the EARC, then the EAAC and finally the EAC itself.

As regards the corporations as a whole, the less developed Partners, i.e. Uganda and Tanzania, always felt that Kenya had more than a fair share of development connected with the four corporations. It was generally felt that Kenya had more assets connected with the four corporations which had been acquired, however, through the combined efforts of the three countries. And then this feeling was exacerbated by not being able to know for sure how much of the E.A. Community Assets connected with the Corporations were in each of the three countries. Many studies have attempted to determine the distribution of assets among the partners States for the four corporations. The findings have always differed from one another and when they were brought before the Partner States, these had refused to accept them as correct. Cooper and Lybrand, who carried out a study on behalf of the World Bank, were of the opinion that assets which were not for the system-wide provision of services as at the end of 1975 were distributed by percentage as follows:

TABLE 7: DISTRIBUTION OF ASSETS, 1975 DECEMBER: GROSS FIXED ASSETS AT CURRENT VALUE (PERCENTAGE)

	Tanzania	Kenya	Uganda
EARC	37	48	15
EAP&TC	30	44	26
EAHC	49	51	—

Source: Cooper and Lybrand Study.

TABLE 8: NET ASSETS AT CURRENT VALUE (PERCENTAGE)

	Tanzania	Kenya	Uganda
EARC	41	43	16
EAP&TC	54	46	0
EAHC	41	59	

Source: Cooper and Lybrand Study.

Though in both Tables the figures do not include the amounts of assets which could not be allocated among the Partner States (system-wide assets), it is obvious that they raise a lot of doubts though, of course, they show that overall, Kenya had the greatest share. In most cases, those system-wide assets would be in Kenya where we had the International telephone exchange for the whole of East Africa as well as a well-equipped railway workshop. The figures could have been manipulated and under and/or overplayed in order not to arouse resentment or big demands for redistribution of assets.

The problem of transfer of funds for the Corporations was aggravated by the balance of payments crises which started in 1972, 1973 and 1974, becoming worse each year. In a situation of foreign exchange squeeze, the Central Banks, managers of foreign reserves, were likely to query in case inordinately large sums were requested for transfer, say from Tanzania to Kenya. This resulted in a search for genuine transfers from the Regions to the headquarters by the Regional Managers. This often entailed delays which were met with retaliatory delays and finally better verbal exchanges. In this regard, it is interesting to note that in most cases, the problems of transfer of funds occurred between Kenya and Tanzania and Kenya and Uganda, but hardly between Uganda and Tanzania. Sometimes, out of resentment against the already privileged status of Kenya, the less developed Partners refused to send more than the absolutely necessary amounts to Kenya. Nevertheless, as Annex A will show, more money used to flow to Kenya on account of the two corporations with headquarters there than she would pay out for the other two corporations in Tanzania and Uganda. (The data is more illustrative for the year 1972 when the decision to shift the headquarters from the EAHC and the EAP&TC to Dar es Salaam and Kampala respectively had been partially implemented). The Table also shows that in 1968, when the decision to shift the headquarters of the two corporations had not yet been implemented, most of the transactions or flows of money were towards Kenya for all the corporations, and this trend had changed only slightly in 1972 as Tables 9 and 10 below summarized from Annex A show.

TABLE 9: E.A. COMMUNITY CORPORATIONS INTER-STATE FLOWS-SUMMARY (MILL. SHS.)

	Tanzania	Kenya	Uganda
1968	-246.4	+352.8	-106.4
1972	-140.0	+154.0	-14.0

TABLE 10: E.A. COMMUNITY CORPORATIONS, INTERNATIONAL FLOWS — SUMMARY (MILL. SHS.)

	Tanzania	Kenya	Uganda
1968	—	-189.17	—
1972	-19.54	-33.15	-161.57

Source: E.A. Community Study.

It will be noted that in 1968, Kenya received from the other partners 352.9 mill. shillings in respect of the four corporations, but used only 189.17 mill. shillings for international payments and realized a surplus in foreign exchange of 163.63 mill. shillings. In 1972 she got 154.0 mill. shillings from Partners and used only 33.15 mill. shillings for international payments, realizing a surplus of 120.85 mill. shillings in foreign exchange. It was because of this phenomenon that Partner States wanted to know exactly for what purpose the money sent from the regions (Partner States) was used. When the explanation was offered that the money was used to pay for headquarters expenses, the other countries wanted to know what the actual expenses were and whether decentralization could not be speeded up to reduce the transfer of so much money from the Regions (Tanzania and Uganda) to the headquarters of the corporațions in Kenya; more so when transfers required the use of foreign exchange. The bitter feeling of the other two Partners can be appreciated from the fact that, for example in 1972, they did register a negative balance not only in inter-state flows but also in international flows; both of which involved foreign exchange. Kenya, on the other hand realized a good surplus in overall transaction of 120.85 mill. shs. as compared with a negative balance of - 159.54 and -175.57 mill. shillings for Tanznaia and Uganda respectively.

The combined effect of the E.A.C. Corporations flows and flows in respect of inter-state trade was to make the balance of payment position in respect of the integration arrangements much worse for the less developed Partners (Uganda and Tanzania), as Table 11 below shows.

Table 11: Balance of Payments Position in Respect of Integration Arrangements

	Tanzania	Kenya	Uganda
Balance of Interstate Trade (1968)	-212.0	+ 282.00	-70.0
EAC Corporations Flows (1968)	-246.4	+ 163.63	-106.4
Total 1968	-458.4	+445.63	-176.4
Balance of Interstate Trade (1972)	-199.00	+386.00	-187.00
EAC Corporation Flows (1968)	-159.54	+120.85	-175.57
Total 1972	-358.54	+506.85	-362.57

Finally, let us consider some of the corporations which have data with regional breakdowns.

TABLE 12: EAAC OPERATIONG STATISTICS — 1974
(a)INTERNATIONAL FLIGHTS (PERCENTAGE)

	Tanzania	Kenya	Uganda
Passenger Load Factor	54.3	53.4	42.7
Weight load factor	48.8	43.3	46.1

Source: E.A. Economic and Statistical Review.

TABLE 13: OPERATION STATISTICS — EAAC — 1974
(B) DOMESTIC FLIGHT (PERCENTAGE)

	Tanzania	Kenya	Uganda
Passenger load factor	65.6	61.2	32.6
Weight load factor	62.6	50.3	37.5

Source: E.A. Economic and Statistical Review.

Both Tables show that both the passenger load factor and the weight load factor for both domestic and international flight were highest in Tanzania. Since both factors refer to relationship between utilized capacity to available capacity, what the Tables also tell us is that Kenya tended to be fayoured with unnecessary more capacity than could be fully utilized. This might have been dictated by pure business sense, but the possibility that this arose out of favouritism for the Kenya Region cannot be ruled out.

TABLE 14EAHC OPERATING STATISTICS — 1974 (PERCENTAGE)

	Ships arrived	Net tonnage	cargo Imports	Exports
Mombasa	52.9	56.6	58.8	67.8
Tanzanian ports	47.1	43.4	41.2	32.2

Source: Economic and Statistical Review.

The Table shows that more business is done at Mombasa harbour than at the three Tanzanian harbours combined. This is explained by the fact that Mombasa had been the major outlet for land-locked Uganda and the Northern part of Tanzania. In addition to that, with her well developed facilities with 16 berths operating as opposed to 10 berths for Dar es Salaam in 1976, her business throughout is bound to be large.

Distribution of facilities of the E.A. Posts and Telecommunications were very much in favour of Kenya as the Table below will show. This is quite in contrast with the population sizes of thè three countries and their areas. Tanzania, having the greatest area with the biggest population in East Africa, should have got a proportional sharé of the postal and telecommunications services.

TABLE 15: POPULATION AND LAND AREA DISTRIBUTION — E. AFRICA (PERCENT)

	Area	Population
Tanzania (Mainland)	53.3	37.3
Kenya	33.2	33.9
Uganda	13.5	28.8
E. Africa	100	100

TABLE 16: DISTRIBUTION OF POSTAL AND TELECOMMUNICATION FACILITIES — 1974 (PERCENT)

	Tanzania	Kenya	Uganda
Post Office at year end	34.9	39.2	25.9
Public Call Offices	38.9	43.8	17.2
Subscribers	26.5	53.0	20.5
Telephone Stations	27.0	53.0	20.0

Source: E.A. Economic and Statistical Review.

In conclusion, we can say that evidence confirms the contention that facilities of the four corporations have been inequitably distributed with Kenya being the most favoured. It has not been possible to gauge the effect of the few adjustments carried out in pursuance of the provisions in the Treaty for Cooperation as regards the Corporations, because of lack of date relating to distribution of assets among the three countries prior to 1967 and after 1967. However, what is obvious is that little had been done to improve the amount and quality of the facilities in the regions.

THE GENERAL FUND SERVICES

Prior to 1967, most of the institutions which fall under the General Fund Services were based in Kenya (Nairobi). With the coming into force of the Treaty for E.A. Cooperations, most of the institutions which used to provide ancillary services to the common market and the community secretariat moved to Arusha. These included the office of the Secretary General and the Counsel to the Community, the Common Market Secretariat, the Finance and Administration Secretariat, etc. For lack of office accommodation, some of the departments, e.g. the E.A. literature Bureau, the Auditor General's office, etc. remained in Nairobi. These depatments were expected to shift to Arusha once construction of the headquarters complex had been finished. Other institutions, like the Research Institutes remained where they were. The technical units of institutions like the E.A. Directorate of Civil Aviation and the E. African Meteorological Department were to remain in Kenya (Nairobi) while the administrative units were to move to Arusha.

With regard to the E. African Customs and Excise Department, the East African Income Tax Department (disestablished in 1974), the E.A. Directorate of Civil Aviation and the E.A. Meteorological Department, the Treaty provided for the establishment of regional posts in each Partner State under Commissioners for the Customs and Excise and Income Tax Departments, and under Directors for the Directorate of Civil Aviation and the E.A. Meteorological Department. Though these posts were established in the Partner States, the incumbents were not as powerful as the Treaty provided for. In most cases most of the important work for the regions had to be done at the headquarters - this is evidenced by the failure by our Commissioner for Customs and Excise to set up an office to process import-export trade statistics formerly handled in Mombasa. Difficulties of implementing decentralisation measures were often aggravated by a reluctance by the headquarters to pass on powers to the regions for an obvious reason associated with the fear of weakening the centre.

Did the transfer of the headquarters of the Community from Nairobi (Kenya) to Arusha (Tanzania) bring any gains to Tanzania? One who had been to Arusha during the heyday of the Community is likely to answer in the affirmative. Arusha town was growing fast with

a bustle of activity. The headquarters complex which was completed just as the Community collapsed is impressive. Besides that, not much was achieved by the transfer of the headquarters to Arusha, Tanzania. Estimates of General Fund Services expenditure for 1973/74 show that at most only half of the total budget for the year was spent in Tanzania. Table 17 below confirms this.

TABLE 17 G.F.S. ESTIMATED EXPENDITURE 1973/74

Estimated Expenditure in	Mill. Shs.	%
Tanzania	181.4	50
Kenya	138.1	38
Uganda	43.5	12
East Africa	363.0	100

Source: E.A. Economic and Statistical Review, Estimate of Expenditure for 1974/75.

Financing the General Fund Services had been one of the controversial issues during the life of the EAC. We have seen that during the time of the E. African High Commission, the General Fund Services were financed from government contributions and loans and grants mainly from the U.K. During the E.A. Common Services Organisation, the Distributable Pool took over the role of financing the non-self contained service of finance. The Distributable Pool which was abolished by the Philip Commission was replaced by another source of finance which also provided the non-self-contained services with an independent source of finance. Up to 1973, the main sources of finance for the General Fund Services were deductions made from import duty, excise duty and income tax. From 1974 onwards, after the disestablishment of the E. African Income Tax department, funds for running the GFS came from import duty and excise duty. Table 18 shows the role of these three sources of finance in the overall expenditure of the GFS.

Other sources of finance for the GFS are loans and grants from the UK as well as contributions from governments and other institutions both from within East Africa and abroad.

TABLE 18: MAJOR SOURCE OF REVENUE TO THE GFS (MILL. SHS)

	1971/72	1972/73	1973/74
(1) Import Duty	84,7	116.0	151.8
(2) Excise Duty	53.8	85.3	86.3
(3) Income Tax	32.2	31.6	
(4) Total	170.7	232.9	238.1
(5) Total G.F.S. Expenditure	296.5	319.0	363.0
(6) (4) as % of (5)	58%	73%	66%

Source: E.A. Economic and Statistical Revenue.

Much as one would wish to know how much of each of these deductions were made from collections made in each of the three countries, there is no publicly available data from which one could do that. Indeed, that would have been a much more useful exercise.

After the disestablishment of the E.A. Income Tax Department, an interim formula for determining the amount to be deducted from each country's collections in respect of customs and excise was worked out. This formula operated right to the time of the collapse of the Community. The Percentage to be contributed for running the GFS was based on average customs and excise collections for the previous three years. This resulted in Kenya paying the highest share, followed by Tanzania and last by Uganda.

In conclusion, we can say that besides minor disputes as regards where to site a certain research institute and why there had been a delay in establishing equally competent technical units in the regions, the General Fund Services were the least problem - ridden. Most of the Research Institutes could survive the death-throes of the E.A.C. However, a good number of the institutes which used to provide ancillary services to the corporations and the common market have been rendered useless by the collapse of the latter.

CONCLUSION

The outstanding lesson from efforts at regional integration is that if an economic union is to be effective, it must be a strong one - and most proposals for regional integration have not yet shown this capacity for sufficient cohesion.[13]

The integration arrangements that had existed prior to 1967 contained many shortcomings which in actual fact accentuated the lopsided development among the three countries. The Treaty for E. African Cooperation which came into force was quite a good piece of imagination and far-sightedness in respect of the overall package of the integration scheme. The attempt at relocating the headquarters of the six important institutions on a 2:2:2 basis among the Partner States was a worthwhile move. Unfortunately, speedy implementation was hampered by foot-dragging on the part of those who stood to lose by the new arrangements. Another measure which would have revamped the E.A. integration scheme was that related to the decentralisation of the corporations by establishing strong and functionally comparable regional headquarters in the Partner States. Again, implementation of this measure was also making very slow progress so much so that right up to the break-up of the E.A.C., there was no corporation which had implemented decentralisation measures as provided for in the Treaty. Full implementation of these two measures would have produced a strong integration scheme with respect to the corporations. As I have pointed out in an earlier Section of the paper, the troubles which led to the collapse of the E.A.C. started with the corporations. I have argued

that at the root of the transfer of funds problems was the struggle by the least privileged members of the EAC to effect full implementation of the measures provided for in the Treaty.

Provisions concerning the Common Market could not have, by any stretch of imagination, produced a significant change in the structure of intra-regional trade. Liberalisation of intra-regional trade was to continue being the motive force of the E.A. Common Market. As I have pointed out earlier, lop-sided industrial development continued within the common market. The common market continued being of marginal benefit to its members for failing to produce what was needed by most people in East Africa as evidenced by a small share of each country's imports from partners in total imports. With the failure of the Kampala Agreement, one can understand why there was no provision for East African industries in the Treaty. One can also understand why the study recommendations produced by the Maxwell and Stamp Consultants on East African or Regional industries could not go through the Economic Consultative and Planning Council. One can also understand why when the idea of East African or Regional industries was brought up again by Tanzania during the Treaty Review Commission, the industrially advanced partner, Kenya, pointed out that would be a "non-starter" to negotiations on the common market. Though one can understand why, it is obvious that to advocate a common market which brings to the majority of its members very little benefit is to go against reason. The idea of regional industries would have added much strength to the integration arrangements by providing the common market with the capacity for cohesion. Indeed, without the adoption of the idea of regional industries, redressing imbalance in economic development would have remained mere rhetoric on paper.

Indeed, the EAC collapsed because the process of reorganisation and restructuring was too painful for the concerned parties to bear. But it was this type of restructuring which was necessary to bring about a robust and meaningful integration scheme.

ANNEX A

EAST AFRICAN COMMUNITY CORPORATIONS INTER-STATE AND INTERNATIONAL FLOWS FOR 1968 and 1972
(MILLION SHILLINGS)

		E.A.R.C.			E.A.H.C.			E.A.P. & T.C.			E.A.A.C.			Total EA	
		In flows	Out-flows	Bala-nce	In-flows	Out-flows	Bala-nce	In-flows	Out-nce	Bala-flows	In-flows	Out-flows	Bala-nce	In-flows	O f
TANZANIA (1968)	(Inter-State	6.6	245.0	-238.4	—	—	—	—	—	—	—	8.0	-8.0	6.6	2
	(International	—	—	—	—	—	—	—	—	—	—	—	—	—	
	(Total	6.6	245.0	-238.4	—	—	—	—	—	—	—	8.0	-8.0	6.6	2
TANZANIA (1972)	(Inter-State	—	75.0	-75.0	28.0	16.5	11.5	—	33.5	-33.5	—	34.3	-34.3	56.0	1(
	(International	—	—	—	—	17.54	-17.54	—	—	—	—	13.0	-13.0	—	
	(Total	—	75.0	-75.0	28.0	34.04	-6.04	—	33.5	-33.5	—	47.3	-47.3	56.0	1
KENYA (1968)	(Inter-State	351.4	6.6	344.8	—	—	—	—	—	—	8.0	—	8.0	359.4	
	(International	—	178.57	178.57	—	—	—	—	0.83	-0.83	—	9.77	-9.77	—	18
	(Total	351.4	185.17	166.23	—	—	—	—	0.83	-0.83	8.0	9.77	-1.77	359.4	19
KENYA (1972)	(Inter-State	130.0	—	130.0	16.5	28.0	-11.50	—	33.0	-33.0	68.5	—	68.5	215.0	
	(International	—	50.7	-50.7	—	—	—	—	—	—	17.55	—	17.55	17.55	
	(Total	130	50.7	79.3	16.5	28.0	-11.50	—	33.0	-33.0	86.05	—	86.05	232.55	1
UGANDA (1968)	(Inter-State	—	106.4	-106.4	—	—	—	—	—	—	—	—	—	—	1
	(International	—	—	—	—	—	—	—	—	—	—	—	—	—	
	(Total	—	106.4	-106.4	—	—	—	—	—	—	—	—	—	—	
UGANDA (1972)	(Inter-State	—	55.0	-55.0	—	66.6	—	—	—	66.5	—	25.5	-25.5	66.5	
	(International	—	87.3	-87.3	—	—	—	—	57.5	-57.5	—	17.27	-17.27	—	1
	(Total	—	142.3	-142.3	—	66.6	—	—	57.5	9.5	—	42.77	-42.77	66.5	2

Source: Common Market and Economic Affairs Secretariat Study.

FOOTNOTES

1. The East African "Treaty for East African Cooperation Community:" Article 2(1) - Aims.
2. The idea was developed by the author in an earlier paper titled "The Common Market Concept and Economic Development: Tanzania's Experience in the A.A. Common Market."
3. Hazlewood A: *Economic Integration: The East African Experience,* Chapter 5, and D.A.K. Mbogoro: "Inter-State Trade and the Development of an Effective Common Market in East Africa" M.A. Dissertation 1975..x
4. For more information, see "Inter-State Trade and the Development of an Effective Common Market in East Africa", an M.A. Dissertation by D.A.K. Mbogoro.
5. See 4 above.
6. *Economic Integration: The East African Experience* by A. Hazlewood, Ch. 3 in which a full explanation of the early controversies between Kenya and Uganda has been given.
7. The East African Currency Board whose headquarters up to 1960 was in London, was established in 1919 to convert the existing coinage into E.A. Shillings and to provide the currency of three territories by issuing shillings on an automatic Sterling exchange basis at the rate of E.A. Shs. 20/- to the pound sterling, ceased to exist in 1966. However, minor functions of the Currency Board which remained after 1966 were taken over by the EAC administration.
8. Raisman report: "E. Africa: Report of the Economic and Fiscal Commission," Cmnd 1279 (London: HMSO, 1961) paras 51-9.
9. See 4 above.
10. A Study by M. Segal in "Three Years of Trade and Production Under Transfer Taxes - The Tanzanian experience", ended with the conclusion that the transfer tax system had not achieved and could not achieve the intended goal; however, it should be retained as a bargaining tool when it came to reviewing the Treaty - this was in 1971.
11. See 2 above.
12. The idea has been well expressed by G.M. Meier when discussing the Problems of Integration in Less Developed Countries in "Inter Economics, A monthly Review of International Trade and Development", February 1970. In this article, he argues that if efforts at integration are to be effective, it must be a strong one, i.e. regional integration must have sufficient cohesion.
13. See 12 above.

THE EAST AFRICAN COMMON MARKET — HISTORIC STRUCTURAL AND INCIDENTAL DYSFUNCTIONS

*Mark D. Segal**

The purposes of this article are to explain major factors underlying the fragility of the East African Common Market, to demonstrate why the long-term success of the Common Market required a fundamental redirection of its basic principles (which did not happen for reasons discussed below), and to outline what implications this experience may have for other developing countries attempting regional economic co-operation.

Perhaps clearest recent expression of the Common Market's fragility were the events which necessitated Tanzania's reluctant decision to close the border with Kenya, consequently interrupting the normal flow of common market trade. In January 1977, Kenya unilaterally permitted foreclosure on East African Airways, and abruptly kicked out its Tanzanian staff from the Nairobi homes and offices. The collapse of the Airways, combined with Kenya's illegal retention of the Lake Victoria steamers in Kisumu caused Tanzania much inconvenience (now being remedied). In comparison, Tanzania's conditions for re-opening the border were both reasonable and soft, and Tanzania was prepared to resume negotiating the future of inter-state economic relations. Yet, in the year that passed, Kenya precipitated the collapse of the Community by refusing to remit her share of the General Fund Service budget, and so far she has failed to consecrate the agreement on the minimal conditions for re-opening the border. The important implications of this experience are firstly, the Common Market's vulnerability in terms of collapse of other aspects of co-operation, and secondly, its dispensibility to the contending parties as long as there is unresolved disagreement over certain erstwhile common service components of the former co-operation package.

The vulnerability and dispensibility of the Common Market are a function of its accumulated structural distortions, which are rooted in those of the Partner States and have their origins and development in at least eighty years of colonial and ex-colonial socio-economic for-

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