A CASE FOR ZAMBIAN ENTRY INTO THE

EAST AFRICAN COMMON MARKET

by

DAVID MAYER SPRING

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Department of _____*Economics*_____

The University of British Columbia
Vancouver 8, Canada

Date _____*June 17/70*_____

Abstract:

This thesis covers the subject of economic integration in the East African setting. Following a review of custom union theory literature, a closer examination is made of the historical and economic background of the East African Common Market.

A case is then made for Zambian entry into the Common Market with particular emphasis put on the effect it would have on the growth of G.D.P. (impact effect) and the development of industry.

An empirical examination of the impact effect indicates that Tanzania will be the largest net gainer.

A model is also presented that shows the effect of integration on the time horizon of industrial growth. Finally, the thesis concludes that there are net gains that can be enjoyed by all parties if integration is implemented in a rational manner and industrial planning is executed by an inter-country industrial planning board that would allocate industry among the member countries based on sound economic criteria.

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Introduction

Concluding Remarks

"The concept of economic cooperation offers to member
States of the East African sub-region a great
potential for advancement towards our common good
of sustained economic growth."

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Dr. Kenneth Kaunda
President of the Republic of Zambia

INTRODUCTION

It is most appropriate that this quotation of President Kaunda's introduces the theme of the thesis. For it is the effects of Zambian entry into the East African Common Market (EACM), that will be of main concern in the following chapters.

At present the only members of the EACM are Kenya, Uganda and Tanzania. These countries have shared a common market since 1927 and over the years have co-operated in developing common services and organizations. Other countries of the sub-region have expressed an interest in participating in the EACM, and are therefore interested in what problems might arise from the extension of the common market.

Zambia in particular is interested in associating with the EACM,[2] since it is a landlocked nation which finds itself in a rather precarious economic and political situation. It is, therefore, appropriate for us to examine the case of Zambian entry into the common market, and also to hope that our findings and approach will be of benefit to other states that are contemplating similar action.

A complete examination of third country entry into a common market must consider the effect integration will have on such things as capital

formation, national income, industrialization, foreign investment, agricultural production, monetary and fiscal policy, consumer price level, factor mobility, balance of payments, international relations, education, political stability, and finally, the social and cultural attitudes of the nation. Such a study would be a Herculean task involving not a thesis but a book-length study. For this reason we shall focus our attention on a few of the major factors such as national income, the rate of industrialization, and the general course of economic development. Only cursory mention will be made to the other factors insofar as they relate to our main topics.

The body of the thesis will contain, (1) a theoretical and historical perspective of the situation (Chapters 1, 2 and 3), (2) an empirical study of the short run effects of the proposed integration (Chapter 4), (3) a theoretical model suggesting how the study might be extended (Chapter 5), and finally, (4) the summation and drawing together of our conclusions.

It is hoped that the thesis will give the reader an insight into the problems facing the East African Common Market, and the effect the "proposed integration" will have on the continued operation of the community.

CHAPTER I

Custom Union theory and it's relevance to the developing world.

In the introduction we pointed out the all-encompassing nature of the question. There has developed a body of economic theory dealing with the very question of economic integration. The next obvious question is, "To what extent can this body of theory provide us with tools to evaluate the effects of Zambian entry into the East African Common Market.

Custom Union theory has been a late arrival to the general body of economic theory. It wasn't until the early 1950's that economic integration became a popular topic. Jacob Viner opened the whole question of custom union theory in 1950 with his pioneering work entitled, "The Custom Union Issue".[1]

Viner was concerned with the generally accepted hypothesis that since a custom union was a movement towards free trade and since free trade increased potential global welfare, then any movement in that direction would increase welfare.

The Vinerian model is quite simple and can best be used to show the contributions he made to Custom Union theory by dispelling the previously held misconception. Table 1.1 presents the relevant data.

Money price (at existing exchange rates) of a Single Commodity X in Three Countries

Country	A	B	C
Price	28¢	24¢	20¢

If country A levies an import duty of 50% on commodity X, it would be sufficient to protect its local production. If A forms a custom union

with B or C and drops the tariff, then country A would buy commodity
X from a lower cost producer.   This is trade "creation".   If country
A levied a 25% import tax then it would buy commodity X from country C,
the lowest cost producer.   If a custom union was created between A and
B then A would buy from B at 24¢ rather than C at 20¢ plus 5¢ tariff.
This is Viner's example of trade "diversion" since A buys from a high
cost partner producer rather than from the lowest cost producer.   Viner
concluded that because trade diversion represented a shift from the lowest
cost source of supply to a higher cost source, that it represented a move-
ment from a more to a less efficient allocation of resources.   Viner
further concluded that the greater the overlap of commodities produced
and protected by both countries, the greater will be the gains from in-
tegration.

        Viner's analysis of the custom union issue stirred the interest
of other economists who were anxious to contribute to the discussion.
Vinerian analysis set the direction for future investigation and for
over a decade refinements were added to his analysis.

        The emphasis of these investigations was placed upon the welfare
gains and the conditions necessary to bring them about.   Drs. Makower
and Morton concluded from their study[2] that the greater the difference
between the cost ratios of the overlapping commodities of the partner
countries, the greater would be gains from trade creation.

        Implicit in Viner's analysis was the assumption that commodities
were consumed in some fixed proportion independent of the structure of
relative prices.   This weakness in Viner's theory was picked up quite
independently by Lipsey[3], Meade[4] and Gehrel.[5]

        All three realized the importance in most cases of the substit-
ution effect and the implications it carried for custom union theory.

Figure 1.1
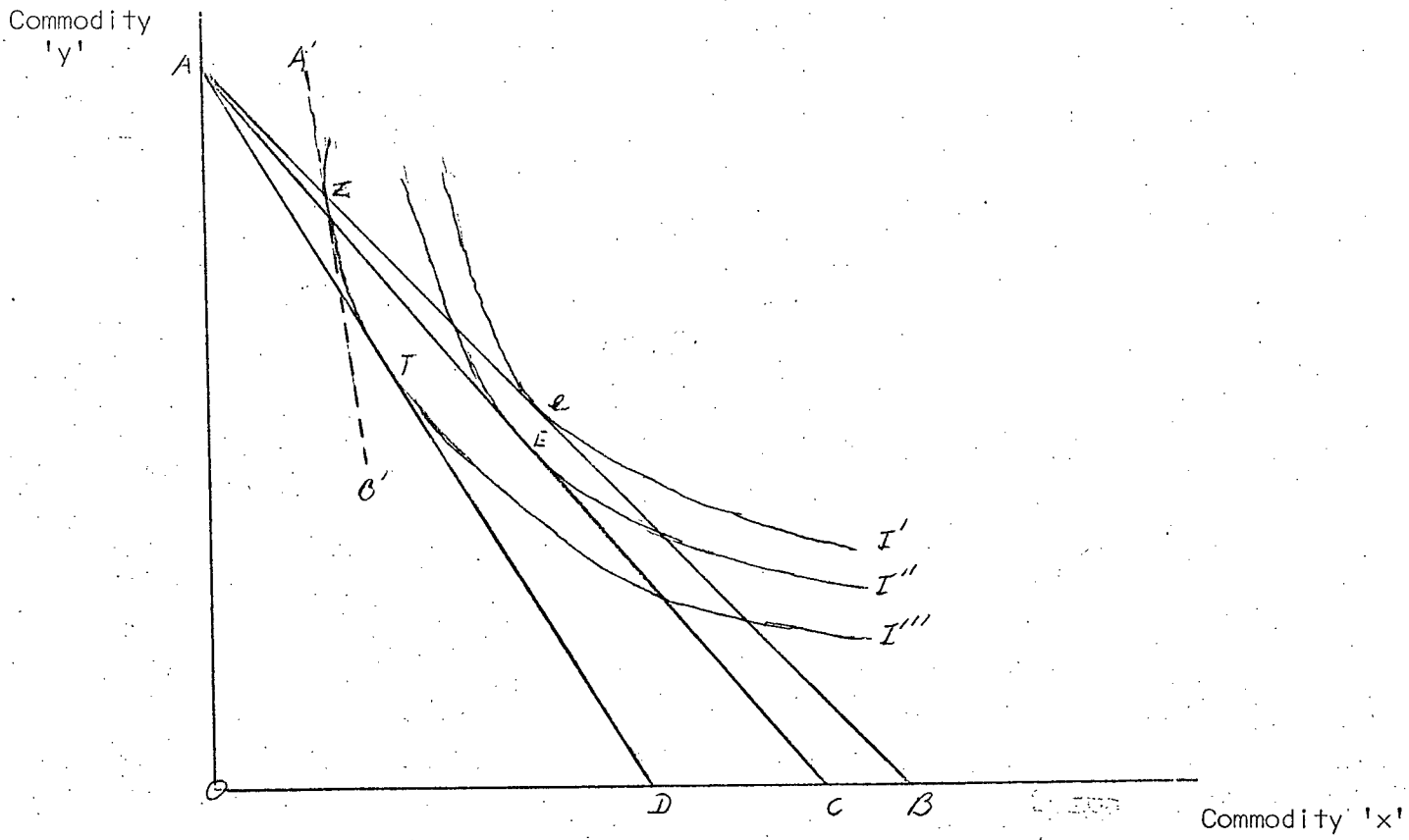
The main gist of the argument is as follows: consumers are assumed to determine their consumption patterns based upon the relative price of commodities. Professor Gehrels restricts his analysis to two commodities which we will assume are subject to a substitution effect. Figure 1.1 shows country A producing commodity Y and trading with country B which produces commodity X. The slope of line A.B represents the terms of trade between X and Y when A trades with B. The free trade equilibrium point will be when A.B is tangent to the highest indifference curve I! If a tariff is imposed by A on commodity X then the relative price in terms of good Y will be higher, as indicated by the slope of line A'B'. The new equilibrium will be where the A'B' cuts A.B and is tangent to I''' at point Z. This is the point where the domestic market rate of transformation equals the free trade market rate of transformation which is tangent to I'''. Under these conditions it is possible to establish a trade diverting custom union and increase welfare. Such is the case of a union with country C with a market transformation line of A.C. The new equilibrium is at point E where A.C is tangent to indifference curve I''. Thus, there has been a gain in welfare.

Although a case may be made by Gehrels in a 2 commodity model, Lipsey[6] points out that when other commodities are considered at the same time the results are not so profound. Under these circumstances it cannot be presumed that there will always be gains from union.

Professor Meade[7] tackles the same problems. He directs most of his attention to criticism and extension of Vinerian analysis and make's a positive contribution by clarifying many of the uncertainties. He re-examines most of the Viner theory using Belgium and the Netherlands as examples of potential custom union partners. He concludes that a custom union is more likely to increase economic welfare:[8]

(1)   If the economies of the partner countries are actually very competitive or similar but potentially very complementary or dissimilar.

(2)   The higher are the initial rates of duty on imports into the partner countries.

(3)   If each is the principal supplier to the other of the products which it exports to the other and if each is the principal market for the other of the products which it imports from the other.

(4)   The greater is the proportion of the world's production, consumption, and trade which is covered by the members of the union.

(5)   The lower the rate of import duties in the rest of the world but the greater the number of independent customs areas into which the rest of the world is divided.

(6)   If world trade barriers take the form of fixed quantitative restrictions rather than of taxes on imports.

(7)   The greater is the scope for economies of large-scale production in those industries within the union which are now enabled to expand by undercutting similar industries in other parts of the union.

(8)   If there is a partial, all-round reduction by partner countries rathern than a total elimination of those duties.

Professor Meade concludes that there is a general prejudice in favour of custom unions.

Again, Lipsey[9] points out the weaknesses of the theory.   Meade's hypothesis may hold in a situation of a marginal change in tariff rates but in most custom union situations there will be large tariff reductions with the result of changes in supply and demand conditions.   The results will then not be so obvious and you cannot conclude that there is a general prejudice in favour of custom unions.

After concluding a general survey of custom union theory
Lipsey offers three of his own propositions concerning welfare:

(1) "when only some tariffs are to be changed, welfare is
more likely to be raised if these tariffs are merely reduced than if
they are completely removed." [10]

(2) "given a country's volume of international trade, a custom
union is more likely to raise welfare the higher is the proportion of
trade with the country's union partner and the lower the proportion of
trade with the outside world."

(3) "a custom union is more likely to raise welfare the lower
is the total volume of foreign trade, for the lower is foreign trade
the lower must be purchases from the outside world relative to purchases
of domestic commodities." [11]

Discussion of the topic did not end here. Throughout the liter-
ature different aspects of Vinerian analysis were discussed [12] as well as
empirical attempts being made to estimate trade creation and trade
diversion for given country groups. [13]

These theories were mostly developed with the economies of developed
countries in mind. The obvious question then arises: What help can these
theories offer when considering the situation of developing countries?

One common characteristic of the theories previously mentioned
(henceforth referred to as the Classical theory of Custom Unions) are that
they are static models, concerned with the welfare effect generated by
trade diversion and trade creation. This is certainly a legitimate con-
cern for developed countries where the structures of the domestic economies
concerned are already formed and display a certain amount of rigidity.
As Professor Lipsey most aptly points out in the introduction to his
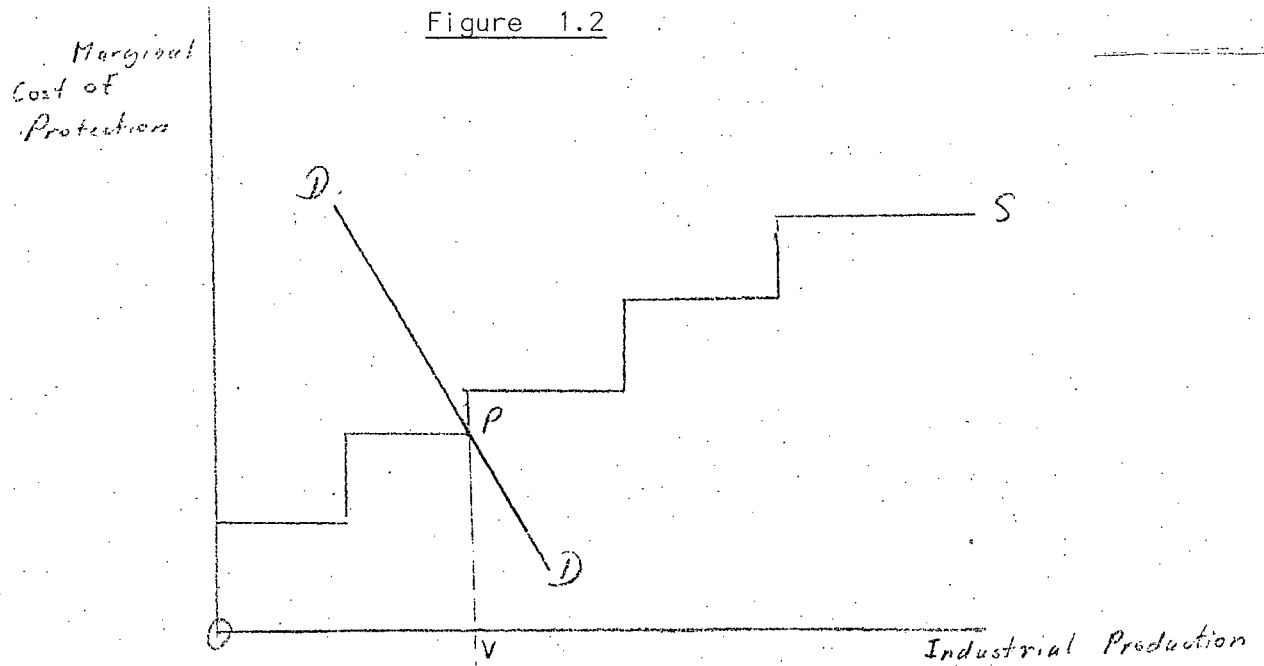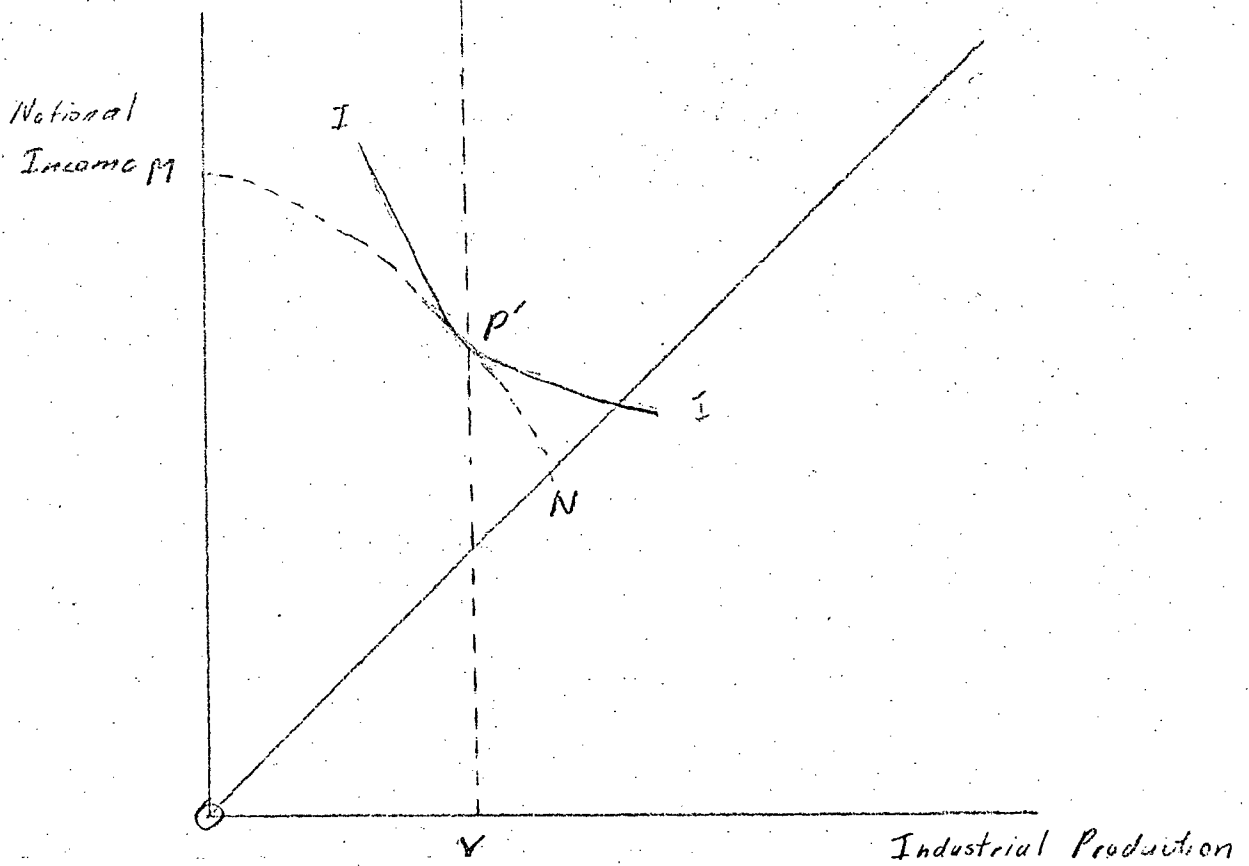"Survey Article", most of the attention of custom union theory has been

Figure 1.2

Figure 1.3

placed upon welfare gains arising from specialization of production while the welfare gain accruing from a change in the rate of economic growth is "not being dealt with at all".[14]   Yet it is this very source of welfare gain that is of dominant importance to the developing world.

The emphasis of the classical theories, therefore, has limited their use as analytical tools in the developing world.   The fixed and static assumptions of classical theory are variables in the dynamic process of development.   The assumptions of fixed factor proportion, full employment of resources, competitive pricing, given industrial structure, for example, are all assumptions that do not hold for the developing world: they are the variable factors that are looked to to create an increase in the rate of economic development.   We must, therefore, find a theory that takes into consideration these factors when presenting a theory of economic integration as an engine of growth.

Seeing the need for such an approach Drs. Cooper and Massell developed a theory that would take into account some of these factors.[15] The main contribution of their model is the realization that developing countries desire industrialization.   This follows the Prebish-UN thesis that developing countries must look to increased industrial development and eventual export of manufactured goods in order to narrow the income disparities between the 'have' and 'have not' countries.   In order to undergo the dynamic changes in the structure of their economies, the Cooper-Massell model accepts industrialization as a legitimate policy goal.   An interesting feature of their model is that it shows the trade-off between industrialization and national income.   This might reflect the situation in many developing nations which export primary products.   One drawback of their model is that after presenting a convincing argument regarding the inappropriateness of classical theory, they

proceed to make some of the same assumptions (i.e. full employment,

constant costs, competitive pricing and constant terms of trade). But

it is perhaps initially necessary to retain some of these assumptions

in order to construct a determinate and comprehensive theoretical model.

The model accommodates the government's desire for industrial-

ization by constructing a demand curve D.D which shows the level of indus-

trial production desired at differing levels of cost of protection. This

demand curve is negatively sloped, indicating that at a high cost of

protection a smaller amount of industrial production will be desired by

national planners. In its original form the model labels the vertical

axis as the marginal cost of industry; I have changed the vertical axis

to read as the marginal cost of protection for in fact the cost of pro-

tection is not the marginal cost of the industry but the difference be-

tween the marginal cost and world market price. This change is there-

fore consistent with the rest of the model.

The supply curve S.S is stepped since each different desired in-

dustry requires differing degrees of protection. The industries are

arranged in ascending order of costs of production. Since the national

planners' desire for industrial production D.D and the supply of industrial

production S.S the equilibrium point is where the two curves intersect at

point P. in figure 1.2. All industries to the right of V will not be

protected and those to the left of V will be protected at a total cost

(or loss of national income) of O.S.P.V.

It is assumed in this model that the country considered has a

comparative advantage in primary goods export, i.e. corn. If it wanted

to maximize national income it should engage in the economic activity

with the highest return in this case corn production. Any diversion of

economic resource from corn producton will mean a decrease in national

Figure 1.4

Marginal Cost of Protection

ties
Sweaters

Suits
Suits

Dresses
Shoes

Hats
Coats

O   L   M   N   P

Industrial Production

Figure 1.5

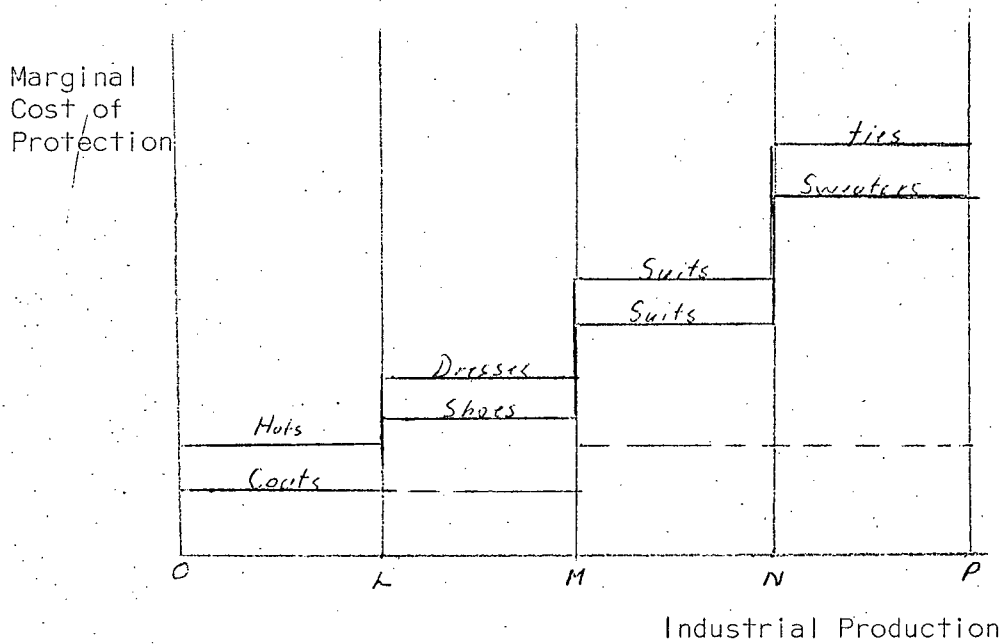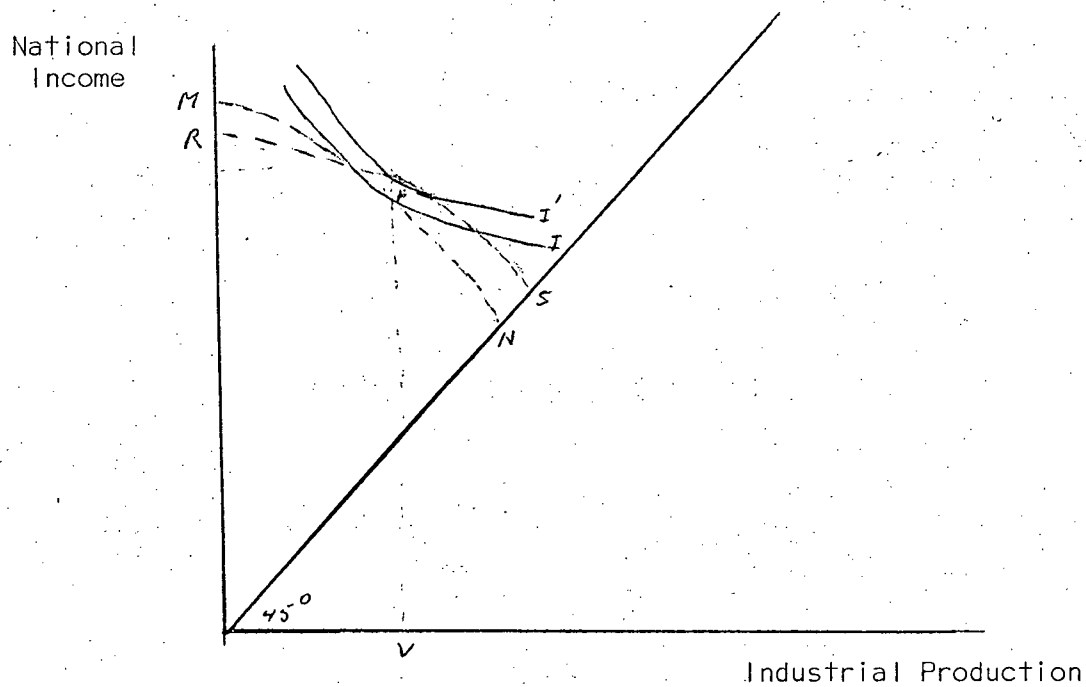

National Income

M
R

I'
I
S
N

45°

V

Industrial Production

Country A's Production Consumption Curve and Indifference Map.

income.   There is, therefore, a conscious trade-off made between

industrial production and national income.

This situation is illustrated in figure 1.3 by a production

consumption curve MN.   If no industrial production is undertaken then

national income will be maximized at point M.

As industrial production increases national income falls until

it reaches point N where all national income is derived from industrial

production.   The shape of the indifference curve I.I. indicates the

national planners' preference, for example, a ho izontal I.I. would show

infinite preference for corn production as a method of maximizing income.

With such an indifference map the corner solution M would result and corn

production would be the only economic activity.   Point P in figure 1.3

corresponds to the point of intersection of D.D and S.S in figure 1.2.

Similarly the level of industrial production O.V correspond in both

diagrams.

When a custom union is formed between two countries of which each

has an intra-union comparative advantage in at least one industry, then

both will gain from integration.   Assuming that both countries A and B

have a desired industrial production OM (figure 1.4) then by forming a

union, each country will specialize in its lowest cost industry.   In the

situation depicted in figure 1.4, A produces hats and B produces coats

for the combined market.

The increase in welfare from the national planners' point of view

can be shown by figure 1.5.   The original production consumption curve

for the country A is M.N and the desired level of industrial production

OV is indicated at point P where I.I is tangent to M.N.   Curve R.S. rep-

resents the situation for A when in union with B.   Point R is lower than

M which indicates that even if A undertakes no industrial production it

must share the cost of protection of industry in B.   Similarly, if

A undettakes just industrial activity it will have a higher national

income (indicated by point S) as part of a union, since half of the

burden of protection will be borne by Country B.   The intermediate

case where both specialize in their lowest cost industry shows that

with the same level of industrialization O.V that A is on a higher in-

difference curve I'I'.

Using the basic model, Cooper and Massell examine different

possible situations facing potential partners and conclude:

"The potential gain from C.U will be larger if:

(1) there is a steeply rising marginal cost of

protection in the two countries.

(2) the economies have a strong preference for industry.

(3) the countries are complementary.

(4) neither country dominates the other in industrial

production generally." [16]

What can this model tell us about the possible welfare gains from

our proposed integration? From the information available some potential

gains from C.U will be forthcoming since there is a strong preference for

industrial development.   The countries involved are potentially comple-

mentary and the hope is that future development will bring each country's

industrial sector to a level where no one partner country will dominate

the other.   Thus two of the above four conditions are fulfilled.

The Cooper-Massell model has come closer to providing an economic

tool with which to study economic integration in the developing world.

It has made a positive contribution to custom union theory if only to

refocus the direction of investigation of this topic.

With regard to the question of Zambian entry into the East African

Common Market our inquiry follows the same direction. The tools that
we shall use will also incorporate the countries' desire for industrial-
ization. They deal more specifically with the effects on the industrial
process itself and how such a process will affect the rate of economic
development of the region. We are, therefore, focusing our attention on
the very source of welfare gain that Lipsey has pointed out is missing
from the classical theory.

CHAPTER II

Past history of economic co-operation
in East Africa.

Before we address the main question of the thesis it will
be beneficial to have a brief look at the history of economic co-
operation of the area. Thus it is the purpose of this chapter to
briefly review the main events leading up to independence and the
problems presently facing the EACM.

Although the potential benefits from integration might be great
for a particular group of developing countries, not all areas can take
advantage of such a union. There are certain preconditions that must
be met prior to integration: adequate inter-territory infrastructure,
a degree of political stability, planned development, and a sufficient
measure of co-ordination and harmonization of certain economic policies.

Within the East African context most of these preconditions were
satisfied. The main reason explaining the existence of such a conducive
atmosphere was that all three countries were under the same colonial rule
since World War I. British Colonial policy dictated the development of
the three territories on an integrated basis.

In order to facilitate such a policy, a transportation system was
developed linking the major market areas in the region. Although this
system is not highly developed compared with advanced economies, it is
adequate enough to provide cheap transport between the major population
centres. The basis for the consumer goods transport is the rail system,
the main line linking the principal port area, Mombasa, with Nairobi,
Kampala, and the north and west part of Uganda. A second line links

Dar-es-Salaam with the interior of Tanzania and a third line connects the port of Tanga with important agricultural areas of Moshi and Arusha and with Mombasa. The railways are complemented by a road system that is very good in terms of standards of tropical Africa.

With the major rail links completed in the early 1900's, a common market was established between Kenya and Uganda in 1917, while Tanzania participated in stages.

In 1922 common external tariffs were established, by 1923 there was free trade of domestic goods and by 1927 internal tariffs on imported goods had been eliminated between the three territories.

It wasn't until 1949 that Tanzania's department of customs was amalgamated with the other two.

In 1926, the first Conference of East African Governors was held, and in 1932, it was agreed by the Secretary of State for Colonial Affairs that the governors of Tanganyika, Uganda and Kenya would meet annually to discuss matters of common interest, and that a permanent secretariat would be established. During World War II, the three territories pooled their resources to help in the war effort and became self-sufficient in food production. In 1945, the Colonial Office proposed that a permanent body called the High Commission replace the Conference of Governors. This body would deal with the increasing responsibility of the territories. After a revision of the original proposal, on January 1, 1948, the High Commission was created with seven executive offices: administrator, commissioner of transportation, postmaster-general, legal secretary, financial secretary, commissioner of customs and chief administrative secretary.

The legislative arm of the EACM was the Central Legislative Assembly (CLA) that consisted of a Speaker, the seven ex-officio members (mentioned in the previous paragraph), six nominated members and twenty unofficial members. The three governors each nominated two members, appointed three unofficial members and the territorial legis= latures elected three unofficial members. The remaining two unofficial members were local Arab citizens appointed by the High Commission. The CLA had limited powers and was a rubber stamp body that was to support the decisions of the High Commission. No bill could be introduced into the assembly unless its introduction had received approval of the High Commission. The High Commission could assent or refuse assent to bills at its discretion and it also had the power to declare passed a bill which the assembly failed to pass. The CLA's power was limited to legislation on appropriation of funds to different common agencies.

Along with these two joint establishments came the formation of the Common Services Organization. This body was to run a co-ordinated program in transportation, communication, revenue collection and research services. (See Appendix I A). This arrangement allowed for the most economical dis- tribution of skilled administrators.

The main limitation on the EACM was that it did not, until 1961, have its own source of revenue. It depended on the territorial councils and the British Colonial and Welfare Offices for its operating expenses.

Following the Raisman Report[1] recommendations, a distributive pool was established under the administration of the High Commission to finance common services. The fund received 40% of income tax from corporations, 6% of Customs and Excise duties collected in East Africa. The fund paid

the cost of collection, and the remaining revenue was used to finance

the services with the remaining amount being divided equally among the

three territories.   In that same year the High Commission was trans-

formed into the East African Common Services Organization (EACSO).

This was not simply a change in name alone but was an official shift

from colonial to independent rule.   The executive body was made up of

representatives of the three territorial governments which, for example,even

had the powers to amend the constitution.

   At the same time the CLA was enlarged and made to consist wholly

of members elected by the legislatures of the three countries.

   The Authority was run by Committees on which ministries of the three

individual countries were represented and which covered Finance, Communic-

ation, Commerce and Industry, Social and Research Services and Labour.   The

decisions of these committees must be made on a unaminous basis thus limit-

ing their effectiveness to matters on which there are no major divergences

of interests among the three countries.

   These institutional changes came at an opportune time when it was

politically essential to shed the yoke of the British colonial rulers.   This

reorganization of the EAHC formalized the break between Britain and East

Africa, but maintained the important organizational tool for continued co-

operation.

A further incentive for continued economic integration was the existence of a common currency for the three territories. In 1919 the East African Currency Board was established by the British Colonial Office. Like other Currency Boards its main function was to act as a currency authority, exchanging East African shillings for pounds sterling on the basis of 20:1. Under this early system the EACB had limited powers and local money supply was limited to the requirements of the balance of payments. In 1955 the EACB was authorized to hold portfolio securities of the local government to the extent of 10 million pounds. This amount had gradually increased to 35 million pounds in 1964. This provided an additional degree of monetary flexibility and permitted a degree of deficit financing to the three governments, which until recently has not been taken up.

Thus the EACB served a useful purpose in the pre-independence times. It was logical that with political independence and the talk of federation this body would be converted to a Central Bank authority having the power to determine credit policy rather than leaving it to the discretion of the commercial Banks. (The fact that this natural evolution never took place will be discussed later in the paper.)

Reflecting on the early institutional arrangements of the East Africa Common Market everything seemed to be set for a successful transformation from colonial rule to independence and continued economic integration.

Even under such favourable conditions the EACM was beset with problems that came to a climax in 1964 when Tanzania threatened to withdraw from the organization.

Examination of inter-territorial trade reveals some basic charac-

Table 2.1

Inter-territorial trade of East Africa

	Kenya		Uganda		Tanzania		Combined Ug.& Tan.	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1959								
a Food, beverages and tobacco	6,560	2,796	2,929	3,704	1,423	4,412	4,352	8,116
b Raw materials and mineral fuels	388	1,862	1,342	342	880	406	2,222	748
c Manufact.goods and chemicals	5,284	826	953	2,448	268	3,231	1,221	5,679
d TOTAL	12,232	5,484	5,224	6,494	2,571	8,049	7,795	14,543
1966								
Food, Bev., tobacco	7,306	3,420	2,755	4,134	1,433	3,941	4,188	8,075
Raw mat. & min.fuels	5,209	2,100	1,430	2,958	936	2,518	2,366	5,476
Manuf.goods & chem.	16,277	5,588	6,245	9,312	2,268	9,888	8,513	19,200
	28,792	11,108	10,430	16,404	4,637	16,347	15,107	32,751

	Kenyan Inter-territorial exports as % of Combined Uganda and Tanzania inter-ter.Imports	Kenyan Inter-territorial Imports as % of total combined Inter-ter. exports of Ug. & Tan.
1959		
Food,bev. tobacco	80.8	64.2
Raw mat. & min. fuels	51.8	83.7
Manuf.goods & chem's	93.04	67.7
TOTAL	84.1	70.3
1966		
Food, bev. tobacco	90.4	81.6
Raw mat. & min. fuels	95.1	88.7
Manuf.goods & chem's	84.7	65.6
	87.9	73.5

a SITC cat. 0 &
b SITC " 2 –
c SITC " 5 –
d Excluding SITC category 9.

Source:

I.M.F. Surveys of African Economics Vol. II, p.80

19.

teristics that have led to discontent. By leaving industrialization
to market forces alone, it was natural that a manufacturing industry
would develop in the most conducive area. It happened that Kenya was
the most developed territory of the three. Nairobi, now the capital
of Kenya, was the colonial administrative centre for the entire region.
Adequate infrastructure, a developed financial market and close proximity
to monetized local markets made it the ideal location for industrialization.
This meant that Nairobi became the growing point of the area. Industries
would locate in Kenya and export their products to Uganda and Tanganyika.
Similarly most imports to the area passed through the import houses of
Kenya. Transfer of imported goods from Kenya to Uganda and Tanganyika
rose from 18% in 1956 to 23% in 1963.[2] Inter-territorial trade has in-
creased six-fold from 7 million pounds in 1949 to 44 million in 1966. [3]
In terms of value on inter-territorial trade Kenya has been the major source
of supply as well as the principal market within the region. (From table
2.1). In 1966 Kenya furnished 29 million pounds or 88% of Tanganyika and
Uganda's total inter-territorial imports. Also in 1966 Kenya produced 85%
of manufactured goods and chemicals imported by Tanzania and Uganda from E.
Africa, 95% of raw material and mineral fuels, and 91% of foodstuffs,
beverages and tobacco. On the other hand, Kenya, in 1966, provided a
market for 74% of Tanganyika and Uganda's 9 million pound combined inter-
territorial export of manufactures and chemicals, 66% has been exported to
Kenya of 2 million raw materials and mineral fuels 89% exported to Kenya
and of 4 million pounds worth of foodstuffs, beverages and tobacco, 82% go
to Kenya.

A further indication of the inequitable distribution of regional
production is the composition of inter-territorial exports. Among Kenya's
inter-territorial exports in 1966, the leading commodities were petroleum

products, clothing and footwear, pulp and paper products, soap and

cleaning preparations, wheat, synthetic fabrics, cement, margarine and

shortening, milk and cream, perfume and cosmetics, butter and ghee and

cigarettes. Uganda's leading exports were cotton piece goods, animal

and vegetable oils and fats, raw tobacco, iron and steel bars, margarine

and shortening. Those of Tanzania were animal and vegetable oils and

fats, aluminum products, blankets, raw tobacco, clothing and footwear.

This composition of inter-territorial exports further affirms our

suspicion that Kenya possesses a large share of the manufacturing sector

of the region. Because of this situation Kenya has come to rely more

heavily on inter-territorial trade than either Tanzania or Uganda. From

1959-1966 Kenya's total inter-territorial exports rose from 37% of

external domestic exports to 50%.

The cumulative effect of: (1) the growing imbalance of inter-

country trade, (2) the resulting locational distribution of industrial-

ization, and (3) the growing discontent of Tanzania and Uganda, led to a

serious evaluation of the distribution of costs and benefits of integration.

There are three basic questions involved in such an analysis:

1. Would some countries have gained from not belonging to the

EACM?

2. What gains and losses would be involved for the members of

the union if it were to be broken up?

3. What would be the long run gains and losses of each

member of EACM if the common market broke up?

It would be an impossible task to answer the first question since it

requires an assessment of what development would have been for individual

countries without EACM. Even if economic analysis could give us this

historical perspective it would be no guide for the future to countries

already participating in the common market. The third question also
requires some type of historical perspective. Although it is an im-
portant question for future policy decisions it involves taking into
consideration problems that are passed over in a comparative static
analysis. Therefore most of the effort has been spent on a quantitative
analysis of the distribution of costs and benefits of the EACM with ref-
erence to the second question. The first attempt was made by A. J. Brown
in 1961,[4] followed by D. P. Ghai in 1964.[5] A third attempt was made in
1965 by W. T. Newlyn[6] and in 1966 important comments were made on the
works of Ghai and Newlyn by A. Hazelwood.[7]

Presentation of these theories in Appendix IB show that even
though it can be can be shown under certain assumptions that Tanzania and
Uganda might gain from a breakup of EACM, these theories are criticised or
invalidated by the very assumptions on which they are based. But one thing
commonly understood from all these analyses is that Kenya has certainly
been the net gainer from the EACM and that steps must be taken to rectify
the situation.

Such was the purpose of the Kampala experiment. In 1965 the three
governments agreed to measures that would try and equalize the situation
(see Appendix IC). But this arrangement was soon to break down for several
reasons.

Kenya had mildly assented to the new measures on the assumption that
the EACM would continue to operate on a common currency. When Tanzania
announced plans to open their own central banks, Kenya withdrew its support
from the agreement and retaliated by withdrawing its support of the planned
Rover assembly plant for Tanzania and the industrial reallocation schemes.
Tanzania retaliated by imposing restrictions on imports from Kenya.

It became apparent within a few months that the agreement would not be honoured. . With this realization came the need for re-examination of the whole common market set-up. Therefore, in 1965, a three country Ministerial Commission under the chairmanship of K. Phi ip of Denmark was established to examine the arrangements of the EACM and make recommendations on a number of aspects of its operations.

The results of the Philip's Commission was the drafting and acceptance of the East African Treaty for Economic Co-operation.

In June of 1967 the three heads of state signed the Treaty which, for the first time, legalized the existence of the common market. The goals were broad and aimed at preserving the institutions of the common market which had contributed to the development of the region and at the same time tried to resolve some of the problems which had beset the community.

The administrative structure of the EACM remained relatively unchanged. The only change was that the three territorial members of the Authority were to hold ministerial posts in their local governments and be part of the cabinet with no other portfolio.

Secondly, of minor economic importance was the decentralization of the headquarters of the common service organizations. Railways remain in Nairobi, harbours and the headquarters of the community itself go to Tanzania, and post and telegraph and the new East African Development Banks (EADB) will be set up in Uganda. Although there may be some loss of administrative economies the decentralization was politically expedient.

Now turning to the main problem facing the EACM we will examine those changes which try to tackle the problem of unequal distribution of costs and benefits discussed earlier.

Two new concepts were introduced into the Treaty to remedy the

situation.   First the setting up of the East African Development Bank
and, second, the introduction of a transfer tax system on inter-territ-
orial trade.

The Bank was set up with the express purpose of aiding the lesser
developed 'have not' countries of the EACM.   All three countries
contributed equally to the 56 million dollar capital stock, but both
Uganda and Tanzania have drawing rights of 38 3/4% while Kenya can draw
only 22½% of the total investments, guarantees and loans.   Priorities
are given to industrial development projects in the lesser industrialized
countries and the projects financed by the EADB will be designed to make
the countries economies more complementary.

The transfer tax system in essence is a limited inter-country
trade restriction.   It is designed to help the deficit countries develop
local manufacturing without having to compete with Kenyan goods in the
initial period of production.   The tax applies to locally produced articles
of a deficit country in inter-territorial manufactured goods trade, and can
be applied up to a period of eight years.   The privilege would be forfeited
once the country reduces its deficit by 80%.   The tariff rate itself
cannot exceed 50% of the ad velorem third country rate on similar imports,
and local production must have a value of $100,000. or supply 15% of the
domestic market.

Although the Treaty tried to improve the distribution of benefits
and costs of integration it resorted to methods of second best solution.

The transfer tax in particular is of a short run, stop gap nature.
It will be argued later in the thesis that the only long-run solution to
this problem is the enactment of a regional industrial development plan.
This is what Uganda and Tanzania have been asking for and it is the premise
of this thesis that under the proposed integration this fact is more likely

to become a reality.

Thus the history of the area shows a good record of economic co-operation. With the independence of the three countries and the growth of national interests, the road to continued integration is not so easy. Problems have arisen and solutions proposed but the future of the EACM will be determined in the next decade and it is the contention of the author that Zambian entry into the common market will increase the probability of success. I hope the following four chapters will convince the reader to be of this same opinion.

CHAPTER III

Zambia as part of the EACM.

Having investigated the early history of the East African Common
Market and the problems which faced it, we now turn to the main premise
of our thesis, 'Zambian Entry into the EACM'.   In order to logically
present our arguments we must first consider how Zambia fits into the
existing economic structure.

Because this question is of paramount importance, this chapter
will be devoted to an examination of different aspects of the enquiry,
such as: (1) similarities and differences in the basic structures and
development of the four economies, (2) export orientation of all four
countries and implications of our proposed integration, and finally, (3)
the likely benefits accruing from our proposed integration.

Comparative examination

In order to have a look at the setting of the four countries, I have
drawn up table 3AI, which briefly summarizes some of the basic characteristics
under the headings of "geography", "demography", "climate", and "economy".
Although this chart does not give us enough information for a detailed
analysis, a few basic observations can be made.   First, the obvious differ-
ence in sizes of domestic population: the population of Zambia is only a
little more than half that of Uganda.   Second, we observe that all four
countries are export oriented: that is to say that they rely heavily upon
exports as a major source of foreign exchange, and a large portion of their
G.D.P. is devoted to export production.   Thus, even a very cursory look at
the economic setting reveals two very important characteristics.

To take our analysis one step further, we will examine the make-up
of G.D.P. in the countries involved.   Table 3.2 shows the gross domestic

Setting	Geography	Climate	Demography	Economy
Kenya	225,000 sq. mi., 280 miles N & S of equator. 560 miles wide. Rift valley in West. two main rivers - Tunu and Galana.	Tropical vegitation on Coast. Half country arid lowland. Natural vegitation of poor grass and barren desert. Rest of K. highland, 2-9,000'. Mt. Kenya 17,000' with 100" rianfall, decreasing to 10" in the N. 55° average at 9,000' and 80° F at the coast. Grassland at middle altitude. SW corner of country best farmland in Africa.	Pop. 9.9 mill. in 1967. 97% African, 2% Indian. 42,000 Europeans, 39,000 Arabs, 4,000 others. Main African groups Kikuyus, Luo, Luhya, Language english or swahili. Nairobi is 270,000 (capital) Mombassa, 180,000 (port). 6-7% urban population.	Agricultural base. 75% in agric. Gives 35% of GDP and 50% of Foreign earnings. Manu. of food stuffs and raw materials.
Uganda	91,134 sq. mi., 400 mi. N-S, 350 E-W, Mt. Elgon 14,178'. 1/7 swamp and lake. L. Victoria 3rd in world. On plateau 4-6,000' lifting to the N.	65-85° F. 40-50" rain anually Rainy season Apr/May & Sept/Oct. Good conditions for agriculture and livestock.	Pop. 7.7 mill.(1966). 2.6% increase anually. 98% African. 80,000 Asian. 11,000 Europeans. Kampala, 80,000 (capital)	Agricultural base. Cotton & Coffee. 90% of pop. in agric., 60% of GDP, 80% of export earnings.
Tanzania	363,000 sq. mi. 6% water covered. Zanzibar 640 sq. mi. Low coastal strip rising to 4,000'. Mt. Kilimanjaro - 19,565! Mt. Meru 14,979. Rufiji & Ruvuma main rivers. Lake Tanganyika in west at elevation 2,534'.	79° F. mean temp. inadequate and poorly distributed rainfall. Tropical storms. 50" in low areas, so perrenial crops. 30" or less in Central Plain. 10% is cultivated.	Pop. 11.3 mill. (1967) less then 1% non-African. Africans mainly Bantu. Lang. is Swahili. 1/4 are Muslim. Dar es Salaam 272,500.(capital) Moshi - agric. centre.	Agric. base. cotton, coffee, sisal, Diamonds, 80% of pop. in agric., 80% of foreign ex., 50% of GDP, and 50% of agric. output is from subsistence farmers.

Zambia   290,587 sq. mi. high plateau, 3,500-4,500 ', rising to 7,000 '. savannah shrub.

three distinct seasons. cool, dry season, May-Aug. 50-80°. Hot, dry sept-nov. Hot, rainy Dec-Apr. 34" annual rainfall. 50" in N., 20-30" in S.

4,065,00 (1968)
3% annual growth rate.
82,700 non-Africans.
Pop. concentration in N. cities of Kitwe, Ndola, Mufulira, Luanshya.
Lusaka, 138,000 (capital)
19% of pop. is urban.
73 different tribes.

mining industry base. 50% of GDP. export earnings are 90-95% derived from copper. World's 3rd largest copper producer. copper is source of 2/3 of government revenues.

Gross Domestic Product (at factor cost). (3.2)

Currency: $ U.S.	Zambia [1]			Tanzania [2]			Kenya [3]			Uganda [4]		
thous	1964	1966		1964	1966		1964	1966		1964	1966	
Agriculture	74.62	84.70		392.70	406.69		331.65	363.87		169.39	187.60	
Forestry & Fisheries							13.59	16.25		6.72	7.56	
Mining & Quarrying	309.12	336.14		16.94	19.74		4.06	4.62		14.84	18.20	
Manufacturing	39.48	84.28		27.16	39.62		94.82	118.07		24.08	49.28	
Building and Construction	28.00	75.06		21.56	24.22		35.29	46.78		9.80	12.89	
Electricity and Water	7.00	10.36		4.90	6.72		19.47	21.85		8.12	10.64	
Trans. & Communication		45.36		27.58	34.57		70.45	89.22		17.36	20.44	
Wholesale and Retail trade	64.12	109.62		84.00	107.24		96.36	135.90		54.88	67.76	
Banking, insurance and real estate	15.68	37.38					33.47	42.57				
Rent				31.08	37.38		52.94	58.68		10.92	13.44	
Government Services	29.68	49.98					115.27	131.09		25.06	27.16	
Misc. Services	54.88	68.88		71.25	86.10		48.89	58.26		39.20	55.44	
TOTAL G.D.P. at Factor Cost	669.45	902.30		677.16	762.14		915.86	1064.85		546.27	652.95	

Sources: 1   Economic Report 1968 Republic of Zambia   3   Surveys of African Economies, Vol.2, p.214
            2   Surveys of African Economies, Vol. 2, p.214   4   "   "   "   "   p.296

product at factor cost for they years 1964 and 1966. We can see that, even with Zambia included, Kenya still leads with the highest G.D.P. in both years. In 1964 Zambia ranked third behind Tanzania but in 1966, because of high copper prices,[1] her G.D.P. rose to rank second only to Kenya.

By scanning the figures in table 3.2, another basic difference between Zambia and the other countries becomes apparent. For the EACM countries the leading sector of the economy is agriculture while in the Zambian economy the major sector is mining and quarrying. In both cases these sectors are the leading export sectors.

Although the agricultural sectors of the various countries differ in size they share a number of common features in their historical development. Appendix II presented a detailed analysis of the economic development of the agricultural sectors of Uganda, Kenya and Tanzania. I propose here only to consider a few of the highlights that are relevant to the question of Zambian entry into the Common Market.

As mentioned earlier, for all three East African countries the agricultural sector has been the leading sector. In the case of Zambia the agricultural sector has been developed in response to local demand. With the development of the copper belt in the 1920's there was created a local demand for basic food stuffs. The mining companies paid part of their wages in kind and it was cheaper to encourage local production rather than importing. With the mines coming into full production in 1930, domestic consumption of maize rose from 106,000 bags in 1928 to 300,000 bags in 1930. Cattle purchased by the mines likewise increased from 5,000 to 18,000 head between 1926 and 1930.[2]

	Tanzania			Zambia		
	Number of Establishments	Employment	Output Thous. Sh.	Number of Establishments	Employment	Output Thous. Sh.
Food Manufacturing	125	9,223	345,883	66	4,122	13,524
Beverages	11	64	49,276	29	2,194	11,226
Tobacco manufacturing	3	1,097	19,307			
Textiles	158	21,911	533,095	70	3,154	4,665
Footwear & wearing apparel	10	1,083	23,164			
Manuf. of wood except furniture	73	3,492	37,732			
Furniture & fixtures	17	440	7,664			
Paper products, printing & publ.	22	813	20,027	25	1,218	2,056
Leather products	8	242	32,808			
Rubber products	5	104	3,229			
Chemical & chemical products	18	709	59,677			
Non-metallic mineral products	9	428	22,754			
Assembly and repair of transportation equip.				120	3,476	3,760
Other manufacturing				213	12,042	20,342
TOTAL	459	40,065	1,242,052	523	26,203	55,573

Figure 3.3

31.

Until 1924, Northern Rhodesia was administered by the British South African Company. It was their purpose to maximize their shareholders profits. Mining was the most profitable activity and agricultural development was only encouraged to give the mine employees a cheap source of food supply. Rather than rely on local African production they encouraged European settlers to immigrate to choice lands that would be allocated to them. Thus by 1958 there were about 1,200 European farmers employing 45,000 Africans and farming more than 5,000,000 acres. [3] Most of this land was along the railroad line and therefore had easy access to the copper belt markets. In 1960 the European farmers marketed over 77% of total marketed agricultural production.

Native African farmers lived in Native reserves and Native tract land which made up 94% of the total area of Zambia but only 7% of which was classified "good" for agricultural crops. At present the government is undertaking a program to improve the lot of the African farmer by introducing new farming techniques, fertilizers and modern soil management. In this respect, therefore, there is a marked similarity between Zambian and Kenyan development.

Turning now to the manufacturing sector we can see a great deal of similarity between the four regions. All have relatively small industrial sectors, with Kenya leading with the highest level of manufacturing output.

From table 3.3 we see that Zambia has almost the same number of industrial establishments as Tanzania, yet employs only half the number of workers. In spite of this Zambia produced only 20% less output (by value) than Tanzania. The reason for the small manufacturing sector is twofold. First, most of the economic activity has been placed upon the copper industry

Table 3.4

Agricultural Exports as Percentage of Total Trade
(Outside EACM)

		1961	1962	1963	1964	1965	1966
Kenya:	Agricultural Exports	27.4	30.4	34.4	35.4	32.1	41.1
(in millions	Total Exports	35.3	37.9	43.8	47.1	47.2	58.1
of pounds)	Agriculture as % of Total	77%	80.2%	78.5%	75.1%	60%	70.7%
Tanzania:	Agricultural Exports	36.8	39.4	50.8	53.8	46.3	58.8
(in millions	Total Exports	48.7	51.2	63.6	70.1	62.8	79.1
of pounds)	Agriculture as % of Total	75.6%	76.9%	80%	76.7%	73.7%	74.3%
Uganda:	Agricultural Exports	35.0	32.5	46.1	56.6	52.6	1 57.4
(in millions	Total Exports	39.1	37.5	51.5	64.4	62.7	+ 65.9
of pounds)	Agriculture as % of Total	89.5%	86.6%	89.5%	87.8%	83.8%	87.1%

and the inputs demanded for such a mining operation require capital

intensive production and enjoy large economies of scale. Thus, local

production is generally not possible. Local manufacturing production

is, therefore, limited to products for local final consumption. This

brings us to the second limiting factor: the size of the local market.

With such a limited market, local production must be confined to small

scale production of local consumer goods and simple food processing in-

dustries. This again is reflected in the breakdown of the manufacturing

sector shown in table 3.3. Thus in the spectrum of East African indus-

trial development, Zambia can be listed as a 'have not' country. As will

be discussed later, expansion of market size represents one of the obvious

benefits from integration.

Export Orientation of Economies

As mentioned earlier, all four countries rely heavily upon primary

goods exports as an important source of foreign exchange. Considering

East African trade with countries outside the EACM, table 3.4 indicates

the relevant situation. Because of this heavy reliance on agricultural

exports all three countries are extremely vulnerable to such exogenous

variables as climactic conditions, disease and world price fluctuations.

Unfortunately the EACM countries have at one time or another in

the last five years been plagued with one or other of these plights. The

most devastating example of this phenomenon in recent history affected the

sisal industry in Tanzania. Sisal exports have traditionally been the

main export of Tanzania and subsequently she has been producing 2/5 of the

world market supply. This industry has been forced to near bankruptcy for

two reasons. The first is the decline in the world price of sisal. From

the 1964 price of 2,220 Tanzania shillings (T.Sh.) per ton to an all time

low of 1,290 T.Sh. per ton in 1967. [4] This has meant a fall in export

revenues from a 1963 level of 22.7 million pounds to 10 million pounds in 1967,[5] and likewise export tax revenue fell from 1.5 million pounds in 1964-65 to .61 million in 1965-66.[6] This fall in price was precipitated largely by the increased use of synthetics and increased competition from more modern plantations in Brazil.

The second factor precipitating the near collapse of the industry is the inherent character of sisal production itself. The production of sisal requires a very large initial capital investment in the form of curing houses and processing plants. Initial capital expenditures were estimated in 1956 to be at least £200 to produce one ton of fibre annually on approximately 2.6 acres of land.[7] Combined with this large investment is a high wage expenditure that was estimated in 1956 to consist of 38% of the total cost. With the subsequent increases in African wages in the past 10 years the wage share of costs will have increased greatly.

A further complicating factor is that sisal production must be planned well in advance since the growth cycle is about 10 years. This inelasticity of supply explains why in 1967 even with low prices and high labour costs, sisal production did not decrease by more than 4% from the 1963 production level of 220,000 tons.

Sisal is not the only crop which has been adversely affected. The coffee crops have been hit by disease as well as having to face oscillating world prices. Kenyan coffee production fell 11% in 1965 as a result of berry disease. As well coffee prices fell from an all time high in 1960 of 7,940 E.A.Sh. per ton to 5,660 Sh. per ton in 1963 and back up to 6,900 in 1966.[8]

We see that the East African countries are vulnerable to a number of exogenous threats to the main source of their foreign exchange. A well

known limiting constraint to development is the availability of
foreign exchange and when this source of supply is in a precarious
position then the whole process of development is endangered.

How will Zambian entry into the Common Market lessen the severity
of this problem?   Zambia too, depends upon the export of one particular
primary good, copper.   Zambia is the third largest world copper producer.
Although this export also is subject to world price fluctuations, it has
a more stable resource base.   With Zambia included as a member of the
EACM it is in effect a process which widens the exportable resource base.
True, each country will continue to rely on their own foreign exchange
source but in time of crisis each side can call on the others for assis-
tance, directly or indirectly, through the East African Development Banks.
Thus, in time of crop failure, Zambia can be called upon for assistance,
while in a time of sagging copper prices, Zambia may turn for assistance
to one of her two neighbours.

A more important result of the countries' export oriented nature is
their mutual desire to lessen this dependency by developing more effective
manufacturing sectors.   It is to this subject we will now address our-
selves.

Benefits from Integration

When integration is discussed as a method of economic development,
certain traditional arguments invariably appear.   Such considerations as
increased economies of scale, increased competitive efficiency, improved
allocation of resources and strengthened bargaining power viz-a-viz third
parties, are put forth as arguments for integration.   In the East African
situation also they can be argued to be relevant considerations, operating
to improve the engine of growth.   But we can take our argument further,

and show that certain peculiarities within the East African setting
make economic integration an even more attractive proposition. First,
let us deal with the traditional arguments.

As mentioned earlier in this chapter, Zambia is a country of only
4 million people. Out of the entire population, only 336,828 or 8.5%
are in the wage earning labour force.[9] Seventy-five percent of the
population are small scale subsistence farmers.[10] For this reason one
of the greatest obstacles to the development of a manufacturing sector is
the limited size of the domestic market. Unfortunately there is a limited
domestic linkage effect associated with copper, as the "leading sector" of
the economy. Once the ore has been smelted and electrically refined,
there is very little additional value added that can be contributed since
most importing countries possess their own processing industries which
they also protect. Because smelting and refining is a highly technical
operation, the domestic backward linkages from the earlier stages are also very
limited. The only significant, noticeable effect is the establishment
of small scale engineering firms to service the equipment of the mining
companies.[11]

Manufacturing industry, therefore, has been limited to small scale
production of food processing, beverages, textiles and printed materials
which in total makes up 9% of the total G.D.P. or in absolute terms
63,031,000 Ks.[12] Because local manufacturing developed as a response to
local demand, industries which had large economies of scale could not be
locally undertaken and therefore were imported.[13] It is true that not
all imported goods could be produced within the extended EACM, but by
Zambia entering the union the market for her local production would increase
from the present market of 4 million to a potential market of 33 million.
Existing Zambian industry may have to compete with EACM products, thus

Table 3.5

K £'000	[1] K £'ooo			[2] U £'000			[3] T £'000			K'000		
Source:	Kenya			Uganda			Tanzania			Zambia		
	1966	1967	1968	1966	1967	1968	1966	1967	1968	1966	1967	1968
Imports												
U.K.	37752	34983	36110	11103	15679	15498	16850	20600	19200	54435	62860	76231
% of tot.	33.61	32.84	31.46	33.84	38.36	36.06	31.55	30.32	28.56	22.1	17.2	23.4
E.E.C.	8056	10560	9112	5970	7052	8395	12850	14600	17200	20142	37485	41240
% of total	7.17	9.91	7.94	18.19	17.25	19.54	24.06	21.49	25.59	8.18	12.2	12.8
U.S.A.	11275	7764	7922	1372	1937	1650	2025	4800	6850	27151	32899	33349
% of total	10.04	7.29	6.9	4.18	4.74	3.84	3.80	7.06	10.19	11.03	10.7	10.2
TOT.IMP.	112304	106534	114764	32807	40870	42947	53400	67950	67225	246116	306350	325184
Exports												
U.K.	13511	14781	15879	8006	10697	12271	19100	24300	23605	160171	128336	160337
% of total	21.80	24.92	25.23	12.43	17.05	18.61	29.09	29.14	28.7	32.4	27.3	29.3
E.E.C.	14524	9871	11797	11416	12325	8288	12050	11200	12500	167522	125079	174185
% of total	23.43	16.64	18.74	17.72	19.65	12.56	18.35	13.43	15.2	33.9	26.6	31.9
U.S.A.	5384	3828	4202	18239	14092	17039	5850	8450	5850	179	23923	10805
% of total	8.69	6.45	6.67	28.3	22.47	25.84	8.91	10.13	7.11	--	5.9	19.8
TOTAL EXP. outside EACM	61989	59308	62935	64430	62714	65936	65650	83400	82250	593458	470009	544415

Sources: 1 Economic Report 1969, Kenya. p. 40,45

2 Uganda Statistical Abstract, 1967. p. 20, 24

3 Background to the Budget, 1968, 69. p.23

38.

forcing local producers to be more efficient, but since all four countries have relatively small manufacturing sectors, much potential still lies in the future for the establishment of new industries.   The degree to which Zambia is able to capture regionally based industry will determine to what extent she will enjoy the benefits of increased economies of scale.   We saw in the last chapter how the sharing of such benefits has been a problem in the past and we shall carry this discussion further.

By agreeing on some kind of regional plan, advantage could be taken of location and specialization.   Although some consumer goods might be economically produced for local markets, intermediate goods such as production machinery, chemical products, agricultural equipment require a larger market base.   For this reason the argument has been strongly upheld by the Economic Commission for Africa since the industrial product recommendations of the E.C.A. have been made on a regional basis.[14]

The last of the traditional arguments deals with the effect of integration on bargaining power.   Table 3.5 shows that all four countries share the same major trading partners, most notably the U.K.   This is not surprising since both the EACM and Zambia are part of the British Commonwealth trade preference agreement.   Entrance of Zambia into EACM might increase the bargaining power of the common market with Britain and therefore secure better considerations for their export interests.

Additional features that make East Africa particularly amenable to further integration include arguments both of a political and an economic nature.   We shall deal briefly with political aspects first.

Zambia (known as Northern Rhodesia in preindependence times) was economically tied to Southern Rhodesia and South Africa.   Her infrastructure was part of a north-south network and all exports were sent via

the southern ports.   In 1964, 34% of Zambian imports came from Southern

Rhodesia and 20% from South Africa.

     With Rhodesia's unilateral declaration of independence (UDI) in

1965, Zambia was left in a precarious economic and political position.

The Zambian railroad which had previously been operated by the Rhodesians

was put into the hands of Zambian officials.   But these rail lines were

almost completely useless since they led only to the southern part of

Rhodesia.   When S. Rhodesia declared independence, Zambia resolved to

terminate trade with the south as soon as possible and, therefore, Zambia

was left a completely isolated and land-locked nation.   Not only were her

communications cut with the outside world but also her source of raw

materials was cut off. . Zambia relied heavily upon Southern Rhodesia for

coal and fuel oil and with UDI had to look for alternate sources of

supply.

     Local coal fields were developed and the two Zambian coal fields,

Nkandabwe and Maamba, increased their output.   By 1968 Zambia was self-

sufficient in coal production.

     In search of a new transportation route, Zambia looked to her eastern

neighbour, Tanzania.   To relieve the immediate transportation problem, a

road was constructed from Zambia to Dar es Salaam.   This road represented

Zambia's only new link with the outside world.   In order to relieve the

fuel problem, a pipeline was also built from Dar es Salaam, 1,058 miles into

Zambia.   On September 2, 1968, the line was opened by Presidents Nyerere

and Kaunda.[15]   Prior to the opening of the pipe line the bulk of fuel was

carried by tank trucks over the above mentioned road.   This method was very

costly and fuel was rationed in Zambia for $2\frac{1}{2}$ years.   With the completion

of the pipeline the rationing was discontinued and more trucks were freed

to carry consumer goods inland from Dar es Salaam. Needless to say, trucking is an expensive means of transport, especially for bulky materials, and for this reason a rail link is being constructed from Dar es Salaam to Zambia. The construction of the "Tan Zan" railroad is being undertaken by a Chinese Technical Aid program. Survey work has been completed and 1975 is the date set for completion.

The train of events of the past few years thus indicates why Zambia has an urgent desire to strengthen her ties with East Africa. Up until now there have been physical ties in the form mentioned above but there is good reason to believe that a genuine desire now exists to strengthen these bonds into stronger economic and political associations.

A strong political argument can be made here to support our general thesis. Without going into a detailed analysis of the politics of the entire continent it is easy to see the political insecurity involved in being surrounded by countries such as Southern Rhodesia, Portugese East Africa, and Angola. All three are very much part of a colonial type political structure and follow similar domestic policies, that are peculiar to Southern Africa. Zambia has chosen a political structure that is on the other side of the political spectrum. Zambian domestic policies are more in line with those of Tanzania. Both countries are following the path of "African Socialism". Basic changes were introduced in the economy by the "Malungushi Declaration". President Kaundi announced in April 1968 the government take-over of 25 private firms, tighter control on the outflow of profits, restrictions on credit extension to non-Zambians and the limitation of retail licencing to Zambians alone. This declaration has a familiar ring to it. Just a year earlier on February 1, 1967, President Nyerere of Tanzania made the "Adrusha Declaration" which announced

the nationalization of the banks and most of the large industry. Thus,
it makes sense that Zambia would desire a closer association with East
Africa simply to strengthen her political stand in an otherwise hostile
political environment.

Turning now to economic considerations of the proposed integration,
we need not look far for further supporting arguments. Zambia, as most
developing countries, is faced with a skilled manpower shortage. It is
true that within the copperbelt there are a large number of highly trained
expatriates, but I am speaking more of the general level of education amongst
the local inhabitants.

This problem was further complicated when Rhodesia declared U.D.I.
Most of the administrative headquarters for transportation and communic-
ations were in the south. As part of government policy to sever relations
with Southern Rhodesia, the administration of these services were decentral-
ized and local people were needed to man these new posts. [16]

One of the benefits offered to Zambia by the EACM is the sophisticated
administrative network which exists as part of the common market. The ser-
vices of the "East African Common Service Organization" (EACSO) could easily
be extended to Zambia and thus relieve some of her administrative pressures.
This would free a certain proportion of skilled manpower that could be
beneficially used in other sectors of the economy.

A final benefit that would be enjoyed by Zambia as part of the EACM
would be the increased accessability to the markets of the European Economic
community.

The EACM has been an associate member of the EEC since the 26th July,
1968. Shortly after the renewal of the Yaounde Convention negotiations
begun between the EEC and EACM to extend the association to 1975. The
Yaounde Convention is an extension of the Treaty of Rome which was devised

to give preferential treatment to former colonies of the six members
of the EEC.

.The eighteen associate African states would receive duty-free
entry of their exports into the six community countries. In return,
duties would have to be dropped on EEC imports unless necessary as a
revenue source, or as protection of local infant industry. The associate
members would receive development aid from the European Development Bank
in return for EEC's "right of establishment whereby nationals and companies
of the Six are entitled to invest in and to establish commercial enterprises
in the Eighteen on the same basis as nationals and companies of the former
colonial power and on a basis as favourable as that on which any third
country nationals may invest". This "right of establishment"[17] has over-
tones of what Nkrumah so aptly calls "Neo-colonialism". For this reason
both Nigeria and the E. A. countries undertook separate negotiations with
the EEC which concentrated mostly on trade preference and bypassed those
parts which had political inferences. Under the new agreement signed in
Brussels on July 9, 1969, it stated: "East African countries will remove
all customs duties on imports from EEC except such as are necessary to meet
the development needs or intended to contribute to their budgets".[18] This
means the EEC will receive tariff concessions on some 60 items at rates ranging
from 2% to 9%. Based on the 1968 statistics this will cover only 7% of
E. Africa's total imports and 11% of its imports from EEC. [19]

Association with the EEC will not be an obstacle to Zambian entry as
it is written into the agreement "that there is freedom to establish customs
unions, free trade areas and economic co-operation agreements among them-
selves."[20]

The agreement covers preferential treatment of E. Africa's agricultural

products but with the inclusion of Zambia, amendments can be made to
the treaty for the inclusion of those goods relevant to Zambia. A few
agricultural products such as tobacco, maize, and timber, are exported
by Zambia. Preferential treatment of those products might be a great
aid in stimulating the agricultural sector and thus advancing the
government-desired policy of diversification.

Up until now, we have been mentioning the benefits that will accrue
to Zambia from our proposed integration. For a moment let us look at it
from the E.A. point of view. There is the obvious benefit to the EACM
that the market size for their products would also increase. Since the
EACM enjoys a more diversified manufacturing sector it will enjoy most of
the initial benefit from integration. In the next chapter this subject
will be dealt with in detail and it will be shown that a substantial
increase in G.D.P. might result from the initial integration.

But what of the more subtle implication of proposed integration.
How will Zambian entry affect the political balance of power? Earlier
in the chapter we established that Zambia was a 'have not' nation with
respect to industrial development in the region. Up until now Uganda
and Tanzania have been unable to extract from Kenya an agreement for
planned regional allocation of industry. As will be argued later in
the thesis, with Zambia's voice added to the cry of the 'have not' members
perhaps the balance will be tilted in their favour.

The similar ideologies held by Zambia and Tanzania, also confer
advantages on Tanzania which has been the only country supporting African
socialism within the EACM. New support from within an extended common
market would be a welcome relief for her. We cannot overlook such polit-
ical and ideological problems of the region since often these aspects may
override economic considerations in making decisions that determine the
future success of the region.

In the next chapter we will consider the immediate benefits that will be enjoyed by Tanzania and Kenya from our proposed integration.

CHAPTER IV

Impact effect of Zambian entry into the
Common Market.

In Chapter I we discussed the approach of the classical custom
union theories and concluded that the direction of their investigation
gave them limited application to the developing world.   Our major
criticism was that the static assumptions laid down by these theories could
not be accepted as a valid analysis of most developing countries.   Further-
more, we recall that most of the theorists were concerned with the conditions
leading to trade creation and trade diversion and with the welfare implic-
ations of such situations.

The purpose of the present chapter is to examine existing trade flow
and the effect integration will have on the future pattern.   But, unlike
the classical theoriest we will direct our attention not the question of
trade diversion vs. creation, but the actual increases in volume of trade
that are likely to occur between EACM and Zamiba.   The 'new trade' in some
cases will be trade diverting from a low cost producer to higher cost
member country producer.   This would most certainly be the case for Zambian
trade that was previously conducted with Southern Rhodesia, since terminated
by the government of Zambia for political reasons.   Before the proposed in-
tegration, imports from EACM, South African and Southern Rhodesia were subject
to similar tariff treatment and competed freely within the Zambian domestic
market.   Therefore, we can assume that in the pre-integration situation,
Zambia was purchasing its imports from the lowest cost supplier.   Therefore,
the short run cost of integration would be the higher price of imports as well
as the loss of tariff revenue.   We will discuss this in more detail later in
the thesis.

The format of the remainder of this chapter will be therefore: (1) to examine the conceptual and theoretical problems encompassed by our study, (2) to state the assumptions we must make, (3) to postulate the conditions under which integration will proceed, (4) to offer a general statement of the model and data to be used, (5) to apply the model to the individual countries involved, and finally, (6) to calculate the impact effect upon both EACM and Zambia.

Conceptual and Theoretical Problems

In order to examine the change in volume of trade likely to result from changes in the tariff rate, we must determine some of the basic characteristics of the demand for imports. More specifically, the price elasticity of demand for different imports must be made explicit.

It is fair to assume that the price elasticity of demand for imported food stuffs is low compared to the elasticity of demand for non-essential import goods. That is, an increase in the price of imported foods would not markedly affect the quantity demanded in the short run. In the long run there would be increased pressure to develop greater agricultural self-sufficiency. Since it is the aim of the Zambian government to do just that, this increased incentive might be a welcome result of our proposed integration.

Turning to consumer-goods imports, the picture is of a different nature. Certainly it is an accepted axiom within interantional trade theory that an increase in the price of imports will tend to induce a higher rate of import substitution. But for our 'proposed integration' the results will differ from this norm. As part of the integration program, Zambia will be allocated certain industries that will then supply the entire East African market. These new industries will include consumer goods which were previously imported by the EACM. Therefore, those consumer goods imported by Zambia at a higher price because of trade diversion will not necessarily

be produced by Zambia as part of an integrated plan. Because of this peculiarity we shall in general assume that the elasticity of demand for imported consumer goods is relatively low. Thus, under these conditions an increase in price of consumer good imports will not generally be followed with a great reduction in volume imported.

The elasticity of demand for imported fuels and raw materials will be low because of the apparent absence of such resources within the country and low elasticities of substitution between such materials and other inputs.

Most capital and intermediate goods will not be affected by the proposed integration. Those goods that are not produced within the EACM will not be covered in the Treaty. As a capital goods industry develops within the region, appropriate protection will likely be provided, but hopefully Zambia will also benefit from this protection for her own regionally based industry.

Therefore, we can assume that the demand for all four types of imports are relatively inelastic within the Zambian market.

A second problem facing us is the quality difference between imported goods. Certainly there is quality variation within each import category but in order to make this theory workable we must make the assumption made by most theorists that imports are composed of homogeneous products.

On the supply side we will assume that elasticity is infinite over the relevant range. That is, increased quantity will not mean higher unit costs. For our particular situation this may not actually be the case. Increased production within the EACM may for example decrease unit costs by taking advantage of increased economies of scale. Although this might be likely, the magnitude cannot be estimated ex-ante and we will therefore assume infinite supply elasticity (i.e. constant costs).

Assumptions

Therefore, we begin our discussion with four basic assumptions:

(1)   Inelastic demand of imports into Zambia from EACM.

(2)   Infinite elasticity of supply of exports from EACM.

(3)   Excess capacity within the industrial sector of the EACM.

(4)   Imports within their categories are homogeneous products.

Conditions of Proposed Integration

In order to examine the impact effect* of integration we must explicitly state the conditions under which integration will be likely to proceed.   They are as follows:

(1)   Zambia will become a full member of the EACM and therefore all trade barriers between the two markets will be eliminated.   We make this assumption for the sake of simplifying the model.   Of course, the path of integration is not likely to be that smooth.   A basic adjustment period will be required for the transition to take place, and certain institutional changes will be required.   (A subsequent chapter will examine the Treaty for East African Co-operation and the question of accession of new members, but for the moment we will assume total member- ship of Zambia within the EACM.)

(2)   Zambia in pre-independence times was known as Northern Rhodesia and was naturally strongly connected with Southern Rhodesia both economically and politically.   All of Zambia's rail lines were previously part of the larger Southern Rhodesian network and the natural flow of trade was north-south.   After the unilateral declaration of in- dependence of Southern Rhodesia in 1965, however, the Zambian government made the political decision to terminate trade with Rhodesia as soon as possible.   For this reason we will assume that Zambia will try to sub-

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* we define 'impact effect' as the increase in GDP, as a result of increased trade caused by integration.

stitute wherever possible EACM goods for those goods previously imported

from Southern Rhodesia.

(3)   On similar grounds Zambia would also like to terminate

its trade with South Africa.   Policy statements have been made recently

to back up this desire.   (See footnote 9 of this chapter).   For this

reason we will make the assumption that Zambia will substitute wherever

possible goods from the EACM, for commodities that were previously im-

ported from South Africa.

Under the three conditions postulated, we will next proceed to

estimate the changes in volume of trade which might be expected from the

proposed integration of Zambia and the members of the EACM.

Sources of Data

Unfortunately the present research suffers the universal ailment

of most development work: lack of sufficient and up to date statistical

data.   The most recent trade statistics available were a 1966 four digit

S.I.T.C. classification of imports and exports for the four countries.[2]

From this source I have transcribed over 1500 observations of different

import and export items and from this am able to derive some interesting

results.

Methodology

The basis of our model involves a comparison of imports and exports

of the EACM and Zambia.   To determine the 'new trade' potential a cross

section examination was necessary to determine which of those goods were

being imported by Zambia from Southern Rhodesia, and from South Africa, which

were also being exported by the EACM countries.   This should give some in-

dication of the direct impact that will be likely to result from integration.

In order to examine the full impact effect of this 'new trade' we

considered not only the absolute increase in exports but also the estimated

linkage affects which could occur within each country.

Fortunately, a model exists for the East African economy that provides us with this information. Paul C. Clark pioneered in model building in this area.[3] Using available data from 1954-1962, Clark constructed a national accounts model consisting of 37 variables, 21 functional equations, 11 accounting identities and 5 autonomous variables. It was not long before criticism appeared in the literature.[4]

Clive S. Gray of the Kenyan Ministry of Economic Planning took issue with Clark over the conceptual problems of development planning. Gray argues that the role of a development economist in East Africa is not to build macro-economic models, he concludes, '...moreover, these relation-ships are subject to great instability due to changing conditions at home and abroad, predictions of which are subject to enormous margins of error'.[5] Rather, he suggested a project-by-project approach to planning.

The portion of the Clark model which we shall use in our calcul-ations, however, has been lauded as a great contribution to development planning in East Africa even by Clark's critics. Gray writes, for example, that 'Clark has made a useful contribution in calculating 'import (and export) multipliers' corresponding to unit increase in agricultural export volume, export prices, import substitution, or manufactured exports and government current expenditure'.[6]

Having arrived at a reasonable estimation of the impact of integ-ration based on the 1966 trade statistics, we have expressed these values as a percentage of the individual countries' 1966 GDP figures.

UGANDA

Uganda is the most remote country in relation to Zambia and is the country in the EACM most unlikely to enjoy increased trade as a result of our proposed integration. In the past, Uganda has carried on very little

trade with Zambia. In 1966, Uganda imported $510,000 (U.S.) from Zambia and exported only $16,000 worth of commodities. The obvious reasons for this phenomenon is the competitive nature of East African exports and the higher transportation costs for Ugandian goods delivered c.i.f. to Zambia. The only existing commodity route lies through Kenya and then doubling back through Tanzania to Zambia. Ugandian exports therefore, cannot usually compete with similar products of other East African countries within the Zambian economy.

Construction of an alternative route would seem at present to be physically impossible. It would involve building a road or rail line around the eastern shore of Lake Victoria through Tanzania to Zambia. Because of the swampy, mountainous regions of the route it would be economically unfeasible. A second alternative would be a ferry service across Lake Victoria to Tanzania and then transport by rail or truck to Zambia. In both cases I am sure that the existing round-about route is still more economic than these two alternatives.

Furthermore, the relevant commodities that fall into the 'potential trade category' are also exported by both Tanzania and Kenya. Therefore, unless Uganda possesses exceptionally large absolute cost advantages in one of these exports, it will not be able to compete in the new export market.

For the above reasons we will make a further qualifying assumption that the 'potential trade' resulting from Zambian entry into the EACM will be realized only by Tanzania and Kenya. The benefits that Uganda receives will not be in the form of increased trade but will be of a more indirect nature. These indirect effects may include increased industrial production within the EACM, but we will reserve comment on them until later in the thesis.

KENYA AND TANZANIA

Let us now turn to the results of our empirical study.

Because of data limitations, our investigation began with an examination of two digit S.I.T.C. statistics of goods being imported from Southern Rhodesia and South Africa by Zambia and at the same time being exported by Kenya and Tanzania. There were 38 different classes of such commodities that were 'potential trade' candidates (see table 6.3). The value of Zambian imports from South Africa was $72,744,000 (U.S.) and from Rhodesia $45,475,000. These values, however, represent the upper limit, for on such a broad commodity classification there are going to be commodities which share the same two digit classification but are completely different goods. For example, Zambia imports commodity 71 which is 'Machinery, non-electric' while Kenya exports commodities 712.2, 715.1, 717.3, 718.2, 718.3, 719.1, 719.8 and 719.9. All of these commodities are in the broad category 71 but they will not exactly correspond to the four digit commodities that are being imported by Zambia. For this reason a closer examination of the four digit breakdown is essential to establish the lower limit estimation of the impact effect.

The results show 74 commodities being imported by Zambia and exported by EACM (see table 6.2). The dollar value of these commodities are lower but perhaps more realistic, $27,627,000 from South Africa, and $27,166,000. from Southern Rhodesia. In order to use the multipliers provided by Clark's model,[7] these values must be broken down further into agricultural exports ($E_{(a)}$ = 0,1,2,4 SITC) and manufactured exports ($E_{(m)}$ = 3,5,6,7,8,9.SITC).

Table 4.1

Estimation of the Lower Limit of the Impact Effect of Zambia joining EACM

Region	$E_{(a)}$	Multiplier	Impact effect= of $E_{(a)}$	$E_{(m)}$	Multiplier	Impact Effect of $E_{(m)}$	Total Impact Effect	GDC (1966)	Impact Effect % of GDP
Kenya & Tanzania combined	14,840	2.23[a]	33,093.2	39,953	1.80[b]	71,915.4	105,008.6	1,827,990	5.74%
Kenya	6,975	2.44	17,019	18,778	1.89	35,490	52,509	1,024,340	5.12%
Tanzania	7,865	1.94	15,258	21,175	1.64	34,727	55,402	762,140	7.33%

Table 4.2

Estimation of the Upper Limit of the Impact Effect of Zambia joining EACM

Region	$E_{(a)}$	Multiplier	Impact effect= of $E_{(a)}$	$E_{(m)}$	Multiplier	Impact Effect of $E_{(m)}$	Total Impact Effect	GDC (1966)	Impact Effect % of GDP
Kenya & Tanzania combined	19,331	2.23	43,108	98,888	1.80	177,998	221,106	1,827,990	12.09%
Kenya	9,086	2.44	22,170	46,477	1.89	87,842	110,012	1,024,340	10.73%
Tanzania	10,245	1.94	19,875	52,411	1.64	85,954	105,829	762,140	13.88%

a Computation of this figure as follows: $\dfrac{7(1.94) + 10(2.44)}{17}$

b Computation of this figure as follows: $\dfrac{7(1.68 + 10(1.89)}{17}$

Table 4.3

Kenya's Share of EACM Exports to Zambia

	Zambian Imports from East Africa[1]	Kenyan Exports to Zambia	Kenyan imports as % of total East Africa in trade
[2] 1964	389	182	46.78%
[1] 1965	1,402	684	48.78%
[1] 1966	3,013	1,833	60.83%
[3] 1967	16,693	5,341 [4]	31.99%
		Sum of Averages ·4 years	47.09%

Currency in thousands dollars U.S.

Source: 1 Foreign Trade Statistics of Africa, Series B, Trade by by Commodity, United Nations, 1966-1967

2 Foreign Trade Statistics of Africa, Series A, 1964

3 Zambian Monthly Digest, September 1969, p. 21

4 Kenyan Economic Report, 1969. p.45

S. Rhodesia & S. Africa Exports to Zambia (Lower Limit)

	E$_{(a)}$	E$_{(m)}$	TOTAL
South Africa	4,939	22,688	27,627
Southern Rhodesia	9,901	17,265	27,166
	14,840	39,953	54,793

The question now arises as to how this trade will be divided between Tanzania and Kenya. We will deal with this question by taking two different approaches. The first approach will be to consider Tanzania and Kenya as one economic unit and study the impact effect on the combined region. Secondly, we will try to divide the 'potential trade' between Tanzania and Kenya based on the historical division of East African trade with Zambia.

Findings

The results of our empirical study have been summarized in table 4.1. Using the first approach of combining Tanzania and Kenya as one economic unit we find that the lower limit impact effect would be a 5.74% increase in the GDP of the region. To arrive at this figure we weighted the individual country's multiplier according to their respective size of GDP. Once the total impact effect was determined it was expressed as a percentage of the combined GDP of the two countries.

In order to consider each country separately we must first determine how the potential trade might be divided between the two of them. By examining the division of Zambian imports from East Africa between Kenya and Tanzania over the past four years it will give us a pretty good indication. Table 4.3 shows Kenyan share of Zambian trade, the residual will be taken to be Tanzania's share. True, there is some trade between Zambia and Uganda but the amount is so insignificant that it can be ignored in our

calculations.

Our results are what we might have suspected: Tanzania stands to gain the most, with a 7.33% increase in GDP, and, secondly, Kenya with 5.12%. The most obvious reason for this is that Tanzania holds a comparative advantage over Kenya because of the difference in transportation costs. The only supply route from East Africa to Zambia is a road from Tanzania to Lusaka. At present, a rail line is under construction from Dar-es-Salaam to Lusaka but even with this new link Kenyan goods will still have to pass through Tanzania before reaching the Zambian market.

As we have mentioned, the calculations that appear in table 4.1 are the lower limits of the estimates of the impact effect.

To give us some indication of the upper boundaries, we turn back to the two digit S.I.T.C. classification. Having expressed earlier the limitations of these figures they still can provide us with quite a reliable upper limit. Using the same method as discussed above we arrive at a new set of figures as shown in table 4.2. Having done both sets of calculation we now have a range within which the impact effect is likely to fall. These percentage changes are once-and-for-all changes that will occur the year the proposed integration takes place. The implications of these findings are very interesting and are of particular importance to the continuance of the EACM.

As we discussed earlier in the thesis there has been discontent on the part of Tanzania as to the sharing of the costs and benefits of the EACM. Tanzania has felt that it was a net loser in the early years of the common market and as a result concessions were made to her outlined in the Treaty for East African Co-operation. But the position of Tanzania within the EACM is still quite tenuous. Under this proposed integration Tanzania stands to gain the most with a total impact effect of

Table 4.4

Sources of Zambian Imports

	Southern Rhodesia	E.E.C.	South Africa
1965	99,507	21,730	57,930
1966	64,904	28,198	81,855
1967	45,129	52,479	101,040
1968	31,593	57,869	120,758
Absolute change from 1965-68	-67,914	+36,139	+62,828

Currency thousands $US

Source: Zambian Monthly Digest, September 1969
          converted from k's to US$ at $1.4 = 1 K

7.33% to 13.88%. Kenya also stands to gain from 5.12% to 10.73%. But what seems to be more important to the continuance of the EACM is that Tanzania's position will be improved within the new expanded Common Market.

Projection of Model

Our calculation of the impact effect has been based on the most recent detailed foreign trade statistics available (1966). Having made these computations what can be said about the impact effect if integration were to take place in 1970? To make any kind of statement we must examine the trade flows of the last few years and try to establish the trend the statistics are taking. In 1966 Zambia still relied heavily upon Southern Rhodesia, but with UDI the government moved to terminate trade with her. The results of this policy decision has been a redirection of trade in the past three years. Zambian imports from Southern Rhodesia have been reduced from the all time high in 1965 of $99,507,800 down to $31,593, 800 in 1968. To which countries has this trade been diverted? A brief look at table 4.4 will give the answer. Over the relevant years imports from Southern Rhodesia have diminished by $67,914,000 but this slack has almost totally been taken up by South Africa. How does this affect our model? Since there has been a shift of this nature it will not affect our calculations to any great extent. But, it seems ironic that South African trade has increased as a result of Rhodesia's UDI.

The conditions which caused the termination of trade with Rhodesia exist equally in South Africa. Obviously this shift in trade has only been an interim solution to the problem. As the lines of communication develop in an east-west direction the Zambian government will move away from South African imports and will substitute other sources of supply

wherever possible. This belief was confirmed on April 1, 1969, when the Zambian government made a policy statement extending its list of imports which were prohibited from entering the country from the south.[9] We have incorporated this policy decision into our model by assuming that Zambia will substitute wherever possible East African goods for commodities that were previously imported from South Africa.

Up until now our discussion has been centred upon the impact effect on the EACM countries and little has been mentioned about the effect on Zambia. But there has been good reason for this. Zambia is an export oriented economy based on one major export – copper. 93% of Zambia's export revenue is derived from the export of unwrought and worked copper. The East African countries have a very limited demand for copper and Zambia has found markets for these exports in the developed countries.[10] The amount that is imported by the EACM is insignificant. The benefits that Zambia will derive from joining the EACM are more of a long run nature.

The opening up of a larger market for Zambian industry will certainly be a stimulus for economic development. The manufacturing sector has been sadly lagging far behind the rest of the economy and it has caused great concern for the government. One of the main obstacles to this sector has been the size of the domestic market.[11] Entry into the common market would increase the market size seven times and thus should be a tremendous impetus for increased economic activity.

Because of the paramount importance of industrialization, both to Zambia and to the EACM, the next chapter will deal directly with this topic.

CHAPTER V

The effect of integration on the time horizon
of industrial development.

In the previous chapter we dealt with the impact effect of integration and found that Tanzania was likely to be the largest gainer. As we pointed out earlier this impact effect was a once-and-for-all increase in the G.D.P. Certainly this effect is an important consideration of integration but is not the only effect of economic union. A more important aspect of economic integration is the long run influence it will have on the industrialization of the region. For most developing nations, and East Africa in particular, this consideration is of paramount importance. Therefore, this chapter will consider the effect our proposed integration will have on industrial development of the area.

The format of the chapter will be (1) to give a brief summary of the past industrial development of the area, (2) to examine the likely effects which Zambian entry into the Common Market will have on future development, (3) to present a model of industrialization that will indicate the effects of integration, and finally, (4) to show how the model might be applied to the East African Common Market situation.

Historical Background

All four countries in the region have traditionally had very small industrial sectors within their economies. The economic development of the area was dictated by the same colonial policies. Therefore,

Figure 5.1

Net value of factor cost of manufacturing output*

Thousands of pounds

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
K E N Y A	15,030	18,720	19,540	21,060	21,750	21,350	22,710	23,580	23,870	25,270	27,320	39,100	43,900	45,900
% of Total	51%	52%	53%	54%	52%	50%	50%	50%	52%	53%	50%	52%	53%	
U G A N D A	6,164	7,842	8,203	7,594	7,565	7,871	7,910	8,372	8,811	9,600	13,200	17,700	18,500	
% of total	21%	22%	22%	19%	18%	18%	17%	18%	19%	20%	24%	24%	22%	
T A N Z A N I A	8,335	9,145	9,040	10,711	12,936	13,672	14,511	14,964	12,842	12,509	14,343	17,750	21,200	23,400
% of total	28%	26%	25%	27%	30%	32%	33%	32%	29%	27%	26%	24%	25%	
TOTAL	29,529	35,707	36,783	34,365	42,251	42,893	45,181	47,316	45,528	47,379	54,863	74,550	83,600	

Sources: 1954-1964   Data from Clark, P.   Development Planning in East Africa. p.30-36

1965-1967   Data from Survey of African Economics. p.141, 214, 296

Tanzanian 1967 Data from Background to the Budget: An economic survey 1968-69. p.9

* Note: these calculations included mining.

emphasis was placed on the export of primary products and the import of

manufactured goods. Kenya, Uganda, and Tanzania were exporters of agri-

cultural products while Zambia exported copper. This was the accepted

path for economic development in the early stages of colonial rule.

But, as the economic and educational level of the territories improved,

there developed a market for, and desire to produce, certain basic consu-

mer goods. Because all three territories were under the same colonial

ruler (although there were three seperate colonial governors) the terri-

tories were administered as one economic unit. For this reason regional

distribution of industry was left to market forces. As the prospects

of continued colonial rule diminshed and independence could be seen on

the horizon, examination of the locational distribution of industry

found Kenya with the greatest portion of the industrial development.

As indicated in table 5.1, Kenya has traditionally produced over half

the manufactured and mining output of the area. If we were to exclude

mining from the manufacturing sector, Kenya's share of production would

be even greater.[1] The main reason for this type of development was

that Nairobi had become, for climatic and geographic reasons, the admini-

strative and financial center for the entire area. In 1957 over 40% of

all those engaged in manufacturing in Kenya were employed in Nairobi.[2]

As this disparity grew larger Uganda and Tanzania both complained

bitterly. The situation reached crisis proportions in 1964 when Tan-

zania threatened to pull out of the EACM. The obvious and most lasting

solution to this problem would be to set up a comprehensive regional

industrial development plan, whereby each country is guaranteed an agreed

upon share of the industry. Kenya opposed such a plan and favoured a

market force determination of the location of industry. The reasons

were obvious since Kenya posessed a comparative advantage when it came
to industrialization. But under the threat of Tanzanian withdrawal,
Kenya offered a second best solution in the form of the Kampala Agreement.
As pointed out earlier, this agreement was of a makeshift nature promi-
sing certain industries to Uganda and Tanzania and placing quantitative
restrictions on the flow of trade. It was only within a few short months
that the agreement was broken by Kenya (who had initially given half
hearted agreement). This action was then followed by import restrictions
on Kenyan goods entering Uganda and Tanzania. The outlook was gloomy
for the EACM.

It was not until June 1, 1967, with the signing of the "Treaty for
East African Co-operation", that the future of the EACM was made clear.
Again the question of regional planning of industrial development was
sidestepped, though. Instead a transfer tax system was introduced which
was designed to promote industrial development within the deficit countries.
Article 20 presents this as "....a measure to promote new industrial
development in those Partner States which are less developed industrially."

The structure of the transfer tax is straightforward, and is de-
signed to encourage industrial development in Tanzania and Uganda. Any
partner state is allowed to impose the transfer tax on another member
state if it has an overall trade deficit in manufactured goods with that
same country. The size of this tax cannot exceed one half the ad valorem
tariff applied to outside countries, and local production of the good must
follow within three months. Within the year local production must supply
15% of the domestic market or have a value of $100,000. Once 30% of the
protected commodity is exported the transfer tax on that particular good
must be eliminated. The overall limiting case is when the value of

commodities being protected exceeds the amount of the trade deficit in manufactured goods. At this point the country forfeits all rights to further use of the transfer tax privileges.

The purpose of this scheme was to aid the deficit countries in establishing small scale production without having to compete with lower cost Kenyan imports. Protection of any one particular commodity could last only eight years or until the level of production stated above was reached, and the overall programme was to last for only 15 years.

As good as the intentions might have been there are serious implications in this programme that will have the long run effect, if not countered in some way, of encouraging economic seperation rather than integration.

The most obvious result of this tax system would be duplication of industry within the regions and an increase in emphasis placed on small scale production. Such a trend would decrease the chances of specialization and therefore the loss of important economies of scale. If this trend was allowed to continue unchecked it would defeat the purpose of integration, since the strength of its argument lies in the fact that important economies of scale exist that could only be taken advantage of in the larger regional market.

Proponents of the system have argued that large regionally based industries would locate in the deficit countries since they would be quaranteed the local market. But the arguement is invalidated on two points. First, if the industry is based on a regional market, within a short time it would have to forfeit its transfer tax privileges once 30% of its production is exported to another member country. Secondly, this short period of protection may not justify the extra costs involved

in locating in remote areas of the region. As mentioned earlier, Nairobi is the industrial and financial centre of the region and a central point to all the markets. The problems involved in moving from this area most likely would discourage any type of major industrial spread.

The second problem of the new tax system is a feature general to any protective tariff. Within the protected areas there is the constant threat that inefficient industry will develop. The structure of the tax makes this problem an even greater threat. The transfer tax is applied not only to Kenyan value added but also the import content. If the transfer tax applies only to the value added portion of the commodity, the imposing country receives effective protection which equals nominal protection. Therefore effective protection based on the imposing country's value added increases as the import content becomes larger.

A study of this sort has been conducted by Peter A. Diamond[4] who has calculated the effective protection afforded Tanzania by the transfer tax under varying combinations of tariff rates and import content. Chosing the most appropriate combination of variables by assuming input tariff = 0 and final good tariff = 30%, then as import content increases from 0% to 70% the effective protection rate increases from 15% to 39%.[5] Under such an umbrella of protection it is difficult to conceive that none of this protection will be built into production costs.

The situation for Kenya is just the opposite. Up until the implementation of the transfer tax system, Kenyan producers had enjoyed a protected market for the entire EACM. Now, faced with new intraterritorial trade restrictions, local firms will be forced to become more competitive in order to secure their share of the local market and at the same time compete with locally produced goods in the Ugandian and

Tanzanian markets. Increased competition within the Kenyan market would make it even more difficult for Tanzanian goods to be sold there. This actually was the case in mid-1965 when Tanzania raised import restrictions as a result of the breakdown of the Kampala Agreement. Thus it is a real problem that will face Tanzania in the future.

With these two forces at work the whole future of the EACM will be put in jeopardy. As the 15 year life of the agreement reaches maturity there is likely to be great pressure to continue intraterritorial trade barriers or in the most extreme case, a call for complete separation.

What precautions have been taken to prevent this situation from arising? The solution seems obvious. What is lacking in the East African Treaty for Co-operation is a firm commitment to implement a regional plan for industrial development. Only lip service is paid to this idea in Article 23 of the treaty that states, "...the Partner States agree to continue the industrial licensing system formulated in the three East African Industrial Licensing laws now in operation in the Partner States."[6]

The beginning of the licensing system goes back to 1948 when the three individual territories legislated identical industrial licensing ordinances to be enacted in 1952-3. The objectives were to induce industry to locate in East Africa by guaranteeing monopolistic powers for a stated period and secondly to issue licences to industries and direct them to sites that were part of a general development plan. But by 1949 any intention to develop detailed plans concerning location of industry had been abandoned. As it became apparent that the three territories were developing at different rates, the two territories that were developing at a slower rate were less agreeable to approving new industries to the

licensing schedule. The Raisman Commission of 1961 concluded on this

issue that "The scope of the licensing system has therefore been small,

it has not achieved the objects for which it was established, and now

serves very little useful purpose in relation to industrial develop-

ment in East Africa as a whole.'[7]

Little improvement on this situation has been made in the past nine

years. An attempt was made in 1965 as part of the Kampala Agreement to

improve the industrial licensing acts and to expand the function of the

East African Industrial Council. Agreement was reached by the three

governments to appoint a committee of industrial experts to study the

problem of regionally planned industrial development.[8] Unfortunately,

the Kampala Agreement was abandoned before any action could be taken.

As we have seen, the Treaty for East African Co-operation has done little

to change the nature of the licensing system. It has increased its

rigidity by stating in Paragraph 2 of Article 23 "...that the industrial

licensing system shall continue until the expiration of twenty years from

the commencement of the said East African Industrial Licensing laws."

Both Tanzania and Uganda are vitally interested in reactivating the

East African Industrial Council but until now have been unsuccessful

in pressuring Kenya to accept. On two earlier occasions they have accep-

ted second best solutions, firstly in the Kampala Agreement and secondly

through the transfer tax.

Zambian entry into the EACM would have the effect of offering

Uganda and Tanzania a third chance, and this time the probability of

success should be increased. As mentioned earlier, one of the precondi-

tions to Zambian entry into the EACM should be the assurance of some regio-

nally based industries. This assurance could come as part of a larger

regional plan for industrial development. With the additional weight

of Zambia, enough pressure might be exerted on Kenya to make her agree to

the reactivation of the Industrial Council and acceptance of a regional

comprehensive plan. Kenya depends most heavily upon East African trade

in manufactured goods,[9] and for this reason will have the most to lose if

the EACM is disbanded.

Zambia's entry into the EACM, therefore, may be the event that will

save the organization from disaster. It might tip the scales in favour

of the 'have not' countries and assure the continuation of the union on

a more equitable basis.

The Model

In the previous chapter we concluded that Zambian entry could have

a certain impact affect measured in terms of increase in G.D.P. Third

country entry into the EACM will also have an effect on industrial devel-

opment and for this reason a theoretical model is presented that will

illustrate this effect.

This model has been developed with the hope that it will have uni-

versal application to any group of developing countries that are consid-

ering economic integration as possible engine of industrial growth.

The purpose of the model is to show how integration will effect the

time horizon of industrial development. The approach used will deal

with individual industries and will focus on the effect of increased mar-

ket size on the process of industrialization.

Demand Side

For any given commodity there exists within the domestic market a cer-

tain level of demand. The quantity demanded will depend upon the nature

of the product as well as upon price, taste, distribution facilities, and

other factors.   In the developing world the income elasticity of demand
for basic consumer goods is larger than the demand for the same good in
the more developed world.   The nature of commodity demanded is highly
correlated with the stage of development, as indicated by the level of
per capita income.   As Professor Harvey Leibenstein notes, one of the
characteristics of underdeveloped areas is "that a major portion of expend-
itures are made on food and necessities".[10]   As per capita income increases
demand shifts to more sophisticated consumer goods, and to intermediate
capital goods as well.   Therefore, in the early stages of development the
country might be a net exporter of primary products and import all of its
manufactured goods.   In a later stage, the country is likely to develop a
manufacturing sector and therefore substitute domestically produced goods
in place of consumer good imports.   At this point of development the
nature of imports would change and there would be increased imports of cap-
ital and intermediate goods.

Similarly, local government policy might dictate the types of pro-
ducts demanded.   Public works projects aimed at developing an infra-structure
of social overhead capital will dictate a certain type of demand while govern-
ment policy emphasizing agricultural production will derive a demand for still
other products.   For this reason the model has been developted to take account
of these peculiarities.

The model does not make use of the classic demand function of plotting
price against quantity.   We are interested in examining the quantity demanded
of a particular product over time.   We will assume that the relative price
is constant.   This assumtpion is less wieldy in a developing country situation
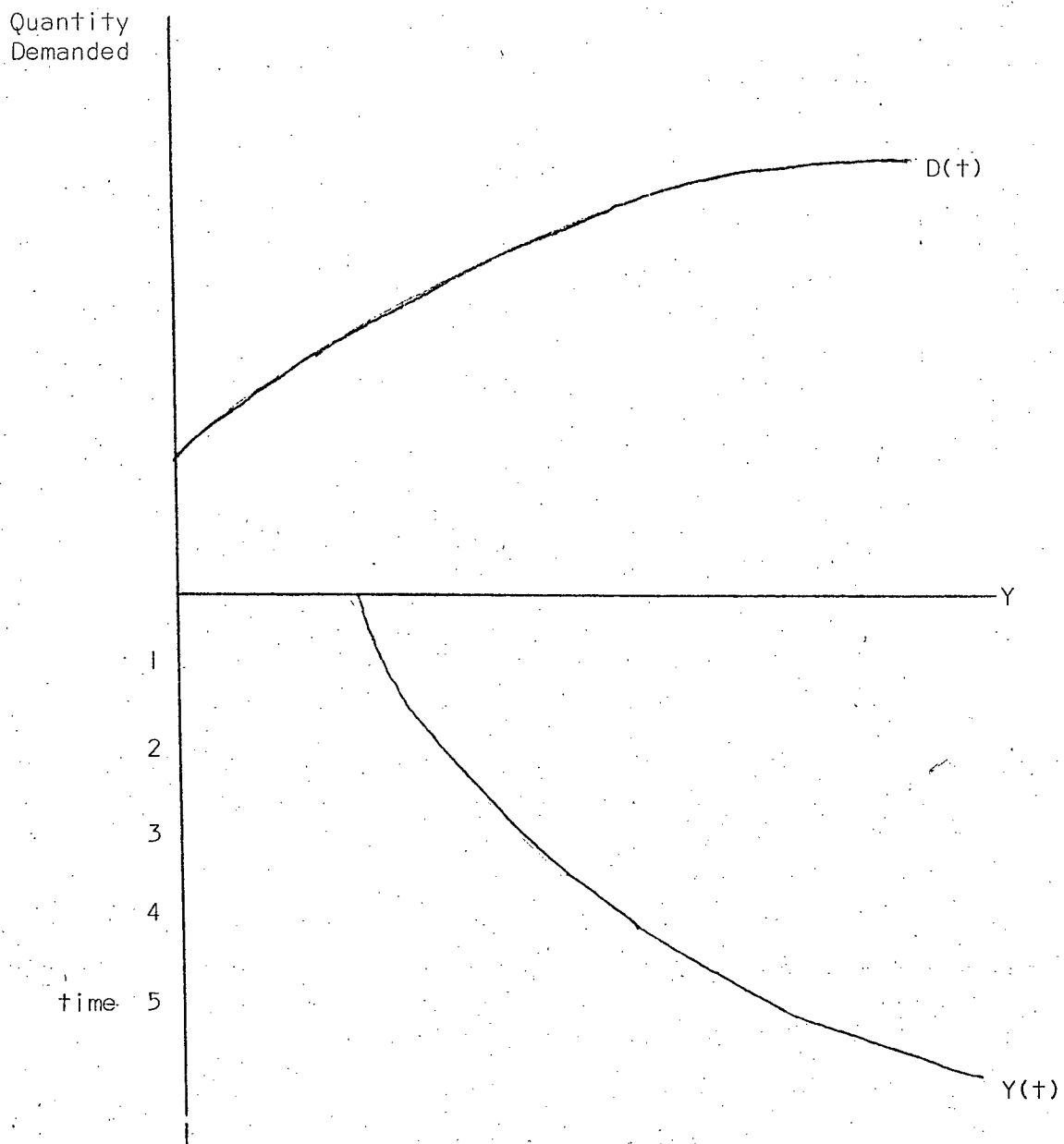since the price level of domestically produced goods will be protected by
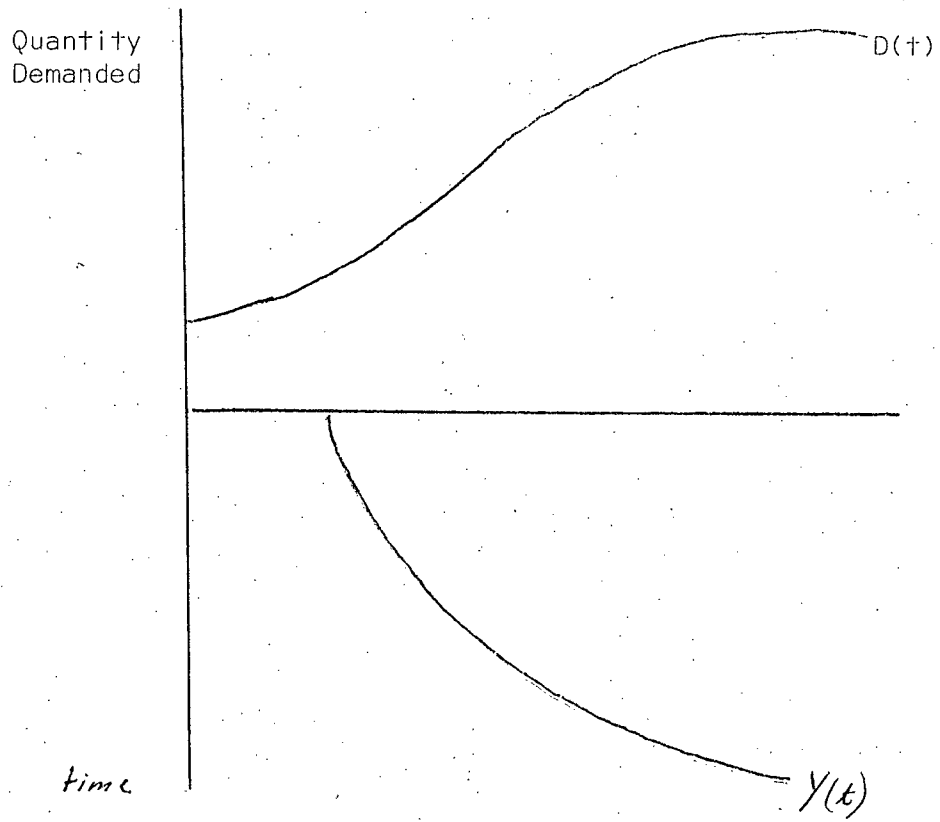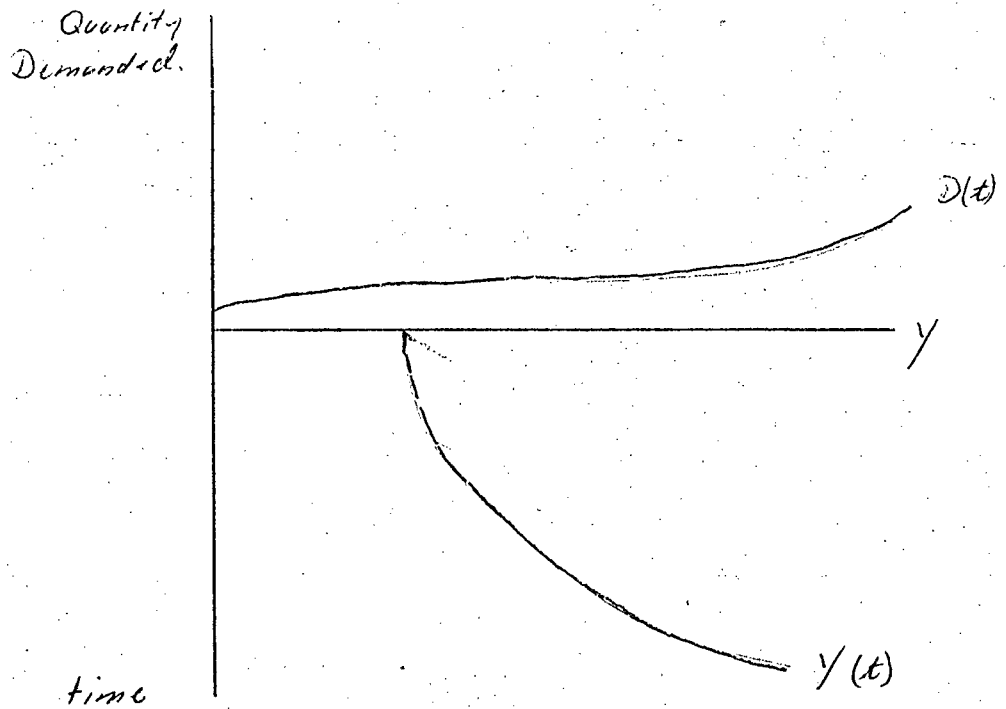
Figure 5.1

Figure 5.2

Quantity
Demanded

D(t)

time

Y(t)

Figure 5.2.b.

Quantity
Demanded.

D(t)

Y

Y(t)

time

import tariffs and tus guarantee local producers the domestic market.

With price constant the vertical axis will measure quantity demanded and the horizontal will measure income.   In the lower quadrant of our diagram (figure 5.1) the relationship between income and time is indicated.   We assume that income grows over time at a constant rate (e.g. 5%).

We define Y as a function of time.   Thus, we can read off our diagram the relationship of quantity demand at different levels of Y to the time period in which it occurs.

Figure 5.1 shows the expenditure function for the particular commodity 'i' which is defined as:
Related to the previous year:

$$D_n = D_{n-1} + b_i \overset{*}{Y_n} D_{n-1} \qquad (1)$$

or related to base year o

$$D_n = D_o + \sum_{t=0}^{n} \left[b_i \overset{*}{Y_t} D_{t-1} \right] \quad (2) \quad (t = 0, 1, 2, \cdots, n)$$

where b = income elasticity of demand for commodity 'i'

   y = the percentage change in National Income

   D = quantity of good 'i' demanded in year 'n'

The shape and slope of the curve is determined by 'b' and since income elasticity will differ from product to product then it will be reflected in the shape of D(t).   For example, in the early stages of development luxury goods would have a low income elasticity while for basic consumer goods it would be much higher.   This phenomenon is depicted in diagrams 5.2(a) and 5.2(b).

Supply Side

Turning now to the supply side of our model we will again part from the classical approach.   Rather than plotting price against quantity we will plot income on the horizontal axis and Industrial Capacity on the

vertical axis. Therefore we are deriving a potential capacity function (P.C.).

An important part of our analysis is the implementation of a term developed by Joseph S. Bain in his well known book Barriers to New Competition. He develops the concept of 'Minimum Optimal Scale' which he defines as "the smallest scale at which a plant or firm may achieve the lowest attainable unit cost."

Of course the minimal optimal scale (MOS) will vary between industries depending upon the economies of scale of the different productive processes.

Let us assume that the MOS of a particualr industry is X. If we assume that all the plants to be constructed were to be of X capacity we would have a diagramme which consisted of a series of horizontal lines parallel to each other and X units distance apart (see figure 5.3).

If we assume that industry develops one firm at a time then there will be a step function. The positioning of these steps will indicate the timing of industrial expansion. Ultimately demand conditions will determine the shape of the P.C. curve. An implicit assumption made here is that each plant will only produce up to the MOS capacity. This is a simplifying assumption and it will be relaxed later in our analysis.

We are now ready to combine the demand and supply sides of our analysis to indicate the time horizon of industrial development. We will consider three different methods and then choose the method that best suits our purpose.

CASE I.

In the first case we will assume that the government prefers to construct an MOS plant only when demand has reached the appropriate
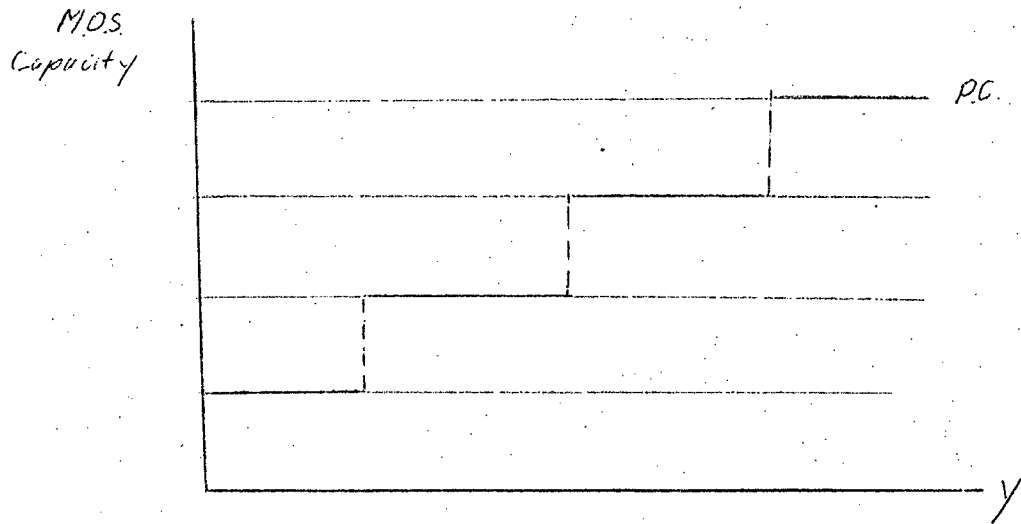
Figure 5.3

Figure 5.4
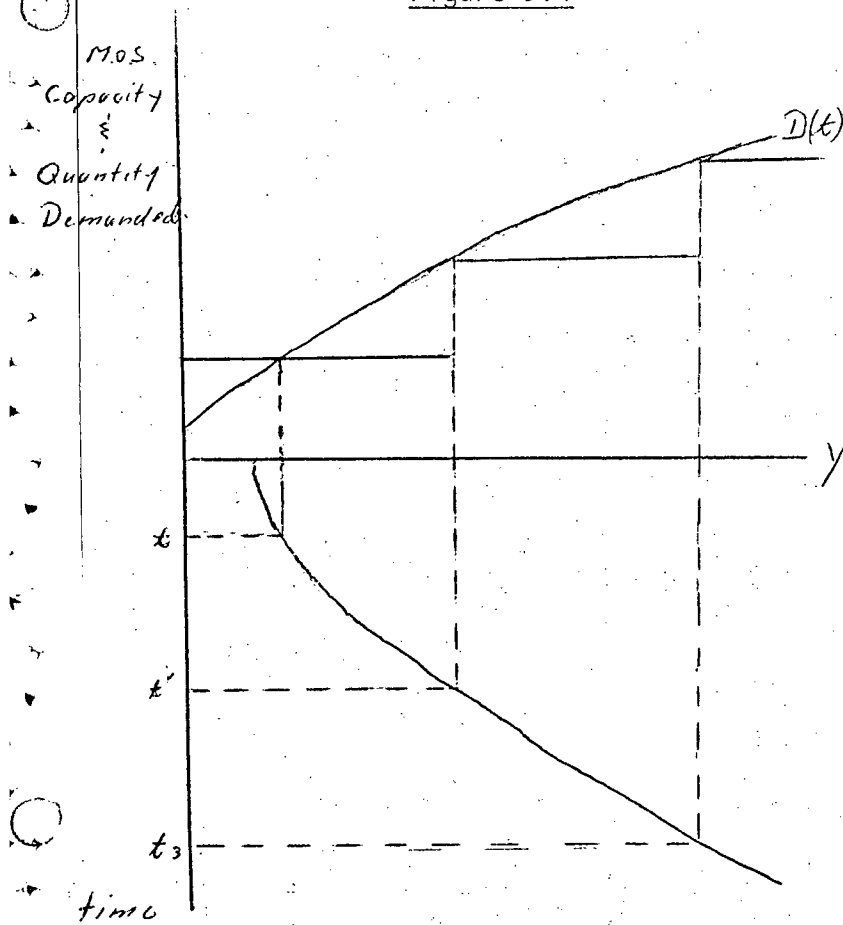
Figure 5.5
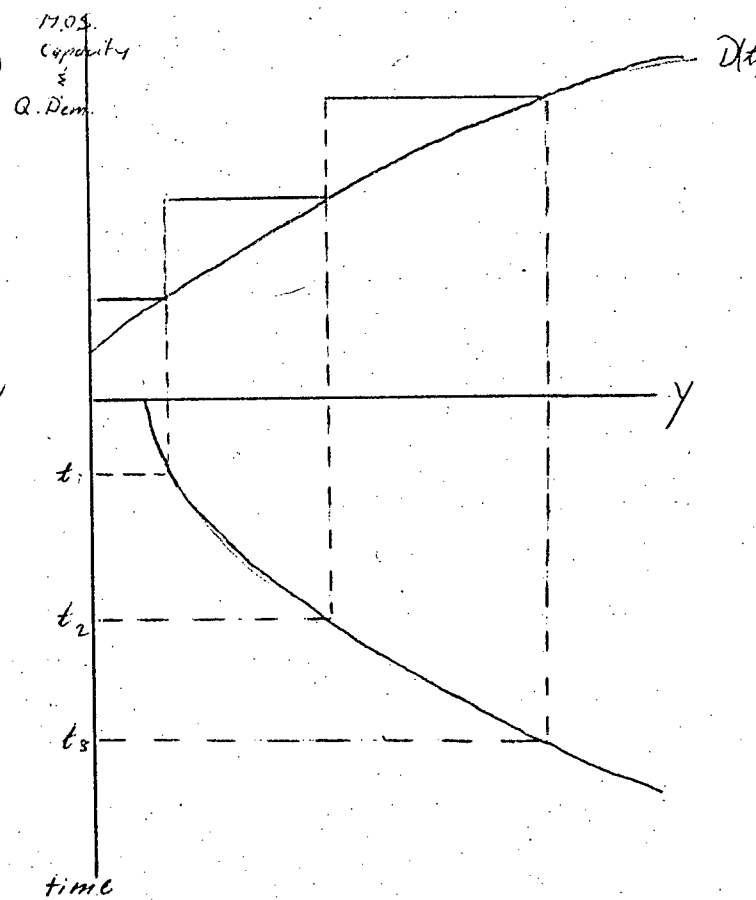
level. By combining figure 5.1 and 5.3 we have the situation depicted

in figure 5.4. This diagram shows that in year t the first plant will

be constructed and will continue to produce at X capacity until t^{I}, when

a second plant will be constructed in response to increased demand.

CASE 2

Figure 5.5 shows an alternative planning decision that as soon as

demand is greater than present MOS capacity a new plant will be construc-

ted. Under these conditions there would always be excess capacity and

unless these goods are exportable there will be a waste of resources.

CASE 3

This final situation, as depicted in figure 5.6, is a compromise

between the two cases mentioned above, and also the most plausible of the

three. But the question then arises as to what point in time should the

next plant be constructed. Between the time of construction of the nth and

n=I plant, demand will have to be met by imports. This is paid for out of

the country's foreign exchange reserves. The problem then becomes a question

of a trade-off between depletion of foreign reserves and excess capacity

production. At what point is it worthwhile to stop importing and commence

domestic production. We must remember that the developing country has a

preference for domestic industrial production and this preference has been

built into our model. Of course, each situation will differ in each country

but our model presents a criterion to be used as a guideline in making the

decision.

First we will assume that the demand conditions indicate that within

a certain time period, (e.g. ten years) the quantity demanded of the commodity

will increase an amount equal to the MOS of an additional plant. The question

is when should this plant be built?

Throughout this 10-year period there will be a flow of costs involved

in supplying this commodity to the market. In years when the good is imported, the cost will be simply the costs of imports. Once local production is undertaken, consideration must be given to the cost of the initial investment plus the variable costs of operating the plant. Therefore we are faced with ten alternative cost flows depending upon the timing of construction of the plant. The decision criteria suggested by this model is to choose the year for construction that will generate the lowest present value of the stream of costs.

For example, assuming full operation of the plant is undertaken in the year of construction, alternative 1 is construction in the first year:

$$P.V_1 = \frac{I + V_1}{1+i} + \frac{V_2}{(1+i)^2} + \cdots + \frac{V_{10}}{(1+i)^{10}}$$

alternative 2 is construction in the second year:

$$P.V_2 = \frac{M_1}{1+i} + \frac{I + V_2}{(1+i)^2} + \frac{V_3}{(1+i)^3} + \cdots + \frac{V_{10}}{(1+i)^{10}}$$

alternative 5 is construction in the fifth year:

$$P.V_5 = \frac{M_1}{(1+i)} + \cdots + \frac{M_4}{(1+i)^4} + \frac{I + V_5}{(1+i)^5} + \frac{V_6}{(1+i)^6} + \cdots + \frac{V_{10}}{(1+i)^{10}}$$

and alternative 10 is construction in the 10th year:

$$P.V_{10} = \frac{M_1}{1+i} + \cdots + \frac{M_9}{(1+i)^9} + \frac{I + V_{10}}{(1+i)^{10}}$$

where: PV_n is the present value of the stream of costs if the construction is undertaken in the n th year.

M_n is the value of imports of commodity in the n th year.

I is the initial cost of construction.

V_n is the variable costs of the n th year.*

i is the rate of discount.

* Variable Cost is a net calculation, as well as the operating costs of production, the cost of protection must be included as well as the cost in local currency of imported inputs. From these costs must be subtracted the benefits from domestic industrial production such as the externalities enjoyed by the society. Therefore,   represents the net costs of local industrial production.

If P.V.7 gave us the lowest present value calculation we would undertake construction of the next plant in seven years.

This mechanism is the basis of our model but further consideration

must be given to the calculation of these variables. In order to give a closer estimation of the true situation in developing countries we must consider different cost variables in various ways. To give the real cost of local factors of production we will use a shadow price system. Because the factors employed in the industrial sector usually have a very low opportunity cost, the cost to society is not reflected in the wage they receive. Therefore by using shadow pricing the cost of local variables will be less and will, therefore, bias our calculations toward earlier construction.

Those inputs which must be imported are of course not subject to shadow pricing. Quite the opposite is the case. When foreign exchange is used to purchase imports the cost to society is not usually reflected by the official foreign exchange rate. The existence of a foreign currency black market in most developing countries demonstrates the discrepency between the official and actual rate of exchange. When calculating this cost stream in terms of local currency then the actual exchange rate should be used. This means that if local production of the commodity involves a high import component the tendency will be towards later construction.

Finally, any externalities that will result from local production must be considered in our calculations. Such things as increased skills of the labour force, increased entrepeneurial skill, and linkage effects must be considered as benefits and in some way be deducted from the costs. The existence of such positive externalities will encourage early construction of the plant.

The final decision, therefore, depends upon many variables. On the one hand, we may conclude that an industry with a low initial investment,

Figure 5.6
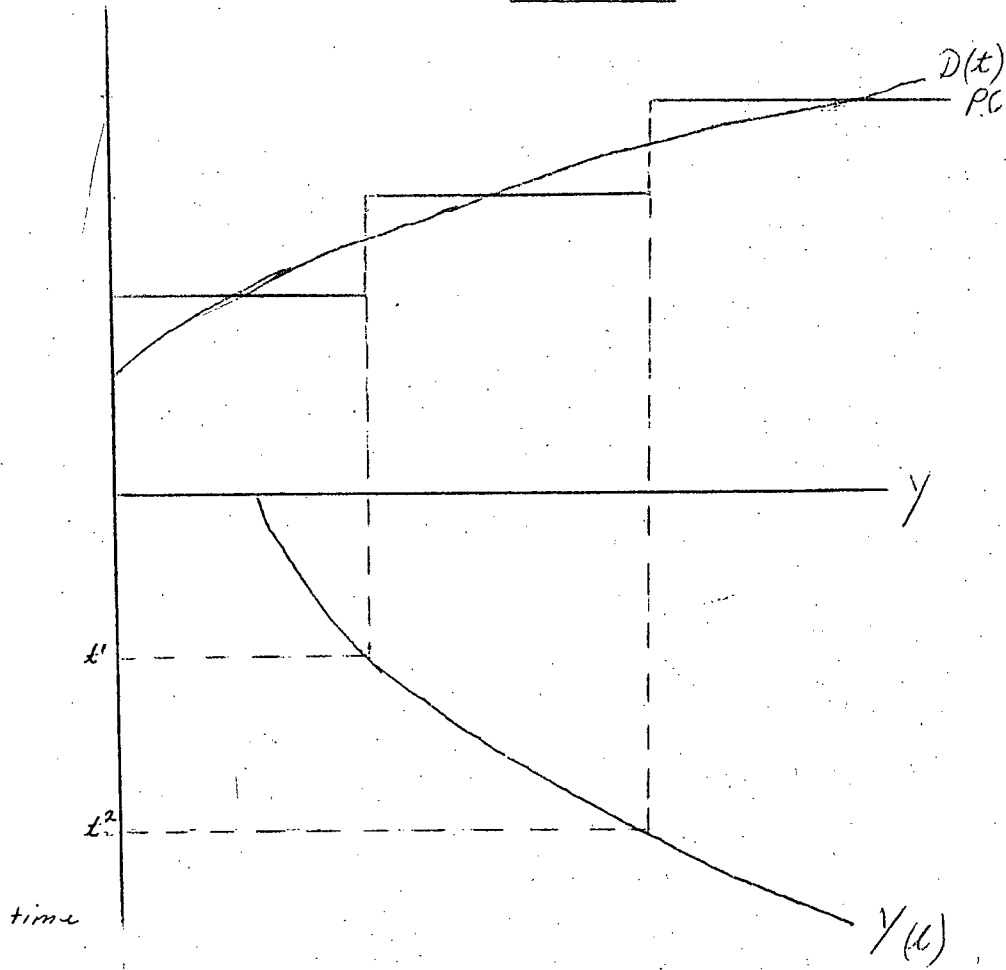
Figure 5.7
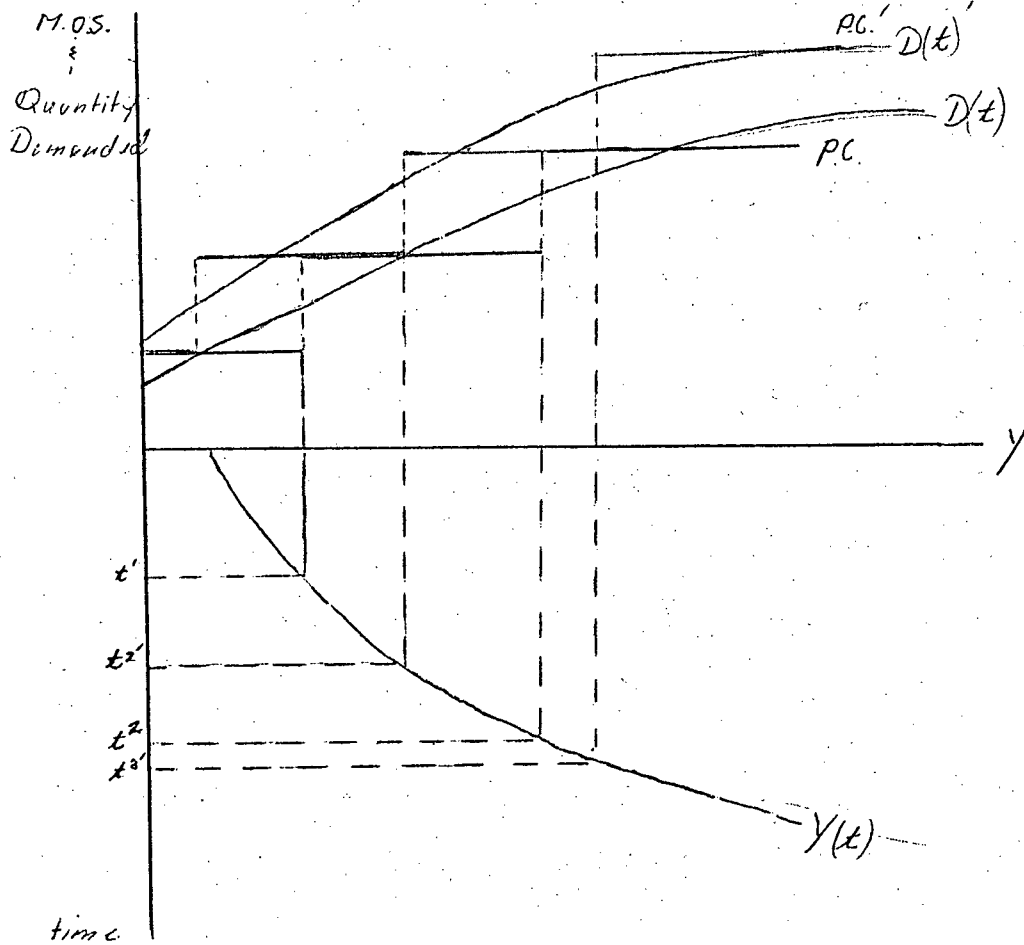
small import component, and high priced final product which generates positive externalities will favour early construction.

On the other hand, industry requiring a large initial investment to produce a low valued final product with a high import component will tend to discourage construction unless the positive externalities are so great as to counter the high real costs of production.

Based on this criterion, figure 5.6 indicates the timing of industrialization. The intersection of D(t) and P.C. curves at points t^1 and t^2 indicates the appropriate time for constructions of the second and third plants.

Effect of Integration

Let us assume that a second country is introduced to our model. Assuming that country previously imported commodity X to satisfy its domestic demand, the effect of integration will be to move the D(t) function upward to $D(t)^1$ as in figure 5.7. This in effect is increasing the size of the domestic market and the quantity demanded increases from D(t) to $D(t)^1$. This will accelerate the rate of industrial development. Country A would have constructed plants 1, 2, and 3 in years t^0, t^1, and t^2 respectively. But now with combined expenditure function $D(t)^1$, construction of the same plants will take place in years t^0 and $t^{2'}$, with an additional plant in $t^{3'}$. Under the integration scheme it is unlikely that all three plants would be built in country A. The firms of the industry will be divided between A and B and it is quite likely that B will receive industries that it would otherwise not be able to support. Country A will enjoy a larger domestic market and a shorter time horizon for its industrial development.

Figure 5.8

Modifications of Model

As we mentioned earlier our simplifying assumption of constant pro-
duction at MOS capcity will now be dropped. In Bain's studies he indi-
cates that there is a range within which a firm can operate to produce at
the lowest attainable unit cost. How will this affect our P.C.curve?
We will maintain the lower MOS bound of x units but now extend the upper
limit. There is a certain range of production beyond which costs will
begin to rise and it is at this point that we will stop further produc-
tion. A case could be made that even though unit cost will rise after a
certain level of production is reached, it would still be worthwhile to
produce rather than use foreign reserves to purchase imports. The strength
of this argument depends on the local government's foreign reserve posi-
tion as well as government policy concerning the trade-off between effi-
ciency and production. For our purpose, we shall assume that the company
will produce only within the range of lowest attainable unit cost. This
modification can be seen in figure 5.8.

The P.C. curve has changed its shape but has not changed our analysis.
What in effect it does is to infer that the MOS is 50% larger and there-
fore fewer plants are required to satisfy the same level of quantity deman-
ded. Using this P.C. curve and introduction of a second country, the
model will give the same results; increasing the rate of industrial
growth.

Application of Model to East African Case

To utilize the model there is certain information which must be
available. In this section we will discuss this problem.

First, from the supply side of the model the most pertinent data is
the Minimum Optimal Scale information. Bain has provided us with MOS
statistics for 20 industries in the U.S.A. His calculations were based

on a 1949 census of American industry. There are obvious objections

raised to the use of such data when dealing with developing countries.

Differing levels of technology and quality of the labour force make

these calculations less credible.

For this reason we turn to a similar study done by M. M. Metwally[11]

which deals with the Egyptian economy. In his study he considers a n

number of manufacturing industries and estimates (1) the most efficient

scale of production which he defines as "that quantity of the product

which must be produced to enable the plant to work at full capacity when

using the best available techniques of production", and (2) minimum

economic scale of production defined as "the scale of production at

which the article can be produced domestically on a competitive basis".

This output is determined by the point at which the cost output curve

cuts the import price line. These values were calculated from studies

done in the U.S.A. and then "transposed to Egypt through appropriate ad-

justments of relevant data".[12] Table 5.2 shows the minimum economic

scale of production for 55 manufacturing industries in Egypt.

When we turn to the demand side of our model the task is much harder.

Recalling our Expenditure function $D_n = D_{n-1} + b_i \overset{*}{Y}_n D_{n-1}$ we are able to

immediately determine two of the three variables. As we mentioned earlier

"D_{n-1}" is simply the quantity demanded of the commodity in year "$n-1$". The

variable y we will assume is growing at a constant rate. Each of the three

countries will have a different national income growth but all will be

somewhere in the range between 3-6%. That leaves only one variable

to consider. Income elasticity 'b' is the only variable factor.

The value of 'b' will change from year to year. In order to arrive

at some kind of estimate of 'b', it would be necessary to run a

Table 5.2

Economic Scale of Production in Relation to Size of Egyptian Domestic

Market in 55 Manufacturing Commodities

Item	Unit of Measurement	Economic Scale of Prod. (per annum)
A. Food and Kindred Products		
1. Creamery Butter	tons	747
2. Natural Cheese	-do-	5,35-1,071
3. Raw Cane Sugar	-do-	7,356-14,712
4. Refined Cane Sugar	th. tons	360
5. Beet Sugar	-do-	21-52
6. Beer	th. hectolitres	1,970
7. Malt	th. tons	33-66
8. Ice	th. tons	158
9. Soft drinks	mill. bottles	6-15
10. Macaroni & Spagetti	th. tons	7-17
B. Tobacco Products		
1. Cigarettes	billions	4-35
C. Textile Mill Products		
1. Pure Cotton Yarn	th. metric tons	5.7-11.4
2. Woven Cotton fabrics	mill. metres	30.7-76.7
3. Rayon yarn & fibres	mill. pands	26-64
4. Viscose yarn	-do-	11
5. Motor car cloth	tons	N.A.
D. Lumber & Wood Products		
1. Plywood	cubic metres	4,000
2. Packing cases	thousands	1,150
E. Paper and Allied Products		
1. Cigarette paper	tons	1,100
2. Paper cigarette filters	mill. rods	135
3. Viscose cigarette filters	-do-	205
F. Chemical & Allied Products		
1. Chlorosulphonic acid	tons	850
2. Nitrobenzene	-do-	750
3. Aniline	-do-	600
4. Matches	th. mill. sticks	19-38
5. Soap & detergents	mill. lbs.	150-225
6. Ammonium nitrate	tons of ammonia content	43-300
7. Petroleum products	th. barrels	65-162
G. Rubber Products		
1. Tyres & tubes for cars	thousands	4050
2. Rubber footwear	th. pairs	4,725-11,800

Table 5.2 continued

Item	Unit of Measurement	Economic Scale of Prod. (per annum)
H. Leather Products		
1. Leather footwear	th. pairs	577–1,154
I. Stone, Clay & Glass Products		
1. Glass bottles	mill. bottles	N.A.
2. Cement, Portland	th. tons	329–658
3. Gypsum products	-do-	221
4. Clay floor & wall tiles	th. sq. ft.	4,330–8,660
J. Fabricated Metal Products		
1. Metal Cases	mill.	100–600
2. Metal barrels	thousands	315–780
3. Collapsible tubes	$1,000	2,400–4,800
K. Machinery Except Electrical		
1. Agricultural tractors (assembled)	No.	2,650
2. Ball & roller bearings	$1,000	10,000–20,000
3. Typewriters	thousands	154
L. Primary Metal Industries		
1. Pig iron	th. tons	700
2. Steel (finished)	-do-	600
3. Steel Sheets & strips	-do-	206
4. Primary aluminum	-do-	40–80
5. Copper products	-do-	15–30
6. Electrolytic Zinc	tons	8,600
M. Electrical Machinery		
1. Transformers	$1,000	17,000–43,000
2. Motors & Generators	-do-	19,000–46,000
3. Household refrigerators	thousands	240
4. Household washing machines	-do-	203–509
5. Household vacuum cleaners	-do-	208–560
6. Primary batteries, dry	millions	18–35
7. Flourescent lamps	thousands	N.A.
N. Transport Equipment		
1. Cars (assembly)	thousands	60–180

regression analysis on consumption of a particular commodity and the relevant increases in income. In this way a trend could be established as to the future behavior of 'b'.

Unfortunately the statistics for this calculation are not available at this time but it will be a fruitful exercise to calculate 'b' and then examine quantitatively the effect of Zambian entry into the EACM. It is the hope of the author to be in East Africa in the near future, where the required data can be more easily estimated.

Thus the purpose of this chapter has been to develop a sound theoretical model that can be used to estimate the effect of integration on industrial development.

CHAPTER VI

Cost considerations of proposed integration.

In the preceding chapters, we discussed and attempted to quantify the benefits of Zambian entry into the common market. Our analysis would not be complete if we did not stop to consider the cost side as well. Therefore, this final chapter will deal with some of the negative aspects of integration.

The format of the chapter will be to consider: (1) some of the costs of integration accruing to both Zambian and the EACM countries, (2) the steps that should be taken in order to minimize these effects.

The first and most obvious negative effect is the loss of revenue that Zambia will sustain by diverting trade from Southern Rhodesia and South Africa to the EACM countries. As recent as 1968, approximately 33% of all Zambian imports came from these two sources.[1] In order to estimate the custom revenue collected from these sources we return to our 1966 data. Table 6.1 summarizes the relevant information.[2]

These calculations were based on the import estimations of chapter four. The upper limit calculation was based on a two digit S.I.T.C. classification and the lower estimate on a more detailed examination of the four digit classification. The tariff rates that were applied were those published in the tariff schedule of the Zambian government.[3] There was some difficulty finding the appropriate custom duty for each commodity since the Zambian schedule is not based on the S.I.T.C. classification but on a descriptive commodity by commodity basis. Thus, by matching the S.I.T.C. commodity description with the relevant tariff rate we have arrived at a close estimation of the tariff revenue collected.

Table 6.1

Zambian Revenue Losses for Relevant Impact Effect Estimations

	Southern Rhodesia	South Africa	TOTAL Thous.$US
Total imports	64,904	83,936	
Upper limit estimation of impact effect	45,475	72,744	
Revenue loss for U.L. estimation	6,104.86	6,985.2	13,090.06
Lower limit estimation of impact effect	27,166	27,627	
Revenue loss for L.L. estimation	5,183.65	3,019.8	8,203.45

Source: United Nations, Commodity Trade Statistics 1966 Series D, Vol. XVI, No. 1-36.

Table 6.4

Adjusted Calculation of Tariff Revenue Losses

	Southern Rhodesia	South Africa	TOTAL Thous.$US
Upper limit revenue loss	3,184.16	5,029.97	8,214.13
Lower limit revenue loss	2,320.75	2,777.6	5,098.35

An interesting observation is that there is not much difference in revenue loss between the upper and lower limits for Rhodesia, while for South Africa the revenue loss more than doubles. The reason for this is that most of the South African goods in the lower level estimate carry a low tariff rate or are duty free (see table 6.2) while the large revenue earners such as commodities 110 (alcoholic beverages), 710 (machinery), and 840 (clothing), were included in the upper limit estimation (table 6.3). Just the opposite is the case for Rhodesia, high revenue earning commodities such as 122.3 (manufacture tobacco) is included in both estimates and it was only the free or nominally taxed goods that are added to make the upper bound estimate.

We should note, however, that these revenue loss figures are not truly representative. Even if the import effect were complete it would not mean such a large revenue loss. Such goods as liquor, tobacco and luxury goods which carry a high import rate will not be totally tax free if imported from EACM. Certainly an excise tax would be levied on these goods and thus most, if not all, the revenue loss on these goods would be recouped. This would not affect the trade flow between the EACM and Zambia, since East African goods would still enjoy a comfortable level of protection. Adjusting the calculations for this fact, results are shown in table 6.4 (the calculations are determined by assuming that an excise tax will replace the tariff rate on such commodities as perfumes (#553), manufactured tobacco (122.3), liquor and wine (#110)). These values are substantially lower than the first set of figures and they represent a truer picture of the situation.

The next question that must be considered is, "to what extent does Zambia rely on custom duties as a source of revenue?" As we mentioned earlier, Zambia is one of the world's leading producers of copper

Table 6.2

Lower Limit Impact Affect Estimation & Related Revenue Loss

	Southern Rhodesia			South Africa			
S.T.T.C.	Amount	Tar.Rate	Revenue	Amount	Tar.Rate	Revenue	
001.1				786			
01 1.1	1108	5%	55.4	705	Free		
01 1.3	454	5%	22.7		Free		
01 2.1	321	5%	16.05		Free		
01 3.8	782	20%	156.4		Free		
02 2.2	481	$1\frac{1}{2}$d/lb.	12.4				a
02 3.				160	Free		
04 5.9				652	Free		
04 6	453	5%	22.65				
04 8.1				143	Free		
o4 8.4				448	20%	89.60	
05 1.9				151	Free		
05 4.5				155	1d/lb.	34.8	b
05 5.	195	20%	39.0	291	20%	58.20	
06 6.1	1602	5%	80.10				
06 2.				448	Free		
07 1.1				120	5%	6.0	
07 3.				244	Free		
07 4.1	126	2d/lb.	4.8				c
07 5.2				132	10%	13.2	
09 1.4	240	20%	48.0				
09 9.1	1178	5%	58.90				

Table 6.2 continued

S.T.T.C	S. Rhodesia			S. Africa			
	Amount	Tar.Rate	Revenue	Amount	Tar.Rate	Revenue	
12 2.3	2190	5sh/lb.	2862.90				d
24 2.2				205	Free		
27 6.2				259	Free		
29 2.5	665	Free					
33 2.9	118	Free		183	Free		
42 1.3	106	5%	5.30				
51 4.				244	Free		
53 3.3	278	20%	55.60	309	Free		
54 1.7	328	25%	82.00	823	25%	205.75	
541.9				222	25%	55.50	
55 3.				692	35%	242.20	
55 4.1				137	20%	27.40	
55 4.2	156	20%	31.20	256	20%	51.20	
55 4.3				439	20%	87.80	
59 9.2				807	Free		
59 9.5				200	5%	10.00	
59 9.9				730	5%	36.50	
62 9.1	506	5%	25.30	1891	5%	94.55	
63 2.4	554	5%	27.70	165	5%	8.25	
64 2.1	1297	10%	129.70	631	5%	63.10	
64 2.3	138	Free		259	Free		
64 2.9	202	20%	40.40	185	20%	37.00	
65 2.2	299	Free		131	Free		
65 5.6				194	Free		

Table 6.2 continued

S.T.T.C	S. Rhodesia			S. Africa		
	Amount	Tar.Rate	Revenue	Amount	Tar.Rate	Revenue
65 6.1	395	Free				
65 6.9	164	Free				
66.1.2	1156	5%	57.80	932	5%	46.60
66.5.1	152	35%	53.20	804	35%	281.40
69 1.1	530	25%	132.50			
69 2.2	326	10%	32.6			
69.3.2	176	15%	26.4			
69 4.2	353	5%	17.65	415	5%	20.75
69 5.1				110	5%	5.50
69.7.2	317	25%	79.25			
69 9.	928	5%	46.4	837	5%	41.85
71 2.2				124	5%	6.20
71 2.9	143	5%	7.15	414	5%	20.70
71 9.8	326	5%	16.3	1047	5%	52.35
71 9.9				267	5%	13.35
72 3.1	2396	5%	119.80	502	5%	25.10
72 9.9	404	5%	20.2	1265	5%	63.25
733.3	769	5%	38.45	587	5%	29.35
812.4				145	25%	36.25
821.	584	30%	29.20	910	30%	273.00
831.	371	Free				
841.1	1177	20%	235.4	2845	20%	569.00
841.4				377	25%	94.25

Table 6.2 continued

S.T.T.C	S. Rhodesia			S. Africa		
	Amount	Tar.Rate	Revenue	Amount	Tar.Rate	Revenue
841.4				377	25%	94.25
851.	1728	15%	259.2	1602	15%	240.30
891.2				169	25%	42.25
892.9	366	10%	36.60	368	10%	36.80
893	317			470		
054.1	311	Free				
Total thous.$US	27,166		5,183.65	27,627		3,019.80

a. $33/ton, 376 tons.

b.   22$/metric ton, 1580 tons.

c.   44$/metric ton, 109 tons.

d. $1,430/metric ton, 2002 tons.

Sources: United Nations; Commodity Trade Statistics, 1966, Series D,
         Vol. XVI, No. 1-36.
         Republic of Zambia, International Customs Journal, March, 1965.

Table 6.3

Upper Limit Impact Effect Estimation & Related Revenue loss

	S. Rhodesia			S. Africa		
S.T.T.C	Amount	Tar.Rate	Revenue	Amount	Tar.Rate	Revenue
001	108			807		
010	2861	5%	145.05		Free	
020	620	Free		203		
040	815	20%	163.00	1350	20%	270.00
050	856	Free		1396		
060	1693	5%		527	5%	
090	1421	5%	84.65	797		
110				772		1649.8 a
110						10.07 b
120	2208	5sh/lb.	2,862.90			
240	210	Free		380	Free	
270	246	Free		498	Free	
290	716	Free		126	Free	
330	253	Free		1948	Free	
420	560	5%	28.00	161	5%	8.50
510	195	5%	9.75	651	5%	32.55
530	361	Free		330	Free	
541	426	25%	106.50	1096	25%	274.00
550	289	20%	57.8	1527	20%	305.40
581				497	5%	24.85
599	265	5%	13.25	1738	5%	86.90
620	586	5%	29.3	3242	5%	162.30
630	1220	5%	61.00	400	5%	20.00
640	2366	10%	236.6	1846	10%	184.60
650	2548	...		1944	...	
660	2779	$5.50/ton	457.81	3563		354.50
670	1916	5%	95.80	10692	5%	534.60
680	198	5%	9.90	918	5%	45.90
690	4433	10%	443.30	5019	10%	501.90
710	1712	5%	85.60	14520	5%	726.00

Table 6.3 continued.

S.T.T.C.	Amount	Tar.Rate	Revenue	Amount	Tar.Rate	Revenue
	S. Rhodesia				S. Africa	
720	4727	5%	236.35	3597	5%	179.85
730	2427	5%	121.35	5682	5%	284.10
812	600	25%	150.00	387	25%	96.75
831	371	...				
840	1419	20%	283.80	3720	20%	744.00
851	1728	15%	259.20	1602	15%	240.30
890	1561	10%	156.10	2158	10%	215.8
070	197	5%	9.85	650	5%	32.5
Total:thous. $US	45,475		6,104.86	72,744		6,985.17

a.   Liquor, 5月,14 sh./gal.

b.   Wine, 10 sh./gal.

Sources: United Nations, Commodity Trade Statistics, 1966, Series D,
         Vol. XVI, No. 1-36
         Republic of Zambia, International Customs Journal, Mar., 1965.

Table 6.5

Zambian Government Revenue from Indirect Taxes, 1966

Customs	$ 21.56
Excise	12.04
Mineral Royalties	110.88
Copper Export tax	51.80
Motor Spirit tax	1.96
Motor Vehicle licenses	3.08
Other licenses	.28
Profits of government enterprise	--
Stamp Duty	.56
Other	1.68
TOTAL	203.84

Millions of US.$
Source: Republic of Zambia
        Economic Report 1968
        (Lusaka 1969) p. 93

Table 6.6

Revenue Loss as percentage of total Customs Revenue and total

Indirect Taxes Revenue

	% of Custom Revenue	% of total Indirect tax revenue
Lower est.	24%	2.5%
Upper est.	38%	4%

and for this reason derives most of its revenue in the form of

mineral royalties and copper export taxes. Only 11% of all indirect

tax revenue comes from customs duties, while over 80% is derived from

the two above mentioned sources (table 6.5 shows the components of

indirect tax revenues for 1966). Taking the latter estimates of

revenue loss it represents only 2.5% to 4% of the total indirect tax

revenue, a small price to pay for integration.

There will also be another revenue loss. Under our proposed

integration, Zambia will forfeit the right to levy custom duties on

EACM imports. Looking at the 1966 statistics the level of trade was

not sufficient to change the results of the findings. For this

reason we will simply consider the above mentioned loss.

This loss of revenue can be presented as a strong argument for

demanding (1) a share of regionally based industry, and (2) loaning

privileges from the East African Development Bank (EADB).

In the previous chapter we discussed the necessity of reactivating

the Council of Industrial Development, not only for Zambia's benefit but

for the continued operation of the EACM. Certainly, Zambia will receive

the support of Tanzania for implementation of such a plan.

The EADB was established in 1967 to replace the distributive pool

set up in 1961 by the Raisman Commission. The purpose of the bank is

to help the 'have not' countries of the EACM, namely Uganda and

Tanzania. Zambia could easily subscribe to the EADB and have

privileged drawing rights as Uganda and Tanzania. The exact

details as to the amount contributed and the percentage of with-

drawing rights would have to be worked out by the participating countries, but the EADB is certainly a possible tool to be used to compensate Zambia for her loss of revenue.

Another important consideration is the effect integration will have on Zambian small scale industries. If the transfer tax system is maintained until its 1975 expiry date then Zambian local industry will receive a certain amount of protection. But, more important, is the fact that most of Zambia's future industrial development will be on a regional basis. Zambia, with a population of 4 million of which only 9% are employed for money wages[4], is handicapped by a very small domestic market, and therefore the scope for any large scale (production) industry is very slim. But now industry can take advantage of economics of scale and supply a market seven times the size of its own domestic market. Therefore, most of the future industrial development will move in this direction. There will also be growth of industries that enjoy a certain geographical protection. Certainly the food procuring industries and particular bulky consumer goods will be produced locally. Thus, the only fear lies in the realization that some existing industries which are now operating under the umbrella of a protective tariff may not be able to compete with EACM goods after the suspension of the transfer tax. This might be considered a short run cost but when we consider the long run industrial development of the region it is a benefit.

From the EACM point of view, there are very few costs involved. As we mentioned earlier the EACM countries import very little from Zambia.[5] Even if we were to assume that all these imports were taxed 30% (which is a high rate), the import revenue loss would be less than half-a-million dollars a year. The greatest cost that the EACM would have to bear is

the expenditures involved in extending the services of the EACSO

to Zambia. The burden would be shared by Zambia since it is the

recipient of these services. But the distribution of costs is some-

thing that would have to be negotiated between the two parties.

This logically brings us to our final point of discussion

in the thesis. That is, "What steps should be taken by Zambia towards

becoming a member of the EACM?" and further, "How will the Treaty

for East African Co-operation have to be changed to accommodate Zambian

accession to the common market?"

First of all, let us mention constitutional and administrative

changes. Besides the simple semantics of replacing the term "three

Partner States" to "four Partner States", there are some basic moves

that must be made to accommodate Zambian entry.

The first and most obvious change is the inclusion of Zambian

authorities on the administrative Councils. Zambia would elect an

East African minister and deputy minister who would be full-time

members of the Common Market Tribunal as well as representatives to

the different administrative committees.

The standardization of Zambian tariff rates to those of the

EACM could take place over a transitional period of two or three years.

The East African Customs and Excise Department (EACED) has been the

single collector of import duties and has then distributed the funds

on a "country destination" basis. Since most of Zambian imports come

via Tanzania (now by road but in future by rail), extension of the

functions of the EACED could easily be extended to Zambian goods without

an great increase in operational costs. The EACED is an important

source of data for the administration of the transfer tax system, thus,

in order for Zambia to take advantage of the transfer tax system she

must join the EACED.

As we argued in the previous chapter, one of the foremost
pre-conditions of Zambian entry into the Common Market should include
the guarantee of some regionally based industry.   Under the present
Treaty set-up, Article 23, paragraph 3, states: "...that no additions
shall be made to the schedules of articles, the manufacture of which
is subject to industrial licencing under the said East African Indus-
trial Licencing Laws".

This section would have to be amended to accommodate Zambian
demands.   Better still, the whole section could be replaced by a new
regional industrial plan which would be drawn up by the re-activated
East African Industrial Council.

Membership in the East African Development Bank would require
amending Annex 6 of the Treaty to include Zambia on some agreed upon
basis.   As we said earlier in the chapter, the EADB is an important
compensatory tool.

Also negotiations must determine to what extent Zambia will
participate in the 27 services offered by the East African Common
Services Organization.[6]   (See the Appendix [I] for the list of services).
By taking part in EACSO, Zambia could take advantage of economies of
scale that would not be possible if these services were undertaken alone.

Finally, participation in the East African Corporations gives
added benefits to Zambia.   The two corporations that deal with ground
and sea transportation (i.e. East African Railways Corporation and East
African Harbours Corporation) could be easily extended to include Zambia
since Zambia already depends heavily upon these very transport facilities.
Participation in the remaining two corporations dealing with air travel,
post and telecommunications would be determined by joint agreement and
implemented during the transitional period.

Zambia, therefore, fits quite well into the East African community. Even though the Treaty for East African Co-operation was tailored specifically for the needs of the three participating members of the EACM, with a few minor adjustments Zambia could readily be included. Not only will the entry of Zambia benefit the EACM financially, but also the changes demanded by Zambia will improve the workings of the common market and increase the chances of continued success.

Before the concluding remarks, brief mention will be made to some of the other aspects of integration that relate to the major issues discussed above.

One important consideration is the effect our proposed integration will have on the balance of payments position of the countries concerned. The immediate effect will be an increase in the visible exports to Zambia from both Tanzania and Kenya.

As far as Zambia is concerned there will simply be a shift in the source of her visible imports from South Africa and Rhodesia to the EACM. In the long run it is hoped that Zambia's visible exports to the EACM will increase. As the entire region develops its industrial base, intermediate and capital goods will become an increasingly larger share of domestic imports while local manufactured goods will be substituted for commodities previously imported.

Integration will have a positive effect on the inflow of foreign investment. As the market size of the community increases business opportunities will appear that were previously not feasible because of the limited size of the domestic market. One of the benefits of direct foreign investment is the increased exposure of local administration to new technological advancements and entrepreneurial skills.

One of the main problems of integration facing the European Economic Community has been the harmonization of agricultural policies of the member states. Fortunately this has not been the case for East Africa. All three countries in the EACM were agricultural exporters and follow a co-ordinated agricultural policy. Local demands are met by local production. Since Zambia is an exporter of mineral products there is no need to worry about competing exports. As we mentioned earlier Zambia is striving to become self-sufficient in food production. Most of the agricultural products imported from the south were duty free, if the East African agricultural goods are more costly then this will stimulate the development of local agricultural production.

Factor mobility will not greatly be affected by Zambian entry into the EACM. Although a common market by definition assumes free movement of capital and labour such has not been the case in East Africa. After the Arusha Declaration when the banks were nationalized in Tanzania restrictions were placed on the movement of capital. This was done to stop the flight of capital which was occurring after independence. Similarly, the movement of labour has been limited. Inter-territorial migration has been slight. African workers have traditionally been reluctant to move away from their tribal groups. When they move from the country to the cities they usually live in areas of the city populated by their local tribesmen. For this reason, mobility of labour has been limited.

Finally, we must consider the effect of integration on monetary and fiscal policy. Since 1966 all three members of the EACM have had separate banking systems and separate currency. It would, therefore, not be difficult to incorporate the Zambian banking system with the

appropriate mechanism being set up to facilitate rapid and efficient exchange of currencies.

Fiscal policy harmonization would have to be worked out between the contracting parties. Such negotiations would ensure that the Zambian tax system was in line with that of the EACM. This would guarantee equal treatment of business enterprises regardless of where they located within the extended common market.

This chapter has served to round out the discussion of the topic by indicating some of the costs involved, resulting from our "Proposed integration". The conditions for Zambian entry that have been suggested, hopefully will minimize these effects and, therefore, improve the chances of success. Having discussed the important aspects of the issue we can now turn to the concluding remarks.

CONCLUDING REMARKS

Throughout this study I have tried to present to the reader the important issues facing both Zambia and the East African Common Market when considering the question of further integration. The analytical tools offered by traditional custom union theory have limited use since they have been developed with the advanced countries in mind. Our investigation has been limited to examining the issues that are of particular importance to the contracting parties.

The empirical study has shown Tanzania will be the largest gainer with an immediate increase in her GDP of between 7.3% to 13.9%. A smaller impact effect in the range of 5.1% to 10.8% will be enjoyed by Kenya. This fact, combined with the hope of some type of regionally planned industrial development will increase the harmony and satisfaction

within the EACM.

For the East African Common Market as a whole there is
hope for increased rate of economic growth.   With a larger market,
a broader export base, and the likelihood of increased rate of in-
dustrialization the chances for such an occurrence are greatly im-
proved.

For Zambia the proposition is equally attractive.   One
of the greatest stumbling blocks to Zambian economic development will
be overcome.   The small size of the domestic market will no longer be
an obstacle to development.   With regionally based industry, freer
access to world markets (E.E.C.) and a more rational use of skilled
manpower (through participation in EACSO) the benefits of integration
are likely to outweigh the possible loss of customs revenue.

Therefore, our study has shown that both the EACM and Zambia
will enjoy net gains from our proposed integration.   A practical
approach has been suggested and the question is now up to the parties
concerned.   Interest has been shown on both sides and it is appropriate
to conclude the study with the words of President Kenneth Kaunda express-
ing his genuine desire for such a union,

> "I pledge for myself and my Government that, where a
> practical approach will lead to fruitful co-operation,
> we shall be the first to sieze it." 7

FOOTNOTES

INTRODUCTION

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     London, 1958, cited in Ruttenberg, <u>Agricultural Development in
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9. U.S. Department of Commerce: <u>O.B.R. Basic Data on the Economy of
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10. Ibid., p.7.

11. In 1967 there were 83 establishments employing approximately 10%
     of the total labour in the manufacturing sector which dealt with
     assembly and repair of transport equipment, Economic Report, 1969.

12. I K = 1.4$US, <u>Economic Report</u>, 1969, p.160.

13. In 1968 Zambia imported in manufactured goods;

Beverages & Tobacco	2,171
Chemicals	22,645
Manufactured goods	74,116
Machines & Transport Equipment	134,444
Miscellaneous Manufactured goods	23,956
Total	257,331,000 K.

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     data on Economy of Zambia, Dec/68, p.16.

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10. Of the 720,000,000 $US of copper exports in 1968, 240,000,000 was
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11. The population of Zambia is 4,000,000 and 75% is employed in the
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CHAPTER 5

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3. Treaty for East African Co-operation, Article 2.

4. Diamond, Peter A. Effective Protection of the East African Transfer
      Tax, p.37-47.

5. Ibid., p.43.

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7. Raisman Commission Report, p.29.

8. A summary of the Kampala Agreement has been printed in the East
      African Journal, April/65, and Appendix 2 gives the duties of the
      proposed Committee.

9. In 1966 interterritorial trade in manufactured goods and mineral
      fuels made up 72.2% of Kenya's domestic exports while Uganda and
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17. It was reported by a student researcher on the accumulated holdings of one Union President, for example, who started from a low income base and in a few years had acquired "one Toyota car, two tractors, a house and a bar, wife's house, one Isuzu lorry, canoes (two) and fish nets" with the lowest estimated value at 86,000 shillings. Saul, J.S. Op. cit., p.9, ftnt 26.

18. Saul, J.S. Op. cit. 10.

APPENDICES

APPENDIX 1 A

The following is a breakdown of the offices and services of the East African Common Services Organization:

a) Transport and Communication Services

    1   Railway inland and harbours together with associated road services and shipping

    2   Ports and telecommunications

    3   Air transport

    4   Civil aviation and meteorological services

b) Revenue Collection

    5   Customs and excise collection

    6   Income tax assessment and collection

c) Economic and Statistical Services

    7   Department of Economic co-operation and East Africa representatives overseas

    8   Statistical services

d) Research Services

    9   Agricultural and fisheries research services

    10   Medical research services

    11   Industrial research

    12   Research by Meteorological Department

e) Other Specific Services

    13   East African literature bureau

    14   East African hide and leather bureau

    15   Desert locust survey

    16   Royal East African Navy

APPENDIX IB

     A. J. Brown is concerned with the operation of the spread effects

and the circumstances under which they will affect the higher cost of

imports from members of custom unions.

     He uses Keynesian multiplier analysis and assumes that there are

unused resources of all factors of production. The new production P is

substituted for previously consumed imports with price equal to import price

plus customs duty.

     The model is as follows:

$$\Delta \dot{y}_a = \frac{m_{if} Y_b + P\left(1 - x\,t\right)}{S_a + m_a}$$

$$\Delta y_b = \frac{m_{ar}\, Y_a - t\,P(1-x)}{S_b + m_b}$$

Assumptions:

two countries A & B

industrial development takes place in A and resources are supplied by B

P $(1-t)$ tax-free value of imports

t is ad valorem rate of customs duty

x is the fraction of P consumed in A

$1-x$ " fraction of P consumed in B

$m_a,\ m_b$ marginal propensity to import of A and B respectively

$m_{af},\ m_{bf}$ " from foreign countries

$m_{ar},\ m_{br}$ " from rest of foreign trade

The first term of the numerator in both equations (1) and (2) represents

the spread effect. The second term in equation (2) is the loss imposed on

B from purchasing some part of its imports from A at higher than world

prices. The second term of equation (1) is the value of the increase in

exports to B plus the value free of tax of the reduction in imports from the rest of the world. To get the effect, this amount needs to be divided by the multiplier and

Assuming that country A is Kenya, and country B is Uganda and Tanzania combined, and estimating the plausible variables, Brown applied this model to EACM. He concludes that:

> ".....with these values the country in which manufacturing arises to displace imports into the free trade area, experiences a rise in income equal to twice the new manufacturing output, the rest of the area experiences a rise in income of about a tenth of the new manufacturing output."

Therefore, Brown's findings reinforce the findings of the Raisman Commission of 1961 which stated that the spread effects of increased production in Kenya would generate enough income in Uganda and Tanzania to compensate their loss of income as a result of buying Kenyan products at higher than world prices.

A basic fault of Brown's model is that he fails to consider the case where industries would have located in Tanzania and Uganda if the EACM did not exist. He restricted himself to those industries that required a certain size market that would not have located in an individual country without the existence of a common market.

In the following year the same problem of benefits and costs were examined but from a different point of view.

Mr. D. Ghai attempted to estimate the degree of dependence of each country on the common market. He calculated the exports of each member country to East Africa and divided it by the monetary gross domestic product. His results showed that from 1946 to 1962, Kenya had increased inter-territorial trade from 4% to 10%. Uganda's trade fell from 10% to 7%, while Tanganyika maintained a level of 2%. He concluded that Kenya relies most, and Tanganyika least, on the EACM. His conclusion was rein-

forced by figures for the value of inter-territorial trade in 1962:

Kenya 17.32 million pounds, Uganda 7.06 million, and Tanganyika 2.39

million. A further breakdown shows that 67% of Kenya's exports to

Tanganyika and Uganda are manufactured goods, Uganda exports cotton,

coffee, cigarettes, sugar, electric power, while Tanganyika's exports

consist of foodstuffs and raw materials such as fruit, vegetables, and

tobacco.

On examining the degree of protection enjoyed by each partner

country's exports, Tanzania had the lowest protection - 46% of her

exports duty free, while Uganda had the highest degree of protection

at 20.6% duty free. The cost of the custom union is the tariff revenue

forgone and again the greatest cost is carried by Tanzania. Ghai con-

cludes:

> "From our analysis of the internal distribution of
> of benefits and costs of the EACM it appears that
> Kenya has been the greatest net beneficiary, that
> Uganda has on balance gained rather than lost and
> that Tanganyika has suffered a substantial net loss."

This report added fuel to the fire of economic separatism, but

was not left unchallenged for long.

Mr. A. D. Hazelwood was soon to demonstrate that the data Ghai had

used was unsatisfactory, and had led to false conclusions. He pointed out

that existence of an East African market was not exclusively dependent upon

the existence of EACM. Some products required no protection at all and would

be traded in East African markets without any tariff preference. Therefore,

to what extent are the existing economic inadequacies a result of EACM and

its actions? Hazelwood wisely shows that when corrections in the data are

made for those products that require no protection, the results are not quite

so profound. Making this distinction gets the following results:

IMPORTANCE OF COMMON MARKET – 1962

Interterritory trade as a % of GDP

	Kenya	Uganda	Tanzania
Total interterritory exports	10%	7%	2%
Interterritorial exports dependent on preference	5%	3%	1%

Similarly, for degree of protection:

	Ken-Tanz.	Tanz.-Ken
Effective	12%	10%
Normal	45%	16%

9

From these findings it was not so obvious that Tanganyika was losing from remaining a part of the EACM.

As mentioned above, it was obvious that Nairobi, the capital of Kenya, had become the industrial growing point in an otherwise traditional agricultural economy. The historical reason for this phenomenon is that it was the administrative centre for the British Colonial Office and was, therefore, more likely to be exposed to the outside world. The question then arose as to how much of this industrial growth was a result of the EACM.

Mr. Newlyn undertook an investigation as to the shiftability of industry from Kenya to Tanganyika and Uganda if there was no custom union. He compared the average value of output per plant in Kenya with the size of export to the particular areas. If the value of exports to the country was greater than the average output per plant, it meant that the industry was shiftable from Kenya to that particular country. From his investigation

he found that a large amount of Kenya's production could be shifted

to Tanganyika or Uganda and he concluded as follows:

> "According to the 1961 data-a large amount of Kenya's
> production was shiftable to Uganda and Tanganyika and
> there would be a clear gain for Tanganyika and insig-
> nificant loss to Uganda from having the EACM."

Within months, Hazelwood was quick to show that Newlyn's con-

clusions were invalid, because of his methodology and the data he used.

Newlyn's method of calculating average output did not take into consider-

ation that in many industries, a large percentage of output was supplied

by 1 or 2 firms and the remaining 10-15 plants were simply local producers,

supplying a municipal market.   Also there was an assumption of homogeneity

of industry which led to further misinterpretation.   For example, the

baking industry was considered to be shiftable when, in fact, it was bis-

cuit products that were being exported which requires a larger scale of

plant than the average output figure suggested.   There is such variation

within each industry that the whole industry cannot be easily classified

as shiftable or not.

After re-examination of the data, out of the 15 industries which

Newlyn classified as shiftable, only 4 passed the test.

Newlyn was the first to admit that his calculations were incorrect.

But the damage had already been done.   Too often, analysis of this kind is

siezed upon and used to further political aims of certain pressure groups.

APPENDIX I C

In the Agreement five approaches to the rectification of imbalances were listed in the order in which it was thought they could be applied.

1.   In certain existing industries in which the firms operate plants in more than one country, the firms were to be requested to increase the relative share of output in Tanzania.

2.   Several new industries about to be established, of such a nature that there could, initially, be only one plant in East Africa, were to be allocated by agreement among the three territories. Most were assigned to Tanzania which was to receive radio assembly and manufacture, the manufacture of motor vehicles, tyres and tubes, and the manufacture al aluminum foil, circles and plain sheets. Uganda was to receive a bicycle assembly plant and a fertilizer plant, and Kenya a light-bulb factory. The allocation was to be made effective by each government agreeing to schedule these industries under the Industrial Licensing Acts and then arranging that licences issued by the East African Industrial Council (over which the three Governments have ultimate control) would be issued in accordance with the decisions reached under the Kampala Agreement.

3.   A system of quotas was to be introduced on exports from the surplus countries to facilitate the building up of productive capacity in the deficit countries.

4.   The 'surplus' countries agreed to attempt to increase their purchases from 'deficit' countries.

5.   A committee of industrial experts was to be appointed to survey the long-range problem of allocation of industry among the three countries

and the provision of a system of differential incentives to attract

manufacturing industry to the less developed countries.

Source:Economic Integration in Africa, P. Robson, P.149.

APPENDIX II

In East Africa, as in other parts of the developing world, agriculture has been the major economic activity within each country. From table 2A1 we see that Uganda relies most heavily on this sector, with 90% of its population involved in the agrarian economy, 60% of G.D.P. and 80% of its export earnings being derived from agricultural production. In Tanzania agriculture accounts for 80% of population, 50% of G.D.P. and 80% of export earnings, whilst in Kenya, which is least dependent on agriculture, 75% of population, 35% of G.D.P. and 50% of foreign earnings are supported by agricultural activity.

This type of development has its roots in the past. Before the colonial era, East Africa was populated by nomadic tribes whose main occupation was subsistence agriculture. Not until the late nineteenth century did East Africa become subject to British Colonial influences.

Uganda was the first of the three territories to be exposed to the outside world. In 1875, the first contact had been made by missionaries, though it wasn't until 1900 with the signing of the Uganda Agreement that a British administration was established. It was only with the completion in 1901 of a railway to the coast that Uganda became an exporter of cash crops. Cotton was grown by peasant farmers in addition to the subsistence activities. Cotton exports dominated the economy, and even as late as 1938, 80% of export earnings came from this source. With increased world demand for coffee, the farmers switched production and increased exports of this crop from 13,000 tons in 1945 to 150,000 tons in 1962-3. The important thing to note is that over 90% of these exports were produced by peasant African farmers and that little capital investment was required to

increase output. This is in contrast to Kenya where 80% of agricultural exports are produced by settler farmers. But the problem in Uganda now exists that any further increase in output would require fundamental changes in traditional methods of land tenure and attitudes towards subsistence farming. Introduction of new methods of farming and reorganization of land tenure would be a precondition to any substantial increase in agricultural output.

The colonial administration in Kenya was established by the British in 1895 and an active policy of encouraging immigration was followed. The hope for Kenya was for a path of economic development similar to that of Canada or Australia. Thus, in the early 1900's it was British policy to develop an export economy operated by European farmers and worked by native labour. In order to attract European settlers, the most fertile area of Kenya was declared the "White Highlands". This well-watered upland was surrounded by low-lying African, non-scheduled lands. Some of this land was fertile but most areas were good only for grazing and a large area lay idle because it was infested by tsetse flies. Within the White Highlands or Scheduled Areas lay some of the most fertile farm lands in Africa. Holdings in these areas were restricted to whites only and were acquired on a 99 or 999 year lease basis, for a nominal rental fee paid to the Crown. Africans were forbidden to own land although after a time squatters arrangements were made for Africans to own small patches of the estate on the condition that the squatter and his family worked as contracted labour for the white estate owner.[3]

Early colonial policy can easily be summed up by the words of Sir Charles Eliot, first British Commissioner of British East Africa. Eliot wrote in 1903, "......the interior of the protectorate is a White Man's country. This being so, it is mere hypocrisy not to admit that white

interests must be paramount." [2]

The great mass of the Africans lived in the Reserves on the Non-scheduled land. These reserves were used as labour pools to supply the large European farms with cheap labour. African labour was drawn from the reserves for two reasons. First, because of the poor conditions of the reserves and more important, because of the "hut tax" that was levied upon every African male. Since the Africans had no cash they were forced to work for a certain period of time in order to meet this obligation. The amount of tax varied depending on the party in power in Britain at the time. Discussion centred around whether the tax should be paid off by two or six months earnings but there was no question as to the purpose of the tax.

"We consider that taxation is the only possible method of compelling the native to leave his reserve for the purpose of seeking work. Only in this way can the cost of living be increased for the native and as we have previously pointed out, it is on this that the supply of labour and the price of labour depends." [3]

The average size African farm of 23.6 acres (as contrasted with the white farm holdings of 3,400 acres) was used primarily for subsistence agriculture. While the male members were off working, the wife and children cultivated the home plot. There were few externalities of this dual system that could benefit the local inhabitants. There was a certain spill-over of technological innovation that could be applied to African lands. But there seems to be very little evidence of increased productivity. The technology of the large European farms was highly mechanized and did not lend itself to small acreage. In many cases the work done by African labour was simple, tedious operation, from which no knowledge could be gained. In addition, because of the crowded conditions within the

the reserves, and lack of capital, little improvement was noticed. There were certainly social services which became available to local inhabitants, since the foreign enclave developed hospitals, schools and other amenities to which the natives also had limited access.

The dual economy was a success on purely economic criteria. The large farms became the economic backbone of the country and between 1954-1963 provided one-third of the total agricultural production and four-fifths of the agricultural products brought to market. [5] These large farms produced for the world market and provided government and farmer with foreign exchange. As mentioned above, eighty percent of domestic exports came from the settler farmer sector.

Although the economic benefits were high from such a system, the social costs were also high.

The growing irksomeness of the income disparity between African and Non-African, the breakdown of traditional native customs, the overcrowding of reserve areas resulting in increased erosion, and the discrimination of Marketing Board agents against the African farmers brought the crisis to a boiling point in the early fifties.

The year 1952 marked the outbreak of violence. The MauMau had sought to drive out the settler farmers by with-holding labour, and any natives who went to work for the white men were killed. This crisis situation brought a massive inflow of British aid to bolster the military and police force. Suppression of the rebellion cost well over 13,000 lives including 96 Europeans, among them 32 civilians. [6]

With the uprising came the awareness of the plight of the African farmer and a switch in policy was made. Further economic development

would be aimed at the African sector of development.

The Swynnerton Plan, backed by 5 million pounds, was implemented to bring about basic changes within the structure of the economy. The new approach was characterized by:

    (1) a land reform bringing land consolidation and the issuing of title deeds.

    (2) changing the emphasis from the development of subsistence crops to the introduction of new cash yielding crops.

    (3) efforts to reorganize pastoral areas by establishing grazing areas.

    (4) settlement of rain-fed land and some investment in irrigation farming.

    (5) provision of more finances and personnel for auxiliary services and technical assistance. [7]

There was a great response from the small-farm sector. Large percentage increases were made in all areas of pyrethrum, tea, sisal, rice, but the most spectacular was that of coffee revenues which grew from 170,000 in 1954 to 5,000,000 in 1964. [8]

Thus, in the decade preceding independence, positive steps had been taken to improve the lot of the African, but there was still a long way to go.

In 1960 Africanization of the White Highlands was implemented in the "One million acre settlement scheme". Under this program 1.2 million acres were to be purchased from voluntary sellers in the scheduled areas and redistributed to Africans. Redistribution was divided into high and low density areas, the former covering one million acres and plots of 28 acre size were allocated with estimated earning power of K.Sh.500. The low-density program was to accommodate better qualified Africans who owned some capital of their own and demonstrated some agricultural ability. The average

size of plot was 35 acres with a minimum net cash income of K.Sh. 2000.
Completion of plan was anticipated for 1968 but was extended to 1972.
The main reason for slow progress was lack of trained manpower and small
field staff.   It seems obvious that the purpose of this plan was political
in nature.   As Africanization continued the European farmers could demand
a good price for their land, one much higher than if there had been no
government backing.   But whatever the motivation, it has been a positive
step in the raising of African standards.

In Tanzania (previously Tanganyika) there has also existed foreign-
owned and operated estates.   But unlike Kenya, these farmers did not form
the only supply of agricultural exports.   The estates covered only 1.1% of
total land or 10% of the arable land.   In 1954 the estates accounted for
25% of agricultural product.[9]   The World Bank reports that 35% of market
supply and 45% of the agricultural export were provided by the estates.
Most recent figures show the estates share dropping to 12% of total agri-
cultural output.   The main estate crops are sisal, coffee and tea.

Commercial growing of cotton and coffee was introduced to the peasant
farmers by the early Catholic missionaries and have become the main export
of Tanzania today.   Cotton, millet, sorghum, root crops, bananas, leguminous
crops, rice, etc. are produced almost entirely on African farms as well as
half of the country's coffee and tobacco.

Shifting agriculture that was traditionally practiced by local farmers
is being transformed to semi-permanent and permanent farming methods as a
result of increasing population pressures and demand for cash exports.
Work is also being done by extension workers to increase the productivity
of the land through fertilization, and improved farm management.

What is more interesting about the Tanzanian agricultural develop-ment is the structural changes called for in the pursuit of "African Socialism."   Tanzania's President, Julius Nyerere, has based his hope for African Socialism in rural redevelopment.   In a paper entitled "Socialism and Rural Development", Nyerere explains the basic social unit of traditional Tanzanian society to be "Ujamae" or the extended kinship group.   For this reason he feels that Tanzania has the best possible foundation for a truly socialist state.   The Ujamae system is based on (1) mutual respect of the kinship groups,   (2) common holding of material goods, and, (3) an obligation to work and contribute to the collective welfare of the group.

Even though the government truly believes in the ideologies for which African socialism stands and seems willing to make sacrifices to uphold them, problems have arisen in the actual implementation of the program.   There arises the conflict between economic progress and ideo-logical goals.   Material progress involved the fragmentation of Tanzanian rural society into individualistic economic units.   The few attempts that were made at co-operative farming were generally unsuccessful and a waste of government resources.   The co-operative nature of the extended kinship group was based on the social structure of the family group and was a matter of economic necessity.   Once cash crops were introduced and the general changing of the conditions through increased population pressures the trad-itional social structure of the extended family began to deteriorate. P. G. Gulliver studied the Nyakusa tribe and found overwhelming evidence of the existence of these types of conflicts and adjustments within tribal society when faced with new opportunities of economic development. "

President Nyerere himself has been aware of this problem and voiced his concern.   He realized that the introduction of cash crops tended to

encourage individualistic and acquisitive attitudes and the increasing

dependence on wage labour rather than co-operative or communal work.

Therefore, he wrote in 1962, "Acquisitiveness for the purpose of gaining

power and prestige is unsocialistic. In an acquisitive society wealth

tends to corrupt those who possess it."[12] He rejects capitalism as a

form of development. "Tanganyika would reject the creation of a rural

class system even if it would be proven that it would give the largest

overall production increase."[13]

After an unsuccessful attempt at operating state co-operatives,

however, a more tempered approach was taken. Rather than develop co-

operative farms, the emphasis shifted to marketing co-operatives. Thus

the number of co-operative societies increased from 857 in 1961 to 1,533

in April 1966, and the volume of produce handled from 145,000 tons in 1960

to 495,000 tons in 1965.[14]

The role of those institutions was not to be limited to marketing

alone. With the post-independent government, great hope was placed on

these boards as tools for future economic development. Not only did

many of these co-ops have large surpluses that could be used for credit

extension but also the co-operative movement represented an effective

policy tool that affected rural development most directly.

The development of the co-operative movement and marketing boards

was in the President's own words, "...from the socialist principle of

avoiding the exploitation of man by man."[15]

Table 2A 2[1]

Tanzanian Agricultural Production

Value:millions of T.Shillings	1961	1962	1963	1964	1965	1966
Coffee	104	102	134	172	205	305
Sisal	264	294	440	468	280	254
Lint Cotton	100	120	148	172	212	253
Cashewnuts	14	26	28	40	63	80
Oil, seeds and nuts	28	26	36	38	28	27
Ground nuts	14	24	26	22	10	8
Sugar	28	36	48	58	61	64
Tea	34	32	36	30	37	44
Other cash crops	40	46	70	78	54	54
Staple food crops	1,270	1,410	1,394	1,302	1,260	---
	1,896	2,116	2,360	2,380	2,210	---

1 Source: Surveys of African Economics P.219

Table 2A 3[2]

Kenyan Agricultural Production

Value:millions of K.Shillings	1961	1962	1963	1964	1965	1966
Coffee	208	190	220	279	259	346
Tea	96	134	137	156	147	198
Sisal	90	90	159	135	78	60
Wheat	54	42	61	73	88	77
Maize	58	66	79	32	38	54
Other cereals	16	12	19	16	17	16
Pyrethrum	50	40	22	18	29	43
Wattle	10	14	13	13	11	15
Sugar	20	24	27	31	32	20
Cotton	10	6	9	11	13	13
Other cash crops	76	62	44	44	48	62
Total crops	688	680	790	808	760	904
Livestock prod.	234	268	197	190	196	273
Total Revenue	922	948	987	998	956	1,127

2 Source: Surveys of African Economics, p.149

Table 2A 4[3]

Ugandan Agricultural Production

Value: millions of U. Shillings	1961	1962	1963	1964	1965	1966
Coffee beans	276	306	430	302	200	252
Seed cotton	122	248	235	302	309	193
Sugar	92	110	104	96	96	...
Tea	48	46	56	50	54	...
Tobacco	6	6	12	12	14	...

3 Source: Survey of African Economics P. 300

Although the middle man has been eliminated in the agricultural sector, this does not mean the disappearance of exploitation. J. S. Saul ably points out that within Tanzanian society there has developed a unique social structure. Within rural society has developed a new sort of elitism based on membership in the co-operatives. The executives of the individual co-operatives have used their influence and position to accumulate personal fortunes. In 1965 a Special Committee reported "With regret we must report that in a great many cases, society secretaries engage in petty thievery, often in collaboration with a corrupt committee man and sometimes, not so petty." [16]

Stories of such ilk were commonly heard in the agricultural sector. [17]

As well, some co-operatives offered ploughing services to their members but there was an inequitable division of ploughing time that favoured the committee men and in some cases these men did not pay the hire charges. [18]

The result of these investigations has been increased government participation and control. Even though there was evidence of grass-roots discontent within co-operative movements once the inequitable distribution of benefits the "activists" resorted to parochialism and tribalism to stir the peasantry against increased government control. The success of this re-organization of the co-operative movement will come with the increasing awareness and education of the peasant farmers. Nyerere has called for local farmers to be suspicious of their leaders and not to fear criticism. Though increased government control may have short term costs, as social awareness and, more important, the educational standard rises, in the long run all of Tanzanian society will benefit.

Make up of Agricultural Production

Having briefly summarized the historical development of each country's agricultural sector we can now turn to a more detailed analysis of the actual products of this sector.   Let us look at a country by country breakdown of agricultural production.

As was indicated earlier all three countries depend heavily on the agricultural sector.   From tables 2A 2, 2A 3, and 2A4, it is obvious that the greatest revenue earners in all three cases are coffee, sisal, cotton and tea.

Coffee has become the main agricultural export for all three countries. All are members of the International Coffee Agreement (ICA), and therefore the bulk of their coffee goes to the quota market.   Any amount above this quota must be sold outside the quota market at lower prices.   Uganda is the largest producer with 160,000 tons in 1967, of which 94% was robusta type coffee.   Kenya then follows with a 1966 production of 51,300 tons, most of which is high quality arabic coffee.   An interesting observation is to note how the small farmer share of production has increased from 20% in 1960 to about 50% in 1966.   This is a direct result of the one million acre settlement program discussed earlier.   As these small farm plantations reach maturity it is predicted that the 1970 crop will reach 70,000 tons. Tanzania is next with a 1967 production of 47,000 tons of which 3/4 was arabic and one fourth robusta.   In all three countries production has been greater than ICA quota so that the respective governments have been encouraging improvement in quality rather than increased production.

Sisal was the main export earner of Tanzania up until 1966 ($\frac{1}{4}$ of total earnings). Tanzania holds 2/5 of the total world market but the price of sisal has fallen because of increased competition from Brazil and the intro-

duction of substitute synthetic fibre.   In 1967, 217,000 tons of sisal were exported but because of the higher labour costs and low international prices, both coffee and cotton were greater export earners, dropping sisal's share of export revenue to 15% in 1967.

Kenya is the only other East African country that is producing sisal. Production reached a peak in 1963 of 70,200 tons because of good prices, but dropped to 57,000 tons in the next 3 years following a drop in price. Export earnings fell from K.Sh. 150 million in 1963 to 66 million in 1966.   Most of the crop is from large estates and the government is discouraging small farm production of sisal because of the dim prospects for the industry.

Cotton was once Uganda's main export and was the engine of her early economic development but now it ranks second to coffee accounting now for about 1/3 of total export earnings.   The largest producers of cotton, Uganda set a record crop of 285,000 tons in 1965-66.   The government is actively encouraging the production of cotton through the introduction of pesticides and improved cultivation practices.   Output is expected to exceed 368,000 tons by 1971 which is the end of the second five-year development plan.

Tanzania has enjoyed increased output earnings that has more than doubled between 1961 and 1966 (see table 2A 2).   The 1966 production of 77,600 tons has placed cotton as the second largest source of export revenue bringing in 22% of total earnings.

Production of tea holds a lesser position in the hierarchy of foreign exchange earning crops.   In Uganda, it is the third most important crop and fourth largest export.   Tea production has traditionally come from large estates but the government has introduced a program to extend tea production to African small farm holders who would sell their output to the estates. By 1970, the total area under cultivation is expected to be 33,000 acres of which

14,000 will be grown by African "outgrowers".

Tea production in Tanzania has been minor in comparison to other crops. Although previously dominated by estate farming, tea production has been introduced to the African Sector.

From the respective tables we can see the other agricultural products such as ground nuts, sugar, wheat and maize together make up a substantial part of the agricultural sector but are not of any importance individually.

APPENDIX III

SERVICES TO BE ADMINISTERED BY THE COMMUNITY

1.   The secretariat of the Community, including services relating to the Common Market and the Chambers of the Counsel to the Community.

2.   The East African Directorate of Civil Aviation.

3.   The East African Meteorological Department

4.   The East African Customs and Excise Department.

5.   The East African Income Tax Department.

6.   The East African Industrial Council.

7.   The East African Literature Bureau.

8.   The Auditor-General's Department.

9.   The East African Community Service Commission.

10.   The East African Legislative Assembly.

11.   The East African Agriculture and Forestry Research Organization.

12.   The East African Freshwater Fisheries Research Organization.

13.   The East African Marine Fisheries Research Organization.

14.   The East African Trypanosomiasis Research Organization.

15.   The East African Veterinary Research Organization.

16.   The East African Leprosy Research Centre.

17.   The East African Institute of Malaria and Vector-Borne Diseases.

18.   The East African Institute for Medical Research.

19.   The East African Virus Research Organization.

20.   The East African Industrial Research Organization.

21.   The East African Tropical Pesticides Research Institute.

22.   The East African Tuberculosis Investigation Centre.

23.   Services arising from the operations of the East African Currency Board.

24.   Services for the administration of grants or loans made by the government of any country, any organization or any authority, for the purposes of projects or services agreed between the Authority and the Partner States.

25.   Services, including statistical services, for the purposes of co-ordinating the economic activities of the Partner States.

26.   Services for the purposes of any body or authority established in pursuance of paragraph 4 of Article 43 of this Treaty.

27.   Services for the purposes of the East African Industrial Court established by Article 85 of this Treaty.

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