AN APPRAISAL OF THE EAST AFRICAN ECONOMIC INTEGRATION SCHEME — CRITICAL ISSUES AND POSSIBILITIES

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NOVEMBER 1976
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1. Introduction

From the standpoint of our perceptions of experiences in regional integration today, the approach to integration can be classified basically into two types. They are the conventional approach to integration which is predicated upon the principle of the freeing of trade within the region and the recent growing recognition of the importance to include regional planning of industrial development within the institutional framework of integration to be employed.

For brevity, the former type of strategy will be referred to in this paper as "the trade approach," and the latter referred to as "the planning approach." In reality, the integration institutions in a specific case do not lend themselves sharply to this dichotomy. The actual scheme may stand in between, based on a mixture of the two approaches. For instance, a customs union could include schemes for the development of territorial industries involving some form of planning at supranational levels.¹

Broadly viewed, the current integration scheme in East Africa can be considered as largely reflecting the features of "the trade approach." It is true that the East African system includes a few features resembling "the planning approach" to integration. By and large, these are an exception to the rule and have not proved very significant in importance. Political conditions in East Africa have not been of the kind that could sustain integration based on a planning scheme for industrial development at the regional level.
The main thesis of this paper is this: Given the unique, historically-conditioned structural imbalance existing in the East African economies, integration through "the trade approach" would not be viable. The implication emerging from this is the need for emphasis on "the planning approach" to integration if the present system is to remain capable of surviving on its own.

The paper begins with a brief examination of the characteristics of economic structure in the East African region as a whole in Section 2. Section 3 relates the East African conditions to the trade-creating and -diverting effects of integration. In Section 4 the efficacy of the transfer tax system in bringing about regional industrial balance is examined. Section 5 is concerned with the empirical relevance of the analysis in light of the historical evolution of East Africa's economic cooperation. Finally, the main themes of the paper are summarized in the concluding section with the discussion on their policy implications.

2. Structural Characteristics in East Africa

Much of the present industrial structure of the three East African countries—Kenya, Uganda and Tanzania—has its origin in the colonial policy of the past. There are two distinct, colonially-inherited, structural characteristics common to the three East African economies.

The first characteristic of the region's economy is the general lack of complementaries in the production and industrial structure between the neighbouring countries. Economic policies under colonial administrations had been geared to develop an industrial structure of the region in a manner that strengthened complementaries with the overseas metropolis, and not with the neighbouring countries—a fact that has been revealed by the region's trade pattern. Despite the long existing common market arrangement among the three countries,
both the volume and range of the products for intra-regional trade have historically been insignificant in relation to the region's trade with the rest of the world.

Secondly, the economic structure of the East African region is characterized by the disparity in the level of industrialization between the member countries. In addition to the colonial effort for establishing a vertical linkage between the metropolis and the periphery areas, industrial development tended to be concentrated in Kenya during the interwar period, gradually establishing Kenya as a periphery center in relation to its satellite areas of Uganda and Tanzania. Thus, investments tended to flow into Kenya rather than into Uganda and Tanzania. At the time of the independence of the three countries, their economic structure had become increasingly similar rather than complimentary, and at the same time within the framework of the similarly-structured region's economy a marked disparity in the level of industrialization had developed between Kenya and the other two countries.

3. An Impact Analysis of Integration

In these circumstances, it is then expected that the freeing of trade within the territory leads to the deepening of trade imbalance between the more industrialized and the less industrialized partner states. The economically stronger partner will have an edge over the weaker partner in securing the market for competitive export products, and the fact that there are no complementaries in industrial structure between the partners implies denial of the opportunities to the weaker partners of exporting the products that would be complementary with their importables.

The theoretical implications of a lop-sided trade on the trade-creating and trade-diverting effects of the participating countries are
illustrated in Figure 1. For illustration, we shall assume that the integration community consists of two countries; the economically stronger partner shown as the exporting country in Figure 1 (A) and the weaker partner as the importing country in Figure 1 (B). Each country by itself is assumed very small in the world market so that the world supply schedule is infinitely elastic at the given price $P_w$. However, it is reasonable to assume that the price of traded goods between the member countries is affected by the reciprocal demand of each. The autarkic price in the weaker member country is greater than that prevailing in the stronger member, which in turn is assumed to exceed the free trade world price $P_w$.

Let $P_w'$ be the domestic price prevailing in the importing country after imposition of a tariff on imports from the rest of the world. In Figure 1 (B) the tariff rate on imports from the other member state is shown to be prohibitive prior to formation of a customs union. With the formation of a union between the two countries, the equilibrium price will be set at $P_T$, determined by the usual market equilibrium condition that the excess supply $A'H'$ from the exporting country is equal to the excess demand $AH$ in the importing country.

As shown elsewhere, the movement to a position of freer trade than prevailed prior to the formation of the customs union gives rise to the expansion of trade, referred to as the trade-creating effect, and to the shift of trade from the world’s most efficient producer to the most efficient within the union, referred to as the trade-diverting effect. The welfare gain to the importing country through the trade-creating effect is usually represented by two triangle areas $AFTP$ and $GJH$. The former represents the difference between the domestic resource cost of producing quantity $BC$ and the foreign payment for
TRADE-DIVERTING AND-CREATING EFFECTS OF A CUSTOMS UNION

Prohibitive tariff-ridden price

After-tariff world price

Intra-regional-trade
Equilibrium price

Price paid to producers in the exporting countries

Free trade price

Figure 1(A) Stronger Partner state
Figure 1(B) Weaker Partner state
importing the same quantity. It shows a net saving in the use of real resources to the importing country. The latter reveals net increase in the consumer surplus as the difference of the area $JIHE$, which reflects the marginal gain in the surplus as a result of an increased consumption of $LE$, and the area $GIHE$ representing the payment for the corresponding consumption of $LE$. The net welfare effect then depends on the relative magnitude of the trade-creating and trade-diverting effects. The trade-diverting effect is shown by area $PTZG$ Figure 1 (B).

In addition, the liberalization of intra-regional trade in East Africa gives rise to another important macroeconomic effect on the importing country. The elimination of internal trade barriers leads to the contraction of import-competing industries in the weaker member. There would be no loss to the importing country if the variable factors (labour) released from the import-competing industries were to be reemployed in other productive sectors of the economy. Several reasons may be given, however, for believing that such released factors are likely to remain idle in the economically weaker partner states.

First, as previously seen, less industrialized partner states are likely to incur a deficit in the trade with more industrialized states. The expansion of some export industries in the deficit country following the formation of a union will not be sufficient to absorb completely the variable factors released from its import-competing industries. Secondly, as is the case with many developing countries, effective demand in each national market of the East African countries is limited in scope to begin with. Possibilities of an expansion of other productive sectors in the face of increased imports are small. Thirdly, the resources in developing countries are relatively immobile between uses, and adjustments through structural shifts to changed demands are generally sluggish and costly.
Thus, the welfare effects of integration in the context of East Africa, among other things, should include as a additional element the unemployment effect in the economically weaker member state. In Figure 1 (B) this can be shown to be the area FABC when measured in value terms. From the point of view of static analysis, the relevant comparison for evaluating the effect of integration is between the shaded area JCH and the cross-hatched area ABCZG Figure 1 (B). The net loss incurred on the less industrialized partner following the formation of a customs union is far more than the sheer difference between the trade-diverting and the trade-creating effects, as shown in the traditional analysis.

That there will unequivocally be a loss to the weaker member becomes apparent if we take the case of a common price level and compare at this price level the alternative situations of joining and not joining in the customs union. We may suppose that the external tariff rate has been reduced so that the free-trade world price after a tariff becomes competitive with the regional free trade equilibrium price indicated at $P_r$ in Figure 1 (B). Given these alternatives, the importing country would clearly be better off by staying away from the customs union. For the less industrialized partner state, importables in the quantity of AH could be obtained at price $P_w$ rather than at price $P_r$ in this case. There would then be a net saving of real resources to the importing country by the amount indicated by the area AWH.

Turning to the economically stronger partner state, it is patently obvious that under the assumption of the existence of unemployment in the less developed country, the principal gain from integration accrues in the form of expanded employment and income.
In Figure 1 (A) the expanded income is shown by the area $A'B'E'H'$. Of course, the gain would be the larger if initially the more developed partner had been a net importer from the rest of the world prior to the formation of a union. In Figure 1 (A) the initial level of imports in a free trade situation is shown by distance $ah$. Comparison of variations in the consumer and producer surpluses is not attempted here. The income effect of integration overrides other welfare considerations for the exporting member.

4. The Transfer Tax System

Mention must be made as regards the efficacy of the so-called transfer tax scheme envisaged in the 1967 Treaty for Economic Cooperation as a device to safeguard the widening of trade imbalance for less industrialized partner states. The transfer tax is an intra-union tariff that can be imposed by a partner country on imports from other partner states with which it has an overall trade deficit.

According to the Treaty, a transfer tax may be imposed

1. only on imports of manufactures from the partner states with which the importing country has a deficit,

2. only on these goods for which the importing country has a productive capacity sufficient to meet at least 15 per cent of domestic demand; and

3. at the rate not exceeding 50 per cent of the external tariff rate for the same product.

Finally, the transfer tax scheme itself was envisaged for a limited period of eight years with the eventual discontinuation of the system after fifteen years.

In theory, the transfer tax could make the exports of manufactures produced within the union competitive with the overseas imports in the
importing country. It can be shown, however, that the effect of the tax is only to alleviate the extent of income losses sustained by the weaker members as a result of the stronger members' seizing the opportunity to supply the wider market following integration.

This can be seen by referring to Figure 1 (B) once again. This time, we may assume that the transfer tax rate is set so that importables from the union's most efficient producer are made competitive with the overseas imports in the importing country. That is, we let the transfer tax rate to be determined so that $P_T(1 + t) = P_W'$, the after-tariff overseas import price.

As already shown previously except in the reverse order this time, the movement from initial position $P_T$ to $P_W'$ through imposition of the transfer tax rate $t$ entails benefits to the importing country in the form of expanded employment and income by area $A_B C I$. The same protective effect can be had if the importing country opts to stay away from the union and continues to import from the rest of the world. An important difference, however, is that with the option for the latter there will result in a net saving of real resources equal to area $Q T Z R$ in the importing country. Alternatively viewed, if imports are to be obtained from the union's most efficient producer, the price paid to the foreign producer remains at $P_T$, which is higher than $P_W$—the price charged by the world's most efficient producer. The aforementioned area then represents the trade-diverting effect resulting from a movement from the world's most efficient producer to the union's most efficient producer.

The main objective of the discussion in the preceding section was to prove that the economically weaker partner state would be made worse off by participating in an integration scheme stressing on trade-liberalization. It is now clear that incorporation of the transfer tax
device into the scheme does not affect the validity of the above proposition.

From a longer run perspective, the transfer tax scheme is not an effective method for achieving significant expansion in intra-regional trade. The tax is designed merely to protect domestic import-competing industries, and will not in itself foster development of new industries along complementary lines within the framework of the region's economy. It would seem more economically justifiable for promoting trade cooperation in the future to encourage complementary industrial development in the less industrialized partner countries.

Furthermore, since the transfer tax is to be removed in the future, possibilities exist that competition from more efficient producers in the partner countries eliminate the hitherto protected industries. Either substantial capital investment will have been wasted, or further attempts to restrict trade will likely follow. In these respects, the transfer tax scheme could lead to serious distortions in conditions of production within the integration region.

5. The East African Experience in Integration

Much of the discussion, so far, has been concerned with the explanation of structural characteristics of the region's economy and the implications of an exclusive reliance on the "trade approach" for effecting integration. At this point, a summary review of the historical evolution of integration in East Africa will be appropriate.

Historically under the British rule, the markets of the three states had long been well integrated and linked with each other. The East African Common Market institutions, however, lacked in the formulation of concrete planning for regional industrial development. In this sense, the colonial scheme for regional integration is conceived
as largely reflecting "the trade approach" to integration.

The experience of the East African Common Market provides a vivid illustration of the difficulty of adopting the "trade approach" in effecting integration. Since the inception of the common market, the better industrialized Kenya has been able to continue to maintain surpluses in its trade with the less industrialized Uganda and Tanzania. A distinct trend towards trade imbalance has been established in the intra-regional trade. During the early sixties Kenya's exports of manufactures to Uganda and Tanzania were on the average four to five times as large as its imports from them.

In this connection, it is interesting to note the particular pattern of trade that emerged. All the three countries had deficits in their trade with the rest of the world, but the freeing of intra-regional trade enabled Kenya to increase its exports of manufactures intra-regionally without a comparable impact on its imports from Uganda and Tanzania. Kenya's imports of non-manufactures from Uganda and Tanzania were relatively small to begin with. The trade in agricultural products had been severely restricted by Kenya's farm price support policy and its use of quantitative controls on imports. Thus, for Kenya, the overall deficit in the trade with outside has been partly offset by a surplus in its intra-regional trade.

Within the framework of the common market institutions, there had been a succession of measures aimed at alleviating the problem of trade imbalance. For instance, under the industrial licensing system, the allocation of new industries to each member country, as conceived in the original scheme, was to be determined by agreement with the granting of an exclusive license to an enterprise in a member country for operation in the entire region. The decision on the location of new industries, however, has been left to the investor, and in practice
Kenya has ended up with the major share of new industries under this arrangement. The financial compensation scheme instituted on the recommendation of the Haisman Committee in 1961 provided for the creation of a common distributable fund made up of each country’s income and

Table 1: Inter-State Trade in Transfer-Taxed Goods

(A) Tanzania’s Imports from Kenya and Uganda

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<tbody>
<tr>
<td>1) Total Imports of Transfer-taxed goods from Kenya</td>
<td>49,769</td>
<td>56,596</td>
<td>42,235</td>
<td>43,753</td>
<td>42,213</td>
</tr>
<tr>
<td>2) Total Imports of Transfer-taxed Goods from Uganda</td>
<td>3,719</td>
<td>3,292</td>
<td>1,609</td>
<td>236</td>
<td></td>
</tr>
<tr>
<td>3) Total of (1) and (2)</td>
<td>53,488</td>
<td>59,888</td>
<td>43,844</td>
<td>43,989</td>
<td>42,213</td>
</tr>
<tr>
<td>4) Total Imports from Kenya</td>
<td>256,957</td>
<td>295,042</td>
<td>294,860</td>
<td>352,721</td>
<td>337,076</td>
</tr>
<tr>
<td>5) Total Imports from Uganda</td>
<td>34,261</td>
<td>39,893</td>
<td>16,329</td>
<td>5,826</td>
<td>2,246</td>
</tr>
<tr>
<td>6) Total of (5) and (6)</td>
<td>291,218</td>
<td>334,955</td>
<td>311,189</td>
<td>358,547</td>
<td>339,322</td>
</tr>
<tr>
<td>7) Transfer-Taxed Goods as Per cent of Total Imports</td>
<td>18.36</td>
<td>17.88</td>
<td>14.08</td>
<td>12.25</td>
<td>12.44</td>
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</table>

(B) Uganda’s Imports from Kenya

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</thead>
<tbody>
<tr>
<td>1) Total Imports of Transfer-Taxed Goods from Kenya</td>
<td>20,352</td>
<td>42,184</td>
<td>44,461</td>
<td>24,651</td>
<td>58,717</td>
</tr>
<tr>
<td>2) Total Imports from Kenya</td>
<td>318,985</td>
<td>333,954</td>
<td>382,998</td>
<td>330,146</td>
<td>437,953</td>
</tr>
<tr>
<td>3) Transfer-Taxed Goods as Per Cent of Total Imports</td>
<td>6.38</td>
<td>12.63</td>
<td>11.6</td>
<td>7.48</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Source: Economic and Statistical Review, 1974 (September)
Table 2: Transfer Tax Collection

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Tanzania</td>
<td>10,625</td>
<td>8,920</td>
<td>8,656</td>
</tr>
<tr>
<td>Uganda</td>
<td>7,626</td>
<td>7,128</td>
<td>6,962</td>
</tr>
</tbody>
</table>

Source: Economic and Statistical Review, ibid.

profit tax revenue and of customs revenue. A half of the fund was to be used for the operation of the common services, and the other half to be redistributed to the member countries. The scheme had a limited success in alleviating financial burdens of the less developed partners, and had apparently little to do with the basic issue of trade imbalance.

The growing disparity in the intra-regional share of integration benefits has become a major source of friction among the partner states in the post-independence period. The 1967 Treaty for Economic Cooperation was a new attempt to revitalize the regional integration institutions. The three governments agreed to establish the Economic Community of East Africa, which would aim at continuing a common market, and in addition would provide a framework for the coordination of economic policies and programmes. The Treaty also included provisions for the continuation of the common services (airlines, harbours, communications and research and development) to be administered by the newly established transnational corporations.
Table 3: Kenya's External and East African Trade

<table>
<thead>
<tr>
<th></th>
<th>Visible Trade Balance in Trade with East Africa (Tanzania) (Uganda)</th>
<th>Volume of Trade in Relation to East Africa</th>
<th>Per cent of East Africa in Total Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>East Africa World</td>
<td>External World</td>
<td>External World</td>
</tr>
<tr>
<td>1964</td>
<td>9,189</td>
<td>-23,046</td>
<td>130,144</td>
</tr>
<tr>
<td>1965</td>
<td>9,517</td>
<td>-36,995</td>
<td>141,079</td>
</tr>
<tr>
<td>1966</td>
<td>9,475</td>
<td>-50,088</td>
<td>174,704</td>
</tr>
<tr>
<td>1967</td>
<td>9,094</td>
<td>-47,607</td>
<td>166,185</td>
</tr>
<tr>
<td>1968</td>
<td>9,577</td>
<td>-51,829</td>
<td>177,699</td>
</tr>
<tr>
<td>1969</td>
<td>8,830</td>
<td>-48,440</td>
<td>185,160</td>
</tr>
<tr>
<td>1970</td>
<td>8,844</td>
<td>-64,576</td>
<td>213,477</td>
</tr>
<tr>
<td>1971</td>
<td>6,811</td>
<td>-105,763</td>
<td>262,447</td>
</tr>
<tr>
<td>1972</td>
<td>10,399</td>
<td>-82,166</td>
<td>273,075</td>
</tr>
<tr>
<td>1973</td>
<td>9,226</td>
<td>-76,864</td>
<td>334,723</td>
</tr>
</tbody>
</table>

Note 1. Negative figures imply a deficit in the trade balance.

The figures for exports include Domestic Exports and Re-exports.

Source: Annual Trade Reports: East African Customs Excise Department

The novel features of the Treaty, however, were the creation of the transfer tax scheme and the establishment of a jointly-financed East African Development Bank. The limited effectiveness of the transfer tax system as a protective device for less industrialized partner states has already been pointed out. Analysis of the recent data for intra-regional trade flows largely confirms this conclusion. During the 1969-73 period, volumes of transfer-taxed goods as percentage of total imports on the average accounted for not more than 15 per cent for Tanzania and about 10 per cent for Uganda (See Table 1).

The Development Bank was established to deal with the channeling of jointly financed investment loans for development projects. With a
view to redress the existing structural imbalance, priorities would be
given to investment in less developed partner states. The financial
resources of the Bank, so far, appears to have been too limited in
size to be of any significance. Moreover, the Development Bank itself
is incapacitated in its role to stimulate the growth of the Community's
industrial sector by the sheer lack of coordination and implementation
of the plans for regional industrialization. Implementation of major
projects would require a joint financing and an integrated regional
market of the three states. The present integration scheme includes
no provisions for cooperative planning for industrialization. Thus,
the East African Community institutions do not basically differ from
the previous Common Market system in that the primus mobile of inte-
gration is liberalization of intra-regional trade.

Casual observations on the region's trade pattern reveal an
evidence that the present integration scheme has led to an unbalanced
distribution of the benefits from an integrated market. As indicated
in Table 3, the process of a polarization in trade balance between
The historical pattern of Kenya's deficit in trade with the rest of the
world remains unchanged. In terms of the volume of trade, we observe
a trend towards the diminution of the importance of intra-regional
trade relative to external trade. The share of the intra-regional
trade has gradually diminished from 22 per cent high in 1964-1965 to
13 per cent low in 1973.

It seems that the present scheme is not designed to directly
confront the basic issue of the less developed partners' inability
to meet each other's import requirements for diversified capital and
manufactured goods. The weakening of the intra-regional trade link
can be perhaps best explained in this context.
After 1970, erosion of the intra-regional trade has taken the form of a series of trade restrictive measures adopted first by the less industrialized partners and to a less degree later by Kenya itself. Although the restrictions on imports arose in the particular circumstances of balance-of-payments difficulties of the East African countries in connection with the global inflation and oil crisis in the early 1970s, it is nevertheless significant to note that the restrictions were equally applied to imports from other partner states.

Co-ordinated Plans for Industrialization

If the main objective of regional integration is to mutually assist in industrialization of each member country, it is essential that appropriate measures for securing a balanced distribution of the integration benefits be incorporated into the framework of the institutions to be employed. The choice of the mode of such framework should, of course, hinge upon the socio-economic context of the particular region. Given the prevalence of the colonially instituted structural characteristics of the East African economies, it has been maintained on both theoretical and empirical grounds that the approach based on the cooperation through trade would not be effective in bringing about an equitable distribution of benefits from an integrated market.

In this connection, it is well to note that at the root of disunity in economic cooperation are also the differences in ideologies and approaches to development between the partner states. Since the inception of the East African Community, the predominant scenario of East African cooperation has been conflicts of nationalistic and the overriding Community interests. In particular, the ideological difference in the economic system appears to have profound implications
for regional integration. In Kenya, and to a less extent in Uganda, decisions for investment are largely left in the hands of private investors with foreign firms still accounting for a significant portion of investments. There are many problems to be overcome, particularly, in relation to the dominant position of foreign capital. Policies regarding restrictions and control of foreign corporates still have to be worked out for agreement among the partner states. So long as the operation of foreign corporation is to be viewed as being guided by motives other than overcoming the underdevelopment of the host countries, Tanzania would be in a difficult position to welcome trade liberalization policies. For instance, investments in Kenya for the most part have tended to be concentrated in consumer goods industries frequently oriented toward higher income classes. Clearly, such a pattern of trade that emerges from the dictates of market forces runs contrary to the avowed Tanzanian policy to prohibit luxury goods imports. Much of the decrease in the share of Tanzania's imports from her partner states after 1967 can be explained in this light.

Rejecting the trade-based approach to integration as a viable strategy, the alternative left open to East African countries then is the planning approach to integration. That is, if an integration scheme is to remain viable in the region, it must aim at forcefully attaining the objective of complementary and reasonably balanced industrial development for the region as a whole. A suggested line of strategy to achieve this goal is the adoption of a cooperative planning for industrialization at a regional level with a view to promote export diversification and to redress industrial imbalances existing between the member states. Coordinated plans for industrialization would also call for the restructuring of the entire pattern of regional trade to support expanding...
regional industries. It would be important that such regional industries be given benefits of a region-wide market by a specific form of guarantee from each government. Only in this way, future cooperation in strengthening the trade link in East Africa would be possible.

The issue of the benefits-distribution aside, mention must also be made of the economies-of-scale argument for regional industrialization. The argument is that for certain categories of industries in developing countries, economies of scale and greater efficiency can be achieved only through a coordinated planning for industrial development at a regional level. In view of the limited size of each rational market, uncoordinated efforts for industrialization would lead to a proliferation of duplicated facilities in production with the resulting excess capacities in industries.\(^3\)

A study by A. Seidman (1969) exhibits a list of industries in East Africa which are considered as falling within the category of industries for which the minimum-sized market for an optimum-sized project would require heavy capital outlay and an integrated regional market for their products. These industries are steel and iron, chemicals, phosphate and nitrogenous fertilizers, coal and tar, pharmaceuticals, cement, machinery, glass plates, engineering and other manufactures, etc. The allocation of some of these industries to each partner state had already been provided in the abortive 1964 Kampala Agreement.

The correction of the structural distortions to effectively exploit economies of large-scale integration is not, of course, all that there is to support the argument for regional industrialization. Like in any other economic issues, the concept of integration should be understood in as much qualitative status as quantitative. The political and social dimensions existing within a member state as well as between the member states must be carefully explored before
a plan is considered for implementation. It is beyond the scope of this paper to get into the details of a new blueprint. The modest aim of this paper was to demonstrate the critical limitations of the orthodox theory of integration—cum-trade in the context of the formerly colonized Third World countries where the structural contradictions inherited from Western colonialism have been manifest in the form of structural imbalances within a regional community.

Footnotes

1. An example of this is Central American integration (CACM). In addition to provisions for liberalization of trade, the Agreement on the Regime for Central American Integration Industries provides that the plants which are accorded the status of "integration industry" would receive the exclusive privilege of free access to the entire regional market (consisting of five countries) for their products.

2. One of the major factors explaining for a heavy concentration on Kenya for industrial development during the interwar period was the decisive role played by a well-established pressure group in England. A similar pattern of "periphery-center industrialization" can be found in the case of Rhodesia and South Africa. See Giovanni Arrighi, The Political Economy of Rhodesia, Mouton, The Hague, 1967.


4. As may be well-known, various criticisms may be directed against use of this kind of apparatus. For lack of an alternative apparatus, the framework would nevertheless be useful as a first approximation of the welfare effect.

5. The question of benefits incidence has been discussed in this paper on a national level. It must be noted that in order to analyze the incidence of benefits internal to an economy one needs to distinguish between domestic product and national income measures. This distinction is crucial to the analysis of Kenyan data in view of the dominance of foreign capital in the Kenyan economy. For details of influences of foreign capital in Kenya, see A Working Party, Department of Christian Education, Who Controls Industry in Kenya? 1969.

6. The restrictive measures largely included various devices of exchange controls for restricting imports. In Uganda, importers were required to maintain deposits with the Bank of Uganda for six months for imports from outside and for three months for imports from its partner states. Imports were prohibited for the products found available locally. In Tanzania, different categories of imports were subject to different
national ceiling levels following an import plan designed to be consistent with the national planning objectives. The import-licensing scheme was to be enforced by the Bank of Tanzania with the restrictions equally applied to imports from the East African partner states. Restrictive measures adopted by Kenya were less severe. Imports from the partner states in general were not subject to requirements for import-licensing. The State Trading agencies of the three countries were known as having given preferences to domestic suppliers over rival suppliers in the partner states in their purchasing decisions. Administrative delay and inefficiency of state enterprises experienced by importers also generally discouraged imports from abroad.

7. It has frequently been argued that an integration scheme would be viable only when all the member states subscribe to a common ideology. Given the underlying political reality in East Africa, however, the best that can be hoped for would be an attempt to agree upon the need to restructure the Community institutions along the lines of planned industrialization at a regional level.

8. At the moment, each partner state draws up plans for industrialization separately with little or no consultation with each other. Such potentially regional industries as cement, fertilizers, steel, tires have been developed separately in each state, in many instances operating below an optimum capacity.
REFERENCES


