THE PITFALLS AND PROMISES OF REGIONAL INTEGRATION IN EAST AFRICA

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INTRODUCTION

Regional co-operation among the three East African countries of Tanzania, Kenya and Uganda is one of the oldest regional schemes in this century dating from 1902. Its performance does not equal that of some younger regional schemes in the developed countries, but in comparison to other Third World regional schemes, its scope and authority ranks high.[1] Its long history makes it an interesting case study.

East African co-operation has taken several forms and has had a chequered history. It was established by the British Administration in East Africa as a convenient contrivance for rationalizing British hegemony in this part of Africa.[2] When independence was won by the three countries, the institutions of East African co-operation - then known as the East African High Commission, were bequeathed to the three independent states and changed the name to East African Common Services Organization (E.A.C.S.O.). The three countries tried to use E.A.C.S.O. as a necleus for an East African Federation. The attempt failed in 1963.[3] The enthusiasm to form a federation has temporarily concealed the weakness in the economic co-opertion which had been inherited. After earlier attempts at federation had been frustrated, the Partner States became more concerned with economic co-operation and in correcting its weaknesses. The Kampala-Mbale Agreement of 1965 and the Treaty for East African Co-operation of 1967 were part of the effort to improve and strengthen economic co-operation instead of political unification.[4]

The current effort by the Partner States to review the Treaty of 1967 is part of the effort to preserve and strengthen economic co-operation. The significance of the review exercise has to be seen in the context of previous conflicts and compromises which have characterized East African integration in the post-colonial period. Periodic crises are common occurrences in any organization. In regional organizations such a common markets, the crises may become more controversial if the scheme fails to generate and distribute adequately the costs and to benefits of co-operation among the Partner States. The outcome of a crisis may be an up-grading of the common interest i.e. to accelerating integration, a

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deadlock situation where no compromises are reached or down-grading of the common interest which means some degree of disintegration.[5]

Integration and disintegration can sometimes be simultaneous processes. In order to determine the extent of integration, the difference between the two processes is what counts. In a previous paper we showed and argued that there has been a slight overall disintegration in the joint tasks undertaken by the East African countries during the last ten years. However, we also argued that during the same period, the East African Community has attained more institutional autonomy and flexibility than at any other period in the history of East African co-operation.[6]

The following examples illustrate the above argument. In 1966 the East African Currency Board ceased to be a regional monetary institution and the Partner States established separate Central Banks. The University of East Africa broke into three national universities in 1970. The Income Tax Department which was one of the oldest East African institutions starting from 1927 was decentralized into national institutions in 1973. These three cases show a decline in the scope of co-operation. At the same time, some institutions - especially on the administrative side have been introduced and strengthened. The Treaty of 1967 introduced the institutions of the East African Ministers and ministerial councils. The Common Market Tribunal and the East African Development Bank are also some of the institutional innovations which have added considerable flexibility and autonomy to East African Co-operation during the last nine years. One of the major challenges to East African integration at the present time is to strengthen the administrative authority while making it commensurate with expansion in the scope of integration.

THE STRUCTURE AND CONTENT OF EAST AFRICAN CO-OPERATION

The last comprehensive exercise to review the provision of East African Co-operation was in 1967 which led to the signing of the Treaty for East African Co-operation in June 1967. This document, like its predecessor the Kampala-Mbale Agreement, endorses national sovereignty. It does not refer to a political unification of the East African integration as a regional scheme for maximizing economics of scale in industry and commerce in order to augment national development. This kind of arrangement does, of course, entail the sharing of some sovereignty in those areas of joint action, but the locus of most political decisions are reserved for the nation-state. There have been occasional reference to an East African Federation by authoritative sources but it is expressed as a wishful distant goal rather than an immediate practical commitment.[7]

East African Co-operation consists of three aspects (a) A Common Market which provides for a common external tariff which ranges from 15 per cent to 75 percent. It also provides for regulated free flow of manufactured goods.[8] (b) The self-financing services of the East African Corporations. They comprise the Railways, the Harbours, Post and Telecommunications and the Airways. These Corporations provide some of the essential infrastructural and communications services to the Partner States and facilitate the working of the Common Market. (c) The General Fund Services which are financed by the Partner States and other miscellaneous sources. The General Fund Services are of three categories:

(i) Administrative services for the overall co-ordination of the Community such as the various secretaries.

(ii) Services which provide anxilliary functions to other services such as meteorology, civil aviation, publishing etc.

(iii) Specialized scientific research institutes pertaining to tropical diseases, agriculture, fisheries etc.

All the three aspects of the Community have had some strengths and shortcomings. During the last four years the shortcomings have become more obvious and politically sensitive. Some of the commonest problems of the Community are (a) the unequal distribution of benefits with Kenya as the traditional greater beneficiary than Tanzania and Uganda. (b) The national orientation and the different paths of development of the Partner States which has tended to increase controversy in several areas of Co-operation. (c) The shortage of foreign exchange in the Partner States has created problems of transferring funds from one country to another.[9] These are real and substantial problems. They may be more evident in East Africa at this time, but they also manifest themselves in varying intensity in other regional schemes in the Third World. However, it is our contention that these problems are actually mere symptoms of much more fundamental causes which we now turn to.

Most of the problems can be traced to the kind of integration which was imposed on the East African countries by the colonial administration. East African integration has to be examined in the context of capitalist penetration and colonial occupation of this part of Africa. The basic motives of British imperial interests in East Africa (like elsewhere), were to tap materials for British industries as well as to secure outlets for British manufacturers' investment opportunities and surplus population.[10] The early influx of British and Boer settlers in Kenya who embarked on plantation farming made Kenya a convenient centre for establishing subsidiary British industries for processing agricultural

materials and for establishing import substitution industries.

The common external tariff was intended to protect the infant British industries based in Kenya from competition of other industrial countries. The free movement of manufactured goods within East Africa was designed to facilitate the flow of manufactured goods from Kenya to the rest of East Africa. Hence the so-called common market was and has always been restricted to the protection of manufacturing industries. Agricultural and other raw materials have never been part of the common market. Primary commodities in their raw or semi-processed form have mostly been for export to metropolitan markets.

The import-substitution industries in East Africa have traditionally been mainly geared to the higher income urban-based market and biased against rural based mass-based markets.[11] An analysis of the commodity composition of East African import rate shows the predominance of manufactured goods of the luxury and semi-luxury items and a bias against intermediate and capital goods. Table 1 provides a breakdown of East Africa's trade on the basis of the Standard International Trade Classification (S.I.T.C.). The Table shows the following pattern:

(a) There is a predominance of exports of raw materials (as shown in sections 0 and 2 in the second column).

(b) Imports from outside East Africa consist mainly of machinery and transport equipment, manufactured goods and chemicals (Section 7, 6, and 5 in the third column).

(c) Regional trade in column one consists mainly of manufactured goods, (section 6) food and live animal (section 0) and fuels (section 3).

The initial arrangement of the common market also provided for the free movement of capital. The provision allowed manufacturers and financiers to invest anywhere in East Africa while permitting an unrestricted flow of profits to Kenya where the regional headquarters of most businesses were and finally the transfer of those profits overseas. Most manufacturing industries were based in Kenya because of their early connection with the white settlers. There was little incentive to establish them in Tanzania and Uganda because those markets could be conveniently reached through the common market arrangements and the reasonably good transport system between Nairobi and the lucrative markets of northern Tanzania, the Dar es Salaaam area and the Kampala-Iringa area. In 1956 the value of Kenya's exports as a percentage of the value of regional trade was 58.9 per

Table 1: THE STRUCTURE OF EAST AFRICAN TRADE (1972)

SITC Section	SITC Sections as percentage of total inter-state trade flows	SITC Sections as percentage of total domestic exports	SITC Sections as percentage of total net imports
0 Food and live animal	25%	58%	8%
1 Beverages and tobacco	4%	1%	-
2 Crude materials inedible except fuels	4%	24%	2%
3 Mineral fuels lubricants and related materials	18%	8%	9%
4 Animal and vegetable oils and fats	2%	-	2%
5 Chemicals	13%	2%	10%
6 Manufactured goods classified chiefly by material	25%	6%	24%
7 Machinery and transport equipment	4%	-	35%
8 Miscellaneous manufactured articles	6%	-	8%
9 Commodities and transactions not classified according to kind	-	-	1%
Total trade flows	100%	100%	100%

Source: Review of Economic Integration Activities Within the East Community 1973, (Common Market and Economic Affairs Secretariat, East African Literature Bureau (CPS), Nairobi, 1973), p.4.

cent, in 1965 it was 65.3 per cent and in 1974 it was 78.4 per cent. This pattern of trade shows the concentration of industries in Kenya.[12]

Before the rationalization of financial institutions in Tanzania in 1967, most major urban centres in East Africa had branches of some of the major British banks and insurance companies. Unlike manufacturing industries, these financial businesses were operating where their clients were - i.e. in the urban centres of Tanzania and Uganda. However, Nairobi served as the headquarters of all the financial institutions operating throughout East Africa.

Throughout the history of the Common Market the inter-territorial movement of labour has never been part of the Common Market arrangements. The absence of large-scale industries in East Africa which need specialization and regional movement of labour partly explains the persistent omission of a provision on labour movement. Another reason for the omission is the availability of an abundant and cheap labour force which has created some "unemployment" of varying intensity in each of the three countries.[13] The so-called unemployment problem which has forced each country to jealously protect its labour market is a result of the colonial distribution of the economics of these countries. The low and often seasonal wages paid to the labour force with one-foot on the modern sector and another on the rural areas as subsistence producers were instrumental in creating a growing army of unemployed and semi-employed people. No country with its own share of the problem would welcome a policy which encourages a regional shaping of the problem.[14]

The Treaty of 1967 tried to remedy the problem of the unequal distribution of benefits of the Common Market and the Common Services. With regard to the Common Market the Transfer Tax System, the East African Development Bank and a system of fiscal harmonization of incentives were proposed to assist in correcting the inbalance of regional trade and industrial development.[15]

The Transfer Tax is a legalized tariff applied by Tanzania and Uganda against some Kenya goods under certain conditions. Transfer taxes are imposed by a country with an overall deficit in regional trade in manufactures on imports from a country with which it has a deficit The objective of the Transfer Tax system was to encourage industrialization in Tanzania and Uganda which were lagging behind Kenya. The absence of a machinery to allocate industries on an East African basis has led to duplication of industries which compete for the Common Market.[16]

The independent industrial policies of the Partner States may also have contributed duplication of industries which aim to export to the East African Market. As a result of this situation the relative importance of the East African Common Market as a destination of the exports of the Partner States has been declining. Table 2 below shows the declining trend between 1964 and 1973.

Table: 2 : The Relative importance of the East African Common Market as a destination of exports of each Partner State.
(In percentages+)

Year	Kenya	Tanzania	Uganda
1964	35	7	13
1965	39	9	14
1966	27	6	16
1967	33	5	14
1968	31	5	12
1969	31	6	12
1970	31	8	10
1971	32	10	8
1972	27	6	4
1973	24	7	4

Source: Computed from Annual Trade Reports 1964-73.

+The percentages do not include re-exports.

There has been a marked decline in Kenya's export to the other Partners. The highest was in 1965 when Kenya's export accounted for 39 per cent of total exports and lowest was 24 per cent in 1973. Tanzania's share has remained relatively steady, but Uganda has recorded a sharp decline since 1971.

The East African Development Bank was established in order to promote the industrial development of the Partner States in a manner which would also reduce the industrial imbalances between them. The Treaty requires the Bank to loan or invest 38¾ per cent of its capital to Tanzania and the same amount to Uganda. Kenya is supposed to get 22½ per cent. The Bank has had some difficulties in realizing its objectives. The authorised capital of the Bank is only 400 million shillings whereas the total annual industrial investment for the Partner States is about 4,000 million shillings. The contribution of the Bank can therefore be very small. The character of the Bank does not provide for investment in agricultural activities although agriculture is a leading activity in each of the three countries.[17]

The limited capital which has confined the Bank to minority participation with private and public enterprises, has not been able to initiate independent

projects. The Bank's operations have so far been directed to the individual states as the Treaty stipulates. As a result of the above limitations, the Bank has not been able to determine or influence the kind of industries to be established. However, with increased capital and the adoption of a regional industrial co-ordinating machinery, the Bank can be an important public institution for promoting complementary industrial development.

With regard to the common services, the Treaty provided for the redistribution of the corporation's headquarters all of which had been in Nairobi. The Railways and Airways headquarters remained in Nairobi. Tanzania was allocated the Harbours headquarters in Dar es Salaam while Arusha was made the administrative headquarters of the East African Community as a whole. The headquarters of the Post and Telecommunications and the East African Development Bank are in Kampala. The rationale for this exercise was to give a symbolic feeling of sharing the services and to redistribute the benefits accruing from the physical assests and employment opportunities. Each Partner State was required to remit to the headquarters funds for the overall administration and development of the corporations. This scheme has been bogged down by financial bosses of the corporations and by difficulties of transferring funds from one country to another which has left the Partner States indebted to each other.

Inter-state transactions are settled in the following three ways: (a) Some transactions are off-set by movements of funds in the opposite direction. (b) Excess transactions are remitted in local currency up to a ceiling of 10 million shillings. This ceiling covers only 5 per cent of Tanzania's and 4 per cent of Uganda's annual deficits with Kenya. (c) Any payments over and above the 10 million shillings are settled in foreign exchange (mostly dollars)

Since 1971 the interchangeability of East African currencies was stopped. The currencies of the Partner States are counted as foreign exchange. This puts an additional strain on the overall balance of payments of the Partner States. Between 1969 and 1971 all the three countries experienced considerable current account deficits due to a substantial increase of imports especially of capital and intermediate goods. The balance of payments current account for Kenya increased from a deficit of 58 million shillings in 1969 to 1,028 million shillings in 1971. Tanzania had a surplus of 150 million shillings in 1969 but by 1971 it had a deficit of 559 million shillings. Uganda had a deficit of 44 million shillings in 1969 and had a substantial surplus of 146 million shillings in 1970 which dropped precipitously to a deficit of 618 million shillings in 1971.[18] There was some improvement in 1972, but the situation became much more serious in 1973 and 1974 due to the five-fold

increase in the price of oil and large food imports due to the drought conditions which hit many parts of Africa during that period.

Every Third World country is heavily dependent on foreign exchange to finance development projects. Apart from the few oil producing countries, almost all Third World countries have a chronic shortage of foreign exchange. The reliance on foreign exchange reflects the economic dependency of these countries upon the metropolitan countries. The initial economic contact between the Third World countries and the metropolitan countries divorced the processes of production and consumption in the latter countries. The third world countries were made to specialize in the production of raw materials in order to support the industrial sector in the metropolitan countries while most of the manufactured consumer and producer goods have had to be imported and paid for in the currency of the metropolitan countries. This situation has led to the now famous phrase that "underdeveloped countries produce what they don't consume and consume what they don't produce".[19]

The connecting link in the above syndrome is the precious foreign exchange. It is perpetually in short supply because the price of raw materials (which are the foreign exchange earners) sold to the developed countries is always lower compared to the price of manufactured goods. The prices of both exports and imports are determined by the metropolitan countries except for the recent case of oil.[20] In East Africa for example, the terms of trade have been declining every year. From 1964 to 1972 the import prices have increased by over 40 per cent while the prices of exports have increased by 3 per cent. This means that there has been an annual decline in the price of exports or an annual loss of 475 million shillings over that period.[21]

The problem of foreign exchange in East Africa is therefore a deeper rooted one. Its solution does not lie in merely devising formulae for inter-state transfer of funds or in increasing exports. It requires re-structuring the economies of the Partner States in such a way that they are appendages of the metropolitan countries. The Review Commission could have contributed towards this re-orientation by providing a foundation which will enable the Partner States economies to be complementary and less dependent on the developed countries.

CENTRIFUGAL FORCES OF NATIONALISM

The British colonial presence in East Africa kept the three countries administratively closer but politically distinct. The last minute effort by the British Government to re-organize the East African High Commission into the E.A.C.S.O. was intended to facilitate the development of East African co-operation from a colonial institution to one of independent states. The

change did not include the harmonization of the independence time-tables of the three countries. The political histories of the three countries were so different that efforts by the nationalist leaders of the three countries to synchronize their independence dates and to form a federation failed. The realities of separate sovereignities became evident shortly after the independence of the three countries.

The main problem was competition for benefits among the Partner States especially Tanzania and Uganda's demands for an equitable share of the Common Market and Common Services benefits which had been concentrated in Kenya. The distribution problem is less sensitive if the benefits are there but are not fairly distributed. On the other hand when a regional scheme is not able to generate adequate benefits the problem becomes more sensitive and controversial. The Raisman Commission of 1961 and the Kampala-Mbale Agreement of 1965 did not provide satisfactory formulae for distributing the benefits among the Partner States. The Treaty of 1967 was more acceptable to the Partner States. However, both the common market and the common services have shown some weaknesses which have constrained their ability to generate benefits.

The emphasis on import substitution industries by all the three countries and the increasing demand for capital and intermediate goods (which are not produced in East Africa) has made the East African countries more dependent on external imports than on each other.[22] The East African Common Market is therefore becoming of diminishing importance to the Partner States because it cannot meet their requirements for capital goods in which each state tries to be self-sufficient in import substitution goods. If this trend continues, the attraction and justification for a common market may not be tenable. Likewise, the performance of the common services have been marred by financial losses, administrative problems and the difficulties of transferring funds.

The combined effect of these problems has been to produce one of the most heated debates among the Partner States on every aspect of co-operation, but basically it boils down to the question "who gets what and how much from his co-operation?" Sometimes there are national based demands which are not necessarily for the action as a whole, but are articulated and expressed by particular interest. In post colonial East Africa for example, there has emerged a class of African businessmen in alliance with international big business and a bureaucratic class which is also in alliance with international concerns. Both of these classes are capable of manipulating and influencing the state machinery to enhance their interest. Their state is closely related to the nation-state and sometimes

their interests are in direct competition with regional public concerns.[23]

PRESSURES TO DECENTRALIZE THE CORPORATIONS

One of the most controversial issues which is creating uncertainty on the future of the East African Community concerns the decentralization of the four Corporations. The Treaty of 1967 was not explicit on the extent to which the corporations's headquarters and the regions in the Partner States should share administrative powers and financial control. The vagueness of the Treaty did not cause any major conflicts during the first seven years since the Treaty came into force. Since 1974 the pressure to decentralize has become a politically sensitive issue which is threatening the survival of the Community as a whole.

The controversy was mainly sparked off by two things: (a) The crisis in the foreign exchange position of the Partner States referred to above, added strain on their ability to transfer funds to the corporations' headquarters. The Partner States began to scrutinize more closely the obligations of the regional offices to transfer funds to the headquarters of the corporations' (b) Two select committees of the East African Legislative Assembly on performance of Airways the Railways Corporation revealed several cases of gross mismanagement and corrupt practices by some of the senior officials. The Report on the Airways was presented towards the end of 1973 and that on the Railways was presented in June 1974. The findings of the committees made the Partner States reluctant to transfer funds to another country.

At the time of the inquiry the Airways Corporation had a deficit of shillings 24.6 million and Railways Corporation had a deficit of shillings 48.7 million in 1973.[24] Tanzanian and Ugandan members of the Assembly were critical of the administrations of these two corporations both of which have their headquarters in Nairobi. The Harbours and the Post and Telecommunications have consistently realized a surplus although they also have had their own share of mismanagement and financial losses.[25]

In the wake of these developments the Partner States virtually stopped transferring funds to the Corporations headquarters. It appeared that Mombasa office of the Harbours Corporation started the move. The finance council of the Community met in July 1974 and decided that the Mombasa office should transfer shillings 33.8 million to the headquarters in Dar-es Salaam. The transfers were not affected. By the end of April 1975 Kenya was withholding shillings 175.8 million owed to Harbours' Headquarters in Dar es Salaam and shillings 16 million owed to the Post and Telecommunications in Kampala. Tanzania's obligations to the Railways and the

Airways headquarters in Nairobi was shillings 35 million to each headquarter. Uganda's obligation to the Railways and Airways Corporations was shillings 7 million and shillings 45 million respectively. At the same time the corporations owed their overseas creditors shillings 287 million.[26]

The crux of the problem is not only a lack of goods among the Partners but it is the absence of clear definition in the Treaty of what constitutes headquarters' expenditure that has to be paid for in foreign exchange. Headquarters' expenses consist of salaries of staff, overhead costs such as maintenance of buildings, servicing of foreign loans and importation of capital goods. The first two items are paid for in the currency of the country where the headquarter is located while the other items are mostly paid for in foreign exchange. Since the regions have to transfer most of their funds to the headquarters in foreign exchange (other than the currency of the host country), the difference between the local expenditure and overseas expenditure incurred by the headquarters is a net saving of foreign exchange for the host country.

The following example illustrates the above argument. In July, 1975 it was reported that the East African Airways headquarters account had a deficit of shillings 10 million. It owed an oil company shillings 15 million and another shillings 7 million was owed to overseas creditors. At the same time the corporation's regional offices in Tanzania and Uganda were withholding shillings 38 and 48 million respectvely which would have been transferred to the Nairobi office in foreign exchange. If the shillings 76 million from Tanzania and Uganda had been duly transferred to Nairobi the Corporation would still have a net surplus of shillings 44 million in foreign exchange deposited in its account in Kenya.[27] Although that money belongs to the Corporation, it adds to Kenya's overall foreign exchange holdings. The same is true with respect to the other countries.

The Partner States have been trying to arrive at a formula that would only permit the transfer of the exact amount required by the headquarters and involving a minimum of foreign exchange. That formula has not been agreed upon because of the mutual suspicion that already exists and loopholes in the accounting system. All the Partner States have now agreed that the Corporation's administrative powers and financial controls should be decentralized so that each region undertakes its own planning and pays its overseas obligations directly. What the Review Commission may have to determine is the irreducible minimum powers short of a complete break-up to be retained at the headquarters.

Recent developments in East Africa indicate that the decentralization exercise may get out of control and set a process of total break-up of the

corporations. It has been reported (although not officially confirmed) that the Canadian consultancy firm CANAC which was commissioned to study the decentralization of the Railways Corporation has recommended a break-up of the Corporation with one year of transition.[28] Passenger traffic between Kenya and Tanzania was stopped in 1974, goods traffic has been considerably reduced and marine transport was also stopped after the corporation detained all the ships in Kisumu. For two years now each country has run its operations almost independently.

The Mombasa office of the Harbours Corporation is keeping a separate account and dealing directly with overseas creditors and Uganda has already started her own domestic flights. More detrimental to regional co-operation is the unilateral decision by Kenya to expel Tanzanians and Ugandans working for the General Fund Services in Kenya and the banning of Tanzanians and Ugandans working with the East African Airways at Nairobi Airport. There have been several cases of expulsion of non-citizen East Africans residing in the Partner States. These acts add tension to the already strained relations among the Partner States.[29]

Decentralization of the Corporations may reduce some of the existing tension and reduce the administrative and financial hurdles which the Partner States have failed to resolve. All the same, decentralization is going to be a costly undertaking by the Partner States entailing additional overhead costs. By the same token, the Partner States are going to forgo the advantages of the economics of scale which the Corporations are capable of realizing if they are properly managed.

DEPENDENCE AND MANIPULATION

The current problems of the Corporations have revealed their dependence and vulnerability to international financial institutions. All the four corporations order most of their equipment and spares through the Crown Agents in London. As a result of the outstanding debts following the deadlock in the transfer of funds, the Agents refused to extend any more credit to the Corporations. Spare parts were in short supply and the services rendered by the corporations have suffered. The four Corporations have some of the biggest and well-equiped workshops in East Africa which, with some modifications could produce spare parts. The recent hard experience with spares can probably encourage more self-reliance by the Corporations.

The World Bank is the largest creditor of the Railways, the Harbours and the Posts and Telecommunication Corporations.[30] The loans to the Corporations are guaranteed by the Partner States which undertake to repay them if the corporations fail to meet their obligations. In May 1976 the East African Community total outstanding external obligations stood at

shillings 425 million owed to the World Bank, Crown Agents, the United Kingdom and other countries.[31] The World Bank announced that it was stopping all aid to the East African Community because Uganda had failed to meet its repayment obligations of previous loans.

The Finance and Communications Councils of the Community met quickly to consider the World Bank decision. The World Bank is also a major aid donor to the individual Partner States, that may explain their immediate reaction to the Bank's decision. The Partner States agreed to pay the outstanding debts by a transfer of funds formula based on the gross fixed assets held by each of the Partner States. Reporting on the decision of the Council the Sunday Nation wrote that:

> "The discussions, in which Mr. Damzy and other officials of the World Bank participated, were held in a spirit of friendliness and co-operation and augured well for the future well-being of the East African Community"[32]

The World Bank resumed its loan commitments after the agreement by the Partner States. It has taken the leverage of the World Bank on the East African States to reach an agreement within two weeks on an issue which has divided them for three years. The agreement is, however, only an *ad hoc* solution to meet the demands of the World Bank which also shows the powerful role of the World Bank in East Africa in influencing policy decisions.

CONFLICTING IDEOLOGIES

Since 1967 the ideologies and development strategies of the Partner States especially those of Tanzania and Kenya have become different (Tanzania has been pursuing a socialist oriented strategy while Kenya has followed a free enterprise type of strategy).[33] The political changes in Uganda have not permitted the evolution of a consistent strategy as in the other two countries, but in essence it has been a free enterprise type during both the first and the second republics. The differences have so far affected minimally the existing areas of co-operation. They may later constrain the prospects for integration if each country rigidly pursues her own strategy.[34]

Some of the obvious disintegration occurred before Tanzania's and Kenya's strategies had become divergent. The break-up of the common currency and the East African Tourist Association are cases in point. The University of East Africa was divided into three national universities in 1970, but proposals to split it had started as early as 1966. These occurences can be attributed to the centrifugal forces of nationalism.

The break-up of the Income Tax Department in 1973 had both nationalist and ideological motivations. The Department had on several occasions been

criticised for being too bureaucratic and inefficient and that it needed to be decentralized. It was also argued that the contribution to the Departments' revenue was unequal among the Partners. Kenya was contributing more than the other Partner States because there are more private firms in Kenya which are subject to income-taxation.[35]

In addition to the above arguments, there was an ideological argument. Tanzania wanted to introduce a more egalitarian income tax system which would tax more heavily people in the higher income bracket. On the other hand Kenya was planning to introduce a tax-system which would provide greater incentives to private investors. These changes which are essentially ideological, could not be implemented without dismantling the Income Tax Department which had hitherto imposed a uniform income tax structure for all these three countries.[36]

Apart from the break-up of the Income Tax Department ideological differences have also complicated the operations and administration of the corporations. The different ideological orientations in the two countries have now and then been apparent in the content and tone of the press in the two countries. One obvious example was the controversy in 1974 over the use of Tanzanian roads by Kenyan trucks weighing more than 18.75 tons. The issue was superfically technical, but the press turned it into a socialism vis-a-vis capitalism debate. The governments of the two countries refrained from being drawn into the ideological debate; nonetheless the issue showed that there is an ideological dimension in the relationship between the two countries which cannot be ignored.

The Tanzanian press and the Tanzanian members of the East African Legislative Assembly exposed and criticised the operations of private transport companies which were directly competing against the Railways Corporation. The Corporation had had deficits annually since 1962.[37] The losses are due to various reasons among which is competition from road transport. The criticisms were handled in an anti-capitalism tone. The Kenyan press and the individuals who participated in the debate concentrated on attacking Tanzanian socialism rather than addressing themselves to the problems of the corporation. These kinds of exchanges tend to undermine good-will and understanding among the Partner States.

Ideological differences can be an obstacle to integration if the Partner States are reluctant to compromise some of their ideological principles.[38] The leaders of the three countries have demonstrated their willingness to be pragmatic and flexible hence their consent to review the Treaty. All the same there is always the possibility that national based interest can exploit the ideological differences for their selfish ends. The views which have been

aired in the press several times in defence of private enterprise and socialism by the Kenyan and the Tanzanian press repectively are cases in point. Similar cases may arise if the East African countries decide to establish joint industries. Issues like the extent of private and public ownership and control and the degree of workers participation are likely to generate ideologically-tinged arguments. Considerable flexibility and compromises may have to be exercised if East African co-operation is to be preserved.

Flexibility and compromise may temporarily contain differences and postpone temporarily certain differences and postpone conflicts, but a viable regional scheme among underdeveloped countries has in the long run to confront squarely the phenomenon of dependency upon developed countries. The concept of integarion itself may have to be redefined so that it takes into account the realities of dependency while at the same time it offers one of the alternative strategies for overcoming underdevelopment. In the final analysis, therefore, underdeveloped countries intending to form viable regional schemes have to make an ideological choice which is based either on the existing economic structures or on disengaging from international capitalism.

CONCLUSION

This paper has attempted to provide a brief analysis and to summarize the major problems of the East African Community. It has been an exercise in isolating and showing the interconnection of the various forces which have been undermining the East African Community thereby shedding light on what might be done to contain them. It has been pointed out that the approach to tackling the problems of integration in East Africa has hitherto been to provide remedial formulae to cope with the unequal distribution of benefits. The paper argues that such formulae may be helpful in resolving temporary crises, but a long-term solution would have to tackle the root causes of underdevelopment.

Regional integration which addresses itself to the phenomenon of underdevelopment has of course to take into account the different conceptions and levels of understanding of the phenomenon among the Partner States. A regional scheme may never materialize if it waits until all the Partners have reached the same level of understanding and interpretation of the causes of underdevelopment. What is important is to devise a regional scheme which can lay the foundation for re-orienting the economics of the Partner States from the inherited structures of dependency while accommodating the difference among the partners. In East Africa for example, this can be done by providing possibilities in the next Treaty for more complementary

relationships among the various economic sectors by instituting the practice of co-ordinated planning even on a limited scale. The current Review Commission may use its mandate from the Partner States to commit them to a kind of integration which encompases more vital economic sectors. The sucess of such an exercise depends very much on the good will of the Partner States which sometimes may entail making temporary national sacrifices for the future common good. If this basic pre-requisite is lacking, East African integration may easily succumb to the disintegrative forces which are already threatening the East African Community.

FOOTNOTES

1. For an earlier collection of regional integration studies in developed and underdeveloped countries see J.S. Nye, Jr. (ed.) International Regionalism Readings, (Little, Brown and Company. Boston 1968), For more recent theoretical approaches to comparative integration and measurement see L.N. Lindberg, "Political Integration as a Multidimensional Phenomenon Requiring Multivariate Measurement" and J.S. Nye, Jr. "Comparing Common Markets: A Revised Neo-Functionalist Model", in L.N. Lindberg and S.A. Scheinghold, (eds.), Regional Integration Theory and Research, (Harvard) University Press, Cambridge, Massachusetts, 1971) pp. 45-127 and pp. 192-231.

2. For a brief but comprehensive analysis of East African co-operation from the colonial period to the early 1960s, see C.G. Rosberg Jr. with A. Segal, "An East African Federation", International Conciliation, No. 543, May 1963.

3. There have been several works to explain the non-realization of the East African Federation between 1960 and 1963. For example see T.M. Franck, (ed.), Why Federations Fail, (New York University Press and London, University of London Press 1968) - for a general and comparative studies. Also see J.H. Proctor, "The Effort to federate East Africa: A Post Mortem", The Political Quarterly, Vol. 37, No. 1. January - March, 1966.

4. The details of the Kampala-Mbale Agreement appear in P. Robson, Economic Integration in Africa, (George Allen and Unwin Ltd. London 1967) pp. 149-154. For the full text of the 1967 Treaty see The Treaty for East African Co-operation (East African Community Printer, Nairobi 1967).

5. For a detailed discussion on crises in integration and their effects on integration and/or disintegration, see E.B. Haas, "Technocracy, Pluralism and the New Europe", In J.S. Nye, International Regionalism, pp. 152-154. Also see P.C. Schmitter "A Revised Theory of Regional Integration", International Organization Vol. XXIV, No.4, 1970, pp. 842-850.

6. See A.P. Mahiga, The Extent of Integration and Disntegration in the East African Community (Paper Presented to the East African Universities Social Sciences Conference, Nairobi, December 1975.

7. In 1973 a Select Committee of the East African Legislative Assembly was appointed to study the feasibility of establishing an East African Federation which in principle had the support of the Partner States. The Report was one of the most detailed studies on East African Co-operation with concrete proposals for a federation. It was presented to the three governments in 1975, but there has been no action on it so far. The Assembly has asked the Authority to conduct a referendum on the subject.

8. The regulated free flow of manufactured goods is in the form of Transfer Taxes which are imposed by Tanzania and Uganda on some goods from Kenya and by Tanzania on some goods from Uganda to assist in promoting industrial development in Tanzania and Uganda. The Transfer Tax system is discussed in subsequent pages.

9. Problem (a) has preocuppied the Partner States from the colonial period. Problem (b) is of a more recent origin whose implications have not yet been fully analysed. Problem (c) has become a serious issue in the last four years. The chairman of the Review Commission Professor W. Damas has referred to it as the biggest problem in the East African Community. See The Standard (Nairobi), 19 January, 1976.

10. For a good study of the economic history of East Africa from colonial occupation to 1939, see E.A. Brett, Colonialism and Underdevelopment in East Africa, (Heinemann, Nairobi 1973).

11. This argument is developed and substantiated by K. Guruli in his article "Towards an Independent and Equal East African Common Market", in L. Cliffe and J.S. Saul (eds.), Socialism in Tanzania, Vol. 1 (East African Publishing House 1972), pp. 88-95.

12. The percentages are computed from the East African trade reports for the relevant years which appear in The East African Economic and Statistical Reviews, issued by the East African Statistical Department. In 1974 Kenya's exports to Uganda alone constituted 47.5 per cent of the total regional trade.

13. Employment and unemployment in this context refers to the availability, non availability of wage employment in urban areas but not to fainful employment in other sectors of the economy. The most up-to-date unemployment figures for Tanzania and Uganda are not available. The ILO Report of 1972 showed that in 1970 Kenya had an urban unemployment of 11.5 per cent. Employment Incomes and Equality. A Strategy for Increasing Productive Employment in Kenya (International Labour Office, Geneva 1972), p. 59.

14. By relegating the rural areas to petty commodity production and as seasonal reservoirs of labour, the colonial administrations contributed significantly to the well-known phenomenon of rural-urban migration thus contributing to urban unemployment. Despite innovative efforts to promote rural development by the independent government, the problem of rural-urban-influx has persisted.

15. The Systems of fiscal incentives is only mentioned as commendable in the Treaty (Article 19). Unlike the Transfer Tax and the Development Bank, it is not elaborated. The Common Market Secretariat later prepared detailed proposals for fiscal incentives and were presented to the Common Market Council. It appears that no agreement was reached and they were shelved because of different interpretations by the Partner States on purpose of Fiscal Incentives: For details see A. Huzlewood, Economic Integration: The East African Experience, (Heinemann, 1975) pp. 82-83, 11-120.

16. See H.E. Grundmann, "Industrial Development in East Africa: An Appraisal Including Possibilities for Future Acceleration". Rasilimali Tanzania Investment Outlook, (Tanzania Investment Bank Publication, January 1973) p. 24.

17. For details on the establishment of the Bank and its charter, see The Treaty - Articles 21 and 22.

18. This thesis has been expanded by Clive Thomas in his writings on the Political Economy of underdeveloped countries see his article "The Transition to Socialism: Issues of Economic Strategy in Tanzania Type Economies", (Mimeo, Universtiy of Dar es Salaam 1973). Also see his book Transition to Socialism. (Monthly Review Press 1974).

19. The deteriorating situation in the terms of trade of commodities from underdeveloped countries has been extensively discussed in scholarly writings E. Arighir, Unequal Exchange: A Study of the Imperialism of Trade, (London N.L.B. 1972 and End of Illusion-Verdict on UNCTAD 3, (A World Development and Movement Publication, London, 1972) p. 9. The last booklet summarizes some of the salient issues on international economic system raised at UNCTAD 3.

20. For an illustration and discussion of trade indices and terms of trade in East Africa, see Review of Economic Integration Activities Within the East African Community 1973/74, (Common Market and Economic Affairs Secretariat, Arusha 1974) pp. 49 and 68.

21. Regional exports as a percentage of external exports declined from 21.5 per cent in 1966 to 15.3 per cent in 1973. Regional imports as a percentage external imports declined from about 20 per cent in 1966 to 13.1 per cent in 1973. For more discussion on this subject see Review of Economic Integration Activities within the East African Community 1973/4, pp. 39-42.

22. A detailed and analytical discussion of the class structures of post-colonial East Africa see I.G. Shivji, Class Struggles in Tanzania, (Tanzania Publishing House, 1975) especially pp. 61-165. C. Leys Underdevelopment in Kenya: The Political Economy of Neo-colonialism, (London, Heinemann, 1975 especially Chapters 1-4), M. Mamdani, Class Struggles in Uganda, (Paper presented at the Second Bi-Annual Conference of the African Association of the African Association of Political Science April 4-8, 1976 at Lagos Nigeria. A good example of national based interest in competition with regional concerns is that of road transport vis-a-vis railway transport.

23. See Report of Inquiry into the Affairs of the East African Airways Corporation, (East African Legislative Assembly, Arusha, 1973). Also Report of Inquiry into the Affairs of the East African Railways Corporation (East African Railways Corporation) (East African Legislative Assembly, Arusha, 1974).

24. The figures are taken from the Statistical Survey of the East African Community Institutions, (East African Statistical Department, Nairobi, 1975) pp. 44 and 12 respectively.

25. For summaries and comments of views expressed in the East African Legislative Assembly see Weekly Review, (Nairobi) 15 February, 1975, pp. 6-9, 24 February, 1975, pp. 3-6, 15 July, 1975, pp. 4-12.

26. See Weekly Review, 15 February, 1975, p. 7 and 19 May, 1975, p. 15.

27. Figures quoted from Weekly Review, 7 July 1975, p. 9.

28. It was first reported in the Daily Nation, (Nairobi) of 7 June, 1976, p. 1. The following day the East African Legislative Assembly meeting in Arusha expressed surprise at the reports and wanted clarification see Daily News, (Dar es Salaam) June 9, p. 3.

29. For reports and comments on the expulsion of non-citizen East Africans (Weekly Review, 26 April, 1976) from the Partner States see (in brackets) Sunday News (Dar es Salaam) 13 June, 1976, p. 6. (Editorial) Daily Nation, 9 June, 1976, p. 1 Daily News, 15 June, 1976, p. 1. Daily Nation, 24 June, 1976.

30. For the extent of World Bank Financing see African Development, October 1974, pp. 15-18.

31. Sunday Nation, May 30, p. 3.

32. Ibid., p. 3.

33. Tanzania's Socialist Policy has been criticised by Orthodox Marxists for its softness against imperialism. Nonetheless, Tanzania's option for State intervention in the economy and egalitarian pursuit is a radical departure from neo-colonialism par-excellence. For a debate on this topic see the article by I.G. Shivji, T. Szentes, W. Rodney and J.S. Saul in L. Cliffe and J. Saul, Socialism in Tanzania, Vol. 2, pp. 304-357.

34. For a comparison of the development strategies of Tanzania and Kenya and their consequences, on regional integration see A. P. Mahiga, National Development Strategies and Regional Integration in East Africa, (Ph.D. thesis, University of Toronto, 1975), Chapters 8-10.

35. The allocation of the income-tax collections to the General Fund was based on 10 per cent of personal incomes and 40 per cent of profits from companies operating in East Africa.

36. For a comparison of the tax-structures of Tanzania and Kenya which were introduced after the break-up of the Income Tax Department see Tanzania Income Tax Bill 1973, (Government Printer, Dar es Salaam 1973) and Republic of Kenya Income Tax Bill (Government Printer, 1973). Nairobi, 1973).

37. See Daily News, 6 July, 1974, p. 4.

38. Recently Mwalimu Nyerere said he was prepared to postpone Socialism in Tanzania for the Sake of African Unity see Weekly Review, 21 February, 1976 pp. 3-4.