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ARTICLES

INTEGRATION

The African Experience of Common Markets

by Professor Peter Robson*, Nairobi

At present there are two principal common markets in Africa—the East African Common Market, which includes Kenya, Uganda and Tanzania, and the Central African Economic Union, which includes Cameroon, Congo (Brazzaville), Gabon, Chad and the Central African Republic. In addition, a customs and currency union exists between Botswana, Lesotho and Swaziland and South Africa. Until a few years ago there were several other examples of market integration in Africa. For instance, the whole of former French West Africa constituted a common market, as did the two Rhodesias and Nyasaland and, farther north, Ruanda and Urundi. With the end of colonial rule these have either withered away, or been forcibly broken up. A certain amount of market widening has taken place in Somalia, Ethiopia-Eritrea and in Cameroon as a result of political unification measures fostered by the former colonial powers.

A variety of new initiatives for economic co-operation between the newly independent states of Africa have also made their appearance in recent years. Thus, consideration has been given to some form of economic integration between Senegal and Gambia but so far this has produced no dramatic advances, although in 1967 a treaty was signed which provides for co-operation in certain limited fields. The problems involved in economic co-operation between Sierra Leone, Liberia, Ivory Coast and Guinea have also been examined. In addition, the Economic Commission for Africa (ECA) has been a vigorous advocate of broad regional market groupings covering the Eastern, Central, Northern and West African sub-regions, and these proposals have received some general political support from the countries affected. At the level of co-operation in particular industries, a West African Iron and Steel Community has also been advocated.¹ Nevertheless, despite the support given by African leaders to the idea of African unity, and despite the economic arguments in favour of

integration measures, progress has so far been limited. A review of the functioning, achievements and problems encountered in the two major existing common markets provides a useful insight into the problems which may have to be overcome by projected groupings and also illustrates the kinds of institutional arrangements which it may be necessary to envisage if the potential benefits from economic co-operation in Africa are to be realised.

The East African Common Market

One of the oldest common markets in Africa which goes back 40 or 50 years is the East African Common Market.² This covers Uganda, Tanzania and Kenya. In area the group is larger than EEC plus Britain. Total population in 1966 was about 28 million and aggregate gross domestic product for the same year was about £834 million. Under the colonial regime this area enjoyed not only a common market but also a high degree of economic integration in fields other than trade, including a common currency, common service organisations for the operation of railways, harbours, posts and telecommunications and research, and largely similar fiscal systems administered on an East African basis. The area thus possessed many of the characteristics of a full economic

Table 1
East Africa: Inter-country trade, 1966
(£ million)

To:	Kenya	Tanzania	Uganda	Total
From:				
Kenya	—	13.3	15.6	28.9
Tanzania	3.8	—	0.8	4.6
Uganda	7.3	3.1	—	10.4
Total	11.1	16.4	16.4	43.9

Source: "East African Economic and Statistical Review", The East African Statistical Department, Nairobi. March-June. 1967.

* This article draws on material which appeared in: Common Markets and Economic Development in Tropical Africa, Weltwirtschaftliches Archiv, Vol. 99, No. 2. It has been specially brought up to date and revised for publication here.

¹ Apart from market integration, there are various other inter-state institutions for economic co-operation in Africa. These include organisations for river basin development (Senegal, Chad and Niger), inter-state Central Banking institutions (West and Equatorial Africa) and, at the continental level, the recently established African Development Bank.

union. Within the common market, and partly stimulated by it, a fair amount of industrialisation has taken place, mainly in Kenya. Inter-country trade reflecting this industrialisation has grown more rapid-

² A general survey of the operation of this market will be found in my forthcoming book, "Economic Integration in Africa", London, Allen and Unwin, 1968.

ly than total trade in recent years and it now amounts to about 20 per cent of the total. In this trade Kenya enjoys a large favourable balance with the other two countries. (Table 1) The imbalance in trade is mainly in manufacturing products whereas the trade in agriculture is approximately in balance for each country.

In the last few years, as independence has been approached and attained, the latent dissatisfactions with the workings of the common market felt by Tanzania and to a lesser degree Uganda have become overt. Although the advantages of economic integration are recognised in Tanzania and Uganda, the distribution of the benefits of the market has been regarded as inequitable, basically because much of East Africa's industrial development has concentrated itself in Kenya. This is alleged to entail a loss of real income to the other countries which is reflected in a loss of import revenues as higher cost products of Kenya are substituted for imports from the rest of the world. There can be little doubt that Kenya has become more advanced in terms of industrial development than the other two countries, nor that there are disequalising forces at work in the East African Common Market. But it is difficult to assess the extent to which observed inequalities are the consequence of the tariff preference enjoyed by Kenya in the East African Common Market. On this issue there is room for debate. At one extreme it could be assumed that all inter-territorial trade is dependent on the tariff preferences enjoyed. On this assumption, inequalities in the benefits from the common market might be related directly to the degree of protection enjoyed by the relevant industries and the balances of inter-territorial trade. But there are grounds for thinking that a substantial part of Kenya's inter-territorial exports does not depend on tariff protection. Nevertheless, the loss of the opportunity to import cheaply from outside the common market, and the loss of opportunity in some cases to establish industries producing income and employment are certainly factors which are operative and relevant to Tanzania and Uganda, even though their precise magnitude is difficult to quantify.

Whatever the precise balance of advantage may be for each of the partners within the common market, it is widely accepted—and in Kenya as well as the other countries—that there has, in the past, been some inequity in the distribution of its benefits. The first important attempt to deal with this was made in 1961, when, following the recommendations of an Economic and Fiscal Commission³, a distributable revenue pool was established which had the effect of bringing about a transfer of tax revenues from Kenya to the other two countries. Recently this transfer has amounted to about three quarters of a million pounds—five per cent of Kenya's net trade balance with its partners.

Even at the outset, fiscal redistribution was regarded as a palliative by Uganda and Tanzania. The latter,

in particular, pinned its hopes for overcoming its common market disabilities upon the establishment of an East African Federation. But when, in late 1964, Federation no longer seemed feasible, Tanzania threatened to withdraw from the Common Market. It was induced not to do so by a new agreement between the three governments—the Kampala-Mbale Agreement—which was designed to bring about a more acceptable balance of industrial development and trade in East Africa.⁴

The Treaty for East African Co-operation

The Kampala agreement set out five ways in which this might be done. These were: (i) to arrange a shift in the territorial distribution of production by several firms with plants in two or more countries; (ii) to allocate prospective new industries between the territories; (iii) to institute agreed quotas on inter-territorial trade; (iv) to increase sales from a country in deficit in inter-territorial trade to a country in surplus; (v) to devise a system of inducements and allocations of industry to secure an equitable distribution of industrial development between the three countries.

Action was taken on the first of these heads and it resulted in some reallocation of production which had the effect of increasing the output of cigarettes, beer, shoes and cement in Tanzania. But although some steps were taken to implement the allocation of new industries, these were ineffective. Eventually, in 1965, Tanzania's decision to establish its own currency, Kenya's related refusal to implement the industrial allocation procedures, and Tanzania's subsequent unilateral introduction of widespread restrictive quotas on imports from Kenya—far beyond what had been contemplated in the Kampala Agreement—all combined to generate considerable tension among the East African countries and to raise serious doubts about the future of the common market.

The increasing tensions and the apparent move to self-sufficiency in East Africa were halted by the appointment in late 1965 of an Inter-Ministerial Committee under the chairmanship of Professor Philip of Denmark. The Treaty for East African Co-operation⁵ which was signed in Kampala on June 6, 1967, is the outcome. It came into effect on December 1, 1967. The Treaty establishes an East African Economic Community and, as integral part of this, an East African Common Market and thus for the first time gives the common market a legal basis. The aims of the community are broad, but its central concern is to preserve the contribution to development of the common market and the common services, while ensuring an equitable distribution of their benefits and in particular of industrial growth.

Several important changes are provided for. In the first place, the headquarters organisations of some

³ East Africa, "Report of the Economic and Fiscal Commission", London, HMSO Cmd 1279, 1961.

⁴ The text was published unofficially in the East Africa Journal, April 1965.

⁵ See Treaty for East African Co-operation, (6 June 1967), Government Printer, Nairobi, for the East African Common Services Organisation.

of the common services are to be dispersed from Nairobi, where they have hitherto been concentrated. The headquarters of the Community itself is to be in Arusha in Tanzania. On the trade and development side it has been agreed that quantitative restrictions on inter-territorial trade will be abolished. Nevertheless a country with a deficit in inter-territorial trade is to be permitted to impose temporary surcharges, termed a transfer tax, of up to 50 per cent of the common external tariff on imports from surplus partners provided that these are imposed on products of industries which the deficit country intends to establish within a short period of time. Moreover, agricultural products for which special marketing arrangements exist will, for the time being, continue to be subject to quantitative restrictions. No provisions are made for allocating among the countries industries for which only one plant would be presently viable in the region, but transfer taxes may not be imposed on the products of such an industry. Fiscal redistribution is to be substantially reduced on the coming into effect of the surcharges and will be eliminated altogether after a short period of time. An East African Development Bank is to be established which is intended through the distribution of its investments, to influence the location of large scale industry within the region. Thus a common market is to be replaced temporarily by a preferential trading area.

The Gains from Integration in East Africa

Whether enough concessions have been made to Tanzania and Uganda to make it in their long term interests to stay in the market is perhaps questionable, although the fact that they have signed the Treaty presumably means they are satisfied with the outcome. On purely economic grounds it is in a country's economic interests to remain a member of a common market only if it can anticipate more real income or industrial growth from membership than it could get by going it alone. As noted already, the Treaty makes no attempt to allocate industries which are dependent on the common market for their viability. This is perhaps a recognition of the difficulties of such a policy. Inter-country agreement on the allocation of regional industries is in practice very difficult to reach, and even if governments can agree among themselves, the problem of obtaining the compliance of the investor, who is often foreigner, may be acute.

But the absence of industrial allocation is likely to mean that Kenya will continue to get the lion's share of such industries, except to the extent that the Development Bank's operations succeed in influencing their location. The Bank's scope for doing this is unlikely to be great except where finance is a limiting factor for such industries, which is not generally the case. As for the industries which can be set up in Uganda and Tanzania with the protection of the transfer tax, these do not need the common market for their viability in any case. Thus in terms of the operation of the common market itself because of the absence of agreed common market-financed measures

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to influence the location of industry within the region, it is difficult to see that Tanzania and Uganda get much that they could not have independently obtained outside the common market.

Nevertheless, it must not be forgotten that these countries will continue to enjoy benefits from any internal subsidies provided by the common services, together with those from economies in their operating costs. In addition, as a result of the Treaty, they will enjoy a substantial redistribution of income towards them as a result of the decentralisation of the common services. Moreover, if smaller scale industries are successfully established in Tanzania and Uganda as a result of the transfer tax provisions, the industrial basis so provided should make it easier for those countries to attract some regional industries later on provided that their domestic policies towards industrial enterprise are appropriate.

From the standpoint of the region as a whole, the great merit of the new arrangements in East Africa is that they continue to offer access to the regional market for those industries in which economies of scale are important and will enable a substantial part of the other gains from integration to continue to be exploited, including the operation in common of major common services. There is admittedly some retreat from a full common market in respect of industries to which the transfer tax provisions may be applied, but this is certainly a price which must be

paid for bringing about a more even balance of industrial development—a necessary condition for cohesion and thus for the continued exploitation of the gains from integration.

Union Douanière et Economique de l'Afrique Centrale

On the opposite side of Africa there is the continent's other major working example of a common market in the shape of the Union Douanière et Economique de l'Afrique Centrale (UDEAC). This market began life in 1960 as the Union Douanière Economique (UDE), the economic successor to French Equatorial Africa. It was made up of Congo (Brazzaville), Gabon, Chad, and the Central African Republic (CAR). When, at the beginning of 1966, the Federal Republic of Cameroon became integrated with the four UDE countries to form UDEAC there was created a market region as large as Western Europe or India with a population in 1964 of about 11 million. The need for integration is underlined by the fact that this large area has a Gross Domestic Product of only 344,000 million fr CFA—or about £ 500 million.

In the four country UDE area, there also occurred a certain amount of industrial development for the home market. Most of this grew up in the Congo, which as the capital of French Equatorial Africa, and the centre of the region's transport system, enjoyed a number of locational advantages. Inter-country trade, in part reflecting this industrial development, has grown more rapidly than total trade in the last few years and currently amounts to about 9 per cent of total imports. Congo enjoys a substantial favourable balance on this inter-territorial trade (Table 2) and in this way—like Kenya—is able to offset part of its trade deficit with the rest of the world.

Table 2
UDE Inter-country Trade 1964
(Million francs CFA)

	Imports	Exports	Balance
Congo	262	2,674	2,412
Gabon	395	—	395
CAR	1,077	316	761
Chad	2,434	1,178	1,256
Total	4,168	4,168	—

Source: Commerce Extérieur de l'UDE, Brazzaville 1965.

About 30 per cent of inter-country trade in UDE consisted of local agricultural produce (meat, steers, fish and cotton). The balance, representing trade in local manufactures, centred heavily on a limited range of products. For example, in 1965 sugar accounted for 50 per cent and cigarettes for 34 per cent of this trade. The balance was made up of cloth and clothing (6 per cent), beer (3 per cent) and soap (2 per cent). There was also a small trade in a large variety of products, including cycles and metal furniture.

From the inception of UDE there was a small amount of fiscal redistribution from Gabon and Congo to Chad and CAR through a Solidarity Fund which received 20 per cent of the customs receipts which

passed through the common customs service. The Fund was designed in part to compensate the inland states for their poverty and for the fact that they provided markets for the Congo. The element of true redistribution provided by the Fund was, however, relatively small. Initially there was no attempt to influence the location of industry in the region.

With the passage of time there emerged in the UDE market, too, some dissatisfaction with the distribution of benefits, and there are some parallels with the case of East Africa. In UDE, however, the rate of growth of Gabon, the fastest growing, and, in per capita terms, the wealthiest member, has demonstrably not depended on common market induced growth, for until recently Gabon exported nothing to its partners. The rates of growth of the other UDE members were not too dissimilar until recently, when a newly developed diamond industry gave a boost to CAR.

Continued Cohesiveness of the Equatorial Market

The dissatisfactions expressed in UDE with the operation of the common market also centred on the distribution of industry serving the local market. For the area as a whole, the issue was brought to a head in 1963 by the need to find a location for an oil refinery to serve the common market and Cameroon, in the face of a newly found disposition on the part of Gabon to establish some industries of its own to serve the common market. Up to that time Gabon had been content to concentrate on exporting mineral and forest products overseas. In 1963 it demanded—and got—the refinery which was certainly the correct decision on purely economic grounds and indicated at the same time the country's wish to develop other industries to serve the common market. The resulting controversy focussed attention on the need to establish procedures to influence industrial location so as to give the weaker members a share, if the market were to survive. The new treaty drawn up to incorporate Cameroon fully into the equatorial common market⁶ thus provided that there must be consultation before a location decision is made for any industry serving the common market, and also that attempts will be made to influence location with the objective of sharing the benefits of the market more equitably.

Hitherto, despite occasional dissension, the Equatorial market seems to have operated more smoothly than its counterpart in East Africa. In part this is because, on the fiscal side, some scope for diversity in taxation has been practicable. Mainly, however, this can probably be attributed to the fact that, so far, industrial development has been very limited. Moreover, the character of industrial development has been such that the cost of trade diversion has not been high and all countries have benefited from the revenues yielded by the area's principal common market industries.⁷

⁶ See Treaty Constituting the Union Douanière et Économique de l'Afrique Centrale, Brazzaville, Conférence des Chefs d'Etat, 1965

⁷ These industries are subject to a production tax the proceeds of which are distributed to the member countries in proportion to their consumption of the relevant products.

Abstracting from political factors, a continued cohesiveness of the Equatorial market seems probable. This is partly because three of its members—Congo, Gabon and Cameroon—can hold their own in competition for new industry by virtue of their diversified resource bases and strategic positions with respect to communications. On the other hand, in the foreseeable future the two inland countries are unlikely to be better off outside the common market if the alternatives are viewed in purely economic terms. Certainly a great deal of trade diversion would have to occur before the inland countries would be better off outside and even then, the bearing of their landlocked position on their effective field of choice would be a strong limiting factor. Moreover, new transport links on which CAR and Chad depend to reduce transport costs and to open up new areas also presuppose the continued cohesion of UDEAC.

The Experience of Common Markets

The experience of both common markets in Africa demonstrates that there has been a strong disposition on the part of the less favoured members to emphasise influencing the locational pattern of industrial development as a means of sharing the benefits and

a corresponding reluctance to rely on fiscal compensation. Even if this is generous, and often it has not been, it is not regarded as adequate compensation for the loss of dynamic influences to growth which accompany industrial development. To the extent that this is a generally held attitude, the progress of integration will depend in part on a deal which assures each participant of some industrial growth that it would not otherwise have attracted. The impossibility of doing this in the case of the West African Iron and Steel Community was perhaps the most important reason for the failure of this venture—in principle capable of producing considerable benefit. There are clearly dangers in attempting to interfere with industrial location, since the industries have first to be attracted—and even if such policies are successful they will tend to hinder the development of an optimal locational pattern and so result in a loss of some of the economic benefits which a common market makes possible. Nevertheless, this is almost certainly a price which will have to be paid not only to maintain existing integrated markets, but also to make possible the formation of others. The objective must then be to ensure that such policies are carried out in such a way as to minimise the additional costs involved.

COORDINATED ASSISTANCE

The Role of the Colombo Plan

by John White, London

In the late 1950s, the world began to live in the hope of a great international effort which would help the less developed countries rapidly to overcome their ancient problems of poverty and stagnation. Later, the disillusionment set in. In the late 1960s, the world has learned to live with the expectation that it will be a very long time indeed before the less developed countries begin to see light at the end of the tunnel, and that the part played by the richer countries in this efforts will be, to say the least of it, severely limited. The disillusionment may well turn out to have been as exaggerated as the earlier optimism. Certainly, there is a crisis in the efforts of the rich countries to help the poorer. The features of this crisis are all too familiar to anyone professionally concerned with development. Bilateral aid, in real terms, declines, and is increasingly confined to a few favoured countries which stand in some special relationship with their patrons.

Starved of Funds

Institutions such as the International Development Association (the soft-loan arm of the world bank) have been starved of funds, so that they could not play the key role which they seemed to be evolving a few years ago. In the wider context of aid, trade

and investment, the United Nations Conference on Trade and Development is for the present a scene of confrontation between rich and poor, in which the danger is one of deepening mutual misunderstanding. Across the whole field the picture is a gloomy one. The developing countries are finding the problems harder than they had supposed. The rich countries are finding that real and effective help can cost them more than they originally thought they would have to pay.

But a case can be made out—and I, for one, take this more optimistic view—for suggesting that the crisis in development is only a passing phase. The achievements of the developing countries over the past decade are more solid than is commonly recognised, and are a possible basis for future growth. Compare the performance of India over the past ten years—often cited as a gloomy history—with its performance in the 1920s and 1930s under British rule; and the future looks less bleak. On the aid side of the picture, an apparatus has grown up. Aid to developing countries is now an accepted, indeed, entrenched feature of international relations. It may suffer temporary setbacks. But the tide of history is against its elimination. The danger in the present crisis, as I see it, is this. There is bitterness in the air. The