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EAST AFRICA AND THE EUROPEAN ECONOMIC COMMUNITY

ONE of the basic purposes of the European Economic Community is to create a customs union within which customs duties and quantitative restrictions on the movement of goods between member countries will be abolished by stages and a common customs tariff established with the rest of the world. In themselves the changes in tariffs involved could give rise to important trading losses in the case of former overseas territories of members of the Community which have in the past enjoyed special trading relationships with the metropolitan country. The Treaty of Rome attempted to deal with the problem of the less-developed countries of this kind by providing, under Part IV of the Treaty, for associated status for certain limited economic purposes.

Basically, association means that the products of an associated state (a.o.t.) will enjoy free access into the markets of the Community (and into associated overseas countries). Thus they will get preferential tariff treatment whenever a tariff is charged by the Community on like products from the rest of the world. In return for this privilege associated countries are in principle expected to give duty free entry to goods from members of the Community unless the former are bound, by virtue of special international obligations, to apply a non-discriminatory tariff. In practice, however, it appears that associated countries would be free to impose non-discriminatory duties on imports from European members where duties are required in order to promote development. They would also be free to impose tariffs for revenue purposes. Association gives access not only to trading privileges but also to economic aid from the Development Fund to which all members of the Community contribute.[2] Eighteen independent countries in Africa opted for association under the 1957 treaty. The group comprised Congo (Brazzaville), Congo (Leopoldville), Chad, Gabon, Cameroun, Ivory Coast, Upper Volta, Niger, Dahomey, Madagascar, Somali Republic, Senegal, Mauretania, Mali, Togo, the Central African Republic, Ruanda and Burundi.

In the course of 1962 a new convention was under negotiation and Britain sought entry to the Community. During the negotiations

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[2] This aspect of association is disregarded in this article.

Britain made efforts to secure the right of association to newly independent members of the Commonwealth, as well as to safeguard the interests of the older members in other ways. All the newly independent members of the Commonwealth were invited to say whether they would be prepared to accept associated status if, on Britain's entry to the Community, it were to be offered. For political reasons, a number of these countries, including the three East African countries, decided not to opt for Part IV association or its equivalent under the new convention. Kenya, Uganda and Tanganyika decided, instead, to seek, by direct negotiation with the Community, concessions if possible as good as those entailed in Part IV status.

For East Africa the failure of the negotiations for Britain's entry removed some of the urgency from this problem since, as will be seen later, it was the adoption of the common external tariff in Britain which presumptively would have made the largest difficulties for East Africa. Since the original discussions in 1962 the common external tariff has been revised downwards on a number of commodities important for East African trade. Unless the common external tariff is reduced to zero on items in which East Africa trades it is still of importance to try for concessions in the first place to remove present trading disadvantages, but more importantly to protect East Africa against the tariff increases which would otherwise confront it in the event that Britain were to join the Community in the future. It remains to be seen whether the East Africans will be successful in securing the concessions they want. Certainly the 1963 Yaoundé declaration of the Six envisages the possibility of a new kind of association for Commonwealth countries which would provide the trading privileges of association without the institutional links. This kind of arrangement, if it is negotiable, might perhaps be acceptable to East Africa. However, countries already enjoying associate status may well oppose these concessions. Also there may be difficulties in reconciling this kind of arrangement with the provisions of GATT.

The main purpose of this article is to analyse very briefly the ways in which and the extent to which the present and prospective development of the European Economic Community affects East African interests. This analysis is prefaced by a brief discussion of some salient aspects of the East African economy and of the trade of the three countries with each other, with their neighbours and with the rest of the world. All figures relate to 1961 except where otherwise indicated.

East Africa's economy and trade

It is convenient to begin with a brief outline of the main characteristics of the East African economy. The area is made up of the three independent Commonwealth countries of Kenya, Uganda and Tanganyika. It comprises a common market[1] of about 25 million persons. The gross domestic product of East Africa in 1962 was of the order of £600 million. Of this, about two-thirds was produced outside the subsistence sector. The area shares a common external tariff, a common monetary and financial system and a common income tax and excise system. There exists therefore in East Africa a degree of economic integration which in several respects goes well beyond what has so far been achieved in Europe. There is, however, nothing comparable with the Treaty of Rome which lays down a schedule of stages in the progress towards fuller economic and political integration. Discussions are currently in progress in East Africa on the possibility of establishing a federation and on the detailed form it might take. The chances of maintaining the present degree of economic co-operation will depend to a large degree on the establishment of more formal links between the three countries than have hitherto existed.

In structure, the East African economy is fairly typical of an under-developed primary producing area. Except in Kenya the export sector of the economy is the principal determinant of the level of activity in the three countries. For the region as a whole this sector rests on a fairly narrow base. Three commodities, coffee, cotton and sisal, account for nearly two-thirds of East Africa's exports. In addition to these major export crops a range of other agricultural and mineral products is exported. Many of these have a considerable growth potential. The bulk of these export products are exported in a raw or simply processed form. As between the three countries there are important differences in their respective export structures. For instance, of the three countries, Uganda is the most highly specialized, and derives about 80 per cent. of its export earnings from cotton and coffee. Kenya and Tanganyika are rather less narrowly based and are more favourably situated than many other tropical African countries with respect to the nature of their trade. Table 1 shows the commodity structure of domestic exports from East Africa for 1961.

[1] The operation of the common market is impaired in certain respects by inter-territorial restrictions. See *Report of the Economic and Fiscal Commission*, H.M.S.O. 1961, Cmnd. 1279 for a discussion of these.

TABLE 1. *Commodity structure of domestic exports*[1]

Commodity	*Kenya*	*Uganda*	*Tanganyika*	*E. Africa*
	%	%	%	%
Coffee	32	44	13	29
Cotton	2	37	15	19
Sisal	10	..	29	14
Tea	11	3	2	5
Hides and skins	5	2	4	4
Diamonds	..	..	10	4
Oilseeds	2	1	6	3
Meat	6	..	3	3
Copper	1	6	..	3
Animal feedingstuffs	1	4	2	2
Pyrethrum	6	..	..	2
Cashew nuts	..	..	3	1
Sodium carbonate	5	..	..	1
Maize	3	..	..	1
Beans, peas	1	..	2	1
Wattle extract	3	..	1	1
Other	12	3	11	9
TOTAL	100	100	100	100
VALUE £ million	35·3	37·6	48·7	121·6

Not only is the East African export economy narrowly based in terms of its commodity structure; in addition the major export and import markets are relatively few in number. For instance, at the present time about two-thirds of East Africa's exports go to five countries, namely the United Kingdom, West Germany, the U.S.A., India and Japan. A similar number of countries, the United Kingdom, Japan, Iran, West Germany and India provide about two-thirds of the imports of the region. Table 2 summarizes the imports of the small group of importing countries just mentioned as markets for the disposal of East Africa's three main export crops.

TABLE 2. *Markets for major exports*

Commodity	*% of total exports purchased by*				
	U.K.	*W. Germany*	*U.S.A.*	*India*	*Japan*
Coffee	20	26	25	..	..
Cotton	3	11	..	34	19
Sisal	31	5	7	2	7

Trade between the three countries which comprise the common market is not included in the previous tables. At present this trade accounts for about 15 per cent. of total exports. Inter-territorial

[1] Exports excluding re-export and inter-territorial exports.

trade has developed substantially in recent years. During the post-war period, indeed, it has grown more rapidly than external trade. To this development improved internal transportation has made an important contribution. So far as its composition is concerned, until recently the major part of the goods traded in between the territories was made up of locally produced foodstuffs in a raw or simply processed state. In the last decade, however, there has been a marked increase in the relative importance of manufactured goods and packaged and processed foodstuffs. This has been associated with an expansion of manufacturing stimulated by tariff protection. Much of this industrial development has taken place in Kenya, which enjoys certain advantages as a location for manufacturing industry as compared with the other two countries.

From the fact that a high proportion of industrial development has been located in Kenya one would expect inter-territorial trade to be particularly important to that territory. This is in fact the case. Geographical factors also favour Kenya as an entrepôt. Inter-territorial trade is of much less importance for Uganda and still less for Tanganyika. Thus as a proportion of total exports, excluding re-exports, inter-territorial trade accounted in 1961 for 25 per cent. of the total in Kenya, 13 per cent. in Uganda and only 4 per cent. in Tanganyika.

If incomes in East Africa resume their upward rise there will be further possibilities for developing local manufactures to replace imports. Other things being equal this might lead to a further expansion of inter-territorial trade. Since each country is anxious to promote industrial development within its own borders, however, there may be a tendency, except where economies of scale are great, for plants to be set up to serve the market of one country only. This factor would to some extent hinder the expansion of inter-territorial trade. Likewise there may be a tendency for each of the countries to become more self-supporting in foodstuffs in the future than hitherto. This again must tend to reduce the scope for inter-territorial trade.

One further category of trade which may usefully be distinguished is intra-African trade. Table 3 describes East Africa's trade with the rest of Africa. It can be seen that the bulk of East African trade within the continent takes place with neighbouring countries. However, exports to the Union of South Africa form the largest single category of African trade as a whole and account for about one half of total exports within Africa. The East African boycott of South African products and the reactions in South Africa to it are likely to produce a sharp decline in this item in future.

TABLE 3. *East African trade within Africa*

£000 1959

	Domestic export	*Re-export*	*Total*
NEIGHBOURING COUNTRIES			
Somalia	196	176	372
Ethiopia	52	9	61
Sudan	600	173	773
Congo	975	1,754	2,729
Rhodesia/Nyasaland	722	262	984
Mozambique	84	..	84
Zanzibar	897	580	1,477
TOTAL (1)	3,562	2,934	6,460
OTHERS			
Madagascar	27	36	63
South Africa	3,248	152	3,400
West Africa	2	5	7
Libya	72	6	78
Egypt	12	1	13
TOTAL (2)	3,361	200	3,561
TOTAL (1) and (2)	6,887	3,134	10,021
TOTAL ALL COUNTRIES	120,684	8,146	128,830
African trade as percentage of total trade	4·7	38·5	7·8

At first sight the most surprising feature about this trade is its relatively small importance. Intra-African trade accounts for only 8 per cent. of total trade including re-exports. Re-exports account for a substantial proportion of this trade, reflecting East Africa's favourable geographical position. If this category is excluded, African trade as a percentage of total domestic exports is less than 5 per cent.

A number of factors account for the smallness of the trade with the rest of Africa. Two of particular importance may be mentioned here. One is the nature of the products in which African countries have traditionally specialized; the other related factor is the character of the communications systems which have been developed. The economy of most of the countries in Africa is geared to the export of primary products to the more advanced countries and the import of manufactures from the same sources. The communications system has been developed to foster this kind of exchange and to some extent communications between adjacent countries have been inferior and costly. For both of these reasons the development of trade between neighbouring countries in Africa has hitherto been of limited importance. Much of what little intra-African trade there is in East Africa has been concerned with re-exports and transit trade. For instance, much of the eastern Congo can be more readily served through Mombasa via the direct rail link to western Uganda than from the western Congo. Likewise parts of Somalia can be easily served from Kenya. Much of the other trade is concerned with the interchange of food crops dictated in part by climatic factors.

This brief discussion of East African trade serves to indicate where the region's chief trading interests lie. For a long time to come, primary products and raw materials are likely to constitute the major part of East Africa's exports. To the extent that this is so the region's trading position and prospects with Britain, Europe and to a lesser extent with the rest of the Commonwealth and Asia will be a matter of the first importance for its prosperity. Although it is no doubt possible for regional specialization in food products and manufactures to develop substantially within Africa if intra-African transport is adequately developed and trade and industrialization are carefully planned, no African common market will provide a practicable alternative to the present trading pattern in the foreseeable future.

The impact of alternative tariff situations on the East African countries

The tariff changes brought about by the establishment of the European Economic Community and still more those which would be entailed if Britian were to be associated can, other things being equal, be expected to have an important bearing on the export earnings of East Africa. In order to throw light on the significance of the various alternatives it seems useful in the first place to attempt to quantify them by estimating what may be termed their present *formal* incidence. This is defined as the value of the tariff and preference changes involved and is computed by applying the relevant changes to the present level and pattern of trade. It must not be assumed that this calculation will necessarily give a reliable indication of the *effective* incidence of the changes implied in the various alternatives on the exports of the three countries and the region. This will be affected by the relevant elasticities of demand and supply, future changes in the level and pattern of production and other factors bearing on East Africa's export trade. The approach here employed, however, does help to elucidate some of the more important economic implications of the alternative situations from East Africa's point of view.

For the purpose of this discussion it is useful to distinguish the following situations:

Situation 1

This is the situation which prevailed prior to the formation of the European Economic Community and the common external tariff. It provides a convenient base line from which to measure other situations, actual or hypothetical. In this situation East Africa enjoys Commonwealth Preference in the United Kingdom and in other parts of the Commonwealth, and trades, formally on the basis of equality, with the Six.

Situation 2

This is the situation which at present confronts East Africa as a result of the erection of the common external tariff.[1] In principle the establishment of the tariff might involve favourable, unfavourable or neutral effects on East Africa depending on the nature and distribution of its trade with the Community.

Situation 3

This is the situation which would confront East Africa if Britain were to join EEC. In the absence of association or comparable special arrangements it would involve in the first place a loss of the Commonwealth Preference now enjoyed by certain of East Africa's products in the British market; and secondly an additional loss due to the erection of the common external tariff barrier by the United Kingdom which would operate *against* East Africa. Associated territories of the Community would, on the other hand, enjoy tariff-free access to the British market in the absence of special provisions. If Britain enters the Community the other EFTA countries would presumably follow. In that event East Africa would suffer similar disadvantages in those markets by their adherence to the common external tariff. Finally, in this situation the Commonwealth Preference now enjoyed by East Africa in the rest of the Commonwealth would presumably be lost.

Situation 4

This is the situation which would confront East Africa if Britain were to become a member of the Community and East Africa were to accept associate status or in other ways obtain the same trading

[1] Strictly speaking this is not the present situation since the common external tariff has not yet been achieved. There are differences in the rates applied by individual members of the Community.

privileges. Table 4 presents a summary of the aggregate absolute value of the changes in tariff margins which would be experienced by the three East African countries as a result of the alternatives there indicated.

TABLE 4. *Formal incidence of tariff and preference changes*

£000

A movement from situation	*Kenya*	*Uganda*	*Tanganyika*	*East Africa*
1–2	−540	−80	−220	−840
2–3	−1,330	−670	−1,570	−3,570
3–4	+2,570	+860	+1,630	+5,060
1–4	+700	+110	−160	+650

These indicators of total preference changes can be expressed as a percentage of total exports from each territory and from East Africa and deducted from or added to 100 in order to provide index numbers of tariff preference changes. This calculation yields the following results.

TABLE 5. *Relative incidence of tariff and preference changes*

Position	*Kenya*	*Uganda*	*Tanganyika*	*East Africa*
1	100	100	100	100
2	98·5	99·8	99·6	99·3
3	94·7	98·1	96·3	96·4
4	102·0	100·3	99·7	100·5

It can be seen from these tables that except in the case of Situation 4 in Tanganyika the effects of the changes for all three territories move in the same direction but to a varying extent. It can also be seen that the tariff loss involved in the present situation (Situation 2) for East Africa as a whole is relatively small. This is because some of the region's major exports to the six are subject to a zero tariff, whilst for most of the others present trade is very small.[1] If, however, Britain were to enter the Community, a much more substantial loss would be involved for East Africa. This loss would be made up of the loss of

[1] It should be noted that the burden of the tariff changes in Situation 2 is measured by the full height of the common external tariff multiplied by the value of trade with the Community. This may appear to be illogical since tariffs on coffee imports exist in the separate countries prior to the establishment of the common external tariff. The point is, however, that this table tries to quantify the changes in preferences involved in the various situations and in the EEC. East Africa is now discriminated *against* to the extent of the tariff by virtue of the free entry accorded to the products of the eighteen associated overseas territories.

existing preferences in the United Kingdom market plus the loss involved in the imposition of the common external tariff by Britain on the area's products. The total loss would be large because on a fairly high proportion of trade with Britain either the common external tariff or existing preferences or both are important. Finally it can be seen that if East Africa were to associate itself with EEC if and when Britain enters—either by accepting associate membership or by negotiating similar concessions directly—then the preference losses for the area as a whole would be more than made up, except for Tanganyika, which would be slightly worse off as compared with the initial situation.

It should be noted that these calculations are based on the position with respect to the common external tariffs as at the end of 1963. At the time Britain was negotiating for entry and East Africa was considering association the common external tariff on a number of products of importance to East Africa was considerably higher than at present. Thus the decision of the three East African countries not to associate if Britain entered was made against the background of substantially greater losses than those indicated in the table. Similarly if the common external tariff on relevant products is reduced still further in the future the preferential advantages to be gained from association would become less. In these circumstances it may be that East Africa would suffer a net disadvantage as compared with the pre-Rome Treaty position if Britain joins even if association were accepted, for the gain from access to the expanded market of the Community would not compensate for the loss of Commonwealth Preference in Britain and elsewhere.[1]

So far the discussion has been concerned with the total impact of the detailed changes for each country. A brief indication now follows of the impact on different commodities of the changes we have been discussing for the three countries. Table 6 indicates for 1961 the value of principal domestic exports to EEC and EFTA and shows also the level of the common external tariff on the various items. Where commonwealth preferences are relevant this is indicated in the final column. Table 7 indicates the cost of the tariff changes for the most important cases. At present three of East Africa's major exports effectively enjoy a zero common external tariff. These are cotton, sisal and tea.[2] This limits East Africa's present disadvantage in

[1] It must be emphasized that this remark relates to the *formal* incidence of the changes. What the *effective* incidence would amount to is quite another matter.

[2] There is a suspended duty on tea.

TABLE 6. *Value of principal domestic exports to EEC and EFTA*

£000 1961

Commodity	*EEC*	*EFTA*[1]	*Common external Tariff*	*Commonwealth Preference*
Coffee	8,403	5,579	9·6	yes
Cotton	6,944	851	nil	yes
Sisal	5,154	6,601	nil	yes
Tea	378	4,087	nil[2]	yes
Hides and skins and fur	2,148	981	nil	yes
Diamonds	..	5,780	nil	nil
Oil seeds	965	742	nil	yes
Copper	2,742	..	nil	yes
Meat	175	3,585	27%	yes
Animal feedingstuffs	46	2,006	nil	yes
Cashew nuts	..	6	4–22	yes
Pyrethrum extract	226	399	5	yes
Flowers	12	3	..	..
Beans, peas, pulses	288	200	7–10	yes
Wattle bark	143	50	10	yes
Gold	111	1,294	nil	nil
All other commodities	1,178	2,646	..	..
	28,913	34,810		

TABLE 7. *Incidence of tariff preference changes*

£000

	Kenya	*Uganda*	*Tanganyika*	*East Africa*
I				
Coffee	525	75	200	800
II				
Meat[3]	600	..	750	1,350
Coffee	220	515	75	810
Sisal	90	..	435	525
Cashew nuts	30	..	175	205
Pineapples	150	..	..	150
Cottonseed cake	5	130	40	175
Soda	85	..	..	85
Butter	65	..	..	65
Pyrethrum	60	..	..	60

Note. The losses in stage II, in cases except sisal, are due to the combined effect of the loss of Commonwealth Preference and the loss occasioned by the erection of the common external tariff in the United Kingdom. In the case of sisal, it is loss of Commonwealth Preference which accounts for the whole of the loss.

[1] Including Britain. Of the total trade with this area trade with Britain accounted for £32,249,000 in 1961.

[2] Suspended duty.

[3] This item should be read in the light of the important qualifications made in the text.

Situation 2 mainly to coffee. Almost the whole of the preference loss shown in the first line of Table 4 above arises from coffee. The small balance is due to pyrethrum, wattle, peas and beans in which, at present, little trade is carried on with the Community. If Britain goes in, however (Situation 3), the prospective tariff losses would become more serious and a wide range of commodities would be affected. This is because on a large amount of East Africa's trade Commonwealth Preference is significant or the common external tariff is high.

For Kenya the absolute value of the further margins lost if Britain were to enter would be very large in relation to meat and coffee. Substantial losses would also arise in relation to pineapples, sisal, soda ash, butter and pyrethrum. The impact on particular industries would be closely related to the effective overall change in margins. These would be particularly important in relation to pineapples, meat, soda ash, butter and cashew nuts. So far as Uganda is concerned Table 7 indicates that coffee is the only export for which preference losses are very large in absolute terms though losses on cottonseed cake would be appreciable. In the case of Tanganyika the largest impact in absolute terms of the loss of preference and the erection of the tariff by Britain would be felt by meat and sisal followed by cashew nuts, coffee and cottonseed cake. The relative impact would be most important for meat and cashew nuts.

It is, of course, anticipated that temperate agricultural produce will be protected within the Community by means other than tariffs. Although if Britain joins she would doubtless try to negotiate for associated states to enjoy free access to the United Kingdom market for at least the present volume of trade it cannot be assumed that this would be feasible. On the other hand, it is possible that special terms may yet be forthcoming for Commonwealth producers in this field which are not eligible for association. If so this would surely be material to the position of those which are eligible but which do not choose to associate. According to the assumptions one chooses to make about these possibilities, Tables 4 and 7 would require adjustment.

Conclusion

The formation of the European Economic Community results in discrimination against East African produce in the markets of the Community. If Britain were to enter the Community there would be a substantial increase in the effective margin of discrimination against East Africa as a result of the loss of Commonwealth Preferences and the erection of the common external tariff in Britain. If, however, East Africa were to be offered and to accept associate status, these margins would be more than recovered. Both the formal cost to East Africa of non-association and the formal benefits from association are exaggerated in the foregoing presentation, however, because the calculations assume in relation to temperate trade that non-association would mean total loss of preferences and subjection to the common external tariff and that association would mean free entry to Britain and the Community. Neither of these assumptions seems wholly reasonable in the light of the history of the recent negotiations.

What is ultimately important, however, is to ascertain the effects of the various alternative situations upon export earnings both at present and in relation to foreseeable future development. This calls for an estimate of the changes considered upon the volume of trade with these markets and on the net prices received by East African producers. Although this task cannot be attempted in an article of this kind it seems to be worth drawing attention to the following points. It has been shown that the major impact of the tariff changes discussed falls on coffee and on temperate agricultural produce. In the case of both of these commodities rather special considerations are relevant. For coffee the operation of the International Coffee Agreements limits the scope for significant changes to the major market outlets in Western Europe. Moreover, the nature of the demand for East African coffees coupled with the monopolistic nature of the export marketing organizations may mean that a large part of the effective incidence of the duty changes would in any case fall on the importers. For temperate agricultural products attention has already been drawn to the point that it is doubtful whether free entry to the expanded Community would be obtainable for more than the existing volume of exports. Since a substantial increase in the output of some of these products is entailed in the development plans of East African countries the value of the preferences in the British market (at their present levels) could become of increasing importance in the future. In addition, sugar—not so far mentioned—is a commodity which East Africa hopes to export in quantity in the future. The British market may be of considerable potential importance here too. These qualifications do nothing to impair the general presumption that if Britain ultimately joins the Community East Africa's export earnings are likely to be improved by association. What they do suggest is that East Africa's short-run economic interests would be best served if Britain were to stay out because of the actual and potential importance of Commonwealth Preferences and the relatively small gains to be expected from nominal free access to the markets of the Community.

Volume II

Volume III

Volume IV

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