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ADOLF WEBER AND THOMAS T. HARTMANN*

A Comparative Study of Economic Integration with Special Reference to Agricultural Policy in the East African Community

1. INTRODUCTION

The two predominant economic integration systems in Europe – the European Community (E.C.) and the Council for Mutual Economic Assistance (COMECON) are unique in economic history for two reasons: They represent, as Balassa ([1], p. 7) has defined it, the "liberal" and the "dirigist" ideal of economic integration. Moreover, despite the difference in integration policy, both developed a higher degree of economic integration although the sectors of integration vary widely. This development encouraged further approaches towards similar economic integration systems in Latin America and Africa in the Sixties. The search for a multinational approach to economic development in these two areas was supported by the intellectual leadership of the United Nations Economic Commissions for Latin America and Africa ([28], p. 7). The first United Nations Conference on Trade and Development (UNCTAD), held in 1964 in Geneva, passed a resolution in the Final Act to promote economic integration specifically among developing countries. In 1966, the newly created UNCTAD Secretariat produced a report advocating the assistance and regional association of developing countries in new economic integration systems, to draw the attention of industrialized countries and international institutions to the development needs of such new groupings. Because of the large populations of many Asian countries (China, India, Japan, Indonesia) a similar trend towards economic integration did not occur in Asia.

Within the African continent, the East African Community (E.A.C.) of Kenya, Tanzania and Uganda represents a relatively advanced economic integration system in terms of created legislative, executive and judicial functions ([21], p. 55). Article 12 of the E.A.C. Treaty [4] stipulates in principle a multisectoral integration to provide for the free movement of goods, capital and labour.

However, the trade of "certain agricultural products" is, according to article 13, subject to quantitative restrictions. Article 14 states that, notwithstanding the restrictions outlined in article 13, the "Common Market should

* A. Weber, University of Nairobi. T. Hartmann, Nairobi.

extend to agriculture and trade in agricultural products" and that cooperation and consultation in the field of agricultural policy among the Partner States should be so directed that trade arrangements "between the national agencies or marketing boards of the Partner States may be entered into directly within a single system of prices and a network within the Partner States as a whole of marketing services and facilities".

The prospects of integrating the agricultural sector have been the subject of a recently held seminar [7] where most papers and recommendations outlined the need for further study. Other studies [16, 21] have expressed similar proposals, they also stress institutional and planning aspects. There is, however, a general lack of theoretical and empirical research into the basic prerequisites and expected advantages of further agricultural integration in East Africa.

A general framework for analysis has been developed by Balassa's ([1], pp. 4, 65) concept of the advantages of economic integration: (a) accelerating the rate of growth, (b) economies of scale, (c) mitigating cyclical economic ills and fluctuations, (d) increase of economic welfare by new combinations of factors of production and (e) increase of bargaining power in international trade negotiations on tariffs, commodity agreements, price guarantee schemes etc. These advantages have been formulated for the whole economy of previously independent countries involved in a formal integration process. They relate directly and indirectly to the agricultural sector.

The critical comments made by Helleiner ([17], p. 146) regarding economic integration arrangements and the "extravagant lip-service" paid to them in developing countries reminds us of the realities of the E.A.C. region. By concentrating on the economic integration of the agricultural sector, we have to neglect other forms of integration – political, cultural, social, or technical – which may be more pressing or have higher priorities in the overall goal structure of the countries under examination.

2. EAST AFRICAN COMMUNITY

2.1. *Forms of integration before independence*

Before East Africa fell under European colonial rule, forces of integration had been at work in the coastal region since the 13th century within the Islamic community and with the outside world [23]. East African integration as an administrative endeavour started as early as 1917, when the British administered territories of today's Uganda and Kenya formed a customs union ([28], p. 160). In 1923, Tanganyika joined the customs union and the whole area developed into a kind of common market. During the thirties the region had reached the stage of an economic union with free movement of goods and production factors between the Kenyan, Ugandan and Tanganyikan territories. This "liberal" approach was supported by a commonly shared currency under the East African Currency Board ([22], pp. 43, 75, 79) and by common external tariffs, income taxes and excise duties. The aim was to create the prerequisites for realizing future economies of scale in industrial production by enlarging the domestic market.

TABLE 1. *Synopsis of the World's Main Economic Integration Systems*[a] *with comparison to the German Customs Union*[b] *and the United States of America*

Name of Integration System	German Customs Union	East African Community	Central African Customs and Economic Union	West African Economic Community	Central American Common Market	Common Afro-Malagassy and Mauritian Organization	Council of Arab Economic Unity	European Free Trade Association	Latin American Free Trade Association	Council For Mutual Economic Assistance	European Economic Community	United States of America
Abbreviation	G.C.U.	E.A.C.	C.A.C.E.U.	W.A.E.C.	C.A.C.M.	C.A.M.O.	C.A.E.U.	E.F.T.A.	L.A.F.T.A.	C.M.E.A. or COMECON	E.E.C. now E.C.	U.S.A.
Date of Signing Treaty	1833	6.6.1967	8.12.1964	–	13.12.60	10.3.1960	1957	4.1.1960	18.2.1960	Jan. 1949	25.3.1957	1776
Treaty Became Effective	1834	1.12.67	1.1.1966	1966	1.6.1961	April, 1964	5.6.1962	3.5.1960	12.6.1961	Apr. 1949	1.1.1958	1776
Population (Millions)	31·0	36·2	9·4	28·6	16·0	62·5	77·6	40·5	181·6	361·8	254·9	208·8
Gross National Product per Capita (U.S. $)	240	144	248	161	442	166	269	2805	926	1504	2908	5590
Gross National Product (Billion U.S. $)	7·4	5·2	2·3	4·6	7·1	10·4	20·9	113·5	168·2	544	741·2	1167
Integrated Markets as % of U.S. Market	0·6	0·4	0·2	0·4	0·6	0·9	1·8	9·7	14·4	46·6	63·5	100
Arable Land (Mill. ha)	25·0	22·8	22·1	34·8	4·80	58·1	23·6	12·5	116·0	291·4	51·4	191·1
Persons per ha of Arable Land	1·24	1·59	0·43	0·82	3·32	1·08	3·29	3·24	1·57	1·24	4·92	1·09
Gross National Product per ha of Arable Land (U.S. $)	296	227·5	105·6	132·4	1469	178·3	885·8	9089	1450	1867	14295	6108

[a] Population and Gross National Product data refer to 1972 (German Customs Union for 1834).

[b] Deutscher Zollverein.

Source: Union of International Associations: Yearbook of International Associations. 15th Edition (Publication No. 226). Brussels 1974, International Bank for Reconstruction and Development: World Bank Atlas (Population, per capita product and growth rates). Washington, D.C. 1974; *A. Weber:* Faktorproduktivitat und Technologie in der amerikanischen, europaischen und japanischen Landwirtschaft von 1880 bis 1965. Zeitschrift fur Wirtschafts und Sozialwissenschaften, Vol. 1973. pp. 197–226; FAO: Production Year Book 1973.

After World War II, the East African High Commission was established in 1947 with the express purpose of further integrating the three partners into a viable, independent, economic (and possibly political) federation. But with the proximity of independence other hitherto unconsidered objectives came into the fore: the respective territories discovered their own political identity. The frequently quoted "economic unity and identity" of the East African region was mainly for the administrative convenience of the British Colonial Government, to whose interests the variation of monetary conditions within the region could be relatively easily subordinated. As soon as the metropolitan umbrella of a protected and unified region was gradually withdrawn, the decisive era of regional integration between independent countries began.

The much discussed imbalance of the gains and losses between the three partners during the period of a commonly shared market was not an inducement to move faster towards economic integration. By 1961, when Tanganyika achieved independence, the East African Common Service Organization (EACSO) replaced the East African High Commission.

The whole integration issue now became even more debatable and concentration centred on a fair distribution of the earnings and expenditures of the existing service organizations (railway, harbours, airlines, postal services) when Uganda moved to independence in 1962 and Kenya in 1963, but the political will for integration within these three states was strong enough at the time to overcome these controversies. However, in 1964, when Tanganyika and the small island of Zanzibar formed a political union under the name of Tanzania, the island of Zanzibar still remained outside the customs union and continued to impose its own tariffs and levies.

2.2. *Comparative assessment of the size of economic integration systems*

Various assessments of the sizes of population and domestic markets in various integration systems, measured in terms of Gross National Product in total and per capita and the endowment with arable land per capita, are presented in Table 1. Just how effective the forces of integration have become may be judged from the fact that in 1972 28·5 per cent of the world's population, living in the ten integrations systems listed,[1] produced 40 per cent of the global GNP.[2] However, with the exception of the two European areas of COMECON and the E.C., and the Latin American Free Trade Association, the other integration areas have an extremely small market.

The size of the domestic market in African integration systems barely reaches one or two per cent of the U.S. market, or three per cent of the E.C. market, which means that it has little effect on world economy by force of combined purchasing power, as the U.S. or the two European integration systems have. To earn foreign currency for imports of capital equipment and machinery, the smaller integration systems in Africa have to adjust themselves to the opportunities provided by larger markets. Faced with the attractions of closer integration with these larger markets, it is more difficult to push ahead with regional integration. The regional African integration groupings must constantly weigh the type of integration which is most beneficial to them: regional integration or integration into larger markets.

The historical example of the nineteenth Century German "Zollverein" offers some interesting parallels and contrasts to present day integrated econ-onomic groupings in Africa. The Zollverein between German states might be considered as a successful historical forerunner of modern European integration systems, but unlike them, it started on a very small scale. Positive integration effects were probably easier to achieve then, because in those days the Zollverein already had a large domestic market, and high transportation costs favoured regional "trade creation".[3]

However, even if 19th century national income statistics are not, perhaps, 100 per cent reliable, there is ample evidence that even some 140 years ago, the domestic market of the Zollverein was at least no smaller than the present East African Community or other African and Central American Integration systems. Some facts might be helpful in evaluating the statistics.

In 1834, in the Zollverein, per hectare of arable land only 1·24 persons had to be provided with food compared with the 1·59 persons in the E.A.C. in the year 1972. The states of the German Zollverein had one primary goal in their agricultural policy: to increase food production. Capital, labour, industrial goods and agricultural products moved freely in the area without any quantitative restrictions. This was possible, because the various German currencies then in use were convertible. It was the perfect "liberal" approach of integration and not the "planned" or "dirigistic" one so prominent in contemporary meetings, discussions and writings. The fact that the Zollverein lacked a central decision-making bureaucracy to guide overall policy was probably not as crucial then as it would be today, when the demands and expectations placed on policy-makers to increase economic welfare are so high.

2.3. *The role of agricultural policy in various economic integration systems*

The two European economic integration systems, COMECON and the E.C., are both members of powerful military and political alliances. The complementary relationship between political and economic ties might be worth keeping in mind in any subsequent comparisons. The policies of the COMECON and the E.C. towards economic integration represents, respectively, the modern "planned" or "liberal" approach (see Table 2).

The free movement of capital, labour and goods in the E.C. is facilitated by convertible currencies. One of the integration goals stipulated in the Treaty was an approach which included all economic sectors and through which even widely differing agricultural prices were gradually equalized. In contrast, the COMECON Treaty has no provision for a supranational planning authority. The utilization of resources is still determined on a national basis with the result that prices for agricultural and industrial goods differ between member countries. Because of this, a time-consuming bilateral examination of mutual trade prospects is still the starting point of trade negotiations and planned trade flow within the COMECON ([19], p. 151). Furthermore, in spite of its well developed national planning machineries and shared political philosophy, COMECON has as yet been unable to formulate a common agricultural policy ([19], p. 217). Each country still strives to have the highest possible degree of self-sufficiency in food production. However, the benefits

TABLE 2. *Criteria of integration in the World's Main Economic Integration Systems*

Topic	East African Community	Central African Customs and Economic Union	West African Economic Community	Central American Common Market	Common Afro-Malagassy Maurician Organization	Council of Arab Economic Unity	European Free Trade Association	Latin American Free Association	Council for Mutual Economic Assistance	European Economic Community
Military Alliance	No	No	No	No	No	–	No	(No) (Warsaw Pact)	Yes (N.A.T.O.)	Yes
Monetary System within Community	Commonly at par fixed Exchange Rate	Nationally fixed Exchange Rate	Nationally fixed Exchange Rate	Nationally fixed Exchange Rate	Nationally fixed Exchange Rate	Nationally fixed Exchange Rate	Convertible Currency	Nationally fixed Exchange Rate	Nationally fixed Exchange Rate	Convertible Currency
Movement of Capital	(Regulated)	Restricted	Restricted	Restricted	Restricted	Restricted	Free	Restricted	Restricted	Free
Movement of Labour	(Regulated)	Restricted	Restricted	Restricted	Restricted	Restricted	Regulated	Restricted	(Regulated)	Free
Movement of Goods	(Regulated)	Restricted	Restricted	Restricted	Restricted	Restricted	Free[a]	Restricted	(Regulated)	Free
Integrated Communication and Transport Sector	Yes	–	–	–	–	–	–	–	Standing Commission	Common Transport Policy
Common Industrial Policy	Planned	–	–	In selected sectors	–	–	No	No	Allocated Sector Specialis-ation	Common Energy and Regional Policy
Common Agricultural Policy	No	No	No	No	No	No	No	No	No	Yes
Common Structural Policy/Philosophy	Private or Socialized[b] Agriculture	–	–	–	–	–	Private Agriculture	Private Agriculture	Socialized Agriculture[c]	Private Agriculture
Common Agricultural Price Policy	No	No	No	No	No	No	No	No	No	(Yes)
Common Agricultural Research	Yes	–	–	No	No	No	No	No	Some	No

( ) = Statement needs Specification. – = Not exactly known.
[a] Trade of agricultural products is nationally regulated.
[b] Partly in Tanzania as Ujamaa Villages.
[c] Private agriculture still prevailing in Poland.

of the free movement of agricultural products for agricultural specialization are denied not only in the planned economies of COMECON countries, but also in the European Free Trade Association which has always excluded agricultural products. The same holds true in the Latin American Free Trade Association ([28], p. 82).

Some caution is needed against an extensive interpretation of common agricultural prices in the E.C. It is true that since the second half of the sixties, all agricultural prices are commonly expressed at the E.C. level in so-called units of account. However, the French devaluation and the Dutch and German revaluations in 1969, followed from 1971 on by periods of currency floating, destroyed the painstakingly erected, complex price-determining machinery. The member states hesitated to adjust their agricultural prices immediately to changes in the rate of foreign exchange. To avoid trade distortion and quantitative restriction in intra-community trade created by different agricultural price levels, the governments of the member states are at present again applying taxes or levies on lower priced agricultural imports originating from member countries: subsidies are paid for agricultural exports destined for member countries of the Community which have lower agricultural prices ([25], p. 100).

2.4. *Development of trade in the East African Community*

Economic integration through trade may occur between countries either with formal integration or without integration arrangements. In a formal integration, the process is considered as progressing as soon as the trade between member states increases in real terms per capita. A further measurement of the degree of integration is the percentage of intra-community trade compared to international trade. In the European Community 51·7 per cent of all imports in 1973 originated in the E.C. and 52·7 per cent of all exports were destined for it ([24], pp. 77). In 1965 the COMECON already had an even higher percentage of intra-trade with 63 per cent ([19], p. 114). In the East African Community, a totally different situation prevails.

Figure 1 summarizes the development of total and agricultural trade for the three countries of the Community from 1962–1974. The upper rectangle on the left in Figure 1 shows, in U.S. $ per capita, the net imports in total trade for the three countries. Negative net imports mean that a country exports more than it imports from abroad, in other words, it has a positive balance in total trade, whereas Kenya and Tanzania have been faced with rising net imports since the dramatic rise in oil prices in 1973. This affected their balance of payments and a decrease of foreign exchange reserves occurred, necessitating rising international credits and capital aid to guarantee the continuation of imports.

From the right rectangle, upper part of Figure 1 it might be assumed that all three countries slightly increased their net agricultural exports per capita due to the general price increase in tropical products and raw materials during 1973 and 1974. However, if we could measure the development in constant prices, which are not calculated separately for agricultural products, then

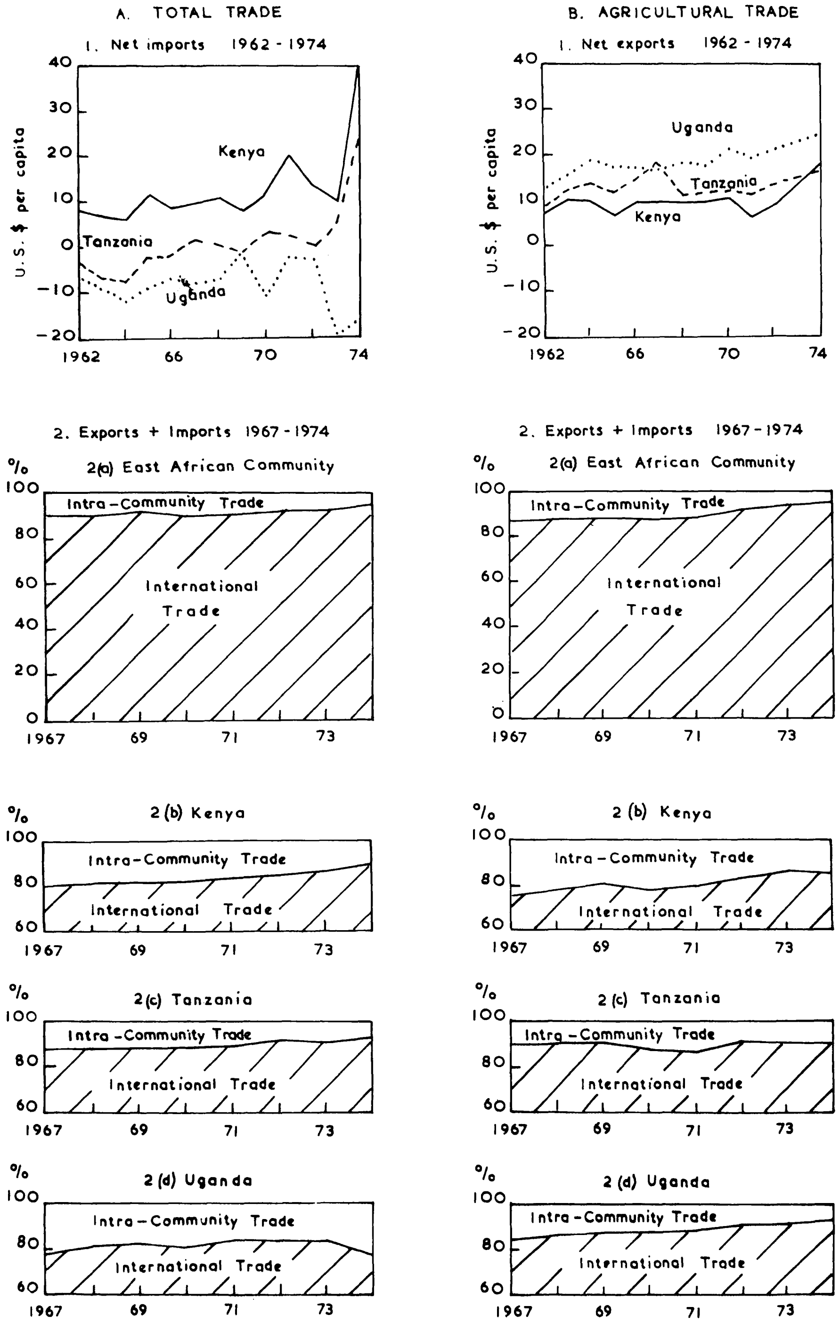
A. TOTAL TRADE
1. Net imports 1962 - 1974
U.S. $ per capita
Kenya
Tanzania
Uganda
1962
66
70
74
B. AGRICULTURAL TRADE
1. Net exports 1962 - 1974
Uganda
Tanzania
Kenya
2. Exports + Imports 1967 - 1974
2(a) East African Community
Intra-Community Trade
International Trade
1967
69
71
73
2 (b) Kenya
2 (c) Tanzania
2 (d) Uganda
%

FIG. 1.

TABLE 3. *Development of the relative importance of the East African Common Market for each partner state in total trade and agricultural trade*[a] *1964–1974 in per cent*

	Kenya		Uganda		Tanzania	
Year	Imports	Exports	Imports	Exports	Imports	Exports
			Total Trade			
1964	13	35	29	13	26	7
1965	12	39	29	14	25	9
1966	9	27	29	16	20	6
1967	11	33	27	14	18	5
1968	10	31	22	12	16	5
1969	9	31	27	12	17	6
1970	10	31	30	10	15	8
1971	8	32	24	8	11	10
1972	7	27	30	4	11	6
1973	6	24	37	4	10	7
1974	3	29	64	3	7	7
			Agricultural Trade			
1967	50	16	61	10	47	4
1968	45	13	62	8	44	4
1969	32	15	66	5	43	4
1970	45	14	72	6	46	6
1971	29	17	61	4	35	7
1972	22	14	60	3	29	4
1973	15	12	[b]	1	36	4
1974	26	10	98	2	35	5

[a] Imports originated in countries of and exports destinated to the East African Community.

Sources: FAO: Trade Year Book 1967, 1972 and 1973; East African Community, Customs and Excise Department: Annual Trade Report for Kenya, Tanzania and Uganda for the Year Ending on December 31st, 1974; East African Community, E.A. Statistical Department: Economic and Statistical Review No. 29, pp. 39, 41 and 42, No. 37, pp. 44, 46 and 48, No. 43, pp. 51, 54 and 57 and No. 52, pp. 69, 72 and 74.

[b] Omitted because trade statistics are not conclusive.

foreign trade in agricultural products in per capita terms could well have been stagnant or even declining.

The comparatively low degree of integration in total intra-community trade in the initial stages did not improve during the period 1967–1974 when the international market increased its percentage from 92·1 to 95·3 per cent. In 1974, Uganda was the only country which had higher imports from the Community than in 1967.

In agricultural trade, due to the increase in international demand, the percentage rose from 91·4 to 94·3 per cent. The share of intra-community imports of agricultural products declined for Kenya and Tanzania and seems to have increased for Uganda (see Table 3). The share of intra-community exports of agricultural products fell for Kenya and Uganda and was stagnant for Tanzania. It may, therefore, be concluded that during the past seven years in the E.A.C. there has been no "trade creation" as assumed by the integration theory.

The members of the East African Community have on average an agricultural trade (net exports) of 20 U.S. $ per capita. A break-down of this figure reveals that not more than 5 per cent, or one U.S. $ per capita, goes on agricultural products exchanged in the E.A.C. During the period of 1950–1970, primary exports (excluding petroleum) expanded on world markets by 3 per cent per year only, in quantity and value terms ([2], p. 89). The possible effects of future export development and agricultural specialization may be assessed from Chenery's and Syrquin's pioneering study [2]. Using data from 67 countries, they observed an "average expansion path of primary and industrial exports". As the GNP per capita rose from 100 to 500 U.S. $, primary exports expanded from 16 to 60 U.S. $. These data refer to 1965, when the three countries had an average per capita income of 85 U.S. $. In 1972 the average per capita income rose in current U.S. $ to 150 U.S. $. Even if a threefold increase in GNP per capita to 500 U.S. $ (or more) and an increase in the share of intra-community agricultural trade of 5 to 10 per cent is assumed, not more than 6 U.S. $ per capita could be exported to the E.A.C. This small amount of expected intra-community trade does not, according to the authors' view, justify the creation of a complex decision-making machinery to administer common agricultural prices for the next decades.

The present low level of trade in agricultural products in the E.A.C. therefore follows the general development pattern of other low income countries analysed by Chenery *et al.* The similarity of agricultural production conditions in the E.A.C. which are competitive and not really complementary, does not favour any substantial specialization in agriculture between the countries.

At their present stage of economic development the E.A.C. countries are forced to exploit their comparative and complementary advantages, and this will be so for decades to come. The export of tropical products such as coffee, tea, sisal, cloves, etc. and of seasonal products (vegetables, fruits, flowers during winter) to the high-income countries of the northern hemisphere is more crucial than regional integration. Table 4 illustrates, as a direct result of the present export market situation, the absolute necessity of concentrating on export expansion to those overseas complementary markets which alone can provide the urgently needed foreign exchange to pay for imports of machinery, chemicals, minerals and fuels.

Another element which will probably influence long-term, intra-community trade prospects is the Lome-convention, by which the European Community, the first major world trading block to do so, has promised 46 African, Caribbean and Pacific countries to remove unilaterally tariffs on all industrial products ([13], pp. 35). Hence the East African Community represents only a small part of a subsystem of a huge integration system. The quantitative restrictions of the E.C.'s agricultural policy on the northern hemisphere's agricultural products remain, but the trade prospects, especially for industrial products, are brighter than at the time the East African Community was

TABLE 4. *The structure of the East African partner states' principal export commodities: 1973 in per cent*

Products	Kenya	Tanzania	Uganda	East Africa
1. Coffee	29·2	22·1	67·7	38·7
2. Cotton	1·1	15·8	16·0	10·2
3. Tea	13·8	2·4	5·2	7·4
4. Petroleum products	10·6	3·8	–	5·1
5. Sisal fibre	3·9	9·6	–	4·6
6. Cloves	–	10·4	–	3·4
7. Hides & skins	4·2	2·1	1·6	2·7
8. Diamonds	–	7·5	–	2·5
9. Cashew nuts	0·4	6·3	–	2·3
10. Animal food	0·7	2·4	2·1	1·7
11. Copper	–	–	5·2	1·6
12. Meat	3·0	0·8	–	1·4
13. Sisal manufacturers	0·4	3·2	–	1·2
14. Pyrethrum extract	2·3	0·7	–	1·1
15. Tobacco	–	2·5	0·5	1·0
16. Soda ash	2·2	–	–	0·8
17. Cement	2·0	–	0·1	0·8
18. Beans, peas etc., dried	0·9	1·0	–	0·7
19. Wattle extract	0·9	0·7	–	0·6
All above products	75·6 (= 1,874 Mill. sh)	91·3 (= 2,031 Mill. sh)	98·4 (= 2,074 Mill. sh)	87.8 (= 5,978 Mill. sh)
All other products	24·4 (= 579 Mill. sh)	8·7 (= 207 Mill. sh)	1·6 (= 32 Mill. sh)	12·2 (= 818 Mill. sh)
Total Domestic Export	100·0 (= 2,453 Mill. sh)	100·0 (= 2,238 Mill. sh)	100·0 (= 2,106 Mill. sh)	100·0 (= 6,796 Mill. sh)

Source: [5], p. 47.

originally established. If the expected increase in trade between the East African Community and the European Community is supported by capital and technical aid, then the forces of integration might be stronger than the present institutionalized ties within the East African Community. Any attempt to review the E.A.C. Treaty will be faced with the "trade creation" of the E.C. and other markets in industrial countries. The recent experience of the E.A.C. reveals a further deficiency in present integration theory, because it does not treat the relative size of integration systems as a decisive structural factor for success.

TABLE 5. *Comparison of population and Gross National Product between the European Community (E.C.) and the 46 African, Caribbean and Pacific countries (A.C.P.) 1972*

	Population millions	Gross National Product	
		Mill. U.S. $	U.S. $ per capita
European Community (E.C.)	254·930	741,210	2907·50
46 African, Caribbean and Pacific countries (A.C.P.)	265·784	40,820	153·58
A.C.P. as percentage of E.C.	104·3	5·5	5·2

Source: F.A.O: Commodity Review and Outlook 1974–1975. Rome 1975, p. 35; International Bank for Reconstruction and Development: World Bank Atlas, Population, Product and Growth Rates. Washington, D.C. 1974.

3. OVERALL ASSESSMENT

3.1. *Concepts of integration*

As already noted there are two basic concepts for the multinational integration of the agricultural sector: the "liberal" and the "dirigistic or planned" approach. The "liberal" approach uses the market and the "dirigistic" approach uses the plan to achieve a higher degree of integration. Both models have certain prerequisites, which must be complied with before any integration policy becomes a meaningful instrument. In the "liberal" approach to regional integration of sovereign states, the intracommunity market forces, after the removal of tariffs and other barriers, allocates, via a convertible currency, the resources between countries and economic sectors. In the "dirigistic" approach, a supranational planning body has to allocate national resources to reach production goals.

Theoretically, both models are capable of reaching a high degree of economic integration between countries and economic sectors. In practice, however, no overall supranational planning body has evolved in the planned economies of Eastern Europe, because all countries consider the risk of a lessening in national sovereignty as too great.

Despite the generally accepted axiom that market forces determine prices, those for most agricultural products are still regulated by the state, even in classic market economies. To some degree with exception of the E.C., no integration system has been able to fix agricultural prices at a community level. A complex planning, proposing and decision-making machinery is needed to design and to administer a common agricultural price system for several countries. It has to account for spatial and seasonal differences to promote the flow of commodities. The development of such a sophisticated system is beyond the present research and administrative capacity of most integration systems in developing countries. It is, therefore, no surprise that the East African Community has not succeeded in establishing common agricultural prices as proposed in article 14. It might even be doubted, considering the limitations of its administrative capacity, whether such a goal is economically feasible,[4] even if very desirable in the long-run.

3.2 *Constraints to integration*

a. *Political and institutional constraints*

The countries of the E.A.C. – like other developing countries – need an intensification of the political process. A complex network of interaction of goal-setting and goal-controlling between and at the local, regional and national levels has to be established by positive and negative feed-backs between the various elements of society. The mobilization of internal political forces for nation-building is of higher priority than regional integration, which at present has no clearly defined, feasible goals, and no well co-ordinated political machine to achieve them.

Another political constraint to further integration in East Africa which should be mentioned is that the basic political and economic philosophies in all three East African countries are drifting further and further apart. The agricultural sector *per se* has structural approach to farming in the region which makes any trend toward free agricultural trade highly unlikely. This departure from traditional patterns is such a basic policy feature, with so much depending on its success, that it will probably be protected from any competitive distortion from intra-community trade.

Following the Arusha Declaration of 1967, Tanzania decided to nationalize wholesale trade and most major economic activities. In Uganda, the expulsion of British passport-holders of the Indian Community affected the entire national economy. In Kenya and Uganda, both Governments tend to acquire majority or dominant participation in several enterprises. In a recent article Ghai [15] has analysed the reasons which make both intra-community and international trade in the E.A.C. more and more difficult:

(a) continuously changing regulations in licencing imports in each member state;

(b) the lack of a common trade policy and a continuous neglect of the trade and monetary agreements stipulated by the Treaty. Imports into Tanzania from Partner States, for example, require import licences for all 26 agricultural products listed in article 13, annex III. Similar measures now exist in Uganda (for 10 agricultural products) and Kenya (4 agricultural products) [13]. The control of import licences may have been used to reintroduce quantitative restrictions;

(c) the purchasing policy of parastatal marketing organizations which engage in "one channel marketing", forbidden under article 16 as discriminatory practice;

(d) the decisive factor which is causing disintegration is that due to the hidden changes in the value of the East African shilling, intra-community trade is now being paid for in foreign convertible currency.

b. *Monetary constraints*

As mentioned above, the most severe and persistent constraint to the trade of agricultural products with the E.A.C. is the increasing scarcity of convertible foreign exchange. On balance of payment-grounds, more and more barriers have been erected. The process of disintegration has now (1976) reached dimensions which are no longer of a short- or medium term nature. As long as the exchange rates for the three countries in the E.A.C. are not adjusted individually and according to their real value, the agricultural sector will face further setbacks in the process of economic integration.

The common management of the commonly owned Service Corporations in the East African Community forces the countries to maintain the monetary fiction that all currencies are correctly fixed at par. Otherwise the assets and liabilities held by each country would immediately have to be adjusted to the newly agreed exchange rate, which could well lead to the eventual dissolution of the Corporations. Because clear deviations from the official exchange rate are obvious, serious structural imbalances within the E.A.C. must exist. The Kenyan Shilling seems undervalued with in the Community and the Tanzanian and Ugandan Shilling are overvalued.[5] As long as political considerations impede a re-adjustment of currencies no economic assessments of comparative advantages, and therefore of future intra-community trade prospects for agricultural products, can be made.[6]

4. CONCLUDING REMARKS AND POLICY RECOMMENDATION

The obstacles to further integration of the agricultural sector in the E.A.C. have increased over the years. In any review of existing Treaty arrangements and of the experience of other integration systems, one conclusion is inescapable: the agricultural sector can neither be the leading force toward integration, nor can any economic integration succeed, where basic economic and political philosophies differ, where the search for national identity and sovereignty has the highest priority and where the necessity to earn convertible foreign exchange dictates and overshadows all foreign trade policy.

Confronted by these numerous problems the realities of the situation must be grasped: the goals of the Community as regards the economic integration of the agricultural sector, must be re-considered and re-written if they are to be at all relevant. Modest goals [13] such as improvement of agricultural statistical services, export marketing research, commodity research within the Community, standardization of agricultural products, and in the exchange of economic information (prices, harvest forecasts and yield monitoring, storage coverages, etc.) must be achieved before deliberate steps towards economic integration are feasible and meaningful to the governments and peoples of East Africa.

5. SUMMARY

The study presents a brief synopsis of the size and conditions of the world's ten major integration systems with special emphasis on the East African Community (E.A.C.) which also attempts at integrating the agricultural sector.

By using the external trade statistics, the study points out that total trade, as well as agricultural trade, has actually decreased within the E.A.C. since the Treaty of 1967 came into operation, amounting in 1974 to less than 5 per cent. This decline of integration is no surprise, since (a) the capacity of the internal market for agricultural products is too small compared with the markets of the northern hemisphere; (b) trade expansion into those markets is the major source of foreign convertible currency; (c) the administrative capacity and decision-making structures within the E.A.C. are at present too inadequately organised to implement a common agricultural price policy as in the case of the European Common Market. Special emphasis placed on the divisive results of the fiction of exchange rates fixed at par within the E.A.C., which hamper an increase in intra-community trade.

Finally, in the light of these current institutional and economic constraints, it is proposed that more modest goals should be attempted – standardization of farm products, expansion of harvest and price monitoring, as well as common marketing research, if, as planned, a revision of the present Treaty is to be agreed on.

NOTES

[1] Due to a lack of consistent data we have not included: the Caribbean Free Trade Association, the Andean Common Market and some smaller regional groupings such as Economic Cooperation among Maghreb Countries in North Africa or between Pakistan, Iran and Turkey [28].

[2] 47·7 per cent of the world's population (China, India, U.S.A., Indonesia, Japan), producing 44·4 per cent of the World's Gross National Product, live in countries with more than 100 Mill. inhabitants (USSR as part of COMECON has been excluded). They are in general large enough to guarantee *per se* economies of scale in industrial production without requiring the benefits of regional integration. Without the U.S.A. and Japan, the population percentage of the remaining three Asian countries drops to 40·3 per cent and the GNP more drastically to 10·1 per cent [18].

[3] Dumke ([3], p. 25) has recently resurrected an interesting argument of 1836, which explains how the founders of the Zollverein achieved agreement between the very small German princedoms on a customs union. The revenues from customs were distributed per head in the Zollverein, thus increasing the revenues of the smaller federal states at the expense of their larger associates.

This singular effect of revenue sharing on a per capita basis is due to the fact that the smaller the area, the larger the ratio between its borders and its area; consequently the administrative costs of tariff collection and smuggling controls are higher. However, this does not apply in the case of Zanzibar, where controls and tax collection can be much more effectively organized in comparison with the former very small, land-locked German princedoms. Even more to the point, if the same principle of central distribution of revenue tariffs per capita were applied in the E.A.C., Zanzibar would be deprived of its main source of revenue.

Undoubtedly Germany then had more material resources per capita than the E.A.C. today, if production from pasture, forest and huge coal reserves is added to yields obtained from arable land. The lower German population growth rate must also be considered. Between 1850–1870, the rate was 0·7 rising to 1·38 per cent in the period 1900–1913, compared with the present 3·3 percent population growth rate in the East African region; the required annual GNP growth rate (in the Zollverein) to achieve per capita income increases was correspondingly much lower. Today scientific developments have made available many natural and social remedies which could be utilized to redress the imbalances of the comparisons in E.A., but it may be worth mentioning that at that time in Germany, human resources were comparatively well developed. Compulsory primary education had been in force for several decades and extended even to the rural areas.

[4] The E.A.C., with 1·7 Mill. km^2 extends over a larger area ([16], p. 4) than the E.C. with 1·5 Mill. km^2. The E.C. has a considerably higher traffic and communication density ([24], p. 96) which also reduces the administrative control costs per unit of marketed agricultural production.

[5] The official exchange rate for all three Community currencies sets one U.S. $ at 8·16 shillings. But on the stock exchange in Zürich, one U.S. $ buys 10 Kenyan, 30 Tanzanian and 50 Ugandan shillings (Newsweek, January 5th, 1976, p. 61). Although we do not argue that these rates represent the "equilibrium" exchange rates, they nevertheless indicate the monetary fiction of exchange rates fixed at par for the East African Shilling within the Community.

[6] The last available agricultural price data for E.A.C. cereals cover the year 1973. According to these studies Kenya had higher farm gate prices for maize and wheat but considerably lower retail prices for maize meal and white bread than Tanzania and Uganda ([8], IA, p. 10, IB, p. 9). In 1973 in Kenya, farm-gate and retail prices of rice were only 54 and 83 per cent respectively of Tanzanian prices ([8], IC, p. 11).

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