59 One might add that Dr. Obote and Dr. Nyerere both went through Makerere University College; they were exposed to some similar and significant socialising institutions there.

60 See *East African Standard*, 27 November, 1969, p. 7.

What next for the East African Community?—The Case for Integration

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The Community has started well and is doing well. It is therefore very important for we East Africans to start thinking of what else we can do together as what we are doing together now is already a success.

The Community, as you know, is a collective living organism whose continued health and growth depend on the performance of activities which serve its common needs. It is also a going and viable enterprise of great size and scope. In physical dimensions it covers 1,756,000 square kilometres, or about 685,000 square miles, populated by over 33 million inhabitants whose welfare is its main objective.

The fixed assets of the Community run into at least 10,000 billion shillings or at least 1.5 billion U.S. dollars and is responsible for giving employment, directly and indirectly, to over 100,000 people. The General Fund Services of the Community currently generate annual capital and recurrent expenditures of around 300 million shillings, while the Corporations generate between 8 and 10 times that amount. By any standards in the world, the Community is a great enterprise whose existence, or absence, cannot fail to touch intimately the lives of the entire population of the three East African Partner States. It is also no exaggeration to apply a famous quotation to the Community in saying: "What is good for the Community is good for East Africa".

The Treaty for East African Co-operation was signed by the Presidents of the three Partner States on 6 June, 1967, and it became effective on 1 December, 1967, in order to give concrete, legal and comprehensive form to the reality of a co-operation among Partner States which dates back some five or six decades.

In taking stock of the achievements of the recent past, it is therefore worthwhile to recall the aims of the Community as stated in Article 2.1 of the Treaty, which asserts: ". . . to strengthen and regulate the industrial, commercial and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities, the benefits whereof shall be equitably shared."

The Community operates on the basis of a common external tariff without quantitative restrictions, free movement of factors of production and an infrastructure of transport and communications represented by the four Corporations—the East African Airways, Railways, Harbours and Posts and Telecommunications. There are three Central Secretariats (Finance and Administration, Common Market and Economic Affairs), and other common services include

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Research and Social Services and Central Revenue Collection for customs, excise and income tax.

The main instrument provided by the Treaty for achieving balanced industrial development among the Partner States are: the East African Development Bank, the system of Transfer Tax and the harmonization of fiscal incentives. The East African Development Bank supports various industrial projects among the Partner States specifically giving more credits to the lesser industrialised partners. Uganda and Tanzania receive $38\frac{3}{4}$ per cent each while Kenya's share is $22\frac{1}{2}$ per cent. It is also the aim of the Bank to encourage the growth of complementary industries in order to eventually increase intra-Community trade. The Transfer Tax system aims to correct imbalance in trade in manufactures among the Partner States, by encouraging industrial growth among the lesser developed partners through protection of their infant industries. Harmonization of fiscal incentives, the implementation of which is under consideration, is intended to give equal encouragement to investment, particularly by providing equal access to foreign investment.

It may be noted that the Partner States in certain aspects have given up their sovereignty to further the interest of the Community. One clear example is the fact that collection of customs and excise and income taxes is centrally administered. The cost of collection as well as the residual cost of maintaining and expanding the General Fund Services is a direct charge on these revenues, the balance being returned to the Partner States on the basis of derivation for income tax, and consumption for customs and excise duties.

Naturally, the greatest interest centres on the growth of trade between the Partner States; both volume and value have increased since the launching of the Community. Tanzania in particular has shown impressive improvement in trade with its partners; for example compared with 1969, 1970 exports of local origin goods from Tanzania to Kenya and Uganda increased by 46.9 per cent and 22.6 per cent respectively. During this period, the total trade within East Africa rose by 16 per cent compared with the 1965-67 figure of 5.6 per cent.

The fact that intra-community trade is growing at high rates is an indication that the Partner States are becoming more and more dependent on each other's products, and as the realists recognize in Tanzania, the Community provides Tanzania with a market for its goods protected from external competition. This protection will be even more needed as the country becomes more industrialised.

In considering external trade, it is important to note that the East African Community entered negotiations to associate with the European Economic Community (EEC). The negotiations were finally concluded and the EEC/EAC Treaty of Association came into operation at the beginning of this year (1971). This association gives many trading privileges to the Partner States of the Community.

This record of progress is also shared by other institutions similar to the Community, especially regional groupings such as the European Economic Community and the European Free Trade Association (EFTA). But the East African Community is unique among regional groupings in the world, a fact

which is not only recognized world wide but can be readily documented by its outstanding features chief of which are the financial arrangements for meeting the budget of the Community; the joint ownership and operation of harbours, railways, airline and posts and telecommunications facilities; as well as other common services and research institutions. Furthermore the inhabitants of the Community share a common political will and a common identity as East Africans which has survived various strains and stresses in its previous history as well as in its recent past. In all these respects the East African Community is without parallel.

In spite of all the positive achievements of the operation of the Common Market, progress of the Community has not been without problems. These have been experienced in greater part in the field of trade, and in particular inter-state trade. Most of the trade problems arose from the imposition of transfer tax on locally produced goods and the establishment of State Trading Corporations in all the three Partner States. This does not imply that the establishment of the State Trading Corporations was a mistake, but immediately certain regulations had to be formed to overcome any difficulties that might arise. Most of the problems have been resolved by the Common Market Council; less than half a dozen cases have been referred to the Common Market Tribunal in the past four years.

In regard to State Trading Corporations which threatened to restrict trade among the Partner States, certain agreed rules and procedures have been worked out by the Common Market Council for the conduct of the State Trading operations.

One other problem that has figured significantly arose from conflicting monetary policies, exchange control and currency restrictions. These conflicts arise basically from the fact that the three nations have separate currencies separately managed by their respective Central Banks. Under the Treaty, Partner States are required to maintain their currencies at par; effect remittances among themselves without undue delay and without exchange commission on current and capital account; ensure the equilibrium of their overall balance of payments; and harmonize their monetary policies to the extent required for the proper functioning of the common market and the fulfilment of the aims of the Community. Ministers of Finance and Governors of the three Central Banks have met regularly to co-ordinate fiscal and monetary policies and on all occasions differences have been resolved satisfactorily in the interest of the smooth functioning of the Common Market. Outstanding examples in the recent past are the decision by the Partner States not to devalue their currencies when the pound sterling was devalued, and the more recent decision to peg the East African shilling to the U.S. dollar after a temporary divergence resulting from the decision of the United States Government to sever the monetary link between gold and the dollar. The recent monetary crisis and the currency restrictions and controls previously imposed by the Partner States temporarily affected inter-state trade adversely. Similar cases may occur in the future. It is therefore necessary the East Africans should adopt measures which will strengthen and further harmonize their monetary policies and provide an insurance against repetition of past errors.

Problems relating to the operation of the Common Market are only one type of problem being encountered by the Community. Administrative problems arising within the Community are another type, especially when political differences impede the smooth working of the machinery.

However East Africa has learned that the Community is an indispensable organization to all its Partner States. Thus they have learned to build up an immunity to the shocks which might otherwise disconcert them. They have come to appreciate that the Community means more to them than it was ever thought before and in short the tensions of the last year in East Africa have enhanced affection towards the Community as an evidence of African unity. Thus, some positive good has resulted even from adversity.

Another administrative problem which has yet to be overcome is the length of time which it has usually taken to arrive at agreed decisions. Admittedly, the democratic processes of discussion and compromise contain a built-in time element, but the danger exists that this time element is lengthening, so that measures for shortening the time-gap have now become imperative. What is most important in this and other difficult problems is that bodies of people or working groups be set up to examine each problem and devise solutions. A continuing review of problems with a view to positive solutions is indispensable to the future of our Community. One problem arises and is solved and displayed by another. This is the essence of life.

The Community, having come a long way in the processes of co-operation envisaged in the Treaty, is now on the threshold of a new phase in its development. The people of East Africa with their institutions must start preparing themselves to move to a new phase—*The phase of integration.* Co-operation is working very well but this can never be the final objective or an end in itself.

The final end must be integration; integration of many other aspects of East African life which would make the free common market more efficient. After all integration is merely the economic aspect of political federation which remains the goal of our Community.

The three countries must now begin to think of ways in which the present Treaty for East African Co-operation can be revised and improved not only in order to reflect the aspect of integration above that of co-operation and to consolidate the gains which have been made, but also in order to strengthen it in ways which will convert it into an effective insurance policy against the occurrence of any future problems.

There are several steps that can be taken now. First of all, our experience so far in the field of co-ordination and harmonization of planning and plans has been disappointing. The Partner States need to adopt a more effective approach to co-ordinations and integration of their plans. But this can only be done *before* the separate Partner States' plans are prepared, not afterwards. There is very little one can do to co-ordinate plans already drawn up in isolation and with very little prior consultation, and for divergent plan periods. A start must therefore be made in the direction of prior consultation among the

Partner States on the broad lines of strategies and priorities for development plans and in synchronising plan periods. Fortunately, the Partner States have adopted a five-year planning period and all that remains in the way of synchronizing the period is to adopt *the technique of the rolling plan.* Although this last is difficult, a start is long overdue in the Partner States, with the assistance of the Community Secretariats.

For quite some time now, discussion has been continuing on the subject of multinational industries which require the entire East African market for their successful establishment. This concept, indeed, dates to the Second World War and was one of the fundamental ideas behind the decision to establish war industries in East Africa. The Community is now close to the point of finalizing studies on this subject and the decisions which will eventually emerge will warrant the widest official, as well as public discussion within the Partner States.

In view of the need to expand East African exports to countries within Africa and outside, it becomes necessary for the Community to regard export promotion as a joint effort of the Partner States. Here is an area where Community institutions can help strengthen as well as complement Partner States' efforts. For example, tea, coffee, cotton, fruits, vegetables and vegetable oils could all be promoted and sold on an East African basis as they are common to all Partner States.

Tourism is one of the region's most important exports and in this connection it becomes necessary to explore the areas in which joint promotion of tourism among the Partner States can yield mutually beneficial results. The contemporary tourist visiting East Africa is much impressed with the tourist attractions of the region as a whole rather than with the delights of individual countries, important as these may be, so that the tourist should benefit fully from the combined tourist resources which could be put at his disposal.

In the commercial, monetary, banking and insurance fields promising opportunities exist for integrated efforts among the Partner States with assistance from Community institutions. The establishment of a reinsurance institution has been a subject of interest first proposed two years ago in the East African Legislative Assembly; the basic study has been under consideration and will shortly be undertaken with the assistance and co-operation of the Partner States. The potential for retaining and using insurance funds within East Africa is both promising and likely to aid the mobilization of development funds.

Further co-operation and even integration in the monetary area can be a great benefit to the development of a free common market. Current monetary restrictions have caused inconvenience to trade as well as to people travelling within East Africa. The best thing would certainly have been the setting up of an East African Central Bank which at the time of formulating the Treaty was found not feasible, but circumstances have changed to such an extent that the climate today might be right. There may be some other alternatives such as the formation of some kind of an East African Reserve Bank on federal lines. We need to make a start otherwise the longer we have monetary restrictions the more difficult it will be to remove them. There are also the dangers of these restrictions leading to other forms of restrictions. I neither claim that my suggestions are the best nor the most exhaustive but I believe we need to make a start at least to talk about them.

Notwithstanding inter-state co-operation, in this field difficulties arise from the fact that the three separate currencies are each sovereign and convertible into foreign exchange. The right of each Partner State to demand the settlement of inter-state trading balance in acceptable convertible currency, i.e. foreign exchange, threatens to convert inter-state trade into a tool for one Partner State obtaining a share of the foreign assets of another. The practice of settling inter-state trading balances in foreign exchange needed for more important foreign capital imports sets up necessary competition among Partner States for their own limited foreign exchange, when the emphasis should rightly be on increasing the total share of all through increased external exports and increased export promotion. A time may come when one Partner State may fear to import from another State simply because it fears to deplete its foreign hard currency reserves.

This source of potential conflict among Partner States can be removed by separating payment of inter-state indebtedness from payment of external indebtedness. It should become possible for payment of inter-state balances to be made solely in the currencies of the Partner States without involving foreign exchange. Fortunately, Article 28 of the Treaty provides for the grant of reciprocal credits in the currency of the Partner States for the purpose of easing balance of payments difficulties. The use of this same device for the purpose of settling inter-state trade balances should provide a new use for it, as well as avoid some of the inter-state payments problems which underlay some of the recent currency restrictions. The free flow of trade among the Partner States would also be considerably strengthened.

With the use of reciprocal credits in the settlement of inter-state trade indebtedness, the foreign exchange of each Partner State will be relieved from a unnecessary local source of pressure. It should then become possible by joint action of the Partner States to conserve their foreign exchange and regulate external capital transfers. Naturally the setting up of a joint mechanism for this purpose would be an advantage and could best take the form of the missing link which is needed to unite the three Central Banks into a federal reserve system or inter-Community central banking system.

The further logical development of a federal central banking system would be the return to a common currency, such as the three Partner States had before the advent of political independence. It is not too soon to give serious consideration to these monetary and banking reforms.

Some or all of the foregoing proposals for integration are not new. What is new is the urgency with which East Africans are now forced to consider them in the light of our recent experiences. In the search for integration it is inevitable that we must, sooner or later—and perhaps sooner than later—give some thought to both unifying and streamlining our existing road transportation system by the construction and classification of community trunk roads. There

is a long way to go in facilitating surface transportation over our 1,756,000 sq. kilometres within the Community. This must not become a neglected area of development, for transportation is the means of integrating and expanding the market within East Africa and thus providing the basis for industrial development, both national and multinational.

Industrial development will require large supplies of water and power—two essential ingredients of integrated development likely to be neglected by developing countries. There is no need to experience shortages of these factors of production in East Africa in view of the large and almost unlimited supplies of water and power in our lakes and rivers. What the territories now need is to review the overall needs for power and water on a Community rather than a State basis, and take steps to integrate as well as develop their water and power systems and potentials.

Finally, the three countries of East Africa must turn to one of the essential requirements for the proper functioning of an integrated common market, namely, free mobility of labour and a common wage, salary and social insurance policy. The pressing need for employment in each Partner State coupled with the local shortage of skilled and sometimes semi-skilled and unskilled labour—all in the face of promising investment opportunities in the Partner States—makes it imperative to take a combined Community view, rather than a local view, of our requirements for labour as well as our wages and incomes and social insurance policies at Community and State levels. This is necessary in order that our 33 million inhabitants may share equally in the fruits of the Common Market, with equitable participation and representation in the activities of the Community institutions by all Partner States.

These challenges face East Africa on its road to integration which must be the next phase of our development in the East African Community, but these problems and the promise of a better life for all must be brought to the level of the public consciousness and public discussion, if the challenge is to be met and the promise fulfilled.