GLOBALISATION AND THE EAST AFRICAN ECONOMIES: AN INTRODUCTORY OVERVIEW

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1. Introduction: some issues of definition and underlying theory.

For the purposes of this essay, "globalisation" is defined as the process whereby economic activity, society, culture and politics are increasingly susceptible to influences that transcend the boundaries of the nation state.

a. Globalisation as an economic process

In considering globalisation as an economic phenomenon, one starting point is the general presumption of the mainstream tradition of economics that the working of free markets generally can be expected to maximise welfare and economic growth. Within that paradigm, globalisation is seen as fundamentally a benign process, increasing the prospects for economic growth in those countries able and willing to participate.

Against the mainstream orthodoxy, there is a heterodox range of economic arguments that question one aspect or another of the impact of globalisation on developing countries.

The distribution of wealth: A fundamental weakness of neo-classical economic theory is although it contains quite sophisticated analyses of the role of markets in achieving optimal welfare solutions with a given distribution of property, it says little about the factors affecting the initial wealth distribution and how that distribution can be changed. Thus the concept of a competitive equilibrium tends to slip into the notion that such a free market results in equality between buyer and seller. Obviously, such "equality" is hollow if there are large inequalities in wealth. The way the neo-classical tradition handles this challenge is to argue that the efficiency of the economic system and the redistribution of wealth are analytically separate issues, the latter involving value judgements, while the former is somehow susceptible to value free analysis.

In logic, this may fair enough, except that excluding the distribution issue from the core analysis downgrades its importance, and wealth distribution tends to be forgotten in discussions when economic efficiency with a given distribution of wealth is identified as "optimal".

[1] This essay includes material from a paper given at a workshop on the local impact of globalisation on the Tanzanian economy organised by REPOA (the research program on poverty) in Dar Es Salaam.

This point is crucial, as criticisms of globalisation are essentially about the unequal international distribution of wealth. In addition, however, there are also many grounds for questioning approaches arguing the efficiency of the global trading system.

The economist's interpretation of the role of trade: From the point of view of mainstream (neo-classical) economics, there is a strong presumption that the growth of international markets is a highly positive phenomenon, lending the weight of economic opinion to the liberalisation of global markets. While the arguments are well-known, it is worthwhile to re-examine them, because any critical views have to confront that established and persuasive body of thought.

Fundamentally the presumption in favour of free trade is based on the simple and virtually axiomatic, but powerful, proposition that trade will only happen when there advantages to the participants on both side of the transaction. So, trade can be expected to result in increases in welfare for all those participating.

In turn, the potential productivity of trade was seen to derive from the increases in productivity to be derived from the division of labour (Adam Smith). International trade extends the size of the market – the gains from trade result from the potential to increase the division of labour.

The analysis is taken a step further in Ricardian trade theory, where the underlying source of increased productivity associated with an increased division of labour is seen as resulting from the exploitation of differences in factor endowments. That means that nations can increase their incomes by specialising in those activities in which they have a comparatively favourable factor endowment.

There is, of course, a rich literature on trade, including other early arguments for the benefits of trade, e.g. the "vent for surplus" theory that saw trade as mobilising otherwise idle resources. In the more modern literature, other arguments for the benefits of trade have been developed – such as Kaldor's dynamic argument that growing industrial exports can support growth in productivity (because the implications of "Verdoorn's law"). However, the persistence of the economist's belief in the benefits to be derived from international trade is built on the solid foundations of the initial insights of Adam Smith and David Ricardo.

The counter tradition in economists' discussions of trade is quite heterodox. The most telling theoretical criticisms have been derived from a dynamic approach to comparative advantage. Underlying the persuasiveness of comparative advantage theory, there is an implicit belief that comparative advantage reflects "natural conditions" – that comparative advantage is a natural given. However, comparative advantage is acquired, most obviously through the development of new industries, but even comparative advantage in agriculture is the outcome of historical development (e.g. throughout the world, most cash crops are exotic introductions).

In other words, comparative advantage at any particular moment not only reflects an underlying "natural" factor endowment, but also acquired know-how (technology), social capital (institutions) and physical capital.

The interesting story in the history of successful development is not only how nations have taken advantage of a given comparative advantage, but also how comparative advantage has changed over time. Changing comparative advantage may happen as part of an endogenous process, in which growth results in changing factor availability. But it may also be induced, by State intervention, entrepreneurial initiative and exogenous shocks.

Thus critics of free trade, and sceptics regarding the benefits of untrammelled globalisation, from List onwards, have argued that follower countries need to make a conscious effort to change their comparative advantage.

Taking a long historical view, since the first Industrial Revolution in the eighteenth century, successive groups of follower economies have "caught up" with the leaders through a process of industrialisation that has fundamentally transformed their comparative advantage. Most of the successes have been based on export-led growth sustained by successful changes in the composition of exports. This process of change has typically been supported by active State interventionism.

The case for interventions to change comparative advantage was also supported by the observations that the division of labour that emerged following the industrialisation of the now developed well-off nations has been persistently asymmetric in certain key respects.

One source of asymmetry has been identified in relation to market structures – primary commodity exporters (particular agricultural exports) are typically price takers, while many industrial exporters are price makers (oligopolists).

Critics have also suggested that there are market asymmetries deriving from demand side – that primary commodities generally face a lower income elasticity of demand than industrial commodities (e.g. see Dudley Seers "Model of the World Economy" Economic Journal 1965 -- reference to be added). .

Another point of criticism of the comparative advantage argument relates to the impact of trade, and the advertising that accompanies it, on patterns of taste and demand. Openness to trade results in tastes being moulded to the branded products of the multi-nationals (e.g. see Celso Furtado, reference to be added)..

The general conclusion to be derived from the critics of comparative advantage can be encapsulated in a parable. If a rich man offers an uneducated, unemployed labourer a low paid job as a servant, it will be in the immediate interests of the labourer to accept. However, while that may be true, it tells us nothing about the course of action that might open up the prospect of the poor labourer himself becoming rich.

Trade has been important in the development of many successful economies. Globalisation increases trade opportunities. However, to gain maximum benefits from global trade, it is necessary to address the underlying factors that determine the position of an economy in the international division of labour.

The economies of East Africa have not been able to change their position vis-a-vis the global economy since Independence. Their apparent comparative advantage remains as it was at the end of the Colonial period and that comparative advantage was acquired through the impact of the colonial trading system. In this, East Africa is similar to most of the rest of Africa. This contrasts dramatically with the extraordinary successes with industrial export-led growth in East Asia. Tigers do not yet inhabit Africa.

The transfer of technology: The quickening pace of globalisation in recent decades in part reflects the acceleration in technical change in such areas as information technology – a lot of the hype about globalisation in 1999-2000 related to the "new economy" based on information technology innovations**.**

It has been the development of technical knowledge that has resulted in the past two and a half centuries of economic growth in the now "developed" world. Access to technology is the most important single economic factor that holds out hope for the spread of development. Indeed, the process of economic development can be characterised as substantially a matter of creating technological capacity. However, despite the promise held out by the existence of an extraordinary stock of technical knowledge in the contemporary world, the impact of technology is not uncontroversial.

Nevertheless the spread of modern technology does hold out the hope of accelerated growth. Indeed, as globalisation increases the speed of transfer of technology, it might be seen as mainly a benign force. However, this has been far from the case. Technology transfer has proved to be one of the most controversial aspects of globalisation. This was even true with respect to the impact of the Green Revolution, which apparently held out the prospect of dramatically improving for availability and the prospects of food security.

There are a number of other sources of disquiet, and some of the most vigorous controversy in the globalisation debates relates to the potential negative impacts of the spread of technology.

There may, of course, be a Luddite element in the criticism of the impact of technical change - change is uncertain, and there are always some losers. It is easy to be fearful of the new. Sometimes scepticism about the virtues of modern technology is a way of articulating social nostalgia – a wish to preserve the supposed virtues of pre-technological society.

Apart from such philosophical disquiet about the encroachment of modern technology on "traditional" society there are three broad areas of concern about the nature of technological transfer – the appropriateness of the technology on offer, the impact of technology transfer on the environment and the ownership of technology.

The first relates to the inappropriateness of the technology transferred through existing mechanisms. Modern technology is embodied in designs which reflect factor costs at the industrial centres of the global system and are geared to the production of commodities suited the markets of the wealthier countries. Early literature articulating this concern included Schumacher (on the virtues of "intermediate technology") and commentaries on the impact of the demonstration effect of the availability of western commodities on the tastes and spending patterns of Third World elites.

The second broad area of concern relates to the impact of the spread of modern technology on the environment. In a general sense, modern technology and life styles are profligate in natural resource use. If one aspect of globalisation is the steady spread of North American life styles, the consequences for the global environment would be alarming.

However, for the least developed countries, that is not an imminent prospect. A more immediate worry is the powerful impact of particular technological transfers on ecological balance, in poor economies than cannot afford to manage or control the consequences (e.g. the effects of "modern" agricultural inputs). Similar concerns relate to the apparent advantage of specialisation associated with high-technology agriculture, creating monoculture systems that are more environmentally vulnerable than lower technology mixed cropping.

A further set of issues relates to appropriation of the benefits of modern technology because of unequal ownership. Nowhere is the contrast between the industrial centre and the under-developed periphery more dramatic than in relation to the ownership of knowledge. This inequality is not only a reflection of the more general inequality of wealth, but also under-pins the power relationships that determine the actual workings of "neutral" international markets.

Property rights in knowledge (patents, copyrights, trade marks and brands, etc.) are even more unequally distributed between nations than ownership of other sorts of property. Those unequal ownership rights have been increasingly enforced by international agreements.

Benefits flowing from the control of technology go beyond property rights. Know-how embodied in the practice and experience of corporations, even where not protected as legal property, is also an important source of wealth which is also mainly concentrated in the corporations of the developed countries. The power of the great modern corporations is built on the foundations of control of knowledge – patents, secret formulae, corporate culture, trademarks and copyrights.

Moreover, knowledge in the form of human capital stock is equally unevenly distributed, the concentration of high level professional skills in wealthy countries being reinforced by the "brain drain", encouraged by pubic policies that give immigration preferences to the highly educated.

The movement of capital: Obviously, a distinguishing characteristic of poor countries is shortage of capital – indeed some approaches to economic development have emphasised capital scarcity as the key development constraint. Given that view, it is reasonable to suppose that development will be enhanced by the inflow of capital, and that developments that encourage international capital flows are generally to be viewed as positive. From that viewpoint, one of the benefits of globalisation should be the prospect of enhanced flows of capital from regions with relatively abundant capital stocks to poorer regions.

Within that framework, the key question regarding the movement of capital to Africa is why it has, in fact, been so limited in the past three decades.

There are, however, a number of other issues to be confronted when capital is seen not just as a scarce resource, but also as involving a relationship of control, or power. Direct investment generates a return not only from the physical investment but from the broader ownership rights the investment creates, i.e. in radical vocabulary, investment creates a claim on the surplus.

Also the presence of large amounts of international capital creates a strong foreign interest in national politics. This may take the form of active interventions by firms in the political process, or payment for political or bureaucratic favours. More sinisterly, it has also occasioned overt and covert interventions by foreign powers, for although multinational businesses are global in their interests, they also look for support from their national governments. This has not been important factor in East Africa (except possible in Kenya in the 1960's) but it has been in other parts of Africa, as well as in Asia and Latin America.

The role of the firm: Firms exist as institutions to co-ordinate economic activity through non-market means. The firm has value because the returns generated by the resources under the control of the firm are greater than the sum of the returns that would be generated by those same resources if they traded independently in the market. One source of the return to operating as a large firm is the power and influence that derives from size.

A particular aspect of the globalisation process, which provides the focus for much of the globalisation controversy, has been the perception that transnational (or multinational) corporations have become increasingly powerful, in both economic and political terms, and less susceptible to control by national authorities. This poses challenges to all governments, even those of the industrialised countries, but is particularly threatening to small, poor, countries.

Particularly during the 1970's, before the introduction of the vocabulary of "globalisation", there was a vigorous debate over the role of multinational corporations. This generated a rich literature; the issues posed in that literature are not resolved.

b. Globalisation as a political process

Many of those approaching the globalisation process from a political or social standpoint take a less sanguine view than mainstream economics.

Globalisation implies loss of sovereignty at the national level. The freedom of governments to make economic policy is constrained by international economic pressures, such as fears of capital flight. Increasingly complex rules of the international economic games are supervised by multilateral economic institutions, such as WTO and the IMF. And large firms become more powerful than small states.

Of course, all nation states are not equally subject to international constraints. The international economic system is dominated by one hegemonic power, the US, working in consort with the most important OECD countries (the group of Seven). This group uses its military power, sometimes through NATO, sometimes using the UN, to police the world as it sees fit. And from time to time, it has sees fit to intervene politically and militarily in the economic interests of international big business. From the point of view of developing countries, contemporary globalisation is pretty much the neo-colonialism of the last generation.

The global political system is under-pinned by rhetoric of democracy, modified by opposition to democratic forces where these are inimical to influential political and economic interests and often rendered of little content, because of the limited freedom of manoeuvre of national authorities. (This is illustrated by the contradiction between donors' enthusiastic support of democracy and good governance, at the same time as seeking to direct the most important aspects of policy, which properly should be the outcome of the national democratic process).

Therefore the political challenge of globalisation at the national and sub-national level concerns the struggle to find space for local control and meaningful politics under the shadow of global forces.

2. The East African economies: Globalisation or Marginalisation?

In certain key respects, the phenomenon of "globalisation" is not particularly new in its impact on peripheral economies. There is a good deal of interesting literature that places modern trends in a very long-term historical setting, and one starting-off point for considering contemporary globalisation and East Africa is from an historical perspective.[2]

[2] For example, reference can be made to the World Systems literature, produced under the leadership of Emmanuel Wallerstein, who started his career working on Africa (see the various publication of the Braudel Center of the State University of New York, Binghamton. Giovanni Arrighi who has been associated with that school used to teach in Dar Es Salaam, has written substantial works on the impact of imperialism in Africa and more recently on the contemporary evolution of the world system, in his book The Long Twentieth Century.

Throughout its colonial history, the Tanganyikan economy was subject to the dominant metropolitan influences of the German and then the British empires. Growth was led by production for the international market. Sisal, the largest export, had been introduced quite explicitly to meet German requirements. At Independence, the economy was heavily dependent on imports to meet its requirements for manufactured goods and even moderately sophisticated technology, and the financial sector was totally under international ownership.

Uganda and Kenya followed diverse development paths, because of the decisions made by the British colonial authorities regarding the mode of economic organisation in the 1920's (peasant export production in the former case and a settler economy in the latter). In both cases, the economies were profoundly affected by metropolitan influences. The three East African nations were already part of the global economy, through the British imperial system, at their moment of birth.

Nor was the "transnational" corporation unknown to the colonial economy. The great colonial trading companies operated between and across continents, and had often played a crucial role in shaping political developments. The impact of the global economy was a central theme in the radical literature on the East African economies. Many of the issues to be confronted in relation to current day globalisation are not dissimilar to problems addressed in the past.

The specific developments in the past decades that have given rise to the hullabaloo about globalisation are:

- the increased mobility in the location of industrial production, with the resulting shift of much industrial activity from the established centres in the industrial economies to developing economies – an important development in which East Africa has not participated;
- the greatly increased importance of international financial markets, with the resulting limitations on the capacity of national governments to pursue independent monetary and foreign exchange policies – again this has not yet been very important for East Africa, as the local capital markets are "pre-emerging" and portfolio investment is minor;
- the increase in the size and in the cosmopolitan character of the large corporations, rendering them less susceptible to control by their home authorities;
- with the demise of the Soviet bloc, the emergence of an unchallenged hegemony of free market economics, underwritten by a system of multilateral agreements and organisations geared to promote the operation of all aspects of international finance and trade on "free market" principles - there is now only one game in town; and
- with the attempts to integrate the previous Soviet bloc into the international market, and the widespread adoption of liberal trade and foreign exchange policies by almost all developing economies, there is now an almost universal aspiration to participate in the global economy.

"Globalisation" has been particularly significant for the medium-sized industrial powers, which have been faced with a significant erosion of autonomy in national policy-making.

This has resulted in increased pressures to conform to the free market economic models and to integrate into larger political groupings (notably the EU).

The benefits that can accrue to successful participation in the global economy were particularly illustrated by the success of the East Asian economies in the long boom they experienced before the onset of economic crisis in mid-1997. That crisis should not be surprising[3], as the dynamic growth experienced by East Asia eventually led to over-investment and the sort of speculative bubble which has typically brought to a close periods of expansion throughout the long history of the growth of the global market. The result was a period of depressed markets. However, it could be expected that this will be followed by a new upswing that will open up new development opportunities to those in a position to grasp them; this had begun to happen, only to be checked by the global economic down-turn.

For the peripheral economics (that is, as they were a generation ago), the significance of globalisation during the years of global economic boom varied enormously. For the economies of South East Asia, the growth of their industrial exports and the increased mobility of capital resulted in extraordinarily high growth for a generation and a profound change in their structure. Indeed, some of the concern about globalisation in Europe was in part a nervous response to the challenges perceived as resulting from the industrialisation of the Pacific Rim.

For Africa, however, the story of the past generation has been quite different. Africa has experienced marginalisation rather than globalisation. Even in relation to the continent's traditional role as a producer of primary commodities, the relative importance of Africa in world trade has declined. Africa has not participated significantly in the global shift in industrial production away from Europe and North America. It has not featured in the internationalisation of equity markets. And compared with a number of Asian countries, its participation in the market for the inter-continental migration of labour has been minor.

There was greater interest shown at the end of the 1960s by international business in investment in East Africa than in subsequent years. In relation to international capital movements, the only sense in which there was increased "globalisation" since the 1960's has been through the build up in dependence on foreign aid, particularly during the 1970s.

For those who are deeply suspicious of globalisation, the marginalisation of Africa might be a source of congratulation, if it was the result of the success of an alternative, more self-reliant strategy. However, this is very far from the case. The current condition has either emerged from the failure of attempts at more autonomous development (as in the

[3] However, this is not to imply that it was readily predictable. I edited the Asian Development Bank annual survey of the Asian Economies Asian Development Outlook 1997/98, which was prepared in the first quarter of 1997. Somewhat embarrassingly, it was published just weeks before the onset of the Asian crash, but it would be difficult to expect that from its generally optimistic tone, reflecting the professional conventional wisdom of the time.

case of Tanzania), or from weak performances in economies which attempted to integrate into the international economy through capitalist growth (a possible interpretation of Kenya experience).

Many African economies have been implementing structural adjustment programmes for almost two decades, which have aimed to boost foreign trade and investment. However, despite some success in the adjustment process, there has not been a dramatic turn around in export performance and Africa's share of international investment remains disproportionately small. The limited success in accelerating integration in the global economy has been at variance with the hopes held out by those promoting structural adjustment and poses a question mark as to whether certain initial success with adjustment policies will be sustained..

In considering the consequences of the marginalisation of Africa, a comment once made by Joan Robinson[4] with respect to the exploitation of labour in market economies might be relevant - the only thing worse than being exploited is not to be exploited. In relation to globalisation, to be excluded from the process may be worse than being included in a disadvantaged fashion. If there is only one game in town, that is the game which has to be played.

Put another way, there are two different questions. The first is "should the global economic system be radically reformed" (or should anti-globalisation protests be supported). Even if the answer to that question is an emphatic "yes", that does not pre-judge the answer to a second question: "is it likely that the global system will be radically reformed?" Unfortunately, this question must be answered with an equally emphatic "no". The problem for relatively small developing economies is that the international economic system is a given – a fact of life that provides opportunities and constrains.

That unsatisfactory conclusion suggests that there is no option other than to respond to the global economy as it is, albeit as the same time as taking a critical view of its operation and working for its reform. For the East African economies, one longer-term question could be whether the economies can be positioned to actively participate in the next boom in the international economy, probably in the middle of .this decade.

The African continent is now of less economic interest to the rest of the world, as a market, a source of commodities, or for investment than during the colonial period. Indeed, to put it cruelly, if the continent were to disappear from the world economic scene, it would be of little consequence in the main commercial centres; as compared with East Asia - when it gets economic pneumonia, at least the northern financial markets get influenza.

Therefore one key immediate issue for economic policy research has to be how to increase African participation in the global economy. Of course, a related set of questions concern strategies to maximise the benefits and minimise the costs of such participation. However, it might be argued that there is little point in raising alarm about

[4] Based on Marx.

the dangers of globalisation when it is not even clear that African economies are participants in the globalisation process.

3. An historical digression: colonial integration into the international economy

The options facing the East African economies may be considered in the historical context of the evolution of their relationship with the global economy. The impact of the colonial period on the three countries varied significantly. While that history is well-known, it might be useful to recount the main outlines. The colonial relationship was defined by strong connections through commodity markets (mainly exporting agricultural commodities and importing manufactured goods), and rather limited relationships through capital markets. There was little net import of capital and East Africa was not a major location for multinational investment. There was a dependence on mainly British financial institutions and on Asian and British trading companies. There was a very specialised connection through labour markets (as an importer of professionals - and of some unskilled labour from neighbouring countries).

Uganda had been developed as a smallholder export economy, administered through indirect rule, with little alienation of African land (with the significant exceptions of the tracts of land used for Asian owned sugar plantations and for tea plantations). The successful export economy had been concentrated on smallholder production of cotton and coffee. Europeans were administrators and professionals, while trade and the lucrative production of sugar for the East African market had been in Asian hands. By striking contrast, Kenya had developed as a settler economy, with a mixed farming system producing both for export and for a protected East African market. African cash crop farming had not been encouraged, and the production of lucrative tree crops, had been actively discouraged, until the mid-1950s.[5] The effect of colonial agricultural and tax policy was to ensure a cheap labour supply for European farmers, who were also protected by prohibitions on Asians holding land in the White Highlands. The large Asian community, excluded from agriculture, applied its entrepreneurial energy to commercial and (from the Second World War) industrial development.

Tanganyika, which was administered by the British as a League of Nations and then a UN Trust for four decades, operated as a mixed model of African smallholder and non-African[6] owned agriculture. Sisal, at independence the largest export, was almost entirely a plantation crop. Coffee production was roughly evenly divided between African smallholders and non-African owned farms. Cotton was a smallholder crop. Non-African

[5] Important change in colonial agricultural policy came with the implementation of the Swynnerton Plan, following the critique of colonial economic policy by the East African Royal Commission (1953-55)

[6] The non-African farming community was more diverse than in Kenya. The largest sisal producers were the Karimjees, an Asian family. The Greek community was important in tobacco and sisal, and there were many farmers of British origin - although never enough to exert the influence of the white farmers in Kenya. Germans were, of course, important in the German colonial period, but they were displaced at the end of the First World War; some returned in the 1920s and 1930s, but were again displaced by the Second World War.

farmers and plantation companies produced minor exports, such as tobacco and tea, and Africans supplied hides and skins and a number of other minor export items. At the end of the colonial period, Tanganyikan exports were roughly evenly divided between African and non-African producers.[7]

The colonial period is of more than historical interest, as the liberalisation measures of recent years in some ways seek to turn the clock back to that period. And the strong presumption of current policy advice that, in the global economy, the East African economies have a comparative advantage as agricultural exporters can be assessed against that experience. What lessons about the impact of the global economy are to be learnt from the colonial economy.

One important conclusion about globalisation suggested by earlier experience is that the consequences depend not only on the nature of trade specialisation, but also on the mode of organisation of production. The historical case for the positive impact of the international economy rests largely on the performance and impact of smallholder export agriculture. Smallholder exports in a number of regions experienced periods of dynamic growth. This included the rapid expansion of cotton production in Buganda in the inter-war years, and of coffee in the 1950s and 1960s, and the extension of cotton into the East and North of Uganda over the same period. . The very high rates of growth achieved in smallholder production of coffee and tea in Kenya in the 1960s and 1970s were therefore not so much a demonstration of a particular dynamism in Kenyan smallholder farming, as a confirmation of the negative impact of a colonial policy which had restrained African cash crop production.

In Tanzania successful peasant exports included coffee production in Kagera, Kilimanjaro and the Southern Highlands, and cotton to the east and south of Lake Victoria. The period 1960/62-1967 saw a sustained burst of growth in Tanzanian export crop production with lively rates of growth in the established major crops, coffee and cotton, and very high rates of what had been minor crops, such as cashews and tobacco

The record of dynamic expansion provides good prima facie evidence of the potential of smallholder farming as a mode of insertion in the global economy. The impact on farming communities was also highly positive - funding improved housing and living standards, and education. The smallholder export farming systems supported a broad middle class of prosperous farmers, and it was from these areas that a disproportionate number of the future educated elite were recruited. This was surely a far superior way of integrating into the international economy than as wages labourers in the Kenya White Highlands or Tanganyikan sisal estates. Given the evident positive aspects of these developments in the past, what questions can be raised about this mode of development for the future?

[7] The structure might have been significantly different if the post-Second World War Groundnuts Scheme had not failed. This was the major economic intervention of the period of British rule. It was intended to supply the UK market with cooking oil, relieving dependence on dollar imports. It is a pity that the history of the Groundnuts scheme has been studied very little, as the British made many of the mistakes which have been reproduced in subsequent donor initiatives.

One set of issues relates to the limits of smallholder agricultural export growth. The production declines in Uganda and Tanzania in the 1970s were not evidence of any inherent limits on growth, as they resulted from policy failures. However, there are four considerations giving rise to concern about the limits of agricultural export growth:

(a) Geographical limits: the areas of concentrated high income export crop farming have been geographically limited, particularly to fertile highland areas suitable for tree crop cultivation; there are large populated areas of East Africa which do not share in such opportunities, where, for example, annual export crops compete with food production in low yield rain-fed farming systems. This both limits the potential contribution to national growth (even with some sub-sectors growing at double digit percentage rates, overall agricultural growth has rarely risen above 4% p.a.), and results in the opening of regional inequality.

(b) Limits on productivity growth: the dynamic growth in export crops has typically resulted from the introduction of new crops of much higher market value than crops in the existing farming systems (including the displacement of existing exports crops, such as the shift from cotton to coffee in Buganda in the 1950s and 1960s) rather than resulting from physical productivity growth in existing systems. Once crops have reached their geographical limit, output growth is constrained by the possibilities of increasing yields.

(c) Limits resulting from competition with food crops: at the initial stages of export crop production, because of either the lack of direct competition with food production, or the economic benefits to be gained from increased specialisation, export production was not tightly constrained by competition with food crops. As the East African economies have become more densely populated and urbanised, food crop production for the East African market (including cross border trade) has become an option which has increased the price supply elasticity of some export crops (e.g. competition of rice with cotton)[8].

(d) Demand limits in international markets: The case against specialisation in primary commodity exports because of the presumed limitations of the demand side has some force at the global level, both when applied to primary commodities in general and to most individual primary commodity markets.[9] It carries less weight when applied to particular countries. The East African countries were price takers in almost all commodity markets.[10] Even in a declining market it may be possible to increase revenues by increasing market share, particularly if one is a relatively low cost producer.[11] It seems

[8] Note that the literature on agricultural development in Tanzania in the 1970s and 1980s (which emphasises poor market incentives as the reason for the decline in export production) has neglected the considerable successes in food crop production for the market. This has not only included increasing supply of traditional food staples, such as maize and bananas, but also considerable innovation, with the spread of rice, citrus, dairy, Irish potato and many other horticultural outputs. It suggests that there may now be much more of a trade-off between food products and export crops as a source of cash income than in the colonial period, which in turn is likely to either constrain the growth of export production, or mean that recovery will be partly at the cost of reductions in the supply (and increase in the cost) of food to the East African market.

[9] Prebisch, Singer *et al*.

[10] An exception might have been sisal, when Tanganyikan production was at its peak.

[11] Thus over the past decade Viet Nam has emerged as a leading coffee exporter. Deryck Belshaw always argued that it was a mistake for East Africa to participate in the International Coffee Agreement, as higher revenues could have been achieved by pursuing a strategy of increasing market share in a free market.

likely that higher rates of supply growth would have generated more or less commensurate increases in revenues for most crops for East African producers. Over the long haul, the problems smallholders have faced have not derived so much from conditions in international markets (i.e. negative movements in international terms of trade, although those have occurred) as from internal marketing arrangements and macroeconomic policies (particularly trade and foreign exchange policies). The vulnerability of small farmers has not been so much to the vagaries of the global economy as to the policies of colonial and national governments.[12]

The prospects for agricultural export growth have to be judged empirically, rather than on the basis of *a priori* reasoning or global analysis. Short of such an empirical study, the historical record suggests that:

- with favourable incentives, producing export crops for global markets can contribute to growth in export earnings, but
- such expansion may face limits which would mean that by itself it could not sustain the sort of growth in national export earnings required to underwrite sustained expansion in per capita incomes.

There is another source of concern about the impact of foreign trade, related to its distributional effects. In relation to the colonial period, and to the current global economy, there are two apparently, but not necessarily, contradictory arguments on offer. One is the "unequal exchange" type argument, which suggests that the nature of international trade is such as to involve the super-exploitation of Third World labour.[13] The other is the "labour aristocracy" type argument, which suggests that the external impact is to be seen in the emergence of a privileged class supported by the external link.[14]

Plantation and settler agriculture depended on very low wages for labour, recruited from areas where there was little opportunity for cash crop agriculture.[15] Insofar as this labour was voluntary, it could be argued that it generated income opportunities above the subsistence alternative. However, in practice local labour was in effect forced into wage employment by a combination of the tax system (the hut or poll tax), land scarcity (partly resulting from alienation of land to settlers) and prohibitions on African cash crop farming.[16]

However, it should also be recognised that if advice is being given to a number of producers then it is necessary to beware of the fallacy of composition - all suppliers cannot achieve an increase in market share, and the attempt to do so could lead to market collapse (e.g. the promotion of palm oil production).

[12] In relation to marketing boards and the promotion of monopolistic single channel marketing the continuities between colonial and post-Independence policies are striking.

[13] e.g. A. Emmanuel , Unequal Exchange.

[14] In the radical African literature, this was most clearly articulated by Giovanni Arrighi, and jointly with John Saul: in African Socialism. Arrighi was strongly influenced by his initial work on the Rhodesian economy. A similar class of arguments in the Marxist literature related to the role of the "comprador" bourgeoisie. A somewhat different argument was developed by Celso Furtado, who argued that economic inequality was required to provide a market for the sophisticated industrial products of multinationals.

[15] In the case of Tanganyikan sisal, from Malawi, Kigoma, Mozambique etc..

[16] Notably in East Africa, the recruitment of workers from Kenya's Central Province to work in the White Highlands.

Smallholder farming was altogether more benign, with Africans retaining control over land, African proprietors reaping surplus incomes in good years and a middle class of prosperous small farmers emerging. In some areas there was a sub-class of agricultural labourers[17], and where there were quasi-feudal land tenure systems, revenues from smallholder farming supported strata of chieftains.[18]

Other activities sustained by the colonial economy included the traders (predominantly the Asian ethnic minority), State functions and early stage industry, discussed below.

4. Post-Colonial Strategies towards the International Economy and the economic disasters of the 1970s.

Looking back on the post-Independence period, it is interesting the difference in strategies adopted by the East African countries, and also the considerable literature generated in the 1960's and 1970's interpreting the relationship between those strategies and the international economy.[19]

There were some similarities in the varying strategies adopted by the three East African states to deal with the colonial economic inheritance, but also striking contrasts. In the immediate post-colonial years, in all three countries the main emphases in economic policy were on rapid localisation the public service and quickening the pace of social and economic development, rather than on radical economic structural change. The first round of development plans was strongly influenced by the reports of three large pre-independence World Bank missions.[20]

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[17] E.g. both in Kagera and in Buganda there was widespread employment of Rwandan migrant labour. However, as this migration was voluntary, even for these low paid workers, smallholder farming provided opportunities for improved incomes.

[18] In Uganda, the existence of quasi-feudal land tenure systems ("mailo") meant that the growth of export farming in Buganda supported an upper class of chiefs. I am not certain how far this was also true of Kagera, which shared some of the social characteristics of the Ugandan kingdoms.

[19] At this stage no attempt is made to provide a complete bibliography. However , the literature of the sixties and seventies was richer and maybe of contemporary relevance, On Tanzania, the literature was particular rich, ranging from the writing of Mwalimu Nyerere himself to supportive accounts by writers such as Cran Pratt, questioning from the centre (e.g. Goran Hyden)and critiques from various left standpoints, such as by Shivji, Andrew Coulson, etc. has a diversity had a much greater richness than what followed. Likewise, government statements and critical writing on Kenya (e.g. by Colin Leys) had a greater depth than more recent writing. Perhaps it would be interesting to explore the impact of economic events on the intellectual life of East Africa.

[20] As Chief Planning Economist to the Government in Uganda in 1965-66 I was responsible for completing the Ugandan Second Five Year Plan (1966-71). While the Plan incorporated an effort to raise the rate of capital formation, accelerate education and achieve some diversification, the institutional framework was essentially that inherited from the colonial period, including the two important crop marketing boards, the Uganda Development Board and the Uganda Electricity Board. The two large SOE's, the UDC and the UEB worked rather well as development institutions for many years, suggesting that in an appropriate political/administrative setting State enterprise can play a more positive role than countenanced by current orthodoxies.

The strategic options facing the three economies on gaining independence were moulded by their varying colonial inheritance. Tanganyika came to independence with little industry, as part of its status as the least developed of the three countries, also evidenced by its weak transport infrastructure and its minuscule graduate elite.[21] Uganda had a much larger educated elite, better developed social and economic infrastructure and a fledgling large-scale industrial sector, based on colonial State enterprise (the UDC)[22] and minority Indian capital[23]. Kenya had by far the largest industrial sector, owned by the large European and Asian[24] minority communities and by multinational firms.

Although not as large or important as in Kenya, the Asian ethnic minority communities played an important economic role in Uganda and Tanganyika, and for reasons explained below there has been a resurgence in their importance in the 1990s - one topic in any analysis of the East African economies and globalisation has to be the location of the ethnic minorities in the larger picture.

In all three cases, the East African countries saw export diversification and structural change through industrialisation as key components in the post-colonial strategy to change their relationship to the global economy. In the 1960s, industrialisation was envisaged in part as an East African project, in the context of the common market.[25] All three countries hoped to gain from the common market, although it was also recognised that an active industrial policy would be required, to promote the reasonable distribution of benefits which would be required to ensure continuing political support for the common market. However, what was not recognised at that time was the degree to which

[21] Comparisons need to be made with some care, for although Kenya was the most developed in terms of industrial structure and overall per capita income, the African population had the lowest per capita income and its educated elite was no more developed than the Tanzanian, until the effects of the cash educational efforts just preceding independence bore fruit (e.g. the Mboya "air lift"). See Van Arkadie and Dharam Ghai (1969) for an analysis of the difference in the colonial inheritance.

[22] The history of Uganda colonial policy is of some interest as indicating that the adoption of State led development policies (including marketing boards and State owned industrialisation) was far from being a post-colonial innovation. The vigorous support for State investment in industry (including the first textile mill, Nytil) under the two colonial governors, Sir John Hall and Sir Andrew Cohen, had its origins in the immediate post World War II development plan, supervised by the ecologist C. B. Worthington, which provided an interesting early environmental (neo-Malthusian) justification for industrialisation, based on the view that in the long-term Ugandan agriculture could not provide sufficient employment opportunities for the growing population. An even stranger antecedent to Ugandan dirigism was provided by Winston Churchill's commentary, in his My African Journey, where he speculated on the special suitability of Uganda as a home for State-led development.

[23] Particularly the Madvahni and Mehta families, whose fortunes had been based on sugar, but also a number of medium sized Asian owned businesses.

[24] To protect the political powerful White farmers, Asians had been prevented from entering agriculture.

[25] In 1964 I argued that the East African market was large enough to provide the basis for successful import substitution, and that represented the most practical option for the first stages of East African industrialisation. In light of subsequent orthodoxies, that view may seem both erroneous and surprising However, at that time Latin American industrialisation looked relatively successful, East Asia was not yet a home of miracles, and the first writing emphasising the high costs of import substitution in practice were just appearing (e.g. my colleague at that time at Yale, Ron Soligo, was raising questions regarding Pakistan industrial policy). Even in retrospect, I would argue that in the common market context a couple of decades of successful industrial growth could have been achieved by concentrating on supplying the regional market, if the general economic environment had continued to be as positive as in the early 1960's.

the function and success of the common market was related to investment by multinationals.

Kenya

The radicalism of the political struggle for independence in Kenya, the underlying social pressures of landlessness and joblessness and the presence of a more explicitly leftist tendency in Kenyan political life might have suggested that it would be in Kenya that the most radical economic changes would be attempted in the aftermath of colonialism. And perhaps the most radical programme of change was implemented there, with profound changes in the rural economy resulting from the combined effects of the Swynnerton Plan, which had shifted colonial agricultural policy dramatically towards the encouragement of African cash crop agriculture, and the land settlement programmes, which had transferred a significant segment of the European mixed farms to African smallholders. However, in terms of the larger political economy, active land reform and the encouragement of small holder farming served the conservative political function of contributing to rural stability, in the context of which the Kenyan leadership pursued a policy of continuity in the industrial and commercial policy. Sessional Paper No. 10 of 1966, on African Socialism and Economic Policy, opted for the continuation of Kenya's existing relationship with the international economy.[26]

Kenya could expect to benefit from its established position as the centre of the East African common market and from its developed infrastructure (e.g. in tourism). More subtly, however, Kenyatta saw the possibility of fostering the emergence of a strong African capitalist class, so that a sub-text of the commitment to capitalism was an active policy to encourage the educated African elite to claim a stake in the ownership of the economy.[27] This model had some success for two decades, not only in generating reasonable rates of GDP growth, but also, as a result of the successful development of smallholder agriculture and rapid expansion of education, in spreading the benefits of growth.

When Kenya began on its chosen strategy in the 1960s it was more or less as well developed in terms of physical infrastructure, financial and commercial institutions and the beginnings of an industrial sector as some of the economies of East Asia, which subsequently experienced spectacular export-led growth. Although Kenya has had its foreign earnings successes, in generating tourism and in diversifying agricultural exports[28], it did not participate significantly in dynamic industrial export markets, such as clothing and electronics, and in recent years its growth performance has tailed off. The

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[27] In the land settlement programme this even went as far as an attempt to engineer a squirarchy, as a result of a specific initiative of Kenyatta, under which blocs of land (so-called Z-plots) attached to large country houses were to be allocated to members of the administrative elite. See the joint UK-Kenya Mission on Land Settlement which I led in 1966.

[28] A part of this was "catching up" in smallholder tree crop production (tea and coffee), which had been discouraged before Swynnerton over decades in which smallholder export crops had moved ahead in neighbouring countries. However, the development of high value horticultural products was more of an innovation in the East African context

reasons for the limited success of the Kenyan growth strategy should be of interest to Kenya's East African neighbours, as they shift towards more private, market-oriented development.

One factor limiting the scope of industrial expansion was the degree to which Kenya's industrialisation, from its beginnings in the Second World War through the 1970s was essentially geared to supplying the protected East African market. The break-up of the East African community, foolishly applauded by members of the Kenyan political elite[29], blocked one avenue of industrial expansion. That event more or less coincided with the change of political leadership following the death of Kenyatta, breaking the link between key elements in the emerging indigenous capitalist groups and the political leadership - the effectiveness of crony capitalism may vary, depending on the cronies.

Tanzania

Tanzania presented a striking contrast to Kenya. It shifted towards a socialist development strategy, which began with the implementation of the Arusha Declaration in 1967 and accelerated in the first half of the 1970s, with the implementation of Ujamaa and of the Basic Industrial Strategy. Unlike in Kenya, the political and administrative elite were discouraged from property ownership, income policies were egalitarian and social service delivery strategy was innovative - incorporating what was in effect an early version of a "Basic Needs" strategy.

Even after the first oil shock, it was still possible to envisage the experiment as having the potential to succeed.[30] However, by the early 1980s, it was evident that the experiment had failed.[31] For those for whom "socialism" is a synonym for economic failure, the outcome requires little explanation and is therefore of little interest. For those searching for an alternative to current liberal orthodoxies, a more searching examination is required. Whatever its eventual failings, the Nyerere strategy was serious and incorporated many elements of alternative strategies still on offer. In particular, there is a need to explore whether the whole approach was flawed in principle, or whether tactical errors and avoidable failures in implementation undermined an otherwise plausible and meritworthy strategy.

In relation to its connections with the international economy, the post-Arusha nationalisations broke off banking and other financial connections, and took much of the commercial service sector into the public sector. Initiatives both before and after Arusha displaced the Asian business community from the trading sector, which had been its

[29] Charles Njonjo opened a bottle of champagne in the Kenya National Assembly to celebrate.

[30] See the sympathetic interpretation I participated in writing in 1978 (Green, Rwegasira and Van Arkadie, 1980). However, at about that time, aid agencies which had been highly supportive began to express doubts (in the case of the World Bank the big country report prepared in 1977 was a turning point). Also, at that time, left critics who were sympathetic to the aspirations articulated in the Arusha Declaration, had begun to mount a serious critique from the left (see Andrew Coulson, ?).

[31] In 1981-82, when I worked with the Tanzanian Advisory Group, I felt that elements of the system could be retrieved (see Van Arkadie, 1983); John Loxley felt this even more strongly, as is clear from his subsequent publications about that period.

mainstay. There was some adjustment by the Asian business community, who began to move into the industrial sector, but the nationalisation of urban property further demoralised the Asians, as a result of which Asian emigration increased. At the same time, the limits placed on the development of African private business meant that in medium and large-scale economic activity, foreign and minority community ownership was displaced by bureaucratic control. However, the Tanzanian technical elite was weak, and the attempt to develop the parastatal sector under a controlled and egalitarian incentive system was unrealistic.[32]

The industrialisation effort (which included a pragmatic willingness to encourage foreign investment) faltered for many reasons, which have been identified in the literature. Location was haphazard, with too little co-ordination with infrastructural investment. After the severe deterioration in the foreign exchange situation after 1978, new industrial capacity could not be utilised, because of the lack of foreign currency to provide inputs. Looking back on the 1970s, so many things went wrong with the industrialisation effort, ranging from microeconomic factors, such as poor project design and inadequate attention to management requirements, through sectoral imbalances, which meant that many projects were frustrated by infrastructural bottlenecks, to the macroeconomic disequilibrium, which affected all economic activity, that it is difficult to establish any one clear lesson.

How far the poor export performance that contributed to the foreign exchange crisis was the <u>result</u> of the industrialisation effort is unclear. At first sight, it might appear that the Basic Industrialisation Strategy was seeking to promote industrial growth at the expense of agriculture. However, agricultural disincentives did not result from the classic mechanism of surplus transfers to finance industry - monopolistic single channel marketing transferred surpluses to a bureaucratic "black hole" of inefficiency rather than to investment activities. Also, a large part of the industrial investment resulted in idle capacity rather than output, so that farmers did not have to subsidise industry by buying expensive import substitutes. Nevertheless, the industrial investment programme was part of the ambitious capital formation effort of the 1970s which gave rise to the macroeconomic disequilibrium, which did place a heavy burden on the agricultural export sector.

Although the main thrust of the industrialisation effort was to produce import substitutes for the East African market, some explicit efforts were made to produce industrial exports. These efforts included the ill-fated World Bank financed Morogoro Shoe Factory, which deserves its place in the history of Tanzanian development failures alongside the Groundnut Scheme. Somewhat more plausible Swedish supported efforts to promote small industry export manufacture, in co-operation with Swedish firms, and investments in sisal processing had some modest initial success before foundering in the

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[32] One of the contradictions of the Nyerere experiment was that the lack of a developed African middle class meant that the implementation of radical economic policies faced little opposition, but that very weakness of the African technical and managerial cadres meant that the capability to implement a bureaucratic-led development was not there; indeed, the rapid expansion of the parastatal sector greatly weakened the capacity of already fragile government bodies.

crisis and adjustment. Thus efforts to generate industrial exports met with little success, while traditional agricultural exports declined, so that the overall result was that exports declined as a ratio to GDP, while dependence on imports for industrial products and fuel persisted - the resulting gap being filled by aid.

Uganda

Uganda presented a third approach to restructuring the colonial economy - while aspects of developments on Uganda under Amin were farcical (when not tragic), his regime had a profound impact on the Ugandan economic structure.

During Obote 1 (that is during the 1960s), although a populist rhetoric was adopted, particularly with the "Common Man's Charter" which picked up some of the resonance of the Arusha Declaration, the actual content of economic policy was mainly a pragmatic continuation of colonial policy. In the Ugandan case, however, the colonial regime had left in place an unusually well developed parastatal sector. The Uganda Development Corporation was already involved in industrial development and operating the largest hotel chain in East Africa, and the Uganda Electricity Board managing a power operation which supplied a significant portion of the Kenyan market.

The Amin regime had a deep impact in three ways. The expulsion of the Asians removed a group who had dominated trade and large-scale farming and were the leading private industrial entrepreneurs. Secondly, during the Amin period and the confused years that followed his removal, links with the international economy were reduced, with the withdrawal of many foreign businesses in the face of the prevailing uncertainties, and the decline of traditional exports (particularly cotton). Also, many of the educated elite who might have aspired to careers in the professions, in the bureaucracy or in politics left the country, acquiring experience elsewhere.

With the Museveni regime, some degree of normalcy has been restored. Privatisation, the restitution of Asian properties and the implementation of liberal economic policies has resulted in some economic recovery. Some of the leading Asian families have taken back their businesses. Admittedly, the plaudits Museveni has received from the donor community have to be treated with caution, both because of the poor track record of "successes" identified by such agencies as the World Bank, and the strong prodigal son effect. Despite Museveni's very considerable achievements, exports have still not been restored to earlier peaks, the impressive record of a small group of economic policy-makers has not been matched by improvement in the capacity of government ministries, which remains very weak, peace is fragile and the political succession unsure.

As recovery takes hold in the Ugandan economy, long-standing problems of Uganda development will have to be confronted. Uganda is even more dependent on coffee earnings than in the 1960s. The landlocked position of the country significantly influences comparative advantage, making the country dependent on the transport infrastructure of Kenya and Tanzania, and suggesting that comparative advantage might lie in production of food and industrial goods for the East African market.

However, Uganda also has some potential advantages. As a result of her early lead in education (which was sustained throughout the confusions of Amin and after) and the experiences of the refugee elite, Uganda probably has more entrepreneurial capacity than Tanzania. The fertility, compact size and relatively well-developed infrastructure gives Uganda an edge. However, it remains unclear what position Uganda can aspire to in the future international division of labour.

5. Structural Adjustment and Afterwards.

After a decade of structural adjustment, some economic successes have been achieved. Both Tanzania and Uganda have succeeded in restoring a degree of macroeconomic stability and dismantled much of the dysfunctional system of government economic control. The economies have benefited, with a revival in economic activity. Entrepreneurs have responded to the opportunities provided by policy reform, with higher levels of output and private investment. [33] However, while there has been a revival in export activity, this has not carried exports above levels achieved in the early 1970s, failing to reach levels projected in structural adjustment programmes and leaving the economies excessively aid dependent. One big question for the coming decade is whether persistence with liberalisation policies will eventually yield benefits in terms of much more rapid exports earnings - whether the East African economies will effectively join the global economic game.

As of this moment, the global economic environment is not very propitious. The indications when this paper was drafted were that having led the upward swing in the last boom, the East Asian economies were leading the global economy into a depression, triggered by the bursting of a speculative financial bubble. Nevertheless, in the cycles of market activity an upswing could be expected to follow crisis, and in that upswing, new opportunities for accelerated growth would emerge. What was required to take advantage of such opportunities?

Any attempt at detailed scenario formulation would be foolish, in that it is a characteristic of entrepreneurial opportunities that they are unpredictable and the development successes of one generation are not reproduced in the next. That having been said, it may be useful examining what is the potential that East Africa has to take to the international marketplace.

Potential Comparative Advantage

The East African market, if the common market re-emerges as a working reality, is sufficiently large to provide a base for some industrial growth, particularly for those products where transport costs and other factors provide natural protection. However, experience of the 1970s (particularly that of Tanzania) demonstrated that the growth of

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the domestic market and the possibility of local industries supplying that market are constrained by foreign exchange availability, which ultimately means foreign exchange earnings (as aid is unlikely to be a growth industry over the long term).

The possible sources of foreign exchange earnings (i.e. of effective participation in the global economy) can be considered under four main heads: traditional exports, tourism, mining and industrial export processing. The possibility of generating significant foreign exchange from labour remittances (as a number of Asian and Latin American did in the past) does not, at this point, seem great.

Factors likely to condition the prospects for traditional exports are similar to those discussed above in the consideration of the colonial exporting economy.

Tourism is already established as a leading sector in Kenya, and is now fast growing in Tanzania. Uganda, lacking a coast, does not have the same prospects. The development of the industry in Tanzania requires a more integrated approach than has so far been in evidence (e.g. it is not clear that such matters as policies towards aircraft landing rights[34], visa fees, land allocation, etc. are subject to any sensible economic analysis in relation to their impact on tourist revenues). Also, there is a need to promote greater national participation (to increase the domestic value added). In particular, there is a need for study of mechanism, whereby small and medium scale African businesses could increase their participation in the servicing the tourist trade.

The mining potential of East Africa has hardly been developed. Tanzania is apparently on the brink of a mineral (gold mining) boom Issues that will require continuing attention are numerous issues of public policy in relation to both the artisanal[35] and the large-scale sector. The licensing and taxation of mining and negotiation with multinationals is a highly complex area, in relation to which East African experience is limited. Questions have been raised, for example, regarding whether Tanzania has been too generous in negotiations of mining deals. It should also be noted that in the not unlikely event of substantial mineral earnings being generated in the future, the management of the disruptive macroeconomic effects would require careful attention (the experiences of Nigeria and Zambia provide ample examples of potential problems).

Industrial export processing has been an important component of most of the successes of export-led growth of developing economies. To date, this has not developed to any significant extent in East Africa, and in the current global context, prospects may not

[34] Limitations on traffics rights on intra-East African movements seem largely to be motivated by the wish to protect the national carrier, in effect offering an implicit subsidy, irrespective of whether this is a cost efficient method of subsidy. It might well be in Tanzania's larger economic interest to encourage the use of the considerable excess capacity of international airlines on these routes to increase passenger traffic. Needless to say, this would also be to the benefit of long-suffering East African travellers. Subsidies are best transparent, so that government and the public can be aware of the cost.

[35] In Tanzania, there has been an explosive growth in artisanal mining of gold and gemstones. The almost weekly record of serious accidents suggests the need for greater supervision, while experience elsewhere in Africa suggests that the taxation of artisanal mining presents great difficulties (see the study of taxation of artisanal mining in Sierra Leone by S. Kamara and myself (World Bank, 1991).

seem too good, given the number of new entrants (e.g. among the "follower" economies of East Asia, such as Viet Nam and Bangladesh) and the prospect of heightened competition from established producers (such as Thailand and Indonesia, who have severely devalued their currencies). Yet there will be fast growth on a global scale in such activity in the future, and its location is neither predetermined nor very predictable.[36] It may be worth exploring ways in which the considerable entrepreneurial capacity demonstrated by African small business in supplying domestic markets could be tapped to supply export markets (e.g. a concerted effort to develop sub-contracting).

Lessons from East Asia and the Role of Government

While there is a lively debate about aspects of the East Asian successes (e.g. about the role of the State), there are some necessary conditions suggested by the successes of East Asia prior to the current crisis. There are four conditions that to varying degrees the East Asian successes shared:

a) they enjoyed high rates of technical progress and growth in agriculture (where applicable - i.e. not including the city States);
b) although foreign capital played an important role, the lead was provided by national businesses and in many cases the role of foreign investment was quite severely controlled by national policy (e.g. i9n Korea).
c) they all promoted exports vigorously, whether in the context of an open economy (e.g. Hong Kong) or along with strong protection in the domestic market (e.g. South Korea);
d) the region achieved high savings rates to varying degrees (although one factor contributing to the crisis was high levels of borrowing by some of the countries); and
e) while policy made active use of the market, states in the region were vigorous not only in maintaining macroeconomic balance, but also in investing in the provision and maintenance of basic infrastructure and human capital, and playing a slective but active interventionist role.

Such conditions are not yet present in East Africa. Smallholder agriculture, as discussed above, has experienced dynamic growth in the past, but the prospects for sustained growth remain problematic. None of the countries has a coherent and vigorous programme of export promotion in place. A degree of macroeconomic balance has been achieved, but at the cost of restricting government expenditures below levels needed to maintain government capacity and basic infrastructure is inadequate and poorly maintained. For example, early success with structural adjustment in Tanzania was undermined by a succession of crises - power, water and transport. When competing in the domestic market, such constraints are irritating but not fatal, as they are shared by competitors. When competing internationally, random water and power supplies and

[36] In this regard, I remember participating in a seminar in the mid-1960's on Mauritius, whose economic future seemed totally bleak. While I remember suggesting that the island should concentrate on acquiring a comparative advantage in labour intensive industrial export, that was no more than an off-hand seminar comment, and at that time the subsequent success of Mauritius as an industrial exporter seemed a totally remote prospect.

hopeless transport infrastructure can be fatal impediments in competition with better organized economies.

Reversing the current weaknesses would require a focused government programme, based on clear priorities and pursued with determination bordering on the ruthless. Nothing in the current behaviour of governments suggests that this is a likely outcome.

Over the past three decades, during which many connections with the global economy weakened, aid dependency increased, particularly in Tanzania [37]. Increasing aid dependency was evidence of poor performance in competing in global markets which increased the relative importance of aid flows, but has also been a significant, if not major, contributory factor in the weak competitive position of the East African economies. Aid has never performed particularly effectively as a stimulus to growth, but there are three particular reasons why it may not contribute to success in the global economy.

(a) The decreasing growth component of aid programmes. Over the past three decades there has been a substantial shift in the rhetoric of aid programmes away from support for economic growth towards a range of charitable and other paternalistic objectives. Aid agencies have become increasingly concerned with the promotion of an agenda that finds favour amongst the pro-aid lobbies in the donor countries - concerns for democracy/poverty/gender/environment, rather than economic growth as such. Significantly, the high growth economies of East Asia have been quite effective in resisting pressures from such lobbies. [38]

(b) The erosion of national capabilities. Aid dependence has contributed to the erosion of the capability of national governments to take effective initiatives. The "development programme" is largely made up of donor financed and designed projects, and policy initiatives originate with the donor agencies. The aid dependent state is a particular example of the 'soft' state.

(c) The distortion of incentives. It has been argued that in the case of Tanzania, in the early 1980s, aid had a sort of indirect "Dutch disease" effect, underwriting a distorted policy regime (e.g. allowing the authorities to postpone exchange rate adjustment). Since that time, there may have been a more direct negative impact of aid on exchange rate levels. Apart from such possible macroeconomic effects, aid has had strong effects on the incentive system, particularly for the educated elite. Be it acquiring a grant, launching an "NGO" to attract donor support, acquiring jobs in donor funded project units, or simply attending courses, workshops and seminars, aid has become an important source of income for the educated elite, particularly in light of the decline in real incomes from government and parastatal employment. The relatively soft market for services by donors may direct energies away from the riskier and more difficult challenges of entrepreneurship in the commercial economy.

[37] Given the popularity with donors of the current regime in Uganda, a similar effect is likely there.

Entrepreneurship; national and international

A key factor in determining the degree to which an economy can participate effectively in the international economy is the existence, or not, of national entrepreneurs. Without national entrepreneurial capacity, the indigenous population is trapped in roles of “hewers of wood and drawers of water”, irrespective of changes in the structure of trade. Study of the positioning of East Africa in the global economy therefore should include an analysis of national entrepreneurship and its relation to foreign actors in the economy.

Herein lies a particular weakness of the East African (particularly the Tanzanian) economy. There have been positive developments since independence. Perhaps the most fundamental development to be observed throughout East Africa has been the emergence of a class of successful African small businessmen, in transport, trade, construction and services, which may provide the pool of entrepreneurial talent required for longer-term success. However, success has been less evident in large scale and technically more sophisticated activities.

The liberalisation and privatisation of the East African economies under structural adjustment ended efforts by the state to fill a missing entrepreneurial gap through the vehicle of state enterprise.

While no systematic study is available on new patterns of ownership, the impression gained from casual observation is that the main effect has been a resurgence of the Asian business community, not only in areas where they traditionally played a dominant role, such as trade, but in new areas such as banking and finance, and real estate development and the forceful entry onto the East African stage of South African business..

The Asian business community: The resilience and persistence of Asian business in the face of expropriation, expulsion and restrictions on trade is quite remarkable. The presence of this active business community could be a source of strength, as well as a potential political irritant, for the future of all three East African economies. During the 1970s, with the Diaspora of the Ugandan Asians, and the less dramatic migration of Asians from Tanzania and Kenya, East African Asians established themselves in the UK and North America, and many business families now have connections there as well as in the Indian sub-continent.

In many East Asian economies, the Overseas Chinese communities have played a strategic entrepreneurial role in their dynamic structural change. Could the Asian business community play a similar role in East Africa?

One impediment is the widespread resentment of the Asians, which made their expulsion from Uganda a popular political move, and renders their position politically fragile. However, in East Asia the Overseas Chinese have been the subject of resentment and there have been incidents of extreme violence, and yet they have made a decisive development contribution.[39]

Given the strategic importance of the Asian business community in the East African economies, it has been the subject of surprisingly little formal study.[40] Any research programme seeking to explore East Africa's future role in the global economy should include research on Asian business.

New Foreign Actors in the Economy: the South African penetration: Another aspect of change in East Africa, which is also observable in West Africa, is the active role of new entrants from other parts of the Third World.

Particularly noticeable has been the engagement of South African firms, as the end of Apartheid more of less coincided with the liberalisation process. In such areas as mining, brewing, and service activities (including hotels) South African large businesses have become important players, and many small-scale entrepreneurs are also seeking opportunities. In the case of Tanzania, the size of the South African presence has been sufficient to be to change the face of Dar Es Salaam. Also, the intrusion has engendered quiet recrimination in the Asian business community.

There have also been interest shown by East Asian investors, including Malaysian involvement in banking and finance and communications, Thai involvement in gemstones, Chinese in construction, etc.. Again, while these tendencies are clear from casual observation, they have yet to be subjected to serious study.

A National Business Class?

A further question that may be posed relates to the impact of a strategy of integrating into the global economy on the internal distribution of economy and access to economic opportunities. In particular, what are the prospects for the emergence of a national business class? There are a number of reasons why this is important. As Albert Hirschman once put it, whatever the relative merits of a nation specialising in primary commodity trade, there can be little advantage in specialising in supplying labour, leaving the supply of capital, and all that goes with it, to foreigners. There is also a political economy issue related to the development of a national business class. It is not so much a matter of the old Marxist debate about the importance of having a "national" rather than a "comprador" bourgeoisie, as the negative consequences of having a political and administrative elite without a stake in, or strong connections with the economic elite.[41] Without some connection, the government is unlikely to be responsive to the needs of business, business will be susceptible to populist attack, and State functionaries can see business as essentially a source of rents.

[39] Thus the recent violent attacks on Chinese in Indonesia brought back memories of the bloody pogrom which followed the fall of Sukarno. In Malaysia, the New Economic Policy favouring the Bumiputra was introduced in response to violent demonstrations against the Chinese.
[40] An exception being Dharam and Yash Ghai (--).
[41] I discuss the political economy of the soft African state in one of the two papers I contributed to Ha Jung Chang and Bob Rowthorn (eds., 1995).

Under structural adjustment, those in formal employment have not done well, and the technical and administrative elite has, with some exceptions, fared badly. This is not surprising, as in Tanzania the edifice which has been dismantled was in many ways geared to the needs of the bureaucratic elite. As the system went into crisis, real incomes began to erode - although even then, the system of allocation of scarce commodities favoured those in office. By comparison, a group of small-scale business people, in such activities as trade, transport, mining and construction has emerged which do well in the market economy. Even in the professions there has been a burst of entrepreneurial activity, as health care and education are increasingly provided on a private basis[42]. On the other hand, with the demise of the parastatals in Tanzania in seems likely that for some time African leadership role in the large business sector will be minor. In Uganda and Kenya there are larger groups of African big businessmen.

How can the emergence of African big businessmen be encouraged? This is a difficult and controversial area. In Asia the basic approach to the promotion of indigenous big business has been through one variation or another of "crony capitalism", that is the political regime favouring selected business groups - this may be through explicit policies (Malaysian preferences for the Bumiputra under the NEP), or through informal networks. In the current crisis, crony capitalist has been receiving much criticism, and in the extreme cases of the Philippines under Marcos or the later part of the Suharto era in Indonesia such stigma seem well justified. Similarly, the crony capitalism of the former Soviet Union does not seem to be working well.[43] Nevertheless, successful participation in international capitalism (which is what globalisation is about) is probably more likely with a developed group of national capitalists, and in the history of capitalist development this has typically involved an intimate relationship between the State and business. The trick is for the State to promote big business to the benefit of the national economy, rather than the Swiss banking system.

6. An Agenda for Study

This paper has provided a discursive *tour d'horizon*, which has touched base with a wide range of historical and contemporary issues. Intentionally, it has opened a range of issues, to provoke ideas and discussion at the beginning of the research program. This has its dangers, as the topic can lend itself to broad generalisation and waffle, which is not very helpful in furthering understanding of the options and constraints facing the East African countries.

Also, given the context of the great international debate, it would be easy to concentrate efforts of polemics and advocacy. Obviously advocacy has its place, but after decades of calls for reform of the international trading system (from the early work by Prebisch and

[42] In Uganda and Kenya, private provision of education is a long-standing practice, but it was largely banned in Tanzania in the Nyerere period. Now considerably more children enter private high schools than public institutions, and the mushroom growth of private hospitals and dispensaries has come to the point at which two private colleges now offer medical training in Dar Es Salaam.

Singer, to the launching of UNCTAD in the 1960's, to criticisms of multinational corporations and calls for a New Economic World Order in the 1970's, to the renewed debate about globalisation), it is not possible to avoid pessimism about the potential for fundamental systemic change. Therefore, attention needs to be addressed to the options facing Third World countries in the face of the World system as it is. This does not mean that the World system will not change in the face of its own crises and dynamics, but unfortunately it is unlikely to be moved by the views of those from the weaker Third World economies. Therefore the core of the research program will need to analyse the concrete realities facing East Africa, the specific consequences of international economic influences and the options available to governments, communities, businesses and individuals in the light of that reality.

The original proposal that gave rise to this project put the research perspective as follows:
Successful participation in the global economy is widely seen as providing the best prospect for accelerated growth in the developing economies. However, Sub-Saharan Africa has benefited little from globalisation over the past three decades. Indeed, it can be argued that the impact of external economic developments (e.g. the oil shocks and movements in the terms of trade) has been largely negative.

For the past two decades (more or less from the publication of the Berg Report), conventional analysis and policy advice (e.g. from the Bretton Woods institutions) to African economic policymakers has been that the main reason for the lack of economic success has been weaknesses in policy regimes. In particular, it was argued that over-interventionist policies by the State and dysfunctional protectionist and foreign exchange policies undermined the prospects for successful participation in the international economy.

That view motivated widespread implementation of liberalisation policies, through the agency of externally supported Structural Adjustment Programs. Adjustment programs have been subjected to a good deal of analysis and debate, particularly revolving around their distributional impact. In particular, performance in the public provision of basic social services has declined.

By and large, SAP's did achieve some success in stabilisation, for example in reducing open and repressed inflation, and in some cases (particularly where economies had suffered deep declines, such as Uganda and Mozambique) generating a burst of growth. Broadly, more orderly macroeconomic environments were created, with a significant reduction in over-valuation of exchange rates. However, the results in relation to improvements in trade and private foreign investment performance have been more modest, and there is so far little evidence that these economies have embarked on a path of long-term sustainable high growth. At the same time, the deterioration in the performance of the State in providing services continues, except in limited areas, where the main burden of financing provision has been taken on by donors.

At the same time, the merits of the unrestrained impact of globalisation on developing countries have come under increasing challenge. Critics have argued that a liberalised regime for international trade and capital movements does not provide a 'level playing field', placing developing economies at a persistent disadvantage, perpetuating inequalities. Questions have also been raised about the negative impact of globalisation trends on the environment and on income distribution in the developing economies. Most seriously, after initial gains in some African countries, liberalisation has not generated widespread benefits for the bulk of the *population. The large majority receives per capita incomes no higher, and often lower, than in the 1960's.*

African policymakers are faced with a number of dilemmas. For small African economies, international markets are a given, not susceptible to influence by their actions. There is no evident alternative to participating in the global economy. However, the existing policy mix, after two decades of liberalisation and Structural Adjustment, has not so far delivered great success – the African economies remain marginalised in relation to global markets. Therefore one set of questions that needs to be addressed relates to possible adjustments to economic strategy to achieve more successful participation in the global economy. What lessons are to be learnt from the African experience of involvement in the global economy over the past two decades? What light can be thrown on this experience by consideration of more successful participation in the global economy (e.g. the East Asian economies)? And what warnings are suggested by the polarisation in incomes that seems to be emerging in some Asian economies (e.g. India)?

Issues that arise in considering the conditions for successful participation in the global economy include:

- *What is the appropriate role of the State, and how can the State apparatus be moulded to play the required role?*
- *How important is an agrarian revolution and how is it to be achieved?*
- *What is the best industrial policy (e.g. laissez faire or more interventionist)?*
- *How is the process of globalisation changing and how does this effect the potential role of the African economies (e.g. does the IT revolution provide new opportunities, or is it likely to result in further marginalisation)?*
- *What is the role of local as compared to multinational entrepreneurship (including the role of resident minority communities)?*
- *What is the interplay between national policies and the regional configuration in relation to the global economy (e.g. the role of South African capital in the region; the role of overseas Chinese capital in East Asia)?*
- *How important is investment in human capital (and how can downward trends in Africa be reversed)?*

Another sets of questions relate to the possible negative effects of globalisation. If higher rates of growth were to be achieved, what would be the social costs? How could negative impacts be ameliorated?

A third set of questions need to be addressed if it is concluded that in practice the prospects for successful African integration into the global economy over the coming generation are not good. How should marginalised societies cope? And even where successful globalisation is achieved, what is to be done about the large segments of rural society and the urban informal economy, which are likely to be left out even if more successful globalisation is achieved?

This set out a very broad potential agenda. There are a number of areas of possible detailed study implicit in the proposal and the discussion in this paper. There are some general conclusions that deserve emphasis.

1. A positive theme should be the requirements for successful engagement in the global economy, on the basis of a concrete understanding of the evolving East African social reality. This probably requires rather more

emphasis on the study of the sources of wealth and the organisation, connections and strategies of powerful economic groups, as compared to studies of poverty, which currently receive the lion's share of attention in donor sponsored studies.

2. Successful participation in the global economy requires some understanding of the working and of the successes and failures of strategies adopted by other nations. In this regard, recent research by Tanzanians has been far too parochial; a bias supported by overseas centres of funding and graduate study which tends to feel that Tanzania is always the most appropriate topic of study for Tanzanians. One aspect of the project should be to increase understanding of economic trends in the region as a whole, in other developing regions and the global economy in general.
3. However, the main focus of the research should be specific developments and prospects for Eastern African economies in light of observed trends. The list of possible topics is long – choices will have to be made. Areas of study which deserve detailed attention are
    a) Changing patterns of international integration, including the new patters of investment now taking place, including the South African role in East Africa, the resurgence of mineral investment, the tentative involvement of East Asian investors, and the strategies of the Asian business community etc. – one starting off point should be a review of such developments over the past five years and implications for the medium term future.
    b) the relationship between international capital and the growth of the indigenous economy -- the development (or lack thereof) of "national" entrepreneurship;
    c) the poor performance of the East African economies in changing their structure of trade (related to the failures of industrialisation and the absence of industrial exports);
    d) the consequences of pervasive aid dependence and possible strategies for exit;
    e) in the case of Tanzania, the implications of the putative gold mineral boom need to be explored, particularly in the light of the varied experience within Africa with the management of mineral booms (ranging from the perceived success of Botswana in managing its diamond revenues; to the deep and lasting structural consequences of Zambian copper; the Dutch disease effects of Nigerian mineral earnings; to the destabilisation associated with minerals in Sierra Leone and Zaire).
    f) Global influence on local society and defensive and survival strategies of local communities in light of external shocks and influences.

g) Global impact of specific developments on the environment (e.g. mining, fishing) and possible protective strategies. .

This is a much longer agenda than can be addressed successfully by the team. The first round of discussions should be the selection of themes from this list and further elaborating a practical approach to research.