East Africa Community integration

Moving towards economic competitiveness

Introduction

There is great opportunity for the East African Community (EAC) to move towards better economic competitiveness through integration. The EAC is East Africa's regional intergovernmental organisation. Its current members are Kenya, Tanzania, Rwanda, Uganda and Burundi. It is widely considered to be the most integrated regional bloc in Africa. The EAC Partner States have a combined GDP of USD 110 billion and a population projected to reach to 150 million by 2015. In the past four years of EAC's fourteen year history, steps towards integration have gained momentum. The EAC continues to attract new prospective members; South Sudan's application for membership is expected to be decided in the course of this year.

Growth Prospects

Recently declared commercially viable discoveries of oil and gas in the region have raised the prospect of rapid economic growth. Nonetheless, despite its comparatively smaller economies, EAC integration has given it an edge in economic competitiveness that is yet to be achieved by its Southern and West African counterparts.. As a result of integration, there has been an increase in cross border investment attributable to the removal of trade barriers, and investment in infrastructure. The United Nations Economic Commission for Africa (UNECA) reported that between 2000 and 2012 intra-regional exports by destination averaged 19.5% compared to the Southern African Development Community (SADC) which averaged 10.9% and the Economic Community of West African States (ECOWAS) with 8.7%.

Significant steps have been taken towards realising the EAC's objectives of an effective Customs Union, Common Market and Monetary Union, all of which came into force in 2005, 2010 and 2013 respectively. The EAC Treaty envisages that the Community will gradually move towards the formation of a political federation.

Customs Union

Under the Customs Union, free movement of trade will be achieved within the EAC; this includes the removal of internal tariffs and adopting a Common External Tariff (CET). The current applied CET is 25% for finished goods, 10% for intermediate goods and 0% for raw materials. Following a Single Customs Territory deal in October 2013 between Kenya, Rwanda and Uganda, there is expected to be an enhanced degree of free movement of goods and services in those countries.

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The Common Market

The objective of EAC's Common Market is to operate a single market with common trade laws, common taxes and critically, the free movement of labour, capital, goods and services. The EAC Common Market Protocol was established in July 2010. Since then, there has been slow progress towards the attainment of its purpose.

Nonetheless, the growth of the single market is supported by private sector initiatives such as the East African Commodities Exchange (EAX). The EAX which is based in Kigali Rwanda was launched in Switzerland in January 2013; its first transaction was recorded in November 2013.This platform links smallholder farmers to advanced financing models whilst also providing competitive prices for their produce through the regional commodities exchange.

It is also notable that in 2013, the East African Securities Regulatory Authorities group, the umbrella body of regional capital markets regulators, launched a four year strategic plan for the harmonisation of a capital markets regulatory and legal framework within the EAC. The ultimate goal is the complete integration of East Africa's capital markets.

In addition, there is also free movement of labour between Kenya and Rwanda. The two countries have removed work permit fees for all EAC citizens. Amongst EAC's other notable achievements is the harmonisation of immigration procedures at all border crossings.

Monetary Union

In order to further enhance economic integration, the Monetary Union Protocol was agreed to by all current Partner States on 30 November 2013. The EAC Monetary Union is expected to come into force in 2024. Tough conditions have been set for admission into the Union. These include a public debt ceiling of 50% of GDP; a forex reserve cover of four and a half months; a fiscal deficit ceiling of 6% of GDP; a core inflation ceiling of 5%; a tax to GDP ratio of 25% among others. It is hoped that these measures will achieve fiscal stability.

Political Federation

The EAC Political Federation is yet to be realised. In this regard, EAC Heads of State are scheduled to deliberate on an action plan and draft model structure in April 2014. Present consultations are centred on the process of sensitizing citizens on the impact and consequences of a political federation, to allow for an informed decision making process. Although the EAC Treaty provides for the creation of political federation, it does not define how it will be achieved.

Infrastructure

Moreover, EAC Partner States have intensified efforts to improve infrastructure in the region in order to facilitate increased trade. The most prominent example of this is the USD 26 billion Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET) Corridor project. The project will create a transport corridor through Kenya, South Sudan, Ethiopia and Uganda. It includes the construction of a road network, a port, oil pipelines, an oil refinery, airports and resort cities. The project is expected to be complete by 2018.

Furthermore, a railway network linking Kenya, Uganda and Rwanda will be constructed in line with the Partner States' Tripartite Agreement for the development and operation of a standard gauge railway. Tanzania also intends to invest massively in its transport infrastructure; the country intends to embark on a USD 10 billion project which includes the building of a new port, the establishment of a special economic zone and the construction of a railway network. Moreover, plans are underway to build a railway line which will connect Rwanda, Burundi and Tanzania.

Challenges

The focus on regional infrastructure development will boost regional trade, investment and integration and make the region economically competitive. Nonetheless, progress towards full integration will continue to be slow unless an equal measure of attention is granted towards implementing a framework for free movement of trade within the EAC. This includes the harmonisation of trade laws, macroeconomic, investment and tax policies; on which no significant progress has been made. Restrictions to trade and foreign direct investment still exist within the EAC, with Tanzania and Burundi having the highest number of restrictions. New restrictions were introduced by Tanzania, Uganda and Rwanda on the free movement of capital after July 2010, which marked the operation of the Common Market Protocol. In respect of goods, more than 50 non-tariff barriers have been identified.

Although there have been infrastructural and fiscal challenges posed to the economic competitiveness of the EAC, one of its greatest obstacles is the apparent protectionism against loss of sovereignty. The now common phrase, ‘Coalition of the willing’ is used to describe those Partner States that are perceived to be more keen to progress the integration process. Nonetheless, it is arguable that the current fault lines on this issue are attributable to bureaucracy in the decision making process and weaknesses in the mechanisms for implementation.

In conclusion the integration of the EAC, albeit slow, is the most encouraging among regional blocs on the continent. The EAC's economic competitiveness can be further boosted by the implementation of frameworks for free trade.