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East African Community and the Need for A Regional Trade Agreement

During a summit in Arusha, Tanzania in January 1999, the three Heads of State of Kenya, Tanzania and Uganda resolved to sign a treaty re-establishing the East African Community (EAC). The purpose was to achieve a set of developmental objectives for the three countries as well as to promote trade within the region. It was expected to improve their economic and political bargaining power by forming a united entity.

In January 1999, the EAC was reconstituted to achieve a set of developmental objectives. However, it was not clear what economic and political conditions are to be taken into account for these objectives to materialise.

This Policy Brief examines arguments for a regional trade agreement among members of the EAC and points out the benefits that these countries could draw from such an arrangement.

Regional Integration Arrangements in Africa

In Africa, regional integration arrangements have come in two waves. The first wave, occurred in the 1960s, was inspired by the creation of the European Economic Community (EEC). Neighbouring nations were facing economic difficulties and thus, sought for cooperation. This was based on import-substitution policy, which consisted of protection (such as high tariffs and non-tariff barriers) for 'infant industries' before introducing them to the competitive world market. This approach proved unsuccessful as most of these industries never developed and by the end of the 1970s nearly all the regional arrangements had failed.

In 1980s, a waning confidence in the General Agreement on Tariffs and Trade (GATT) sparked a second wave of regional integration among the African countries. The dissatisfaction was rooted in an increasingly cumbersome negotiating process as a result of growing number of countries joining the GATT.

The East African countries participated in both the waves. During the first wave, the arrangement among the East African Community (EAC) was focused only on its member states, while in the second, these countries sought closer ties with other African countries and the European Community (EC) to secure improved access to the developed-country markets and political support in an increasingly multilateral (international) trading system. As of now, the EAC is considering a bilateral Economic Partnership Agreement (EPA) with the EC as a step towards securing better market access and political support for the regional integration.

History of the East African Community

Early Years

At the beginning of the 20th Century, as members of the British Empire, Kenya and Uganda were engaged in a cooperation agreement. They built a Kenya-Uganda railroad granting Uganda access to the Mombassa port. This was significant as Uganda is a landlocked country. After the First World War, Tanganyika (the present-day Tanzania) became a part of the British Empire and participated in this regional relationship. By 1948, an East African High Commission was established, with legislative and administrative authority for policy-making in the three countries.

In 1961, as the countries were on the verge of independence from the British rule, the East African Common Service Organisation replaced the East African High Commission established by the British. The East African Community was established in 1967 with the goal of forming the East African Common Market.

The main objectives of the Community were to strengthen and regulate industrial, commercial and other relationships to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities.

The accrued benefits were expected to be shared equitably through harmonisation of economic policy, formulation of joint projects and consultation during the planning stage, and implementation in areas such as agriculture, education and manpower, energy and power, industry, tourism, balance of payments, transport and communications, etc.

In the first half of the 1970s, Kenya embraced capitalism, Tanzania socialism, and Uganda was confronted with a political coup, which put a question mark on the political stability of the region. Ultimately, ideological division among the members, coupled with Uganda and Tanzania's frustration over increasing trade deficit with Kenya, were two significant factors leading to the demise of the EAC in 1977, a decade after its inception.

The EAC could not attain its goal of establishing a monetary union because the East African Currency Board (EACB) disbanded into three separate central banks. The economic foundations of the arrangement were shaken further when another essential organ could not meet its objectives.

The East African Development Bank (EADB) was intended to develop the region's industries by taking equal amount of contributions from the three member-states and in turn investing 38.75 percent each in Tanzania and Uganda, and 22.5 percent in Kenya. However, as the EADB was to invest in 'viable' projects only, which were mostly in Kenya, it experienced difficulties in meeting its developmental aims for the region as a whole.

The New Incarnation

In 1984, efforts were made for making a regional trade agreement among the EAC member states. In 1993, in order to increase the level of cooperation the three countries established a Tripartite Commission for East African Cooperation, which began its operation in March 1996. In 1998, these countries decided that a political federation with zero internal tariff on the majority of goods and with a single common external tariff would be the ultimate objective of the new East African Community.

The East African Cooperation Development Strategy (1997-2000) charted out the following goals and guidelines for the regional trade agreement:
- greater cooperation in order to ensure that each member benefits fairly from the terms of the agreement;
- concern for environmentally sensitive economic development and sustainable use of natural resources;
- create a single investment region through a single market;
- achieve improved status for women; and
- promote peaceful relations among the members.

Future objectives of the EAC are to:
- establish an institution for improved decision-making for the purpose of better regional integration;
- address common market issues resulting from uneven levels of industrialisation and economic development;
- create an appropriate system of adjustment for trade imbalances; and
- establish an effective secretariat, which is essential for facilitating the goals of the agreement.

Current State of Affairs

An analysis of the EAC should first outline various levels of economic integration in order to explain the progress of the regional trade agreement.

The first level of integration simply combines markets into a free trade area (FTA) that eliminates internal trade barriers (such as import duties, quantitative restrictions) but external tariffs may vary among the members.

The next level of integration is establishing a customs union, which is similar to a FTA except that it requires a common external tariff. Third is a common market, which guarantees free internal movement of goods, services and other factors of production. It holds common external regulation of products and production factors (the Common Market for Eastern and Southern Africa and the European Common Market are examples of such an arrangement).

However, the EAC is unlikely to fully liberalise trade for all goods, as some of its members may not be fully convinced of the arguments for free trade, and some sensitive sectors may be protected due to political and economic considerations.

The European Community intends to engage African, Caribbean, and the Pacific (ACP) countries with EPAs, as they may help promoting deeper economic integration. However, the establishment of a free trade area among countries is a necessary condition for entering into an EPA, and the EAC qualifies for that. Under the current plan, if the EAC is to engage into an Economic Partnership Agreement (EPA) with the European Community (EC), liberalised internal trade would cover 80 percent of all trade by 2005 and 90 percent by 2015.

In spite of this encouragement from the EC to have a deeply integrated regional trade arrangement, the final version of the EAC Treaty, as signed on November 30, 1999, was not as far-reaching as was originally planned. There were problems like trade imbalances between these countries, lack of a clear and equitable method to distribute benefits from the arrangement, difficulty in recovering the loss of government revenue in the form of tariffs, etc. In short, problems in fostering better regional integration are rooted in economic differences between the three countries, as Kenya dominates intra-regional trade. (See Table 1)

Why A Regional Trade Agreement?

There appears to be economic logic for a regional trade agreement among the members of the EAC and its arrangement with the EC for an EPA, but the political foundation will be critical for its success. The foundation of the EAC was based on political factors, but economic considerations were also important. This is commendable. The reason why politics should sometime outweigh economics is that the structure of a nation's international trading system must be designed to protect it, as far as possible, from the internal political system of lobbyists. Governments must consider political consequences of their policies and as a result most regional trade agreements are politically motivated.

Table 1: Internal Trade in East Africa

	Kenya	Tanzania	Uganda
Kenya	—	13.7 (0 *)	15.7 (0 *)
Tanzania	0.45 (10.4)	—	0 (0) *
Uganda	0.24 (25.9)	0 (0) *	—

*Notes: Data are for the year 1997 and indicate the destination and source of exports and imports respectively as percentage of total exports and imports. Figures in parentheses are percentage of total imports. Figures for exports are read horizontally, while that of imports vertically. * These are so small and insignificant that they are indicated with a zero.*

Source: Report of the Permanent Tripartite Commission for East African Cooperation: 1996-98.

In so doing (from the perspectives of foreign policy and national security), sometimes political concerns may overshadow the economic costs of an agreement. These costs would be seen as a necessary price for fulfilling non-economic objectives. Furthermore, sometimes a small group of like-minded countries may feel that they can further their objectives in liberalising trade flows more effectively among themselves than in a multilateral context.

However, available statistics suggest that there is very little trade among the countries of Sub-Saharan Africa and little basis for fostering comparative advantages in intra-regional trade. Poor countries do not usually trade much, therefore the low levels of trade in Sub-Saharan Africa is not unusual. As a result, there may not be any real economic incentive for countries of the region to join in a regional trade agreement.

On the contrary, the multilateral trading system as under the World Trade Organisation (based on the most-favoured-nation and national treatment principles) may be a superior option for these countries to gain better market access. Moreover, a single product, whose destination in most cases is outside the region, dominates exports of most of these countries. (See Table 2)

At the same time, a regional trade agreement can restrict the power of national interest groups and thus, ensure the success of trade liberalisation policies, even in multilateral context. It has been argued that as a regional trade agreement covers a larger political community than just one nation, each national interest group will have less significance and influence and thus, less capable of seeking protectionist policies.

Another argument is that as each country in a regional trade agreement may have different preferences, compromises may result and thus, increase political efficiency and functioning of such an arrangement. Furthermore, the political economy of the international trade often supports the regional arrangement, because it could be easier to negotiate at that level.

On balance, these are the reasons why countries like Kenya, Tanzania and Uganda should seek a better international voice through a regional trade agreement.

There is also the possibility for these countries to concentrate on trading those products on which they have comparative advantages. At present, Kenya's comparative advantage

Table 2: Principal Exports in 1997 (as percentage of total exports)

Product Category	Kenya	Tanzania	Uganda
Tea	20.0	—	5.1
Horticulture	11.4	—	—
Petroleum Products	5.9	—	—
Coffee	14.9	13.1	46.9
Cotton	—	16.2	—
Manufacturers	—	14.6	—
Cashew Nuts	—	10.5	—
Minerals	—	12.9	—
Maize	—	—	2.9
Fish & Fish Products	—	—	4.5
Tobacco	—	1.8	—
Gold	—	—	12.3
Others	47.8	30.9	28.3

Source: Report of the Permanent Tripartite Commission for East African Cooperation: 1996-98.

seems to cover a wide range of tradable services, whereas Tanzania's strengths probably lay in its natural resources and Uganda has a strong agro-industrial products and food sectors.

However, other factors are to be taken into account while advocating for a regional trade agreement among the EAC members. One such factor is the membership in multiple RTAs, which may cause conflict or confusion between numerous rules. For example, rules of origin, which is an integral part of the functioning of a trading system, may become too cumbersome to follow when numerous regional arrangements are closely linked.

The EAC members are part of a Cross Border Initiative (CBI), among 14 African countries, which seeks a market driven concept of integration in Eastern and Southern Africa and the Indian Ocean countries. Kenya and Uganda are members of the Common Market for Eastern and Southern Africa (COMESA). Another considerable and, often mentioned, factor is the magnetic pull of South Africa through the Southern African Development Community (SADC).

Conclusions

Towards the end of the 20th Century, the EAC was revived with expectations and objectives similar to those of the first attempt. The original treaty had fallen apart as the political and economic differences plagued it from the outset. As the new incarnation is still in its infancy, it is difficult to assess its progress and impact.

However, there have been several developments since the demise of the first attempt. A lot of economic and political literature has addressed the subject of small countries entering into regional trade agreements. Some of the conclusions are encouraging, while others are not. Strictly from the point of view of trade, it seems that the EAC may experience a welfare loss, as there could be a loss of tariff revenue. This loss may be replaced, to some extent, by increased consumer welfare and thus, an increased tax base.

Perhaps the most significant gain could be more foreign direct investment (FDI) into these countries, as a result of a bigger market size. However, this perceived increase in FDI would crucially depend on political stability in the region. The EAC must engage into increased regional trade to guarantee that stability. Although an economic partnership agreement with the European Community may not be a perfect option for the EAC, it would guarantee better access to a large market for agricultural products and thus, also political support for a regional trade agreement among these countries.

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