

PERSPECTIVES OF REGIONAL INTEGRATION IN THE EAST AFRICAN COMMUNITY

Fred Jonyo and Josephine Misaro

¹Department of Political Science and Public Administration,
University of Nairobi,
P.O Box 30197-00100, Nairobi, Kenya.

²Department of Sociology and Social Work,
University of Nairobi,
P.O Box 30197-Narobi, Kenya.

Corresponding Author: *Josephine Misaro*

ABSTRACT

This paper analyses the perspectives of Regional Integration in the East African Community. It delves into the process, prospects and challenges towards integrating the East African Community countries of Kenya, Uganda, Tanzania, Rwanda and Burundi. The authors argue that integration remains an important avenue of capital formation and collective self-reliance. The federalism, functionalism and Baregu's imperatives provide the theoretical lenses of the paper. The central question thus; does integration better positions economies for faster economic development? The paper recommends *inter-alia* the need for institutional capacity building and popular participation of the people for successful integration. This paper is significant as it points to the importance of integration; if peace, economic development, higher production, trade and self-sufficiency are to be achieved amidst the fierce competition in the global market. The fear of losing power and authority to a regional government should therefore, not hamper the EAC from harnessing the benefits of Regional Integration.

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KEYWORDS: Regional Integration, Functionalism, Federalism, Imperatives, Free Trade Area, Custom, Common Market, Economic Union.

INTRODUCTION

Economic cooperation in East Africa has a relatively long history. Prior to independence, there were a sizeable number of commonly operated services within these countries. For example; Post and Telecommunications, railways and harbours, airways, universities, customs, excise and income tax departments, research and technical services, which was initially known as the East African Common Services Organization (Kahnert & Thomopoulos, 1969).

The East African Community (EAC) is one of the various economic communities that exist in Africa. It is a regional inter-governmental organization of Kenya, Uganda, Tanzania, Rwanda and Burundi. The revival of the EAC II was occasioned by the lessons learnt from the EAC I of 1967 to 1977. EAC I established through a treaty in 1967 focused on harmonization of economic policies of member states, common institutions and a common market (Mohiddin, 2005). Article 2 of the treaty equally emphasised strengthening and regulating the industrial, commercial and other relations of the member states in a way that promotes accelerated

harmonious and balanced development and equitable distribution of benefits. The EAC I was to fail from among other things, the unbalanced sharing of benefits among partner states. The treaty did not call for equal sharing of benefits but emphasised that the less developed member states would benefit disproportionately (Mohiddin, 2005). The East African Heads of States signed the treaty for the establishment of the East African Community in Arusha on 30th November, 1999. The EAC strategy gives emphasis to economic co-operation and development with a strong focus on social dimension. The co-operation and integration as identified by the EAC incorporates:

1. Trade, investment and industrial development
2. Monetary and fiscal affairs
3. Infrastructure and services
4. Human resources, science and technology
5. Agriculture and food security
6. Environment and natural resources management
7. Tourism and wildlife management
8. Health, social and cultural activities and

9. Cooperation in political matters, including defence, security, foreign affairs, legal and judicial affairs.

Regional organizations have grown rapidly in number in the past quarter century. This is attributed to diverse factors in different areas. Broadly, regionalism is influenced by the desire to widen market outlets for products, a way of strengthening bargaining and lobbying capacity in a region with other markets, allowing capital and labour mobility, nurturing peaceful co-existence and pooling of resources together for effective development (Hettne & Inotai, 1994). Generally, one of the principles of the New Partnership for Africa's Development (NEPAD) in bringing sustainable development in the African continent is the accelerating and deepening of regional and continental integration.

DISCUSSION

Regional integration is a package rather than a single policy, whether concerned with economics or foreign policy. The concept goes beyond notions of free trade areas and market cooperation that is, the integration of a series of national markets into one functional economic unit (Hettne, 1994). Political ambitions of creating territorial identity, political convergence, collective security and regional coherence are critical.

Regional integration helps to accelerate growth and development through integration of human, technical and physical resources of small economies to create larger, more competitive and more successful economic space. This is done to promote free movement of goods, services and factors of production and to coordinate and harmonize policies. It might involve convergence of trade, fiscal and monetary policies as a prelude to integration.

Balassa (1966) defines economic integration as the abolition of discrimination between economic units belonging to national states. For this to happen, barriers to trade and investment should be lowered. Balassa (1961) further identifies the various categories of the integration process;

1. Free Trade Area- This is characterized by the removal of quantitative restrictions and custom tariffs
2. Custom Union- This is where there is unification of tariffs of the countries within the region against outsiders
3. Common Market- This is where all restrictions on factor movements within the region are abolished
4. Economic Region Union- This is where economic, monetary, fiscal and social and

counter-cyclical policies are to some extent harmonized

5. Supranational Union- This is where the respective governments abandon completely their sovereignty over the policies listed above and a supranational authority issues binding decisions.

Theoretical Perspectives and Rationale of Regional Integration

Within the political prism, regional integration is a process of "building peace in parts" (Nye, 1965). This belief is premised on the fact that countries that are collectively pooling their resources and interests will develop conflict resolution strategies to contain violent conflicts. The formation of the European Economic Community (EEC) in 1958 was perceived as a post-war attempt for peace in Western Europe (Haas, 1958). Regional integration arrangements that initially focus on economic issues evolve aspects of peace building and conflict mediation. This could be seen in the case of Economic Community of West African States (ECOWAS), evolving into ECOWAS Monitoring Group ECOMOG. This is further supported by Deustch's (1971) assertion that an integrated region is a form of "security Community".

The federalist and the functionalist theories have been popular in explaining regional integration. Federalism supports "frontal attack on state sovereignty", demanding that states cede aspects of their sovereignties to a regional unit. It anticipates the establishment of a higher supranational authority to which partner states relinquish part of their sovereignty (Haas, 1958; Nye, 1965). Functionalism theory, on the other hand, stresses a gradual process of integration, which finally culminates into a political union. This process begins through "functionalist unity", that is the economic, the social, technical and cultural units of cooperation. Unit cooperation forms a basis of integration and finally leads to political cooperation. It sets about five stages; free trade area, customs union, common market, monetary union and the political union. Functionalists believe this is the most appropriate form to take because states will resist attempts towards sudden integration as required by federalism (Mazzeo, 1980).

The debate whether the EAC countries are ready to form a federation continues to feature albeit in muted form. Many points out that leadership of the EAC states fear losing power and authority to a regional government (Nyong'o, 1990). This regional outfit poses to them the danger of a weakened sovereign in pursuit of national interests. The key intention of regional integration is to free factors of movements, trade and accelerate growth to higher

output levels of the partner states. The corpus of literature, based on custom unions and common markets is derived from Viner's static analysis of the welfare effects of customs unions (Viner, 1950). Viner introduces the concepts of trade creation and trade diversion, where trade creation is explained as a shift in trade from a high cost to a low cost producer; and trade diversion as a shift in the opposite direction. Viner's concept has remained quite an important framework on the effects of integration on production both outside and inside an integrated area.

Viner argues that greater trade (including investment) through integration will improve welfare by enabling citizens to procure goods and services from the cheapest source, leading to the reallocation of resources based on comparative advantage, which brings efficiency and productivity (Viner, 1950). With the frequent conflicts, wars, massive abject poverty, unemployment and debt crisis due to natural disasters, governance crisis, the wave of globalization and the HIV/AIDS pandemic, regional integration in Africa can no longer be taken for granted in mere political expression. It is critical if peace, economic development, higher production, trade and self-sufficiency are to be achieved.

An important effect of the integration process is the enlargement of markets. The rationale is that larger markets are preferable to smaller ones from the basis of factor efficiency. The pooling of several sub-optimal markets could easily open up investment opportunities whose cost was prohibitive before the integration effort, that is, the combined market will expand and exceeds the size needed for reasonably economical investment projects.

It is also noted that, the idea of specialization becomes a crucial aspect of integration. This could be achieved in three ways. First, the partner states could specialize respectively in manufacturing, agriculture and many more. Second, there could be inter-industry specialization in the manufacturing and mining sector. This is where questions of comparative advantage arise with beneficial gains to the partner states. Finally, where components of manufacturing and different stages are carried out in separate plants in other words, vertical and horizontal specialization. Specialization would require agreed regional investment policy and a policy on compensation, which would propel considerations of factor efficiency. The principle of comparative advantage in classical trade theory assumes that specific countries specialize in the production of those goods, in which they enjoy superiority or least inferiority (Scitovsky, 1958).

The EAC has set forth a number of goals. First is the integration of the regional partners in order to improve the standard of living of the population. The establishment of a conducive and stable environment for increased production, trade and investments is imperative for sustained development in the region. The EAC partner states are in agreement that the realization of rapid economic development depends on their co-operative efforts. The advantages of economies of scale, widening of markets and enhanced production are also put into consideration. Second, the treaty establishing the EAC makes provisions for collective efforts on broad areas such as; political, economic, social and cultural programmes. This is to be attained progressively through the stages of a customs union; a common market; a monetary union; and a political federation. In summary, the key target in integration include; maximization of economies of scale, maximization of comparative advantage, rationalization of the use of resources on a regional basis thereby eliminating waste and duplication, reduction of dependence on other regions among other benefits (Mitrany, 1966).

The renewed interest in regionalism is occasioned by the consequence of, and a response to, evolving trends in the international political and economic order (Nyong'o, 1990). The resurgence of regionalism is influenced by the transformation of the contemporary global system in which countries collectively work together for the common good of their regions.

With the market liberal economic systems taking unprecedented global dominance, the state has found itself confronted by the reality that it has cede aspects of its sovereignty and embraced alliances. These alliances enable countries to pool together and face the challenges of the market economy. The depth of interdependence in the new global economy means that the welfare of all countries is more closely linked than ever before. Prosperity in any one country is increasingly dependent on prosperity elsewhere.

The global economic system has promoted integration through a number of ways; first, the growth of global financial market has transcended boundaries with capital movements becoming the engines and driving force of the world economy (Braga, 1994). Backed by deregulation and liberalization policy of western countries, international capital has increased both its mobility as well as turnover. The internationalization of capital has made it difficult to regulate and control within state borders.

Second, the end of the Cold War has widened the global market and deepened economic linkages. Most countries have become part of some integrated market arrangement. The contemporary global economy is no longer characterized by ideological supremacy but competition for market and scarce resources.

Third, the growth of corporate activities has expanded into many countries. As a cost cutting strategy in production and maximization of profits, as well as acquiring an edge over other market competitors, multinational corporations are moving beyond their national boundaries and investing in other countries. Hettne and Inotai (1994) point out that, "the revolution made in technology has made possible the 'breaking down' of production into different stages at different localities without losing efficiency and profitability". The high levels of specialization, has transformed the manufacturing structure to the extent that production process allows different parts to be produced in different countries. The final goods are produced or assembled in a completely country, thereby, creating a global factory.

Fourth, the revolution made in information, communication and transportation technology has tremendously reduced telecommunications as well as transportation costs, thereby diminishing the distance problem in economic activity. The dramatic reduction in telecommunication and transportation costs have in turn, permitted closer integration between markets, consumers, producers and suppliers (Cook & Kirkpatrick, 1997).

Fifth, the internationalization of environment problems has necessitated collective action by countries. Global environmental and cross border problems require regional and global solutions, making international cooperation and policy coordination not only important but necessary. Given the internationalization of the world market, globalization is also equally creating an environment of fierce competition in which only powerful and efficient economic entities tend to survive. Therefore nation states resort to regional integration as a response to remain competitive and insulate their economies from global challenges.

According to Viner *et al.* (1997), regionalism allows for different types of division of labour resulting into economic activity becoming increasingly organized at the regional and geographically confined levels. The objective of these regional cooperation groupings is to enhance participation in the global market economy while at the same time insulating their economies from adverse effects of globalization.

Imperatives for Regional Integration

Baregu (2005) outlines a persuasive argument that propels integration in what he calls imperatives and defines these as the kinds of factors that creates the impetus and lead to the drive and desire for integration among members. He further identifies the imperatives as; affection, gain, threat and power. These imperatives are at play in the desire for integration.

Despite skepticism, mistrust and suspicion among the partner states, one cannot help notice a resolve by the EAC to integrate in less than ten years. First, as a strategy for survival in the globalized economic system; the EAC countries have a compelling reason to integrate than collapse individually in the face of stiff competition (Nyin'guro, 2005). Kenya, Uganda, Tanzania, Rwanda and Burundi ought to collectively insulate themselves against globalization. This is necessary to forestall political and economic marginalization (World Bank, 2000). Briggid (1992) reinforced the idea that small economies would find it difficult to compete with large economies and cooperation would enhance their bargaining power.

Second, Yan'g and Gupta (2005) observe that landlocked countries of Uganda, Rwanda and Burundi would enjoy coastal access in exporting and importing their products. All the partner states would equally have an opportunity for large regional markets with their membership in the EAC. Moreover, the integration would enable Kenya and Uganda to address the perpetual deadly cross-border cattle rustling between the communities across each side of the border.

In the contemporary global economy, the industrialized economies have a syndicate like manner of operations. Thus, regional integration provides the EAC countries with leverage for bargaining in international markets. The EAC countries have a chance to collectively benefit from economies of scale, comparative advantage, collective security and large markets (Haas, 1975; Mitrany, 1966; Deustch, 1971).

The Challenges of Regional Integration

As is common to most integration schemes, the EAC partner states have to grapple with a number of challenges. The extent to which partner states would benefit from integration is dependent upon their levels of economic development. Where a partner state enjoys a relatively large industrial sector, then such a country is likely to gain more than other partners. In order to overcome this problem, some kind of industrial rationalization is needed in the

less efficient partner states before free trade is encouraged.

The challenge of harmonization of economic and social policies exists in any regional integration. An agreed balance of payments and exchange rate policy in an area is crucial in the initial stages. An overvalued exchange rate is a disincentive towards increasing exports and should the partner states have overvalued rates, imports from third countries will be forthcoming than imports from partner countries. Countries embracing regional integration schemes should therefore, adopt a realistic rate regime that do not require to be insulated by a considerable import restrictions and which intends to create a desired global balance of payment position.

There would be need to create some financial institution to restore the new trade and payment problems. For instance, a clearing or payment mechanism which acts as a compensation clear house for intra-regional deficits resulting from trade diversion in order to cushion balance of payment difficulties on weaker partner states. The payment mechanism could function like a miniature International Monetary Fund (I.M.F.), granting loans to deficit countries or as a type of European Payments Union with a central fund where amounts of convertible currencies from surplus countries are transferred to deficit countries as a way of enhancing interdependency in the region.

Integration requires the participating governments to relinquish their freedom of obligations over a wide economic and social policy. According to Scitovsky (1963), this may be summarized as follows:

The advantages which may potentially accrue from increase of size of market may quite easily be lost if a group of collaborating economies fail to coordinate their policies effectively, operate at less than full capacity, restrict their investment, and thus individually and collectively grow less rapidly. If a group of countries are to gain, they must be prepared from the outset to recognize and accept significant losses of individual sovereignty over their economic affairs (pp. 282-290).

This is further reinforced by the realization that whereas there is need for exhaustive coordination of national social policies within the free trade environment, it is important to obtain certain principles of economic policy if important social benefits are to be achieved.

A regional investment policy becomes imperative if maximum benefits are to be obtained from inter-industry specialization and from economies of scale, if duplication is to be avoided. Such a policy would

also ensure equitable distribution of employment opportunities and income generated by integration. This policy is a critical pillar of an integration process if expected benefits are to be realized. Such a policy is indispensable in increasing the growth rate of production and the efficient use of capital within the area (Mensah, 1967).

Prospects of EAC

Many analysts have raised questions regarding the re-launched EAC. Having had a failed attempt at integration in the 60s, what has now changed to warrant a fresh integration? How different is EAC II from EAC I?

The reasons listed for the failure of EAC I include; lack of strong political support and resolve, lack of homogenous economic approach to development, unfairness in the distribution of accrued benefits from the community, lack of meaningful participation by the private sector and general public, and incorporating the civil society (*EAC Treaty*: 1999, Simplified version).

An examination of the EAC treaty signed in November 1999 and operationalized in January 2000 reveals some amendments aimed at strengthening the Community. Article 7.1a of the EAC specifies the beneficiaries as the people of East Africa. Unlike EAC I that failed to incorporate the public, EAC II is designed as pro people and market driven. This includes the private sector, Non-Governmental Organizations (NGOs), Trade Unions, and Community based organizations. However, the envisaged people participation is yet to be institutionalized (Mwangi, 2001) as the people have no avenues of participation unlike the EU, where the people directly participate in electing representatives of the EU parliament through political parties. Article 50 (1) of EAC, provides for electing members through national parliaments (Nyin'guro, 2005).

The supreme organ of the Community, known as the Summit equally exercises immense power as the authority in EAC I. It is quite clear that the EAC was thrown in disarray following the suspension of the swearing in of East African Legislative Assembly (EALA) MPs after Kenyans contested the process of identifying Kenyan MPs to the Assembly. The idea that the heads of state could change the rules on the running of EAC has created fears that the success of EAC II, will depend on what these heads of states decide to do or not to do.

CONCLUSION AND RECOMMENDATION

Regional integration provides the EAC countries with leverage for bargaining in international markets and a chance to collectively benefit from economies

of scale, comparative advantage, collective security and large markets. Nevertheless, EAC's success depends on the support and commitment it gets from the member states. Moving towards a Common Market, the progressive institutionalization of key organs is fundamental in sustained integration process. Whereas leaders continue to send mixed signals, the EAC countries have no better alternative than to integrate.

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