IMPACT OF EAST AFRICAN INTEGRATION ON FOREIGN DIRECT INVESTMENTS 1980-2015

A RESEARCH SUBMITTED IN PARTIAL FULLFILLMENT OF THE AWARD OF MASTERS OF ARTS IN INTERNATIONAL STUDIES

SUBMITTED BY MERCY GACHIGI KURIA

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SUPERVISOR : MR. GERRISHON K. IKIARA

SENIOR LECTURER

DISCLAIMER

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DECLARATION

This research project is my original work and has not been presented before in any institution for academic purposes.

MERCY GACHIGI KURIA   R50/82530/2015

SIGNATURE: ....   DATE..

This research project has been submitted for examination in the University of Nairobi with the approval of my university supervisor.

SUPERVISOR

MR GERRISHON IKIARA SIGNATURE ....   DATE.............................

SENIOR LECTURER

DEDICATION

I would like to dedicate this study to my beloved parents Lucas and Lucy, for always encouraging, believing and supporting me in my education. I am grateful for guiding and providing for me. I am blessed to have you.

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Iwould like to thank God for his favour and providence this far.

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ABSTRACT

The African continent has embraced the aspect of regional integration since independence. Africa is a continent that is blessed with a huge mass of land and natural resources. It is also composed of small national economies and landlocked countries. Inorder to survive and coexist in the international system, nation states form regional organizations. The main objective is to develop strategies to solve their own problems. Africa is home to many regional blocs.

This research project focuses on regional integration process in Africa with respect to the East African community. The East African community integration has brought five nation states together. This study seeks to explore the integration process of East Africa and its impact on foreign direct investments. The ultimate goal of East Africa community is to improve the standard of living of the citizens in the region and develop good strategies to alleviate poverty and economic problems. Integration seeks to open new markets, increase investments and maximize opportunities within the region.

East African community has engaged in integration process for a long period of time. This study looks at the gains, opportunities and challenges in the member states due to this integration. This research will explore the impact of EAC integration on foreign direct investments. This study confirms that East Africa integration has improved investments within the region and increase in membership. Through the evidence from secondary and primary data analysed, there is still room for growth and development in the East African region. The data used in this study included; articles, world investments reports, world bank, journals and books.

This study confirms that the East African integration has opened new economies and facilitated foreign direct investments into the member states. The East Africa community has invested in infrastructure e.g expanding ports in Mombasa and Daressalaam and the standard gauge railway. The study notes that there is still work needed to be done on joint investment policies and regional approaches within the member states.

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Abbreviations

EAC – East African community

COMESA – Common markets for East and South Africa

IGAD – Intergovernmental Association for Development

ECOWAS – Economic commission of West African states

FDI – Foreign direct Investments

SADC- Southern Africa Development commitee

IMF- International Monetary fund

GDP –Gross Development product

GNP – Gross National product

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CHAPTER ONE

1.1 Introduction

Integration is an important term that was introduced in the 1940s after the second world war.[1]The main purpose for integration was to promote political stability. This cooperation was initiated by the states that participated and won the second world war. Regional integration is a cooperation of a group of countries located in the same geographic proximity e.g the European union and East African community. Nation states join in regional organizations to meet their needs and fulfill their intended functions and desires[2]. The European union was established in order to promote political stability and unite after the second world war.

Nation states are interdependent and they come together inorder to solve common problems and issues in the global world. States join in regional economic communities to benefit and achieve goals[3] and feel a sense of entitlement in the affairs of the region. Globalization has encouraged states to join in partnerships or cooperations for mutual benefits. This is by forming economic integration communities, bilateral and multilateral agreements in order to survive and compete effectively.

The East African community is one of the eight recognized regional organizations by the African Union in Africa. It is seen as the most ambitious regional organization since it was established. It has established a common market in the region.[4]Its main objective is to encourage economic growth and help eradicate poverty within the region. The common market has been an asset to open opportunities for more trade at a lower cost. The East Africa has a good strategic position that attracts investors and flow of people within the region. The community strives to promote the well being of its citizens by being part of the global economy.[5]

Foreign direct investment is one of the great contributors to economic growth.[6] FDI has been a great gift to the continent of Africa since it enables the developing economies to adress challenges and eradicate poverty[7]. Foreign direct investments are important elements in

[1] Hettne 1999a xvi
[2]Gathi J.T., African regional trade agreements as flexible legal regimes(working paper series no.20, 2009)p.5
[3]Schiff and Winters 2003
[4]African bank 2013
[5]Mwangi K. Discussion paper on Expectation of East African Integration" presented in Arusha at EAC seminar 2001
[6]Wang 2009
[7]UN Millenium declaration of September 2000

regional and global economies. The East African community is a work in progress as it continues to position itself for many foreign investors and to explore the opportunities in this growing economy. Integration is key to promotion of intra and inter regional flows of FDIs within the member states of a region. A nation state will work hard to improve itself and maximize its relative interests. i.e currently the EAC comprises of five countries which are set to benefit. Foreign direct investments may vary between the individual countries but integration has neutralized these differences.

This study explores the intra-regional foreign direct investments and the possibilities in the market in perspective of the five states due to integration. The study will focus on how the East African region is gaining from foreign direct investments and the effects of integration process.

1.2. Background to the study

Regional integration in Africa has enabled growth and development of the continent. This form of agreement was focused on the socio- economic development of the member states. It opened job opportunities and a free trade area among its members. It is found that Africa is home to many regional organizations. These regional organizations were formed to promote political stability and state sovereignty. However the interests grew to overcome the social, economic and cultural needs of the continent. Hence many states recognize that they are interdependent and join in to mutually benefit from these organizations. Africa has the following regional blocks i.e African Union AU, Common market for East and Southern Africa COMESA, Economic Commission of Western African States ECOWAS, South African Development Commission SADC, Intergovernment Association for Development IGAD and East African community EAC.

An economic integration is defined as the political, monetary agreements among nations and world regions in which preference is given to member countries.[8]The EAC started off as a customs union which involves control of goods across borders, determining their origin and collection of revenue among various administrative arrangements. This type of integration can benefit any region through open economies, intra-regional trade and inter regional trade arrangements that bring in foreign direct investments in the region.

[8]Peter J. Buckley, Jeremy Clagg, Nicholas Forsans – increasing the size of country regional economic intergration

East African Community happen to be an intra-regional trader within Africa[9]. This study will look at the market of intra regional foreign direct investment. This study will explore new areas and opportunities to expand the trade as well as adress the challenges in this market.

1.3 Statement of the research problem

Regional integration has proven to be a success in most developing economies across the world. The progress of integration is unique to every region since it has its own challenges and differences among the member states. Integration has enabled small member states to be recognized and noticed in the global economy. Integration has brought opportunities and great influence to the member countries and the non members in the different regions.

Developing countries have attracted investors and encouraged partnerships with their neighbours with time. These countries have attributes and investment opportunities that open up markets and developments in the region. It is possible because of linking up joint efforts of the member countries. Integration empowers the member countries to develop and attract foreign investments. This study focuses on East African countries and their contribution towards attracting foreign investments within the member countries.

The East African countries stand out to be counted in the effort of building good business and investment opportunities. This study adresses the opportunities and challenges the East African community is experiencing due to integration. Do the member countries bend their policies inorder to access more foreign markets or do they benefit mutually?

Regional economic integration in the European union, central and Eastern Europe has been beneficial to the economies of the member states and in attraction of foreign direct investments.[10] Regional integration is proposed to be beneficial to developing economies just like the East African community.This study will be conducted to indicate the increased benefits to its member states and nearby non-member states.

UNCTAD 2007 identifies that foreign direct investments are important to the East African community because it has come with benefits such as provision of new technology, financial resources, facilitation of exports to markets and domestic economy. East Africa has its potential and influence.[11] This study seeks to look at the EAC region and the foreign direct investments over the past twenty years.

[9]UNCTAD 2013 – the share of manufacturing trade between RECs

[10]Brenton et al 1999:95 – Economic integration and Foreign direct investment: an empirical analysis of foreign investment in the European union, central and Eastern Europe

[11]Mwega and Ngugi 2007

Research on the East African countries tend to show that foreign direct investments have improved and are steady despite financial crisis[12]. This study seeks to explore if the foreign direct investments are really beneficial to the citizens in the EAC countries. It will analyse the integration process and its effects on the member states e.g more intra – regional foreign investments flows, existing projects and opportunities with new members states. How is the region growing economically, socially and culturally. Is it becoming a group of individual countries or becoming united region. Are the EAC regional policies well implemented in all member states?

The study will focus on various sectors and the contribution to foreign direct investments.

1.4 Objectives of the research

a. This study seeks to explore the trends in intra-regional relations with focus on EAC and other regional economic communities.

b. To explore the growth of foreign direct investments flows to the EAC members

1.5 Research questions

a. What opportunities and qualities have attracted foreign investments into the EAC

b. What are the challenges facing intra- regional activities in the EAC.

1.6 Justification of study

1.6.1 Academic justification

This study aims to explore opportunities in the EAC region brought by integration, and the interactions between partner states. The East African community has been through many setbacks. After the revival of the EAC, the member states have progressed and developed peaceful ties within. The study will increase information on how the region will enhance infrastructure connectivity and other determinants of foreign direct investments. There are few resources on the East African community in terms of development and integration. The study seeks to generate ideas and resources to influence more economic activities within the region. It will encourage the citizens of the EAC to take part in exchanging with the other countries for new knowledge and current affairs. The main focus of the study is to identify the factors that promote the foreign direct investments which is not well looked upon in the region.

[12]Finance and Development – International monetary union magazine – June 2001, volume 38 November 2

The study analyzes the state of East Africa and its attractiveness to the global economy. Has East Africa integration promoted growth in the member states? It is assumed that integration facilitates increased benefits around the region. The study will analyse such benefits and the needs that are to be met.

1.6.2 Policy justification

This research seeks to provide information on the integration process on East Africa. It is geared to fill in the gaps left by early researchers and generate new ideas. It will provide knowledge on procedures, rules and regulations that help in integration process. Policy makers may use it to implement new policies and better ways to promote the affairs of EAC. The EALA will be able to propose good laws that will promote all the member states rather than focusing on the interests of specific states. It will motivate other scholars develop new policies on investments and the EAC market as a whole.The study seeks to offer alternative ideas and options to pursue the integration process more effectively through free trade and unity.

1.7 Literature review

This section seeks to analyse the works of literature that have been written about regional integration. This literature has been sourced from different books, articles, journals, newspapers, reviews, economic surveys and works done regarding the topic of research. This may include relevant concepts and important keywords related to the study.

According to Peter J. Buckley and Jeremy Clagg, integration is as simple as a relationship, agreement between nearby countries. It was brought about by the nation states involved in the cold war. They came together and noticed that they had to assist or get assistance from their neighbours. This kind of relationship or agreement was more of economic integration. It is noted that nation states need to rely on each other for support.

According to Hettne 1999, integration was invented in the 1940s inorder to rebuild from the second world war. The nation states of Europe and United States discovered an important way of coming together. Through this regional integration was actualized and gave rise to many regional organizations like the European Union.

African regional trade agreements supports that regional cooperation can take different forms and shapes depending on objectives of the states that are involved.[13] Hence member states join in agreements in certain areas common to them i.e. socially, politically and economically.

According to Ernest Hass, integration is a process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activity towards a new centre whose institutions possess or demand jurisdiction over the preexisting national states.[14] Integration is driven by political elites and self interests inorder to get benefits. This shows that social, economic and political powers are ultimate goals that cannot be separated.

According to Jeggan C. Senghor, progress in international and economic institutions is a requirement for the elimination of political wars. This will increase functional institutions that will meet welfare needs and peaceful coexistence.[15]

According to Bloomstrom, et al 1994[16] foreign direct investment is a tool to bring knowledge, managerial skills and capability, product design, quality characteristics, channels for international marketing of products and consequent integration into global production. It also creates chains which are a foundation of a successful exports strategy.

Regional integration happens across all the regional organizations[17]. African states believe in integration. It is very crucial for states to join in a regional organization for them to gain much benefits. The more integration happens, the more actual growth is realized. FDI inflows is witnessed alot in regions with integration going on.

According to Stein and Daude 2003, location of FDI is affected by the regional trade agreements available in that region. This shows that membership in these regional integration may even double foreign direct investments on average.

African economies have smaller market sizes which enable member countries contribute little in regional integration. This aspect may hinder the ability of a state to industrialize well in a region[18]. This supports that market size is a determinant of foreign direct investments.

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[13] Gathi J.T. – African regional trade agreements(working paper series No.20, 2009)

[14]International relations theory; realism, prularism, globalism (New York; Macmillan publishing company1987)p.207

[15]Theoretical foundations for regional integration in Africa

[16]Bloomstrom et.al 1994 UNCTAD and the OECD countries

[17] UNCTAD 2013 b;6

[18] Bohwasi P ''Africa regional blocks: unifying or dividing" African executive December 12,200 p.13

African Development Bank recognizes East Africa Community as the most ambitious regional organization in Africa since its conception. This is because it has established a common market.

Foreign direct investment is an investment by a resident entity in one economy that reflects the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest means the existence of a long term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of an enterprise.

Foreign direct investment is a tool designed to provide knowledge, managerial skills and capabilities, connect channels of international marketing of products, product design, branding, consequent integration into global production and link chains which are a foundation of a successful exports strategy.[19]

A multinational enterprise is one that engages in foreign direct investments and owns or controls value added activities in more than one country[20].
Intraregional foreign direct investments are those within member states in the regional integration area while extra regional foreign direct investments are brought into the region by multinational enterprises from non-member countries.[21]

Regional integration in Africa takes different forms. Integration is defined as forming parts into a whole or creating interdependence in terms of economic integration, social integration and political integration[22]. African regional integration arrangements are categorised mainly to be in economic integration. It can be refered as forming a transnational economy. According to Otieno, et al, East African community is aimed at widening and deepening cooperation among the partner states for their mutual benefits[23] which has achieved higher yields gradually to the community than any other regional

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[19]Blomstrom et.al 1994 (UNCTAD 1999; OECD 2002)
[20]Dunning and Lundan 2008:3
[21]Te Velde and Bezemer 2006: UNCTAD
[22]Joseph Nye S. (1968 PG858) Comparative regional integration; concept and management – international organization vol 22 no.4
[23]Otieno M., Moyi, E. Khainga, D. Biwott P. (2013 P.67) Regional integration and foreign direct investments in East African countries, journal of world economic research vol2 no.4 2013 pg 67-74

integration agreement in Africa. The ultimate aim is to realize the mission of regional integration despite how the process may be tough and challenging. It is noted that integration process in Africa is not an automatic achievement in the different regions. It has not been a smooth flow for regional organizations in Africa because of political conflicts, low levels of intra trade and challenges in development initiatives.[24]

African regional integration agreements are faced with challenges of inaction and little or no progress. It is effective for these organizations to look up to other international organizations for growth and management strategies. Successful organizations include; European Union, Association of South East Asian Nations and the North America free trade area which have progressed alot and maintained cooperation and unity among their members.[25]

According to Mier and Schier, a multinational corporation is an institution that operates, owns or controls production of goods in more than one country other than its residents countries by creating new job opportunities and engaging in the economy of the resident country.

Adams 2008 states that, a multinational corporation is an entity in the international system that influences economic policies of nation states and intergovernment relations significantly remaining most dominant tool and drive for international development.

Meyer K.E. 2004 recognizes that multinational corporations are very helpful and useful to developing countries. Hence they play a major role in controlling and shaping the economies of developing countries.This role is seen through the transactions they do with member states and regions to create wealth. This opportunity promotes foreign direct investments in a region through which member states benefit.
According to Romer 1993; states that foreign direct investment is one of the contributory factors in diffussion, dissemination of knowledge and assimilation of technologies and ideas.

[24]Olu- Adeyemi L. &Ayodele B. (2007 P.216) The challenges of regional integration for development in Africa: problems ad prospects J. Soc 15(3)213-218 (2007)
[25]Nye J.S. (1968 p.856) comparative regional integration; concept and measurement, international organization vol 22 No.4 pp.855-880

According to Hirst and Thompson 1996, multinational enterprises have a role in integrating the world economies. MNEs engage in activities that attract foreign direct investments and enhance development of business networks to create value across national borders. These activities are promoted and driven mainly because of globalization.[26]

Regional integration is beneficial to the citizens in the member states. It improves the welfare and economic environment in the region. Income is easily generated leading to trade diversion and trade creation. Integration is key to improve the investments environment. A region will attract new investors because of deepening integration and developing trade markets. Costs of doing business are likely to reduce because of harmonized tariffs.[27]

Globalization is a shift towards a more integrated and interdependent global economy[28]. The world is changing and becoming connected. Integration has intensified and led to linking the world together. This connectivity has encouraged movement of people, goods and services and the economy expanding to international markets. Globalization is refered to as social, political, economic processes which are projected in a large platform or global order beyond the state.[29]

1.8 Theoretical framework

Functionalism

Functionalism is a theory that was introduced by David Mitrany. David concluded that integration is a process that nation states join in to enjoy mutual benefits and become more functional. They believed in togetherness and undermined the authority of a nation state. Nation states are categorised to be similar and each of them require help from the other. States come together to grow and develop much more than they would when alone. Fuctionalists focus on common needs and interests shared by the nation states. The regional organizations are formed inorder to pursue the human needs with knowledge and expertise.

This theory makes a number of assumptions i.e the scholars believe that integration is based on human choice and freedom. It is upto a nation state to decide to join in a regional

[26]Hirst and Thompson 1996 – Role of MNEs in integrating the world economies; see also the economist November 1997

[27]Ngeno, Nyangito, Ikiara and others – Regional integration of EAC – the case of Kenya KIPPRA 2003 P.7

[28]Hill 2007

[29]Albrow 1997

organization freely. The state is given the ultimate power to choose and become a member state. The East African community formed because Kenya, Uganda and Tanzania had a cooperation to exchange their goods and services. They had the desire to grow the region hence the idea of a customs union was actualized.

The main attraction of states to integrate is the promotion of economic goals. Many nation states form regional blocks inorder to be economically stable. African states have not been left behind. The East Africa community started off as a customs union. The goal was to develop the region to be a free trade area with the least costs possible. The EAC is the oldest regional economic community in Africa that has continued to grow and maintain its objective.

Despite having alot of differences both political and economic within the member states, integration has promoted development and growth within the region. Integration has facilitated movement of goods from one country to another. Tariff barriers are worked on to enhance the free flow of goods and services. The leadership in EAC has created a good environment for the growth and development of the region. It has also attracted new members i.e Rwanda and Burundi who are growing much more economically.

EAC is a regional organization through its mandate and execution of plans. It has been able to withstand time and overcome challenges. The member states have tolerated each other for a long time.

Functionalism is a theory that helps such organizations to align themselves to their purpose of integration. The member countries have achieved many economic goals through integration. It has enabled countries to manage their internal affairs by making good policies within the region. This theory is an example that integration is an important process in a region that is bound to have great results and gains. Functionalism assumes that states integrate because they have common needs and functions. They tend to support each other to achieve this.

The partner states are ussually in unity according to functionalist scholars. This is to say that there is equality and conformity among the nation states. There is none taking advantage over the other or weaken each other. This is a unique quality among the five member states in East Africa since there is no hegemon or powerful state within.

Idealist Theory

The scholars of the idealist theory include Emmanuel Kant 1875. This theory came about to argue with the realist school of thought. Realists viewed the world as full of power politics. Realists believed that states integrate to improve their power capabilities and state sovereignity. Realists believe in power and authority while the idealists believe in world order that is free and is not controlled by power.

Idealists view the progress of a society as a simple process of evolution. It states that the world society is not fixated on world order alone but is a continuous process. The world is free from war, inequality and tyranny. There is a new world order seen through constant progress in human welfare brought about by use of reason. The order can be brought through education, science and technology. They regard the power struggle as nothing but a passing phase of history. The theory assumes that interest of various groups i.e regional organizations and nation states are likely to be adjusted in the larger interest of mankind as a whole.

The East African community is a regional organization that is formed under the perception of the interest of people to meet their needs. The region hosts nation states that have a balance of power within them. It is founded on the assumption of a free world order. The key purpose is to build each other socially and economically. Idealists believe in formation of institutions so that peace and progress can be achieved and by extension a global order that is stable. This balance comes from democratic methods utilized in the region.

Idealists believe alot in cooperation and harmonization of national interests whereby EAC is a perfect example. Progress is associated through states integration to promote human welfare. Through EAC integration, humans have solved their problems i.e fighting poverty, increased exchange of goods and services within the region. Since man is moral, rational and generally peaceful, EAC follows through this school of thought. It is through moral thinking that the political leaders of the EAC member countries that recognized the power in union. The region has natural resources within its borders and future prospects coming from unity from these states.

The East Africa community is a testament that integration can be realised through regional ties to meet mutual benefits and gains. The integration process has been possible through the understanding and realizations which the pioneers had in the region. EAC has undergone major economic and political differences and it has also collapsed. It is through the resilience and connectedness that it has overcome. Its development has enhanced growth and attracted new members in the region which are young and vibrant. This shows that peaceful integrations can be actualized and be sustained over the years.

The idealist theory is appropriate in this study since it supports that regional integration is possible without power being a determinant. It supports that growth is possible if at all the union is strong and well rooted. Investors from within and outside are attracted to East Africa due to the fruits of peaceful integration. This study will look further how opportunities in the region has brought foreign direct investments and the future development.

Comparative Advantage

This theory was set out by Adam Smith in his book, 'wealth of nations'which encourages interstate trading. Each state is encouraged to produce what it has an advantage over another state and sell to that state while buying from that other state what it could not produce easily. Free trade is highly encouraged since each state will market what is readily produced and get raw materials in the other country available.[30]

Comparative advantage identifies free intrastate trading as a beneficial resource allocation strategy that reduce resource wastage through barrier induced delays.[31]It associates with the EAC market and is most practicable to help the organization attain market liberalization.

Critic

However it assumes that commodities are supplied in fixed proportions, commodity costs are constant and it ignores transport and labour costs and the role of technology in international trade. Free trade achieves equality between each country's marginal rate of transformation in production and the marginal rate of substitution in consumption and the international terms of trade.

In perspective, EAC integration and subsequent creation of the EAC common market and the EAC customs union was aligned along the concept of free trade. The reality on the ground is that member states do not practice free trade. They have non-tariff barriers on goods and services from other member states thus obstructing the vibrancy of inter-

[30] David Ricardo 'The works and correspondence of David Ricardo' M.H. Dobb (eds) principles of political economy and taxation(Indianapolis:liberty fund 2005)<http://oll.libertyfund.org

[31] Levy, Philip I,"Non- tariff barriers as a test of political economy theories(Economic growth centre, Yale University 2003)

member state trading i.e. In 2010 trade between member states of the EAC was only 1996 million dollars.[32]

Regional integration

Theory of the regional integration helps in understanding the concept of integration. It originated from the exchange of goods and services and participation in trade by countries. Regional integration theory supports the free trade nature among member countries than any other aspect.[33] Member countries in a regional organization have common grounds and aspects that promote trade within them. East African community is not left out. The theory on regional organization advocates for free trade through the integration process of the member states. Regional integration is facilitated by the coming together of nations that have different natural and industrial resources. It enhances the opening of markets and trade between the communities. Trade is beneficial to all the member states. Nation states come together to compliment each other in terms of trade and sharing of natural resources. Regional integration creates the right opportunity for the states to create ways in which to develop and utilize their resources to the maximum.

The East African community engages in trade within member countries. The integration of East Africa community started from a preferential trade area to a free trade area. It started with the movement of goods and services within Tanzania, Uganda and Kenya. In a free trade area, the barriers of trade are eliminated inorder to encourage trade among members. However a member state is entitled to retain its national trade barriers. This is mainly referred to as a common external tariff to non members. The free trade area encouraged the formation of a customs union. The member states were able to achieve this in 2005. Member states were able to eliminate all the barriers in intra trade in EAC.

The East African community has advanced to a common market whereby free trade is expanded to the inclusion of factors of production; labour, migration, capital flows goods and services. The community aims at achieving a monetary union like in the european union. A monetary union involves implementation of economic policies to have a common currency among member states to facilitate trade and movement of goods and

[32] Mwangi S. Kimenyi, Zenia A Lewis, Brandon Routman' Intra African trade in context 2012 in Brookings Africa growth initiative' accelerating growth thro' improved intra- African trade(Brookings 2012)

[33]Ngeno et al 2001

services. Regional integration of member countries allows trade according to comparative advantage. This enables states to exploit potential economies of scale.

Tariffs in regional integration arrangements are crucial to the advancement of member countries. It is realised that non tariff and tariff barriers motivate foreign firms to increase production in their home countries. There is a cost reduction and foreign direct investment increases in the home country. The reduction of tariff barriers attracts foreign direct investments when a firm produces from its home country. Integration creates the environment for good flow of investments through the reduction of tariff barriers. It is more effective to companies that require resources; raw materials and access to human resources getting from the home country. However member states will provide for each other inputs to production where needed e.g labour mobility helps skilled people get employment.

EAC has available natural resources and human labour. It is upto the member states to utilize the integration process to the maximum and attract foreign direct investments.

FDI Framework

There are many concepts and ideas that concern foreign direct investments in a region. However there are no specific theories on foreign direct investments. Concepts and different frameworks and approaches help to understand the term better and how well to utilize it. In this context, the study seeks to show the relationship and influence of integration of East Africa community and the foreign direct investments in the region.

Foreign direct investments are the products of intra trade and good investor relations in the country or region. It is present in all sectors engaging internationally and in exports and imports. It is discovered that every region and country is unique and has its own challenges and strengths. East Africa community is not left behind. Each region portrays its strength in its functions and structure through its leadership. The EAC is a good example of integration in the African continent. It has undergone difficult challenges but emerged a victor among other regional organizations. Therefore this study recognizes the achievements of EAC till this far. EAC is classified to be a functional regional organization that impacts its citizens positively.

The trends in foreign direct investments are fluctuating alot in the African continent. This study seeks to link foreign direct investments and the integration of East Africa community. East Africa community is well vast and has natural resources. It has been able to maintain a good image and stable growth in the international arena. It is through the capabilities, strengths and performance in the global economy that foreign direct investments flow into an economy. Foreign direct investments are spread into different sectors in the market place. Frameworks and approaches increase the understanding of the attraction of the foreign direct investments.

This framework focuses on East African community and how it has attracted its foreign direct investments. There are factors that contribute to the attraction and reduction of FDI in a region. These factors may be referred to as determinants. These determinants guide the foreign investors, visitors into the region to make good business preferences. These determinants tend to vary from time to time and may be different from region to region. In East Africa, the determinants have not changed over the period of time. The FDI flows have only stagnated or reduced along the years.

Determinants of foreign direct investments are different. This is well explained through the United Nations Conference on Trade and development world investment report 1998.[34] UNCTAD adopted a model to explain the different determinants of foreign direct investments. It is classified as a good conceptual framework. Foreign direct investments are grouped into functional groups that promote the inflows in the host country and the region. These categories include; policy frameworks, economic determinants and business facilitation.

The East African community has an industrialization strategy that help to attract more foreign direct investments in dynamic products and various sectors especially the service sectors with high income elasticities of demand. Determinants of foreign direct investments helps to adress the motive of the investors towards the host country or region. Foreign direct investments determinants in a host country is categorised into three pillars. i.e

a. Political frameworks
b. Economic determinants
c. business facilitation

Political frameworks describes the political environment and the laws and legal frameworks which promote the investments in a country or region. This is an important pillar to the growth of the economy and doing business. It includes the stability of the

[34]UNCTAD Secretariat World investment report, trends and determinants – UNCTAD 1998 p.165

economic, social and political areas. How foreign investors may be treated while entering the country and the trade, foreign direct investments, tax policies in the host country.

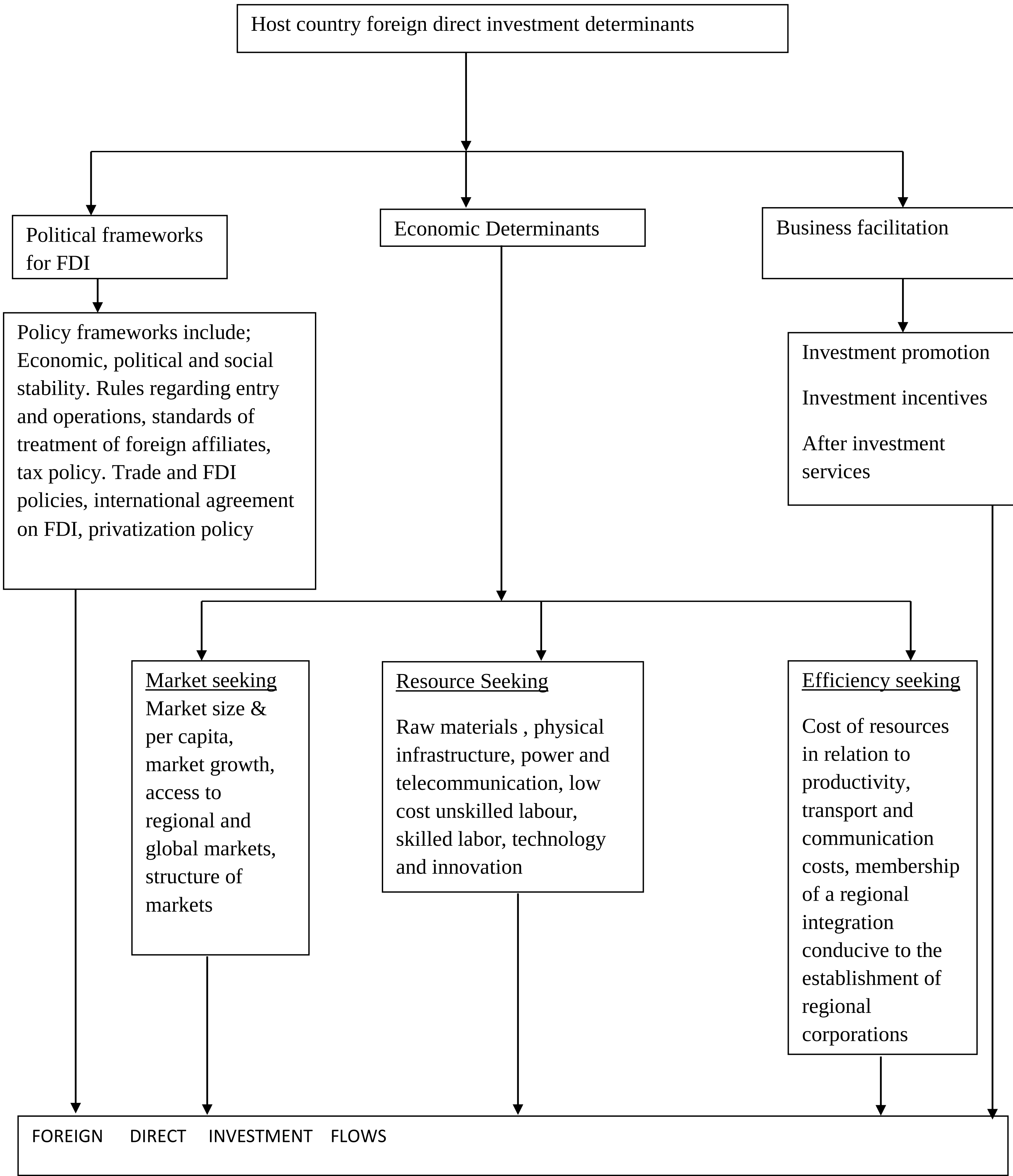
Economic Determinants

They define the structural factors and the services required to do business in a region. East Africa is blessed to have good lands for agriculture, high population that attracts foreign investors into the region.

- Resource seeking: creates access to raw materials, labour skills, physical infrastructure, telecommunication, technology and innovation.
- Market seeking: Market size per capita, access to the global and regional markets, how the markets work and grow through the structures. Due to the high populations, the investors hope for a huge market.
- Efficiency seeking: This focuses on the productivity levels and costs. Is the transport easier and cheaper to use doing actual business in the region? Membership to a particular regional organization may enhance a country to get more investments than when independent on its own.

Figure 1 Source; Adopted from world investment report 1998

Determinants from the host country.



1.9 Hypotheses

1. Regional integration has promoted equality among member states of the regional bloc.
2. There are no effective structures to control and promote foreign direct investments

1.10 Research methodology

The data in this study was collected from both primary and secondary sources. Primary data was collected through questionaires given to different government offices and foreign investors in Kenya. The research was carried out in Kenya. Most of the secondary data was collected through books, articles, journals, sessional reviews, regional newspapers and information from blogs and internet.

The secondary data was collected from existing information about the East African community and Foreign direct investment statistics. Wide information is also provided by organizations such as the African Development bank, world bank, United Nations Conference on trade and development, International monetary fund, Kenya bureau of statistics publications and the EAC secretariat.

An analysis of conceptual frameworks was done to help understand key words within the research. These key words revolve around regional integration and foreign direct investments. The primary and secondary data has a correlation to the overall work. Questionaires is a tool to collect primary data using the survey method.

Population is an entire group of individuals having a common observable characteristic.[35] A target population is a group or sample of the population that a researcher studies to get information about the whole population. In this case the study was done in Kenya with the target population from government offices.

[35] Mugenda and Mugenda 2003

Chapter outline

Chapter 1 – consists of the proposal.

This includes the introduction and background of the research, conceptual frameworks and literature reviews on works done. It contains the tools for collection of data.

Chapter 2 – The overview of the East African community. This covers the EAC history, challenges and its growth and progress as a regional economic community.

Chapter 3 – Growth and characteristics of the EAC countries.

Information was gathered on the gross development product, determinants of foreign direct investments and the contribution of the countries to the regional GDP, the individual characteristics of the EAC countries. This will show the relationship between East Africa and the member states. It will focus on the capacities and performance of the states to attract foreign investors. The geo-strategic location of the EAC will contribute to show the comparative advantage within the region and infrastructure connectivity and its operations as a key advantage to the investors.

Chapter 4- opportunities in the EAC countries

This chapter will look at the FDI, globalization oportunities within the region and ways in which it can be maximized. This will be facilitated with the use of questionaires and samples on investors around the region. It will be an assuarance to the investors about the market availability. This chapter will focus on different sectors and the contribution to FDI into the region.

Chapter 5- conclusions and recommendations

Summaries and conclusions found during the research.

It consists the findings gathered during the research.

CHAPTER 2: THE EAST AFRICAN COMMUNITY

2.1History of EAC

The East African community is a cooperation formed by states located in the Eastern region of Africa. It was started under a successive regional integration arrangement. Regional cooperation goes back to pre-colonial days with local tribes and political states engaging in trade and interacting in complex ways. The first cooperation in East Africa involved the British colonies of Tanganyika, Uganda and Kenya which started off in 1917. It started with a customs union between Kenya and Uganda in 1917 to facilitate trade and commerce.[36] Tanzania, then Tanganyika joined in 1927. This cooperation has undergone various transformations over the years.

The cooperation kicked off with the collaboration of Kenya and Uganda. They came together with the idea to construct the Kenya- Uganda railway from 1897-1901. The railway line was referred to as the East African Railway. A customs collection centre was established in 1900, there was a currency board of EAC and a postal union launched in 1905. The court of appeal for East Africa was started in 1909. The customs union started its operation in 1919. There was a governors' conference that took place in 1926. An income tax board was initiated in 1940.

The cooperation created an East African High commission in 1948 which operated until 1961. This would help open up the territories and help in migration and increase imports and exports. Other arrangements created include;

a. The East African common services organization 1961-1967
b. The East African community 1967-1977
c. The East African cooperation 1993- 2000

The East African community went through an official dissolution of the treaty in 1977. The member states created an agreement for mediation which was signed in 1984. Kenya, Uganda and Tanzania agreed that they would explore areas of cooperation. They came together and established the permanent tripartite commission for East African cooperation on 30th November 1993.[37]

The headquarters are located in Arusha, Tanzania. East African Cooperation started its operation on14th March 1996. There was an establishment of a treaty to make it into a community on November 1999. The treaty was enforced on 7th July 2000.

The East African community has undergone many achievements and successes. On 2nd March 2004, the EAC summit signed protocol for establishment of the EAC customs union. The customs union became operational on 1st January 2005. Burundi and Rwanda joined the treaty on 18th June 2007.

[36]Joseph S. Nye jr. 'East Africa Economic integration," the journal of modern african studies1(December 1963) 475-502
[37]The treaty for the establishment of the East African community Arusha Tanzania 2002

There were other activities that took place in this cooperation such as;

a. 5th June 2007 – The second East Africa legislative Assembly was launched and members sworn in.
b. 1st July 2009 – Rwanda and Burundi joined the EAC customs union and the official launch was celebrated.
c. 20th November 2009 - the common market of East Africa was established
d. 1st January 2010 – The customs union took effect after a five year transitional period.
e. 5th June 2012 – Third EALA was sworn in
f. 28th November 2012 – Inauguration ceremony was held at the Arusha headquarters
g. 30th November 2013 – The protocol for establishment of the East African community monetary union was signed.

2.2 Challenges of integration in East African Community

Kenya, Uganda and Tanzania were good trade partners since the regional partnership started off in 1917. The East African integration is a good example that has been able to withstand the pressures and changes through time. The journey of integration was not as smooth as expected. There were problems and little progress that came from this integration. These are some of the challenges that came from the East African integration.

a. Inequitable distribution of costs and benefits among partner states.

The first EAC member states included Kenya, Uganda and Tanzania. Integration opened doors for the region to grow and benefit economically. Kenya was the main beneficiary in the cooperation because of its strategic location compared to the other member states. All the member states were involved in the integration but Kenya seemed to benefit more from the growth. Uganda is a landlocked country hence it depended a lot on Kenya and Tanzania. Kenya was accused of taking in huge benefits but openly denied it. The unequal distribution of economic benefits among members led to the collapse in 1977. Kenya had refused to give in until Tanzania and Uganda had to let go. Uganda and Tanzania left the cooperation in order to stop Kenya from enjoying bigger benefits.[38]

Uganda and Tanzania had attempted to solve the unequal distribution of benefits among the members but the Kenyan parliament rejected. The Ugandan parliament through Kampala agreement of 1964 tried to solve the issue by allocating industries to each of the partner states but Kenya rejected.[39]

[38]The prisoners dilemma – http://www.economics.li/downloads

[39]Nsimbambi A, "Regional cooperation for African development proceedings of the East African PWPA" in Nsimbambi. A, and Wangusa, Ted, the collapse of EAC (PWPA 1987) P.P 25-37

b. There were different ideologies among the different leaders of the member states.

East Africa community comprised of three different states with different leaders. These leaders had different ideologies and way of thinking to govern their individual countries. Integration had brought about different classes of economies and governments together. The Kenyan government was mainly categorized as a capitalist state and Tanzania was simply a socialist economy or state of governance.

These differences were evident in the growth and distribution of resources within the region. Kenya was the vibrant and growing economy among the rest. Tanzania followed through with socialism policy for a period of time. African socialism in Tanzania affected its market since it was not able to liberalize its economy as compared to Kenya and Uganda.

Tanzania and Kenya became big rivals because of the socialist and capitalist mentality respectively. Then President Nyerere always accused Kenya of being a capitalist nation. This was another setback of integration that led Tanzania to join the South African Development Community.

c. The cooperation brought about evident personality clashes among the leaders.
The integration process of East African community was blessed with elites and good individuals as leaders in the partner states. EAC was able to propose and develop good policies for the region and grow economically. However there were confrontations that came from individual leaders for example; President Nyerere clashed with Iddi Amin because they had divergent views in leadership and governance. President Nyerere stood against the bad governance of Uganda under Idi Amin's reign. There was a breakdown of communication between Tanzania and Uganda presidents. Charles Njonjo, the attorney general of Kenya in the 1970s confronted a lot with President Nyerere of Tanzania due to the exploitative nature of Kenya and influence of President Jomo Kenyatta. [40]

d. The first East African Cooperation was a huge success in the economic arena before it collapsed leading to disruption of common services within the region. The main objective of this union was to grow economically and open up the markets. There was a customs union for the region which had opened the opportunity to trade and do business within the region. The member states had consolidated businesses together to build better ties i.e air transport was unified for the region. There were common services that were utilized through integration especially under the East African common services organization which ran from 1961 – 1967. These common services were provided at community level but they did not withstand time.

The East African Airline service was one of the most affected. Tanzania and Uganda did not have their own airlines so they had to establish their own. The East African railway is

[40]Ali Mazrui, 'Nyerere and I, ; http://www.africaresource.com/index.php? option=com

still a work in progress. Member states were forced to go back to their individual projects after the EAC collapsed.
The member states had lost the political will to operate as a union leading to its collapse. Participation in the private sectors and civil society in cooperation activities had lowered and there was not much happening between member states.

Kenya used to benefit a lot in the integration of East Africa compared to Tanzania and Uganda. i.e When Attorney General Amos Wako headed the EAC federation committee, Kenya support was highest at 64.9%, Uganda at 56.3% and Tanzania recorded the lowest at 25.4%.

Infrastructure in the EAC region begs to be the biggest challenge since there is no uniform connectedness. Infrastructure plays a big role to trade and movement of goods from one place to another. If there is good transport systems food crisis and poverty challenges would be a thing of the past.[41]

The first secretary general of East Africa community was Ambassador Francis Muthaura from Kenya who served for a period of five years from March 1996 - 2001.
The first East African community was more of a intergovernmental and supranational structure. This contributed to the fall of the community because the member states did not want to share their sovereignty.

2.3Structure of the EAC

The East African community covers an area of 1.85 million square kilometers[42] with a population of over 126 million people who share a common history, language, culture and infrastructure. The vision of East African community is a prosperous, competitive, secure, stable and a politically united East Africa. The mission is to widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people in the region through increased competitiveness, value added production, trade and investment.[43]

The EAC has an average GDP growth of 6.2% in 2015 as one of the fastest growing regional organization as compared to the sub-saharan region. It is looked upon as one of the largest regional economic community. EAC ranks as the second largest single market in Africa with a total population of 148 million. The middle class is growing a lot and there is a fair demand for good quality products. The economy is diverse and has a variety of business and investment opportunities.

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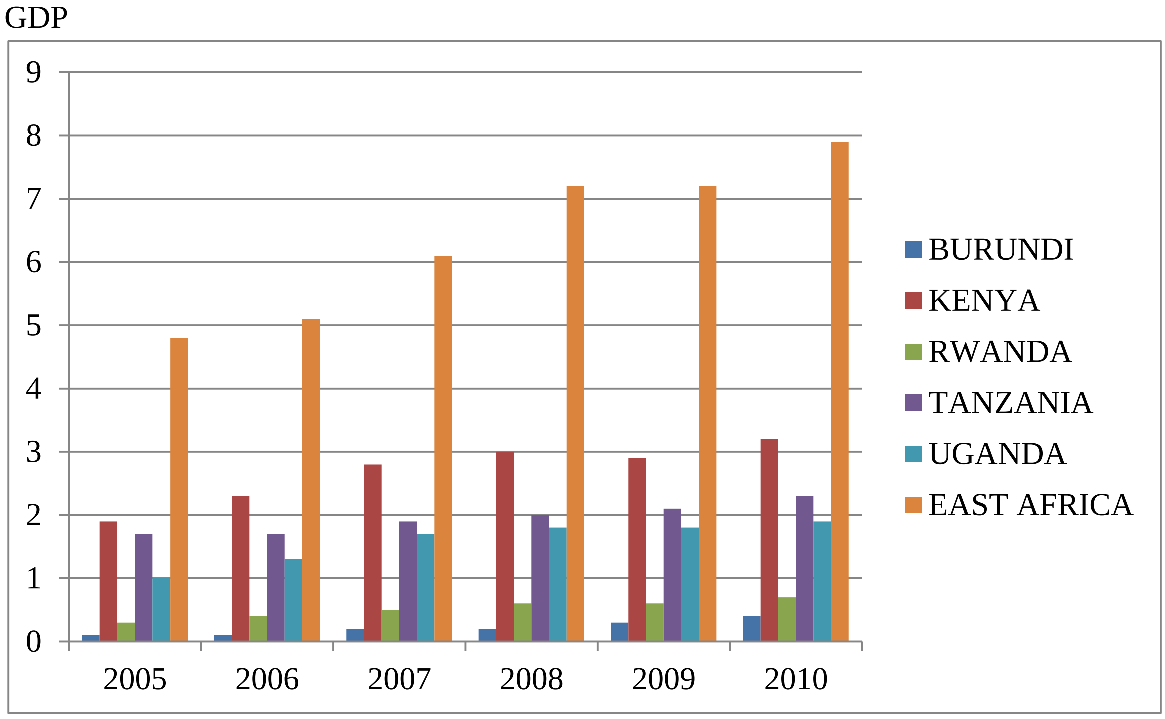
[41]Okungu J. Give the EAC an efficient transport system and free trade to eradicate poverty Africa news online http://africanewsonline.blogspot.com 2008
[42]Water bodies are included in the surface area
[43]The East African community brochure, ;department of corporate communications and public affairs; Arusha, Tanzania

The East African region is leading in reforming regional integration. It has a growing business friendly environment and a stable political and economic environment. It includes a great market access to all regions in Africa, Asia, Middle East and preferential market access to the United States, European Union and other developed countries. There is a harmonized tariff that is able to thrive within the region.

After the renewed EAC and the treaty signed in 2000, the regional integration became more dynamic and focused especially in private sectors and activities rather than the states themselves. This transition helped the nation states to adjust themselves better through the transition of the old and new East Africa community. The second attempt at integration by EAC was aimed at developing a region that will be able to compete head on with global challenges. The aim of the partner states was to grow socially, economically and politically. The main objective was to cooperate and be in unity to cope with globalization. Today's world has many opportunities and access to markets hence teamwork will help connect the member countries to grow economically. The following is a bar chart that explains the GDP growth of the East Africa region and its member states.

Figure 2 Regional trends of GDP at current prices in billion US dollars



Source: the EAC secretariat, 2011

The economic growth of East Africa has been the fastest in the African continent.[44]The growth of GDP has also been progressive with higher numbers as the years go by. The member states have registered consistent growth until 2015. Burundi increased its growth

[44]International Monetary Fund 2011

from 4.6% in 2013 to 5.2% in 2014 with focus on agriculture and construction as the main contributors to growth. Uganda GDP growth was 5.2% in 2013 which increased to 6.6% in 2014. There was an increase from the service industry in Uganda that projected this growth. The hotels, restaurants, transport and communication sectors became the pillars to this kind of growth and input. Kenya had the highest per capita income of US$1,055.2 while Burundi recorded the lowest at US$294.2.[45]

In Rwanda the GDP growth increased from 5.6% in 2013 to 7.0% in 2014. This growth was attributed to recovery of agriculture, service sector and industry growth.
Figure 3 shows the growth in the GDP of the five member states within a span of 10 years which has been remarkable for sustainable growth.

Table 1 GDP growth rates in the period of 2005 – 2015 of the EAC member states

Member state	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Burundi	0.9	5.5	3.6	4.5	3.5	3.9	4.2	4.2	4.6	5.2	6.7
Rwanda	9.4	9.2	7.6	11.2	6.3	7.3	7.9	8.8	5.6	7.0	6.5
Uganda	10.0	7.0	8.1	10.4	4.1	6.2	6.4	2.8	5.2	6.6	7.0
Tanzania	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9	7.0	7.2	7.0
Kenya	5.7	6.1	7.0	1.5	2.7	5.8	4.4	4.6	4.9	5.7	5.9
East Africa						7.1	6.0	5.1	5.6	6.0	6.2
Southern Africa – oil exploiting countries	9.9	9.9	9.9	9.9	7.4	9.0	4.7	3.7	5.7	6.0	6.9
World economic growth	4.9	4.9	4.9	4.9	0.0	5.4	4.1	3.3	6.2	6.0	6.2

Source: EAC Facts and Figures 2014 ; adapted from IMF regional economic outlook 2014

2014 and 2015 Figures from the IMF regional outlook 2014 classification of sub Saharan African economies.

45 EAC facts and figures 2014

Figure 3 Source ; Africa development bank development data forum August 2010

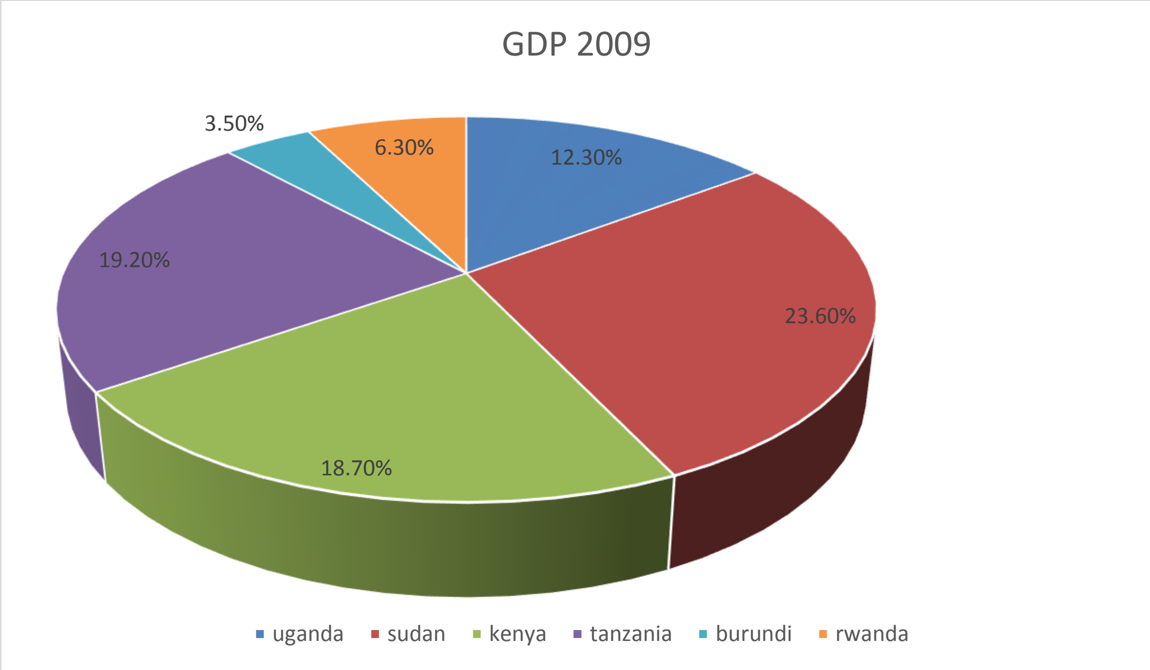


Figure 3 above describes the percentage of gross development product of 2009 in the six member states. It analyses an average gdp growth within 2009 in the EAC.

Every regional economic community has its own strengths and weaknesses. The challenges are similar especially in the context of African regional organizations. The East African community has pulled up itself to be among the best outstanding RECs in the African continent. It is known to be resilient since it has survived a collapse. This study seeks to understand and analyze EAC as a progressing organization. The community has a huge population of young people, educated, skilled workers and there is a free flow of persons and goods in the region especially with the help of the East African passport. There are other areas that need to be looked upon in order to encourage more development in the region.
Some of the challenges may include; high poverty rate and unemployment, poor infrastructure and low levels of industrialization.
Other challenges facing the EAC as a regional economic community include institutional factors i.e.

a. The ability of EAC to shape its policy agenda has been restricted and resulted to many EAC policies proposed as regional whereas they focus on national goals.

   The budget process, formal systems and rules determining power and relations between member states and rules on EAC financing are easily influenced and controlled. This explains that the systems around the EAC budget process are extremely weak[46].

[46]It is the function of the chairperson of the council of ministers who hands over the budget to EALA for review

Weak budget process facilitates poor systems that may lead member states to withhold their powers to the EAC. This means that a member state will easily avoid the rules of the community to benefit itself. Power is not well distributed between the three organs of the East African community; the summit, council and EALA. Power underlies within the summit and the council which consist of national politicians whereas the EALA consists of member state representatives.[47] The EALA consists of nine elected members from each nation. The members are sworn in after five years.

The council overpowers the EALA since it approves the protocols and plans prepared by the EALA. The council involves a minister from each member state and has the power to pass protocols. The council has a lot of influence over the EALA since it determines its terms of service and disciplinary action[48].

The secretariat acts under the council. It approves all appointments within it and all procurement undertaken by it.[49]The industrialization policy of EAC 2012 has its focus on small medium enterprises and manufacturing sectors confined to specific states without focusing on comparative advantages to produce a regional market.[50]

b. There has been no power balancing in the executive organs in the EAC and the people's participation
   People are not given the ultimate power to participate in the affairs of the community. The executive seems to do all the work. This has brought a division in the EALA. Many policies are not implemented according to the wishes of the people. In future people should be given a voice and made part of government dialogues and policies implementation. People are useful in advising and monitoring the community and being on the ground. The executive organs should share their roles evenly so as to balance power within the member states and their functions.

2.4 <u>Roles of East Africa Legislative Assembly in regional integration</u>

East Africa Legislative Assembly is the legislative organ in the East African Community. It was established under article 9 of the treaty of EAC. It consists of nine elected members of the partner states of the community. A minister is appointed for EAC affairs from the member states and their deputy as ex- official members. The secretary general and the counsel are also ex official. The following are the duties of the EALA;

a. Debate and approve budget processes of the community
b. Communicate with the national assembly of partner states on matters of the community
c. Consider annual reports on the activities of the community

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[47]EALA is the legislative organ of the EAC.
[48]EALA 2013 a
[49]World Bank 2011
[50]EAC 2012b

d. Consider annual audit reports of the audit commission and any other reports referred to by the council
e. Discuss all matters relating to the community and make appropriate recommendations to the council
f. The council submits a published annual report on activities of the community and presents it to the assembly for consideration.[51] This role covers the oversight function of the EALA over the affairs of the community.

The EALA is mainly responsible for legislation, oversight and representation. These roles influence the regional integration of the EAC. The legislative function enables the assembly to make laws and policies for the community. This is a major role in regional assemblies. The European Union parliament and EALA are the regional assemblies that are involved in the law making processes and possess the powers to make laws. Every member of the assembly is given the power to pass a motion or bill in the assembly.[52] The legislative power is limited when an individual may pass bills that may interfere or affect the activities of the community such as intending to change funds, or proposed bills. It is done by the community not by private individuals.

EALA has passed several pieces of legislation which are developed into drafts and proposals. The representative role has created debates on whether the members of EALA represent the member states or the community as a whole. The representative role is undermined by some members who promote their national interests rather than the community. In order to be successful, legislatures should seek help and work together with the civil society. Legislatures are known to facilitate and play the role of decision making by listening to the views of the public and influence policy making. According to article 65 of the EAC treaty there should be a link between the EALA and the National assemblies of the partner states in order to pursue the policies of the community of popular participation in achievement of its objectives. The integration process should focus on the aspirations of the people as expressed through their representatives.

Civil society is a realm of organized social life that is voluntary, self generating, self supporting, autonomous from the state, and bound by a legal state of shared rules.[53] EALA and the civil society are important tools to the regional integration. This is to state that in the EAC integration process, much is needed to be done to avoid the pitfalls of the original EAC integration. Leadership in the EAC should not be centralized on the leaders and member states only but should involve other stakeholders. East Africa requires a huge group of stakeholders to support the integration process. The civil society is a major component of the stakeholders.

One of the objectives of the EAC is to strengthen partnerships with private sector and civil society in order to achieve sustainable, socio-economic and political development. The involvement of the civil society at the EALA assembly is seen to be uncoordinated and it becomes hard to track its importance on the general integration. Civil society collaboration

[51]Article 49 of the treaty of EAC
[52]Article 59 of the East African Treaty
[53]Article 1 of the EAC treaty

has promoted positive impact on the EALA and the role of legislation. This includes the East African Trade negotiations bill and the HIV bill that were proposed by the civil society organization before the EALA. The gender protocol was proposed to promote gender equality among the five states in the EALA. This was a key concern that was initiated in 2008 in order to promote equity and sustainable development in the EAC.

In the EAC integration process, the civil society has worked hard to show its importance and participation. This shows that with continuous consultations the linkages and adjustments will be made between the EALA and civil society in order to encourage policy making and growth within the five states. The civil society is key player in the integration process from any region. This is because it creates the platform for citizens to share their views and promote their interests. EALA should work hard in order to consider adopting a law on public participation in regional integration.

2.5 Regional integration process from 1980

After the first collapse of the East African community, the regional integration had been abandoned. It was the United Nations and the OAU- Organization of African union at the time that generated ideas to develop a regional economic community for the whole continent. The Lagos plan of action of 1981was developed to create other regional economic communities that would merge into one African regional community. This led to formation of a preferential trade area and SADCC communities. SADCC was very significant and created a rift between Kenya and Tanzania.

The EAC integration process has made big strides of progress especially economically. These strides include;

a. Establishment of a customs union

2004 marks the signing of the customs union protocol. The customs union was then launched in 2005. It became operational in 2010. The objective of the customs union was to deepen the integration process through liberalization and promotion of intra- regional trade, promotion of efficiency in production, enhancement of domestic, cross border and foreign direct investments and promotion of industrial diversification with a view to enhancing economic development.[54]

There has been steady progress of the implementation of common external tariff and gradual elimination of internal tariffs. The establishment of key institutions, systems, instruments, a legal framework referred to as the EAC customs management Act, conclusion of the regional competition act 2006, policies and strategies included; promotion of EAC as a single investment area and initiation of common trade policy frameworks and reviews (WTO trade policy review and trade and investment framework agreement) and the inclusion of Rwanda and Burundi to the East African Community.

[54]Article 75(5) of the EAC treaty

The East African community customs union has improved the market access, business activities in the region, diversity in product range, increased awareness of the EAC integration agenda, accessibility to cross border resources and foreign direct investments, wider stakeholder involvements and enhanced government revenues.

The customs union has promoted the intra- EAC trade performance between 2006 and 2013. Intra – EAC total increased from US$1,552.9 million to US$4,847.1 million during this period. Exports increased from US$1,232.4 million to US$3,409 million in the same period while imports increased from US$320.5 million to US$1,438.1 million.[55]

The customs union has encouraged more liberalized trade within the East African community. The member states are more open than the average sub Saharan country due to a series of reforms carried out at national, regional and international levels. The customs union has tremendously improved the business environment in the region

b. Common market

The protocol of the establishment of the common market was signed in 2009 and became operational in 2010. The common market aimed to improve the investment environment and remove restrictions from the member states in the East Africa region. The common market protocol focuses on the freedom of movement of goods and services, capital, labor and persons. It emphasizes the right of establishment involving residence, access to and use of land.

All countries have removed student visas for East Africans, Kenya and Rwanda have removed work permits for East Africans working in the country. Tanzania fixed amendments meant to remove capital account restrictions on free movement of capital to allow EAC residents to invest in other member states and participate in Tanzania capital and finance markets.

The East African Community has succeeded to have an East African passport, implementation of a seven day grace period for personal motor vehicles crossing national borders in the EAC partner states, establishment of special immigration counters for East Africans at point of entry and harmonization of immigration forms at points of entry.

c. Monetary Union

The East African community desired to form a monetary union. The negotiations started off in January 2010. The negotiations were on some issues that would unite the East Africa and start a monetary union for its partner states. The purpose of the monetary union was unified under; harmonization of banking rules and regulations, fiscal and monetary policies, trading practices and regulations in the stock exchanges and member states to convert their currencies. This was a big issue to handle and for the member states to actively accept it and implement it. It has been successful to other regional organizations like the European Union.

[55]EAC facts and figures 2014

In the East Africa community, the monetary union seems to face some teething problems so as to actualize the vision. These issues include; differences in political and social commitments in the member states, inadequate manpower, skills, capacity, legislative and institutional frameworks towards a good financial sector, fears that come up with a single currency, limited national and regional capacities and diverse socio-economic policies and structures.

The East Africa community is a regional economic community consisting of developing countries. This indicates that the state of economy is still growing and structures are being laid collectively. The member states need to build on trust and be realistic of the local challenges and patterns brought by integration. Member states are high dependants of external debts from various investors and international institutions. This may include international banks i.e world bank, Africa Development Bank and the international monetary fund, world foreign aid programs, structural adjustments projects and the major links a member country may have with other countries to empower growth and sustainable development.

The member states are on track to fighting for growth and eliminating poverty nationally as well as promoting the region. Each member state may be carrying a burden of external debts to achieve the ultimate goal. These may include fears of short term loans and funds to boost growth in the member countries which may be unsustainable. The countries also have individual and specific problems that may spill over to the region.

d. Political federation

This has been an ultimate goal for the East African community since it started regional integration. All the five partner states have agreed to and showed their support towards becoming a political federation. Through the progress of East African community, it is evident that the process has already started towards a political federation.

Peace and security are the major objectives of the East Africa community integration process. Negotiations have already started among the member states. Issues of concern for discussion may include; shared sovereignty for the member states and implementation of the process. EAC member states are in the process of ratification on the protocol of defense, the protocol on peace and security and foreign policy coordination.

EAC is growing into a political integration with various guidelines towards its achievements. These include; coordination and harmonization of regional policy frameworks with regard to good governance, democracy, peace and security, defense, human rights, social justice and international relations.

EAC has developed regional institutions and regional mechanisms to promote the political federation. The EALA parliament is a key institution that promotes legislative role even though it is linked to national frameworks. There is also an East Africa court of justice that helps to keep order and call for hearing on cases brought by representatives from the member states. There have been establishment of regional programs such as; early warning and disaster preparedness, conflict management and resolution (CPMR), refugee management, combating proliferation of illicit small arms and light weapons is ongoing. There have been East Africa forums that are established such as Electoral commissions, Anti corruption or ombudsman agencies and forum of chief justice.

2.6 Challenges on EAC Customs Union and Common market

a. EAC member states are slow to give in their sovereignty

   It is noted that member states do not fully commit themselves to the policies they set their minds on. EAC consists of member states that cling to their sovereignty. There is unity during making of decisions and laying out of the plans but the implementation is delayed. Individual states take the burden to implement the EAC decisions on their own.

b. Elimination of Non tariff barriers

   Non tariff barriers are still a thorn in the flesh for EAC integration and intra trade within the member states. Rwanda has been progressive by eliminating work permits within the region. The intra trade in EAC is facing alot of costs due to non tariff barriers that are ineffective. Most of the annoying non tariff barriers include customs and administrative procedures, police roadblocks, weighbridges, business registration, licensing and immiration procedures.

c. Lack of structured engagement with policy makers

   There is evident lack of harmony in policies in the EAC. In different sectors, there is concern and differences that need to be well structured. In employment and immigration laws, people need to be issued with passes to go through the borders. Member states have different education systems and language e.g Tanzania uses kiswahili as the national language while Burundi and Rwanda follow a french system.

d. Lack of awareness from citizens of member states

   Many citizens do not understand the implications of the Eac treaty, immigration, revenue collection, taxation, port operations.

e. Costs of doing business

It has led the region to become uncompetitive both regionally and globally. Physical poor infrastructure in the region has increased the cost of trade and movement of goods and services.

f. Actualization of the customs union

The customs union has not achieved what it was intended to do.

2.7 East Africa monetary union on regional integration

The East African community has shown alot of improvements and growth in the gross development product (GDP). There was a drop in 2009 of 4.4% after a global crisis in 2008. Kenya and Tanzania are the strongest economies in the East African community. They have contributed alot to the gains and growth within the region. The GDP growth rate in 2010 reflected alot of improvement of 5.9%. The growth per capita is also discovered through the individual member states perormance. The standard of living and wellbeing in the countries in EAC has experienced improvements and huge growth. The GDP per capita for the region has risen from $632 in 2009 to $685 in 2010. Integration has played a key role in intra trade among the member states. The volume of trade has increased within the member states. Imports within the EAC are increasing comparing to the exports. Kenya is considered as the main source of imports to other member states. Trade within the East African community is rather weak with alot of attention in the imports.

According to the EAC treaty, the member states purpose to achieve a monetary union. It had planned to achieve a monetary union and introduce a single currency by 2015[56]. There are expected benefits brought by a single currency including reduced transaction costs associated with cross border trade and volatility of exchange rates across the region hence promoting trade and investment in the region. The monetary union aims to strengthen the common market due to the unrestricted movement of goods and services, human resources and capital thus enhance efficiency in production leading to increased GDP. The region also benefits from price stability which could reduce market discrimination, foster competition and increase economic efficiency.

In the EAC, the monetary union focuses on facilitating the formation of a stable political state. There are costs that emerge from the realization of the monetary union. These costs include; loss of national autonomy in the monetary policy, increased inflation and unemployment, loss of exchange policy and fiscal independence. The member states are critical in how they manage their monetary policy before venturing into the currency union.

Inorder to maximize on the benefits and help cut costs the member states economies should focus on financial integration and macro economic convergence among

[56] East African community 2009

aspiring economies. EAC economies must agressively pursue policies that promote economic growth aligning to those of monetary union. Programs that lower and enhance management of the budget deficits in sustainable way will be vital in enhancing convergence. The main drivers of growth in the EAC countries include; private consumption, exports and gross fixed capital, tourism revenues, foreign investments and aid.

The common key enabling factors include agriculture, manufacturing, trade, tourism and infrastructure. EAC countries are still developing and have good grounds for foreign direct investments especially in industry, manufacturing and transportation.

The ability of EAC to attract sufficient levels of FDI remains weak. Member states and the region must be able to deal with the constraints surrounding the common market. In addition, to bring solutions to individual countries economic sectors and institution to improve on the functioning of the common market. Combining efforts will harmonise policies and completely eliminate non- tariff barriers which have far greater impacts on enhancing regional integration and strengthen the chances of achieving a successful monetary union.

2.8 The East African community and integration

The East African community is an ambitious cooperation. It has been able to work through its plans for regional integration with the help of the EAC treaty. The community has successfully achieved a customs union, common market and a monetary union. The ultimate goal being forming a political federation as seen above in order to strengthen and regulate the industrial, commercial, infrastructural, cultural, political, social and other relations of the partner states. It is with hope that there will be growth, increased foreign investments, sustained expansion on economic activities and balanced benefits equally shared among the members.[57]

The common market aims to facilitate free movement of goods, people, capital, labor, services and right of establishment of residence within the EAC in support of the integration process.[58] The EAC is still working to fully implement the customs union and common market by streamlining and harmonizing the customs fees among the partner states. The member states experience a lack of political will to implement the market reform protocol.

The East African community consists of factors that have encouraged integration within the member states. This study will look at some of the factors that promote regional integration.

[57]Treaty for the establishment of the East African community
[58]EAC 4th Development strategy

Industry

The East African region is known to be strategic because of the location. Industries are attracted to East Africa due to the available market size. Kenya is seen to be the most industrialized East African country. This is enhanced by protection of privileges granted under the common tariff. It is through reforms and sound macroeconomic management that other East African member states are attracting sizeable foreign investments.

Tanzania has been in the lead in attracting foreign direct investments in the EAC countries. Tanzania foreign direct investments stood at US$377 million in 2006 compared to Uganda at US$307 million, Burundi was at US$290 million, Kenya at US$51 million and Rwanda at US$15 million. [59]

Foreign direct investments in Tanzania is concentrated in mining and extractive sectors, which is not only capital intensive but has limited linkages to the domestic economy. However Kenya is one of the largest foreign investors in Tanzania after Britain.

2.9 Advantages in East African Community

1. East African community is strategically located

   East Africa community has a population of 150 million people. The composition of the five member states population is hopeful and is critical to bring economic development within the region. The strategic location seeks to attract various foreign investments and facilitate trade. There is easy movement of goods, services and people along the East African region. The region is surrounded by large water mass that has increased investments. It is noted that East Africa hosts the largest port facilities in Mombasa and Dareessalaam, Mtwara and Tanga. The region is growing into a central shipping location linking up sub sahara Africa, middle East, South East Asia and Europe through the use of Suez Canal. The ports of Mombasa and Dareessalam provide outlet into international water through the Indian Ocean.

   Investments have been received for expansion of the ports. Bilateral and multilateral agreements have been formed e.g the Chinese government through China roads and Bridge Corporation has expanded the Mombasa port and constructed the standard gauge railway.

2. There is abundance of natural resources and a tourist destination

   The East African community hosts all the big five animals; the lion, elephant, leopard, buffalo and rhino. The region hosts diverse climate with arid and semi

[59] World Investment Report 2007 by UNCTAD

arid areas in Northern Kenya and Uganda and the African savanna that stretches across Tnazania and Kenya plains. East Africa is well known for the huge populations of mammals and the migration of wildbeasts along the Maasai Mara in Kenya and the Serengeti National park in Tanzania. The East African coast is beautiful and attracts many tourists to the shore.

3. There is a potential to be a regional hub for air transport
The East Africa community is strategically located at the latitude 5'30' north and 12 south and a longitude of 28'45'E. It is considered to be a central point for movement of goods and services. It is cost effective and time saving to connect to different regions. The distance taken to travel from Johanesburg in South Africa to Dubai is 3.992 miles while it is 2,210 miles to fly from Nairobi to Dubai. East Africa can be a hub for many businesses and financial services like South Africa.

Challenges to the regional integration in EAC

1. Poor regional transport infrastructure network limits growth and trade expansion
There is increased cost of trade due to the poor state of infrastructure. Existing roads and railway networks experience poor maintainance. Member states are working hard to invest in transport connectivity to solve the logistical challenges. Good neighbouriness and integration promote good relations. EAC integration has initiated projects on the rail network e.g the standard gauge railway and the expansions of the ports in mombasa and Dareessalaam.

Trade costs have also been minimized by elimination of non-tariff barriers and establishment of a customs union.

2. Energy low levels limit productivity

State monopolies have taken charge of energy sectors in the East African countries. Electricity is often distributed, generated, managed and price regulated by state monopolies.This has made energy costs increase and lack of investments by the private sectors.

3. Significant gaps in ICT
Internet services are very essential in todays world. There is a huge demand for ICT connections in the world today. EAC has an opportunity to build on this platform. It is noted that government services and regional interractions are online. EAC should look into the online services so as to increase trade, financial services e.g mobile and international banking and online marketing. ICT is a driver for regional integration and growth within the member states.

4. Weak institutions and human capacity limit REC effectiveness

Regional organizations lack human personell to facilitate development within the regions in Africa. There is a huge gap in implementing and executing programs and policies within the regional economic communities. It is essential for leaders to ensure good personell and create structures to promote growth within regions. Elimination of bad leadership and will make the institutions become more effective.

5. Insecurity and political instability block deeper integration
   Political instability determines the rate of investments in a region. It prevents development and affects the economic growth. When there is insecurity and instability there is lack of resources and unity among the people. Ties are broken and cut down. Trade and tourism in the region and member states are affected when there is insecurity in one country of the region. Economic activities do not take place when there is war in some member states.

6. Lack of complimentaries hamper regional integration
   Comparative advantage is very essential for economic development in a region. One of the benenfits of regional integration is to develop indusrial and productive region. It is possible to have growth and development with a cohesive and joint member states. Regional organization is supported by the unity among the member states. It happens that the member states may lack specific areas in which they can increase their productivity. In trade, common goods may be produced and manufactured at the same rate. The major challenge is to identify ways in which the countries can take control and maximize regional organization through comparative advantage. Member states need to compliment each other in different sectors inorder to encourage integration.

7. Water scarcity and management of shared water resources
   Huge populations among the African countries bring out the problem of clean water and good sanitation. The East African community has enhanced regional integration and promoted shared water resources. E.g river Nile and Lake Victoria are water resources shared among the member states.

8. Challenges in financial sector deepening
   African countries are known to be highly dependent on financial assistance from the developed countries. It is useful for the member states to build on regional integration inorder to develop institutions that will provide finances and development. Overreliance on foreign aid makes it hard for good structures and policies to be implemented. Member states need to build partnerships within regional boundaries to grow through trade, manufacturing and transaction facilities.

FDI AND GDP DYNAMICS IN THE REGIONAL ECONOMIC COMMUNITIES

Table 2 EAC COMPARISON WITH OTHER REGIONAL BLOCS 2011

Regional bloc	FDI Inflows in millions	FDI inflows % of GDP	GDP US$ in millions	GDP US$ per capita	GDP growth %
COMESA	9,945	1.89	318,962.69	704.95	-7.44
EAC	2,568	2.97	66,572.84	465.84	5.21
ECCAS	5,096	2.30	136,143.52	874.81	4.72
ECOWAS	17,117	4.57	258,873.05	718.20	6.50
IGAD	4,767	3.02	113,579.64	520.61	2.00
SADC	12,865	1.95	464,455.36	1748.51	3.81

Source UNCTAD 2013 a and WDI databases

The table above briefly shows growth in the regional blocs in africa. SADC is the largest regional bloc followed by ECOWAS. In 2011 ECOWAS was leading with greater FDI flows in GDP compared to SADC. The fastest growing regional bloc was ECOWAS – 6.5% and EAC came second by 5.2%. COMESA reduced by 7.4%. It does not matter much about the market size for a region to gain from foreign direct investments.

Table 3 Attractiveness of EAC for FDI, EA(2014,VOL47 NO 3-4 35-49)

Basic indicators 2013

	Population (thousands)	GDP based on ppp valuation (US$ millions)	GDP Per capita (ppp valuation $)	Annual real GDP growth (average over 2005-2013)
Burundi	10,163	5,297	521	4.1
Kenya	44,354	79,664	1796	4.8
Rwanda	11,777	14,142	1201	8.2
Tanzania	49,253	77,834	1580	6.9
Uganda	37,579	55,605	1480	6.7
EAC	153,126	232,543	1516	6.1
Africa	1,108,966	3, 827,029	3520	5.4
EAC to Africa ratio	13.8	6.1	43.1	114.0

Source ; African Economic outlook 2014

Key : PPP – purchasing power parity

The EAC has a relatively low level of development with total GDP based on purchasing power parity (ppp) at USD 235.5 billion. The regional GDP per capita at PPP is USD 1516 or 43.1% of the African average. Size, population and level of economic development vary within these countries. In 2013, Kenya had the highest GDP per capita at PPP in the region amounting to USD 1796. EAC countries witnesed relatively high growth rates in the period 2005-2013 averaging 6.1% compared to African average of 5.4%. If the region continues to grow, the GDP growth is expected to be at 6.6%.[60]

2.10 Foreign direct investments in the EAC

Developing countries pay alot of attention to foreign direct investments. Small economies recognize that foreign direct investments are important since they encourage economic development and open the market for growth. Foreign direct investments are rated as a source of employment, modernization, source of economic development and income growth.[61] Foreign direct investment seek to increase the production capabilities and employment opportunities in a given region.[62] There is also spread of knowledge and technology which impacts the rest of economy.

In the past, foreign direct investments in the East African community have not been growing steadily. From 1990-2000, FDI flows have increased alot in the region summing up to 623 million USD. The FDI flows within EAC has increased more than the ratio in Africa as a whole. In Africa, the FDI flows have increased in 2001 from 3.1% to 3.8% in 2013.

Tanzania and Uganda contribute the larger FDI flow into the region of EAC. This gave a total of 87% of EAC foreign direct investments flows. Kenya is viewed as the strongest economy though experiencing stagnant growth in the region. According to the FDI flow, Kenya had a highest flow of USD729 million in 2007 which it has not yet recovered.

Table 4 An Analysis of FDI flows in the EAC countries from 1990 – 2013 in million USD

	1990-1999	2000-2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Burundi	1	2	1	0	1	4	0	1	3	1	7
Rwanda	4	8	14	31	82	103	119	42	106	160	111
Kenya	21	54	21	51	729	96	115	178	335	259	514
Uganda	80	203	380	644	792	729	842	544	894	1205	1146
Tanzania	121	355	936	403	582	1383	953	1813	1229	1706	1872
EAC	226	623	1351	1129	2186	2315	2028	2578	2568	3330	3650
Africa	6746	15920	31018	35720	51364	59276	56043	47034	48021	55180	57239
EAC to Africa ratio	3.4%	3.9	4.4	3.2	4.3	3.9	3.6	5.5	5.3	6.0	6.4

[60] IMF 2014
[61] Billington 1999, Bevan and Estrin 2000; Dunning and Lundan 2008
[62] Buckely et al 2002

2.11 Foreign Direct investments determinants

Foreign direct investments flows may differ from country to country. This explains the distribution of foreign direct investments in member countries and also regional organizations. There are different attributes and factors that promote foreign direct investments in a region. This study explores the East African community and the growth and development through the regional integration. Determinants of foreign direct investments can be viewed in many ways. Factors can be attributed by the foreign investors interested in a region or country, objectives of the host country or the economic development and environment of the countries gaining on foreign direct investments.

A host country has the power to choose the kind of investors into its economy. The host country will receive investors depending on their market potential and qualities to do business. A foreign investor enters into a market inorder to gain and achieve economic purpose and to grow. The investor has the expectations and objectives from the intended market. This means that the investor seeks to take advantage of the host economy. The foreign investor may look at the growth rate of the country economy, natural resources, market size, availability of raw materials and cheap labour.

Investors are guided upon frameworks on how well to determine good markets and potentials. A host country may require legal foreign direct investments framework. This helps the investor to understand the laws that bind the investors in those economies. Policy frameworks should contain stable and transparent policies, open trade policies and market focused to suit well for the investors.

Business and economic environment play a role in attracting investors. Political stability and governance promote investments in countries too. In Africa, political instability seem to attract investors since they are able to exploit and generate more income. Investors seem to take advantage more during harsh times and conditions. Their businesses may seem to thrive because there may be no one paying attention to the industrial sectors. However the main focus is ussually on stable policies and structures in the market and economic environment as oppossed to the political waves in the region.

African foreign direct investments seem to fluctuate alot to the lower side. The foreign direct flows in Africa in 2010 was lower than in 2009 with a margin of 5 billion. In 2009, Africa FDI was at US$60.2 billion and in 2010, it was US$55.0 billion. The East African community has the least foreign direct investments in the region compared to the other regional organizations. In 2010, East African community had the least foreign direct flows with US$3.7 billion. South Africa was the highest with US$20.0, North Africa received US$ 16.9 billion, ECOWAS and west Africa received US$12.7 billion. Central Africa had received US$8.0 billion.

East Africa community attracts lower FDI flows compared to other regional organizations. It is useful for EAC member countries to evaluate and shape their investments policy and analyse the economic environment.

Foreign direct investments are categorised into economic determinants such as;

marketing seeking – Includes the market growth, access to regional and global markets, market size and structure

Resource seeking – raw materials, physical infrastructure, technology and innovation, skilled and unskilled labour

Efficiency seeking – membership of a regional integration, costs of production, transport and services costs and communication

Strategic – This is an asset seeking determinant, access in research and development, information and advanced technology. It requires the investors to have thought through about the area of investments.[63]

Business facilitation includes measures that are put in place to improve the business climate

They include; reducing barriers for inward foreign direct investments, improving the standard of treatment of foreign investors and assuring of a functional market and a level ground for investors.

OLI Paradigm

This is more of a conceptual framework proposed by Dunning 1977. This is a framework that explains better about the conditions that attract foreign direct investments into a country or region. It is mostly referred to as the eclectic FDI framework.[64] It is associated or derived from the macro and micro level determinants that analyse the interests of multinational coporations in investing abroad. It shows the probability in which foreign direct investments may occur and ways in which can be distributed depending on the region. OLI paradigm is a three letter word that stands for the critical areas that are most important to investors in any region. They stand for ;

O-ownership

Location

Internalisation advantages

Ownership

[63]Cleeve E. 2008 "How effective are fiscal incentives to attract FDI to sub sahara Africa? The journal of developing areas, volume 42 Number 1 fall 135- 153

[64]Dunning 1988

Ownership is also referred to as firm specific advantages. These advantages may be related to the host country. It simply asks the question why. Why should the business invest in that region and if the operation costs are convinient. For any multinational enterprise or investor to be profitable abroad, it must have some advantages that are not shared by its competitors.

PROFIT = TOTAL REVENUES – TOTAL COSTS – COST OF OPERATING AT A DISTANCE

Some of the advantages include; monopoly control over a local resource or non-location bound e.g technology, economies of scale and scope of large size. The investors will keenly look at the benefits of entering the market and if the profits may increase and work for them. Ownership could be in terms of property rights, patents, expertise, intangible assets which increases competition with others in the markets. Investors are able to know how to diversify their activities inorder to capture the market.

Location

This helps to analyse the where. The place in which a company may settle and run its businesses. These are country specific advantages. How well and attractive is the country to the investor. They are categorised into economic, social and political dimensions on the location.

Economic : Involves the production, size, scope of market, transport and telecommunication costs. Macro -economic stability is a contributing factor to attract foreign investors in any region

Social cultural advantages – psychic distance between the home and host country, general attitude towards foreigners, language and cultural differences.

Political : This may include government policies affecting inward foreign direct investment flows, international production and intra firm trade.

The factors above play a key role to impress the investors while exploring a potential market. It is the most controlling factor in this paradigm. Most investors are specific on location because of the movement and production of their businesses. Labour, trade barriers, gain in trade costs, strategic advantages and natural resources are attractions that vary from country to country. This paradigm will enable the researcher to explore the East Africa Community accordingly.

Internalisation Advantages

This is mostly referred to the I factor. It seeks to answer the how question. This explains how the firm penetrates the foreign location. The investors gather information concerning the preferred destination. This is done by focusing on the transaction costs, state policies on foreign exchange rates, tariffs and non tariff barriers, exchange controls and subsidies which attract the investors into a region or a state. Most factors of internalisation may be created by the states or regional arrangements i.e the EAC has a customs union and a common market that helps to negotiate through these factors.

An investor seeks to eliminate mosts costs as much as possible. This will depend on the knowledge and efficiency gathered from the market research. Other factors for attraction of foreign direct investments involve state generated imperfections i.e tariffs, foreign exchange controls and subsidies. These advantages help multinationals to open and run their businesses efficiently.

CHAPTER 3

THE EAST AFRICAN COUNTRIES AND GROWTH

3.1 Focus on the East African countries and their growth

The East African community has been an attraction to many. It is referred to as the most ambitious regional economic community in Africa.[65] Among other regional economic communities in Africa, East Africa community stands out as unique for its characteristics and features. The East Africa community consists of five countries which include Kenya, Uganda, Tanzania, Burundi and Rwanda. It is a blend of three bigger countries and two smaller countries in population and growth. South Sudan is a member country that has been recently accepted into the community. Kenya has a 40% of the EAC GDP which is the highest among the other countries. Tanzania has 28%, Uganda has 22%, Rwanda has 7% while Burundi has 3%[66]

The internal EAC market has about 145.5 million consumers[67] with five members. COMESA consists of 19 member states with a population of 390 million. Burundi, Kenya, Rwanda and Uganda are members. SADC was established in 1992 with Tanzania as the only EAC member state. SADC has a population of 277 million. Burundi, Rwanda, Tanzania and Uganda are covered by the European Union Everything But Arms initiative under which all products from least developed countries except arms and ammunition have preferential access to the European Union market. The EAC member states and the sub – Saharan African countries qualify for duty free access to the United States market under AGOA- Africa Growth Opportunity Act.

Products from the East African countries can access various markets in the developed world through the generalized system of preferences (GSP) which offers preferential treatment to a wide range of products originating in developing countries. Burundi is a member of the Economic Community of Central African states (ECCAS) which focuses on establishing a central African common market.

The East African community is a strategic location for the attraction of foreign direct investments. The EAC partner states agreed to partner in investments and industrial development. This would encourage market access and increase in foreign direct investments.[68] The East African community longs for rationalization of investments and the full use of established industries so as to promote efficiency in production. This will harmonize and rationalize investment incentives with a view to promoting East Africa as a single investment area. The EAC secretariat continues to implement the components of the cooperation agreement between EAC and the world bank on investment climate program signed in March 2012.

[65]African Development bank 2013
[66]2011 EAC GDP, UNCTAD Globstat database 2013 in Naym 2013
[67]EAC facts and figures report 2015
[68]EAC treaty chapter 12, articles 79 and 80

3.2 Demographic and population size

The East African community has a population and market size of 150 million. Tanzania has the largest population in the region at 49 million. Kenya is second with 40 million, Uganda 39 million, Rwanda 10 million and Burundi 9 million. The average population growth rate in East African region is about 2.3%. The growth rate is likely to increase with inclusion of other member states e.g South Sudan.

Table 5 TRENDS IN EAST AFRICA'S POPULATION(THOUSANDS), 1950- 2015

COUNTRY	LAND AREA IN SQ. KM	POPULATION		
		1950	2000	2015
Tanzania	886.3	7,886	35,119	49,343
Kenya	580.7	6,265	30,669	40,001
Uganda	200.5	5,210	23,300	38,739
Rwanda	24.2	2,120	7,609	10,504
Burundi	25.0	2,456	6,356	9,835
EAC	1,716.7	17,672	103,053	148,422

Source ; EAC facts and population figures 2013

Table 6 EAC member states 2016 profile

Country	Population	GDP (PPP) (Billion $)	GDP(NOMINAL) Billion $	Literacy %
Burundi	10,395,931	7,884	2.723	67.20
Kenya	45,010,056	125,770	55.300	87.40
Rwanda	12,337,138	17.362	7.431	71.10
Tanzania	49,639,138	84,884	42.300	67.80
Uganda	35,918,915	61,891	22.926	73.20
EAC	153,301,178	297,791	122,672	73.34

Source: EAC facts and figures 2016

3.3 The East African countries

The East African community consists of five member countries. They include; Tanzania, Kenya, Uganda, Burundi and Rwanda. South Sudan is the newest member into the community. East Africa community is analysed as an ambitious regional organization. It has grown in population and economically. The development growth is recognized due to the joint efforts of all the six countries. This chapter will analyse the specific countries and their contribution to the East Africa community and the integration process. The East Africa community is striving to be a singular economic unit hence it is logic to look into and understand the five member countries.

Tanzania

It has the largest population and land area of 886.3 square metres in East Africa. Tanzania seeks to liberalize economically along the years. It is a country that is recovering from socialist policies that has hindered progress in economic growth. Market liberalization has enabled the country to gain economically though it remains underdeveloped. The economy is a heavy reliant on agriculture which is 25% of GDP, it provides 85% of exports in the region and employs 80% of the work force.[69] Tanzania has a fast growing industrial sector with 22.6% GDP. The main industrial activities include agricultural processing, mining –diamond, gold and iron, oil refining, wood products, salt, soda ash, cement, shoes and fertilizer productions.

Climate conditions do not favor farming since only 4% of the land area is used. Coffee is the largest export in cash crops. Other cashcrops include; tea,cashews, cotton, sisal, cloves and pyrethrum which contribute in export earnings. Challenges facing the country include; logistics and infrastructure limitations. There is poor pricing and unreliable cashflow to farmers. Foreign exchange shortages is experienced and corruption in factories which has reduced industrial productivity. The tourism sector is not well tapped.

Kenya

Kenya posseses the most advanced and largest economy in East and central Africa. It is a poor developing country with 38% of the population living in absolute poverty.[70] It has good climate conditions and productive lands. Although 75% of the people are involved in agriculture, there is still reliance on food aid. Telecommunications, financial services make up 62% of kenya's GDP. Tourism remains the most significant economic and cultural strengths and a primary source of service employment in Kenya. Industry and manufacturing contribute to 16% of kenya's GDP.

By 2012, Kenya had a landmass of 586,650 square km and a population of 43 million.[71]Kenya GDP has been growing fast especially from 2005-2007. It was then rudely disrupted by the 2008 national post elections violence. The GDP fell from as high as 7% in 2007 to 1.5% in 2008.[72] The country's economy was adversely affected and weakened by the global economic crisis. The government that took leadership from 2008 started initiatives in the education, health and inrastructure sectors. These public projects were launched to improve the wellbeing of the citizens as well as promote the economic development. Free education was started in the primary schools, infrastructure project on the highways mainly referred to as Thika superhighway kicked off which was very efficient in the transport and connectivity of the nation. Services and agriculture greatly improved. The private sector was also boosted and facilitated to get access of affordable credit. This contributed to the growth of GDP.

[69]Central intelligence agency Tanzania the world factbook (march 2014)
[70]World bank Kenya October 2013
[71]United Nations (2012) report on the implementation of the investment policy review Kenya – United nations conference on trade and development pp.8
[72]Ibid

In 2010, the GDP grew to 5.8% due to the improvements realised in the country. However the kenyan shilling depreciated and there was a high inflation which led to 4.4% in 2011. Kenya has maintained good relations in the region and also globally. The world bank and international monetary fund entered Africa from the 1980s. They facilitated growth and opened opportunities for foreign direct investments in the African countries. Kenya has benefited from this project. World bank introduced the structural adjustment programmes in the 1980s to the developing countries. Hence these countries needed to create the right environment for this growth. Kenya generated policies that promoted foreign direct investments in the country. This include; reduction of tariffs and various protectionist measures, regulation in the finance sector.[73]

World bank facilitated the creation of Export processing zones (EPZ) in 1990s and opportunities to foreign direct investments including liberalization of foreign exchange and removal of all restrictions on current accounts and domestic borrowing for foreign investors in 1993. The world trade organization has highly enabled the intensification of its liberalization process. The government of Kenya through the NARC leadership in 2003 introduced different initiatives to revamp the economy. This was easily facilitated by the Economic recovery strategy for wealth employment and creation(2003-2007) to promote investment and trade by ensuring public sector plays an important role in regulating and facilitating private investments. In 2008 the government launched the vision 2030 which has strategic plans, policies and goals to facilitate growth, development and investments in the country to open up to the region and global markets.

Uganda

Uganda is a country that has the capacity to feed the Africa continent if it is properly commercially farmed[74]. The economy has great potential and positioned itself for economic growth and development. The country is coping with political instability which has led to economic decline. Uganda has natural resources, fertile soils, regular rainfall, mineral deposits of copper and cobalt. It has untapped reserves of crude oil and natural gas. Services make 50% of GDP earnings with agriculture and industry making the other 50%.

Rwanda

Rwanda rose from the genocide that happened in 1994. It has now grown and fully recovered. This has been easy through implementation of business friendly policies and the establishment of strong national institutions for governance. Subsistence agriculture remains the dominant economic activity for most Rwandan citizens. The industrial sector is small and limited producing mostly domestic goods and products. Mining has become a major contributor for growth.

[73]Policies, measures reforms to enhance effectiveness of monetary policy from 1986
[74]World bank Uganda October 2013

Rwanda has beautiful mountains and plains that are surrounded by rare tropical forests and the associated fauna. It hosts the unique mountain gorilla. It is a tourist destination with beautiful attractions. Its financial sector is more vibrant in the East African community. The government issues bonds which has supported the financial systems in the country.[75] Industry and lack of natural resources pose as the major challenges facing the economic development prospects.

Rwanda has experienced political stability and good governance. It has emerged among the cleanest city in the region. This is attributed to the leadership of President Kagame. It is through implementation of good policies and strategies. Rwanda poses to be an attraction site for tourism both to locals and internationals. It has beautiful plains and mountains and a very organized city. The capital city is Kigali. Integration in the EAC has encouraged growth and development. As a nation, Rwanda is implementing new policies in the infrastructure sector to deal with challenges. Transport is mainly by foot and motorists.

In terms of environment, Rwanda has been on the right path. Rwanda was the first to formalise the ban on use and manufacture of polythene bags. This has enabled the enviroment to be clean and green. The cities are clean and beautiful. The ban on plastic bags made people to be innovative and go back to weaving baskets and looking for other alternatives. The environment is very crucial to wellbeing of the citizens living in the country. This policy has worked well and the citizens already adjusted to the change. Through the aspect of integration, Kenya was second in implementing the ban. The policies in Rwanda became successful to the people of Rwanda and the whole region of EAC. This has led to tourists and individuals travelling to Rwanda inorder to learn more in taking care of the environment. It is possible that other partner states will follow through this example.

Transport services are at the core for better development and progress of a country and region. Rwanda transport services are well regulated and implemented by the government. The private sector is as strong as the public sector in the investment and development of infrastructure. These investments are supposed to fix the current infrastructure issues. In the transport sector, pedestrians have no walking pavements. These opportunities create employment and eradicate poverty in the urban and rural areas.

Integration has encouraged growth in Rwanda and investments into the economy. Rwanda has a set of pro-investment policy reforms that seeks to increase the investment climate and attraction of foreign direct investments. Opportunities include; renewable energy, infrastructure, agriculture, mining, tourism and information and communications technology. It amounted to 1.5% GDP in 2013. Some of the challenges facing investments include high transport costs, a small domestic market, limited access to affordable financing, inadequate infrastructure, ambiquous tax rules and underskilled work force.

Rwanda has an availability of labour and human capacity although with few skilled workers. There is a higher turn up for individuals accessing education institutions. After being engaged in integration of East African community it enables movement of goods produced in the

[75]World bank Rwanda September 2013

region and allows citizens to work in the member states. The country has established a free trade zone outside Kigali which will promote communication infrastructure.

The private sector is well supported to enable development of the country towards vision 2020 and reduce reliance on foreign aid.

Burundi

Burundi is seen as the least developed nations, poorest nations in the world. It is one of the landlocked in the EAC. It is the weakest economic member in the region. The country has a poor legal system, lack of economic freedom, low access to basic and advanced education, and ineffective healthcare systems paired with the proliferation of HIV/AIDS. All this has led to approximately 80% of Burundi's population living in poverty.[76] Agriculture is the most dominant industry of the nation.The manufacturing and industrial sectors are vastly underdeveloped. Coffee is the main primary cash crop for export.

Burundi has not realised integration with its neighbours to further aid and development. It is ranked 176 out of 183 countries with business environments[77]. Burundi is ranked among the unfavourable business environments worldwide. The private sector is underdeveloped. A large number operate in the informal sector and small enterprises. The economy is mainly dominated by public enterprises with financial problems.

There are issues that the country has that hinder integration with other member states. The following include areas in which Burundi can reflect from integration in the East African community.

a. It is evident that integration need to be pursued.

   The citizens of Burundi are yet to get the importance and zeal of integration. This indicates that Burundi has not fully gained from integration. Taking charge in the regional organizations will enable the country explore more options to develop and build its economy. Burundi is involved in two regional integration agreements. These are the East African community and the common markets of East and Southern Africa. It is upto the country to coordinate the two integrations. It is then that it will spot the gaps that need to be filled.

   These loopholes may include technical and institutional capacities. Engagement in deeper integration will help remove non tariff barriers. Services will be well integrated in the region. East African community has eliminated tariff barriers although it is not enough to enhance trade. It is very important for Burundi to facilitate regional trade by adressing non tariff barriers.

b. Services in the economy

   It is very important to engage in services delivery and products in the economy of a country or region. As a growing economy, Burundi requires a boost in the service sector. The service industry is critical to the regional integration process.

[76]World bank Burundi september 2013

[77]World bank 2010 – doing business survey

Telecommunications, energy, transport and business services are important inputs into production of goods and services. The presence of these structures boost and influence productivity and competitiveness in the country and the region.

c. Export diversification is critical
Burundi has a very narrow export base. It is very specific and not diversified. The country needs to work on opening up the export markets. Burundi is very vulnerable to external shocks and dependent on foreign financing. It is categorised as one of the poorest environments for doing business. Policy makers needs to put up structures that promote growth and trade within other member states. Integration becomes harder since opportunities are hidden in the export market.
Exports play a significant role to increase trade and bring in foreign direct investments. Export diversification will enablethe economy to grow and generate income and revenue to accomodate the growing population. Burundi needs to open opportunities to trade with the East African members inorder to have presence in the regional economy and integration process.

d. Attracting foreign direct investments is crucial for export diversification
Opening of foreign direct investments helps to increase competition and efficiency in the provision of goods and services in the provision of goods and services in the domestic economy.

e. Key structural constraints must be adressed

The government of Burundi is tasked to ensure high quality infrastructure and a better functioning financial system are able to attract foreign direct investments and improve the country. Burundi is a landlocked country hence it requires investments in the infrastructure sector. This will reduce the movement costs and challenges in trade. Poor transport systems affects the delivery of goods and services in the region. Trade is affected negatively if the challenges are not dealt with. Opportunities lie in the country though much focus is not set to the structural part of the country.

The private sector in Burundi is not utilised as much is underdeveloped. Partners in both domestic and foreign countries in private sectors need to build and increase investments in the local economy. This investment will build infrastructure and open trade areas. Business will be regulated and the investment climate will be created.

3.4 EAST AFRICA FOREIGN INVESTMENT

East African investments have always been a medium to long term perspective and developing relationships. Africa as a whole has complex markets and business climates which investors need to take note and develop understanding of the business environment. The rewards, opportunities are attractive but it is not easy to tap into these markets. Investors focus on the trends and priorities that African countries follow through. These changes include; changes in commodity prices, political strife, global demand shifts and job creation imperatives. Investments are needed to help the public and private sector create more jobs, more skills, more reliable power, reliable housing and good urban infrastructure.

East Africa is an attractive destination for foreign investments. It has really grown its economies upward. In the recent past EAC has recorded its highest share of foreign direct investments projects in the continent. This amounted to 26.2% of total projects. East Africa has increased competition to Southern Africa who has been the longest region leader in the continent.

Kenya has generally been East Africa’s anchor economy in the post independence period. There has been a slow economic growth experienced in Africa. Kenya has indicated a GDP growth rate of 5.6% in 2015 and a hopeful 6.0% in 2016.[78]Foreign direct investments project numbers have shown 50% over the 2014 levels. This has rated Kenya as second largest foreign direct investment recipient after South Africa. Investors from UK and India showed to be more active. Financial services experienced noticeable increase in foreign direct investment projects.

Uganda, Tanzania and Rwanda have made their own name in terms of FDI attractiveness. There has been a higher inward investment project numbers in these east african economies. Rwanda has gained interest largely due to the countries strong economic record and it pro- business climate. Rwanda is an increasingly growing market for services in the continent.[79] Rwanda government seeks to transform from an agrarian economy to an ICT driven, knowledge economy by 2020[80].This is according to 2015 national ICT strategy.

Ethiopia is another promising country neighbouring the East African community. Investors have taken keen note on this economy. According to Africa attractiveness survey, Ethiopia was seen as an emerging FDI destination. It retained the eighth position investment destination in Africa. The Ethiopian government prioritized developing a light manufacturing hub. Power costs are relatively low. Investors have set up operations in the country.

Investors opportunities in East Africa

a. Recent oil and gas discoveries
East Africa is moving ahead due to the exploration of oil and gas. Kenya, Uganda and Tanzania have discovered oil in a big way. Uganda and Kenya are expected to begin commercialization of oil. The East African economies are diverse, consumer driven than most other African countries[81]. Hence East Africa has enjoyed low oil prices.

b. Accelerating regional integration

[78]World Economic outlook Database International Monetary fund 2016
[79]Kagame seeks lasting economic miracle for Rwanda – financial times website
[80]Rwanda a new model for growth, financial times 2016
[81]East Africa set to grow despite endemic problems – financial times

The East African community is growing and inter-country linkages are deepening. This progress is well analysed through the customs union, the establishment of common market in implementation of the East African monetary union protocol. There has been increase in membership with South Sudan joining EAC. East African community is seen as the most advanced regional integration in the regional economic communities in Africa[82].

c. Ample market opportunities

East Africa is home to around 300 million people. Private consumption and household spending stimulate GDP growth, several consumer goods, companies and retailers are eyeing the region. Large retailers e.g Walmart and Carrefour has entered Kenyan market in recent years.[83] Choppies retailer supermarkets have gotten a niche in East Africa market too. Mobile penetration stands at 52.4% in Uganda, 62.8% in Tanzania and 73.8% in Kenya. East Africa is growing into a hub for banking and other financial services.

Choppies retail supermarkets have taken african market by storm. It all started as a small shop in Botswana. In Kenya it has taken over ten Ukwala supermarkets in major towns e.g Nairobi, Kisumu and Nakuru.

d. Infrastructure development

There are many projects that are underway in the East Africa community that seek to boost connectivity across the region. The standard gauge railway hosted by Kenya links Nairobi and Mombasa. It is continually to join the LAPSSET programme. This is the Lamu port- South Sudan – Ethiopia corridor which connects East Arica through the ports, pipelines, railways and oil refineries.[84] The Konza technology city hosts universities, research facilities and IT centers.[85]

LAPSSET PROJECT

The LAPSSET corridor project is identified as the only infrastructure project within the East African region involving the initiative of presidents. It is of great importance in regional integration as well as scaling up the economy of the region. LAPSSET is a 500m wide corridor which starts from Lamu port in Kenya, extends to Isiolo via Garissa and branches from Isiolo to Moyale, the Ethiopian border and from Isiolo to Nakodok – South Sudan border.[86]

This project has promoted negotiations between the countries, mainly Kenya. EAC heads of state have highly adopted the infrastructure project towards its completion.

3.5 Multiple memberships

[82]Africa regional integration index report 2016- United Nations Economic commission for Africa 2016
[83]Walmart lines up for slice of Kenyan retail – france retailer to open store in Kenya CNBC Africa
[84]Kenya's ambitious infrastructure projects will improve links with neighbours – financial times
[85]Kenya's megaprojects; what can $50 billion do for a country? CNN website edition
[86] LAPSSET corridor development Authority newsletter –April – June 2018

Multiple memberships within regional economic communities tend to be a challenge rather than a gain in Africa. This portrays a major hinderance to administration and coordination of activities. Members are not able to participate well in the regional communities as expected because they have different goals and policies. It becomes difficult for members to commit fully because of different policies and tariffs. Importers have time to look at the lower tariff markets that will work for them. This behavior has led to fraud and losses that accumulate to millions and dollars. Revenue adminstration is harder with many regional arrangements.

A free trade area is likely to give a solution between SADC, COMESA and EAC to neutralize their tariffs and trade policies.

Table 7 The EAC member states membership in regional blocs

	EAC	COMESA	IGAD	SADC	ECCAS
Tanzania	✓			✓	
Kenya	✓	✓	✓		
Uganda	✓	✓	✓		
Rwanda	✓	✓			
Burundi	✓	✓			✓

Non –tariff barriers and measures

The non tariff barriers in the East African community region has come with negative effects. Non tariff barriers bring delays and increased costs which ultimately hinder the movement of goods and services. It is noted that removal of non tariff barriers will encourage intra-regional trade than tariff liberalization. The customs union works to eliminate non tariff barriers in EAC member states. Reduction of non-tariff barriers in beef and maize trade will increase intra-trade of maize and beef with Kenya and Tanzania. The sad thing is that these tariffs are not fully eliminated and new ones are introduced.

3.6 Employment growth in EAC

East African region suffers from an unemployment and low productivity among its population. The East African community works to fulfill and improve the livelihoods of its citizens. There is a huge population of unemployment in the member states that has affected the productive sectors in the region. Young people are the ones hurting alot from this economic reality. It has become hard for young people to secure or enter into modern wage employment. This section will help highlight the progress and the changing population of economically active individuals across the region.

Unemployment has been significant in the region and it is followed up by analysis of the different percentages in EAC. According to Tanzania 2006 survey, unemployment rate was as high as 12% which is 2.2 million Tanzanians who did not have jobs. 1.7 million of

Tanzanians were employed in informal sectors. In 2011, the percentage of unemployed decreased while the number increased. 2.4 million people equivalent to 10.7% were unemployed in 2011 and 2.5 were in informal sector.[87]

In Uganda, the total labour force increased from 10.8 million people in 2006 to 13.4 million people by 2010. Unemployment in Uganda targeted youth aged 14-64 years at 4% in 2010. The majority of the labour force classiffied themselves as self employed.[88]

Rwanda unemployment rate was 1.2% in data collected for 2005 and 2006. In the youth aged 21-30 the percentage increased to 2.5%. It is noted that 61% of the labour force were working while 6% were in active.

Kenya had unemployment rate of 40% in 2009. 60% of this population were youths. According to Kenya bureau of statistics, 2.1 million people were in the formal employment sector which included private agriculture and forestry, the public service and private sectors. An estimated of 54% were in the private sector.

Burundi had an unemployment rate of 35% in 2009. Youths aged between 15-30 years around 60% are either unemployed or underemployed. The agriculture sector accounts for 94% employment in the country.[89]

Despite the huge unemployment rate, the population is still growing and increasing. It is up to policy makers to establish good pillars and effective mechanisms that will help accommodate the huge population. The East African community is experiencing high growth in population but do not generate the jobs needed by its citizens.

Globalization can help reduce the high percentage rate of unemployment. This will be useful to the youth group especially if supported to engage in innovations and self employment projects. ICT is a growing industry in the East Africa community which if utilized well, it will create jobs. Investments have been done for such institutions like the Konza city hosted in Kenya to be an ICT hub.

Table 8 Trends in East Africa's Economically active population in thousands

COUNTRY	1980	1990	2000	2010	2015	2030
Tanzania	9,978	13,758	18,860	24,891	28,833	38,840
Kenya	8,133	11,963	17,550	23,362	26,760	37,210
Uganda	6,625	9,205	12,353	17,331	20,713	29,284
Rwanda	2,783	3,633	4,314	5,925	6,749	9,450
Burundi	2,282	3,106	3,479	5,289	5,933	8,284
EAC	29,802	41,665	56,558	76,799	88,987	123,068

Source Adapted International Labour organization's labour statistics database

[87]Tanzania bureau of statistics
[88]Uganda bureau of statistics
[89]African development bank and OECD

Table 9 Unemployment total percentage of total labour force

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Burundi	8	8	8	7.9	7.9	7.9	7.8	7.7	7.7
Kenya	9.6	9.5	9.5	9.5	9.4	9.4	9.3	9.3	9.2
Rwanda	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Tanzania	2.9	2.5	2	2	2.5	2.5	3	3.5	3.5
Uganda	2.5	2	2.1	2.1	2.9	4.2	4.2	4.2	4.2

Source; The world bank(2014) Data bank

The above table explains that the level of unemployment has remained relatively stable from 2004 – 2012

Unemployment in EAC

Unemployment in East Africa has been attributed to many factors in the region. There are issues brought by regional integration that has made the unemployment level be low yet stable. This will help policy makers identify gaps and discover new opportunities. It will identify the influence that is shown through out the region in various sectors.

The following are barriers to job creation in the East African community

1. Large informal sectors that are poorly integrated with the formal economy do not pay a formal wage and do not seek skilled labour.

   There are alot of people engaged in informal sectors. It is effective although they do not have constant wage payments. The location also matters since most are located in farms. These people access money to meet their basic needs. There are very few people who access a good formal well paying job in the formal economy. There has been growth in labour sectors.

2. Job creation is not fullfiling to the population that is increasing especially the youth population.

   Regional arrangements such as EAC benefit those member states that have characteristics closest to the global average.[90] In EAC, Uganda and Tanzania lost their market share to Kenya. Regional integration in EAC has promoted and fully implemented the customs union. There are few development benefits to the whole organization. However the interregional trade seems to do better and has increased. The trade is more diverted than created. These benefits are mainly experienced in the developed countries i.e. Tanzania and Kenya.

   The common market in the East African community is yet to berealised since the export of goods and services have not grown much. The growth is likely to be from US$12 to US$20 billion over the next decade.This would contribute to formal employment increasing more than twice and the gross national income.

[90]Collier 2007

3. Lack of employability, lack or mismatch of skills especially the youth
   The economic development is ever changing. East Africa experiences regional integration efforts that encourages economic growth. However there is still a huge gap between the poor and the rich. The level of unemployment has been stagnant but the population is increasing. The youth is a group that is suffering in the region alot. The region has relied on agriculture for so long. Alternatives should be sort after to cover the young generation. Time is changing alot with globalization taking place. Sectors have improved in production and technology has enhanced the process. The skilled population is growing largely but with nowhere to go. Due to various factors, some people get lost under the lack of skills to do a job and others may not have reached the employment age. There are possibilities that people may be in wrong professions which may be the available ones.

   Many people are moving from the rural areas to the urban areas for better opportunities. This has made them abandon their agricultural farms and settle in urban towns. This may lead to congestion of the towns. The demand is then lowered by oversupply of people in need of jobs. Life in the city become competitive and the economic life will change. There is value added production that has improved through the years. People need to seek opportunities on value production and increase in innovations. Trade and investments are areas in which more action and utilization should be.

4. Lack of financial facilities
   There have been legal reforms and frameworks that are set to increase access to credit facilities. Access to financial facilities has not been easy since people require collateral and the cost of credit may be too high. There may be lack of access mainly to the people in the rural areas. There is lack of formal regulated financial institutions and high costs of credit. The lenders of money from short to longterm may not be easily accessed.[91]This will help people engage in small businesses to empower themselves. EAC has increased credit to the private sectors to ease the banking sector reforms.

5. Inadequate supply of infrastructure
   Regional infrastructure is in need of investments in the transport system i.e rail, ports and roads, water and sanitation, power supply. These infrastructure will increase trade and movement of people and goods to access the market more efficiently.

   EAC regional integration have high transaction costs when connecting to member countries because of poor infrastructure. It is upto the private and public sectors to ensure investments are made to promote good transport systems and terms to carry out trade.

[91]Ernst and young (2009) EAC study on the promotion of small and medium enterprises in the East African region

6. Market based development not well enabled
   The East African community consists of six member countries. Three member states are landlocked. There is a possibility that the market options are not well utilized. Through regional integration, there will be linkage to the landlocked countries with the global markets.

   This study indicates that there are constraints in job creation. These constraints are not necessary brought by low regional integration.

Privatization in EACs

All member states are in the privatization of major government corporations. Since 1986, Burundi has adopted a program aimed at opening an era of prosperity and development. There are ongoing reforms in the public sector to create a better environment for public investments. The privatization of Rwanda was established by law on privatization and public investments dated 11th March 1996. The private sector is recognized as the engine of growth. In Kenya, a parastatal reform committee was established in 1991 to implement the privatization process.

3.7 Infrastructure

The East African region is very competitive with other regions. In order to keep up it needs to boost its investments in infrastructure, education and healthcare. Rwanda is the leading competitive economy in the East African community.[92]The East African community is ranked to be competitive due to the diversity of its economies and business efficiency. Rwanda leads the community in institutions, infrastructure, health and primary education and market efficiencies. Kenya also leads in business sophistication, innovation and technology readiness. The main challenge in East Africa community is access to finances. Through growth and development, East African integration has improved across the African continent due to initiatives like the Northern corridor integration initiative.

Healthcare and education pose as challenges in regional integration communities too. This is because they are critical in attracting foreign direct investments in any region and improving the business atmosphere.

The East Africa community has received good foreign investments to build on the infrastructure in the region. The region started to boost its infrastructure by opening up waterways and attracting bilateral and multilateral ties to collaborate in deepening integration in the region. Mombasa and Daressalaam ports are beneficiaries of investments that have led to increase in capacity to help the other landlocked member states. Lake Victoria and Lake

[92]2015/2016 Africa competitiveness report

Tanganyika have also been boosted to ease the movement of goods and services. East African community is working on building policies that will reduce barriers to trade.

East Africa community has engaged in bilateral talks with financial institutions e.g. African Development Bank to invest in infrastructure. Other countries include China and India. China was very helpful in the building of the standard gauge railway. The standard gauge railway was geared to upgrade and extend the railway networks to reduce transport costs in the region. Other initiatives under the East Africa community include the single window information for trade and a single working visa for the region.

Infrastructure and regional integration

Infrastructure development in Africa has never been easy in the region. Infrastructure involves connectivity within the region e.g through road, air, ports and rail transport, information, communication and technology, energy resources and distribution that help connect with member states. There are challenges that affect infrastructure and the regional connectivity.[93]These challenges include; insecurity, cross border conflict, environment, climate change, government policies and the state of a country.

Integration is also affected in regional connectedness. Examples of challenges include; political instability, water scarcity, poor regional infrastructure network, difficulty in sharing resources among member states in regional integration arrangements. Member states need to unite and corelate with their neighbours.

Infrastructure gains are numerous in a regional organization. It is noted that infrastructure cooperations may exceed the gains from the cooperations of trade.[94]EAC seeks to achieve a good and quality infrastructure framework for the region. It has also invested in the member states inorder to realize this dream. Infrastructure in the East African community involves development of railways, ports, power generation and distribution, services in financial integration infrastructure. Investment in infrastructure is very expensive and costly to the entire region. Member states are involved in the development and investments.

Private investments are well sort after inorder to manage the high costs. The political affairs of member states affect the private investments in the region. This is because multilateral agreements and developments tend to have alot of risks. EAC approached the help of Africa union programme for infrastructural development in Africa (PIDA). This commitment offered to focus on energy, transport, information and communication technology.[95] The East African community was able to start a programme focusing on priority infrastructure projects. This included; road networks linking Tanzania to Kenya and the rest of the community. Power conectivity and East African railway network project.

[93]Africa Development bank (September 2015) East Africa regional integration strategy paper 2011-2015
[94]Paul Collier(2012 p14) Emerging East Africa, Achievements and goals of the East African community
[95]EAC vision 2050 draft : October 2015

Rail and Road Network

There has been poor management and maintainance in the rail and road network in the East African region. Regional railway and road networks are not commercialized to serve the region well especially the landlocked countries within the region. There are challenges in trade logistics, regional variations and transit. Ports and facilities within borders and coast lines are dilapidated and affect the trade within member states. These challenges affect transaction costs, operation costs, transport of goods and cargo damage. Political strife e.g the 2007 post election violence in Kenya affected the rail transport. Goods along the way were delayed. Major link being Mombasa port to Rwanda and Burundi, Uganda, Eastern DRC and South Sudan. Kenya's rail transport was better than Tanzania.

The standard gauge railway is helpful to the East African community. This is a multilateral agreement that involves part of the EAC members i.e Kenya, Uganda and Rwanda. A pipeline is also underway and an oil refinery in Kenya and Uganda. Regional integration has facilitated a good environment for multilateral negotiations among member states inorder to interlink. It is noted that infrastructure controls the affairs and relations among the member states. For example; the standard gauge railway is a continuous investment already working in Kenya. The other member states are eagerly opening and linking up to promote good transport systems within the region. East African community requires to have a coordinated transport system and connectivity inorder to eliminate unnecessary competition within member states.

The East African community seeks to have high speed trains using the latest technology for both passenger transport and cargo freight, developing of skills and expertise is emphasized to encourage future railway expansions. The rail transport is ensuring reduction of the costs of doing business and for imports and exports within the region.

Air Transport

The implementation of projects in air transport is still ongoing. These projects include; liberalization of air services, regional incident and accident investigation, harmonised search and rescue and common personnel licensing system.

Marine Transport

The EAC stands out to have a good coastline along the Indian ocean. The coastline runs through two countries i.e Kenya and Tanzania. It opens up the region to be a gateway to the continent. It provides access to other regional organizations like SADC through Tanzania. The region supports other landlocked countries like South Sudan, Zambia, Malawi, Ethiopia and Democratic republic of Congo.EAC aspires to be a hub for regional trade. The geographical presence enables the region to be a developing export economy involving in assembling products; both imported and locally manufactured parts and processing of primary products before exported from the region.

Ports are a very critical area in exports and trade to enhance economic activities within the region. The EAC seeks to open and expand the existing ports within the region. The upgrade of Lake Victoria ports and the coastline of Kenya and Tanzania will enhance intercountry trade and improve the flow of goods and reduction in transaction costs.

Infrastructure Development Strategy in EAC

Infrastructure in East Africa is a huge industry in the region with alot of challenges and massive opportunities. It is upon the leadership of the EAC for the goals and ambitions of the sector to be fully attained. It is a development that has undergone challenges through out the region. Infrastructure development lies alot of opportunities that promote the economic integration within the member states. A lot of focus is given to projects of interconnection, power generation and distribution, water and sanitation and ICT. Energy production is not well utilized with facilities and structures. Energy production receives the least capital in the continent of Africa.[96]

EAC could benefit alot from inter regional connectivity and intraregional energy trade and integration which would minimize costs and greater supply to the region. This opening will influence greatly trade in domestic and the flows of foreign direct investments.

EAC stands out to have better transport linkages within the region compared to other regional organizations in the African continent. The major linkages include; the Northern corridor which runs from the port of Mombasa through Uganda, Rwanda to Burundi and the central corridor running from the port of Dareessalaam through Burundi, Rwanda and into Uganda. The road networks and interlinked roads are paved and well improved. There is high transport costs especially from the landlocked contries since the management and maintainance of these roads are not upto date.

The high costs are attributed to the administrative costs within the borders. These costs include; customs delay at ports, holding up for clearance at national borders, checkpoints on transit route. The landlocked countries suffer alot from the charges across borders. The EAC through the common market and customs union has facilitated reduction and controlling the non – tariff barriers in trade.

ICT has a prospective future in the region. Optic cables and fibre have made entrances into EAC to encourage integration and productivity within the region. The cyber optic cable has not yet covered the whole region. The prices have lowered and penetration has increased with the realization of the submarine cable. The mobile telephone has well penetrated although the prices are still high.

EAC integration is still hopeful having improved infrastructure and ICT penetrating in the region. This states that the productivity level is rising and there is future for more growth and increase of foreign direct investments. Energy production is also a key area with massive growth.

[96]African Development bank (2013) state of infrastructure in East Africa

<u>Political leadership</u>

Africa has experienced many challenges due to the political environment in the continent. Regional integration is easily affected by the political situation within the member states. Africa has a pattern of leaders not retiring from the throne. A political strife is mainly caused during a presidential election where the elections may be manipulated. This state of affairs leads to the status quo and change may never be effected. Political leadership affects the integration of member states. E.g in East Africa, the president of Uganda, Yoweri Museveni have stayed in power since 1986, Rwandan president –Kagame vied for a third term.

Political leadership affects the existing partnerships, bilateral and multilateral arrangements within member states or non members in a region. Economic development may not be realised during a political strife. Africa is recognized due to governance and leadership over8 a long period of time. This period creates anxiety and fear among regional groupings. Trade between member states and foreign direct investments tend to feel the pinch. Political leaders seem to have power and control over the affairs in the regional organizations. Good leaders will be able to have policies that will help the states open opportunities for regional integration. There will be flows of foreign direct investments within the region.

<u>Location as a source of foreign direct investment</u>

Namanga is located on the Kenya – Tanzania border. It is situated in Kajiado county in Kenya. It is 130km from Arusha Town. It has a population of 687,313 habitants. It is a great tourist destination. It hosts the Amboseli national park in Kenya and Mt. Kilimanjaro in Tanzania.

Loitoktok is another town located into the Kenyan territory and surrounded in Tanzania. It has a total population of 284,657. It is surrounded by Maasai Mara and Taita Taveta. It is a prospective good business place that thrives between two countries. It is well connected by Mombasa, Taveta, Kampala railway line.

Busia county in Kenya borders Uganda on the western part of Kenya. Busia is a getaway to the landlocked countries within the East African region. These countries include Rwanda, Burundi, Uganda, South Sudan and democratic republic of Congo. It is a host to a population of 743,946 inhabitants. It facilitates trade within the above countries through transport of goods and available market between countries.[97]

Malaba is a border between Kenya and Uganda. It has a population of 346,238 on the Kenyan side. It is located a few kilometres from Tororo in Uganda.

[97]Trade Mark East Africa

Kagitumba is a town located between Uganda and Rwanda. Trade mark East Africa established Kagitumba as a one stop border point to improve clearance of goods between Uganda and Rwanda.

Lake Tanganyika divides Burundi and Tanzania at Bujumbura the capital city of Burundi which has a population of 331,700. The port is well known for business. Many activities are carried out within the port. Ships are used to ferry commercial goods from Tanzania and Malawi to Bujumbura.[98]

Geo strategic and demographic opportunities

East Africa member states have good qualities and potential to promote growth in the East Africa region. In a changing world, transformation and growth is very paramount and essential. EAC member states are working to be integrated and be competitive in this modern age. The EAC is located geo strategically in the Indian ocean and it has rich social economic diversity between the partner states. It has a total land area of 1,716.7 thousand square kilometres with a population of 150 million people.[99]There are new discoveries of natural resources like coal, petroleum, gas, tapping of geothermal and wind power generation and creation of foreign direct investments from developed economies like Japan, China, European Union and United States. Future engagements are foreseen between the BRICS and Africa. EAC has a diversified economy offering a variety of businesses and investment opportunities. There is a young population, rising middle class and a demand for fairly sophisticated products.

EAC has a huge opportunity for high inclusive growth rates that could be associated with structural transformation.

Conclusion

East African community is the most focused and progressive regional organization in integration. It has major achievements and still has a long way to go towards economic integration. There is little attention on the agricultural growth and diversification in the region. It is discovered that agriculture is the main production in the partner states. More knowledge and expansion is required in the field in order to make the region more

[98]Ministry of planning and national development (MOPND 2009) Census in Kenya
[99]EAC facts and figures 2014

productive. This will increase economic integration and secure stable and sustainable income levels for the member states of the East African community.

EAC needs to actualize its agenda to promote its interests for the betterment of integration. It is notable that EAC should be a people driven setting to encourage citizen participation and community policies within the integration. The backbone of the integration process lies with the people. The driver of EAC affairs has been the member states and the political leaders in them. If the region focuses on people approach, there will be growth and development all around. This is possible if investment is started off at home with cooperation and democratic leadership within the member states.

Focus on the little regional goals and cooperation will produce healthier economies and efforts in integration will be realised. World biggest economies will pay attention and interest on a developed integrated EAC rather than scattered region with developed nations. It is evident that East Africa is a growing economic integration community. It is not different from other regional integration arrangements in Africa. The challenges and problems are similar across the globe.

CHAPTER 4

4.1 Foreign Aid and development

African leaders turned to development goals immediately after the colonial rule. After the African countries gained their independence, they went back to seek help from their colonizers[100]. This relationship led to the investments coming in and out of Africa. The European colonizers required help and materials to rebuild their own lands and continent after the effects of the first and second world wars. They had realised the vast resources and opportunities that they had left in the African continent. The early leaders in Africa approached the white men colonizers for help to develop after independence. The colonizers did not have a choice but they easily agreed and symphathized with the African people. This relationship brought rise to the entry of foreign aid into Africa.

At the time Africa experienced poverty, diseases and war. Foreign aid started penetrating into the country through international organizations i.e USAID – United States Agency for international Development, DANIDA- Danish International Development Agency. The foreign aid entered into Africa as a form of development assistance. Assistance was provided through operational, managerial or financial assistance which were given to governments and non governmental organizations of African nation. There was no structures and exchange of technological expertise between the donors and African leaders. The little development on infrastructure was easily ruined and unsustainable due to poor management and maintainance of the funds.

African leaders took charge of the wealth generated and started corruption and exploitation of foreign donations. African ministers and leaders decided to loot the money for development and forgot about their roles.[101] Examples include; Mobutu Seseko of Zaire and Sani Abacha of Nigeria had looted their countries finances and formed other accounts. This behaviour had shown a viscious cycle of aid that consumes investments.

It is noted that African countries cannot live off donor assistance for development. It is wise for the states to form structures and policies to support growth and close leaks of corruption and wastage of resources. Examples; Uganda and Tanzania are huge gainers of donor support in their budgets. In the 2015 – 2016 financial year, Uganda donor fund was at 23.5% and Tanzania at 10.3%.[102]

African states have the power to solve their finances, poverty, underdevelopment and corruption problems. Mr. Ali Bongo of Gabon supports that Africa can be prosperous and can deliver solutions to its problems.[103]It is upto the African states through their leaders and citizens to develop their national approaches based on their national values and their

[100]Gibson Mhaka(October 2013) "Foreign aid hinders development in Africa
[101]Dambisa Moyo (2009 p.48) Dead Aid; why aid is not working and why there is another way for Africa penguin books London
[102]Uganda budget speech 2015/2016 and budget summary Tanzania 2015/2016
[103]Ali Bongo (2016 p.19) Yes, there are African solutions that can deliver a prosperous future, The East African newspaper

economic capacities. This will enhance regional interconnectivity and economic integration that would ensure sustainance.

In perspective regional integration i.e in East African community will stregthen economies and improve available opportunities in the region for local sustainability. Kenya vision 2030 has shown improvements on the country shortly after the strategic plan was formulated.[104]

4.2 Globalization

Globalization is a widening set of interdependent relationships among people from different parts of a world that is divided into nation states[105]. It is also termed as integration of world economies through the elimination of barriers to movement of goods and services, capital, technology and people.Globalization can be summed as processes whereby many social relations become relatively delinked from territorial boundary and geography so that human lives are increasingly played out in the world as a single place.[106]

Globalization can be termed as a process that involves movement of people, goods and services and growing multi directional flows as well as the structures they encounter and create.[107]Internationalization is a term used to refer to globalization. Internationalization is the process of intensification of cross border interractions and interdependence between states with a common border. Its an interconnection across geopolitical borders between states. Liberalization refers to the process of removing of government imposed restrictions on movement of goods and services between states to establish an open market economy e.g creation of a free trade area like COMESA.

In today's world, the interaction platform is open to the whole world. There are no boundaries or barriers in communication and integration today. This is one of the benefits of globalization. The lives of people today are shaped by the social activities around them. The activities that are carried out today are influenced alot through different places in the planet. Globalization is refered to as a process whereby the world is accelerating and moving up with speed becoming a borderless sphere.[108]

Global integration is a process in which countries from all over the world decide to cooperate through international organizations like the WTO – world trade organization. Effects of integration are many and diverse. There are two key effects of integration in a growing economy;

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[104]Kenya vision 2030 website – www.vision2030.go.ke

[105]Peter J. Buckely, Jeremy Clagg, Nicholas Forsans et al – increasing the size of the country regional economic integration and foreign direct investments in a globalised world economy – management international review 41:3 (2001) pg. 251

[106]Ballis J. and steve S. (2001 p.14) The globalization of world politics: an introduction to international relations second edition

[107]Ritzer, G(2011, P.2) Globalization, the essentials John Wiley and sons limited. publications

[108]Ballis J. and Steve S. (2001 p.15) The globalization of world politics: an introduction to international relations second edition

a. Trade creation

The impact of cooperation and integration is to trade and open up new opportunities. When countries come together, production may shift from one main producer to more efficient producers. This is because there is comparative advantage which allows consumers to access more goods at a lower price than would have been possible without integration. Example; a company that sells within its region is able to generate at least 50% of the revenues from the home region. It is likely for the impact to be taken to other regions in the continent.

Integration should focus to grow and expand trade as much as possible.

b. Trade diversion

Trade shifts to a country in the group at the expense of trade with other countries even though the non member companies might be more efficient in the absence of trade barriers. Integration facilitates trade diversion whereby a member country might not invest or trade with a non member country if there is an alternative member country with fewer benefits.

Globalization has impacted all kinds of economies in the world. Globalization benefits are more often felt in developing economies rather than developed economies. This is because the developing countries need growth, development aid and foreign direct investments. Greater effects are seen on developing states and in the social political environments. This is evident on the continent of Africa. It is argued that globalization has made rich economies richer and poor economies poorer.

The World bank and international monetary fund introduced structural adjustment programmes into the African economy. They were introduced in the 1980s to help the African economies open free markets economy. The African states did not anticipate the effects. Instead the developed states saw available market for their goods and commodities in the African market. This was a big blow to the African industries. Many industries in Kenya were closed down due to the flooding of second hand clothing.[109]This affected the productive age since there was increased unemployment levels. The African states were desperate and lacked income.

International organizations i.e NGOs, Human rights activists and INGOs affected the political situation in the African countries. Political leadership affected the regional economic communities like East Africa such that the individual states have not yet recovered.[110]

East African community had gone a series of reforms from 1980s. These reforms were aimed at reducing direct government intervention in the economy and stimulating the growth of the private sector recognized as the engine of economic growth. These

[109]Kinyanjui M. N. & McCornmick D. (2002) E-commerce in the garment industry in Kenya; usage, obstacles and policies. London school of economics and political science and institute of development studies

[110]Obare G et al (2011) lessons from structural adjustment programmes and their effects in Africa. In quarterly journal of international agriculture vol. 50(1)pg 55-64

reforms were referred to as structural adjustment programmes which promoted the private sector. This included liberalization of the respective financial sectors.

Globalization facilitates development of strategies and policies that enhance economies of scale that can be utilized to establish diversification of production. Internet connectivity has created a platform for shopping and trading at lower costs and inexpensive ways. Regional integration has created a good environment for good connectivity and access through the fibre optic connecting the member countries i.e the EAC cable connection is still ongoing. The EAC member states will be able to share information and connect easily through the internet connectivity. Online shops have facilitated trade and access of goods to consumers all through the region and across borders. Consumers are able to access and gain ground of what is in the market and available to them. Removal of trade barriers and lowering of customs tariffs will encourage alot of free trade. This will enable more goods and services trading and movement of people and interractions between the regions. The geopolitical integration will perform well and multinationals gain more access in the region leading to more foreign direct investments attraction.[111]

Market competition

Nation states compete in international relations to achieve and retain positions of dominance in every aspect. Kenya seems to dominate East Africa alongside Tanzania. Kenya's economic performance in the EAC has made the economy larger, more dynamic and liberal. Kenya has a diversified economy, advanced human capital base, leading edge in information communication revolution in the region hence making it better to interlink with other member states economies in terms of investments flow and trade from multinational coorporations.[112]Multinational corporations tend to create competition to member states because of foreign direct investments. This may affect the relationships between member states in a regional arrangement.

Multinationals tend to exploit tax authorities to avoid paying tax. They cause social injustices, have unfair working conditions i.e low wages, poor living and working conditions, lack concern for the environment and resource wastage.[113]Other multinationals may influence political decisions with some directly affecting regional integration projects priorities. This may create poor relationships between the member states. Multinationals may have large investments budgets than the countries in which they operate in.

Globalization and regional integration in EAC

[111]Ibrahim A.A. (2013) The impact of globalization on Africa. In international journal of humanities and social sciences vol 3(15) pg 85-93

[112]Kimenyi S.M. & Kibe J. (January 6 2014) Africa's power house

[113]Ahiakpor, James 2016 – Multinationals corporations in the third world; predators and allies in economic development, publication religion and liberty volume 2

Globalization has brought changes in the integration process. EAC is categorised as a globalized region. EAC is a region that is known to be accomodative and friendly to foreigners and tourists as well as its citizens. This is a product of the multi cultured states associated with the region. This ensures that East Africa community is a region able to create room for different individuals and cultures and increase productivity and development in the region.

Globalization plays a key role to link the region with new ideas, technology and structures that are emerging now and then. EAC is a region that has adapted these emerging issues well. The EAC states have a standard way to treat foreigners and investors into the region. This attracts them into the member countries with ease to venture into businesses and interract with the people. The citizens are capable of responding to the culture shock and global change very well. This enables good integration in the region for the foreign investors and the people. The business environment increases the large presence of foreign investors to do business in the region. Communication has become very open and borderless hence the locals guide the foreigners with the right information.

4.3 Foreign direct investments on regional integration arrangements

Foreign direct investments have had a positive impact on regional integration arrangements. It is evident on the East African community. Large economies in the world have great interest on the continent of Africa. Regional integration in Africa is advancing slowly and surely. It has witnessed great growth and impact on the economy.

Structural transformation is the main focus of foreign direct investment in Africa. Developed economies i.e Asian economies, china, Brazil and India heavily invest in Africa. Africa is the source of raw materials, available man power, human capacity with skills and knowledge.Investments in Africa have been done by developed economies. i.e China has a great impact on Africa. Regional integration arrangements are enabled to promote market friendly policies and enhance integration.[114]

Policies in the customs union and common markets lead to improvements in the productivity of investments which is one of the critical elements that promote structural transformation. East Africa community should also focus on export of manufactured products instead of raw materials. Investments have been done on rebuilding railway lines, ports, hydro electric power and ICT. It is important for regional organizations to outline their policies and regulations inorder to promote a good investment climate and attract new investments.

[114]Shiere, R &Rugamba A 2013, China and regional integration as drivers of structural transformation in Africa

Foreign direct investment is a hope to the African continent since it will help contribute in significant ways to break the cycle of growth and poverty.[115]There lies a huge potential in the EAC integration. EAC has realized reasonable inflation levels, relevant regulatory and legal reforms, monetary and fiscal reforms have been undertaken by relevant government agencies in the partner states.[116]

All member states in the EAC have created investment promotion Authorities(IPAs) which act as one stop shop where investors can get information on services in appraising and making decisions on investment. The main concern in the region is the reliance of traditional sources of energy due to the deficits of energy.

The following is a table analysing the trade flows for 2014 and 2015 on imports and exports from the EAC into Rwanda and Burundi. The change has significantly increased though the exports are stagnant in Rwanda.

Table 10 Trade flows

IMPORTS FROM EAC	**2014**	**2015**	**% change**
Burundi	$ 79.54	$84.71	6.5%
Rwanda	$199.9	$299.8	49.97%
EXPORTS TO EAC	**2014**	**2015**	**% change**
Burundi	$ 7.03	$9.29	32.1%
Rwanda	$ 37.9	$37.9	0%

Source EAC Trade report 2015

<u>Human capacity</u>

Human capacity is the main important resource a country can have. It is the most lucrative investment a country should invest in. Human capacity makes the nation states to be productive and grow with big earnings.[117]Human capital is a solution to poverty eradication and development. Globalization has brought rise to skilled human capacity especially in information and communication technology. This impact is highly felt in the national and regional levels.[118]Early African leaders did not meet the expectations of the citizens since they did not have knowledge and enough skills. Good leaders were known to solve issues and

[115]Ikiara M. (2002) Foreign direct investments, technology transfer and poverty alleviation: Africa's hopes and dilemma; ATPS special paper series No.16 pp.1

[116]EAC trade report 2009

[117]Constant, Amelic F. & Tien, Bienvenue N.(2010 p.3) African leaders; their education abroad and FDI flow IZA discussion paper No.5353 December 2010 Bonn.

[118]Hiro I. & Robert H. (2004 P.11) Empirical analysis of human capital development and economic growth. Impact of education and training

encourage economic development in the right direction. They are known to have social networks and create forums for policies and strategies for development and good progress.[119]

Human capacity and Foreign Direct Investments flows

African leaders took over after independence in the hope of rebuilding the nations economically and socially. There was a small market to explore and take over from the colonizers. An open economy participating in international trade helps create the right environment for FDI flow in the country. African leaders decided to improve their economies by focusing on the small markets. There were few skilled human capacity that led to foreigners taking charge of the economy. This brought rise to foreign direct investments into the African economies. Policies were not put in place, poor planning and implementation led to poor management and control of FDI activities which affected the governments.

African leaders did not manage the foreign investments well which led to emergence of capitalist markets in the regions. Economic powers emerged from the west after the second world war. E.g Congo was a capitalist government under the rule of Patrice Lumumba and Mobutu Sese seko.

Lack of human capacity led to dictatorship and authoritarian regimes. Leaders like Idi Amin was given power in Uganda. These leaders did not have formal education and skills hence development and growth reduced. This period affected the nations and region progress which ultimately led to the fall of the first EAC.

In the 1980s the Bretton woods institutions started imposing on the African states through the structural adjustment programmes. There still lacked human capacity which led to little significance in economic performance.

Regional integration through media

Regional integration is a very important process in the member states and regions around. This study has realised that regional integration in East Africa is not well understood through all member states especially in Rwanda and Burundi. The people require knowledge and understanding of the process inorder to capture and enjoy benefits from the East African community. Citizens and people around the EAC region need to recognize and interpret the integration process and be able to utilize it to the maximum. The main common languages in the EAC include English and Kiswahili. Regional communication is evenly distributed in the two main languages.

It is essential for the EAC member states to encourage their people and citizens to discover and learn more from integration process. It is noted that human resource and participation is

[119] Jones B.F. & Benjamin A. Olken (2005) Do leaders matter? National leadership and growth since world war 2, quarterly journal of economics (120(3) 835 -864 Kenya sessional paper No.10 1965

limited in the region. The member states should concentrate on creating mechanisms to promote the common interests of its people to play. Policies and platforms should be created to advance these interests and involvement in regional affairs. Individuals need to be given a chance to speak out their views on the integration process.

EAC has media houses that need to spread information on the region and open up for opportunities. The world is constantly changing with technology, fresh challenges and huge impacts on an ever changing economy. Through the media, news and events in the region will be analysed more and increase understanding. It is the duty of the members to market and expand the region through sending useful information for building the region. The media houses have not been doing much in promoting the affairs and developments of the region.

In accordance to the theme of EAC – one people with one destiny simply promotes unity and togetherness to reach a common goal and future. The investments opportunities in the region will be more evident through the realization of our dreams and aspirations. Development and economic growth is started off by the locals inorder to achieve a common good. It is upto the citizens to promote the region as a centre for peace, growth and full of hope. It is possible by investing and engaging in tourism within the beautiful region. This will ensure people getting involved in policy making, implementation and deal with challenges in the integration process.

People are at the heart of integration hence they need to support the process by being part of it and creating avenues to share their inputs towards the growth and development. The East African Agenda seeks to support the people through the distribution of knowledge and participation in the integration process.

The media is tasked by the region to be up to date with the affairs of the region and the investment opportunities. This promotes clarity to the individual and understanding of the market. Integration is driven mainly by the way people understand and percieve things happening around.

Globalization has enhanced promotion of integration through internet connections through the fibre optic. It is very easy to access current issues in media because of technology. Many people are able to access through their phones about the stories happening around faster in the continent and region.

Foreign direct investments and employment

Foreign direct investments has a high impact on the employment levels in a region. Impact of foreign direct investments on employment is increasing the gross national income of the host country.[120] This effect can be directly or indirectly felt. Foreign direct investments build and increase incomes, it creates jobs from imports and exports especially from a supplier, service provider and a business owner. FDI plays an important role in the East Africa community to fight with unemployment. It is noted that positive employment is realized despite the shutting down of non-competitive domestic businesses.Unemployment may rise when FDI is gotten through mergers and acquisitions.

According to the economic determinants of foreign direct investments, labour is a resource seeking determinant. Foreign direct investments may increase when there is labour; both skilled and unskilled. In developing countries, there is available labour which helps to reduce the unemployment level especially in East African community. Foreign direct investment is more labour intensive compared to the domestic investments within a region. FDI increases growth in the developing african countries. This growth is realised despite the benefits are not evenly distributed within member states of a similar regional organization.

Foreign direct investments increases when both skilled and unskilled workers get paid by the foreign firms. However the skilled workers get more and are in demand compared to the unskilled workers. Most of the foreign investments come with new skills and technologies hence the skilled ones are easily accepted. For equity to be enhanced in the member states, domestic and foreign policies are very essential to help facilitate the right environment. There has to be a coordination between these policies so that the impact can be felt.

East african economies have established policies for market based development which are improving slowly for investments and employment needs to be actualized. These economies have big informal sectors that are poorly integrated with formal economy and large business.[121] The East African countries tend to fail to diversify the agriculture market. Majority of the population benefits from the agriculture markets hence alot of expertise and capital is needed to transform the livelihoods of the poor in East Africa.

There is a small portion of the population of East Africa that enjoys the wage from formal employment i.e there is 1.6% in Uganda among the youth, 4% of Burundi, 6% of Kenya and 5% of Tanzania represents the youth that is formally employed.[122]

The aspect of unemployment is further looked into the member states of the EAC and their factors that lead to less job creation.

[120]Santarelli, E. Figini P. 2004, Does globalzaton reduce poverty ; evidence on some developing countries in Lee E. et al 2004 – Understanding globalization, employment and poverty reduction

[121]Booth et al (2007)

[122]State of East Africa (2013), one people, one destiny?The future of inequality in East Africa. Society for international development pp20

Tanzania

The unemployment rate for the youth is higher than the national unemployment. The population mostly affected is the youth and women. It becomes harder for young people who are looking for their first time jobs. They are criticized because they lack experience and the age for higher ranks in the job.[123]There is lack of skills among young peole who have a tendency of changing jobs once in a while. The population of people with secondary education is increasing much higher than those with lower education[124]. This explains that unemployment levels are increasing in the informal sectors low quality jobs. Many young people are not able to access financial facilities to start an small medium enterprise.

Uganda

The services sector is the main driver of growth in Uganda. The focus is on the communication and financial sectors with approximately 8.5% aspiring growth in 2014.[125]The local market does not control the service sector to contribute to the global economies. The service sector has enabled integration into the regional and global economies by increasing returns. There has been implementation of open trade policies and by increasing the level of competitiveness of strategic sectors.

Productivity levels are adversely affected in the working population. This affect the way people are conducting their businesses. These challenges include; lack of enough capital, lack of technical and business skills and environments to do business.

Most of the youths in Uganda lack employable skills, access to land and capital, few trainings and insistence on the work experience.

Kenya

Unemployment in Kenya is mostly prevalent in the urban areas asoppossed to the rural areas. Most people in the rural areas are more underemployed because they lack skills and may lack primary education. Factors that lead to high unemployment rate include lack of finances, macroeconomic stability, harrassment by authorities, lack of skills and corruption.

Rwanda

There is a high percentage of youth that is unemployed or underemployed in Rwanda. They constitute 42% of the population. This is contributed to the poor structure of the economy.[126]The education system is misaligned by private sector needs, the demand is lower compared to the population of job seekers joining the labour market.

[123]African Development bank, OECD, UNDP, UNECA (2012) Tanzania- African Economic outlook
[124]ILO (2010) Decent work country profile – Tanzania (mainland) (Dar es salaam and Geneva)
[125]World bank (2013) Uganda Economic update; special focus jobs – key to prosperity, second edition, August 2013
[126]AFDB (2011) Rwanda; country strategy paper 2012- 2016 Regional department East Africa October 2011

Burundi

The country experiences low economic development with less job creation. The highest population of job seekers are the youth. The government has a contract form of employment that has controlled wages, the people lack vocational training and a good enabling environment for small businesses and financial facilities.

Industrialization plays a big role to the transformation of the economy. It is a sector that has a great potential to build in the countries especially in East Africa. It seeks to create employment to the citizens and enable innovation and invention of new things in the market. Labour is the essential aspect that attracts alot of people in the industries. Globalization has brought about new technology that has contributed to high skilled labour. Emerging industries require skilled labour in engineering, pharmaceuticals and electronics.

Investments are attracted in areas with productivity and skills. The populations with average wages also attract investments in order to increase productivity and outsource labour.Technology transfer and attraction of foreign direct investments through industries encourage the integration in the East Africatowards the global economy. Industries contribute to the regional GDP. The industrial growth in the EAC region focuses to expand trade and export in industrial goods to achieve the structural transformation of regional economies.

East African community is known in agriculture. Focus on value addition and diversification to other products will encourage growth, development and attraction of foreign direct investments. This will be highly achieved through the comparative and competitive advantages in the region. East Africa member states are known to concentrate more on subsistence farming and agriculture in small scale. This sectors are mainly faced with few financial resources, technology, marketing, extension services and access to capital. The farmers are then forced to depend on the little output for sustainance. It is important for the industrial sector to grow especially in the EAC. This will be through empowering the agriculture sector by value addition and service provision. It will increase employment opportunities and citizen participation in the growing economy. EAC is known to have fertile lands, natural resources and access to water. The member countries need to take charge and promote agro processing and increase value of the agricultural products.

The following is a table that explains the contribution of industrialization and agriculture to the GDP of the member states.

According to the table below, the industrial sector is not increasing as compared to the other sectors. In Kenya the industrial sector stagnated at 16- 17% while Uganda increased from 22.6% to 26.2%. In Rwanda the growth stagnated at 14-15% while Tanzania increased from 20.8% to 23.4%. Burundi decreased from 19.4 to 14.4% within the 2006 to 2013 period.

Table 11 EAC member states sector shares to GDP 2006-2013

Sector	Partner state	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture share of GDP %	Burundi	48.5	48.4	46.9	47.0	43.9	44.0	38.5	36.1
	Kenya	23.8	22.0	22.7	23.9	22.0	23.8	24.6	25.3
	Rwanda	38.0	36.0	32.0	34.0	34.3	34.9	34.7	35.2
	Tanzania	26.2	25.8	25.7	24.6	24.1	25.0	24.9	25.3
	Uganda	22.6	20.7	21.6	23.6	21.1	22.7	21.9	22.1
Industry share of GDP %	Burundi	19.4	16.4	16.9	16.3	17.5	18.3	12.9	14.4
	Kenya	16.4	16.3	17.4	16.9	17.3	17.0	16.8	17.2
	Rwanda	14.0	14.0	15.0	14.0	15.3	14.4	14.9	14.2
	Tanzania	20.8	21.2	21.0	22.0	22.3	23.1	23.1	23.4
	Uganda	22.3	23.9	24.0	23.8	24.9	26.8	25.9	26.2
Services share of GDP %	Burundi	32.1	35.2	36.3	36.9	38.7	37.7	48.6	49.5
	Kenya	49.7	50.8	48.8	48.3	48.9	59.2	58.6	57.5
	Rwanda	42.0	45.0	46.0	46.0	50.4	50.7	50.4	50.6
	Tanzania	43.3	43.3	43.8	43.6	43.9	51.9	52.0	51.3
	Uganda	49.1	49.0	48.0	46.2	47.7	50.5	52.2	51.7

Source: EAC Secretariat, EAC facts and figures 2014

4.4 Regional trade arrangements and Employment

A regional trade arrangement is an agreement among governments to liberalize trade and possibly coordinate other trade related activities. Trade is a powerful force towards economic growth and eradication of poverty. Trade supports growth by enhancing a country's access to a wider range of goods and services, exchange of knowledge and technology.[127]

Trade facilitates entreprenuership hence promoting job creation in the private sector. Hence it increases foreign exchange earnings and attracts private capital and increases resources for development.This is very hopeful although the change is not well reflected in terms of employment.[128]A regional trade arrangements opens up these opportunities and markets through a region. There are four types of RTA with the coverage and depth of preferential treatment varying from one arrangement to another. They include;

a. Free trade area
b. Customs union
c. Common market
d. Economic union

East African community is grouped as a regional trade arrangement. It has successfully achieved a free trade area, a customs union and a common market. It is working on towards

[127]WTO 2008 The intergrated framework for least developed countries
[128]OECD 2012, Policy priorities for international trade and jobs ed.D.Lippoidt e- publication, Ralf Peters and David Vanzetti chapter 13 Regional intergration and employment

an economic union. EAC has been a functional organization because it has benefited from the three categories of regional trade arrangement. Some of the benefits include; lower trade barriers and the integration of the six states have facilitated this through the years. It has also experienced trade creation and trade diversion.

There are other effects of regional trade arrangement that include;

a. Trade gains

Free trade between member states have facilitated and increased demand for goods and services. However trade can be positive and negative.

b. Increased returns and increased competition

RTA are said to increase markets access with the exploitation of economies of scale. There is also great resource allocation and higher growth that comes from a trade arrangement. This is encouraged by the comparative advantage existing between the member states. Trade has provided job creation through entreprenuership and new sectors have emerged due to globalization and connectivity among the member states. There is also increased competition in the markets. However there is increased growth in capital intensive sectors while there is no jobs creation. Regional integration may increase employment chances but it is not evenly distributed in the member states depending on the geographical areas sectors and types of workers. The labour market is controlled with the help of technologies.

c. Investments

Member states attract foreign direct investments from within and outside the RTA as a result of market enlargement, production rationalization(reduced distortion and lower marginal costs of production). Trade investments enable job creation. These effects are both positive and negative. These jobs created are not sustainable within the regional trade arrangements.

4.5Trade in services

Challenges in the East African integration process

1. There are weak legal frameworks that govern the service sectors, poor coordination between institutions that are relevant to the reforms on trade in services
2. Lack of awareness of the EAC integration process and the trade in services
3. Lack of adequate detailed, relevant statistical information on trade in services in the region to guide trade in services agenda
4. Lack of parallel process to adress implementation procedures
5. There are few policies, guidelines and regulatory framework or opening some sectors
6. There are insufficient resources to enable capacity building for trade in services negotiations
7. There is weak implementation of the policies
8. There are barriers to proffessional services especially legal, accounting and engineering sectors.

Lessons learnt

- Member states in the East African community need to emphasis on good trainings and skill development to meet the market needs and demands.
- The private sector should be involved in the trade in services at the national level
- Member states should support the growth of the services sector e.g market promotion and financing markets
- Harmonized legal and requlatory framework and systems of collecting data should be well developed and statistics well kept and recorded.
- The member states governments need to invest in developing, reforming the services sector beyond liberalization and consider harmonization inorder to encourage its growth.
- Research needs to be conducted on barriers in intra and extra markets
- There is need to ensure the pace is well coordinated and implementation is continuously taking place.

4.6 Labour mobility

Regional integration is enhanced through labour mobility as one of the factors that promote productivity within the region. Labour mobility has acted as a response towards unemployment. Local citizens are looking for opportunities outside the home boundaries inorder to improve their livelihoods.

It is a belief that there is better pay and greener pastures on the other side. This has increased and motivated international movement of people. In East Africa, there are alot of challenges that have encouraged people to migrate looking for jobs and better opportunities. A decision to migrate into another region or country can be associated as making an investment on its own. It has its own costs and benefits.

A local citizen will seek to benefit as much as do business in the prospective country. East African community is highly populated hence people may have just enough opportunities. When a local decides to move, he is likely to relocate to a region that is in need of labour workers. Hence most allocations are done where there are activities and it is more productive than in the home region. People like where they can generate an extra income.

Foreign direct investments is attracted by labour mobility and availability. Small and open economies are likely to benefit from FDI through economic development. Small economies have available cheap labour which makes the foreign direct investments to locate into these countries. East Africa is a region with labour supplies which makes it home to foreign direct investments. The community needs to liberalize the environment for labour inflows to allow easy access to a variety of available skills. This includes; semi skilled labour, skilled and unskilled labour. FDI will then be attracted into these countries. This diversity of labour enhances high skilled professionals and occupation specific skills within the region.

Labour mobility is accompanied by high wages. It is discovered that labour migrates to countries with higher labor productivity and higher wage rates. Countries are able to track inflows better than outflows. It is considered that labour mobility favours the young and skilled workers. This is because they are very productive. However there is a challenge of brain drain that comes with this migration. The labour market attracts domestic and foreign investments.

Early on, labour mobility involved citizens from highly industrialized cities to the poorer countries to source for labour and develop the little towns.[129]In the 1960s people started migrating from the low income towns to the high income countries. This increased mobility in diferent continents especially Asians and Africans. Oil countries in the west received an inflow increase of immigrants. It did not take long while the period ended. Labour mobility advanced to a level of skilled professionals moving out of good economic developed countries to less developed to change and integrate in other economies.

East African community experiences a shortage of skills within the member states. This covers lack of professionals and skilled personel in the market place. Burundi is the least developed member state in the East Africa community. It consists of a small personell in human resource to capture and drive the service industry in the country. According to the common market protocol, free movement of people is easily advised. It will facilitate the distribution of qualified personell in different sectors e.g Lawyers, accountants will be evenly distributed where there is shortage. This is an advantage that came with regional integration in EAC. The common market protocol promotes the free movement of people and services which the member states have fully committed themselves.

Labour mobility and EAC integration

Member states of East Africa community entered into the common market protocol in November 2009. It became effective in July 2010. The common market protocol seeks to widen and deepen cooperation among the member states in the social and economic groups. This is slowly being achieved through the elimination of barriers on the movement of services, goods, people, capital, labour and right of residence.[130]

Article 10 of the common markets protocol guarantees free movement within the EAC region. Citizens of the member states can easily apply for positions and job offers within the region. People can easily travel and reside in the country of employment. In accordance to the administrative measures, laws and employment laws, the people will enjoy the freedom of association and negotiate for good living and working conditions.[131]Employees should not experience discrimination and low renumeration.

Article 11 supports the uniformity of academic certifications and professional qualifications from all the member states. The member states were to harmonize their academic standards and curiculum in the academic and training institutions.

The common market has been progressing in the member states. The change is not yet realized. East Africa community has a population that is semi skilled and unskilled. The free movement of workers is not fully realized since the allowed workers need to be qualified professionals. The common market is said to be progressive with time. The restrictions on movement helps the member states to maintain jobs for their own citizens. The professionals and skilled personells are also scarce in the member states.There are priviledges that come

[129]World Bank 2009

[130]EAC common market protocol

[131]The East African Community common market 2009(free movement of workers) regulations anexxe ii

with labour mobility within a region. An employee may have a chance to change jobs in the neighbouring countries with ease. Other opportunities may be least attractive to the local citizens but better for the migrant workers.

Challenges of labour mobility in EAC

a. Language barrier

The East African community consists of six countries. They are different and multi cultured. It is important to note that they have different cultures and languages. E.g Rwanda and Burundi speak French, Uganda, Kenya and South Sudan speak English while Tanzania speak Kiswahili as the official languages. For communication, it is essential to have a common official language. A common language will facilitate business and interractions as people move around in the region. EAC is a friendly region with good people who understand and respect each others cultures. The region needs to choose a common language to help in business. Sometimes a person may lack an employment opportunity because he is not able to learn the official language of the other country.

b. Shortage of facilities e.g better housing

Employment in the member states comes with high privileges. Free movement of people ensured basic needs and benefits would be achieved. However it is not all reality. Many migrants require to move in with their families. They require special needs and room. Most member states still struggle to house their local citizens with good facilities.

c. Brain drain

Brain drain is an evil that is associated with labour mobility. It is well experienced in the skilled labour among the young personells. A skilled labourer is better placed to have better opportunities than a semi skilled one. Skilled people may be send to countries with few skilled workers. EAC has a shortage of skilled labour which is well indicated in the region. The skilled individuals look for higher pay and renumerations outside their home countries. However there are very few opportunities. Landing on the available jobs makes the skilled lower their standards and expectations.

The receiving country tends to benefit from the brain gain where by professionals migrate to for these opportunities. Migrant workers with skills are likely to waste themselves if they are not employed.The member states have opted to harmonize the education sector inorder to increase skilled employees into the formal sectors. It is up to the member states to train more professionals so as to send them where they are few. E.g more English teachers may be sent to Tanzania while accountants, engineers to be sent to Burundi. The partner states need to produce many professionals inorder to benefit.

d. Social security issues

Social security schemes help employees benefit depending on the country of employment. The introduction of free movement of people brought a challenge towards benefits of individuals in the East African region. A migrant may only enjoy the social benefits while working and staying in the country of employment. The individual may have a difficult time to transfer the benefits if he plans to leave. This is because EAC consists of countries with various different social security schemes. A coomon currency in the region may have an advantage to harmonize these benefits.

e. Security at the borders
Border controls are lowered to facilitate intra trade within the member states. However it is a concern to keep the borders safe and secure at all times. The security of the receiving country is at stake of criminal activities e.g human trafficking, drugs and firearms transportation within the borders. Kenya has become a host to many refugees in the past. It is important to improve the security personell within our borders and increase efficiency in allowing people within the borders. Free movement of individuals become a challenge because of the negative habits within the borders.

f. Abuse of human rights
Women and children are often the most abused within our borders. Abuse is often through forced labour, ill treatment by employers, harrassment because of being vulnerable. The kinds of jobs women do are not as respectful and they may be violated. Workers from the partner states should be accorded with the same treatment as other citizens in the country. There are privileges that are accorded to the migrants and workers depending on the labour laws and human rights standards. This should be very useful within the borders to avoid further harrassment.

4.7 One stop border points

A one stop border point is a trade facilitation tool. It is efficiently utilised at the borders. It helps to coordinate and integrate the trade activities within the borders. It has facilitated trade, the movement of people and improved security. The tourists and travellers access the border checkpoint once where they are taken through border formalities. The routine activities are well formulated and minimized through joint controls. This involves a government way of doing things. It is a general clearance and activities are carried out within the law of government. One stop border point helps to reduce the time travellers take in their journeys and the time of clearance at the border crossing points. The one stop border points are supported by four pillars;

a. Legal and institutional framework
International law is applied to control the border points. The principle law of extraterritorial allows a state to extend the application of specific national laws outside its own territory. For efficient and effective implementation of a one stop border points, there has to be a regulatory and institutional framework. There are several government agencies responsible for border controls. These agencies need to operate in a cordinated manner to minimize duplications and redundancies.

b. Simplification and harmonization of procedures

A one stop border point ensures that the exit and entry formalities at a border are fast and efficient. The implementation of a one stop border point requires to be simplified and harmonized so that it can be effective. The procedures should be updated continuously so that it can be facilitative and relevant to the circumstances on the ground. Special considerations on the environment and jurisdiction are essential in an effective one stop border point.

c. ICT and data exchange

Information and technology has enhanced the services offered at the one stop border points. ICT enables the simplification of documentation, collaborative windows systems, border management and modernization of customs, immigration and related services. Clearance of travelers and cargo at the borders need to be balanced and free flowing. This is well facilitated and controlled through the use of ICT. Few resources are utilized to manage the borders and facilitate interconnectivity of agencies for implementing risk management systems and mobility as well as know the trade patterns.

d. Hard infrastructure

A one stop border point should have good structures and facilities to accomodate officials and the type of operations carried out at the border post. These facilities include good offices, spaciuos parking and warehouses and operational equipments. The operations should be functional and efficient at all times.

Benefits of one stop border points

Border points are very critical in performance and efficiency of services within the transport corridor. Border points are the linkages of different points along a corridor. They facilitate international trade and movement of people across the borders contibuting to the growth of national, regional and international economies. The border points need to be attractive in performance inorder to allow more trade and free movement to take place. People living at the borders are adversely affected by the operations within the borders. One of the positive effects include free movement of people with a national identity card. The people can also do trade and integrate within the two countries. This increases foreign direct investments and promote the lives of the citizens.

Conclusion

The study found that there is limited information on labour mobility within East Africa. The member states are working hard to open up opportunities for free movement of people of member states and issue of passports and work permits.

This is possible through the globalization process and new technology. The new technology facilitates the access to better and quick services within the border points of the member states. This has promoted integration and trade especially the communities near the border points benefiting alot. This is because they access both markets easily than before.

However it is not possible to link up integration and job creation. This is because there exist the major challenge of unemployment. The member states have not yet created enough opportunities to its population. This factor has increased fear of movement of people within the region. The main challenge in East Africa in the recent times is that there is less information on labour mobility due to the lack of employment opportunities in the region.

CHAPTER 5

SUMMARY

This presents an analysis on the study done on the impact of East African integration on the foreign direct investments. It will help analyse the findings and come up with an actual feedback about the trends in the region regarding foreign direct investments.

The chapter involves findings and statements that reflect the state of regional integration on East Africa community. East Africa community is geared to promote and improve the living standards of its citizens. This is the primary goal. This is done through increased competitiveness, value added production, trade creation and increased investments. The member states have worked hard to unite the region and propell it forward. Each member state is aiming to achieve alot and better benefits with time. The member states have the power to create the right environment for attraction of foreign direct investments in the region. Integration has enabled some member states attract FDI flows while others have slowed down e.g Burundi.

CONCLUSION

Hypothesis 1. –Integration has promoted equality among member states of the regional bloc.

The study finds out that equality is not quranteed to all member states. EAC has five countries which benefit differently in attracting FDI within the region. E.g Burundi and Tanzania are affected in intra- regional trade in customs clearance. They are ussually delayed through non tariff barriers imposed by other member states e.g Kenya.

Equality within the member states may take some time while aligning factors and barriers within the members. It is also noted that every member state has its uniqueness towards attraction of foreign investments. Integration helps to search for solutions to barriers of trade. E.g One stop border points have helped to reduce delays and minimize barriers within the designated points of entry.

Competition has encouraged member states to improve their investment opportunities e.g Rwanda has a growing market and environment that is attracting huge investments and tourists. Tanzania has expanded their ports and rail transports being opened hugely through the LAPSSET project. LAPSSET has connected South Sudan which is willing to join in EAC. There is a massive growth in opportunities.

Hypothesis 2- Effective structures to control foreign direct investments

Member countries have individual government institutions that help promote intra-regional trade within the borders. This include; the ministry of industry in Tanzania, Tanzania Revenue Authority, Kenya Revenue Authority and Bank of Uganda. The police department plays a part in blocking and inspecting along the border points. Individual members have designated check points depending on their measures of security and protection of their citizens. EAC needs to work out a uniform procedure and policy to promote easy movements along the borders and flow of trade activities. This will encourage more investors and increase flow of FDI. Non – tariff barriers are structures that are significant in flow of FDI. Member countries set non tariff barriers with the aim of protecting their own industries and avoiding surplus on imports.

The social integration was a concern in the study in the labour and infrastructure sectors. The infrastructure has been convinient in rail, road and air transport. The people travel alot and get their passports on time. Labour mobility has encouraged individuals to look for work in the neighbouring countries with ease.

EAC may eventually establish a monetary union and make it a single investment destination with time. It assures of expanding market and developments in the region.

RECOMMENDATIONS

a. EAC is mandated to utilize the power of the legislative assembly (EALA)
b. Distribution of resources among the members is done according to the needs of the member states. Burundi is the poorest in the region. The member states will never be equal but sharing of power and even distribution of skills and resources will help balance and promote the region as one.
c. citizens need to be empowered and sensitized about the regional integration process. This will encourage them to participate in business and in international trade. Industrialization and energy fields have the potential to grow.
d. East Africa community should work on joint investment policy that will be a proper structure to guide on investments. This is highly encouraged by the investment promotion authorities that guide foreign investors to make good investments in the region.
e. The member states are encouraged to implement policies, decisions and protocols that will adress the existing issues e.g unemployment and lack of skills within the region. This will be able to equalize the distribution of skills in the member states and create room for incoming foreign direct investments.

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APPENDIX

QUESTIONAIRE

This is a questionnaire that was designed to gather information for the research project. It seeks to respond to the research objectives in the study.

1. What are the factors that have attracted foreign investors in the EAC?
   The respondents supported the presence of the determinants of foreign direct investors. The economic determinants and business facilitation were recognized to exist. East Africa is strategically located along the Indian ocean. It has good transport connectivity linking the landlocked countries. The ports ensure movement of goods and services is efficient in the landlocked countries. Air transport is well enhanced and the airports are well maintained e.g the Jomo Kenyatta airport has been renovated to accommodate many international flights.

   a. Political stability
      Member states have promoted stability in their countries. This has promoted a good investment environment for the investors. The peace in one's country enhances promotion of foreign direct investments and people doing business freely.

   b. Economic determinants
      These are foreign direct investment determinants that promote investments into a region. They include; market seeking, efficiency seeking and resource seeking. EAC has resources to industrialize and available raw materials. Labour is also available with skilled and unskilled. The huge population plays a big part in portraying a good market for the investors.

   c. Business facilitation
      This include factors that promote doing business in a certain region. EAC has facilitated business in various ways. It has assured the foreign investors of a functional market and a good investment climate. Barriers to foreign direct investments have been eliminated and there is fair treatment to all the investors in the country.

   d. Culture of the people
      The people of EAC are friendly to visitors and foreign investors. This has promoted the interest of the investors to settle into the community. The people are well cultured and global oriented.

   Incentives attract the investors into the region. Good rates and tax prices enable the investors to come and do business into the region. The community is responsible to create the right environment for these investors. The rules and regulations promoting good treatment to the investors, entry procedures create room for more investments into the region.

2. What is the impact of EAC integration been to its citizens?
   The impact has been more positive and rewarding to the locals. The region is creating business friendly environment. Citizens can move freely within the member states and find job opportunities. The integration process through the customs union has regulated tariffs and the cost of doing business.The citizens need to explore opportunities

to do business within the member states. The business people have to explore the opportunities brought by the integration process. There is a lot of knowledge dispersed in the community and opening of markets that enable the business people access them.

The realization of EAC benefits is still growing and gaining ground among its citizens.

3. How has the implementation process of integration been to the member states?

   Most respondents identified that the implementation is slow although it is positive because of the gains gotten from the integration. The member states have experienced ease of movement of goods and services and people with less congestion in the border points. There are no long delays. The common markets and customs union has brought change into the member states.

   There is need to create awareness within the East African community. The integration process is surely growing but the implementation is slow. The citizens need to be informed on the activities and purpose of regional integration. The media is responsible to give information about the benefits and activities that concern the East African community. There are media houses in the EAC that sensitize and educate people on the benefits of integration and how it is happening in the region. Many people do not recognize the regional integration. The EAC is an organization that has great content and information that need to be passed through to all the member states. This will encourage growth and participation especially in the East Africa legislative assembly and equality among the member states.

4. What are the factors affecting EAC integration?

   There are a number of factors that affect the integration process. These factors have delayed and slowed the process of integration as well as the foreign direct investments.

   a. Political instability

      African countries consist of a series of chaos and instability that comes during a political season. The EAC has six countries with different political leaders. These countries have their own preferences and method of integrating. Political instability in one member state affects the other member states and the integration of the community. Favorism is a cause of such instability. The personalities of leaders may impact the integration process negatively.

   b. Lack of trust

      Member states experience lack of trust in the integration process which leads to dysfunctional unity. The members are not able to progress when they are not together. The union consists of six member countries. They need to have a common ground and goal towards the growth in the region. The member states need to have uniform goals inorder to achieve them together. Lack of trust facilitates diversion of views and values which mislead to bad decisions. The leaders concentrate on their national goals instead of the regional goals.

   c. Unharmonized policies

      Member states are not able to pass and implement unharmonised policies. This is because the policies enhance the individual interests of the member states. They often drag the integration process and disunity among members. The member states are often urged to create good policies so that they can be well implemented. There have been challenges in harmonizing the non tariff barriers within the member states. This hinders the facilitation of trade and foreign direct investments attraction.

d. Sovereignty fear

Member states do not let go of their sovereignty power easily. This makes the state hesitant in joining the integration.

e. Infrastructure

Inter connectivity is important through the member states. Good infrastructure i.e good roads and transport promotes good relations and increase access to markets. The state of infrastructure affects integration.

f. Poor implementation of council directives from partner states

Many policies and directives are passed through in the legislative assembly. However there are many which are not implemented. This makes the integration inefficient.

5. Has addition of new members encouraged new FDI into the region?

There were positive and negative approaches towards new membership in the East African integration. In a population of thirty eight individuals, fifteen agreed on the positive impact on foreign direct investments while twenty three responded aganaist.

YES	NO
15	23

The reasons for positive responses included; presence of more markets, free movement of people and goods within the region, increased infrastructure projects i.e the LAPSSET program which costs US$26 billion to construct a port is ongoing. It constituted the heads of states of Kenya, South Sudan and the prime minister of Ethiopia. This contract seeks to connect the Lamu port and South Sudan and Ethiopia.

The reasons for concern depended on the security in the new member states especially South Sudan. Somalia is also an interested party but it has issues on terrorism and cross border crime. The fear of adding Somalia is to enhance terrorism and crime within the borders.

6. What kind of impact has the East Africa had on foreign direct investment flows?

a. The East Africa community has a huge population

The growing population in East Africa enhances the inflow and attraction of foreign direct investments. Many foreign investors get into the country to capture the market available. They are not afraid for their production. The market size is growing and it will attract many investors as possible.

b. The East Africa community integration has a lot of potential to increase FDI

The member states are able to integrate and generate more foreign direct investments. There is a vast potential brought by integration to encourage foreign direct investments flow.

c. EAC has a preferential treatment to foreign investors

There are no internal tariffs in the movement of goods and services. The investors utilize this to move and integrate with other partner states within the region.