FACTORS INFLUENCING REGIONAL TRADE WITHIN
THE EAST AFRICAN COMMUNITY COMMON MARKET

BY:

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SEPTEMBER, 2012
DECLARATION

This Research Project is my original work and has not been presented for examination any other University.

Signature ……………………………           Date ……………………………………

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D61/70018/2007

This Research Project has been submitted for examination purposes with my approval as University Supervisor.

Signature …………………………… Date…………………………………………

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A lot of thanks to the EAC members state Embassies in Kenya for assisting in conducting the respondents in their respective countries, and also the respondents in the research for their willingness and patience to answer the questions in time. You exceeded my expectations and May God bless you all.
DEDICATION

This Research Project is dedicated to my loving wife Elizabeth, My children Michelle Mueni and James Mutua whose support and inspiration has propelled me to great heights in life and to my fellow east Africans as we strive to be one nation.

ABSTRACT
The objective of this study was to find out the factors that influence regional trade within the East African Community common market. The population of interest consisted of the respective ministries responsible for the EAC affairs in all the member states of the East African common market. At the time of research there were only five member states which had ratified the EAC protocol, although Sudan, South Sudan and Somalia had applied to the secretariat for consideration as members of EAC. Results of the study show that the major benefits accruing to the member states from the EACCM include wider choice of goods and services afforded to the consumers, larger production base, expanded market size for producers and greater competitiveness and quality of products. The major factors influencing regional trade were identified as: industrial concentration within the member states, supply-side constraints and competition, multiple memberships, different tax regimes and non-tariff barriers. The industry concentration was found to be a little skewed with most members indicating that Kenya had higher concentration of industries with limited specialization by member states to produce what they have comparative advantage on. The main supply-side constraint identified was poor infrastructure which posed challenges by way of transportation, telecommunication and delays. However, it was also noted that the infrastructure problem only posed a challenge to a moderate extent to the regional trade. It was clearly established that regional trade within EAC does not receive a boost from multiple memberships and that EAC member states have delayed in harmonizing their tax regimes and this affect regional trade in EAC moderately. Regarding non-tariff barriers, it was found that NTBS still exist in the EAC common market to some extent. It was also found that there are mechanisms to deal with errant member states that enforce NTBS but that these mechanisms were only moderately effective. In conclusion the benefits of regional integration within the EACCM are more than the constraints experienced and it was suggested that the levedel of integration should be fast tracked to a federation.
TABLE OF CONTENTS

Declaration .......................................................................................................................................... ii
Acknowledgment .......................................................................................................................... iii
Dedication ......................................................................................................................................... iv
Abstract .......................................................................................................................................... iv
List of tables .................................................................................................................................... ix
List of figures ................................................................................................................................. x
Abbreviations .................................................................................................................................. xi

CHAPTER ONE: INTRODUCTION ..............................................................................................1
1.1 Background of the Study ..........................................................................................................1
   1.1.1 Economic integrations ......................................................................................................2
   1.1.2 Regional Economic Organizations ..................................................................................3
   1.1.3 The East African Community Common Market .............................................................3
1.2 Research Problem ....................................................................................................................4
1.3 Research objective ..................................................................................................................5
1.4 Value of the study ....................................................................................................................5

CHAPTER TWO: LITERATURE REVIEW ..................................................................................7
2.1 Introduction .............................................................................................................................7
2.2 Theoretical basis of international trade ....................................................................................7
2.3 Basis of Regional Economic organizations .............................................................................8
2.4 Developments in the East African Community Common Market ........................................9
2.5 Regional Trade Policies in the EACCM .................................................................................12
### 2.6 Patterns and Direction of Regional Trade in the EAC

- **2.6.1** Industrial Concentration
- **2.6.2** Infrastructural (supply-side) Constraints and Competitiveness
- **2.6.3** Multiple Memberships
- **2.6.4** Differing Tax Regimes
- **2.6.5** Non-Tariff Barriers and Measures
- **2.6.6** Corruption
- **2.6.7** Revenue Losses and Border Inefficiencies

### 3.1 Introduction

- **3.2 Research Design
- **3.3 Population and sample
- **3.4 Data Collection
- **3.5 Data Analysis

### 4.1 Introduction

- **4.2 Background information
  - **4.2.1** Response rate
  - **4.2.2** Position
  - **4.2.3** Level of education
  - **4.2.4** Length of service
LIST OF TABLES

Table 4.1: Distribution of respondents by member state ...................................................27
Table 4.2: Distribution of respondents by level of education ..........................................28
Table 4.3: Respondents’ likes/dislikes about their organization .......................................30
Table 4.4: Benefits of EAC common market .................................................................31
Table 4.5: Industrial concentration ..................................................................................32
Table 4.6: Supply side constraints and competition .......................................................34
Table 4.7: Multiple memberships ....................................................................................36
Table 4.8: Different tax regimes among member states ..................................................37
Table 4.9: Influence of non-tariff barriers on regional trade in the EAC .........................38
LIST OF FIGURES

Figure 4.1: Distribution of respondents by positions held.................................................28

Figure 4.2: Distribution of respondents by years of service..............................................29
## ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMESA</td>
<td>Common Market for East and Southern Africa</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EACCM</td>
<td>East African Community Common Market</td>
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<td>EACCU</td>
<td>East African Community Customs Union</td>
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<td>ECOWAS</td>
<td>Economic Organization for West and Southern Africa</td>
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<td>EPA</td>
<td>Economic Partnership Agreements</td>
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<td>EU</td>
<td>European Union</td>
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<td>IGAD</td>
<td>Inter Governmental Authority on Development</td>
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<td>KAM</td>
<td>Kenya Association of Manufacturers</td>
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<td>NTB</td>
<td>Non Tariff Barriers</td>
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<td>KNCCI</td>
<td>Kenya National Chamber Of Commerce and Industry</td>
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<td>REC</td>
<td>Regional Economic Cooperation</td>
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<td>RTA</td>
<td>Regional Trade Agreements</td>
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<td>SADC</td>
<td>Southern Africa Development Cooperation</td>
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<td>SID</td>
<td>Society for International Development</td>
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<td>SITC</td>
<td>Standard International Trade Classification (SITC)</td>
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<td>TIFA</td>
<td>Trade and Investment Framework Agreement</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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<td>CBI</td>
<td>Cross Border Initiative</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<td>EPZ</td>
<td>Export Processing Zones</td>
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<td>ADB</td>
<td>African Development Bank</td>
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<td>AU</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

International business consists of any commercial transaction that crosses the borders of any two nations and comprises a large and growing portion of world’s total business. Globalization which is a shift towards a more integrated and interdependent world economy has several facets including the globalization of markets and the globalization of production. The globalization of markets refers to merging of historically distinct national markets into one global market place, while globalization of production refers to sourcing of goods and services from locations across the globe to take advantage of national differences in the cost and quality of production (Hill, 2011).

Regional trade refers to trade which focuses on economic exchange primarily between countries of the same region or economic zone. Regional trade integration is an important pillar of trade and investment policy in the EAC countries. In a bid to maximize benefits from regional trade, the EAC countries apart from participating in the EACCM are also members of other regional integration arrangements.

The east African community common market regional operating environment for is different from that of each member state because first, the modes of business operations such as importing and exporting differ from those in the domestic market. Secondly, the physical, social cultural and competitive conditions differ among countries and affect optimum ways to conduct business. Thus companies operating regionally have more diverse and complex operating environments than those which conduct business only at
home. Multinational corporations can take advantage of regional economic blocs to lower barriers to cross-border trade and investments between member states and thus expand their markets.

According to the Sid (2012) report, The east African common market is expected to increase the volume of trade between the member countries. In 2010 the value of the EAC’s total trade with the world was $37 billion, which was double the $17.5 billion achieved in 2005. The region’s trade with the world as a share of its economy expanded from 28 per cent in 2005 to 47 per cent in 2010. Trade within EAC also expanded from $2.2 billion to $4.1 billion between 2005 and 2010. However, as a share of East Africa’s total trade, regional trade within the EACCM declined slightly from 13 per cent in 2005 to 11 per cent in 2010.

1.1.1 Economic integrations

According to Daniel et al (2011), Economic integration is the political and economic agreements among countries in which preference is given to member countries, and takes three forms; global, bilateral and regional economic integration. Global integration refers to a situation where countries from all over the world decide to cooperate through the WTO agreements. Bilateral agreement is where two or more countries decide to cooperate more closely together usually in form of trade barrier reduction. These agreements can be between two individual countries or may involve one country dealing with a group of countries. Hill (2011) defines Regional economic integration as an agreement among countries in a geographic region to reduce and ultimately remove tariff and non tariff barriers to free flow of goods, services and factors of production between
each other. This research will focus mainly on the regional approach to economic integration and trade within a regional economic organization.

1.1.2 Regional Economic Organizations

Daniel et al (2011) has identified five forms of regional integration: free trade area, customs union, common market, economic union, and political union or federation.

Free trade area- encourages trade among its members by eliminating trade barriers among them, with each member left to establish its own trade policy with non-members.

Customs union is an economic integration whereby countries remove all barriers to trade among themselves, but erect a common trade policy against non members, by having a CET. In a Common market, member states remove all barriers to trade and factors of production - people and cross border investments, while Economic union represent full integration of the economies of member countries, going beyond the demand of a common market by requiring member nations to harmonize their economic policies (tax, monetary and fiscal policies, and social welfare programs in order to blend their economies into a single entity and erect a common trade policy against non-members

1.1.3 The East African Community Common Market

The East African Community is the regional intergovernmental organization of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi and has its headquarters in Arusha, Tanzania. It envisaged the establishment of a single market and investment area in the region and the harmonization of policies to promote cross-border trade and ease cross border Movements of goods and
persons, development of infrastructure, and enhancement of Technological and human resource development.

The East Africa community common market protocol was signed in 2009 and came into force in 2010 following the ratification by the heads of states of the five member states. The EACCM protocol guarantees free movement of goods, people, capital, labour, services and the rights of establishment and residence. The protocol also elaborates other areas of cooperation by the partner states and rules on competition, public procurement and subsidies. According to the EAC facts and figures report of 2011, The EAC trading bloc will create a market of over 133 million people and a combined Gross Domestic Product of $80 billion, making it one of the largest trading blocs in Africa.

1.2 Research Problem

Regional trade refers to trade which focuses on economic exchange primarily between countries of the same region or economic zone. Countries within the same economic zone trade with each other taking advantage of availability of economies of scale within the region because of expanded market brought about by removal of tariff and NTBs. Common markets are being formed in poorer regions of the world including Africa mainly to stimulate production of items within the block that would otherwise be imported, encourage foreign direct investments, and protect infant industries from completion from non-member states (Bennett 1999).

The East African Common Market (EACCM) member states have removed all barriers to trade and factors of production thus guaranteeing free movement of people and cross
border investments, right of residence and establishment. There are only a few studies focusing regional integrations and in particular common markets. Ogaga (2007) examined the challenges of implementing a customs union and found out that language, awareness affected implementation process of the union. However, this was before the signing of the common market protocol in 2009. Wasilla (2008) did challenges posted by common markets on sugar millers in Kenya and found out that the challenges faced included taxation of farmers income, poor and patronage based management systems, massive investments on power and negative effects of regional trading systems.

Bolo (2011) examined the factors influencing implementation of the EACCM governments have harmonized trade laws, and that trade diversion has effects on the common markets although the benefits out way the adverse effects. From the review of past researches it is evident that no known research has been done to ascertain the factors that influence regional trade within the EACCM. This demonstrates the need for a study in this regard to bridge the knowledge gap. This leads us to the question: what factors influence regional trade within the East African Community Common Market?

1.3 Research objective

The objective of the study was therefore to determine the factors that influence regional trade within the East African Community common market.

1.4 Value of the study

The findings of the study will be of significance to the EAC members and other economic organizations because it will help them tackle the challenges faced in
implementation of the common market protocol and formulation of strategies to boost trade within the member states. Scholars, students and researchers may also find the study helpful to identify further areas of research built on the findings of this research. Government agencies and policy makers such as World Bank, KAM, KNCCI and EAC secretariat may use the results to formulate positive policies and a framework that is relevant and sensitive to challenges that influence regional trade. They will also benefit multinational corporations that would want to invest or trade within the East African Community Common Market. They will be able to know the challenges they may encounter and develop strategies that will minimize their effects.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter will review past literature related to this study and will therefore explore the following; The theoretical basis for international trade, The basis for regional organizations, The developments in the EAC, regional trade policies in EAC, Patterns and direction of trade in EAC and The Drivers of regional trade.

2.2 Theoretical basis of international trade

Nations are moving away from mercantilist policies based on the mercantilism trade theory that advocate for nations to accumulate financial wealth (usually inform of gold) by encouraging exports and discouraging imports. Mercantilism implementation rested on three pillars: trade surpluses, government intervention and colonialism. Adam smith a Scottish economist put forward the theory of absolute advantage, which is the ability of a nation to produce a good more efficiently than any other nation. Among other reasons, smith reasoned that international trade should not be banned or restricted by tariffs and quotas, but allowed to flow freely as dictated by market forces. If people traded freely then no country would need to produce all goods that it consumed. Instead, a country would produce goods that it holds absolute advantage and then trade with other nations to obtain goods it needed but did not produce (Wild et al, 2010).

The theory of comparative advantage advanced by David Ricardo proposed that even if a country held absolute advantage in production of goods, specialization and therefore
trade was still possible. It provides that a country should specialize in producing goods that it has relatively low production costs, export that good and use the proceeds to import the good that it has a higher production costs (Hill, 2011).

Paul (2009) outlines the Heckscher-Ohlin model otherwise referred to as the modern theory of international trade. According to the theory comparative advantage of a country arises from relative factor endowment, and predicts that countries will export those goods that make intensive use of factors that are locally abundant, while importing goods that make use of factors that are locally scarce. This model got a setback in what is now known as the Leontief paradox when Wassily Leontief established that although U.S which (a capital abundant nation) was expected to be an exporter of capital intensive goods and an importer of labour intensive goods, exported less capital intensive goods than it imported. Wild et al (2010) also identifies other international trade theories namely the international product life cycle by Raymond Vernon, the national competitive advantage (Porters diamond model) put forward by Michael Porter and the new trade theory.

2.3 **Basis of Regional Economic organizations**

There are a number of regional economic communities (RECs) in Africa. Each African country belongs to at least one. In addition to politically-motivated divisions, this proliferation of RECs partly indicates that the issue of regional integration is important for African countries. This is not surprising, given that about 40 per cent of the population and one-third of the economies in the continent are trapped in landlocked countries whose trade and development depend on events beyond their own borders. In
addition, most countries in Africa are small and their economic feasibility is limited (Alemayehu and Haile, 2008).

Paul (2009) notes that while the basic objective of regional groups irrespective of form appears to be the same, that is improving the welfare of the people within the region through creation of a larger production base and increased market size for producers and greater choice to both producers and consumers, a number of factors may have contributed to regional integration gaining momentum in recent years. Countries want to improve their bargaining power in trade negotiations when they notice that other countries are integrating. This is more in the form of a demonstration effect or a self defense mechanism. REC help in regional development of infrastructure and reduces the possibility of conflicts between states.

Internationally through WTO, there has been emphasis on the removal of trade barriers and liberalization of international trade on a global scale. The benefit of trying to remove trade barriers in smaller groups (through regional integration) is that it can be easier to gain consensus from fewer members than say the over 153 members of WTO. (Wild et al 2010).

2.4 Developments in the East African Community Common Market

The Treaty for Establishment of the East African Community was signed in 1999 and entered into force in 2000 following its ratification by the original three Partner States that is Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty in June 2007 and became full Members of the
Community with effect July 2007. It envisaged the establishment of a single market and investment area in the region and the harmonization of policies to promote cross-border trade and investment, ease cross-border movements of goods and persons, development of infrastructure, and enhancement of technological and human resource development.

Kibua and Tostensen (2005) observed that prior to the signing of the Treaty; a number of achievements were realized in accordance with the 1997-2000 development strategy. They include: Confidence-building by setting up a defense liaison office at the EAC secretariat, and the signing of a Memorandum of Understanding on Foreign Policy Coordination; Harmonization of policies, such as convertibility of currencies, reading of budget statements on the same day and time, implementation of preferential tariff discount, harmonization of standards of goods and services, mutual recognition of health certificates issued by national bodies for goods traded in East Africa; Easing of cross-border movement of persons and goods through an East African passport, allowing a seven-day grace period for personal motor vehicles, establishing immigration desks for East Africans at international airports, reintroducing interstate passes and withdrawing of visa charges for students; and lastly Infrastructure development by implementing projects in telecommunications, roads, civil aviation, posts, meteorology, energy, and other related areas.

The East Africa Community Customs Union - A second development strategy covering the period 2001-2005 was prepared, focusing mainly on the establishment of a customs union and later on a common market and the enhancement of cooperation for mutual benefit of partner states. The most significant milestone of the second development strategy is the establishment of the East African Community Customs Union by
ratification of EACCU protocol in November, 2004 which was to be implemented over a five-year term by the member states. They also agreed to resolve the problem of multiple memberships in regional blocs and to remove non-tariff barriers.

The objectives spelled out in the EACCU protocol (2005) include the liberalization of the regional trade regime on the basis mutual benefits, promotion of efficiency in production within the Community, and the promotion of economic development and industrial diversification. The protocol provided for the establishment of a common external tariff (CET), trade remedies and the prevention, investigation and suppression of custom offences, and collection of customs duty by adopting a uniform standard of valuation of goods.

Article 5(2) of the EAC Treaty provides that after the customs union, partner states will progress to a common market. The EACCM was signed in 2009 and came into force in July 2010 following the ratification by the heads of states of the five member states; Kenya, Uganda, Tanzania Rwanda and Burundi. The EACCM protocol (2009) guarantees free movement of goods, people and labour, rights of establishment and residence, free movement of services and free movement of capital. The protocol also elaborates other areas of cooperation by the partner states and rules on competition, public procurement and subsidies.

So far, achievements made towards a common market include; first the Easing the movement of people through the introduction of the East African passport, adoption of a single immigration entry, special passes for border communities, development of a protocol on the free movement of persons, labour, services and the right of establishment
and residence, and harmonization of labour policies and legislation, and secondly the
Harmonization of economic policies through liberalization of the exchange rate and
interest rates, similar investment incentives, endeavors to harmonize fiscal policy, and
joint capital markets development policy (Kibua and Tostensen 2005).

2.5 Regional Trade Policies in the EACCM

Liberalization of trade regimes has been achieved through multilateral agreements,
specifically the WTO, of which all the EACCM countries are members, and through
RTAs in which the countries participate like the COMESA and the SADC. Regional
trade integration is an important pillar of trade and investment policy in the EAC
countries. In a bid to maximize benefits from regional trade, the EAC countries are also
members of other regional integration arrangements. This is one that creates a problem
and is one of the reasons impeding the maximization of benefits of regional integration in
the region. It needs to be noted that the EAC member states have signed a framework
Economic Partnership Agreement (EPA) with the European Union and have a framework
agreement, the Trade and Investment Framework Agreement (TIFA) with the United
States of America.

The EU- EPA has far-reaching implications as far as trade is concerned as it will lead to
substantial reciprocal market access for goods from the EAC. The agreement implies a
market opening of 64 percent within 2 years, 80 percent within 15 years and 85 percent
within 25 years. This has implications for revenues and trade in the local and regional
markets. As for investment, it is notable that EAC member states have articulated a
shared objective of investment policies in order to make the region attractive to investments. To this end, there have been a number of successes.

These include the enactment of the EAC Competition Policy and Law (2006) and the EAC Standardization, Quality Assurance, Metrology and Testing Act (2006). Plans are under way in the region to formulate and enact a policy to curb piracy of intellectual property and counterfeit goods, both of which have been major investment disincentives. A significant development has been the attempt to formulate an EAC Investment Code to guide the member states in the development of national investment laws. Unfortunately, in its current form it is not a binding investment protocol.

2.6 Patterns and Direction of Regional Trade in the EAC

The trade structure of the EAC countries, like those of many African countries, displays the following common characteristics: a commodity structure of exports dominated by primary products in SITC categories 0–4; a commodity composition of imports heavily weighted in manufactured goods in SITC categories 5–8; and a heavy concentration of exports to markets in Europe, Asia and North America. It is evident that the pattern has been dominated by trade with industrialized countries and in particular the EU and Asia and the Americas. It is also important to note that trade – both within and inter-regional has constituted a sizeable and growing proportion of the EAC’s GDP, rising from 8.1 percent in the 1980s to 14.5 percent in 2005 for exports, and from 14.1 percent to 30.6 percent for imports over the same period.

Regional trade between the EACCM countries has also increased, with the latest estimates (2010) showing that it has grown by 49 percent since the commencement of the EAC CU in 2005. Even so, trade in the region remains largely uneven in direction and
intensity with Kenya remaining the dominant player in EAC trade, accounting for the bulk of the EAC exports. For most of the period since the 1980s, except for around 1990–1994, Kenya’s exports to the EAC were well above 80 percent of the total EAC trade. This has been declining in recent years, however, and more sharply since 2005 when the EAC CU protocol came into force. In 2008, Kenya accounted for about 61 percent of the total EAC exports. The shares of the other EAC countries’ exports to the region have increased, with Uganda’s rising from 13 percent in 2005 to about 20 percent in 2008. Regarding imports, Uganda remains the dominant importer from the region, mainly from Kenya, and in 2008 accounted for 31 percent of the imports within EACMM. The country’s imports have been declining, especially in the last five years. Tanzania’s imports from the region have also been expanding, reflecting in part the country’s increased openness. The commodity composition of regional trade reveals that unlike trade with the rest of the world, manufactured commodities play an important role. Kenya, accounts for close to 80 percent of the exports to the region, mainly exports manufactured products to the other countries and imports mainly food items from them. Trade between the other countries, i.e., Uganda and Tanzania, is also dominated by food and agricultural products.

2.7 Drivers of regional trade

Some of the factors behind the disparities are examined here. Many of these factors also act as impediments to the full realization of the benefits of regional integration.

2.7.1 Industrial Concentration

Industries are attracted to a region by size of the market and by the protection of privileges granted under the common tariff within the regional economic block. There is
a higher rate of industrial development in Kenya than in the other countries. This is
changing rapidly, however, as the other EAC countries, through reforms and sound
macroeconomic management, are attracting sizeable foreign investment. In recent times,
it has been Tanzania that has led the EAC countries in attracting foreign direct investment
(FDI). According to the World Investment Report 2007 by UNCTAD, Tanzania’s FDI
stood at US$377 million in 2006, compared with Uganda’s at US$307 million, Burundi’s
at US$290 million, Kenya’s at US$51 million and Rwanda’s at US$15 million. FDI into
Tanzania has mainly gone into the mining and extractive sectors, which is not only
capital intensive but it has limited linkages to the domestic economy.

2.7.2 Infrastructural (supply-side) Constraints and Competitiveness

Rigidities characterized by underdeveloped telecommunications and transport
infrastructure bottlenecks, energy shortages, and trade restrictions are impediments to the
free flow of goods and services within a region that reduce potential benefits. Transport
is still a major bottleneck of regional trade and is affected by disjointed and unpaved
links, inadequate and underperforming rail networks.

The EAC transport network is composed of the two transport corridors; the northern and
the central transport corridors. The Northern Corridor has the port of Mombasa in Kenya
serving as the lifeline for Uganda, Rwanda and Burundi, ending in the city of Bujumbura,
The Central Corridor has the port of Dar es Salaam as a major hub for imports, exports
and trade for Rwanda, Burundi and the eastern part of the Democratic Republic of the
Congo. The advantage with the Central Corridor is its two separate routes; one runs in
Burundi through various key cities and towns, while the other in Rwanda goes through Kigali (SID, 2012).

SID (2012) predicts that the traffic forecast for both the Northern and Central Corridors (the two major corridors in the region) may overwhelm current capacity. Demand on the major routes (highways, ports and railways) will increase by a factor of four from 24 million tons in 2015 to 100 million by 2030 at the ports. The roads will receive 80 per cent more traffic by 2015 and four times more by 2030. The railways will have to accommodate 6.5 million tons in 2015 and 18 million in 2030. According to the Society for International Development (SID) report on state of East Africa 2012, the region’s total road network in 2008 was 183,178 km, of which 91 per cent was unpaved, while only 9 per cent was paved.

2.7.3 Multiple Memberships

According to Hill (2011), Many African countries belong to several economic groupings or sub-groupings that sometimes compete, conflict or overlap amongst themselves rather than complement each other. This adds to the burden of harmonization and coordination, and is wasteful duplication in view of constrained resources. EAC member states participate in various regional integration initiatives, including the COMESA, SADC, the IGAD, the AU, and the CBI). While Kenya and Uganda belong to COMESA; Tanzania belongs to SADC, while all EAC member states are members of AU and IGAD. Different CETs in different trading blocs complicate the administration of the EAC CET, which requires that the member states follow a common external trade policy against non-member states.
Overlapping memberships also complicate coordination of activities. Members are usually torn between competing regulations and commitments and thus end up having to devote more time and resources on managing regional integration rather than actually participating in it. This can be a real source of policy inconsistencies as countries grapple with multiple loyalties. It also complicates revenue administration. Since preferential arrangements under each of these agreements differ, importers can choose to import products under any regime. The differing rates prompt many importers to declare their imports under the lowest tariff regime, which has led to massive smuggling and customs fraud. Losses arising from fraud and other “spillages” have been estimated in millions of dollars. A long-term solution to this problem is for the countries to rationalize their participation in RTAs. The proposal to create a larger free trade area (FTA) bringing together SADC, COMESA and the EAC may help in finding a lasting solution.

2.7.4 Differing Tax Regimes

Disparities in tax regimes by member states of an economic bloc result in distortions and have negative impacts on cross-border business activities. In particular, they increase the cost of compliance and affect decisions made by investors with regard to where to invest and where to source finance. The variance in domestic tax rates such as excise duty and VAT rates in essence translates into different prices and costs to consumers for similar items.

Delays by member states in harmonizing their tax regimes also cause imbalances in cross-border trade. Although the EACCM was launched back in 2009, the main taxes
affecting the business community, such as value added tax (VAT), withholding tax and excise tax, are yet to be fully harmonized. At present, Rwanda and Uganda charge VAT at the rate of 18 percent, Kenya charges 16 percent, and Tanzania, 18 percent. While Kenya and Tanzania offer tax incentives for investors, Uganda and Rwanda do not. Similarly, companies operating in the export processing zones (EPZs) in Kenya and Tanzania are exempted for the first ten years from income tax and withholding tax on payment to non-residents, but this is not the case in Uganda. There is thus a perception in Uganda that the EPZs and the associated tax holidays provide an advantage to Uganda’s EAC partners.

2.7.5 Non-Tariff Barriers and Measures

According to the east African secretariat website, NTBs were the biggest impediment to full attainment of the objectives of the Treaty for Establishment of East African Community in 2011. The World Trade Organization, of which all five EAC countries are members, describes NTBs as red tape or ‘various bureaucratic or legal issues that could involve hindrances to trade while The EAC defines NTBs as ‘administrative and technical requirements imposed by a Partner State in the movement of goods. While a number of NTBs may be explicitly protectionist, the majority seek to meet an agreed regulatory objective, such as food safety or product safety.

There are common justifications for NTBs such as safeguard to health, safety and security of human beings, animals and plants against environmental pollution, protection of home industries and consumers, safeguard national security and to safeguard against revenue loss. According to Society for International Development
report 2012, (SID 2012) while there may be a consensus that existing NTBs should be abolished, there is agreement on how to meet legitimate regulatory objectives in a less trade-restrictive manner. Many NTBs are rooted in more structural challenges, such as inadequate government structures, mismanagement, erratic application of rules and bureaucratic staff often coupled with low staff morale.

Establishing formal notification requirements has been an important step towards monitoring NTBs. In response to the NTB challenge, the EAC Secretariat produced its first quarterly report in August 2011, highlighting the status of elimination of NTBs. The reporting mechanism was first prompted by the East African Business Council in 2005. (SID 2012). The EAC’s August 2011 quarterly report on the subject stated that Tanzania led the region in being a major source of NTBs, followed by Kenya, and Burundi respectively. Rwanda had no complaints reported against it from the region. The countries singled out as being the most affected by NTBs were Uganda, Rwanda Burundi, Tanzania, and Kenya respectively. The overall effect of non-tariff barriers (NTBs) in the EAC region, like elsewhere, is that they result in delays and increased costs, which ultimately hinder the free movement of goods and services. And according to many analysts, the removal of NTBs is much more important for boosting regional trade than tariff liberalization. A recent analysis by Karugia et al. (2009) demonstrates that the removal/reduction of NTBs in maize and beef trade in the East African region has significant positive welfare implications. According to the study, completely abolishing or even significantly reducing the existing NTBs in maize and beef trade would increase EAC maize and beef trade, with Kenya and Tanzania importing more
maize from both Uganda and Tanzania. Out of the realization of the negative impact of NTBs, efforts have been made to reduce or eliminate them.

Within the EAC, coherence or lack of it can be seen by the prevalence of NTBs that countries impose on products from other member states. To the extent that NTBs result from deliberate policies and procedures, their existence in many ways signifies trade policy incoherence. Though EAC countries have over the years negotiated the elimination of policy and procedure linked NTBs, success has been limited. One of the most troubling NTBs within the EAC has been transit procedures. The critical issue here is the lack of harmonization of regulations regarding axle loads and vehicle technical specifications within the EAC, which makes overload control management difficult. The differing axle weights would mean, for instance, that a truck from Tanzania transiting through Uganda has to strip off excess cargo to avoid financial penalties. There are also restrictions in the countries on gross vehicle mass, which means that certain types of vehicles cannot transit through some countries. A related problem is the poor enforcement of applicable rules and regulations across the EAC region, owing to inadequate institutional capacity and serious integrity issues arising among public officials who operate weighbridges. This causes delays at border points.

### 2.7.6 Corruption

Corruption is an important issue with implications on the benefits and costs of regional trade and integration in the EAC. There is concern that rampant corruption especially along the major trading routes is not only hampering trade flow but also eroding potential benefits (SID 2012). Transparency International (TI) surveys show rampant corruption within the EAC common market. The TI corruption perception index (CPI) summarizes
the perception of corruption as seen by business people and country analysts. The index ranges from 1 (corrupt) to 10 (clean). Between 2005 and 2008 Kenya was perceived to have the highest level of corruption in East Africa, until that perception was moved to Burundi with a score of 1.9. After a dip between 2005 and 2006, Rwanda’s CPI score improved steadily to emerge significantly ahead of its East African neighbours as the least corrupt country in the region by 2010. Tanzania peaked in 2007 with a CPI of 3.2, its highest over the past five years, but has weakened since then due to a number of recent high-profile corruption scandals. A bribery index shows the most corrupt institutions in the Region and those most prone to bribery. According to the TI bribery index report (2011) almost all institutions involved in corruption are in law enforcement, revenue collection and the judiciary, and seven of the ten institutions cited as the most corrupt were from Burundi and Uganda. (SID 2012). These institutions play an important role in the facilitation of trade and their being perceived as corrupt may affect the direction of trade in the region.

2.7.7 Revenue Losses and Border Inefficiencies

A substantial proportion of revenue that would reflect as benefits of integration is usually lost as “unofficial” exemptions and smuggling. The adoption of a common market also leads to removal of tariffs and customs duties against member states, and also standardization of tariffs against non-members. This leads to loss of revenue in terms of customs duties. In the context of the EAC, it is important that the member states address weaknesses in their customs and revenue administration, border control, and transit arrangements to reduce losses on customs revenue collection. Also important are issues of efficiency at border points. The performance of trade procedures at border points
involves a large number of stakeholders including customs officials, freight forwarders, insurers, immigration authorities, police, plant inspectors, bankers, brokers, quality assurance, weights and measures and standards institutes, health, and port authorities to mention but a few. For effective border point facilitation, it is critical that all these agents with varying roles work in tandem. This is seldom the case, however. If, for example, inspection of goods is undertaken by different agencies, an importer has to present different documents to each one and a lot of time and money are wasted. Measures to seal revenue losses and to harmonize border procedures are thus crucial in ensuring maximum benefits.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter puts forward the research design that was used in the study, the target population, the method used in data collection and how the collected data was analyzed.

3.2 Research Design
Cooper and Schindler (2008), defines research design as the plan and structure of investigation so as to answer the research question. This study used a descriptive research design in form of a census survey. According to Mugenda and Mugenda (2003) a descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. This study aimed at collecting information from respondents on their attitudes, perception and opinions in relation to factors influencing regional trade within the EACCM. Descriptive research was appropriate for this study, since the researcher intended to collect detailed information through descriptions of the variables. A census survey was appropriate due to the small number of EACCM member states.

3.3 Population and sample
According to Cooper and Schindler (2008), a population is a well-defined or set of people, events, or records that contain the desired information and can answer the
measurement question. The population of interest in this study comprised of the all ministries of EAC affairs in the EACCM. There were five ministries in the EACCM member states who have ratified the EACCM protocol as at 2012.

The East African Community affairs ministries were chosen purposefully because they are directly involved with regional trade interactions within the EACCM. By using the purposive sampling method, the researcher targets a group of people believed to be reliable in the study (Kombo and Tromp 2011). Researcher used best judgment and purposively selected top level managers as respondents in all the East African Community affairs ministries headquarters. This is because they possessed information useful for this study that may not have available to other employees in their organizations because of their positions in the organization.

3.4 Data Collection

Primary data was used in this study and was collected using self administered questionnaires through drop and pick. This method was appropriate due to the distance between the member states. For members other than Kenya –where there was direct dropping, the questionnaires were dropped at the member state embassies in Kenya for onward mailing to their respective countries and collected two weeks later. Secondary data was also extracted from various published sources as well as the internet of relevant institutions. These included periodicals, journals, reports, and seminar/workshop papers, public records like budgets, economic surveys and statistical data from websites of relevant institutions like EAC, World Bank and ADB.
3.5 Data Analysis

Before processing the responses, the completed questionnaires were checked for completeness and consistency. Content analysis was used to analyze the respondents’ views and of documentary materials such as books, journals, internet sources and statistical reports.

Content analysis examines the intensity with which certain words have been used, and systematically describes the form or content of written/spoken material, in interpreting the results, the frequency with which a symbol or idea appears may be interpreted as a measure of importance, attention or emphasis (Kombo and Tromp 2011). Microsoft Excel was used to analyze statistical data. The data was then presented in bars, pie charts, frequency tables, and percentage tables.

Tables were used to group various categories of data from the questionnaire and their frequencies of occurrence in different member states they were used where summation and cumulative values were required.

Mean helped to determine the average score for each variable that influence trade within the EACCM, while Standard deviation was used to determine how much variation there is from the mean for each of the variables that were analyzed, in order to develop recommendations for individual member states and the entire EACCM.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results obtained from data analysis as well as the interpretations and discussion of findings. It is organized as follows:

4.2 Background information

Regional trade refers to trade which focuses on economic exchange primarily between countries of the same region or economic zone. Regional trade integration is an important pillar of trade and investment policy in the EAC countries. The objective of the study was therefore to determine the factors that influence regional trade within the East African Community common market.

4.2.1 Response rate

The study targeted three respondents in management positions from each of the five member states of the East African community. The table below shows the distribution of respondents by member state.
Table 4.1: Distribution of respondents by member state

<table>
<thead>
<tr>
<th>Member State</th>
<th>Number targeted</th>
<th>Number of responses</th>
<th>Percentage response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Uganda</td>
<td>3</td>
<td>2</td>
<td>67%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Burundi</td>
<td>3</td>
<td>2</td>
<td>67%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>13</strong></td>
<td><strong>87%</strong></td>
</tr>
</tbody>
</table>

Source: Author, 2012

From table 4.1 above, the study achieved an overall response rate of 87%. Except for Uganda and Burundi where the response rate was 67%, the response rate in the other member states was 100%. This response rate is high given that most studies consider a response rate of 70% to be good.

4.2.2 Position

The respondents were asked to indicate the position they held in their organization at the time of the study. The table below shows the responses.
Figure 4.1: Distribution of respondents by positions held

Source: Author, 2012

From figure 4.1 above, majority (85%) of the respondents were management employees. On the other hand, 15% were supervisors and none of the respondents was from operational level.

4.2.3 Level of education

The respondents were asked to indicate their highest levels of education. The table below shows the results.

Table 4.2: Distribution of respondents by level of education

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PhD</td>
<td>1</td>
<td>8%</td>
</tr>
<tr>
<td>Masters degree</td>
<td>3</td>
<td>23%</td>
</tr>
<tr>
<td>Undergraduate degree</td>
<td>7</td>
<td>54%</td>
</tr>
<tr>
<td>College diploma</td>
<td>2</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author, 2012
From table 4.2 above, majority of the respondents (54%) had undergraduate degrees. This was followed by 23% who had a masters degree. The total proportion of those who had attained at least undergraduate degree was 85%. This shows that the respondents had high educational qualifications and thus could answer the questions posed to them.

4.2.4 Length of service

The study sought to establish the length of service that the respondents had served in their present organizations. The figure below shows the responses.

**Figure 4.2: Distribution of respondents by years of service**

- More than 10 years: 8%
- Less than 2 years: 15%
- 2 years to 5 years: 31%
- 5 years to 10 years: 46%

**Source: Author 2012**

From figure 4.2 above, most of the respondents (46%) had served for between 5 – 10 years. This was followed by 31% who had served for between 2 – 5 years. Only 15% had served for less than 2 years. This shows that the respondents had served their organizations long enough to understand the questions that were posed to them.
4.2.5 Respondents’ perceptions on positive and negative aspects of the organization

The respondents were asked to state what they liked most and what they disliked the most about their organization. The table below shows their responses.

Table 4.3: Respondents’ likes/dislikes about their organization

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likes</td>
<td>Role it plays in integration process</td>
<td>7</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>Opportunity it gives to citizens of member states</td>
<td>3</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>Flexibility and engagement with stakeholders</td>
<td>1</td>
<td>8%</td>
</tr>
<tr>
<td>Dislikes</td>
<td>Slow pace of integration process</td>
<td>4</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>Inadequacy of funding to finance new initiatives</td>
<td>3</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Author, 2012

From the table 4.3 above, majority of the respondents (54%) highlighted the role played by their organizations in the integration process as the most likeable aspect of their organizations. Others stated the opportunity it affords citizens of member states (23%) and a few (8%) indicated the most likeable thing as the flexibility and engagement with stakeholders.

Most of the respondents (31%) stated that they disliked the slow pace of the integration process and 23% of the respondents disliked the inadequacy of funding for new initiatives.
4.2.6 Major benefits of the EAC common market to its member states

The respondents were asked to highlight the major benefits from the EAC common market to member states. The responses were as shown in the table below.

**Table 4.4: Benefits of EAC common market**

<table>
<thead>
<tr>
<th>Item</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>larger production base</td>
<td>10</td>
<td>77%</td>
</tr>
<tr>
<td>Expanded market size for producers</td>
<td>9</td>
<td>69%</td>
</tr>
<tr>
<td>Wider choice for consumers</td>
<td>12</td>
<td>92%</td>
</tr>
<tr>
<td>Greater competitiveness of products</td>
<td>8</td>
<td>62%</td>
</tr>
<tr>
<td>More job opportunities due to increased trade</td>
<td>5</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Author, 2012

From the table above, majority of the respondents (92%) stated the wider choice afforded to consumers as the greatest benefit accruing from the EAC common market. Other benefits were larger production base (77%), expanded market size for consumers (69%) and greater competitiveness of products (62%).

These findings conform with those of Paul (2009) who notes that the basic objective of regional groups is improving the welfare of the people within the region through creation of a larger production base and increased market size for producers and greater choice to both producers and consumers, a number of factors may have contributed to regional integration gaining momentum in recent years.
4.3 Factors that influence regional trade within the East African Community common market

The main objective of the study was to find out the main factors that influence regional trade within the EAC common market. The respondents were asked questions on a five point likert scale. The following sub-sections are analyzed using mean ratings for each item in the research instrument. For interpretation purposes, a mean rating between 1 – 2.5 indicates disagreement or low extent accordingly; a mean of between 2.56 – 3.5 indicates moderate or neither agree nor disagree and a mean between 3.51 – 5 indicates agreement or great extent according to the measurement scale.

4.3.1 Industrial Concentration within the common market

The study sought to establish the influence of industry concentration on regional trade within the EAC common market. The table below shows the results.

Table 4.5: Industrial concentration

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries are fairly distributed within the common market</td>
<td>13</td>
<td>1.00</td>
<td>4.00</td>
<td>2.6154</td>
<td>1.04391</td>
</tr>
<tr>
<td>Industry concentration is more in Kenya than other member states.</td>
<td>13</td>
<td>2.00</td>
<td>5.00</td>
<td>3.9231</td>
<td>.95407</td>
</tr>
<tr>
<td>Industry concentration is a product of colonial legacy, location and economic policies</td>
<td>13</td>
<td>1.00</td>
<td>4.00</td>
<td>2.0769</td>
<td>.95397</td>
</tr>
<tr>
<td>There is specialization with member according to comparative advantage</td>
<td>13</td>
<td>2.00</td>
<td>4.00</td>
<td>2.8462</td>
<td>.80064</td>
</tr>
</tbody>
</table>

Source: Author, 2012
From table 4.5 above, the respondents were undecided (mean = 2.61, sd = 1.04) on the question as to whether industries are fairly distributed within the common market. However, as can be seen from the standard deviation which is greater than 1, there was wide dispersion on respondents’ views about this matter with the highest rating being 4 and the lowest being 1. However, the respondents agreed (mean = 3.92, sd = 0.95) that industry concentration is more in Kenya than other member states. Regarding the source of industry concentration, the respondents failed to link it to factors such as the colonial legacy, location and economic policies (mean = 2.08, sd = 0.95). Finally, the respondents neither agreed nor disagreed on whether there is some level of specialization with member countries producing what they have comparative advantage on and exporting to member states (mean = 2.84, sd = 0.80).

From the above results, there appears to be a skew of concentration with a bias towards Kenya as opposed to the other member states and there is limited specialization by member states to produce what they have advantage on. This can be attributed to the fact that the integration process is not complete yet and thus the full benefits of the common market have not been realized.

4.3.2 Supply-side constraints and competition

The study sought to establish whether supply-side constraints and competition constituted important factors that influenced regional trade in the EAC common market. The table below presents the results.
<table>
<thead>
<tr>
<th>Topic</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of telecommunications infrastructure influence the patterns and direction of regional trade</td>
<td>13</td>
<td>1.00</td>
<td>4.00</td>
<td>2.6923</td>
<td>.85485</td>
</tr>
<tr>
<td>Transport is still a major bottleneck of regional trade in the EAC region</td>
<td>13</td>
<td>3.00</td>
<td>5.00</td>
<td>3.6154</td>
<td>.65044</td>
</tr>
<tr>
<td>There is common policy in infrastructure development in EAC</td>
<td>13</td>
<td>1.00</td>
<td>5.00</td>
<td>3.3077</td>
<td>1.10940</td>
</tr>
<tr>
<td>The capital costs of infrastructure investment programs and services remain unaffordable for Member States</td>
<td>13</td>
<td>1.00</td>
<td>4.00</td>
<td>2.5385</td>
<td>.87706</td>
</tr>
<tr>
<td>Cost of transportation is a major issue affecting trade within the common market</td>
<td>13</td>
<td>3.00</td>
<td>5.00</td>
<td>4.1538</td>
<td>.68874</td>
</tr>
<tr>
<td>Monetary policies and payment systems affect regional trade</td>
<td>13</td>
<td>3.00</td>
<td>5.00</td>
<td>3.7692</td>
<td>.59914</td>
</tr>
<tr>
<td>Trade Dispute resolutions mechanisms within EAC are well defined.</td>
<td>13</td>
<td>1.00</td>
<td>5.00</td>
<td>3.8462</td>
<td>1.21423</td>
</tr>
</tbody>
</table>

**Source: Author 2012**

From table 4.6 above, it was found that the level of telecommunications infrastructure influence the patterns and direction of regional trade to a moderate extent (mean = 2.69, sd = 0.85). Further, the respondents agreed that transport is still a major bottleneck of regional trade in the EAC region (mean = 3.61, sd = .65).
The respondents neither agreed nor disagreed on whether there is common policy in infrastructure development in EAC (mean = 3.31, sd = 1.11). The capital costs of infrastructure investment programmes and services are moderately affordable for member States (mean = 2.53, sd = 0.87). Meanwhile the cost of transportation was found to be still a major issue affecting trade within the common market (mean = 4.15, sd = 0.69). Monetary policies and payment systems also found to highly affect regional trade (mean = 3.76, sd = 0.60). Finally, on a positive note, trade dispute resolutions mechanisms within EAC were found to be well defined (mean = 3.85, sd = 1.21).

From the above findings, it was observed that infrastructural challenges were a key problem influencing regional trade in the EAC, albeit to a moderate extent. Other supply-side factors included monetary policy and trade dispute resolution mechanisms both of which were found to be in favor of the regional trade.

### 4.3.3 Multiple memberships

The study further sought to establish whether multiple memberships to different trading blocs influence regional trade within the EAC common market. The table below presents the findings.
Table 4.7: Multiple memberships

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are competing regulations and commitments for each member</td>
<td>13</td>
<td>2.00</td>
<td>4.00</td>
<td>3.1538</td>
<td>.55470</td>
</tr>
<tr>
<td>Multiple membership has helped boost trade within EAC</td>
<td>13</td>
<td>1.00</td>
<td>3.00</td>
<td>1.6923</td>
<td>.85485</td>
</tr>
<tr>
<td>It leads to trade diversion and customs fraud like smuggling</td>
<td>13</td>
<td>1.00</td>
<td>3.00</td>
<td>1.3846</td>
<td>.65044</td>
</tr>
<tr>
<td>Multiple memberships does not affect regional trade in EAC common market</td>
<td>13</td>
<td>2.00</td>
<td>3.00</td>
<td>2.7692</td>
<td>.43853</td>
</tr>
</tbody>
</table>

Source: Author, 2012

From table 4.6 above, the respondents neither agreed nor disagreed (mean = 3.15, sd = 0.55) that there are competing regulations and commitments for each member state. However, the respondents disagreed with the statement that multiple memberships has helped boost trade within EAC (mean = 1.69, sd = .85). Further, the respondents disagreed with the statement that multiple memberships lead to trade diversion and customs fraud like smuggling (mean = 1.38, sd = .65). Finally, the respondents were undecided as to whether multiple memberships do not affect regional trade in EAC common market (mean = 2.77, sd = 0.44).

Thus from the above results, it was found that while some member states are members of other trading blocks, there is no clear effect of these multiple memberships on the regional trade within the EAC common market. However, it is clear from the results that multiple memberships do not boost regional trade within EAC.
4.3.4 Tax regimes

The study sought to find out whether different tax regimes among member states influenced regional trade in the EAC common market. The results were as shown in the table below.

Table 4.8: Different tax regimes among member states

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are delays by EAC member states in harmonizing their tax regimes</td>
<td>13</td>
<td>2.00</td>
<td>5.00</td>
<td>3.5615</td>
<td>.77625</td>
</tr>
<tr>
<td>The disparities in the tax regimes result in distortions and have negative</td>
<td>13</td>
<td>1.00</td>
<td>4.00</td>
<td>3.0000</td>
<td>1.15470</td>
</tr>
<tr>
<td>Tax variances lead to different costs and therefore affect direction of</td>
<td>13</td>
<td>1.00</td>
<td>4.00</td>
<td>3.0000</td>
<td>1.08012</td>
</tr>
<tr>
<td>Taxes have been fully harmonized within the common market and therefore</td>
<td>13</td>
<td>1.00</td>
<td>3.00</td>
<td>1.6923</td>
<td>.85485</td>
</tr>
<tr>
<td>Source: Author, 2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 4.7, the respondents agree that there are delays by EAC member states in harmonizing their tax regimes (mean = 3.56, sd = .78).
The disparities in the tax regimes do not necessarily result in distortions and have negative impacts on cross-border business activities (mean = 3.00, sd = 1.15).

Additionally, tax variances do not necessarily lead to different costs and affect direction of trade with any member state in the common market (mean = 3.00, sd = 1.08). Finally, the respondents disagreed with the statement that taxes have been fully harmonized within the common market (mean = 1.69, sd = 0.85).

From the results highlighted above, it was concluded that though EAC member states have delayed in harmonizing their tax regimes, this has only influenced regional trade to a moderate extent.

4.3.5 Non-tariff barriers

The study sought to establish whether there were any non-tariff barriers in the EAC common market and whether they affected the cross border trade. The results were as shown in the table below.

Table 4.9: Influence of non-tariff barriers on regional trade in the EAC

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NTBS were fully eliminated when the common market came into force</td>
<td>13</td>
<td>1.00</td>
<td>3.00</td>
<td>2.000</td>
<td>.81650</td>
</tr>
<tr>
<td>There are mechanisms by the common market to deal with members who impose NTBS on other members</td>
<td>13</td>
<td>2.00</td>
<td>5.00</td>
<td>3.4615</td>
<td>.87706</td>
</tr>
<tr>
<td>Member states are committed to boosting regional trade by removal all NTBS</td>
<td>13</td>
<td>3.00</td>
<td>5.00</td>
<td>3.7692</td>
<td>.83205</td>
</tr>
</tbody>
</table>
From table 4.8 above, it was established that NTBS were not fully eliminated when the common market came into force (mean = 2.00, sd = .82). However, there are moderately effective mechanisms to deal with members who impose NTBS on other members (mean = 3.46, sd = .88). The respondents expressed confidence that the member states are committed to boosting regional trade by removal of all NTBS (mean = 3.77, sd = .83). Finally, the respondents disagreed that full benefits of common market have been achieved as there are no NTBS by member states (mean = 1.61, sd = 0.65).

From the results above, it was concluded that non-tariff barriers still exist in the EAC common market, but the mechanisms to deal with errant member states are only moderately effective. Despite this, the member states are committed towards boosting regional trade and eventually eliminating all non-tariff trade barriers.
5.1 Introduction

This chapter presents the summary of findings, conclusions arrived at and policy recommendations and recommendations for further study.

5.2 Summary of findings

The study was guided by one major objective namely to examine the factors influencing regional trade in the EAC common market. The findings were as follows. First it was established that the major benefits accruing to member states from the common market include the wider choice of goods and services afforded to consumers, larger production base, expanded market size for producers and greater competitiveness of products. The major factors influencing regional trade were identified as: industrial concentration within the member states, supply-side constraints and competition, multiple memberships, different tax regimes and non-tariff barriers. Each of these is looked at in more detail below.

The industry concentration was found to be a little skewed with most members indicating that Kenya had higher concentration of industries. Further it was found that there is limited specialization by member states to produce what they have comparative advantage on. This was attributed to the fact that the integration process is not complete yet and thus the full benefits of the common market have not been realized.
The main supply-side constraint identified was poor infrastructure which posed challenges by way of transportation, telecommunication and delays. However, it was also noted that the infrastructure problem only posed a challenge to a moderate extent to the regional trade. Other supply-side factors included monetary policy and trade dispute resolution mechanisms both of which were found to be in favor of the regional trade.

Regarding multiple memberships to several other trading blocks, it was found that while some member states are members of other trading blocks, there is no clear effect of these multiple memberships on the regional trade within the EAC common market. However, it was clearly established that regional trade within EAC does not receive a boost from multiple memberships.

On taxation, it was found that EAC member states have delayed in harmonizing their tax regimes. However the effect of non-harmonized tax regimes on regional trade in EAC was found to be moderate.

Regarding non-tariff barriers, it was found that NTBS still exist in the EAC common market to some extent. It was also found that there are mechanisms to deal with errant member states that enforce NTBS but that these mechanisms were only moderately effective. Despite this, the member states are committed towards boosting regional trade and eventually eliminating all non-tariff trade barriers.

5.3 Conclusions

From the above findings, the following conclusions were arrived at.

Several major benefits accrue to EAC member states from the ongoing market integration. Some of these include: wider choice of goods and services afforded to
consumers, larger production base, expanded market size for producers and greater competitiveness of products.

There is a slightly heavier concentration of industries in Kenya and this has contributed to slow removal of trade barriers by some member states due to desire to protect domestic industries thus negatively influencing cross-border regional trade.

Poor infrastructure which includes transport and telecommunication in member states hampers the regional trade. However, monetary policy and trade dispute resolution mechanisms are some of the supply-side factors that support regional trade in the EAC.

Multiple memberships does not directly influence regional trade in the EAC since all member states are committed towards full regional integration.

Delays in the harmonization of tax regimes has led to moderate negative influence on regional trade

Non-tariff barriers are still being imposed by some member states and this negatively influences the regional trade.

The implications of this findings is that although a lot of progress has been done towards implementation of the common market, a lot of political commitment and goodwill is required. This is especially so in the areas of addressing NTBs, harmonization of tax regimes and development of common infrastructure like ports, railways and airports

5.4 Recommendations

The researcher came up with recommendations for both policy and practice and for further research.
5.4.1 Policy and practice recommendations

The member states should work towards complete elimination of non-tariff barriers so as to ease regional trade. Member states should realize that opening up the borders will eventually lead to balancing of industry concentration and thus there is no need to artificially protect domestic industries. There should be a mechanism of not only monitoring NTBs but also laws to deal with members who sustain them at the expense other member states.

The member states should develop a common plan for infrastructure that will ease movement of goods and people. They should also consider giving up their international airports, ports, railways and weighbridges to be managed by and for the common benefits of the EACCM.

Member states should hasten harmonization of tax regimes as this will reduce the trade imbalances, tax evasion schemes like smuggling as their will be no incentive to avoid official boarder points.

Member states should push through their commitment to full integration and concentrate more on building the EAC rather than spreading their energies on multiple trading blocks.

5.4.2 Limitations and recommendations for further study

The present study took an exploratory form, and Future studies should thus seek to examine the correlations between the variable and with a measure of ease of regional trade. The present study used only top staff members of EAC ministries of the member states. Further studies should seek to validate the findings of this research by involving middle and lower level staff in the ministries of EACCM and also EACCM traders.
REFERENCES


Ogaga B.J (2007), Factors Influencing Implementation of East Africa Community Customs Union, Unpublished MBA Project paper University Of Nairobi, Nairobi

Paul, J. (2009), international business, PHI Learning, New Delhi.


Wasilwa T.W (2008), Challenges Posed By COMESA on Sugar Millers, Unpublished MBA Project, University Of Nairobi

APPENDICES

Appendix I: Letter of Introduction

TO WHOM IT MAY CONCERN

The bearer of this letter: JOSEPH MBITHI MUNYAO

Registration No.: D61/700/8/2007

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be available to the interviewed organizations on request.

Thank you.

(Stamp)

18 JUL 2012

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE
Appendix II: Questionnaire

SECTION A: GENERAL INFORMATION

1. Where’s your organization based? (tick where appropriate)
   - Kenya [ ]
   - Uganda [ ]
   - Tanzania [ ]
   - Rwanda [ ]
   - Burundi [ ]

2. What’s your designation in this organization?
   - Management [ ]
   - Supervisor [ ]
   - Staff [ ]

3. Please indicate your level of education
   - Masters [ ]
   - Degree [ ]
   - College [ ]
   - Secondary [ ]

4. For how long have you been in this organization?
   - Less than 2 years [ ]
   - 2 years to 5 years [ ]
   - 5 years to 10 years [ ]
More than 10 years [ ]

5. What do you like most about your organization?

.................................................................................................................................................................
.................................................................................................................................................................

6. What do/ did you like least about your organization?.

.................................................................................................................................................................
.................................................................................................................................................................

7. Are you aware of the East African Community common market? (tick as appropriate) Yes [ ] No [ ]

8. Is your organization involved or have interaction with organizations involved in regional trade within the east Africa community common market?

   Yes [ ] No [ ]

9. According to you what are the benefits of the east African community common market to its members
10. In your opinion, to what extent do the following factors influence regional trade within the East African Community common market?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very great</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Low extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Concentration within the common market</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Supply-Side Constraints (infrastructure limitations)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple Memberships in other regional arrangements</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Different domestic tax systems and regimes</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Tariff Barriers by the member states</td>
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<tr>
<td>Corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Losses and Border Inefficiencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. In your opinion what other factors to do think may influence regional trade within the east African common market member states?

12. In relation to industrial concentration in the common market, to what extent do you agree with the following statements related to trade within the East African Community common market?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Moderate</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries are fairly distributed within the common market</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Industry concentration is more in Kenya than other member states.</td>
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<td></td>
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<tr>
<td>Industry concentration is a product of factors such as the colonial legacy, location and economic policies</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Member states have harmonized their laws and incentives for foreign direct investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>There is some level of specialization with member countries producing what they have comparative advantage on and exporting to member states</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
13. To what extent do you agree with the following factors relating to Supply-Side Constraints and Competitiveness as influencing regional trade within the East African Community common market?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Moderate</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Telecommunications infrastructure influence the patterns and direction of regional trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport is still a major bottleneck of regional trade in the EAC region, it is affected by disjointed links and inadequate networks in all modes, especially roads, railways and air transport</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The capital costs of infrastructure investment programmes and services remain unaffordable for Member States</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monetary policies and payment systems affect regional trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is common policy in infrastructure development in EAC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Dispute resolutions mechanisms within</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
EAC are well defined.

cost of transportation is a major issue affecting trade within the common market

Kindly rank the member states in terms of level of infrastructure developments within the region in a scale of 1-5 (where 1 = very good 2 = good 3 = fair 4 = poor and 5 = very poor)

<table>
<thead>
<tr>
<th>Factor/country</th>
<th>Tanzania</th>
<th>Kenya</th>
<th>Uganda</th>
<th>Rwanda</th>
<th>Burundi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roads pavement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railway lines reliability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment systems (banks, forex bureaus, insurance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade dispute resolutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Trade facilitation mechanisms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air transportation from the member to other member states</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. To what extent do you agree with the following factors relating to Multiple Memberships as influencing regional trade within the East African Community common market
there are competing regulations and commitments for each membership to regional

Multiple membership has helped boost trade within EAC

It leads to trade diversion and customs fraud like smuggling

Multiple memberships does not affect regional trade in East Africa common market in any way

15. To what extent do you agree with the following factors relating to differing tax regimes as influencing regional trade within the East African Community common market?

There are delays by EAC member states in harmonizing their tax regimes

The disparities in the tax regimes result in
distortions and have negative impacts on cross-border business activities

<table>
<thead>
<tr>
<th>Tax variances lead to different costs and therefore affect direction of trade with any member state in the common market</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Taxes have been fully harmonized within the common market and therefore this issue influence regional trade</th>
</tr>
</thead>
</table>

16. To what extent do you agree with the following factors relating to non-tariff barriers and measures as influencing regional trade within the East African Community common market?

<table>
<thead>
<tr>
<th>NTBS were fully eliminated when the common market came into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are mechanisms by the common market to deal with members who impose NTBS on other members</td>
</tr>
<tr>
<td>Member states are committed to boosting regional trade by removal all NTBS</td>
</tr>
<tr>
<td>Full benefits of common market have been achieved as there are no NTBS by member states</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Moderate</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
17. What other factors do you think influence regional trade in east Africa common market?

18. Do have any suggestions that you think will boost the volume of regional trade within the east African community common market?

Thank you for your time
## Appendix III: Budget Estimates

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit cost</th>
<th>Cost (KShs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traveling expenses</td>
<td>Item 5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Hiring of research assistant</td>
<td>Item 4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>Computer/typing services</td>
<td>Item 600</td>
<td>600</td>
</tr>
<tr>
<td>Printing and Photocopying of proposal</td>
<td>Item 3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Binding of project5 copies</td>
<td>Item 150</td>
<td>900</td>
</tr>
<tr>
<td>Data analysis</td>
<td>Item 5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Printing and Photocopying of Research Report</td>
<td>Item 6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Hard binding, 5 copies</td>
<td>Item 280</td>
<td>1,960</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Item 5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>31,960</strong></td>
</tr>
</tbody>
</table>
## Appendix IV: Time Plan

<table>
<thead>
<tr>
<th>Month /Activity</th>
<th>1&lt;sup&gt;st&lt;/sup&gt;</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt;</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt;</th>
<th>4&lt;sup&gt;th&lt;/sup&gt;</th>
<th>5&lt;sup&gt;th&lt;/sup&gt;</th>
<th>6&lt;sup&gt;th&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Writing</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Corrections</td>
<td></td>
<td></td>
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<tr>
<td>Data Collection</td>
<td></td>
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<td></td>
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<tr>
<td>Data Analysis</td>
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<td></td>
</tr>
<tr>
<td>Report Writing</td>
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<tr>
<td>Submission of Report</td>
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<td></td>
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<tr>
<td>Finalization of Report</td>
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<td></td>
</tr>
</tbody>
</table>