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**REGIONAL INTEGRATION IN A GLOBALIZING WORLD: CHALLENGES AND  
PROSPECTS FOR THE EAST AFRICAN COMMUNITY (EAC) ' /**

**Edna Kemunto Onchiri**

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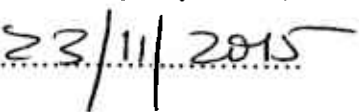
**Declaration**

I, Edna Kemunto Onchiri, author of this research project do hereby declare that except for references made to other peoples' work, which I have duly acknowledged, the work presented here was undertaken by me under the supervision of Prof. Ambassador Maria Nzomo of the University of Nairobi, Kenya. This work has not been presented for a degree in any other university.

Signed..........Date..........

**Edna Kemunto Onchiri (Student)**

This project has been submitted for examination with my approval as University Supervisor;

Signed..........Date..........

**Prof. Ambassador Maria Nzomo (Supervisor)**

## **Dedication**

This research project is dedicated to all my nephews and nieces who have brought so much joy to my sisters, brothers and my parents. To Edward and Ron Martin, to Bethany, James, Imani and Christopher, to Bernadette, Wendy, Gabriella and Emmanuel, to Layla, to Thomas and Joy, and lastly to Laban and Anthony. May you grow up to be a joy to your parents and may God richly bless you.

## **Abstract**

This work looks at regional integration in a globalizing world, the challenges and prospects of the East African Community. The objectives of this research project is to analyze the historical evolvement of the EAC since 1967 and establish the factors that contributed to its collapse; to examine the key drivers of the second EAC in the 21<sup>st</sup> Century; to establish and assess the strategies employed by the second EAC in responding to globalization; and to assess the prospects and challenges of EAC regional integration project in the 21<sup>st</sup> Century.

The analysis of this research project begins with an understanding of the growth of the first EAC. It explores the process of its formation, progress and the eventual collapse of the community. It demonstrates that during the colonial era, integration was in place, however after independence, several factors led to its collapse. This research project further looks at the formation of the second EAC in 1999 in the face of globalization. The research argues that, despite the challenges that the current EAC has faced as a result of globalization, it has been able to manage them so far. Furthermore, this work recommends constructive actions that should be taken to ensure that the current EAC continues to benefit from globalization. The EAC needs to embrace globalization in the full awareness of the opportunities and challenges involved thus by operating within the framework of a strong regional economic grouping to be able to handle the powerful forces of globalization.

To make regional integration of the EAC countries an effective vehicle for beneficial integration within the world economy, the EAC countries must sacrifice their national interests as integration may not be beneficial if there will be strong forces intended to maintain a country's autonomy. The region will also avoid disintegration by formulating appropriate mechanisms to compensate losing members, as well as formulate measures to address differences in structures of economies, diversity of member countries and unfair trade practices.

## **Acknowledgements**

I thank God for the gift of life and the gift of good health and clarity of mind as I pursued my Masters in International Studies. I am grateful to my supervisor, Prof. Ambassador Maria Nzomo, who took her time to diligently guide me from conception of the proposal to the writing of the research project. I appreciate my family more especially my mother; Lucy Moraa Onchiri, and my brother Darius Getanda Isaboke who kept constant tabs on how I was fairing and also kept pushing and encouraging me to ensure I met my supervisor's deadlines. I am also grateful to my fellow students who were an encouragement during the period. Last but not least, I greatly appreciate my employer who allowed me flexible time when I needed to meet with my supervisor and to everyone who had a word of encouragement in one way or the other, may God richly bless you.

## **Abbreviations & Acronyms**

<b>AEC</b>	<b>African Economic Community</b>
<b>AfDB</b>	<b>Africa Development Bank</b>
<b>AMU</b>	<b>Arab Maghreb Union</b>
<b>AU</b>	<b>African Union</b>
<b>ASEAN</b>	<b>Association of South-East Asian Nations</b>
<b>CIS</b>	<b>Commonwealth of Independent States</b>
<b>COMESA</b>	<b>Common Market for Eastern and Southern Africa</b>
<b>EAC</b>	<b>East African Community</b>
<b>EACB</b>	<b>East African Currency Board</b>
<b>EACSO</b>	<b>East African Court of Justice</b>
<b>EAHC</b>	<b>East African High Commission</b>
<b>ECOWAS</b>	<b>Economic Community of West African States</b>
<b>EU</b>	<b>European Union</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>FTA</b>	<b>Free Trade Area/Association</b>
<b>GATT</b>	<b>General Agreement on Tariffs and Trade</b>
<b>GOK</b>	<b>Government of Kenya</b>
<b>ICT</b>	<b>Information and Communication Technology</b>
<b>IGAD</b>	<b>Inter-governmental Authority on Development</b>
<b>IGOs</b>	<b>Inter- Governmental Organizations</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>LPA</b>	<b>Lagos Plan of Action</b>
<b>MA</b>	<b>Mediation Agreement</b>
<b>NEPAD</b>	<b>New Partnership for Africa's Development</b>
<b>OAU</b>	<b>Organization of African Unity</b>
<b>PTA</b>	<b>Preferential Trade Agreement</b>
<b>REC</b>	<b>Regional Economic Community</b>
<b>RTA</b>	<b>Regional Trade Agreement</b>
<b>SACU</b>	<b>Southern African Customs Union</b>
<b>SAPs</b>	<b>Structural Adjustment Programs</b>
<b>SADCC</b>	<b>Southern Africa Development Coordination Conference</b>
<b>SCO</b>	<b>Shanghai Cooperative Organization</b>
<b>SSA</b>	<b>Sub-Saharan Africa</b>





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## CHAPTER ONE

### INTRODUCTION AND BACKGROUND OF THE STUDY

#### 1.0 Introduction

#### 1.1 Background of the study

Over the past decades, there has seen a significant increase in the efforts of different countries to come together and form a region to be able to either achieve economic unity or address a mixture of economic, social, political, and security concerns.

Regional integration or regionalization has various dimensions; it is often referred to as the growth of societal integration within a region. Formal regional integration refers to processes by which states go beyond the removal of obstacles to interaction between their countries and create a regional space subject to some distinct common rules. With regard to economic integration, several degrees of ambition are usually distinguished: free trade area, customs union, common market, economic and monetary union.<sup>1</sup>In many of the developing countries in the world today, the existing regional arrangements have either been strengthened or expanded thus forming new groups, these initiatives have deepened regional integration

#### Definition and Scope

##### Regional Integration

Regional Integration can be said to have three elements: a) Geographical scope illustrating the number of countries involved in an arrangement, b) the substantive coverage or width that is the sector or activity coverage e.g. trade, labor mobility, macro-policies, sector policies etc.and c) the depth of integration to measure the degree of sovereignty a country is ready to surrender, that is from simple coordination or cooperation to deep integration.

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<sup>1</sup> Baylis, J., Smith, S., & Owens, P., *The Globalization of World Politics, An introduction to international relations*, (Oxford: Oxford University Press, 2008).

The concept of regional integration implies that nations of a geographic region come together in some type of partnership to promote trade and development. In these arrangements, the countries agree to reduce and ultimately remove tariff and non-tariff barriers to the free flow of goods or services and factors of production among each other.<sup>2</sup>

## Globalization

Globalization can be referred to as the process of increasing interconnectedness between societies such that events in one part of the world have effects on people and societies far away. A globalized world therefore is one in which political, economic, cultural, and social events become more and more interconnected and also one in which they have more impact.<sup>3</sup>

Globalization can also be referred to as the accelerating interdependence of the world's economies in which the most visible aspects have seen huge increases in capital movements, rapidly growing trade and internationalization of production with rapid expansion of multinational companies with operations in many countries. This has happened in tandem with a marked decline in communication costs associated with the information technology revolution.<sup>4</sup>

## Development of Regionalism

Different countries in different continents have had various histories and strategies in the various integration efforts that they have engaged in. In the Americas for example, regionalism dates back to the 1800s while regionalism in South-East Asia does not have a very clear historical identity. The establishment of the Association of South-East Asian Nations (ASEAN) in 1967 between Indonesia, Malaysia, the Philippines, Singapore and Thailand was motivated less by a sense of common identity.

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<sup>2</sup> Mugisa, E., Onyango, C., & Mugoya, P., An Evaluation of the Implementation and Impact of the East African Community Customs Union (unpublished), 2009.

<sup>3</sup> Baylis, J., Smith, S., & Owens, P, *The Globalization of World Politics*, (Oxford: Oxford University Press, 2008).

<sup>4</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

The commonwealth of Independent States (CIS) was created in 1991 among all the former Soviet republics except the three Baltic States and Georgia while the Shanghai Five mechanism created by China, Russia, Kazahsta, Kyrgystan and Tajikistan in 1996 was transformed into the Shanghai Cooperation Organization (SCO) and this helps to promote various forms of cooperation.

In Europe, regionalism after 1945 took the form of a gradual process of integration leading to the emergence of the European Union (EU). Since the 1992 Treaty on European Union, the integration process in Europe has involved the adoption both of stronger forms of unification, notably monetary union, as well as other forms of cooperation.

Contemporary regionalism in Africa emerged on the basis of preexisting colonial arrangements. French West Africa was a Federation between 1904 and 1953, In the 1970s and 1980s; a variety of other regional organizations emerged often cutting across the previous arrangements.

In Central Africa, a monetary union guaranteed by France and a formal customs union were created in 1964 while the Southern African Customs Union (SACU) was originally created in 1910, the Southern African Development Community (SADC) was created in 1992. A Preferential Trade Area (PTA) cutting across Eastern and Southern Africa was created in 1981. This was succeeded in 1994 by the Common Market for Eastern and Southern Africa (COMESA).<sup>5</sup>

The EAC has a long history, the organization dates back to the British colonial era in East Africa in the early 1920s when Kenya, Uganda and Tanganyika united to form a free trade area. The treaty founding the EAC in its present form was signed by the parties in November 1999, and came into force in July 2000.<sup>6</sup>

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<sup>5</sup> Baylis, J., Smith, S., & Owens, P, *The Globalization of World Politics*, (Oxford: Oxford University Press, 2008).

<sup>6</sup> Baregu, M., 'The African Economic Community and the EAC: Any lessons from the EU' in R, Ajulu, (ed), *The making of a region. The revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp 45-59.

## **Regional integration in a globalizing world**

Regional integration in all its spheres, with all its players and all its forms is currently under the influence of the emergence of a globalized world, things are not the same as they were back in the 1800's when regional integration is believed to have initially begun. While different parties that had integrated disintegrated, others came up and even those that disintegrated re-emerged.

Over the last three decades, the sheer scale and scope of a globalized world has become increasingly evident in every sphere. Worldwide economic integration has intensified as the expansion of global commerce, finance, and production links together the fate of nations, communities, and households across the world's major economic regions and beyond within an emerging global market economy.

There is no doubt that one of the most important trends in this era of globalization is the breaking down of barriers between countries that otherwise hinder exchange. As the trend in reduction of international trade barriers has accelerated, the process of regional integration has gathered steam. Regional integration and globalization may be seen as complementary processes that have the primary goal of expanding exchange amongst nations. Against this background, this study examines regional integration in a globalizing world. It will particularly scrutinize the challenges and prospects for the EAC in the era of globalization.

### **1.2 Statement of the problem**

Most countries all over the world, despite their geographical location, despite their size, economic scale, population size or level of development, whether developed, middle income or low income have embraced regionalization<sup>7</sup>. While regional integration dates back to the 1800's, the

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<sup>7</sup> Definition: Regionalization can be conceived as the growth of societal integration within a given region, including the undirected processes of social and economic interaction among the units. As a dynamic process, it can be best understood as a continuing process of forming regions as geopolitical units, as organized political cooperation within a particular group of states, and/or as regional communities such as pluralistic security communities (see Whiting 1993, 19).

new regionalization taking place since the late 1980's has been more a response to new forms of globalization. With globalization, regional arrangements tend to be more open than before in terms of economic integration as well as more comprehensive.

Today, in the era of globalization, individual states no longer have the capability to regulate in the face of uncontrolled movements of goods, services and capital. The market operates in a 'post-territorial world dominated by the activities of multinational corporations, cross-border flow of foreign investments, technologies, and patterns of consumptions.

Globalization has brought about heightened competition among the actors in the global economy. There is near cut-throat competition as each actor seeks to maximize the benefits of the opportunities it has created. The intensified competition in the liberalized global market puts those countries that do not have necessary power and resources to compete, at great disadvantage.

This raises the issue of power and justice in the international political economy. It is the actions of states at the 'core' that have all along shaped the social, political, and economic arrangements affecting the global systems of production, exchange, and distribution<sup>8</sup>. In his speech during proceedings of an EAC seminar held in Arusha in 2001, the then Deputy Governor of the Bank of Uganda observed that despite resistance of globalization due to its accelerated pace of change in economic life, the EAC should establish policies that will maximize the gains and minimize negative adjustment costs.<sup>9</sup>

Africa, and in particular the EAC has a big role to play in positioning itself in the globalizing world. The EAC needs to establish policies that will take full advantage of globalization so as to intensify its gains.

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<sup>8</sup> Nying'uro, P., O., 'The EAC's prospects on the global stage' in R. Ajulu (ed), *The making of a region. The revival of the East African Community*, Midrand: Institute for Global Dialogue, 2005)pp 31-43

<sup>9</sup> Dr. Louis Kasekende, *Dialogue on Regional Integration in East Africa/The Impact of Globalization on the East African Community* (Paper presented in a Workshop on 19 – 20 March 2001



Regional integration is however taking different forms and with different outcomes for various groupings and regions. This study therefore seeks to critically analyze regional integration in a globalizing world and outline the Prospects and Challenges of EAC as it seeks to reinvent itself in the era of globalization.

### **1.3 Research questions**

The research questions that this study will address are:

- a) How has the EAC evolved since 1967 and what are factors that contributed to its collapse?
- b) What are the key drivers of the second EAC in the 21<sup>st</sup> Century in a globalizing world?
- c) What are the strategies employed by the second EAC in responding to globalization?
- d) What are the prospects and challenges of EAC regional integration project in the 21<sup>st</sup> Century?

### **1.4 Objectives of the study**

The primary objective of this study is to examine regional integration in a globalizing world with a specific focus on prospects and challenges of EAC in the era of globalization. The secondary objectives of this study are:

- a) Analyze the historical evolvement of the EAC since 1967 and the factors that contributed to its collapse
- b) Examine the key drivers of the second EAC in the 21<sup>st</sup> Century
- c) Establish and assess the strategies employed by the second EAC in responding to globalization
- d) Assess the prospects and challenges of EAC Regional Integration project in the 21<sup>st</sup> Century

### **1.5 Justification of the study**

This study hopes to contribute to the knowledge gap on the prospects and challenges of the EAC in the era of globalization. The study will also contribute to theory building in regional

integration and globalization. It will also shade light and seek to generate useful information and recommendations that can contribute to policy making in the East African region.

## **1.6 Literature review**

### **Introduction**

The purpose of literature review is to determine what has been done already related to the research problem being studied and to identify the gaps in knowledge that this study should fill.

### **The Concept of Regional Integration**

In ordinary language, the term 'integration' means to bring parts of an object into a complete whole, while in International Studies, Regional integration is often referred to as the growth of societal integration within a region and the often undirected processes of social and economic interaction. Regional agreements cover different mixtures of economic, social, political, and security concerns.

The concept of regional integration implies that nations of a geographic region come together in some type of partnership to promote trade and development. In this arrangement, the countries agree to reduce and ultimately remove tariff and non-tariff barriers to the free flow of goods or services and factors of production among each other. There are various levels of integration and, to that extent, regional integration agreements come in many shapes and sizes. The main types of integration are: a Free Trade Area (FTA), a customs union, common markets, an economic union, and a political union.

### **Development of Regionalism**

Different countries in different continents have had various histories and strategies in the various integration efforts that they have engaged in.

The works of Baylis, Smith and Owens covers a wide range of themes regarding the development of regionalism. As the authors observe, regionalism in the Americas has a history

dating back to the 1800's. They say that the American continent has been characterized by multiple, and often competing levels of regionalism. The former British colonies in North America eventually settled down into two international actors: one federal union, the United States of America, in 1865 and one confederation, Canada in 1889.

The authors further discuss regionalism in Asia and they go into vivid detail to talk about the many patterns the Asian continent adopted on its quest for regionalism. The authors discuss that South-East Asia is not a region with a clear historical identity. They further observe that the establishment of the Association of South-East Asian Nations (ASEAN) in 1967 between Indonesia, Malaysia, the Philippines, Singapore and Thailand was motivated less by a sense of common identity. As for the Eurasia and the post-Soviet states, a complex pattern of regional arrangements resulted from the efforts of the former components of the Soviet Union to settle down in a zone of cooperation and competition between Russian, Chinese, and EU influence.

The commonwealth of Independent States (CIS) was created in 1991 among all the former Soviet republics except the three Baltic States and Georgia. A CIS customs union was proclaimed in 1995 between Russia, Belarus, and Kazakhstan.

The Shanghai Five mechanism created by China, Russia, Kazahsta, Kyrgystan and Tajikistan in 1996 was transformed into the Shanghai Cooperation Organization (SCO) and this helps to promote various forms of cooperation, including collaboration to counter terrorism, drug trafficking, money-laundering, and weapons smuggling.

In Europe, regionalism after 1945 took the form of a gradual process of integration leading to the emergence of the European Union. Since the 1992 Treaty on European Union, the integration process in Europe has involved the adoption both of stronger forms of unification, notably monetary

union, as well as other forms of cooperation such as non-binding coordination in economic and employment policy, or more intergovernmental cooperation in foreign and security policy.

Baylis, Smith and Owens acknowledge that contemporary regionalism in Africa emerged with the politics of anti-colonialism but often on the basis of preexisting colonial arrangements, the authors argue that French West Africa was a Federation between 1904 and 1953, and a common currency was created in 1945. In the 1970s and 1980s, a variety of other regional organizations emerged often cutting across the previous arrangements; the Economic Community of West Africa (ECOWAS) was created in 1975 between the francophone and Anglophone countries of West Africa.

In Central Africa, the authors provide contextual information about regionalism, they observe that a monetary union guaranteed by France and a formal customs union were created in 1964. This was transformed into the Economic and Monetary Community of Central Africa (CEMAC) which fully took over in 1999. The Southern African Customs Union (SACU) was originally created in 1910. An agreement was signed in 1969 with the independent countries of Botswana, Lesotho, Swaziland, and Namibia. This has included a common external tariff and a revenue-sharing mechanism, as well as a Common Monetary Area except for Botswana. A new treaty came into force in 2004.

A Preferential Trade Area (PTA) cutting across Eastern and Southern Africa was created in 1981. This was succeeded in 1994 by the Common Market for Eastern and Southern Africa (COMESA). Southern African Development Community (SADC) was created in 1992 while other regional outfits were started with a particular special mandate which was then extended e.g, the

Organization of African Union formed in 1963 as a pan-African organization and later became the African Union (AU) was dedicated to the ending of colonialism and political liberation.<sup>10</sup>

Baregu discusses the long history of the EAC, the author observes that the EAC has a long history and adds that the organization dates back to the British colonial era in East Africa in the early 1920s when Kenya, Uganda and Tanganyika united to form a free trade area in 1927 and later a customs union. The author further puts into context the fact that in the post- World War II period, the union was transformed into the East African high commission providing several joint services. The treaty founding the EAC in its present form was signed by the parties in November 1999, and came into force in July 2000.<sup>11</sup>

The EAC however, has a much longer history going as far back as the early 1920s. A section of this research will look into detail on the history of the EAC, its collapse and revival in the 21<sup>st</sup> Century.

## **Benefits of Regional Economic Integration**

### **Regional Integration and development**

There is relevant work by a 2004 African development report as it outlines the benefits of regional economic integration. The report observes that regional economic communities are formed because of their expected benefits. The report observes that an important feature of the higher levels of integration is free trade among members. Free trade is expected to lead to rapid expansion of trade among members, which in turn is expected to lead to rapid economic growth.

These gains result from the dynamic effects of a Customs Union, which have been shown to overshadow the static effects, viz., trade creation, trade diversion and terms of trade effect. The

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<sup>10</sup> Baylis, J., Smith, S., & Owens, P, *The Globalization of World Politics*, (Oxford: Oxford University Press, 2008).

<sup>11</sup> Baregu, M., 'The African Economic Community and the EAC: Any lessons from the EU' in R, Ajulu, (ed), *The making of a region. The revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp 45-59.

dynamic effects, which are cumulative in nature, lead to growth. Indeed, the dynamic effects of a Customs Union are often described as the long-run consequences for the economic growth of member countries as a consequence of increased market size and exploitation of economies of scale, increased competition, learning by doing, and increased investment. There is evidence that the larger the Customs Union, the more likely it is to lead to growth, given its potentials to create a larger market for goods and services and the larger scale economies.

### **Regional Integration and trade**

The 2004 African development report observes that integration schemes allow for free trade between member countries, but restrict imports from third countries. The free trade element serves to enhance the size of markets whilst the tariff element impedes imports from third countries into the region. It is the expectation that the tariffs will induce the tariff jumping variety of FDI and the increased size of markets following and RTA will induce the market seeking variety of FDI. The received wisdom though is that the market enlargement effect is much more significant than the tariff effect in inducing increased flows of FDI.

Furthermore, it is policies designed to eliminate distortions and liberalize trade and investment, which often either precede or accompany integration arrangements, which are likely to induce increased flows of FDI. Integration per se may have little effect on the volume of FDI members of integration schemes are likely to attract.<sup>12</sup>

### **A historical overview**

#### **Milestones of the East African Co-operation**

There are various authors who have put together massive literature on the EAC, sometimes these authors differ in their approach. One author whose work this study refers to is Prof. Tulya-

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<sup>12</sup> African Development Report, *Africa in the World Economy, Africa in the global trading system, Economic and social statistics on Africa*, (Oxford: Oxford University Press, 2004). P167

Muhika who candidly observes that the beginning of the EAC was with a common service, viz in 1895 with the commencement of the construction of the Uganda Railway from the Kenyan coastal town of Mombasa. The author proceeds to observe that the second phase was the creation of the East African Common Market which started in 1900 with the customs arrangements between Uganda and Kenya on the one hand, then British East Africa, and Tanganyika, then German East Africa. This phase culminated in the formation of the East African High Commission in 1948 which held up until the independence of Tanzania in 1961.

The third phase was the creation of the East African Community, which started with the formation of the East African Common Services Organization in 1961, culminating in the establishment of the East African Community (EAC) in 1967, the collapse of the Community in 1977 and the Mediation Agreements in 1984.

The fourth phase is the revival of East African Cooperation which started with the Nairobi Communique' in October 1991, an agreement in 1993, establishment of EAC Secretariat in 1996 and signing of new EAC treaty in 1999.<sup>13</sup>

In 1967, the three EAC countries signed a co-operation treaty, aimed at achieving three main objectives: a) To establish a CET while allowing deviations from particular items as agreed in their ministers of finance b) To allow unrestricted movement of transit goods among the three countries, with a remission of duties, c) To control imports from third-party countries when such goods were also produced in East Africa. The treaty focused on trade rather than political and social co-operation.

There are some good articles and books written in which various authors put together their findings on why the EAC collapsed, one author, Odhiambo has vividly captured in detail the

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<sup>13</sup> Prof. Sam Tulya-Muhika, Perspectives on Regional Integration and Co-operation in East Africa/Revival of the East African Co-operation and its Institutional Framework (Paper presented at the proceedings of the 1<sup>st</sup> ministerial seminar on East African Co-operation on 25-26 March 1999)

collapse of the first EAC, the author addresses this question by arguing that the first EAC collapsed in 1977 for a number of reasons; one factor identified is the perception at the time that the benefits of economic co-operation were unequally distributed. It is widely believed that Kenya, because of its more developed industrial sector and relatively advanced infrastructure, benefited more from trade than the two other partner countries.

Other authors have argued that the first EAC was bound to collapse because it was strictly an agreement among governments without involvement of the private sector or civil society. The collapse of the treaty has also been attributed to differences in the political ideologies of the three countries; while Kenya advocated for capitalism with social interventions, Tanzania pursued a socialist model.<sup>14</sup> Even as other authors have argued that the first EAC was bound to collapse, it is imperative to identify the issues that could have contributed to its collapse. These challenges include a lack of strong political will, a lack of private sector and civil society participation, a disproportionate share of benefits, and a lack of policies to redress the situation as it deteriorated. Also significant to the collapse are the dominance of national interests, and their collusion with foreign capital, and the lack of clear vision based on a shared perception of threat.<sup>15</sup>

### **Understanding the EAC**

The treaty founding the East African Community (EAC) in its present form was signed by the parties in November 1999, and came into force in July 2000. The organization itself, however, has a much longer history that dates back to the British colonial era in East Africa, going as far back as the early 1920s when Kenya, Uganda and Tanganyika united to form, first, a free trade area, and later (1927), a customs union. In the post-World War 2 period, the union was transformed into the

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<sup>14</sup> Odhiambo, W, 'The East African Customs Union and its implications' in R. Ajulu (ed), *The making of a region, the revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp.215-216

<sup>15</sup> Baregu, M., 'The African Economic Community and the EAC: Any lessons from the EU' in R. Ajulu, (ed), *The making of a region. The revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp 45-59.



East African high commission, providing several joint services, including railways, harbors, and a common currency to the three countries.

This arrangement was to evolve into the East African Common Services Organization in the post-independence period, after the efforts to establish an East African federation had failed in the face of parochial nationalism. The common services organization itself experienced a number of difficulties before being transformed into the first EAC through the Treaty for East African Co-operation in 1967. Owing to the persistent problems arising primarily from competing, narrow, national self-interest, divergent ideologies, and parochial sovereignty, the community finally collapsed in 1977, triggering a long and quite acrimonious process of distributing assets and assigning liabilities to the member states.

The present EAC arose out of the ashes of the collapsed one. It was a result of protracted negotiations among Kenya, Tanzania and Uganda, beginning in 1993 when the heads of state signed an agreement to revive co-operation among them. These negotiations were in accordance with article 14.02 of the East African Community Mediation Agreement of 1984, which provided for the exploration and identification of areas of future co-operation.<sup>16</sup>

### **Phases of integration in Africa**

According to Adedeji, there are five phases of integration in Africa:

1. Putting supra-national pan-Africanism as the rallying point and the vision for political independence and economic decolonization.
2. Damage control of the abrupt reversal of French colonial policy of political and economic integration to one of balkanization and fragmentation before granting independence in 1960.

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<sup>16</sup> Baregu, M., 'The African Economic Community and the EAC: Any lessons from the EU' in R, Ajulu, (ed), *The making of a region. The revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp 45-59.

3. The search for larger and sustainable sub-regional integration among independent African countries resulting in a breakthrough in sub-regional co-operation arrangements in the 1970s and 1980s.
4. Taking the historic adoption of the Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL) and the Abuja treaty establishing the African Economic Community
5. The giant stride from the Abuja Treaty to the Constitutive Act of the African Union of July 2000.<sup>17</sup>

### **The Concept of Globalization**

Kasekende defines globalization as the accelerating interdependence of the world's economies in which the most visible aspects have huge increases in capital movements, rapidly growing trade and internationalization of production with rapid expansion of multinational companies with operations in many countries. This has happened in tandem with a marked decline in communications costs associated with the information technology revolution. At a more fundamental level, there has been a marked convergence in national governments approaches to economic policy making. He further points out that there is however contradicting views regarding the impact of globalization on developing countries in general and on East African people in particular. Some analysts have tended to emphasize the likely benefits, arguing that it offers East African countries opportunities to create wealth through export led growth and to gain access to new ideas, technologies and institutional designs.<sup>18</sup>

Globalization confers benefits, it is argued by affecting the efficiency with which resources are used and by so doing influencing economic growth. It also impacts on people by influencing

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<sup>17</sup> Adedeji, A., 'Defining priorities for regional integration: History and prospects for regional integration in Africa', in P. A. Nyong'o, A. Ghirmazion, and D. Lamba, (ed), *New Partnership for Africa's Development NEPAD, A New Path?*, (Nairobi: Heinrich Boll Foundation, 2002) pp.299-315.

<sup>18</sup> Dr. Louis Kasekende, *Dialogue on Regional Integration in East Africa/The Impact of Globalization on the East African Community* (Paper presented in a Workshop on 19 – 20 March 2001)

the distribution of income and the quality of living. An associated source of impact is through its influence on macroeconomic and structural policies.

Other analysts are skeptical arguing that it means decreasing national control and an increasing command over the economy by foreign interests. Another concern is that it has created serious risk of cyclical disturbances in response to capital inflows and outflows re characterized by boom bust cycles because rapid development occasioned by inflows contains seeds of its own crisis. Soon or later, profit margins begin to fall, projects fail, capital inflows reduce and pressure is exerted on the exchange rate. Globalization has also been resisted because it is associated with increased damage to the environment as a consequence of material welfare.<sup>19</sup>

### **Features and Pillars of Globalization**

Various scholars have identified different feature and pillars of Globalization, Timmy distinguishes between five main types of globalization: a) Cultural globalization would refer to the diffusion of ideas and values in the arena of sports, education, films, and wider social interaction, b) Technical globalization would entail the diffusion of technologies from fields such as telecommunications, computers, radio, television, internet, manufacturing, agriculture, and transport and communication. The spread of military technology, as happened intensely during the Cold War, was an instance of technical diffusion, c) Economic globalization refers to the diffusion of commercial ideas and techniques through the medium of advertisement of products, economic reforms, and trade. The forces that shape economic globalization have invariable been the IMF, the World Bank, the transnational corporations, and the World Trade Organization (WTO), d) Political globalization refers to the flow of political ideas such as human rights, democracy, pluralism, diplomacy, and the conduct of international relations, e) Normative globalization would represent

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<sup>19</sup>Ibid,

the spread of norms, conventions, rules and values agreed in international for a designed to govern global interaction<sup>20</sup>.

On the other hand, Dr. Kasekende observes that economic globalization is a key characteristic of the current world situation. He observes that in the 19<sup>th</sup> century, the world economy became more integrated largely through trade and capital movements. He further adds that most recently, important developments have occurred which include new technological advances that have strongly reduced transport, telecommunication and computer costs. The advent of the internet is particular can be identified as one of the key technological advances. These technological developments have made national markets to become integrated more easily into the global economy. The rapid growth in FDI has also been an important part of this process. FDI has in particular led to intensive technological transfer, as more companies are becoming more global with their decisions, relating to the world economy as a whole. A large part of the world and a large number of countries are participating in the process of integration making the process increasingly global.<sup>21</sup>

Kasekende's work is relevant to the current state of the EAC, he observes that the most visible aspects of globalization are a) Huge increases in capital movements meaning that financial flows between countries have expanded much more spectacularly. Financial markets are becoming more internationally integrated. Africa in general is not integrated into the global capital markets and East Africa in particular is not attracting substantial capital inflows and so is losing out of benefiting from this particular aspect of globalization. This has been identified as a function of credibility and policy environment rather than the resource endowments, b) rapidly growing world trade, faster than the growth of domestic activity. Trade has grown two to three times as fast as

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<sup>20</sup> Timamy, K.M.H, *The political economy of technological underdevelopment in Africa*, (Nigeria: Centre for Black and African Arts and Civilization, 2007).

<sup>21</sup> Dr. Louis Kasekende, Dialogue on Regional Integration in East Africa/The Impact of Globalization on the East African Community (Paper presented in a Workshop on 19 – 20 March 2001

world output in the last decade but Africa has fallen sadly behind to the point where today it exports make up only a little over one percent of total world exports. There has been a decline in trade protectionism with industrial country tariff rates declining. In Africa, protection by means of tariffs, import controls and other means has fallen less in recent years than in other developing regions and remained even at higher levels. Although Africa depends fairly very heavily on trade, it has much less open economies than in any other of the world's major regions a fact, which is closely related to the loss of market share. Thirdly c) There has been an internationalization of production with rapid expansion of protection with rapid expansion of multinational companies with operations in many countries. Manufacturing firms are internationalizing their production, shifting investment to lower cost environments.

The East African region at present is not attracting significant amounts of these investments largely on account of lack of supportive infrastructure, credibility issues and also because of the domestic policy environment. The EAC has therefore, not benefited much from the globalization of production. Community exports have remained overwhelmingly concentrated in the same narrow range of primary commodities, while in some instances export concentration has actually increased. Through better policies, the EAC has much to gain from globalization. Its exports can be expanded into manufacturing and capital inflows can be attracted which should boost its capital stock. The forth visible aspect of globalization is that d) There has been a marked decline in communications costs associated with the information technology revolution.

This sharp decline in costs has brought about increased technological interdependence. EAC has a chance to leapfrog if it can rapidly equip itself with information and communications technology in order to exploit gains offered by the emerging knowledge based globalized economy. Regional cooperation is important to develop strong system backbones, share resources and knowledge required if Africa is to claim the 21<sup>st</sup> Century. Broader regional collaboration could lead

to bulk purchasing of capacity, capacity-building initiatives, and innovative financing, helping to achieve economies of scale and to lower costs. Lastly e) there has been a marked convergence in National Governments Approaches to Economic Policy Making. In most cases, this convergence in policy has been in favour of liberalization and market led development.

Trade barriers have come down around the world through the phased elimination of Quantitative Restrictions; as a result, the EAC does not face important barriers for its present exports. A reduction of trade barriers (policy environment) is of particular significance to EAC as it changes its comparative advantage. Steps in policy co-ordination should be encouraged as is already being done with regard to convergence criteria, conversion of regional currencies and Governor's meetings to share experiences.<sup>22</sup>

### **Globalization and its implications for regionalism**

The characteristics of the contemporary international political economy are encapsulated in one familiar term, 'globalization'. Globalization as a feature of the reconfigured international system has emerged from the totality of fundamental changes in the international order that have been in train since the 1980s.

The elements of the 'historic changes' that have produced the phenomenon of globalization include: the end of the Cold War, new forms of competition and co-operation among advanced capitalist economies, increased interdependence of production of trade, the rapid growth and shifting patterns of international finance, and new ideological currents.

Globalization is essentially an economic phenomenon. But it also has ideological and political dimensions. In political-economic terms, it could be regarded as the process of the construction of a 'new architecture' for global economic governance. This new architecture derives

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<sup>22</sup> Dr. Louis Kasekende, Dialogue on Regional Integration in East Africa/The Impact of Globalization on the East African Community (Paper presented in a Workshop on 19 – 20 March 2001

its basis from another important feature of globalization, namely, the integration of national economies into the global economy, thereby forming a single economy at the international level. It thus entails the homogenization of national economies into a single global market.

The political-ideological dimension of globalization is also crucial, and has important implications for the operation of the global political economy in general.

The globalized international system exhibits certain characteristics: The most important impact of globalization has been the way in which it has led to the shrinking of the world into a compact community, sometimes referred to as the 'global village'.

The globalized international system is also market driven. The pillar of the international economy in the age of globalization is, indeed, the market. The 'marketization' of the system has transformed the relationship between the market and state. If modern history has all along been shaped by the tension between the state and the market as two fundamentally different ways of organizing human relationships, the emerging trends in the contemporary world seem to suggest the triumph of the market over the state. The free-market-driven liberalization process that has accompanied globalization has tipped the balance in favour of the market.

Confronted with the dictatorship of the market with its requirement that the state surrenders portions of sovereignty, states increasingly seek protection in regional arrangements in which they may pool their sovereignty and collectively face the daunting challenges of the global market. The argument is that, left on its own, the state cannot take on the forces of globalization. On the other hand, the pervasiveness of globalization leaves the state with little choice: it has to deal with this market, after all. It has to be integrated into the global political economy in order to survive.

Another significant feature of globalization as observed by the author is the heightened competition among the actors in the global economy. There is a near cut-throat competition as each

actor seeks to maximize the benefits of the opportunities created by globalization. There is indeed, the competition to control the globalization process itself, there is also the competition for access to the resources, information, and technology necessary for survival in the environment that characterize the globalized system.

Essentially, countries that benefit most from globalization are those that control access and possess globalization's defining technologies: computerization, miniaturization, digitization, satellite communications, fiber optics and the internet. Globalization has worsened the fortunes of Third world countries as competitors in the global market at a time when their economies have become even more open to competition and foreign influence. Countries in the North retain the power and monopolize the resources necessary to compete successfully in the global economic arena. The adoption of new forms of regional associations has been the common response to the pressures of increased competition for the global markets. If the developed countries also see deepened regional integration as important assets in the competitive global economy, then the generally weaker and marginalized countries in the periphery need regional schemes even more.

Globalization has not only affected state sovereignty externally. It has led to the internal reorganization of the state. The logic of globalization imposes certain conditions that a state must fulfill in its internal structure if it is to participate meaningfully in, and reap the benefits of, the globalization process. The state, especially the third world, has to be restructured along the lines demanded by globalization, Hence the agents of globalizations, especially the International Financial Institutions e.g. the World Bank and the International Monetary Fund (IMF), have imposed policies and conditionality on states whose internal structures do not meet the expectations of the new global order.<sup>23</sup>

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<sup>23</sup> Nying'uro, A, 'The EAC's Prospects on the global stage' in R. Ajulu (ed), The making of a region, the revival of the East African Community, (Midrand: Institute for Global Dialogue, 2005) pp.31-43



It is evident that despite the changes unleashed on the international system by the forces of globalization, the global political economy remains potentially cruel by the forces of globalization. The global political economy remains potentially cruel to the development aspirations of the countries in the EAC region and the impetus for regional integration. National economies in the region remain dependent and weak. Unless they are restructured to be more inward-looking nationally and regionally, external forces emanating from the global political economy shall continue to frustrate regional integration efforts.<sup>24</sup>

### **The new regionalism and its global context**

According to Ajulu, the current resurgence of regional economic integration in Africa is neither new nor unique. It forms part of what has been termed the 'new regionalism' in developing countries, initiated largely as a response to the challenges of globalization.

Ajulu further points out that analysts have long recognized that most developing countries do not have the resources to cope with globalization on their own hence they need to pool their resources in regional arrangements that will allow them to collectively confront the daunting challenges of the global markets, and strengthen their bargaining power on the global stage. Given the far-reaching impact of globalization, this has been seen not as a matter of choice but rather as an imperative. Therefore regional integration is meant to make it possible for weaker countries to benefit from the global economy.

The new processes of economic integration are predicated on the assumption that engagement with the global economy is unavoidable. They do not seek to de-link their participants

from the global economy, but rather to engage with globalization in ways that benefit the weak and the poor. <sup>25</sup>

### **Impact of globalization on regionalism**

According to Adebayo Adedeji, while writing on the priorities for regional integration and prospects for regional integration; one of the tragic consequences of the perennial economic and political crisis of the 1980s is that the dawn of the new era of globalization which began in the 1980s found the African economy and policy virtually on their back. They were caught by the forces of globalization – information technology, new and more advanced communications technology marketization, internalization of the financial markets and the hegemony of transnational corporations as players in production factor movements.

Adedeji further observes that Africa's persistent economic crisis, severe as it has been, is but a consequence of its political crisis. The civil wars and civil strife are but violent reactions to the pervasive lack of democracy, the denial of human rights, the complete disregard of the sovereignty of the people and the lack of empowerment and accountability. Inevitably, internal marginalization has been grinding away at the foundations of the African society as a result of these deficits – development, democratic and security – whose cumulative consequence is the high incidence of poverty. Africa therefore faces the enormous task of coping with large-scale pervasive internal marginalization, which in turn partly accounts for its global marginalization. In other words, all the forces that have contributed to the lack of effective and dynamic economic co-operation and integration are also responsible for the inability of the continent to be an active player in the globalization process.

Adedeji further observes that unfortunately, one of the most fundamental changes brought about by globalization is the shift in focus of policy from multilateral negotiations on development

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<sup>25</sup> Ajulu. R, 'The new EAC: Linking subregional and continental integration initiatives' in R. Ajulu, (ed), *The making of a region*, (Midrand: Institute for Global Dialogue, 2005) pp.17-28

issues to the domestic policies and actions of developing countries. International actions specifically aimed at improving the global environment for development – weakness in commodity markets, preferential tariffs for exports from developing countries, transfer of technology on liberal terms, aid on concessional terms and debt relief and debt forgiveness, to mention only a few. – have virtually disappeared from the global agenda. So has North-South dialogue ceases to exist.

Globalization has thus effectively put paid to the concept of international development co-operation. It has transferred the focus of attention to the national level. Indeed, paradoxical as it may sound, the age of surging globalization may also turn out to be the period of the renewal of proto-nationalism. The retreat of multilateralism as a consequence of the ascendancy of globalization has hastened the regression to bilateralism.

It is to ameliorate this trend that new regionalism is emerging. By this is meant the transformation of regional economic co-operation into a holistic, multidimensional process of regional integration, which encompasses economic, political, security, social and cultural dimensions.

The new regionalism pursues regional integration as a holistic package. Political ambitions of creating territorial identity, collective security and regional coherence now seem to be the primary, neo-mercantilist goals of the new regionalism.<sup>26</sup>

### **Regionalism and the challenges of Globalization**

Regional trading blocs have the advantage of a larger market and therefore have greater attraction to global operators. They also potentially increase the bargaining power of developing countries in that the international community attaches more weight to a matter which is collectively presented by a group of countries than to one presented by individual countries. If developing

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<sup>26</sup> Adedeji, A., 'Defining priorities for regional integration: History and prospects for regional integration in Africa', in P. A. Nyong'o, A. Ghirmazion, and D. Lamba, (ed), *New Partnership for Africa's Development NEPAD, A New Path?*, (Nairobi: Heinrich Boll Foundation, 2002) pp.299-315.

countries really want to survive the wind of globalization, they must unite so that they can be heard as a bloc and therefore be a force to reckon with. The small economy of each partner state is unlikely to bring the level of development that the people of East Africa desire.

The most important challenge is to seek ways to maximize the compatibility of Regional Trade Arrangements (RTAs) with the WTO, while minimizing their negative effects. The first would be for countries to engage only in regional commitments that they would be willing, sooner or later, to extend to the multilateral setting. Second, countries could promote the principle of transparency by ensuring that comprehensive information on the tariffs, regulations, and rules of origin of their RTAs are publicly and easily available, and that all such RTAs are notified to the WTO in a timely fashion.

Because of worsening global inequality, developing African countries may not benefit from globalization it taken wholesale when compared to the benefits of globalization available to the developed world. Critics of globalization say that the rising inequality is the inevitable result of market forces. Given free reign, market forces give the rich the power to add further to their wealth. Large corporations invest in poor countries only because they can make greater profits from low wage levels, or because they can get access to their natural resources.

Proponents of globalization advance the argument that because of it, the world is marking a tremendous decrease of inequalities in global income and poverty. It is further argued that poor countries that have lowered their tariff barriers have gained increased employment and national income, because of labour and capital shifts from import-competing industries to expanding, newly competitive export industries.<sup>27</sup>

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<sup>27</sup> Ruhangisa, J.E., 'The East African Court of Justice' in R. Ajulu, (ed), *The making of a region, the revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp. 95-109

Regional integration in the face of globalization implies a reassessment of industrial policy. Unlike in the past when interventionist regime could spur export led growth, EAC economies will need to industrialize without the benefits of preferential and differential treatment or protective and interventionist trade regimes in the era of globalization. There will be need for a shift in the industrialization strategy for the EAC. The private sector and private investment will be the pillars of such a strategy. These pillars will have to be supported by appropriate trade policy; an outward orientation and competitive exchange rate. Regional integration will play an important part in the new industrialization strategy by providing an expanded regional market and by strengthening the bargaining power of the people of East Africa. The new industrialization strategy will have to emphasize export promotion and further import liberalization and in return call for open global markets for EAC exports as well as support in developing the needed infrastructure in the EAC countries.

For the EA region to effectively participate in, and benefit from the ongoing globalization, it is necessary to raise investment rates in the EAC and strengthen the economic environment by pursuing appropriate macroeconomic and structural policies and establishing an institutional framework to raise productivity in a sustainable fashion. . The five EAC countries can take advantage of market access brought about by global integration by improving access to market information and opportunities to the producers. In addition to increasing skill possession and access to finance to permit people to recognize and take advantage of market opportunities. This needs to be assisted by improving the level of institutional development, marketing and transportation facilities.

Market access can also be taken advantage of by strengthening the asset base of the rural poor. A large body of evidence shows small holder farmers to be highly responsive to changing conditions but they are constrained by the limited market access and the type of assets which they

possess. Further, access to education need to be improved. This is important because it raises the abilities of the people to respond to market signals and to adopt and adapt technological improvements, while also increasing mobility within the labour market.

Greater participation in global markets, savings and technology have many benefits to offer to the EA people. The task therefore, is to offer to establish a policy and institutional framework that will maximize the gains to people In the EAC and minimize the negative adjustment costs.<sup>28</sup>

The main thrust of Dr. Kasekende's argument is the establishment of a policy and institutional framework. In his view, this will maximize the gains to people in the EA region. This cannot be further from the truth as the EA region is endowed with untapped potentials of natural resources like gas, oil water as well as a population that is ready to work. It is important to highlight on this research project that despite incidences of conflict, there is a new wave of democratization in the region and there is also progress towards change although sometimes it seems like it is slow and fragile, it is headed for the better.

For the EA region to benefit from globalization, a coherent strategy is necessary in order to minimize the risks that come with globalization but maximize on its benefits. For effectiveness, the strategy should focus on building operational institutions and an open up an enabling environment for a private sector-led competitive market economy. The strategy must also involve defining and mainstreaming regional best practices in political and economic governance, and exert collective peer pressures on erring countries, create a level playing field, redesigning the global financial architecture, provision of global public goods, and strengthening the programs and institutions for preferential and differential treatments to East Africa.<sup>29</sup>

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<sup>28</sup> Dr. Louis Kasekende, Dialogue on Regional Integration in East Africa/The Impact of Globalization on the East African Community (Paper presented in a Workshop on 19 – 20 March 2001

<sup>29</sup> African Development Report, *Africa in the World Economy, Africa in the global trading system, Economic and social statistics on Africa*, (Oxford: Oxford University Press, 2004). P 266

In his speech on 'Development of Human Capital across border, Employment and Movement of People', Tom Owuor observes that for the EAC countries to meet the challenge of world class international competitiveness, their governments, employers and workers should map out common strategies of co-operation to improve their industries'. The struggle for competitiveness is both a national and regional struggle for the survival of our national economies, and for a better world. Governments should therefore allocate maximum resources to development of competitive economic infrastructure, giving consideration to expansion of regional trade and economic integration. This would include provision of reliable and adequate basic infrastructure such as roads, electricity, water supply and telecommunications. Furthermore, in this age of globalization, having the right information at the right time, the analysis and the resources to use it to enhance competitiveness is critical.

The EAC must join together and redouble efforts to enhance the capacities of labour market programmes for the EAC to be successful. This would include addressing the issue of child labour, improving relevance of education, including pre-primary education while also addressing issues of viability, cost-effectiveness and sustainability of education programmes.<sup>30</sup>

### **Opportunities and Challenges for regionalization in a globalizing world**

Ochoro observes that if countries today want to achieve rapid and sustainable economic growth, and become globally competitive, they need to move away from primary commodity production to industrial manufacturing, in qualitative as well as quantitative terms. This research project supports Ochoro's sentiments given that there are huge opportunities for technological advances even in the production of traditional manufactured goods that would increase

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<sup>30</sup> Tom Owuor, *Development of Human Capital across border, Employment and Movement of People*, (Paper presented during proceedings of the 1<sup>st</sup> Ministerial seminar on East African Co-operation on 25-26 March, 1999 in Arusha).

competitiveness in the economic use of raw materials and improved product qualities. The real challenge lies in shifting to more modern commodities with a higher technological content.

The author further reiterates that the current export-oriented industrialization policies are relying on market forces to drive domestic industries towards efficient production. Becoming globally competitive requires that domestic firms operate with technologies comparable to those of their foreign competitors, and apply them as efficiently as well. In the context of rapid technological advances in industrial production, and rapidly changing world markets, restructuring for export remains a major challenge. The liberalization of markets is inadequate as a means of achieving a successful export orientation, as it is more likely to lead to deindustrialization.

More directly supportive strategies and policies that could complement market forces in ensuring technological dynamism will be needed. This calls for in-depth analyses of the specific constraints on industrial growth. Policies that directly support the developments of the necessary skills and technological capacities should be introduced.<sup>31</sup>

### **The role of infrastructure**

Several authors concerned about the activities within the EAC have candidly addressed the state of infrastructure in the region. One such author who has explicitly addressed this subject is Mariara who observes that, when economic activity reaches a global scale, it becomes critically dependent on vastly expanded flows of information, the distribution of goods and services, and the movement of people. The author provides a robust analysis on the necessity of efficient infrastructure saying that infrastructure is a necessary concomitant of the exchange economy, and is indispensable to economic growth and development. While the author makes important points that rapid development in all forms of infrastructure helps to promote trade by lowering costs, and creating new services and ways of delivering all forms of goods and services, he also notes that

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<sup>31</sup> Ochoro, W,E,O, 'Trade and Industrial Development in the EAC' in R. Ajulu (ed), *The making of a region, the revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp.133



where there is no infrastructure, economic activity is restricted to a hand-to-mouth subsistence level, since movement of goods and services, and even people, is restricted.

The author notes that whereas economic integration provide the region with an enabling environment for expanded regional business and investment, the single most important drawback to the realizing the gains of co-operation is poor infrastructure development. His observations bring into play the role of infrastructure in regional integration since the integration of transport, communication and energy infrastructure are integral components of the regional integration scheme. The author appears to suggest that an integrated market will provide a framework for countries to co-operate in developing common infrastructure, such as financial services, transport, communication, and mechanisms for the joint exploitation of natural resources. Integration and infrastructure are complementary, since we cannot have regional integration when there is no good infrastructure, and neither can we have infrastructure connecting the EAC countries when there is no regional integration. It is in this respect that strategies need to be developed to improve connectivity and fill in the missing links in the transport network, develop more efficient communications, and exploit the possibility of pooling the power grid.<sup>32</sup>

## **Conclusion**

From the analysis on the literature of this study, it is worthy to note that regional integration in the era of globalization has changed from what is seemed earlier in the days when integration began. Globalization has greatly heightened competitions among the actors in the global economy. The ongoing competition in the different regions is a near cut-throat one as each actor seeks to maximize the benefits of the opportunities created by globalization. There is the competition for

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<sup>32</sup> Mariara, J, K, 'Infrastructure development in the EAC: Challenges, Prospects, and Policy Options' in R. Ajulu (ed), *The making of a region, the revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp.158-176.

access to resources, information and technology for survival in the environment that characterizes the globalized system.

The literature further points out that globalization has worsened the fortunes of Third world countries as competitors in the global market at a time when their economies have become even more open to competition and foreign influence. The adoption of new forms of regional associations has been the common response to the pressures of increased competition for the global markets. If the developed countries also see deepened regional integration as important assets in the competitive global economy, then the generally weaker and marginalized countries in the periphery need regional schemes even more.

The literature review also reveals key aspects of the EAC integration, trade and globalization key among them that Regional integration in EAC will facilitate progress towards globalization; it should be a vehicle to help the region integrate itself into the world economy in an orderly manner, through appropriate co-operation strategies. Such strategies should encompass effective trade liberalization, macroeconomic stability, structural reforms, liberalization, macroeconomic stability, structural reforms, and policy credibility. A regional East African approach to facilitate globalization requires nurturing domestic and regional institutions to promote the transmission of regional demonstration effects and facilitate regional infrastructure networks.

## **1.7 Theoretical framework**

The review of literature has examined a number of theoretical perspectives. Some authors have advocated on the theories of integration. The assumption is that regional integration is crucial to accelerate a country's economic growth. Scholars who have written extensively on the EAC sub-region have come up with various approaches to explain the process of East African cooperation.

One approach to regional integration is federalism. Federalism presupposes 'launching a frontal attack on national sovereignty' which entails the adoption of a common constitution and the

creation of joint institutions or central government. This is because through its legal, administrative, budgetary and if necessary coercive power, the central government would give birth to an integrated economy and community attitudes. This assumption subscribes to the basic tenet that politics rules economics which is exemplified by the role of strong and committed personalities who are the key to federation.

Realism seeks to describe and explain the world of international politics as it is, rather than how we might like it to be. In general, realists have argued that cooperation is possible under anarchy, but it is harder to achieve, more difficult to maintain, and more dependent on state power than is appreciated by institutionalism tradition. International anarchy may lead states to be concerned about gaps in gains from cooperation not just because they seek security and survival, but also because they value their independence.

When it comes to theories and globalization, for realists, globalization does not alter the most significant feature of world politics namely the territorial division of the world into nation-states. While the increased interconnectedness between economies and societies might make them more dependent on one another, the same cannot be said about state system where states retain sovereignty and globalization does not render obsolete the struggle for political power between states nor does it undermine the importance of the balance of power.

Liberals tend to see globalization as the end product of a long-running transformation of world politics. For them, globalization fundamentally undermines Realists accounts of world politics since it shows that states are no longer such central actors as they once were. In their place are numerous actors, of differing importance according to the issue-area concerned. Liberals are particularly interested in the revolution in technology and communications represented by globalization. This increased interconnectedness between societies, which is economically and technologically led, results in a very different pattern of world political relations from that which

has gone before. States are no longer sealed units, if ever they were, and as a result the world looks more like a cobweb of relations than like the state model of Realism or the class model of Marxist theory.

For Marxist theorists, globalization is a bit of a sham. It is nothing particularly new, and is really only the latest stage in the development of international capitalism. It does not mark a qualitative shift in world politics, nor does it render all our existing theories and concepts redundant. Above all, it is a Western-led phenomenon which basically furthers the development of international capitalism. Rather than make the world more alike, it further deepens the existing divide between the core, the semi-periphery, and the periphery.

For constructivist theorists, globalization tends to be presented as an external force acting on states which leaders often argue is a reality that they cannot challenge. This constructivist's argument is a very political act since it underestimates the ability of leaders to challenge and shape globalization, and instead allows them to duck responsibility by blaming the way the world is instead.<sup>33</sup>

This study will focus on realism approach. Realism seeks to describe and explain the world of international politics as it is, rather than how we might like it to be. In general, realists have argued that cooperation is possible under anarchy, but it is harder to achieve, more difficult to maintain, and more dependent on state power that is appreciated by institutionalist tradition. International anarchy may lead states to be concerned about gaps in gains from cooperation not just because they seek security and survival, but also because they value their independence.

This study will use the realism theory of international relations as a guide. Realism encompasses five propositions that will be useful in analyzing the role of national interest in regional integration.

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<sup>33</sup> Baylis, J., Smith, S., & Owens, P, *The Globalization of World Politics*, (Oxford: Oxford University Press, 2008).

First, states are the major actors in world affairs. Second, the international environment severely penalizes states if they fail to protect their vital interest or if they pursue objectives beyond their means; hence, states are 'sensitive to costs'. Third, international anarchy is the principle force shaping the motives and actions of states. Fourth, states in anarchy are preoccupied with power and security, are predisposed toward conflict and competition, and often fail to cooperate even in the face of common interests. Finally, international institutions affect the prospects for cooperation marginally.

Throughout the history of the evolution of the state, states have recognized no higher authority than themselves. Obviously, then, the state is the entity that defined its own interests and that determines how it will attempt to achieve them. A state's interests are called the national interest, and the methods and actions it employs to attempt to achieve its national interests are called national policy.

For realists, globalization does not alter the most significant feature of world politics namely the territorial division of the world into nation-states. While the increased interconnectedness between economies and societies might make them more dependent on one another, the same cannot be said about state system. Here, states retain sovereignty and globalization does not render obsolete the struggle for political power between states nor does it undermine the importance of the balance of power. Globalization may affect our social, economic and cultural lives, but it does not transcend the international political system of states.

## **1.8 Hypotheses**

In order to answer the objectives of this study, the following hypotheses act as guides:

- a) Uneven economic development of the five EAC member states may create problems for the community with regard to distribution of gains and losses.

- b) Globalization is spearheading the prosperity of the five member states of the EAC, both individually and collectively.
- c) Globalization presents fresh challenges for integration efforts in the EAC region hence unless the economies of the five member states are restructured, they may not be in a position to benefit from the opportunities of globalization.

## **1.9 Research methodology**

The objective of this study is to examine regional integration in a globalizing world with a focus on the prospects and challenges for the EAC. This study will employ case study research design which will involve studying the EAC and its response to globalization and eventually draw conclusions.

Library research through Secondary data collection will be the dominant source of investigation and will involve analysis of various relevant literature including but not limited to published books, journals, papers, scholarly internet pages and unpublished works will be used as secondary data sources. The study will also use published books on regional integration, books on regional integration in Africa and the EAC, the EAC's website, as well as various reports and protocols of the EAC as well as various reports on globalization.

## **1.10 Chapter outline**

Chapter one is the introductory part of the study. This chapter highlights the background of the study, objectives and rationale of the study, research questions, and statement of the problem, literature review, and hypothesis of the study.

Chapter two examines the historical evolution of the EAC and critically examines the challenges and lessons learnt

Chapter three analyzes the key drivers of the second EAC in the 21<sup>st</sup> Century

**Chapter four establishes and assesses the strategies employed by the second EAC in responding to globalization**

**Chapter five assesses the prospects and challenges of the EAC regional integration project in the 21<sup>st</sup> Century in a globalizing world**

**Chapter six will put together the findings, recommendations and conclusion on the study of regional integration in a globalizing world.**

## **CHAPTER TWO**

### **HISTORICAL EVOLVEMENT OF THE FIRST EAC: CHALLENGES, LESSONS LEARNT & PROSPECTS**

#### **2.0 Introduction**

This chapter will give an overview of regional integration efforts in East African in pre and post-independence periods with the main focus on the first EAC formed in 1967. The chapter will also discuss the drivers that led to the collapse of the EAC in 1977; the lessons that can be learnt from this failed cooperation as well as those lessons that couldn't have been learnt.

#### **2.1 Tracing the history of East African Integration**

Ngugi observes that, before the advent of the Europeans who colonized Africa, there were closer links between different peoples of East Africa and between the East Africans and the outside world. During that period, population distribution led to and was as a result of migrations of the people all over East Africa. These migrations were an ongoing phenomenon by the time colonialism was imposed over East Africa. The people of Eastern Africa had closer trade links among themselves.

This trade appeared in three major categories. There was the local or village trade whereby contiguous people traded among themselves. There were people who lived in different ecological conditions hence specializing in certain types of production. This trade was symbiotic in nature. Exchange only took place among people who had basically different modes of production. For instance, trade between agriculturalists and pastoralists.

East Africa as an economic and political unit therefore is rooted to the past. During the early Portuguese period, East Africans are said to have had commercial contacts with Saudi Arabia, India and the Mediterranean world. The emergence of the Coastal city states and the impact of the



early Portuguese traders never had any significant impact on the interior. This situation continued up to 1830's when the sultanate of Zanzibar was established.<sup>34</sup>

## 2.2 Attempts at integrating the region

Attempts at integrating the region started in the latter years of the 19<sup>th</sup> Century. Moves to integrate East Africa were initiated by the British in 1894 with the decision to start the construction of the Uganda Railway. Ostensibly at the time, the British were not aiming at the integration of the region; rather, the railway was to be used to transport raw materials for use in British industries. However they did not know that this venture would prove to be the first step that would help in fostering a process of integration of the region in the years to come.<sup>35</sup>

Efforts at regional co-operation in East Africa begun in 1917, when a free trade area was established between Kenya and Uganda, so large a part of Uganda's imports were being carried by the railway through Kenya that her own collection of customs revenue had become negligible. Later in 1922, it was transformed into a union. After the defeat of Germany in the First World War, Tanganyika also joined the union in 1923 hence Free trade between Kenya – Uganda and Tanganyika in local produce began.<sup>36</sup>

Regional co-operation was meant to be a valuable asset to the colonial government as it would reduce costs in administration and other related fields. The base of regional co-operation was the existence of a common market and services, which existed as early as 1920. The East African region had a common currency by 1905, and a harmonized income tax system, a postal union was created for the free movement of capital and labor during the colonial era.<sup>37</sup>

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<sup>34</sup> Geoffrey Mungai Ngugi, *Kenya and the disintegration of the East African Community, 1967-1977*/Master Thesis, University of Nairobi, 1995

<sup>35</sup> Maurice K.Lugadiru, *The contribution of the private sector to integration: The case of the East African Community*/Master Thesis, University of Nairobi, 2010

<sup>36</sup> Hazlewood, A, *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

<sup>37</sup> Jonathan Ltipalei Lodompui, *Tanzania's National Interest and the collapse of East African Community*/Master Thesis, University of Nairobi, 2010

### **2.3 Development of Cooperation**

Cooperation in East Africa has developed over a number of years. When Kenya and Uganda had been colonized, Britain found it expedient to coordinate services in the two territories. The organization of inter-territorial services in these two countries began in 1902 with the construction of the railway through Kenya to Uganda and its completion by Lake Victoria at Kisumu which was then part of Uganda. From 1902, the railway was run by a common administration. Three years later, in 1905, an East African Currency Board was set up to issue bank notes for the two territories and in 1911 a postal union was established between Kenya and Uganda.

Tanganyika joined in this cooperation somewhat later. A customs union was established in 1917 between Kenya and Uganda and, with effect from 1923, Tanganyika was incorporated. The territories agreed on free transfer of home produced goods. Kenya and Uganda also had their customs authorities amalgamated. In 1927, the three East African countries introduced free movement of foreign goods. In East Africa, a kind of de facto central administration gradually grew up – without any legal authorization or any true authority of its own.<sup>38</sup>

No formal machinery for the government of the common arrangements that had developed existed before 1926. But for the whole of the 1920s, the matter was under active public discussion in terms of proposals for the closer association, and particularly for a federation of the East African territories, and possible of those further to the South.<sup>39</sup>

### **2.4 Political federation of the East Africa**

The East African High Commission had its origin in a British Order in Council. The Order in Council provided that the High Commission and the Legislative Assembly to be established should carry out their work according to Royal Instructions.

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<sup>38</sup> Delupis, I. D., *The East African Community Common Market*, (London: Longman Group Limited, 1970).

<sup>39</sup> Hazlewood, A., *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

The High Commission came into operation in January 1948; the Order in Council also established the East African Central Legislative Assembly (EACLA). Laws enacted by the Legislative Assembly with the consent of the High Commission had the force of law in the three territories. This far-reaching provision was repeated in the later Constitutions of the East African Common Services Organization (EACSO) of the East African Community.<sup>40</sup>

Since 1947, the East African High Commission had administered certain services of an inter-territorial nature in Kenya, Uganda and Tanganyika. In June 1961, delegations from the United Kingdom and the High Commission as well as from Kenya, Uganda and Tanganyika discussed the future of the High Commission Services. It was agreed that it would be in the interest of all the territories that the common services should continue to be provided on an East African basis.<sup>41</sup>

In 1961 when Tanganyika became independent – serious talks on an East African Federation were instituted. Tanganyika achieved independence in December 1961 and Uganda in October 1962. In June 1963, when it was clear that Kenya would become independent within a few months, the political leaders of the three countries issued a declaration pledging them to ‘the political Federation of East Africa’.<sup>42</sup>

A working party constituting people from the three countries was set up to work out the details of the constitution of the Federation to be created. However the efforts gradually lost force and the enthusiasm declined. When the working party met in Kampala in May 1964 – when all the three countries had become independent, they found that the political union they had advocated for was no longer feasible. It was mainly Uganda’s objection to the surrender of sovereignty, particularly in matters like citizenship and foreign affairs that decided the outcome of the meeting.

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<sup>40</sup> Delupis, I. D., *The East African Community Common Market*, (London: Longman Group Limited, 1970).

<sup>41</sup> Hazlewood, A, *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

<sup>42</sup> Hazlewood, A, *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

It can be argued that, Uganda's policy position was against the immediate federation of East Africa, unlike Kenya and Tanzania which had committed themselves to the federation of East Africa, Uganda's position of a reluctant partner led the two others to adapt to an economic kind of cooperation. In the years following the Kampala agreement, (1964-1966), regional cooperation continued to falter while Kenya's predominance in intra-regional trade increased.

The trend towards disintegration which was increasingly evident during 1965 was not accepted with complacency the three governments. At the end of June, Kenya gave formal notice under the Common Services Agreement (CSA) calling for a review of the agreement and for discussions on all aspects of economic co-operation. It came to be accepted that inter-territorial arrangements was essential if they were to survive. The Heads of State, meeting in Mombasa at the end of August, determined to establish a commission on the common market and common services. The commission consisted of three ministers from each country together with an independent chairman. The commission, under the chairmanship of Professor Kjeld Philip got under way in January 1966. By mid-May, the commission was able to submit a report covering the whole range of inter-territorial economic questions.<sup>43</sup>

The three countries maintaining their commitment to cooperation, tried to overcome the difficulties by setting up a new system of cooperation with the signing in June 1967 of the treaty for the East African Community. The EAC sought to strengthen and evaluate industrial, commercial and other relations of the partner states in order to accelerate and sustain expansion of economic activities within East Africa.<sup>44</sup>

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<sup>43</sup> Hazlewood, A, *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

<sup>44</sup> Jonathan Ltipalei Lodompui, *Tanzania's National Interest and the collapse of East African Community*/Master Thesis, University of Nairobi, 2010

## 2.5 The East African Community

The Philip Commission was a vehicle for negotiation between the three governments, and consisted of three ministers from each country, with an independent chairman to act not so much as umpire, but as initiator of ideas and conciliator. It is for this reason that there is no public document entitled 'The Philip Report'. The only public document is the Treaty for East Africa Cooperation. There were further negotiations after submission of the treaty and the final Treaty was signed in June 1967 by the three Heads of State, and came into effect on 1 December 1967.<sup>45</sup> The treaty proclaimed the aim of the Community to be:

*to strengthen and regulate the industrial, commercial and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities the benefits whereof shall be equitable shared.*

Under the Treaty for East African Cooperation, Partner States agreed to establish a common customs tariff in respect of all goods imported into East Africa from foreign countries. A provision was inserted in the Treaty to counteract importation of goods from third states when such goods are also produced in East Africa.

There was also unrestricted freedom of transit between the three countries. The Partner States agreed to establish a common excise tariff in respect of excisable goods manufactured, processed or produced in the Partner States. By article 88 of the Treaty for East African Cooperation of 1967, an East African Tax Board was established to assist the Community. Another most important innovation of the Treaty for East African Cooperation was the East African Development Bank.

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<sup>45</sup> Hazlewood, A, *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

The beginning of this chapter has dealt with the historical development of the EAC which culminated in the development of the Treaty. The remaining part of this chapter discusses the post-Treaty experience of the East African integration, but with emphasis on the problems which remained unsolved and which eventually led to the disintegration of the EAC. It is inevitable that problems arise in the operation of so complex a set of political and economic arrangements as those established by the Treaty.

## **2.6 Unsettled Problems**

There are always problems that crop up when different entities who have differing leadership, goals or way of doing things come together; how these entities solve their problems heavily determine whether they are willing to compromise or listen to each other. Every institution faces various challenges at one point or another, what however determines if an institution will remain standing is if they face the problems they encounter face on or if they brush them aside.

The institutions established by the Treaty to govern the EAC appear to have worked tolerably well during the first three years of their existence. The headquarters were established in Arusha. The Common Market Council settled a number of disputes about inter-state trade. Most disputes were settled by agreement, though some awaited reference to the Common Market Tribunal, which was fully constituted. One important issue between the partner states which remained in practice unsettled, despite agreement in principle, was the effect of inter-state trade of the operation of state trading organizations.

A notable development in the period since the signing of the Treaty was the growth in importance of state trading organizations in the partner states with a monopoly of the right to import goods both from other partner states and from outside. The importance of 'confinement', as it had come to be known in East Africa, changed the economic environment in which the mechanisms of the Treaty needed to operate, and raised the question of their efficacy in the new environment. At

this point, it is worthwhile to point out that there were many complaints in the period following the commencement of the Treaty that inter-state transfers were still being subjected to quantitative restrictions, and that licenses were not being freely given for unlimited quantities.

Other unsettled problems included transport co-ordination and planning; a difficulty that faced the EAC was the fact that railways were a community responsibility whereas the provision of roads and regulation of road transport were a matter for the individual partner states. There were also problems associated with agriculture and the common market, monetary co-operation, as well as political commitment.

Matters seemed to go further downhill in March 1975, the integration arrangement in East Africa seemed to be in deeper crisis than ever before. The common market provisions of the Treaty were virtually a dead letter. The scarcity of foreign exchange was seen by the governments as the overriding problem, to the solution of which the benefits of the common market and free inter-state trade were a necessary sacrifice.

Quantitative restrictions on inter-state trade were so commonly applied that they had ceased to arouse protests.

The situation in the corporations had also worsened by the early months of 1975 while the increasing dissension between Kenya and Tanzania had led some to believe that the Community would soon disintegrate, and that Tanzania would seek other associations.<sup>46</sup> Though there were some genuine concerns and problems that the community was facing, with such unsettled problems facing the community, one can clearly understand why after ten years of cooperation, the EAC collapsed due to various factors.

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<sup>46</sup> Hazlewood, A, *Economic Integration: The East African Experience*, (London: Heinemann Educational Books Ltd, 1975).

## **2.7 Factors that contributed to the collapse of the EAC in 1977**

The East African Community was formally established on 1 December 1967 by the coming into force of the Treaty for East African Co-operation signed by the three partner states earlier that year. The community's demise can be dated to the middle of 1977, when the partner states failed to approve the 1977-78 EAC budget. Thus the community died before its tenth birthday. Yet it had been one of the most successful regional integration experiments in the developing world.

At that time, the integration arrangement comprised a customs union with a common external tariff and free trade between the countries, common customs and income tax administrations, common transport and communications services, a common university, and common research services.<sup>47</sup>

The reasons for the collapse of the first EAC have been intensively debated. Many scholars that have studied the collapse of the EAC provide significant insights of relevance to the relative lack of success of the first EAC. Among the major problems identified by these authors are: the uneven distribution of benefits; institutional difficulties; politico-ideological factors; and, external dependence. These problems are discussed in detail below:

### **a) Uneven distribution of benefits**

The major factor identified by most scholars is the perception at the time that the benefits of economic co-operation were unequally distributed. We have realized that the three member states differed and still differ in size and capabilities and there was demonstration of dissimilar abilities to take advantage of specialization, economies of scale, augmentation of factor input and opportunities to improve market structures. Economic integration therefore tended to yield unequal benefits.

The compensatory mechanisms of the EAC Treaty transfer tax were inadequate to persuade the partner states that continued cooperation was worthwhile. The truth is that compensatory

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<sup>47</sup> Martin, G, 'Africa Regional Cooperation and Integration: Achievements, Problems and Prospects' in A. Seidman, F. Anang (eds), *Twenty first century Africa: Towards a New Vision of Self-Sustainable Development*, (Trenton: Africa World Press, 1992) pp.82-83



mechanisms can ensure equitable distribution of the benefits and costs of integration, if only because different members' states' perceptions differ.

It can be argued that at the time of collapse, the three main nations were facing severe balance of payment problems because of rising cost of energy and imported and finished goods. Trade throughout much of East Africa declined while nationalistic goals (i.e. each nation pursuing goals that were designed for its benefit only and not the whole region) overshadowed economic integration efforts. By June 1977, the three member nations could not agree on the EAC budget for the coming fiscal years, and the EAC for all intents and purposes ceases to function. Tanzania, Uganda and Kenya claimed whichever assets remained within their respective borders.<sup>48</sup>

#### **b) Politico-ideological factors**

The variety of political ideologies and related development strategies found in Africa might account for the disintegration of the EAC. The Kenya-Tanzania ideological conflict is generally cited as one of the main reasons behind the disintegration of the EAC.<sup>49</sup>

There were also ideological differences between member countries. Kenya was developing a free market economy and much of its resources went towards capital improvements. Tanzania, however, was developing a planned socialist economy and much of its resources went towards welfare programs. Each country felt that it was bearing an unfair economic burden within EAC. The problems between Tanzania and Kenya were intensified by Amin's 1971 – 1972 nationalization of the commercial assets of Uganda's mostly Asian merchants and entrepreneurs. The resulting Asia exodus from Uganda to Tanzania and the subsequent decline in foreign investment exacerbated an already tense situation.

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<sup>48</sup> Maurice K. Lugadiru, *The contribution of the private sector to integration: The case of the East African Community*/Master Thesis, University of Nairobi, 2010

<sup>49</sup> Martin, G, 'Africa Regional Cooperation and Integration: Achievements, Problems and Prospects' in A. Seidman, F. Anang (eds), *Twenty first century Africa: Towards a New Vision of Self-Sustainable Development*, (Trenton: Africa World Press, 1992) pp.82-83

It is indeed very important to point out at this point that the three partner states appeared to part ideological ways in the late 1960's long before the collapse. This was evident when in 1967, Tanzania adopted the Arusha Declaration, which ushered in the socialist era, emphasizing self-reliance and staying away deliberately from foreign investment. As for Uganda, under President Obote, Uganda opted for the Common man's charter, which, in effect, established an ideological axis between Tanzania and Uganda. Kenya on the other hand laid down its ideological precepts, which despite the term socialism set the stage for an open, liberal economy welcoming foreign investment.<sup>50</sup>

### **c) Personality clashes between heads of state**

In February 1971, General Idi Amin seized power in Uganda in a military coup. Following the coup, the deposed Milton Obote was granted asylum in neighboring Tanzania. This strained relations between Uganda and Tanzania. In 1976, Amin claimed that part of Kenya belonged to Uganda before 1902 British land transfer to the old British East Africa protectorate. In intervening years, this area had become a focal point of Kenyan farming, transportation, and economic development. Kenya responded to Amin's threats by curtailing movement of Uganda goods across its border. These issues aggravated an already fragile situation. Idi Amin was isolated by Kenya and Tanzania and as such there were no meaningful meetings thereafter to deliberate on any issues affecting and regarding the EAC.<sup>51</sup>

The collapse of the EAC brought to a halt the oldest, most sophisticated and relatively successful process in regional cooperation among the least developed countries. The formation of this organization was initiated in 1917 and by the 1950's; the process had evolved into a 'de facto' common market and a set of common services. This was an unparalleled attempt in the history of

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<sup>50</sup> Maurice K.Lugadiru, *The contribution of the private sector to integration: The case of the East African Community*/Master Thesis, University of Nairobi, 2010

<sup>51</sup> Maurice K.Lugadiru, *The contribution of the private sector to integration: The case of the East African Community*/Master Thesis, University of Nairobi, 2010

regional co-operation among the least developed countries. At the time of independence, economic interactions among the three East African countries had reached substantive levels for inter-country trade was amounting to nearly one-quarter of the total East African foreign trade.<sup>52</sup>

At this stage, it is important to point out that each country in the world and to narrow it down, each country in the EAC aimed to pursue and achieve its national interests for development of its people. At this stage, the realism theory of international relations comes into play. As described in Chapter one of this study under the sub topic of theoretical framework, in general, realists have argued that cooperation is possible under anarchy, but it is harder to achieve, more difficult to maintain, and more dependent on state power that is appreciated by institutionalism tradition. International anarchy may lead states to be concerned about gaps in gains from cooperation not just because they seek security and survival, but also because they value their independence.

A country's national interests therefore cannot avoid being responsive to relations among other nations. It is in this light therefore that we must view the EAC countries' national interests, as it can be understood why the countries broke down from the initial agreement of a community. It is also important to mention that, the concept of national interests' remains central in any attempt to describe, explain, or even predict regional or even international behavior, where the primary justification of state action is national interest.

## **2.8 Lessons learnt from the past**

The collapse of the most promising economic community, the East African Community, demonstrated how the inability to solve political differences can compound the economic problems inherent in any economic integration involving countries at different levels of development. The community began with a shared currency, a regionally coordinated infrastructure, harmonized

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<sup>52</sup> Geoffrey Mungai Ngugi, *Kenya and the disintegration of the East African Community, 1967-1977*/Master Thesis, University of Nairobi, 1995

economic policies, a system of common institutions, and forced labor mobility. It fell apart in 1977 over the sharing of benefits, political division, and conflict of interest among the three countries.

Twenty three years after the collapse, the community was revived. The community's revival was in keeping with the recommendations of the 1984 Mediation Agreement, which, besides mediating a delicate process of asset-sharing, provided a mechanism for exploring and identifying areas of future co-operation.

A number of developments, both global and regional, provided the environment in which such a revival was made possible. The first is the post-Cold War political environment, and the renewed interest in regionalism as a vehicle for global competitiveness. A second is the ideological convergence in the region; gone were the ideological differences of the previous three decades – Nyerere's Ujamaa, Obote's Social Charter and Kenya's market fundamentalism – that had sharply divided the three countries. A third is the demise of the one-party states and the introduction of multiparty systems which introduced a degree of political convergence.

Finally, there was the widespread conversion of neoliberal (free market) economic policies in all three partner states, which has ensured greater harmony in the region both economically and politically.

In an article written by former secretary general of the EAC, Ambassador Juma Mwapachu (2010), there are six lessons that can be adduced from the EAC'S history. First, that regional integration is a highly complex and sensitive project and it needs to deepen and widen on a basis of a building block strategy; slowly, carefully but surely executed. Second, the decision-making process should be structured in such a way that there is respect for national interests. The partner states must be at the heart of the EAC decision-making process. Third, the Council of Ministers, instead of the Summit of Heads of State, should take the lead in the decision-making process while

assigning to the Summit the authority over politically sensitive decisions on matters such as the movement of one stage of integration to the next.

Another important lesson is that the organization should be people-centered and market-driven. This means that decisions regarding the deepening of integration should directly involve the people through a whole range of multi-stakeholder vehicles. Equally, as ideologies of the left and the right have retreated, with greater focus placed on what works best in the interests of the people's welfare and prosperity. The private sector should be more closely engaged in determining the direction of the organization. Also important is the establishment of fully-fledged EAC social and economic institutions which should be more carefully established to ensure their efficacy, cost effectiveness and sustainability.

Lastly, Ambassador Mwapachu observes that since the ultimate goal of the EAC is a political federation, the institutional framework to support such an objective needs to be put in place. Organs such as the East African Legislative Assembly and the East African Court of Justice should be structured in such a manner and be given such responsibility that they are best able to support the realization of the ultimate goal of a political federation.<sup>53</sup>

## **2.9 Prospects for the new EAC**

Having articulated clearly the formation and the disintegration of the first EAC, this section will highlight the potentialities of the second EAC. Prospects for the new EAC and its survival depend on the political will amongst East African leaders to sustain its life. One way in which they could do that would be by ensuring that regional institutions and structures are kept intact and that leaders from all member states partake.

At this point, it is important to point out that the change of the leadership in Uganda was one of the key factors that resulted to the dissolution of the first EAC. The replacement of President

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<sup>53</sup> Ambassador Juma Mwapachu: EAC: Past, present and future – East African Community (2010)

Obote by Idi Amin meant that EAC meetings could no longer be held due to the sour relations that existed not only between President Nyerere and Amin but also between Amin and President Kenyatta. Amin's coup also reduced the chances of expanding the EAC by creating sour relations with President Kaunda.

Therefore, with the above political intricacies, it will be important that for the second EAC, the current leaders in East Africa work together to sustain the region. There is no guarantee though that their successors will do the same. This remains one of the key challenges regarding the future of the new EAC. As a preventative measure, these leaders should ensure that the spirit of East African brotherhood is instilled amongst the people, not just the leadership. If future leaders embrace this spirit of East African brotherhood now, they are more likely to sustain it when they replace the current leaders.

One of the concerns about the first EAC for example was that it was built from the top. East Africans should be vigilant and ensure that the same thing does not happen. The inequality of East African economies contributed to the demise of the first EAC, Kenya was economically endowed of the three territories and appeared to be dominating the EAC in part because it hosted a number of regional institutions. This meant that more Kenyans got employment compared to the other two countries. To a large degree, the situation remains the same today; Kenya's economy is still the strongest in the region, it is the hope of this research that this does not cause any conflict among the five partner states.

It is through regional integration that the unification of the African continent will be realized. However, East African leaders should read the face of history very well to ensure that they do not repeat the mistakes of the past. It is necessary to point out that from the 1960s, the East African leadership rushed regional integration in order to oust Britain and faced the reality of unresolved issues afterwards therefore It would be detrimental for the current leadership to rush the

process of bringing together regional institutions. Another key issue to take into consideration is that regionalization involves compromises by all parties involved, sometimes there are sacrifices from countries, and this therefore should be taken into consideration throughout the process.<sup>54</sup> Other prospects for the second EAC that can be learnt from the formation and disintegration of the first EAC is for the political leadership to be vigilant and the security threats that have manifested themselves in the 21<sup>st</sup> Century do not pose threats to the stability of the region.

## 2.10 Conclusion

The purpose of this chapter was to assess the evolvement of the first EAC, this chapter has identified that although East African leaders came were looking forward to working together as a unit, national interests, and egoism took precedence over regional interests. In the end, nationalism and sub-nationalism determined the fate of the EAC's collapse in 1977. The leadership felt that they were answerable to their nations first before they were answerable to the region.

The coming into force of the Treaty for EAC ended in 1977. However the treaty was significant in many ways. First, it placed the common services within one framework, and also gave the former a solid legal foundation. Secondly, it made provisions aimed at achieving equitable distribution of costs and benefits. Thirdly, a new innovation was made i.e. the treaty created a number of community organs to coordinate activities and also give executive direction. In this regard, it provided for a community minister who was appointed by each state to promote the Community's interests and project its viewpoints in his own or her own cabinet.<sup>55</sup>

It was unfortunate that the community collapsed despite the fact that some of its woes would have been resolved if only the leaders of the three partner states had the will to do so. Lessons were learnt with the disintegration of the EAC 10 years after it was formed, there are however lessons

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<sup>54</sup> Bhekithemba R. Mngomezulu, *An assessment of the role played by political leaders, nationalism and sub-nationalisms in the establishment and collapse of the East African Community, 1960-1977*/Master Thesis, University of South Africa, 2006

<sup>55</sup> Maurice K. Lugadiru, *The contribution of the private sector to integration: The case of the East African Community*/Master Thesis, University of Nairobi, 2010

that couldn't have been learnt that could still crop up in the future of the community. A key lesson that couldn't have been learnt is that despite commitment from leaders to the regional integration agenda, member states may not yet be willing to accede some powers to a central authority. There is also the issue of uneven distribution of benefits that led to the collapse of the EAC, this aspect could still crop up given that Kenya is considered to be the trade hub of the region and accounts for the greatest proportion of economic activity within the community and the east African region as a whole. If the necessary measures are not in place, economic domination of one member state may undermine the integration process.

A strategy for future regional cooperation and integration is important to ensuring the success of the new EAC and this therefore calls for learning from the failure of the cooperation and purposing to follow through the difficult times to make the cooperation work. Step-by-step approach based on common economic interests offers the best prospects for maintaining regional integration; this approach could involve bilateral or multilateral agreements between governments that perceive benefits from a mutual liberalization of product and factor markets.



## **CHAPTER THREE**

### **KEY DRIVERS OF THE SECOND EAC IN THE 21<sup>ST</sup> CENTURY: TRENDS, EMERGING CHALLENGES AND PROSPECTS**

#### **3.0 Introduction**

This chapter examines and analyzes the key drivers of the second EAC in the 21<sup>st</sup> Century. The chapter begins by discussing the revival of the second EAC and looks at its structure. In examining its key drivers, this chapter also introduces the concept of globalization and its relationship with regional integration. It also looks at the expectations of EAC in the 21<sup>st</sup> Century, the obstacles of regional integration and finally an analysis of the key drivers of the second EAC as well as its prospects.

#### **3.1 Revival of the second EAC**

The present EAC has its origin in the 1984 East Africa Mediation Agreement (MA) among Kenya, Uganda, and Tanzania, ratified in Arusha. The three countries signed the East African Community MA for the division of Assets and liabilities of the defunct EAC. In this agreement, the states committed to exploring areas of future cooperation. However, concrete moves towards revival of the community did not begin until November 1991, when the three heads of state held a summit in Nairobi, after which they were issued a formal communiqué committing themselves to revive the EAC. Following the summit, a committee of foreign ministers was set up to work out the details. Two years later in November 1993, the heads of state set up a permanent Tripartite Commission after a meeting in Arusha, Tanzania.

In 1994, the first protocol to establish an EAC Secretariat in Arusha was signed in Kampala. Full East African Cooperation efforts began in March 1996 when the Secretariat of the Permanent Tripartite Commission was established and launched at the headquarters of the EAC in Arusha,

Tanzania; and an Ambassador, Francis Muthaura of Kenya was appointed its first Executive Secretary.

Considering the need to consolidate regional cooperation, the EA heads of State at the second summit in Arusha in April 1997, directed the Permanent Tripartite Commission to start the process of upgrading the agreement establishing the Permanent Tripartite Commission for East African Cooperation into a treaty. The heads of states of the three partner countries signed the treaty on 30 November 1999. It came into force on July 2000, twenty three years after the collapse of the defunct erstwhile community and its organs.<sup>56</sup>

It is therefore safe to argue that since the collapse of the first EAC, although the three member states travelled different routes, they somehow still arrived at the same destination and eventually discovered that coming together as a community will benefit all of them despite the differences they had.

After about 16 years of divorce, the three East African countries signed on 30 November 1993, an agreement establishing a Permanent Tripartite Commission for East African Co-operation. By this agreement, the Commission was established with a mandate to identify areas of cooperation and propose appropriate arrangement for regional co-operation. The secretariat was launched in March 1996 and the first EAC Development Strategy covering 1997 – 2000 was launched by the Heads of State in April 1997. The strategy spelt out the objectives of the co-operation.

The East African Community was conceived as a process and a treaty was signed on 30 November 1999 and came into effect on 7 July 2000. The treaty for the establishment of the EAC provided a legal framework through which the process of regional integration was to take place. It

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<sup>56</sup> Maurice K. Lugadiru, *The contribution of the private sector to integration: The case of the East African Community*/Master Thesis, University of Nairobi, 2010

also defined the objectives which are to be pursued by that process and the principles on which the process is to be based, so as to ensure consistency in the pursuit of the objectives of the Community.

The second EAC integration process is a choice based on experience of the three partner states – Kenya Uganda and Tanzania; firstly on their previous efforts under the defunct EAC of 1967 – 1977 and the East African Common Services of 1961 – 1967, secondly, on no co-operation during the period 1977 – 1993, as well as the emergence of regionalism after the end of the cold War in 1989, and on the challenges of the globalization of economic, monetary and information policies of the New World Order.

The revival of the second EAC occurred in the context of the following new developments and changed conditions:

- i) Political reforms towards democratization and greater freedom for various groups to articulate their interests
- ii) Economic reforms permitting a greater role for private sector development in the context of a market economy
- iii) Globalization and the associated rapid changes in technology and intensification of competition.

The EAC is a regional inter-governmental organization established under Article 2 of the Treaty for the Establishment of the East African Community that entered into force in July 2000. The membership of the Community comprises the Republics of Burundi, Kenya, Rwanda, Uganda and the United Republic of Tanzania. As stated under Article 5 of the Treaty<sup>57</sup>

Just like any cooperation, it is important to have a uniting force that glues partnership together hence the broad goal of the EAC is to widen and deepen cooperation among partner states in

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<sup>57</sup> "The partner states undertake to establish among themselves and in accordance with the provisions of this Treaty, a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation in order to strengthen and regulate the industrial, commercial, infrastructural, cultural, social, political and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities, the benefit of which shall be equitably shared."

political, economic, social and cultural fields, research and technology, defense, security and legal and judicial affairs for their mutual benefits. The vision is to create wealth in the region and enhance competitiveness through increased production, trade and investment in the region. Emphasis is placed on accelerating development and building the capacity to compete effectively in the world economy.

### **Members**

The current members of the EAC are Kenya, Tanzania, Uganda, Rwanda and Burundi. Apart from the initial three founding member countries, Rwanda and Burundi were admitted in 2007. The two acceded to the EAC treaty in June 2007 and became full members of the community with effect from July 1, 2007.

Rwanda and Burundi brought to the EAC a combined population of about 15 million people which make an important trading bloc. The region covers an area of 1.8 million square kilometers with a combined population of about 132 million as of July 2009 and has significant natural resources.

### **Objectives**

The EAC aims at widening and deepening co-operation among the Partner states, in among others, political, economic and social fields for the mutual benefit of the countries. The specific objectives of the EAC, as outlined in the Treaty include:

- The attainment of sustainable growth and development of the partner states by the promotion of a more balanced and harmonious development of the partner states
- The strengthening and consolidation of cooperation in agreed fields that would lead to equitable economic development within the partner states and which in turn, raise the standard of living and improve the quality of life of their populations

- The promotion of sustainable utilization of the natural resources of the partner states and the taking of measures that would effectively protect the natural environment of the partner states.
- The strengthening and consolidation of the longstanding political, economic, social, cultural and traditional ties and associations between the peoples of the partner states so as to promote a people-centered mutual development of these ties and associations
- The mainstreaming of gender in all its endeavors and the enhancement of the role of women in cultural, social, political, economic and technological development
- The promotion of peace, security, and stability within, and good neighborliness among the partner states
- The enhancement and strengthening of partnerships with the private sector and civil society in order to achieve sustainable socio-economic and political development, and
- The undertaking of such other activities calculated to further the objectives of the community, as the partner states may from time to time decide to undertake in common.

## **Structure**

The main organs of the EAC are the Summit of Heads of State and Government; the Council of Ministers; the Co-ordination Committee; Sectoral Committees; the East African Court of Justice; the East African Legislative Assembly and the Secretariat.

### **3.2 Globalization and implications for regionalism**

Globalization as a feature of the reconfigured international system has emerged from the totality of fundamental changes in the international order that have been in train since the 1980s.

The elements of these changes that have produced the phenomenon of globalization include: the end of the Cold War, new forms of competition and co-operation among advanced capitalist economies, increased interdependence of production and trade, the rapid growth and stuffing

patterns of international finance, and new ideological currents. Globalization is essentially an economic phenomenon but it also has ideological and political dimensions. In political-economic terms, it could be regarded as the process of the construction of a 'new architecture' for global economic governance.

The globalized international system exhibits certain key characteristics. The most important impact of globalization has been the way in which it has led to the shrinking of the world into a compact community. The globalized international system is also market driven. The pillar of the international economy in the age of globalization is indeed the market. The salience of the global market, with its requirements of unfettered trade, stable exchange rates, and the free flow of capital, demands that the state cedes a significant chunk of sovereignty.

Another significant feature of globalization is heightened competition among the actors in the global economy. There is a near cut-throat competition as each actor seeks to maximize the benefits of the opportunities created by globalization. There is, indeed, the competition to control the globalization process itself. There is also the competition for access to the resources, information, and technology necessary for survival in the environment that characterized the globalized system.

Essentially, countries that benefit most from globalization are those that control access and possess globalization's defining technologies: computerization, miniaturization, digitization, satellite communications, fibre optics, and the internet. The intensified competition in the liberalized global market puts those countries, especially in the Third World, that do not have the necessary power and resources to compete, at a great disadvantage. The predicament of countries in the South is further complicated by the fact that the intensification of competition for global markets has been accompanied by rising protectionism in the North. Globalization has therefore worsened

the fortunes of Third World countries as countries in the North retain the power and monopolize the resources necessary to compete successfully in the global economic arena.

Globalization has not only affected state sovereignty externally. It has also led to the internal reorganization of the state. The logic of globalization imposes certain conditions that a state must fulfill in its internal structure if it is to participate meaningfully in, and reap benefits of the globalization process. States have to be restructured along the lines demanded by globalization hence the agents of globalization, especially the World Bank and the International Monetary Fund (IMF), have imposed policies and conditionality on states whose internal structures do not meet the expectations of the new global order.<sup>58</sup>

### **3.3 Key Drivers of the second EAC: Continuities and changes**

In July 2000, the East African Community was reborn, resurrecting an immediate post-independence dream that Kenya, Tanzania and Uganda conceived in 1967 but which crumbled ten years later in 1977 as a result of different conflict areas.

The new EAC, now known as the second EAC was put in place with the biggest objective of developing policies and programs aimed at widening and developing cooperation among the Partner States in political, cultural, economic and social fields. To realize full integration, the EAC put in place targets to achieve through four key pillars of the Customs Union, Common Market, Monetary Union and Political Federation, whose full implementation was meant to unveil a fully integrated, economically prosperous and politically united East Africa.

Various scholars have identified and discussed factors that have pushed for the banding and near stability of the second EAC integration, some of the major drivers identified are a) political reforms towards democratization b) Economic reforms and c) globalization and the associated rapid changes in technology. These key drivers are discussed in detail below:

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<sup>58</sup> Nying'uro, P., O., 'The EAC's prospects on the global stage' in R. Ajulu (ed), *The making of a region. The revival of the East African Community*, Midrand: Institute for Global Dialogue, 2005)pp 32-36

## **Globalization and the associated rapid changes in technology**

Various scholars have pointed out that in the past century, the world became integrated largely through trade and capital movements, in the 21<sup>st</sup> Century though, globalization has led to important developments. These developments include new technological advances that have strongly reduced transport, telecommunication and computer costs.

The advent of the internet is particular can be identified as one of the key technological advances. These technological developments have made national markets to become integrated more easily into the global economy. The rapid growth in FDI has also been an important part of this process. FDI has in particular led to intensive technological transfer, as more companies are becoming more global with their decisions, relating to the world economy as a whole. A large part of the world and a large number of countries are participating in the process of integration making the process increasingly global.<sup>59</sup>

Kasekende observes that, the most visible aspects of globalization are a) Huge increases in capital movements meaning that financial flows between countries have expanded much more spectacularly. Financial markets are becoming more internationally integrated. The author argues that Africa in general is not integrated into the global capital markets and East Africa in particular is not attracting substantial capital inflows therefore it is losing out of benefiting from this particular aspect of globalization. This cannot be further from the truth as it has been identified as a function of credibility and policy environment rather than the resource endowments, b) rapidly growing World Trade, faster than the growth of domestic activity. Trade has grown two to three times as fast as world output in the last decade but Africa has fallen sadly behind to the point where today it exports make up only a little over one percent of total world exports. There has been a decline in trade protectionism with industrial country tariff rates declining.

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<sup>59</sup> Dr. Louis Kasekende, Dialogue on Regional Integration in East Africa/The Impact of Globalization on the East African Community (Paper presented in a Workshop on 19 – 20 March 2001)



In Africa, protection by means of tariffs, import controls and other means has fallen less in recent years than in other developing regions and remained even at higher levels. Although Africa depends fairly very heavily on trade, it has much less open economies than in any other of the world's major regions a fact, which is closely related to the loss of market share. Thirdly c) There has been an internationalization of production with Rapid Expansion of Protection with Rapid Expansion of Multinational Companies with Operations in Many Countries. Manufacturing firms are internationalizing their production, shifting investment to lower cost environments.

- **Economic reforms**

The EAC members have continued their economic reform programs over the last few years aimed at addressing key challenges, notably poverty reduction, sustainable economic growth and development, and full integration into the world economy. According to a WTO secretariat report on the trade policies and practices of the EAC, the report notes that further liberalization of trade and investment, driven both by their commitments in the WTO, and by their participation in regional trade agreements, have been major features in this process. According to the report, more attention needs to be paid to non-tariff measures in the full establishment of the EAC customs union. In addition, continued structural reforms and additional trade liberalization by EAC members is important.

A report by the World Bank on '*Doing business in the East African Community 2013*' observes that the year 2011/2012 saw improvements to the business environment in all the five economies making up the EAC. The community saw its 5 governments implement regulatory reforms to improve the business environment for local businesses and encourage entrepreneurship in the region. The report observes that over the past years, the five EAC economies implemented a total of 74 institutional or regulatory reforms improving the business environment for local entrepreneurs.

Despite its current political turmoil, the report observes that Burundi was among the world's most active economies in implementing regulatory reforms in 2011/12. It implemented policy changes in 4 areas measured by doing business: starting a business, dealing with construction permits, registering property and trading across borders. The report points out that Rwanda made the greatest progress in improving its business environment between 2005 and 2012, followed by Burundi. Rwanda was also the second economy globally to advance in closing the gap to the frontier<sup>60</sup>.

The report further narrates that the EAC needs to further invest in its investment climate including a business regulatory environment that is well suited to scaling up trade and investment and can act as a catalyst to modernize the regional economy. It adds that improving the investment climate in the EAC is an essential ingredient for successful integration – the foundation for expanding business activity, boosting competitiveness, spurring growth, and ultimately, supporting human development.<sup>61</sup>

- **Political reforms towards democratization and greater freedom for various groups**

Regionalism in Africa has always had a strong political motive. “Pan-Africanism, as an expression of continental identity and coherence, distinguishes regional integration in Africa from other regions in the developing world.

In Colonial East Africa, Germany (then Belgium) colonized Rwanda and Burundi under the banner of German and French, respectively, while Kenya, Tanzania and Uganda (the original EAC countries) were colonized by Britain under the banner of English; therefore the success of the EAC's goals represents African cooperation across colonial language zones and boundary lines. The EAC model promotes Pan-Africanism, technology and socioeconomic development – all of

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<sup>60</sup>The distance to frontier score aids in assessing the absolute level of regulatory performance and how it improves over time. This measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005.

<sup>61</sup> World Bank, *Doing business in the East African Community 2013/Smarter Regulations for Small and Medium-Size Enterprises* (2013)

which are concepts and initiatives discouraged under colonialism. It, by default, facilitates the reversal of the impact and effects of the colonial system and experience which were designed to expropriate Africa's natural resources for European profit.

When it comes to political development, many people can attest that democracy is critical in the achievement of sustainable economic growth and development. The EAC Partner States are working towards greater democratic environment. The countries have held multi-party elections through transparent and open processes. Unfortunately as we have observed in the past few years, the greatest hindrance on democratic consolidation in EAC is the perennial conflicts within the horn of Africa and the great lakes region, terrorism and piracy threats including the proliferation of small arms and influx of refugees into the region.<sup>62</sup>

The greater freedom for various groups led to the first meeting of civil society groups in 2009, the meeting was attended by delegates from the five partner States, in attendance were also representatives from civil society organization members of the five EAC States. By the end of this initial meeting, it was recommended that the civil society would strengthen and consolidate democratic practices and culture, and socio-economic justice in the region.

Being a regional membership-based civil society organization, the civil society forum was founded to engage legal authorities in the East African region to foster good governance and democratization and to support capacity building for its members for meaningful human development.

The issues above serve mainly to indicate that the interest of the EA Nations in regionalization and co-operation has always been there and is progressing despite the many challenges like governance, insecurity among others that are affecting the countries in the EA region. The second EAC provides the region with an opportunity to rekindle its political, economic,

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<sup>62</sup> Baruti Katembo, *Pan Africanism and Development: The East African Community Model*, Edward Waters College

and social commitment to EA unity and progress. EAC States therefore needs to acknowledge that regional economic integration is the best way to accelerate the region's growth and development agendas.

### **3.4 Expectations of the EAC in the 21<sup>st</sup> Century**

According to Kimenyi, the basic expectations of the EAC include a) Increased economic growth b) Macro-economic stability c) Institutional development d) Human capital development e) Increased regional security f) Common development projects and g) Increased bargaining power in international forums<sup>63</sup>The expectations are expounded below:

#### **Not another divorce**

The breakup of the EAC in 1977 was an experience that must not be repeated. In establishing the new EAC, the people of East Africa expect that the previous experience will not be repeated. For successful integration in the era of globalization, it is important to take into account those factors that have hindered success in Sub-Saharan Africa, these include but are not limited to lack of consensual decision making arrangements, lack of implementation monitoring, low intra-Africa trade with new trade policies actually further constraining trade and weak complementarity among regional partners in goods and factors of production whereby almost all African economies are producers of primary products.

The EAC was formally established in 1967 through various activities had been coordinated between Kenya, Uganda and Tanzania since the pre-colonial era. EAC broke up in 1977 due to various issues such as differences in political ideologies; weak implementation and formulation of policies, weak governance, different reactions to external shocks, and inadequate compensation mechanisms. To avoid failure of the new EAC and guarantee that the EAC is here to stay, the

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<sup>63</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

factors that make integration possible need to be understood through comprehensive analysis of the advantages and disadvantages of integration.

Member countries therefore need to focus on the diversification of production structures; increasing investment in infrastructure, human capital development, technical and research capacities; placing regional interests ahead of national interests, that is total political commitment to integration; encouraging non-governmental participation in achieving the goals of integration; establishing mechanisms to deal with corruption, rent seeking and patronage; ensuring greater transparency and accountability to the general public; Implementation of compensation schemes for countries with relatively weaker economies so as to avoid short-term losses from integration; Institution of measures to reduce dependency on revenues from import taxes<sup>64</sup>

### **Economic Growth**

The countries in the EA region have experienced low economic growth which has translated into increasingly high employment rates, poverty and deteriorating quality of life. It is therefore safe to say that the second expectation of integration was that the EAC will promote economic growth. It is expected that the rates of economic growth of the three countries will converge at higher level so that incomes will increase steadily. Integration will only be viable if it translates to rapid economic growth and improvement in the quality of life of the majority of the citizens.

Economic integration leads to economic growth through a number of channels. One of these has to do with increasing the size of markets. The small EA markets adversely impacts on production costs. Similarly, there are insufficient quantities of specialized inputs necessary for effective and rapid industrialization. The attainment of larger markets through integration will

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<sup>64</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

increase the opportunities for firms to increase production through exploitation of economies of scale.

Another aspect of integration that enhances economic growth is competition. Integration is conducive to increased competition within the region due to the fact that domestic industries become more efficient so as to maintain their market shares. Consumers similarly benefit from competitive pricing through reduced price margins from firms and the increased marginal benefit of capital.

One of the most important results of regional integration that promotes economic growth is that it provides a stimulus for the promotion of trade through lowering the cost of trade. Removal of tariffs makes imports from member countries cheaper and this leads to changes in demand, output level and trade flows. Intra-regional trade will also promote the independence of Kenya, Uganda and Tanzania, as opposed to trade with colonial powers or other developed countries which often disadvantages developing countries.

### **Macroeconomic Stability**

It is expected that regional integration between the EA countries will lead to the harmonization of financial and economic policies thereby resulting in increased macroeconomic and fiscal stability. Full liberalization of the financial markets, market determined exchange rates and credible financial institutions will result in increases in trade and greater ability to withstand external shocks, whereby the shock is spread out across the region as opposed to being concentrated in one country. In this way, the effects of the shock are diluted leading to faster recovery. Similarly, integrated fiscal policies, through labour responsiveness to taxation, will lead to an increasingly mobile labor force.<sup>65</sup>

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<sup>65</sup> East African Community, *Dialogue on Regional Integration in East Africa. Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

Increased macroeconomic stability will also improve the business environment for domestic and international entrepreneurs. It is a fact the foreign direct investment (FDI) flows to Africa have decreased drastically in the past couple of years and now make up only approximately 1.2 percent of world investment flows while other regions such as South America and Asia make up 8.30 percent and 12.23 percent of world investment flows respectively (United nations, 2000).

Macroeconomic instability will not only increase investor confidence in the region, but will also encourage business opportunities and lead to further integration with world markets, which in turn will bring additional benefits.

### **Institution Development**

One of the most important ingredients for sustainable development is the quality of a country's institutions. Institutions such as the judiciary that provide legal stability; the police force that provides a secure environment; and regulatory and policy making institutions that creates a conducive business environment, determine the type of environment that will prevail in an economy. Lack of institutional development often has adverse side effects, which have the ability to threaten the existence of any union.

Many institutions in the East African countries lack credibility due to various factors such as corruption, inefficiency in administration and thus in the provision of services, lack of required skills, lack of cohesive policies and regulations.

It is expected that regional integration will lead to the development of institutional credibility and efficiency, a combined environment of certainty in the region and convergence of good governance where accountability, respect for human rights and transparency prevail.

## **Human Capital Development**

Compared to other regions of the world, Africa and in particular the EA region lags behind in terms of human capital development. Higher growth rates, specialization and the development of a country's industrial and manufacturing sectors can only be achieved through investments in human capital, a phenomenon that has been witnessed in the last four decades in the economies of East Asia. Through the harmonization of education, population, and health issues, integration can provide an incentive structure that encourages investment in human capital, a factor that essentially drives economic growth and poverty alleviation.

Coordination of education policies can enhance specialization based on comparative advantage. In the health sector harmonization of health policies will lead to cheaper and hence greater availability of medicines and also common strategies to fight some of the serious diseases. Improvement in human capital can be expected to result in market increases in productivity.<sup>66</sup>

## **Regional Security**

The EA region has experienced its worst share of insecurity in the past few years. Integration between different countries leads to the formation of uniform policies, such as those concerned with issues of security. It is expected that integration, through cohesiveness of policies among the member countries will lead to decreased levels of political instability and greater regional security as no country wants to lose out on the investments that a commitment to the EAC requires.

Regional integration enables the member countries to enjoy the advantages brought about as a result of regional security largely through co-operation between security forces and better mechanisms to deal with conflict. A peaceful environment not only ensures that the quality of life is improved for member states, but also enables sustainable development to be achieved at a faster

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<sup>66</sup>East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).



and more focused pace. Member countries and thus individuals are able to actively participate in the business of development as opposed to that of survival, a factor that has held back development in many parts of Africa.<sup>67</sup>

### **Common Development Projects**

In order to ensure efficient use of time and resources, and given that East African countries require development in similar areas of the economy, then it is expected that these countries will pursue common development projects. The pursuit of joint development projects leads to improved capacity utilization and greater efficiency in the allocation of resources. In addition to being important for increasing and equalizing the welfare of member states, the joint pursuit of development projects is also important when projects require large investments for example in research and development, in roads and telecommunication networks in power and water provision, and in waste disposal systems. Common development projects will help ease the burden of financing and reduce the debt burden of each country as lending levels are reduced. Common development projects will reduce transaction costs and increase the profitability and productivity of such investments.

### **Bargaining Power**

The setup and organization of the world's trading system marginalizes most developing economies, including Africa. Although globalization has brought about substantial benefits for many developed countries, this has largely not been the case for Africa. For many countries in Africa, the issue is not even whether or not they get a fair deal from the trading system, but whether they are even part of the system at all.

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<sup>67</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

Regional integration promotes political cohesion and provides member countries with greater bargaining power in international forums where the voice of the region now has a greater chance of being heard. This is of particular importance in institutions such as the World Trade Organization (WTO). In effect, particularly small countries do not have the power to reign in the advantages of a globalized economy. Integration within the EA region provides a means by which the five countries can benefit fully from the opportunities provided by an open global market. Integration will also enable African economies to pool their weight in global decision-making processes.

In addition, the EA region needs to take care of other vices that have led to the marginalization of the continent, these vices are related to bad governance and bad policies by looking for solutions to local problems locally after which the continent can thereby present itself to the rest of the world on a more equal footing, instead of forever being the underdog.<sup>68</sup> Success of the EAC will only be achieved and maintained through the existence of a conducive political and legal framework, sound micro and macro policies, renewed efforts towards good governance, and institutional development. Generally, East African countries suffer from a number of problems such as political and economic instability, lack of human capital, and institutional constraints.

### **Progress of the EAC**

Despite the challenges that the community faced that eventually led to its divorce and even the challenges it experiences, the EAC has made significant progress since its revival over 10 years ago. It is safe to note that there has been a shift in perception from initial negative mind-set to improved excitement on the opportunities that the community is presenting.

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<sup>68</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

The region has seen increased significant growth in cross-border investment in sectors such as banking where the region now boasts of banks like Kenya Commercial Bank and Equity Bank in most of the EA countries. The insurance sector too is benefitting significantly, investors of some of the biggest insurance companies have invested in most of the regional countries. Also key significant on the progress that has been so far is the improved sector of education. Today than ever before, students are moving freely for further education in regional institutions for example Kenyan students are visiting Uganda for their A-level education as well as for university while Rwandese students are visiting Kenya for further education.

Besides the banking, education and banking sector, the manufacturing sector too has a vibrant sector in the region, for instance, East African Breweries acquired most shares in Tanzania's Serengeti Breweries while Tanzanian food processing plant such as AZAM have made inroads into Uganda and Rwandan markets. Uganda's hair products such as MOVIT has formed tributaries to all the countries in the EA region. Therefore despite the financial challenges the region faces, various sectors are taking advantage of the open markets in the region, they are utilizing technology that came about by globalization.

### **3.5 Emerging challenges and prospects**

This chapter has looked at the key drivers of the second EAC, despite the progress that has been made since the signing of the treaty that came into effect in July 2000, there are some challenges in the second EAC in the 21<sup>st</sup> Century, these challenges include political, economic, social as well as numerous crosscutting issues which will be elaborated in more detail below:

#### **Political challenges**

One of the major political challenges regional integration in the EAC faces in the 21<sup>st</sup> Century is the lack of a clearly defined roadmap to political federation. While the EAC Treaty ambitiously calls for political federation, it does not define what such a federation would entail and

how to achieve this goal. Political federation involves member states acceding some responsibilities to a central authority while also maintaining authority on other areas e.g education, health among other sectors.

Despite the fact that most leaders are clearly committed to the regional integration agenda and the long history of cooperation between the states, a paradox exist to the extent that most member states are not yet willing to accede some powers to a central authority. The significant focus being placed on “equitable distribution of costs and benefits” indicates that the self-interest of the states still dominates aspect of engagement in the community. While regional integration fundamentally changes the structure of the economy in the region, member states are unwilling to make short-term compromises which would affect them negatively.

Another factor in political challenge are the various conflicts in the region, while the region has shown some sign of internal stability, various conflicts threaten the political stability of the region. Various issues continue to threaten peace and security in the EAC largely due to the porous nature of its borders. These threats include organized crime and smuggling, terrorism, ongoing piracy of the East Coast of Africa, conflict in neighboring states (the DRC, South Sudan, and Somalia), incoming refugees, ethnical disputes and election conflict like the current case of Burundi where the President has controversially run for a third term.

### **Economic Challenges**

While the EAC has made significant efforts to increase the alignment of economic policies, at times economic cooperation is lacking. While significant economic cooperation has been achieved to implement the customs union, this process is not complete. An extensive list of goods is still being excluded from the tariff-free movement of goods and services in the region and numerous non-tariff barriers remain. Similarly, while the Common Market was officially

established in 2010, domestic legislation in each member state does still not allow for the complete free movement of goods, services and people.

Intra-regional trade in the community remains low despite regional integration initiatives. Intra-regional trade is dominated by Kenya. In 2009, Kenya accounted for more than a third of intra-regional trade. Kenya is considered to be the trade hub of the region and accounts for the greatest proportion of economic activity within the community and the east African region as a whole. If the necessary measures are not in place, economic domination of one member state can undermine the integration process.

### **Social challenges**

The integration agenda enjoys wide support among the political elites of the member states. However, at times, social participation and public buy-in to this agenda has been lacking. Some studies suggest that nearly two-thirds of Burundians and a third of Rwandans are not even aware of the existence of the EAC. At times, there is also significant opposition to the EAC from civil society; their key concerns relate to Kenya's threatening economic superiority and ethnic animosity between nationalities. In addition, while Article 7 of the EAC Treaty stipulates that the EAC will be "people-centered," changes within the community have largely been driven by economic changes and market forces, which at times can counteract the idea of people-centrism.

Persisting issues such as poverty, food and water security and inequality could create domestic political instability, which could threaten regional peace and security. In addition, the region has seen rapid population growth and urbanization in recent decades, which places an increasing strain on limited resources. In the years between 2005 and 2010, it is estimated that the region's population grew by 25 million, totaling 139 million people. This in turn creates additional social challenges such as high youth unemployment and greater demands on the already limited health and education sectors. Tanzanians fear that free movement of people could spark a massive

influx of people throughout the community to Tanzania fearing that locals will lose opportunities in the domestic employment market. Another popular public concern is that the free movement of people will allow citizens to exploit disparities in social protection systems between the national governments e.g. seeking healthcare or pension benefits in a partner state with a more rewarding system.

### **Crosscutting Issues**

A significant challenge with notable financial difficulties is the lack of and poor infrastructure in the EAC. While this is not a new phenomenon, it will place considerable strain on regional integration efforts. While an inadequate road infrastructure limits growth and trade expansion, energy deficits limit productivity and lack of information communication technology networks hinder efficiency, access to knowledge and integration into global markets.

As previously noted, a perceived inequitable distribution of costs and benefits was partly responsible for the breakup of the EAC in 1967. This issue continues to be a core concern, this holds true across a national level as states perceive others to benefit more from the integration efforts, as well as an individual level, this seem to be true in particular for Tanzania, who is often cited as slowing down regional integration efforts due to these fears.

Corruption has also been a persistent challenge in the EAC, according to Transparency International's Corruption Index, Burundi is ranked 165<sup>th</sup> out of 174 countries, and Kenya is 139<sup>th</sup>, Uganda 130<sup>th</sup>, Tanzania 102<sup>nd</sup> and Rwanda 50<sup>th</sup>. Corruption continues to pose a serious challenge to development by undermining governance, reducing legitimacy, inefficient provision of services, eroding the institutional capacity of governments, increasing the costs of business and losing the trust of the international donor community among others.<sup>69</sup>

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<sup>69</sup> Cyril Prinsloo, The East African Community – The Conducive environment, successes & challenges for regional integration (Paper presented in a workshop on 28 – 30 October 2013)

### **3.6 Prospects for the second EAC**

The survival of the current EAC depends on the political will amongst East African leaders to sustain its life. One way in which they could do that would be by ensuring that regional institutions and structures are kept intact and that leaders from all states partake. The current leaders in East Africa are working together to sustain the EAC and these leaders should ensure that the spirit of East African brotherhood is instilled amongst the people, not just the leadership.

The revival of the EAC occurred in the context of political reforms towards democratization and greater freedom for various groups, it also occurred due to economic reforms permitting a greater role of private sector development in the context of a market economy and also due to globalization and the associated rapid changes in technology and intensification of competition.

Five areas where action is needed in order to effectively address the challenges of the EAC are: first, the need to create conditions that allow investments and technology flows to permeate the region more widely; second, priority should be accorded to investments in infrastructure in order to improve conditions for private activity to take place more broadly within the region; third, emphasis needs to be placed on reducing the cost of doing business in the region; fourth, policy reforms at national level will need to be coordinated and complemented with policies at the regional level; and fifth, mechanisms for enhancing analytical work on anticipated benefits and costs of various regional integration arrangements initiatives are needed as a basis for addressing economic and social disparities.

### **3.7 Conclusion**

The purpose of this chapter was mainly to analyze the key drivers of the second EAC in the 21<sup>st</sup> Century. This chapter has looked at the establishment of the second EAC and has particularly focused on the key drivers of the EAC in the 21<sup>st</sup> Century. A 21<sup>st</sup> Century EAC integration agenda should reflect the dynamics of global investment, production and trade. The globally

interconnected nature of investment, production and trade motivates strongly for a regional integration agenda that is outward-oriented, supporting not only intra-African integration, but also integration into the global economy.

This chapter demonstrated that the core focus of the regional integration agenda should be competitive and as scholars have observed, the real agents of integration are investors, producers, traders, workers and consumers, and they should actively be involved in the design and implementation of the integration agenda.

The chapter has also looked at the challenges and prospects that the EAC continues to face, some of the challenges the community currently faces are the same ones that the first EAC faced that also led to its collapse in 1977, for example economic disparities. The same challenge is still faced as Kenya is considered to be the trade hub of the region and accounts for the greatest proportion of economic activity within the community and the east African region as a whole.

Perhaps a lesson that the EAC can borrow and learn in order for the current EAC to succeed is from the experience of other regional integration associations like the experience of the European Union (EU). According to Prof. Samuel Wangwe, the experience of the EU has shown that it is possible to achieve convergence by deliberately putting in place appropriate policy instruments.

Four factors have contributed to convergence within the EU. First, investments were made in infrastructure in the relatively more disadvantaged partners. Second, economic and political stability and a sound infrastructure in the wide sense encouraged the flow of investments even to the less developed areas. Third, a decision was made to concentrate resources in agriculture which was the dominant sector in the least developed members. Forth, the costs that emerged from the process



of integration were addressed openly and objectively guided by analytical work. More specifically, a decision was made to establish special funds to deal with disparities.<sup>70</sup>

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<sup>70</sup> Prof. Samuel Wangwe, Dialogue on Regional Integration in East Africa/Proposals to address economic and social disparities in the EAC (Paper presented in a Workshop on 19 – 20 March 2001)

## **CHAPTER FOUR**

### **STRATEGIES EMPLOYED BY THE SECOND EAC IN RESPONDING TO GLOBALIZATION: PROSPECTS AND CHALLENGES**

#### **4.0 Introduction**

This chapter assesses the approaches that the EAC has put in place in responding to globalization. The chapter will begin by a brief look at the status of the EAC in the global stage as well as the channels through which globalization can impact on EAC before highlighting the strategies employed by the EAC states in responding to globalization, the challenges and prospects of the strategies employed the benefits EAC has accrued from globalization and the effects of globalization on regional integration with focus on EAC. The chapter will conclude by identifying some of the challenges and prospects of the strategies employed by the EAC in responding to globalization.

#### **4.1 East African Community in a globalized world**

Most authors believe that one of the clearest manifestations of globalization is integration. One may still wonder if there a link between globalization and regional integration. In order to know if there is a link between globalization and regional integration, one may need to acknowledge the features of globalization and the reasons why regions integrate. The following are some of the reasons why regions integrate in a globalized world: trade liberalization, Migration/Movement of people, Proliferation of international agreements, Technology and Universality of normative standards.

The East African region has these features identified above and it is indeed driven by changes in the international economy as discussed by Nying'uro who asserts that the pillar of the international economy in the age of globalization is, the market. The author further notes that the 'marketization' of the system has transformed the relationship between the market and state. If

modern history has all along been shaped by the tension between the state and the market as two fundamentally different ways of organizing human relationships, the emerging trends in the contemporary world seem to suggest the triumph of the market over the state. The free-market-driven liberalization process that has accompanied globalization has tipped the balance in favor of the market.

Confronted with the dictatorship of the market with its requirement that the state surrenders portions of sovereignty, states increasingly seek protection in regional arrangements in which they may pool their sovereignty and collectively face the daunting challenges of the global market. The argument is that, left on its own, the state cannot take on the forces of globalization. On the other hand, the pervasiveness of globalization leaves the state with little choice: it has to deal with this market, after all. It has to be integrated into the global political economy in order to survive.<sup>71</sup>

#### **4.2 Channels through which globalization can impact on EAC**

Some of the mechanisms through which globalization may impact directly on the people of East Africa include:

- i) It can do so by affecting the efficiency with which resources are used: This channel is based on the argument that access to global markets raises productivity by increasing opportunities to specialize. The advantage of greater exposure to competition is that free trade should increase global demand for exports requiring large inputs of unskilled labour leading to an increase in employment.
- ii) It can influence economic growth: This line of reasoning emphasizes the dynamic growth and technology effects of globalization. The essence of the case for participating fully in globalization lies with its potential for accelerated economic growth resulting from improved

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<sup>71</sup> Nying'uro, A, 'The EAC's Prospects on the global stage' in R. Ajulu (ed), *The making of a region, the revival of the East African Community*, (Midrand: Institute for Global Dialogue, 2005) pp.31-43

possibilities for export led growth and the impact on investment and technology resulting from increased access to world savings and knowledge.

iii) It can influence the distribution of income and the quality of living: The critical question is how globalization changes the distribution of income. It is clear that growth's impact on poverty is strongly sensitive to how inequalities change with economic expansion. The biggest fear about a development path driven by globalization is that it will result in widening inequality arising from the skill biases of modern technological progress.

iv) It can impact upon macroeconomic and structural policies: One of the key characteristics of globalization has been pressure for the convergence of policies across the globe. In much of EAC and at various times most policies had discriminated against agriculture. One would therefore argue that reform of these negative policies should improve upon the livelihood of people who depend upon this sector for their livelihoods.<sup>72</sup>

#### **4.3 Strategies employed by EAC in responding to Globalization**

Regional integration and globalization may be seen as complementary processes that have the primary goal of expanding processes and expanding exchange amongst nations. Ajulu (2005) observes that the regional economic integration in East Africa forms part of what has been termed as the 'new regionalism' in developing countries, initiated largely as a response to the challenges of globalization.

The author further asserts that analysts have long recognized that most developing countries do not have the resources to cope with globalization on their own hence they need to pool their resources in regional arrangements that will allow them to collectively confront the daunting challenges of the global markets, and strengthen their bargaining power on the global stage. Given the far-reaching impact of globalization, this has been seen not as a matter of choice but rather as an

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<sup>72</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

imperative. Therefore regional integration is meant to make it possible for weaker countries to benefit from the global economy.

The new processes of economic integration are predicated on the assumption that engagement with the global economy is unavoidable. They do not seek to de-link their participants from the global economy, but rather to engage with globalization in ways that benefit the weak and the poor.<sup>73</sup> In responding to globalization, the EAC has employed the strategies discussed below:

- **Customs Union**

The EAC is the only other customs union in Africa after the Southern Africa Customs Union. The negotiations towards the establishment of the customs union took almost four years because there was strict adherence to the principle enshrined in the Treaty that the EAC integration process must be people-centered, thus necessitating a broadly participatory approach to the adoption of integration programmes.

While the EAC Customs Union continues to face challenges, such as inefficient border posts, road blocks, transit road weighbridges, long clearances at ports, corruption, and poor roads and railways infrastructure, intra-EAC trade grew by as much as 50 per cent between January 2005 to 2010. Prospectively, this share of EAC trade to the rest of the world could be as high as 30 percent were the non-tariff barriers removed and infrastructure improved.<sup>74</sup>

- **Common Market**

The EAC became the first African regional community to establish a common market, effected as of July 2010. The only other common markets in the world are the European Union and the Caribbean Economic Community.

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<sup>73</sup> Ajulu, R, 'The new EAC: Linking subregional and continental integration initiatives' in R. Ajulu, (ed), *The making of a region*, (Midrand: Institute for Global Dialogue, 2005) pp.17-28

<sup>74</sup> Ambassador Juma Mwapachu: EAC: Past, present and future – East African Community (2010)

With the common market, the EAC is steadily opening up to the free movement of persons, labour, capital and services. It is a strategy that is leading to the region becoming a fully-fledged economic community with massive benefits from higher economic growth, job creation, and improvement in per capita incomes. The EAC Common Market Protocol took 18 months to negotiate, and a host of multi-stakeholders and governments and the private sector as well as professional organizations were involved.<sup>75</sup>

The prospects of common market for the EAC are immense, the coming into effect of the EAC Common Market in July 2010 presents a number of opportunities for the region, and the region stands to have a single market size of approximately 133.5 Million people as the 5 partner states realize a combined GDP of about 74.5 billion US dollars.

The common market offers more employment opportunities for professionals, technicians and artisans, who benefit from greater accessibility to markets in the region. With the common market in place, it is easier for people to trade within the region. There exists the potential for increased trade volumes between the partner states. The common market also increases trade in services in the region, such services include professional services, communication, distribution services, education services, financial services, tourism and travel-related services as well as transport services.

Through the common market, there is greater mobilization of capital, including equity and portfolio investments, bonds, money market instruments, collective investment schemes and bank loans. There is also increased competition among firms within the partner states, which may spur them to produce better quality goods and services.

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<sup>75</sup> Ambassador Juma Mwapachu: EAC: Past, present and future – East African Community (2010)

- **EAC Monetary Union**

The objective of introducing a single currency into the EAC is principally to promote monetary and financial stability in aid of the wider integration agenda, which the EAC believes will foster further growth and sustainable development.

Progress has been made in initiatives towards harmonization of fiscal and monetary affairs. There is improved macro-economic policy synchronization and coordination, especially the fiscal regimes through initiatives like the close cooperation by Governors of the Partner States' Central Banks, institutionalization of the pre-Budget meetings and the regular consultations on tariff and taxation measures in the Budgets, the reading of the national Budgets on the same day, cross-listing of shares at the stock exchange market and currency convertibility.

However, most of the activities and initiatives are not known to the public and other stakeholders outside the relevant sector. In addition, the extending of the Uganda list of sensitive products by the Ministers of Finance and subsequent approval by the Council of the Uganda list, thereby is reversing the commitments in the run up to the Monetary Union.

- **Other Activities**

There are also other programs of EAC not necessarily under the Customs Union, Common Market and Market Union. Activities aimed at implementing the Regional Strategy on Peace and Security, for example, cooperation and common initiatives to curb criminality and Movement of criminal gangs within the region by security agencies through common patrols, operations, surveillance and sharing of intelligence. In addition, confidence has been built among the armed forces, enabling consultation on security threats within the region.

An instrument to provide for legal mutual assistance in cases of needs for extradition of criminals is under development. There is demonstrated commitment to adherence to the fundamental principles of good governance, democracy and protection of human rights as

prerequisites to successful integration and development. The process is underway to harmonize and develop common regional benchmarks, standards and institutional frameworks to fight corruption, protect human rights, enhance ethics and integrity, and promote the rule of law and constitutionalism.

There is a deliberate effort to involve and consult with a wide range of stakeholders including political parties, civil society, media, legislators and oversight institutions to improve accountability, responsibility and promote the EAC principles of people centeredness. The regional forum for good governance institutions has created space for sharing, challenging, and learning and supporting each other to promote good governance. Joint articulation of common positions at international forums, joint fronting of EAC candidatures and joint approach to negotiations with third parties (such as on the EU Economic Partnership Agreements (EPAs) and in the World Trade Organization (WTO), marketing the community as a single tourist and investment destination and; Development and/or implementation of EAC infrastructure Master Plans and mapping key transport corridors; Power Master Plans, EAC Railways Master Plan, roll out of the fiber-optic cable linking all the EAC countries and hooking them into the international broadband infrastructure, easing electronic and telephone communication in the common market.

#### **4.4 Policies to increase EAC's share of global trade**

Various scholars have predicted that the EAC has the potential to become a major player in the global economy, this can be partly attributed to the strategies identified above that the region has adopted. As any economist would say though, for the region to make it big in the global arena, the EAC needs to shift gear on how it does its business and this includes things like expanding non-traditional exports including non-traditional agricultural and industrial products.

Services provide another area of opportunity for trade and growth in EAC. It has been cited as the fastest growing economic sector and the most vigorous in terms of job creation. Of the



service sectors, tourism has the highest potential to earn foreign exchange. The region has tremendous potential for tourism – it has many of the amenities that tourists seek, including relatively pleasant climate, sea, beaches, scenery, wildlife, history, archaeology, tradition, and so on.

For the EAC to increase its share of global trade, it could consider the following policy options:

- Anchoring exports on competitive and stable real currencies. As countries develop, there is need for sustaining real exchange rate competitiveness because real currency appreciation may not be productivity induced;
- Making trade reforms credible and effective – this necessitates removal of anti-export bias by administering effective compensating mechanisms to exporters, cutting red tape and ensuring best practice in customs clearance;
- Integrating further trade policy reforms with national business plans for economic diversification. This implies moderating tariff peaks, rationalizing exemptions and implementing other steps to ensure effective supply responses. The business plan should cover infrastructure, public service delivery, human capital development, stable and competitive exchange rates, and investment strategies.
- Promoting regionalism to enlarge markets and lock in trade and other reforms by boosting their credibility, and
- Implementing all these suggestions through a consultative process in which a supportive and consultative relationship with the private sector and labour is forged.

One of the policies likely to yield positive results is export diversification. EAC countries need to diversify for two reasons; first, it reduced the risks and uncertainties associated with dependence

on a few traditional staples whose prices are expected to continue declining. Secondly, broader and growing markets are more likely to attract investments.<sup>76</sup>

#### **4.5 Challenges of the strategies employed by the EAC in responding to globalization**

Even as the EAC leaders are looking to safeguard a future of sustained growth with the signing of the customs union, critics have argued that the risks to taking this route are huge; some critics are questioning how separate countries with widely differing economic performances can be effectively tied to a common monetary policy and interest rate.

While a currency union in the EAC will provide more stable currency in terms of purchasing power and it may minimize currency volatility and fluctuation as well as eliminate transaction costs and quicken cross-border investments, there are challenges that the community will encounter. For example, the institutions and support structures which will have to be established to support the single currency, including a regional central bank and a statistics body, effectively take away national autonomy in steering monetary policy.

Also challenging is a new central bank for the region which will assume responsibility for setting a common interest rate for the entire EAC, the interest rate set by the central bank may be inappropriate for countries which are growing much faster or much slower than the EAC average.

Another factor is the issue of asymmetric shocks within a monetary union. In the case of the EAC, while the economic cycles and product diversification are reasonably aligned; the export structures are different within the five countries. Trade forms a much greater percentage of GDP in Kenya than in Rwanda or Burundi, which indicates that EAC countries may face asymmetric shocks. This would not support the rationale of a monetary union.

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<sup>76</sup> Saitoti, G, *The Challenges of Economic and Institutional Reforms in Africa*, (Hampshire: Ashgate Publishing Limited, 2002).

Equally, issues of national sovereignty, which African governments have been particularly reluctant to cede, and in the case of EAC, Uganda and Rwanda are leading the way when it comes to reluctance in cede power in their own countries. This therefore will become more problematic if central bank policies are deemed to be less than favorable to their national interests.

At this point, it is important to note that one of the reasons why the first EAC collapsed was personality clashes of the heads of state, when the issue of national sovereignty comes about, this could come up if the Presidents of States that are more democratic or rather those that respect the constitution and cede power dare to caution the leaders that are reluctant to cede power – indeed this could create tension.

However, monetary union in the EAC is far from a done deal. The tough convergence benchmarks alone have many believing this is an impossible project. The experience of the Eurozone reinforces the point that successful economic and monetary union requires member states to relinquish sovereignty to a much greater degree than was, perhaps, initially thought. If the EAC members continue moving in the same direction, with the right political support, guidance and motivation for a monetary union, then this deep political bargain can be navigated.<sup>77</sup>

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<sup>77</sup> African Business Magazine, *The Pros and Cons of EAC Monetary Union*, [www.africanbusinessmagazine.com/african-banker/pros-cons-eac-monetary-union/3/](http://www.africanbusinessmagazine.com/african-banker/pros-cons-eac-monetary-union/3/), 5<sup>th</sup> November 2014

## 4.6 Prospects of the EAC's strategies in responding to globalization

### Policies that will take full advantage of globalization

Globalization, as already articulated by Nying'uro in the literature review is market driven, various authors observe that the 'marketization' of the system has transformed the relationship between the market and state. In order for the EAC to go beyond the above policies in order to succeed in the era of globalization, there are many other complementary measures that are required to lay a stable base for investment and production, these policies will lead to increase of the EAC's share of global trade.

For the EAC's prospects to be realized, the region needs policies that facilitate the achievement of maximum gains from co-operation. Deliberate policies targeting the infrastructure sector, and also exploring linkages with other sectors, are also essential if the EAC is to overcome challenges to the development of infrastructure. Important policy options include:

- **Integrated infrastructure:** to maximize the economic benefits of integration, linkages across transport modes must be facilitated to encourage the use of alternative modes of transport, develop brokerage markets to improve capacity utilization, and promote the optimization of all transportation modes. A range of economic policies must be harmonized among the EAC states if the customs union is to operate a single, unified market. In particular, policy planning for the transport sector must be harmonized and strengthened. The countries can take advantage of privatization opportunities in railway transport, strengthening regional railroad organizations, analyzing road user charges and facilitating cross-border trade, in order to boost infrastructural development and maximize gains from co-operation.
- **Funding:** The EAC states need long-term financial plans for the provision of infrastructure in the EAC. Available revenues may not be adequate to construct and maintain the network in a stable and long-term condition. Options include a) earmarking revenue collected from the existing

infrastructure for major repairs and rehabilitation of regional infrastructure b) augmenting revenue mobilization by simplifying or restructuring transport user taxes and charges, or improving revenue administration to reduce tax avoidance, evasion, and leakages and c) realizing better services and value from the existing resources by for example contracting out more design and implementation work to the private sector

- **Information and communication technology:** ICT is fundamental to the region's future development. It cuts across various aspects of regional integration and has the power to accelerate the integration of the EAC and raise its global competitiveness. ICT in the community suffers from myriad handicaps, including inadequate funding, poor physical infrastructure, weak regulatory and legislative frameworks, and a low level of human resource capacity in the area. ICT development is a policy priority to increase gains from co-operation

- **Private sector participation:** Mechanisms such as public-private sector partnerships should be examined to enforce private sector cross-border investment in physical infrastructure. In addition, there is a need to promote both private and public transport provision. Furthermore, countries in the region should seek to promote and implement private-sector-friendly investment.

- **Technical assistance:** Technical assistance from international organizations as well as bilateral assistance could be useful in quickening the pace of development of urban communication and transport.

- Other areas that need improvement are road safety, peace, security, human rights, democracy, resource allocation and management and maintenance of infrastructure.<sup>78</sup>

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<sup>78</sup> Mariara J. K, 'Infrastructure development in the EAC: Challenges, Prospects, and Policy options' in R. Ajulu, (ed), *The making of a region*, (Midrand: Institute for Global Dialogue, 2005) pp.173-175

## **4.7 Conclusion**

This chapter has looked at the approaches that the EAC has put in place in responding to globalization which increases inter-connectedness.

The chapter has established that each country in the EAC does not have the resources to cope with globalization on its own hence the need to pool their resources in regional arrangements that will allow the region to collectively confront the daunting challenges of the global markets, and strengthen the region's bargaining power on the global stage. Given the far-reaching impact of globalization, this has been seen not as a matter of choice but rather as an imperative. Therefore regional integration of the five EAC states is meant to make it possible for the region to benefit from the global economy.

The long-term objective of the new EAC is to progressively deepen integration in the region through the established customs union, a common market, a monetary union, and ultimately the establishment of a political federation. A Political Federation is the ultimate goal of East African Community (EAC) integration, the fourth step after the Customs Union, Common Market and Monetary Union protocols. There are experts who are working on the establishment of the EAC Political Federation and will look at an agreed structure for negotiation and subjected to a referendum by the 130 million people of the five partner states.

The EAC has employed various strategies that the community in responding to globalization, even as it has done so, there are challenges that abound with these strategies and there are prospects that will ensure that the strategies employed as stable at the end of the day.

In conclusion, the chapter observes that there is a deliberate effort to involve and consult with a wide range of stakeholders including political parties, civil society, media, legislators and oversight institutions to improve accountability, responsibility and promote the EAC principles of people centeredness. The regional forum for good governance institutions has created space for

sharing, challenging, and learning and supporting each other to promote good governance. If the trend continues despite the myriad of challenges the region faces then the strategies employed by the EAC States in responding to globalization will yield fruit and benefit the community.

## **CHAPTER FIVE**

# **PROSPECTS AND CHALLENGES OF EAC REGIONAL INTEGRATION IN THE 21<sup>ST</sup> CENTURY**

### **5.0 Introduction**

This chapter assesses the influence of globalization on the EAC with a particular focus on the challenges and prospects of the revived EAC. As seen in previous chapter as well as in the literature review, globalization creates both opportunities and challenges or both creative and destructive processes, while creating unrelenting pressures for competitiveness.

The chapter will seek to address the objectives of the study by focusing on the challenges and prospects of the East African region in a globalized world. It will first look at what needs to be done to make integration work in a globalized world, it will then assess the concerns regarding globalization before embarking on the main objectives of the study.

### **5.1 What needs to be done to make integration in EAC a success**

For the EAC to succeed in its integration efforts, its leaders and its people must be willing to aggressively tackle some key pertinent issues. In Chapter three, this study identified four challenges including political, economic, and social as well as numerous crosscutting issues that the second EAC is facing and that could lead to another collapse if not carefully handled. Apart from that, the region's political leaders and other opinion leaders must be willing to provide the leadership needed to develop and implement the appropriate programs that will lead to the success of the second EAC.

Saitoti observes that for integration to succeed, it must not be made an elite affair. It is critical that all relevant stakeholder groups be provided facilities to participate fully and effectively in the development and adoption of regional integration schemes. In addition, the EAC countries must be willing to diversify their production structures, increase investment in infrastructure, lower



transition costs and place regional interests ahead of narrow national interests. This is because there is no way all of each country's interests can be taken into account and expect regional trade associations to function.<sup>79</sup>

Economic integration can only succeed if the member countries enjoy significant political and economic stability at home. This is so because national problems tend to be magnified at the regional level. Issues of good and responsive governance, transparency and accountability should just be as important and relevant to the economic integration schemes as they are to national governments.

While Saitoti makes important points that one of the reasons why regions fail to realize their developmental potential is the absence of institutional environments within these countries that adequately constrain the state, enhance entrepreneurship and improve peaceful coexistence of ethnic and other social cleavages, he also notes that there is a strong and urgent need for adjustments in the EAC and this calls for appropriate institutional changes to provide political and economic structures that are more relevant to the lives of the East African people. He suggests that such a dispensation would a) enhance indigenous entrepreneurship and hence, wealth creation; b) adequately constrain the state and prevent its agents from engaging in corruption, rent seeking and other forms of opportunism; c) provide structures for the peaceful coexistence of all of a country's populations groups; d) pave the way for the formation of viable integration schemes; and e) generally improve the ability of Africans to participate gainfully in the new global economy.

In his opinion, he suggests that another requirement for successful economic integration is to bring the economies of EAC member countries to the same level of development, he further suggests that to successfully do that requires a significant amount of financial resources. That calls for rapid economic growth to create the wealth needed. Saitoti aptly observes that unless the EAC

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<sup>79</sup> Saitoti, G, *The Challenges of Economic and Institutional Reforms in Africa*, (Hampshire: Ashgate Publishing Limited, 2002).

countries increase their economic growth rates, they would not be able to generate the resources needed to achieve and sustain the development levels required for successful integration.

He thus brings into perspective that successful integration is the need for quick implementation of a massive program that will improve physical infrastructure, particularly the road network in the region as well as telecommunications facilities.

He further notes that in order to attract investment into the region, the investment code should be made simple and more competitive. A regional human resource development project should be initiated and implemented to make certain that the labour resources trained can function properly at the regional as well as the national level. For example, there is most likely going to be a need to emphasize multi-lingual training in English, Kiswahili and French for managers so they can serve effectively in the EAC and deal with labour resources from Kenya, Tanzania, Uganda, Burundi, and Rwanda.

Another requirement is for the East African countries to institute measures to reduce dependency on revenues from import taxes. This could be done, for example, through an assessment of country-level tax policies with a view to broadening the tax base. Another strategy is to implement policies that promote economic growth. This will not only raise government tax revenue but will also reduce the need for additional government spending targeting the poor so long as the increased growth is equitable.<sup>80</sup>

## **5.2 Concerns regarding globalization in the EAC**

Some authors appear to suggest that there are contradicting views with regard to the process of globalization. Some have tended to emphasize the likely benefits, arguing that it offers developing countries opportunities to create wealth through export led growth and to gain access to new ideas, technologies and institutional designs. Others are skeptical arguing that it means

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<sup>80</sup> Saitoti, G, *The Challenges of Economic and Institutional Reforms in Africa*, (Hampshire: Ashgate Publishing Limited, 2002).

decreasing national control and an increasing command over the economy by foreign interests. According to this strand of argument, globalization puts agriculture in the hands of modern technology owned and controlled by large Multinational corporations (MNCs) whose interest is profit rather than people's welfare.

Thus this brings into play the fact that globalization is also resisted because it is associated with an accelerated pace of change in economic life and increased exposure to competition pressures, forcing a speed of required adaptation, which is disruptive to many livelihoods. Even though globalization seems to be developing in a positive and successful way from a macroeconomic point of view, it also raises some concerns, these concerns are discussed in detail below:

**There are dangers associated with global capital flows and with faster transmission of shocks**

One of the concerns is that it creates a serious risk of cyclical disturbance to the development process. In his analysis on his book, Saitoti argues that cyclical disturbances in response to capital inflows and outflows are characterized by boom bust cycles. These start with a situation of over investment, which is stimulated by optimistic expectations in a climate of rapid economic development. This rapid development also contains seeds of crisis. Sooner or later profit margins begin to fall, projects fail, capital inflows reduce and pressure is exerted on the exchange rate.

The impact therefore of this is that the aspect of globalization because of greater economic interdependence amongst national economies also hastens the transmission negative contagion, insecurity and risk. This interdependence also enhances the transmission of shocks from one country to another. This feature modern world was dramatically demonstrated by the way financial crises in Russia and in East Asia in 1997 – 98 evolved. These crises sent shock waves around the rest of the world leading to a global slowdown. Saitoti thus appears to suggest that the enormous

explosion of cross border movements of highly mobile forms of financial capital and the difficulties of regulating this has increased the risk of financial shocks spreading around the world.

While Saitoti makes important points of the growing importance of private capital flows to developing countries that create a serious risk of cyclical disturbances to the development process, he also notes that these cyclical disturbances have already been experienced in South Korea, Indonesia and Malaysia in various forms of severity. He notes that in a period of expansion when prospects seem rosy, capital inflows can accelerate beyond the absorptive capacity of a country. This then brings into play the fact that this can tempt governments and private firms to borrow in international credit markets. A serious over investment situation develops, coexisting with a large deficit on the current account of the balance of payment

### **Many people and markets remain unaffected by Globalization**

Saitoti makes a very important observation as stated above. He says that the process of globalization has not touched certain categories of the poor in East Africa. He suggests that there has been no internationalization of labour markets remotely comparable with what has happened in capital market. Only a little over 2% of the World's population live outside their countries of birth with the number growing only slowly. Immigration policies, cultural and language barriers are largely to blame for the low number of people living outside their countries of birth. However, in the case of the labour market, the industrial countries have been partial in their commitment to the liberalization of markets.

Another area that is contracting during the era of globalization is the sector of official development assistance. This contraction has meant that the internationalization of the capital market is largely being restricted to the private sector. Public sector aid flows have declined in real terms between 1988 and 1999.

## **There are also environmental concerns**

We are also confronted with damage to the environment as a consequence of growth. The advantages in material welfare should therefore be evaluated against environmental deterioration. Arguments are increasingly being raised to the effect that trade liberalization agreements should create certain levels of compensation mechanisms for environmental destruction.<sup>81</sup>

## **Risks from financial integration in the face of weak financial systems**

Global financial integration ought to be a matter of concern not only to the public policy makers and private entrepreneurs, but also to the public at large. These are several dangers to East African financial systems in the advent of global financial integration. The importance of financial services in the development of the East African economies implies that authorities should resolve to ensure that instability in the financial system is minimized through effective regulatory as well as prudential measures. They should recognize that with increasing globalization and improvements in technology, it is no longer feasible to have an entirely inward looking financial sector policy.

The Central Banks will have to support seriously efforts to the improvement of the payments and settlement systems especially those geared at the introduction of new products. To survive global financial competition most to the small East African banks should support those commercial banks that would want to consolidate in order to strengthen their capital bases in order to survive the competition that is implied in the WTO membership.

There is need to address information imperfections and asymmetries in financial markets and to enhance the capacity of central banks in the region to intervene in financial markets. There is much for economic managers in East African countries to learn about interventions in open markets. Foreign exchange reserves are important to maintain the credibility of open capital

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<sup>81</sup> Najam, A., Runnalls, D., Halle, M., *Environment and globalization: Five prepositions*, (Canada: International Institute for sustainable development, 2007).

accounts and the stability of financial systems; particularly the stability of monetary policies as reflected in interest, inflation and exchange rates.

### **5.3 Challenges of regional integration in the 21<sup>st</sup> Century**

Even though regional integration is believed to help member countries achieve higher rates of economic growth and hence increased incomes, there are many problems that affect progress towards regional integration even in cases where such arrangements seem to have been a success.

These issues are discussed in detail below:

- a) **Trade deflection:** When countries form economic blocs, they usually design policies that favour increased trade among them mainly through a reduction in tariffs. Since the rest of the world is excluded from these preferential arrangements, there develops a policing problem because non-members could channel their products through one of the member countries. This is particularly so in case of a FTA where member countries have varying import tariffs with respect to non-members. In such a situation, imports from the rest of the world could enter a high duty country without necessarily paying such duty if they are channeled through a low duty member country. Controlling for such incidences is a highly costly exercise and could jeopardize the operations or the objectives of a regional bloc.
- b) **Sovereignty of states:** Being a member of a regional bloc requires countries to sacrifice their national interests. This may be very difficult especially where some of the politicians feel that membership in such bodies is a threat to their power base. Politicians may be reluctant to cede control of their economies to forces or actors outside their control. Regional integration will not succeed where there are strong forces intended to maintain a country's sovereignty and autonomy.
- c) **Diversity/heterogeneity of member countries:** Even where countries are ready and willing to work together, there are natural barriers in the form of differences in language, customs,

religion, heritage and culture. A common language plays a crucial role since economic integration brings about increased interaction between people from different countries.

- d) **Protectionism:** When countries group together and define their own rules of doing business, it impacts on trade. Integration promotes more trade among member countries while at the same time discriminates against non-members. We can think of the idea of regional integration as a double edged sword which could either be beneficial or harmful to a country. This is because integration promotes more trade among member countries while at the same time discriminating against non-members. This has implications for how efficiently resources are utilized globally.
- e) **Structure of economies:** Regional trade will not increase if member countries lack well developed and diversified manufacturing sectors. In many African countries, the structure of production is basically the same whereby agriculture is the main factor driving the economy. This factor has been a major issue in Africa where many countries remain exporters of raw materials, primarily to the developed Western countries.
- f) **Differences in development:** Having asymmetries in levels of development is a very critical aspect for it has been cited as one of the key factors that led to the collapse of the EAC in 1977. The question is whether or not the most developed or relatively larger members are uniquely placed to have a lion's share of the benefits of economic integration. In most cases, poor countries tend to shy away from joining regional trade groupings because of the fear that rich members will overshadow and dominate them. This situation, however, can be avoided by formulating appropriate mechanisms to compensate losing members, as well as measures to address unfair trade practices.
- g) **Overlapping Membership:** The rapid growth in regional economic blocs has resulted in a situation whereby countries are simultaneously members of more than one economic bloc. In Southern and Eastern Africa for example, almost all countries are members of SADC and

COMESA. Tanzania is a member of three regional blocs, namely EAC, COMESA and SADC. This kind of situation is likely to result in duplication of efforts, wastage of human and financial resources and could also bring about confusion in implementing the policies of each economic bloc.

- h) Unfair trade practices:** Regional integration will be highly compromised in situations where one or more members practice unfair trade such as exporting subsidized products to member countries. These practices could lead to dumping. Once solution to this problem is for the affected country to levy countervailing duties. However, for this to happen, the country must show the harm caused following importation of subsidized products. Tracing the chain through which such products get into the country and the impact on domestic industries could be extremely costly. In that case, the aspect of credibility of other countries sets in.
- i) Small size markets and poverty:** Even after integrating their economies, some countries are so small that the effect on market size is negligible. The per capita incomes are similarly very low in all member countries so that there is no major impact on effective demand. In such cases, regional integration may not bestow the expected gains in scale economies and competition. There are also complicated issues such as how to determine a common external tariff, how to identify and implement regional projects and even common policies such as agricultural policies, education policies, health policies and so on. It is rather difficult, for example, to visualize the complexity of setting up common educational policies where countries pursue different education systems.
- j) Infrastructure:** This is possibly one of the most important factors that will determine whether economic integration efforts will succeed. For EAC countries to effectively trade with each other, the region must have a well-developed regional transport infrastructure, functioning institutions, financial infrastructure, telecommunications, and other utilities. EAC must invest



much more regional infrastructure to bring to an acceptable standard, those utilities that are critical for intra-regional trade.<sup>82</sup>

#### **5.4 Prospects of East Africa integration, trade and globalization**

In this study's literature review, Ajulu argues that most developing countries do not have the resources to cope with globalization on their own hence the need to pool their resources. The author argues that this will allow the countries to collectively confront the daunting challenges of global markets, and strengthen their bargaining power on the global stage. While Ajulu is a proponent of strengthened partnership for the EAC to be able to face the global markets, Collier, discusses how the EAC is an unfinished project in restoring the regional integration that East Africa once enjoyed almost half a century ago. He goes on to discuss that potentially, is it a vehicle for economic and political cooperation in a number of spheres. Collier's work is relevant in identifying and discussing the prospects of the second EAC in the 21<sup>st</sup> Century as he outlines the prospects that the region has before it in its quests to benefit fully from globalization. The author observes that countries within the EAC generally have efficient markets, their financial markets are developed and they have relatively sound institutions. The challenge though as highlighted by various authors is the state of infrastructure and macroeconomic stability as well as indicators like education and health.

The preceding chapters of this study have highlighted various challenges that faced the first EAC; however this does not mean that the same fate that faced the community in 1977 will show up. The survival of the current EAC depends on the political will amongst East African leaders to sustain its life. One way that this can be done by the five EAC countries would be ensuring that institutions in the region as well as structures are kept intact. There are prospects that have also been highlighted in this study. Below are the prospects of the EAC in the era of globalization:

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<sup>82</sup>Saitoti, G, *The Challenges of Economic and Institutional Reforms in Africa*, (Hampshire: Ashgate Publishing Limited, 2002).

- **Regional Integration will facilitate progress towards globalization**

Regional integration in EAC could facilitate orderly progress towards globalization. It should be a vehicle to help the region integrate itself into the world economy in an orderly manner, through appropriate co-operation strategies. Such strategies should encompass effective trade liberalization, macroeconomic stability, structural reforms, and policy credibility.

Work edited by Ajulu, covers a powerful theme on developing countries 'coping with globalization; the author urges these countries to pool their resources in regional arrangements that will allow them to collectively confront the daunting challenges of the global markets.

Therefore, although Ajulu's work suggests that developing countries can only strengthen their bargaining power on the global stage when they integrate, it is imperative for the EA region to nurture domestic and regional institutions to promote transmission of regional infrastructure networks. There are potential benefits of the EAC integration on FDI inflows by providing an expanded market and policy credibility.

The WTO offers East African countries a multilateral forum from which the countries can take advantage of a rules based system for trade and development. New structures of governance will increase market access but also bring obligations such as giving up a degree of sovereignty over trade and investment. The UE and the USA in the context of the renegotiated Lome Convention and the Africa Growth and opportunity Act (AGOA) have called for broader, more reciprocal and participatory economic relationships. East Africa stands to gain from these relationships as a coordinated sub regional group in multilateral trade negotiations and in effecting a co-ordinated approach to donor financing.

However there has to be a real concerted effort by African governments to transform both the economic and political relationship within their own boundaries.<sup>83</sup>

- **Regional integration will facilitate trade policy reform that is anchored on macroeconomic stability**

The East African Community could serve as a vehicle for more effective trade policy, which could help circumvent the constraints, imposed by small individual national markets and promote investment and industrialization. The basis of East African integration should be the promotion of trade. Trade is important because there is arguably three main channels through which trade influences growth. First, it does so through the efficiency enhancing advantages of a more open trade regime. Second, through improved incentives for production of exports and reduction of the high transactions costs associated with import barriers, and third, through reduction in explicit and implicit barriers to export or outward orientation of production.

Regional integration should serve as a means to further East African Community countries economic liberalization programs and to facilitate their integration into the global economy. The EAC should serve as a mechanism to lock in domestically implemented liberalization measures as well as synchronize regional and global measures. Regional trade initiatives should be seen as an extension of domestic reform, which in turn should be anchored in macroeconomic stability.

Macroeconomic stability is critical to the success of the East African Community regional trade liberalization. Inappropriate fiscal, monetary and exchange rate policies could constrain the ability of economic agents to compete abroad and this can intensify protectionist pressures domestically.<sup>84</sup>

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<sup>83</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

- **Regional Integration in the face of globalization implies a reassessment of industrial policy**

EAC economies will need to industrialize without the benefits of preferential and differential treatment or protective and interventionist trade regimes in the era of globalization. There will be need for a shift in the industrialization strategy for the East African Community to be in consonance with the ongoing globalization.

The private sector and private investment will be the pillars of such a strategy. These pillars will have to be supported by appropriate trade policy, an outward orientation and a competitive exchange rate. Regional integration will play an important part in the new industrialization strategy by providing an expanded regional market and by strengthening the bargaining power of the people of East Africa. The new industrialization will have to emphasize export promotion and further imports liberalization and in return call for open global markets for EAC exports as well as support in developing the needed infrastructure in the EAC countries.

- **Regional Integration will enhance financial market development in liberalized world financial markets**

Scholars meeting in Arusha at the early years of the 21<sup>st</sup> Century observed that individual East African financial markets remain very tiny, they argue that regional pooling would help diversify risk, promote competition and generate economies of scale adding that a regional approach to financial sector development will leave to increased competition, lower costs and lower risks. Cross border financial systems in East Africa require improvement in commercial and financial law, contract enforcement, accounting standards, prudential supervision and harmonization of these policies across the region.

While these scholars have a positive approach to the financial market of the EAC, on the issue of a common currency, one author, Collier borrows the European experience and argues that there are strong political pressures to commit to the symbolism of a common currency, but that the

practical reality is far more difficult. The author adds that regional groups are, in effect clubs. Without common macroeconomic policies, monetary union is doomed to generate crisis<sup>85</sup> thus the five EA countries should critically consider to put extra effort in ensuring solid macroeconomic policies.

- **Regional co-operation is necessary for the improvement of the infrastructure that is necessary for integration into global markets**

Regional co-operation in the East African area could help improve infrastructure linking individual states with each other and with the rest of the world. Regional Integration is key to achieving the economies of scale needed to lower costs and attract private investment in infrastructure, information and communications technology.<sup>86</sup> Analysis by Collier (2011) on the importance of shared infrastructure is clear that gains from cooperation in infrastructure may exceed gains from cooperation in trade. The author argues that investment in good-quality infrastructure is expensive hence the need to attract private finance where possible. He goes on to say that the key impediments have long been political adding that currently, private investors view multi-country projects as being even more politically risky than single-country projects. The author further argues that the EAC has the opportunity to turn the multi-country nature of such projects to an advantage: Potentially, governments can serve as a check on each other, so that an EAC commitment is seen as more credible than a national commitment.<sup>87</sup>

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<sup>85</sup> Paul Collier, *The East African Community After Ten Years, Deepening Integration/Emerging East Africa: Achievements and Goals of the East African Community*, (Paper presented in a workshop on February 27 – 28, 2012 in Arusha, Tanzania).

<sup>86</sup> East African Community, *Dialogue on Regional Integration in East Africa, Proceedings of an EAC Seminar in Arusha*, (EAC Secretariat & German Agency for Technical Co-operation, 2001).

<sup>87</sup> Paul Collier, *The East African Community After Ten Years, Deepening Integration/Emerging East Africa: Achievements and Goals of the East African Community*, (Paper presented in a workshop on February 27 – 28, 2012 in Arusha, Tanzania).

## 5.5 Conclusion

This chapter analyzed the influence of globalization on the EAC with a focus on its challenges and prospects. The chapter established that despite the challenges of integrating, regional integration is an important tool that also has its prospects in the era of globalization.

With globalization came the growth of information technology. The revolutionary development in information technologies now make it possible for states and individuals to transact important economic businesses across the world, right in their own living rooms. In fact, the EAC has witnessed the revolutionary development of the education, banking, manufacturing as well as other sectors in the region which can be attributed to globalization.

It is important to note that many changes that have occurred in the global economy are irreversible, the global economy is evolving each and every day, there are advances in transportation and communication technologies which now render national borders more porous to foreign competition than they have ever been all because of globalization.

Even if the EA region considers protectionism, this may not be the ultimate solution because it will generate its own sort of social conflicts. It is therefore, necessary to raise investment rates in the EAC and strengthen the economic environment by pursuing appropriate macroeconomic and structural policies and establishing an institutional framework to raise productivity in a sustainable fashion, this is indeed necessary and it will be significant for the region to be able to prosper, however the act of having operational and respected policies will call for national leaders in all the countries to cooperate and put aside any differences that may exist or may crop up at one point or another.

While the world is getting more and more globalized and there seems to be no looking back, the region should be mindful that there both potentialities and dangers arising out of globalization. This research has discussed some of the potential benefits from an acceleration of East African

growth following integration into a rapidly expanding world market for exports. There are also benefits from more productive resource use and more policy improvement induced by external pressures.

Therefore, the EAC countries can take advantage of market access brought about by global integration by improving access to market information and opportunities to the producers. In addition to increasing skill possession and access to finance to permit people to recognize and take advantage of market opportunities. This needs to be assisted by improving the level of institutional development, marketing and transportation facilities.

This chapter has established that the EAC integration can open doors for all countries although it will require strong will power and support from leaders in the region.

## **CHAPTER SIX**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **6.0 Introduction**

A lot has been written in this study in the preceding chapters. This concluding chapter has a dual purpose; first, it pulls together a few threads that are running through the discussion and reiterates the key points. Second, the chapter assesses the current EAC using the history of the first one as a source of reference. Based on the understanding of the first EAC, it concludes on the challenges and prospects of the current EAC, bearing in mind the changed and still changing political, social and economic environment.

#### **6.1 Summary of the key points and Conclusions**

The primary objective of this study was to examine regional integration in a globalizing world with a specific focus on prospects and challenges of the EAC in the era of globalization. The secondary objectives were to a) analyze the historical evolution of the EAC since 1967 and the factors that contributed to its collapse b) to examine the key drivers of the second EAC in the 21<sup>st</sup> Century c) to establish and assess the strategies employed by the second EAC in responding to globalization and d) to assess the prospects and challenges of EAC regional integration in the 21<sup>st</sup> Century. The analysis of these objectives were based on the assumption that globalization presents fresh challenges for integration efforts in the region.

The analysis of these objectives were based on the assumption that globalization presents fresh challenges for integration efforts in the EAC region hence unless the economies of the five members states are restructured, they may not be in a position to benefit from the opportunities of globalization.

The second chapter of this study identified the formation and disintegration of the first EAC. The chapter established that integration can be a difficult thing to attain, and at times it is quite a



difficult feat to attain even at nation-state level and it is even more critical at regional level. This contention is given credence by the collapse of the first EAC in 1977.

Various authors as identified in the second chapter of this study agreed that there were a host of factors that led to the collapse of the community; the authors observed that despite the differences, integration is almost inevitable and countries have to contend with the challenges to be able to pull together as an economic bloc. Even though integration can be quite a difficult feat to attain especially with the myriad of challenges that the region faces, there are opportunities that are more beneficial than countries have to give up on their personal interests and pull together with the rest.

What lessons therefore do we learn from the disintegration of the first EAC? First that regional cooperation is still very desirable and this desirability cannot be overstated. Second, it has been demonstrated that regional integration efforts are dependent on political goodwill. That is, the cooperation arrangements are highly dependent on political goodwill of the contracting partners. Political goodwill therefore fosters and renders support to the creation and maintenance of regional cooperation institutions. Despite the second EAC looking like it has prospects for the future, its foundation will still be determined and its progress will be purely determined by the political goodwill of the five member states.

Chapter three examined and analyzed the key drivers of the second EAC in the 21<sup>st</sup> Century. The chapter critically examined the establishment of the second EAC, it particularly focused on the key drivers of the EAC in the 21<sup>st</sup> Century. While this study observes that a 21<sup>st</sup> Century EAC integration agenda should reflect the dynamics of global investment, production and trade, various authors note that the globally interconnected nature of investment, production and trade motivates strongly for a regional integration agenda that is outward-oriented, supporting not only intra-African integration, but also integration into the global economy.

This chapter demonstrated that the core focus of the regional integration agenda should be competitive and as scholars have observed, the real agents of integration are investors, producers, traders, workers and consumers, and they should actively be involved in the design and implementation of the integration agenda.

Chapter four of this study looked at the approaches that the EAC has put in place in responding to globalization which increases inter-connectedness. The chapter established that each country in the EAC does not have the resources to cope with globalization on its own hence the need to pool their resources in regional arrangements that will allow the region to collectively confront the daunting challenges of the global markets, and strengthen the region's bargaining power on the global stage. It is therefore safe to say that given the far-reaching impact of globalization, this has been seen not as a matter of choice but rather as an imperative thus this brings into play the fact that regional integration of the five EAC states is meant to make it possible for the region to benefit from the global economy.

Chapter five of this study analyzed the influence of globalization on the EAC with a focus on its challenges and prospects. The chapter established that despite the challenges of integrating, regional integration is an important tool that also has its prospects in the era of globalization.

With globalization came the growth of information technology. The revolutionary development in information technologies now make it possible for states and individuals to transact important economic businesses across the world, right in their own living rooms.

It is now seen that many underlying changes that have occurred in the global economy are now irreversible, it therefore proves that the advances in transportation and communication technologies render national borders more porous to foreign competition than they have ever been.

Chapter five concluded with two conclusions; that a) even though regional integration is believed to help members countries achieve higher rates of economic growth and hence increase

incomes, there are many problems that affect progress towards integration even in cases where such arrangements seem to have been a success, b) the chapter also concludes that regional integration in the EAC will facilitate progress towards globalization.

The researcher believes that the findings of this study have gone at least some way towards achieving the initial objectives, and have enhanced understanding of the complex relations between the processes of globalization and ongoing attempts at crafting economic blocs at the regional and continental levels.

The researcher also believes that this study has proved the hypotheses right on 'globalization is spearheading the prosperity of the five member states of the EAC, both individually and collectively' as findings from this study have established that regional integration in the EAC facilitates orderly progression towards globalization. The main thrust of this observation is that the region has adopted appropriate co-operation strategies required to nurture domestic and regional institutions to promote progress of the region, this, of course is despite the challenges that come with integration, the region is determined to pull together towards a prosperous community of the East African people

## **6.2 Recommendations**

This study has established that globalization is not a new concept, having surfaced in various forms throughout history. It is a multi-dimensional concept covering areas including economic, political, social, cultural specters, and so on. It is widely considered to be beneficial to nations but, however, also comes with new risks and vulnerabilities as well.

The study has established that regional integration in East Africa will facilitate progress towards globalization, it will facilitate trade policy reform that is anchored on macroeconomic

stability and it will enhance financial market development in liberalized world financial markets. This is because individual East African financial markets remain very tiny.

The study also established that there is a link between globalization and regional integration. While some see the link to be associated with the uncertainty of global trade, others see the link to be the manifestation of the features of globalization in the reasons why regions integrate. It has been found that the uncertainty of global trade and reasons why regions integrate are one way or the other linked to the features of globalization.

In the light of the findings and conclusions as detailed in this study, the East African Region needs to address a number of challenges if it is to accelerate its integration into the world economy, maximize the benefits of globalization and minimize the risks that come with globalization. The recommendations include the following:

- The EAC countries should take advantage of market access brought about by globalization by improving access to market information and opportunities to their products.
- The EAC countries should assist in increasing skill possession and access to finance to permit the EAC people to take advantage of market opportunities.
- The five member states of the community should improve the level of institutional development, marketing and infrastructure as high costs in these sectors reduces traders abilities to sell produce on the EAC markets.
- Through appropriate strategies such as effective trade liberalization, macroeconomic stability, structural reforms and policy reforms, the EAC countries can facilitate orderly progress towards globalization.
- Since shifts towards greater reliance on production is inevitable and greater participation in global markets, savings and technology have many benefits to offer the EA people, the task

therefore is to establish a policy and institutional framework that will maximize the gains to the EA people and minimize the negative adjustment costs.

It is expected that the above recommendations would help policy-makers in the East African region in ensuring that the EAC could have delivered its mandate.

To scholars who may be interested in pursuing further research on the same topic, it is recommended that more emphasis be laid on the role of national interests. This is vital because the national interests have always assumed the critical role in their respective states.

## **6.2 Conclusions**

This study explicitly demonstrates that the East Africa regional integration has had a long history, today, under the powerful forces of globalization; EAC has contributed to the development and sustainability of the democratic system of government in the era of globalization.

It is therefore strongly felt that globalization has had both negative and positive effects on regional integration and on the EAC. The positive effects of globalization on regional integration especially with respect to the EAC include; investments, creating larger markets in the five member states, solving common challenges, security, and so on. The negative effects of globalization on regional integration with respect to the EAC include the discrepancies in the economic size and interests of the member states, lack of strong participation of the private sector and civil society, the dilemma of states whether to concentrate more on domestic issues or rather those of the regional body, poor policies including overvalued exchange rates, state trading monopolies as well as high tariff and non-tariff barriers in the EAC region. Also key is a lacking is a precise and detailed enunciation of how the new EAC will relate to other actors.

It is therefore the contention of this study as demonstrated by the findings and the conclusion that, though EAC is working hard to overcome the challenges and constraints of

globalization, it is yet to fully embraced the positive waves of globalization. As former Deputy Governor, Dr. Kasekende observed in this study, there are many underlying changes that have occurred in the global economy that are irreversible. Advances in technology render national borders more porous to foreign competition than they have ever been. Therefore, it is of utmost importance to raise investment rates in the EAC region and strengthen the economic environment by pursuing appropriate macroeconomic and structural policies and establish an institutional framework for the sustainability of the EAC in this era of globalization.

The EAC region should be mindful of the fact that there are both potentialities and dangers arising out of globalization; the benefits emanate from an acceleration of the EA growth following integration into a rapidly expanding world market of exports; there are also benefits from more productive resource use and more policy improvements induced by external pressures.

The EAC countries can take advantage of market access brought about by globalization; this can be accelerated by improving the level of institutional development which is currently ongoing, marketing and infrastructure development. As Dr. Kasekende observes in this study, the establishment of policy and institutional framework that will maximize the gains to our people and minimize the negative globalization adjustment costs is key to the EAC people.

From the above, it can be noted based on the findings and the conclusion that, although the East African Community has set up processes to overcome the negative challenges of globalization, it is yet to fully embrace the positive waves of globalization. Recommendations presented in this study seek to help the EAC to fully embrace the positive tides of globalization.

The theory of integration fits well into the study as it provides the remit within which findings of the study are analyzed. It espouses the framework for the five member states to solve common challenges, increase market size, integrate for development and increase trade, security

and investment so as to consolidate the process of the EAC agenda and reap the benefits of globalization.

This study has drawn its inspiration from the collapse of the first EAC to the creation of the second EAC in the era of globalization and the many challenges the community has to face, and in many ways it is tackling these challenges. This study's focus on the revived EAC in the era of globalization is an opportunity to examine the premises of past pursuits, the promises of the new community, and the changes and continuities that are part of its genealogy because regional integration and globalization are seen as complementary processes that have the primary goal of expanding exchange amongst nations.

In conclusion therefore, however much the EAC has embraced globalization and as earlier noted, the region has not benefited much from globalization of production since community exports have remained in the narrow range of primary commodities. It is therefore safe to say that the region has much to gain from globalization albeit it will need full cooperation and easing of national interests to be able to fully make significant growth in the coming years.

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