EFFECTS OF MONETARY UNION ON PROMOTION OF REGIONAL TRADE IN EAST AFRICA

BY

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DECLARATION

I declare that this is my original work and has not been presented in any other university or college for examination or academic purposes

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This Project has been submitted for examination with my approval as the university supervisor

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DEDICATION

I dedicate tis study to my family especially my daughter, my grandparents, my mother and my aunt Friends and colleagues who have thoughout been of unfailing support and encouragement in my struggle to pursue knowledge.

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ABSTRACT

The purpose of this study is to imperially investigate the effects of monetary union in the promotion of regional trade in East Africa. Monetary union will strengthen regional trading efforts so as to build productive capacities and transform economies through increased trade. The research will be operationalized by means of a survey amongst principle secretary, administrative office and staff of the trade ministries in the respective countries. It will focus specifically on the effects of transaction cost, risk of exchange rate fluctuation, price transparency and single market on promotion of regional trade in East. What this research intend to bring out clearly is whether monetary union in East Africa will promote trade among member countries or not. The models that are used to study attitudes and perceptions in psycho-sociology sphere will be vastly employed to study ministry of trade ministries staff perceptions on the Effects of implementation of monetary union in East Africa. Secondary data was collected through review of various contents of various relevant reports and publications available on monetary union and international trade. Data was analysed using Statistical Packages for Social Sciences and found that adoption of a common currency among the East African countries will increase trade among the member countries.

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ACRONYMS AND ABBREVIATIONS

EAC	East African Community
AfDB	African Development Bank
GDP	Gross Domestic Product
HLTF	High Level Task Force
EAMU	East African Monetary Union
RTA	Regional Trade Agreement
CGE	Computable General Equilibrium
GPPP	Generalized Purchasing Power Parity
EAMU	East African Monetary Union
WAEMU	West African Economic and monetary union
CMA	Common Monetary Area
OCA	Optimum Currency area

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

African governments are strengthening regional trading efforts so as to build productive capacities and transform their economies through increased trade. Regional trade and cooperation is expected to play a crucial role in unlocking Africa's trading potential through, facilitating the development of infrastructure that would lower trade costs and make manufacturing more competitive. It also promotes economic transformation by diversifying the composition of intra-African trade which presently is skewed more towards manufacturing than commodities (AfDB, 2011). In order to promote regional trade, East African Community (EAC) fast-tracked its plans to create a single currency for the five countries making up the regional trading block (Buigut, & Valev, 2011).

East African community consists of five countries namely: Kenya, Uganda, Tanzania, Rwanda and Burundi. The objectives of the East African Community as set out in the treaty include the progressive formation of a customs union, a common market, a monetary union and, ultimately, a political federation. The EAC has marked a number of significant milestones since its establishment, among which are the launch of the EAC Customs Union, common market and monetary union, all of which came into force in 2005, 2010 and 2013 respectively (Opolot, Kigabo, Kombe, Kathanje & Niyonzima, 2010).

1.1.1 Regional trade in East Africa

The EAC is moving at a faster pace to achieve deeper regional integration among its member states. It's expected that the creation of the EAC customs union will facilitate higher trade and investment flows between member states and through increased competition to improve the efficiency and competitiveness of the exports sectors in the individual countries. All the regional states view regional integration as an important ingredient in stimulating increased trade and investment (Newfarmer & Söderbom, 2012).

During 2006–10, Kenya, Uganda, and Tanzania witnessed significant growth in intra- EAC trade. Deeper regional integration has increased trade volumes. Intra-EAC trade grew by 40% between 2005 and 2009. Uganda's exports to Kenya increased more than tenfold from USD15.5 Million in 2004 to USD172 Million in 2009, while Tanzania's exports to Kenya over the same period nearly tripled, from USD 95.5 Million to USD 300 Million (Kishor & Ssozi, 2011). This pattern is expected to be enhanced with the Common Market which came into force in July 2010. This increased trade and investment among the EAC Partner States has broadened prospects for economic growth and development. In the past decade intraregional trade has grown, with the share of intraregional exports increasing from about 6 percent in 1991 to 16 percent in 2001, and imports rising from 2.7 percent in 1991 to 10.5 percent in 2001 (Mugisa, Onyango & Mugoya,2009).

The growth in trade was complemented by the significant growth in cross-border investment in the services sectors cutting across banking, insurance and tertiary education. Cross-border investment as well as mergers and acquisitions have become major drivers and contributors to growth of investments in the region. For instance, East African Breweries has acquired 51% shares in Tanzania's Serengeti Breweries; Trans Century of Kenya has substantial investment in Tanzania Cables and Tanzania's Tanalec, while Bidco has significant investment in the edible oil sector in Kenya, Uganda and Tanzania. On the other hand, Tanzanian food processing companies such as Azam have made some inroads into Uganda and Rwandan markets (Newfarmer & Söderbom, 2012). In the past the trade regimes of the EAC member countries were characterized by a cascading tariff structure. However, trade liberalization in recent years, has brought about considerable reductions in the top rates and rationalized the structure of tariff regimes so that the difference between rates has narrowed considerably (Buigut at al, 2011).

1.1.2 Monetary Union

OECD (1999) report on economic and monetary union in the European community describes the implication of a monetary union as one in which inside its boundaries there is total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital. Based on this line of thought, monetary unions could be defined as geographic areas whose exchange rates are irrevocably fixed to each other. Masson and Taylor (1992) emphasize that: the very nature of a monetary union precludes separate monetary policies.

A monetary union or a currency union is characterized by a single currency or several currencies that are fully convertible at an irrevocably fixed exchange rate; union-wide monetary policy that is determined by a single central bank or a system of central banks; a sole external exchange rate policy (Masson & Pattillo, 2004).

1.1.3 Effects of Monetary Union on Trade

The major benefits of a monetary union are the reduction of transaction costs, economies due to the pooling of international reserves, elimination of exchange rate risk and regionwide price harmonization (Beetsma & Giuliodori, 2010). On the other side, the costs of a monetary union are related to the loss of sovereignty over monetary and exchange rate policy, especially in the case of asymmetric shocks that may make the same monetary policy inappropriate for all member countries of a monetary union. Indeed, in a monetary union, member countries lose direct control over instruments of monetary and exchange rate policy that may be useful in dealing with country-specific macroeconomic shocks.

1.1.4 Relationship between Monetary Union and Regional Trade in East Africa

Monetary union involving a common currency enhance regional trade because it saves on the transaction costs of exchanging currencies, synchronizes business cycles, and enhances exchange rate and macroeconomic stability. In addition, a common currency increases price transparency and facilitates movement of capital between members, thereby fostering investment and trade (Eudey, 1998). These potential trade effects of being a member of monetary union can be classified in two groups: micro-economic and macro-economic advantages. Micro-economic advantages include: the enhancement of micro-economic efficiency, the elimination of transaction costs, elimination of exchange rate fluctuations, an increase in foreign trade, effective capital allocation, increasing competition, and price transparency. Macro-economic advantages include: elimination of problems that can arise from foreign currency instability, and low inflation due to having a single currency (Kotilainen, 1992).

Monetary union involving a common currency is tantamount to the unification of the national capital markets of the integrating countries. This promotes market deepening, greater competition and more investment opportunities for institutional and individual investors. Banks, brokerage firms, issuing houses and other capital market operators can expand their operations rapidly for investible funds held by savers in cross border accounts. Private firms and public entities issuing debt instruments would have a larger pool to tap into (Neu, 2000). The combined effect of increased competition and an enlarged market could result in a fall in long-run interest rates which is a critical condition for sustained economic growth. However costs may arise on the macro level because while relinquishing floating exchange rates a country loses an instrument of reacting to upcoming disequilibria (Weimann, 2002).

1.1.5 Overview of the proposed East African Community monetary Union

When viewed as a single market the EAC compares favorably with other opportunities within Africa: the population is forecasted to reach 150 million by 2015, Gross Domestic Product (GDP) growth is expected to average at 9%, it represents a relatively diversified non-oil based economy within Africa (Mkenda, 2001)

According to the EAC Treaty, EAC should first form a customs union, then a common market and a monetary union, and finally a political union. The customs union became operational in 2005, and was formally completed in 2010. The Common Market Protocol, which includes free movement of goods, labour, persons, services and capital, and the right of residence and establishment was signed in 2009, and its full implementation will be completed by 2015.EAC organs are in place and they include the East African Legislative Assembly, the East African Court of Justice, a Secretariat, the Council of Ministers and the Summit of Heads of States (Opolot & Luvanda, 2009).

At their Summit in 2007, the heads of State of the EAC Partner States decided to fast track the establishment of Monetary Union by 2012. Some progress in the preparation for monetary union has already been made. In 2010, a study on the preparedness for a monetary union has been conducted by experts from the European Central Bank, in collaboration with experts from the EAC central banks. Good progress has been made under the EAC central banks 'Governors Monetary Affairs Committee (MAC), including the harmonization of banking regulation, payment system integration, and the harmonization of monetary and exchange rate policy. To attain these objectives, the following MAC subcommittees were put in place: Economic affairs, financial market, Banking supervision and financial stability, Information Technology (IT), Payment Systems, Human Resources, Legal; Accounting and finance, and Banking and currency. On the fiscal side, finance ministers conduct both pre- and post-budget consultations, sharing regularly budgetary information. Budgetary statements are now ready the same day.

The Fiscal Affairs Committee was also created and is working to support the High Level Task Force (HLTF) by providing input on provisions related to fiscal issues (Newfarmer & Söderbom, 2012). The negotiations of the (East African Monetary Union) EAMU protocol started in January 2011 and so far, the HLTF have held six negotiation meetings and a number of articles have been negotiated. In addition to the remaining articles to be negotiated, there are a number of outstanding issues to be completed after the completion of the critical studies on the Attainment of a Common Exchange Rate Policy for the EAC; a study on the Harmonised Monetary Policy Framework for the EAC region and the study to review the EAC Macroeconomic Convergence Criteria and the Design of a Surveillance and Enforcement Mechanism. However, the plan of having a common currency in 2012 was not achieved hence forming the actual monetary union may take more time, given the institutional and structural transformation required (Kishor & Ssozi, (2011).

1.2 Research Problem

Transactional costs in the current arrangement have been excessively high hindering trade. This problem will hopefully be dealt with by the union. Furthermore, companies will face lower costs. Alesina and Barro (2000) showed that reduced transaction costs have led to higher output and consumption gains. In addition, further positive effects occur from holding reduced foreign currency reserves and from a lesser number of goods prices. A more stable monetary union is likely to reduce uncertainty and stimulate investment and regional trade. It can also create more opportunities for risk sharing and better allocation of capital and promote economic growth in its member countries

However, the establishment of the monetary union within the EAC is in doubt because east African governments with a history of weak monetary discipline may not have sufficient support for an independent the central bank. Without such support, there might be even less monetary stability in the monetary union than in the individual countries (Beetsma & Giuliodori, 2010). Furthermore, Each EAC member state faces unique developmental challenges, with each country often confronted by large country-specific economic challenges. Uncoordinated fiscal policies in particular, large deficits and rapid debt accumulation can weaken monetary and price stability objectives of the monetary union (Kishor & Ssozi, 2009). Mason and Patillo, 2004) conclude that African economies are too different on many accounts to allow for sustainable monetary union.

While there are a fair number of studies examining the feasibility or desirability of monetary unions in Africa more generally (Debrun et al. 2011), the literature focusing on the EAC in particular is relatively small for the time being. Mkenda (2001), using data for varying periods up to 1998, examines the three original EAC member countries, Kenya, Uganda and Tanzania, and some support that they constitute. Buigut (2011) focuses on the state of convergence across several macro measures over the period 1997.2008 for the five EAC members. The study concludes that supply and demand shocks are mostly asymmetric in the EAC, a result which does not support the creation of a currency union in EAC.

Kishor & Ssozi (2011) examine their degree of business cycle synchronization over the period 1970-2007; and concluded that the shares of common shocks are low in EAC, but that the degree of synchronization has increased since 2000 when the EAC treaty came into force, hence increasing the viability of the EAMU. Mkenda (2001) concludes that the EAC does indeed qualify as an OCA however recommends that the result has to be treated with some caution because if the nominal exchange rate and market prices are controlled by the Governments. Hence there limited studies on the effects of the proposed monetary union on the promotion of trade within EAC. Thus the study seeks to fill this research gap by examining the effects of monetary union on the promotion of regional trade. What are the effects of transaction cost, risk of exchange rate fluctuation, price transparency and single market on promotion of regional trade in East Africa?

1.3 Research Objectives

The general objective of the study was to investigate the effect of monetary union on promotion of regional trade in East Africa.

Specific research objectives include the following:

i. To determine the relationship between transaction cost and promotion of regional trade in East Africa

ii. To determine the effect of single market practices on the promotion of regional trade in East Africa

1.4 Value of the Study

In practice, the study will be significant to managers and policy makers at the EAC secretariat who will be able to appreciate the effect that the monetary union will have once it comes into existence. The study will also be significant to the EAC decision making organs as it will be able to show the importance of the monetary union to the overall economy of the EAC member states and hasten its implementation and launch. The results of the study will also be significant to business communities within the EAC region who will be able to appreciate the necessity of the monetary union in the promotion of their business within the region and be able to urge their respective governments to facilitate the setting up of the monetary union.

The results of the study will also be significant to governments of member states as they will be able to appreciate the importance of facilitating the setting up of the monetary union and use it as a basis of promoting trade both in the country and the region

Other researchers in this field will also utilize the results of this study as part of secondary data in enhancing future studies. The study will facilitate individual Researchers to identify gaps in the current research and carry out research in those areas.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, literature, which is related to and consistent with the objectives of the study, is reviewed. Important theoretical and practical problems are brought out; relevant literature on the aspects pertaining to this chapter is discussed.

2.2 Theoretical Review

The study is underpinned by two main theories of Trade theory and Optimum Currency Area supported by a number of theories mentioned herein. Effects of monetary union are anchored on the trade theory and promotional trade is founded on the Optimum currency area theory.

2.2.1 Trade Theories

Trade theories explain why countries seek to integrate. Richado in the classical theory of trade argues that trade raises a country's potential income (welfare) compared to autarky through specialization according to comparative advantage. Therefore countries shift resources to production of goods where they efficiently produce and import goods where they are less efficient. Since in the real world, the existence of tariff and NTBs distorts the final consumer price regional integration overcomes this challenge.

On the other hand Heckscher Ohlin (O-H) model explains international trade based on the country's factor endowments, that is, the relative quantities of capital and labour available for production. Therefore countries with relatively large quantities of labour will shift production to labour intensive production and export these goods and import capital intensive goods. When barriers are dropped, markets become enlarged giving more efficient producers' entry into countries where prices had artificially been high due to the duties and other trade barriers.

McIntyre (2005) argues that the assessment of the static effects of forming an effective Regional Trade Agreement (RTA), hinges on three important principles from the theory of integration, namely, allocation/efficiency, competitiveness and complementarity: Efficiency gains of economic integration depend on whether the products from partner states are in direct competition with, or complementary to each other. This means that considerable overlap in the range of commodities produced by partner members is critical for determining efficiency gains. The overlap should be accompanied by significant differences in production costs between members, to ensure leverage in terms of more efficient allocation of resources.

De Melo et al., (1993) instead present a mild view arguing that integration both creates and diverts trade. Likewise, De Rosa (1998) provides a balanced view of the theoretical models which demonstrate both trade creation and diversion in a situation where an RTA is formed either with a partner facing constant or increasing cost. He presents the Meade model where both international and domestic relative prices have a possibility to adjust in a general equilibrium framework.

In this framework a country entering a regional trade agreement and increases its imports from all sources, improves its welfare. He goes further to propose that to prevent trade diversion, RTA member countries should reduce trade barriers with non-member countries as they do for members. Others have used theoretical models Computable General Equilibrium (CGE) to analyse RTA impact given their advantage of being economy-wide and multi-sectorial models (Brown 1993; Francois and Shiells, 1994; Shinyekwa and Mawejje, 2013). Zarzoz and Lehmann (2003) apply a gravity model to assess Mercosur-European Union trade and the trade potential following trade agreements between the two blocks and establish that belonging to either bloc fosters trade.

2.2.2 Optimum Currency Area Theory

The Optimum Currency Area (OCA) theory was born out of seminal contributions of, among others, Mundell (1961), McKinnon (1963) and Kenen (1969). According to traditional theory of OCAs, common currency is most appropriate for countries with: Similar shocks and business cycles, High trade integration, internal labor flexibility and fiscal policy flexibility. An optimum currency area (OCA) can be defined as the optimal geographical area for a single currency, or for several currencies, whose exchange rates are irrevocably pegged. The single currency, or the pegged currencies, fluctuate jointly vis-à-vis other currencies. The borders of an OCA are defined by the sovereign countries choosing to participate in the currency area. Optimality is defined in terms of various OCA properties, such as price and wage flexibility, financial integration, etc.

Sharing these OCA properties reduces the usefulness of nominal exchange rate adjustments within the currency area by lessening the impact of some types of shocks or facilitating their adjustment thereafter. Countries forming a currency area expect benefits to exceed costs

2.3 Empirical Review

The first empirical study on the validity of the EAC monetary union (comprising of Kenya, Tanzania, and Uganda) as an Optimum Currency Area (OCA) was conducted by Mkenda (2001) using a generalized Purchasing Power Parity (GPPP) model developed by Enders and Hurn (1994). This model postulates that the real exchange rates between countries members of a currency union should be cointegrated (Enders, 1995) because the real exchange rate in a given country is influenced by economic fundamentals including income, terms of trade, government consumption, etc. On average, these fundamentals must move together in member countries of a currency union. Thus the real exchange rates of these countries should be co-integrated. The study established co-integration between the real exchange rates in the three countries for the period 1981 to 1998, suggesting that the three countries tend to be affected by similar shocks. Mkenda (2001) concludes that the EAC (comprising of Kenya, Tanzania, and Uganda) does indeed qualify as an OCA. However, this result has to be treated with some caution because if the nominal exchange rate and market prices are controlled by the Governments(which was the case in this study over the period covered), the movement of long-run real exchange rates may not reflect common trends resulting from market forces as expected in an OCA (Xu, 2006).

Buigut and Valev (2005) used a structural Vector Auto Regressive technique following the methodology developed by Blanchard and Quah (1989) using data covering the period from 1970 to 2001 to assess if EAC is an OCA. The research aimed to identify and compare shocks to aggregate output growth and inflation in different Eastern and Southern African countries. The study concludes that supply and demand shocks are mostly asymmetric in the EAC, a result which does not support the creation of a currency union in EAC (though it should be stressed that because the study relies on such long-run data, and countries in the region were afflicted by conflict over much of that period, the results may not be considered robust as a guide to contemporary regional integration policy).

The study conducted by Kishor et al. (2009) goes beyond the simple error correction model by assessing the extent to which the movements in structural shocks are country specific and to what extent they are common across EAC countries. The study decomposes the movements of demand and supply shocks into common and individual components because countries are suitable for an optimum currency area if common shocks explain a significant portion of the overall variation in structural shocks. The study concludes that the shares of common shocks are low in EAC, but that the degree of synchronization has increased since 2000 when the EAC treaty came into force, hence increasing the viability of the EAMU.

A study conducted by Debrun at all (2010) developed a fully-fledged cost-benefit analysis of monetary integration and applies it to some currency union in Africa, including the East African monetary union.

This study finds that average correlations for terms of trade shocks between the EAC countries in the period 1990-2007 are higher than that for West African Economic and monetary union (WAEMU) and Common Monetary Area (CMA), the existing monetary unions. However, these correlations have decreased in the most recent period (2006-2008), reflecting differential patterns in terms of trade shocks as commodity prices began to decline in 2008. Aside from correlations in terms of trade shocks, other shock correlations are generally low. A further study conducted by Kamaludin at al (2011) using the business cycle synchronization approach concludes that the EAC countries do not differ significantly in cyclical components, again lending some support to the feasibility of monetary union.

Buigut & Valev (2009) aimed to model potential benefits as well as costs associated with a monetary union by focusing on the reduction in nation bias achievable through being in a monetary union. Calibrating their model, which allows for random supply shocks to output and stochastic preferences for output stimulation, to EAC data for the period 1990.2004.They argue that Uganda and Tanzania would benefit from a monetary union whereas the other countries would lose from it. Debrun et al.(2011), whose model allows for the setting of tax and revenues to achieve optimal productive expenditure and its interaction with stabilizing monetary policy reactions to shocks, and using data covering the period 1990.2008 that Burundi and Kenya would benefit most from a monetary union in the EAC, whereas Tanzania would lose from joining it.

The work of Strobel (2005, 2007) also examined countries. willingness to join a monetary union when a time inconsistency problem in monetary policymaking causes an nation bias to persist, but stress the importance of taking the real option associated with such monetary regime changes into account. The papers argue that, when the future evolution of policymakers preferences is uncertain in such a context, countries might and it beneficial to hold back on joining a wider monetary union due to their reluctance to commit to a largely irreversible decision that might later prove less advantageous than initially thought. This value of waiting, stemming from the real options nature of the decision problem, is well-known from the literature on irreversible investment under uncertainty, can generally be substantial and needs to be properly accounted for.

2.4 Transaction Cost

Along with the elimination of the need to exchange currencies, transaction costs are reduced. Transaction cost reduction can be seen through visible and invisible savings. Visible savings are house hold and company savings due to the reduction in transaction costs, associated with the exchange of currency by firms that import or export. Invisible savings are obtained in the accountancy, because the evaluation of financial report positions is done in one currency. Transaction cost reduction relates to reduction of direct costs of exchange and lower accountancy costs for the corporate sector

The single currency means that travellers would not have to convert their money as they travel from one country to another, nor should they pay currency rate. As there exists a single currency, people won’t need to exchange currency in order to buy or sell while being in another country. By introducing the single currency, tourists would not have to exchange currency wherever they go, or search for an exchange office or a bank, that charge at a low commission. Companies that make a deal outside their borders, but within the zone can also plan ahead their business, and they do not have to worry about the Value Added Tax on purchasing power, because of exchange rate fluctuation in the zone.

2.5 Exchange Rate Fluctuation

Exchange rate fluctuations make trade between companies from different countries more risky. If one currency value drops in relation to another, then the producer will receive a much smaller amount of money for his product than s/he should have had, or the importer might pay a greater amount of money than arranged. Eliminating the risk of exchange rate fluctuation will help international trade, by giving the advantage to all EMU member states. The risk of exchange rate fluctuation at foreign investment income is removed with the introduction of the single currency. By removing different number of currencies, the important obstacle to direct foreign investment income is eliminated.

Every trade between countries, which do not share a common currency, includes some incertitude of exchange rate risk. Therefore, the chance of exchange rate fluctuation always exists. This chance can affect the profit, investments, competitiveness, as well as customers' decisions. The greatest advantage of adopting the single currency is an elimination of the incertitude of currency rate, and the single currency stimulating the growth of international trade between two countries. Fixed exchange rate contributes to bigger discipline in managing economic policies of member states. Actually states cannot use the exchange rate as an instrument with which they would from time to time stimulate their national currencies (Perry, 1994). The certitude for those who export products or perform the business within the union is a lot bigger because the exchange rate fluctuations cannot affect their transactions. By eliminating the exchange rate risk, the relative price instability among the union member states will be gradually reduced and eliminated.

The exchange rate risk contributes to the trade in both directions, which means that it contributes to reduction of one country's imports and exports (Tavlas, 2004). Eliminating the exchange rate instability is highly important, because it can affect both the trade and the investments. The introduction of the single currency will have an immense effect on capital flow and on member states' profitability (Stanek, 2001). Therefore, the elimination of the instability of exchange rate currency within the union, will significantly affect not only the reinforcement of internal market and reduction of investment risk, but also the stimulation of foreign direct investments. This will inevitably stimulate bigger economic union.

2.6 Price Transparency

The monetary union introduces a higher level of transparency in trade among member states, and within them. The price transparency contributes to the price homogenization in the union those results in overall reduction of price level. The reduction of relative price variability should stimulate trade within the union and further integration of commodities market and services and also it should promote economic efficiency within the zone. The price transparency contributes to more intensive competitiveness. It will result in a single market higher efficiency, which will further cause low prices for users, and a higher level of competitiveness among European companies globally.

The single currency makes prices flat and more universal. Price transparency obviously is a huge benefit for its consumers. Consumers are able to compare commodity prices and to decide about its supply, according to its quality and price. Price harmonization and healthy competition will improve trade in the region. The possibility of comparing products will increase with the introduction of the single currency. Bigger price transparency contributes to a bigger competitiveness and low prices. Having the single currency makes easier to compare commodity prices in two different countries

2.7 Single Market

Positive correlation exists between the introduction of a common currency and trade integrations since having a national currency has been considered as a trade obstacle. The single currency and common monetary policy exclude further competition devaluations, make foreign direct investments easier, and help the development of long-term business deals, and also they can abet some forms of political integrations. These results would promote reciprocal trade, economic and social integration and business cycle convergence within the economies that use common currency. The monitoring union brings more efficient capital allocation and works through efficient functioning of a single market resulting in more competitive economy. Having common currency instead of different number of national currencies eliminates market segmentations and reduces the size of price discrimination. These increase efficiency and enable the companies and traders to be competitive and achieve profitability.

2.8 Summary

The effects of establishment of monitoring union consist of four main elements: the reduction in transactions cost, the reduction of exchange risk leading to greater trade and foreign investment with the region, and a lower risk premium embodied in the cost of raising capital, increased transparency in price comparison, and the political gains of closer union and cooperation brought about the greater closeness of economic relationships.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covered research design, target population, sampling and sample size, data collection methods and instruments, validity of research instruments, reliability of research instruments, data analysis, ethical consideration and operationalization of variables.

3.2 Research Design

The study used descriptive cross sectional design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomenon to give facts of the situation as it is, without interference by the researcher (Kothari, 2004). The design is considered appropriate because it seeks without bias to establish factors associated with certain occurrences, outcomes, conditions or types of behavior and in this case the effects of monetary union on promotion of trade

3.3 Population

The study sample was drawn from trade ministries in the five countries under consideration (Kenya, Uganda, Tanzania, Rwanda and Burundi).

Respondents included administrative officers from ministries that are responsible for East Africa Community affairs. Due to the fact that the population was large, the study used sampling by taking samples to represent the entire population.

Seven respondents were drawn from each of the ministries of the member states, making a total of thirty five (35) respondents. In selecting the sample of respondents the researcher used stratified random sampling method. Random sampling technique was used to select a sample. According to Cooper and Schindler, (2008) a sample of 30% is considered representative enough to allow for generalization of the data for the whole target population. According to Kerry and Bland (1998) the technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Random sampling frequently minimizes the sampling error in the population. This in turn increases the precision of any estimation methods used. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Cooper and Schindler, 2008). Moreover, larger samples minimize errors. Kotler et al (2001) argues that if well chosen, samples of about 10% of the population often give a good reliability.

3.4 Data Collection

Primary data was collected through the use of a questionnaire and interview schedules while Secondary data was collected through reviewing records of the study relevant to the subject.

Questionnaires are considered appropriate because they allow for intensity and richness of individual perceptions and is convenient as respondents can fill them during free times or when workloads are manageable besides it is cheaper and quicker to administer interviewing was considered appropriate for this study because it gives the interview a human face and allows the interviewer the opportunity to clarify some questions. In order to ensure content validity, questionnaires mainly consisted of questions on the variables.

A measure of validity was also be guaranteed by discussion of the instrument with colleagues and research supervisor. A pilot study was conducted in order to ascertain and detect any ambiguities, questions that were not be easily understood or poorly constructed and even those that were irrelevant. The pilot study was conducted on three respondents from the target population who were not be included in the final sample. The questionnaires were administered to the group and thereafter the feedback was obtained through debriefing them individually and comparing the results.

The researcher administered questionnaires to the sample respondents. Hence each respondent received the same set of questions in exactly the same way. Researcher arranged with respondents a convenient time and place so as to allow both the respondent and the researcher the opportunity to create rapport and facilitate the process of questionnaire administration and interview in a relaxed atmosphere. During the meeting the academic purpose of the research was made clear and assurance of confidentiality of the information provided

3.5 Data Analysis

The independent variable for the study is promotion of regional trade in the east African region, while dependent variable include transaction cost, risk of exchange rate fluctuation, price transparency and single market. Quantitative data which was collected using questionnaires was chronologically arranged with respect to the questionnaire outline to ensure that the correct code was entered for the correct variable. Data cleaning was then done and tabulated. The tabulated data was analyzed using regression and correlation with the aid of Statistical Package for Social Sciences (SPSS 21.0). Study findings were presented in form of graph, charts and tables

CHAPTER FOUR: RESULTS AND FINDINGS

4.1 Introduction

The data analysis was based on the main objective of the study which was to examine the effect of monetary union on promotion of regional trade in East Africa based on the specific objectives of the study which included the effects of transaction cost, risk of exchange rate fluctuation, price transparency and single market practices on promotion of regional trade in East Africa which were analyzed using descriptive, and inferential statistics and results presented using tables.

4.2 Data Presentation

This covered the response rate, demographic characteristics of the respondents, promotion of regional trade, effects of transaction costs, effects of exchange rate fluctuations, how price transparency affects promotion of trade in EAC region, price transparency, effects of single market practices, the relationship between the dependent and the independent variables.

4.2.1 Response Rate

The study below shows the total number of the people who responded and those who did not respond. The total number of questionnaires that were distributed to the field was 35 but 32 questionnaires which represent 94.9% were returned fully answered while 3 questionnaires which represent 5.1% were not returned. From table 4.1 below it can be inferred that there was good response rate.

Table 4.1 Frequency Distribution of Response Rate

Question	Scale	Distribution	
		F	%
Response Rate	Responded	32	94.9
	Did not respond	3	5.1
	Total	**35**	**100%**

Source. Data Findings (2014)

4.2.2 Demographic Characteristics

The study shown on table 4.2 below shows the demographic characteristics of the respondents. Based on the study majority, (59.4%) and (34.3%) of the respondents indicated respectively that they had attended a college and had worked in EAC institutions for a period of between 3-5 years

Table 4.2 Demographic Characteristics

Demographic factors	Categories	Frequency	Percentage %
Level of education	Secondary	1	3.1
	College	19	59.4
	University	10	31.3
	Others	2	6.3
Years worked	1-2 3-5	9 11	28.1 34.3
	6-8	7	21.9
	9-11	3	9.3
	12 and above	2	6.3

Source. Data Findings (2014)

4.2.3 Promotion of Regional Trade

The study on table 4.3 below sought to examine the indicators of effective promotion of trade within the EAC region. The results of the study indicated that majority (Mean = 2.51 and S.D = .093) of the respondents agreed that relative to other indicators market competiveness best reflects of effective promotion of trade within the EAC region, While the least (Mean = 2.13 and S.D. = .043) number of respondents agreed that exchange rate stabilization least reflects effective promotion of trade within the EAC region

Table 4.3 Indicators of Trade Promotion

Statement	**N**	**Mean**	**SD**
Trade policies	32	2.33	.970
Trade costs	32	2.39	.039
Trade regulations	32	2.25	.199
Exchange rate stabilization	32	2.13	.043
Market Competitiveness	32	2.51	.093

Source, Data Findings (2014

4.2.4 Transaction Cost

Transaction costs were to check the influence of transactional and the effects of transaction costs reduction costs in promoting trade among East African countries.

4.2.4.1 Influence of Transaction Cost

Table 4.4 shows to what extent transaction cost influence trade within the EAC region. Results of the study indicated that most (Mean = 2.48; S.D =0.925) of the respondents agreed that transaction cost relating to both direct and indirect costs of doing business influence trade promotion within the EAC region, while the lowest (Mean =2.07 and S.D.

= .151) number of respondents agreed that the transaction cost which include accountancy costs for the corporate sector influence trade promotion within the EAC region.

Table 4.4 Transaction Cost

Statement	N	Mean	SD
Costs associated with procedures and documentation incurred by firms within EAC	32	2.20	.032
Transaction cost relating to both direct and indirect costs of doing business	32	2.48	.925
Transaction cost include currency conversion cost incur during travel from one country to another	32	2.19	.936
Transaction cost include value added tax on purchasing power of businesses	32	2.45	.044
Transaction cost also include accountancy costs	32	2.07	.151

Source. Data Findings (2014

4.2.4.2 Effect of Transaction Cost Reduction

Based on the study shown on table 4.5 below 78.4% of the respondents indicated that transaction cost reduction promote regional trade in East Africa, while 21.6% indicated that transaction cost reduction does not promote regional trade in East Africa

Table 4.5 Effect of Transaction Cost

Question	Scale	Distribution	
		F	%
Does transaction cost reduction promote regional trade in East Africa?	Yes	23	71.9
	No	9	28.1
	Total	**32**	**100**

Source, Data Findings (2014

4.2.5 Exchange Rate Fluctuation

Exchange rate fluctuation was investigated to check the influence of exchange rate fluctuation and the effect of exchange rate fluctuation in promoting trade in East Africa.

4.2.5.1 Influence of Exchange Rate Fluctuation

The study shown on table 4.6 below sought to establish the effects of exchange rate fluctuations on the promotion of trade within the EAC. The findings of the study show that most (mean = 2.44 and S.D=.069) of the respondents agreed that the elimination of instability of exchange rate currency within EAC reinforces internal market, reduce investment risk, and stimulate investments, while the least (mean =2.15 and S.D. = .025) number of respondents agreed that elimination of the exchange rate risk, ensures that the relative price instability within member states will be gradually reduced and eliminated.

Table 4.6 Exchange Rate Fluctuation

Statement	N	Mean	SD
Exchange rate fluctuation affect investment income hence the introduction of the single currency reduces the impact	32	2.26	.088
Removing different number of currencies, eliminates the important obstacle to business within EAC	32	2.19	.055
Single currency eliminates incertitude of currency rate, and stimulates the growth of trade within EAC	32	2.31	.897
Elimination of instability of exchange rate currency within EAC reinforces internal market, reduce investment risk, and stimulate investments	32	2.44	.069
Elimination of the exchange rate risk, ensures that the relative price instability within member states will be gradually reduced and eliminated	32	2.15	.025

Source, Data Findings (2014)

4.2.5.2 Effect of Exchange Rate Fluctuation

Results of the study shown on table 4.7 indicate that 75.0% of the total respondents acknowledged that exchange rate fluctuation influence the promotion of regional trade in

East Africa, while 25.0% of the respondents indicated that exchange rate fluctuation affect the promotion of regional trade in East Africa

Table 4.7 Effect of Exchange Rate Fluctuation

Question	Scale	Distribution	
		F	**%**
Does exchange rate fluctuation promote regional trade in East Africa?	Yes	24	75.0
	No	8	25.0
	Total	**32**	**100**

Source, Data Findings (2014)

4.2.6 Price Transparency

Price transparency was examined to check the influence of price transparency and the effect of price transparency in promoting trade among the East African community member states

4.2.6. 1 Influence of Price Transparency

Results of the analysis on table 4.8 below show whether price transparency affect the promotion of trade within the EAC region. The findings of the study indicate that majority (mean = 1.64 and S.D=.501) of the respondents agreed that reduction of relative price variability stimulates trade, further integration of commodities market and services, while the least (mean =1.36 and S.D. = .505) number of respondents agreed that price transparency contributes to the price homogenization in the union resulting in overall reduction of price level.

Table 4.8 Price Transparency

Statement	**N**	**Mean**	**SD**
Monetary union introduces a higher level of transparency in trade among member states, and within them.	32	1.48	.487
Price transparency contributes to the price harmonization in the union resulting in overall reduction of price level.	32	1.36	.505
Reduction of relative price variability stimulates trade, further integration of commodities market and services	32	1.64	.501
Price transparency contributes to market competitiveness and result in market efficiency	32	1.57	.487
Buyers are able to compare commodity prices and to decide about its supply, according to quality and price	32	1.55	.504

Source, Data Findings (2014

4.2.6.2 Effect of Price Transparency

Findings on table 4.9 shows that 65.6% of the total respondents indicated that price transparency affect promotion of trade with EAC, while 34.4% of the respondents indicated price transparency does not affect promotion of trade with EAC.

Table 4.9 Effect of Price Transparency

Question	Scale	Distribution	
		F	%
Does price transparency promote regional trade in East Africa?	Yes	21	65.6
	No	11	34.4
	Total	**32**	**100**

Source, Data Findings (2014

4.2.7 Single Market Practices

Single market structures were examined to check the influence and effect of single market practices in promoting trade among East African communities.

4.2.7.1 Influence of Single Market Practices

The study on table 4.10 below shows the effects of single market practices on promotion of trade within the EAC region. Results of the study shows that most (mean = 2.20 and S.D=.052) of the respondents agreed that monetary union brings more efficient capital allocation and works through efficient functioning of a single market resulting in more competitive market, while the least (mean =2.07 and S.D. = .925) number of respondents agreed that having a common currency eliminates market segmentations and reduces the size of price discrimination.

Table 4.10 Single Market

Statement	N	Mean	SD
Single currency and common monetary policy exclude competition in business practices	32	2.14	.795
Single market make business investments easier	32	2.16	1.010
Single market help in the development of long-term business deals	32	1.80	.904
Monetary union brings more efficient capital allocation and works through efficient functioning of a single market resulting in more competitive market	32	2.20	.052
Having common currency eliminates market segmentations and reduces the size of price discrimination.	32	2.07	.925
Single market increase efficiency and enable the companies and traders to be competitive and achieve profitability	32	1.52	.505

Source, Data Findings (2014

4.2.7.2 Effect of Single Market practices

Findings on table 4.11 shows that 84.4% of the total respondents indicated that single Market practices affect promotion of trade within EAC, while 15.6% of the respondents indicated ` practices affect promotion of trade within EAC

Table 4.11 Effect of Single Market

Question	Scale	Distribution	
		F	%
Does single market promote regional trade in East Africa	Yes	27	84.4
	No	5	15.6
	Total	**32**	**100**

Source, Data Findings (2014

4.2.8 Relationship between Independent and Dependent Variables.

The relationship between the dependent and the independent variables was tested to check how variations of each independent variable affected the dependent variable

4.2.8.1 Model Summary

Table 4.12 below also shows the relationship between transaction cost, risk of exchange rate fluctuation, price transparency and single market practices and promotion of regional trade in East Africa. The findings established a positive correlation coefficient (r), = 0.633, coefficient of determination (r2) = 0.401 and adjusted r squared = 0.385. The (r2) indicated that the variations in transaction cost, risk of exchange rate fluctuation, price transparency and single market practices explain 40.1% percent of the variation in the promotion of regional trade in East Africa.

On the other hand, the Adjusted R-square shows that 38.5% (Adj R-square=.385) of the variance in the promotion of regional trade in East Africa can be explained by the variations in transaction cost, risk of exchange rate fluctuation, price transparency and single market practices

Table 4.12 Model summary

Model	R	R Square	Adjusted R Square	df	Sig	Std. Error of the Estimate
1	.633a	.401	.385	5	.008	.694

Dependent Variable: Promotion of Regional Trade in East Africa

Source, Data Findings (2014

4.2.8.2 ANOVA Test

Analysis of variance was used to test the significance of the regression model as pertains to differences in means of the dependent and independent variables as shown on table 4.13 below. The ANOVA test produced an F-value of 2.065 which was significant at p=0.001. This depicts that the regression model is significant at 95% confidence level. That is, the model has a 0.1 % probability of misrepresenting the relationship between promotion of regional trade in East Africa region and transaction cost, risk of exchange rate fluctuation, price transparency and single market practices

The variation in the independent variables and dependent variable can be explained by the smaller significance value of the F- values of 0.001 which is smaller than the significance level of 0.05 implying that there is a (statistically) significant relationship between transaction cost, risk of exchange rate fluctuation, price transparency and single market practices and promotion of regional trade in East Africa region hence the study model is significant

Table 4.13 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.614	5	.436	2.062	.001[a]
	Residual	7.818	37	.211		
	Total	10.432	43			

Dependent Variable: Promotion of Regional Trade in East Africa

Source, Data Findings (2014)

4.2.8.3 Coefficients'

Results of the study on table 4.14 shows the influence of Transaction Cost (RC), Exchange Rate Fluctuation (ERF), Price Transparency (PT) and Single Market Practices (SMP) on Promotion of Regional Trade in East Africa (RT) based on the following regression model:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 +$ ع.

This then became:

$RT = \beta_0 + \beta_1 TC + \beta_2 ERF + \beta_3 PT + \beta_4 MSP +$ ع.

Hence: RT=1.756+ 1.214 TCS+1.233ERF+1.204PT+1.019 MSP+ ع.

The results show that transaction cost, risk of exchange rate fluctuation, price transparency and single market practices have positive coefficients, implying that these independent variables are directly proportional to promotion of regional trade in East Africa region. Therefore taking transaction cost, risk of exchange rate fluctuation, price transparency and single market practices constant at zero (0), promotion of regional trade in East Africa region will be 1.640%. Hence a unit increase in transaction cost, risk of exchange rate fluctuation, price transparency and single market practices will lead to 1.214, 1.233, 1.204 and 1 .019 unit increases in promotion of regional trade in East Africa.

On the significance of the relationship between transaction cost, risk of exchange rate fluctuation, price transparency and single market practices and promotion of regional trade in East Africa, results indicate that the p-values are smaller than the significance level of 0.05 or 1.96. This then indicate that there is a significant relationship between transaction cost, risk of exchange rate fluctuation, price transparency and single market practices and promotion of regional trade in East Africa

Table: 4.14 Relationship between the dependent and independent variables

	Coefficients				
Variables	B	Standard Error	Beta	T	P-Value
(Constant)	1.756	.397		4.426	.000
Transaction Cost	1 .214	.603	.075	2.013	.003
Exchange Rate Fluctuation	1.233	.616	.137	2.003	.001
Price Transparency	1.204	.601	.189	2.003	.004
single market practices	1.019	.507	.020	2.009	.007

Dependent Variable: promotion of regional trade in East Africa

Source, Data Findings (2014

4.3 Summary and Presentation of Findings

The study findings indicated that monetary union reduce transaction cost and in so doing promote regional trade in East Africa. Results of the study also show that relative to other factors monetary union reduce transaction cost relating to both direct and indirect costs of doing business influence trade promotion within the EAC region more.

It equally reduces or rationalizes other cost related factors which include costs associated with procedures and documentation incurred by firms that import or export within EAC, currency conversion cost business people incur as they travel from one country to another, value added tax on purchasing power of businesses and accountancy costs for the corporate sector equally influence trade promotion within the EAC region.

4.3.1 Exchange Rate Fluctuation

Results of the study show that monetary reduces/ eliminates exchange rate fluctuation thereby promoting regional trade within East Africa. The findings of the study also show that the elimination of instability of exchange rate currency within EAC reinforces internal market, reduce investment risk, and stimulate investments, reduction of exchange rate fluctuation with the introduction of single currency promote.

Findings of the study indicate that by removing different number of currencies, the monetary union eliminates a major obstacle to doing business within EAC and stimulate the growth of trade within EAC. That the single currency eliminates uncertainty associated with currency rate eliminates the exchange rate risk and ensures that relative price instability within member states is gradually reduced and eliminated.

4.3.2 Price Transparency

Findings of the study indicated that monetary union introduces a higher level of transparency in trade among member states, and within them which affect promotion of trade with EAC as it contributes to price harmonization in the union resulting in overall reduction of price level.

In addition the results of the study reveal that reduction of relative price variability stimulates trade, further the integration of commodities market and services within the union, price transparency contributes to market competitiveness and result in market efficiency, and businesses are able to compare commodity prices and to decide about its supply.

4.3.3 Single Market Practices

Findings of the study shows single market practices affect promotion of trade within EAC as monetary union brings more efficient capital allocation and enhances efficient functioning of a single market resulting in more competition in the market. Results of the study also indicate that single market practices within a monetary union make business investments easier, single market help in the development of long-term business deals, having common currency eliminates market segmentations and reduces the size of price discrimination and that single market increase efficiency and enable the companies and traders to be competitive in the marketplace within the union.

CHAPTER FIVE: SUMMARY, DISCSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter was to present summary, draw conclusions and recommendations on the findings of the main objective of the study which was to examine the effect of monetary union on promotion of regional trade in East Africa based on the specific objectives of the study which included the effects of transaction cost, risk of exchange rate fluctuation, price transparency and single market practices on promotion of regional trade in East Africa

5.2 Summary of the Findings

The study established that monetary union reduce transaction cost and in so doing promote regional trade in East Africa as it reduces transaction cost relating to both direct and indirect costs of doing business within the EAC region more. It equally reduces or rationalizes other cost related to procedures and documentation incurred by firms that import or export within EA; currency conversion cost business people incur as they travel within the union; value added tax on purchasing power of businesses and accountancy costs for the corporate sector

The study established that monetary union reduces/ eliminates exchange rate fluctuation thereby promoting regional trade within East Africa.

The study also found out that the monetary union stabilizes exchange rate currency within EAC thereby reinforcing internal market reduction in investment risk, stimulation of investments and reduction of exchange rate fluctuation with the introduction of single currency which in sum promote trade within the region. The study found out that the monetary union eliminates major obstacles to doing business and stimulate the growth of trade within EAC by removing different member currencies. That the single currency eliminates uncertainty associated with currency rate and ensures that relative price instability within member states is gradually reduced and eliminated.

The study established that the monetary union introduces a higher level of transparency in trade among member states, and within them which affect promotion of trade with EAC as it contributes to price harmonization in the union resulting in overall reduction of price level. In addition the study found out that reduction of relative price variability stimulates trade, further the integration of commodities market and services within the union. The study also established that price transparency contributes to market competitiveness, result in market efficiency and businesses are able to compare commodity prices and this enhances trade within the member states.

Findings of the study shows single market practices affect promotion of trade within EAC as monetary union brings more efficient capital allocation and enhances efficient functioning of a single market resulting in more competition in the market.

Results of the study indicate that single market practices within a monetary union make business investments easier, single market help in the development of long-term business deals, having common currency eliminates market segmentations and reduces the size of price discrimination and that single market increase efficiency and enable the companies and traders to be competitive in the marketplace within the union.

5.3 Discussion

The study established that monetary union reduce transaction cost and in so doing promote regional trade in East Africa. This finding concurs with the views of Kishor & Ssozi, (2011) that monetary union eliminates the need to exchange currencies and in the process reduce transaction costs. The study also found out that relative to other factors monetary union reduces transaction cost relating to both direct and indirect costs of doing business influence trade promotion within the EAC region more. It equally reduces or rationalizes other cost related factors which include costs associated with procedures and documentation incurred by firms that import or export within EAC, currency conversion cost business people incur as they travel from one country to another, value added tax on purchasing power of businesses and accountancy costs for the corporate sector equally influence trade promotion within the EAC region. The findings add to the findings of Beetsma, and Giuliodori, (2010) who established that monetary union reduction of transaction cost can be seen through visible and invisible savings. These savings relate to household and company savings due to the reduction in transaction costs, associated with the exchange of currency and the evaluation of financial report positions in one currency.

The study found out that monetary reduces/ eliminates exchange rate fluctuation thereby promoting regional trade within East Africa. This result confirms the views of Tavlas (2004) that monetary union by eliminating the exchange rate instability positively affects both regional trade and the investments. The findings of the study also show that the elimination of instability of exchange rate currency within EAC reinforces internal market, reduce investment risk, and stimulate investments, reduction of exchange rate fluctuation with the introduction of single currency promote. The findings are in line with Stanek, (2001) observations that introduction of the single currency within the economic block has an immense effect on capital flow and on member states' businesses' profitability

The study established that by removing different number of currencies, the monetary union eliminates a major obstacle to doing business within EAC and stimulate the growth of trade within EAC. That the single currency eliminates uncertainty associated with currency rate eliminates the exchange rate risk and ensures that relative price instability within member states is gradually reduced and eliminated. The findings agree with the views of Opolot and Luvanda (2009) that the elimination of the instability of exchange rate currency within the union, significantly affect not only the reinforcement of internal market and reduction of investment risk, but also the stimulation of investments

The study established that monetary union introduces a higher level of transparency in trade among member states, and within them which affect promotion of trade with EAC as it contributes to price harmonization in the union resulting in overall reduction of price level.

These findings reinforces the views of Alesina, Barro and Tenreyro, (2002) who observed that by monetary union reducing the relative price variability , it stimulates trade within the union and promotes further integration of commodities market and services and also promote economic efficiency within the zone

In addition the study revealed that reduction of relative price variability stimulates trade, further the integration of commodities market and services within the union, price transparency contributes to market competitiveness and result in market efficiency, and businesses are able to compare commodity prices and to decide about its supply. The findings concurs with the views of Opolot & Luvanda, (2009) that price transparency within the monetary union contributes to more intensive competitiveness which further results in low prices in the market hence higher level of competitiveness

The study found out that single market practices affect promotion of trade within EAC as monetary union brings more efficient capital allocation and enhances efficient functioning of a single market resulting in more competition in the market. The findings of the study enriches Kotilainen, (1992) findings that monetary union promote reciprocal trade and economic integration and business cycle convergence within the economies that use common currency

The findings of the study revealed that single market practices within a monetary union make business investments easier, single market help in the development of long-term business deals, having common currency eliminates market segmentations and reduces the size of price discrimination and that single market increase efficiency and enable the companies and traders to be competitive in the marketplace within the union.

The results of the study enriched the work of Bukowski (2011) which indicated that the monetary union brings more efficient capital allocation and works through efficient functioning of a single market resulting in more competitive economy

5.4 Conclusion

Monetary union reduce transaction cost and in so doing promote regional trade in East Africa as it reduces transaction cost relating to both direct and indirect costs of doing business within the EAC region more. It equally reduces or rationalizes other cost related to procedures and documentation incurred by firms that import or export within EA; currency conversion cost business people incur as they travel within the union; value added tax on purchasing power of businesses and accountancy costs for the corporate sector

Monetary union reduces/ eliminates exchange rate fluctuation thereby promoting regional trade within East Africa. It stabilizes exchange rate currency within EAC region thereby reinforcing internal market reduction in investment risk, stimulation of investments and reduction of exchange rate fluctuation hence promoting trade within the region. Monetary union also eliminates major obstacles to doing business in the region and stimulates growth of trade within EAC by integrating different member currencies thereby eliminating uncertainty associated with currency rate and ensuring that relative price instability within member states is gradually reduced and eliminated.

The monetary union introduces a higher level of transparency in trade among member states, and within them which affect promotion of trade as it contributes to price harmonization in the union resulting in overall reduction of price level.

The reduction of relative price variability stimulates trade, further the integration of commodities market and services within the monetary union. In addition price transparency contributes to market competitiveness resulting in market efficiency as this makes it possible for businesses to compare commodity prices consequently this promotes trade within the member states of the union.

Single market practices affect promotion of trade within EAC as monetary union brings more efficient capital allocation and enhances efficient functioning of a single market resulting in more competition in the market. Single market practices within a monetary union make business investments easier, facilitate the development of long-term business deals, eliminate market segmentations and reduce the size of price discrimination. Monetary union also increase market efficiency and enable the companies and traders to be competitive in the marketplace

5.5 Recommendation of the Study

For member states to effectively derive benefits from the cost-reduction outcome of the monetary integration process there is need to remove exchange rate risks that sometimes cause uncertainty to investors, and can court speculative attacks through reversals in capital flows and contagion effects.

There is need to set up equitable, objective and transparent mechanisms for determining and setting prices, benefits and corrective measures that monetary integration entails; an appropriate, independent supranational authority and requisite regional institutions with a clear focus on ensuring transparency in business transactions within the region

There is need to establish a properly functioning procedure to ensure efficient and effective single market practices that promote business processes, efficiently settling member states trade disputes ensuring that decisions made in support of building the monetary union are enforced at all levels by the parties involved.

For monetary union to work there is need for member states to put in place key determinants, such as: building consensus in developing the monetary convergence criteria and its implementation modalities, as well as commitment to agreed obligations; prioritization in the design of policy objectives, strategies as well as the setting up of relevant institutions and assigning mandates at the national and regional levels

Monetary Union experiences highlight the important role of institutions in influencing the level and distribution of costs and benefits of business promotion and integration, especially when the region is affected by exogenous shocks. Thus, member states need to develop and implement proper institutional design and consistent policy objectives, heterogeneity of policy preferences among members to a monetary convergence agreement

5.6 Limitations

The conclusions drawn from this survey might not be adequate as the survey respondents are few drawn from a limited number of sectors besides most of the issues revolving around monetary convergence are intertwined. Thus the results for the study may not be conclusive because of relatively small sample size and myriad of issues that need to be addressed.

The study has addressed a limited number of aspects of monetary convergence that enhances the promotion of trade within the EAC region .Therefore there are other aspects that have not been addressed by the study that need to be highlighted so that the study for the true extent of the impact of monetary convergence on trade promotion in the region can be effectively known

There were some respondents who were unwilling to provide full information for fear of being reprimanded by their managers for giving out information that they consider confidential. However the researcher assured the respondents of the confidentiality of the information that they provide and sought authority from the management to undertake research.

In order to assure manageability of the collected data, the research study used questionnaires and interviews schedules that relied on self-report responses, however the problem with using such questionnaires is that they are based on the assumption that participants responded to the questions in an honest and accurate manner. Nevertheless, it is not always the case that participants answer in an honest manner. This is because participants often give answers that they believe to be desirable

5.7 Suggestions for Further Studies

There is need for further research in the area of EAC monetary union which is set to come into effect in 2018 hence further research on the convergence criteria and implementation mechanisms need to be done so as to ensure that the member states are able to utilise the information in setting up a viable monetary union

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APPENDICES

Appendix 1: Questionnaire.

SECTION A: Respondent Profile

1. Respondents Gender
2. Male [ ] Female [ ]

2. How long has have your been working in this organization?

1-2 Years [ ] 3-5 Years [ ] 6-8 Years [ ] 9-11 Years [ ] 12 and Above [ ]

SECTION B: Promotion of Regional Trade

3. On a scale of 1-5 (where 1-Strongly affect, 2 – Affect, 3-Neutral, 4-Do not affect, 5-Strongly do not affect,) rate how the following affect Measure of promotion of trade.

Statement	1	2	3	4	5
Trade policies					
Trade costs					
Trade regulations					
Exchange Rate stabilization					

Market Competitiveness					

SECTION C: Reduction of transaction costs

5. On a scale of 1-5 (where 1-Strongly affect, 2 – Affect, 3-Neutral, 4-Do not affect, 5-Strongly do not affect,) rate how the following statements relate to reduction of transaction costs

	1	2	3	4	5
Associated with the exchange of currency by firms that import or export.					
Transaction cost reduction relates to reduction of direct costs of exchange					
Travelers would not have to convert their money as they travel from one country to another, nor they should pay currency rate					
Value Added Tax (VAT) on purchasing power, because of exchange rate fluctuation in the zone.					
and lower accountancy costs for the corporate sector					

6. Does transaction cost reduction promote regional trade in East Africa?

Yes [ ] No [ ]

SECTION D: Exchange Rate Fluctuation

7. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate your agreement to the following statement

	1	2	3	4	5
The risk of exchange rate fluctuation at foreign investment income is removed with the introduction of the single currency.					
By removing different number of currencies, the important obstacle to direct foreign investment income is eliminated.					
Single currency eliminates incertitude of currency rate, and stimulates the growth of international trade.					
elimination of instability of exchange rate currency reinforces internal market, reduce investment risk, and stimulate investments					
By eliminating the exchange rate risk, the relative price instability member states will be gradually reduced and eliminated.					

8. Does **exchange** rate fluctuation **promote** regional trade in East Africa? Yes [ ]

SECTION E: Price Transparency

9. Using a scale of 1-5 (where 1-Strongly Agree, 2 –Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate your agreement to following statements?

	1	2	3	4	5
Monetary union introduces a higher level of transparency in trade among member states, and within them.					
The price transparency contributes to the price homogenisation in the union that results in overall reduction of price level.					
reduction of relative price variability stimulates trade, further integration of commodities market and services					
price transparency contributes to market competitiveness and result in market efficiency					
Buyers and consumers are able to compare commodity prices and to decide about its supply, according to its quality and price					

10. Does **price** transparency promote regional trade in East Africa? Yes [ ] No

SECTION F: Single Market

11. Using a scale of 1-5 (where 1-Strongly Agree, 2 –Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree), rate your agreement with the following statements relating to the effect of single market within monetary union in the promotion of regional trade

	1	2	3	4	5
single currency and common monetary policy exclude competition in currency devaluations					
Single market make foreign direct investments easier					
Single market help in the development of long-term business deals					
Monetary union brings more efficient capital allocation and works through efficient functioning of a single market resulting in more competitive					
Having common currency eliminates market segmentations and reduces the size of price discrimination.					
Single market increase efficiency and enable the companies and traders to be competitive and achieve profitability.					

12. Does single market promote regional trade in East Africa?

Yes [ ] No [ ]

THANK YOU FOR YOUR TIME

Appendix 2: Letter of Introduction.