

**INSTITUTIONAL CHALLENGES FACING THE EAST AFRICA
COMMUNITY COMMON MARKET IN KENYA**

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DECLARATION

This project is my original work and has not been presented to any university or institution of higher learning and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

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This research project has been submitted with my approval as the university supervisor.

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DEDICATION

This research project is dedicated to my family for their inspiration, encouragement, understanding and prayers towards the successful completion of this course. I pay glowing tribute and gratitude to the Almighty God who has given me the wisdom to undertake this course.

ABSTRACT

Regional cooperation and integration can yield significant economic and political benefits and therefore there is need for economic cooperation in the region. Regional economic blocs have become the platform for international trade and commerce with each nation belonging to a particular regional organization. The centrality of regional blocs for nations seeking to harness the benefits of an increasingly globalized world and for purposes of meaningful engagement with the community of nations at the global level cannot be overemphasized. Most countries have followed a stage wise progression from economic cooperation edging towards deeper integration with the ultimate objective of full political integration. The common market is a step away from full economic integration of an economic and monetary union in the progression towards full political integration. The objective of the study was to establish the basis of the formation of East Africa Community Common Market and also to determine institutional challenges facing the East Africa Community Common Market in Kenya. The population of the study was the employees of the Ministry of Tourism and East Africa Community and the Ministry of Foreign Affairs and International Trade. A strong commitment towards integration is evinced given the fact the EAC has outpaced most other regional blocs in Africa in edging towards deeper integration. The results of the study show that as a result of the single market with free movement of people, services, labour and capital typifying the common market; several benefits accrue to member states as a result of joining the common market. The common market has led to increased trade activity within the Community, whereupon consumers in the member states have been treated to a variety of goods and services with competition serving to enhance quality of products. Businesses on the other hand have the benefit of access to a larger market and production base thus higher profits and lower costs with increased productive efficiency as they expand their operations. However, institutional challenges plague the common market to a large extent on account of coordinative failures inherent in the intergovernmental set up of the EAC. Challenges identified include: undeveloped infrastructure, economic dominance of some of the member states with economic benefits of increased productive advantage skewed in their favour; setbacks in regional integration efforts within EAC due to multiple memberships in other trade blocs by member states as well as delays in harmonizing tax regimes by EAC member states. Similarly non-tariff barriers were found to be a challenge, somewhat, in the EAC common market. Indeed despite mechanisms to deal with errant member states that enforce NTBS such mechanisms had only proven to be moderately effective. In conclusion the benefits of regional integration within the EACCM nonetheless greatly outweigh the constraints experienced whereupon the study suggests that the level of integration be fast tracked to a federation. The study also suggests that the level of private sector participation be enhanced in a bid towards deeper integration given their quintessential role as major players. It is also suggested that member states should refocus their commitment to full integration of the EAC by cutting back on multiple memberships in a multitude of other trading blocs.

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LIST OF ABBREVIATION

ADB	-	Africa Development Bank
CM	-	Common Market
COMESA	-	Common Markets for Eastern and Southern Africa
CU	-	Customs Union
EAC	-	East Africa Community
EACCM	-	East Africa Community Common Market
EAMS	-	East African Ministry Systems
EPZ	-	Export Processing Zones
EU	-	Economic Union
FDI	-	Foreign Direct Investment
FTA	-	Free Trade Area
GDP	-	Gross Domestic Programme
NEPAD	-	New Partnership for Africa's Development
SADC	-	Southern Africa Development Cooperation
SSA	-	Sub-Sahara Africa
UNCTAD	-	United Nations Conference of Trade and Development
VAT	-	Value Added Tax
WTO	-	World Trade Organization

CHAPTER ONE:

INTRODUCTION

1.1 Background of the study

In the last two decades international trade has experienced dramatic increase in regional trade agreements. At least every country on the globe subscribes to some sort of a bloc and substantial amount of trade in the world takes place within such agreements. The changing world order and the consequent impact on global economic activity during the past decades in general, and the decade of the nineties in particular, are bringing in increasing complexity in the way national economies act and interact with each other and with global economic institutions (Broadman, 2007). The move towards greater common market has now become a global phenomenon driven by the pull of market forces, as they open up opportunities for trade amongst centre-periphery. The ultimate goal of any common market is to create a common economic space among the participating countries. Monetary and economic integration may evolve from trade links, as well as, historical and cultural ties. The process entails the harmonization of macroeconomic policies, legal frameworks and institutional architectures, towards nominal and real convergence.

Public administration today finds itself in an environment where results-oriented management has become a key determinant of performance; almost to the same extent as it has applied to business-oriented organizations (Rondinelli and Cheema, 2003). Drucker (2005), argues that public sector institutions need to be fully entrepreneurial and innovative as much as any business does. This view has further been reinforced by

Broadman (2007), who, in discussing entrepreneurial government, argued that public sector institutions must habitually use their resources in new ways to heighten their effectiveness.

The decision for re-establishing the East African Community is a right decision taken at the right time. It is a right decision that will enable East African partner states to withstand the forces of globalization, provide an enabling environment for attracting foreign direct investments, create a large market of over 90 million people, remove barriers and obstacles of trade within the East African Community, reduce the cost of doing business in East Africa, and eventually improve the standard of living for East Africans. However the success of the East African Community will be achieved through political will, adherence to good governance, institutional development and market driven economic policies with the support of a strong private sector

1.1.1 Concept of International Business

International business consists of any commercial transaction that crosses the borders of any two nations and comprises a large and growing portion of world's total business (Bennett, 2009). It includes not only international trade of goods and services, but also foreign investment. International business has gained wide popularity, because of the growing rate of multinational enterprises. The flows of goods, services, technologies, resources, people, and ideas among markets have major effects on countries and their governments, companies, and individuals (McDonald *et al.*, 2002).

For companies, international business increases competition in domestic markets and opens up new opportunities abroad. For consumers, international business brings increased varieties of goods and services into the world marketplace and enhances living standards. Just as important, open borders means increased exposure to new ideas, technologies, and ways of doing things (Devinney, 2010).Grosse (2005) noted that Governments have major effects on international business activities in determining how open (or closed) national economies are to external influences such as trade and investment.

International trade policy consists of bilateral and multilateral arrangements between countries and dictates the terms of commerce between them. These trade policies and relations vary in scope and content but generally depend on the structure of the economy of a particular country (Hill, 2005). At the international level, the process of globalization plays a major role in influencing and shaping subsequent trade policies. At the domestic level, policy making is intimately linked with the nature of the public-private relationship as well as the autonomy of state agencies and their institutional strength and capacity. Since no nation is self sufficient, international trade is not only a means by which nations source those goods and services they lack or do not have in sufficient quantities but also a subject of international politics either for achieving, promoting or maintaining peace between international trading partners or countries (Torre, 2008).

1.1.2 Concept of Regional Integration

Regional integration has been identified as one of the different forms that groups of nations may take to enhance their economic, political, social or cultural interaction.

Regional integration therefore stands in contra-distinction to regional cooperation, market integration and development integration in terms of degree of involvement and intervention and the role of the state (Margaret, 2002). Regional cooperation denotes the coordination and coalescence of policies around common objectives and a process terminating in a stage where states cede some attributes of sovereignty thus integration. Development integration on one hand, takes more state intervention for social and economic welfare and on the other hand, market integration envisages a coordinative role for the state. Regional integration has been defined as a process by which a group of nation states voluntarily and in various degrees have access to each other's markets and establish mechanisms and techniques that minimize conflicts and maximize internal and external economic, political, social and cultural benefits of their interaction (Haarlow, 1997).

Integration may be described as both a process and an end state whereby an intergovernmental organization, representing three or more countries, pools their resources together with a view to creating a larger and a more open economy to benefit member states (Biswaro, 2011). Integration schemes have been found to vary across the globe in terms of functional scope, institutional set up, size of membership and impact (Shu, 2013). The linear progression in the process of economic integration with its seven stages to full integration namely; Preferential Trade Area, Free Trade Area, Customs Union (CU), Common Market (CM), Economic Union (EU), Monetary Union and Political Union (Balassa, 1961) characterises the general cycle that typifies most integration schemes in the world. Each of the above represents a different stage of integration whereupon the member countries may opt to deepen their integration by

progressing to the next stage. The progression from free trade area to common market constitutes market integration whereby common market represents the apex in market integration.

1.1.3 Concept of a Common Market

A common market is trade bloc comprising a customs union with common policies on product regulation and freedom of movement of the factors of production (Capital, Labour and Enterprise). A single market is a more advanced form of common market with more efforts geared towards removal of physical (borders), technical (standards) and fiscal (taxes) barriers among member states so as to facilitate free movement of the factors of production. A common market is where member countries of a regional economic community, in this case the EAC, agree among themselves to operate as a single market with free movement of people, services, labor and capital. It is a legal and binding commitment to a deeper and stronger functional integration by member countries to remove all trade barriers on goods and services; and liberalization of movement of the factors of production (Shenz, 2007).

The basic elements of a common market are: A smoothly functioning customs union including complete elimination of all tariff and non tariff barriers plus a common external tariff, free movement of persons, labour, services and right of establishment and residence, free movement of capital within the community, enhanced macro-economic policy harmonization and coordination particularly with regards to fiscal regimes and monetary policy and setting up, strengthening and empowering the necessary institutions/organs to support the common market operations.

1.1.4 Institutional challenges

The main distinguishing factor of regional integration as opposed to regional cooperation is the process of ceding sovereignty to new structures that acquire substantive roles beyond cooperation (Haas, 1970). Economic integration has been pursued either through an intergovernmental or supranational approach. On the one hand, member states exercise their sovereignty jointly in a supranational set up so that the regional agreement is granted competence that prevails over national policies. On the other hand, intergovernmental set up does not envisage sharing of sovereignty but rather close coordination of national policies by an intergovernmental body with a secretariat but no independent power. Due to lack of enforcement mechanisms, they incorporate dispute settlement mechanisms to backstop difficulties arising.

Integration in Africa is characterized by intergovernmental approach. It is in the backdrop of such intergovernmental arrangements that institutional challenges including lack of coordination and harmonization of policies and regulations at the regional level, non-implementation issues and overlapping membership among bureaucratic hindrances such as administrative delays at borders and ports (UNCTAD, 2009) have marred integration processes.

1.1.5 East Africa Community Common Market

The East African Community (EAC) is the regional intergovernmental organization of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi with its headquarters in Arusha, Tanzania. The Treaty for

Establishment of the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three Partner States – Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1 July 2007. The EAC was established with a vision to set up a prosperous, competitive, secure, stable and politically united East Africa; and provide platform to widen and deepen Economic, Political, Social and Culture integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments (Weiland, 2006).

The realization of a large regional economic bloc encompassing Burundi, Kenya, Rwanda, Tanzania and Uganda with a combined population of more than 125 million people, land area of 1.82 million sq kilometers and a combined Gross Domestic Product of \$73 billion (2009), bears great strategic and geopolitical significance and prospects of a renewed and reinvigorated East African Community. Its people have a common history, language (Kiswahili), culture and infrastructure. The EAC integration was aborted in 1977 after 10 years. Efforts to revive the community began in 1993 with the heads of state signing an agreement to establish a commission for East African cooperation. In the 1960s Kenya steadily enhanced its position as the industrial centre of the Common Market, producing more than 70% of the manufactures, exporting a growing percentage of them to its two relatively less developed partners (i.e. Uganda and Tanzania), and achieving faster GDP growth. The Common Market collapsed in 1977, partly because of lack of strong political will, lack of strong participation of the private sector and civil society in the co-operation activities, the continued disproportionate sharing of benefits of

the Community among the Partner States due to their differences in their levels of development and lack of adequate policies to address this situation (Venables, 2003).

The regional integration process is at a high pitch at the moment as reflected by the encouraging progress of the East African Customs Union, the signing in November 2009 and ratification in July 2010 of the Common Market Protocol by all the Partner States. The consultations on the Monetary Union, which commenced in 2009, and fast tracking the process towards East African Federation all underscore the serious determination of the East African leadership and citizens to construct a powerful and sustainable East African economic and political bloc (Gathii, 2009). However, the East African region has had its fair share of disputes and disagreements. The main bone of contention has been the long-held perception by Uganda and Tanzania that Kenya's economy - mainly the manufacturing sector - was more competitive than theirs despite the fact that it has been declining over the past few years under pressure from imports from the Middle East and inadequate infrastructure. Kenya exports approximately three-fifths of its goods to Uganda and Tanzania and had been facing tariffs of between 10 and 20 per cent before the establishment of the East African Community. However, the EAC is expected to present a good investment platform for both domestic and foreign investors due to their economies of scale. Benefits should also accrue to Uganda and Tanzania, who have, of late, reaped immensely from food commodity supply fluctuations in Kenya.

1.2 Research Problem

It has long been recognized by governments in the East African region that regional cooperation and integration can yield significant economic and political benefits. Indeed,

efforts for economic cooperation in the region have deep historic roots. The purpose of regional integration is to encourage free trade by removing all barriers to trade between them. To achieve this there is need for cooperation and coordination of policies of the member states. It demands harmonization of policies in such sectors as trade, investment, infrastructural development, as well as monetary and fiscal policies of member states.

McIntyre (2005) noted that as countries come together to form a regional block they each have unique resources, ideologies, cultural inclination, political and economic sectors for the benefit of their integrating partners. The central problem of this study is premised on power asymmetry of countries in their national interests which make some countries advance their strategic interests at the expense of others creating inequality in sharing of welfare gains inherent in the integration process. This delays the integration process and many of the protocols unimplemented due to suspicion and resentment between countries. In addition, issues of non-reciprocity arise whereby one country perceives that the other is getting more welfare gains economically hence derails any effort towards full integration. As a result each country only adheres to the rules of engagement based on how its interests are met.

The establishment of a common market envisioned that there would be an increase in trade within the community. Despite attempts to harmonize tariffs and adoption of EAC regulations, suppliers in the EAC still face challenges and unnecessary trade barriers faced due to differences in technical regulation and standards. Failure to have harmonized standards and conformity assessment activities, the integration has acted as a barrier of trade within the region.

Studies that have been undertaken on institutional challenges facing East Africa Common Market include Gichuru (2006) who did trade related barriers to Kenya's export of fruits and vegetables to the European Union and found out that both the tariff and non-tariff barriers affected the export of fruits and vegetables to the EU market. The barriers both tariff and non-tariff resulted in an increase in the export costs and made the exports to become uncompetitive in the EU market due to their quality or cost. Wasilwa (2008) did challenges posted by common markets for eastern and southern Africa (COMESA) on sugar millers in Kenya and found out that the challenges faced included excessive deductions and taxation of farmers' income, negative effects of regional trading systems; inadequate capital for operations and survival of the sugar Millers and its ability to sustain growth, poor and patronage-based management systems, and massive investment of cash and energy.

Bolo (2011) researched on the factors that influence the implementation of East African common market within Kenya. The study found out that lack of complementarities in trade flows, overlapping membership, resolution implementation, pressure from regional corporations as an impetus for political change, the potential for greater economic gain for members than can be achieved through unilateral trade, political dimension of the integration, importance of commitment institutions, political will, importance of regional leader and infrastructure influence the implementation of East Africa Community Common Market. From the review of past researches it is evident that no known research has been done to ascertain the institutional challenges facing the East Africa Community Common Market. This demonstrates the need for a study in this regard to bridge the

knowledge gap. Therefore, the research question of the study is: what are the institutional challenges facing the East Africa community common market in Kenya?

1.3 Research Objective

The research objectives of this study were;

- i) To establish the basis of the formation of East Africa Community Common Market,
- ii) To determine institutional challenges facing the East Africa Community Common Market in Kenya

1.4 Value of the study

The findings of the study will be of significance to the EAC members and other economic organizations to help them tackle the challenges faced in implementation of the common market protocol and formulation of strategies to boost trade within the member states and free movement of goods and citizens. Thus there is need to understand the factors that could be driving the member states to move towards the direction of common market.

This study will benefit the government especially the Ministry of East Africa community for making policy decisions whose overall objectives are to accelerate the rate of common market formation and take advantage of the expanding regional markets and also be able to negotiate as a larger market on the growing world markets. These findings will provide a basis for formulating policies that seek to deepen the EAC regional trade.

In addition, by being in common market and practicing common policies and regulations, countries in the trading bloc create a system of surveillance upon one another based on

“best endeavors” and at time backed by legal systems. This in a way creates an efficient bloc that will operate in a higher indifference curve in consumption and efficient production curve. The study is justified since it will be of academic value to those countries which are interested in moving towards the direction of common market as they will be able to understand what they ought to do in order to ensure that the market succeeds.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature on institutional challenges facing the East Africa Community Common Market. The chapter looks at the several theories of integration. The chapter also reviews empirical literature carried out by other authors on basis of regional economic organizations and institutional challenges encountered in the implementation of the trading bloc.

2.2 Theoretical foundation of the study

This section examines the existing theories that are relevant to the study. The study will be guided by the comparative advantage theory and the neo-functionalists theory. This are discussed below.

2.2.1 Comparative Advantage Theory

The theory of comparative advantage advanced by David Ricardo proposed that even if a country held absolute advantage in production of goods, specialization and therefore trade was still possible. It provides that a country should specialize in producing goods that it has relatively low production costs, export that good and use the proceeds to import the good that it has a higher production costs (Hill, 2011). Wild et al, (2010) notes that international trade should not be banned or restricted by tariffs and quotas, but allowed to flow freely as dictated by market forces. If people traded freely then no country would need to produce all goods that it consumed. Instead, a country would produce goods that it holds absolute advantage and then trade with other nations to obtain

goods it needed but did not produce. Torre (2008) note that trade has allowed nations to benefit from specialization and economies to produce at a more efficient scale. It has raised productivity, supported the spread of knowledge and new technologies, and enriched the range of choices available to consumers. The gains from trade are not likely to be evenly distributed, either within or between countries, thus explaining opposition to free trade policies by some parties.

The theory proposed some kind of advantage as enabling a country gain more out of international trade (Raj *et al.*, 2012). The same is true for the firm. If sustainable superior performance (which equals sustainable competitive advantage) is to be achieved a firm must differentiate itself. Alderson (2009) hinted at a basic tenet of sustainable competitive advantage, that a fundamental aspect of competitive advantage is the specialization of suppliers to meet the variations in buyer demand. Kijewski *et al.*, (2007) recognized that firms should strive for unique characteristics in order to distinguish themselves from competitors in the eyes of the consumer. He stated that differential advantage might be achieved through lowering prices, selective advertising appeals and/or product improvement and innovations. While these concepts lay the core foundation for firms in moving toward sustainable competitive advantage, the intense nature of competition today requires that firms be more innovative and entrepreneurial in their strategy planning than just lowering prices or improving existing products.

2.2.2 Neo-Functionalists Theory

The neo-functionalists posits that when certain sectors of the life of sovereign states are integrated by being brought under joint control, a process can be set in motion in which

organized interest groups and political parties tend to become involved (Reginald, 2004). The sector chosen must be important and controversial, but not so controversial that the vital interests of the states are affected or their vested interests threatened. Joint activity will be larger than the sum of the independent activities which would involve sacrifice of existing activities giving rise to remedies (Hass, 2011). As central regions are given more power and functions by the member governments the assumption is that the demands, expectations and loyalties of groups and interests will gradually shift to the new center of decision making. This is the expansive logic of regional integration, whereby policies made pursuant to an initial task and grant of power can be made real only if the task itself is expanded, in line with the compromises among the states interested in the task. This is the spillover effect where member countries coalesce across national frontiers for the advancement of their community-wide interests.

Neo-functionalists recognize the central institutions with policy making powers having a critical role to play, to resolve conflict. The institutions will promote changes in the behaviors of business and labor and other key groups. Unifications will go beyond the national confines in an effort to make common policy and obtain common benefits; hence group pressure will spill over into the federal sphere adding into the integrative impulse (Hass, 2011). Neo-functionalists are aware of the need for leadership in providing policy directions that resolves group conflict. Perceived national interests may not always coincide with policies established for the community and in such circumstances national actions that may attempt to evade treaty obligations is expected.

The root of neo-functionalism is that it recognizes that integration is influenced by national interests of individual member countries. It alludes to the fact that countries are complex and that mechanisms for resolving conflict can be achieved. The societies are “system dominant” and integration between these societies goes forward since initial integrative steps promote a new level of calculation of advantage by such groups. As a result the common good is superseded by interest tinted lenses which cause the tinting to fall into converging patterns (Davies, 1996). The spillover effect enables members want to pursue integration fully. Even if each country pursues its interests the need to converge will always make those interests be pursued in such a manner that the integration process does not collapse. This theory will go a long way in informing this discourse since it focuses on how interests influence integration process. It will be our point of references as we try to demystify the concept of African integration as influenced by interests of particular member countries in the EAC more so with reference to Kenya.

2.3 Basis of Regional Economic Organizations

The revival of interest in common markets and cooperation is a worldwide phenomenon, inspired by the success of the European experience. It also reflects a growing appreciation of the benefits to be derived from regional unity’ and cooperation in meeting the challenges posed by increasingly competitive world markets (Weiland, 2006). In Africa, regional unity is seen as a possible solution to the continent’s deep and prolonged economic and social crisis, at a time when private energies are being released thanks to the strengthening of civil society and the deregulation and privatization of national economies, while the continuing decline of state-imposed barriers to inter country flows

is paving the way for increased regional trade (Balassa 2007). Removal of trade barriers is like a market enlargement, as separate national markets move toward integration in a regional market. This allows firms to benefit from greater scale and attracts investment projects for which market size is important, including foreign direct investment (FDI). Removing barriers also forces firms from different member countries into closer competition with each other, possibly inducing them to make efficiency improvements.

Paul (2009) notes that while the basic objective of regional groups irrespective of form appears to be the same, that is improving the welfare of the people within the region through creation of a larger production base and increased market size for producers and greater choice to both producers and consumers, a number of factors may have contributed to regional integration gaining momentum in recent years. Countries want to improve their bargaining power in trade negotiations when they notice that other countries are integrating. This is more in the form of a demonstration effect or a self defense mechanism. Cooperation in infrastructure more so in road, railway, civil aviation and civil air transport is very crucial and the partner states through the treaty have taken cognizance of the role that infrastructure plays in enhancing regional integration in the EAC. East Africa is a competitive and mature market with rates determined by market forces of demand and supply especially for transport corridors originating from the port.

Common markets are being formed mainly to stimulate production of items within the block that would otherwise be imported, encourage foreign direct investments, and protect infant industries from completion from non-member states (Daniel *et al.*, 2011). Bennett (2009) notes that integration objectives are the enlargement and diversification of

market size, and tapping of related opportunities and the promotion of intra-regional trade and free movement of the factors of production, which also results in stronger member states' bargaining position in relation to other regional and international blocs and the fostering of socio-economic progress, political stability, as well as peace and security. A common market can assist firms in the region in achieving economies of scale in production since the larger market created by the single economic space facilitates larger quantities of a good being produced (Walkenhorst, 2006). As production increases, the cost of producing each individual unit of the product decreases and the firm therefore realizes greater profit. This increased profitability should also impact positively on the economies in the host country through the multiplier and circular flow effects.

2.4 Institutional Challenges Encountered

A major impediment to operationalization of trading blocks in Africa is the fact that regional institutions are not independent enough to implement integration initiatives. These institutions are expected to operate in accordance with the whims of member states which are often run by dictators with personal interests at heart, rather than to fulfill the ambitious objectives of the organization (Crawford, 2013). It is thus not uncommon to see the dissolution or derailment of integration initiatives based on the change of government in member states, or personal differences among heads of state.

2.4.1 Harmonization of tariffs

The inconsistency or incoherence at the macroeconomic level has also been a source of problems for the systematic implementation and “internalization” of the regional integration agenda into national programmes. It has been impossible to integrate regionally where there has been continuously glaring policy, implementation and

information inconsistencies at the national level (De Melo *et al.*, 2013). There is therefore need for an appropriate policy mix and coordination at the national level that targets low inflation and fiscal discipline. Disparities in tax regimes by member states of an economic bloc result in distortions and have negative impacts on cross-border business activities. In particular, they increase the cost of compliance and affect decisions made by investors with regard to where to invest and where to source finance. The variance in domestic tax rates such as excise duty and value added tax rates in essence translates into different prices and costs to consumers for similar items (Karugia *et al.*, 2009).

Delays by member states in harmonizing their tax regimes also cause imbalances in cross-border trade. The main taxes affecting the business community, such as value added tax (VAT), withholding tax and excise tax are yet to be fully harmonized. At present, Rwanda and Uganda charge VAT at the rate of 18 percent, Kenya charges 16 percent, and Tanzania, 18 percent. While Kenya and Tanzania offer tax incentives for investors, Uganda and Rwanda do not. Similarly, companies operating in the export processing zones (EPZs) in Kenya and Tanzania are exempted for the first ten years from income tax and withholding tax on payment to non-residents, but this is not the case in Uganda. There is thus a perception in Uganda that the EPZs and the associated tax holidays provide an advantage to Uganda's EAC partners (Schiff & Winters, 2013).

Socio-economic performance and outcomes in the sub-region are attributable to both policy reforms and other influences. Exogenous influences such as adverse changes in climatic conditions, political instability and deteriorating risk perceptions as well as the global economic environment and commodity markets have been driving a wedge

between domestic economic policies and outcomes. In addition, other non-policy factors operating in the sub-region's economies such as their weak institutional, financial and physical infrastructure and administrative capabilities may also explain the observed discrepancies between policies and outcomes and the shared failures in terms of low economic growth, unemployment and poverty (Chortareas and Pelagidis, 2006).

2.4.2 Lack of funds

The lack of mechanisms and resources for effective planning, coordination, implementation, monitoring and pragmatic adjustment of programmes on the ground has constrained regional integration. The epileptic state of the economies of some states, coupled with their obligations to pay annual dues to the various sub-regional organizations they belong to, largely contributes to their inability to discharge their financial obligations (Hall, 2011). There is no gainsaying the point that the availability of funds is crucial for the virility of any organization, most especially an organization charged with the responsibility of furthering a capital-intensive project - regional integration and cooperation.

In the area of trade and mobility of factors of production, African integration has been relatively more outward-looking at the expense of intra-regional trade. Xenophobia has partly hampered labour movement among members, while capital mobility has been constrained by largely undeveloped financial markets (Garnaut and Vines, 2007). Domestic, regional and international financial and investment constraints have also hampered regional integration, which requires considerable resources to plan, coordinate, implement, and monitor progress in its implementation. There is low saving as a

percentage of gross domestic product, while foreign direct investment (FDI) remains elusive and eschew Africa. Furthermore, official development assistance has also been dwindling. Duina (2011) noted that lack of full private sector involvement at both planning and implementation stage has not elicited maximum deliberate input from this important sector, which usually has the financial resources and owns productive capacity. In most countries the private sector remains weak and is still not well organized. Civil society involvement has also been wanting.

2.4.3 Uneven Benefits of Integration

Typically countries have acute differences in the sizes of their economies and levels of socio-political and economic development. This poses problems for rapid regional integration. The huge material difference in economic power and capacity means that the more powerful partner will tend to reap off more benefits in any interaction with the weaker partner (Casella, 2013). As in Europe, capital expansion and investment as well equitable distribution of benefits of integration are essential in speeding up the process of economic integration. One pernicious consequence of the nationalist drive to maximize gain is membership to multiple regional agreements, which often have overlapping mandates and different to approaches to regional integration (European Commission, 2013).

The principle of asymmetry was put forth in the EAC so as to enable member countries that were lagging behind in terms of development to catch up with those ahead of them. This helps in determination of whether taxes will be levied or not. However, as the other countries get leverage against the more economically endowed country chances are that,

that country can find itself not reaping more welfare gains within the community (Garnaut and Vines, 2007). This could lead to the country settling scores to be at par with its regional partners either by imposing punitive non tariff barriers on the goods or labor. This has been witnessed in Kenya whereby it was imposing more fees on work permits for immigrants from EAC member countries. It results into using non tariff barriers to gain leverage against the other countries in the region.

Odebero (2011) noted that trade between member countries shows quite a lot of variance with Kenya having the largest share of benefit. It has a large share of exports and for the other countries to at least be at par with it the principle of asymmetry has to be applied. As time passes each economy is given time to expand its markets, innovate, conduct research and developments that would keep it at par with the advanced country i.e Kenya for EAC. The principle of asymmetry has precipitated the push for the East African Monetary Union (EAMU) as it is envisaged it will address economic imbalances. In addition, this principle would further increase intra-trade between EAC countries.

2.4.4 Revenue Losses and Border Inefficiencies

The adoption of a common market also leads to removal of tariffs and customs duties against member states, and also standardization of tariffs against non-members. This leads to loss of revenue in terms of customs duties (Adotevi, 2009). In the context of the EAC, it is important that the member states address weaknesses in their customs and revenue administration, border control, and transit arrangements to reduce losses on customs revenue collection. Also important are issues of efficiency at border points.

Measures to seal revenue losses and to harmonize border procedures are thus crucial in ensuring maximum benefits.

Moenius (2014) posit that member countries are reluctant to implement double taxation avoidance agreement due to the fear of making them unattractive for foreign direct investment. In addition, tax exemptions are effective in attracting foreign direct investments as they prefer tax holidays, capital gains exemptions, special value added tax relief and reduced rate on stamp duty. To this end, harmonization of tax policies with a view to removing tax distortions in order to bring about a more efficient allocation of resources within the tax harmonization would be unrealistic since that would call for same tax rates (Wilson and Otsuki, 2012).

Mattli (2009) asserts that the essential demand condition for successful regional integration is greater potential for economic gain for each member of the common market under the regional model than by utilizing unilateral efforts in the world trading market. It seems that if ever the potential for economic expansion through integration will be actualized depends on the presence of a number of factors, the key ones being: The absorptive capacity of increased intra regional trade in the common market and complementarily in production and trade flows among the countries in the common market.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the proposed research design, data collection and the techniques for data analysis that was used.

3.2 Research Design

The research design adopted in the study was a case study. The study allowed the researcher to collect in-depth information, more depth than in cross-sectional studies with the intention of understanding situations or phenomenon. It also helped to reveal the multiplicity of factors, which have interacted to produce the unique character of the entity that is subject of study. The study used to identify institutional challenges facing the East Africa Community Common Market in Kenya.

3.3 Data Collection

The study use primary data which was collected using an interview guide. The respondents that were interviewed were the head of departments on international trade in the Ministry of Tourism and East Africa Community. These were considered to be key informants for this research. Key informants were also a source of information that assisted in understanding the context of an organization or clarifying particular issues or problems of the study.

The choice of the respondents is important, as the respondents involved in the running of the Ministry and thus have knowledge on institutional challenges facing the East Africa

Community Common Market. Furthermore, they may provide access to more significant and useful secondary data as documents, and other valuable information.

3.4 Data Analysis

The data obtained was analyzed using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Hsieh and Shannon, 2005). It involves observation and detailed description of objects, items or things that comprise the object of study. Content analysis, as a class of methods at the intersection of the qualitative and quantitative traditions, is used for rigorous exploration of many important but difficult-to-study issues of interest to management researchers (Carley, 2003). This approach was considered to more appropriate for the study because it allowed for deep, sense, detailed accounts in changing conditions.

CHAPTER FOUR:

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish the institutional challenges facing the East Africa Community Common Market in Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents Profile

This part of the interview guide was intended to assess the capacity of the respondents to answer the questions on the interview guide and also whether they are versed with the subject matter of the study. The research aimed at interviewing five senior managers who are heads of departments in the Ministry of Tourism and East Africa Community. The specific respondents in the interview were the Deputy Director- Economic Affairs, Secretary, Regional Integration and the Principal Counsel in the Ministry of Tourism and East Africa Community. In addition, the researcher interviewed Senior Liaison Officer- International Trade Affairs and the Assistant Director- International Trade and Regional Cooperation in the Ministry of Foreign Affairs and International Trade. All the five respondents were available for the interview and therefore a 100% response rate was achieved.

The interviewees had all attained Masters Degree certificate in various fields ranging from International development, Finance, Investment and Law as well as International business. Four of the interviewees had in addition undergone further training in foreign countries and attended seminars that were organized by regional trading blocs such as

COMESA, EAC and SADC to enhance their capacity in handling international cooperation and foreign investment matters. In terms of their experience in the management of international cooperation, the researcher found out that there was a wealth of experience that the interviewees had accumulated over the cumulative 56 years that they had earned in their working experience both in the public and in the private sector. Having worked in the ministry for such a period, the researcher believes that the interviewees will have firsthand experience on the institutional challenges facing the East Africa Community Common market. Generally with this solid background in form of the respondents academic qualification and work experience, it was felt that the interviewees were knowledgeable enough on the research subject matter and thus of help in the realization of the research objective.

4.3 Regional Economic Organizations

This section of the interview guide sought to establish from the respondent what the current state of regional integration is like. The coming together of different countries to form economic blocks is on the view that the same unions is going to lead to synergy among the countries which will be better than if the countries traded with the outside world individually. Internationally through WTO, there has been emphasis on the removal of trade barriers and liberalization of international trade, not only from the country level, but also on a global scale. The benefit for countries to come together and develop economic blocks is not only based on political considerations but also from the economic reasons. In addition to politically-motivated divisions, this proliferation of RECs partly indicates that the issue of regional integration is important for African

countries. This is not surprising, given that about 40 per cent of the population and one-third of the economies in the continent are trapped in landlocked countries whose trade and development depend on events beyond their own borders.

On the question of what benefits Kenya is deriving from the EACCM, the interviewees noted that the membership from the union has resulted to the Kenyan products accessing a large market of over 145M persons, increased their voice in international arena-taking position as EAC, pooling of resource - undertake project target and enjoy economies of scale in production. In addition, it was also found that the EACCM has led to improved trade among the countries in areas such as; financial services, distributional services, tourism services and air transport. Development of a common infrastructure such as Arusha-Athi River road and one border posts have come about due to the common market. The movement of persons between the countries has been hastened such that one does not need a Visa or a passport, for example, to travel between Kenya and Uganda. This has been made possible due to the cooperation of the countries.

The researcher also sought to establish how the cost of business has been affected by EAC integration and on this question, it was found that EACCM has led to reduced cost of doing business, opened new market frontiers, created transport links with other partners states and increased trade volumes. In addition, the air transport connectivity between the member states has improved as well as the road network. A case in point that was highlighted was the extension of the Mombasa-Nairobi standard gauge railways to Uganda in the next five years as well as the construction of the proposed Oil pipeline from the Lake Albert in Uganda to Mombasa in Kenya. This pipeline will reduce the cost

of transporting crude oil from Uganda to the export markets by over a third. In addition, the funding of the project to be constructed Toyota Construction of Japan. The improvement of infrastructure will facilitate easier movement of goods and persons between the countries. In addition, the researcher also found that the easing of cross-border movement of persons and goods through an East African passport, allowing a seven-day grace period for personal motor vehicles, establishing immigration desks for East Africans at international airports, re-introducing interstate passes and withdrawing of visa charges for students are also some of the benefits derived from the integration.

The interviewees also pointed out that from the integration of the market, the enlarged market removes tariffs and makes it possible for the existence of larger firms with greater productive efficiency for any industry with economies of scale and the resultant increased competition induces firms to cut prices, expand sales and reduce internal inefficiencies. Given the high level of fragmentation in sub-Saharan Africa (SSA), it is expected that market enlargement would allow firms in some sectors to exploit more fully economies of scale. In the case of the benefits from the improved economies of scale, the interviewees acknowledged that the EACCM has enabled firms to serve bigger market close of 150 million people and G.D.P that is equivalent to Ksh110 billion. However some partner's states are establishing similar companies which make enjoyment of economies of scale not possible. In addition, financial services sector, distribution services, tourism services have done well in achieving economies of scale.

In a yet another example of the regional integration, one of the interviewee pointed out that in June 2012, the Indian government committed \$428,000 to the EAC, in what has

been claimed to be the first direct assistance to be given to any regional community for a railway project. The project will be jointly coordinated by the African Development Bank and the New Partnership for Africa's Development (NEPAD) and is aimed to modernize and improve the railways in the region. It was expected to be completed in 2014, and is hoped to contribute to lowering transportation costs as well as enhancing trade in the region

4.4 Institutional Challenges facing EAC common market

The researcher also sought to find out the challenges that the member institutions face in the actualization of the objectives of the common market. Each member state has set in institutions that are tasked with coordinating and advising the countries on the best decision to be made in the furtherance of the common market objectives. Based on this, the researcher sought to gauge the independence of these institutions bearing in mind that for effective decision making, there is need for little interference to be made on these institutions. The interviewees pointed out that since the system is not a supra-national yet, this means sovereign status; interfere in its freedom of the institutions and organs of EAC. However, some of the interviewees noted that there exist some levels of interference by the political leadership. As to the reason why the same happens, it was pointed out that, integration can be complicated by perceived or real gains or losses among the members that may lead to disputes and a sense of loss of national sovereignty. This might cause the aggrieved member states to curtail the decisions made by the institutions mandated to spearhead the integration. However, it was noted that since

2010, trade levies had been abolished and therefore this is no longer a challenge facing the EACCM state parties.

The other challenge that was found to affect the operations of the EAC, was the delays by member states in harmonizing their tax regimes which has led to the imbalances in cross-border trade. The interviewees pointed out that a lack of harmonized tax regimes across the members' states has led to some products being expensive and uncompetitive since some products are subjected to double tax. This double tax could change lower taxes compared to others to attract investment. It was unanimously agreed by the interviewees that delays in harmonizing tax regimes have caused continued barriers to trade in the East Africa region. On whether the institutions spearheading the integration of the East Africa member states receive adequate funding and other forms of resources to operate smoothly, the interviewees were of the opinion that indeed there is adequate funding that is being channeled to the East Africa Secretariat and therefore not a challenge at the moment.

The success of an economic bloc will depend to a greater extent on the support that the private sector provides to the initiative. As a result, the researcher also sought to establish how a lack of a full private sector involvement affected EAC integration. The results were that indeed the private sector in the East Africa community has played a key role in the integration of the economic bloc. It was noted that the private sector is involved in EAC integration agenda. Some private sector organization such as EABC has observer status in EAC while the civil society has had a surety general forum and the private sector participation is witnessed in forums such as the East Africa Business Council and East

African Community Civil Societies Forum. Indeed, the observed that the current EAC unlike the one that was set and collapsed in 1977 is people centered and private sector driven. The decision making process was also found to be by consensus among the member states and the production process was based on comparative advantage basis among the countries and this limits any conflicts among the partner states. Indeed, the interviewees noted that the east African Community integration is on course and all countries contribute on the GDP basis which was found to be a fairer basis.

The other challenge found to have impacted the rate of EAC integration is the inefficiencies at the point of entry between the trading partners. The interviewees pointed out that indeed the bureaucracy witnessed at the point of entries act as a bottleneck to free flow of trade/goods and services. Turnaround time for trucks increases or creates room for rent seeking at the border points and this delays clearances leading to increased costs of trade and goods to the destination countries. In order to reduce the conflicting laws that affect the movement of goods and services, it was also noted that the EAC member states have put in place the East African Community secretarial council on legal and judicial which is a sub - committee on harmonization and approximation of laws across the countries. Another mechanism that has been applied in the EAC partner states is the provision for export promotion schemes, special economic zones. While the intention for creating these schemes was noble, the interviewees noted that some of the partner states were giving more incentive to their business units that allowed and hence attracting investments from others countries and at the same time affecting the countries firms.

A lack of an effective monitoring and evaluation mechanism of the implementation state affects the success of an economic bloc. The interviewees noted that in the case of EAC, it has a monitoring system called East African ministry systems (EAMS). This institution monitors implementation of summit and council decision as well as implementation of common market resolutions. The membership of the partner states to more than one economic block was found to affect the obligations of the EAC. The interviewees noted that some of the provision in the customs union protocol has been stayed to allow trade with other blocks. However, the establishment of the Tripartite Free Trade Area of Comesa/EAC/SADC is meant to address the issues that emerge from the duplication of the membership.

4.5 Discussion

The findings from the above shows that successful regional integration is based on a number domestic peace/security in countries that are partners; political and civic commitment and mutual trust among countries states. This means that as regarding the economic position, the study noted that there need to be a macro-economic stability and good financial management in countries on such variables as price stability, realistic real exchange rates, and also sufficiently broad national reforms to open markets. This position supports the views made by Khanna (2013) who advocated both political and economic reforms in the member countries, for an effective realization of the economic blocks. The findings also noted that in the face of globalisation and modern economics, integration is a necessary way for countries to harness their true economic potential but

the same can best be achieved through widespread liberalisation of their economic structures.

As Auriacombe and De Giorgi (2008) observed, for an open economy to be achieved, it is imperative to introduce a degree of competitiveness, which in turn would boost productivity because a more competitive and productive economies are better able to penetrate global export markets. In addition, Paul (2009) notes that while the basic objective of regional groups irrespective of form appears to be the same, that is improving the welfare of the people within the region through creation of a larger production base and increased market size for producers and greater choice to both producers and consumers, a number of factors may have contributed to regional integration gaining momentum in recent years. Countries want to improve their bargaining power in trade negotiations when they notice that other countries are integrating.

The results of the study also noted that there exist abundant untapped resources among the member countries and there is need for a concerted effort to tap these resources collectively. A study published by the World Trade Organization (WTO) on the regional integration process in Africa has argued that countries generally have efficient labour markets, well developed financial markets, and relatively sound economic institutions within the EAC. The study further maintains that across Africa it is easiest to start a business in the EAC, where the process takes the least amount of time, i.e. approximately 14.4 days and incurs the lowest costs (Wild et al 2010).

Lessons from the experiences in Europe and elsewhere show that for macroeconomic convergence to work there must be key determinants in place, such as: building consensus in developing the 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; equitable, objective and transparent mechanisms for determining and allocating the costs, benefits and corrective measures that integration entails.

A number of challenges were also identified that affected the effective integration of the East Africa member states. It was pointed out that some member states have been reluctant to embrace fully the ideals of the EACCM and in some cases curtailed the full implementation of the treaties developed. In this regard it was noted that for successful integration thus, there is need for a strong commitment in implementing the agreed arrangements, fair mechanisms to arbitrate disputes and equitable distribution of the gains and costs of integration. This position supports the views advanced by Wild et al (2010). There is also need to incorporate fully the private sector in the integration process and according to Khanna (2012), the current success of the economic bloc can be attributed to the private sector participation.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In summary, the study shows that the interviewees are aware of the institutional challenges facing the East Africa Community Common market. The East Africa community Common Market (EACCM) has made impressive strides in bringing the member states to embrace the establishment of the economic blocks and the as a result numerous benefits has accrued to the member states. The coming together of different countries to form economic blocks is on the view that the same unions is expected to lead to synergy among the countries which will be better than if the countries traded with the outside world individually. In addition, it was also found that the EACCM has led to improved trade among the countries in areas such as; financial services, distributional services, tourism services and air transport. The movement of persons between the countries has been hastened such that one does not need a Visa or a passport, for example, to travel between Kenya and Uganda.

The findings of the study pointed that from the integration of the market, the enlarged market removes tariffs and makes it possible for the existence of larger firms with greater productive efficiency for any industry with economies of scale and the resultant increased competition induces firms to cut prices, expand sales and reduce internal inefficiencies. The major factors influencing regional trade were identified as: industrial concentration within the member states, supply-side constraints and competition, multiple

memberships, different tax regimes and non-tariff barriers. The industry concentration was found to be though a little skewed with Kenya having a dominant power status.

On taxation, it was found that EAC member states have delayed in harmonizing their tax regimes. However the effect of non-harmonized tax regimes on regional trade in EAC was found to be moderate. Regarding the non-tariff barriers (NTBS), it was found that NTBS still exist in the EAC common market to some extent. However, there exist mechanisms to deal with errant member states that enforce NTBS but that these mechanisms were only moderately effective. However, the member states were found to be committed towards boosting regional trade and eventually eliminating all non-tariff trade barriers.

5.2 Conclusion

From the research findings and the answers to the research questions, some conclusions can be made about the study:

Several major benefits accrue to EAC member states from the ongoing market integration. Some of these include: wider choice of goods and services afforded to consumers, larger production base, and expanded market size for producers and greater competitiveness of products. There is a slightly heavier concentration of industries in Kenya and this has contributed to slow removal of trade barriers by some member states due to desire to protect domestic industries thus negatively influencing cross-border regional trade.

Poor infrastructure which includes transport and telecommunication in member states hampers the regional trade. However, monetary policy and trade dispute resolution mechanisms are some of the supply-side factors that support regional trade in the EAC. Multiple memberships does not directly influence regional trade in the EAC since all member states are committed towards full regional integration. Delays in the harmonization of tax regimes has led to moderate negative influence on regional trade

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

5.3 Recommendation of the Study

From the research findings, the recommendations thereon for both policy and practice and for further research can be drawn.

5.3.1 Policy and practice Recommendations

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

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

Member states should hasten harmonization of tax regimes as this will reduce the trade imbalances, tax evasion schemes like smuggling as there will be no incentive to avoid official border points. Member states should push through their commitment to full integration and concentrate more on building the EAC rather than spreading their energies on multiple trading blocks

5.3.2 Limitations and Recommendations for further study

The present study took an exploratory form, and future studies should thus seek to examine the correlations between the variable and with a measure of ease of regional trade. The present study used only top staff members of the Kenyan Ministry of Tourism and East Africa Community and Ministry of Foreign Affairs and International Trade. Further studies should seek to validate the findings of this research by involving middle and lower level staff in the said ministries and also the study to be extended to other member states.

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APPENDIX I:

INTERVIEW GUIDE

The interview will seek to achieve the following objectives;

1. Establish institutional challenges facing the East Africa Community Common Market in Kenya

Section A: Demographic Data

1. What is your designation in the Ministry?
2. What is the highest level of education you have achieved?
3. For how long have you been holding the current position in the Ministry?
4. For how long have you worked in the Ministry?

Section B: Regional Economic Organizations

5. How has Kenya benefited from being a member of East Africa Community Common Market?
6. How has infrastructure enhanced regional integration in the EAC?
7. Has the common market assisted firms in the region in achieving economies of scale in production?

Section C: Institutional Challenges facing EAC common market

8. Are the regional institutions independent enough to implement EAC integration initiatives?
How has different tariffs levied by member countries affected East Africa Community Common Market?

9. How have delays by member states in harmonizing their tax regimes cause imbalances in cross-border trade?
10. How has lack of mechanisms and resources for effective planning, coordination, implementation and monitoring been another constraint to regional integration?
11. How has lack of full private sector involvement affected EAC integration?
12. How has an acute difference in the sizes of countries economies and levels of socio-political and economic development affected regional integration?
13. How has border revenue losses affected East Africa Community Common Market?
14. How has border inefficiencies affected integration of EAC?
15. How have the existence of divergent trade policies and the non-uniform application of regional instruments by EAC partner states hinder trade led development?
16. How has the pertinent provision for export promotion schemes, special economic zones and exemption regimes in the region affected integration?
17. How has lack of institutionalized effective monitoring and evaluation mechanism for implementation of EAC treaty affected integration?
18. How has overlapping membership to multiple regional agreements affected integration of the EAC?
19. How has the lack of complementarities in trade flows among EAC member states affected integration of the EAC?
20. How has the lack of complementarities in trade flows among EAC member states affected integration of the EAC?