

FACTORS INFLUENCING IMPLEMENTATION OF  
CUSTOMS UNION IN EAST AFRICAN COUNTRIES

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BY:

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*J K A m c m i • w ,*

**DECLARATION**

This management project is my original work and has not been presented for a degree in any other university.

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## **DEDICATION**

This Management Research Project is dedicated to my family, particularly my children. Bjom, Gloria, Diana Yvonne, Brian and Kay Bon for their enormous love, support, patience and understanding throughout my studies.

to my parents, particularly my mothers Labitha and Bcliah, and my late dad Ben. for inspiring me earlier enough to achieve ultimate academic excellence.

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their contribution to this project is unfathomable

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## ACRONYMS

MDG • Millennium Development Goals

SSA - Sub-Saharan Africa

HIV - Human Immuno-deficiency Virus

AIDS Acquired Immuno-Deficiency Syndrome

COMKSA - Common Market for Eastern and Southern Africa

FTA - Preferential Trade Area

FAC - East African Community

EACU- East African Customs Union

WTO- World Trade Organization

CET- Common External Tariff

CTN- Common Tariff Nomenclature

GWP Gross World Product

BOP Balance of Payments

MNC Multinational Corporations

TOI - Terms of Trade

EEC- European Economic Community

LATFA- Latin American Free Trade Area

CMFA- Council of Mutual Economic Assistance

KAM- Kenya Association of Manufacturers

KRA- Kenya Revenue Authority

KPSA- Kenya Private Sector Alliance

KNCC- Kenya National Chamber of Commerce

URA - Uganda Revenue Authority  
TRA - Tanzania Revenue Authority  
EU - European Union  
ROO - Rules of Origin  
IMF - International Monetary Fund  
KCB - Kenya Commercial Bank  
EABL - East African Breweries Limited  
CIF - Cost Plus Insurance and Freight  
GDP - Gross Domestic Product  
ICT - Information Communication Technology  
EALA - East African Legislative Assembly

## ABSTRACT

In the theory of regional integration, economic benefits of integration are counterbalanced by politico-economic factors, social and cultural costs. Opening up national economies shifts costs and benefits. Nations may not be natural economic units but government policies often turn them into economic units all the same (Krugman & Obstfeld, 1994: 175). The success of the customs union will determine the speed at which the EAC enters the second phase of integration: the common market (Muthaura, 2001). The East African Customs Union will have two complementary aspects: the free movements of goods between the member countries and the imposition of a Common External Tariff (CET) on imports from non-member countries (EAC Dialogue, 2001). On the average, the population size of EAC countries including Rwanda and Burundi is around 109 million people, with a GDP of around US \$30 billion. Such economies on their own are too small to attract any major meaningful investment in today's economy, where mass production is vital to reduce unit costs.

This study conducted in the period between June and September, 2007 had the objective of determining the factors that influence implementation of customs union in East African countries. To achieve this objective, data was collected from the five East African countries through a semi-structured questionnaire sent to government officials in government offices and embassies and to traders in the five countries. Secondary data was also collected from the government offices.

From this study, most of the organizations are involved in the integration process with Kenya having the highest number of organizations involved in the integration (87%).

Tanzania!) firms are the most pessimistic ones with 17% of the respondents citing that they were not involved in the integration process. One of the major factors that influence implementation of EA customs union is the language where it was found that English is most preferred for integration. One of the challenges facing the East African integration is the fact that the local citizens have the least awareness on issues revolving around integration. Not many of them are involved, hence the lack of interest. It can also be said that the long time the integration is taking has made some of the citizens lose track of issues and therefore the interest too.

## CHAPTER ONE: INTRODUCTION

### 1.1 Introduction

The East African Community is a regional integration that aims at achieving a sustainable and equitable economic and socio-ecological development for the partner states. The targeted development would be based on people-centered and private sector-led policy.

Following the dismal progress of the 1990s, the United Nations initiated the Millennium Development Goals (MDG) in an attempt to accelerate socio-economic progress in developing countries. The MDG aims at eradicating poverty, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating diseases, ensuring environmental sustainability, and developing a global partnership for development. Considerable progress with respect to the MDG is expected by the year 2015, the internationally agreed target. (Matambalya 2001).

The problem of faltering socio-economic progress is especially acute in sub-Saharan Africa (SSA). Poverty is widespread and severe, with more than half of the population living on less than \$1 a day. The region is faced with serious public health challenges, such as HIV/AIDS pandemic, malaria, and tuberculosis. The capacity to generate knowledge and to participate in the knowledge society is declining. Environmental degradation is rapid and severe. Domestic markets are too small to permit economies of scale that allow a country to be competitive and to integrate into the global economy.

In the theory of economic integration, a Customs Union is supposed to be the third stage of integration after a Preferential Trade Area and a Free Trade Area. (Bella Bnlassa. 1988). However, the Treaty for the Establishment of the East African Community provides that a Customs Union shall be the first stage in the process of economic integration. Therefore, real economic integration in the region will commence with the coming into being of the Customs Union (Matamhalya 2001).

The Treaty provides that the East African Customs Union shall be followed by a Common Market, then a Monetary Union and subsequently a Political Federation. It is upon this background that this study is formulated to study the factors that have influenced the member countries to propose creation of a customs union in East Africa.

### **1.1.1 East African Community Customs Union**

The first East African Community which had already reached an advanced stage of a Customs Union was established in 1968. The organization had been preceded by the East African High Commission whereby some economic and social services were provided as regional entities. At that time, East African Community was the first regional integration organization to have reached that advanced stage of integration. Unfortunately, that community broke up in 1977.

The Customs Union is part of the process started with the momentous decision of the COMESA founding fathers, to forge unity of purpose, way back in 1985. At that time,

there was talk of the other COMESA states joining the East African Community. But, due to the political and economic divergences among the three East African States, the idea was abandoned. The Economic Commission for Africa (ECA) was then mandated to draft the Treaty for the establishment of the Preferential Trade Area for Eastern and Southern Africa (PTA).

The PTA Treaty was signed in 1981 and all the three East African countries of Kenya, Tanzania and Uganda were among the founder members. The PTA Treaty provided for preferential tariff treatment between member countries on selected products. The PTA Treaty was upgraded when the preferential trade area was transformed into the Common Market for Eastern and Southern Africa (COMESA) in 1994. The COMESA Treaty provided for a programme of tariff reduction on all products traded between member countries, with the target of bringing the tariffs to zero percent, in 1998. It can therefore be said that the East African Community which collapsed in 1977 was somehow resurrected by the emergence of COMESA. The establishment of COMESA was, however, not good enough. The fact that the East African Community had reached a much more advanced stage of regional integration by the time of its demise remained a challenge to the East African states.

Fortunately, the COMESA Treaty, under the principle of variable geometry allows two or more member countries to cooperate, if they feel that by so doing, they would implement the COMESA programmes faster. Seizing on this opportunity, the three East African states decided to establish the East African Cooperation and signed the Co-

operation Agreement in 1993. The main rationale then was to implement the COMESA tariff reduction programme faster. The East African Co-operation was upgraded to a community with the signing of East African Community Treaty in November 1999 and to a Custom Union in March 2004. The question however is; what are the practical implications of establishing a customs union for the private sector in particular and the people of East Africa in general?

With globalization, the developing countries are facing a bigger challenge now than ever before, or integrating into the world economy. You are certainly aware that Africa's share in world trade has been shrinking. This will shrink even further, with the advent of the multilateral trading system, steered by the developed world, where the African countries have little or no voice to influence issues let alone turn the tide. The majority of the African countries have neither the technical capacity nor the financial resources to enable them participate sustainably and effectively, in multilateral trade negotiations to influence the outcomes of such negotiations. Under the circumstances, therefore, the only little hope for African countries is to come together and negotiate as a block. In that way, they stand more chances of negotiating better trade terms, with anybody. The East African Partner States have a better chance of participating more effectively in the World Trade Organization (WTO) and Economic Partnership Agreements negotiations with European Union, than any of them negotiating alone. The bigger the block, the better, if the block is well co-ordinated. The coming into force of the Customs Union however, poses some challenges, especially for the manufacturers and producers. The Customs Union means not only open borders, but open competition as well. It therefore implies



need for efficiency in production and reducing production costs so as to be able to compete effectively.

The Customs Union can be meaningful if there is net benefit to each Partner State, which would have not been realized without it. The issue is not whether the partners benefit equally but it is important that each partner state feels that there are benefits directly gained from the Customs Union. Such benefits will however, not come on a silver plate. It implies hard work. It means that as a country, we need to build productive capacity to take advantage of the export potential, in the region. The Customs Union has also raised a lot of questions, uncertainty and anxiety. The biggest threat to the Customs Union is fear of the unknown. The Partner States, the East African Community Secretariat and the private sector institutions have a duty to educate and sensitize members of the private, public and East Africans in general about the Customs Union and what is in it for the East Africans.

One of the reasons usually given for the collapse of the former East African Community in 1977 was that it was not people centered. That if it had been, people would have defended it and it would not have collapsed. A lot of sensitization programs will be required to demystify the Customs Union.

Non-tariff barriers have been minimized and the relationship between the partner states is at the level of "Brothers". There is also a lot of hope in the fact that the provisions of the

Customs Union Protocol and its annexes as well as the Customs Management Lnv. are not cast in stone. Nobody believes or claims that the Protocol was perfectly crafted in all its provisions and they can be revisited, when the need arises. As the common saying goes, "the taste of the pudding is in the eating". Once implementation has started the weak links of the chain will be easily identifiable and can then be re-fixed.

Uganda, Rwanda and Burundi are landlocked partners and, also a long distance from the coast. These are natural accidents, which nevertheless put it at serious disadvantage compared to its partners. The cost of transporting raw materials all the way from the coast, does not give comfort to most of our industries, which depend on the importation of raw materials and easy chance to compete far deep in its partners' markets. Nevertheless, its industries can compete in the border regions of our partners. The private sector in Uganda for instance, faces a myriad of constraints ranging from the high cost of utilities, lack of affordable finance to poor infrastructure. Compared to its partners, it also lacks the necessary skills for producing efficiently. Most of its industries are small, thus not able to take advantage of large-scale production (economies of scale), as they are still small.

Participation of the private sector in provision of utilities as already demonstrated through those who have ventured can go a long way in improving the situation. Moreover, if such utilities are developed, there is a possibility of tapping a bigger market by supplying to the other partner states. The F.A. Customs Union is still in its nascent stage. As a young baby, it is bound to suffer from certain infant diseases, but with good care it can survive



and grow. That care will invariably involve a lot of education and sensitization of the private and public sectors, the civil society and the general population in the partner states. One of the biggest threats to the Customs union is fear of the unknown.

### **1.1.2 Features of Customs Union**

The main features of a Customs Union include the following:

- a) A common set of import duty rates applied on goods from third countries (Common External Tariff. CET);
- b) Duty-free and quota-free movement of tradable goods among its constituent-customs territories;
- c) Common safety measures for regulating the importation of goods from third parties such as phyto-sanitary requirements and food standards.
- d) A common set of customs rules and procedures including documentation;
- e) A common coding and description of tradable goods (common tariff nomenclature. CTN);
- f) A common valuation method for tradable goods for tax (duty) purposes (common valuation system);
- g) A structure for collective administration of the Customs Union;
- h) A common trade policy that guides the trading relationships with third countries/trading blocs outside the Customs Union i.e. guidelines for entering into preferential trading arrangements such as Free Trade Area's etc with third parties.

Such main features of the EAC Customs Union are embodied in the Customs Union protocol and its annexure. Common Customs Law (and regulations) and the Treaty.

### **1.1.3 Objectives of the Customs Union**

While the objectives of the East African Community are broader and cover almost all spheres of life, the main objective of the customs union is formation of a single customs territory. Therefore, trade is at the core of the customs union.

It is within this context that internal tariffs and non-tariff barriers that could hinder trade between the partner states have to be eliminated, in order to facilitate formation of one large single market and investment area. Similarly, policies relating to trade between the partner states and other countries, such as the external tariffs, have to be harmonized.

Therefore, within a customs union, partner states have to behave as a single customs territory and trading bloc.

The aim of creating one single customs territory is to enable partner states to enjoy economies of scale, with a view to supporting the process of economic development. Unlike in developed countries, economic integration is not just for purpose of trade per se. but as a vehicle for bringing about faster economic development.

Nevertheless, a customs union on its own will not bring about faster economic development. Therefore, it has to be supported by other measures such as development of infrastructure, to link production areas to markets. In addition, measures to support development of human resources across the region are similarly important.

Currently, there is a broad consensus that taking all relevant issues into consideration, trade is beneficial to all countries. The merits of trade are manifested by its benefits for individual economies and the world as a whole, which include among other things, (i) static gains (i.e., competition-induced price changes in favour of consumers), (ii) conventional dynamic gains (i.e., influence of free trade on the trends and rate of technological progress and evolution), and (iii) upward convergence (through both learning and adoption of higher standards in relation to environment, remuneration policies, economic efficiency, etc.). as a contemporary manifestation of dynamic gains (Matambalya 2001).

The systematically increasing volume of international trade relative to gross world product (GWP) underscores, at least in part, the recognition of its merits. Notably, from a level of 1 percent in 1820, the share of global output that is internationally traded, trade grew to 15 percent by 1995. Also, between 1983 and 1995, global trade grew by 7 percent p.a. on the average, and this trend is ever increasing (Matambalya, 2001).

Nevertheless, trade benefits are contrasted by substantial costs. Some of the potentially negative effects of trade are underlined by the facts that, (i) imports may cause unemployment to domestic workers and harm the domestic economy's balance of payments (BOP), (ii) human nature being what it is, the dominance of multinational corporations (MNCs), which come with liberal trade, may be misused to manipulate terms of trade (TOT) and state institutions, a problem to which developing economies are usually exposed. It is upon this background that this research project is formulated to

study the factors that influence the implementation of East African Custom Union to the people of the region (Endoh. 1999).

## **1.2 Statement of the Problem**

On the average, the population size of EAC countries including Rwanda and Burundi is around 109 million people, with a GDP of around US \$30 billion. Such economies on their own are too small to attract any major meaningful investment in today's globalised economy, where mass production is vital to reduce unit costs. In 2000, with their total GDP of US\$25.553bn (Kenya-\$10.357bn; Tanzania-\$9.027bn; and Uganda-\$6.17bn) and a combined population of around 86 million people, the member states are notably different in their levels of development.

Only a few empirical studies examine regional economic integrations value to the people. At cross-country level, Endoh (1999) finds the European Economic Community (EEC) to have a trade creation effect, the Latin American free Trade Association (LAFTA) to have a trade diversion effect, and the Council of Mutual Economic Assistance (CMEA) to have a relatively stronger trade creation effect than the trade diversion effect. Aitken (1973), on the other hand finds the EEC to have no significant trade creation effects. Pelman (1977) finds the CMEA to have a trade creation effect,

At individual country level, Endoh (1999) finds the EEC and LAFTA to have no statistically significant effect on Japanese trade but finds the CMEA to have greatly reduced trade with Japan (i.e. trade diversion). Pelman (1977) finds the CMEA to have a trade diversion effect in the case of Czechoslovakia and East Germany. East African

Customs Union is a new development and little is known about the union. Hence, the study aims at bridging this study gap by focusing on factors influencing implementation of customs union in East African countries

### **1.3 Objective of the Study.**

The objective is to determine the factors that influence the implementation of customs union among the East African countries.

### **1.4 Importance of the Study**

This study is imperative to many stakeholders including the following:

#### **Researchers**

The study has a theoretical significance in that its results will be used by academicians and researchers as a launching pad for further studies related to the East African community and the Customs Union. This is more so because the customs union is a relatively new development in East Africa and this study is among the first to be carried out regarding its perceived effects. Other researchers will also find it useful in carrying out further research on areas not adequately covered by the study.

#### **The Government**

As far as the governments of the East African region are concerned, knowledge of the potential effects of the EACU will determine the strategies the government might put to compensate the affected firms. It will also help the government to envisage the potential

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economic growth, job creation, revenue collection and its impact on the public expenditure.

## Investors

Foreign investors will benefit from the results of the study since it will help them to decide which country among the partners they should invest in, what volume of investment to undertake, how and when to invest.

## **Other Institutions**

Finally the results of the study will also be beneficial to the institutions such as the Kenya Association of Manufacturers (KAM), Kenya Revenue Authority (KRA), Kenya Private Sector Alliance (KPSA), Kenya National Chambers of Commerce (KNCC), Uganda Revenue Authority (URA) and Tanzania Revenue Authority (TRA) who need this information to lobby for their economies



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Economic Integration

Economic integration is a term used to describe how different aspects between economies are integrated. The basics of this theory were written by the Hungarian Economist Bela Balassa in the 1960s. As economic integration increases, the barriers of trade between markets diminish. The most integrated economy today, between independent nations, is the European Union (EU) and its euro zone.

The degree of economic integration can be categorized into six stages.

- a) Preferential trading area
- b) Free trade area
- c) Customs union
- d) Common market
- e) Economic and monetary union
- 0 Complete economic integration

A Preferential Trade Area (PTA) is a trading bloc which gives preferential access to certain products from certain countries. This is done by reducing tariffs, but does not abolish them completely.

A free trade area is a designated group of countries that have agreed to eliminate tariffs, quotas and preferences on most (if not all) goods between them.

Countries choose this kind of economic integration form, if their economic structures are complementary. If they are competitive, they will choose customs union.

Unlike a customs union, members of a free trade area do not have the same policies with respect to non-members, meaning different quotas and customs duties. To avoid evasion (through re-exportation) the countries use the system of certification of origin most commonly called Rules of Origin (ROO), where there is a requirement for the minimum extent of local material inputs and local transformations adding value to the goods. Goods that don't meet these minimum requirements are not entitled for the special treatment envisioned in the free trade area provisions.

A customs union is a free trade area with a common external tariff. The participant countries set up common external trade policy, but in some cases they use different import quotas. Common competition policy is also helpful to avoid competition deficiency. The purposes for establishing a customs union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.

The East African Community (EAC) is an intergovernmental organisation with plans to form an East African Federation with one President by 2010 ruling over what were countries of Tanzania, Kenya, Uganda, Burundi and Rwanda. Currently, members of EAC are Kenya, Tanzania and Uganda, while Burundi and Rwanda joined on 1 July 2007. The first major step in establishing the East African Federation is customs union in East Africa signed in March 2004 and commenced on 1 January 2005. Under the terms of the treaty, Kenya, the biggest exporter of the three countries, will pay duty on its goods

entering Uganda and Tanzania until 2010 based on a low scale compared to non-members. A common system of tariffs will apply to other countries supplying the three countries with goods. FAC was originally founded in 1967. but collapsed in 1977 On 30 November 1999. the F.AC Free Trade Agreement was signed in the Tanzanian city of Arusha. In January 2001 at a ceremony held in Arusha. which is also its headquarters, the F.AC was revived. The new FAC treaty is the means for an economic and. ultimately in 2010. political union of the five countries.

A single market is a customs union with common policies on product regulation, and freedom of movement of capital, labour and enterprise. There should be movement of capital, labour, goods and services between the members as easily as within them.

Sometimes a single market is differentiated as a more advanced form of common market. In comparison to common market a single market envisions more efforts geared towards removing the physical (borders), technical (standards) and fiscal (taxes) barriers among the member states. These barriers obstruct the freedom of movement of the four factors of production. To remove these barriers the member states need political will and they have to formulate common economic policies.

An economic monetary union is a single market with a common currency. It is to be distinguished from a mere currency union (e.g. the Latin Monetary Union in the 1800s). which does not involve a single market.

Complete economic integration is the final stage of economic integration. After complete economic integration, the integrated units have no or negligible control of economic policy, including full monetary policies and complete fiscal policy harmonization. Complete economic integration is most common within countries, rather than within supranational institutions.

### **2.1.1 Benefits of » Customs Union**

Economies such as those of East African Countries are too small to attract a major meaningful investment in today's globalized economy, where mass production is vital to reduce unit costs through economies of scale (IMF, 2004).

By moving towards the creation of one economic region through the Customs Union, EAC will create a single market of over 100 million people (2002) and a combined GDI of around US\$30 billion. This large economic region can only be meaningful if it is more than a simple aggregation of neighboring countries. Currently, trade in the region is carried out under different tariffs; customs regulations, procedures and documentation. The EAC Customs Union will assist to level the playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on goods imported from third countries, which should assist the region to advance its economic development and poverty reduction agenda.

Further to this, the customs union will promote cross border investments and serve to attract investment into the region, as an enlarged market with minimal customs clearance formalities, shall be more attractive to investors than the previously small individual

national markets. In addition, the Customs Union will offer a more predictable economic environment for both investors and traders across the region, as regionally administered CET and trade policy will tend to be more stable.

Private sector operators based in the region with cross-border business operations will be able to exploit the competitive advantages offered by regional business locations, without having to factor in the differences in tariff protection rates, and added business transaction costs arising from customs clearance formalities. The regionally based enterprises will also get better protection, as enforcement of the CET will be at a regional level.

Most importantly, however, is the signaling effect that will arise from the member States agreeing to implement a common trade policy in their relationship with the rest of the world. This is important in view of the developments at global level, where countries are entering into economic partnership as regional groupings. The synergies created by technological transfer would stimulate economic growth as companies especially Kenyan firms such as Bidco, Kenya Commercial Bank (KCB) and East African Breweries limited (EABL) have positioned themselves strategically by moving to neighbouring countries e.g. Tanzania and Uganda. This will engender competitiveness which will in turn encourage more innovativeness ultimately leading to quality products and services to the people of the region.

Adjustment of the national external tariffs to the common external tariff will translate into major welfare gains for consumers through provision of quality products at low prices, if the CE1 on finished goods will be lowered as a result of such adjustment.

## **2.2 Strategy Implementation**

Strategic implementation and execution is aimed at shaping the performance of core activities in a strategy-supportive manner. It is easily the most demanding and time-consuming part of a strategy-management process. The reason implementation is difficult is that it forces a direction of organizational change, motivation of personnel, creation of strategy-supportive environment, and meeting or heating performance targets, which is anything but uneasy (Thompson et al. 2003)

Strategy implementation is concerned with the translation of strategy into organizational action through organizational structure and design, resource planning and the management of strategic change (Johnson and Scholes. 1999). When considering implementation, questions relating to who should be responsible for carrying out the predetermined strategic plans, what changes are necessary must be addressed.

According to Mintzberg (1978). implementation means carrying out the predetermined plans. Some strategies are planned and some others just emerge from actions and decisions of organizational members. The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful. In most cases different people from those who formulated it do implementation of the strategy. For this reason, care must be taken to communicate the

strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if the affected parties resist its implementation because they do not understand why the particular strategy was selected (Thomson. 19%)

Putting the strategy into effect and getting the organization moving in the direction of strategy accomplishment calls for a fundamentally different set of managerial tasks and skills. Whereas crafting strategy is largely an entrepreneurial activity, implementing strategy is primarily an internal administrative activity. Whereas strategy formulation entailed heavy doses of visions, analysis, and entrepreneurial judgment, successful strategy implementation depends upon the skills of working through others, organizing motivating culture-building and creating strong fits between strategies and how organization does things. Ingrained behaviour does not change just because a new strategy has been announced. Implementing strategy poses the tougher, more time-consuming management challenge. Practitioner is emphatic in saying it is a whole lot easier to develop a sound strategic plan than it is to "make it happen" Thompson and Strickland. (2005).

### **2.3 Economic Welfare**

DeRosa (1998) found out that in terms of overall economic welfare, although Kenya and Tanzania gain from formation of the new F.A.C customs there will be trade creation. Whereas tariff revenues in Uganda are presently collected on a Cost plus Insurance and freight (C.I.T.) basis at the point of entry of imported goods to the country, under the

new customs union Ugandan tariff revenues will continue to be collected on a C I F basis, but at the point of entry of the imported goods to the customs union.

Collier and Reinikka (2001b), for instance, contend that Ugandan participation in regional integration arrangements in East Africa would promote expansion of regional exports of food commodities by the country, many of which are currently hindered by prohibitive import restrictions imposed periodically by its regional trading partners, especially Kenya.

Mayes (1978) argues that Kenya does capture the largest economic benefit from the new customs union, owing mainly to the country's current "dominance" of regional trade and regional manufacturing capacity. In contrast, the economic gains found for Tanzania derive principally from reduction of the country's current high protection. Uganda loses from formation of the new EAC customs union because under the high C.F.T scenario the country must raise its current average external tariff rate by over 50 percent, from 10 percent to 16 percent. This result for Uganda would imply a substantial setback if not reversal of Uganda's trade policy reforms during the 1990s which have made the country one of the most open in Sub-Saharan Africa and have significantly improved the performance of the country's export sectors. Indeed, under the high CET scenario, while total exports of Kenya and Tanzania increase by \$46.8 million and \$54.9 million per annum, respectively, Uganda's total exports decline by \$5.8 million per annum, led principally by decreased traditional exports of processed foods (chiefly coffee and tea).



If cognizance is properly taken of the economic losses to exporters outside the last African region arising from the customs union's diversionary effects on trade, the new F.A.C customs union should be expected to lower rather than raise overall world economic welfare Baldwin (1992) and Baldwin and Venables (1995)

The decline in primary product exports for Uganda under the high CEI scenario points to a possible contradiction of the assertion by Collier and Keinikka (2001) that regional integration arrangements in East Africa should be expected to stimulate Ugandan exports of food commodities.

#### **2.4 Industry Competitiveness**

Expansion of manufacturing in EAC countries under the new customs union should be expected to come mainly at the expense of traded manufactures originating from outside, not from within, the region (trade diversion). What threatens FAC producers of import-competing manufactures and other traded goods more fundamentally is trade creation. The simulation results indicate that trade creation (measured in terms of increased imports by sector) occurs mainly in Kenya and Tanzania, not Uganda. Thus, import-competing sectors are more likely to be "injured" in Kenya and Tanzania than in Uganda.

In Uganda, import-competing firms in the manufacturing sector benefit (chiefly at the cost of Ugandan consumers) from the significantly increased protection adopted by the country on joining the new FAC customs union under the high C.F.T scenario. This is manifested in the case of imports of machinery and equipment and imports of "other manufactures." Notably, producers of sensitive sector products face a modest degree of

increased competition from imports under the new customs union, because although protection is widely raised for sensitive sector products, protection for produced inputs used by the sensitive sectors also rises, and simultaneously the exchange rate appreciates by 2.6 percent. Overall, however, the increased protection causes real imports to decline across a wide range of manufactures and in total. Notably, the international competitiveness of Uganda's primary goods sectors, for instance, which account for the bulk of the country's exports, is also adversely affected through the indirect effect of the appreciation of the exchange rate. As a consequence, real exports from these sectors and in total also decline.

In contrast, Kenya and Tanzania enjoy substantial economic gains from liberalization of their external trade under the new customs union. This is especially true for Tanzania, which currently enforces an average tariff two-to-three times higher than the average common external tariff proposed for the new East African customs union. Also, imports of manufactures and sensitive sector products tend to increase more in Kenya and Tanzania than in Uganda, suggesting (again) that import-competing firms in Kenya and Tanzania face greater import competition and hence greater pressure for economic adjustment under the new EAC customs union than similar import-competing firms in Uganda. This pressure for economic adjustment, however, should be regarded in a more positive vein than the economic adjustment.

More thoroughgoing analysis of the impacts of the new EAC customs union on industry competitiveness in Uganda and its two EAC trading partners might be pursued by careful

assessment of the sector-by-sector simulation results for exports and imports reported in a technical appendix available from the authors to higher protection faced by import-competing firms in Uganda, because it necessarily involves adjustment to more competitive and efficient, "world-class" production technologies and management methods by import-competing firms in Kenya and Tanzania.

## **2.5 Open Regionalism**

All three EAC countries would enjoy higher economic welfare under open regionalism; Kenya by nearly 3 percent of GDP. Tanzania by 2 percent of GDP. and Uganda by nearly 1 percent of GDP (IMF, 1994). This outcome is consistent with theoretical expectations. Moreover, under open regionalism imports increase most in manufactures, and exports increase most in processed foods and other primary products in all three countries (within the manufacturing sector, exports of "other manufactures" expand most in both Kenya and Tanzania).

Because the exporting sectors that expand most are typically relatively labor intensive, the simulation results for open regionalism suggest there is significant scope for productive employment of workers released by import-competing sectors under nondiscriminatory trade liberalization in the three major East African countries. Finally, that actual tariff revenues are reduced by the greatest amount under the open regionalism scenario should not be considered an economic loss to the EAC economies. Instead, it should be regarded as simply a transfer of resources from the government to the private sector in each country, a transfer that might be "won" back in some measure by government

through political renegotiation of the economic policies and social contracts that govern taxation and provision of public goods in each country.

## **2.6 Challenges of the Customs Union**

While the Customs union will generate major benefits, it will also bring about greater competition among domestic firms. In the short run, the firms that stand to gain most are those that are already competitive. It is with this consideration in mind that the principle of asymmetry was adopted in the phasing out of internal tariffs, in order to provide firms located in Uganda and Tanzania with an adjustment period of five years.

Nevertheless, such firms may in the medium term overcome lack of competitiveness, through:

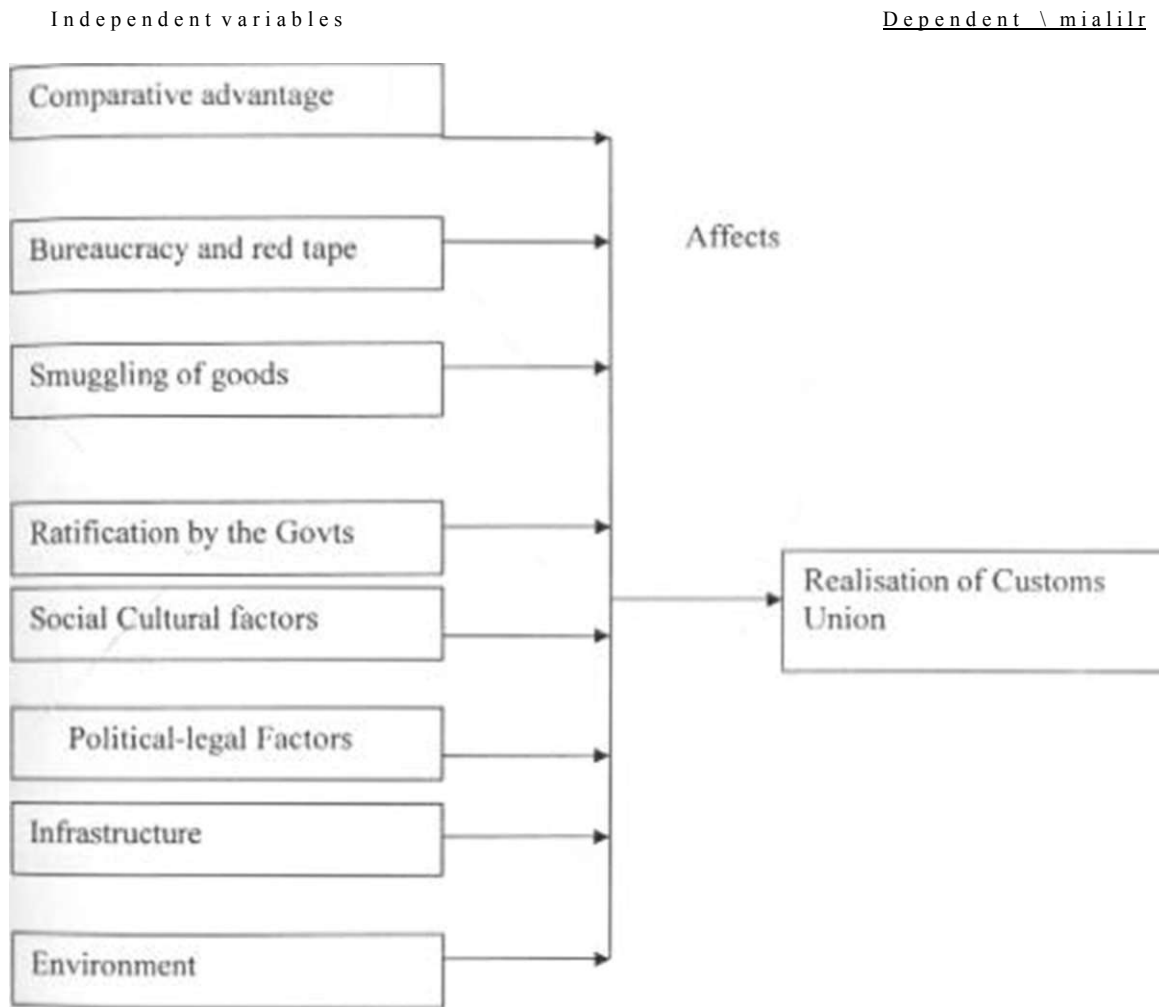
- u) Additional investment in newer production technologies;
- b) Specialization in activities where they have a competitive advantage
- c) Re-training of human resources; and
- d) Forming strategic alliances with their competitors

Another implication of the customs union is that it will minimize discretionary powers earlier enjoyed by partner states in trade regulation, and which sometimes had created uneven playing ground for firms. Such powers, in particular, relate to granting of exemptions from customs duties. The partner states have undertaken harmonization of their monetary and fiscal policies, which shall be administered regionally. In some cases, this has been viewed negatively as reduction of national sovereignty.

While EAC increases trade on the part of member states, it can lead to diversion of trade from a country, which faces external tariffs to another that no longer faces tariff. These two effects are referred to in the literature as trade creation and trade diversion (Collier, 2000). Trade creation will occur when a member state will import from the other members a product that was previously produced locally at a higher cost. That is, trade creation refers to the emergence of new flow of trade among partner countries replacing domestic production. Trade diversion occurs when a member state switches her importing activities from lower-cost nonmember states to member states so as to enjoy from low tariffs. Accordingly, trade creation represents an enhancement in welfare while trade diversion represents a decline in welfare. Since both trade creation and trade diversion are equally possible, whether or not bACU will produce a net increase in welfare in member states is an empirical issue.

## 2.7 Conceptual Framework

The factors influencing East African Custom Union are here below represented by a conceptual framework:



Comparative advantage is economic advantage over trading countries gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justify higher prices. The theory of comparative advantage explains why it can be beneficial for trading countries to trade if one has a lower relative cost of producing some goods or services. It refers to the opportunity cost which measures how much production of one good is reduced to produce more units of the other good

Culture is the man-made part of a people's environment and may be defined as the distinctive way of life of a people, for example, how the people of a society eat, the kinds of food they eat, and how they prepare and store such foods. It also includes a people's way of dressing and other norms. It may differ in terms of religion, education, behavior, values and attitudes. This can affect the trade across countries

Politics and the Governments control most of what is happening in the business environment. It is through political activities that many acts of parliament have come up related to business transactions. In politics one has to consider the relationship between countries, e.g. bilateral or multi-lateral relations. Political factors may depend on the attitude of the country's government, the product being traded on, and the company wishing to undertake trading activities, among others.

Hence there is need for strong political will and strong participation of the private sector and Civil Society in the co-operation activities.

Bureaucracy and red tapes refer to the various constitutional, parliamentary and administrative procedures applicable in each of the five countries so as to enable the legal integration of the custom union.

Infrastructure includes transport and communications systems such as road network, telecommunication network such as telephone services, ICIV and the internet. It also includes various financial and institutional resources necessary to implement the custom union among the five countries. Budgetary issues relating to source of finance and institutional framework regarding the scope of participation by each member country have to be adequately addressed.

The five member countries have to comprehensively agree on the necessary authorities and resources necessary to support such authorities in their efforts in identification and confiscation of smuggled goods.

Legal Frameworks must also be put in place through the L.A. Legislative Assembly (EALA) to promulgate tax laws for the smooth operations of the customs union and also to facilitate the prosecution of smugglers, and tax evaders.

Adequate policies must therefore be legislated to address differences in levels of development of the member-states.



The proposed road map by the five member countries for the establishment of LAC custom union provides for a referendum to be undertaken in all the countries as a form of ratification by the respective citizens of each country.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter highlights the procedures that will be adopted so as to achieve the objectives of the study and to address the research problem. It explains the type of data to be used, the population, the sampling technique, the sample size to be taken for the Study and the methods of data collection and analysis.

### **3.2 Research design**

The research is descriptive, explanatory' and exploratory in nature. It surveys the factors that influence adoption of a customs union in East Africa.

### **3.3 Population**

The population of the study will comprise the Government offices particularly Central Bureau of Statistics and the Ministry of Economic Planning. Kenya Association of Manufacturers (KAM) Customs Department and traders and the representatives from the embassies of the five member states of FAC.

### **3.4 Sample size**

The sample of this study is 180 respondents. The sample was selected using a stratified sampling technique. First, the population was grouped into strata according to the nature of stakeholders. The initial category was the country of origin which brought up five groups representing the five member states. Then, each group was further divided into two: government representatives and traders. A sample of 18 respondents was chosen from each stratum to bring the total sample size to 180 respondents.

### **3.5 Data Collection**

The study utilizes both primary and secondary data collected from government offices and other stakeholders such as traders in the region. Secondary data was obtained mainly from books, journals, magazines and government websites. Data sought included GDP growth rates for the three countries over the last 5 years, trade volumes between the countries over the same period, tariffs charged on this trade among others. The primary data was collected using a structure questionnaire that was sent to the respondents using both drop and pick method and mail.

### **3.6 Data Analysis**

The data collected was edited statistically for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final analysis. Descriptive statistics will be used to analyze data. Summary statistics inclusive of tables and percentages will be used for presentation purposes. The data collected from this study is presented through the use of charts and frequency tables. Mean scores and standard deviations are also evaluated and presented in tables.

## CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

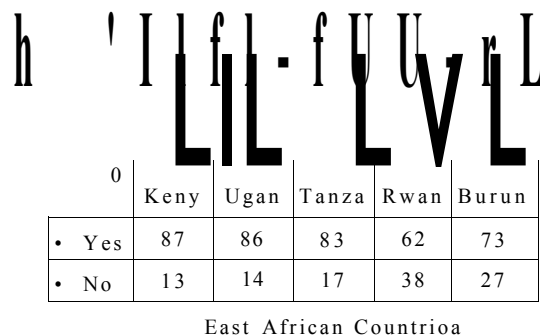
### 4.1 Introduction

Data collection process was guided by the objectives of this study. As earlier mentioned, this was a descriptive, explanatory as well as an exploratory study. The research questionnaire was semi-structured and was targeted to all stakeholders. The respondents were drawn from the government offices and traders. Secondary data was also collected and analyzed using descriptive statistics. This section provides the analysis of the data collection using from the semi-structured questionnaire as well as the secondary data obtained. The questionnaire was divided into five major sections named Section A through to Section F. Section A dealt with general information about the respondents Section B sought from the respondents their views on the benefits of customs union in East Africa. Section C sought factors influencing the implementation of customs union in East Africa. In Section D, challenges facing the implementation of a customs union in East Africa were sought. Questions about what should be done to improve the adoption of a customs union in East Africa were in Section F of the questionnaire. The questionnaire was sent out to ISO respondents using drop and pick method. Out of the questionnaires sent, 120 were received back for purposes of analysis but after properly checking for accuracy, consistency and completion, 110 were useful and were therefore used for analysis. This represents 61.1% response rate. The 110 questionnaires used for analysis exceed the minimum limit of 30 placed for the findings of such types of studies to be used for generalization to a larger population.

#### 4.2 Stakeholders' Information Analysis

The respondents for this study were mainly traders, customs unions in Kenya, Uganda and Tanzania. representatives from the embassies of the five member states and the Kenya Association of Manufacturers. The analysis in figure 1 below shows that most of the stakeholders are involved in the integration. Kenya's involvement is rated at 87 per cent. Uganda at 86 per cent. Tanzania at 83 per cent. Rwanda at 62 and Burundi at 73 per cent. The analysis further shows that Kenyan firms are the ones most optimistic of the idea of an integrated East Africa.

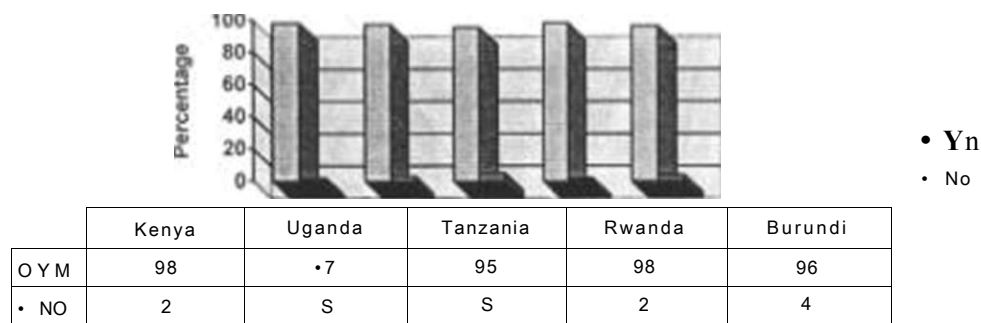
**Figure 1: Stakeholders involved in East African integration**



#### 4.3 Benefits of a Customs Union Analysis

The respondents were asked whether in their opinion they believed that there are benefits that can arise from East African integration. Most of the respondents believe that there are benefits to be derived from the East African integration. Kenya had 98 per cent. Uganda. 97 per cent. 95 per cent. Rwanda at 98 per cent and 96 per cent.

**Figure 2: Perception of benefit\* arising from EA integration**



On average, 74% of the respondents believe that the benefits of an integrated Fast Africa will be equitably distributed to all parties. Of concern is that 40% of Tanzanians believe that the benefits will not be equitably distributed among all the parties. Their reasons include the fact that other partners such as Kenya are way ahead in terms of development and are bound to benefit more than other parties. This could also explain the reason why 5% of Tanzanians believe that there are no benefits to be accrued from an integrated customs union and Fast Africa. Kenya has the highest number of respondents citing that the benefits of an integrated Fast Africa shall be equally distributed to all parties involved. This analysis is summarized in table I below.

**Table I Analysis of equitable distribution of benefits**

	<b>Yes</b>	<b>No</b>
Kenya	82%	18%
Uganda	80%	20%
Tanzania	60%	40%
<b>Mean</b>	<b>74%</b>	<b>26%</b>

A large number of respondents (89.7%) believed that there are limitations of a customs union that could reduce its importance. 10.3% of the respondents stated that there are no limitations to a customs union. Kenya had the highest percentage of optimists (13%) who believe there are no limitations to a customs union. This is summarized in table 2 below.

**Table 2: Limitations of a customs union**

	<b>Yes</b>	<b>No</b>
Kenya	87%	13%
Uganda	<b>92%</b>	8%
Tanzania	<b>90%</b>	<b>10%</b>
<b>Mean</b>	<b>89.7%</b>	<b>10.3%</b>

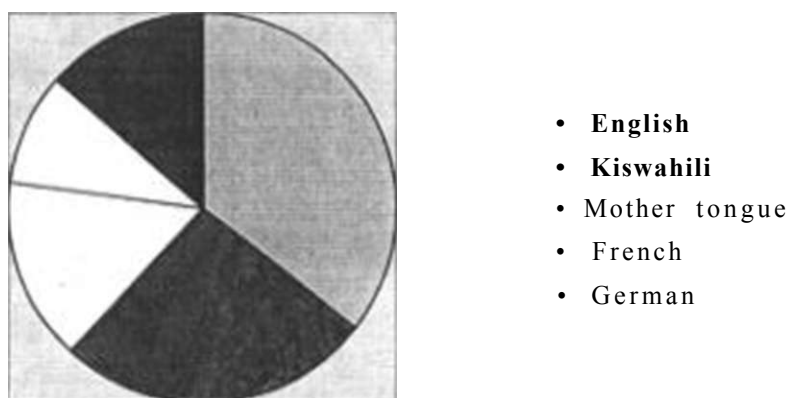
All the respondents cited the measures that could be adopted to counter the shortcomings of integrating East Africa. Some of the ways that were proposed included the adoption of a single currency for East African countries and the softening of regulation measures regarding human mobility within East Africa.

#### **4.4 Factors influencing the implementation of customs union**

Most respondents were asked to what extent they believed different languages affected the implementation of a customs union. According to the analysis in figure 3 below, it is highly evident that the most influential language in the integration process is English, with a mean score of 4.2. Kiswahili was second with a mean score of 3.1 points followed by mother tongue, German and French consecutively. English ranks highest because all the countries who are members of the East Africa use it as the official language having

been ruled by the same colonial master. Kiswahili was ranked second because it is spoken by a majority but not all members of the community. Kiswahili is used in Tanzania as the official language, in Kenya it is the national language. Mother Tongue being peculiar to different communities is not very influential owing to the cultural diversity existing in the region. Many people in the region do not use French and Germany. English and Kiswahili are thereby the only languages that are regarded most significant having scored a mean score above 3. The rest of the languages scored below the mean of 3 and are therefore regarded as less significant for integration purposes.

**Figure 3: Contribution of language to integration**



The respondents were asked to what means of communication would lead to faster adoption of the customs union. They were asked on a scale of 1 to 5 to state their approval levels with the modes of communication. 1 indicated least concurrence while 5 represented the highest concurrence. The analysis in table 3 below indicates that most of the respondents agree that information technology is the best mode of communication suited for faster adoption of the customs union in East Africa. The information



technology had the highest mean of 4.2. Apart from water transport and air transport which had means less than 3. all the other means of communication were significant hence appropriate for faster adoption of customs union

**Table 3: Preferred mode of communication**

<b>Means of communication</b>	<b>Weight</b>
Road transport	3.5
Railway communication	3.1
Air transport	2.5
Water transport	2.2
Information technology	4.2
News bulletin	3.7
Mass media	3.5
Public gatherings by government agents	3.2
Public gathering through civic society	3.9

For the communication channels they preferred to promote fast tracking of the Fast African integration, the respondents believed that information technology stood n better chance to promote the integration process. This had a score of 4.7. It is also emerging from the analysis that the civic society has a bigger role in the integration process. They were considered the second-best suited to promote fast tracking of Fast African integration. Their role should be that of educating the public on the importance of the

East African integration. Again, air and water transport are insignificant in the process of integration, **factor** analysis is presented in table 4 below.

**Table 4: Preferred channel for fast tracking of integration**

<b>Channel</b>	<b>Weight</b>
Road communication	3.7
Railway communication	3.2
Air communication	2.7
Water communication	2.5
Information technology	4.7
News bulletin	3.6
Public gatherings by government agents	3.5
Public gatherings through civic society	3.8

Infrastructure, resource endowment, political stability, environmental conservation, legal framework, information technology and administrative systems are the major factors that should be considered in undertaking the integration process. They scored points above the mean of 3. Cultural diversification and proximity were not considered important as they scored less than 3. The results of the analysis are presented in table 5 below.

**Table 5: Factors to be considered in undertaking integration**

<b>Factors</b>	<b>Weight</b>
Infrastructure	4.7
Legal framework	4.1
Resource endowment	4.3
Environmental conservation	4.2
Information technology	3.8
Cultural diversification	2.8
Proximity	2.1
Political stability	4.3
Administrative systems	3.5

#### **4.5 Challenges Facing Implementation of Customs Union**

This section presents the results of the analysis of the challenges facing implementation of a customs union in East Africa. The first question in this section sought answers on the awareness of some groups on the East African integration. The analysis in table 6 below shows that all the groups are aware of the integration. National politicians and government officials were considered to be more aware of the integration. Ordinary citizens are also aware of the integration but were considered to be having lower awareness as compared to other groups.

**Table 6: Awareness of East African integration**

<b>Group</b>	<b>Weight</b>
National politicians	4.2
Focal authority politicians	3.6
Ordinary citizens	3.1
Intellectuals/Academics	4.6
Non-governmental organizations	3.7
Government departments	4.2

The respondents were also asked to what extent they perceived languages were being utilized in East Africa. They gave a score in percentage against each language. The summary of the analysis is presented in table 7 below. The analysis shows that the most commonly used language in the countries is English for Kenya, Uganda, Rwanda, Burundi and Tanzania. Kiswahili is commonly used in Kenya, Tanzania and Uganda while Rwanda and Burundi use French most of the time. Therefore, the most preferred language for integration, from the analysis, is English with an average score of 54.6% but Kiswahili can also be used alongside English.

**Table 7: Utilization of language\***

	<b>English</b>	<b>French</b>	<b>Kiswahili</b>	<b>German</b>
Kenya	62%	2%	69%	0.03%
Uganda	<b>74%</b>	3%	12%	0.12%
Tanzania	54%	14%	95%	2%
Burundi	53%	73%	10%	-
Rwanda	30%	<b>74%</b>	14%	-
<b>Average</b>	<b>54.6 (%)</b>	<b>33.2 (%)</b>	<b>40 (%)</b>	<b>0.43 (%)</b>

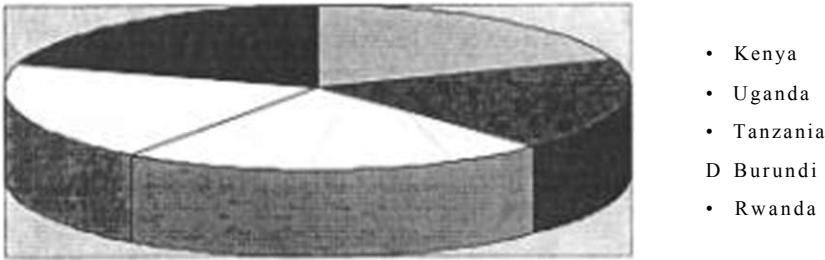
The most commonly used means of transport and communication in East Africa according to the analysis in table 8 below is road transport which scored an average of 76.8%. Water, air and rail transport are still underutilized, telecommunications is also highly used as a means of communication with an average score of 70% in the five East African countries. Summary of the results by country is presented in table 8 below

**Table 8: Utilization of means of transport and communication**

	<b>Rail (%)</b>	<b>Road (%)</b>	<b>Air (%)</b>	<b>Water (%)</b>	<b>Telecom &lt;%)</b>
Kenya	<b>14</b>	75	17	25	72
Uganda	16	77	14	20	69
Tanzania	15	80	15	27	70
Burundi	<b>11</b>	79	16	<b>11</b>	68
Rwanda	10	73	15	12	71
<b>Average</b>	<b>13.2%</b>	<b>76.8%</b>	<b>15.4%</b>	<b>19%</b>	<b>70%</b>

On the perceived effectiveness of administrative structures, all the countries were believed to have effective administrative structures for realization of the union. Tanzania was however believed to be having the most effective administrative structure with a mean of 4.2 followed by Rwanda with 3.8. Summary of the results by country is shown in figure 4 below.

Figure 4: Effectiveness of administrative structures



The respondents were also asked their perception on the effectiveness of water transport system. They were asked to state whether the system was poor, fair, good, very good or excellent in the five countries. These were coded into 1 through to 5 for purposes of analysis respectively. The results of the analysis, presented in table 9 below shows that water transport is fairly developed in the five African countries. It is only in Kenya and Tanzania that the water transport system is well developed as the analysis shows that the mean exceeds 3. Countries around Lake Victoria and along the Indian Ocean seem to have better transport systems than their land-locked neighbors such as Rwanda and Burundi.

**Table 9: Effectiveness of water transport system**

Country	Weight
Kenya	3.3
Uganda	2.5
Tanzania	3.6
Burundi	1.1
Rwanda	1.2

Rwanda is perceived to be having the most effective telecommunications system in East Africa. Its effectiveness was estimated at 4.1 and was closely followed by Burundi with a score of 3.8. This analysis is presented in table 10 below. It can also be observed that all the countries scored a mean above 3 and shows that all the countries have developed their telecommunications systems which is beneficial when it comes to fast tracking of the East African community.

**Table 10: Effectiveness of telecommunications system**

Country	Weight
Kenya	3.7
Uganda	3.3
Tanzania	3.2
Burundi	3.8
Rwanda	4.1

#### 4.6 Ways to improve adoption of Customs Union

This section presents the results of analysis on the ways to improve the adoption of a customs union in East African countries. The respondents were asked to suggest their preferred level of economic integration they believed can make the adoption of a customs union a reality. According to the analysis in table 11 below, the East Africans prefer a free market economy where the market rewards all the stakeholders. Cross-listing of companies was second with a mean of 3.2. The results show that remaining levels of economic integration are not preferred. The results for mixed economy, joint inter-state owned ventures and free property ownership were insignificant since they scored a mean less than 3.

**Table 11: Preferred economic level of integration**

Level of integration	Weight
Cross listing of stocks	3.2
Free market economy	4.8
Mixed economy	2.5
Joint inter-state owned ventures	1.4
Free property ownership anywhere in the region	2.2

The most preferred social level of integration among the East Africans was found to be a one region transport with a mean of 4.2. This was followed by multiple citizenship, joint inter-government project and visa-less cross border. The results for no foreign vehicle permit were insignificant showing that it is a less preferred for social integration. Summary of the analysis is presented in table 12 below.



**Table 12: Preferred social level of integration**

<b>Level of integration</b>	<b>Weight</b>
One region transport	4.2
Multiple citi/cnship	3.6
Visa-less cross border	3.2
No foreign vehicle permit	2.4
Joint inter-government project	3.3

Integrated IT policy was also found to be the most preferred level of technological integration. It scored a mean of 4.7. Seamless telecommunications networks were also found to be quite significant for integration. Integrated e-gov eminent was the least preferred form of technological integration. This analysis is summarized in table 13 below.

**table 13: Preferred technological form of integration**

<b>Level of integration</b>	<b>Weight</b>
Seamless telecommunication networks	4.4
Integrated e-gov ernment	2.4
Integrated IT policy	4.7
Sponsoring joint regional R&D initiatives	4.1

Regional joint policy was also found to be the most preferred ecological level of integration with a mean of 4.3 followed by regional joint policy on wildlife and natural resources. Regional joint integration policy on education was the least preferred among

the ecological levels of integration. All the levels were significant as the scores were above 3. This is summarized in table 14 below.

**Table 14: Preferred ecological level of integration**

<b>Level</b>	<b>Weight</b>
Regional joint policy on environment	4.3
Regional joint policy on education	3.1
Regional joint policy on wildlife and natural resources	3.9

The preferred legal framework of integration was laws with jurisdiction across the region but scored just above 3 points at 3.3. Common civil and criminal laws across the region and common economic crimes laws across the region were the least preferred levels of legal integration. The summary of results is provided in table 15 below.

**Table 15: Preferred legal framework of integration**

<b>Level</b>	<b>Weight</b>
Laws with jurisdiction across the region	3.3
Laws having jurisdiction limited to partner states	3.2
A hybrid of regional and partner state laws	3.1
Common civil and criminal laws across the region	2.5
Common economic crimes laws across the region	2.9

## CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This section discusses the findings of the study and conclusions. Recommendations for further research are also presented here.

### 5.2 Conclusions

From the analysis, most of the organizations are involved in the integration process with Kenya having the highest number of organizations involved in the integration (87%). Tanzanian firms are the most pessimistic ones with 17% of the respondents citing that they were not involved in the integration process. 5% of the organizations in Tanzania cited that there were no benefits that would be derived from an integrated East Africa while 40% of them said the benefits would not be equitably distributed to all parties. On average, 85% of the firms in East Africa are involved in the integration process and about 97% of the firms believe that the integration would bring some benefits to the parties involved. However, 26% of the firms in East Africa believe that the benefits of the integration will not be equitably distributed among all parties.

The study also found out that 90% of the respondents believe that there are certain factors that would impede implementation of a customs union in East Africa. One of the factors identified was the language where English was the most preferred for purposes of integration having scored a mean of 4.2 out of the maximum five. It is also used by 56% of the East Africans. Information technology was the most preferred mode of communication for faster adoption of a customs union having scored a mean of 4.2. It

was also the most preferred channel of communication for fast tracking of integration with a mean of 4.7. Infrastructure was identified as the most important factor that should be considered in undertaking the integration.

The challenges facing implementation of a customs union include the low level of awareness among ordinary citizens in East Africa. Most of the means of transport are still underutilized in all the five countries with the most being utilized as roads at about 77%. But the state of road network in East Africa is still very low as most of them are not in very good conditions. The railway lines have never been constructed since Britain left East Africa four decades ago.

Tanzania is perceived to be having the most effective administrative structures but most countries scored above the mean of 3. This shows that all the East African countries have strong administrative structures that should aid in fast tracking of an integrated East Africa. Tanzania also has the most effective water transport system while Rwanda has the most effective telecommunications system.

On the preferred level of economic integration, most of the respondents preferred a free market economy. For social level of integration, the respondents preferred one region transport system. The respondents also preferred an integrated IT policy for technological integration while the regional joint policy on environment was the most preferred for ecological level of integration. For the preferred legal framework of integration, the respondents preferred to have laws with jurisdiction across the region.

### **5.3 Recommendations**

Success of the East African Customs Union will only be achieved and sustained through the existence of a conducive political will and legal framework, sound micro and macro-economic policies, renewed efforts towards good governance, and institutional developments. The end value should essentially lead to social interaction between the citizens of the member states. The importance of free trade area through E.A Custom's union in raising the living standards of the citizens of the members is fundamental.

A people centered approach should be used to sensitize the people of East Africa to understand and embrace the importance of an integrated FACU. Legal frameworks should also be established to combat malpractices such as smuggling. There should be concrete, prudent guidelines to ensure implementation of the LACU. There should also be emphasis on principles of comparative advantage to ensure that the members enjoy quality products at lower prices. For instance, Uganda can produce bananas at lower unit costs than other member countries and should therefore be encouraged to produce and export to the other member states,

### **5.4 Limitations of study**

Although the overall response rate was high, the study suffered from the limitation of reaching all the targeted respondents. Members such as Rwanda and Burundi joined the FAC when the study was already underway thus the research had to restrict the responses from these countries to the representatives from their embassies.

### **5.5 Areas for further research**

The study proposes that more research be done to find out why Tanzania seems to be lagging behind in embracing the idea of a customs union. More answers also need to be provided on what the most effective steps are to integrate all the East African countries. This study has provided what the participants believe should be the way to go in terms of integrating the 5 East African countries. The cost and benefit analysis of each level of integration need to be done to come up with the most cost effective way of integrating the five economies.

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## APPENDIX: QUESTIONNAIRE

### FACTORS INFLUENCING IMPLEMENTATION OF CUSTOMS UNION IN EAST AFRICA COUNTRIES

#### SECTION A: STAKEHOLDER INFORMATION

1. Organization
2. When was the Organization set up?
3. Is the Organization involved in the integration process?

YES      •                                      NO      •

#### SECTION B: THE BENEFITS OF CUSTOMS UNION IN EAST AFRICA

4. In your opinion, are there any benefits that can arise from the customs union

Yes      •

No

5. List the benefits below?

6. Do you think all the parties in the union will equitably obtain these benefits? Explain.

7. In your view, are there any limitations of a customs union that may reduce the importance in East Africa? Explain briefly

8. Are there any steps that can be adopted to reduce the effects of these shortcomings in East Africa? Explain

**SECTION C: FACTORS INFLUENCING THE IMPLEMENTATION OF CUSTOMS UNION IN EAST AFRICA**

9. To what extent has the language given here affected the implementation of customs union in East Africa (Use 1, 2, 3, 4 and 5 to indicate strength of approval/concurrence)? Rank in order of preference 5 represents the highest level of approval and can be used more than once?

	1	2	3	4	5
Kiswahili					
English					
French					
German					
Mother Tongue (Specify)					



1.0 Which of the following means of communication can lead to faster adoption of the customs union (Use 1, 2, 3, 4 and 5 to indicate strength of approval/concurrence)? Rank in order of preference - 5 represents the highest level of approval and can be used more than once.

	1	2	3	4	5
Road Communication					
Railway Communication					
Air Communication					
Water Communication					
Information Technology					
News Bulletins					
Mass media					
Public Gatherings Government agents					
Public gathering through civil society					
Suggest any other					

11. Which of the following communication channels should be preferred to promote the fast tracking of the LAC integration (Use 1, 2, 3, 4 and 5 to indicate strength of approval/concurrence)? Rank in order of preference - 5 represents the highest level of approval and can be used more than once.

Channels	Kunkini*
Road Communication	
Railway Communication	
Air Communication	
Water Communication	
Information Technology	
News Bulletins	
Public Gatherings by Government agents	
Public gatherings through civil society	
Suggest any other	

12. To what extent should the following factors be considered in undertaking the integration process? Rate (5 = large extent and 1-least extent)

Factors	Ranking
Infrastructure	
Legal framework	
Resource Endowment	
Environmental conservation	
Information Technology	
Cultural diversification	
Proximity	
Political stability	
Administrative systems	

SECTION I): CHALLENGES FACING THE IMPLEMENTATION OF CUSTOMS UNION FAC

13. Do you think the following categories of people are aware of the LAC integration (Use 1, 2, 3, 4 and 5 to indicate strength of approval/concurrence)?

	Rating in order of approval
National Politicians	
Local Authority Politicians	
Ordinary Citizens	
Intellectuals'Academics	
Non-governmental Organizations	
Government Departments	

14. State the perceived extent (%) of utilization of the following languages in East African Community.

	English	French	Kiswahili	German	Others
Kenya					
Uganda					
Tanzania					
Burundi					
Rwanda					

15. State the perceived extent (%) of utilization of the following means of transport in FAC

	Rail	Road	Air	Water	T de Coa
Kenya					
Uganda					
Tanzania					
Burundi					
Rwanda					

16. State the perceived effectiveness of administrative structures in the following countries in realization of the union.

	Poor	Fair	Good	Very Good	Excellent
Kenya					
Uganda					
Tanzania					
Burundi					
Rwanda					

17. State the perceived effectiveness of the water transport system in the FAC region

	Poor	Fair	Good	Very Good	Excellent
Kenya					
Uganda					
Tanzania					
Burundi					
Rwanda					

18. State the perceived effectiveness of the telecommunication system in the FAC region.

	Poor	Fair	Good	Very Good	Excellent
Kenya					
Uganda					
<b>Tanzania</b>					
Burundi					
Rwanda					

**SECTION E: WAYS TO IMPROVE THE ADOPTION OF A CUSTOMS UNION IN E.A.COUNTRIES**

19. Suggest any preferred level of Economic levels of interaction of the citizens of the EAC that you believe can make adoption of the customs union a reality? (Use 1. 2. 3. 4.5 to indicate the strength of approval).

	1	2	3	4	5
Cross Listing of Stocks					
Free Market Economy					
Mixed Economy					
Joint Inter-State Ownership Venture*					
Free Property ownership anywhere in Region					

20. Suggest any preferred Social levels of interaction of the citizens of the EAC that you believe can make stakeholders more integrative across the region in establishing the union (Use 1,2, 3,4, 5 to indicate the strength of approval).

	1	2	3	4	5
One Regional Passport					
Multiple Citizenship					
Visa less cross border					
No Foreign Vehicle permits					
Joint Inter-governmental Project					

21. Suggest any preferred Technological levels of interaction of the citizens of the EAC that you believe can make the proposed customs union adoption process more effective? (Use 1.2. 3.4. 5 to indicate the strength of approval).

	1	2	3	4	5
Seamless Tekcon Network*					
Integrated E-Government					
Integ/uied Informal Technology Policy					
Sponsoring Joint Regions KA 1) Initiatives					

22. Suggest any preferred Ecological levels of interaction of the citizens of the EAC that you believe could make the stakeholders appreciate the union (Use 1, 2, 3, 4, 5 to indicate the strength of approval).

	1	2	3	4	5
Regional Joint Policy on Environment					
Regional Joint Policy Fduction.					
Regional Joint Policy on Wildlife and Natura Resources					

23. Suggest any preferred Legal Framework of interaction of the citizens of the EAC that you believe could make communication among stakeholders more integrative across the region (Use 1. 2, 3, 4. 5 to indicate the strength of approval).

Legal framework/weights	1	2	3	4	5
Laws with Jurisdiction across the Region					
Laws having Jurisdiction limited partner State*					
A Hybrid of Regional and Partner State Laws					
Common Civil and Criminal Laws across the Region					
Common Economic Crimes Laws across the Region					

**THANK YOU! FOR YOUR COOPERATION**