Perceived Benefits and Challenges of the East African Customs Union: The case for the Kenyan Manufacturing Industry

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DECLARATION

This research project is my original work and has never been presented for a degree in any university.

Signature------------------------------

Date-----27/7/06----------------------------

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

Signature------------------------------

Date----8-8-06-------------------

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List of Abbreviations

APEC	Asia Pacific Economic Cooperation
CBS	Central Bureau of Statistics
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
CM	Common Market
EAC	East African Community
EEC	European Economic Cooperation
EACU	East African Customs Union
EFTA	European Free Trade Area
ERP	Effective Rate of Protection
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
GNP	Gross National Product
NAFTA	North America Free Trade Area
PTA	Preferential Trade Area
RTA	Regional Trading Agreement
RIA	Regional Integration Agreement
SADC	South African Development Cooperation
WTO	World Trade Organization

Chapter One

INTRODUCTION

1.1 Background

Global trade has undergone varied transformations since the advent of mercantilism. International trade has recently assumed new competitive levels with more liberalization and calls for free and fair trade. Many countries have subsequently realized that they need to seriously strategize themselves for the resultant competition in the international arena (Suranovic, 1998). It therefore often makes sense for nations to coordinate their economic policies across boundaries because co-ordination is assumed to generate benefits that are not possible otherwise. If countries cooperate through the reduction of tariffs against each other, then several benefits are expected to accrue in this type of arrangement (Kisanga, 1984).

The world is moving towards more globalization with more trade in goods and services, increased labour and capital mobility and faster and cheaper communication and transportation. Against this background competition for markets is becoming stiffer, thus requiring new and sophisticated strategies by countries and traders. To address this problem, the global environment is becoming more interdependent with boundaries collapsing, market economies expanding and a general change in the political, economic and social structures that is fast transforming the world into a village. At global level nations have embraced the World Trade Organization (W.T.O) as the umbrella organization to oversee trade liberalization.). The W.T.O which was created to foster free trade and investment is considered a basic framework for generally achieving sustained development of the world economies and specifically, aims at addressing the commercial and development needs of the less developed economies. The WTO provides, as a basic structure for collaboration, the creation of Regional Trading Agreements (RTAs).

At regional level therefore, countries have adopted different collaborative strategies in addressing the emerging challenges. Regional economic integration is one of the strategies adopted by many continents including the African region. Some of these regional blocs in Africa include the Common Market for East and Southern Africa (COMESA), the Southern Africa Development Cooperation (SADC) and the East African Community (EAC. A number of the regional blocs have signed regional trading agreements which provide for the regulation of intra and inter country trade.

1.2 Regional Integration In East Africa

The East African Community (EAC) comprising three countries of Kenya, Uganda and Tanzania was established by a treaty signed on 30th November 1999 and came into force on 7th July 2000 after its ratification by all the three countries (East African Secretariat, 2004). This was however, preceded by various attempts at integration dating back to the British Colonial rule, with the first customs union between Uganda and Kenya being established as early as 1917 and extended to cover Tanganyika in the 1920's (Kisanga, 1984). From the beginning of the 1950's a Common Market was in operation and through an industrial licensing system, industries that had exclusive protection throughout East Africa were developed in Kenya.

In 1967, the East African Community was created with one of its prime objectives being the balancing of industrial trade between the three countries. This attempt however, failed because the East African countries were all exporters of primary commodities and importers of industrial products from the Western Industrialized countries, mainly the former colonial master, United Kingdom (Kisanga, 1984). The three countries also continued to produce virtually the same primary commodities Viz sugar, Tea, Coffee, Sisal and Cotton; which could not be the subject of interstate trade but had to be exported to the industrialized countries to earn Foreign Exchange for the importation of industrial goods. The result was that they could not sell much to each other, even as the developed countries increased their imports into the region. Comparative studies carried out by COMESA (2003) on the East African trade structures showed that imports from third countries grew faster than trade between the partner states in the region after the Preferential Trade Area (PTA) came into place. The study argued that this situation arose out of an environment where the structure of regional production had not evolved in line with the structure of regional demand.

The COMESA study further argued that the assumptions on which the Treaty had been based were either wrong or the partner states had behaved in ways that frustrated its potential benefits. The study was further critical of the underlying assumption that trade was a substantial engine of growth, capable of causing expansion of the region's economy and creating incomes so as to lead to a balanced and more efficient pattern of East African Industry. The study found that since the manufacturing activity depended upon inputs from non East African Countries, there was a narrow base on which to liberalize trade and a correspondingly narrow scope for potential benefits from trade liberalization. The study further concluded that there existed an important asymmetrical relationship between the structure of production and consumption that led to a situation where the region produced what it did not consume and consumed what it did not produce leaving no room for successful industrial and trade cooperation. The study concluded that, without shifting focus to a structural change, one could not envisage potential benefits being realized in the region.

In his research Nomvete (1997) found that poor consultation and integration of the population in the cooperation arrangements and therefore the scant awareness on the issue of economic integration within the private sector and at the grassroots level, was the cause of past "pitfalls of integration" in Africa. Cooperation, he argued, was further inhibited by the dearth of local private entrepreneurs with technical and managerial skills.

1.3 The East African Customs Union

The current East African Customs Union is envisaged under Article 2 of the East African Community. Under this article the objectives of the Union include the liberalization of intra-regional trade; the promotion of efficiency in production based on the mutually beneficial trade arrangements among the partner states; the enhancement of domestic, cross border and foreign investment and, the promotion of economic development and diversification in industrialization, within the Community (East African Secretariat, 2004).

With the inauguration of the East African Customs Union the community is expected to benefit from the creation of a single market of over 90 million people (as per the 2002 population census) and a combined GDP of around US$ 30 million. The union is further expected to assist in leveling the playing field for the region's producers by imposing a uniform competition policy and law while also imposing common customs procedures and external tariffs on goods imported from third countries. These are expected to assist the region advance in economic development.

The creation of a large economic region can only be meaningful if it is done not just as a simple aggregation of neighboring countries but to promote cross-border investment and to attract investment into the region. The enlarged market is expected to have minimal customs clearance formalities and be more attractive to investors than the previously small individual national markets. It is further expected to offer a more predictable economic environment for both investors and traders across the region because a regionally administered CET and trade policy tends to be more stable (East African Secretariat, 2004).

Manufacturers based in the region with cross border business operations hope to exploit the comparative advantages offered by regional business locations, without having to factor in differences in tariff protection rates, and added business transaction costs which arise from customs clearance formalities (Hirji, 2004). The regionally based enterprises will also expect to get better protection, as the enforcement of the CET will be at regional level. In the event where, the CET on finished goods will end up being lowered as a result of the adjustment in the national external tariffs, it should result into major gains for the consumers (East African Secretariat, 2004). In view of the global proliferation of trading blocs, the customs union is expected to suitably anchor the region in its relationships with major international trading partners.

1.4 The Kenyan Manufacturing Industry

The Kenyan manufacturing industry is typically categorized into the large and small manufacturers. There are those who manufacture for both the local market and for export and others who mainly manufacture for the local market. Manufacturers can also be categorized between the indigenous firms with the majority shareholding being held by Kenyans and the multi national firms, whose majority share holding is foreign. In all these cases the manufacturers could be producing products whose inputs or raw materials are mainly local or others that have a high mix of local and low mix of foreign inputs. There are a few others who produce, with a higher mix of foreign inputs and a low dose of local materials. All manufacturing firms whether local or foreign owned, are subject to the same tax regulations, save for firms set up in the Export Processing Zones who are duty-exempt on what they produce for export.

The growth of the manufacturing industry in Kenya has been guided by government policy and as early as the 1920s when the colonial government attempted the first integration of the East African States, Kenyan manufacturers were seen as being favored over their counter parts in Uganda and Tanzania. The British settlers had set their base in Kenya and sought to capture the East African market through integration (Kisanga,1984). Since then, Kenyan manufacturers have heavily relied on the East African market for their products. The history of the manufacturing industry in Kenya is therefore, a history of protection (Anderson, 2003). Even after independence Kenya, adopted an import substitution strategy by which the young manufacturing industry was assisted to produce for the market, in effect engendering a non-competitive spirit in the industry. The industry was however, assisted by the fact that out of the historical accident of the preference for Kenya by the British settlers, many of the industries were initially set up in the country thus making the industry more developed here than the neighboring countries.

The protection that was instituted was in the form of tariffs, non-tariff barriers, export subsidies, consumption taxes on inputs for industries and foreign exchange (Anderson, 2003). Several studies have been undertaken to analyze the structure of protection in Kenya (Keyfitz et al, 1991, Damus et al, 1989). The main findings indicated that the manufacturing industry in Kenya was accorded high levels of protection; the service sectors had negative Effective Rates of Protection (ERP) and, the agricultural sector had very low levels of protection.

1.5 Nature and Importance of Perception

Perception is the process by which information about the world, as received by the senses, is analyzed and made meaningful (Hornby, 1995). One perceives something, on the basis of information received or available. Perception could therefore be said to be representation of the evaluative capacity of an individual given the internal and external information. Luthans (1992) explains perception to be an interpretation which is unique to the individual and not an exact recording of it. Many cognitive psychologists hold that as we move about in the world, we create a model of how the world works (Wikipedia Encylopedia 2005).

A major issue in the philosophy of perception is the possibility of discrepancies between the external world and the perceiver's impressions.

Freudian psychology suggests that self-deception is an illusion of the ego and cannot be trusted to decide what is in fact real. John Locke and Immanuel Kant held that we can only be aware of the external objects by being aware of representations of objects. In George Berkeley's exposition on idealism he argues that we can only be aware of things through the mind while David Hume on the hand contends that we can never know for certain whether external objects exist.

Individuals largely act according to their perceptions making it a significant aspect in decision-making. Because perception leads to an individuals impression of the world, its study may be important for those interested in better understanding, communication, the self, and even reality.

1.6 Statement of the Problem

Since 1999 Kenya has consistently enjoyed an edge over its East African partners in the balance of trade with Kenyan exports to Tanzania standing at eleven times its imports from that country, while Uganda's imports to Kenya were thirty times Kenya's exports to that country (C.B.S, 2005). The beneficiaries of this balance of trade include the Kenyan manufacturers. With the formation of the Customs Union, the Kenyan manufacturers have got very high expectations for the creation of more trade with the partner states. According to Hirji (2004), the formation of the customs union was highly welcome by the East African Business Council, with a number of benefits identified as directly impacting on the Kenyan manufacturing sector.

The expectations are based on the benefits as stated in the protocols of the East African Customs Union, which was inaugurated on 13th January

2005. While it may be too soon to assess the impact of the protocols on the manufacturer, it is however urgent to test the assumptions made to support the efficacy of the stated benefits in relation to the Kenyan manufacturers who have a large market catchment in the region. Previous studies by Kisanga (1984), have found that past attempts at integration in East Africa failed because each of the states attempted to create its own industries despite apparent duplication in effort, thereby reducing the level of trade among the partners.

No specific studies have been done on the benefits and challenges of the Customs Union to the Kenyan Manufacturing industry. The industry therefore has got perceptions of the benefits to be borne from the Customs Union and these perceptions may not necessarily translate into reality. Indeed they are bound to encounter some challenges in the process. Some of these challenges are manifesting themselves in the form of a test of the efficacy of the assumptions contained in the Customs protocols, the sustainability of the regulatory framework, and the commitment at the political level to carry out the process.

Events that have occurred in the wake of the formation of the union lend credence to the urgency of establishing the views of the Kenyan manufacturer on his perceived benefits and whether in fact these are consistent with the stated benefits of the Union. The issues already under contention include the application by Uganda to have one hundred and thirty five items which are subject of the Common External Tariff, to be Zero-rated, on the assumption that they are primary raw materials. These items however, have been said to be intermediate items, which Ugandan manufacturers have been importing from Kenya (Munaita, 2005). The Zero-rating of some pharmaceuticals by Kenya has also raised concern in

Tanzania posing a potential threat to their local industry. With the introduction of a phased tariff against Kenyan imports into the partner states, the manufacturers are faced with an acid test of a new level of competition requiring higher level of efficiency in order to retain the existing market, let alone expanding it. This study will also establish the challenges that are likely to face the manufacturer, in the light of this background.

Given the significance of the East African Market for the Kenyan Manufacturing industry and the lack of specific studies on the impact of the proposed Customs Union on this industry, there is an urgent need to establish the perception of the Kenyan manufacturing industry regarding the effect of the Union on the industry. This proposed study therefore seeks to fill the gap by providing an insight into the perceptions of the manufacturers on the potential benefits and challenges they face in the wake of the union.

1.7 Objective of the Study

This study seeks to:

a) Establish the benefits perceived by the Kenyan manufacturers to accrue from the Union.

b) Establish the challenges the Kenyan manufacturers anticipate to be posed by the new customs union.

1.8 Significance of the Study

a) The study may provide an insight into the operational bottlenecks that are inherent within the new customs union. It may therefore enable the reformulation of policy by government.

b) The study may build on previous research, generate and allow for formulation of specific hypothesis and thereby offer scholars a basis for further research.

c) It may offer manufacturers information for strategy formulation and enhancement of their competitive edge.

Chapter Two

LITERATURE REVIEW

2.1 Introduction

Integration is a noun that comes from the verb, to integrate. According to Hornby (1995), to integrate is combine two things in such a way that one becomes fully a part of the other. He defines a region on the other hand, as an area, usually without fixed limits. Radelet (1999) defines regions as territorially based subsystems of the international system. He therefore further states that the integration of regions, then, denotes the process whereby territorially based subsystems increase their level of interaction. Radelet makes a further distinction between regional integration and regional cooperation with the former focusing on formal trade and factors of production and the later on selected policy harmonization or joint infrastructure projects. Regional integration is used in this study to refer to the formal combination of two or more countries in their systems of trade and production.

Regional integration takes the form of four basic arrangements. These are Free Trade Areas, in which member countries reduce or eliminate trade barriers between each other, while maintaining trade barriers for non-members; Customs Unions by which member countries reduce or eliminate barriers to trade between each other and adopt a common external tariff towards non-member countries; Common Markets, through which members expand the basic customs union by reducing the barriers to the movement of factors of production (labour and capital) and, Economic union, in which members aim to more fully harmonize national economic policies, including exchange rate policy and monetary policies (Radelet, 1999)

2.2 Regional Integration

At present some 35 Regional Integration Agreements (RIA) exist with the two largest known RIAs being in North America and Europe. Economic integration in North America began with the 1965 Canada-US agreement that created free trade in the automobile sector (Weintraub, 1996). European integration started earlier and has proceeded much further than in North America culminating in a common market in 1968. The membership of the EC was enlarged in 1974, 1981 and 1986 and now includes twenty-five countries with a combined population of 350 million people.

These RIAs cut across different sizes and agreements with some like the European Union, encompassing mainly industrialized countries, while others such as the North American Free Trade Area (NAFTA), and the Asia-Pacific Economic Co-operation (APEC) forum, include both industrialized and developing countries. Some of the well-known integration groups in Africa include the South African Development Co-operation (SADC), the Economic Commission of West African States (ECOWAS), Common Market for East and South Africa (COMESA) .

The experiences of one type of grouping may however, not necessarily be relevant to others because in most cases the members of the union differ in terms of their relative levels of development. Langhhammer et al (1990) refer to the tendency of governments from developing countries to assume that the experience of RIAs in industrialized countries can easily be replicated in developing countries as the "fallacy of transposition."

They argue that governments of developing countries have overlooked many initial conditions which are conducive to integration in the developed countries. These conditions include the existence of a high level of intra-regional trade before integration is started; similarities in income and industrialization levels which allow for specialization; political congeniality in foreign affairs; and capability and willingness to honour agreements, which are common among the integration agreements in the developed world.

One the significant theories that has dominated past research in integration has been the theory of trade creation and trade diversion. (Frankel et al 1990). Viner 1950) defines trade creation as a shift in trade from a high cost to a low cost source of supply within the integration area and trade diversion as a shift from a low cost source of supply outside the integration to a high cost producer within it. If there is more trade diversion than trade creation within a customs union, then the net effect on world welfare and the welfare of members will be negative. The logic of this position by Viner is that customs union cannot therefore be economically justified in such a situation. Studies based on this theory generally show that developing countries do not satisfy the criteria of the neo-classical customs union theory (which involves across the board trade liberalization) and that they will not therefore, reap the traditional welfare gains from integration (Kisanga, 1991). Langhammer et al (1990) in their survey also could not find a case in which an RIA made up solely of developing countries had made significant contribution to trade expansion or economic development.

Viner (1950) contends that an activity that is protected on the basis of regional integration and does not spread itself over the regional market so that each country attracts an equitable share may likely cause conflicts of interest among the partners. He also shows that at low levels of development, not only are the benefits of classical integration on the basis of trade liberalization limited, but also because of widespread distortions, trade liberalization itself gives rise to problems. These studies show that if economic integration is to endure then it must not only result in a situation that improves allocation efficiency and growth but should also be perceived to be equitable.

2.3 Customs Union

The thinking of political economists has been evolving on the subject of economic integration over the last 40 years with an initial skepticism on the value of customs unions until the mid 1970s when the development of the theory of intra industry trade shed new light on the usefulness of regional trade liberalization (Tovias, 1990). According to Kisanga 1984, Customs Unions are formed on the basis of the theory that regional integration promotes overall wealth for both individuals and countries, when barriers to trade are removed. The main features of a Customs union include a common set of import duty rates applied on goods from third countries. This is referred to as a Common External Tariff (C.E.T). The customs union also provides for Duty free and Quota free movement of tradable goods among its constituent customs territories; common safety measures for regulating the importation of goods from third parties; a common set of customs rules and procedures including documentation; a common coding and description of tradable goods (common tariff nomenclature); a common valuation method for tradable goods for tax purposes (common valuation system); a structure for collective administration of the customs Union; and a common trade policy that guides the trading relationship with third countries/trading blocs outside of the customs union i.e. guidelines for entering into preferential trading arrangements such as Free Trade Areas with third parties (Kisanga, 1984)

Viner (1950) is credited with the pioneering work on economic integration that looked at the impact of customs union on production. Subsequent studies focused on the impact of customs union on consumption and trade flows (Meade 1955, Lipsey, 1957). In the mid 1960's focus shifted on why customs unions were created at all (Johnson, 1965, Cooper et al, 1965). Research since then has focused on the impact of integration on agreements; on the terms of trade; theoretical analysis on how scale economies and imperfect competition affect the basic model; extension of customs union theory to other forms of integration; and extension of the theory in the presence of non tariff barriers.

2.4 The Case for a Customs Union

The objectives of Customs Unions include the elimination of internal tariffs, non-tariff barriers and other charges of equivalent effect. These are cardinal principles of the customs union, which are expected to realize free movement of goods and reduce the costs of doing business within the region. The establishment of a common external tariff is expected to realize a level playing field for firms relying on imported inputs through similar tariffs. The establishment of rules of origin, fair competition, anti-dumping measures, coupled with the removal of other restrictions to trade like subsidies and countervailing duties, duty drawbacks and the remission of duties and taxes, is expected to improve competitiveness through economies of scale and scope and realize efficiency gains and increased intra-regional trade. To cap it all, the simplification and harmonization of trade documentation and procedures and the re-exportation of goods plus the overall provision for customs cooperation, provides opportunities for increased trade within the region. It further provides for new investments in the region; the enhancement of the existing industries and, the creation of employment and wealth. Customs Unions are also assumed to create more trade, promote cross border investments and serve to attract investment into the region. They are supposed to be more stable with the enlarged market and therefore thought to create a predictable economic environment for investors and offer more bargaining power with and against other trading blocs while providing a framework for more advanced integration including, political integration (COMESA, 2004).

A customs union predicated on more free trade among the member countries thus researchers on free trade argue that, trade will occur to the benefit of any two nations even where production of all goods is more costly in one of the countries. Ricardo's Comparative Advantage theory, argues that consumers in both countries will be better off with trade than without trade. The theory contends that with free trade producers are able to find the lowest cost method of production in a global economy (Suranovic, 1997).

There are special problems that confront the concept of integration among developing countries and which render trade liberalization on its own inadequate, and sometimes an inappropriate strategy, even when the potential for fruitful cooperation exist (Weintraub, 1996). Robson 1980 argues that regionalism may be emerging as an important element of the current international political economy, but it may not be a desirable outcome in itself. He concludes that until a relatively advanced level of economic development is attained, domestic manufacturing industries in developing countries will normally require a significant level of protection if production is to be commercially viable, even when tariff-free access to a regional market is assured.

One of the classic examples of failed integration as expounded by (Werner et al (1995), is the case of Mexico under the NAFTA which he argues suddenly converted from the success story of trade liberalization into a global economic basket case. The writers state that Mexico borrowed billions of dollars, and has a line of credit for billions more, in order to keep the "wolf from the door. This has left the burden of repaying the debt, along with the hardships of the devaluation, largely on the backs of the poor whose real wages continue to plummet. These writers further argue that, the basic conclusion to draw from the foregoing is that the theoretical foundations of the free trade philosophy are incorrect when the theory suggests that free trade is an automatic benefit to its participants regardless of trade balances. Further, that it is fallacious to argue that those benefits from lower prices to consumers always outweigh any harm to producers in a country. The practical effects of such a policy on an international scale are to accomplish contradictory ends since, on the one hand, free trade increases trade and makes economies grow; on the other hand, it facilitates the stripping of money and wealth from lesser-developed countries to industrialized countries and further, rewards countries which follow mercantilist trade policies.

2.5 The Case against Customs Union

Lack of competition among the local industries is considered inimical to the development of markets and investment (Nomvete, 1997). It also reduces gains to the consumers who are exposed to non-competitive pricing. In some cases, especially for small countries that are dependent upon trade with member countries before the formation of a free trade area (for example, some Central American and Caribbean countries relative to NAFTA), it has been argued that trade diversion can be significant. With regard to the coverage and enlargement of regional trading arrangements, in some situations, individual countries might be better off to strike separate (bilateral) trade agreements with potential new entrants to a free trade agreement like in the case of Mexico and the United States under enlargement of the NAFTA. In other cases, it is to the benefit of all member countries to achieve the widest possible coverage of a regional free trade agreement (Hudgins ,1994)

Suranovic (1997) argues that Ricardo's theory of comparative advantage is flawed as it assumes that all the factors of production stay within one country to enable flow of bilateral trade. He states that this theory is based on the assumption that when export demand favors one product over another, businesses easily change from producing one product to producing another. Suranovic contends that, capital today is international and can cross national boundaries easily while labor cannot. When capital crosses national boundaries, then production is moved to the lower cost country; employment increases in the foreign country instead of moving to another business within the same country. Further, employment and welfare in the higher cost country is reduced; consumers and producers in the higher cost country therefore suffer. Although goods are produced more cheaply, but consumers in the high cost country lose incomes as they gain lower prices while consumers in lower cost countries gain less than is lost from higher cost countries due to the wage differential. In the end, trade reduces consumer and producer welfare in at least one country when one or more of the factors of production are able to cross national boundaries and others cannot (Weintraub, 1996).

2.6 Challenges of a Customs Union

Studies have shown that for a successful integration, the potential partners should conduct a significant proportion of their trade with one another; their economies should be at least potentially complementary; and each country's extra-regional trade as a percentage of GNP should be relatively low (Robson 1980). Further, in order to muster immediate benefits on a common external tariff, the individual country tariff rates prior to the formation of the customs union should be high in comparison to the common external tariff and it is further recognized that, the larger the size of the potential customs union, the greater the likelihood of obtaining beneficial results.

A customs protocol which provides for an asymmetrical tariff structure, like in the case of the East African Customs Union, renders imports from the country under a tariff regime subject to higher costs of business than those that are not subject to same. Contained in such a policy is the re-distributive measure that aims at equitable industrial growth among the member countries. However, this is a challenge to those manufacturers who have to continue paying duty on their exports to the region while their competitors export duty-free. According to Kisanga 1984, such a situation is unlikely to lead to creation of trade. The recent case in which the treatment of the Common External duty on Intermediate and finished goods from Kenya into Uganda and Tanzania has already raised concerns. Uganda wants 134 goods that it considers as industrial inputs critical to its industry in the first five years of the Union and which are inputs in the manufacture of cement, yeast, ink, resins, glucose, syrup, malt, petroleum, jelly, yarn, brake lining and pads, iron, steel and aluminum, to be treated as raw materials and therefore attract a zero rate as imports into the Union. This condition opens up stiff competition for the Kenyan manufacturers from outside the union. Such an exemption confers undue advantage to Uganda manufacturers over the other regional competitors in the production processes where the materials are used (Munaita, 2005.

One of the objectives of integration economies is to promote specialization among a limited number of existing industries or processes, in order to utilize excess capacities where they exist and to promote trade among the partners (Kisanga. 1984). It requires planned intervention in the location of industries under a mutual arrangement to achieve this objective, yet it is challenging to attempt a planned diversification in a situation where the partners perceived benefits and losses cannot be reconciled.

Nomvete (1997) contends that poor consultation and integration of the population in the cooperation arrangements and therefore the scant awareness on the issue of economic integration within the private sector and at the grassroots level, is the cause of past "pitfalls of integration". His research shows that without a critical mass of local private entrepreneurs who have technical and managerial skills, the benefits of integration were unlikely to be realized. The subsequent dependence on supplies of manufactured products from developed countries, even when comparable products are available within a sub-regional preferential arrangement, only goes further to negate the argument for creating bigger markets to facilitate the growth of viable local production enterprises.

Kisanga (1984) argues that, the initial failure in the attempts at East African integration were as much a result of the economic disparities between the member states as were the political orientations between President Nyerere's "Ujamaa" and Kenya's capitalistic tendencies. Nomvete (1997) further argues that the paramount hurdles to African integration have been the lack of full commitment or disparities in the level of commitment often manifested in the failure to incorporate agreement reached by different integration schemes in national plans.

Poor infrastructure between many African countries makes the costs of transport between these countries prohibitive and may therefore negatively affect trade flow within the customs union. Operational issues relating to information availability, banking, language compatibility costs and prices of research promotion that mainly affect the developing countries, may also seriously inhibit the quest for integration(Munaita, 2005).

One of the major assumptions for integration in a customs union is that the intra regional trade exceeds the extra regional trade. The essence of this assumption is that it ensures that the imposition of a common external tariff does not lead to trade diversion but rather to trade creation (Kisanga 1984). A survey carried out by Abila, 2005 shows that the amount of trade transacted among the three East African countries is far much less than the extra regional trade the same countries contact with overseas markets.Some of the other effects of extra regional trade include the possible dumping of foreign products within the Customs Union. In a situation without an operational legal framework and established Rules of Origin, debate has centered on fears of dumping in the region through third party trading relationships (Munaita 2005). For example, given the dual membership of Tanzania in two regional groupings, its traders could easily source materials from SADC at preferential rates and pass them on as theirs for trade within East Africa while the cessation of Tanzania's membership of the SADC would spell doom for its manufacturing industry which is said to heavily rely on South African electricity. Rules of Origin, unless carefully analyzed for their effect could easily jeopardize efforts at integration. For example, when rice imports from Egypt and Pakistan were subjected to the C.E.T, there resulted retaliatory measures on Kenyan tea exports, which clearly demonstrated the complication brought about by the C.E.T and the rules of origin.

A customs union seeks to create a level playing field to assist an RTA advance in economic development. However, the imposition of uniform competition policy and law, customs procedures and external tariffs on goods imported from third countries is not sufficient especially when a parallel imposition of internal tariffs designed to attain equitability is adopted. (Munaita 2005). The objective of seeking to achieve equitability however, runs counter to the need for specialization which on the other hand seeks to achieve comparative advantage. Robson, 1980 further argues that experience in third world countries shows that regional groupings in which the distribution of industry is left to the workings of the market forces suggest that an equitable regional balance is unlikely to occur. His studies show that if economic integration has to endure then it must not only result in a situation that implies allocation efficiency and growth but must also be perceived to be equitable.

Mwamunyange (2005) cites the high cost of doing business occasioned by high power tariffs, low productivity, outdated business and legal framework and non competitive labour costs as being inimical to uniform competition policy. Mwamunyange further points out that in Customs Union, nations are likely to realize cross border investment. This is predicated on the market catchment, the relocation costs and the comparative advantages offered by regional business locations, without having to factor in differences in tariff protection rates, and added business transaction costs arising from customs clearance formalities. This overall situation does not seem to favour the EACU.

Chapter Three

RESEARCH METHODOLOGY

3.1 Research Design

A survey mode was applied to the study. The mode was chosen because it provides a comprehensive basis for analysis and can gather primary information necessary to this survey. Due to the fact that the a priori experience of the respondents was desired, the survey mode was found to be the most appropriate: This approach is indeed supported by Cooper et al (2003).

3.2 The Population.

This study focused on the Kenyan manufacturers in different industries who are involved in export and are members of the Kenya Association of Manufacturers (KAM). According to KAM membership records of 2004, there are 500 manufacturing firms who belong to this category.

3.3 Sample Size and design

Due to the diversity within the manufacturing sector a cross section of manufacturers was selected. The basic idea about sampling is that by selecting some of the elements in a population, we draw conclusions about the entire population (Cooper et al 2003). Given the population of 500 manufacturers it was cheaper and more practical to use a sample. A representative sample of 100 manufacturers was included in the study from the sample frame. A systematic sampling method was adopted. Out of the total population size of 500 a desirable sample size was fixed at 100, giving a sampling ratio of 1:5.

The overall response from the cross section of manufacturers was 52. This was taken to be representative of the sector since the variables to be studied were common across the manufacturing industries and the register of the manufacturers is merely alphabetical and has no specific bias to subgroups.

3.4 Data Collection Method

The questionnaire was divided into four sections. Section A dealt with questions on the profile of the firm; section B with the benefits derived by the manufacturers from the Customs union; section C with the challenges. The primary data was collected using a structured questionnaire, which was emailed to the respondent's addresses and also returned by email. Most of the respondents were the chief executives of their company.

3.5 Data Analysis

The questionnaire was analyzed using qualitative analysis. In order to determine the extent of the perception of the manufacturers on the anticipated benefits and challenges of the East African Customs Union on their business a percentage rating was applied with higher percentage reflecting the extent of positive or negative perception on a particular issue. Using the percentage effect it was possible to deduce the benefits and the challenges of the East African Customs Union on the manufacturing industry in Kenya.

Chapter Four

RESEARCH FINDINGS

4.1 Introduction

This chapter outlines the specific findings on the variables that were put to test on the perceived benefits and challenges of the EACU to the Kenyan manufacturers. The findings are in this regard categorized into specific subheadings in line with the objectives of the study. These are the anticipated benefits and the anticipated challenges of the EACU on the Kenyan manufacturers.

4.2 Anticipated benefits

Out a total of 21 issues tested, 81% of the respondents on five of the most anticipated benefits (*Table 1 below*), were positive and had high expectations for a fair competition among the regional partners as a result of implementation of EACU. On the issue of a common trade policy for relationship with third countries, 94% were quite optimistic on a common trade relationship with other countries outside the EACU. The effect of a common trade policy in the face of three competing economies requires wide-ranging trade-offs, a factor that has always dogged world trading economies. Examples of the WTO Rounds of negotiation and the failure by many nations to give up on their advantages so as to accommodate trade openings for competitors reveal the intricacies involved in tradeoffs.

In terms of reduced barriers and faster trade documentation, about **88%** were positive on the benefits expected out of faster trade documentation. Trade documentation being a government responsibility, the respondents seem to have confidence in the commitment by the government to put in place transparent systems for faster trade documentation. Perhaps the most significant benefit anticipated out of the implementation of EACU is increase in market share by Kenyan exporters with 81% expressing optimism that the customs union would result into an increase in market share and **88%** anticipating increase in orders for exports. This finding seems to account for a very large margin of the reasons for the very high optimism that the Kenyan manufacturers have with the EACU.

Table 1: – Analysis of the key anticipated benefits

		Anticipated to be Beneficial								
	Key Issues Expected	**Very Large Extent** a	**Large Extent** b	**Beneficial** (a+b)	**To Some Extent** c	**Positive Overall** (a+b+c)	**Small Extent** d	**No Extent** e	**Not beneficial** (d+e)	Total (a+b+c+d+e)
1	Increase in Market share	25%	38%	**63%**	18%	**81%**	**0%**	19%	**19%**	100%
2	Less barriers at the border	31%	25%	**56%**	12%	68%	19%	13%	**32%**	100%
3	Faster trade documentation	13%	38%	**52%**	36%	**88%**	6%	6%	**12%**	100%
4	A common trade policy for relationship with third countries	25%	25%	**50%**	44%	**94%**	0%	6%	**6%**	100%
5	A fair competition among the regional partners	0%	50%	**50%**	31%	81%	13%	6%	**19%**	100%

The respondents were also optimistic that a structure for collective administration of the customs union would be drawn, and expected faster trade documentation as a result. This poses a challenge to the government technocrats who will need to expedite the process of institutionalizing a tax administration structure.

However out of the 21 factors that were analyzed, the respondents' had lower expectations for benefits from: a reduction in cost of production with an overall 69% of the respondents returning this variable as not beneficial; a decrease in competition from imports with 50% of the respondents finding this variable not beneficial; and a decrease in Dumping with 62% of the respondents finding it not beneficial. (*See Table 2 below*). It is interesting to note that the least beneficial factors are the economic variables while the administrative variables account for the most beneficial variables. The reasons behind this finding are not explicit but it would seem that issues constraining trade among the partner states are more administrative than economic.

Table 2:– Analysis of the least anticipated benefits

		Anticipated benefits								
	Key Issues Expected	**Very Large** a	**Large** b	**Very & Large beneficial** (a+b)	**Some Extent** c	**Beneficial Overall** (a+b+c)	**Small Extent** d	**No Extent** e	**Not beneficial overall** (d+e)	**Total** (a+b+c+d+e)
1	Reduction in cost of production	0%	6%	**6%**	25%	31%	19%	50%	69%	**100%**
2	Decrease in competition from imports	6%	31%	**37%**	13%	50%	19%	31%	50%	**100%**
3	Decrease in Dumping	6%	19%	**25%**	37%	62%	19%	19%	38%	**100%**

4.3 Anticipated Challenges

From the analysis of the 24 possible challenges, seven issues stood out as clear bottlenecks likely to compromise the benefits of the EA Customs Union (*see Table 3 below*). As can be seen from the table, the most contentious challenge identified was the "Five year phased tariff structure against Kenyan exporters". An overwhelming majority of 94% viewed this as the biggest challenge facing Kenyan manufacturers. Out this total 69% were very concerned that this would have devastating effect against the Kenyan exporters and could be the single most important issue likely to compromise the perceived benefits of the Customs Union. However, despite being subject to a five year tariff against the zero tariff for its competitors, it would seem as if for the Kenya manufacturer, , there was still substantial benefit in adopting EACU, as evidenced by the positive finding for the EACU.

The other obstacle identified is the poor transport infrastructure in region with 88% of respondents viewing it as a key challenge to the realization of the benefits of the Union. This obstacle had been identified by Kisanga 1984, and is still a constraining factor for the union. Almost similar percentage of exporters i.e. 87% picked on "Threat of counterfeits" as a major bottleneck to the Customs Union while 75% of respondents felt that "removal of duty drawback and remission of duties and taxes" would be detrimental, with 58% seeing huge disadvantages posed by this factor. While the threat of counterfeits can be explained as an administrative weakness in law enforcement, the large number of respondents (75%) perceiving duty drawback and remission of duty and taxes by the government as a key challenge may be explained by the position taken by Anderson 2003 who avers that Kenyan manufacturers have for a long time been beneficiaries of government trade protection.

Lack of enforceable regulatory framework was another prominent factor seen to pose key challenge to the success of the Customs Union. A total of 81% identified with the factor and out of this 44% were seriously concerned by the factor and thought that it would be a huge challenge to overcome. Other challenges identified were; the "Threat of common valuation for tradable goods for tax purposes" (88%); the "Threat of free movement of factors of production" (88%) and, the "Threat of low quality of products" (88%); These threats are critical to the realization of a common customs union and although provided for in the protocol, it is significant to note that the respondents identify them major challenges. It is also interesting to note the relatively lower significance of such variables as "Threat of trade diversion" (62%) and threat of increased competition from the other Kenyan manufacturers (67%). This seems to negate the fears by Kisanga 1984, that the imposition of a common external tariff in the face of low intra regional trade (as found out in the survey of the East African Region by Abila 2005), may lead to trade diversion rather than trade creation .

Table 3: – Analysis of the key anticipated challenges

No.		ANTICIPATED CHALLENGES								
	Key Issues	Very Large Extent a	Large Extent b	Very & Large Extent (a+b)	Some Extent c	Significant challenge (a+b+c)	Small Extent d	No Extent e	No significant challenges (d+e)	Overall Total (a+b+c-
1	Five year phased tariff structure against Kenyan exporters	31%	38%	69%	25%	94%	6%	0%	6%	100%
2	Removal of Duty drawback and remission of duties and taxes	19%	38%	58%	17%	75%	25%	0%	25%	100%
3	Poor transport infrastructure in the region	38%	19%	58%	31%	88%	6%	6%	12%	100%
4	Threat of common valuation for tradable goods for tax purposes	13%	38%	52%	25%	77%	19%	6%	25%	102%
5	Lack of enforceable regulatory framework	44%	6%	50%	31%	81%	19%	0%	19%	100%
6	Threat of increased counterfeits	25%	25%	50%	37%	87%	13%	0%	13%	100%
7	Threat of free movement of factors of production among the partner states	19%	31%	50%	38%	88%	6%	6%	12%	100%
8	Threat of trade diversion	31%	13%	44%	17%	62%	13%	25%	38%	100%
9	Threat of increased competition from the Kenyan manufacturers	31%	13%	44%	23%	67%	13%	19%	33%	100%
10	Threat of low quality of products	19%	25%	44%	44%	88%	6%	6%	12%	100%

Out of the 24 factors analyzed the survey reveals that the issues regarding incompatibility of languages and lack of a common currency pose the least challenge to the Union as only 44% of the respondents in both cases saw as it posing a significant challenge. This would be explained by the fact there is an established and accepted lingua franca and that there is relative stability in the currency exchange within the region. Only 48% of the respondents seemed to find high price of market research challenging. This may be explained by the fact there is low requirement for market research or that the research is not a significant factor in marketing within the region. Interestingly the issues of Customer satisfaction and the possibility of the manufacturers being unable to satisfy the market, pose some challenge with 50% and 56% acknowledging their significance. Though scoring lower than other challenges, these variables would seem to be gaining significance and need the attention of the manufacturers. (See *Table 4: below*).

Table 4: – Analysis of the least anticipated challenges

		ANTICIPATED CHALLENGES								
No.	Key Issue	Very Large Extent a	Large Extent b	Very & Large Extent (a+b)	Some Extent c	Significant challenge (a+b+c)	Small Extent d	No Extent e	No significant challenges (d+e)	Overall Total (a+b+c-
1	Incompatibility of languages	6%	25%	31%	13%	44%	25%	31%	56%	100%
2	Lack of a common currency	13%	6%	19%	25%	44%	25%	31%	56%	100%
3	High price of market research	19%	13%	33%	15%	48%	38%	13%	52%	100%
4	Customer satisfaction	19%	6%	25%	25%	50%	25%	25%	50%	100%
5	Inability to satisfy market demand	0%	31%	31%	25%	56%	31%	13%	44%	100%

Chapter Five:

SUMMARY AND RECOMMENDATIONS.

5.1 Introduction

This chapter presents the summary of the findings of this study, the conclusions, recommendations, limitations and suggestions for further study. Within these contexts, specific highlights are provided which the reader may find useful in getting a holistic view of the study. The chapter also gives a guide on certain grey areas that may require further investigation.

5.2 Summary of Findings

The survey on *"the perceived benefits of East African customs union"* was conducted on a total of 52 firms all drawn from the manufacturing sector. The manufacturers preferred a survey coordinated under their umbrella organization (KAM) rather than direct visits by a researcher. The questionnaire was therefore sent to them by e-mail but collected physically on completion. Each company authenticated its participation in the survey by stamping their questionnaire and signing. This proved to be a very efficient way of delivery. An analysis of the 52 has substantially addressed the subject of the research. The analysis of sample respondents revealed that 50% of the companies interviewed were locally owned, 31% foreign owned while 19% were a hybrid of local and foreign.

All the companies interviewed were found to be marketing their products both locally and within the region. Before the establishment of East

African Customs Union (EACU) in January 2005, 88% of the respondents were already exporting within and outside the EAC region.

The analysis of the survey findings reveals mixed reactions on the anticipated benefits following the implementation of EACU. However, as shown at **Appendix V** the majority of the respondents were optimistic, with 73% anticipating positive gains from the EACU i.e. about 12% of the respondents expect that the EACU region would be beneficial to a very large extent, 28% felt it would be beneficial to a large extent, while 33% felt that it would be beneficial to some extent. Those that felt the benefits of EACU would be limited represented 27%, with 12% noting that benefits to be realized would be to a small extent, while 15% painted a gloomy picture and thought that the EACU would not be beneficial at all.

Despite the high expectations on anticipated benefits, there were equally key challenges facing the manufacturers. As shown at **Appendix VI** about 69% of the overall respondents identified with major challenges that will come with the implementation of the EACU - the degree of intensity differed however, with 20% anticipating major challenges; 20% to a large extent, while 29% do expect challenges only to a small degree. A total of 31% do not expect challenges as a result of the EACU – with 18% expecting challenges to a small extent and 13% feeling that the challenges and barriers would be inconsequential.

This survey reveals the fact that the respondents have very high expectation from the government on such areas as faster trade documentation (88%); a structure for collective tax administration (81%); clarity and enforcement of rules of origin ((81%); a clear legal framework for dispute resolution and safety measures (88%); and a common set of tariff nomenclature for the coding and description of goods (81%). Poor transport infrastructure in the region and lack of a policy on Copy Rights to cater for intellectual property rights and patents were identified as challenges by 88% and 87% of the respondents respectively. Lack of an enforceable regulatory framework was identified by 81% of the respondents as being a serious challenge.

5.3 Conclusions

This survey has revealed that some of the issues identified in earlier studies as being a hindrance to integration do not feature as key challenges to the manufacturers. For example, Kisanga 1984 identified lack of a policy on industry specialization as a major factor in the failure of the 1967 treaty. In this study only 67% of the respondents think the issue poses a significant challenge to the union. Though the response is above average, this issue does not feature among the key anticipated challenges. What are the possible reasons for this outcome? Is it possible that the pattern of production has changed so much that Kisanga's contention that the three partners were producing virtually the same primary products for export, and therefore posing a threat to integration, is no longer a factor?

This analysis further shows an overwhelming range of issues that need urgent attention both from the government technocrats and the business community themselves. Some of issues which seem to pose questions and therefore require to be given policy direction include the fact that 94% of the manufacturers are looking forward to a common trade policy to be developed between the partner countries and all other third parties. While this may seem to be inevitable in a regional trading agreement, the WTO conventions to which Kenya is a signatory call for trade liberalization and the issue of common trade regime which blocks out other parties is currently under intense moderation at the WTO, given its import on trade liberalization. There is therefore need for the government to harmonize the manufacturer's expectations under the Customs union with the overall WTO rules of trade.

Arising from the expectations and fears of the manufacturers, a number of questions remain unanswered from the survey especially on what are the factors to consider as crucial to the manufacturing industry when setting up a customs union. Is it enough to only consider such conventional factors as achieving an enlarged market for exporters and a catchment area for investors? Why for example, has the transport infrastructure remained an outstanding issue for four decades and the three states believe that inter country trade would still flourish on the establishment of an EACU, even without the issue being addressed?

Indeed the fears from the manufacturers on issues such as the threat of low quality goods, counterfeits, dumping and the threat of free movement of factors of production are so central to trade that they require a strategy incorporated in the protocols of the union so as mitigate the fears from the traders. Yet, even as one can argue that the protocol provides for the establishment of a regulatory framework its veracity is under doubt because 87% of the respondents identify it as a significant challenge.

The findings under this survey are not sufficient to inform overall policy decisions and direction on the effect of the EACU on the manufacturing industry. This is because perceptions alone are not enough and can be grounded on the wrong assumptions and premises. For instance, the significance of a strong political will, the issue of governance and the role of institutions of government in realizing the expectations of the Kenyan manufacturing industry within the East African Customs Union have not been investigated in this survey, though they are relevant and need to be studied in order to have a clear picture of their effect.

These perceptions should however, serve to sound out possible areas of concern and further investigation. With the significant challenges perceived by the manufacturers, appropriate policies and administrative mechanisms would need to be put in place to ensure the full realization of the benefits expected from the Union.

5.4 Recommendations for further Research

Arising from the study a number of issues would require further investigation towards realizing a successful East African Customs Union that is beneficial to the Kenyan manufacturers.

The research has revealed that Kenyan manufacturers are very optimistic about the benefits that are likely to accrue from the East African Customs Union and especially on the increase in market share. However, the whole issue of the Five year phased tariff structure against the Kenyan exporters which they identified as posing a threat to their gains within the new dispensation needs further study by the government. This will inspire more confidence in the 94% of the respondents who identified it as a significant challenge.

The other issue that requires more research is the area of free movement of the factors of production. The factors of production here include labor, capital and raw materials. It would be revealing for scholars to find out the underlying factors which make 88% of the respondents think that it poses a significant challenge to the customs union. The removal of Duty drawback and remission is obviously a significant challenge to the industry as given by the 75% count. This gives rise to the question as to whether it confirms the position by Anderson 2003 that Kenyan manufacturers have in the past heavily relied on duty exemption or it is the fear of unfair competition from new competitors once the exemption is removed. Scholars would need to further investigate the underlying factors informing this perception.

The threat of counterfeits and low quality goods pose 87% and 88% challenge respectively. These are areas of concern for the government both in terms of enforcement of the law and a threat to the economy. The reasons for these have not been provided by this survey and need to be investigated by the government.

5.5 Limitations of study

The study was conducted against a background of ongoing developments due to the early stages of the implementation of the East African Customs Union. The Customs Union just came into being in July 2000 while the three partner states also finalized the ratification of the customs protocol in late 2004 culminating in its inauguration in January 2005. In the circumstances, the expectations of the manufacturers could be said to be subject to a dynamic environment.

The study itself was constrained by a number of factors key among which was the issue of the dynamic nature of the variables under study. Time, therefore was of essence to guard against the research design being overtaken by events. Perceptions are subject to changing circumstances and findings must be time bound. As a result of this background there was a conscious restriction in the number of questionnaires administered in a research that would probably have required a bigger sample. The questionnaire design also excluded a number of variables that would have shed more light on perceptions and attitudes. These include such variables as satisfaction with service and would also have included the use of observation to aid capture the facts required from those who were chosen but were reluctant to participate in the survey. Use of interviews would also have given respondents a wider opportunity to air their views outside the constraints of the questionnaire.

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APPENDIX I

QUESTIONAIRE- Part A

Company Profile

Name of Company.. (Optional)

i. Job Title...(optional)

ii. Using categories below, please indicate the ownership of your company(tick one)

Foreign Owned ( )

Locally owned ( )

Hybrid of Local and Foreign ( )

iii. Using the categories below, please indicate the nature of business of your company (tick one).

Export Only ( )

Export and Local ( )

Local Only ( )

vi. Before the customs union was established in January 2005, were you exporting any products to other members of the union?

a. Uganda Yes ( ) No ( )

b. Tanzania Yes ( ) No ( )

c. Other Yes ( ) No ( )

APPENDIX II

QUESTIONAIRE- Part B

Anticipated Benefits from the establishment of the customs union

1) Using a scale of 1-5, please indicate using the categories given below, your rating of the effect of the anticipated benefits on your company by the establishment of the East African Customs Union, where,

5 is- to a very large extent

4 is - to a large extent

3 is – to some extent

2 is – to a small extent

1 is – to no extent

No.	Benefit	5	4	3	2	1
		Very Large Extent	Large Extent	Some Extent	Small Extent	No Extent
1.	Sales are expected to increase					
2.	Expect to realize more exports					
3.	Expect less barriers at the border					
4.	Expect reduction in prices of inputs					
5.	Expect reduction in cost of labor					
6.	Expect decrease in taxes					
7.	Expect decrease in Dumping					
8.	Expect decrease in competition from imports					

9.	Expect faster trade documentation					
10.	Expect reduction in countervailing duties					
11.	Expect clarity and enforcement of Rules of origin					
12.	Expect more security of trade and market assurance					
13.	Expect clear legal framework for dispute resolution.					
14.	Expect improved Regulation of safety measures					
15.	Expect a common trade policy for relationship with third countries					
16.	Expects a structure for collective administration of the customs union					
17.	Expects increase in Market share					
18.	Expects increase in efficiency gains in production					
19.	Expects a fair competition among the regional partners					
20.	Expects fair competition with the multi nationals					
21.	Expects Raw materials are readily available					

22.	Expects more orders from the union members					
23.	Expects new orders from new customers					
24	Expects enquiries on new products					
25	Expects a common set of tariff nomenclature for the coding and description of tradable goods					
26	Expects common valuation for tradable goods for tax purposes in place					
27	Expects the quality of products to					

	improve					
28	Expects a fair competition between the Kenyan manufacturers					

APPENDIX III

QUESTIONAIRE-Part C

Anticipated Challenges from the establishment of the customs union

Using a scale of 1-5, please indicate using the categories given below, your rating of the effect of the anticipated challenges on your company following the introduction of the customs union, where,

5 is- to a very large extent

4 is - to a large extent

3 is – to some extent

2 is – to a small extent

1 is – to no extent

No	Challenge	5	4	3	2	1
		Very Large Extent	Large Extent	Some Extent	Small Extent	No Extent
1	Five year phased tariff structure against Kenyan exporters					
2.	Common External structure					

3.	Lack of a policy on industrial specialization among the partners					
4.	Threat of increased counterfeits					
5.	Threat of increased dumping					
6.	Threat of free movement of labor					
7	Threat of free movement of capital among the partner states					
8.	Lack technical and managerial skills					
9	Threat of common valuation for tradable goods for tax purposes					
10.	Treat of low quality of products					
11.	Threat of increased competition from the Kenyan manufacturers					
12	Poor transport infrastructure in the region					
13.	Scarce availability of banking services					
14.	Lack of trade information					
15.	Incompatibility of languages					
16.	High price of market research					
17.	Threat of trade diversion					
18	Lack of enforceable regulatory framework					
19	Removal of Duty drawback and remission of duties and taxes					
20	Elimination of Subsidies and countervailing duties					
21	Availability of capital for expansion					
22	Customer satisfaction					
23	Lack of a common currency					
24	Lack of a policy on Copy Rights (Intellectual property rights and Patents)					
25	Threat of decreased market from duplicate industrial development					
26	Inability to satisfy market demand					

APPENDIX IV

RELEVANT ARTICLES OF THE EAC TREATY

According to Article 74 of the Treaty;

"In order to promote the achievement of the objectives of the Community as set out in Article 5 of this Treaty, and in furtherance of Article 2 of this treaty, the Partner States shall develop and adopt an East African Trade Regime and co operate in trade liberalization and development in accordance therewith"

Article 75(1) of the Treaty, on Establishment of a Customs Union, provides that;

"For purposes of this Chapter, the Partner States agree to establish a Customs Union details of which include the following;

i) Application of the principle of asymmetry
ii) The elimination of internal tariffs and other charges of equivalent effect
iii) Elimination of non tariff barriers
iv) Establishment of a common external tariff
v) Rules of origin
vi) Dumping
vii) Subsidies and countervailing duties
viii) Security and other restrictions to trade
ix) Competition

x) Duty drawback and remission of duties and taxes

xi) Customs cooperation

xii) Re-exportation of goods

xiii) Simplification and harmonization of trade documentation and procedures

Article 75(7) of this Treaty provides that;

"For the purposes of this Article, the Partner States shall within a period of four years conclude the Protocol on the Establishment of a Customs Union"

Article 11, provides for a phased tariff reduction structure over a five year period, for export goods from Kenya to the Partner states categorized as Category B

APPENDIX V: ANALYSIS OF ANTICIPATED BENEFITS

	ANTICIPATED BENEFITS									
	ISSUE	Very Large a	Large b	Very & Large beneficial (a+b)	Some Extent c	Positive (a+b+c)	Small Extent d	No Extent e	Not beneficial (d+e)	Total (a+b+c+
1	Expects increase in Market share	25%	38%	63%	17%	81%	0%	19%	19%	100%
2	Expect less barriers at the border	31%	25%	56%	12%	67%	19%	13%	33%	100%
3	Expect faster trade documentation	13%	38%	52%	37%	88%	6%	6%	12%	100%
4	Expect a common trade policy for relationship with third countries	25%	25%	50%	44%	94%	0%	6%	6%	100%
5	Expects a fair competition among the regional partners	0%	50%	50%	31%	81%	13%	6%	19%	100%
6	Expects a structure for collective administration of the customs union	13%	38%	52%	29%	81%	13%	6%	19%	100%
7	Expects enquiries on new products	25%	25%	50%	12%	62%	25%	13%	38%	100%
8	Expects more orders from the union members	6%	38%	44%	42%	87%	0%	13%	13%	100%
9	Expects fair competition with the multi nationals	0%	44%	44%	29%	73%	13%	13%	27%	100%
10	Expect decrease in taxes	19%	25%	44%	19%	63%	6%	31%	37%	100%
11	Expect clarity and enforcement of Rules of origin	19%	19%	38%	42%	81%	6%	13%	19%	100%
12	Sales are expected to increase	19%	19%	38%	37%	75%	6%	19%	25%	100%
13	Expects a fair competition between the Kenyan manufacturers	6%	31%	37%	33%	69%	25%	6%	31%	100%
14	Expect decrease in competition from imports	6%	31%	37%	13%	50%	19%	31%	50%	100%
15	Expects a common set of tariff nomenclature for the coding and description of tradable goods	13%	19%	33%	48%	81%	13%	6%	19%	100%
16	Expect clear legal framework for dispute resolution and safety measures	19%	13%	33%	56%	88%	6%	6%	12%	100%
17	Expect more security of trade and market assurance	0%	31%	31%	42%	73%	13%	13%	27%	100%
18	Expect reduction in countervailing duties	13%	19%	33%	40%	73%	13%	13%	27%	100%
19	Expects the quality of products to improve	0%	31%	31%	37%	67%	13%	19%	33%	100%
20	Expect decrease in Dumping	6%	19%	25%	37%	62%	19%	19%	38%	100%
21	Expect reduction in cost of production	0%	6%	6%	25%	31%	19%	50%	69%	100%
	OVERALL	**12%**	**28%**	**40%**	**32%**	**73%**	**12%**	**15%**	**27%**	**100%**

APPENDIX VI: ANALYSIS OF ANTICIPATED CHALLENGES

No.	ISSUES	ANTICIPATED CHALLENGES								
		Very Large Extent a	Large Extent b	Very & Large Extent (a+b)	Some Extent c	Significant challenge (a+b+c)	Small Extent d	No Extent e	No significant challenges (d+e)	Overall Total (a+b+c+
1	Five year phased tariff structure against Kenyan exporters	31%	38%	**69%**	25%	**94%**	6%	0%	6%	100%
2	Removal of Duty drawback and remission of duties and taxes	19%	38%	**58%**	17%	**75%**	25%	0%	25%	100%
3	Poor transport infrastructure in the region	38%	19%	**58%**	31%	**88%**	6%	6%	12%	100%
4	Threat of common valuation for tradable goods for tax purposes	13%	38%	**52%**	25%	**77%**	19%	6%	25%	102%
5	Lack of enforceable regulatory framework	44%	6%	50%	31%	**81%**	19%	0%	19%	100%
6	Threat of increased counterfeits	25%	25%	**50%**	37%	**87%**	13%	0%	13%	100%
7	Threat of free movement of factors of production among the partner states	19%	31%	**50%**	38%	**88%**	6%	6%	12%	100%
8	Threat of trade diversion	31%	13%	**44%**	17%	**62%**	13%	25%	38%	100%
9	Threat of increased competition from the Kenyan manufacturers	31%	13%	**44%**	23%	**67%**	13%	19%	33%	100%
10	Treat of low quality of products	19%	25%	**44%**	44%	**88%**	6%	6%	12%	100%
11	Lack of a policy on Copy Rights (Intellectual property rights and Patents)	38%	6%	**44%**	42%	**87%**	13%	0%	13%	100%
12	Elimination of Subsidies and countervailing duties	19%	19%	**38%**	23%	**62%**	25%	13%	38%	100%
13	Incompatibility of languages	6%	25%	**31%**	13%	**44%**	25%	31%	56%	100%
14	High price of market research	19%	13%	**33%**	15%	**48%**	38%	13%	52%	100%
15	Inability to satisfy market demand	0%	31%	**31%**	25%	**56%**	31%	13%	44%	100%
16	Scarce availability of banking services	13%	19%	**33%**	29%	**62%**	13%	25%	38%	100%
17	Lack of trade information	6%	25%	**31%**	31%	**62%**	13%	25%	38%	100%
18	Lack of a policy on industrial specialization among the partners	19%	13%	**33%**	35%	**67%**	19%	13%	33%	100%
19	Lack technical and managerial skills	19%	13%	**33%**	35%	**67%**	19%	13%	33%	100%
20	Availability of capital for expansion	13%	19%	33%	35%	67%	19%	13%	33%	100%
21	Threat of decreased market from duplicate industrial development	13%	19%	33%	35%	67%	19%	13%	33%	100%
22	Customer satisfaction	19%	6%	25%	25%	50%	25%	25%	50%	100%
23	Common External structure	13%	13%	27%	40%	67%	19%	13%	33%	100%
24	Lack of a common currency	13%	6%	19%	25%	44%	25%	31%	56%	100%