

**THE INFLUENCE OF EAST AFRICAN COMMUNITY CUSTOMS  
UNION ON THE OPERATIONS OF EAST AFRICAN  
BREWERIES LIMITED**

**BY**

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## DECLARATION

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

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

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## **DEDICATION**

This study is dedicated to my family members who are very special and great supporters of my work.

## **ABBREVIATIONS**

ACP- Africa, Caribbean and Pacific

CAN- Andean Community

CET- Common External Tariff

COMESA- Common Market for Eastern and Southern Africa

CU- Customs Union

EABL- East African Breweries Limited

EAC- East African Community

EACCU- East African Community Customs Union

EEA- European Economic Area

EPZA- Export Processing Zones Authority

EU-European Union

FDI- Foreign Direct Investments

FTA- Free Trade Area

NAFTA- North American Free Trade Area

NIC- Newly Industrialized Countries

PTA- Preferential Trade Area

RI- Regional Integration

SACU- South African Customs Union

# SAFTA- South Asia Free Trade Agreement

## ABSTRACT

This research evaluates the influence of the East African Community Customs Union on the operations of East African Breweries Limited. The most common forms of Regional arrangements include Preferential Trade Area (PTA), Free Trade Area (FTA), Customs Union, Common Market, Economic Union and a Political Union with each succeeding level involving greater cooperation among member countries. Literature indicates that Regional Integration can generate benefits through trade creation and growth, reallocation of resources, trade creation and growth, specialization, economies of scale and increased levels of investment and growth. However, regional integration schemes are also associated with costs that include revenue loss from elimination of trade taxes, trade diversion and concentration of industries in well situated locations, which can lead to increased transport costs for markets in the periphery.

Using qualitative data analysis, results indicate that the establishment of the EAC Customs Union has benefits which include expansion of business, increase in business turnover in terms of profits and sales and investments. The findings indicate that the establishment of the EAC Customs Union has opportunities and challenges that have an impact on the operations of EABL. Benefits include free movement of goods, expansion of business, increase in business turnover and investment opportunities. Non tariff barriers (NTBs) were cited as a cost affecting operations within East African Breweries Limited.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Regional Integration (RI) has a long history in Africa and is still a subject of interest both within and outside the continent. The world's oldest custom union is the South Africa Customs Union (SACU), having been formed in 1910 (Alemayehu and Kibret, 2000; Jenkins, 2000). Moreover, a regional grouping for the three East African countries was formed in 1919. It developed into a Customs Union in 1967 under East African Community (EAC). However, the majority of the regional economic schemes in Africa started in the 1970s. There have also been attempts to establish continental integration schemes. The African Economic Community Treaty (Abuja Treaty) that came into force 1994, in particular, seeks to strengthen existing Regional Integration schemes and to encourage the formation of new ones with the eventual aim of establishing a continental integration unit. The Sirte and Lome Declaration (made in 1999 and 2000, respectively) called for a speedy implementation of the Abuja Treaty (Ng'eno *et al*, 2003)

Despite these early efforts, the record of sustaining regional integration schemes in Africa has been poor. The failure of most RI schemes in sub Saharan Africa (SSA) is attributed to a number of factors including: restrictions on factor mobility; ineffectiveness of industrial planning, and especially failure to agree on the distribution of industries; ineffectiveness of common external tariffs (CETs) arising from requests for exemption to avoid revenue losses; general failure of import substitution policies; lack of strong and substantial political commitment; and macroeconomic stability.

Broadly, sub Saharan African countries see regional cooperation as a means of promoting intra-regional trade and exploiting economies of scale by pooling small and fragmented domestic markets to support industrialization strategies (Kasekende and Ng'eno, 2000).

A more coordinated regional group with competitive production structures and policies that support a competitive production process is required to increase domestic production of goods and services. Harmonized policies within RI schemes can maximize the benefits arising from regional trade and the comparative advantages of participating countries.

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

On 30<sup>th</sup> November 1999, the “New” East African Community (EAC) Treaty was signed by the EAC Partner States of Kenya, Tanzania and Uganda; it came into force on 7<sup>th</sup> July 2000 upon ratification by the three Partner States. The Treaty states that “the Partner States undertake to establish among themselves a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation” (Article 5.2). In line with this undertaking, the EAC Customs Union Protocol was signed on 2<sup>nd</sup> March 2005, ratified in December 2004 and came into force on 1<sup>st</sup> January 2005.

Thus, only five years after the new EAC was established, the Customs Union Protocol took effect. EAC disposed of the immediate step of first establishing a free trade area. European Union (EU) integration serves as an example for the EAC integration process; but while it took the EU decades to establish a Customs Union, EAC adopted a very tight schedule to manifest its resolve to implement the EAC Customs Union as a milestone towards a political federation.

The Protocol among others provides for the application of the principle of asymmetry, the elimination of internal tariffs and other charges of equivalent effect, the elimination of non-tariff barriers, the establishment of a common external tariff, rules of origin, anti-dumping measures, subsidies and counter-vailing duties, security and other restrictions to trade. Other provisions include those that relate to competition, duty drawback, refund and remission of duties and taxes, customs cooperation, re-exportation of goods, simplification and harmonization of trade. Others include documentation and procedures, exemption regimes, harmonized commodity description and coding system.

The main goals of the EAC Customs Union include liberalization of intra-regional trade in goods on the basis of mutually beneficial trade arrangements among the partner states, promoting efficiency in production, enhancing domestic, cross-border trade and foreign investment, promoting economic development and diversification as well as industrialization. Among the specific objectives, the EAC Customs Union seeks to create a Common External Tariff (CET) regime for goods originating from outside East Africa, Common Customs Laws and regulations, which apply uniformly in the partner states and harmonizing and simplifying customs procedures and documentation.

### **1.1.2 East African Community**

The first EAC (1967-1977) was the first regional integration arrangement fashioned and driven by the East African people themselves (EAC Secretariat, 2004). At that time, it was one of the most advanced arrangements in the world. The EAC responded to the needs of the people and yielded immense benefits to the East African society such as direct and indirect employment to thousands of the East Africans. When the

EAC collapsed there was dismal economic performance that was experienced in the 1980s and 90s. The break up made each of these countries more vulnerable to the impacts of globalization (EAC Secretariat, 2004).

After the demise of EAC in 1977, the East African countries negotiated and signed a mediation agreement in 1984, which had a provision for future pursuit of cooperation. This provision facilitated the Heads of State to meet and agree on the revival of the East African cooperation. A series of actions led to the signing of the agreement for East African cooperation on 30<sup>th</sup> November, 1993 and this led to the establishment of the EAC Secretariat in Arusha on 14<sup>th</sup> March 1996. Within the period of the first development strategy (1997- 2000), the three countries negotiated the Treaty for the “New” EAC. The Heads of State of Kenya, Uganda and the United Republic of Tanzania signed the Treaty for the re establishment of the EAC on the 30<sup>th</sup> November, 1999. After ratification by the three national Parliaments, the Treaty entered into force on 7<sup>th</sup> July, 2000. The EAC was launched on 15<sup>th</sup> January, 2001 (EAC Secretariat 2004). The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18<sup>th</sup> June, 2007 and became full Members of the Community with effect from 1<sup>st</sup> July 2007.

The EAC Treaty (Article 5.1) emphasizes that the broad goal of EAC is to widen and deepen cooperation among partner states in political, economic, social and cultural fields, research, technology, defense and legal affairs for their mutual benefits. The vision is to create wealth in the region and enhance competitiveness through increased production, trade and investments

### **1.1.3 East African Breweries Limited**

East African Breweries Limited is the context within which this study seeks to examine the influence of the East African Community Customs Union. Beer industry in Kenya dates back to 1922 when the two brothers from England, George and Charles Hurst, started brewing beer in Kenya. The two formally incorporated their business as a private company under the name of Kenya Breweries Ltd. In 1929 the first malted barley beer was brewed and the first batch delivered to New Stanley Hotel where it was opened with mixed reaction. By 1938 the company was recognized for its beer after it won the first brewing award in an international competition. Bottled beer consumption was exclusive for whites in postcolonial era until 1947 when Africans were allowed to drink formal sector beer. (EPZA Report 2005)

Kenya Breweries Ltd became a public limited company in 1934, after which it incorporated Tanganyika Breweries and changed its name to East African Breweries Ltd. The company became a holding company after merging with beer makers Allsops East Africa Ltd in 1962 and Kenya Breweries Ltd was re-established as a major partner in Nairobi and Mombasa. In 1964 it acquired equity interest in Tanzania's Kilimanjaro Brewery and a year later, Guinness East Africa was incorporated in Kenya. By, 1972 EABL had the largest public share issue in Kenya of up to more than 23,000 shares making it the only key player in beer and barley production since 1947. (EPZA report 2005)

According to EABL's 2010 financial report, beer market trend has gone down by 4%. The consumption by volume has also been declining at an annual rate of 5% and consequently beer per capita consumption down from 14 liters to 8liters for the last decade. The basic attributes to beer industry non- performance are the critical challenges of taxes, which account for 50% of beer production cost gradual

consumption decline as a result of economic hardship and competitive price on other alcoholic beverages.

## **1.2 Research Problem**

Regional integration efforts in Africa have a long history dating back to the colonial period and an equally long history of floundering due to lack of political commitment and disagreements over compensation and distribution of benefits. Despite the evidence of failure, African countries are once again calling for enhanced regional cooperation in relevant areas of economic activity such as trade, tourism, immigration, cross- border investments and infrastructure. The East African countries in particular have made a commitment to integrate their economies through the East African Community (EAC).

Njagi (2006) concluded that establishment of the EACCU has provisions, opportunities and challenges have an impact to business in the East African region. The Customs Union has given major benefits to the edible oil manufacturers such as increase in sales volume, profits and market share. The union has given the Kenyan edible oil manufacturers a chance to develop new markets products, use the opportunities for mass production and hence experience improved economies of scale. It has also created a high level of competition between the companies in Kenya as well as those in partner states. This she says is beneficial to the consumers and the entire East African economy.

Odera (2005) study revealed that among the top known regional economic grouping by the food and beverage manufacturers in Kenya are COMESA and the EAC. This two groupings affect the country directly as Kenya is a member of both economic blocs. Although majority of the executives from the food and beverage manufacturers

in Kenya understand the EACCU protocol, some of them did not understand the protocol at all. He concluded that stakeholder education about the protocol had not been quite successful in the manufacturing sector.

Given past failures of integration efforts, there is need to identify issues affecting integration not only for a clearer understanding of the challenges faced but also to guide ongoing efforts. The aim of this study was therefore to analyze the influence of the East African Community Customs Union on the operations of East African Breweries Limited.

### **1.3 Research Objective**

The objective of this study was to analyze the influence of the East African Community Customs Union on the operations of East African Breweries Limited.

### **1.4 Value of the study**

The findings of this study will be important to players in the beer industry, i.e. the Government, East African Breweries Limited and National Cereals and Produce Board, as it will help them understand the effect the Customs Union had on their operations. It will also provide an insight in understanding the challenges they are likely to face when implementing reforms and what strategies they should adopt in overcoming the challenges.

Secondly, the Ministry of Trade will gain insights into the challenges facing players in the beer industry in implementing strategies since the Customs Union came into force. The study will also provide a launching pad for further studies related to the East African Community Customs Union given the limited amount of research in this field.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Introduction**

This section describes the various forms of Regional arrangements, the costs, benefits and operational dynamics of regional integration whose influence on the operations of East African Breweries Limited is the subject of this study.

### **2.1 Various forms of Regional arrangements**

Economic groupings that represent varying degrees of integration have been prevalent for a long time. Regional integration has come about as economic integration has involved countries that are geographically close thus the term “regional”. The theory of regional integration draws heavily from the standard trade theory which states that free trade is superior to all other trade regimes. From this basic principle it is assumed that integration among two or more countries will improve the welfare of the member countries provided the arrangement leads to trade creation, minimal trade diversion and/ or trade creation that exceeds trade diversion.

The forms of regional arrangements are as varied as the countries that pursue them. The most common arrangements include: Preferential Trade Area (PTA), Free Trade Area (FTA), Customs Union, Common Market, Economic Union and a Political Union with each succeeding level involving greater cooperation among member countries (OECD Publication, 1993).

A Preferential Trade Area (PTA) is defined as an area where preferential treatment is given to access of certain products from certain countries. Tariffs and other barriers to trade are reduced among members, but not completely abolished. This is the weakest form of integration. An example of a PTA is between the European Union (EU) and the countries in the Africa, Caribbean and Pacific (ACP) pact.

The second arrangement is referred to as a Free Trade Area (FTA). This is an area in which members remove barriers to trade among themselves but keep separate national barriers vis a vis third countries. FTA's can include more liberalized rules and harmonization of technical standards. FTA's do not include the free movement of factors of production such as labor, nor do they require de jure harmonization of members' economic policies such as constraints on domestic policies towards unilateral actions. Examples of FTA's include North American Free Trade Agreement (NAFTA), European Free Trade Association (EFTA), and South Asia Free Trade Agreement (SAFTA).

Thirdly, there is the Customs Union whereby members not only abolish restrictions on internal trade as in a FTA, but also impose a common external tariff (CET) on trade with non- member countries. Rules of origin are no longer required which is a major advantage because implementation of rules of origin is very costly administratively. Examples of CU's include the Andean Community (CAN) in Latin America and the Southern African Customs Union (SACU).

A Common Market is a Customs Union, which in addition has free movement of factors of production. Common restrictions apply to movement of factors with non-member countries. The European Economic Area (EEA) is an example of a bloc where members of the EFTA can participate in the European Single Market without having to be members of the EU.

An Economic Union goes further than a common market in that the major economic policies (e.g. fiscal, monetary, and industrial) are coordinated and a monetary union may be introduced.

The ultimate form of integration is the political union where countries agree to have a common policy on almost all sectors of the economy as well as political coordination in the areas of defense and foreign policy. For example, Canada and the United States of America which combined several states to form one country.

The above classification of schemes is hierarchical with each level embracing the one before it. In the formation of the new EAC, creation of a Customs Union was considered as the entry point followed by a Common Market, a Monetary Union, and ultimately a Political Federation of East Africa States. The establishment of the Customs Union is mandated in the EAC Treaty under Article 75(7), which provides for the removal of internal tariffs and establishment of a CET.

## **2.2 Benefits and costs of Regional Integration**

The Customs Union theory is concerned with associated welfare gains and losses. The effects can be both static and dynamic and they arise from (i) reallocation of resources in response to changing relative prices, (ii) specialization, (iii) economies of scale, (iv) changes in efficiency owing to increased competition and (v) levels of investment and growth (Lipsey, 1987 and Lyakurwa *et al*, 1997). Most of the theoretical literature relates to static effects (changes in terms of trade) while dynamic effects (specialization, economies of scale and efficiency changes) are rarely dealt with, as they are difficult to model. This is despite the development of new models such as Krugman's (1991) economic geography model which attempts to explain the determinants of regional concentration of economic activity. These models have yet to be put into empirical test particularly in Africa (Alemayehu and Kibret, 2000). Therefore, while the basic principles of trade theories provide us with some general insights, they fall short of serving practical guides in the African context.

Due to the shortcomings of the standard trade theories and observed lack of progress in the integration process, Fine and Yeo (1997) suggested that the focus of regional integration in Africa should re-orient itself to the enhancement of economic growth through stable and sound national macroeconomic policies and rapid accumulation of human and physical capital. In addition, Robinson (1996) argues in favor of focusing on cooperation in infrastructure and natural resources development. This is because the requirements for making reasonably complete forms of regional integration work are more demanding. For example, the distribution of gains has to be carefully enumerated and compensation mechanisms designed. In contrast, regional cooperation in infrastructure and natural resources is far less demanding and there are clear gains for all countries involved irrespective of economic development.

Most studies on Customs Union are based on the pioneering study by Viner (1950), which focused on production effects and resultant changes in trade structure. According to Viner, the formation of a Customs Union would lead to increased trade between union members. However, the desirability of this (from the point of view of union members or of the world as a whole) would depend on the balance between two effects: trade creation (the shifting of production of some goods from a less efficient member to a more efficient member); and trade diversion (the shifting of production from an efficient non-member to a less efficient member).

Both effects are likely to occur as a result of tariff changes associated with formation of a Customs Union. Trade creation creates a move towards freer trade and greater efficiency in the union and so is welfare improving. Trade diversion, however leads to reduced efficiency and to an adverse effect on the welfare of the union members. The overall impact of the Customs Union will therefore depend on the balance between

trade creation and trade diversion, with prospective unions being assessed on whether or not total trade creation outweighs total trade diversion.

McMillan (1993) argues that it is possible for a RI arrangement, formed among an arbitrary group of countries, to structure itself in such a way as to make each member country better off without making any member worse off. This is possible by setting an optimal CET. However, given the likely difficulty in calculating the optimal tariff, this proposition may seem to be only of theoretical interest.

Integration schemes characterized by factors which are likely to enhance trade creation and those likely to minimize trade diversion are the most likely to be welfare-improving. Following Hazelwood (1987), the factors that are welfare improving includes: factors enhancing trade creation; and factors tending to minimize trade diversion

Dynamic effects are felt more gradually, but are longer lasting and in some cases continued. They have potential positive effects on growth and provide stronger arguments for regional integration than static effects.

### **2.2.1 Operational Dynamics of Regional Economic Arrangements**

One of the straightforward tests of the welfare effects of RI proposed by McMillan (1993) is to examine what happens to exports and imports for countries in the union. If in each commodity category the volume of imports and exports increases after entry into the integration scheme then the scheme is welfare improving relative to the pre-integration situation. Although this is a straight forward test, it is subject to objection because changes in trade volumes may have other causes beside the entry into an integration arrangement- there remains- there remains a problem of counterfactuals (Bhagwati, 1993)

Regarding terms of trade, if RI leaves all prices unchanged when internal tariffs are eliminated, and if goods are sufficiently strong substitutes, the demand for goods imported from third parties will be reduced and regional trade will increase. However empirical evidence is not categorical about this. An analysis by Sloaga and Winters (1999) of nine regional blocs (NAFTA, Latin America and European regional trade areas), for instance, does not offer evidence of a positive effect on intra- regional trade after signing of regional agreements. As a matter of fact, empirical evidence shows that trade diversion occurs to some extent, with intra- RIA imports as a ratio of extra- RIA imports increasing after implementation of RIA in many RIAs (World Bank, 2000).

The net gain/loss from integration is a major issue in developing countries because in a Customs Union, internal tariffs are removed for member states and a CET for non-member states is established. Both of these have a direct effect on reduction in government revenues because these countries rely substantially on trade taxes. In most cases customs duties and other forms of import taxes generate the bulk of the revenue. Therefore, if members of a RI differ in respect of the importance they attach to trade taxes as source of revenue, loss of revenue becomes one of the thorniest issues to deal with. Rajaram *et al* (1999) indicate that the EAC members depend on import and excise duties as a major source of revenue in varying degrees (Kenya 32%; Uganda 51% and Tanzania 30%). The removal of internal tariffs and establishment of a CET with integration will affect this.

If, RI leads to trade creation, consumer welfare improvement and industrial development, then these spillover effects can compensate for the loss in direct revenue. Loss of revenue from integration for COMESA member states, for instance, is insignificant and may be compensated for by dynamic gains from growth

(Alemayehu and Kibret, 2000). This may be true also for the EAC since all the three member countries were in COMESA until Tanzania's withdrawal.

Revenue losses arising from RI schemes in developing countries can be compensated for by growth of manufacturing encouraged by integration. Unlike Latin American integration during the 1950s and 1960s and the Lagos plan for action for regional integration in Africa, modern integration initiatives aim at using integration as an instrument for export oriented development rather than import substitution. This stimulates importation of capital goods, which in turn induce increases in domestic investment (Rodrick, 1995). However, growth of manufacturing may not occur in all the countries involved in the RIA, especially In the case of developing low income countries where regional integration is more likely to lead to divergence (of income levels) rather than convergence ( World Bank, 2000; Venables, 1999).

Although access to markets is a major consideration under export oriented growth, it is argued that protection is a major prerequisite for it to occur. Shafaedin (1998) indicates that all countries that have been successful in export oriented growth including developed countries and the newly industrializing countries (NICs), first laid their foundation of industrial capacity before venturing into foreign markets. This can justify protection as a strategy for targeted industrialization but cannot justify continuous protection (McCarthy, 2001). In the world of non-reciprocal trade liberalization the EAC member states face s developing countries, modest protection and unrestricted access to markets of the developed countries can create favorable circumstances from industrial growth. This will allow the benefits from industrial growth to compensate the costs that the consumer must bear because of protection arising from a CET. Trade diversion that may arise will also be compensated for by industrial growth. The challenge that arises, however, is determination of appropriate

CET to allow for the benefits of modest protection that can favor industrial growth to compensate for the loss in revenue.

Economies of scale from a RI schemes are expected to arise from enlargement of the market. The gains from economies of scale are based on the argument that the domestic market of a small country may not support a large number of firms, especially industries in which scale economies are important. This can cause problems since small numbers of firms tend to collude and exploit consumers by raising prices. Competition from imports is an important means of restraining the monopoly power of domestic firms. Therefore, since RI facilitates a larger market, it provides the incentives for investment in the region. This means that creating trade barriers within a region can make it considerably less attractive to foreign investment and therefore deprive it of the dynamic advantages accruing from the flow of foreign direct investment (FDI).

Baldwin (1997) argues that creation of a RI scheme removes the barriers and the risks of marginalizing the region. This argument was put forward in favor of integration between eastern European countries as a complement to their free trade with the European Union. Further Elbadawi (1997) argues that economic integration could generate the threshold scales necessary to trigger the much needed strategic complementarity, and to attract adequate levels of investment (especially FDI) necessary for the development of modern manufacturing comes and transfer of technology within the region.

The gains from economies of scale can be analyzed building on the theoretical works of Krugman (1991). The theory states that factors determining location are production costs, the size of the market and access costs (insurance, customs, tariffs etc). The



decision to locate a firm in a particular area is the result of a trade-off between the advantages in terms of production costs in that area, the size of the market accessible from the location and the cost of gaining access to the market. Krugman (1991) further argues that concentration of manufacturing, for example in one region which is better suited to this activity than the other has advantages such as the ability to exploit economies of scale and existence of externalities from other firms. There is a disadvantage however in that there will be increased transportation costs involved in serving the markets in the periphery. Therefore, the concentration of manufacturing firms will depend on the balance of the different factors.

Lyakurwa *et al* (1997) indicates that many manufacturing activities involve significant fixed costs, and consequently have significant economies of scale. However many developing countries are too small in terms of population and effective demand to be able to exploit fully the economies of scale. Regional integration may allow this to be achieved through increased concentration of manufacturing activities. A group of countries may benefit from concentrating their manufacturing activities if economies of scale are large enough relative to intra regional transport costs.

Regional integration has both political costs and benefits. The main arguments for membership in RIA are political although socio- economic benefits offer the façade. World Bank (2000) states that enhancement of security against non-members and reduction of intra regional conflicts is one of such benefits. Since countries interlock their economies through regional integration, conflict between them becomes more expensive and that, through regular political contact, the regional integration facilitates building of trust and initiation of other forms of cross border cooperation. Strengthening of bargaining power as a regional bloc can be more effective than

individual countries in negotiations. This benefit, however, depends upon the ability of RIA members to strike common positions on relevant issues, which is often an elusive goal.

Facilitation of project cooperation (such as sharing of such resources as rivers, lakes, fishing grounds, hydro electric power, rail connections) and cooperation to deal with trans border problems such as pollution and transport bottlenecks. Such cooperation saves money and is facilitated by RIAs through collaborative ties and frequent policy level contact that builds trust.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research design**

A case study research design focusing on East African Breweries Limited was used for this study. Young (1960) argues that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit. It is a method of study that drills down rather than casts wide.

According to Yin (2005), a case study research method is an empirical inquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. Case study method involves an in- depth examination of a single instance or event. It also provides a systematic way of looking at events, collecting data, analyzing information and reporting the results.

### **3.2 Data collection**

The study collected primary data using an interview guide (See Appendix I) which was self administered. The interview guide contained open ended questions which enabled the researcher to collect the respondents' views from the various departments within East African Breweries Limited. Among such departments were the Human Resources, Risk and Audit, Finance, Procurement, Production, Export and Importation, Communication and Transport. Respondents were eight (8) senior managers who were involved in policy making and implementation and these were Employee Relations Manager, Risk and Compliance Manager, Finance Manager, Procurement Manager, Productions Manager, Customs Manager, Public Relations Manager and Transport Manager.

The interview guide allowed flexibility of questions, ease with which the researcher went into more depth which enabled the researcher to test the respondents' knowledge and to make reliable assessment of their views.

### **3.3 Data analysis**

Qualitative analysis categorized phrases, described the logical structure of expressions and ascertained associations and other interpretations in order to interpret the results of the findings. According to Patton (2002), qualitative data analysis allows the researcher to study selected issues, cases, or events in depth and detail. Data collection is not constrained by predetermined categories of analysis and the researcher does not attempt to manipulate the program or its participants for purposes of the evaluation.

Data was classified into various themes for ease of analysis. Through this method, inferences were made by systematically and objectively identifying specified characteristics of information collected.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Awareness of EAC Customs Union**

Results revealed that the level of awareness on the existence of the EAC Customs Union was quite high among the respondents. They were fully informed of the existence of the EAC Customs Union. One respondent gave a brief explanation of EAC Customs Union as the creation of an expanded market for their products and another as the third stage of economic integration after PTA and FTA followed by the common market and argued that real economic integration would commence when the EAC Customs Union was fully operational after completion of the transitional process.

Responses on the availability and content of information revealed that information from EAC Customs Management Regulation, CET, general information on EAC Customs Union Implementation, News Bulletin and information on NTBs was readily available in the departments. However, information on the Rules of Origin/ Certification of Origin in East African Breweries Limited was rather low.

#### **4.1.1 Source of business information on EAC Customs Union**

The respondents get information on the Customs Union through different sources which are: Association of Manufacturers, EAC website/ EAC Secretariat, business workshops/ meetings on EAC, agents/ research interviews, media (newspapers and television), Revenue Authorities, distributors and the government. A further exploration on the ranking of different sources of information in terms of importance to the business community yielded the following as the most important sources of business information in descending order: Kenya Association of Manufacturers

(KAM), internet, newspapers, EAC secretariat, Revenue Authorities, Chamber of Commerce, Media, customers, workshops and EABC.

Further investigation into the issues of preference on the source of information established that most of the respondents preferred to get the information from the Association of Manufacturers, EAC website, the media, business workshops, Revenue Authorities from the EAC Secretariat which could give guidance when developing a strategy for dissemination of information on the Customs Union.

To conclude the foregoing, business associations have played a vital role in disseminating information on the Customs Union in East African Breweries Limited. To this extent, strategies for enhancing information dissemination can build upon the success stories and should aim at strengthening dissemination capacities of the business associations there. Further, EAC should explore how to popularize its website as a source of information. Dissemination of information could also be speeded up if the government played a more active role than is the case at the moment.

#### **4.2 Relevance of the EAC Customs Union tariff structure and principles on business**

The question on relevance of EAC custom union's tariff structure and principles was posed to respondent and the following responses emerged. The CET structure is the most relevant Customs Union feature to operations of EABL in the region. Attractive CET aspects to the company were zero tariff rating (raw material and capital goods), free movement of goods, enhanced market access and lower rates on raw material sourced locally. There was overwhelming support for the EAC CET from the company's various departments.

The respondents were not supportive of exceptions to full implementation of the CET, as illustrated by views expressed on the question:

*“Do you think that the changes in the CET allowing individual member countries to stay the implementation of the CET (i.e., to occasionally suspend implementation of CET for certain products) are useful or counterproductive?”*

Most of them thought that changes in CET were counterproductive and reasons given in support of the argument were: erosion of goodwill of the EAC Customs Union among businesses, creation of uncertainty, undermining planning for production, which is currently premised on the existing CET and the fact that it would harm exports, if CET review raised duties of raw materials.

It is imperative that future CET reviews provided for in the EAC Customs Union Protocol, be carefully managed to take care of sensitivities raised by the business community. Such reviews should safeguard against uncertainties which if unchecked may lead to undermining of EAC Customs Union’s goodwill. One way to achieve this is to allow for transitional periods after reviews to give companies time for production planning.

Elimination of intra-EAC tariffs is very relevant to the regional operations of EABL a position supported by majority of the respondents. Popular attributes included increased trade and enhancement of market access within the EAC region. The interviewees responded overwhelmingly in support of EAC common clearance procedures with most of them answering in the affirmative. Beneficial features include; speed and efficiency, enhancement of trade; and reduction of cost of doing business.

The most significance impact of EAC Customs Union features arose from internal tariff elimination, particularly the zero rating, followed by CET and EAC common customs clearance procedures. Significance was highlighted in terms of enhanced market access and increased competitiveness, faster border clearance which was expected to increased market share and increased economic activities. There is an overwhelming support for the principle of asymmetry among the various department of EABL and most of the respondents were happy with it.

#### **4.3 Influence of the EAC Customs Union on EABL's operations.**

Respondents cited the following benefits derived from free movement of goods within the EAC: goods moving faster and more efficiently, reduced clearance requirements, benefiting from the zero tariff regimes, shorter lead times in supplying goods and increased competition. One of the respondents said that the company had experienced expansion of business since the launch of EAC Customs Union in 2005 as it had seen it expand its operations to Rwanda and Burundi. In regard to business turnover in terms of total sales and profits, the respondents agreed that it had increased considerably and this was mostly driven by intra- EAC activities. To unlock this potential, it is necessary for an analysis at product level to be commissioned to show the EAC market potential to determine impediments and devise strategies for businesses to apply in order to capture the market potential. The respondents were all in agreement that the EAC Customs Union was a major source of investment for the company.

The most attractive aspects of the EAC customs preferences according to the respondents were elimination of intra-EAC tariffs and CET, EAC common customs clearance procedures and removal of NTBs. Responses on aspects of the EAC Customs Union that were considered least attractive or problematic included principal



of asymmetry, non tariff barriers, lack of common standards for the region, VAT & different tax regime in operation, long sensitive list, import duty, application of rules & origin, EAC common custom clearance procedures and lack of information. These findings are a pointer to the need of EAC to address concerns which EABL has in regard to EAC sensitive list, application of the EAC rules of origin and the CET structure.

#### **4.4 Recommended measures to address non implementation of the EAC Customs Union**

The respondents proposed wide ranging measures to address losses resulting from non-implementation of the EAC Customs Union which included export compensation, review of tariffs provision of rebate/insurance cover, and payment of interest/ penalties. They further argued that governments should take the following measures to ensure full implementation of the Customs Union implementation of the EAC Customs Union Protocol, Implementation of the NTB monitoring mechanism, elimination of the NTBs and harmonization of customs operations.

Majority of the respondents proposed the following measures to the EAC Secretariat to mitigate losses arising from non implementation of the Customs Union: enforcement of the Customs Union Protocol, tracking and monitoring effectiveness of implementation specific Customs Union requirements in collaboration with the private sector, secure reforms in trade facilitation system to accommodate the changes foreseen in the EAC Customs Management Act and Capacity building and empowerment of the public and private sector on matters of the EAC Customs Union implementation. They perceived empowerment of EAC Secretariat as one of the strategies towards enforcement of EAC regional integration. Proposed empowerment measures included power shift of some of the powers from governments to the

secretariat, make the secretariat a commission with full funding and linked to private sector and enhanced commitment from Partner States.

The respondents were in agreement that governments should be held accountable for non implementation of the EAC Customs Union and proposed the following measures adoption of EAC harmonized standards, introduction of a legislation to deter non implementation of the Customs Union, demonstration to governments' strong correlation between private sector gains from implementation of Customs Union and economic development, quantification of loss of business opportunities and strengthening of business associations and lobby groups to be proactive and petition governments in event of non implementation of the EAC Customs Union.

#### **4.5 Non Tariff Barriers (NTBs) and their elimination**

Lack of a common transit regime was a major concern among the respondents with majority of them citing lack of a transit regime as a critical gap in deepening intra-regional trade. They felt that the establishment of common transit regime would save time and resources and level the playing ground for transportation leading to increase in sales.

Respondents were well aware of NTBs that affect their business operations which included poor infrastructure, port congestion and high cost of doing business. Effects of the NTBs on operations included escalation in operational cost, loss of market share, delay in clearance, increase in overhead cost and limits in company growth. Several measures were suggested to address the negative effects of NTBs and these were creation of a strong political will, improvement in infrastructure, reduction in tax for goods, adoption of common terms and conditions and harmonization of the clearance procedures.

In recognition of the adverse effects that NTBs had on intra-regional trade in the EAC, the EAC Partner States have launched NTB monitoring mechanism. The interview sought to establish awareness of this mechanism among respondents and the findings indicated that an overwhelming number of them were unaware of the mechanism. Effectiveness of the mechanism was rated as very slow owing to the fact that they had already reported the NTBs to the government.

Majority of the respondents felt that customs reforms would help address delays experienced at the border points, ease clearance process (through simplification of customs procedures), help in the rationalization of the roles of trade facilitation institutions (primarily, Customs, Ports Authorities, and Bureau of Standards), reduced transaction costs and enhance competitiveness of business. In regard to infrastructure reforms, the respondents were in agreement that it would lead to reduction in overhead cost, freight costs and cost of doing business and improved delivery time. Reduction in shipment cost was anticipated to lead to reduced production costs, increased profits, and lower prices of goods. For intra-regional trade, improved road, rail and oil/gas pipeline network would encourage more players in the transport sector. This would trigger competition and reduced prices. Most of the respondents stated that reforms in the financial sector would lead to expansion of capacity and operations. This underscores financial sector reform as one on the key focal areas where EAC Secretariat needs to focus in search for strategies and policies to increase intra-EAC trade.

## CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

The research findings are briefly discussed in terms of the research objective which was to analyze the influence of the East African Community Customs Union on the operations of East African Breweries Limited. These results indicate that the establishment of the EAC Customs Union has provisions, opportunities and challenges that have an impact on the operations of EABL. The level of awareness on the existence of the EAC Customs Union was quite high among the respondents indicating the high level of publicity and awareness of the EAC Customs Union. Availability of information on EAC Customs Union on the Rules of Origin/ Certification of Origin in East African Breweries Limited was rather low.

The most important sources of information on EAC Customs Union according to the respondents: Kenya Association of Manufacturers (KAM), internet, newspapers, EAC secretariat, Revenue Authorities, Chamber of Commerce, Media, customers, workshops and EABC.

The response on “*whether the EAC Customs Union had been successfully implemented*” was overwhelmingly in the affirmative of the respondents. They viewed all the features (CET, elimination of the internal tariffs, Common customs clearance system) of the EAC Customs Union to be relevant. There was an overwhelming support for the principle of asymmetry among the business community in the region. There was however room for improving the awareness according to the respondents.

Free movement of goods within the EAC had been a major boost to business in EABL. Other benefits included: expansion of business, increase in business turnover in terms of profits and sales and investments. The most attractive aspects of the EAC customs preferences according to the respondents were elimination of intra-EAC tariffs and CET, EAC common customs clearance procedures and removal of NTBs.

NTBs cited by the respondents as affecting their operations included poor infrastructure, port congestion and high cost of doing business. Effects of the NTBs on operations included escalation in operational cost, loss of market share, delay in clearance, increase in overhead cost and limits in company growth. Several measures were suggested to address the negative effects of NTBs and these were creation of a strong political will, improvement in infrastructure, reduction in tax for goods, adoption of common terms and conditions and harmonization of the clearance procedures.

## **5.2 Conclusions**

Availability of information on EAC Customs Union on the Rules of Origin/Certification of Origin in East African Breweries Limited was rather low. This outcome heightens the need for strategies to avail information on Rules of Origin/Certification of Origin to the company as it will stimulate it to take advantage of the regional integration. It also heightens the need for EABC to come up with a strategy for outreach to the business community in the region. This awareness will stimulate the business community to take advantage of regional integration.

Respondents listed ways in which they prefer to get information on the EAC Customs Union and this was from the Association of Manufacturers, EAC website, the media, business workshops, Revenue Authorities from the EAC Secretariat which could give

guidance when developing a strategy for dissemination of information. These calls for the EAC to look for ways it can popularize its website and this could be through advertising, holding public forums and regular training of organizations which are involved in exportation and importation of products across the EAC member countries.

The EAC Secretariat should ensure that future CET reviews provided for in the EAC Customs Union Protocol are carefully managed to take care of sensitivities raised. This will safeguard against uncertainties which could be achieved by allowing transitional periods after reviews to give companies time for production planning.

To unlock the potential of the benefits derived from regional integration, it is necessary for an analysis at product level to be commissioned to show the EAC market potential, to determine impediments and devise strategies for businesses to apply in order to capture the market potential. The financial markets in the EAC region should also take the benefits as an opportunity to stimulate production and trade development in the region. In this regard, there is great need to improve infrastructure particularly focusing on energy, road, rail network, air connectivity and oil pipelines.

The least attractive or problematic aspects of the EAC Customs Union included principal of asymmetry, non tariff barriers, lack of common standards for the region, VAT & different tax regime in operation, long sensitive list, import duty, application of rules & origin, EAC common custom clearance procedures and lack of information. These findings are a pointer to the need of EAC to address concerns which EABL has in regard to EAC sensitive list, application of the EAC rules of origin and the CET structure.

### **5.3 Recommendations**

Non- tariff barriers (poor infrastructure, port congestion and high cost of doing business) are a serious bottleneck to the operations of EABL. I recommend the governments of the Partner States and the EAC Secretariat (and other institutions) to deal with these issues seriously and find effective ways of easing these barriers. Stakeholders in the three countries have a responsibility to report such barriers. One way in which these issues could be dealt with is for the EAC to establish points in all three countries where stakeholders could report the barriers they encounter.

Considering the experience of Regional Integration (including the original EAC that collapsed in 1977), successful integration within the framework of the EAC requires political commitment, establishment of institutions to facilitate consensual decision making and institution of mechanisms for equitable or fair distribution of costs and benefits of integration. I would recommend that all governments and other stakeholders to be involved actively in the integration process.

The NTB monitoring mechanism is not well known among the respondents, implying that adequate consultations and discussions over the tariff barriers have not been made. There is need to disseminate information regarding monitoring mechanisms of NTBs and what it entails to all stakeholders and to consult stakeholders as much as possible. This recommendation is made to the governments and the EAC Secretariat. Stakeholder bodies such as the Kenyan Association of Manufacturers and the Federation of Kenyan Employers could also play an important role in dissemination of information and coordinating stakeholder response.

In order to address non implementation of the EAC, the respondents perceived empowerment of EAC Secretariat as one of the strategies towards enforcement of

EAC regional integration. In order to enforce this, I would recommend that there be power shift of some of the powers from the government to the Secretariat, make the Secretariat a commission with full funding and linked to the private sector and enhanced commitment from the Partner States.

More research is also required to facilitate integration in East Africa. Some of the issues that need urgent research include comprehensive study on the influence of the EAC Customs Union to address gaps in the current study taking into account the provision of the EAC Customs Union Protocol and the influence of the EAC Customs Union on other sectors of the Kenyan economy.



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# **APPENDIX I: INTERVIEW GUIDE**

## **Section I: General Information**

1. Job title.
2. Responsibilities in the department.
3. What is your understanding of the East African Community Customs Union?
4. What information on EAC Customs Union implementation has been made available to you?
5. How did your company obtain this information on EAC Customs Union implementation?
6. Rank the main sources of information on EAC Customs Union implementation in descending order of information usefulness i.e., starting with the source that in your view provides the most useful information and ending with the one that offers the least useful information.
7. How would you prefer to obtain information on the implementation of the EAC Customs Union?

## **Section II: Assessing the Level of Implementation of EAC Customs Union and the cost of Non- Implementation**

1. Are there any critical elements of your operations (excluding NTBs) that are outside your control and are the responsibility of the Government or other entities (such as fuel, electricity, etc)
2. There are various elements of the EAC Customs Union protocol, such as the Common External Tariff (CET), elimination of intra-EAC tariffs and other

- charges, a customs management Act that underpins common customs clearance procedures. Please describe the relevance of each of them to your business.
3. Which of the areas described in 2 above has the most significant impact to your business and why?
  4. Has the application of the “principle of asymmetry” resulting in the application of different internal tariffs among EAC countries based on the level of trade development of each country been useful to your firm.
  5. What is the influence of EAC Customs Union implementation on your business in terms of turnover, how would you describe the impact it has had?
  6. What measures in your view should the Government put in place to ensure full implementation of EAC Customs Union?
  7. What are the most attractive aspects of EAC Customs Union preferences to your business?
  8. What is the least attractive/ most problematic part of the EAC Customs Union to your business? (specific implementation problems, etc)
  9. Do you think that the changes in the CET allowing individual member countries to stay the implementation of the CET (i.e. to occasionally suspend implementation of CET for certain products) are useful or counterproductive.
  10. What are the implications of non implementation of the EAC Customs Union and how would you describe the impact on your business in terms of costs?

### **Section III: NTBs and their Elimination**

1. What kind of NTBs affect your business operations and how?
2. Do you think that a system of notification of NTBs (i.e. a monitoring mechanism) could be useful to remove NTBs?
3. Have you tried to contact the government authorities to remove the NTB? What was the result of this attempt?
4. If the government or trade partner countries were to offer customs reforms to improve export procedures, infrastructure improvements and improve export credit facilities and financial services in the country, how might this help address the main traditional NTB challenges you face?