Briefing

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# East African integration: How can it contribute to East African development?

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## Key Points

- The integration process of the East African Community does have potential to improve the prospects for poverty-reducing economic growth
- The potential is greatest in two areas: cooperation in infrastructure and other public-goods provision, and growth-enhancing institutional change
- Progress on institutions will happen if business pressure groups and other stakeholders interested in rule-governed policies participate strongly in the upcoming negotiations on the formation of an East African common market
- This could result in institutions favouring investment getting 'locked in' by regional agreements, so that political favouritism and protection become progressively less significant factors in the development of the member states

## 1. Issues and approach

The East African Community is being reborn. Since the East African Community (EAC) Treaty of 1999 and the formal launching of the new Community in 2001, the pace has been quickening. A process creating a free trade area and customs union between Kenya, Tanzania and Uganda was begun in January 2005, and negotiations are now starting to establish a full common market between the three countries plus Rwanda and Burundi by 2010. Meanwhile, discussions are under way with a view to 'fast tracking' the final component of the integration process, political federation.

In view of the tight timetable, there is surprisingly little discussion of the possible benefits and risks that integration poses for the peoples and societies of East Africa. What are the developmental benefits of the EAC, taking into account other integration processes taking place in eastern and southern Africa? What are the opportunities to be seized and the risks to be averted by development-minded stakeholders in the region? Will the new EAC be more successful in sustaining an integration dynamic than the Community dissolved in 1977? In what ways do the political and economic drivers of the process differ from those that propelled and then destroyed the previous experiment?

This briefing is intended as a contribution to a more intensive and focused debate on these issues in East Africa. Funded by DFID and prepared jointly by think tanks based in Dar es Salaam, Kampala, Nairobi and London, it draws on a literature survey, workshops and interviews undertaken during May-September 2006.

The briefing takes a political economy approach. Rather than looking separately at the economics and the politics, it focuses on the interactions between the structural background, the institutions (the rules governing behaviour) and the incentives facing different kinds of agents. This mode of analysis helps to reveal the full implications of the integration process for the development of the member countries.

## 2. Argument

The EAC integration process has four main strands:

- the now quite advanced process of establishing a free-trade area and customs union;
- the promised but still largely unrealised opportunities for cooperation in the provision of public goods and services;
- the process initiated in 2006 of negotiating a common market;
- the eventual goal of political union under a federal constitution (following monetary union).

In each of these areas, structural factors, institutions and agents interact differently. The four strands of integration do not have the same potential to contribute to an acceleration of economic development and poverty reduction in the region. Although it will produce economic change, the customs union is not the most relevant process from the point of view of increasing the pace of poverty-reducing economic growth. Both cooperation to provide public goods and the negotiations on the creation of a full common market are potentially more important. This conclusion depends in part upon an assessment of the principal obstacles to more successful development in the three current EAC member countries.

## 3. Country contexts

Despite their obvious differences, Kenya, Tanzania and Uganda share many development challenges. The three countries are apparently undergoing the same demographic transition, with substantial lags but posing similar challenges to education systems and job markets. Economic growth constraints arising from weak infrastructure and energy supply are more or less serious across the region. Policies for market-based development have been improving, but too slowly for investment and employment needs to be met. Failure to attract sufficient private capital and expertise into agriculture to transform the livelihoods of the poor majority of the population is a critical challenge in all three countries.

The political and economic systems of the countries differ. However, they also share some important features, which have persisted through time. In all three countries, the quality of policy making is limited by the interest of politicians in the 'discretion' that incomplete economic liberalisation and imperfect regulation give them. The importance of discretion arises from the character of the political system, or the form of the state. As in other parts of sub-Saharan Africa, the state is a hybrid structure, characterised in the political science literature as *neopatrimonial*.

**Countries of East Africa**

In neopatrimonial systems, the state has a bureaucratic (law- and rule-governed) façade, but political motivations are mostly about short-term advantage and the dispensing of patronage. Ethnic and other particularistic loyalties play a significant role.

Rather than constituting a merely dysfunctional system or historical aberration, this pattern is a significant feature of the way 'Africa works'. Although some of its features may be socially stabilising, it has clearly negative consequences for economic development. It encourages the kind of business that flourishes in protected niches where rents can be extracted. It creates a climate that is generally unfavourable to long-term, large-scale investments because policies are unstable, and risks and transaction costs are high. The consequences are particularly serious in agriculture and rural markets, where the potential for poverty-reducing growth is greatest. Larger investors who might solve coordination problems, build infrastructure and provide efficient marketing for smallholders stay out because the 'rules of the game' are not predictable.

Thus, the most important question about East African integration is whether it provides any new means by which citizens of the countries might address this core challenge.

## 4. From political idea to customs union

It is clear that the political and economic drivers of the new EAC are different from those of the former Community. The thinking of the political elites is nonetheless quite strongly influenced by the earlier experience. In economic terms, the trade effects of the customs union have limitations that differ in detail but not in kind from those of the former EAC. But this time the trade effects are not the most important mechanism by which the integration process should be expected to influence development in the region.

*Political drivers*

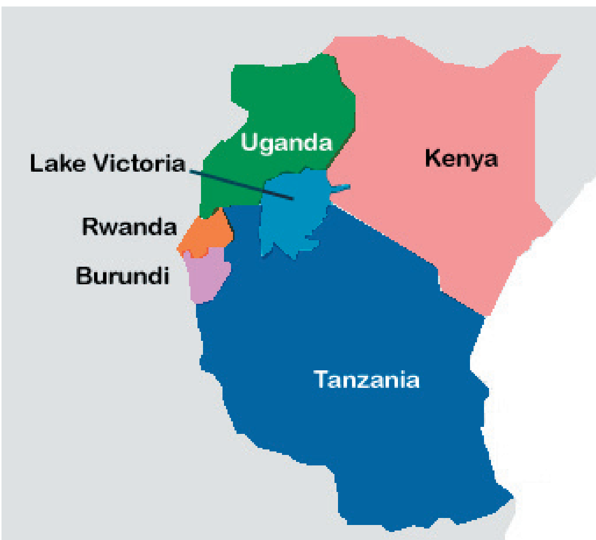
There do appear to be a coherent set of political drivers behind the re-launching of the EAC. There is some truth in the humorous version of the contrasting motives of the three countries – that Kenya is interested in exporting surplus capital and Uganda in an outlet for its surplus labour, while Tanzania wants to realise a Pan-African vision. However, this underrates the commonalities.

History and historical symbolism are very important in all three countries. Members of the national elites who are old enough to remember tend to share memories and quite a sharp sense of loss concerning the rise and eventual dissolution of the former Community. This sense of history combines easily with the motivations that ambitious politicians share. Acting on the regional stage helps some leaders of all three countries project themselves as statesmen of a higher order. For the national leaderships, EAC institutions bring significant new powers to dispose and depose. They are an additional resource for rewarding political loyalty, creating obligations and generating support. The ideology and these political and economic practicalities are woven together and are hard to separate.

This political vision of the EAC is, however, not very widely shared outside the elite and the relatively elderly. Despite an enhanced sense of East African identity arising from modern communications, the youthful mass of the population is not well informed about the process in any of the three countries. Commitment to the formal EAC idea is relatively narrow, in both social and generational terms. This will make it vulnerable, especially as it advances beyond the current stage and begins to affect issues of mass concern such as jobs and pensions.

Donors are providing substantial support to the EAC as well as to other Regional Economic Communities (RECs) in Africa. This does not necessarily make the process donor-driven. Senior politicians make all the key policy decisions relating to membership of RECs, as is underlined by the story of Tanzania's withdrawal from COMESA, and its insistence on staying within the SADC bloc for the Economic Partnership Agreement negotiations with the European Union.

**Existing and Prospective Members of the EAC**




*Relevance of the customs union*

The principal components of the customs union (CU) agreement are 1) a Common External Tariff (CET) on imports from third countries; 2) duty-free trade between the member states; and 3) common customs procedures. The agreed CET follows the tariff-escalation principle, with different rates for raw materials (0%), intermediate products (10%) and finished goods (25%), the latter percentage being fixed as the maximum.

This contrasts with former normal maxima for Kenya of 35%, for Tanzania of 40% and for Uganda of 15%, meaning a reduced level of protection with respect to the rest of the world for Kenya and Tanzania but increased protection (higher import costs) for Uganda – whose development model has been the most export-oriented of the three. The removal of duties on trade within the CU, on the other hand, has the effect of reducing protection against competitors within the region, particularly creating greater openness of the Tanzanian and Ugandan markets to imports from Kenya ('the lion is now inside the cage with the goat', as one Ugandan entrepreneur put it).

The customs union phase of integration is, however, not yet fully implemented. There is a Common External Tariff and tariff-free movement of goods and services, but there remains a substantial list of exclusions, transitional arrangements and derogations in favour of non-EAC trading partners. The technical work to harmonise and modernise the customs procedures in the EAC's major ports of entry is also incomplete.

There is a fairly large literature on the *expected* revenue, trade and welfare effects of the fully implemented CU. The bulk of this is based on comparative-static simulation exercises designed to show the one-off impacts of introducing immediately the full tariff package of the CU. This literature draws generally negative conclusions about the developmental benefits. It finds an increase in intraregional trade that is largely the result of trade diversion, not trade creation, with aggregate welfare benefits in Kenya and Tanzania but welfare losses in Uganda.

From a trade-integration point of view, the literature suggests that the EAC is not a well-chosen unit. In the technical language used in this field, the three economies are neither very complementary nor very competitive. Current trade between the three countries is small compared with their trade with the rest of the world, and only really significant for Kenyan exports. Although an improvement on fragmented national markets, the EAC's 105 million people (after inclusion of Rwanda and Burundi) do not form a large market in global terms, given the very low level of average incomes. At best, the EAC integration process can be seen as a useful stepping-stone on the way to greater integration into the world economy with lower levels of protection.

*Poverty impacts*

The positive and negative welfare impacts suggested by the simulations are in large part about the effect on consumer prices of reduced protection to Kenyan manufacturers (positive for Kenyan consumers) and reduced access for Ugandan consumers to world imports that compete with Kenyan products (negative for Ugandan consumers). However, the scale of the effects is uncertain.

Import duties affect a very small proportion of the value of goods typically consumed by Uganda's poor. For Ugandans the position on tariffs is also more complicated than appears at first sight. First, the move to a maximum CET of 25% from a previous maximum of 15% is less significant than appears because the former is charged on the value of goods c.i.f. (cost, insurance and freight) Mombasa, whereas the latter was charged at the point of entry to Uganda. Second, VAT is now charged on the value plus duty at Mombasa. Given the substantial additional cost of transporting goods from the coast to Uganda, this makes a considerable difference. Thirdly, Excise Duties of 10% and other charges (2% Commission, 4% Withholding Tax) had previously been charged on a discriminatory basis on imports – as a means of providing enhanced protection for local producers without formally breaking the tariff ceiling. These charges were consolidated in the higher external tariff, meaning a further reduction in the impact of this change.

The customs union will not even contribute significantly to easing the barriers to informal trade across borders that are important to rural livelihoods in various parts of the region. One-stop border posts are being introduced with help from various development cooperation agencies and tariff barriers are coming down progressively. However, other taxes are still being fixed separately by countries, so that border posts still have official reasons for existing. The posts also serve to enforce the administrative restrictions on food exports, which are imposed on national food-security grounds.

Looking ahead, if a common market is established, there will eventually be both winners and losers in the border areas. Losers will include smugglers and the customs, police and local government officers who currently benefit from bribery at and around the borders. The winners will include more numerous food producers and consumers on both sides of all borders, who will be able to trade more freely and safely.

*Emerging business trends*

The attitudes of business leaders in the three countries differ from those typical among economists. Business leaders are invariably positive about EAC integration, and about the customs union as a step in the process, as well as about the wider integration promised by COMESA. The larger economic players are taking a long-term view based on a progressively expanding regional market. There are already some indications of a new pattern of regional development, which includes:

- *Successful adjustment by Kenyan firms to the lower protection afforded by the EAC CET* compared with previous tariff levels. Reports suggest that the fears expressed during the negotiation of the protocol that firms would not adjust to a 25% maximum CET, or would relocate to Tanzania or Uganda to take advantage of the preferential margins accorded by the CU protocol, have not been realised.
- *A new intraregional division of labour* in which basic import-processing locates to the coast, with the hinterland as its market, while the final stages of import-processing (especially, bulky finished goods incurring high transport costs) and natural-resource based activities, especially high-value, low bulk production for regional and international markets, moves up-country and up-region. Some of this involves integrating value chains within large companies, with different segments located by firms in different countries.
- *Opening of new hinterlands to the north (southern Sudan) and west (Rwanda, Burundi and DRC)*. Business actors are currently viewing the entire 'west', as their natural field of operations, including both markets and investment opportunities. For Ugandan business – significantly closer to the scene of action – the opening of Sudan and DRC allows some advantage to be extracted from the country's otherwise unfavourable land-locked location. While the inclusion of Rwanda in the EAC is important in its own right, it is also provides a doorway into the far richer DRC.
- *Increased trade in services as well as goods*. Service provision to Kenyans and Tanzanians is already important for Uganda (in tertiary, secondary and some say even primary education, and in health). Export of financial services is already significant for Kenya, for example via the Kenya Commercial Bank and purchase and upgrading of local operators in Tanzania, Uganda and Sudan. Uganda's tourism potential is considerable, if integrated into established regional circuits. Kenyans see Nairobi as a centre of service industries for the region.
- *Signs of the growth of a business culture that is more oriented to making profits on the basis of scale of production and less dependent on political protection*. Although not limited to East African Asian family businesses, this may be particularly relevant to them because for a long time they have had the networks needed to invest and work effectively across the national borders but have not been encouraged to do so by the prevailing political economy.

*Weakness of poverty reducing effects*

These developments are of interest but the East African economies have large informal sectors that are poorly integrated with the formal economy and large business. The kinds of large-scale manufacturing and agro-processing concerns that are the main focus of existing business interest are not likely to employ the bulk of available labour. The impact of their promised investments on the conditions of life of the region's overwhelmingly rural poor will be slight, except in the case of agro-industrial firms that run significant out-grower schemes or otherwise stimulate and contribute to the coordination of smallholder production and trade.

What would make a more substantial impact would be the coming of a new generation of investments in world-market production based on the region's comparative advantages in natural resources (especially mining and agriculture). The new tariff structure creates marginally better conditions for world-market exporters in Kenya and Tanzania, by potentially cheapening inputs and by reducing upward pressures on the exchange rate, while the reverse is to be expected in Uganda. But the changes are small. Hence, other possible effects of the regional integration process must be considered more significant.

## 5. Cooperation in public-goods provision

There is general recognition that infrastructure barriers are more important than trade barriers to growth, especially pro-poor growth, in East Africa, particularly for Uganda and up-country Tanzania and Kenya. Under-investment in infrastructure, especially transport, power and water, has national causes, but regional cooperation in the provision of these key public goods may be part of the solution. Quality standards, branding and marketing are other very important areas for export sectors, and figure among the preconditions for creating a common market. If gains can be made on these issues – as well as on managing common-pool natural resources such as lakes and rivers – there will be benefits to international as well as regional trade, and hence more of an impact on the poor. But to what extent has effective cooperation been achieved in these areas?

Enhanced cooperation on security and crime (anti-terrorism, armed robbery and drug trade) is one area that appears to have yielded benefits already. Progress is good on standards. In contrast, progress on infrastructure investment has been painfully slow, given the priority it should be accorded. Transport and power are the constraints most often cited – the latter in a critical state currently, with regular load-shedding in the industrial areas of both Dar es Salaam and Kampala.

Given legal obstacles and the rules of the major lending agencies, cooperation can only take the form of coordinated national initiatives. These may be sufficient but they are not appropriate where there are substantial externalities over and above the gains to individual countries. The countries cannot borrow jointly and therefore planning processes cannot be merged. This slows progress, including progress in integrating the EAC arrangements with those for Southern Africa, in which Tanzania is a formal partner.

East Africans have a variety of views on the factors behind this disappointing progress. Some observers lay the main blame on the unwillingness of country leaders to delegate decision making, while others stress the limited capacity of the EAC Secretariat, which implies that agreements are not well facilitated or sufficiently supported technically. They agree that so long as there is no empowered and properly funded executive body in Arusha, processes of agreement and decision will likely be slow and inefficient. Observers hope that the new Tanzanian Secretary-General, Juma Mwapachu, will be proactive on some of these issues.

## 6. Negotiating a common market

As argued at the beginning, stable policies and investment-friendly institutions are among the most important missing preconditions for widely spread, poverty-reducing growth in East Africa. This makes the EAC a more important initiative than appears when it is approached only as a trade bloc or cooperation platform. An interesting potential for change arises from the method and the mechanisms that will be used in the next stage of EA integration – namely the negotiation of rules governing the regional common market. Institutions and bargaining about institutions are at the centre of the common-market project. This opens up the possibility that it will help to transform some of the fundamental conditions for growth and poverty reduction in the region.

The EAC Treaty (1999) affirms that the Community will be people-centred and market-driven. Many would say that these principles are still far from being realised. However, integration initiatives now involve a well-established pattern of consultation and involvement of stakeholders, particularly from business. New or much strengthened interest groups spanning the region have been formed to take advantage of these opportunities. This creates a set of opportunities, as well as some risks, for institutional development that do not present themselves at the level of each country.

*Immediate political dangers*

The process of negotiating the common market stage of integration is starting slowly. Consultants have been appointed to hold hearings and produce the first draft of a protocol. The detailed discussions that follow are expected to involve High-Level Task Forces and Sectoral Councils of Interest representing major public and private stakeholders, as was the case with the customs union. These bodies will thrash out matters of common and differential concern ahead of meetings of the Council of Ministers and the presidential Summits. The process is expected to culminate in 2009, with monetary union following in 2010.

Creating a common market means removing obstacles to the free movement of both labour and capital. Freer labour movement is seen as highly desirable in Uganda and Kenya, and could have important developmental benefits in Tanzania. However, it is politically sensitive, especially in Tanzania, so the negotiations may be difficult.

Harmonisation of taxes and investment incentives may be easier, and there is much to be gained from it, both in promoting the region as an investment destination and in enabling more competition among investors and potential investors. A draft of a model investment code exists, but investment incentives are currently far from harmonised. The central banks and Ministries of Finance are actively discussing harmonised monetary and fiscal policies. On the other hand, in Tanzania there is a strong undercurrent of resistance to ceding land rights to foreigners including citizens of Kenya and Uganda, posing a substantial obstacle to cross-border investment.

The results of the common market phase cannot be predicted with any certainty. The immediate uncertainty centres on the willingness of country leaders to support free movement of labour in practice. If unscrupulous politicians stir up trouble around it, governments may not be able to avoid responding with protectionist measures. Immigration by Kenyan professionals is seen as a threat in Tanzania and Uganda, and Ugandans are viewed in a similar way in Tanzania. Unskilled and unorganised labour is seen as a threat by Kenyan trade unions. Simple information about the potential of labour mobility to bring quick gains in national competitiveness is still far too scarce to counter the scare-mongering on these issues.

*Medium-term scenarios*

If, however, the immediate political dangers can be averted, there is a medium- term perspective with two possible scenarios, which have quite different implications for the institutional determinants of pro-poor growth. In the first scenario, discretionary tax holidays awarded by presidential or ministerial fiat remain the normal way of promoting investment. Either this is written into the formal agreements or the formal agreements are flouted informally. Local and foreign investors continue to believe they will gain more from making political contributions that give them the edge over competitors than from making common cause with other investors to improve general conditions for business. This scenario cannot be excluded in view of the fact that this way of doing business is systemic in all three countries of the present EAC, although perhaps not at the moment in Rwanda.

In the second scenario, the opponents of political discretion progressively gain strength in a way that would not have been possible in individual countries. The negotiations on harmonisation of investment conditions provide an opportunity for stakeholders who believe in a level playing field for investors to advance their case effectively.

The plausibility of the second scenario comes from the fact that the regional processes are bringing a new kind of stakeholder onto the scene. Business pressure groups have been acquiring more voice and influence at country level. At the same time, through the customs union process new regional groups have emerged which are articulating shared interests at the regional level. The most notable is the regional apex organisation, the East African Business Council (EABC).

The EABC is actively monitoring adherence to the Customs Union protocols, under which, it maintains, the governments have given away sovereignty over various areas of policy, notably tariff setting. It believes that defending a stable business environment for its members involves actively resisting the pattern in which particular firms from within or outside the region approach governments for special treatment – for example, tax breaks or concessions on the importation of raw materials, presented as an investment incentive. The leadership of the EABC includes the most prominent entrepreneurs, including the heads of transnational firms, from all three countries. They regard the combination of East African legislation and coordinated private-sector pressure as a possible key to ending the regime of special favours, thereby creating a more favourable environment for foreign and local direct investment.

This issue has been the subject of a high-profile test case in Tanzania. Nida Textile Mills was allowed a $18 million exemption on import of extra-wide grey fabric from outside the EAC. The Confederation of Tanzanian Industries objected on the grounds that this ignores the level-playing field principle, and threatened to go to court over the decision. The EABC then took up the issue on behalf of regional producers and has been preparing to take it to the East African Court of Justice. Were the EABC to win the argument, through public debate or through the courts, this would represent a significant shift in the way politics and business interact in Kenya, Tanzania and Uganda. At the time of finalising this briefing, the final outcome is awaited.

*A role for new pressure groups*

The revival of the EABC is the most important manifestation of the growth of regional stakeholder organisations, but there are others. In 2005, the three national Chambers of Commerce came together to form an East African Chamber of Commerce, Industry and Agriculture. This is expected to play an important role in fielding complaints from firms encountering illegal non-tariff barriers to cross-border trade. Other associational linkages across the region include the East African Human Rights Institute, the East Africa Law Society and an apex body, the Association of Professional Societies of East Africa. The universities now have regular meetings on their curricula, and Ministers of Finance meet to discuss their budgets.

The possibility that the common market process might contribute to institutional improvements is strengthened by the fact that, currently, each of the three countries can claim to be more advanced in at least one sphere of institutional innovation. The financial sector and corporate management systems are the strongest in Kenya. Tanzania is reckoned to have better institutional machinery for ensuring road maintenance (a dedicated Road Fund and a well-functioning executive agency, TANROADS). Improvements in procurement systems are uneven across the countries, with Tanzania currently in the lead. It is said that Kenyan investors think their own authorities have something to learn from Tanzania in terms of the quality of investment facilitation – a striking reversal of the historical relationship. On the other hand, several Tanzanian agricultural export sub-sectors would gain hugely from emulating the way coffee marketing was reformed in Uganda.

In this context, there could be large gains for poverty-reducing growth from getting small-producer and consumer groups together in Arusha to 'compare notes'. One result could be joint campaigns favouring adoption of the best current model. In the debate on harmonising arrangements for investment promotion and regulation, stakeholders wishing to 'level up' to the best current level would seem well placed to win the argument against those who would prefer a levelling down. National producers who are in competition with each other in the regional market may not want to give up the competitive edge that relatively favourable arrangements give them. However, as noted previously those involved in activities serving trade with the rest of the world are far more numerous and economically significant. They have a common interest in improving the competitiveness of East African production.

The dynamic suggested here will be more likely if the stakeholders involved in the Arusha processes are not just representative of large businesses and formal-sector enterprises, but include small producers, consumers and professional associations. This is happening to some degree but neither consumers nor small producers (nor trade unions) are well organised in Tanzania and Uganda. On the other hand, bringing together the small growers' associations that have emerged in recent years in Tanzania with their counterparts in Uganda and Tanzania could strengthen them all in demanding better market regulation. This would be more the case if they were able to make common cause with big business in pressing for modern regulation and competition policies. If the press and electronic media were to take an informed interest in regional integration issues, they could make an important contribution to such processes.

*Locking-in policies?*

The possibility that any formal agreements on harmonisation will be neutralised by the persistence of informality in practice is a real one. However, according to one senior official the EAC process is showing that it has the power to 'lock in' reform policies that might otherwise not be sustainable against patronage-driven politics at national level. On this view, the perception that policy regimes are now 'determined in Arusha', and therefore can assumed to be stable, has already had a positive impact on the investment climate.

Such progressive change in the medium term depends on a rather uncertain process of bargaining, arguing and consensus-building. This process could take many years beyond the scheduled negotiation period to show clear results. On the other hand, the likely timescale of purely national change is even longer.

## 7. Towards political union?

The discussion around fast-tracking political union was initiated in 2004. According to the EAC Treaty, political federation is the final stage of integration, to be negotiated only after economic integration has reached an advanced stage. Revisiting this agreement and 'fast-tracking' political union was proposed by President Museveni at the 2004 meeting of Heads of State. There was sufficient consensus on the subject among the three presidents for them to appoint a high-level committee headed by Hon. Amos Wako of Kenya to investigate the possibility of expediting and compressing the process of integration so as to achieve political federation sooner than previously visualised.

The report of the Fast Track Committee was presented to the next meeting of the presidents in mid-2005, endorsed in principle and sent out for further discussion in the three countries. Action on it was postponed until after the Tanzanian and Ugandan elections of late 2005 and early 2006. Six months of public discussion were announced in October 2006. The three presidents have since given further support to the proposal. However, there remain many doubts about its feasibility.

*Divergent opinions*

In a wide-ranging opinion survey, Kibua and Tostensen (2005) found all their respondents supportive of the general process of East African integration. However, 'hardly any' saw the Wako Committee's timetable as realistic, and 'most' saw the establishment of a political superstructure as premature – equivalent to building a house on a shaky foundation, given the current political situation in each country.

This is consistent with the pattern of opinion among our informants. However, we did hear some arguments, including quite sophisticated ones, in favour of fast tracking – particularly in Uganda. This view rests on the belief that, without fast-tracking, the integration process faces an unfavourable incentive structure. Most of the gains for the region's economic and social development will be reaped slowly and imperceptibly over many years, whereas many of the costs will be incurred early on and will be highly visible. Under these conditions, the process may well be stalled if there is no central authority that can project an overall vision and intervene when interest groups are squabbling over short-run issues.

Sophisticated advocates of fast-tracking accept that simply merging the existing political systems of the three countries would be impossible. Instead, they argue that it is necessary to start afresh and build new institutions 'from the top down'. However, it seems unlikely that a top-down constitution-making process could ignore the differences in political culture and values across the member states.

For example, Museveni's success in obtaining his third-term amendment raised doubts in the other two countries about the sophistication of the Ugandan electorate. The single-party dominance which is apparently deepening in the parliaments of both Tanzania and Uganda is unattractive to Kenyans. On the other hand, the idea of importing the Kenyan MPs' power-mongering and ethnic-politics is regarded with some horror in Tanzania. Last but not least, the continuing doubts about the place of Zanzibar within the Tanzanian Union are of concern in all three countries.

*Implications of Rwanda's accession*

Rwanda's entry to the EAC poses an interesting additional set of questions. Rwanda does not just have a distinct political culture. It has a political leadership that some political scientists see as a rare case of an African political elite committed to building a developmental state. That is, there is a drive to construct a state dedicated to producing development results, partly because this is seen as the best way of guaranteeing the Tutsi group against a return to ethnic violence. If Rwanda could infect the other countries with its sense of urgency about nation-building, the gains would be large.

The strength of the fast-tracking initiative is that it addresses the genuine collective-action problem that could lead the integration process to stall. However, the diversity of the political systems of the three countries will make federation in the near future a very difficult challenge.

## 8. Implications for stakeholders

Options for action that development-minded stakeholders might consider can be drawn from all four parts of the above analysis.

*Widening awareness*

We have concluded that in all of the three founding member countries the EAC process does have powerful political drivers. The public political rhetoric is not misleading in this respect. This is not, or not just, a donor-driven process. On the other hand, it has been mainly a matter for the elites of the participating countries – especially political leaders and big businesses. This is a weakness. It will become an increasingly important weakness if bread-and-butter issues arising out of the integration process, such as labour migration, come to popular attention ahead of any public education on the potential benefits of the process.

The principal cause of this situation is the politicians' hesitation about popularising the idea of integration. Stakeholders other than politicians probably cannot do very much about this. However, donors can and do work with the media in the region. Improving the quality of economic journalism clearly ought to be a particular target for attention. In that context, a suitable subject for investigation is whether there are appropriate and effective ways of promoting media coverage and other public information campaigns on EAC economic and social affairs.

*Refocusing on what matters for poverty reduction*

The trade impacts of the EA Customs Union probably deserve less stakeholder attention than they have had. Two things are more important: 1) the degree to which the EAC becomes an effective vehicle for cooperation in the provision of public goods and services, especially major transport infrastructure, power, essential natural-resource protection and standards; and 2) the impact of the negotiation and law-making process on the quality of economic institutions.

On the former, it is the duty of governments to take the necessary steps to address the capacity constraints in the Secretariat. If external funding agencies wish to contribute, a good focus for them would be to support feasibility studies and other analytical work that can assist the EAC to focus its limited resources where they have greatest impact.

*Pressure groups and institutional upgrading*
We have argued that some of the most interesting potentialities of the process of East African integration lie in the phase that is just beginning, the negotiation of the common market. There are some immediate political perils, especially relating to free movement of labour. But if those can be overcome, the commitment to harmonising tax rules and other investment conditions places on the regional agenda a series of challenges that have proven hard to meet on a country-by-country basis. Key institutions which might be strengthened during the common market negations are those affecting: 1) rule-governed investment incentives; 2) competition in agricultural marketing; 3) effective insurance and bank regulation; and 4) arrangements for dispute settlement.

The argument that the common market negotiations could provide a relatively favourable arena for getting rule-based policies agreed and implemented should be more widely discussed by development stakeholders. This briefing has identified as a risk that traditional patronage relationships could be scaled-up, swamping the stakeholder pressure for level playing fields and the locking-in of reforms. Donors and other stakeholders could help minimise this risk by supporting the production and dissemination of relevant information and analysis. For example, analysis of the welfare costs of particular clientelistic policy decisions could be undertaken and shared. An inventory of relevant stakeholders and the issues that might usefully be taken up by them in Arusha would be another useful instrument in taking forward the discussion.

*Understanding micro-regionalism*
The stakeholder actions proposed above respond to a vision of the next phase of the integration process in which poor people benefit in complicated indirect ways. More direct ways of harnessing regional integration to poverty reduction would no doubt be preferable, if they could be found. An alternative line of action worth considering in this sense is promotion of micro-level integration – that is, releasing the potential of small-scale cross-border trade. However, this is a poorly researched field.

For example, the likely balance between the livelihood gains and losses in the border areas arising from a full opening of the borders is not very clear. It is not obvious what it would take, beyond the harmonisation of tax rates and tackling the most egregious 'non-tariff barriers' to make cross-border transactions free enough that livelihoods are really improved. A first step would be to support research into these questions. Armed with a better understanding, development stakeholders might contribute something useful to building regionalism from the bottom up as well as from the top down.

## Further reading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