Economic Development and Regional Integration in the East African Community

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Abstract

Although industrialized economies have struggled to achieve economic growth in the wake of the global financial crisis of 2007-08, developing nations have in many cases achieved high growth rates. In Africa, the potential for growth is enormous. Despite historical political conflict and widespread government mismanagement standing in the way of poverty reduction and economic development, growth rates have been consistently high in many areas and dramatic changes are taking place across the continent. In East Africa, five nations have decided to seek deep economic and political integration, in the hopes of combining strengths and operating as a formidable economic unit in the global economy. Kenya, Tanzania, Rwanda, Uganda, and Burundi comprise the modern iteration of the East African Community, formed in 2000. Widespread efforts have been made since that year to accomplish expansive integration plans, although progress has been painfully slow in some areas. Even so, the East African Community, as a whole, is capable of becoming one of Africa’s leading economic powers if integration is successful and handled properly. The focus of this study has been to evaluate the modern economic situation of this region, and the implications of its plans for economic cooperation and political unity. Additionally, as a benchmark for the economic development of the East African Community, the economy of South Africa has been analyzed and compared with that of the EAC in order to gain a better understanding of ways in which the region can match the successes of Africa’s leading economy. Finally, risks to the success of integration and the overall development of the East African Community were examined, leading to recommendations regarding proper steps for EAC leadership to undertake. In particular, pressing economic and societal needs must be first addressed, and the steps of integration must not be rushed or implemented without widespread support and great care.
Historical, Economic, and Social Background

East Africa has experienced an extensive and complex history, influenced by various groups of locals as well as global powers from around the world. European contact with the area came in 1498, when Portuguese explorer Vasco da Gama navigated around the Cape of Good Hope and made contact at Mombasa, in modern day Kenya. Da Gama continued on to India, discovering a new maritime trade route connecting the Far East to Europe, providing a new alternative to the traditional spice routes spanning across Asia to the Mediterranean. Realizing the importance of the discovery of the sea route to Asia, Portugal quickly moved to solidify influence and authority in the region. In an attempt to achieve this aim, the Portuguese constructed Fort Jesus in Mombasa in 1593. This fort would be won and lost multiple times in succeeding centuries, as the British, Dutch, and Omani Arabs all challenged Portuguese power in the area.¹ It was the Omani Arabs, under the leadership of Saif bin Sultan, who eventually prevailed in gaining power in the area around Mombasa and the island of Zanzibar; Fort Jesus fell to Omani forces in 1698.²

The Omani Arabs drove the Portuguese from the East African coastline in the following decades, allowing for Arab dominance in the Indian Ocean trade. All of the major East African ports continued to be in Omani hands until British and other European nations began to seek influence in the region.

East Africa, along with much of the rest of the continent, became the target of European imperialism in the latter half of the 19th Century. In what came to be known as the Scramble for Africa, European powers sought to colonize and partition the entirety of the continent. Portugal

¹ Portuguese authority in East Africa was generally limited to coastal regions
had been the first nation to establish a strong presence in East Africa in the 15th Century, while the British later claimed the area’s most fertile and productive lands by colonizing the lands which today make up the nations of Uganda and Kenya. Meanwhile, the German Empire created a state known as German East Africa, made up by present-day Rwanda, Burundi, and Tanzania (with the exception of the Zanzibar Archipelago). Following Germany’s defeat in World War I, however, German East Africa was dismantled and the Treaty of Versailles dissolved the colony, giving part to Belgium as Ruanda-Urundi, a small segment to Portugal’s Mozambique colony, and the rest of what today is Tanzania to Britain.\(^3\) By this point, the British were by and far the most active and influential European nation in East Africa, controlling the entirety of the area which today makes up the East African Community, with the exception of the Zanzibar Archipelago, Rwanda, and Burundi. Independence was finally granted to the East African states in the early 1960s, with governments established in the model of European nations of the time as democratic republics.

**Formation of the East African Community**

The history of regional cooperation in East Africa goes back to pre-colonial times, with local tribes and political states conducting trade and interacting in complex ways. The first major moves towards cooperation between modern states were made beginning in 1919, when the British colonies of Kenya, Tanganyika and Uganda formed a customs union in order to facilitate trade and commerce.\(^4\) Economic links were further strengthened in 1948, when the East African High Commission was founded, creating a unified income tax as well as a customs

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union. After the end of the colonial period in the early 1960s, two particular organizations worked to promote regional integration in East Africa. The East African Common Service Organization (EACSO) succeeded the colonial-era East African High Commission. However, for the majority of decision-makers in the 1960s, EACSO was too closely associated with pre-independence political structures. In addition, attempts to establish a central bank for the region foundered in 1965. Further, plans to introduce a common market proved to be difficult to implement with the disparate states of the East African economies. Yet there was still strong interest in regional cooperation, and so in 1967, the first East African Community was founded. The three member states of Kenya, Tanzania and Uganda agreed to cooperate on a wide range of economic and social issues. The first EAC, and the steps toward integration which it achieved, was hailed a success at the time, but the project nevertheless collapsed in 1977. The failure of the first East African Community can be attributed to four primary factors: firstly, its lack of steering functions and clear directive; secondly, the unequal distribution of benefits to the respective member states; thirdly, the purely intergovernmental and supranational structure; and, fourthly, the irreconcilable differences of opinion between leading players, particularly between the Ugandan dictator Idi Amin and the Tanzanian President Julius Nyerere. By the time the original East African Community was disbanded, it was clear that the member nations had political and economic philosophies that were unsustainably divergent.

In the years that followed the collapse of the first EAC, the three former member states attempted to regulate economic affairs by means of individual multilateral agreements.

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5 Ibid.
Important steps towards establishing a community were taken in 1993 and 1997 at two summits of the heads of state. In 1993 the Permanent Tripartite Commission for Cooperation was set up: a coordinating institution that in 1998 produced a draft treaty for the later EAC. Cooperation on security matters was also initiated during this period. In November 1999, the Treaty for the Establishment of the East African Community was signed by the Ugandan, Kenyan, and Tanzanian heads of state. It entered into force on July 7, 2000, and two new members, Rwanda and Burundi, joined the Community in 2007.

The East African Community is actively seeking greater economic cooperation and is in the continual process of further integration, potentially even leading to a full political
federation if integrative activities are successful. The combined economies of the East African Community member states have significant strengths, and the region could experience very large amounts of growth in future decades if the correct measures are undertaken.

**Modern East African Community Member Economies**

Although the East African Community is striving to act as a singular economic unit in the future, the health of the current East African Community economy can only be evaluated by first examining and understanding the current state of each of the economies belonging to the five EAC member nations.

**Burundi**

Burundi’s status as a landlocked country with few natural resources has contributed to its standing as one of the poorest and least developed nations in the world, and the weakest economic member of the East African Community. Other factors contributing to Burundi’s weak economic standing include the nation’s poor legal system, lack of economic freedom, low access to basic and advanced education, and ineffective healthcare systems paired with the proliferation of HIV/AIDS. All this has led to approximately 80% of Burundi’s population living in poverty.\(^7\) Agriculture is by far the dominant industry of the nation,

\(^7\) The World Bank, “Burundi,” (September 2013)
although 90% of this agriculture is for purely subsistence purposes. Coffee remains the primary cash crop for export, though, and other agricultural products include cotton, tea, maize, sorghum, sweet potatoes, bananas, manioc (tapioca); beef, milk, and hides. The manufacturing and industrial sectors are vastly underdeveloped, and the nation is further held back by a lack of access to financial and legal services for most of the population. Burundi’s severe lack of development and endemic poverty pose long-term difficulties, although the nation is hoping integration with its neighbors will allow for further aid and development.  

Kenya

Kenya possesses the most advanced and largest economy in East and Central Africa, although the economy remains inefficient and mismanaged in many circumstances. Kenya is still a poor developing country with a Human Development Index (HDI) of 0.519, putting the country at position 145 out of 186 – one of the lowest in the world, and about 38% of Kenyans live in absolute poverty. A primary strength of Kenya is its temperate climate and productive lands, but the important agricultural sector is one of the least developed and remains largely inefficient, employing 75% of the workforce compared to less

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8 Ibid.
9 The World Bank, “Kenya,” (October 2013)
than 3% in food secure developed countries. Despite 75% of the workforce engaged in agriculture, a significant amount of the population often goes without food and is heavily dependent on food aid. The service sector has seen large growth due to telecommunications expansion and the financial sector, and services now make up 62% of Kenya’s GDP. Tourism is the primary source of service related employment in Kenya, and tourism remains one of the nation’s most significant economic and cultural strengths. A primary obstacle to Kenyan economic success is the reliance on the agricultural sector, which makes up 22% of GDP, a very large amount compared to a figure of around 3% for most heavily industrialized nations. Industry and manufacturing make up the remaining 16% of Kenya’s GDP, although a primary aim of Kenyan development policy is to initiate growth in these sectors and move away from the heavy reliance on agriculture that is typical throughout the East African Community.¹⁰

Rwanda

Rwanda’s economy suffered massively due to the 1994 Rwandan Genocide but is on the road to full recovery through the implementation of business friendly policies and the establishment of strong national institutions for governance. The nation doesn’t have particularly many natural resources, however, and subsistence agriculture remains the dominant economic

¹⁰ Ibid.
activity for most Rwandan citizens. The industrial sector is small and limited, producing mostly domestic goods and products, although mining is now starting to be a major contributor to growth. Another large potential area for growth is tourism, due to Rwanda’s location in the mountains of East Africa, surrounded by rare tropical forests and the associated fauna. One particular draw is the mountain gorilla, as Rwanda is only one of two nations in which these animals can be viewed safely. Rwanda is regionally known for maintaining strong institutions, and its financial sector is one of the most vibrant in the East African Community. This is evidenced by the introduction of government-issued bonds, the first of their kind in Rwanda.¹¹

The nation continues to be plagued by a lack of natural resources and industry, with most economic development prospects currently being associated with the modernization of agriculture, tourism, and services.

**Tanzania**

Economic liberalization has been a primary aim of Tanzanian leaders in recent years, in an effort to move away from the socialist command policies of former leader Julius Nyerere. Market liberalization has allowed the country to realize large economic gains, although the economy remains underdeveloped. The Tanzanian economy depends heavily on agriculture, which

¹¹ The World Bank, “Rwanda,” (September 2013)
accounts for more than 25% of GDP, provides 85% of exports, and employs 80% of the work force.\textsuperscript{12} Topography and climatic conditions, however, limit cultivated crops to only 4% of the land area. Cash crops, including coffee (its largest export), tea, cotton, cashews, sisal, cloves, and pyrethrum account for the vast majority of export earnings. The volume of all major crops have increased over the past few years, but large amounts of produce never reach the market due to logistical and infrastructure limitations. In addition, poor pricing and unreliable cash flow to farmers continue to frustrate the agricultural sector. One area in which Tanzania has seen promising growth is in the expanding industrial sector. Accounting for 22.6% of GDP, Tanzania's industrial sector is one of the fastest growing in Africa. The main industrial activities include agricultural processing (sugar, beer, cigarettes, sisal twine), diamond-, gold-, and iron mining, oil refining, wood products, salt, soda ash, cement, shoes, apparel and fertilizer productions. Foreign exchange shortages, excessive bureaucracy, and corruption continue to deprive factories of much-needed business goods and support, however, and reduce industrial productivity. Sectors expected to continue experiencing significant growth include the rich mining industry and the tourism industry, the latter of which remains largely untapped in comparison with Kenya and other African tourist hot spots.\textsuperscript{13}

\textsuperscript{12} Central Intelligence Agency, “Tanzania,” The World Factbook (March 2014)
\textsuperscript{13} Ibid.
Uganda

The economy of Uganda has a great amount of potential, and it appeared poised for rapid economic growth and development. It has even been said that Uganda has the capability to feed the entirety of Africa if properly commercially farmed.\(^\text{14}\) However, chronic political instability and erratic economic management has produced a record of persistent economic decline that has left Uganda among the world’s poorest and least-developed countries. Strengths include the substantial natural resources of the country, including fertile soils, regular rainfall, and sizable mineral deposits of copper and cobalt. The country also has largely untapped reserves of both crude oil and natural gas. Services make up roughly 50% of GDP earnings, with agriculture and industry approximately splitting the other 50%. Most industry in the country is related to agriculture, however. Large amounts of growth are possible in the industrial and mining sectors in particular, if political stability can be achieved in the long term.\(^\text{15}\)

In order to more fully understand the state of East African Community member economies, it is important to also take a look at overall economic statistics as a basis for comparison and

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\(^{14}\) The World Bank, “Uganda,” October 2013

\(^{15}\) Ibid.
analysis. The tables displayed on the following two pages demonstrate the developing status of East African nations, as well as signs of growth and improvement.

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Kenya</th>
<th>Burundi</th>
<th>Rwanda</th>
<th>Uganda</th>
<th>Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account balance (BoP, current US$)</td>
<td>-$4,252,507,198.98</td>
<td>-$255,084,620.55</td>
<td>-$820,825,991.82</td>
<td>-$2,221,729,432.63</td>
<td>-$3,639,834,351.20</td>
</tr>
<tr>
<td>Foreign direct investment, net (BoP, current US$)</td>
<td>-$242,549,587.05</td>
<td>-$604,919.65</td>
<td>-$159,814,904.84</td>
<td>-$1,721,169,095.22</td>
<td>-$1,706,946,137.43</td>
</tr>
<tr>
<td>Inflation, consumer prices (annual %)</td>
<td>9.378395851</td>
<td>18.01281606</td>
<td>6.27090301</td>
<td>14.01605656</td>
<td>16.00109385</td>
</tr>
<tr>
<td>GDP per capita (current US$)</td>
<td>$942.54</td>
<td>$251.01</td>
<td>$619.93</td>
<td>$547.01</td>
<td>$608.72</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>4.5980</td>
<td>4.0194</td>
<td>7.9811</td>
<td>3.4254</td>
<td>6.8587</td>
</tr>
</tbody>
</table>

The table above provides additional summary statistics for the respective East African economies.¹⁶ As can be seen, their economies have similar attributes. Negative current account balances were present for all member states, with varying nominal amounts that translated to approximately the same debt/Gross Domestic Product ratio for each country. Likewise, each nation possessed negative net foreign direct investment figures, and high inflation. Burundi experienced the highest rate of inflation at 18.0128%, nearly three times as high as the 6.2709% inflation experienced in Rwanda. In terms of GDP figures, Kenya clearly leads the way on a per-capita basis with an income of $942.54, although this still ranks among some of the lowest in the world. Rwanda, Uganda, and Tanzania fall slightly lower in GDP per capita, with similar incomes around $600, followed lastly by Burundi with an anemic figure of just $251.01. Despite the extremely low per capita statistics, the East African member states all experienced significantly positive GDP growth rates in 2012, continuing a trend of continuous growth in recent years. Clearly, the EAC states remain developing countries possessing enormous challenges ahead necessary to erase account debts, grow in a sustainable and healthy manner, and elevate their populations out of poverty.

¹⁶ The World Bank
The social statistics listed below also demonstrate the need for extensive attention to the social needs of the East African Community, as economic development often cannot take place if underlying issues are not addressed. Low life expectancies, poor literacy rates, and grinding poverty for many makes simply surviving a difficult task, although technological advances, economic growth, and political stability have generally improved quality of life in recent years.

<table>
<thead>
<tr>
<th>2012 East African Community Social Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator Name</td>
</tr>
<tr>
<td>Life expectancy at birth, total (years)</td>
</tr>
<tr>
<td>Mortality rate, infant (per 1,000 live births)</td>
</tr>
<tr>
<td>Population (Total)</td>
</tr>
<tr>
<td>Literacy rate, adult total (% of people ages 15 and above)</td>
</tr>
</tbody>
</table>

**South Africa as a Point of Comparison**

In order to allow some conclusions to be drawn regarding what steps the East African Community can and should take to elevate itself to be an economic power both in Africa and around the world, the competitiveness of the East African Community as a whole can be compared with another regional power that already has seen significant economic success: South Africa.

**Historical and Economic Background**

Following centuries of Portuguese contact and Dutch colonization, the area now known as South Africa came under British influence starting in the late 18th century. As that century drew to a close, Dutch mercantile power began to fade and the British moved in to fill the vacuum. They seized the Cape in 1795 to prevent it from falling into French hands, and then
briefly relinquished it back to the Dutch in 1803, before definitively conquering it in 1806.\textsuperscript{17}

Power at the time resided solely with a white élite in Cape Town, and differentiation on the basis of race was deeply entrenched. Outside Cape Town and the immediate surrounding land, isolated black and white pastoralists populated the country.

British settlers began to pour into the area, sometimes due to incentives or due to a desire to seek a new life in Africa. This influx of settlers solidified the British presence in the area, thereby fracturing the relative unity of white South Africa. Where the Boers and their ideas had before gone largely unchallenged, white South Africa now had two distinct language groups and two distinct cultures. A pattern soon emerged whereby English-speakers became highly urbanized, and dominated politics, trade, finance, mining, and manufacturing, while the largely uneducated Boers were relegated to their farms. The gap between the British settlers and the Boers further widened with the abolition of slavery in 1833, a move the Boers strongly opposed. The widening rift between British and Boer settlers led to the so-called Great Trek, an eastward and north-eastward Boer migration away from British control during the 1830s and 1840s, followed by conflicts with the native Zulus and the later Boer Wars fought between the British Empire and adjacent Boer republics.\textsuperscript{18}

The Union of South Africa came into being in 1910, and lasted until independence in 1961, although tension was still high between the different ethnic groups in the region. Gradually, whites began exerting almost complete political control in the nation. Only whites were permitted to vote in general elections from 1958 until 1994, when the vote was granted


to all South Africans over age 18. Starting from June 4, 1948, South Africa was ruled by the nationalist right-wing National Party. Upon taking power during the 1948 general election, the National Party began to implement a program of apartheid – the legal system of political and social separation of the races – a policy intended to maintain and extend political and economic control of South Africa by the white minority. Apartheid was finally dismantled in the late 1980s and early 1990s by National Party leader FW De Klerk and African National Congress figure Nelson Mandela. The ANC secured its 4th election victory (starting in 1994), and the nation has ever since operated under a constitutional parliamentary republic.

Prior to the arrival of European settlers in the 15th century the economy of what was to become South Africa was dominated by subsistence agriculture and hunting. A permanent European settlement was founded in 1652 in modern Cape Town. European settlement greatly changed the region, pushing ethnic groups away and utilizing others as workers. Indigenous peoples and settlers developed a commercial relationship though, and sales of produce and stock saw the development of a black, landed peasantry. To supplement further labor needs, slaves and indentured servants were brought in from Asia and India.

By the mid-1800s, the British provinces, Cape Colony and Natal, were both fairly prosperous colonies, with the majority of black and white settlers living in rural areas and employed in sharecropping or the production of cash crops. To the north, the two Afrikaner states of Orange Free State and Transvaal were less densely populated and in a state of constant economic rivalry with the wealthier British provinces. The overall population of the South Africa region was predominantly employed in agricultural occupations, either tending cattle, or as in the British colonies, cultivating cash crops such as sugar and coffee. Urban areas
were small in number and size, and provided only a small contribution to the Afrikaner and British economies, mainly via the production of consumer goods and wine.

The late 1800s brought great changes to the economy. The Mineral Revolution is a term used to refer to the rapid industrialization and economic changes which occurred in South Africa from the 1870s onwards. The Mineral Revolution was largely driven by the need to create a permanent workforce to work in the mining industry, and saw South Africa transformed from a patchwork of agrarian states to a unified, industrial nation. The profound economic changes began with the discovery of diamonds at the town of Kimberley in 1867. The diamond industry quickly flourished, and the need to dig below the ground after exhausting surface diamonds brought the Mineral Revolution to a new phase. Gold was also discovered at the Witwatersrand ore fields in 1886, triggering a gold rush and a further focus on mining\textsuperscript{19}.

Nationalized industries were established beginning in the 1920s, such as steel and railways, which reserved even low skilled jobs for whites. The 1930s and 1940s saw the rapid industrialization of the country as it supplied the mining industry and the government invested in major projects to protect white employment. South Africa not only had gold and diamonds but vast quantities of iron, coal and many other minerals. Agriculture diminished in importance as mining and then industry grew.

In the two decades following the rise to power of the National Party, whites (particularly Afrikaners) were given an advantage over all other ethnic groups in South Africa through the manipulation of the labor market under the system of apartheid. During the 1950s, the income hierarchy in South Africa was essentially a racial one, with well-paid employment monopolized

by whites. Repercussions of apartheid are still greatly felt today, with many blacks remaining unskilled, illiterate, and possessing low living standards.

The imposition of international sanctions on the country began economic pressure that saw the unraveling of apartheid. The flow of foreign capital stopped, and apartheid looked increasingly unsustainable. In 1990 the white president Frederik Willem (F.W.) de Klerk recognized the economic unsustainability of the apartheid system and released Nelson Mandela and unbanned the African National Congress (ANC) that Mandela led. Despite socialist rhetoric and support from socialist countries in its early years the ANC maintained the mixed economy and encouraged the market economy including relaxing foreign exchange controls.

South Africa has since worked to make up for decades of apartheid with positive discrimination (affirmative action). Although this has had its benefits, affirmative action, specifically the quota system that seeks to achieve workplace diversity targets, drives skilled labor away, resulting in poor economic growth and foreign investment. A major source of stress remains the redistribution of land. Under apartheid 73% of land was in so called "white areas" and many blacks had been forcibly uprooted and removed to tribal areas.\(^\text{20}\) The slow legal and bureaucratic process of restitution is causing impatience among blacks and concern among white farmers that South Africa may go down the route of neighboring Zimbabwe and Zambia, where the government and its supporters have unilaterally seized land in misguided efforts to increase black ownership and wrest control from the traditional ruling minority of whites.

South African Economic Evaluation

Modern South Africa possesses a complex and advanced economy, and the state has maintained its position as the leading economy of Africa to the present day. The current economy combines a developed first-world infrastructure with a vibrant emerging market economy to drive growth and create large investment potential. The nation’s economic strength is a largely a legacy of the European involvement in the area during colonial times and the wealth of natural resources present in what comprises the lands of modern South Africa. The mining industry, in particular, was heavily developed and exploited, and the massive revenues from the mineral exports were available to be used for infrastructure and further economic development. Agriculture has consistently been another strength of the South African economy, and the nation holds a comparative advantage in the production of agriculture, mining, and the manufacturing processes related to those sectors. Modern South Africa has largely moved towards having a service-driven economy, however, indicating the advanced nature of its economy and the gradual move towards being a developed country. The nation is often considered to be a Newly Industrialized Country (NIC), along with countries such as Brazil, China, and Mexico, as significant societal and economic issues are present in South Africa despite possessing the continent’s wealthiest and most productive economy.

The South African economy has a number of strengths that contribute to its standing as Africa’s largest and most advanced economy. The state possesses relatively stable political and financial institutions, with a progressive constitution and strong legal protections for its citizens. The stability of the nation since the end of apartheid in 1994 has allowed South Africa to capitalize on its economic advantages. The solid resource base present in the country propelled
the economy to new heights in colonial times, and remains the stable core of the South African economy. In addition to having a well-organized commercial agriculture system which exports a variety of products, South Africa is endowed with one of the richest and most diverse concentrations of mineral resources in the world. South Africa is one of the world leaders in diamond and coal mining, and occupies a dominant position in terms of reserves and production of a variety of metal and mineral resources. Additionally, it is believed that there is still a large potential for the discovery of even more mineral reserves.\textsuperscript{21}

A primary difference that sets South Africa’s economy apart from that of other African nations is the diversified nature of its economy. Although natural resources were what made South Africa initially wealthy, mining and agriculture now make up just a small portion of the total economy. Instead, services now comprise the majority of economic activity. Examining the economy by sector, services make up 65.9\% of total GDP, followed by industry with 31.6\%, and agriculture with just 2.5\%.\textsuperscript{22} Looking further, the main economic sectors in South Africa are: mining, agriculture and fishing, vehicle manufacturing and assembly, food processing, clothing and textiles, energy, financial and business services, tourism, and transportation.

A number of other factors contribute to the relative economic dominance experienced by the country within Africa, many of which owe their existence to South Africa’s historically close ties with private business, trade, and the international community. With the country’s re-integration into the global sphere in 1994, corporate governance rules, disclosure, transparency and accountability have become an integral part of doing business in South Africa.

\textsuperscript{21} Industrial Development Corporation, “Sectoral Trends: Performance of the Primary and Secondary Sectors of the South African Economy,” (1\textsuperscript{st} Quarter 2012)
\textsuperscript{22} Central Intelligence Agency, “South Africa,” The World Factbook (March 2014)
Regulations governing the financial sector, and particularly risk management, have undergone considerable refinement to align them to internationally recognized standards and best practices. Due to the stability and sophistication of South Africa’s financial sector, as well as legal sector, the country provides an environment conducive to private sector investment from both internal and external sources. Additionally, there exists a relatively large domestic market for good and services in South Africa, and there is easy access to international markets through first-world logistical infrastructure for land, water, or air transport.

<table>
<thead>
<tr>
<th>2012 South African Economic Statistics</th>
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<tbody>
<tr>
<td>Indicator Name</td>
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<tr>
<td>Population (Total)</td>
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<tr>
<td>GDP growth (annual %)</td>
</tr>
<tr>
<td>GDP per capita (current US$)</td>
</tr>
<tr>
<td>GDP (current US$)</td>
</tr>
<tr>
<td>Inflation, consumer prices (annual %)</td>
</tr>
<tr>
<td>Unemployment, total (% of total labor force)</td>
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</tbody>
</table>

As can be viewed in the table of summary statistics above, South Africa possesses a number of strengths and weaknesses regarding its current economic state. Although South Africa’s population does not far exceed that of Kenya or Tanzania, its Gross Domestic Product remains more than that of all East African Community member nations combined. Likewise, per capita GDP is over roughly 7 times as high as in Kenya, and nearly 30 times as high as in Burundi, the most poverty-stricken nation within the EAC.

Despite the positive general state of the South African economy, significant economic and social issues exist which threaten to derail progress and growth. Two of the most visible and challenging problems facing the nation include societal inequality and a high unemployment rate. Poverty remains widespread among many in South Africa, despite the high quality of life for some segments of the population. In 2008, for example, the wealthiest 10% of
the population earned 58% of the total income, and the top 5% earned 43% of the total income. Meanwhile, 62% of Black Africans, 29% of Coloreds, 11% of Asians, and just 4% of Whites lived in poverty, clearly indicating the economic legacy of the apartheid era lives on in some regards. In terms of unemployment, South Africa has a critically high rate of citizens unable to find work. Although listed officially around 25%, the unemployment rate rises to nearly 35% if those who have given up seeking work and left the job market are included. Other significant social issues include poor education and healthcare systems (both of which are also susceptible to inequality issues) and high crime. Corruption also remains a very troublesome topic, with accusations of cronyism and corruption throughout the public service. These issues, paired with other additional factors, lead excelling South Africans to often consider migrating to a more promising opportunity elsewhere in the world. According to the South African Bureau of Statistics, it is estimated that between 1-1.6 million people in skilled, professional, and managerial occupations have emigrated since 1994 and that, for every emigrant, 10 unskilled people lose their jobs.

The East African Community is faced with many of the same opportunities and threats as South Africa, and can utilize lessons learned through the development of that nation’s economy to plan for successful and sustainable growth. Now that an understanding has been created regarding the current state of the East African Community and South African economies, focus must be given to examining the specific plans the EAC has developed for economic development and regional integration as well as determining the primary advantages and weaknesses present for the East African Community moving forward in time.
**Future of the East African Community**

**Evaluation of Future Integration Plans**

The East African Community has developed thorough and extensive plans for further regional integration. According to the Treaty for the Establishment of the East African Community:

The Partner States undertake to establish among themselves and in accordance with the provisions of this Treaty, a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation in order to strengthen and regulate the industrial, commercial, infrastructural, cultural, social, political and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities, the benefit of which shall be equitably shared.\(^{23}\)

Initial estimates for the timeline of integration were quite ambitious, and the majority of the larger aims of the EAC have been pushed back from their original target dates. Even so, significant strides have been made, and Community leaders are hopeful to still accomplish all that was set out in initial meetings and subsequent Development Strategies.

One of the primary near-term aims of the East African Community is to successfully establish a customs union and common market. A single unified market with about 120 million consumers will be a catalyst for the economic growth of East Africa, allowing for record levels of trade and economic cooperation. The overall goal for the common market, signed in 2010, is to allow for free movement of goods, people, capital, labor, services and right of establishment.

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\(^{23}\) Treaty for the Establishment of the East African Community
of residence within the EAC in support of the integration process.\textsuperscript{24} Customs processes and fees have been streamlined and harmonized between member states, although the Community is still working towards full implementation of both the customs union and common market. Common market initiatives have largely been slowed by the indifference of member states to take the initiative and seek out reforms necessary to comply with EAC market goals. Apart from Rwanda for the most part, member states have been slow to implement the market reform protocol, mainly due to a lack of political will to make meeting national reform guidelines a priority. Politicians have been slowed by fears among local constituents that reforms leading to a common market will create job losses, undermine local competitiveness, and lead to societal problems due to the potential migration of peoples within the East African Community.

Another of the more visible and transformative policy aims of the member states of the EAC is to enter into a monetary union, with the East African Schilling as the new currency. The success of the MU under negotiation will call for concerted interventions to harmonize the policy and regulatory frameworks benchmarked to best practice, undertake region wide civic education, strengthen and empower the institutions that implement and monitor monetary and fiscal affairs at the regional and national levels. The Monetary Union Protocol was signed by community heads of state in Kampala, Uganda, on November 30, 2013, outlining a ten-year road map towards monetary union. Guidelines for further harmonization and cooperation are given, and the role and responsibilities of the respective member nations and the East African Central Bank are discussed.\textsuperscript{25} This came just days after the formal start of the East African

\textsuperscript{24} EAC 4\textsuperscript{th} Development Strategy

\textsuperscript{25} East African Community, “Protocol on the Establishment of the East African Monetary Union,” (November 2013)
Cross-Border Payment System, a significant operational step increasing monetary and economic integration. With the agreement aiming to establish a monetary union taking place as recently as 2013, the road to full implementation of a monetary union and common currency will be a long one, with delays likely to push the timeframe past the stated ten year mark.

Finally, the ultimate goal of the East African Community, beyond trade liberalization and economic unity, is to pursue full political federation. The move towards the political federation is intended to be anchored on establishing regional structures and building institutional capacity through development of regional policies, promotion of good neighborliness, and cooperation in the areas of international relations and strategic interventions. As outlined in the East African Community’s 4th Development Strategy, the move towards political federation can only be fulfilled through establishing certain ‘Key Pillars of EAC Integration.’ These include, in order, to consolidate the benefits of a fully fledged customs union, to fully implement the EAC Common Market Protocol, to establish the EAC Monetary Union and begin the process of implementation of a single currency, and finally to lay the foundation for eventual political federation. Currently, however, it has been Kenya, Rwanda, and Uganda leading the charge in seeking political federation, and it is unclear whether Tanzania or Burundi would want or be invited to join. Nevertheless, the talks for eventual political federation are quite young, and the process could be altered or disrupted by any number of events or circumstances.

Advantages Present for the East African Community

The East African Community is poised for continued economic growth, and certain advantages may allow the region to greatly advance in economic, political, and social ways.

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Representing a population of nearly 150 million people, second to only Nigeria in population in Africa, the Community retains many strategic advantages that can be utilized to bring economic development and raise quality of life in the region. Fostering the successful management of these advantages will be critical to the health of the East African Community as a whole, and is necessary to elevate many areas of the region out of impoverishment.

One of the East African Community’s primary enduring strengths as time progresses will be its strategically central location, facilitating the movement of goods, services, and people. In particular, the ports of the EAC may allow the region to become a central shipping location linking Sub-Saharan Africa to the Middle East, Southeast Asia, and Europe through the use of the Suez Canal. A number of ports are developed thus far, although significant upgrades will be necessary for some to compete on a global scale. The largest port facilities are currently located in Mombasa, Mtwara, Dar es Salaam, and Tanga. Mombasa possesses a natural deep-water harbor, and the port facility has been recently expanded. On August 29, 2013, expansion of the port enabled it to handle Panamax Vessels. The project was launched in July 2011 at a cost of $82.15 million by the Kenyan Government and was carried out by China Roads and Bridge Corporation. A new berth, Berth 19, with 15 acres of stacking yard, has provided additional annual capacity of 200,000 TEU. The project is to increase the port throughput by 33 percent, consolidating the leading status of Mombasa as well as Kenya in East Africa.27 Further, Kenya’s port systems may be adapted to transport crude oil from South Sudan, if political will and initiative is strong enough to facilitate the construction of an oil pipeline linking that country to East African ports.

The East African Community may be poised to become a regional or even continental hub for goods and people to be transported by air, as well. To reach Lagos, Nigeria, for example, the distance is 2,368 miles from Nairobi, Kenya, while the trip is 2,800 miles from Johannesburg, South Africa, the current hub for many businesses and financial services in Africa. Similarly, it requires 5,428 miles by air to travel from Johannesburg to Paris, France, while the distance is reduced to 4,032 from Nairobi. Lastly, the 3,992 miles it requires to travel between Johannesburg and Dubai, UAE, is nearly twice the 2,210 miles needed to fly to Dubai from Nairobi.

Another lasting advantage for the East African Community, if managed correctly, is the high demand for tourism in the region. The EAC has all of the ‘Big Five’ game: lion, leopard, elephant, buffalo and rhino. The Wildebeest Migration is widely considered as the 7th Natural wonder of the world, and animals constantly traverse the Serengeti National Park (Tanzania) and Maasai Mara (Kenya). The diversity of East Africa’s wildlife has garnered international fame, especially for its populations of large mammals, particularly rare species such as the Mountain Gorilla of Rwanda. It is also famous for its diverse population of birds, including Flamingos and Maasai ostriches. The East African Community is home to some of the most diverse flora in the world. This extreme diversity owes itself to East Africa’s varying climate, with arid and semi-arid areas in Northern Kenya and Uganda, forests in Western Kenya and Uganda, and the African savanna that stretches across the Tanzanian and Kenyan plains. Further diversity can be found with glaciers on mountains in Central Kenya and Northern Tanzania, and mangrove forests on the EAC coast.
The East African Community is further aided by the abundance of natural resources in some areas, as well as the sheer potential for growth in a region that has been mismanaged for decades, if not centuries.

**Risks and Hindrances to Regional Integration and Development**

Although the East African Community has been consistently working to achieve its stated aims of greater economic integration and cooperation, there remain significant issues to overcome in order to achieve the more dramatic and lofty goals of the Community. Additionally, some threats to economic development may persist even if EAC plans are fulfilled, and further concerns may arise as integration policies being enacted produce unintended consequences. Issues that may hinder progress include poor infrastructure, widespread corruption, low levels of education and underdeveloped healthcare systems, political instability and security, difficulty of doing business in the EAC, and the lack of a positive investment climate.

One of the issues most difficult to solve is that of the question of sovereignty, as moving toward full political federation will inevitably create tension within the East African Community in regards to power sharing and the authority and enforcement power of the EAC over the individual member states.

Another issue that is likely to appear increasingly often is one that helped lead to the demise of the original East African Community: incompatible political and economic statuses and beliefs. Additionally, the people of the East African Community may be wary of integration leading to political federation, with those in poorer areas fearing that their lands will be taken over by wealthier migrants, and those in more affluent areas fearing that they will have to foot
the bill for development in struggling regions. Worries have already surfaced among East African Community citizens regarding the potential for detrimental effects to their communities through the implementation of integration plans. Creating consensus among member states to form economic policy and enact meaningful change will be a significant challenge, as national politics can often take center stage and overshadow regional efforts. Additionally, while the EAC member states are governed by relatively similar government economic policies, differences in wealth and development may create tension and issues in the future.

Corruption and poor governance remain perhaps the largest and most daunting issues to East African development, problems so widespread and severe that they can derail other initiatives and hinder growth. As the table below shows, EAC member states generally rank very poorly in terms of corruption. As ranked by Transparency International, the only EAC state to place in the top hundred in corruption (or lack thereof) is Rwanda. Nations are rated on a scale of zero to one hundred, with zero being extremely corrupt and one hundred representing a corruption-free society. Aside from Rwanda, which performs relatively well in fighting corruption, the EAC members are rated as low as 21 (Burundi) to as high as 33 (Tanzania). Clearly, corruption is a large issue in these states, and the GDP per capita reflects the strain corruption places on a country. Burundi, with one of the highest corruption rates in the world, also has one of the lowest per capita GDP rates as well.

<table>
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<tr>
<th>Indicator Name</th>
<th>Kenya</th>
<th>Burundi</th>
<th>Rwanda</th>
<th>Uganda</th>
<th>Tanzania</th>
<th>South Africa</th>
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<td>Corruption Perceptions Index, 2013</td>
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<td>21</td>
<td>53</td>
<td>26</td>
<td>33</td>
<td>42</td>
</tr>
<tr>
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<td>157</td>
<td>49</td>
<td>140</td>
<td>111</td>
<td>72</td>
</tr>
<tr>
<td>GDP per capita (current US$)</td>
<td>$942.54</td>
<td>$251.01</td>
<td>$619.93</td>
<td>$547.01</td>
<td>$608.72</td>
<td>$7,507.70</td>
</tr>
</tbody>
</table>
Despite market reforms in East Africa, business surveys reveal that business corruption is still widespread and that companies frequently encounter demands for bribes and informal payments to 'get things done.' The public procurement sector in the East African Community suffers widespread corruption. The use of agents to facilitate business operations and transactions is widespread and poses a risk for companies, particularly at the market entry and business start-up stage.

The effect of corruption has many dimensions related to political, economic, social and environmental effects. In political sphere, corruption impedes democracy and the rule of law. In a democratic system, public institutions and offices may lose their legitimacy when they misuse their power for private interest. Corruption may also result in negative consequences such as encouraging cynicism and reducing interest of political participation, political instability, reducing political competition, reducing the transparency of political decision making, distorting political development and sustaining political activity based on patronage, clientelism and money, and more.

The economic effects of corruption can be categorized as minor and major. However, both in one way or the other have serious impact on the individual community and country. First and foremost, corruption leads to the depletion of national wealth. It is often responsible for increased costs of goods and services, the funneling of scarce public resources to uneconomic high profile projects at the expense of the much needed projects such as schools, hospitals and roads, or the supply of potable water, diversion and misallocation of resources, conversion of public wealth to private and personal property, inflation, imbalanced economic development, weakling work ethics and professionalism, hindrance of the development of fair
market structures and unhealthy competition thereby deterring competition. Large-scale corruption hurts the economy and impoverishes the entire population.

As to the current investment climate in the EAC, interest rates in the region have remained almost constant and above inflation rates, confirming that securing credit for investment is largely prohibitive in the region. Further, none of the Partner States had achieved a single digit interest rate as envisioned by guidelines laid out in the 3rd Development Strategy, an issue that is still unresolved aside from Kenya and Rwanda. It is hoped that with consistent development of the financial sector, the interest rates can further be lowered to levels that can, in part, increase investments through access to affordable credit.28 Further contributing to the investment climate in the EAC is the ease of conducting business in the region. According to the Doing Business organization, a service of the World Bank and the International Finance Corporation, East African nations largely possess policies detrimental to the conduct of business. Economies are ranked from 1-189 based on the ease of doing business, made up of factors such as dealing with construction permits, access to electricity and credit, legal protections, trading across borders, and more. Rwanda is the sole nation to break into the top 100 of nations in the EAC, with a surprising jump to rank 32 in the world in 2013, reflecting the strong work Rwanda has undertaken to allow business to prosper. On the other side of the spectrum, Tanzania comes in at rank 145, with widespread issues in being able to start a business and one of the very lowest ranks in dealing with construction permits and registering property. The remaining EAC nations rank in the middle of these two nations, with Burundi at

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rank 140, Uganda at rank 132, and Kenya placing at rank 129 in the world.\textsuperscript{29} Clearly, businesses will not seek to relocate to or invest in the East African Community in large numbers if the cost and difficulty of doing business in the region remains so high. Rwanda, however, has been a success story, and the rest of the East African nations would be wise to use the example of Rwanda to make reforms as well.

An issue that will create numerous problems if not partially resolved is that of the underdeveloped and crumbling infrastructure networks of EAC nations. Without adequate infrastructure, the lofty goals of economic development and integration will largely be for naught, as goods and people remain difficult to transport and businesses are left without vital services. The development of port facilities has been ongoing and successful, but inland transport routes are outdated and inefficient. Road systems are viable surrounding the EAC’s largest metropolitan areas, but dirt paths abound in the more rural areas of the region. Further, rail systems have not been upgraded for decades, and are in sore need of rehabilitation. A series of improvements under the name of the East African Railway Master Plan has been in the works in the last several years, with the primary aim of laying a standard gauge rail so to further boost trade with surrounding regions. One of the most pressing aspects of infrastructure development is ensuring that electricity is ubiquitous and consistently available. The need of businesses and homeowners to purchase and maintain personal generators is enormously costly, and electricity shortages can be extremely damaging for businesses or organizations requiring a steady supply. The most promising way to ensure consistent electricity access may be through the development of new hydroelectric generating stations to take advantage of the

\textsuperscript{29} Doing Business, “Economy Rankings,” (2013)
natural power of the region’s water, as is currently being done in Ethiopia through a massive dam on the River Nile.

A final hindrance to the success of East African integration may be the volatile nature of political stability in the region. EAC member states are no stranger to conflict, with cases such as the Rwandan Genocide that highlight the need for regional security structures. Conflict continues to knock at the steps of the EAC as well, with a lawless Somalia, active militias in the jungles surrounding the African Great Lakes region, and ethnic strife currently occurring in South Sudan. While the governments of the EAC are generally stable, concerns are present for the methods through which stability is achieved. In Burundi, for instance, there have been recent concerns about the arrest of opposition demonstrators and the quelling of dissent. With that in mind, there has been talk of the potential suspension of Burundi from the EAC, although there appears to be little chance of that occurring barring additional developments.

**Conclusion and Policy Recommendations**

With a thorough understanding of the East African Community and its plans for future integration, it is important to consider steps which may help aid the Community reach its goals of becoming a formidable economic union.

First and foremost, it is critical that the EAC does not rush steps in integration simply for the sake of appearing to make progress. Integrative steps taken without care may do more harm than good in the long run, and could risk splintering the EAC if negative consequences follow. It is vital to the success of integration plans that steps in the process are taken in succession, as the later steps cannot be viably accomplished without a solid base of initial reforms. In a similar vein, the larger steps toward integration such as a monetary union and
political federation should be viewed in a cautious light and only tentatively considered while earlier steps in integration continue to progress. The case of the implementation of the euro currency in Europe should serve as some degree of warning to the East African Community, demonstrating that nations with differing economic statuses cannot be easily absorbed into a single monetary union without extreme care. Political federation should not be seriously considered until EAC member states have proven a willingness to cooperate fully and work as a single unit, which thus far has not been evident.

Even if the loftiest goals of integration are accomplished in the EAC, the region may continue to struggle if care is not first given to the severe issues plaguing East African societies. Education systems must be overhauled and expanded, with a focus on literacy and the establishment of a reliable educator training system. Medical care must be greatly improved, and fertility rates must be kept in check. But perhaps the two most important steps that could contribute to significant growth in the near and long terms are to make infrastructure improvements a priority and to crack down heavily on corruption. Future regional success on the global scale may hinge on the ability to serve as a transport hub and move people and goods on roads and railroads, and by air and sea to regions around the world. Infrastructure health will also encourage the investment of businesses, which typically seek to locate in well-connected areas of the globe. In regard to corruption, all meaningful reforms initiated by the EAC may serve little purpose if corrupt governance continues unabated. Corruption is a massive drain on the resources of a country, and negatively impacts nearly all parts of society. Frameworks for the prosecution of corruption should be further established, with stiff penalties for those found guilty of corrupt practices. In addition, public awareness about ways to report
and stop corruption should be promoted, and advisory institutions should be created to monitor the activities of government agencies and individuals.

In looking towards emulating the success of Africa’s largest economy, South Africa, the East African Community should apply several lessons from that nation’s economic experience to its own initiatives. The notable aspect of the South African economy is the presence and activity of international corporations and organizations, which utilize South Africa as the continental hub for business. The East African Community must effort to achieve a similar situation, becoming another hub for economic activity in Central and Eastern Africa. As demonstrated through South Africa’s impressive infrastructure network, the prioritization of infrastructure improvements in the EAC will similarly spur growth and development. Additionally, the EAC should strive to achieve the same kind of economic diversification that has allowed South Africa to prosper, and reduce heavy reliance on the volatile agriculture sector. The EAC can also learn from some of the mistakes of South Africa, as well. Inequality in South Africa remains extremely high, particularly among races, and spawns frustration and economic inefficiency. The East African Community should embrace its diverse peoples and aim for economic benefits to be distributed equally, giving all citizens of the EAC a greater chance for a better life.

The East African Community leadership has set out an impressive and visionary plan for the future, yet the simple creation of plans does not translate into economic development or regional integration. Hard work and tough choices must be made by each of the EAC member states, or else integration processes will sputter and die out, much as in the way the original iteration of the EAC could not achieve its goals. Care must be given to improving the basic
essentials of East African economies and societies before lofty goals of integration are considered, and large steps in integration cannot be rushed. If the East African Community is able to responsibly pursue regional integration and economic development, however, the region is poised to become an economic force not only in Africa but around the world in coming decades.
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