Ready for business

The business sector is looking at the prospect of a common market in the eastern Africa region with more than cautious optimism.

THE FIVE EAST AFRICAN COUNTRIES OF Kenya, Tanzania, Uganda, Rwanda and Burundi are scheduled to complete negotiations for a common market by December 2008. A ratification deadline has been set for June 2009 with the formal launch set for January 2010. The envisaged common market – the *East Africa Common Market (EACM)* –will replace the Customs Union that began in January 2005. The development will mark the most significant progress yet of the East Africa Community (EAC) since its re-establishment in November 1999.

The EACM will also mark the clearest indication yet that the region has outgrown the mistrust and suspicions that doomed its previous attempt at regional integration. An integration scheme by Kenya, Uganda and Tanzania in 1967 floundered in 1977 amid acrimony and deteriorating relations between the member governments.

The region's business sector is strongly supportive of the intended establishment of the common market. In the perspective of the region's chambers of commerce and other leading business lobbies, the EACM is not only a positive business prospect but a political and economic imperative for the region. The sector, however, has some reservations. While there is unanimity that, on the whole, the EACM will be a positive and beneficial development for the region's business, the sector is wary of several challenges

BRIEFING NOTES

Regional Conference on Capacity Building for Fast Tracking of the East African Common Market

This *Policy Brief* is one of four policy summaries derived from the deliberations and recommendations of a conference of policy-makers and other key stakeholders from Kenya, Tanzania, Uganda, Rwanda and Burundi that was held in Nairobi on 29-30 January 2006. The conference was organised by the Nairobi Resource Centre of CUTS International to discuss pathways and milestones towards achieving an East African Common Market.

Participants in the conference included representatives from the national Chambers of Commerce and various private sector lobbies from the five countries, specialist researchers and academics, government representatives; regional bodies; national business organizations; competition authorities, boards of investment; national farmer organizations and the civil society.

Also present were representatives from development agencies, donors, and the media.

and negative consequences of the coming new order. The sector is also uneasy with some formative aspects of the envisaged common market, particularly the apparent fast-tracking of the two year old Customs Union into a common market and the fact that some member countries still belong to other different – and competing - trading blocks.

The region's business perspective on the EACM is therefore nuanced - enthusiastic at the imminent emergence of an unprecedented business environment while at the same time keen to see a better approach to the process and a reduction of the attendant risks. Specific suggestions have been identified.

The Imperatives of EACM

The political and economic imperatives of a common market are widely conceded by the business sector. For a start, some aspects of the common market are already a reality for the business sector. There is, for instance, an on-going harmonization of policies across the region, particularly at the East Africa & Regional Community (EACC) level. An EAC investment code is also in place, as is an EAC Passport and a convergence of fiscal policy best exemplified by the 30% corporate tax now applicable in the EAC.

The business sector also acknowledges that regional integration is necessary in the prevailing globalization context and, more so, in developing countries where competitiveness is affected by limited markets and diminishing bargaining power in the international arena. There is moreover, a fairly well established rationale for regional integration grounded in practical and theoretical economic underpinnings spanning the centuries since the Ricardo Theory of 1817.

The business sector also believes that the performance of the world economy in the last 40 years underscores the need for a common market in Eastern Africa. Illustratively, while trade in agricultural products – the mainstay of the region's economies – has increased 20 times in value in the period, the overall global merchandise trade has risen 125 times in value. This is seen as a clear indicator that industrialization and international trade have emerged as the main forces for economic growth globally. Implicit to this is that countries wishing to take advantage of the increasing global incomes need to create industrial competitiveness, of which the creation of a common market is a major plank. Moreover, the experience of the existing Customs Union has brought in more gains than loses to the original three-member states.

More specifically, the business sector highlights the following as the major advantages of the EACM:

An Expanded Market
The EACM will create a 110 million people home-market for the region's businesses with the attendant economy of scale opportunities, maximization of comparative advantages and reduction of dependence on other economies.

Rationalization of Resource Usage

The common market will pave way for better collaboration and a reduction of duplication among member countries in sectors where partner countries have comparative advantages. In particular, infrastructure development such as in road and hydro-elective production will benefit greatly. Human capital across the region will also be better utilized as some partners have more trained workers than others. Overall, this should eventually translate into better business prospects for individual businesses and economic development for the region.

International Clout: The combined economic and political strength of the EACM will greatly boost the bargaining power of the region internationally. This should serve to moderate the negative effects of globalization on the region and enable the region to gain more in international trade.

New Solutions to old problems: The common market should also serve to create new opportunities to the resolution of old problems. Two examples stand out. First is that the EACM will create an unprecedented setting for Kenya and Uganda to resolve the incessant cross-border insecurity menace particularly the cattle rustling and banditry involving the Pokot of Kenya and the Karamajong of Uganda. Secondly, the EACM will put to rest Uganda, Rwanda and Burundi's disadvantages as landlocked countries.

The Challenges

The wariness in the business sector over the intended establishment of the EACM is therefore largely over method and strategy, rather than the principle and desirability of a common market.

Of particular concern to the business sector is the apparent fast-tracking of the common market at a time when the Customs Union is yet to

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The East Africa Community

The East African & Regional Community (EACC) is a regional inter-governmental organisation of five eastern African countries - Kenya, Tanzania, Uganda, Rwanda and Burundi. The Community was initially established by Kenya, Uganda and Tanzania in November 1999 under the '*Establishment of the East African Community*' Treaty. The Treaty envisages a wholesome regional co-operation and integration covering, among others, trade, investment, industrial development; monetary and fiscal affairs; infrastructure and services; human resources, science and technology; agriculture and food security; environment and natural resources management; tourism and wildlife management; health, social and cultural activities.

The treaty also envisages free movement of factors of production and cooperation in political matters - including defence, security, foreign affairs, legal and judicial affairs.The Treaty also sets out an implementation strategy commencing with a Customs Union and progressing into a Common Market, a Monetary Union and ultimately a Political Federation. In line with this strategy, a protocol for the Customs Union came into force in January 2005. Negotiations for the establishment of a Common Market have since commenced with a completion deadline of December 2008 and a ratification target of June 2009 paving way to a formal launch in January 2010. A striking aspects of the unfolding East Africa integration enterprise is the apparent efforts by the three East Africa sister governments to encourage public debate and participation in formulating the Common Market. The three Presidents have, indeed, expressly called for public consultation and sensitization prior to the establishment of the common market.

This *Policy Brief* marks an addition to the on-going public debate in East Africa over the now imminent common market. It is one of four policy briefs by the Nairobi Resource Centre of CUTS International, providing a digest of the policy assessments and suggestions as derived from a conference of the region's researchers, business organizations, the civil society, farmer organizations and regulatory bodies.

entrench itself.

The fear is that the general population in the region may require more time to build confidence in the Customs Union before the introduction a common market, which is, of necessity, more encompassing and sweeping. There is therefore a heightened risk of alienating public opinion and creating sectarian political opposition to the EACM. There is already an evident lack of capacity in the East Africa Community level, a situation that may be further strained by the fast-tracked establishment of a common market.

Other points of caution include:

1. **Market gain and loses**: The common market will usher in new competitive pressures for business in member countries. Weak and infant business will be particularly threatened and may be forced to exit with consequential employment loses. Related to this is the likelihood of revenue gains and loses for the various member countries. Taken together, the inevitable employment shifts and revenue changes may generate pressure for the distortion of the common market as different countries scramble to contain the damage.

2. **The Sovereignty dilemma:** The creation of a common market will require the transfer of some aspects each member's sovereignty to a new center. While there is evidence of political willingness to do so in the five member countries, the risk remains that some member countries may balk from ceding certain entrenched sovereignty advantages particularly if the transfer is seen as fast and wholesale. This risk is heightened by the fact that the member countries have divergent levels of development and competitiveness – and by extension divergent sensitivities.

3. **Multilateral Trade Agreements and non-tariff barriers:** While tariff barriers are certain to either disappear or shift in synchrony across the common market, there remains the possibility that member countries may succumb to local pressure to create unilateral non-tariff barriers to protect certain sectors of the economy. Similarly, there may be pressure or temptations to retain existing multilateral arrangements with countries outside of the EACM region that distort the common market.

4. **Multiple Memberships**: The fact that Tanzania is a member of SADC while Uganda and Kenya are in the COMESA may create conflicting demands on the EACM and pose a serious challenge to its actualization.

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'New' Regionalism in Africa

Regionalism in Africa dates back to the early days of decolonization. The first concrete step was the *All-African Peoples' Conference* in Accra, Ghana in 1958, where the idea of regionalism was discussed in terms of an economic strategy to rectify the economic hurdles posed by the size of African economies. These ideas went on to culminate in the formation of the OAU.

The current resurgence of regional economic integration in Africa is therefore neither new nor unique. However, it must be acknowledged that the resurgence of the 'new' regionalism has been spurred on by the contemporary transformation of the global economy. Contemporary globalization and its dislocative effects on societies at the sidelines of global economy have, in effect, provoked a 'second movement' to contain dislocations of globalism, this time in the form of the African Union, NEPAD and several others. The only question – and one of the livelier topics of debate among experts – is whether the 'new' regionalism is an integral part of globalization or a political reaction against that process. The argument in ascendancy is that regionalism can be a defensive or an offensive state strategy or it can combine both elements.

The effects globalization

Globalization has become a catchword, associated with all kinds of meanings depending on the ideological trenches occupied by respective scholars. Some see it purely in economics terms, as a revolution in the process of global production, particularly, the technology revolution, which has changed production system and global financial flows. Others emphasize its socio-cultural aspects, the homogenization of cultures and the Americanization of global tastes.

A more encompassing view of globalization is the political economy based definition of globalization as 'the march of capital all over the world in search of consumers and markets, in this case meaning the opening up of the world market to the powerful global players – the core states and the big multinational corporations. To this extent therefore, there is nothing particularly new about globalization: accumulation on a global scale ever since the European industrial revolution has been characterized by the march of capital all over the world in search of consumers and markets.

Contemporary understanding of globalization is also about growing structural differentiation. It is a process propelled by contradictory tendencies. On one hand economic globalization has unleashed productive forces throughout the world leading to expansion of markets, insertion of technology in the processes of production, and hence improvement of productive capacities, and massive increases in profits for multinational corporations. On the other, it has also manifested a tendency to fragment, differentiate, and marginalize social forces and countries incapable of catching up with its processes. Uneven development long associated with capitalist expansion is probably the most visible trademark of globalization in its contemporary form.

The accelerated globalization of world economy has had a more pronounced negative impact on African states because of third world historical circumstances. While the global political restructuring associated with globalization has no doubt had some positive spin-offs - the collapse of undemocratic and repressive regimes, the acceleration of the so-called democratization process in Africa - the predominant tendency has been the increasing marginalization of the continents capacity to engage the global economy competitively.
But regionalism has fostered centers of economic growth in parts of the third world, thus intensifying the uneven development inherited from the prior forms of global accumulation processes, and creating growing separation within the South.

The result is that states in the south have increasing come under pressure to conform to the new demands of the globalization. More significantly, globalization has rendered the classical notion of the nation-state all but meaningless. The nation-state, based on the assumption that the entity has comprehensive control over its territory and population, and a capacity to operate as a unitary, autonomous actor on an anarchic international system can no longer hold true for a majority of the African states. These countries have been collectively subordinated to a worldwide 'market totalitarianism'

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