For EAC, trade still out ahead of political integration

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The recent buzz about Africa's economic progress and potential has aroused long-overdue interest from investors. While the bullish mood is largely justified, it should not obscure the fact that many institutional, infrastructural and policy barriers limit the scope for transformational growth. One of the most serious is that African markets are not sufficiently open. African countries simply do not trade enough with each other. This has huge consequences for a continent where 15 countries are landlocked and where colonial-era boundaries have produced many small, resource-poor nations that are not economically viable by themselves.

Photo: The East African Legislative Assembly, Arusha, Tanzania,
April 12, 2010 (photo by Danielle Skinner, U.S. Africa Command).

Some African countries have begun to address this by allowing the freer movement of goods, capital, people and services within their region. Regional integration has the potential to unlock markets, provide economies of scale, increase competition among firms and attract more foreign direct investment. The most impressive progress to date has been made by the East African Community (EAC), a customs union and trading bloc comprising Kenya, Uganda, Tanzania, Rwanda and Burundi. The current EAC, formed in 2000, revives and expands an earlier attempt at regional integration that collapsed in 1977 amid political rivalries.

The plans are ambitious: The EAC's leaders are aiming for a common market, a single currency called the East African shilling and, ultimately, federation into a single state. Later this month, a more modest but nonetheless significant milestone will be reached when the East African passport, launched in 2009, will be formally recognized as a valid document for travel outside, as well as inside, the EAC. A common tourist visa for the region is set to follow.

The impact of regional integration is beginning to be felt. The value of trade among the EAC's members more than doubled between 2005 and 2010, while intra-EAC trade as a share of the bloc's total trade exceeded 10 percent for the first time. Improved integration may be a factor in explaining the buoyant growth outlook for the region. The International Monetary Fund is forecasting real GDP growth of 6.1 percent across the region this year and 6.6 percent in 2014.

External trading partners are watching the EAC's regional integration project with interest. U.S. firms might question the value of doing business in tiny Burundi, but as a member of a trading bloc with more than 135 million people and a combined GDP of $84 billion, its investment potential suddenly looks a lot more attractive. President Barack Obama has signed a U.S.-EAC Trade and Investment Partnership, which lays the groundwork for a regional investment treaty that will establish safeguards for U.S. investors and catalyze efforts to build trade capacity.

There is still a long way to go. The EAC leadership's lofty rhetoric often runs far ahead of improvements on the ground. Progress has been slow in establishing one-stop border posts, harmonizing customs procedures and cutting tariffs. Delays at ports of entry due to inefficiencies, low capacity and red tape mean that the average time needed to import products into the EAC is 33 days, compared with five days for the United States. This places East African traders at a huge disadvantage relative to their international competitors. The U.S. Trade Commission found that a container of textiles cost $2,500 to export from the EAC, compared with $580 from Vietnam. Corruption remains a serious problem and a big factor in scaring off potential investors, both at home and abroad. Despite the EAC's moves to harmonize travel documents, it remains difficult for Africans of one EAC member state to work in another because of restrictive labor laws.

While the politicians continue the slow task of constructing the institutional architecture of the EAC, the private sector is giving real meaning to regional integration. African firms are in the forefront, with banks like Kenya Commercial Bank, supermarkets like Nakumatt and telecoms companies like Simba Telecom taking the lead in establishing regional profiles. U.S. corporate giants are following suit. From its regional headquarters in Nairobi, General Electric is upgrading locomotives and signaling capabilities for Rift Valley Railways as it modernizes the line from Mombasa to Kampala. IBM's Nairobi-based research laboratory is selecting scientists from across the region for skills training and development.

Furthermore, a number of projects are in the works that take a regional approach to East Africa's chronic infrastructure deficit. Energy and transport are the two critical areas. One of the most ambitious projects is Kenya's Lamu Port and Lamu Southern Sudan-Ethiopia Transport Corridor. The scheme, called LAPSSET, would open up the neglected north of Kenya with new roads, rail links, a port expansion and an oil pipeline, linking its economy more closely with South Sudan and Ethiopia, two prospective future members of the EAC. Recent oil and gas discoveries in Kenya and Tanzania offer opportunities for regional power pooling and distribution projects. The threatened closure of East Africa's only oil refinery, in Mombasa, adds urgency to the search for regional solutions to the EAC's energy needs. Uganda plans to build a refinery to meet its domestic demand, with the addition of an export pipeline at a later date, but the project is still in the discussion stage.

The EAC has come a long way in little over a decade. While it is true that momentum has often stalled in the political process and institutional reforms have not always led to progress on the ground, it is important to manage expectations. The experience of another, much older trading bloc—the European Union—shows that regional integration is a difficult, sometimes tortuous process racked by conflicting political agendas, debates over national sovereignty and crushing bureaucracy. While it seems virtually impossible that the EAC's agenda of political union by 2015 will be achieved on time, missed deadlines are unlikely to disturb the region's continued economic progress and steady passage toward closer trading relations.

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