Enhancing foreign market entry by the East African Community: Lessons from European[1] Union

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Abstract

Economic integration or regionalization has become the usual strategy in both developed and developing countries as they try to expand their economies through free movement of factors of production. The East African Community (EAC) is one of such initiatives. It was re-established in 1999 with the objective of becoming a complete economic integration in the future. With a population of approximately 130 million people and consumption demand growing there is need to focus on improving trade and foreign market entry. This can be achieved through improvement of intra-trade between member states and inter trade as EAC bloc with the rest of the world. The challenges facing EAC include lack of good infrastructure and low investment in capital and human development. Therefore, there is need for a clear road map of steering the community from these problems to enhance trade and development. This paper presents some of the lessons that the EAC can learn from the European Union (EU) in order to be competitive.

Keywords: EAC, Trade, Foreign market entry, European Union

JEL Classification: F15, F23

Introduction

The East Africa Community is a regional organization comprising Kenya, Uganda, Tanzania, Rwanda and Burundi. The headquarters is Arusha, Tanzania. There are various regional economic communities in Africa, with the objective of enhancing trade, development and peace stability among these states. The EAC enjoys the added advantage of sharing a pre-colonial heritage and common language (Swahili and English), which should promote smooth integration.

The East Africa Community (EAC) was originally formed in 1967-though existed earlier under various names- but collapsed in 1977. The collapse was the aftermath of political and economic differences. The absence of a regional body led to reduction in trade among member states and the benefits that accrue from it. The lack of adequate trade initiatives, lack of infrastructure coupled with lack of appropriate institutional framework through a regional body led to serious economic impacts such as poor economic performance and reduction of revenue and investment. These challenges have led to policies that support the new EAC. The economic factors that led to the breakdown of the EAC were specifically addressed to avoid a repeat of huge trade deficits for Tanzania and Uganda. This was addressed through gradual implementation of the customs union.

The new EAC is the first of its kind in Africa. The treaty for the establishment of the new EAC in 1999 set out a vision for the eventual unification of Kenya, Tanzania and Uganda, while Rwanda and Burundi joined later in 2007. The sequence of events comprised establishment of customs union, followed by a common market, a monetary union – a common currency by 2012 and eventually a political federation by 2015 (Miriri, 2010; Omodi, 2010b). The EAC was established with an aim of boosting regional trade and commerce. This notwithstanding, Omondi (2010) suggests that there are still issues with the new trade regime. The problems include failure to harmonize national regulations, half-hearted implementation of Common External Tariffs (CET) and arbitrary extension of exemption schemes. These issues affect the competitiveness of EAC products and set a weak foundation for the community.

The first step in the process of unifying EAC was signed in March 2004. The establishment of a customs union anticipated the elimination of internal tariff between member states, enforcement of a CET, elimination of non-tariff barriers (NTB) and introduction rules of origin. This also paved way for the harmonization and development of EAC standards. Although member states promised to remove NTB, NTB is one of the problems traders face along the EAC corridor. Examples of NTB that prevails in the community are police stop traders for two hours even with complete documentation - especially in Uganda and Kenya (corruption), ambush by robbers (insecurity) , and numerous unnecessary weighbridges (Barigye, 2009). The common market protocol that defines the new EAC was launched recently, where the four freedoms are allowed; free movement of goods, services, people and money.

The new EAC is a home to approximately 130 million consumers who are mainly in rural areas (82 percent) with a Gross Domestic Product (GDP) of approximately US$ 70 billion in 2009. In the period 1998-2008, the annual growth rate of EAC GDP was about 5.4 percent, higher than Sub-Saharan Africa's (SSA) growth rate of 5.1 percent albeit from a low base. The average GDP per capita was about US $ 274, which is less than half that of SSA (US$ 655). Though there has been a steady convergence in the EAC member states' economies as Tanzania and Uganda registered impressive growth rates over the decade, Kenya still has the largest GDP per capita of US $ 420 followed by Tanzania with US $ 310 while Burundi recorded the least at US $ 110. Agricultural sector contributed about 36 percent of GDP, industrial sector contributed 18 percent and service contributed the biggest share of 46 percent. Table 1, provides a summary of main economic indicators for the EAC and its member states.

Table 1: Economic Profile of EAC, 1998-2008 average

	Kenya	Tanzania	Uganda	Rwanda	Burundi	Ave./total
GDP (Current US $ mn)	17,775	12,065	8,285	2,347	802	41,274
GDP annual growth	3.6	6.1	7.1	7.6	2.5	5.4
GDP per capita	420	310	282	250	110	274
Population(millions)	38.8	42.5	31.6	9.7	8.1	130
Population annual growth	2.6	2.7	3.2	4.2	2.3	3.0
Surface area(Sq. Km) '000'	580	947	241	26	28	1822
			% of GDP			
Sectoral composition						
Agriculture	29	45	28	38	40	36
Industry	18	16	23	15	19	18
Service	53	39	49	47	41	46
GDP composition						
HH consumption	74	79	78	86	89	81
Govt. consumption	16	13	15	12	21	15
GFCF	18	17	20	19	9	17
Savings	16	12	16	14	5	13
Exports (GNFS)	25	18	13	9	9	14
Imports (GNFS)	33	27	26	26	28	27
Fiscal						
Revenue	22	11	12	13	16	15
Expenditures	32	18	20	24	34	25
Fiscal balance	-10	-7	-8	-11	-14	-10

Source: World Development Indicators 2010

Though services have the biggest share in terms of contribution to GDP, this is not reflected in exports. Service exports accounts for 40 percent while merchandise exports accounts for 60 percent. High income economies are destination of 50 percent of EAC merchandise exports, SSA accounts for approximately 20 percent and EAC-intra trade accounts for above 22 percent, this is a significant shift from 12 percent in 1998. Kenya has the biggest share of 44 percent of her merchandise exports to member states (WDI, 2010). As external markets become grime due to fluctuation in prices and high competition from emerging economies, the EAC states should endeavour to improve intra-country trade and enhance their market edge in the global market as a bloc by becoming competitive.

From the demand side, government and household consumption contributes over 90 percent of GDP while trade contributes about 41 percent with exports only contributing 14 percent. Theories of growth have identified engagement with the global economy as a key factor to economic growth thus there is a need to boost the EAC trade sector. With the imminent relevance of globalization and its accompanying challenges, integration and regionalization is seen as a strategy to outdo competitors in the world market through appropriate foreign market entry strategy.

Foreign market entry is the sale of goods or services to foreign markets. The strategies employed include global sourcing, exporting, importing, licensing agreement, franchising, joint venture and foreign subsidiaries. Joint venture and foreign subsidiaries are direct investment in the host country with more cost implications and control (Schermerhon and Wright, 2009). The complication that emerges as firms and states enter a foreign market include complex environment and lack of proper understanding of each others cultures (Schermerhon and Wright, 2009). In the context of this paper, we concentrate on how EAC can improve its export as a foreign market entry strategy by benchmarking best practices from the EU. Thus this paper aims at eliciting some of the lessons that EAC can learn from EU so as to enhance intra and inter trade for economic growth. This is achieved through the review of relevant literature and analysis of data from World Development Indicators, COMTRADE data base and EAC trade report. Our conclusions and recommendations are based on induction-deduction approach of analyzing an economic phenomenon

Foreign Market Entry

According to Taylor et. al (2000) the major types of foreign market entry are exporting, licensing/franchising, joint ventures and full ownership. In this paper, we concentrated on exporting as a means of foreign market entry. Exporting is the sale of a product in a foreign target market (Tallman and Shenkar, 1994; Schermerhon and Wright, 2009). Although, exporting is viewed as low commitment type of market entry with production based in the home country (Taylor, et.al, 2000) it is still a strategy that is cost effective. Analyzing the market entry strategy adopted by multinational corporations and states can be done using either transaction cost analysis (TCA) or bargaining power (BP) theory (Taylor, et. al, 2000; Tallman and Shenkar, 1994, Gomes-Casseres, 1990). TCA involves a proper understanding of the cost involved in the transaction process while BP emphasizes that states/companies will have to negotiate in order to have good position in the market.

Furthermore, researchers usually use Research and Development (R&D) as a proxy indicating the extent of proprietary information (Anderson and Gatignon, 1986). It is expected that good R&D level, might make foreign market entry easier because of exposure to information and better product development. Other important variables that are included in TCA are government restrictions (Teece, 1984) which might increase cost of transaction and production costs such as taxes, labour costs, and transportation cost (Anderson and Gatignon, 1986). Since R&D, government restrictions and transportation cost are important variables in the TCA, we examined how these variables should be developed in the EAC in such a way that trade will be strengthened within the region and negotiation for exported products will be easier.

Progress in the EAC

African countries have pursued regional integration to overcome development constraints that are characteristic of African economies, such as, small size economies, dependence on imports and low-value primary exports (McIntyre, 2005). The main objective of EAC is to promote cooperation in the social, economic and political affairs through deeper integration, centralization of most decision making through the EAC senate. Economic integration starts with a preferential trading followed by a free trading area then customs union (CU). However, the EAC did not go through the first two steps and it started off at CU. CU involves control of goods across borders, determining their origin and collection of revenue among various administrative arrangements. It is a free trade area with CET, though they can use differentiated import quota due to the differences in the macroeconomic structure of the EAC member states, that is, they are on different level of economic development and tax regime rules. The implementation of the CU was undertaken in stages to allow time for member states to align their policies to the union. This is due to the fact that some commodities and states are viewed to be sensitive and likely to hurt domestic firms, (De Rossa, et. al, 2003).

With the establishment of EAC customs union, Tanzania and Uganda eliminate tariffs on all imports from member states except for an agreed list of commodities; 906 tariff line for Tanzania and 426 for Uganda from Kenya, for which tariff would be reduced gradually to zero within a period of five years (McIntyre, 2005). Though there has been a lot of debate against protectionism, United Nations advocates for it but only under some conditions.

Furthermore, when CET was implemented, member states agreed on special policies to address the sensitive goods, so as to protect the products from import competition. Due to the differences in the trade regimes, three band tariffs were introduced, 0%, 10% and 25% for raw materials, intermediate goods and finished goods respectively (Kiringai, 2004). By opening up their borders, the EAC member states will experience increased competition, hence efficiency, bringing about the need for innovations to remain relevant. Relevance will depend on formulation of appropriate trade policies by the government of member states and benchmarking best practices from intergovernmental organizations such as the European Union (EU) that are competitive in the world market and controls about one fifth of world trade. The EAC can learn from both the enviable and controversial strategies used by the EU to remain competitive. This can be achieved through the development of policies that focus on maintaining favourable business environment as well as meet specific needs and characteristics of individual sectors in the member states.

The member states also need to improve transport services and infrastructure, particularly reduction in transport costs. Infrastructure and efficient provision of public goods within the EAC will reduce the cost of transporting commodities along the EAC corridor. Though progress has been made, the road network is presently in a poor state, a disincentive for investors who are considering the EAC as a place where they can easily produce their commodities or process value added products that meet the specification of developed countries. In order to create economic incentive for sustainable development in the region, it will be desirable to revamp the railway network, modernize the inland waters, improve telecommunication systems, computerize and introduce of joint border posts as done by Economic Community of West African States (ECOWAS).

The joint border post should be used with other strategies. This is important because as suggested by Adekunle (2010) ‘planners should be aware that the issues with our borders are not about physical structures but the attitude of our customs, immigration, military and para-military officers’. Adequate institutional support will ensure cheap and efficient transfer of goods and services within the region and thus leads to increased benefit of high volume of trade and low cost of doing business. Energy development should also be pursued to address the current power deficits as well as to expand new and renewable energy sources. Other key areas that will promote trade within and outside the region for EAC are agricultural development, food security, regional industrialization and harmonization of education curricula to enhance human resource development which is the most critical resource in economic growth.

To achieve regional competitiveness, the EAC must focus on reducing the high cost of doing business (Gathara, 2010; WBG, 2010; Oketch, 2010) by laying down a framework that will create favourable conditions to facilitate trade and prudent utilization of scarce resources. Emphasizing on improving the attractiveness of member states, adaptability of workers and firms as well as shared development strategies will make the CU a success and lead to a sustainable integration.

Economic Integration: A Review of Literature

Economic integration is an arrangement between two or more states on the partial or full abolition of tariffs. The essence is to make products available to consumers' at the most competitive price and to increase the volume of trade through free movement of goods and services (Houck, 1992). The main categories of economic integration are free-trade areas, customs unions, common markets, and economic federation (Houck, 1992; Wikipedia, 2010).

Economic integration brings with it benefits and costs but supporters of trade liberalization are of the opinion that the benefits outweighs the costs. In the context of developing countries, the cost or downside of integration should be appropriately addressed, so that the vulnerable will not be exploited as a result of the integration and liberalization. Baldwin and Venables (1995) assert there is gain in economic integration; their position is for regional integration such as EAC instead of global integration because they posit that it amplifies the pro-competitive effect. Apart from serving as a pre-requisite for competition, Siotis (2003) also confirm that economic integration reduces price cost mark-ups, specifically in the case of Italy and Spain. In another analysis by Akkoyunlu-Wigley and Mihci (2006) of the Turkish economy for the period 1996–2000, that followed the introduction of the CU, discovered that the volume of manufacturing industry trade with the EU has actually increased on average and sectoral price cost mark-ups and concentration ratios declined during the period. All these studies corroborate the importance of economic integration although there other studies that feels otherwise (see Oman, 2000).

The type of integration in Africa is mostly preferential trading area, free trade and the recent introduction of customs union, though there are partially practiced single market (Central and Monetary Community of Central Africa – CEMAC and West Africa Economic and

Monetary Union - WAEMU). The EAC also signed a protocol in November 2009 to start a single market in 2010, but this is problematic because the EAC and COMESA present structure of CU is not really well defined and there are problems with its implementation (DeRossa, et. al. 2003; Dimaranan, et. al, 2009). Single market will be a dream in the EAC until CU is workable. The various preferential trading partnerships that have been initiated in Africa have failed to culminate in a political federation and country borders broadly remain the same. The efficiency of African economic communities has been highly hindered by the overlapping of states membership in different communities with different guidelines and policies (Khorana et al, 2007).

EAC should be able learn from the EU that started with six member states though its development was marred by series of difficulties including serious wars and conflict, it has managed to maintain and expanded gradually to 27 member states. This has not been smooth but strict adherence to policies developed by the governing body and relatively stable macroeconomic policies has been helpful. Authors such as Goldstein and Quenan (2002) argue that the success of regional integration in the developed world does not transpose to the same success in developing countries, instead he suggests that developing countries should focus on single memberships'. This is a misconception, because integration can be successful in the developing countries if there are supporting institutional framework and the willingness of governments of member states to support the initiative through the creation of enabling environment and provision of public goods.

An example of positive impact of integration has been observed in the EAC. The introduction of CU has really enhanced trade and in the period 2002 to 2007, Kenya's export to the region rose from US$ 560million to about US$ 1.3billion, while the value of imports quadrupled. Khorana et al (2007) carried out an empirical analysis on welfare effects of trade with EAC in Uganda, and concluded that there are higher benefits of trade creation compared with the losses of trade diversion. These benefits have accrued even though there have been multiple delays in the implementation of key legislation. The CU and regional bloc in general though beneficial is complicated and difficult to implement (Longo and Sekkat, 2004; Geda and Kibret, 2002).

Viner (1954) suggests that the concept of CU is caught between to opposing views, because it unites free trade supporters and protectionist in a field of commercial policy. These complexities notwithstanding, Collier and Reinikka (2001), argue that Ugandan participation in the EAC would promote expansion of regional exports of food commodities by the country, which were then hindered by prohibitive import restrictions imposed by their major partner, Kenya. De Rosa et. al (2002) based on the their empirical analysis of the impact of the EAC on the three major member states (Kenya, Uganda and Tanzania) discovered that all member states will likely benefit from the integration if the CET is set below the average tariff level of the most liberal member country. In other words, CU will work to the benefit of the member states if the macroeconomic situation in each member country is considered. For example a study by Bora et. al (2007) on Common Market for Eastern and Southern Africa (COMESA) indicates that 19 members do not have infrastructures for trade and development. However, Karingi et. al (2002) indicate that all member states will benefit from CU. They recommend that COMESA is better off with CU than free trade area while Nzuma et. al (2009) in their quantitative analysis of the impact of formation of COMESA CU discovered that the integration will hurt some members in terms of tariff revenue and real income losses but it will also be beneficial for some states.

EAC should learn from the EU on how integration can be beneficial. The EU has benefited significantly from economic integration. It is the world largest trading bloc, accounting for one-fifth of the world trade and its exports accounted for 18.1% of world merchandise exports in 2004 (European Communities, 2009; Brulhart and Matthews, 2007)). It has single trade policy, a leading member of World Trade Organization, and its competitiveness is based on open and fair international trading system, though there is still a challenge of combining economic growth with social cohesion and environmental management (European Communities, 2009).

EU Trade Policies

The EU is a strong union whose competitiveness is based on the removal to internal barriers to trade and centralized policy formulation. This strategy is what the EAC is trying to implement through the CU. In the EU, decision about international trade is centralized in a way that is consistent with the institutional framework of member states. The EU has a common agricultural policy (CAP) which is always revised because of the dynamics in the world market and the complaints of farmers and other stakeholders such as the World Trade Organization (WTO). The CAP is the first successful sectorial policy implemented in a unified manner by independent states (Skogstad and Verdan, 2009). Although the union is open to change, the bloc will benefit from further liberalization especially when it comes to agricultural products and textiles where other countries have comparative advantage. The use of NTB is commendable within the EU and this is an area that the EAC can learn a lot from. The challenging areas within the region are labour market rigidity and environmental issues.

The EU has remained competitive because of an industrial and competition policy that entails: increase market flexibility, lower mobility barriers, favourable business environment (recognise that private sector has to be involved in decision and production process), investment on research and development, providing right framework for enterprise development and innovations while taking into consideration the specific context of individual sectors in each member state, stimulating innovations and competition, guaranteeing level playing field for all participants, reduced transactions cost, inclusive growth and reduced administrative burden (Sapir, 2010). Furthermore, they have a territorial policy that enhances cohesion aimed at reducing regional disparities (which is very apparent in EAC, with Kenya being the largest economy, as indicated by variance in GDP per capita).

The EU has a common commercial policy (CCP), the uniform conduct of trade with a non-EU country. It involves the use of CET and common export and import regimes. The EU supports removal of trade restrictions, customs barriers and the protection of community's member market. The CCP has evolved over time in response to the realities of the world market to cover issues such as intellectual property, technical standards and regulations, competition policy, labour standards and environmental policy. It has developed a set of complex rules in its relationship with non-EU countries because of the interactions between trade, strategic and foreign policies (Brulhart and Matthews, 2007).

The EU also has CAP, a direct subsidy for crops and land. It is a price support such as guaranteed minimum prices and it imposes import tariffs and quotas on certain commodities produced outside the union. A reformed CAP was adopted in 2003 which favours the consumers and taxpayers and allows the farmers to produce what is needed in the market. Under the reformed-CAP, there will be single farm payment not tied to production of specific commodities but linked to environmental management, food safety and animal welfare leading. Since cross compliance is expected under this scheme farmers will be more competitive and market oriented (Lamba et. al 2010).

NTB is also trade policy use by the EU to limit import but has been replaced by regulatory barriers – imports must meet health, safety and environmental Standards. The EU competition policy is aimed at promoting and safeguarding competition and market functioning to the benefit of the economy (Betrand and Ivaldi, 2006). This is expected to create an integrated market. However with the reduction of tariff below significant levels, the need for integrated market is less a priority and there has been a need to focus on economic efficiency. This aims at making EU the most competitive and dynamic knowledge-based economy in the world capable of sustaining growth with more and better jobs and greater social cohesion. To achieve this there is now more emphasis on regulatory issues (Brulhart and Matthews, 2007).

Trade is the engine of Europe's prosperity. Within EU there is high share of intra-industry trade which involves mutual exchange of similar goods, this is brought about by dispersion of various stages of production process, consumers' taste for variety and increasing returns in production. All the enunciated strategies employed by the EU and the fact that a single negotiator is in charge on behalf of all member states makes the decision to be weighty and more influential.

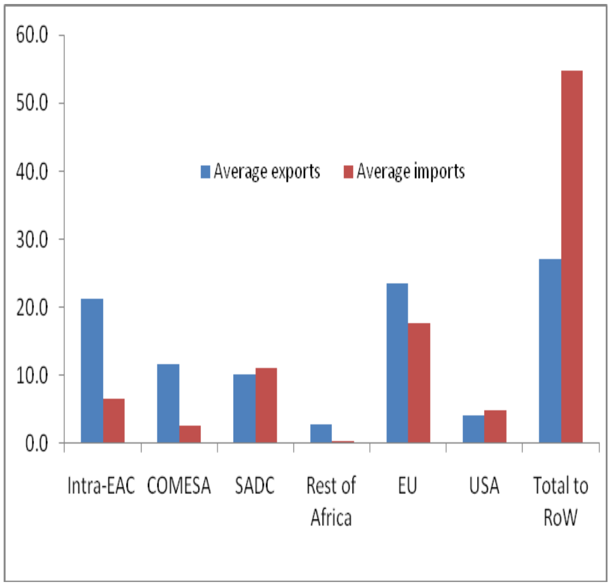
EAC: Trade Analysis

Though the EAC member states are quite similar in their trade outside the region, the intra-trade in EAC has shown increasing tendencies and can be stronger. The EAC region is highly endowed with a variety of resources including minerals which can be exploited for exports. The highest average exports have been destined to European market mostly agricultural which indicates their level of development as shown in figure 1. The fact that the regional bloc export mostly agricultural products to the EU exposes the EAC to the EU's phytosanitary and sanitary requirements. Most of the EAC member states therefore face unfair negotiation with the EU. This situation gives the EU upper hand in the trade bargain and the EAC will have to accept the terms offered by the EU. The EAC also incur a lot of transaction cost in transporting the produce through the supply chain, and this at times makes it difficult for domestic farmers to break even. To obtain the maximum benefit from export to the EU, the EAC will have to produce value added products and not just raw materials.

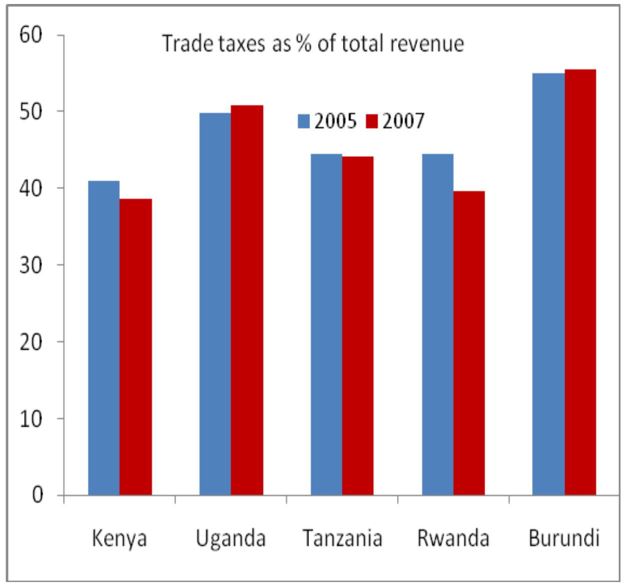
As seen in Panel A, trade with other countries in Africa is minimal. This is interesting because this is an area where EAC can improve its competitiveness. The EAC should improve its relationship with other Africa countries in such a way that trade will be enhanced. For example, EAC member states can export livestock, processed coffee and other commodities where it has comparative or even absolute advantage to other regional blocs or countries. Another issue that is glaring on the panel is that the EAC imports more than it export to the rest of the world (ROW). This indicates a negative balance of trade. This may be due to the fact that the EAC is usually faced with vagaries in weather conditions and during drought both livestock and plants productivity decline because agriculture is mostly rain-fed. To assess the impact of trade on the revenue of member country we compared the share of the revenue from trade for 2005/2006. It was discovered that the share was relatively stable for these two years. The share of trade for Burundi was the highest while Kenya had the lowest, as shown in panel B.

Figure 1: EAC trade flows

Panel A: EAC exports and imports 2003-2006

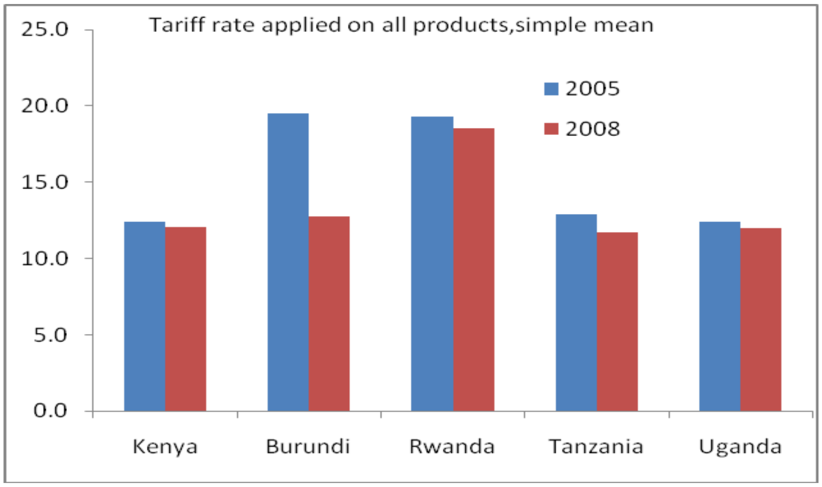


Panel B: Share of revenue from trade



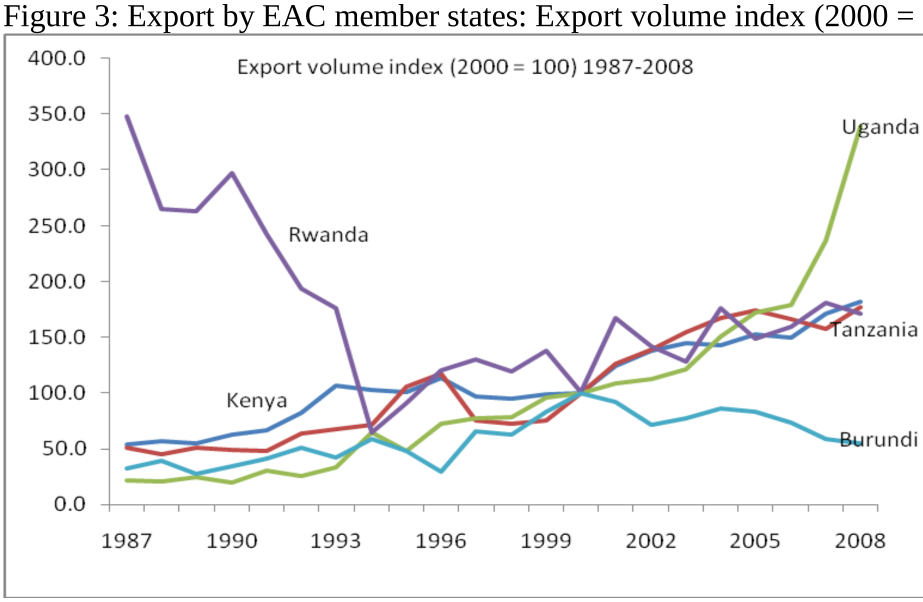
In Panel B, it can be deduced that at least 40% of the government revenue of EAC member states comes from trade taxes. In other words, EAC states government rely heavily on trade taxes with Uganda and Burundi having over 50 percent of their revenue from trade taxes. This is also reflected from the tariff being charged. For example, Burundi has registered significant decline in the average tariff rate on all products, from 19.5 percent in 2005 to 12.8 percent in 2008, (WDI. 2010), while other EAC states have been relatively stable (Figure 2). Rwanda had the highest tariff rate of 18.6 percent while Tanzania had the least (11.7 percent). According to the EAC (2008) trade report, the implementation of CET is proceeding as expected because members have witnessed increased in revenue rather than loss in revenue previously speculated by the skeptics

Figure 2: Decline in tariff rate



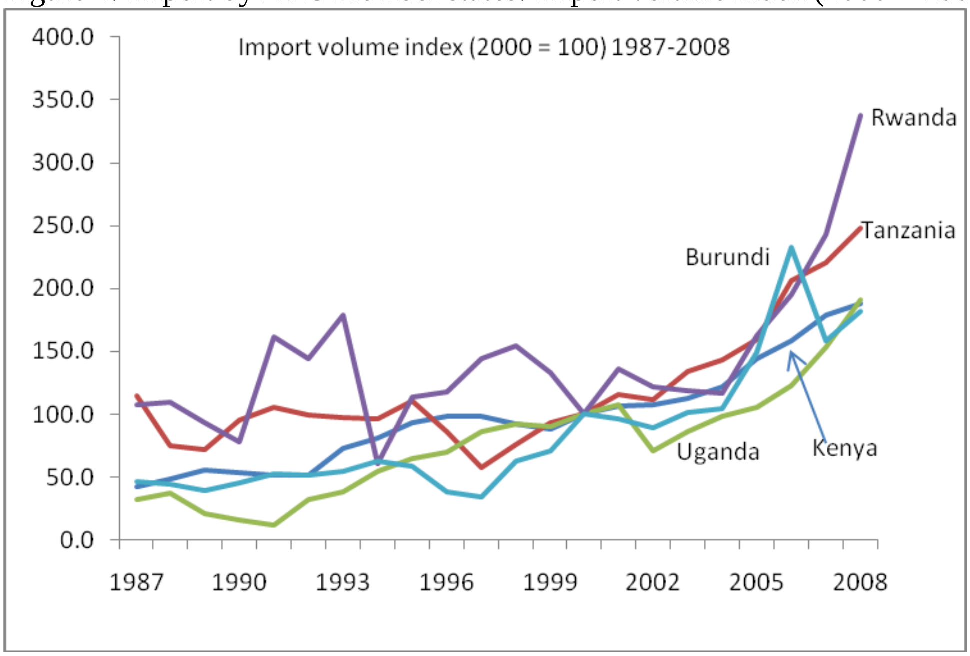
In order, to understand what prevails in each of the member country, we analyzed the trend in the trade flow of each member state from 1987 – 2008. The results are presented in Figure 3 & 4. Figure 3, indicates that Burundi's export started declining since 1992. Rwanda is just picking up after a serious decline from 1987 to 1994. Uganda's export has continued to increase and is the country with the highest level of export while Kenya has been increasing steadily.

Figure 3: Export by EAC member states: Export volume index (2000 = 100)



In Figure 4, we present the import volume indices of each of the states for the same period that we did for exports (1987-2008). The depiction below, suggests that all the states have continued to increase their imports with Rwanda as the highest importer. Comparing Figure 3 & 4, we can assert that all the states in the EAC have negative balance of trade which is increasing with Uganda being the best performer.

Figure 4: Import by EAC member states: Import volume index (2000 = 100)



Although trade is beneficial, the EAC should find a way of increasing the monetary value of its exports. Presently, about 45 percent of EAC's revenue is generated from trade. In other words, sustainable trade, especially creation of enabling environment for increase in the monetary value of exports (both intra and outside the EAC) is important for the growth of the region. The trade flows for the EAC is presented in Table 2.

Table 2: Trade flows for EAC 2003 – 2006

	% of Total EAC Exports				% of Total EAC Imports			
	2003	2004	2005	2006	2003	2004	2005	2006
Intra-EAC total	23.3	22.3	21.9	17.1	7.1	6.6	7.2	5.1
COMESA	10.3	10.5	12.4	13.4	2.7	2.9	2.6	2.6
SADC	7.9	9.0	12.5	11.4	11.2	11.8	11.4	9.8
Rest of Africa	2.5	2.1	2.4	4.1	0.2	0.3	0.1	0.9
EU	29.0	25.8	20.5	18.8	18.1	17.6	17.1	17.4
USA	1.5	5.1	4.5	5.2	4.7	4.1	6.8	3.9
Total to RoW	24.6	25.6	27.0	30.9	54.0	54.1	52.7	58.6

Source: EAC, 2008

In Table 2, notably is the increase of exports (though the value for import is double) to the rest of the world over the years. This is an indication that the EAC has the potential to penetrate the foreign market which will be enhanced by their strengthening of trade as a bloc rather than individually because they are in a better position to negotiate and exploit economies of scale as it is happening in the EU.

Trade within the region is highly based on agricultural products; about 40 percent of the intra trade is from this sector. This group of commodities is seasonal and informal thus not effectively captured through the national statistics. Beverages and tobacco are more important in Burundi and Uganda while crude materials are important for Burundi, Tanzania and Rwanda, as shown in Table 3.

Table 3: Exports to EAC by Member states by SITC 1 categories (% of total)

	2007					2000				
	Burundi	Kenya	Rwanda	Tanzania	Uganda	Burundi	Kenya	Rwanda	Tanzania	Uganda
Food and live animals	46.8	9.3	83.0	27.0	33.1	94.6	8.0	88.2	51.6	59.9
Beverages and tobacco	11.6	5.0	0.1	2.7	10.3	1.2	2.0	0.0	1.7	2.1
Crude materials	37.7	4.3	11.8	14.5	2.6	1.0	3.2	9.5	11.9	1.9
Mineral fuels and lubricants	0.0	9.1	0.0	1.5	3.9	0.0	26.0	0.0	1.3	27.2
Animal and vegetable oils	0.0	3.1	0.0	4.3	15.3	0.1	2.2	0.0	1.0	0.2
Chemicals	1.0	18.4	0.8	24.2	7.3	0.0	14.3	0.4	1.4	1.8
Manufactured goods	1.7	29.6	1.4	19.1	22.1	1.1	29.4	1.8	13.6	4.7
Machinery and transport equipments	1.0	8.9	2.6	2.1	2.7	1.9	1.8	0.0	11.4	0.3
Miscellaneous manufactured	0.3	12.2	0.2	4.6	2.8	0.0	13.1	0.1	6.1	2.0
Commodities and transactions not classified	0.0	0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0

Source: COMTRADE database

The states with better macroeconomic statistics in the community are increasingly improving their market share within EAC. For example Uganda export of manufactured goods increased from 4.7 percent (2000) to 22.1 percent (2007). Chemicals, fuels and lubricants remain important exports for Kenya while Tanzania's chemical exports have significantly increased at the expense of machinery and transport equipments. Overall, there has been a trend of trade diversification within the region. Apart from diversification, the EAC needs to move from a price taker to a 'large country' that can influence the world prices. The shape of the excess demand faced by the EAC will determine the market power of the EAC in the produce market.

The analysis above indicates that trade within the region is not consistent as a result of lack infrastructure, inadequate capacity and faulted formulation/implementation of regionalization policies. The EAC intra-trade has to be strong before they can adequately explore the opportunities in the international market and enter foreign markets in a very strategic and sustainable way. This notwithstanding, the EAC still has enormous potential to trade effectively with the rest of the world if the member states can build on their competencies, increase the value of their export, protect their home industry from dumped commodities from developed countries and incorporate some of the competitive strategies of the EU in their road map to sustainable economic integration.

Conclusion: A Competitive Approach

Integration is a continuous process, thus removal of barriers and other obstacles to trade should be gradual to pave way for opening up of new opportunities. There is also need for clear and realistic goals to be implemented by a well equipped- knowledge and skills, experience, common interest, political will-governing body such as is present in the EU. The central decision making has been instrumental to the growth of the EU. Centralization of most decisions is necessary to ensure the functioning of the internal market which will strengthen EAC position in international trade matters. The EAC council, senate and secretariat forms a good basis, but there is need for more political will. By engaging in trade agreements with other countries as bloc, the EAC can open up new markets for exports leading to reduction in tariff and barriers to market of potential trading partners. It’s also a step towards achieving its vision of becoming a prosperous, competitive and politically unified East Africa.

The central decision making should be backed up with harmonization. The policies in each of the member country should be harmonized in such a way that trade within the region will be effectively facilitated. As the EAC tries to achieve this, the context and prevailing environment in each country should be taken into consideration. There should be proper provision of infrastructure such as modernized transport system, communication and financial system to support the implementation of the sustainable integration. Presently, significant progress has been made in enhancing regional infrastructure, notably in the harmonization of partner states policies and confidence building such as common transport policy, but more needs to be done. The success of the common transport policy will depend on the political will on the part of member states government to provide public goods and encourage public-private partnership (PPP). This type of arrangement has led to the transformation of Lagos, Nigeria, where the governor (Mr. Fashola) transformed Lagos through collaboration with the private sector. Examples of development as a result of the PPP supported by Mr. Fashola are Lagos Bus Rapid System (BRT) and Eko Atlantic City. The EAC should look at options such as PPP in developing the EAC corridors. It is very important to improve the road network of the EAC.

Adequate infrastructure within the region is a pre-requisite for foreign market entry. This is expected because the concept of economies of scale can only be achieved if the member states are trading with each other actively. To promote deeper integration there is need for EAC to develop a policy on economic and social cohesion because these states are not at the same level of development. Once integration is deep, the EAC should aim at developing a trade policy that increases trade with the rest of the world, thus creating jobs through higher investment and sustainable growth. The EAC should have anti-dumping policies that will make imports to be traded fairly and not cause any damage to the infant industries in the member states. The policies also should help states and people to use trade as a development tool adapted to specific needs of trading partners.

The EAC should protect agricultural production in the region. Since agriculture contributes a significant amount to the GDP of all the states in the EAC, it will be desirable if a policy such as the revised-CAP used in the EU is practiced in the EAC in a context specific manner. The criticism of CAP notwithstanding, it is a model that the EAC can learn from in order to improve its market entry strategy. Already the Southern African Development Community (SADC) is in the process of developing a regional agricultural policy (RAP) that will be the regional instrument for stimulating sustainable agricultural development and serve as a support to regional integration (Muchero, 2009). The EAC should learn from CAP and RAP and develop institutions which will support agricultural development. Government should try as much as possible to provide insurance and subsidy to farmers in the region because they are prone to vagaries in weather conditions. There is no way the EAC will be competitive if agriculture in the region continues to be rain-fed. Provision of irrigation for crop production and protected water for livestock through private-public programs will create incentive for commitment on the part of the farmers and other stakeholders. Financial subsidy can be provided through the establishment of cooperative thrift and credit societies supported with a seed grant from the EAC. All these supports should be developed with adequate plan for improvement in agricultural processing capacity (lack of processing capacity makes EAC a price taker).

To re-orient the economy, emphasis should be made on long term investment to strengthen the scientific and technological basis of EAC industries, through research and development to encourage them to become more competitive at international level. This will form a basis of the transformation of the common market to a monetary and economic integration. The size of EAC also matters, especially in negotiations, thus need to pursue deeper integration and bring in new members. The EAC also needs to train capacity that will be able to address trade issues appropriately. These experts will also be in charge of trade data, which are presently non-existing or difficult to get at the regional level. The EAC needs to develop proper methods/channels of capturing data at regional level, which is important in informing policies in future. As the EAC develops, it should learn from regional blocs such as the EU with the understanding that it's operating in a different context.

The EAC should be very cautious in following the strategies or lessons learned from the EU because; first, the EAC is geographically different from the EU and different conditions prevailed when the various integrations took place. Second, there is also the dependence and vulnerability to external shocks which is more prominent in the case of EAC than EU. Third, The EAC has member states with different distinct cultures (even within countries). Since the populace is different in their cultural values, there is a need for a better understanding of each others culture and acculturation. In other words, there is a need for peace promotion in the region. These considerations are pertinent to avoid some of the problems EAC previously faced and to propel it to a competitive bloc.

Finally, competitiveness is very important in this 21st century and the EAC must benchmark from the EU to become relevant in the world market and enter foreign markets in Asia and other African countries. India and China alone is a huge market that the EAC can enter if member states improve on their economic variables and support the production of commodities each country has relative comparative advantage to produce.

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