EFFECT OF EAST AFRICAN REGIONAL INTEGRATION ON INTRA-REGIONAL TRADE: A CASE OF UGANDA 1999 - 2016

By

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DECLARATION

I Anniella Kadede, do hereby declare that this research dissertation entitled "Effect of East African regional integration on intra-regional trade" is my work and has not been presented for a degree or any other academic award in any university or institution of learning.

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APPROVAL

"I confirm that the work compiled in this dissertation was carried out by the candidate under my supervision," and is submitted for defense with my authorization.

Signature of supervisor:...

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Date:.....24/10/2017.......................................

DEDICATION

I dedicate this report to my father Mr. Sinibarura Daniel, my mother Mrs. Ndikumana Mélanie, my husband Mr. Sokoroza Francis Nitus and our whole family as a whole who supported me endlessly without question, and to my friends who inspired me in education. Thank you for being there for me, showing me your love and tolerance for the long hours away from home as I pursued my studies.

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I acknowledge with gratitude the contributions and co-operation made by respondents for their willingness to provide the necessary information when I visited their respective business premises during the research process. Without their cooperation, this study would have been possible to accomplish.

I would like to deeply thank all my lecturers at Kampala International University. These have adequately guided and equipped me with both theoretical and practical skills. I would also like to acknowledge the contribution of my classmates from whom I enjoyed fruitful discussions on challenging topics.

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May God bless you all!

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LIST OF ACRONYMS

AfDB	-	African Development Bank
AMU	-	Arab Maghreb Union
ASYCUDA	-	Automated System for Customs Data
CEMAC	-	Economic and Monetary Union of Central Africa
COMESA	-	Common Market for Eastern and Southern Africa
EACSO	-	East African Common Service Organization
ECA	-	Economic Commission for Africa
ECCAS	-	Economic Community of Central African States
ECOWAS	-	Economic Community of West African States
FDI	-	Foreign Direct Investment
FTA	-	Free Trade Area
GCC	-	Gulf Cooperation Council
GDP	-	Gross Domestic Product
IGAD	-	Intergovernmental Authority on Development
LPA	-	Lagos Plan of Action
NAFTA	-	North American Free Trade Agreement
NTBs	-	Non-Tariff Barriers
OAS	-	Organization of American States
OAU	-	Organization of African Unity
RADDEX	-	Revenue Authorities Digital Data Exchange
RTAs	-	Regional Trade Agreements
SACU	-	Southern African Customs Union
SADC	-	Southern African Development Community
UNCTAD	-	United Nations Conference on Trade and Development
WAEMU	-	West African Economic and Monetary Union
WEF	-	World Economic Forum
WTO	-	World Trade Organization

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ABSTRACT

This study aimed to examine the effect of the East African regional integration on intra-regional trade. It was carried out based on three specific objectives: i) to examine the effect of the East African regional integration on Uganda's intra-regional export trade; ii) to examine the effect of the East African regional integration on Uganda's intra-regional import trade; iii)to examine the effect of the East African regional integration on Uganda's intra-regional foreign direct investment. The study was guided by the neo functionalism theory. The study used explanatory research design and the time series methodology. The study used secondary data sources to gather information relevant in reaching at the research objectives. The secondary data was obtained from the Uganda National Bureau of Statistics reports. A multiple linear regression model using Ordinal Least Squares were used to test the significance of the influence of the independent variable on the dependent variable. Results also indicated that in the long run, the East African regional integration had a positive and significant effect on Uganda's intra-regional export and import trade as well as foreign direct investment within the region. It was concluded that regional integration in East Africa in the long run, had a significant positive effect on Uganda's export and import trade. The study recommended that; the EAC countries should adopt export diversification strategy in a bid to increase aggregate economic growth; the EAC countries should encourage intra-African regional trade since increase in the volume of trade results to increase in the aggregate GDP.

CHAPTER ONE:
INTRODUCTION

1.0 Introduction

This project work is aimed at investigating the effect of regional integration on intra-regional trade. Chapter one presents the background to the study, the statement of the problem and purpose of the study, objectives and research question of the study, hypothesis, scope and significance of the study.

1.1 Background to the study

The background of the study was presented in four perspectives, namely: historical perspective, theoretical perspective, conceptual perspective and contextual perspective.

1.1.1 Historical perspective

The concept of regional integration dates back to the 19th century when the crisis of the post-war order led to the emergence of a new global political structure. This new global political structure made obsolete the classical Westphalian concept of a system of sovereign states to conceptualize world politics. The concept of sovereignty became looser and the old legal definitions of the ultimate and fully autonomous power of a nation-state are no longer meaningful (Schmitter, 2004). Sovereignty, which gained meaning as an affirmation of cultural identity, has lost meaning as power over the economy. All regional integration projects during the Cold War were built on the Westphalian state system and were designed to serve economic growth as well as security motives in their assistance to state building goals. Regional integration and globalization are two phenomena that have challenged the pre-existing global order based upon sovereign states since the beginning of the twenty-first century. The two processes deeply affect the stability of the Westphalian state system, thus contributing to both disorder and a new global order.

Regional integration in the Americas has a history going back to Spanish American and Brazilian independence, where at the end of the wars of independence (1808–1825), many new sovereign states emerged in the Americas from the former Spanish colonies. The South American independence leader Simón Bolívar envisioned various unions that would ensure the independence of Spanish America vis-à-vis the European powers, in particular Britain and the expanding United States (Chasteen, 2008). The experience of World War II convinced hemispheric governments that unilateral action by one nation could not ensure the territorial integrity of the American nations in the event of extra-continental aggression, in particular Soviet or communist incursions (Schmitter, 2004). To meet the challenges of global conflict in the Cold War period and to contain conflicts within the hemisphere, they adopted a system of collective security, the Inter-American Treaty of Reciprocal Assistance, popularly known as the Rio Treaty, in 1947. The following year, at the Ninth International Conference of American States, headed by U.S. Secretary of StateGeorge Marshall, twenty-one member states pledged to fight communism in the Americas, and transformed the Pan American Union into the Organization of American States (OAS).

Regional integration in Europe was first conceived by Count Richard Nikolaus von Coudenhove-Kalergi, who wrote the Pan-Europa manifesto in 1923 (Weigall and Stirk, 2006). His ideas influenced Aristide Briand, who gave a speech in favor of a European Union in the League of Nations on 8 September 1929, and who in 1930 wrote a "Memorandum on the Organization of a Regime of European Federal Union" for the Government of France, which became the first European government formally to adopt the principle (Alsasua et al, 2007). At the end of World War II, the continental political climate favoured unity in democratic European countries, seen by many as an escape from the extreme forms of nationalism which had devastated the continent.

The great lakes region of East Africa has had intentions for integration right from the post-independence era, with the first integration attempts made in the 1960s, when the three principal East African countries of Uganda, Kenya and Tanzania gained independence. This however collapsed in the 1977 because of various political, social and economic differences. In the year 2000 however, the integration was re-established, with initial emphasis on trade and economic exchanges, but with future aspirations for common currency and eventually a political union. Regional integration in Africa started with the desire to cooperate in the independence struggles against colonial powers, and was later galvanized by the desire by African states to consolidate their independence through the non-alignment movement. The Organization of African Unity was the first step towards integration in Africa (Duina, 2007). The Economic Commission for Africa (ECA) became the champion of regional integration, already in the mid-1960s proposing the division of Africa into regions for the purposes of economic development. Current African integration arrangements can be divided into two broad groups: those that fit into the Lagos Plan of Action (LPA) adopted in April 1980, and those that were either in existence or came about outside the LPA.

The Lagos Plan was promoted by the ECA and launched in a special initiative by the OAU. It envisaged three regional arrangements aimed at the creation of separate but convergent and over-arching integration arrangements in three sub-Saharan sub-regions (Breytenbach et al., 2008). West Africa would be served by the Economic Community of West African States (ECOWAS) which pre-dated the Lagos Plan. A Preferential Trade Area (PTA) was established in 1981 to cover the countries of East and Southern Africa, which was eventually replaced in 1993 by the Common Market for Eastern and Southern Africa (COMESA). For Central Africa the treaty of the Economic Community of Central African States (ECCAS) was approved in 1983 but remains to be fully ratified. Together with the Arab Maghreb Union (AMU) in North Africa, these arrangements were expected to lead to an all-African common market by the year 2025. The Lagos Plan was followed up in 1991 by the Abuja Treaty, re-affirming the commitment of the OAU's Heads of State to an integrated African economy (McCarthy, 1995). In April 2001, African Heads of State launched the African Union at Sirte to replace the OAU.

A second group of integration arrangements has grown up outside the LPA. Two important RTAs are associated with the former CFA zone. There is the West African Economic and Monetary Union (WAEMU) within the ambit of ECOWAS and the Economic and Monetary Union of Central Africa (CEMAC) within the proposed ECCAS region (Arndt, 2013). Within the geographic area of COMESA there are the Southern African Customs Union (SACU) with its associated monetary union (the Common Monetary Area, CMA), the Southern African Development Community (SADC) and the East African Community (EAC). Some countries in this region are also joined with countries in the Horn of Africa in the Intergovernmental Authority on Development (IGAD).

The history of regional integration in East Africa goes back to pre-colonial times. The first moves towards integration between states were made in 1919. Kenya, Tanganyika and Uganda – all of them under British administration formed a customs union. After the end of the colonial period, two organizations played a major part in the pursuit of regional integration. 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 structures. In addition, attempts to set up a central bank foundered in 1965. Plans to introduce a common market proved difficult to be implemented. Yet there was still strong interest in regional cooperation, and so in 1967, the first East African Community was founded. The failure of the first East African Community in 1977, can be attributed to four main factors: firstly, its lack of steering functions; secondly, the unequal distribution of benefits; thirdly, the purely intergovernmental, i.e. inter-statal structure; and, fourthly, the irreconcilable differences of opinion between leading players, especially between the Ugandan dictator Idi Amin and the Tanzanian president Julius Nyerere.

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 heads of state of Uganda, Kenya and Tanzania. It entered into force on 7^{th} July 2000. Two new members, Rwanda and Burundi, joined the Community in 2007. The lessons learnt by the present-day EAC from the collapse of its predecessor have ensured that the management of cooperation has been improved by setting up permanent institutions. Secondly, greater attention has been paid to fair distribution of the benefits of cooperation. For example, transitional customs regulations are designed to protect the Tanzanian and Ugandan economies from the dominance of Kenyan exports. Thirdly, the EAC now allows civil society and market forces to play a more prominent part. However, the powers of the inter-statal institutions remain weak. All major decisions affecting the Community must be taken by consensus of the member states.

1.1.2 Theoretical perspective

The theory of neo-functionalism emerged in the mid-1950s; it is a theory of regional integration in a process by which countries remove barriers to free trade. This approach to integration aimed at individual sectors in hopes of achieving spillover effects to further the process of integration it is also said to be followed by the early neo functional steps. Schmitter (1969) argues that the methods of mutual recognition and piecemeal problem solving imbedded in the nature of neo-functionalism. Rosamond (2000) stated that Neo-functionalism can be read at one level as a theory provoked entirely by the interactive activity among the original six member states in Europe. Further down, Eilstrup-Sangiovanni (2006) argues that neo-functionalism is a product of the behaviorist turn in American social science which also focuses on institutional forms and behavior and process of integration. It is emerged from the process of complex web of actors pursuing their interests within a pluralist political environment (Rosamond, 2000).

Neo-functionalism reformulates the functionalist principles in the context of regional institutions. While functionalists view integration as an unpreventable result of development which imposes more functions on the states and pushed them to the cooperation with international functional institutions. However, integration in the view of neo-functionalists is that created institutions drives the integration further by inertia even if originally it was not aimed so. There is also a difference in the final results of the integration process between functionalists and neo-functionalists. According to the functionalists view the end result of the integration process is where there is a separate institutional organization performing their functions. For neo-functionalists, everything is shifted to the one new center as the result of a 'new political community' which arises (Wiener and Diez, 2004). Jean Monnet saw an increased European integration as the most important originator to a peaceful Europe.

1.1.3 Conceptual perspective

According to Lindberg and Scheingold (2011), regional Integration is a process in which neighboring states enter into an agreement in order to upgrade cooperation through common institutions and rules for mutual benefit. The objectives of the agreement could range from economic, to political, to environmental, although it has typically taken the form of a political economy initiative where commercial interests are the focus for achieving broader socio-political and security objectives, as defined by national governments. Regional integration has been organized either via supranational institutional structures or through intergovernmental decision, or a combination of both. Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labour, goods, and capital across national borders, reducing the possibility of regional armed conflict, and adopting cohesive regional stances on policy issues, such as the environment, climate change and migration.

According to Duina (2007), regional integration outlines the process through which national states voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves. It is a worldwide phenomenon of territorial systems that increases the interactions between their components and creates new forms of organization, co-existing with traditional forms of state-led organization at the national level (de Lombaerde and van Langenhove, 2007). Some scholars see regional integration simply as the process by which states within a particular region increase their level of interaction with regard to economic, security, political, or social and cultural issues. Regional integration facilitates the joining of individual states within a region into a larger whole. The degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty. Deep integration that focuses on regulating the business environment in a more general sense is faced with many difficulties.

Closer integration of neighboring economies has often been seen by governments as a first step in creating a larger regional market for trade and investment. This is claimed to spur greater efficiency, productivity gain and competitiveness, not just by lowering border barriers, but by reducing other costs and risks of trade and investment. Bilateral and sub-regional trading arrangements have been advocated by governments as economic development tools, as they are designed to promote economic deregulation (van Ginkel and van Langenhove, 2009). Such agreements have also aimed to reduce the risk of reversion towards protectionism, locking in reforms already made and encouraging further structural adjustment. The desire for closer integration is usually related to a larger desire for opening nation states to the outside world, or that regional economic cooperation is pursued as a means of promoting development through greater efficiency, rather than as a means of disadvantaging others (Thongkholal, 2012).

Members of these arrangements hope that they will succeed as building blocks for progress with a growing range of partners and towards a generally freer and open global environment for trade and investment and that integration is not an end in itself, but a process to support economic growth strategies, greater social equality and democratization. Regional integration arrangements are a part and parcel of the present global economic order and this trend is now an acknowledged future of the international scene. It has achieved a new meaning and new significance (Hass, 2011). Regional integration arrangements are mainly the outcome of necessity felt by nation-states to integrate their economies in order to achieve rapid economic development, decrease conflict, and build mutual trusts between the integrated units. Some have argued that the idea of the state and its sovereignty has been made irrelevant by processes that are taking place at both the global and local level.

Regional economic integration has enabled countries to focus on issues that are relevant to their stage of development as well as encourage trade between neighbors (Hass, 2011). There are four main types of regional economic integration:

1. ***Free trade area;*** This is the most basic form of economic cooperation. Member countries remove all barriers to trade between themselves but are free to independently determine trade policies with nonmember nations (Arndt, 2013). An example is the North American Free Trade Agreement (NAFTA).
2. ***Customs union;*** This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with nonmember countries in a similar manner. The Gulf Cooperation Council (GCC) is an example.
3. ***Common market;*** This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labor and capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember nations (Duina, 2007). The primary advantage to workers is that they no longer need a visa or work permit to work in another member country of a common market. An example is the Common Market for Eastern and Southern Africa (COMESA).
4. ***Economic union;*** This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies. An example is the European Union.

Intra-regional trade, according to Van Ginkel and Van Langenhove (2003), is trade which focuses on economic exchange primarily between countries of the same region or economic zone. According to Duina (2007), intra-regional trade is when trade in goods and services happens inside a specific region of the world economy such as sub-Saharan Africa or the member nations of the European Union. According to Chasteen (2008), intra-regional trade is the flow of goods and services within and among the members of a given regional bloc, for example, trade among the five East African nations of Kenya, Tanzania, Uganda, Rwanda and Burundi, that constitute the East African Community, would qualify as intra-regional trade. Import and export trade among the three countries of Mexico, United States of America and Canada, which form the North American Free Trade Area (NAFTA) is also another example of intra-regional trade.

In recent years countries within economic-trade regimes such as ASEAN in Southeast Asia for example have increased the level of trade and commodity exchange between themselves which reduces the inflation and tariff barriers associated with foreign markets resulting in growing prosperity. Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labour, goods, and capital across national borders, reducing the possibility of regional armed conflict (for example, through Confidence and Security-Building Measures), and adopting cohesive regional stances on policy issues, such as the environment, climate change and migration.

Closer integration of neighboring economies has often been seen by governments as a first step in creating a larger regional market for trade and investment. This is claimed to spur greater efficiency, productivity gain and competitiveness, not just by lowering border barriers, but by reducing other costs and risks of trade and investment. Bilateral and sub-regional trading arrangements have been advocated by governments as economic development tools, as they been designed to promote economic deregulation. Such agreements have also aimed to reduce the risk of reversion towards protectionism.

1.1.4 Contextual perspective

Regional integration in East Africa is through the East African Community (EAC), which currently consists of five member countries in East Africa: Burundi, Kenya, Rwanda, Tanzania, and Uganda. The EAC was formed in 1967 by Kenya, Tanzania, and Uganda. The EAC was dissolved in 1977, mainly due to political reasons. In the tide of regionalism all over the world, the Treaty for the Establishment of the East African 4 Community was signed by Kenya, Tanzania, and Uganda in November 1999. The newly-created EAC entered into force on July 7, 2000. In 2007, Burundi and Rwanda were admitted as members of the EAC. In November 2009, a historic document, the EAC Common Market Protocol, was signed by the five countries, which then established a common market allowing the free movements of goods, persons, and capital as an integral part of the East African Community (Survey for Doing Business Report, 2014). In addition to the creation of the common market, the establishment of a currency union is being seriously negotiated.

Gross National Incomes per capita in the East African countries are in the range of $100-600. Life expectancy in the East African countries is around 50 years. The illiteracy rate in the East African nations are 20-30 percent for males and 30-40 percent for females. In 2013-

2014, the average share of intra-regional trade in Eastern Africa was 16%. Among the three regional groups, the EAC countries dominated intra-regional trade with a share of 71.82 %, followed by the Horn of Africa (27.74%). The island countries had a lower share (0.44%), illustrating their limited trade link with the mainland. Kenya is the regional trade hub accounting for 33% of intra-regional trade, attributed to its larger private sector, followed by Uganda (21%) and Tanzania (11%). It is worth noting that official statistics often underestimate intra-regional trade as a substantial portion of cross-border trade is regarded as illegal. Significant trade barriers still persist.

The lack of harmonized trade policy instruments in Eastern Africa limits inter-RECs trade. Cumbersome trade logistics along transport corridors and time-wasting border procedures result in excessive delays and high transit costs (AfDB, 2011). Efficient customs operations are hampered by excessive documentary requirements, insufficient use of automated systems, and lack of cooperation among customs and other government agencies. It results that Eastern African countries have the lowest trade logistic perception in the world in 2014. In 2013, the World Economic Forum Global Competitiveness Report placed the region within the African average in terms of competitiveness of economies. Creating an enabling business environment, including broadly governance issues, remain a challenge in most countries.

While there is progress in some countries in the area of institutional, legal and regulatory frameworks, the cost of doing business remain high and largely explained by infrastructure bottlenecks. Kenya, ranked number 98 globally among 133 countries, was the top performer in entire Africa. It performed especially well in the areas of financial market sophistication (37), labor market sophistication (40), innovation (48), business sophistication (59) and goods market efficiency (73). Furthermore, the region's track record in attracting private investment in infrastructure is particularly uneven (Survey for Doing Business Report, 2014). While Uganda and Kenya lead the way, particularly in the energy sector, few countries have established the necessary regulatory and institutional reform required to attract private capital and technology.

Customs automation in EAC is improving but remains short of its potential. Four, out of five, countries are based on a model of the ASYCUDA system, which provides all necessary automation resources for risk management and generation of statistics, while Kenya operates on the SIMBA system. Even though individual East African Countries have made improvements to their customs systems, the lack of integrated customs systems prevent the simultaneous sharing of information at the regional level. There have been recent advances in implementing the Revenue Authorities Digital Data Exchange (RADDEX) system in individual member countries, which could be the foundation for building a region-wide system. The region needs support to develop an EAC-wide Single Window for trade, bringing together relevant public and private sector operators under a single facility. The challenge facing the region is to expand these efforts at the regional level in order to avoid fragmented approaches at the national level. The lack of mutually recognized test certificates and quality certification remain some of the causes of delays because goods undergo repeated testing and inspection procedures at borders in the EAC (Survey for Doing Business Report, 2016).

1.2 Statement of the Problem

Despite the fact that the regional integration in East Africa has been in operation for over 15 years, there is still widespread ignorance about its workings, among the business community and its effect on intra-trade. To date, various steps have been taken towards strengthening trade ties in the EAC, whose membership increased with the accession of Rwanda and Burundi in 2007, with visa-free movements across borders, unified customs protocols, common tariffs among others all put in place (Survey for Doing Business Report, 2014). Though there are a few businesses that have attempted to take advantage of the expanded market, there is still an information gap about the actual effect of the integration in intra-regional trade among member states, the key target of the EAC. With this in mind, the researcher saw it necessary to conduct a research study to examine how the East African regional integration has affected intra-regional trade in Uganda.

1.3 Purpose of the Study

The purpose of the study was to investigate the effect of the East African regional integration on intra-regional trade, with specific reference to Uganda as the case study.

1.4Objectives

i) To examine the effect of the East African regional integration on Uganda's intra-regional export trade.

ii) To examine the effect of the East African regional integration on Uganda's intra-regional import trade.

iii) To examine the effect of the East African regional integration on Uganda's intra-regional foreign direct investment.

1.5 Research Questions

i) What is the effect of the East African regional integration on Uganda's intra-regional export trade?

ii) What is the effect of the East African regional integration on Uganda's intra-regional import trade?

iii) What is the effect of the East African regional integration on Uganda's intra-regional foreign direct investment?

1.6 Hypothesis

Ho: The East African regional integration has no significant effect on intra-regional trade in Uganda.

1.7 Scope of the Study

1.7Geographical scope

The study was carried out in Uganda. The offices of the Ministry of East African Affairs and Uganda National Bureau of Statistics in Kampala provided the information required for the study.

1.7.2 Content scope

The study focused on the volumes of Uganda's export, import trade as well as the flow of foreign direct investment to and from Uganda within the region in the period 1999 – 2016.

1.7.3 Theoretical scope

The study was guided by the theory of Neo-Functionalism, which explains regional integration as a process by which countries remove barriers to free trade. This approach to integration, according to neo-functionalism, is aimed at individual sectors in hopes of achieving spillover effects to further the process of integration.

1.7.4 Time scope

The study examined the cross-boundary trade activities and data in East Africa from 1999 to 2016.

1.8 Significance of the Study

The findings of the study will be beneficial to the following stakeholders.

Government

The study will generate specific information that will help in understanding and explaining the impact of regional integration on intra-regional trade among business organizations in East Africa as a whole and Uganda in particular.

Stakeholders

The findings of the study will also assist in evaluating how the various businesses can take advantage of the expanded market opportunities afforded by the wider integrated East African market; identify the challenges and threats to the integration and how to address them in order to strengthen the integration.

Other researchers

The study will contribute to the available knowledge as well as act as a basis for further research on the same subject. This study will benefit the researcher by helping her acquire practical research skills and will also serve as a partial requirement for the award of a degree; Master of Business Administration of Kampala International University.

1.9 Operational definition of key Terms

Free Trade Area: A free-trade area is the region encompassing a trade bloc whose member countries have signed a free-trade agreement. Such agreements involve cooperation between at least two countries to reduce trade barriers, import quotas and tariffs, and to increase trade of goods and services with each other. If people are also free to move between the countries, in addition to a free-trade agreement, it would also be considered an open border. It can be considered the second stage of economic integration.

Intra-regional trade: Trade within and among the members of a given geographical region. In the case of this study, intra-regional trade is used to mean the flow of trade among the five East African community countries of Uganda, Kenya, Tanzania, Rwanda and Burundi.

Neo-functionalism: A theory of regional integration which explains the argument that all integration is the result of past integration. Neo-functionalism helps to explain the integration theory of the Western Europe. The theory is tightly connected to the strategies of the integration of the European founding fathers. Jean Monnet's approach to integration aimed at individual sectors in hopes of achieving spillover effects to further the process of integration it is also said to be followed by the early neo functional steps.

Preferential Trade Area: A preferential trade area or PTA is a trading bloc that gives preferential access to certain products from the participating countries. This is done by reducing tariffs but not by abolishing them completely. A PTA can be established through a trade pact. It is the first stage of economic integration.

Regional integration: Is an arrangement that brings together countries within the same geographical region with shared interests. The objective of integration is to facilitate trade and other exchanges within and among the member countries.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will review the theories which are relevant to this study, the conceptual framework, as well as other literature related to regional integration and intra-regional trade. It will explore the findings of the various previous researchers who have studied the same or related topics to analyze the applicability of their findings. Both the theoretical and conceptual literature relevant to the objectives and the raised research questions under the study was reviewed. It analyzed the impact of regional integration on intra-regional trade which was the main variables in the study.

2.1 Theoretical review

According to Adam smith, a Scottish economist, the theory of absolute advantage, which emphasizes the ability of a nation to produce a good more efficiently than any other nation, is the answer to outdated mercantilist trade policies of the 18th and 19th centuries (Wild et al, 2010). Among other reasons, smith reasoned that international trade should not be banned or restricted by tariffs and quotas, but allowed to flow freely as dictated by market forces. If people trade freely then no country would need to produce all goods that it consumed. Instead, a country would produce goods that it holds absolute advantage and then trade with other nations to obtain goods it needs but does not produce (Wild et al, 2010).The theory of comparative advantage advanced by David Ricardo proposed that even if a country held absolute advantage in production of goods, specialization and therefore trade was still possible. It provides that a country should specialize in producing goods that it has relatively low production costs, export that good and use the proceeds to import the good that it has a higher production costs (Hill, 2011).

Paul (2009) outlines the Heckscher- Ohlin model otherwise referred to as the modern theory of international trade. According to the theory, comparative advantage of a country arises from relative factor endowment, and predicts that countries will export those goods that make intensive use of factors that are locally abundant, while importing goods that make use of factors that are locally scarce. Wild et al (2010) also identifies other international trade theories namely the international product life cycle, the national competitive advantage theory and the neo-functionalism theory.

The study adopted the theory of neo-functionalism, which describes and explains the process of regional integration with reference to how three causal factors interact; growing economic interdependence between nations, organizational capacity to resolve disputes and build international legal regimes, and supranational market rules that replace national regulatory regimes (Niemann and Schmitter 2009). Early neo-functionalist theory assumed a decline in importance of nationalism and the nation-state; it predicted that, gradually, elected officials, interest groups, and large commercial interests within states would see it in their interests to pursue welfares objectives best satisfied by the political and market integration at a higher, supranational level. Haas theorized three mechanisms that he thought would drive the integration forward: positive spillover, the transfer of domestic allegiances and technocratic automaticity.

Positive spillover effect is the notion that integration between states in one economic sector will create strong incentives for integration in further sectors, in order to fully capture the perks of integration in the sector in which it started (McCormick, 2005). Increased number of transactions and intensity of negotiations then takes place hand in hand with increasing regional integration. This leads to a creation of institutions that work without reference to 'local' governments. The mechanism of a transfer in domestic allegiances can be best understood by first noting that an important assumption within neo-functionalist thinking is of a pluralistic society within the relevant nation states. Neo-functionalists claim that as the process of integration gathers pace, interest groups and associations will transfer their allegiances away from national institutions towards the supranational European institutions. They will do this because they will, in theory, come to realize that these newly formed institutions are a better conduit through which to pursue their material interests.

Greater regulatory complexity is then needed and other institutions on regional level are usually called for. This causes integration to be transferred to higher levels of decision-making processes. Technocratic automaticity described the way in which, as integration proceeds, the supranational institutions set up to oversee that integration process will themselves take the lead in sponsoring further integration as they become more powerful and more autonomous of the member states. In the Haas-Schmitter model, size of unit, rate of transactions, pluralism, and elite complementarities are the background conditions on which the process of integration depends. Just as Rosamond put it, political integration will then become an 'inevitable' side effect of integration in economic sectors.

The role of any emerging international organization was considered to be greater than initially thought, meaning that it serves as an actor in future integration processes. Supranational institutions, similarly, are seen as actors, capable of developing own interests and stimulating further integration (Niemann and Schmitter 2009). The role of public support was considered limited, whereas the importance of national elites in international cooperation was deemed bigger. Integration is seen as a process rather than a single event; Dosenrode (2010) describes it as being "able to explain 'organic' or slowly developing regional integration."

Although belonging to the realist branch on the tree of theories, neo-functionalism is of a pluralist nature, as has been described above with the introduction of international organizations and institutions as independent actors. Nevertheless, states are seen as decision-makers to some extent. Actors are still considered to be rational and self-interested, although national societal and governmental, as well as international, elites are considered to constitute the main impetus for integration (Niemann and Schmitter 2009). Schmitter (2005) adds to this the aspect that "interests, rather than common ideals or identity are the driving force behind the integration process." These interests, however, should neither be seen as constant nor limited to the national level.

According to the neo-functionalism the importance of nationalism and national state will decline in the light of a central supranational state. There are three mechanisms that neo-functionalists view as a driving force of the integration process positive spill over, transfer of domestic alliances, technocratic automaticity. According to Wallace et al. (2004) 'positive spill over' is when the sector such as coal and steel governed by the central institutions creates pressure so that the neighboring areas of policy such as taxation and wages are influenced by integration. Cini et al. (2004) describes concept of spill over as the process of generating new political goals. According to the neo-functionalism theory, in the process of integration the different national interest groups, associations and elites will shift their loyalty away from national institutions toward the supranational regional institution.

The explanation to this is that the national groups will recognize the newly formed institution as a better instrument through which they can achieve a better outcome in their interests rather than through national institutions. This will lead to an establishment of elite groups holding regional ideas and norms and they will try to persuade national elites to turn their loyalties to the supranational co-operation (Cini et al, 2004). It describes the process when the integration is accelerated the supranational institutions themselves will be able to lead and sponsor the further integration because they will be more powerful than the Member States.

The development of the neo-functionalism theory can lead to the emergence of 'dramatic political actors' and changes in international systems may affect the regional cooperation. The concept of the spill over can also develop further to 'spill-around' and 'spill-back'. Schmitter (2004) argues that it provides building blocks for frameworks and is useful in reformulation, adding that this might be due to the tendency of self-criticizing of its actors. He also argues that the theory has its impact on enlargement as it leads to tensions, contradictions and demands which can be resolved by further integration.

The main aspect of neo-functionalism is the concept of spillover effects, which is closely connected to the notion of integration as a process, as has been described above. The fact that regional integration is connected to self-interested actors, and that these interests might change over time, together with the rather short-term planning of governmental decision-makers underlines the idea of integration as a process, as opposed to the liberal intergovernmentalist' focus on single events like international treaties. Spillover effects can only occur and be observed over time.

One example of spillover both in theory and in practice is the creation of the ECSC and the EEC, which led to the creation of Euratom. As McCormick (2005) describes, the ECSC was "created partly for short-term goals such as the encouragement of the Franco-German cooperation, but Monnet and Schuman also saw it as the first step in a process that would eventually lead to political integration." This is only one example of spillover in the European integration process, but Niemann (1998) finds four different types in neo-functionalist theory, namely functional, political, cultivated and induced (or geographical) spillover.

Functional spillovers refer to economic cooperation leading to further integration in other economic fields, mainly due to the connectedness of different economic fields and the increased interdependencies of nation states in economic areas. Non-state actors play an important role in this case. With economic sectors benefitting from inter-state trade, actors in these fields increasingly work together across borders, and hence push their respective national governments to cooperate so as to create institutionalized structures (and thus more integration).

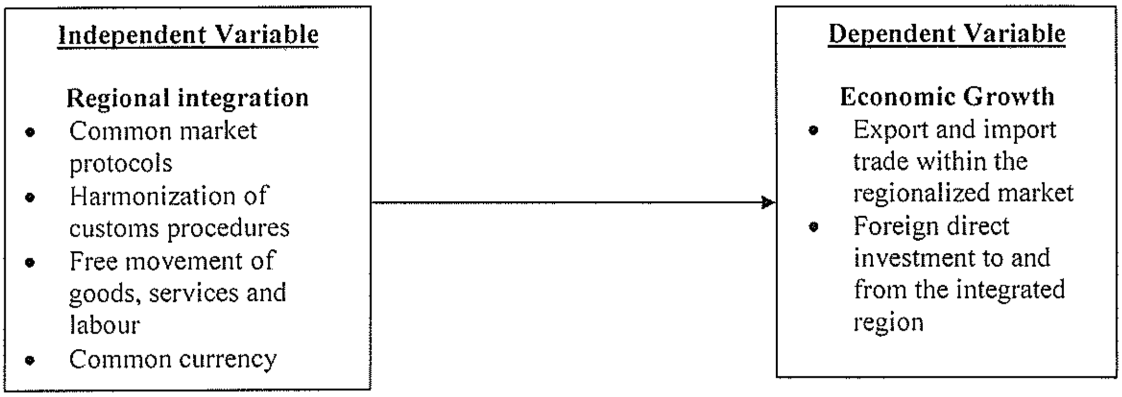
Political spillover argues that learning processes during integration happen within national and international elites leading to the shift of expectations, political activities and loyalties towards an international centre. This political shift would put pressure on the decision-makers to cooperate internationally, as that would be in the (national) interest.

Cultivated spillover, according to Niemann, (1998) refers to supranational institutions stimulating political and functional spillover effects and, hence, integration. Here, the international institution does not only act as a meeting place for nation states and their representatives, but actively promotes integration by e.g. introducing new topics or deliberate agenda-setting. Main examples for cultivated spillover occurring are the European Court of Justice (ECJ) and its rulings or the European Commission in the fields of telecommunications or energy. Schmitter (2005) describes these as institutions developing "an independent and interjecting ideas and programmes into the process that cannot be reduced to the preferences of national or sub-national groups."

Induced spillover describes how the changed economic situation and trade patterns of the integrated countries lead other nation states to consider joining the community. In that sense neo-functionalism hypothesizes the geographical widening of an international organization, an assumption that can relatively easily be supported when looking at the number of member states to the EU and its increase over time.

2.2 Conceptual framework

The conceptual framework in this study examines the interconnection between the variables in the study. It explores how the independent variable influence or determine the dependent variable.



Source :*(Adopted from Fernandez Raquel, 2007)*

In the present study, the independent variable which is regional integration is characterized by such aspects as common market protocols, harmonization of customs procedures, free movement of goods, services and labour as well as common currency. These have an effect on the economic growth where regional integration applies. For purposes of the current study, economic growth is characterized by aspects of export and import trade within the regionalized market, as well as foreign direct investment within the regionalized market.

2.3Related Literature

2.3.1 Effect of regional integration on intra-regional trade

The effect of regional integration depends on the level of economic integration and the deeper the integration, the greater the benefits to the participating Partner States. However, the degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty. Pangestu and Scollay (2001) identified trade, development and political and security as the main motives for integration in developing countries. Hoekman et al. (2002) pointed out economic aspects and political aspects as the main motives of economic integration. Hoekman et al. (2002) are clearer because trade and development as pointed out by Pangestu and Scollay (2001) can together be put under economic aspects. Under economic aspects, Hoekman et al. (2002) pointed out that, the development impacts of economic integration for membership depend importantly on the countries that are involved, the type of agreement, and its substantive coverage. Recent research has suggested that of particular importance to developing countries are whether large industrial countries are members of the agreement, the extent of sectoral exclusions, and the degree to which the regional economic integration involves deeper integration-that it extends beyond preferential elimination of barriers to trade in goods (Hoekman et al., 2002).

Economic effects of regional integration according to Hoekman et al. (2002) include trade creation, trade diversion and transfers. According to Todaro and Smith (2006), trade creation occurs when common external trade policy and internal free trade lead to a shift in production from high to the low cost Partner State in the community. Trade diversion on the other hand arises when imports from the rest of the world are replaced by more expensive imports from the partner country. 'Trade diversion is normally considered undesirable because both the world and member states are perceived to be worse off as a result of diversion of production from efficient foreign suppliers to the less efficient domestic industries of member states' (Todaro and Smith 2006). The overall gain depends on whether trade creation is larger than trade diversion. Regional integration can serve a useful economic purpose beyond the direct gains from trade liberalization, by reducing uncertainties and improving credibility and thus making it easier for the private sector to plan and invest. Indeed, reducing uncertainty may be vital for realizing gains from liberalization.

Whether economies benefit from a particular regional trade agreement depends on the scope and coverage of its provisions, the nature of the enforcement mechanism and the circumstances in which the agreement can be modified (Fernandez, 2007). According to Park and Park (2007), economic integration can also serve as incentives for investment and attraction of Foreign Direct Investment (FDI). General reforms such as stabilization, market liberalization, and privatization adopted under regional arrangements can raise returns to all factors and are likely to be more than enough to increase private investment. Also as Baldwin and Venables (2004) pointed out, economic integration can help to ensure that production is located according to comparative advantage in each member states which in turn will lead to specialization which will further lead to increased output and services thus making the whole region better off as a result of such specialization scheme.

The impacts which developing countries in Africa can get or expect to get from regional integration can be better understood by looking at the benefits that member countries of EAC are getting or expecting to get out of that economic integration. EAC is one of the old regional economic communities (since 1967) in Africa. Given such history the new East African Community started with a customs union as the first stage in the process of economic integration (Daniels et al., 2004). But the customs union as explained in the introductory part was supposed to be the third stage of integration after the preferential trade and free trade areas. Therefore, real economic integration in the region commenced with the customs union. Since the re-launching of EAC, Member countries of the EAC have being enjoying some benefits and they are expecting to benefit more from that economic community. However, more benefits are expected at the higher level of economic integration. This chapter will point out the benefits of EAC to its member states.

Regional cooperation offers one route to overcome the disadvantages of economic smallness, by pooling resources or combining markets. Tanzania, Kenya and Uganda are all developing countries with small economies. In 2005, Kenya had a GDP of US$19 billion, Tanzania US$10.3 and Uganda US$9. These economies were too small on their own to attract any major investment in this globalized economy. By moving towards the economic integration via the EAC they created a single market of over 90 million people (2005) and a combined GDP of around US$38.3 billion. Thus, we can say that the EAC provides its partner states with a wider market within which investors can take advantage of economies of scale and thereby produce competitively (McCarthy, 2006). Furthermore it provides a training ground and facilitates them to survive within the liberalized and competitive world market.

Investment, both foreign and domestic, is one of the important macroeconomic aspect which has attracted the attention of all member countries in the EAC. The customs union has promoted cross-border investment and served to attract investment into the region. This is because the enlarged market with minimal customs clearance formalities is more attractive to investors than the previously small individual national markets (Schiff and Winters, 2002). The customs union has also offered and is expected to offer a more predictable economic environment for both investors and traders across the region as regionally administered common external tariff and trade policy will tend to be more stable. Inward FDI flows and FDI stock in 2000 and 2004 is more favorable as compared to the period of 1992 to 1997 without the integration. In-ward FDI will benefit the economies of the member countries by bringing in new technologies, new managerial practices, capital and new ways of doing business. Although there may be other factors specific to the country responsible in attracting FDI, we cannot deny the fact that stable investment environment brought on by the economic integration (customs union) is the main factor (Yang and Gupta, 2005). In Kenya, investments from partner states are mainly in the manufacturing and trade sectors, in Tanzania, investments are dominantly in the manufacturing, tourism and transport sectors, and in Uganda the investments are in the manufacturing, agriculture and tourism sectors (EAC Trade Report, 2005).

In view of the current global trend where trade negotiations are increasingly being carried out under regional blocs, the formation of a customs union in East Africa was not a matter of choice but of necessity. It would be difficult for partner states to negotiate a Free Trade Area (FTA) with other regional blocs, for example the EU, unless they have liberalized trade among themselves. Due to the multiple memberships of the partner states in other regional organizations, the EAC customs union can enter into FTAs with other trading blocs, or in the extreme circumstance, merge with them to make a larger trading bloc (Pangestu and Scollay, 2001). It is worth to note that countries which on their own have strong competitive economies such as Germany, France and the United Kingdom (UK) are strong supporters of the EU, which is still expanding by including the former less developed countries of Eastern and Central Europe. The USA together with Canada and Mexico have come together under NAFTA, and want to expand taking on board countries of Central and Latin America. In Asia, the countries of South East Asia are revolving around Japan and China. Therefore, it will be difficult for small countries such as those of East Africa and generally in Africa to negotiate with such giants on their own.

Trade is one of the main motives of economic integration in East Africa and countries expect to expand their trade to their neighbor's liberalized market under the agreement. Trade within the EAC has increased over the period of 1991 to 2006. If we compare the national exports (as % of National Exports) of Tanzania, Kenya and Uganda in 1991 (before integration) and in 2006 (after integration), the data shows that countries exported more after integration though there was a slight decrease of trade in 2006. Therefore, we can conclude that the EAC has made it possible for its partner states to expand their trade within the region due to agreed trade liberalization under the agreement (Park and Park, 2007). The ongoing implementation of the EAC customs union and deeper integration to be achieved later is expected to provide momentum for even higher achievements on trade.

As a result of the EAC, citizens of member countries are now moving freely across the border by the use of East African Passports which are issued in all member countries. To facilitate more the movement of people in the region, EAC member countries have agreed to remove visa requirements for their citizens. Free movement of people is very important because it eases cross border trade and it also creates a sense of unity and community through increased interaction of the citizens of the member states. East African citizens can easily move from one country to another and do their business activities there. This is a good step towards the deeper integration including the East African Common Market of which negotiations have already been launched by the member states.

Opening up of the domestic economies to competition from member countries of the EAC has resulted in increased efficiency in some sectors, increased product varieties and the introduction of new and modern methods of doing business in the region. This is due to increased competition from other member states in which local companies are forced to adjust themselves in offering better services for fear of being left behind or kicked out of the business. Increased competition may lead to efficiencies, but in the short run the firms which stand to gain most are those that are already competitive (Todaro and Smith 2006).

In the EAC this was clearly taken into consideration and that is why the EAC member countries adopted the principle of asymmetry in the phasing down of internal tariffs in order to provide firms located in Uganda and Tanzania with an adjustment period of five years. This is because firms in Kenya are more competitive than firms in Tanzania and Uganda. Nevertheless, such firms may in the medium term overcome lack of competitiveness, through additional investment in newer production technologies; specialization in activities where they have a competitive advantage; re-training of human resources; and forming strategic alliances with their competitors.

Regional cooperation in the EAC through the customs union is expected to play a great role in enabling private sector operators based in the region with cross-border business operations to exploit the comparative and competitive advantages offered by regional business locations, without having to factor in the differences in tariff protection rates, and added business transaction costs arising from customs clearance formalities (Hoekman et al., 2002). The regionally based enterprises will also get better protection, as enforcement of the common external tariff is done at the regional level. The EAC customs union has also assisted to level the playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on goods imported from third countries. This in turn has assisted the region in advancing its economic development and poverty reduction agenda.

Regional integration reduces the risk of conflict in two ways. First, increasing interdependence among members makes conflict more costly. Economic integration may pave the way for political integration, substantially reducing the risk of internal conflict (Yang and Gupta, 2005). Second, regular political contact among members can build trust and facilitate cooperation, including on security. Security and political matters are among the issues raised in the broad goal of the EAC. The EAC has already established two important institutions, the East African Court of Justices and the East African Legislative Assembly, which are very important in conflict resolution and also serve as building blocks to a political federation. Enhanced cooperation in security and defense matters is important in ensuring that the region is peaceful so as to provide a conducive environment for sustainable development.

Through the EAC, member countries have worked together to improve transport and communication infrastructure within and across the borders of member states. Several projects have been initiated with the view to modernize transportation and communication aiming at facilitating trade in the region. Regional cooperation on public goods such as water basins (Lake Victoria), infrastructure (roads, railways), the environment, hydroelectric and other sources of energy and fisheries have generated benefits to member states (Schiff and Winters, 2002). EAC member states have agreed to a harmonized classification for issuance of entry/work permits aiming at addressing problems of unemployment and poverty in the region. There have been some achievements in social indicator especially in education. However, there are still development disparities and income inequality in three EAC member states which need to be addressed.

2.3.1.1Regional integration and intra-regional export trade

Otinga (2009) investigated the effect of international trade on Kenya's economic growth by specifically examining the role of exports vis-a-vis other components of the GDP over a span of about twenty two years. The effect of imports on economic growth was also examined. The study adopted a linear model to examine the effect of both public and private investment, government expenditure, foreign aid, imports and exports to the GDP. Overall, the results showed that growth in real exports caused real GDP growth. Moreover, it was found out that: Government expenditure and Foreign aid were positively correlated with the GDP and statistically significant; Public investments though statistically significant, were found to be negatively correlated to the GDP; and Private investments were found to be negatively correlated to the GDP and statistically insignificant. In broad terms, the results of this study were supportive of the Export Led Growth Strategy which postulates that exports lead to economic growth.

Exporting within a regional area may serve as a first step towards the expansion of exports worldwide, by initially building export capacity taking advantage of low tariff and non-tariff barriers within a union, and then leveraging this capability to achieve competitive advantage in exporting to other countries. Countries within a regional integration area can build cross-border production chains by leveraging each other's comparative advantages and subsequently exporting the finished product outside that area. Integration can encourage the liberalization of services markets, which tend to be subject to greater regulation and protection compared with those for goods (and even within the European Union they remain fragmented to some extent). Nevertheless, in the context of Eurasian integration there is great potential for efficiency gains in these markets which could be realized by lowering entry barriers for firms and investors from other countries.

Regional integration also comes with a number of challenges, the most important of which is to minimize negative effects on economic links with outside countries. Such effects typically occur through trade diversion, whereby a relative change in tariff barriers can divert trade from more efficient external exporters to less efficient ones .For example, should the introduction of a common external tariff by a regional bloc result in a relative increase in the import tariff for country A outside the region compared with that for country B inside the region, one would expect an increase in imports from country B and a drop in imports from country A. As a result, however, consumers must buy goods from the less efficient producer.

2.3.1.2 Regional integration and intra-regional import trade

Khaguli (2013) investigated the factors affecting trade Facilitation at the border points of East Africa and their impact on trade Facilitation. The goal of the study was ultimately to answers the question as to whether facilitation can reduce costs of doing business and if trade facilitation leads to economic growth of East African countries. The paper utilized the Gravity Model to establish the relationship between variables. The model was run using a fixed effect and a random effect.

Horseman test was later on conducted to determine between the fixed effect and random model which was suitable. Secondary data was sourced from World Bank data base and CEPII, International Monetary Fund (IMF) year book. Empirical results indicated that the border points in East Africa play an important part in trade facilitation if impediments to trade are addressed .The 8 border points in the study exhibited cross cutting non-tariff barriers which impacted negatively on trade facilitation and increased costs of doing business. Trade facilitation led to enhanced trade flows and economic growth. Recommendations made were that governments should invest in trade facilitation initiatives for economic growth of East African Countries among others.

Within a tiny market, there may be a trade-off between economies of scale and competition. Market enlargement are meant remove this trade-off and make possible the existence of: larger firms with greater productive efficiency for any industry with economies of scale, and increased competition that induces firms to cut prices, expand sales and reduce internal inefficiencies. Given the high level of fragmentation in SSA, it is expected that market enlargement would allow firms in some sectors to exploit more fully economies of scale (Biswaro, 2003). Competition may lead to the rationalization of production and the removal of inefficient duplication of plants.

However, pro-competitive effects will be larger if low external tariff allows for a significant degree of import competition from firms outside the zone. Otherwise, the more developed countries within the regional integration scheme would most probably dominate the market because they may have a head-start. On the other hand, current technology may be obsolete in these countries compared to current and future needs of the regional market. Firms may then decide to re-deploy new technology and relocate in other areas depending on factor costs. In this case, countries with the most cost effective infrastructure and human resources would be the beneficiaries (Aryeetey, 2008).

2.3.1.3 Regional integration and intra-regional flow of foreign direct investment

Sanda (2011) examined the effect of foreign aid on economic growth in Kenya using time series data for the period 1970 - 2008 using a modified Harrod Domar growth model. Results showed that foreign aid had a positive impact on economic growth rate. However, the impact was found to be modest. Results also showed that foreign direct investment was more effective in stimulating economic growth rate than foreign aid. Ngeny (2013) investigated empirical the impact foreign direct investment volatility in Kenya. Secondary data was used and sourced from the United Nation Centre on Trade and development (UNCTAD), World Bank database and Kenya National Bureau of Statistics. The period of study was 1970–2011. An endogenous growth model was estimated using the ordinary least squares to determine the relationship between the FDI volatility and economic growth.

Using bounds testing approach, it showed that FDI volatility retards long-run economic growth in Kenya. Results suggested that FDI had a positive result on growth whereas FDI volatility had a negative impact on growth. Trade openness was not FDI inducing, thus affecting growth negatively. Labour force had a positive impact on growth. Foreign Direct Investment in Kenya contributed positively to economic growth, although its overall effect on economic growth may not be significant. The volatility of capital flows may make it harder for the stable and predictable macroeconomic policies to be followed. Therefore unstable inflows may dampen investment, hence affecting economic growth.

Regional trade agreements make it easier to attract FDI both from within and outside the regional integration arrangement (RIA) as a result of market enlargement (particularly for "lumpy" investment that might only be viable above a certain size), and production rationalization (reduced distortion and lower marginal cost in production). Enlarging a sub-regional market will also bring direct foreign investment, which will be beneficial, provided that the incentive for foreign investors is not to engage in "tariff-jumping". This advocates once again for the necessity to reduce protection and more specifically external tariffs.

Links through foreign direct investment (FDI) typically play a prominent role in this scenario, as they did in the 1990s when CEB countries became increasingly integrated in European production chains. Deeper regional economic integration can help member countries to strengthen their economic and political institutions. As some competencies are delegated to newly create supranational bodies, and other areas of economic policy undergo cross-country synchronization, the opportunity arises to review and revise laws and regulations and to strengthen their implementation, in turn promoting business environment improvement and liberalization. Accession to the European Union undoubtedly played a key role in enhancing institutions in the CEB countries, and the longer-term viability of CIS regional integration will depend largely on whether the Eurasian Economic Community can create institutions stronger than those of any of its member states.

Entering into regional trade agreements (RTAs) is aimed at enabling a government to pursue policies that are welfare improving but time inconsistent in the absence of the RTA (e.g. adjustment of tariffs in the face of terms of trade shocks, confiscation of foreign investment, etc.). There are two necessary conditions for an RTA to serve as a commitment mechanism. One is that the benefit of continued membership is greater than the immediate gains of exit and the value of returning to alternative policies (Axline, 2004). The other is that the punishment threat is credible.

Regional integration arrangements work best as a commitment mechanism for trade policy. But RTAs can also serve to lock the country into micro and macroeconomic reforms or democracy if those policies or rules are stipulated within the agreement (deeper integration arrangements) and the underlying incentives have changed following the implementation of the RTA. RIAs may be an instrument for joint commitment to a reform agenda, but their effectiveness may be limited by the low cost of exit and difficulties in implementing rules and administering punishment (Zu and Corpus, 2010). With respect to other macroeconomic reforms, one may argue that the degree of openness of RIAs may help discipline in macro policies (especially if the zone shares or target a common exchange rate).

Though entering RTAs is costly (investment in political capital and transaction costs), a country may want to do so in order to signal its policy orientation / approach, or some underlying conditions of the economy (competitiveness of the industry, sustainability of the exchange rate) in order to attract investment. This may be especially important for countries having a credibility and consistency problem (Bretschger and Steger, 2004). RTAs also provide insurance to its members against future hazards (macroeconomic instability, terms of trade shocks, trade war, resurgence of protectionism in developed countries, etc.). Given that countries are in the "same boat", the insurance argument may not be an important rationale for regional arrangements between developing countries. But with asymmetric terms-of-trade shocks (such as with oil in Nigeria and the rest of ECOWAS), "insurance" may become an important rationale for integration.

Within RTAs, coordination is made easier than through multilateral agreements since negotiation rules accustom countries to a give-and-take approach, which makes tradeoffs between different policy areas possible (Axline, 2004). Since RTAs may enable countries to coordinate their positions, they will stand in multilateral negotiations (e.g. World Trade Organisation -WTO) with at least more visibility and possibly stronger bargaining power. The collective bargaining power argument is especially relevant for the poor and fractioned countries within a sub-region. It may help countries to develop common positions and to bargain as a group rather than on a country by country basis, which would contribute to increased visibility, credibility and even better negotiation outcomes (Biswaro, 2003).

Entering RTAs is meant to increase intra-regional trade and investment and also link countries in a web of positive interactions and interdependency. This is likely to build trust, raise the opportunity cost of war, and hence reduce the risk of conflicts between countries. Regarding security, RTAs could also create tensions among member countries should it result in more divergence than convergence by accelerating the trend of concentration of industry in one or a few countries (Zu and Corpus, 2010). On the other hand, by developing a culture of cooperation and mechanisms to address issues of common interest, RIAs may actually improve intra-regional security. Cooperation may even extend to "common defense" or mutual military assistance, hence increasing global security.

2.4 Research gaps

The literature reviewed above clearly explains the importance of regional integration for trade among the member countries. It documents how regional trade agreements have effected trade among members states of regional blocs such as the NAFTA members (USA, Canada and Mexico) in North America, the European Union, and the ASIAN among others. However, the literature did not contain any information capturing the statistics on how regional integration has affected intra-regional trade in East Africa specifically. This is an information gap that this study intended to fill. Also, the literature does not put emphasis on documenting how regional integration effects on foreign direct investment, an important component of international trade and development as pointed out by Sanda (2011). Given the fact that countries of East Africa have depended on foreign direct investment as a source of development capital, this points to a gap in vital information in the existing literature that this study intended to fill.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

The chapter presents the research design, research area, research instruments, data gathering procedures, methods of data analysis, ethical consideration as well as the limitation of the study.

3.2 Research Design

The study employed an explanatory research design, in order to identify the extent and nature of cause-and-effect relationships. It was conducted in order to assess impacts of specific changes on existing norms, various processes etc., focusing on an analysis of a situation or a specific problem to explain the patterns of relationships between variables. Data was collected from secondary sources.

3.3 Research Area

The area of this research covers the trade exchanges among the five member states of the East African Community (Kenya, Tanzania, Uganda, Rwanda and Burundi). The specific areas of interest in this research were the volumes of export and import trade as well as foreign direct investment between and among the EAC member states.

3.4Research Instruments

The study relied exclusively on secondary data, sourced through a review of documentary materials such as sales reports, policy reports, financial statements and reports, audit reports, investment reports as well as records of sales revenues from the Revenue authorities in the EAC member states.

3.5 Data collection methods

The study used secondary data sources to gather information relevant in reaching at the research objectives. The secondary data was obtained from the Ministry of East African Affairs and the Uganda National Bureau of Statistics reports. The study's data collection source was justified by the fact that data on exports, foreign direct investment and imports are available in the UNBS in making such statistics and estimation. The scope of the study was to determine the effect of regional integration on intra- regional trade in East Africa. The study used secondary data. The data was annual and run for 17 years from 1999 - 2016. The choice of the years was because of data availability.

3.6 Analytical Model

The data obtained from the field was arranged systematically, edited for errors and omissions. The data was then analyzed using the aggregation method to describe groups of observations, with the grouping made on a defined criterion. Statistical data was analyzed in percentages using Microsoft Excel computer program.

The data was modeled in time series. A multiple linear regression model using OLS was used to test the significance of the influence of the independent variables on the dependent variable. The multiple linear regression models that was used is as lay below.

$Yt = a + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + e$

Where;

Y - Economic Growth (dependent variable)

X_{1t} - Exports

X_{2t} - Foreign Direct Investment

X_{3t} - Imports

a - is the constant term

β - This represents the Beta values of the independent variable

β_1 - The coefficient representing Exports

β_2 - The coefficient representing Foreign Direct Investment

β_3 - The coefficient representing Imports

e -The error term which is assumed to be normally distributed with mean zero and constant variance.

3.7 Time Series Methodology

Step1 - Descriptive Results: Descriptive results were presented

Step2 - Trend Analysis: The trend for the variables was presented

Step3 - Normality of the Data: The normality of data was tested using the Jacque Bera test.

Step4 - *Multi-collinearity:* Multi-collinearity of the data was tested using Pearson correlation coefficients. The rule of the thumb is that a correlation coefficient of more than 0.8 indicate serious multi-collinearity

Step 5 - *Run the unit roots*

Step 6 - Test for co-integration using Engle Granger and Johansen Test

Step 7 - Run the long run model

Step 8 - Estimate the Error Correction Model (ECM)

Step 9 - Report the results

3.8 Ethical Considerations

This involved seeking permission by the researcher from the relevant authorities. It also involved explaining the purpose of the study, and this was to examine the effect of the East African regional integration on intra-regional trade in Uganda.

The researcher ensured that she uses only those techniques for which she is qualified by education, training and experience. Whenever in doubt, the researcher would seek clarification from the research community especially her immediate supervisor and research colleagues.

The researcher ensured that data was interpreted according to general methodological standard and make sure that elements that are irrelevant to data interpretation are excluded from the report.

3.9 Limitations in the Study

In the course of carrying out this study, the researcher faced several constraints. These included the following;

There was also a challenge of limited access to relevant information for the study. This was addressed by supplementing the available information with other sources, particularly the internet.

The study was also limited by the inadequate time scale, where a lot of information had to be gathered in a short period of time. Here the researcher acquired the services of research assistants to help her with data gathering.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the findings of the study, analysis and discussions of the data as set out in the research objectives on the East African regional integration and intra-regional trade. The study relied exclusively on secondary data, obtained from import and export reports, tax reports, and fiscal reports among other instruments. The study aimed to examine the effect of the East African regional integration in Uganda's intra-regional export trade; to examine the effect of the East African regional integration in Uganda's intra-regional import trade; and to examine the effect of the East African regional integration in Uganda's intra-regional foreign direct investment. Reports from revenue collection authorities in the East African countries were of utmost importance in compiling this report.

4.1 Descriptive statistics

Table 4.1: Descriptive statistics

Indicator	GDP (Million $)	Exports (Million $)	FDI (million $)	Imports (Million $)
Mean	1200	105	1.229341	353
Median	1100	95.352957	0.5759643	271
Maximum	2470	221	11.683518	926
Minimum	785	38.676369	0.000010744	129
Std. Dev.	446	47.49602	2.269029	238

Source: *Field data, 2017*

This study provides results on measures of central tendency of the variables; GDP, exports, foreign direct investment and imports being measured in the study. Results in Table 4.1 show that show that the maximum and minimum values whose observations above or below the indicated ones are wrong. The results show that the overall mean of GDP was 1200 (million $) which indicates the average of GDP in EAC. The median of GDP was 1100 (million $) which imply that half of the observations of the GDP had this value during the period 1999 and 2016. GDP had a standard deviation of 446 which indicates that the GDP varied through ought the measurement period.

The results show that the overall mean of exports was 105 (million \$) which indicates the average of exports in EAC. The median of exports was 95.35 (million \$) which imply that half of the observations of the exports had this value during the period 1999 and 2016. The observations of exports had a standard deviation of 47.50 which indicates that the exports varied through ought the measurement period.

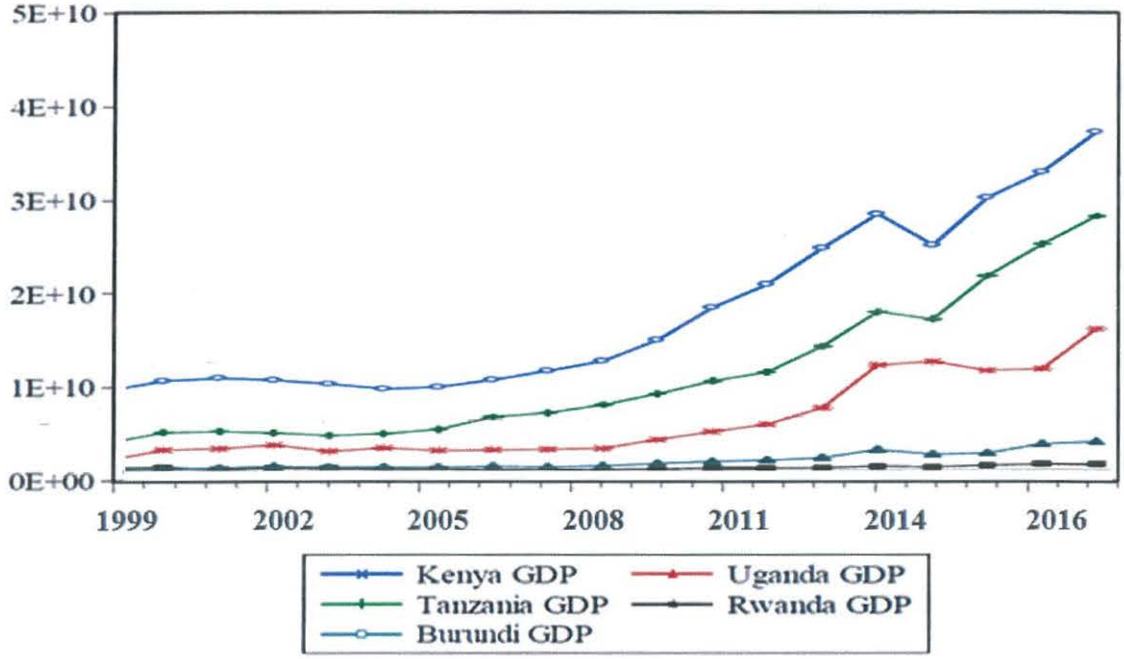
The results also show that the overall mean of FDI was 1.23 (million \$) which indicates the average of FDI in EAC. The median of FDI was 0.58 (million \$) which imply that half of the observations of the FDI had this value during the period 1999 and 2016. The observations of FDI had a standard deviation of 2.27 which indicates that the FDI varied through ought the measurement period.

Further, the results show that the overall mean of imports was 353 (million \$) which indicates the average of imports in EAC. The median of imports was 271 (million \$) which imply that half of the observations of the imports had this value during the period 1999 and 2016. The observations of imports had a standard deviation of 238 which indicates that the imports varied through ought the measurement period.

4.2 The effect of East African regional integration on Uganda's intra-regional export trade

The first specific objective was to examine the effects of the East African regional integration on Uganda's intra-regional export trade. Trend analysis was used to measure this effect, the results of which are presented in the figure 4.1 as follows:

Figure 4.1: Trend Analysis of Exports ($)



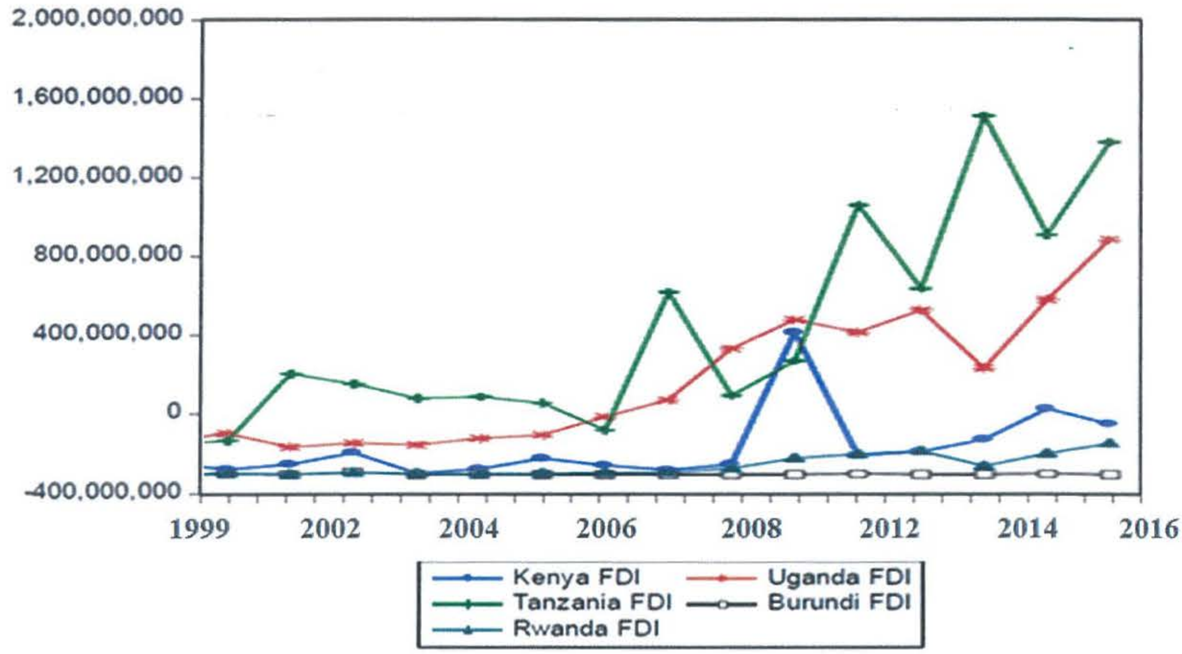
Source: *Field data, 2017*

Results in Figure 4.1 show the trend analysis of exports over the years 1999 to 2016 for EAC countries. The graph shows that the exports for Kenya were the highest compared to the other countries. Specifically, the exports for Kenya increased slightly from 1999 to 2001 before dropping slightly from 2001 to 2004, and then they picked up and increased steadily up to 2013 before dropping significantly in 2014, and thereafter picked up and increased steadily up to 2016. The exports for Uganda were constant from the year 1999 up to 2008 after which they increased steadily up to the year 2014 and then stagnated in the year 2015 before increasing again in the year 2016. Tanzania's exports were also constant from 1999 to 2005, before picking up and increasing steadily up to the year 2014, where they dropped slightly and then picked again in mid-2014 and increased rapidly up to 2016. The exports for Rwanda were constant from the year 1999 up to 2013 after which they increased slightly and then stagnated up to the year 2016. The exports for Burundi were constant from the year 1999 to 2016.

4.3The effect of East African regional integration on Uganda's intra-regional export trade

The second specific objective was to examine the effects of the East African regional integration on Uganda's intra-regional foreign direct investment flows. Trend analysis was used to measure this effect, the results of which are presented in the figure 4.2 as follows:

Figure 4.2: Trend Analysis of FDI ($)



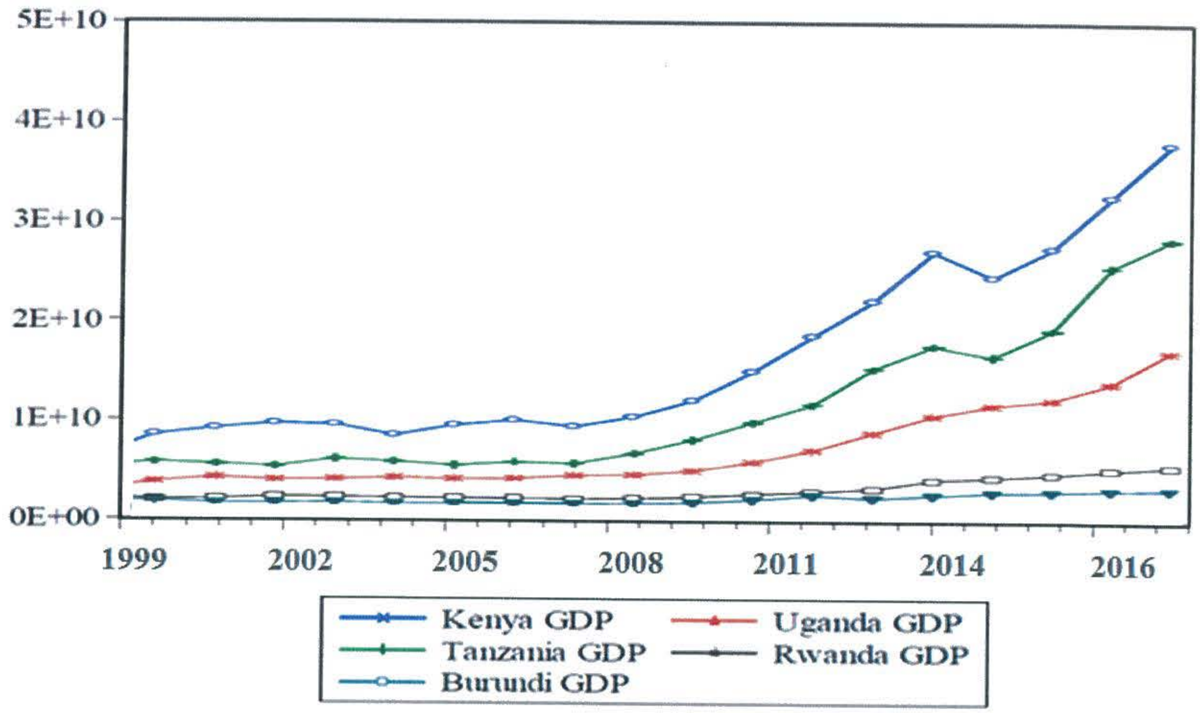
Source: *Field data, 2017*

Results in Figure 4.2 show the trend analysis of FDI over the years 1999 to 2016 for EAC countries. The graph shows that Tanzania had the highest FDI compared to the other countries. Specifically, the FDI for Kenya increased sharply from 1999 to 2001 after which it dropped steadily until 2006. It then increased sharply in 2007 before dropping equally sharply in 2008. From 2008 it increased steadily until 2012 before dropping in 2013, picking up in 2014, dropped again in 2015 before picking up again in 2016. The FDI for Uganda dropped slightly between the years 1999 to 2001 and remained constant from 2001 to 2004. It then increased steadily from 2005 to 2008, stagnating a bit in 2009 to 2012 before dropping in 2013, after which it picked up and increased sharply up to 2016. The FDI for Kenya was fairly constant from the year 1999 to 2008 before increasing sharply in 2009 and then dropping equally sharply in 2010 to 2012. It remained stagnant until the year 2014 when it increased slightly and then dropped again in 2016. The FDI for Rwanda was constant from the year 1999 up to 2008 after which they increased slightly up to the year 2012, declined during 2013 and then increased slightly up to the year 2016. The FDI for Burundi were constant throughout the years 1999 to 2016.

4.4The effect of East African regional integration on Uganda's intra-regional export trade

The first specific objective was to examine the effects of the East African regional integration on Uganda's intra-regional import trade. Trend analysis was used to measure this effect, the results of which are presented in the figure 4.3 as follows:

Figure 4.3: Trend Analysis of Imports ($)

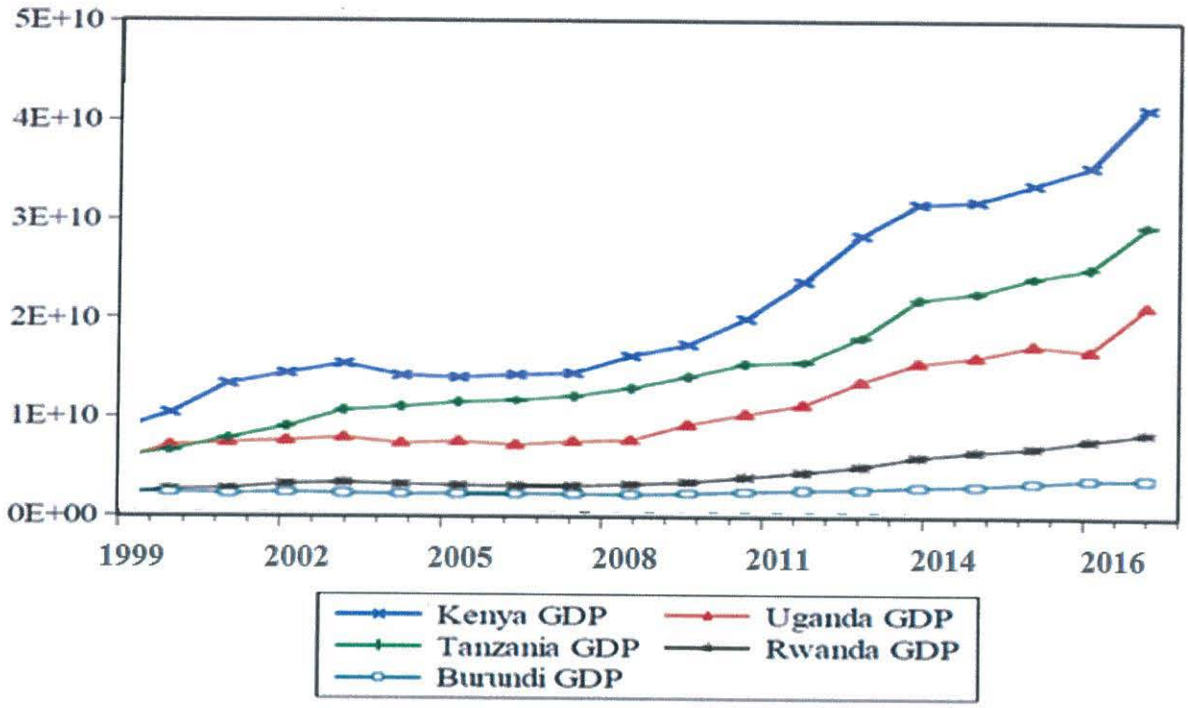


Source: *Field data, 2017*

Results in Figure 4.3 show the trend analysis of imports over the years 1999 to 2016 for EAC countries. The graph shows that the imports for Kenya were the highest compared to the other countries. Specifically, the imports for Kenya were constant from the year 1999 to 2007 and then they increased steadily until the year 2014, before they dropped a bit in mid-2014, and then picking up again and increased steadily up to 2016. The imports for Uganda remained stagnant in the years 1999 to 2008 before picking up and increasing steadily up to 2016. Tanzania also recorded stagnation in its imports from 1999 to 2007 before picking up and increasing steadily until 2014, stagnated a bit in mid-2014 before picking up pace and increasing sharply up to 2016. The imports for Rwanda were constant from the year 1999 up to 2011 after which they increased slightly and steadily up to the year 2016. The imports for Burundi were constant from the year 1999 to 2016.

The study also established the variations in the GDP of the five member states of the East African regional integration. The results of which are presented in figure 4.4 as follows:

Figure 4.4: Trend Analysis of GDP ($)



Source: *Field data, 2017*

Results in Figure 4.4 show the trend analysis of GDP over the years 1999 to 2016 for EAC countries. The graph shows that the GDP for Uganda was the lower compared to the other major East African countries (Kenya and Tanzania), but higher than the other newer entrants into the EAC (Rwanda and Burundi). Specifically, the GDP for Kenya increased steadily from 1999 to 2003, then it dropped slightly from 2003 to 2004, and then it stagnated up to 2007, when it started increasing steadily to 2014, stagnating slightly before picking up and increasing steadily until 2016.The GDP for Uganda increased slightly from 1999 to 2003, then it stagnated up to 2008 before picking up and increasing steadily up to 2016. The GDP for Tanzania increased steadily from 1999 to 2003, before stagnating slightly up to 2009, and then picked up and increased steadily up to 2016. The Rwanda GDP stagnated from 1999 to 2011 before increasing steadily up to 2016. The GDP of Burundi has remained stagnated throughout the period under study.

4.5 Pre-Estimation Tests

4.5.1 Normality Test

Table 4.2: Normality Statistics

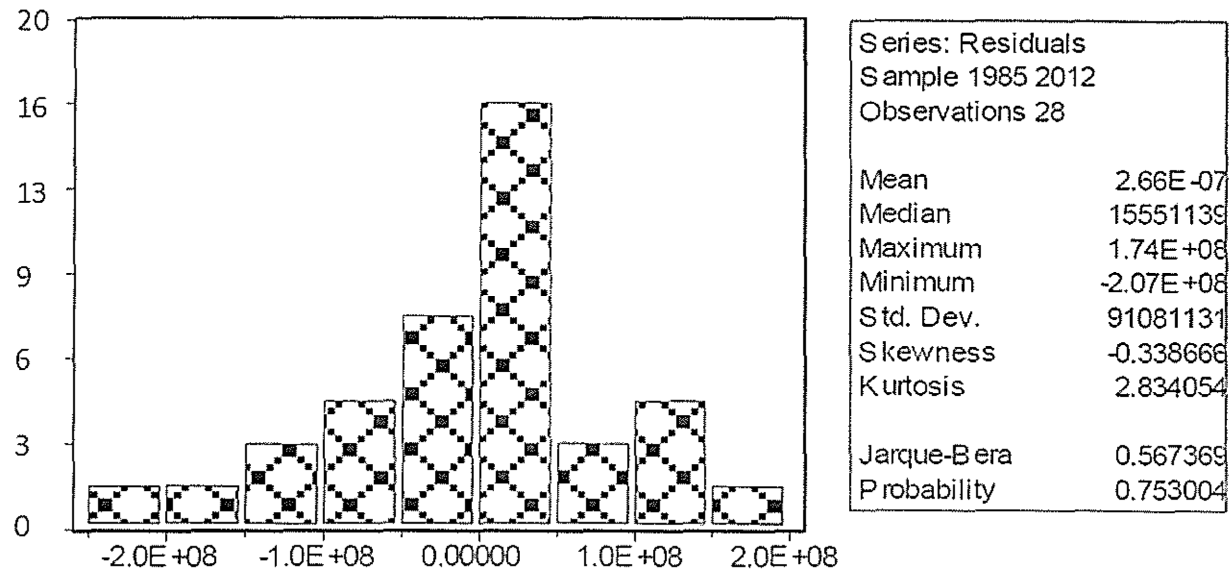
Indicator	**GDP**	**Exports**	**FDI**	**Imports**
Skewness	1.669	0.906	3.720	1.231
Kurtosis	4.901	3.504	17.435	3.291
Jarque-Beta	17.222	4.124	307.669	7.176
Probability	0.000	0.127	0.000	0.028
Observations	17	17	17	17

Source: *Field data, 2017*

Initial tests of skewness and kurtosis indicate that the data is normally distributed. However, Jarque bera test is a more conclusive test for normality. The null hypothesis that the distribution of the data is not significantly different from a normal distribution was rejected at the critical p value of 0.05. Thus implies that the data was not normally distributed except Exports. The normality test is given in Table 4.2. The distribution curve of the variables that are; GDP, exports, FDI and imports were positively skewed.

4.5.2Jarque-Bera normality Test

Figure 4.5: Jarque-Bera Normality Graph



Source: *Field data, 2017*

The Jarque-Bera test was also used to test the normality the residuals. Figure 4.5 indicates that the residuals originating from the model were normally distributed. This implies that the data is ideal for parametric analysis such as regression analysis. This was supported by a Jarque-Bera statistic of 0.567 and a p value of 0.753.

4.5.2Multi-Collinearity Tests (Pearson Correlation)

Table 4.3: Correlation Matrix

	1	2	3	4
Exports (1)	1.000			
FDI (2)	.366**	1.000		
Imports (3)	.332**	.484**	1.000	
Intra-regional trade (4)	.593*	.526**	.537**	1.000

**Correlation is significant at the 0.01 level (2-tailed).

Source: *Field data, 2017*

Results in Table 4.3 present results of person's' bivariate correlation. The results indicate that the components of regional integration, which is the independent variables, had positive correlation /association with intra-regional trade, which is the dependent variable. Pearson's correlation results showed the effect of exports on intra-regional trade. The Pearson coefficient ($r = 0.593$**, $p = 0.00<0.01$) shows a positive effect, meaning that the volume of intra-regional exports is a significant predicator of intra-regional trade. Pearson's correlation results also showed the effect of foreign direct investment exchanges on intra-regional trade. The Pearson coefficient (r = 0.526**, p = 0.00<0.01) shows that the result is positive and closer to +1, hence a strong positive and significant effect. Pearson's correlation results also showed the effect of imports on intra-regional trade. The coefficient (r = 0. 537**, p = 0.00<0.01) shows a positive effect. Since the correlation was found to be positive and significant, the study hypothesis which recognizes the positive and significant effect of regional integration on intra-regional trade was accepted.

4.5.3 Heteroscedasticity

Table 4.4: White Heteroscedasticity Test

F-statistic	2.486478	Probability	0.729919
Obs*R-squared	22.61135	Probability	0.666379

Source:*Field data, 2017*

Heteroscedasticity test was run in order to test whether the error terms are correlated across observation in the cross section data. The null hypothesis is that the data does not suffer from heteroskedasticity. The null hypothesis was not rejected at a critical p value of 0.05 since the reported value was 0.730. This implied that the error term was homoscedastic and thus did not violate OLS assumptions.

4.5.4 *Serial Correlation/Auto Correlation*

Table 4.5: Breusch-Godfrey Serial Correlation LM Test

F-statistic	3.159487	Probability	0.088714
Obs*R-squared	3.381781	Probability	0.065921

Source: *Field data, 2017*

Serial correlation tests were run in order to check for correlation of error terms across time periods. Serial/auto correlation is tested using the Breusch-Godfrey serial correlation LM test. The null hypothesis is that no first order serial /auto correlation exists. The p value of 0.065921 indicates that we do not reject the null hypothesis and conclude that serial correlation does not exist. This implies that it was not critical to include lagged variables to correct for autocorrelation.

4.6Discussion of the Long Run Model Results

Table 4.6: Long Run Model

Dependent Variable: Economic Growth
Method: Least Squares
Date: 02/07/2017
Sample (Adjusted): 1999 – 2016

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IMPORTS	1.316711	0.137040	9.608226	0.0000
EXPORTS	2.959009	0.688627	4.296972	0.0002
C	4.20E+08	46852413	8.972556	0.0000

R-squared	0.958384	Mean dependent var	1.20E+09
Adjusted R-squared	0.953182	S.D. dependent var	4.46E+08
S.E. of regression	96606128	Akaike info criterion	39.74175
Sum squared resid	2.24E+17	Schwarz criterion	39.93206
Log likelihood	-552.3844	F-statistic	184.2351
Durbin-Watson stat	1.227421	Prob(F-statistic)	0.000000

Long-run Model Equation

GDP= 420,000,000+ 2.96 Exports + 5.75 FDI + 1.32 Imports...... Eq. (1)

Source:*Field data, 2017*

The long run results presented in table 4.6 are generated from the non-stationary variables. The model R squared was 0.9584. This implied that the goodness of fit of the model explained 95.84% of the variation in GDP was explained by the independent variable. The overall model was significant as demonstrated by an F statistic of 184.235 (p value= 0.000).This further implied that the independent variables were good joint good predictors of the GDP. The results in table 4.6 indicate that in the long run, FDI has a positive and insignificant relationship with GDP. (The FDI coefficient reported is 5.754243 and its P-value 0.4910). This implies that an increase or decrease in FDI has no effect on GDP. The results in the table 4.6 also indicate that in the long run, Imports (IMPORTS) has a positive and significant relationship with GDP. (The imports coefficient reported is 1.316711 and its P-value 0.0000). This implies that an increase in imports by one unit leads to an increase in GDP by 1.316711 units. Further, the results in the table 4.6 also indicate that in the long run, Exports (EXPORTS) has a positive and significant relationship with GDP. (The exports coefficient reported is 2.959009 and its P-value 0.0002). This implies that an increase in exports by one unit leads to an increase in GDP by 2.959009 units.

4.7Discussion of the Error Correction Model Results

Table 4.7: Error Correction Model/ Short-Run Model

Dependent Variable: Economic Growth

Method: Least Squares

Date: 02/07/2017

Sample (Adjusted): 1999 – 2016

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DEXPORTS	1.698400	1.225919	1.385409	0.1798
FDI	2.613738	15.13482	0.172697	0.8645
DIMPORTS	1.637040	0.481279	3.401439	0.0026
LAGRESID	-0.678554	0.430801	-1.575099	0.1295
C	44394571	40624715	1.092797	0.2863

R-squared	0.452846	Mean dependent var	99663469
Adjusted R-squared	0.353364	S.D. dependent var	2.19E+08
S.E. of regression	1.76E+08	Akaike info criterion	40.97496
Sum squared resid	6.81E+17	Schwarz criterion	41.21493
Log likelihood	-548.1620	F-statistic	4.552015
Durbin-Watson stat	0.882330	Prob(F-statistic)	0.007870

Source:*Field data, 2017*

Since the variables in the model are co-integrated, and then an error-correction model can be specified to link the short-run and the long-run relationships. Residuals from the co-integrating regression are used to generate an error correction term (lagged residuals) which is then inserted into the short-run model. The specific lagged residual term is LAGRESIDUAL. The estimates of the error-correction model are given in table 4.7.

Results revealed that the short run exports have a positive but insignificant relationship with short run GDP. A regression coefficient of 1.6984 (p-value=0.1798) implies that an increase in short run exports by one unit has no effect on the short run GDP.

Results revealed that the short run FDI have a positive but insignificant relationship with short run GDP. A regression coefficient of 2.613738 (p-value=0.8645) implies that an increase in short run FDI by one unit has no effect on the short run GDP.

Results revealed that the short run imports have a positive and significant relationship with short run GDP. A regression coefficient of 1.637040 (p-value=0.0026) implies that an increase in short run imports by one unit leads to an increase in short run GDP by 1.64 units.

The error correction term measures the speed of adjustment to the long run equilibrium in the dynamic model. The error correction term LAGRESIDUAL has the expected sign and is significantly negative (-0.675584, p value =0.1295). This result implies that there is a negative gradual adjustment (convergence) to the long run equilibrium. The coefficient of (0.675584) indicates that 67.56% of the disequilibria in short run GDP achieved in one period are corrected in the subsequent period. The other short-run variables however were insignificant.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of key findings, conclusions drawn from the findings highlighted and recommendations that were made. The conclusions and recommendations drawn were in quest of addressing research objectives of the study.

5.1Discussion of the Findings

5.1.1 Discussion of findings on the effect of regional integration on intra-regional export trade

The findings of the study as presented in the previous chapter revealed that on the effect of the East African regional integration in Uganda's intra-regional export trade, there was co-integration in the long run exports. Results also indicated that in the long run, exports had a positive and significant relationship with the long-run GDP. These findings are in line with those of Hoekman et al.(2002), who found out that economic effects of regional integration according to Hoekman et al. (2002) include trade creation, trade diversion and transfers. Todaro and Smith (2006), also added that trade creation occurs when common external trade policy and internal free trade lead to a shift in production from high to the low cost Partner State in the community. Trade diversion on the other hand arises when imports from the rest of the world are replaced by more expensive imports from the partner country. 'Trade diversion is normally considered undesirable because both the world and member states are perceived to be worse off as a result of diversion of production from efficient foreign suppliers to the less efficient domestic industries of member states'. The overall gain depends on whether trade creation is larger than trade diversion. Regional integration can serve a useful economic purpose beyond the direct gains from trade liberalization, by reducing uncertainties and improving credibility and thus making it easier for the private sector to plan and invest. Indeed, reducing uncertainty may be vital for realizing gains from liberalization.

5.1.2 Discussion of findings on the effect of regional integration on intra-regional foreign direct investment

The findings of the study as presented in the previous chapter revealed that on the effect of the East African regional integration in Uganda's foreign direct investment flows, the level of productive efficiency and industrialization, as well as the size of a country's FDI is significantly reflected in the trade activity of that particular country. Uganda, for example, registered high inflows of FDI from Kenya, given the fact that its production and industrial capacity is still limited for ten years now. The foreign direct investment trends in the region are not any different. The bigger economies of Kenya and Tanzania continue to attract larger foreign direct investment compared to Uganda, Rwanda and Burundi. These findings are supported by Park and Park (2007), who opined that economic integration can also serve as incentives for investment and attraction of Foreign Direct Investment (FDI). General reforms such as stabilization, market liberalization, and privatization adopted under regional arrangements can raise returns to all factors and are likely to be more than enough to increase private investment. Also as Baldwin and Venables (2004) pointed out, economic integration can help to ensure that production is located according to comparative advantage in each member states which in turn will lead to specialization which will further lead to increased output and services thus making the whole region better off as a result of such specialization scheme.

5.1.2 Discussion of findings on the effect of regional integration on intra-regional import trade

The findings of the study as presented in the previous chapter revealed that on the effect of the East African regional integration in Uganda's intra-regional import trade, there was co-integration in the long run imports. Results also indicated that in the long run, imports had a positive and significant relationship with the long-run GDP. There was also the case of the short run imports which exhibited a positive and significant relationship with the short-run GDP and thus the conclusion that both the short-run as well as the long-run variations in GDP was due to the variations of long-run imports. These findings are in line with those of Pangestu and Scollay (2001), who emphasized that the degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty.

They (Pangestu and Scollay, 2001), identified trade, development and political and security as the main motives for integration in developing countries. Hoekman et al. (2002) also pointed out economic aspects and political aspects as the main motives of economic integration. Hoekman et al. (2002) are clearer because trade and development as pointed out by Pangestu and Scollay (2001) can together be put under economic aspects. Under economic aspects, Hoekman et al. (2002) pointed out that, the development impacts of economic integration for membership depend importantly on the countries that are involved, the type of agreement, and its substantive coverage. Recent research has suggested that of particular importance to developing countries are whether large industrial countries are members of the agreement, the extent of sectoral exclusions, and the degree to which the regional economic integration involves deeper integration-that it extends beyond preferential elimination of barriers to trade in goods.

5.2Conclusions

From the findings presented in the previous chapter and summarized above, the study concluded that indeed regional integration has had an effect on intra-regional trade in East Africa. This is seen from the volume of export, import and foreign direct investment exchanges among the member countries in the region, which, with the exception of a few stagnations and slight drops, have been steadily growing over the period since the East African community was reestablished. The study also concluded that over time, exports and imports have a positive and significant relationship with the long-run GDP. The study further concluded that the levels of imports, exports and foreign direct investment flows are dictated by the sizes of the GDP of the member states' economies, given that Kenya and Tanzania, which are the biggest economies, also dominate in intra-regional exports and foreign direct investment respectively. Uganda which has a high consumption and low industrial capacity remains largely an import market for intra-regional production. The smaller member states of Rwanda and Burundi have not had a significant impact on the trade in the region, given the small sizes of their GDP and their productive capacity, thus their contribution to regional overall production remains small.

5.3 Recommendations

The governments of the EAC member countries should adopt export diversification strategy in a bid to increase aggregate economic growth by encouraging intra-African continental trade since increase in the volume of trade results to increase in the aggregate GDP.

The governments of the EAC member states should prioritize the inclusion of the private sector in the integration process as the EAC seeks to go further for deeper integration. The participation of consumer groups and other NGOs should also be encouraged as these groups can gain from exploiting the opportunities from greater intra-regional trade.

The governments of the EAC member countries should work towards strengthening their integration efforts by ensuring political stability in their individual states, stepping up trade liberalization, opening up economies to competition and deepening their integration into the world economy, therefore giving a decisive boost to their integration drive.

The governments of the EAC member countries should put in place a joint/common mechanism for policy credibility and uniformity in the region. This is because investors need to have confidence that integration measures are not contradictory across borders, and that they will not be reversed and that barriers to regional markets will not be re-instituted overnight.

The governments of the EAC member countries should ensure that political commitment is sustained by adhering to the provisions of the treaty and put in place adequate capacity, both financial and human, for timely implementation of the treaty, projects, programs and policies. Also they need to make sure that the various organs of the community and institutions are well coordinated in executing their duties and responsibilities.

The governments of EAC member countries should jointly increase investment in regional infrastructure improvement within and across the borders of the member states. All member countries need to be well connected with a view to facilitate and increase trade within the region.

5.4 Suggestions for Further Research

The study recommends that further research should be done on the strategies employed by exporters to ensure successful export of products within East African Community. This will elicit the challenges that exporters regardless of their country of origin face in their exports to the East African Community. The study should assess what needs to be done to make East African Community the most preferred area for foreign direct investment.

The study further recommends that a similar study should be done to investigate determining the effects of East African Common Market on cross border business for Association of Manufacturers' members for all the EAC member countries for the purposes of benchmarking hence allow for generalization of the findings on all Association members in the EAC countries. With a wider coverage study, it would be easy to generalize the findings to all countries in the community.

This study has highlighted the link between the various protocols of the East African Regional integration and the intra-regional trade, in terms of how integration has affected import, export and foreign direct investment inflows between and among the member countries. Unlike previous studies which concentrated on the exchanges of goods and services and free movement of labour, this study has distinguished itself in analyzing how the provisions within the East African regional integration has influenced the flow of imports, exports and foreign direct investment, as key factors in measuring economic growth in the region.

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APPENDICES

APPENDIX I: TIME FRAME

Time/ Activity	Nov-Dec 2016				January 2016				Feb-Mar 2017				April 2017				May-Jun 2017				July 2017			
	Weeks				Weeks				Weeks				Weeks				Weeks				Weeks			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Topic definition																								
Proposal submission																								
Literature review																								
Decision on methods of data collection																								
Preparation of materials for data collection																								
Data collection																								
Data organization for analysis																								
Data analysis																								
Writing up results																								
Report submission																								

APPENDIX II: RESEARCHER'S BUDGET ESTIMATES

No	Item/ Activity	Total cost (US$)
1	Communication	50
2	Transport	100
3	Photocopying and binding	100
4	Secretarial services	150
5	Equipment and stationery	100
6	Subsistence	150
7	Miscellaneous	200
	Total	**850**