

Effects of Customs Union in Regional Economic Growth: A look at the EAC

Presentation by:

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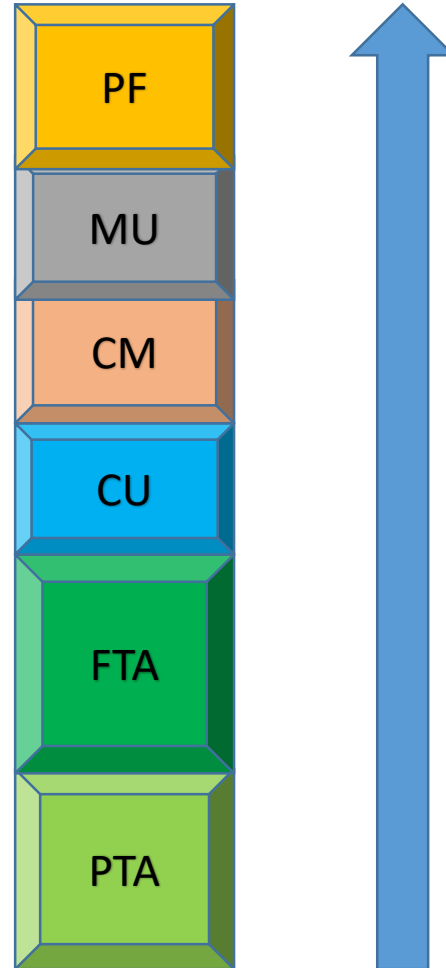
Outline

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 - b) Stages of Regional Integration
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3. What are the Effects of a Customs Union
4. EAC stages of Regional Integration
5. EAC Customs Union
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9. Challenges of the EAC Customs Union
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Regional Integration vs Multilateralism

1. regional trade blocs could be a complement to multilateralism by setting a precedent which other nations will follow
2. can lead to deeper integration
3. however regional agreements are also discriminatory in that some nations are treated differently than others
4. decreases incentives for nations to pursue multilateral agreements
5. trade bloc members may not gain additional economies of scale through multilateralism

Stages of Regional Integration



What is a Customs Union?

- Union of more than one customs territories (in the case of EAC, Burundi, Kenya, Rwanda, South Sudan, Tanzania, Uganda customs territories)-*umoja wa forodha*
- It is a type of trade bloc which is composed of a free trade area and a common external tariff
- It is the third stage of integration after PTA, and FTA

Effects of a Customs Union

Jacob Viner (1950) came with the Customs Union Theory;

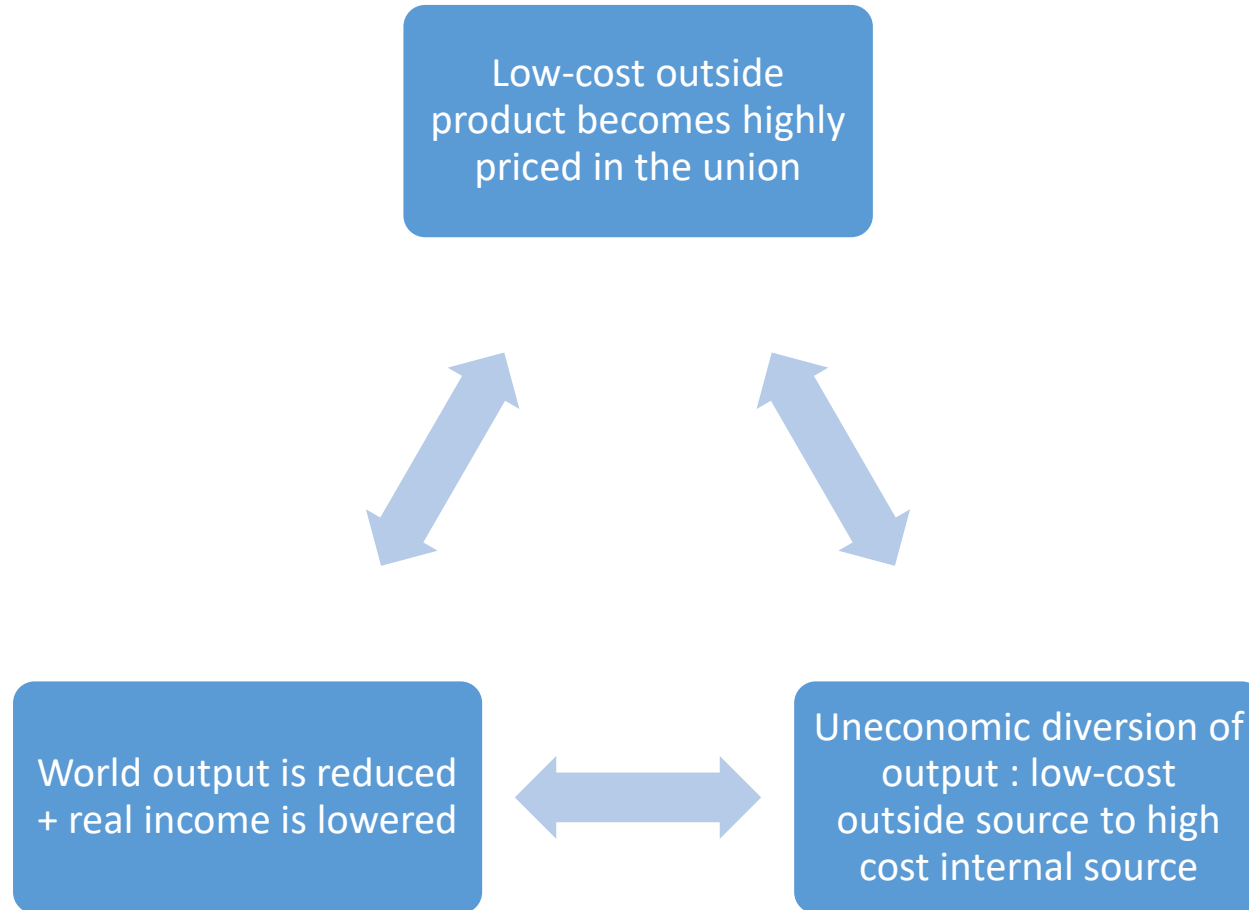
According to Viner impact of customs union may be classified into trade-diversion, trade creation, consumption and production effects

Customs Union Effects

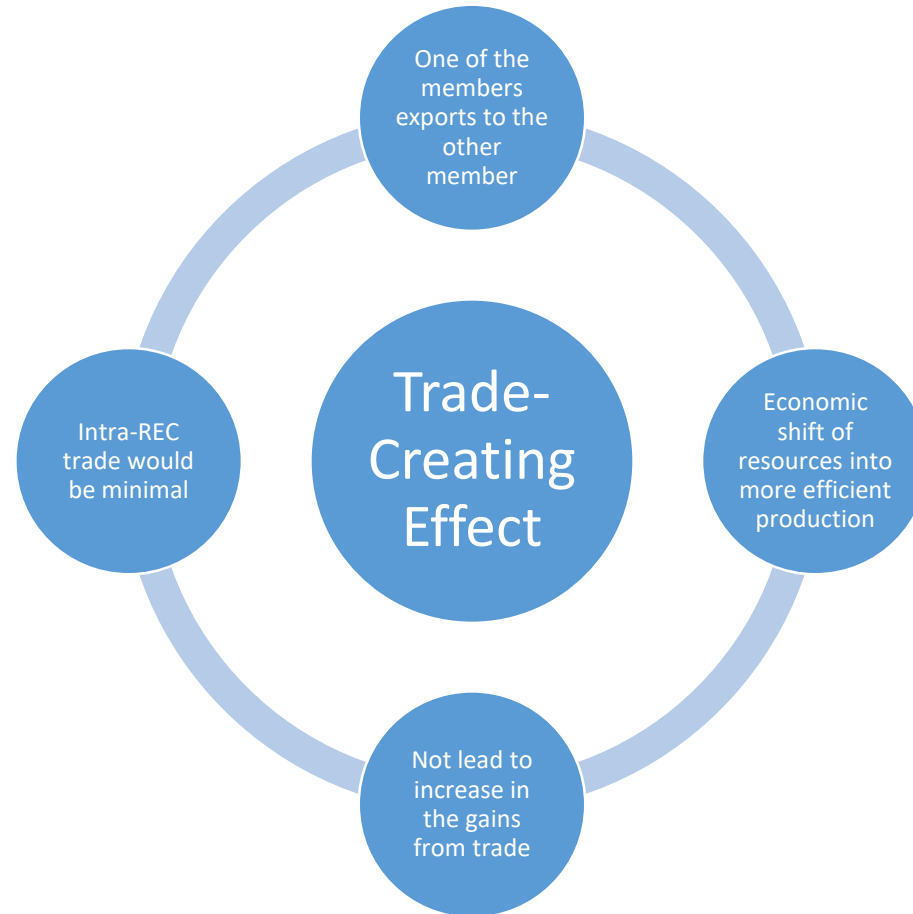
Increased gains from trade

- If A and B now form a customs union the total consumption of good X and Y acting as a single producing area will be greater than the total of the commodities produced by the two countries in isolation
- Common External Tariff (CET) results in creation of import competitive industries
- CET might aid in improving the region's terms of trade

Trade-diverting Effect



Trade-creating Effect



Customs Union Effect

- Gains from trade;
- Increased Competition: Improved productive efficiency of existing industries;
- Economies of Scale;
- Stimulating the creation of new industries;
- Improvement of the region's terms of trade;

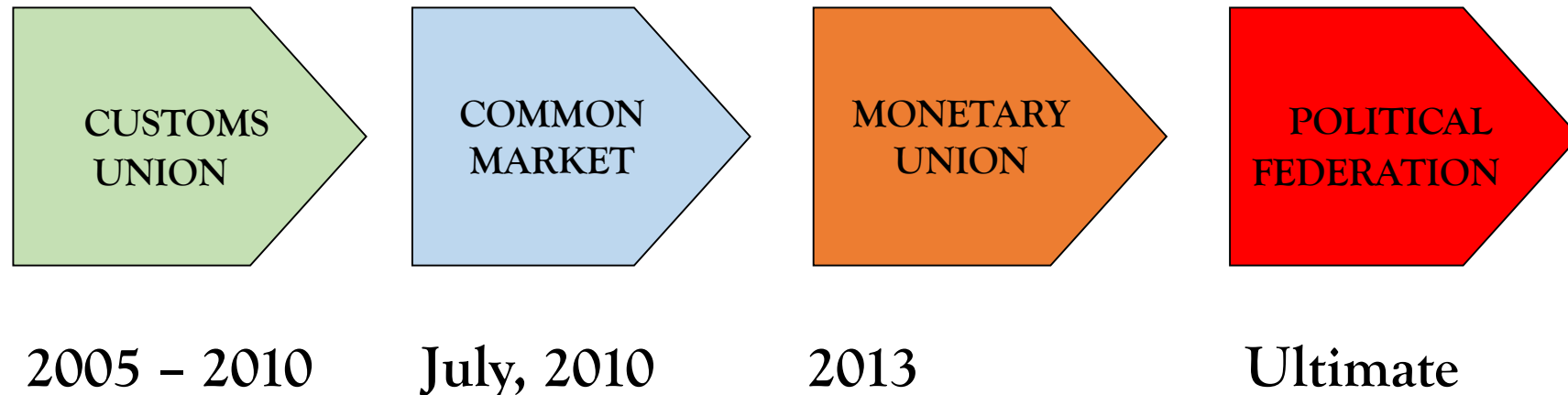
Quick Facts About East African Community

Area (inclusive of water)	2.5 million sq Km
Population	172 million (2017)
GDP (current market prices):	US\$ 172.7 billion (2017)
EAC Headquarters:	Arusha, Tanzania
First established:	1967
Re-establishment:	7 July 2000
Official language:	English
Summit Chairperson	H.E. Paul Kagame
Council Chairperson:	Hon. Dr. Richard Sezibera
Secretary General	Amb. Liberat Mfumukeko

Key EAC Dates

Dates	Events
1967	EAC first established
1977	EAC dissolved
30 th November 1993	Signing of the Agreement for the Establishment of Permanent Tripartite Commission for East African Co-operation
14 th March 1996	Secretariat of the Permanent Tripartite Commission launched, full co-operation operations begin
30 th November 1999	Treaty for the Establishment of the East African Community signed
7 th July 2000	Treaty for the Establishment of East African Community Enters into force
18 th June 2007	The Republic of Rwanda and the Republic of Burundi accede to the EAC Treaty
1 st July 2007	Rwanda and Burundi become full members of the EAC
20 th November 2009	Protocol for the Establishment of the EAC Common Market signed
30 th November 2013	Protocol for the Establishment of the EAC Monetary Union signed
15 th April 2016	The Republic of South Sudan accedes to the EAC Treaty
5 th September 2016	The Republic of South Sudan becomes a full member of the EAC

Stages of EAC Integration Process



EAC fast-tracked the process as opposed to other regional economic blocs as it bypassed PTA and FTA.

EAC Customs Union Protocol

- Signed in 2004, launched on 1st January 2005, and became fully-fledged on 1st January 2010.
- Provides for the free movement of goods between Partner States with zero internal tariffs
- Common External Tariff: Two Schedules:
 1. 0% for raw materials and capital goods; 10% for intermediate goods; 25% for finished goods.
 2. Sensitive Products: e.g. Milk 60%, Wheat 35%, Maize 50%, Sugar 100%, rice 75%

EAC Customs Union (2)

- Rules of Origin:
 - Govern which goods are allowed to be traded freely within the EAC. They define the 'economic nationality' of goods.
- Four possible classifications to qualify:
 1. Wholly-Produced: the good is **entirely produced** in the EAC;
 2. Material Content: imports make up **less than 60%** total cost;
 3. Value-Added: the production process adds **at least 35%** to the total cost of inputs;
 4. Change in Tariff Heading: the good is **sufficiently altered** to be exported under a different tariff heading.
- Compliance with any one of these criteria will enable the supplier to obtain a **certificate of origin** from customs officials, proving their eligibility for duty-free access.

EAC Customs Union Key Features

1. Elimination of Internal tariffs Within the Community
2. Fully implement the CET and avoid stay of CET application for certain goods in some partner states
3. Total commitment towards fully eliminating the existing non tariff barriers
4. Simplify the EAC Rules of Origin
5. Common Customs Law

Implementation Status of Customs Union

1. *Internal Tariff Elimination* – All domestic goods traded at zero tariffs across the five partner states with effect from 1st January 2010.
2. *Non-tariff Barriers* – Some progress has been made in terms of elimination of NTBs although this still remains a challenge.
3. **Common Customs Law in place** – EAC Customs Management Act, 2004, EAC Regulations and duty remission Regulations in place.

Implementation Status of Customs Union-

Cont.

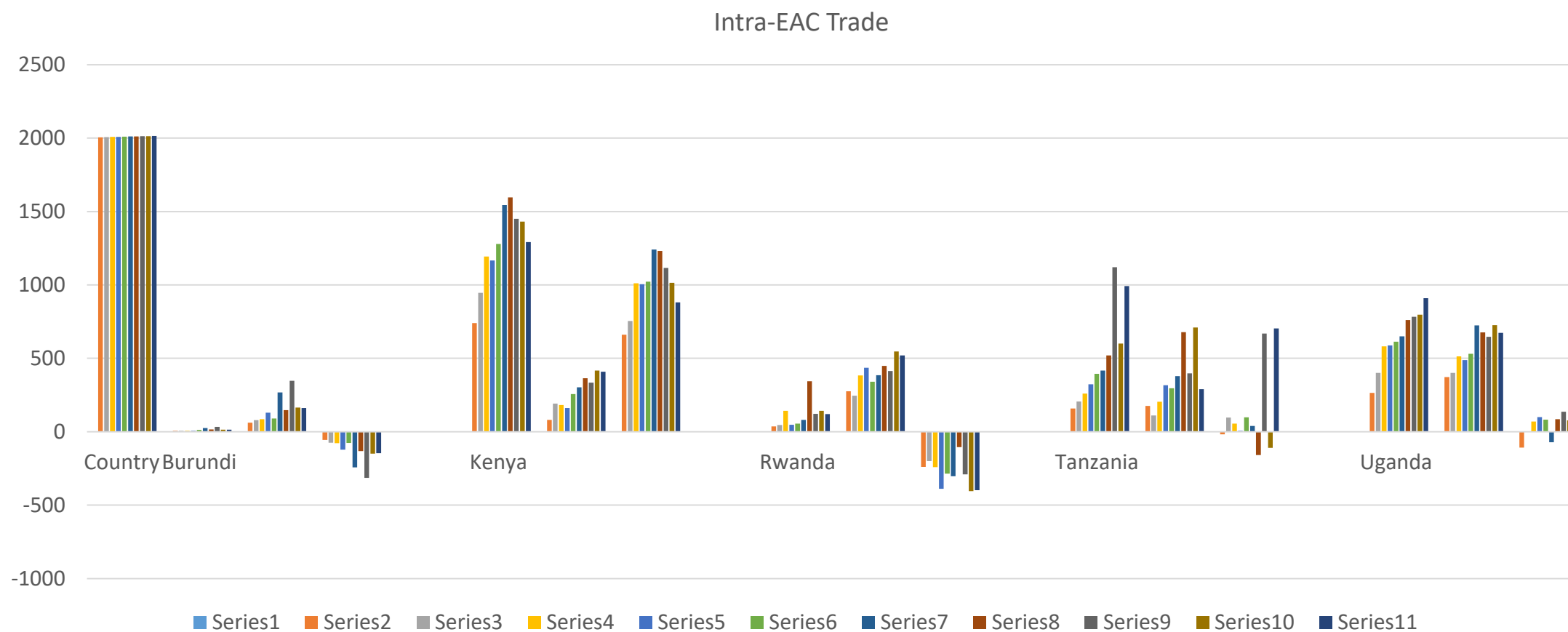
1. CET – All partner states implementing a CET structure of 0%, 10% and 25% supported by a list of sensitive items.
Sensitive Products: e.g. Milk 60%, Wheat 35%, Maize 50%, Sugar 100%, rice 75%
1. Rules of Origin – EAC Rules of Origin in place and are being implemented by the Revenue Authorities.
2. Process of establishing a single customs territory to ensure full circulation of goods is ongoing
 1. Study completed on single Customs territory
 2. The Summit on 28th April. 2012, adopted Destination Model of where assessment and collection of revenue is at the first point of entry and revenues are remitted to the destination Partner State.
 3. Process of operationalization of the adopted model ongoing Uganda, Rwanda and Burundi have personnel in Mombasa

Intra-EAC Trade in Million US Dollars (2006-2015)

(source: EAC Facts and Figures (2016)Report)

Country	EAC Trade Flow	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Burundi	Total Export	5.5	5.5	6.6	6	12.6	24.4	16	32.6	14.3	13.9
	Total Import	60.9	79.6	84.7	129	89.4	267	147	346.3	164	161
	Balance	-55.5	-74.2	-78.1	-123	-76.8	-243	-131	-313.8	-150	-147
Kenya	Total Export	741	946	1,193.40	1167	1279	1545	1596	1451	1431	1291
	Total Import	80.6	192	182.3	162	256.8	303	365	334.5	417	410
	Balance	660	754	1011	1005	1022	1242	1231	1116	1014	882
Rwanda	Total Export	37	45.4	141.8	48.1	55.2	81.2	344	122.5	142	120
	Total Import	276	246	383.7	437	340.7	385	448	413.2	546	519
	Balance	-239	-200	-241.9	-388	-286	-304	-104	-290.7	-404	-399
Tanzania	Total Export	158	206	259.9	324	394.2	417	520	1120	601	992
	Total Import	176	110	205	317	295.5	378	679	397	710	289
	Balance	-17.7	95.8	54.9	6.5	98.7	38.8	-159	668.9	-109	703
Uganda	Total Export	265	402	582.2	589	613.4	650	761	782.9	798	910
	Total Import	373	401	513.4	489	530.7	724	676	647	725	674
	Balance	-108	0.7	68.8	100	82.7	-71.8	86.1	136.4	76.8	239

(source: EAC Facts and Figures (2016)Report)



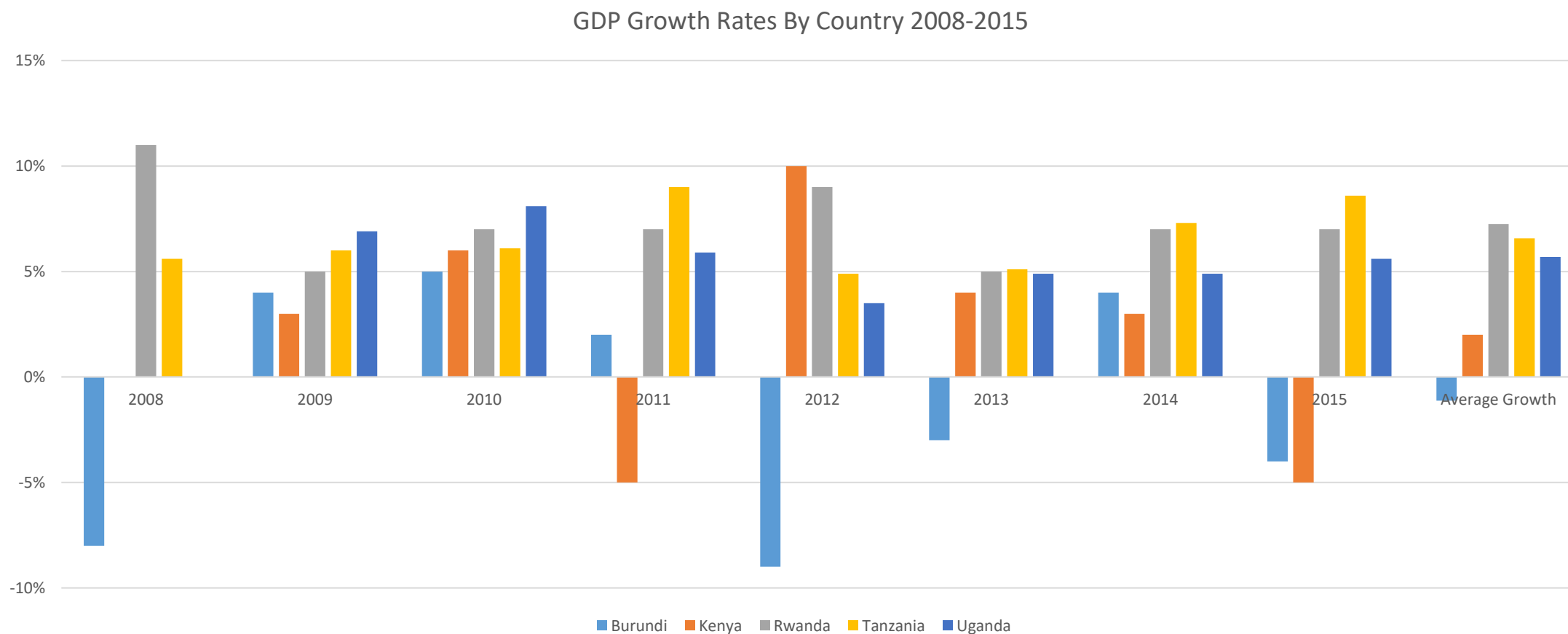
GDP Growth Rates By Country (2008-2015)

(source: EAC Facts and Figures (2016)Report)

Year	Burundi	Kenya	Rwanda	Tanzania	Uganda
2008	-8%	0%	11%	5.60%	
2009	4%	3%	5%	6%	6.90%
2010	5%	6%	7%	6.10%	8.10%
2011	2%	-5%	7%	9%	5.90%
2012	-9%	10%	9%	4.90%	3.50%
2013	-3%	4%	5%	5.10%	4.90%
2014	4%	3%	7%	7.30%	4.90%
2015	-4%	-5%	7%	8.60%	5.60%
Average Growth	-1%	2%	7%	6.58%	5.69%

GDP Growth Rates by Country 2008-2015

(source: EAC Facts and Figures (2016)Report)



Challenges of the EAC Customs Union

1. Common Collection of Import Duty at Port of Entry;
2. Discontinuation of Rules of Origin
3. Varying domestic taxes
 1. VAT
 2. Excise
 3. Income Tax

Challenges to the EAC Integration Process

1. Operationalisation of the Treaty: ceding of sovereignty;
2. Decision-Making: currently done by consensus;
3. Mechanism of implementation of decisions;
4. Intra-Organ relationships;
5. Harmonisation of Laws and Disparity in national laws;
6. Financial Sufficiency and Resource Mobilisation;
7. Overlapping Membership in other Regional Blocs: COMESA, SADC, IGAD etc.

Conclusions

Customs Union can produce positive and negative effects

1. Countries that are complementary or competitive
 - If potential competitors it pays to specialise in specific products and gain from trading. In this case advantages of a customs union will be realised
 - The converse is true if production structures are complementary
2. The size of the Customs Union. The more and the larger the countries, the larger is its share in the world trade and the smaller the risk of trade diversion;
3. The third factor is the level of tariffs. If the initial tariffs of trade partners are higher, the inefficiencies will probably be worse and the welfare effects of the abolition of tariffs greater
4. The fourth is transportation and transaction costs
5. Finally the advantages of forming a customs union are greater if member countries can respond more flexibly to new opportunities.

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