Assessment of Economic Integration in IGAD

The Horn Economic and Social Policy Institute (HESPI)

Policy Papers No. 13/2

Ali I. Abdi (PhD) and Edris H. Seid (M.Sc)
August 2013

Contents

I. INTRODUCTION 2
II. CONCEPTUAL FRAMEWORK: BENEFITS AND CHALLENGES OF INTEGRATION 3
1. Survey of central issues 3
2. Potential gains and losses of regional economic integration 5
3. Requirements for effective regional economic integrations 7
III. IGAD OBJECTIVES AND PROGRAM OF ACTIVITIES 9
1. The inception, initial mandate and priority programs of IGAD 9
2. IGAD's reengineering 9
3. The new role of IGAD as a Regional Economic Community 10
IV. DEVELOPMENTS OF IGAD ECONOMIC INTEGRATION 12
1. Economic performance and trade structure 12
2. Major achievements of IGAD 17
3. Major challenges 19
4. Opportunities of regional integration 21
5. Important areas for fast tracking integration 21
V. CONCLUSIONS AND RECOMMENDATIONS 24

I. INTRODUCTION

The development of regional integration has expanded considerably within the span of the last 50 years and so, particularly with the acceleration of "globalization" and international competitiveness. National policies shifted from inward looking policies of import substitution to actively seeking open trade with their neighbors and participating in regional economic communities. Protectionist policies gave way to policies directed towards the reduction of barriers to trade and the pursuit of integration as the growth of economies participating in open trade became the yardstick by which the benefits of free trade were realized and measured.

The impetus for regional integration has been both economic and political in nature. Countries have moved to integrate their economies so as to create larger markets and opportunities for increased growth and a more competitive production in the domestic markets. In addition, as nations became more interlinked, enhanced economic and social integration contributed to a stable trading environment and reduced conflict among them.

The General Agreement on Tariffs and Trade (GATT) which paved the way for the establishment of the World Trade Organization fostered the appetite for open trade as it became more evident that opting out meant being left behind. As membership in the WTO increased and economies grew, so did the inception of regional trading arrangements. Regional economic communities; such as customs union, preferential trading arrangements (PTA), common markets and advanced economic unions, have been developed in all over the world. Today almost all nations belong to one or more regional communities. As of January 2012, including bilateral agreements between two partners around 511 notifications of regional trade agreements (RTAs) had been received by the GATT/WTO.

The Inter-Governmental Authority on Development (IGAD) is one of the regional integration arrangements in Eastern Africa which came in to existence in 1996 replacing the Intergovernmental Authority on Drought and Development (IGADD) which was founded in 1986 with the aim of establishing a regional cooperation arrangement and enhancing the economic and social development of the region. The Economic Integration program was scheduled to start with the creation of a Free Trade Area (FTA) in 2009 which hasn't been put in place owing to different problems. The IGAD Regional Economic Community (REC) is designed to be in harmony with that of the Common Market for Eastern and Southern Africa (COMESA).

This study seeks to assess the progress made so far and the challenges that face regional integration process in the Horn of Africa with especial emphasis on IGAD; and it provides a roadmap to enhance the regional efforts beyond the creation of free trade area. The objective of the assessment is to provide analytical policy recommendations that help to establish an effective regional economic community. The analysis shall cover diverse issues such as conceptual issues in regional integration, recent developments in IGAD's regional economic integration, challenges and achievements of IGAD to date, and the importance of regional trade for member countries. It is hoped that the study shall provide policy directions that enable policymakers to maximize the benefits from the regional economic community. The identification of problems should help the proposition of realistic and achievable targets and specific time frames for implementing each target. The study also provides an overview of the literature on regional economic integration, assesses the challenges facing economic integration in IGAD and recommends reforms that enhance regional efforts with realistic and achievable targets.

II. CONCEPTUAL FRAMEWORK: BENEFITS AND CHALLENGES OF INTEGRATION

1. Survey of central issues

With geographically discriminatory trade policy as its defining feature, regional economic integration is a preferential agreement to link the economies of two or more countries, typically with some geographical proximity, through the reduction or removal of barriers to economic transactions(such as tariffs and administrative controls)so as to raise living standards and encourage peaceful relations between the participating countries. In the light of these, countries have had a long history of making efforts towards integration through broad types of cooperation arrangements. Regional integration agreements were given momentum by the formation of the European Economic Community in 1957 and the European Free Trade Area in 1960. The process of regional integration has gained wide acceptance since the 1960s; and many regional integration arrangements have been formed in both developed and developing countries. Most countries in the world today are members of one or more regional economic communities.

Although regional economic communities differ in the composition of their members and their structure, all share the common objective of reducing trade and non-tariff barriers among themselves. The extent of regional integration ranges from removing tariff and non-tariff barriers to the liberalization of trade and finance, and to attaining a full economic union and the formation of common executive, judicial and legislative institutions. The following arrangements and degrees of integration are in existence:

A Preferential Trade Area (PTA) is an arrangement in which customs duties on trade among member countries are reduced relative to those on trade with non-member countries. Members can levy tariffs on imports from non-member countries.

A Free Trade Area (FTA) requires member countries to remove tariffs and quotas on trade between members for goods originating within members, but allows for control over their own restrictions on trade with non-member countries. The tariffs and other restrictions applying to external trade could vary from one country to another. For this reason an FTA will normally also embrace rules of origin agreement.

A Custom Union (CU) is a free trade area in which members not only abolish restrictions on internal trade, but also impose a common external tariff (CET) on trade with non-member countries. Rules of origin are then no longer required. Members may also establish a single customs administration.

A Common Market is a customs union that additionally allows the free movement of the factors of production (labor and capital). Common restrictions apply to the movement of such factors with non-member countries.

An Economic Union is a common market with unified economic policies, including fiscal and monetary policies, and a common currency.

A Political Union is the ultimate form of integration and involves economic and political integration. Countries agree to have common institutions to manage all judicial and legislative processes, and trade authority over economic, social and political to inter-state institutions including a common Parliament.

The above classification of economic integration is based on market approach, which removes restrictions and trade barriers, all the way to an economic union. Alternative approach to such integration is the production or project directed approach which focuses on the coordination of planning and implementation of common projects. A third approach that combines market and production with additional emphasis on compensatory and corrective measures during disputes is characterized as the development approach to integration.

The objective of establishing regional integration is to benefit from trade creation by shifting production of some goods from a less efficient member to a more efficient member. Trade creation arises when a member country replaces goods produced domestically at a relatively higher cost with goods imported from another member at a relatively lower cost. Free trade enhances welfare by enabling the integrated region's population to procure goods from the cheapest sources and reallocating resources based on comparative advantage, benefits from economies of scale, product differentiation and efficient resource allocation within the union[1].

Regional integration arrangements could lead to the displacement of lower cost production of non-members of an integration arrangement by higher production, costs from member countries owing to lower barriers. In this context, a region could experience trade diversion[2] effects. Trade diversion represents a reduced efficiency and adverse movement in member countries' terms of trade (a partner country representing a more expensive source), and has adverse effects on welfare at both the union and the world at large. Both trade creation and trade diversion effects are likely to occur as a result of the tariff changes implicit in the formation of economic integration. The overall impact of the economic integration will depend on the balance between trade creation and trade diversion, with the prospective union being assessed as desirable or not depending on whether or not total trade creation outweighs total trade diversion[3].

---

[1]Elbadawi, 1997, Salvatore, 1990

[2] Trade diversion is the shifting of production from an efficient non-member to a less efficient member in a community. That is when low-cost goods previously imported from a non union member shifts to a member as a result of the preferential trade treatment given to member nations, or where external protection after the union is replaced by higher cost domestic production.

[3]Lyakurwa et al. cited in Oyejide, 1997

The table below summarizes the features of regional integration arrangements:

Table 1: Features of regional integration arrangements[4]

Type of arrangements	Preferential trade among members	Free Trade among member	Common commercial policy	Free factor mobility	Common monetary and fiscal policy
Preferential trade area	X	X	X	X	X
Free trade area	√	√	√	X	X
Customs union	√	√	√	X	X
Common market	√	√	√	√	X
Economic union	√	√	√	√	√
Political union	√	√	√	√	√

2. Potential gains and losses of regional economic integration

The potential gains and losses of regional economic integration are categorized in to static and dynamic effects. The static effect of regional economic integration arises from changes in relative prices as a result of changes in the pattern of tariffs. On the other hand the dynamic effect refers to the ability to exploit economies of scale and to achieve levels of investment and economic growth due to efficiency and size[5]. Nonetheless the specific benefits of economic integration differ across the characteristics and level of development of member countries (developed or developing countries, small or big economies, poor or advanced infrastructure, land locked or coastal, etc.) the main and more or less common advantages and benefits of economic integration are given below.

Static Effects

The static effects of free trade agreement are trade creation and trade diversion. Trade creation refers to the phenomena in which countries in a regional integration agreements give up production of goods and services that they produce less efficiently in exchange for the same goods and service produced efficiently elsewhere in the regional trading blocs. Whereas trade is said to be diverted when private agents, following the discriminatory tariff reduction, import of goods and services from a producer within a regional trading bloc that is not the lowest cost source. Hence trade creation is welfare enhancing while trade diversion leads to uncompetitive environment and inefficiency and welfare loss to the consumers. But as cited in Baldwin and Venables (1995), trade diversion may not occur if the discriminatory tariffs are applied to goods and services coming from lowest cost supplier; and if the regional integration agreement involves partners with larger share of intra regional trade.

[4]Source: El-Agraa 1997, cited in UNECA 2004
[5] Assessing Regional Integration in Africa (ARIA V), 2012

As Venables (1999) explains, the creation or diversion of trade depends on the comparative advantage of member countries relative to each other and relative to the rest of the world. Countries in a free trade area (FTA) that have comparative advantage most different from the global average are at the risk of facing welfare loss because of trade diversion. Hence if FTA is formed between low income developing countries, there is a tendency for the lowest income members to suffer real income loss. On the contrary if the FTA is formed among relatively rich countries, then such arrangement tends to lead to income convergence

Given the widening potential market size available for member countries, regional integration can be viewed as a mechanism for expanding intra-regional trade. Due to integration arrangements, the member countries will adopt trade liberalization policies among the group thereby lifting or at least minimizing the price (tariff) and non-price (quota) barriers and other transaction costs for cross border trade. Thus, the member countries commodities are theoretically cheaper as they enjoy preferential treatment as compared to commodities imported from a third market by making member countries products artificially competitive.

Dynamic effects of regional integrations agreements (RIAs)

The dynamic effects of regional integration are the long run gains that participating parties enjoy. These long-run benefits arise mainly because of economies of scale, competitive business environment and diffusion of technology. These dynamic effects of integration agreements include the following:

Industrialization: Regional integration is viewed by many as one of the mechanism for developing the industrial sector of a member country. The infant industries which are allowed to operate in the newly protected market in the regional economic bloc will operate safely by producing and "exporting" within the protected market until they become mature and eventually become sufficiently efficient to face world competition without further assistance. Thus regional integration gives newly emerging industries an artificial "regional import substitution industrialization" environment which helps the growth and dominance of the industrial sector of the member country. Such a result helps in facilitating structural transformations and overall economic growth by strengthening the forward and backward linkages among economic sectors.

Improved Efficiency: The desire for regional integration and cooperation rests largely on the possibility of deriving substantial economies of scale with respect to various activities typically associated with the expansion of trade and overall economic growth in member countries. The expansion of market size owing to the regional integration would help to generate lower production costs and hence leads to improvement in efficiency that might enable each member country and the integrated region to compete better with the rest of the world. Developing real competitiveness internationally requires sticking to the disciplines of competition within the region. Apart from this increased competitiveness, the 'big country' formed due to the economic integration is able to negotiate more effectively with the rest of the world and enjoy lower per country costs in the provision of a range of infrastructural services and other regional public goods (like regional security and counterterrorism) as opposed to each country arranging the same set of services on its own.

Regional trading blocs and Foreign Direct Investment (FDI): Regional integration expands the possibility for an increased flow of both intra-regional and inter-regional FDI due to the expanded market created by the borderless (or less restricted) trade across the member countries. This expansion of FDI in the region stimulates growth which in turn motivates regional integration due to further expansion of trade as a result of growing demand for goods and services within the region. The increased FDI has more relevance in the economies beyond the mere physical investment in the form of accompanying technological transfers and the attraction of other complimentary investments. Due to the expansion of market access following a regional integration arrangement, there might be increased FDI flow to the regional trade blocs, which induces foreign firms to invest in the integrated regional trade bloc.

Long-run growth effect of regional integration: The expansion of trade, economies of scale and attraction of FDI are just means to an end which is an accelerated growth of the overall economy. Viewed in this light, economic integration can be considered as another mechanism for realizing broad based and fast economic growth for both individual member countries and the region by facilitating trade and industrialization. Regional economic integration can also provide a venue for balanced economic growth and harmonized internal socio-economic policies among countries. Regional integration arrangement impacts long-run growth of member countries through technological spillover; such regional trade arrangements promote the volume of technology spillovers between member nations following the increased volumes of trade. Such technological spillovers, in turn, lead to higher economic growth and higher income levels. In addition to the spillover effect, regional integration might improve efficiency of the domestic sectors.

Regional economic integration among rich countries could also lead to convergence of member countries as was true for the European Union. Until the recent global financial debt crisis, the relatively poor Southern European countries had higher growth because of EU membership and were able to converge with the rich northern European member countries. But in other instance when economic integration is formed among low income countries, the opposite force might be at work. During the 1970s the members of old East African Common market experienced divergence which led to the collapse of the common market in 1977 (Venables, 2003). It was evident that relatively strong industries of Kenya and the Kenyan economy as a whole benefited much from the EAC at the expense of the weak sectors and economies of Tanzania and Uganda.

3. Requirements for effective regional economic integrations

The realization of the perceived benefits of regional integration is not easy and requires huge efforts to effectively implement integration arrangements and harmonize domestic policies. Countries should strive to act closely on the basis of: (a) what type of regional integration or cooperation would achieve specific objectives; (b) how should integration or cooperation scheme be designed, structured and implemented; (c) what would be its proper scope and coverage. They should also commit human, material and time resources to the above basic questions and realize their integrated identity.

Beyond the political and administrative commitments by leaders for regional integration, generally, there are some additional requirements. For example, prior to regional integration, member countries must enjoy cross border trade which indicates natural interdependence among them. Sometimes, established differences in consumption patterns among members of an economic bloc is seen as an advantage for integration by allowing for the possibility of product differentiation and, hence, trade.

Lack of effective monitoring and follow-up of the implementation of decisions is frequently cited as the causes of failure of integration efforts in Africa and the world. In the post integration period, the economic integration efforts must be followed by strictly periodic monitoring and follow-up actions and even penalties for non-compliance.

III. IGAD OBJECTIVES AND PROGRAM OF ACTIVITIES

1. The inception, initial mandate and priority programs of IGAD

Inter-Governmental Authority on Drought and Development (IGADD) dates back to 1986 when six countries in the Horn of Africa: Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda formed an intergovernmental body in the region. Severe drought that hit the region in 1974-86 caused a huge famine, ecological degradation and economic decline in the region. The initial mandate of IGADD was limited to narrow objectives of combating desertification and enhancing regional efforts to ease the effects of drought. Accordingly its priority programs focused on providing institutional and technical assistance to its member states, particularly in the areas of early warning and food security systems, desertification and drought control, natural resource management and environmental protection as well as other emerging regional challenges. The State of Eritrea was admitted as the seventh member of the Authority at the 4th Summit of Heads of States and Governments in Addis Ababa in September 1993.

In addition to the initial mandate of IGADD, the leaders of member countries recognized the potential for further cooperation and integration to address other political and socioeconomic problems of the sub-region. Realizing this, the Heads of State of Djibouti, Eritrea, Ethiopia, Kenya, Sudan and Uganda, at an extra- ordinary Summit on 18 April 1995, decided to expand the mandate and to revitalize IGADD and expand cooperation among member states. The revitalized regional organization was renamed as the Intergovernmental Authority on Development (IGAD).

2. IGAD’s reengineering

The reengineered and expanded mandate of IGAD addressed not only drought and disaster prevention, but also political and economic issues. The members also revitalized and refocused IGAD’s mandate on regional cooperation and made new agreements which included:

- Enhancing cooperation and coordinating macro-economic policies;
- Promoting sustainable agricultural development and food security;
- Conserving, protecting and improving the quality of the environment;
- Ensuring the prudent and rational utilization of natural resources;
- Promoting conflict prevention, management and resolution;
- Protecting the fundamental and basic rights of the peoples of the region;
- Promoting trade and the gradual harmonization of trade policies and practices;
- Harmonizing transport and communication policies, and infrastructure development.

The refocusing and reengineering of IGAD accordingly covered three areas of cooperation: food security and environmental protection, conflict prevention, management and resolution, and economic cooperation and integration. At the IGAD summit of June 2008, the Heads of State and Governments further strengthened the reengineering and refocusing efforts to[6]:

- Cooperate in the gradual harmonization of fiscal and monetary policies;
- Create an enabling environment for cross border investment and gradually harmonize investment policies;
- Cooperate in the gradual harmonization of policies in scientific and technological research and development, transfer of technology, and capacity building in science and technology in the sub-region;
- Facilitate the free movement and right of residence of their nationals within the sub-region;
- Promote social and cultural exchanges as an effective means of consolidating regional cooperation and understanding.

As a result of this refocusing and reengineering, IGAD was recognized as a strong and viable Regional Economic Community by the Assembly of the African Union held in Banjul in July 2006. The signing of the protocol on the relationship between the African Union and the Regional Economic Communities in January 2008 reaffirmed the role of IGAD as a recognized regional community. The African Union rejected a high level audit panel recommendation to relegate IGAD to an organization for only peace and security as well as desertification matters. The protocol signed with the African Union requires IGAD to:

- Cooperate, align and coordinate its policies and programs with those of the Union,
- Promote inter-regional projects in all fields,
- Cooperate with the Union in the integration endeavor and attend and participate effectively in all meetings of the Union and in the activities included in the protocol, and
- Submit reports to the Executive Council and the Assembly on progress achieved and difficulties encountered in the implementation of the provisions of the protocol.

3. The new role of IGAD as a Regional Economic Community

The new mandate granted to IGAD by the African Union revitalizes its role to concentrate in areas that were bound to have greater regional impact and encouraged its members to design the next strategic plan. In addition to trade-related integration programs, IGAD adopted a new out-ward oriented initiatives to integrate the economies of the region in a number of key economic fields pursuant to its role as a recognized Regional Economic Community (REC). The integration process within the RECs hinges on market integration with significant efforts to introduce various trade liberalization programs. These include the development of a roadmap for the establishment of a

[6] The summit was held in Addis Ababa on June 2008.

Free Trade Area (FTA), macro-economic convergence, industrial development and investment promotion, infrastructure and transport development, information technology, tourism development, and the development of energy, agriculture, environment and natural resources[7] and then the formation of common market. All these programs are interlinked implying that once integration is attained, IGAD will become a truly Regional Economic Community.

Development of a roadmap for FTA

Even though the establishment of Free Trade Area according to the roadmap set before couldn't be operationalized due to different structural problems, IGAD member countries have agreed to form a strong regional economic community through a deliberate reduction of tariff and non-tariff barriers, facilitation of the movement of goods, supporting industrial production and marketing through capacity building and the harmonization of the legal and institutional frameworks.

Macroeconomic convergence

In the area of macroeconomic convergence, IGAD countries seek to integrate their policies with the aim of currency conversion through an association of IGAD Central Banks. Members will also harmonize monetary and fiscal policies and form joint research and monetary programs. This would require greater harmonization in economic policies, particularly in fiscal and monetary policies; the integration of the financial structures of member states; and the mobilization of financial resources for the expansion of trade and development projects and programs.

Although no specific timeline is set, IGAD member states agreed on monetary harmonization with the aim of establishing a monetary union. The primary objective of the IGAD monetary policy harmonization program is to create a common area of monetary stability, which will facilitate economic integration and growth. The achievement of monetary stability enables the attainment of economic convergence brought about by the removal of macro-economic policy mismatches.

Industrial development and investment

Members have agreed to promote IGAD as a common investment destination through harmonization of member states investment codes and acts. The harmonization of investment codes and acts in turn creates a more favorable investment climate for the promotion of export led industrialization in the region. In order to ensure fair competition and to facilitate the adoption of new and appropriate technologies, members agreed to formulate a regional competition policy.

In general, the new role of IGAD as a recognized Regional Economic Community envisions a market integration of member states through the removal of tariff and non-tariff barriers and also through the adoption of common investment codes and acts. IGAD thus targets a minimum economic integration plan to lead to a free Trade Area and the establishment of a common market that culminates in a viable and effective regional economic community.

---

[7] IGAD(2008)

IV. DEVELOPMENTS OF IGAD ECONOMIC INTEGRATION

1. Economic performance and trade structure

Economic performance of IGAD sub-region

The IGAD sub-region has a per capita income of US$754 in 2011, which is far below the Sub-Saharan average of US$ 1446 in the same year (at current prices and exchange rates) and a population of 221 million. The sub-region experienced stagnating and low economic growth for many years that led to deteriorating living standards and was plagued by drought, famine, pervasive political instability and military conflicts. And owing to weak institutions, absence of rule of law, insecure property rights and instability, the sub-region attracted little foreign direct investment (FDI) of US$3.4 billion in 2011 compared to other developing countries of Eastern and Southern Asia (excluding China) which attracted a substantial amount of US$211 billion in the same year.

Table 2: IGAD and its members GDP (US$ current prices in millions)

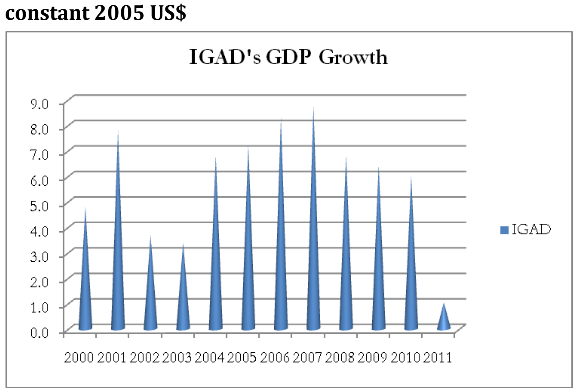
YEAR	2001	2003	2005	2007	2008	2009	2010	2011
IGAD	**45,777**	**54,863**	**80,370**	**121,761**	**142,558**	**146,685**	**160,371**	**167,064**
Djibouti	577	628	709	848	983	1,049	1,140	1,252
Eritrea	752	870	1,098	1,318	1,380	1,873	2,254	2,778
Ethiopia	8,043	8,539	12,286	19,182	25,866	28,476	26,928	30,649
Kenya	12,983	14,904	18,739	27,165	30,519	30,580	32,483	34,378
Somalia	1,303	1,517	2,316	2,483	2,600	2,012	1,071	-
Sudan	15,716	21,355	35,183	57,216	64,833	65,852	79,480	-
Uganda	6,401	7,049	10,040	13,549	16,377	16,843	17,015	17,457

Source: UNCTAD stat

The combined GDP of the seven IGAD member countries was US$167 billion in 2011 which is far below Egypt's GDP of US$232 billion in the same year. Attributable to largely oil boom, the Sudanese economy is the largest in the sub region with a GDP of US$79 billion in 2010 followed by Kenya and Ethiopia.

For the last decade, the IGAD region as a whole has recorded impressive economic performance. On average the economies of IGAD sub-region have been growing at annual rate of 5.9 percent since 2000. As can be seen from the figure 1 above, the global financial recession of 2008/09 has impacted the economies of this region. The upward trend of growth stalled in 2007 and 2008. In 2011, the region recorded the lowest rate of 1 percent since 2000 which can be largely attributed to the severe drought that hit the sub-region hard and affected more than ten million people in 2011 which led to the plunge in agricultural output. Among the IGAD members, Ethiopia is the fastest growing country recording 8.4 percent growth on average since 2000 followed by Sudan and Uganda with an average growth rate of 6.5 and 6.2 respectively[8].

Figure 1: Annual Average growth rates of IGAD's GDP at constant 2005 US$



Source: UNCTAD stat

[8] UNCTAD stat (2012)

Structure of IGAD's economy

Agriculture and services contribute the largest share of GDP of the IGAD member countries, i.e. 30.4 and 41.8 percent, respectively in 2010. But at national level, there is some variation in economic activities and their contribution to GDP; in Djibouti (where the services and industrial sector play crucial role for job creation and to the overall production), for example, agriculture contributes only a tiny percentage of 3.2 to the overall GDP whereas it contributes much higher share to Ethiopian GDP equaling 43.2 percent. All in all, the contribution of services is growing in the sub region as whole.

Table 3: GDP of IGAD member countries by economic activities in 2010

	Agriculture, hunting, forestry, fishing	Mining, manufacturing, utilities	Manufacturing	Services
IGAD	**30.4**	**15.9**	**7.2**	**41.8**
Djibouti	3.2	6.3	2.0	63.6
Eritrea	17.1	6.9	5.4	59.1
Ethiopia	43.2	5.6	3.8	40.4
Kenya	22.0	13.1	10.0	48.9
Somalia	52.9	2.8	2.2	28.5
Sudan	31.8	22.0	7.5	37.4
Uganda	21.7	11.7	7.2	48.5

Source: UNCTAD stat

Trade composition and pattern

Like the rest of the Sub-Saharan Africa, the structure of IGAD sub region's trade is characterized by the following: a substantial amount of member countries' exports are concentrated on few primary commodities mainly fuels, food items, ores, metals, precious stones and non-monetary gold and agricultural raw materials, which constitute together more than 85 percent of the region's exports.

Table 4 shows that IGAD's merchandise exports like the rest of the Sub-Saharan Africa is mainly dominated by *fuels* and *food items* which account for 42 and 29 percent of the regions total merchandise exports, respectively. Manufactured goods on the other hand only account for 6 percent of the total export of the sub region. Due to mainly structural problems (similarity of export and import items), non-harmonized customs and lack of trade logistics in the sub region, intra-regional trade is very limited.

Table 4: The structure of merchandise exports of the IGAD sub region in 2011

Commodity Group	Value of Total Export (US$)	Percentage of total exports
Fuels	9,350,08	41.6
All food items	6,629,12	29.5
Ores, metals, precious stones and non-monetary gold	1,823,43	8.1
Agricultural raw materials	1,511,94	6.7
Manufactured goods	1,362,24	6.1
Machinery and transport equipment	645,93	2.9
Chemical products	624,86	2.8
Others	527,18	2.3

Source: Compiled from UNCTAD stat

Table 5: Export Concentration Index for IGAD member countries

Year	Djibouti	Eritrea	Ethiopia	Kenya	Somalia	Sudan	Uganda
2004	0.20	0.17	0.38	0.22	0.49	0.55	0.27
2005	0.15	0.17	0.38	0.21	0.57	0.61	0.26
2006	0.19	0.11	0.42	0.19	0.46	0.61	0.25
2007	0.43	0.48	0.35	0.18	0.39	0.63	0.20
2008	0.42	0.20	0.38	0.19	0.37	0.87	0.22
2009	0.41	0.19	0.33	0.21	0.44	0.78	0.21
2010	0.34	0.14	0.35	0.20	0.50	0.72	0.19
2011	0.24	0.95	0.36	0.19	0.50	0.77	0.21

Source: UNCTAD (2012)

As table 5 shows, the IGAD sub-region's total exports are concentrated on few primary commodities mainly on fuel, coffee and tea; more than 45 percent of the regions exports is petroleum products (UNCTAD, 2012). At the disaggregated level, almost all member countries of IGAD have a higher Herfindahl-Hirschmann index (which is a measure of concentration of exports) implying that countries are reliant on a narrow range of products for their exports. In addition to concentration of exports on few primary commodities, there is similarity in export items. For example, coffee is among the main export items for Uganda, Ethiopia and Kenya which makes it hard for these countries to engage in intra-regional trade. Alemayehu and Edris (2011) calculate the import-export indices for selected African countries and find that most African countries with the exception of Kenya, South Africa, Egypt and Nigeria, have almost similar import and export items.

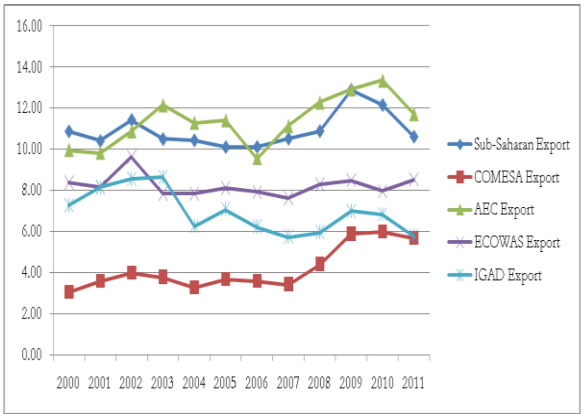
Table 6: Export Concentration Index for some selected regional economic communities

	IGAD	COMESA	EAC	ECOWAS	Sub-Saharan	Euro area	ASEAN
2005	**0.29**	0.45	0.16	0.71	0.43	0.07	0.15
2006	**0.29**	0.46	0.14	0.67	0.42	0.07	0.15
2007	**0.33**	0.46	0.13	0.66	0.43	0.07	0.14
2008	**0.46**	0.49	0.13	0.64	0.47	0.07	0.13
2009	**0.37**	0.37	0.14	0.55	0.39	0.07	0.13
2010	**0.37**	0.40	0.13	0.56	0.40	0.07	0.13
2011	**0.36**	0.25	0.14	0.63	0.45	0.06	0.12

Source: UNCTAD stat (2012)

Table 6 shows that the IGAD region as a whole has relatively higher concentration index compared to the East African Community (EAC), ASEAN and European Union Area but lesser concentration compared to COMESA and ECOWAS.

Figure 2: The share of intra-regional exports for some selected regional groupings in Africa.



Source: UNCTAD stat (2012)

Figure 2 and table 7 below show the share and level of intra-regional trade (exports and imports) for IGAD member countries and some selected other regional trading blocs in 2000 -2011. The total intra-regional exports among the IGAD sub-region amounted US$1.9 billon in 2011 which was only 5.8 percent of the region's global export. It is intriguing to see a declining trend in the share of the intra-IGAD regional exports despite all the efforts to integrate the economies of the sub-region in trade which declined by 1.5 percentage points between 2000 and 2011; from 7.3 and declined to 5.8 percent. The same trend is observed in intra-regional imports; it declined by almost 4 percentage points in the period (2000-2011). Other regional trading blocs in the continent such as COMESA and EAC performed relatively well in terms of integrating their economies through trade although there was stagnation in the share of intra-regional exports throughout the sub regions since 2009. In some instances especially Sub-Saharan Africa, it has shown downward trend since 2009.

Table 7: Value of intra-regional exports and imports for IGAD in US$ Million

	IGAD		COMESA		AEC		ECOWAS		Sub-Saharan	
	*M**	*X**	*M*	*X*	*M*	*X*	*M*	*X*	*M*	*X*
2003	797	756	2,329	2,064	861	826	3,387	3,437	20,082	15,206
2004	783	713	2,640	2,327	994	938	4,252	4,489	24,977	19,495
2005	1,124	1,008	3,994	3,339	1,251	1,165	5,436	6,330	28,875	24,259
2006	1,204	1,016	4,671	3,970	1,248	1,097	6,153	6,624	33,737	27,882
2007	1,228	1,256	4,704	4,724	1,570	1,557	6,615	7,221	39,858	34,610
2008	1,636	1,648	7,058	7,569	2,066	2,173	9,723	10,050	52,381	44,140
2009	1,503	1,638	6,833	7,538	2,094	2,133	6,931	7,673	42,261	39,283
2010	1,681	2,012	8,798	9,538	2,472	2,621	8,171	8,874	49,426	46,780
2011	1,639	1,900	7,683	7,776	2,718	2,607	9,800	11,928	54,492	50,133

Source: UNCTAD stat (2012)
Note: * M stands for import whereas X stands for Export

The value of intra-regional exports within IGAD increased from US$756 million in 2003 to US$1,900 million in 2011, whereas intra-regional imports value increased from US$797 million to US$1,639 million during the same period. Kenya ranked first in IGAD intra-community exports, followed by Uganda and Djibouti; while Uganda ranked first in IGAD intra-community imports followed by Somalia, Kenya.

China, Japan, UAE, USA, Saudi Arabia and India are the most important trading partners for IGAD's sub-region.

Table (8) IGAD's trading partners (export destinations and import partners) for 2000-2010

Exports Destination	**China**	**EU**	**SSA**	**Middle East**	**Japan**	**UK**	**UAE**	**USA**
Percentage of global exports	31.1	15.6	14.1	9.4	8.1	4.0	3.7	2.4
Import Partners	**Middle East**	**EU**	**China**	**India**	**SSA**	**UAE**	**USA**	**Japan**
Percentage of global import	19.1	14.9	10.5	7.1	8.6	6.5	3.5	3.3

Source: Compiled from IMF Direction of Trade Statistics

In between 2000 and 2010, around 31 percent of IGAD's exports are to China followed by European Union with 16 percent. On the other hand, 25 percent of its imports in the period between 2000 and 2010 were from Middle East and North Africa among which Saudi Arabia and United Arab Emirates constitute the largest share. European Union and China are also import partners.

Table 9: Exports and Imports of goods and services at current prices in millions in US$

	Djibouti		Ethiopia		Kenya		Sudan		Uganda	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
2003	253	305	1,258	2,604	3,610	4,259	2,579	3,366	834	*NA*
2004	251	339	1,684	3,727	4,282	5,290	3,822	4,651	1,132	1,916
2005	288	361	1,929	4,895	5,342	6,739	4,938	7,790	1,541	2,354
2006	307	425	2,199	5,276	5,946	8,171	5,904	9,905	1,713	2,986
2007	307	581	2,653	6,908	7,063	10,059	9,264	10,661	2,369	3,935
2008	366	704	3,514	9,617	8,291	12,559	12,163	10,849	3,006	5,300
2009	399	578	3,433	9,046	7,385	11,302	8,649	10,435	3,310	5,204
2010	421	483	4,644	9,911	8,900	13,543	11,658	11,161	3,539	6,145
2011	*NA*	*NA*	5,631	11,025	9,359	*NA*	*NA*	10,451	4,028	7,535

Source: UNCTAD stat (2012)

In recent years, Sudan accounted for the largest export share in the region thanks to oil; it was around 39 percent of the region's export in 2010 followed by Kenya which accounted for 30 percent of the total IGAD exports; whereas Kenya is the largest importer followed by Sudan (32 and 26 percent respectively).

IGAD'S Trade with the rest of Africa

The share of IGAD's exports to the rest of Africa is low compared to that of the rest of the world which increased from 6.8 percent in 2005 to 8 percent of the global export in 2011. The value however has surged from US$687 million in 2003 to US$2,632 million in 2011. On the other hand, IGAD's imports share from the rest of Africa has declined from 6 percent in 2003 to a mere 3 percent in 2011.

Table 10: The Value and share of IGAD's trade with the rest of Africa

YEAR	2005	2006	2007	2008	2009	2010	2011
IGAD's exports to RoA (US$M)	970	1,032	1,527	2,140	2,191	2,593	2,633
IGAD's exports to RoA (in %)	**6.8**	**6.3**	**7.0**	**7.8**	**9.4**	**8.8**	**8.0**
IGAD's imports from RoA	1,124	1,204	1,228	1,636	1,503	1,681	1,640
IGAD imports from RoA (in %)	**4.8**	**4.3**	**3.7**	**4.1**	**4.0**	**4.0**	**3.5**

Source: Compiled from UNCTAD stat

2. Major achievements of IGAD

In this section, we examine the results achieved in relation to the articulated objectives and broad expectations of IGAD. A rough assessment of IGAD reveals that regional integration has not succeeded in realizing the expected outcomes at this point in time. This failure may be traced to several critical and complex factors. To mention some, member countries haven't shown dedicated commitment to coming much closer, the conditions prevailing in the Horn and its structural characteristics (low income, poor infrastructure) have hampered successful implementation, regional instability and conflict have retarded the successful implementation of the planned arrangements of IGAD. Thus, effective integration among the IGAD member countries has suffered from structural and stability problems during most of its existence.

The IGAD community achieved success at a number of specific sectors. With regard to communications, the IGAD Secretariat has helped member states establish an effective information network using modern information technology. The Internet Connectivity Project among member states aims at human resources capacity building to improve communication technology skills. It also aims to develop a comprehensive IGAD strategy for acquisition and use of information and communication technology[9].

IGAD also initiated a household energy project to help solve major energy and environmental problems confronting the region, assisted member states in diversifying their energy sources and promoting optimal energy use through the transfer of appropriate energy-efficient technologies, and trained decision-makers, government officials and other stakeholders (particularly women) on household energy use.

The region's achievement in the area of trade logistics, transport and other trade related infrastructures, however, is not significant compared with other regional economic communities. For instance the level of intra-regional roads and railways among the IGAD member states remain absent and under developed if any. Market access within IGAD is limited and so it is with international markets.

[9] ECA(2004)

Box 1: IGAD member countries integration achievements

In general most of IGAD's achievements so far have been concentrated in the area of institutional building. While social, political and economic integration has yet to be materialized; some of the institutional achievements of IGAD include the following:

- The Establishment of Conflict Early Warning and Response Mechanism (CEWARN): The CEWARN entered into force in August 2003 to serve the region as a mechanism that systematically anticipates and responds to violent conflicts in a timely and effective manner, specifically at the possible point of conflict for preventive or mitigating measures to be taken. Owing to CEWARN, the role of IGAD is generally acknowledged in the peace process of Sudan and Somalia.
- The Establishment of IGAD Climate Prediction and Application Centre (ICPAC): Like the rest of Sub-Saharan Africa, this part of the continent is prone to extreme climate such as drought and floods. These events have severe negative impact on key socio-economic sectors of all the countries in the sub-region. ICPAC relays reports every 10 days on climate changes.
- Establishment of IGAD Women's Desk: The Desk was established in 1999 with the aim of fostering gender mainstreaming and promoting women's participation in IGAD programs and priority areas. It is to promote the participation of women in specific strategies and program in the Agriculture, Environmental Protection, and Economic Co-operation sectors among others.
- Establishment of IGAD Sub-regional Action Programme (IGADSRAP): The purpose of the Action Program is to identify essential areas for facilitating IGADs integration endeavors. This was attempted by establishing the Sub-regional Support Facility from the support by Global Mechanism (GM).
- IGAD Information and Communication Services Centers: Adequate flow of information across member states is crucial in realizing the expected regional integration within the Eastern Africa. To this end, as an important innovation, IGAD has established information sharing and communication centers which would "bring people closer together, influence governance, and help to create more solidarity and cohesiveness among societies"[1]. The effort to creating a more integrated sub-region requires efficient dissemination of information.
- Trade Related Achievements: Beyond the non-economic collaboration sought by member countries, IGAD has passed through progress on intra-regional trade. The slow progress on economic integration could be derived by the lack of emphasis on trade at this phase of IGADs roadmap. The directive related to economic integration designed by the IGADs Assembly in June 2008 was expected to stimulate trade among member states despite the existing structural constraints (supply constraints, infrastructural problems and possible lack of complementarity).
- Establishment of Marketing Information System: As a mechanism for integrating the markets of the region and laying the ground for greater integration, IGAD has established Marketing Information Systems for tradable specifically crops and livestock by developing user friendly a website and networking points in member States.
- The other promising achievement by IGAD is its commitment to identify specific areas of capacity building needs. The regional bloc has done workshops; capacity building training and information flows after it has identified areas of intervention and generated the required amount of funds from supporting organizations. Realizing that the region suffers a high prevalence of HIV/AIDS, IGAD has taken the leadership to formulate national strategies and HIV/AIDS control programs.
- The IGAD member countries tend to concentrate on political and conflict[1] related matters, which of course are basic for economic growth and stability, but tend to give reduced attention to the social, cultural and most importantly economic dimensions of integration. After all, the sub-region has yet to adopt the Preferential Trade Area although it has existed for the last 20 years. Quite a lot preparatory work such as institutionalization of basic requirements has been done so far but commitment on assuring real integration in the Eastern part of Africa is by no means robust.

3. Major challenges

Political instability and military conflicts among members

The slow implementation of agreements and protocols made so far towards the integration of the sub region is mainly attributed the political instability and conflicts between member states which posed serious challenge for IGAD'S initiatives. The region experienced a wide range of intra and inter-state conflicts, some of which prevailed for more than four decades. Full scale war between Ethiopia and Eritrea in 1998/99 and civil wars in Somalia, Sudan and Uganda constituted a major challenge to IGAD integration efforts. Such military conflicts among states and within state deteriorate the already low physical and social infrastructure. The integration efforts in the IGAD region, as noted above, are hindered by pervasive conflicts. Cognizant of this, the IGAD Secretariat since 1997 has focused on conflict prevention, management and resolution. IGAD has pursued peace processes in Somalia and Southern Sudan.

Overlapping membership

Many IGAD countries are members of more than one regional grouping with different aims and objectives, different levels and patterns of development and political systems and ideologies. All IGAD countries with the exception of Somalia are members of the Common Market for Eastern and Southern Africa (COMESA) and Kenya and Uganda also belong to the East African Community (EAC). Djibouti, Eritrea, Sudan and Somalia belong to the regional groupings of CEN-SAD (the Community of Sahel-Saharan States). These multiple membership arrangements may lead to duplication of efforts and to an unnecessary competition among countries and institutions. For countries belonging to more than one regional grouping, the burden and cost is high because they have to participate in different meetings and accept policy decisions, instruments, procedures, and schedules. Their customs officials also have to deal with different tariff reductions rates, rules of origin, trade documentation, and statistical nomenclature[10]. The result is lack of commitment due to divided loyalties and poor funding for integration.

The only mechanisms available for reducing the high cost of multiple memberships is through harmonizing trade agendas, trade policies[11] and investment codes among the different regional trading blocs, and remove unnecessary program duplication in order to unify regional efforts. These efforts require investment in infrastructure to reduce the transaction cost of economic and social interaction against the background of scarce resources

Uncoordinated macroeconomic policies

Different countries in IGAD and other regional trading blocs in Africa have different macroeconomic policies which slow down the integration process. When countries have different customs

[10] ECA(2004)
[11] Such as common documents for cross-border clearance of cargo, vehicles, and business people

procedures, different investment codes and divergent macroeconomic policies, it will take much effort and resources for the countries as a whole to come closer and integrate their economies. In relation to this, inconvertibility of national currencies also hinders inter-state trade; when traders are unable to convert Ethiopian Birr into Kenyan Shillings and Kenyan Shillings to Djiboutian dollars, it will be costly for these traders to engage in such trading activities.

Economic imbalance between members

Regional imbalance is also identified as a cause of instability and slow progress towards regional integration. Relatively less developed member states fear the potential fierce completion from the relatively strong economies. The eastern part of Africa has experience with regard to regional imbalance. The industrialization of Kenya in relation to the other member countries had contributed to the collapse of the EAC in 1977. Regional integration in IGAD can also be constrained by regional imbalance particularly with regard to the efficient Kenyan manufacturing that would potentially displace domestic producers in other member countries. As the failure of the 1977's EAC showed, the remedy can also be learned from the modern EAC. In an effort to address the problem of regional imbalance as a threat to an effective IGAD, member countries can devise a mechanism that would afford some temporary protection to infant industries in the less developed partner countries against the more developed Kenyan industries.

Similarity of composition of imports and exports

The export and import structure of most of the IGAD member countries are similar; and they are heavily reliant on few primary commodities for their foreign export earning. Despite dependence on few primary commodities, these countries lack the industrial capacity to diversify their manufactured commodities; they are also faced with adequate infrastructure to support more trade (Economic Commission for Africa, 2010). Such trade structure poses challenge for this sub region to integrate further. The problem of similarity of imports and exports is common to most regional trading blocs in Africa. COMESA countries' exports are concentrated on primary commodities, with coffee being the most important item; while their imports are manufactured goods. Most African countries with the exception of Kenya, Nigeria, South Africa and Egypt don't fit well with the import and export requirements of other African countries.

However, the general non-complementary of intra-African trade in general hides the huge potential trade in agricultural commodities like grain.

Tax revenue losses

Most of IGAD member countries are hugely dependent on foreign trade taxes as a source of government revenue to finance development and public expenditure. Huge dependence by member states on foreign trade taxes as sources of revenue to finance public expenditures has also somehow constrained regional integration in IGAD. The income tax base of most of the member countries is too shallow due to weak economic activity and low income levels. Countries, as a result heavily rely on international trade taxes as the main sources of government revenue. Due to the threat of revenue loss, members tend to be reluctant to remove tax and tariff barriers. Unless tariff and non-tariff restrictions and other trade barriers are removed, it is unlikely that effective regional economic integration and interdependence will take place.

Even though there is revenue loss threat from all member countries, the effect of discriminatory tariff reduction among IGAD member countries may not impact the government revenue that much for most of these countries trade with other countries outside the trading bloc and level of intra-trade is significantly low; intra export among IGAD members was around 5.8 percent of the global export of the region as shown in figure (2).

4. Opportunities of regional integration

The total population of IGAD member countries in 2011 was estimated at 221.4 million and growing at high rates. Out of the total population of the sub-region, around 69 million of the total labor force is employed in the agriculture sector. The region has a variety of climates and landscapes including cool highlands, swamp, tropical rain forests and other features of a typical equatorial region. The sub region has a vast arable land of 47.8 million hectares. The IGAD region is endowed with natural resources, such as substantial oil and gas reserves, diverse ecosystems, alternative energy resources (hydroelectric and solar in particular), marine, water and livestock resources. These resources can now be sustainably utilized given IGAD's commitment to reducing barriers to trade, creating a favorable investment environment and harmonizing economic policies

Almost all IGAD countries have undergone structural adjustment programs with varying degree of implementation and success. Because IGAD members abandoned import substitution and protectionist policies of the past, it is more likely that regional integration measures will succeed in these countries. Currently, IGAD has designed a minimum integration plan to gradually harmonize trade practices and policies of member states and to eliminate tariff and non-tariff barriers. The long-term goal of IGAD under its new role would be to create a strong regional economic community and custom union among the IGAD member states.

5. Important areas for fast tracking integration

The traditional way of linking IGAD member countries together is not successful and the regional integration attempt hasn't shown a remarkable progress so far in the face of various implementation failures and poor initial conditions. The effort to link the member countries for their mutual benefit requires the identification and implementation of alternative modalities. The literature by Oyejide (2000) includes the development of regional infrastructures and the harmonization of key macroeconomic and sectoral policies as possible mechanisms of linking IGAD countries before aspiring to see greater intra-member countries trade. The first mechanism seeks to reduce transactions costs and the second aims at creating and sustaining an investment–inducing and growth-enhancing economic environment.

Infrastructural Development

The need for infrastructural development ranges from transportation modalities to communication technologies such as internet interconnectivity. In this regard, IGAD member countries are characterized by poor infrastructure which inhibits intra-regional trade and economic growth due to high transaction costs caused by high transportation and communication costs. This has partly contributed to the poor competitiveness of member countries in the international market. It has also made the region unattractive to business.

Poor and inadequate infrastructure has been a major obstacle for economic growth in many African countries. IGAD member countries are not different. The deficient infrastructure dampens the region's capacity to grow. As growth and intra-regional economic integration are causally linked, it is reasonable to expect poor regional integration in a situation of deficient infrastructure. The existing infrastructure gap also inhibits the flow of FDIs to the region further stunting growth and the potential for regional interdependence.

At its inception in 1996, IGAD aimed at promoting peace, security and sustainable development in the region by largely using ICT. Effective regional integration demands the promotion of transport, telecommunications and energy projects which help member countries to eliminate physical and non-physical barriers to trade, facilitate the movement of people and goods thus promoting regional economic integration. In recent periods there has been some improvement in infrastructure development especially in energy sector and road construction among the member states. Ethiopia which has a huge hydroelectric power potential in the region is now supplying electricity to Djibouti and Sudan, and projects are underway to supply other IGAD countries.

Though infrastructural demand is great IGAD states are resource challenged. The massive infrastructural demand cannot be financed by domestic sources as both governments and private actors are "poor". Thus, IGAD in collaboration with member countries should devise alternative ways of financing infrastructures that undoubtedly helps each country grow as well as integrate well in IGAD's framework. It is advisable for IGAD to organize and support conferences on issues related to investment on infrastructural development.

Macroeconomic and sectoral policy harmonization

Macroeconomic policies include fiscal, monetary, exchange rate policy and policies related to domestic and foreign debt. Macroeconomic stability is perceived as a prerequisite for sound and reliable economic growth. As a result individual countries strive to achieve macroeconomic stability by targeting lower level (usually single digit) inflation, stabilizing exchange rates levels and managing domestic and foreign debt. Macroeconomic stability at regional level is also crucial to insure economic integration and achieve economic growth and prosperity at the regional level. Among the most important benchmarks used by economic blocs is the level of inflation. For example, the European Union requests applicants to insure a domestic inflation level of less than 2 percent. In most cases, IGAD member states have adopted inflation targeting macroeconomic policies. Nevertheless, prices are erratic owing to fluctuations and shocks in the global economy including the global economic slowdown and fluctuations in commodity prices.

To facilitate macroeconomic policy harmonization, IGAD should commit to establish associated institutions. Relevant institutions include, if the experience of COMESA is any guide, IGAD's Clearing House (Regional Bank) and all agency for monetary coordination. To fast track regional integration IGAD should also develop credible indicators to monitor and evaluate regional integration efforts across member states. Periodic meetings and publications of facts and figures can refresh the notion of regional integration in the minds of leaders of member countries.

V. CONCLUSIONS AND RECOMMENDATIONS

Regional integration efforts in the IGAD region have been weak due to many challenges confronting member countries. These include, inter alia, the pervasive political and military conflicts triggered by the competition over scarce resources, ethnic rivalry, and the use of rebellions to subvert neighboring states, border conflicts and negative cultural practices like livestock rustling. The political instability and insecurity in the IGAD region is further exacerbated by poor economic and social infrastructure, specifically inadequate education and health facilities, and recurrent droughts and food insecurity. In addition to these factors, overlapping membership (almost all IGAD member countries are members of other regional trading blocs) led to slow progress in the IGAD regional integration effort compared to other[12] regional economic communities.

Since 2000, owing to advances in information and communication technology (ICT)[13] and the adoption of free market economies in many IGAD member countries, significant measures have been put in place to liberalize trade. However, IGAD governments should also recognize the special challenges associated with the future economic integration plan. The challenges could be; (i) in the form of government revenue loss with serious consequences on the national budget, (ii) the competition that will arise as a result of IGAD's future regional arrangements, which might lead to dumping of cheap goods in the domestic market and hence to the closure of domestic industries and loss of jobs, (iii) small economies in the region with their small domestic market and underdeveloped infrastructure and low productivity may find it difficult to compete with relatively strong economies, and (iv) the stronger economies may attract investment and this may constrain equitable growth and future integration efforts.

To prepare for these future challenges the following recommendations are in order:

- To achieve the targeted minimum integration plan between 2009 and 2012, IGAD should build a strong organization base to oversee the implementation of collective decisions, monitoring, and coordination of regional efforts. Its role, however, should not be limited to only coordination of regional efforts and arranging meetings, but it should be staffed by experienced personnel and experts who could come out with new proposals and seek strong state participation;
- Huge investment in the physical infrastructures and in the communication sector, and provision of trade logistics, are deemed crucial for insuring the highly fragmented Eastern Africa sub-region to integrate;
- Alternative source of finance should be sought to solve the financial constraints of the IGAD secretariat so that it can effectively discharge its new responsibilities;

[12] IGAD regional community was placed at average (2-4 percent increase in trade) and was ranked third out five communities.
[13] IGAD has been upgrading PANAFTEL links in the IGAD region to digital standard and is installing a modern telecommunication system (see ECA 2004).

- The role of the private sector should be enhanced to strengthen the productive capacity of the region and also to broaden the participation of member states in regional efforts. For these to happen, removing the institutional, economic and political constraints of member countries is crucial;
- The potential benefits of the IGAD integration plan should be channeled to the business people and population at large through the different media of communication strategies and so that a broader consensus for IGAD regional effort is created;
- To increase the commitment of member states in the implementation of the agreed treaties, appropriate incentive schemes such as compensation of government revenue losses, possibilities of safeguard actions, levying of anti-dumping and countervailing duties should be introduced;
- Mechanisms for compensating net-loser member countries should be designed as a priory to guarantee confidence for the late comers in the area of industrialization and competitiveness;
- The IGAD regional economic community's future arrangements should design mechanisms for strengthening and insuring the domestic growth and competitiveness of small countries;
- In addition to promoting intra-regional trade, creating conducive environment for foreign direct investment, reducing political instability and political conflict in the IGAD region is crucial for the overall achievement of the trading arrangement; and
- To sustain IGAD's integration boosting sectoral and inter sectoral linkages and coordination of the actions of national and regional institutions is important.

REFERENCES

Alemayehu G. and Edris H. (2011). 'The Potential for Intra-African Trade and the Supply and Demand Constraints for its Realization', *IAES Working Paper Serious NO. A06/2011*

Alemayehu G. and Haile K. (2007) 'Regional Economic Integration in Africa: Review of Problems and Prospects with a Case Study of COMESA' *Oxford University Press, CSAE*

Balassa, B. (1961). 'The theory of economic Integration', *Homewood, Illinois, Richard D. Irwin, Inc.*

Baldwin, R. and A.J. Venables, (1995) 'Regional Economic Integration', in *Handbook of International Economics,* vol 3, ed. G. Grossman and K. Rogoff, North Holland 1995.

D. Beaini (2003) 'WTO Negotiations on Regional Trade Agreements: African perspectives' ,*Regional Integration Research Network Project* 2002, New Horizon printing press.

Economic Commission for Africa (2004) 'Assessing Regional Integration in Africa', *ECA Policy Research Report.*

Economic Commission for Africa (2006), "Assessing Regional Integration in Africa II" Rationalizing Regional Economic Communities.

Murinde (2001) 'The FTA of the Common market for Eastern and Southern Africa' *AERC working paper* (WP/99/93).

Oyejide, A, Elbadawi E., and Collier, P (eds.) (1997). *Regional Integration and Trade Liberalization in Sub-Saharan Africa, Volume I: Framework, Issues and Methodological Perspectives*. London: Macmillan

Schiff M and Winters, A, (2003) 'Regional Integration and Development', *World Bank and Oxford University Press*, Chapter 2

Stephen, N.K., Mahinda S. and Eric E.R (2002) "Implications of the COMESA Free Trade Area and Proposed Customs Union: Empirical evidence from five member countries using GTAP Model and Database." *Regional Integration Research Network Papers*, New Horizon printing press.

Vamvakidis, A. (1998) 'Regional Integration and Economic Growth', *The World Bank Economic Review*, vol. 12, No. 2, 251-70

Venables, J.A. (1999) 'Regional Integration Agreements: A Force for Convergence or Divergence?' *World Bank Policy Research Working Paper* 2260

Venables, J.A. (2003) 'Winners and Losers from Regional Integration Agreements', *The Economic Journal*, vol. 113, No. 490 (Oct., 2003), pp. 747-761

Victor Murinde (2001) "The Free Trade Area of the Common Market for Eastern and Southern Africa." Ashgate Publishing Ltd.

Weeks, J. and Subasat, T. (1998) 'The Potential for Agricultural Trade among Eastern and Southern African Countries', *Food Policy*, 23(1): 73-88.

ANNEX

1. The EAC regional integration experience

The history of the EAC goes back to 1967 when the three founding members of the Community, i.e. Kenya, Tanzania and Uganda concluded a treaty that was perhaps the most far-reaching of early integration attempts in Africa. Ideological differences among member countries, concentration of power in the EAC Authority, lack of commitment and a single county's dominance (that of Kenya's economic dominance) were to lead to the collapse of the experiment in 1977. However, EAC regenerated itself in 1999 after a series of processes caused by a new style of governance in the region and the emergence of new perceptions of regional integration. The Community came into force in 2000 after the treaty had been ratified. In 2006 EAC admitted two other members, Burundi and Rwanda.

EAC was reestablished with the objective of integrating the sub region and enhance competitiveness through increased intra-regional trade, investment and overall production. It also aimed at creating cooperation among member countries in the areas of research and technology, defense, security and legal and judicial affairs.

Besides promoting intra-regional trade, the EAC has also made promising achievements both in the area of institutional building and cooperation among member countries. Among the institutional achievements are the establishment of a Customs Union, removal of trade barriers (both tariff and non-tariff) establishment of the Lake Victoria Basin Commission (LVBC), establishment of the EALA and the EA Court of Justice, the promotion of the East African identity and transport and communication sector. In brief, the Custom Union Protocol was signed by the then member states in March 2004 and came into effect on January 1, 2005. It requires the gradual elimination of tariffs on imports. According to the Customs Union Protocol, there are three bands of Common External Tariff on imports originating from third countries: 0% on raw materials imports; 10% on intermediate products; and 25% on finished products. Such an arrangement is expected to increase intra-trade among partner states. In addition recognizing that the Lake Victoria is another resource base of most of the member states and aware that the water body is under serious threat, EAC established the Lake Victoria Basin Commission (LVBC) to avoid the persistent decline of water levels and rising levels of pollution and hence to ensure the sustainable use of the lake.

To strengthen the institutional capacity of EAC, the East African Court of Justice and the East African Legislative Assembly (EALA) were formally launched in November 2001 and became operational pillars of the EAC. Moreover, there have been developments designed to foster the feeling of integration among the people of the EAC and to facilitate an East African identity in the past few years. Another most important move taken to facilitate economic integration is the agreement on transport and communication with the objectives of facilitating interstate road transport through reduced documentation for crews and vehicles at border crossings, harmonized requirements for operations licensing and customs and immigration regulations, among others.

The Community also made basic achievements in other areas of co-operation such as the joint promotion of the tourism industry, collective employment and poverty reduction strategies and initiatives towards foreign policy co-ordination and fast tracking for EAC Federation. In an effort to promote tourism in the partner states, the Community signed two important protocols that promote tourism in East Africa: the protocol on Environment and Natural Resources Management and the protocol for the Standards Criteria for the Classification of Hotels, Restaurants and other Tourist Facilities. Under the broad subject of cooperation in employment creation and poverty reduction, the partner countries of EAC have adopted an action program that lays focus on increased employment and poverty reduction in the region. Member states are also working to insure foreign policy co-ordination in line with the EAC Memorandum of Understanding on Foreign Policy Co-ordination.

2. The COMESA experience

COMESA was created as a preferential trade agreement (PTA) between Eastern and Southern Africa states in 1982. The initial objective of the PTA was to promote cooperation and development in the areas of trade, industry, transport, communications, agriculture, natural resources, and monetary affairs. The PTA was renamed in 1994 as the Common Market for Eastern and Southern Africa (COMESA) and as of 2011 there are 19 active member states[14] with a combined GDP of US$ 517 billion and a population of 454 million. The COMESA sub-region has managed to expand their intra-trade in recent periods especially after 2004.

The COMESA treaty called for the establishment of a Custom Union through the removal of all trade barriers and the establishment of common external tariff and rules of origin[15].To facilitate trade, COMESA members agreed in January 1993 to the following timetable for tariff elimination: 60 percent by October 1993, 70 percent by October 1994, 80 percent by October 1996, 90 percent by October 1998, and 100 percent by October 2000. Nine of the 20 members satisfied the requirement by October 2000, some countries have fully liberalized intra-regional trade, others only partially[16]. Taking note of the slow pace of the COMESA implementation, the COMESA treaty adopted two innovative approaches. The first is approach is to allow for the multiple speed (variable asymmetry) approach, which allows economic integration progress to be made at different speeds. The second approach imposes sanctions on those countries that do not implement the COMESA agreements.

To coordinate and facilitate the integration process, COMESA members established the Trade and Development Bank for Eastern and Southern Africa (the PTA Bank), the COMESA Clearing House and the PTA Federation of Chambers of Commerce and Industry. The Bank serves as the financial wing of the economic integration arrangement and provides financial assistance to promote economic and social development and trade. The objective of the COMESA clearing House is to: (i)

[14] Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe

[15] IMF(1998)

[16] ECA(2004)

promote the use of national currencies in the settlement of all transactions among member states;(ii) establish an adequate machinery for the settlement of payments among the member states; (iii) economize on the use of foreign exchange by member states in their inter-state transactions; (iv) encourage member states to promote and liberalize trade among themselves; and (v) promote monetary and financial cooperation among member states and closer relations among banks. To resolve trade disputes, the commercial arbitration center was established and a PTA tribunal was instituted to settle disputes among member states arising from the interpretation or implementation of the treaty and common decisions.

COMESA also introduced other measures to facilitate trade in the region. These include, among others: a road customs transit declaration document, a PTA customs bond guarantee scheme, simplification and harmonization of trade documents and procedures, harmonized commodity description and coding systems for customs, PTA regional Automated System of Customs Data/EUROTRADE Center, PTA Trade Information Network, and common vehicle insurance through the Yellow Card[17].

3. The ASEAN experience

The Association of South-East Asian Nations (ASEAN) was established in August 1967 and comprises 10 member states[18]. As of 2011, the ASEAN region had a total population of 598.9 million, a combined GDP of US$2,161 million, and a total trade of about US$ 2.9 trillion. The goals of ASEAN are: to accelerate economic growth, social progress and cultural development in the region and to promote regional peace and stability through abiding respect for justice and the rule of law. The ASEAN community comprises three pillars namely, ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community.

The ASEAN Security Community has the responsibility of: political development; shaping and sharing of norms; conflict prevention; and resolution; and post-conflict peace building and implementing mechanisms. To strengthen the security interdependence in the Asian-Pacific region, an ASEAN Regional Forum was established in 1994, which includes 24 participating countries[19]:

The main goal of the ASEAN Economic Community as stated in the ASEAN Vision 2020 is to create a stable, prosperous and highly competitive economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities by the year 2020. To facilitate the move towards an ASEAN Economic Community the region has agreed on the following:

- strengthening the existing Free Trade Area and establishing new economic initiatives such as a Framework Agreement on Services, and ASEAN Investment Area;

---

[17]COMESA Secretariat(2001)

[18]Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia

[19]Australia, Canada, China, European Union, India, Japan, Democratic Republic of Korea, Republic of Korea (ROK), Mongolia, New Zealand, Pakistan, Papua New Guinea, the Russian Federation, and the United States

- accelerate regional integration in the following priority sectors by 2010: air travel, agro-based products, automotives, e-commerce, electronics, fisheries, healthcare, rubber-based products, textiles and apparels, tourism, and wood based products;
- facilitate movement of business persons, skilled labor and talents; and
- strengthen the institutional mechanisms of ASEAN, including the improvement of the existing dispute settlement mechanisms to ensure expeditious and legally-binding resolution of any economic disputes

Beginning from January 2005, ASEAN-6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam) reduced tariffs to less than 5 percent on 99 percent of their products and more than 60 percent of these products have zero tariffs. For the other four countries; Vietnam, Lao PDR, Myanmar and Cambodia tariffs on about 81 percent of their inclusion list of products have been reduced to within the 0-5 percent range.

In addition to the above significant achievements, ASEAN also implemented the following major economy-related integration measures:

- Roadmap for financial and monetary integration of ASEAN in four key areas: capital market development, capital account liberalization, liberalization of financial services and currency cooperation;
- Trans-ASEAN transportation network consisting of a major inter-state highway and railway networks, including the Singapore to Kunming rail-link, principal ports, and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links;
- Roadmap for the integration of the air travel sector;
- interoperability and interconnectivity of national telecommunications equipment and services, including the ASEAN Telecommunications Regulators Council Sectoral Mutual Recognition Arrangement (ATRC-MRA) on conformity assessment for telecommunications equipment;
- trans-ASEAN energy networks which consist of the ASEAN power grid and the trans-ASEAN gas pipeline projects;
- Initiative for ASEAN integration focusing on infrastructure, human resource development, information and communications technology, and regional economic integration;
- Visit ASEAN Campaign and the private sector-led ASEAN hip-hop pass to promote intra-ASEAN tourism; and
- Agreement on the ASEAN food security reserve.

The ASEAN socio-cultural community fosters cooperation in social development aimed at raising the living standards of disadvantaged groups and the rural population with the active involvement of women, youth and local communities. ASEAN also further intensified economic integration by investing more resources in the area of public health, basic and higher education, training, science and technology development, job creation, and social protection. The major socio-cultural activities of ASEAN include the following (www.aseansec.org).

- Work program for social welfare, family, and population;
- Work program on HIV/AIDS;
- Work program on Community-based care for the elderly;
- Occupation safety and health network;
- Work program on preparing ASEAN youth for sustainable employment and other challenges of globalization;
- University network promoting collaboration among seventeen member countries in ASEAN;
- Students exchange program, youth cultural forum, and the ASEAN young speakers forum;
- The annual ASEAN culture week, youth camp and quiz;
- Media exchange program; and
- Framework for environmentally sustainable cities and ASEAN agreement on trans boundary haze pollution.

Under the ASEAN plus Three agreement, the region also expanded and deepened external relations with China, Japan, and the Republic of Korea. The ASEAN Plus Three cooperate in the areas of security and transnational crime, trade and investment, environment, finance, agriculture and forestry, energy, tourism, health, labor, culture and the arts, science and technology, information and communication technology, social welfare and development, youth, rural development and poverty eradication.