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Regional integration, poverty and the East African Community:

What do we know and what have we learnt?

by Michael Gasiorek, Bruce Byiers, Jim Rollo and CUTS International

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Key messages

The East African Community (EAC) is often upheld as an example of a successful developing-country regional economic integration process. It also receives considerable support from donors, all of whom have a clear mandate to focus on poverty reduction.

This paper considers the evidence on the poverty impact of regional integration in the EAC according to 3 S's: the scope and depth of liberalization; the structure of the economy in terms of production, consumption and trade; and the size of the constraints faced by the poor.

There is limited evidence linking EAC integration and poverty, but data suggest rising trade, and declining monetary and multi-dimensional poverty over the period of EAC integration for Rwanda, Tanzania and Uganda. There is an absence of work linking regional integration, migration and foreign direct investment.

Overall data is scarce with little formal research undertaken on the impact on poverty in the EAC. The poor face high barriers to benefitting from regional integration, with limited consideration of the political economy underlying the relevant policies and their implementation.

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Acronyms

CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community Of West African States
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNI	Gross national income
MPI	Multidimensional Poverty Index
NTB	Non-tariff barrier
NTM	Non-tariff measures
RoW	Rest of world
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SPS	Sanitary and phytosanitary
TBT	Technical barriers to trade
WDI	World Development Indicators
WTO	World Trade Organization

Executive Summary

The East African Community (EAC) is frequently held up as an example of a successful developing-country regional economic integration process, both in terms of what is in the agreement(s) themselves and in terms of implementation. It also receives considerable support from donors, all of whom have a clear mandate to focus on poverty reduction. The aim of this paper is to consider the available evidence on the poverty impact regional integration in the context of the EAC.

In the first section we provide a framework of analysis for the relationship between regional integration and poverty. In the second we discuss the available evidence on poverty in East Africa and changes over time. In the third we summarise what has actually been agreed and implemented in the EAC, and consider some descriptive empirical evidence as to the impact on trade. The fourth section of the paper then considers the more formal empirical evidence as to the impact of regional integration on trade and poverty in the region.

A framework of analysis

While there is extensive literature on the impact of regional trading agreements on trade and capital flows, as well as on the relationship between international trade, growth and poverty, there is comparatively little treatment of the possible linkages between regional integration and poverty.

A useful framework for understanding these channels and the subsequent impacts is to consider their ***immediacy*** and ***directness.*** Here we distinguish between:

- ***First order effects:*** These are the most direct and typically the most immediate, and arise from the impact on prices, incomes and government revenue.
- S***econd order effects:*** These are induced by the price changes and lead to structural adjustment. Here there may be impacts on levels and patterns of employment and production by both households and firms.
- ***Third order effects***: These describe longer run impacts on economic growth and economic transformation through increased aggregate productivity and within sector productivity growth.

These effects are interrelated and overlap but the impacts do not occur in a simple linear temporal fashion. Economic growth entails structural change, and the structural change occurs in response to changing prices and incentives. In turn structural change itself affects prices, and growth through investment will affect structural change. The effects illustrate which effects are more likely to be immediate and direct and which may take longer to transpire, as opposed to identifying which effects are bigger.

The impact on poverty will then depend on three S's:

- The **scope and depth** of liberalisation and therefore on which prices change, i.e. which sectors and products experience liberalisation of tariff and non-tariff barriers, whether investment and capital flows are included, and on whether migration between countries is allowed.
- The **structure** of the economy and, in particular, existing patterns of production and consumption and trade, both geographically within and between countries, and between different social groups within countries.
- The **size of the constraint**s faced by the poor. Liberalisation creates both opportunities and challenges. The impact on poverty will depend on the ability of the poor to overcome the constraints to taking advantage of the opportunities, and the constraints to protecting themselves from negative shocks, each as a result of the process of liberalisation.

The constraints to being able to benefit from trade liberalisation are likely to include: infrastructure and market access barriers, lack of knowledge of market conditions, economic instability and uncertainty, weak institutions and the policy environment, the position of the individual in the household, especially if female, conflict and weak rule of law, lack of access to finance, and low migration possibilities. At a micro level this also relates to the level of household assets, and whether or not they are employed or engaged in formal or informal activities. The bigger the constraints the harder it may be for the poor to seize the opportunities or to adjust to shocks caused by liberalisation.

Several factors matter in determining how regional integration affects poverty:

- The scope and depth of what is liberalised depends critically on the political economy driving the regional integration process. This will be determined by the combination of interests, incentives and power *within* and *between* countries, which in turn shape how and to what degree poverty and the interests of the poor are addressed (or not) in:
  - The design and evolution of regional agreements and commitments
  - The implementation process of agreements
  - The impact channels between integration and the lives of the poor
  - The institutional structure of a given process of regional integration.
- Asymmetry is inherent in any RTA, as the objective is to encourage greater economic integration between a subset of countries in preference to third countries. The asymmetry impacts differentially on prices and on the induced changes in specialisation and patterns of employment.
- In turn, the scope and depth of an agreement and its implementation will determine the impact on government revenue and hence poverty reducing public expenditure.
- Regional integration may lock in policy commitments, leading to more stability, with a positive impact on investment and migration flows.
- Regional agreements may encourage intra-regional infrastructure projects that are particularly important for land-locked countries/regions.
- There may be explicit regional social policies designed to impact upon poverty reduction.
- Where regional integration is supported by international donors, there may be associated donor policies designed to mitigate any negative impacts on poverty.
- Regional integration is often associated with so-called ‘deep integration’, going beyond tariff reductions to include policy and standards harmonisation, which is likely to lead to greater impacts on the distribution of income, and on poverty.
- For many developing countries, cross-border trade is important, and regional integration may be an important facilitator of such trade.
- The nature of the relationship between the regional process and integration into the world economy will affect the impact on poverty.

Impact of the EAC on trade and poverty?

The EAC is ambitious in its desire for regional integration, and there has been some progress in implementing both the customs union and the Common Market. However, considerable non-tariff barriers to integration are present, there is perforation of the common external tariff, and constraints to poverty alleviation remain.

There is a lack of evidence on the linkages between regional integration and poverty in the EAC. There is some evidence on the impact of trade flows – and even there, the picture is mixed, but there is an almost complete absence of work on the link between regional integration, migration and foreign direct investment, and scant consideration of the underlying political economy and of what is actually implemented.

Standard measures of poverty such as the poverty line or the poverty gap focus on monetary (typically income based) measures. The literature on multidimensional poverty stresses the importance of non-monetary measures of deprivation – such as access to health, education, housing, sanitation, electricity, as well as the absence of uncertainty and conflict. Multi-dimensional measures therefore take those dimensions which are considered important and for which there is data and combine them into a single measure.

Where the data is available we consider both monetary and multi-dimensional measures for the EAC countries. Data availability varies considerably across the EAC hence strict comparability is not possible. For Kenya and Burundi the years for which data is available make it difficult to evaluate changes over the period of EAC integration. This is an important constraint to measuring and tracing the impact of regional integration on poverty.

While cross-country comparisons are difficult because of the lack of data for the same years it appears that Burundi has more poverty than the other member states, but also a greater depth of poverty with poverty being lowest in Kenya. The lowest levels of inequality, measured by the Gini coefficient, appear to be in Rwanda, and the highest in Burundi, followed by Tanzania. There is some evidence of declines in poverty (both monetary and multi-dimensional) over the period of EAC integration for Rwanda, Tanzania and Uganda.

The discussion of the trade statistics strongly suggests that while the net effects, for example on the intra-regional shares of trade, may be small, this does appear to mask considerable disaggregated compositional changes for example in terms of which products are imported and exported within the EAC, or the numbers of products imported and exported.

With regard to tariff revenue, once again it is hard to obtain consistent time series of data. For all countries, except Uganda, we see a decline in the contribution of tariff revenue to total government revenues. Towards the beginning of the process of integration the share of tariff revenue in total government revenue was over 17% for Burundi and Rwanda, and between 6-10% for the remaining countries. For Rwanda the share fell to 6.7% by 2014-15. On the face of it therefore, for Kenya, Uganda and Tanzania, while tariff revenue was important, the impact on poverty alleviation expenditure may have been easier to manage.

Reliable and consistent data on investment is also scarce. The data suggests however, that Uganda and Tanzania receive the highest amounts of FDI as a share of GDP, while Burundi the lowest share. Secondly FDI fluctuates considerably over time, with little evidence that the process of regional integration has led to any increases in FDI as a share of GDP. The evidence suggests that intra-EAC FDI flows are low, but may be rising substantially.

There is little evidence from the data that EAC integration has impacted significantly on migration, though once again we need to be cautious as there is a paucity of data on this. Data for the year 2000 suggests that most migration for the Tripartite countries, is intra-regional i.e. within the EAC, COMEASA, and SADC.

There is little formal research undertaken on the impact on poverty in the EAC, with slightly more that looks more broadly at the impact on other economic outcomes such as trade. The literature provides some evidence to suggest that the EAC has had a positive impact on intra-regional trade, and that on balance this has been trade creating as opposed to trade diverting. The exception to this is Uganda which increased its tariffs on adoption of the CET.

The role of non-tariff barriers as an obstacle to integration in East Africa is a common theme, as well as poor infrastructure, weak institutions, human capacity, insecurity and political instability and the lack of private sector development. While this work does not focus directly on poverty, it illustrates the importance of the constraints faced by the poor in dealing with changing trade flows and trade barriers.

Balistreri et al. (2016) provide a CGE based assessment of the impact of the EAC and the Tripartite Agreement, together with micro-simulations for detailed poverty effects. The work distinguishes between tariff barriers, trade facilitation costs, non-tariff barriers, and the costs associated with barrier to business services. They find that greater integration is pro-poor leading to reductions in the poverty headcount in all the six regions in their model (Kenya, Uganda, Rwanda, Tanzania, COMESA and SADC). For example they conclude that closer EAC integration could lift up to 5.31 million out of poverty in the region, with the incomes of the poorest 40% rising by up between 7.5%-10% for the EAC countries.

The results are very interesting but should be treated with caution because of the underlying quality of data available, and because of the various assumptions that the authors are forced to make to be able to run the model. The numbers should therefore be treated as providing the direction of change, and some idea of relative magnitudes as opposed to precise predictions. For the work suggests that the gains from reductions in trade costs are between 10-30 times bigger than the gains from reductions in tariffs alone. The second is that the size of the gains differs across countries depending on the type of liberalisation pursued. Hence countries are unlikely to have the same strategic objectives when contemplating further integration as the outcomes are likely to be different. This raises again the importance of the political economy of the regional integration process.

There is little evidence of a positive impact of the EAC on investment and/or economic growth but this is largely because of the lack of analysis rather than a lack of positive results.

In terms of ways forward for understanding the links between regional integration and poverty in the region, there are a series of possible options:

- There is a premium on having high quality information on the nature of poor households, their sources of income and patterns of expenditure and their family characteristics. Without such data, shaping policies to help potential winners take advantage of and losers to mitigate any challenges from economic integration is very difficult.
- Even with existing data and recognising the current limitations of that data there is considerably more that can be done. This includes *inter alia*: modelling, case study work, examining cross-country price differentials, documenting and understanding the constraints to poverty alleviation better, focusing attention more on the role transport and infrastructure costs, and work using firm level (e.g. customs level transactions) data.

Finally, while regional integration will clearly impact on poverty, it cannot resolve the problem of poverty. This is partly due to the fact that the economies of East Africa comprise large informal sectors that are poorly integrated with the formal economy and large businesses; and that large segments of the populations are poor and not engaged in productive activities that benefit from cross-border transactions. In part this is because poverty in its narrow monetary sense and in its broader multi-dimensional sense depends on the physical, institutional, regulatory and fiscal infrastructure of which trade and regional integration form just a part.

Introduction

There is increasing discussion among policy makers and researchers on the links between regional integration and poverty. But direct empirical evidence on these links is limited. Conceptually, there are various channels through which regional trading agreements might impact on poverty but much depends on what is included or excluded from any given agreement and on what is actually implemented and how. This paper considers the available evidence on the poverty impact in the context of the East African Community (EAC). The EAC is frequently upheld as an example of a successful developing-country regional economic integration process, both in terms of what is in the agreement(s) themselves and in terms of implementation. It also receives considerable support from donors, all of whom have a clear mandate to focus on poverty reduction.

The structure of this paper is as follows. In the first section we provide a conceptual discussion of the relationship between trade liberalisation and poverty. In the second section we discuss the available evidence on poverty in East Africa and how it has changed over time. One of the messages that emerges from this discussion is the relative paucity of data on poverty for the countries of the East African Community, and even more so with regard to changes over time. In order to draw the link between regional integration and poverty reduction, in the third section we evaluate the extent of progress on integration in the EAC. The fourth section of the paper looks at some descriptive empirical evidence as to the impact on trade and then considers the more formal empirical evidence as to the impact of regional integration on poverty in the region. A key focus of the review is identifying to what extent there is evidence specific to integration processes as opposed to considering trade more generally. We find that the regional integration specific literature is limited and hence there are clear evidence gaps. The final section concludes.

1. Regional integration and poverty: What are the channels?

Regional integration may result in different poverty outcomes in comparison to unilateral or multilateral trade liberalisation. These differences derive first, from the asymmetric nature of the liberalisation process; second, from the scope or ambition of the regional liberalisation being undertaken; and third, from the nature of the institutional arrangements that are put into place to manage the process of regional integration. Each of these will depend on the political economy driving the regional trading arrangement.

In reviewing the evidence we also need to remember that poverty is a complex phenomenon. An important aspect of poverty is monetary and concerns the income/consumption of households and individuals. The standard measures capturing this aspect of poverty are the poverty line (e.g. how many people are living on an income of less than $x per day), or the poverty gap (the average distance from the poverty line as a percentage of the poverty line). Inequality indices, using for example Gini coefficients, are also frequently based on monetary measures. The literature on multidimensional poverty (see for example Alkire et al., 2015) stresses the fact that monetary measures often fail to capture important non-monetary measures of deprivation – such as access to health, education, housing, sanitation, electricity, as well as the absence of uncertainty and conflict. Regional integration can impact on both monetary and non-monetary dimensions.

The starting point for analysing the poverty impact of regional agreements is the literature on trade liberalisation and poverty. This literature was recently reviewed by Winters and Martuscelli (2014) and World Bank/WTO (2015). Winters (2002) identified five transmission channels through which trade can

impact on poverty: price changes and welfare; wages and employment; government revenues; economic growth; and macroeconomic stability. The aim of this section is to provide some structure around these channels while considering the characteristics of the poor, and a framework for understanding the relationship between the two.

Different orders of impact

A useful framework is to consider the ***immediacy*** and ***directness*** of the channels and their impact. For example if you lower tariffs, this is likely to have an immediate and direct impact on the price of imported goods, and thence on poverty. There are other channels which take longer to work through to the poor. To capture immediacy and directness we distinguish between the first, second, and third order effects of regional integration. The effects are summarised in the box below, and the diagram provides a schematic representation of the effects mapped onto the channels. Each of these is then discussed in more detail in the main body of the text.

Box 1: The 1st, 2nd, & 3rd order effects of regional integration

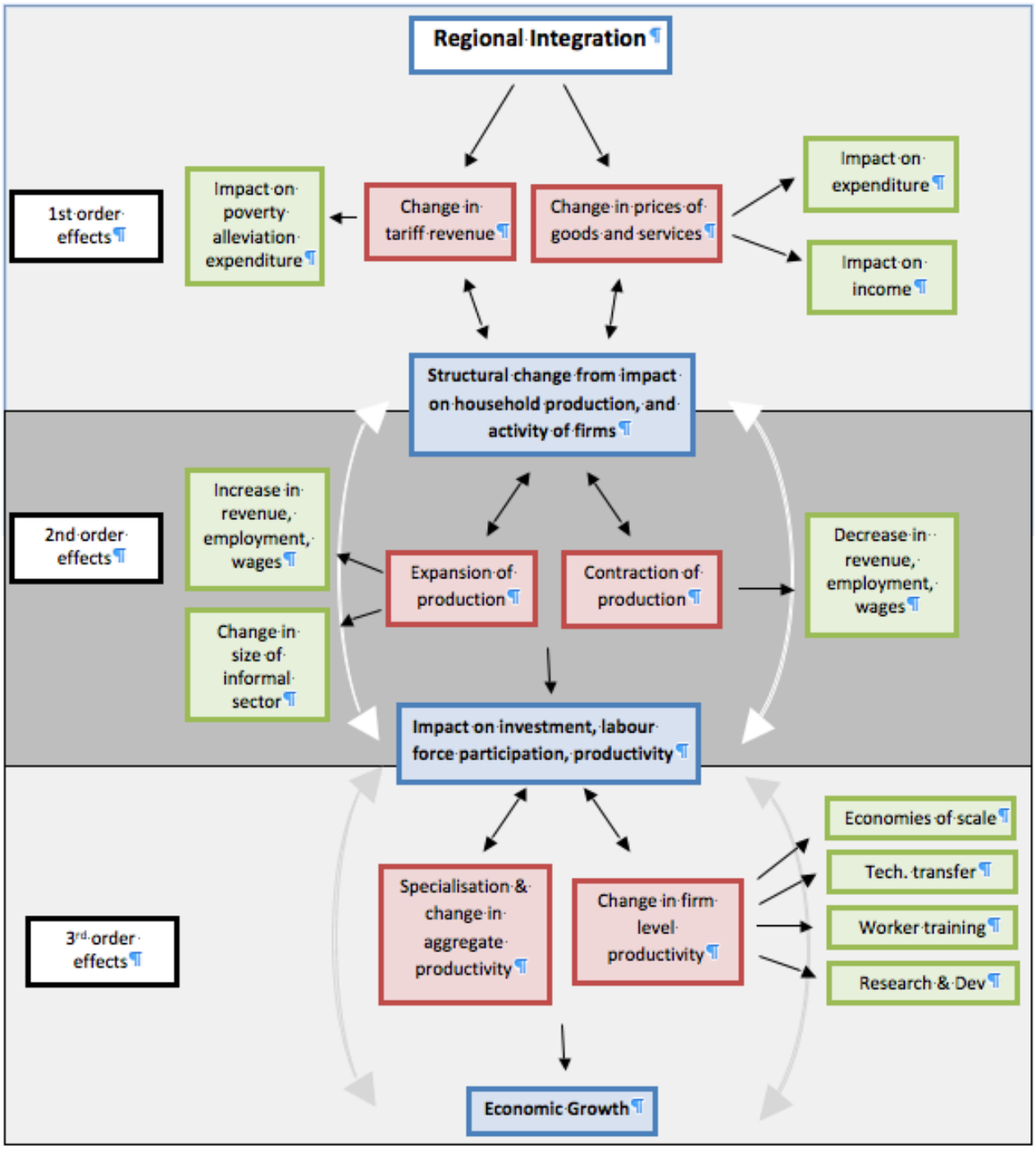
First order effects: These are the most direct and typically the most immediate, and arise from the impact on prices, incomes and government revenue.
S*econd order effects:* These are induced by the price changes and lead to structural adjustment. Here there may be impacts on levels and patterns of employment and production by both households and firms.
Third order effects: These describe longer run impacts on economic growth and economic transformation through increased aggregate productivity and within sector productivity growth.

The first, second and third order effects are interrelated and overlap and the impacts do not occur in a simple linear temporal fashion. Economic growth entails structural change, and the structural change occurs in response to changing prices and incentives. In turn structural change itself affects prices, and growth through investment will affect structural change.

The effects illustrate which effects are more likely to be immediate and direct and which may take longer to transpire, as opposed to identifying which effects are bigger. Hence in the longer run economic growth could have a much more substantial impact on poverty reduction than the first order price effects.

Poverty for a household or individual depends on how income is earned and on expenditure patterns. The ***first order*** effects thus depend on how prices change. Lower prices (from tariffs reductions, improvements in transport infrastructure, or increased competition) lead to increased welfare for consumers, and for producers buying intermediate inputs. Similarly improved access to export markets may increase the incomes of producers. On the other hand, increased competition in export markets and domestically may drive prices down and therefore reduce incomes for producers. Importantly, and as discussed earlier, many households in developing countries are likely to be both producers and consumers and so the net effects will be complex. Access to health, education, and social security is an important aspect of poverty and if regional integration impacts on government (tariff) revenue this may lead to reductions in expenditure on public services, with consequent direct and immediate impacts for the poor.

The ***second order*** effects focus on structural change: the expansion and contraction of different sectors/industries and the impact on wages and employment. Labour is a key asset of the poor, hence the importance of the effects that trade can have on wages and employment opportunities. This will depend on the initial composition of employment by industry and location, and then on how the changes in policy impact on those, and on the ability of the poor to respond to the changing incentives.



In many cases the poor tend to be unskilled, and poor countries tend to be relatively abundant in unskilled labour, often operating in unrecorded or informal activities. Structural change which reduces demand for unskilled labour is therefore more likely to increase poverty. Similarly the poor are often concentrated in agricultural/rural areas. Reductions in poverty are more likely where there is agricultural (productivity) growth or if there are possibilities to move to other activities within the same geographical area. Such movement is often difficult. There may be barriers to labour mobility for workers, and barriers to the entry, growth and exit of firms.

The ***third order*** impacts are concerned with economic growth, which is probably a necessary, though not a sufficient condition for poverty alleviation. And this is because it depends on the pattern of growth, and the

extent to which growth is employment creating. Economic growth can occur either because of (a) increases in capital and labour (for example from investment, migration or increased labour force participation)[2]; or (b) from specialisation either across sectors (comparative advantage), or within sectors (more efficient firms expanding, integration in value chains); or (c) from producing more efficiently, for example, from R&D, technology transfer, worker training or economies of scale. Regional integration is likely to impact on each of these in a range of ways, driven by greater access to markets in turn encouraging investment, migration, producing a more competitive environment, providing greater knowledge of markets, opportunities and alternative techniques, and economies of scale at the regional level.

Economic growth and structural changes are interconnected. Suppose the structural change leads to the economy specialising in lower productivity, more unskilled-labour intensive activities. If the increased demand for labour is drawn from more productive activities, this can lead to a decline in aggregate productivity and therefore lower growth in the economy. If the increased employment comes from the unemployed or under-employed then it can lead to economic growth. Concerns about 'de-industrialisation' in Africa are precisely about the nature of structural change leading both to unemployment and underemployment and the move to lower productivity service sector activities (Page, 2016; Rodrik, 2015).

The role of the three S's: Scope, Structure and Size of the constraints

The World Bank/WTO (2015) propose four characteristics of the poor which are key to understanding the transmission of the impacts: the poor live in rural areas, they frequently reside in fragile or in conflict states, they operate mostly in the informal sector and households are often managed by women. Hence to understand how trade might impact on poverty we need to understand how it interacts with such characteristics.

For this it is important to note that trade and regional integration create ***opportunities*** and ***challenges***. The former refers to the ability of the poor to benefit from the liberalisation. For example for consumers this could be lower prices from cheaper imports, increased employment and/or higher wages in expanding sectors; and for producers this could be improved access to export markets, cheaper and/or higher quality intermediates, or increased investment. The latter is concerned with the ability of the poor to respond/adjust to negative shocks. For producers this could mean competition from imports leading to reduction in sales/income, for workers the competition from imports could lead to a reduction in employment and/or wages. Reductions in tariff revenue could lead to a decline in expenditure on poverty alleviating measures (health, education, and social security).

The impact on poverty, therefore, will depend on the ability of the poor to respond both to the opportunities and to the challenges. More specifically, the impact on poverty will be conditional on three factors:

1. The ***scope*** and depth of liberalisation – i.e. which sectors and products experience liberalisation and so which prices and quantities change.
2. The existing ***structure*** of production, and consumption.
3. The ***size*** of the constraints faced by the poor either to take advantage of the opportunities created by the process of liberalisation; or to protect themselves from negative shocks.

Scope and depth: Which prices and sectors are impacted upon will depend on the regional specificities and on which sectors are liberalised. Tariff liberalisation within RTAs under GATT Article XXIV are supposed to cover 'substantially' all trade, where substantially all is typically taken to mean 90% of product lines traded, though of course it can be more. Clearly, which products are included matters considerably for

[2] Changes in the stock of labour or capital generate changes in overall levels of economic activity (GDP), though not necessarily GDP per capita. For that you need changes in productivity.

the impact of the regional integration process on poverty. This is even more the case where the regional integration takes place under the Enabling Clause that gives countries full autonomy as to which sectors are included and therefore how many sectors are included. In turn reductions in tariffs impact on government revenue and hence reduce the scope for poverty mitigating expenditure.

Regional integration increasingly includes measures of 'deep' integration. To what extent such measures are introduced and their characteristics will impact on products/sectors and their prices. Consider cross-border trade common between many African countries where trade takes place in local markets often between ethnic groupings situated on either side of a border. Regional integration may facilitate increased cross-border trade, for example arising from the simplification of customs formalities, thus leading to increased access to markets, and changes in prices in turn leading to changes in incomes and employment possibilities. Similarly, to the extent that an RTA deals with standards (e.g. mutual recognition, or harmonisation) and conformity assessment, then this impacts directly on what can be traded and the prices at which those goods can be traded.

The scope and depth will in turn depend on the political economy underlying the agreement - the interactions between the actors involved in the process, such as governments, the private sector, and external agencies and donors each of whom can play an important role.[3] This entails taking into account the interests and institutions guiding the behaviour of state and non-state actors, the specificities of the different sectors and sub-sectors involved, and the different 'arenas' in which regional bodies, national governments and non-state actors interact. These factors also affect the extent to which implementation occurs, and the consequences of non-implementation, if any. Closely related to this is whether the process of regional integration creates its own dynamics that lead to further and deeper regional integration subsequently.

Structures of production and consumption and trade: The way that changes in tariff and/or non-tariff barriers impact on poverty depends on the existing structures of production and consumption, on the distribution of these geographically, and between different groups within the country (rural/urban; formal/informal), and on how production, consumption as well as domestic and international trade are organised. For example, if agricultural or consumer products are liberalised and these form a significant part of the consumption bundle, then this increases the real incomes of consumers. For domestic producers of those products, however, their incomes may fall as foreign competition induces lower prices. It is also possible that the liberalisation provides increased export opportunities for producers, as well as the ability to source higher quality or cheaper intermediates, increasing their competitiveness. Each of these may increase producer incomes. The changes in trade policy are also likely to cause changes in production, employment and wages across different sectors, affecting those working in the formal and informal sectors. This again will impact differentially depending on what is being liberalised, in which sectors there is domestic production and where consumers and producers are located.

Size of constraints: Finally, the impact on poverty will depend on the constraints faced by the poor, be they consumer or producers, in the economy, where these constraints may refer to the quality of institutions and infrastructure quality, levels of education, the business environment, and governance. The constraints will impact on (a) the ability of the poor to respond/adjust to negative shocks, and (b) on the ability of the poor to benefit from the liberalisation, and seize the opportunities which may arise. Take

[3] See: Byiers, B. and J. Vanheukelom. 2014. *What drives regional economic integration? Lessons from the Maputo Development Corridor and the North-South Corridor*, ECDPM Discussion Paper 157; ECDPM. 2014. *Arguing a political economy approach to regional integration*. AFDB.; Brenton, P. and B. Hoffman. 2015. *Political Economy of Regional Integration in Sub-Saharan Africa*, World Bank Group.

standards as an example. Producing to appropriate standards may provide greater access to export markets for producers but may also raise domestic prices.

The constraints to being able to benefit from trade liberalisation are likely to include: infrastructure and market access barriers, lack of knowledge of market conditions, economic instability and uncertainty, weak institutions and the policy environment, the position of the individual in the household, especially if female, conflict and weak rule of law. At a micro level this also relates to the level of household assets, and whether or not they are employed or engaged in formal or informal activities. The bigger the constraints the harder it may be for the poor to seize the opportunities arising from lower prices, increased employment and higher wages in expanding sectors, and improved access to export markets. Similarly there may be constraints to being able to adjust to shocks caused by liberalisation – for example constraints on firms being able to adjust to increased import competition because of poor infrastructure, lack of access to finance, poor administrative capacities and/or government policies such as export taxes; for individuals this may be lack of access to social security, low internal migration possibilities or macroeconomic instability. Once again the bigger the constraint the harder it is for these adjustments to take place.

The impact on poverty will be complex and highly dependent on the pre-existing conditions, the specific provisions included in each regional agreement and how these interact with the constraints. As stressed earlier there is likely to be a differential impact depending on whether one is considering the opportunities derived from the liberalisation or the adjustment to negative shocks arising from that liberalisation.

What is specific to regional integration?

With this framework in place we can then consider the ways in which regional integration, in comparison to trade liberalisation more generally may impact on poverty:

1. The scope and depth of what is liberalised will depend critically on the political economy driving the regional integration process. What is agreed between countries, what is actually implemented, over what time period, and how the process of integration subsequently evolves, depend on the combination of interests, incentives and power both *within* and *between* countries, which in turn shape how and to what degree poverty and the interests of the poor are addressed (or not) in:
    - The design and evolution of regional agreements and commitments
    - The implementation process of agreements
    - The impact channels between integration and the lives of the poor
    - The institutional structure of a given process of regional integration.

2. Asymmetry is inherent in any RTA, as the objective is to encourage greater economic integration between a subset of countries in preference to third countries. The asymmetry and the substantially all trade rule allows for differential treatment of sectors, which then has implications for poverty through its impact on prices and on the induced changes in specialisation and patterns of employment.

3. In turn this will determine the impact on government revenue and hence the potential for public expenditure on poverty alleviation/mitigation and/or rent distribution. Here, the collection and distribution of Common External Tariff (CET) revenue in a customs union may be important.

4. Regional integration may lock in policy commitments, in particular if the agreement contains binding dispute settlement clauses, and in so doing may be more likely to promote greater stability, with a

positive impact on investment and migration flows. In a context of effective institutions and rule of law, this will impact on the second and third order effects on poverty in the medium to longer run.

5. There may be intra-regional infrastructure projects (e.g. transport corridors, development of ports), and these may be particularly important for land-locked countries/regions. These projects may have an important effect on poverty as they can have a significant impact on the mobility of goods and people, but at the same time infrastructure investment takes longer to implement hence such projects would have second and third order effects.

6. There may be explicit regional social policies designed to impact upon poverty reduction such as the EU's regional social policy, ECOWAS' regional labour courts, or cooperation in SADC on child labour, communicable diseases, or SAARC's social charter.[4] To the extent that there are either explicit social or regional policies included in a given agreement, and/or supranational bodies with responsibility for such issues, this may be important for managing cross-country, inter-regional, and inter-industry distributive effects of closer integration.

7. Related to this, where regional integration is being encouraged and supported by international donors, there may be accompanying donor policies to mitigate impacts on poverty.

8. To the extent that regional integration includes elements of deeper integration, be this with regard to the mobility of labour or capital, the liberalisation of services, or the reduction of regulatory barriers to trade, this is likely to lead to larger overall effects, and is consequently likely to have a greater impact on the distribution of income, and also on poverty. For example, this could occur because it allows firms and industries to specialise more according to their comparative advantage. Secondly, and possibly more significantly, deeper integration may allow firms to integrate more into international value chains which in turn can lead to economies of scale and the transfer of technology and managerial know-how. Regional integration schemes may facilitate cross-border trade by simplifying (regional) customs formalities and through infrastructure improvements.

9. Finally, the nature of the countries engaged in a given regional process and the level of their integration into the world economy will affect the poverty impacts. Agreements between developed countries (North-North RTAs) will have different effects to those between developing countries (South-South RTAs) or between developed and developing countries (North-South RTAs). This will be driven by different levels of productivity/competitiveness as well as difference in the levels of diversification. The less diversified an economy is, the greater is the probability that the effects may impact on particular sectors with larger distributional implications. Highly specialised developing countries with a narrow range of products may be limited in the extent to which they can benefit from further specialisation gains based on their existing patterns of production. North-South FTA, signed between countries with different export structures, may have significant trade creation effects as long as these advantages have not already been exploited, for example in the case where the level of protection is low before the implementation of the agreement.

[4] See Yeates, N. 2014. *Global Poverty Reduction: what can regional organisations do?* PRARI Policy Brief. No.3.

2. Poverty in the EAC

In this part of the report we summarise the available evidence on poverty for the EAC member states with a view to seeing whether there is any evidence that regional integration could have had an impact. The data on poverty is relatively limited in particular with regard to changes over time. Some of the data is based on national data, using national poverty lines and which therefore makes it difficult to be used for cross country comparative purposes.

Poverty is a complex phenomenon. An important element of poverty is monetary and concerns the income/expenditure of households and individuals. This dimension of poverty can be summarised using standard measures such as the poverty line or poverty headcount measure (e.g. how many people are living on an income of less than $x per day), or the poverty gap (the average distance from the poverty line as a percentage of the poverty line). Inequality indices, using for example Gini coefficients, are also frequently based on monetary measures. The literature on multidimensional poverty (see e.g. Alkire et al.) stresses the fact that monetary measures often fail to capture important non-monetary measures of deprivation – such as access to health, education, housing, sanitation, electricity, as well as the absence of uncertainty and conflict. Multi-dimensional measures therefore take those dimensions which are considered important and for which there is data and combine them into a single measure.

Regional integration can clearly impact on both monetary and non-monetary dimensions. With respect to the first order effects this is through the impact of the regional integration process on prices, incomes, government revenue. With respect to the second and third order effects this can occur, for example, through the consequent changes on the structure of the economy, on any changes in physical and institutional infrastructure, and on the provision of public goods such as health, education, sanitation by the governments.

As discussed in more detail in the subsequent section, since the actual reductions in tariff and non-tariff barriers in the EAC took place after 2005 we want to understand the changes in poverty over this period, if possible, in comparison to the period before, and to relate this to the process of integration. It is worth noting that GNI per capita for the five countries in 2014 was: Burundi, $270; Kenya, $1290; Rwanda, $700; Tanzania, $920; and Uganda $670.[5] Each of the countries is classified by the World Bank as a low-income country, except Kenya which since 2015 is classified as a low-middle income country. Over 2005-2014 real GNI per capita for each of the countries rose, and these changes were for Burundi, 10.2%; Kenya, 23.7%; Rwanda, 54.3%; Tanzania, 33.2%, and Uganda 35.6%.[6] This means that the gap between Burundi and all the other EAC member states widened over this time period; while the gap between Rwanda, Tanzania and Uganda with respect to Kenya narrowed.

The main sources of information with regard to the monetary measures of poverty are the World Bank's World Development Indicators, supplemented by national data. This information can be seen in Table 1, which provides the available information for the poverty gap, and the headcount measures. The data availability varies considerably across the countries in terms of the years for which data is available, which in turn means that strict comparability across countries is not possible. In the table therefore we group the years and for each country provide the data which is available for that year range. We choose year ranges to try and capture the period prior to the process of integration, the period at the time the integration process commenced, and then the most recent data following several years of integration. The earliest year for which data is available for Kenya is 2005, and for Burundi it is 2006. This means that while we can

5 GNI per capita, Atlas method, from the World Bank, World Development Indicators.
6 Source: ibid.

compare base levels of poverty around the onset of the EAC integration process, for these countries it is not possible to evaluate the impact of that integration on poverty.

The data on multidimensional poverty in the region comes from the Oxford Poverty and Human Development Initiative (OPHI).[7] See Table 2 below. Where the data is available we present this for more than one year, though once again, the years for which data are available are not consistent across the EAC countries. There is also information at the national, urban and rural level. There are two measures based on the OHPI calculations. First, the headcount measure of poverty (H), this gives the proportion of the population that is multi-dimensionally poor.[8] This headcount measure is multiplied by the average intensity of poverty in order to derive the Multidimensional Poverty Index (MPI).[9] Table 3, uses the information in Table 1 to provide some relevant comparative statics.

Consider first base levels of poverty over 2005-2007 where we take the poverty headcount ratio at $1.90 per day (Table 1). The headcount ratio is highest in Burundi (77.7%), and lowest in Kenya (33.6%). The headcount ratio of Burundi relative to Kenya, Rwanda, Tanzania and Uganda respectively is: 2.3, 1.14, 1.46, and 1.47. Hence, there are 2.3 times as many poor (defined as having less than $1.9 per day) in Burundi in comparison to Kenya. If we take the ratio at $3.10 per day, once again we see that the headcount is highest in Burundi (92.2%), and lowest in Kenya (58.9%). The ratio of the headcount measure in Burundi to Kenya, Rwanda, Tanzania and Uganda respectively at $3.10/day is: 1.57, 1.1, 1.21, and 1.18. The differences between these two sets of ratios indicate not only that Burundi has more poverty than the other member states, but also a greater depth of poverty. This is also reflected in the poverty gap indicators, where once again we see Burundi with the largest poverty gap indicator, and Kenya with the lowest, as well as in the degree of inequality between the five countries, with the lowest levels of inequality (measured by the Gini coefficient) in Rwanda (at 51.3 in 2010), and the highest in Burundi (33.4 in 2006), followed by Tanzania (37.9 in 2011).

These figures are broadly consistent with the information available from the countries' national statistical offices. In addition the national data provides evidence that rural poverty is typically higher than urban poverty. Hence, for example for Burundi in 2006, and using the national poverty line the rural headcount ratio was 69% and the urban headcount ratio was 34%[10]; for Kenya for 2006 the ratios were 49.1% (rural) and 33.7% (urban).[11]

Similarly if we consider the headcount measure of multi-dimensional poverty (columns shaded in grey in Table 2), cross-country comparability can be seen by looking at the last row for each of the National, Urban and Rural categories. Across each of these Burundi has the highest headcount measure, with over 80% of the overall population being considered as multi-dimensionally poor. In contrast, in Kenya 51.2% of the population are multi-dimensionally poor. For all of the countries rural poverty is significantly higher than urban poverty.

7 See www.ophi.org.uk

8 This is based on three overall dimensions which are Education, Health, and Standard of Living. These are then sub-divided into ten specific indicators, such as years of schooling, child mortality, sanitation, which are given an equal weight in the calculation of the index. An individual is considered as multi-dimensionally poor if they are deprived in at least one-third of the indicators.

9 The MPI is provided to 3 decimal places while headcount (H) to one decimal place in the original source (Alkire et al., 2016) – in the tables in this paper MPI is provided to 2 decimal places.

10 IMF, 2010.

11 Kenya Integrated Budget Survey, 2005/6.

Table 1: Poverty gap and poverty headcount for the EAC

		Burundi		Kenya		Rwanda		Tanzania		Uganda	
	Period	Gap	H	Gap	H	Gap	H	Gap	H	Gap	H
$1.9/day	1997-2000	44.8	84.1	5.6	21.5	37.9	77.0	44.5	85.0	19.2	52.1
	2005-07	32.9	77.7	11.7	33.6	31.1	68.0	19.0	52.7	19.4	53.2
	2010-12	n.a.	n.a.	n.a.	n.a.	23.7	60.3	14.4	46.6	10.1	33.2
$3.1/day	1997-2000	62.8	95	16.6	45.9	56.1	90.0	62.6	95.3	37.6	77.5
	2005-07	53.6	92.2	25.5	58.9	49.1	84.1	37.6	77.9	37.8	76.3
	2010-12	n.a.	n.a.	n.a.	n.a.	42.6	80.7	33.6	76.1	25.6	63.0

Source: World Bank, World Development Indicators

Table 2: Multidimensional poverty indicators for the EAC

		Burundi		Kenya		Rwanda		Tanzania		Uganda	
		MPI	H	MPI	H	MPI	H	MPI	H	MPI	H
National	2003			0.3	60.1						
	2005-06					0.46	82.9			0.42	77.9
	2008							0.37	65.7		
	2010*	0.45	80.8	0.24	51.2	0.33	66.1	0.34	61.1	0.34	66.8
Urban	2003			0.12	26.3						
	2005-06					0.3	58.7			0.2	42.4
	2008							0.20	39.5		
	2010*	0.21	43.1	0.07	17.5	0.19	40.5	0.18	34.8	0.12	26.6
Rural	2003			0.34	68.4						
	2005-06					0.49	87.2			0.45	83
	2008							0.42	72.8		
	2010*	0.48	84.9	0.29	59.4	0.35	70.2	0.38	68.9	0.38	73.9

Source: OPHI individual country reports; *Kenya, 2009, Uganda, 2011

Table 3: Comparative statistics on poverty

		Burundi		Kenya		Rwanda		Tanzania		Uganda	
		MPI	H	MPI	H	MPI	H	MPI	H	MPI	H
Relative to Burundi (2010)	National	n.a.	n.a.	1.88	1.58	1.36	1.22	1.32	1.32	1.32	1.21
	Urban	n.a.	n.a.	3.00	2.46	1.11	1.06	1.17	1.24	1.75	1.62
	Rural	n.a.	n.a.	1.66	1.43	1.37	1.21	1.26	1.23	1.26	1.15
Change (ratio of most recent year to earlier year)	National	n.a.	n.a.	0.80	0.85	0.72	0.80	0.92	0.93	0.81	0.86
	Urban	n.a.	n.a.	0.58	0.67	0.63	0.69	0.90	0.88	0.60	0.63
	Rural	n.a.	n.a.	0.85	0.87	0.71	0.81	0.90	0.95	0.84	0.89
Urban/Rural (2010)		0.44	0.51	0.24	0.29	0.54	0.58	0.47	0.51	0.32	0.36

Source: Calculations based on preceding table

Arndt et al. (2015) suggest that Tanzania has not been successful in translating growth into poverty reductions, in comparison to other countries in the region. Table 1 suggests that from the mid 2000s onwards we see a continued and comparable decline in poverty for Rwanda and Tanzania, and more substantial decline in Uganda.[12] For Rwanda and Tanzania, the poverty gap at $1.9/day declined by around 25%, and the headcount measure by around 11%. For Uganda the poverty gap decreased by nearly 50% and the headcount ratio by nearly 40%. As stated earlier, we need to be careful with regard to strict comparability as the data for Uganda is for a longer time period (2005-2012), than for Rwanda (2005-2010), or Tanzania (2007-2011). Nevertheless it seems clear that there were marked differences between the countries. According to the Uganda National Household Survey (2012/13) the rural poverty headcount ratio was 22.8%, and the urban was 9.3%. In contrast in Tanzania for 2011/12 the rural poverty headcount ratio was estimated at 33.3% and the urban rates for Dar es Salaam and other urban areas were 4.2% and 21.7% respectively.[13]

We do not have the evidence to assess the changes for Burundi or Kenya. In Rwanda although rural poverty is higher than urban, over the period 2011-14 there was a 24.4% increase in business establishments and this was mainly in rural areas where the increase was 38.1% compared to 7.3% in urban areas. Over the same period, 34.5% new jobs were created by the businesses, 47.9% in rural areas compared to 22.4% in urban areas.[14] Van Campenhout (2014) points to the more substantial declines in urban poverty for Uganda, and similarly Arndt et al. find more substantial poverty reductions in Tanzania for Dar es Salaam. In slight contrast to these findings Diao et al. (2012) suggest that the decline in the national poverty rate resulting from agriculture-led growth can be up to four times larger than the decline resulting from non agriculture-led growth - 1.3 for Ethiopia, 1.6 for Nigeria, 3.1 for Rwanda and 4.3 for Kenya.

If we take the changes in the GNI per head in real terms over two time periods (1995-99 and 2010-14) and correlate these with the changes in poverty headcount over the same time period for all countries for which data was available in the World Development Indicators, the correlation coefficient is -0.17. Hence, increases in GNI per capita on average are associated with a decline in the poverty head count ratio – but the relationship is not very strong.

While the preceding statistics are informative and indicate reductions in overall poverty for at least three of the EAC states over the period of greater regional integration, what is also clear from this discussion is the paucity of the data. The most recent data for Kenya is for 2005, and for Burundi 2006. This makes it impossible to ascertain any changes in poverty over the period of closer integration. Similarly for Rwanda and Tanzania the data is somewhat scarce with the latest available years being 2010 and 2011 respectively. The most complete data exists for Uganda, where the data is available up to 2012, and for several of the preceding years. This represents an important basic constraint to measuring and tracing the impact of regional integration on poverty. Nevertheless for those countries for which there is some data over the relevant period (Rwanda, Tanzania and Uganda) there is evidence of declining poverty.

Table 3 uses the information from Table 2 to provide some comparative statistics with regard to multidimensional poverty. In the top panel of the table we take the measures for 2010[15] and look at poverty relative to the poorest of the EAC countries – Burundi. Hence if you take the first entry for Kenya we see

[12] A recent paper by Gaddis for the World Bank, however, shows that how prices are measured can matter critically for poverty measurement. He gives the example that Tanzania's national poverty decline from 36% to 34% from 2001-07 on the basis of a price index computed directly from national household budget survey. If instead the calculation was based on the national consumer price index (CPI), as is done in Uganda, the decline in the poverty rate would have been from 36% o 18%.

[13] Tanzanian National Bureau of Statistics, 2013.

[14] NISR, 2014.

[15] Remembering that for Kenya the year is 2009, and for Uganda it is 2011.

that the MPI for Burundi was 1.88 times higher than in Kenya, while the headcount measure was 1.58 times higher. Similarly we see that the poverty differential between Kenya and Burundi is more pronounced with regard to the urban population (3.00 and 2.46 for MPI and H respectively), than with respect to the rural population (1.66 and 1.43 respectively). There is a similar pattern when comparing Uganda with Burundi in the last two columns of the table. In contrast, if we compare Burundi with Rwanda and Tanzania, there is a bigger difference in the poverty levels of the rural poor than the urban poor.

The middle panel of the table considers the change in poverty for each of the countries, where we simply take the ratio of each of the poverty measures over time. Once again if we take the first entry for Kenya the figure of 0.8 means that the MPI in 2010 is 80% of the MPI in the earlier period (2003), and so poverty has declined by 20% over the period 2003-2010. What is interesting here is that the poverty reductions in Kenya were much more pronounced with regard to the urban poor in comparison to the rural poor. This greater reduction in urban poverty is true for all the countries (except Burundi for which we only have one year's data and hence a temporal comparison cannot be made).

The final row of the table takes the ratio of urban to rural poverty for 2010. Hence, the smaller this number is the bigger rural poverty is relative to urban poverty. We see that the biggest differences are for Kenya and the smallest differences are for Rwanda. This confirms the information seen earlier when looking at the standard measures of the poverty gap and poverty headcount ratio.

3. Regional integration in the EAC

The East African Community came into being in 1999, with the signing of the Treaty for the Establishment of the East African Community by Kenya, Tanzania and Uganda, and which entered into force in July 2000. The Treaty is ambitious, and Article 5 envisages increasingly deeper integration with the ultimate objective of Political Federation. This was followed by the Customs Union Treaty (2005), which established a CET on imports from third countries and duty free trade between the member states. Rwanda and Burundi joined the Community in 2007. Further integration took place with the signing of the Protocol on the Establishment of the East African Community Common Market (2010) which shifted the focus from just goods and tariffs to NTMs and the free movement of goods, labour, services, and capital. Finally an agreement on the future establishment of the EAC Monetary Union was signed in 2012. The various treaties and subsequent protocols include numerous statements as to the goals of economic growth, equitable development, raising standards of living, the aim of reducing existing imbalances – but there is little explicit discussion of poverty. Implicitly poverty reduction was therefore seen as a likely natural consequence of the higher growth arising from the process of integration.

The underlying motivations for re-engaging with regional integration varied across the countries, with access to regional markets typically being seen as important for Kenya, access to ports and transport infrastructure significant for the landlocked countries (Uganda, Rwanda and Burundi), and pan-African ideology as a key factor for Tanzania, as well as the importance of personal relations between the leaders.[16] In the process of integration, countries then have strategic offensive interests such as the desire for market access or improved infrastructure; and defensive interests with concern for example regarding disproportionate distribution of the benefits (in favour of Kenya), to concerns about migration from high population density countries such as Rwanda.[17] The differences in the underlying motives and strategic

[16] See Booth et al., 2007; Byiers et al., 2015; World Bank, 2012; Fanta, 2008.
[17] Cooksey & Kweka, 2014; Mkali, 2012.

interests drive what is agreed and implemented and therefore help shape the consequent impacts on poverty. This can be seen for example in Tanzania's concerns about the impact of the Northern Corridor transport initiative on the port of Dar-es-Salaam. The differences in objectives have been highlighted over the last year through the emergence of the 'coalition of the willing' – Kenya, Uganda and Rwanda keen to press ahead with further integration, with Tanzania being more sceptical.[18]

The agreements are explicitly designed to enable "flexible regimes of cooperation as opposed to containing rules requiring scrupulous and rigorous adherence" (Gathi, 2011). As such there is discretion as to what is either agreed upon and/or implemented contains, depending on the 'interest of politicians' (Booth et al., 2007). This highlights the importance not only of what is in the agreement but of implementation, which in turn will be driven by the nature of the political settlement within and between the countries. That political settlement will depend on the power relations and interests between politicians, bureaucrats, donors, civil society and on the role of the private sector which varies considerably across the countries of the region.[19]

With regard to intra-regional trade, the Custom Union protocol provided for the elimination of all internal tariffs and other charges of equivalent effect on trade amongst partners states over a five year transitional period which ended in 2010. The process implicitly, if not explicitly, took account of different countries' interests and concerns, as the Treaty allowed for a differential rate of tariff reductions on the basis different levels of economic development of the partner states, and allowed both Uganda and Tanzania to liberalise their tariffs on imports from Kenya more gradually.[20] Kenya was the least dependent on EAC imports of all EAC countries, therefore minimising the harm that this might cause Kenyan producers.

The EAC CET had different rates for raw materials (0%), intermediate products (10%) and finished goods (25%). At the time of adopting the CET, the EAC estimated that the average applied tariff was 11.6%, below the previously applied average tariffs of 16.8% for Kenya, and 13.5% for Tanzania but above Uganda's 9%.[21] The previous maximum tariff levels were: Kenya, 35%; Tanzania, 40%; and Uganda, 15%. Application of the CET therefore reduced Kenyan and Tanzanian protection with respect to the rest of the world but increased protection for Uganda.

While much has been achieved on paper, key issues remain

From the beginning, the EAC allowed exceptions to the CET, and barriers to free circulation of goods within the EAC remain. Both these exceptions and remaining barriers have an impact on the poor.

The CU Treaty (2005) allowed for the provision of a list of sensitive products in trade with third countries and with different tariff rates for each member of the EAC. This means that actual applied tariffs on these products are more important than the CET schedules when assessing potential impact on incomes and expenditures of poor households. Negotiations around the sensitive products list led to exceptions for 59 sensitive products, 31 of which were agricultural, with high levels of protection ranging from 35 to 100%. Most notably these cover different types of sugar (100%), rice (75%), wheat (60%) dairy products (60%) and maize (50%) as well as second-hand clothes; all key consumption goods for poor households.

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18 Though recently, with a new president, Tanzania appears to have succeeded over Kenya to host the pipeline carrying Ugandan oil, perhaps representing a renewed interest in regional integration.

19 See for example, Collier and Reinikka, 2001 and Whitworth and Williams, 2010, on economic liberalisation in Uganda; http://africanarguments.org/2016/01/11/kenya-has-become-a-bandit-economy-says-chief-justice-willy-mutunga/ on the influence of large companies in Kenya; and Onyango (2014) on the limited engagement of civil society.

20 The Republic of Burundi and the republic of Rwanda had not yet joined the community and were not part of these provisions.

21 EAC, 2009b. p.14.

Table 4 below gives an upper bound of the share of sensitive products defined at the 6-digit level in the exports and imports of each of the EAC states for 2004, 2010, and 2014.[22] The share of sensitive products in imports was most significant for Uganda and Rwanda, and least significant for Kenya (see also Willenbockel, 2012). Also, at the beginning of the period, the share of imports was in all cases substantially higher than the share of exports, suggesting that it was primarily import-competing industries that were being protected and would thus help to mitigate against negative poverty impacts for producers and/or workers of these products. By the end of the period, the share of sensitive products in imports had declined for all countries except Rwanda, and the share of the sensitive products in exports had risen for all the countries, and notably for Uganda, where the share rose from 2.35% to 11.23%. This tentatively suggests that the protection provided may have helped the protected industries expand.

Table 4: Share of sensitive products in trade with the world

	2004		2010		2014	
Reporter	Imports	Exports	Imports	Exports	Imports	Exports
Burundi	9.36	4.87	17.11	1.79	9.08	5.70
Kenya	6.03	2.56	5.57	4.50	Na	Na
Rwanda	10.11	1.27	11.65	1.41	13.35	7.25
Uganda	11.23	2.35	8.39	11.41	7.96	11.23
Tanzania	9.64	5.40	6.35	2.78	5.07	3.26

Source: Own calculations from Comtrade data

From a political economy perspective, Kenyan, Tanzanian and Ugandan interests appear to have aligned around wheat and maize production. In dairy, Kenya and Tanzania are among the biggest dairy producers in Africa, and Kenyans are the biggest per capita milk consumers (Bingi & Tondel, 2015). A substantial share (40%) of the Kenyan dairy market is controlled by a firm with links to the president, while in Rwanda, the largest dairy processor is affiliated to the ruling political party. Though hard to establish, these illustrate how political imperatives may influence CET design more than concern for the poor. Evolving interests also alter regional agreements, with Kenyan car assembly employment concerns in 2014 leading to a rise in the CET on car imports, to the cost of regional citizens. Industrial policy concerns across members also led to an increase in the CET on second-hand clothes, and in 2016 on a proposed EAC-wide ban on their imports. Similarly Tanzania's domestic processing sectors were protected through high tariffs on milling and sugar (Morrissey & Jones, 2008). These examples highlight how, as with most trade arrangements, protection in the region is largely driven by producer rather than consumer interests and poverty reduction. However, this may not always be the case - given that rice is the second most important marketed food crop for consumption in Tanzania, the government did not impose the 75% tariff on rice imports which would have protected domestic rice producers because of concerns regarding the impact of higher prices (Whitfield et al., 2015; Whitfield and Therkildsen, 2011).

There are differential exemptions from and remissions to CET rates for specific third country imports. Similarly, while in principle the EAC is a Customs Union, *de facto* the EAC countries are members of multiple free trade agreement leading to 'perforation' of the common external tariff, where member states

[22] Sensitive products are defined at the HS 1996 8-digit level. The table above is based on Comtrade data, and is therefore based on the corresponding 6-digit categories which is the maximum level of disaggregation available. It is likely therefore that these shares provide an upper bound on the share of trade in sensitive products. However in many cases the true shares may not differ much in part because in certain cases the 6-digit includes all the relevant 8-digit categories; and in other cases there may be very little trade in the other 8-digit categories.

charge differential tariffs on external imports.[23] This again highlights that attention has to be paid to actual applied tariffs on these products, not just the CET schedules when assessing potential impact on incomes and expenditures of poor households. Temporary exemptions to the CET included wheat (a major product in Uganda) and rice, among others. Kenya derogated the CET and applied a tariff of 35% on rice (temporary suspensions are allowed) balancing producer interests with those of its tea exporters. Rice smuggling in Zanzibar effectively undermined the CET in Tanzania (Therkilsden, 2011). Uganda reportedly applies a tariff of 25% on dairy products rather than the established 60% (Bingi & Tondel, 2015).

Customs revenues are collected at the border of the member of final destination and not the first port of entry. Moving to collection of CET revenue at port of first entry might have an impact on how the revenue is divided and spent, with a possible impact on the poor.

The treaty allows for recourse to intra-EAC trade remedies such as anti-dumping and safeguard measures - these have potential impacts on prices and hence on costs of living and incomes of poor people. Common interest in raising revenues and undermining sugar cartels appear to have driven Kenya and Uganda to implement the Single Customs Territory – this after disputes between Uganda and Rwanda over duty-free sugar dumping.

Rules of origin (which should not be necessary in a fully functioning customs union) – at a minimum increase the cost of doing business and wait times at ports of entry and intra-EAC border crossings, with potentially complex impacts on different groups of the poor (higher costs of goods in importing country but benefits for small traders providing services at borders).

Non-tariff measures (NTMs) notably in the areas of regulation, standards and testing and certification are being dismantled relatively slowly among EAC members. That said, the EAC has reportedly achieved greater convergence in simplifying and lowering the cost of regulatory processes for businesses than in providing the implementation teeth to those legal institutions that are relevant to business regulation (IFC, 2013). Recent business surveys suggest that NTMs have tariff equivalents ranging between 6% in Uganda and 54% in Tanzania – with clear potential impact on costs, competitiveness, prices and wages facing the poor. Since 2008, all countries except Rwanda have imposed measures with equivalent effect to tariff, 10% of which affected EAC internal trade in dairy products, and 10% in other agricultural products – again reflecting EAC member sectoral interests.

Of the 51 *de jure* NTMs identified by the EAC in 2008, 21 remained unresolved in 2014, with reports of new ones emerging as well (EAC, 2014). In addition to this are informal NTMs that are difficult to quantify. In a survey conducted in 2012 86% of transporters in Kenya, 82% in Tanzania and 55% in Uganda admitted making informal payments to these groups in the course of transporting goods (TMEA, 2012b).

There is a lack of hard and soft infrastructure aimed at reducing transit costs in intra EAC and transit trade. To some extent these constraints are being relaxed (e.g. common documentation, single windows at intra EAC customs posts, the Northern Corridor) which helps to reduce costs of doing business with potential implications for the poor depending on the products and their geographical location. The poor state of regional trade and transport infrastructure and high prevalence of NTBs in the region entail significant transaction costs when conducting international trade and therefore limit the impact trade can have on economic growth and poverty alleviation (Mathieson, 2016). This matters most for the landlocked members and the poor within these countries. For example, Rwanda's most recent Poverty Reduction Strategy

[23] East African Common Market Scorecard, 2014.

Paper[24], argues that "deepening regional integration will help overcome Rwanda's key development constraints of being a landlocked country" and that the "aim of increased integration is to improve Rwanda's opportunities to achieve faster growth and poverty reduction".

Four of the five EAC members - Burundi, Kenya, Rwanda and Uganda – collaborate on matters to do with transit, transport, customs control, documentation and procedures and the development of infrastructure related to sea ports, inland ports and waterways, roads, railways, pipelines and border posts along the Northern Corridor, which links the landlocked EAC countries with the Kenyan port of Mombassa. Here there is an alignment of political interests between the landlocked EAC member states - especially Uganda and Rwanda and the interests of politically influential Kenyan businesses in securing increased access to regional markets. In turn this has generated tensions, with concerns in Tanzania that the Northern Corridor's focus on the Port of Mombasa provides competition to Tanzania's ports for control of regional transit markets (World Bank, 2012).

Several of the countries impose export bans and/or export taxes. In part this is for fiscal reasons and also ostensibly on grounds of food security and regional industrialisation; but again also reflect specific political imperatives. Kenya requires a licence for the export of most agricultural and mineral products, especially foods where self-sufficiency is a concern, but has no export quotas. On food security grounds Tanzania restricts exports of cereals, beans and unprocessed fish. It also imposes taxes on exports of cashew nuts, raw hides and skins, and requires licences to export foods, fish, forestry products, wildlife and minerals/gems. Similarly, Uganda prohibits exports of whole fresh fish and timber (Morrisey and Jones, 2008).

The picture on implementation of the Common Market Protocol is mixed, though the movement of capital and financial integration appears to have been a notable success of the common market process.[25] There has been a major easing of constraints on cross border transactions and banking services, with a consequent reduction in costs of doing business and freedom of movement of capital. In terms of the impact on the poor, these measures have complex effects on productivity and competitiveness, and could impact substantially on prices, costs and wages. The impact on poverty will depend on the extent that reduced costs are passed on to consumers or that increased investment leads to new jobs, skills acquisition and higher wages. In turn, however, it may be harder for small businesses to harvest any gains from deep integration.

Another area of success has been in the liberalising of cross border mobile telephony services through reductions in roaming charges and deregulation of the use of mobile phones for cross border financial transactions. These may have particular relevance to workers taking advantage of free movement of labour provisions of the EAC. The direct impact on the poor will depend on their access to mobile telephony but in principle it could reduce the cost of remittances as well as any indirect benefits from reducing costs of doing business.

With regard to the mobility of labour, the Common Market Protocol is designed to promote the free movement of workers between the member states. While the protocol was a major step forward, the protocol and the policy around it contain some serious limitations (Basnett, 2013). These arise first because not all categories of employment are defined as workers for the purposes of the mobility of labour. The definition largely applies to (highly) skilled workers. Secondly, work permits are still required and there

[24] Rwanda, 2013. *Economic Development and Poverty Reduction Strategy 2013-2018: Shaping Our Development*.
[25] East African Community Scorecard, 2014.

are issues to do with the paperwork required to obtain work permits across different countries, as well as with the mutual recognition of qualifications. Thirdly, the protocol excludes public-service employment.

Other relevant areas of deep integration

In the field of Standards and Technical barriers to trade there has been limited progress with 1200 standards harmonised across the EAC, but there remain problems especially in the field of SPS measures in the agriculture and food sectors. Sanitary and phytosanitary (SPS) measures, as well as technical barriers to trade (TBT), have also been imposed, mainly on food products (17% of all restrictions), tea (17%), milk (11%) and rice (5%) (EAC Secretariat, 2014). While sometimes legitimate, these raise significant problems for small firms meeting SPS standards in particular. Many poor people depend on small businesses either as owners or employees. The inability to conform to standards is a major constraint to their ability to benefit from economic integration.

Non-discrimination in public procurement is covered by Article 35 of the EAC treaty without any indication of how this is to be implemented. To the extent that poor people are consumers of publically procured goods and services (e.g. medical and educational infrastructure and supplies, child feeding programmes,) increased competition through application of this article could lead to lower prices/better quality and potentially less opportunities for corruption.

Competition policy: all EAC states have enacted competition policies though with considerable *de facto* variability, though the EAC is setting up an EAC competition authority. Once more, to the extent that effective competition policy reduces market power and lowers prices to benefit small businesses and consumers, implementation is once again key here, with wide variation across the member states.

Gender is the only area where poverty is directly addressed in the EAC Treaty. Articles 121 and 122 aim to enhance the role of women in sustainable growth initiatives and in business. Work by the World Bank (Brenton et al, 2015) suggests that the two most important indicators of poverty are rural locations and gender. The latter of these objectives is to be pursued by increasing participation of women in trade, reducing constraints on access to financial assistance and credit. These however are intrinsically difficult objectives especially among women running small trading enterprises. Nonetheless the presence of these objectives in the treaty offers the opportunity to look at how these programmes might be used to help women take advantage of the opportunities and mitigate the negative impacts generated but regional integration.

4. What has been the impact of regional integration in the EAC on poverty?

As discussed above, the first order effects of regional integration on poverty are felt via price changes and resulting changes in trade flows and government revenue. In this section of the paper we consider the evidence on whether the EAC integration process has impacted either on patterns of trade, or on government revenue, and where possible on poverty.

First we consider the available descriptive evidence and assess what can be learnt from looking primarily at changes in trade flows, government revenue, migration and investment. In examining this evidence we consider the potential implications for poverty, but as discussed earlier in this paper, given the paucity of the evidence on poverty in the region, this is largely speculative. The second section of the paper considers

the more formal academic literature. While some of this explicitly considers the poverty dimension we also draw upon related literature which may shed light on poverty even if poverty is not the explicit focus.

4.1. Descriptive evidence as to the impact of the EAC on trade, government revenue, investment and migration

4.1.1. Trade

The tables below provide key information on trade for each of the EAC countries. Table 5 presents data for each of the EAC countries on the composition of imports; Table 6 does the same with regard to exports; and Table 7 examines changes in the share of imports and exports by end use. For the sake of clarity the discussion is organised by country.[26]

Burundi

If regional integration leads to improved access to cheaper imports then this should impact positively on poverty alleviation for consumers of those goods. *Ex ante*, the greater the initial share of imports, the more important this effect is likely to be, while *ex post* the greater the change in import shares the more likely it is that integration actually had an effect. Consider first changes in the share of imports coming from the other EAC partners. In 2005 the import share for Burundi was 21.4%. This declined over the period of conflict from a high of just over 36% in 2003 to just over 12% in 2006. It then rose to just over 21% in 2007 and since then has fluctuated around that level. Since 2006 the share of exports going to the EAC has averaged just over 15% but with considerable volatility (down to 1.9% in 2012, and 24.7% in 2009). There is therefore no evidence looking at these shares that EAC integration (or at least what has been implemented) has increased Burundi's overall trade with the EAC.

These changes in shares could mask compositional changes. For example, it could be that there was no change in the share of imports or exports yet there were significant changes in the composition of those flows. There are three ways in which we can assess this. The first is to consider whether there have been any changes in the diversification of the source of imports, or the direction of exports with regard to the other EAC member states. The second is to examine the overall structure of imports (exports) from (to) other EAC member states and the degree to which that overall structure has changed over time. The third is to look at the number of products imported (exported) by source (destination). This is explored in Tables 5-7.

In Tables 5 and 6, the first three columns consider the extent to which imports have become more or less diversified, both with respect to the EAC and with respect to the Rest of the World (RoW). In the first two columns of the table we look at the degree of import diversification, using the TCI index. The third column then gives the change in diversification. The index ranges between 0 and 1: the closer it is to 0 the more diverse the structure of imports.[27] An index equal to 1 would mean that only one product is being imported. This index focuses on the number of products being imported, and takes into account their respective shares.

[26] These figures are based on a comparison of simply two year's data and one should be careful not to draw overly strong conclusions. However, they are suggestive that to the extent that regional integration had an impact on trade, and thence on poverty, the nature of that impact may have been somewhat different across the member states.

[27] The index applies the Hirschman-Herfindhal index to trade flows.

In the middle shaded column of Table 5 we compute the Finger-Kreinin index of similarity (FK) which examines the extent to which the structure of imports in 2005 was the same as in 2014. The index ranges between 0 and 100. Hence if the structure of imports across both years was exactly the same the index would be equal to 100, and if it were completely different it would be equal to zero. This indicator captures the degree of similarity in terms of which goods are imported while taking into account the shares of the imported goods. The final three columns of the table provide a simple count of the number of products imported and the percentage change over the relevant time period.[28]

Hence, for Burundi the third column of Table 6 shows that there has been a substantial rise in the degree of diversification of the imports of Burundi from the EAC, and to a much lesser extent from the RoW. This can also be seen by looking at the changes in the number of products imported from the EAC which has risen by 58.8% (while the number of products imported from the RoW scarcely changed). Table 7 indicates that the biggest change in imports has been a rise in intermediate goods. Finally, the middle column of the table also suggests that imports have changed considerably as the overall degree of similarity of imports from the EAC when comparing 2005 with 2014 was 37.37%. Note that the figure for the similarity of imports from RoW is very similar at 36.84%, which is interesting given the number of products imported from the world changes very little. This indicates that with respect to the RoW, Burundi has changed what it is importing but not the overall number of products.

If we consider export flows, we see a substantial change in the number of products exported to the EAC (from 89 to 327) and a low degree of export similarity (just over 17%), but no change in the overall degree of diversification. This can be explained by the fact that in both 2005 and 2014 Burundi's exports to the EAC were highly concentrated to only a few products – but that the composition of these products changed over the period. Hence nearly 47% of Burundi's exports to the EAC was gold in 2005, followed by raw cane sugar, beer, and coffee; whereas in 2014 the key product was tea which accounted for 47.3%, followed by soaps, coffee and alloy waste.

The picture is therefore one which suggests that although aggregate trade shares may not have changed substantially, there have been considerable changes in the composition of Burundi's trade with the EAC. Given that these changes are quite different to the evolving pattern of trade with the RoW, this provides *prima facie* case for the impact of the EAC integration process on those trade flows. From the point of view of poverty impacts, given that the biggest increase in imports was with regard to intermediate goods, and that the change in exports was highly sector specific (with the rise in the importance of tea), this suggests that the poverty impacts are likely to have been highly sector specific, and that the impact on consumers may have been more marginal or a secondary effect. In order to confirm these hypotheses a much more disaggregated-level analysis would need to be undertaken.

Kenya

Since 2006, the share of the EAC in Kenyan imports has been extremely low – around 2% - while the share of Kenyan exports going to the EAC countries has changed relatively little ranging from 21% to just over 26%. This underlines that Kenya has very different strategic interests with regard to accessing the EAC market in comparison to the primarily importing countries of the EAC.

Tables 5-7 provide more depth to these figures. On the import side, although the number of products imported rises from 638 to 4295, the overall measure of import diversification changes little. This implies that while there has been a big increase in the number of imported products, their share in imports is extremely low and hence they have little impact on the measure of diversification. This is in good part

[28] This is done at the HS 6-digit level of disaggregation.

driven by the fact that Kenya is and was the most diversified of the EAC economies. Table 7 also indicates that there was a modest increase in the share of final goods imported by Kenya from the EAC, from just over 20% to just over 24% of imports. Overall this suggests relatively little benefit to the poor from importing cheaper goods from other EAC states, though as before, it does require more detailed analysis.

Conversely on the export side, although the aggregate shares of the EAC in Kenya's trade remained fairly constant, and the total number of products did not change very much (11.1%), we see quite a substantial change in the degree of export diversification and a low level of similarity of products exported when comparing 2005 with 2013. From Table 7 we see that these changes in exports were largely driven by a change in both intermediate goods and final goods being exported with a substantial reduction in the export of fuels. All this suggests that, to the extent that the EAC may have led to poverty reductions in Kenya, it is more likely that this occurred through the expansion of exporting activity in new products/sectors and the consequent changes in employment and possibly wages, as opposed to changes driven by imports from the EAC.

Rwanda

The EAC import shares rose steeply for Rwanda up to 2006, reaching a peak of nearly 50%, subsequently steadily declining to just over 27% in 2014. The average share of Rwandan exports going to the EAC over the period 2006-14 is just over 40%, but with considerable fluctuation of these shares.

If we turn to Tables 5-7, we see little evidence of an increase in import diversification, with a 27.86% degree of similarity in the structure of imports when comparing 2005 with 2014, but with a 42.5% increase in the number of products imported from the EAC over the time period. This would suggest a high degree of change when considering the composition of imports. Table 7 then indicates that this change is largely a change in the share of imports of final goods in comparison to intermediate goods. This suggests the possibility of a direct poverty reducing impact from these changes in EAC imports.

On the exports side we see a much larger change in export diversification, with the index of similarity at just over 10%, even though the change in the number of products exported was only 13.1%. This indicates considerable change in the structure of Rwandan exports. In 2005 over 60% of Rwandan exports to the EAC was tea, while in 2014 tea comprised less than 11% and the key products were petroleum and mineral ores, which between them accounted for over 40% of Rwandan exports to the EAC. We also see from the table that the changes with regard to exports to the EAC were more substantial than the changes with regard to Rwanda's trade with the RoW.

Uganda

The EAC import shares for Uganda declined from nearly 27% in 2005 to just over 11% in 2014. The decline in the Ugandan import share is interesting given the earlier discussion on tariffs. Prior to the CU, Uganda had lower tariffs than the CET, so *a priori* one might expect a relative decrease in imports from the rest of the world and an increase from within the EAC following the application of the EAC tariff. However, this does not appear to be the case, and is largely driven by a switch away from importing petroleum from within the EAC to petroleum from the RoW. These changes were accompanied by a substantial rise in the diversification of Uganda's imports from the EAC, whereas in comparison Uganda saw a small decline in its diversification of imports from the RoW. This decline in diversification with the RoW occurred despite a 50% increase in the number of products imported from the world and as before was driven by the increased share of petroleum products in the imports from RoW. We see this also in Table 7, where the share of fuels in Uganda's imports from the EAC declines from over 50% to just under 8%, and with a corresponding rise in both intermediate and final goods imports.

These figures indicate that the tariff changes experienced by Uganda had more of an impact on the composition of imports than on the share of imports from the EAC. This is also reflected in the lower similarity of imports when comparing the structure of trade in 2005 with 2014 (22.7%) in comparison with the similarity of the structure of imports from RoW (30.6%).

Exports saw no change in the overall degree of diversification and almost no change in the number of products exported. The export similarity index suggests that between 2005 and 2014 the composition of exports did change substantially with a degree of similarity of just under 20%. If we look at Table 7 we can see that this was driven by a rise in the share of intermediate exports to the EAC from 45.8% to 58.8%, and a corresponding decline in the share of final goods from 42.6% to 29.9%. While the share of tea in the exports of Uganda to the EAC has remained at around 10% when comparing 2005 with 2014, other products have emerged as an important part of the export basket such as cement, vegetable fats, and tobacco.

Tanzania

Turning finally to Tanzania, we see little overall changes in either the share of imports or the share of exports in Tanzania's trade with the EAC. Both are relatively constant over the period at around 5% and 10%, respectively. However, as before, we see that these aggregate figures mask important compositional changes. On the import side (Table 5) we see a substantial increase in the number of products imported by Tanzania from the EAC (from 1969 to 4167), with a significant increase in the level of import diversification. From Table 7, and similarly to Uganda, we see that this occurred as a result of a decline in imports of fuels and a substantial increase in the share of both intermediate and final goods imports. On the export side the overall level of diversification remains constant but if we look at the degree of export similarity in 2005 with 2014 we see only a 20% degree of overlap. The changes in export flows occurred with a rise in the share of intermediate goods exports to the EAC and a decline in the share of final goods exports.

When considering regional integration and imports one would expect that closer integration enables a greater range of products to be imported at lower prices. It is harder to provide an *a priori* expectation of the impact of integration on the structure of exports and the degree of diversification: there are two possible effects. The first is that greater liberalisation provides each country with improved access to the EAC market, which may enable it to export a wider range of goods than it did previously. This would lead to an increase in diversification. On the other hand liberalisation could lead to greater specialisation and hence less diversification according to each country's intra-regional comparative advantage.

From the tables the impact on trade is very product/industry, and country specific, and so too will any poverty impacts. For example, all the EAC countries except for Burundi see a rise in the exports of intermediate goods. This may suggest the increased engagement of producers in regional value chains. The rise is particularly marked for Rwanda (which is primarily driven by the rise in exports of metallic ores and coffee) and Kenya (comprised of cement and a range of manufactured intermediates). The substantial rise in the share of final goods being exported by Burundi to the EAC is driven by the rise in the share of tea from just over 5% of exports to the EAC in 2005, to nearly 43% in 2014. This difference between Burundi, Rwanda and Kenya emphasises the importance of understanding the structure of production and exports for assessing the poverty impacts as, for example, the market structure of the mining industry and the employment content differs substantially from that of manufacturing.

Similarly, if we take the top 20 products exported prior to the process of integration (2003), and compare this list with the top 20 products exported in 2014, in order to see how many products appear in both cases. The number of overlapping products in each case is: Burundi, 5; Kenya, 13; Rwanda, 8; Tanzania, 5; and

Uganda, 9. This suggests that the composition of exports changed less for Kenya, and more for the other countries, with the biggest changes for Tanzania and Burundi (though of course it should be noted that this was a period of internal conflict in Burundi).

Table 5: Changes in the composition of imports from the EAC and the Rest of the World

		Import Diversification (TCI)			Import Similarity (FK) 2005-2014	No. of products		
Reporter	Partner	2005	2014	Change		2005	2014	% change
Burundi	EAC	0.30	0.04	-0.27	37.37	966	1534	58.8
	RoW	0.04	0.07	0.02	36.84	2240	2255	0.66
Kenya	EAC	0.05	0.04	-0.01	9.20	638	4295	573.2
	RoW	0.03	0.04	0.01	6.90	633	4170	558.8
Rwanda	EAC	0.02	0.04	0.02	27.86	1744	2485	42.5
	RoW	0.03	0.01	-0.02	18.90	2523	3223	27.7
Uganda	EAC	0.26	0.02	-0.24	22.71	2852	3751	31.5
	RoW	0.02	0.06	0.04	30.55	2514	3781	50.4
Tanzania	EAC	0.12	0.04	-0.08	41.14	1969	4167	111.6
	RoW	0.03	0.08	0.05	26.97	1954	4135	111.6

Table 6: Changes in the composition of exports to the EAC and Rest of the World

		Export Diversification (TCI)			Export Similarity (FK) 2005-2014	No. of products		
Reporter	Partner	2005	2014	Change		2005	2014	% change
Burundi	EAC	0.25	0.25	0.00	17.18	89	327	267.4
	RoW	0.40	0.18	-0.22	65.36	249	263	5.62
Kenya	EAC	0.17	0.01	-0.15	21.14	2628	2919	11.1
	RoW	0.07	0.06	-0.01	20.31	2465	2953	19.8
Rwanda	EAC	0.21	0.09	-0.12	10.45	283	320	13.1
	RoW	0.17	0.08	-0.09	25.94	652	696	6.6
Uganda	EAC	0.04	0.04	0.00	19.86	973	969	-0.41
	RoW	0.08	0.05	-0.03	25.81	1587	2034	28.17
Tanzania	EAC	0.04	0.05	0.00	20.08	1031	1655	60.5
	RoW	0.09	0.05	-0.04	13.79	1230	2088	69.7

Source: Own calculations based on HS 6-digit Comtrade data; for Kenya the year is 2013 as data was not available for 2014. The number of products is calculated at the HS 6-digit level

Table 7: Share of imports and exports with the EAC by use

	Burundi		Kenya		Rwanda		Uganda		Tanzania	
Group	2005	2014	2005	2014	2005	2014	2005	2014	2005	2014
	IMPORTS									
Intermediate	48.10	70.38	71.55	65.43	65.43	65.44	33.46	53.02	37.19	55.16
Final	10.22	15.47	20.19	24.69	24.69	31.17	11.72	33.82	16.73	28.30
Capital	4.04	4.25	7.30	7.02	7.02	2.34	4.27	5.68	11.20	14.80
Fuels	37.64	9.89	0.97	2.86	2.86	1.05	50.55	7.48	34.87	1.65
	EXPORTS									
Intermediate	74.21	27.59	35.55	54.4	13.55	58.65	45.80	58.78	58.74	65.91
Final	19.33	65.39	19.75	33.0	66.43	21.36	42.64	29.92	32.12	28.74
Capital	6.45	6.84	4.07	5.98	13.29	8.14	5.26	5.89	3.51	3.43
Fuels	0.00	0.17	40.64	6.58	6.73	11.86	6.31	5.41	5.62	1.91

Source: UN Comtrade data based on the BEC classification data for Kenya is for 2013

4.1.2. Government revenue

Regional integration is likely to lead to a loss in government revenue. The extent of this will depend on the share of trade taxes in government revenue, and on the ability of governments to find alternative forms of revenue. Existing evidence suggests that while less developed countries are most dependent on trade tax revenues, their ability to recover this lost revenue through the introduction of domestic taxes such as VAT is also more limited, and depends on the nature of political and economic institutions (Khattry & Rao, 2002; Baunsgaard & Keen, 2005, Cage & Gadenne, 2012; Bilal, 2012).

Table 8 below provides information on the share of tariff revenues as a percentage of total government revenue for the EAC. For all countries, except Uganda for whom external tariffs increased, we see a decline in the contribution of tariff revenue to total government revenues. If we consider the period when the process of integration started to come into force (2005), or in the case of Burundi at the time of joining the EAC, the share of tariff revenue was over 17% for Burundi and Rwanda, down to between 6-10% for the remaining countries. On the face of it therefore, for Kenya, Uganda, and Tanzania, while tariff revenue was important, the impact on poverty alleviation expenditure would have been easier to manage. Of course this depends on each countries' ability either to find alternative sources of revenue, or reduce expenditure if needed in other areas. For Rwanda and Burundi tariff revenue was more significant and we see for Rwanda a substantial fall in the share down to 6.7% of government revenue. These falls in government revenue could therefore have had a bigger impact on poverty alleviation measures, though once again this does depend on alternative revenue options, and on the allocation of expenditure. For example, Burundi expected to experience a loss of between $US2.2-2.5 million as a result of adopting the CET, but in compensation was to receive US$6.5 million from the Common Market for East and Southern Africa's Compensation Fund.[29]

[29] African Development Bank, 2010.

Table 8: Tariff revenues as percentage of total revenues in the EAC partner states[30]

	1998	2004/05	2008/09	2014/15
Burundi	29.5%	-	17.7%	-
Kenya		9.71		6.89
Rwanda		17.98		6.66
Uganda		8.60		11.30
Tanzania		6.36		7.76

Source: see footnote

4.1.3. Investment

All the EAC Partner States have established national statutory agencies to promote and facilitate investment. The agencies are Kenya Investment Authority (Ken Invest), Tanzania Investment Centre (TIC), Zanzibar Investment Promotion Agency (ZIPA), Uganda Investment Authority (UIA), Rwanda Development Board (RDB) and Burundi Investment Promotion Authority (API). These Investment Promotion Agencies (IPAs) are expected to provide one-stop services to potential investors from the EAC and rest of world. Overall FDI is low in the region (see for example, report by the EAC legislative assembly, 2015), and where regulatory constraints are seen as among the key bottlenecks in investment in EAC (Davoodi, 2012).

Reliable and consistent data on investment is relatively scarce, and hence a degree of caution needs to be applied when looking at FDI information. The top panel of Table 5 provides aggregate information on FDI as a share of GDP over time. There are two key features which emerge from this part of the table. The first is that Uganda and Tanzania receive the highest amounts of FDI as a share of GDP, while Burundi has by far the lowest share. The second key feature is that FDI fluctuates considerably over time, with no evidence that the process of regional integration has led to any increases in FDI as a share of GDP.

The bottom panel of the table provides some information on intra-EAC FDI flows. This information is from a different source (from each country's Investment Authority) to the WDI data and therefore is not strictly comparable. Indeed if we take both sets of data and compare the total FDI flows into the EAC, the WDI data is always lower than the Investment Authority data and for some years by as much as 75%. Nevertheless the bottom two rows of data are very informative. The first of these indicates the share of intra-EAC FDI out of total FDI, and we see that this is fairly low – ranging from about 2.5% to 6.5%. Hence most investment into the region is from third countries. The second row gives the share of Kenya in intra-regional investment. This shows that Kenya is by far the dominant investor in the region, with the share of Kenyan investment out of total EAC investment ranging from 60% to nearly 100%.

Studying aggregates patterns of FDI can, however, shed light on potential impact of regional integration efforts on FDI flows (UNCTAD, 2012), however, once again there is little evidence of an impact arising from regional.

[30] Source: **Burundi**: Domestic Resource Mobilisation for Poverty Reduction in East Africa, African Development Bank 2010; **Kenya:** Republic of Kenya, 2015, Statistical Bulletin, June 2015. The National Treasury; **Rwanda**: www.minecofin.go.rw/macroeconomic framework public-data set june-2015xlsx; **Uganda:** Republic of Uganda, 2015, Statistical Abstract. Uganda Bureau of Statistics; **Tanzania:** United Republic of Tanzania, 2015, 2014 Tax and Government Finance Statistics Report. Tanzania National Bureau of Statistics.

Table 9: Foreign Direct Investment in the EAC

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	FDI as a share of GDP*									
Burundi	0.05	0.00	0.04	0.24	0.02	0.04	0.14	0.02	0.25	
Kenya	0.11	0.20	2.28	0.27	0.31	0.45	0.33	0.32	0.68	1.55
Rwanda	0.41	0.99	2.18	2.15	2.24	0.74	1.66	2.21	3.43	3.70
Uganda	4.21	6.48	6.45	5.12	4.71	2.69	4.41	5.19	4.44	4.25
Tanzania	5.53	2.17	2.70	5.05	3.33	5.77	3.63	4.60	4.70	4.25
	Intra-EAC FDI**									
EAC/ROW				6.02	6.45	2.98	2.68	5.86	4.26	
Kenya/EAC				97.21	80.14	75.37	74.97	73.92	57.78	

Source: *World Bank World Development Indicators; **Kiguta (2012) basesd on Partner States Investment Authorities, and EAC 2014.

An alternative data source is the Financial Times' FDI markets database. Using this information UNCTAD (2012) showed that FDI into the EAC (intra-regional and extra-regional) quadrupled to US$9.9 billion in 2009-2011 from US$2.3 billion in 2003-2005. The share of intraregional FDI grew from 2% over 2003-2005 to 14% over 2009-2011. While the levels are still low, the reported growth of the share of intraregional FDI in EAC is relatively high in comparison for example to COMESA, where the corresponding changes in the shares of intraregional FDI were 1% and 8%; 4% and 10% for SADC; 11% and 12% for ASEAN. This data suggests that there has been an increase in FDI and in intra-regional FDI which in turn is likely to have an impact on structural change and on poverty – largely through the changes in employment and wages associated with the FDI. We do not, however, have the evidence for this from the available data.[31]

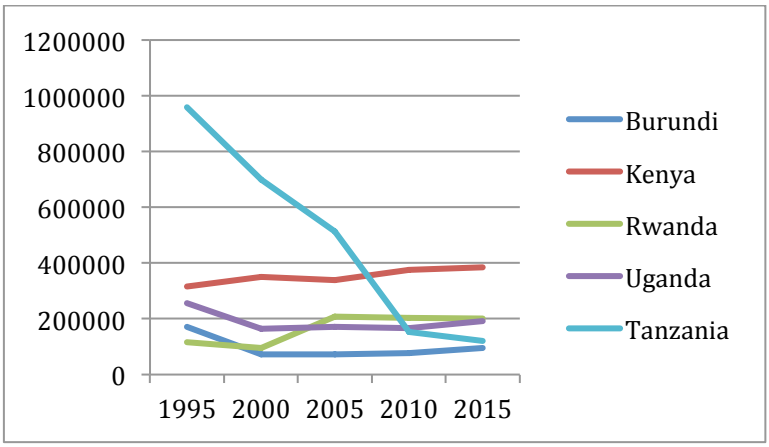
4.1.4. Migration

As with data on investment, data on migration is scarce. In addition much of the data refers to stocks as opposed to flows. This makes it difficult to draw poverty inferences. Nevertheless, below we discuss some of the key aspects of the available data.[32] First, migration is typically closely correlated with incomes (migrants tend to move to higher income countries/regions); migration tends to have a strong education-selection bias (more educated people are more likely to be willing/able to move); access to network in destination countries impacts positively on migration flows (hence the connection between trade and migration flows) and that migrants tend to move from more volatile to less volatile countries/regions. Winters (2015) reviews the available evidence on migration among the Tripartite countries (largely based on data around the year 2000). He finds that over 75% of migrants come from other Tripartite countries; that almost 100% of intra-Tripartite migration occurs between the regional blocs – the EAC, SADC and COMESA; and that five countries (Kenya, Sudan, Rwanda, South Africa, and Uganda) account for nearly half of the intra-Tripartite stock of immigrants.

Another source of information is the UN migration flow database.[33] The stock of migrants in each EAC member country originating from EAC is shown in Figure 1. Once again there is little evidence in this data of any impact of the integration process. The only substantial change is the decline in the stock of migrants in Tanzania, with a small rise for Kenya and Rwanda.

[31] Note that with a subscription to the FT data it should be possible to look at the changes in flows by country and sector and thus to draw the link between the process of integration and the sectoral investment flows more clearly.
[32] The discussion in this section draws heavily on Winters (2015).
[33] UN, 2015.

Figure 1: Migration stocks for EAC countries



4.2. Studies on the impact of the EAC

In this section we review the more formal empirical evidence on the poverty impact of the process of regional integration in the East African Community (EAC). However, there are very few studies providing sound ex-post empirical evidence on the effect of the EAC integration process on poverty. Therefore we are forced to look at the broader (yet still narrow literature) on the impact of the EAC on economic outcomes, which are likely to be correlated with or interact with poverty outcomes.

4.2.1. First order effects

There is scant literature on the direct poverty effects arising from changes in prices in the EAC. Most of the literature focuses on trade effects either on the basis of gravity models or using a partial equilibrium framework.

A number of authors find that intra-regional trade has a low and slightly declining share in total trade and that the regional integration process has mostly failed to boost it. This is an important finding because if there has been no significant effect on trade flows then we would not expect much effect in term of growth, employment, welfare and thus on poverty at least through the trade channel. Conversely there are some studies that suggest a more substantial impact.

For example, Cirera and Lopez-Gonzalez (2012) identify a minimal impact on intra-regional import shares (though interestingly with a decline in Kenya's share and an increase in that of Uganda and Tanzania); and some increase in intra-regional exports. While the overall impact of implementing the CU has been relatively small, they suggest that the process of EAC integration has resulted in some restructuring of internal trade flows. The relatively low level of impacts appear to be attributed to high remaining non-tariff barriers, as well as the absence of supra-national institutions to manage the functioning of the common market, such as appropriate tariff-revenue sharing mechanism.

A number of papers use gravity modelling to assess the impact on trade flows. Buigut (2012) uses a modified gravity model to estimate the trade effects of the EAC customs union on individual member countries over the period 1996 to 2009. The results suggest the customs union has generated asymmetric impacts on intra bloc exports and imports for individual member countries. Kenya, Uganda, and Rwanda have seen a significant increase in their intra EAC exports, while Kenya and Tanzania have seen a significant increase in their intra EAC imports. In a more recent paper and using data up to 2013 Buigut (2016) finds that the EAC customs union increased intra-bloc trade by just over 20%. Shinyekwa and

Othieno (2013), and Shinyekwa (2015) examine the impact of the EAC on intra-regional trade. They use a panel data set from 2001 to 2011 on 70 countries that trade mainly with the EAC partner states and find that the EAC has been substantially trade creating contrary to widely held views that South-South RTAs largely divert trade. Geda and Seid (2015) find that the EAC countries currently trade less than that predicted by average gravity model coefficients and that there remains considerable scope for increased trade. Shepherd (2010) investigates whether or not the EAC countries are under-trading and differentiates between industrial and agricultural products. For both industrial and agricultural products he finds little evidence that the EAC countries are under-trading once their economic fundamentals are controlled for. Results also show that trade facilitation measures and logistic constraints have an important role in limiting further regional integration in particular for industrial products.

The other popular class of models used has been partial equilibrium modelling. Early work on this includes Mcintyre (2005) and Stahl (2005). The former suggests that even if the trade linkages among the three EAC member states are not strong the establishment of the EAC customs union and the introduction of the EAC CET would have potentially positive benefits for Kenya. Their results suggest that the EAC CET, by lowering tariffs, has a positive impact on trade largely from trade creation. The latter study suggests that the benefits are unlikely to be evenly distributed with the countries with a more developed industrial sector like Kenya benefitting more. SID (2011)[34] examined the impact on Kenya, Uganda and Tanzania of reducing the CET from the current maximum level of 25%, as well as the inclusion of the current list of sensitive products into the CET. The results suggest overall welfare gains as a share of GDP of 0.5%, 0.9% and 0.6% respectively if the CET is reduced to 20%, with a doubling of the gains with a reduction of the CET to 10%.

In a similar vein and more recently, Odhiambo (2011) finds aggregate positive welfare effects for Kenya and Tanzania, but a negative impact for Uganda, due to higher consumer and import prices. Khorana et al. (2009) examined the trade and welfare implications of the transitional measures and tariff reductions of sensitive products of the EAC customs union for Uganda. The study established a positive trade creation effect with an increase of 19.9% in total trade of category B products.[35] However, trade diversion takes place because trade is redirected from the more efficient rest of world suppliers to the relatively more costly Kenyan exporters though relatively small amounting to only 0.8% of the intra-regional trade between Uganda and Kenya in 2006. The estimates also show a positive total net welfare effect with the highest gains in the building material category followed by agricultural products and detergents.

Onyango (2012) also finds a net positive revenue impact of the customs union on Kenya despite the loss of tariff revenues. The minimal disruption in fiscal revenue is mainly attributed to the existence of the exclusion list where tariff revenues continue to be collected and the need to safeguard agriculture and industry; the continued collection of tariff on imports from other trading; and improvements in the tax administration, with a broadening of the tax base. The results also established positive welfare effect in the aggregate Kenyan economy due to realignment of prices and the reduction of domestic prices induced by Kenya's tariff reforms which create opportunities for investments, reallocation of resources and efficiency gains.

These studies do not directly address the link between EAC implementation and poverty. This would require some analysis at product and household level to disentangle the effect on the basket of goods

[34] The Society for International Development.

[35] These were products that were subject to internal tariff reduction in the EAC over a five-year period (2006-2010). These included agricultural products, building materials, plastics, wood, paper, textiles, iron and steel and other manufactures. These products were from Uganda's view the most sensitive in terms of not being able to withstand immediate competitive pressure from Kenyan producers.

consumed by the poorest part of the population and on their incomes sources. A non-quantitative approach was taken by Kweka & Mboya (2005) who analysed regional integration and poverty in Tanzania before the implementation of the EAC CET. Based largely on secondary sources, interviews, and descriptive statistics, they conclude that regional integration had a limited impact on poverty alleviation largely because the process of integration was still in its infancy, because FDI was primarily focussed on sectors (e.g. mining) with low linkages to the rest of the economy; and because the process of regional integration had not dealt with some of the key constraints in the economy (lack of functioning markets, low skill-levels, dominance of subsistence agriculture).

Mugisa et al. (2009) also evaluated the implementation of the EAC's customs union on the basis of secondary data and interviews with stakeholders. The study suggested evidence of increased intra-EAC trade, especially on agricultural products which in turn is likely to have welfare implications for the rural populations who constitute the bulk of the national populations. They also pointed to the fact that much of trade was informal and therefore not captured in official statistics making it difficult to do a quantitative analysis of the real impacts of intra-EAC trade. See also Konandreas et al. (2015) who document several positive aspects of informal cross-border trade, including contribution to food security and income generation for poor people with a strong gender dimension, as well as contribution to the stability of supplies and prices by linking deficit to surplus areas.

NTBs and deeper integration

The role of non-tariff barriers as an obstacle to integration in East Africa is a common theme in the existing literature, as well as poor infrastructure, weak institutions, human capacity, insecurity and political instability and the lack of private sector development. While this work does not focus directly on poverty, it illustrates the importance of the constraints faced by the poor in dealing with changing trade flows and trade barriers. Hence, Ranganathan & Foster (2011) estimated that by improving East Africa's infrastructure to the level of Mauritius, which was the strongest performing economy in Africa, regional economic performance would be six percentage points higher; and that the biggest improvement would come from improvement in power infrastructure.

Karugia et al. (2009) look at the impact of non-tariff barriers in beef and maize and found positive net welfare gains for all maize and beef subsectors in East Africa, and that the gains exceeded any losses which may be incurred such that in principle any losers could be compensated. Okumu et al., 2010 looked into the implications of NTBs on trade between Uganda and other EAC Partner States using a partial equilibrium model. The study established that elimination of NTBs at the EAC level would yield positive production, trade and welfare implications attributable to elimination of NTBs in intra-regional maize trade. The biggest gains in trade and production would be accrued by Uganda compared to Kenya and Tanzania.

The World Bank (2012) on Kenya identifies the role of non-tariff barriers often in the form of rules and regulations, physical infrastructure constraints and related to this the lack of economic diversification. Onyango (2010) used the gravity model to analyse the effects of services liberalisation on trade in agricultural commodities in the EAC region. The empirical results indicated that trade in services positively affected agricultural trade, especially liberalisation of business, insurance and communication services. These results were consistent with those of an earlier study by Booth et al. (2007) which indicated that increased provision of services in education, finance and health were making significant in the economies of Kenya, Uganda, and Tanzania.

Finally it is worth mentioning the paper by Epaphra (2014) on the impact of trade liberalisation on tariff and government revenue for Tanzania. The paper finds that the reductions in the collected tariff rate led to a

significant loss of revenues from import duties; and that the difficulties in Tanzania of mitigating against these effects are largely driven by the narrow tax base in the country, in turn in good part driven by large share of subsistence agriculture and the informal sector. The paper calls for a strengthening of the domestic consumption taxes in order to deal with the losses in tariff revenue, as well as some increase in direct taxes.

4.2.2. Second order effects

In considering second order effects we are concerned with identifying the evidence on the impact of regional integration on structural change and transformation and any consequent impacts on poverty through, for example, changes in employment and/or wages. Once again the EAC specific literature on this is relatively scant. Very few studies provide empirical evidence on other effects that the integration process might have had in the region.

A common methodology for assessing the impact of trade integration, and inter-alia regional integration is computable general equilibrium modelling. This is a complex technique which is intensive in its data requirements. In order to be implemented CGE models require detailed social accounting matrices and input-output tables. For the EAC region this is immediately problematic for both Kenya and Burundi as the latest available I-O tables are for 2006 and 2007, though for the other countries more recent data is available. Much of the CGE work in the region has been undertaken on non-trade related issues (see for example the work of Thurlow et al. and Daio et al.), though there are some studies such as with a trade focus. Willenbockel (2013), for example, explores the impact of the Tripartite FTA. He finds extremely modest welfare gains (on average considerably less than 1% of domestic absorption) from tariff reductions. These gains multiply roughly fourfold when non-tariff barriers are reduced, but the overall gains remain small.

More recently Balistreri et al. (2016) assess the impact of the EAC and the Tripartite Agreement on poverty using a state of the art CGE model based on the GTAP database, together with micro-simulation that provide detailed poverty effects. The model distinguishes between tariff barriers, trade facilitation costs, non-tariff barriers, and the costs associated with barrier to business services. They find that greater integration is pro-poor leading to reductions in the poverty headcount in all the six regions in their model (Kenya, Uganda, Rwanda, Tanzania, COMESA, and SADC). For example they conclude that closer EAC integration could lift up to 5.31 million out of poverty in the region, with the incomes of the poorest 40% rising by up between 7.5%-10% for the EAC countries.

This is an ambitious and wide-ranging paper which derives some important and interesting results. However, as always with CGE models one should treat the underlying results with considerable caution. The results are based on simulations in turn based on numerous assumptions regarding the underlying functional forms, the appropriate elasticities, and they depend crucially on the quality of the estimates with regard to the trade facilitation costs, non-tariff barriers, and the costs associated with barrier to business services. These are hard to come by and inevitably the authors are forced to make a number of simplifying assumptions. The numbers should therefore be treated as providing the direction of change, and some idea of relative magnitudes as opposed to precise predictions. For example a key driver of the pro-poor effect of greater regional integration is the relative rise in unskilled wages as the reforms favour agriculture.

This is an important result which depends on the underlying structures of production and then the scope and depth of the liberalisation process. On this too, the paper has two important messages. The first is that the gains from reductions in trade costs are between 10-30 times bigger than the gains from reductions in tariffs alone. The second is that the size of the gains differs across countries depending on the type of

liberalisation pursued. Hence countries are unlikely to have the same strategic objectives when contemplating further integration as the outcomes are likely to be different. This raises again the importance of the political economy of the regional integration process.

With regard to education, the SID (2011) study recognises asymmetries that exist in the East African education systems include: structures, educational expenditures, curricula and education policies, among others. These asymmetries may impede the transfer of learners and the free movement of the labour force, thus having a negative impact on the integration process. Finally, the paper establishes that the EAC's region integration process is marked by inequalities in critical labour and employment indicators such as cross-country, gender and age-related disparities in employment growth, labour force activity and inactivity rates, labour productivity, and employment elasticity. The study finds no evidence of long-term convergence on the key employment creation and regional integration parameters of economic growth, productivity and consumer price indexes.

According to Osakwe (2015) what would make a more substantial impact in regional integration would be new generation of investments in world-market production based on the region's comparative advantages in natural resources (especially mining and agriculture). This involves transformative regionalism that promotes and also ensures progress in building productive capacities and achieving structural transformation for sustained development.

4.2.3. Third order effects

Taking an African perspective, Geda and Seid (2015) discuss the potential for increased intra-Africa trade as an 'engine of development' and find that while there is high scope for advancing regional economic integration, any effort in this direction is likely to be held back by lack of complementarities of exports and imports as well as the relative competitive position of African potential export suppliers. They argue that this is the result of weak infrastructure, productivity and trade facilitation, and they call for policies that go beyond tariff liberalisation to actual realisation of the potential for trade through provision of regional and domestic infrastructures, harmonising macroeconomic policies, enhancing trade enabling institutions, developing trade facilitation as well as regionally focused diversification using the existing regional economic communities. This again identifies some of the constraints faced by the poor.

The lack of evidence on the growth effects of the EAC is striking also because as Gigineishvili (2014) reports, the implementation of the EAC coincides with a period of strong economic growth. Gigineishvili (2014) shows that the pace of overall economic growth as well as the associated structural transformation of the economies in the region accelerated during the past decade. Both output and exports have become more diversified: the share of agriculture has fallen substantially; the gains in share have been broadly distributed, with the largest gains going to construction, transportation, and wholesale trade; manufacturing and mining posted modest gains. Moreover, the sophistication and quality of items exported by the EAC countries have improved over time, and more noticeably during the past decade than previously.

Muluvi (2014) analyses the effects of the integration process on economic growth of EAC countries. He finds that trade within the EAC has no significant impact on the economic growth of the member countries. However, the EAC trade with the rest of the world has a significant negative impact on growth. He takes this as evidence that the EAC member countries have not taken full advantage of regional integration, and especially of the custom union, to expand their trade to impact on their economic growth and development.

CGE models can also be used to assess growth implications and because of the ability of such models to include different categories of labour, and the possibility to link the results to household data via micro-

simulation techniques the models can be useful for assessing possible poverty impacts. For example, Dorosh & Thurlow (2013) use such a model to consider the impact of greater urban agglomerations in Ethiopia and Uganda as part of the process of structural transformation and growth. They find that urban agglomeration is an important source of longer run growth and need not have significant negative effects on poverty. Note, however, that as discussed earlier much of this work does not explicitly capture regional integration or trade liberalisation per se.

Shinyekwa et al. (2013) analysed the likely effects of the asymmetric tariff reduction on the macro variables and sectoral growth effects on the industrial, agricultural and services sectors. The results show that the aggregate impact of internal tariff reduction under conditions of unemployment and free movement of factors of production is positive with average GDP growth improving by up to 0.3 percentage points over the period 2008-2021. However, the reduction in tariffs has negative implications for tax collections with import duties contracting by 0.3 percentage points, with no significant gains in direct taxes revenues. The rise in exports from the EAC region led to a decline in the trade deficit by 0.8% during the simulation period. There were also significant growth gains for agriculture, industry and services sectors with the former registering growth improvements of 1.2 percentage points and the other two 0.7 percentage points.

The same lack of impact on the EAC integration process on growth has been also observed for foreign direct investments in the region. Othieno et al. (2013) investigates the effect of regional integration on Foreign Direct Investment in East Africa Community countries. Applying GLS techniques they find that regional integration did not have any effect on Foreign Direct Investment flows into the region. Instead, variables capturing the degree of political risk and financial stability show a positive and significant effect on FDI flows.

Gohou and Soumaré (2012) look more in general at whether FDI inflows have an impact on welfare in Africa. They use the Human Development Index and the real per capita GDP as a proxy for welfare and poverty and find that in the EAC the effect of FDI flows is positive and significant.

5. Conclusions

The EAC has put welfare and development at the centre of its long term plans and objectives. Implementation of the customs union may propel progress but is not sufficient to address development and poverty issues in the region. In other words regional integration will clearly impact on poverty, but cannot resolve the problem of poverty. This is partly due to the fact that the economies of East Africa comprise large informal sectors that are poorly integrated with the formal economy and large businesses; and that large segments of the populations are poor and not engaged in productive activities that benefit from cross-border transactions. In part this is because poverty in its narrow monetary sense and in its broader multi-dimensional sense depends on the physical, institutional, regulatory and fiscal (infra) structure of which trade and regional integration form just a part.

At the risk of being repetitive the overwhelming conclusion from this report, and in particular the preceding section is that very little work has been done on the links between trade, let alone regional integration and poverty in the EAC. There is much therefore that we do not know. Indeed the only study that explicitly does so is the recent work of Balistreri et al. (2016). There is some evidence on the impact of trade flows – and even there, the picture is mixed, but there is an almost complete absence of work on the link between

regional integration, migration and foreign direct investment, and very little consideration of the underlying political economy and consideration of what is actually implemented and how it is applied.

In a similar way it is hard to draw conclusions from the available descriptive evidence on poverty, trade, investment and migration. In good part this is because of the paucity of regular data on key variables of interest such as poverty or migration. In part too this is because the effects take place at the very detailed household and product level, and there is a lack of serious analysis at this detailed. Hence the discussion of the trade statistics strongly suggests that while the net effects (e.g. on shares of trade) may be small, this masks considerable disaggregated compositional changes. These compositional changes could be examined.

What we do appear to know is:

- That the EAC is ambitious in its desire for regional integration and that there has been some progress in implementing both the Customs Union and the Common Market
- Considerable barriers to integration and constraints to poverty alleviation remain
- The relatively scant evidence on poverty (be this uni- or multi-dimensional) suggests declines in poverty over the period of integration for those countries for whom we have the evidence, but we do not understand well what is driving those poverty reductions
- There is a relative dearth of quality data over time for the region which makes empirical work difficult.

Much of this should perhaps not be surprising given the complicated political economy of the ambitious program of integration being undertaken. The EU embarked on the implication of its customs union in 1962 and despite impressive initial progress did not complete it until the mid 1990s. It did not embark on completing the single market until 1992 and it still has a wide range of missing elements (some services sectors, energy, and digital services) in 2016.[36] In addition, the channels through which regional integration impacts on poverty are manifold, some of which are very direct (prices) and some of which are much more indirect (economic growth).

In terms of ways forward for understanding the links between regional integration and poverty in the region, there are a series of possible options. First however it is important to underline (repeatedly) that there is a premium on having high quality information on the nature of poor households, their sources of income and patterns of expenditure and their family characteristics. Without the data, shaping policies to help potential winners take advantage of and losers to mitigate any challenges from economic integration, will be very difficult.

Nevertheless, even with existing data and recognising the current limitations of that data there is considerably more that can be done. This includes inter alia: modeling, case study work, examining cross-country price differentials, documenting and understanding the constraints to poverty alleviation better; focusing attention more on the role of transport and infrastructure costs, and work using firm level (e.g. customs level transactions) data.

[36] Holmes and Rollo, 2011.

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