



## Globalization and Regional Integration: An East African Perspective

Tom Nyamache<sup>1</sup>, Ruth Nyambura<sup>2</sup> & Vincent Ntabo<sup>3</sup>

<sup>1</sup>Associate Professor, School of Business, Mount Kenya University,  
P.O Box 17273-20100, Nakuru, Kenya.

<sup>2</sup>Research Scholar, Faculty of Arts and Social Sciences, Department of History and Religion  
Egerton University, P.O Box, 536 Njoro, Kenya.

<sup>3</sup>Lecturer, School of Business, Mount Kenya University, P.O Box 17273-20100, Nakuru, Kenya.

### Abstract

This paper focuses on globalization as a very important aspect in both the national and international arenas. It plays a major role as far as regional blocs are concerned, East Africa included. This study anchors on a pivotal role this phenomenon plays in the East African nation states through a demand for each other's endowed resources resting on their comparative advantages. Globalization creates a binding structure amongst the East African economies. It encourages cross border movements following the 20<sup>th</sup> November 2009 signing of the Common Market Protocol (CMP) agreement yet this attracts and creates dissatisfaction and suspicion among nationals of these countries, economic threats notwithstanding. The developed East African states finally exploit the less developed ones hence marginalizing a few.

**Keywords:** *Globalization, States, Economies, Nationals, Common Market Protocol.*

### Introduction

Globalization is a multifaceted process which defies unique definition. It is interpreted differently. In the rest of the world, this phenomenon is treated as a market driven process whereas in Africa it is reviewed as a consequence of both the IMF & World Bank; the World Trade Organization notwithstanding. Despite the fact that globalization leads to integration of various countries engaged in trade blocs, within the world economy, growth in the Africa Economy is impeded instead (Mkandawire 2005).

Globalization has played a major role in the East African region, a region that houses developing countries: Kenya, Uganda, Tanzania, Rwanda and Burundi. As a globalized region, the East African community has established a customs union and a common market. This has put in place ingredients of comprehensive regional infrastructure. Plans are put in place for these states to have a harmonized monetary union and exchange rate policies, payment and settlement systems, financial sector policies, fiscal policies paving way to the creation of a single financial market. The EAC is yet to develop a modern institution needed for market integration coupled with low degree of financial depth, smaller exports, low domestic savings, overreliance to donor financing, limited infrastructure and human capital. Several challenges arise from this marriage: Due to different levels of macro-economic structures in the region, there bound to exist imbalances in the macro-economic matters and the said integration especially in the monetary union which may eclipse inherent risks associated if not escalating them. Further, benefits expected from trade liberalization may be a pipe dream because of the disparities in the region: for liberalization goes in tandem with more integration in the community. Despite the underlying challenges, the five EAC economies could be richer than they are today if they share good practices from each other.

### Research Methodology

This research focuses on the globalization and the Integration of East African countries. The study covers the South Eastern Africa member states as the universe of the study. EAC was chosen as a suitable area of research because of its strategic position in Africa. The EAC is showcase integration as one of Africa's faster growing regional bloc. This is content analysis research which derives heavily from previous research studies. The study adopts descriptive research design suitable for document analysis and data that has been used in this study. Descriptive statistics have been used in data analysis and presentation. This methodology is suitable for document analysis. Secondary data presentation will be presented appropriately in this study.

### Focus of the Study

#### Globalization and Liberalization: The Process of Market Integration, Financial Liberalization

The process of global integration of markets began in the mid-1800s with the rise in international trade driven by European colonialism. Market expansion was fuelled by rapidly increasing populations, urbanization, and new overseas markets seeking to trade low-cost raw commodities for processed goods. The ability to supply these developing markets with value-added products was made possible through new manufacturing processes based on steam, petroleum, and electrical technologies, combined with the increasing ability to communicate with trade partners through improved mail systems, and more latterly, through mediums such as radio and telephone. These new technologies were further supported with more competitive transportation systems based on a combination of canals, railways, and merchant shipping.

This first round of globalization was an extended period of rapid economic expansion for the colonial powers, a time when nations built empires and families amassed fortunes. The rewards of the system were highly skewed across countries and social classes and, despite the overall growth, the social pressures amongst classes and competing nations led to a backlash that plunged the world into 70 years of global insecurity. In direct conflict with the capitalist movement came the alternative doctrines of Marxism, communism, and fascism.

The emergency of the cold war between 1940s towards the 1960s exhibited military process between the United States of America and the Soviet Union. Their disharmony and influence shaped divergent foreign policy have creating friendly economic blocs however opposing each other. This led to the support to some unpopular regimes a situation that epitomised the ugly side of globalization. However, in the 1980s, the cold war ended which culminated to the collapse of the soviet union and the emergency of pure capitalization by the USA under Ronald Reagan and United Kingdom's Margaret Thatcher.

This new political partnership promoted a highly liberalized form of capitalism in which government policy was led by the interests of the corporate private sector. This new regime introduced policies that radically reduced government intervention in the marketplace, privatized or excised inefficient state sectors, and removed power from labor unions. At the same time, many of the trade restrictions between countries were removed through a series of negotiated trade treaties, such as GATT and Maastricht, and a warming of relations between the Western power sand Asian countries.

## Literature Review

East African countries have a unique relationship arising from culture, history, geography and human contact for many years (Kohler, 2011). The EAC integration composes a membership of 5 states: Burundi, Kenya, Rwanda, Uganda and Tanzania. The 5 countries embraced integration stages namely; customs union, 2012, common market protocol, 2010, monetary union (negotiations going on) and political federation (going on).

Capital and resource flows and mobilization, as well as trade patterns, reveal weaknesses of African economies that undermine their growth prospects: Structural dependence on primary product exports, limited export variety and diversification of exports, underinvestment in domestic infrastructure, particularly for both agriculture and manufacturing and little domestic value added to extracted resources (Kwame et. al, 2011).

Some East and Central Africa (ECA) countries have recognized the importance of striving to increase their role in international economy and have over the last two decades, adopted appropriate economic measures. Others have done so more recently. These measures have resulted in the benefits to ECA countries including the stimulation of private sector trading networks needed in modern economy.

## Results and Discussions

### Globalization and the African Countries

According to (Kenton, 1999), globalization is likely to lead to development of most of Africa due to Africa's low threshold resources and income. World cash prices and demand for Africa crops which are major earners of foreign currency. These cash crop earnings have since fallen since the 1960s. Furthermore, cut throat competition from capitalistic agriculture in both Asia and Latin America has complicated the entire process.

Africa's middle income countries drive their wealth mostly from mineral exports which essentially benefit multinational corporations and developed countries that convert raw materials into consumer products. Ironically, these products are sold back to developed countries for search of high profits.

Most Africans have in the rural areas where the economic cycle depends on unpredictable weather. Africa's gradual population increase together with unlimited employment opportunities results to a large landless labour force, which finally leads to migration to Europe and middle income countries e.g. South Africa.

Africa is poorly placed to compete on an international level due to its lack of new technology. Africa has not coped with the new world order. The continent is battling to embrace the new order.

### Regional Integration in Africa

There is a long history of regional integration in Africa, beginning with customs unions in 1900 between Kenya (then known as the East African protectorate) and Uganda. Currently, this is known as the East African community which composes 5 East African countries.

Regional integration ensures efficiency when producers and countries specialize in goods that they can produce more cheaply, the whole region gains. Secondly, economies of scale that cannot be made on domestic market can often be achieved on larger regional markets. Regional integration can provide experience OAU's 53 member states ratified a new treaty.

In western Africa, the Economic Community of Western Africa States (ECOWAS) came into existence in 1975 with the aim of eventually becoming a customs union and then common market. This integrating state in Western Africa sub-region comprises of 15 members: Benin, Burkina Faso, Cape Verde, Ghana, Cote-D'Ivoire, Gambia, Guinea, Guinea Bissau, Liberia, Mali, the Niger, Nigeria, Senegal, Sierra Leone and Togo.

In Eastern and Southern Africa, in order to increase trade investments and payments among collaborating up regional infrastructure authorities and a development bank, SACU was established in 1969.

Kenya, Eritrea, Sudan and Ethiopia formed intergovernmental authority on development (IGAD) on 18<sup>th</sup> April 1995. The Preferential Trade Area (PTA) for East and Southern Africa was created in 1978 which laid ground for the creation of the common market for East and Southern Africa (COMESA) in November 1993. COMESA is a composition of 21 countries

Despite the existence of these regional groupings Africa still remains weak at cross-border economic links. However, achievements of regional efforts towards integration have been experienced within the Eastern African Community member states.

### **Globalization and Integration in the East African Community**

The East Africa zone remained rather dormant for much of the period following the demise of East Africa Community in 1977. In 1991 the three, East African presidents met in Nairobi and agreed to reactivate and deepen co-operation between the three countries (Kenya, Uganda and the United Republic of Tanzania). Since the signing of the treaty for establishing of East African Community in 2000, the commission has been transformed into the East African Community. This way enhanced further by the signing of the common market protocol in 2011 that brought together 5 countries: Kenya, Uganda, Tanzania, Rwanda and Burundi.

The East African community composes 5 countries: Kenya, Rwanda, Burundi, Tanzania and Uganda. These countries have undergone integration stages starting with customs union which was launched in 2005 and fully confirmed in January 2010; the common market protocol in 2009 launched fully in July 2010. The formation of a single monetary union is ongoing the formation of a political federation process notwithstanding.

The restoration of an East African integration is an unfinished project both politically and economically. First, market integration will offer mutually beneficial scale towards achieving urbanization, recognition towards attracting Foreign Direct Investments (FDI). Secondly, the shared infrastructure is complicated especially due to the different geographical locations. Burundi and Rwanda are landlocked and depend on their coastal neighbours. However, with new discoveries of oil and gas there will be cheaper energy provision. Thirdly, macro-monetary integration works towards a common currency. Practically, it is difficult for the EAC to achieve this.

### **The 20<sup>th</sup> Century Phenomenon**

The result of these political changes combined with major advances in technology, communication, and transportation spawned this second round of globalization. The end of the 20th century saw the advent of the digital age, which led to a paradigm shift in science and business management. The private sector integrated this digital technology into a vast range of new miniaturized products and applications and new market opportunities enabled industrialized nations to make a general shift away from heavy to lighter manufacturing industries. Communications were transformed by satellite and fiber optic systems. These aports and railways of the 19th century were superseded by airports and more efficient road networks. Improvements in communications gave rise to mass access to information and ongoing liberalized legislation supported the development of new international finance mechanisms that was able to fund a more globally interactive private sector. The additive effect of these factors on trade was recently catalyzed with the advent of the Internet, which has, once again, dramatically increased our ability to share information, transact business, and make decisions on events as they occur around the world.

This latest round of globalization, which started in the 1960s and gained momentum in the 1980s, has led to a period of unprecedented economic growth for the developed nations. Developing countries, particularly those which were able to industrialize and more recently, liberalize their economies; have also experienced a period of sustained growth, which has led to significantly reduced levels of global poverty. The impact of globalization on the least developed countries (LDCs) has been less impressive.

The framework for growth in this latest round of globalized trade is based on building confidence in the investment sector. In contrast to the Cold War period when governments were rewarded by political allegiance to the superpowers, success in this new era is based on market competitiveness. Financial support is no longer based on the largesse of governments, but on the judgment of international finance houses. Investment decisions are made on the ability of companies, countries, and governments to develop a political and social environment, which favors private-sector enterprise.

The shift in investment power from governments to the finance sector has largely been achieved with the introduction of new legislation which has liberalized the finance sector, enabling free flow of capital in and out of countries and the development of new mechanisms for fund-raising. The power of the finance houses has been tremendously increased through “financial leveraging” mechanisms such as derivatives, hedging funds, and junk bonds, which enable brokers to build multimillion dollar loan packages from million dollar investments. The fact that most citizens in western countries are also engaged in personal pension and stock-based savings schemes has also provided a new source of capital to investors. Companies and governments have benefited as they have been able to extend credit or offload debt onto the public through shares and bonds and this mechanism has considerably increased their ability to raise capital. Whilst these financial instruments offer new opportunities to access funds, they also incur a more stringent performance mechanism as borrowers are now not simply accountable to the board of a bank, but to many hundreds of thousands of individuals, who now “own” a stake in the company, country, or regime.

### **Financial Liberalization**

The result of this liberalization of finance means that investment agencies are now under the scrutiny of millions of investors, who chart the progress of their savings on the stock markets. Consequently, investors need to constantly monitor world markets to identify the most favourable investment opportunities and avoid or offload the poor performers. The internet has enabled many millions of new entrants into the investment decision-making process and the result of this increase in market monitoring has been to accelerate the dynamics of the global investment decision-making process. Clearly those companies and countries that offer the best returns are rewarded by this profit hungry group.

The habits and responses of this increasing number of market “watchers” are not always predictable. Decisions on where to invest and when to offload are not always based on sound analysis and the tendency for investors to follow the majority decision has earned this group of investors, the title of the “electronic herd”. Given that the growth of nations is

linked to trade through investment, then attracting the “electronic herd” is highly desirable. However, there are risks, as the herd is not loyal and whilst their presence means that funds can be accumulated rapidly, these same funds can also flow out equally rapidly if the herd stampedes.

The “electronic herd” is complimented, if not led by another major group of investors, the multi/transnationals, who make major long-term commitments/investments to countries, if the conditions for investment are favorable. The types of decisions made by the multinationals include, for example, the location of a new car plant, a microchip assembly center, or a textile factory. Attracting this type of investor can have major pay-offs for countries in terms of growth and labor opportunities, but the conditions for such investments are highly competitive and the transnationals expect very attractive terms and conditions.

Both types of investors seek locations where entrepreneurs can operate in an unfettered, risk-supportive environment where profits can be maximized. For long-term business growth, the investment houses are seeking framework conditions that adhere to banking laws, commercial law, contract law, business codes of conduct, independence of the central bank, property rights that encourage the entrepreneur, effective processes of judicial review, international accounting standards, regulatory oversight, laws against conflicts of interest, and a system in which officials and citizens are ready to implement these rules in a consistent manner. The economic policies of interest include those which favor industrialists and reduce power to labor unions, reduce government intervention in the marketplace, provide highly transparent, timely fiscal information, and have regulatory watchdogs that fight corruption and penalize those who are caught. The commercial viability of a country can also be measured by the strength of the banking/business sector in relation to its bond market, stock market, and treasury support programs. In terms of physical infrastructure, investors are attracted to governments that devolve power to the private sector and support infrastructural programs that support the business environment, such as upgrading transportation and communications systems, particularly digital services.

As the ability of measuring performance increases, investors have become more sophisticated in their use of social indicators and therefore, in addition to monitoring real-time rates of financial flows in and out of the country, new social indicators are being used, such as the level of education of the workforce, and the degree to which people are able to communicate. With the advent of e-commerce, the latest market indicators are associated with the rates at which consumers become linked to the Internet.

Advocates of globalization argue that all of these socioeconomic measures are constructive and that the growth achieved through removing market barriers and integrating trade worldwide is benefiting all players, both rich and poor, and that globalization not only reduces poverty it also strengthens the cause of democracy. It is further argued that globalization is an impartial decision maker which provides governments and more importantly, the people who vote in governments, with the ability to make decisions for their economic growth. The notion that globalization is a force for the empowerment of people is termed “globalution” and this concept is based on the premise that if people within a country want reforms for greater economic growth, the people must advocate and vote for policies that support greater market liberalization and good governance.

To compete in this new economic environment, companies, governments, and countries need to be ever more efficient, ever more responsive to market signals, and ever more innovative in order to keep up with the demands and opportunities offered by the market. Clearly, those countries most likely to succeed are those which, have (i) most access to technology, (ii) are the innovators of technology, (iii) have the most highly educated labor force, (iv) have best access to risk capital, (v) are most able to communicate with partners and consumers, (vi) have the legal and regulatory framework to curb system abusers, and (vii) can provide a “Net speed” flow of all the required fiscal information to the investors.

The best-adapted countries to the new environment at present are the industrialized countries, which are unabashedly gaining most from the system. These gains are not marginal, as lead countries take a lion’s share of the profits and leave a diminishing amount for the rest of the players. To put this in perspective, 51 of the world’s largest 100 economies are private sector and 359 corporations account for 40% of world trade.

### **Negative Aspects of Globalization towards Integration**

The risks or negative aspects associated with globalization are also becoming more apparent and many least developed countries (LDCs), particularly the heavily indebted poor countries (HIPC), are suffering declining terms of trade due to their inability to adjust to changing market signals within the liberalized global economy. Unlike industrialized sectors where factories can be closed until supply is more evenly balanced with demand, the economics of primary products produced by poor countries is different. These countries do not have alternative investment opportunities, or a skilled labor force to develop nonagricultural industries or services. They rely on cash-crop production for export revenue no matter how low prices fall. A combination of debt and dependence on raw commodities means that several countries are entering into an accelerating downward spiral, in which production needs to be increased to raise revenue to pay off debt, but increasing supply is driving down prices.

Over the past 20 years, the percent of ACP country trade with their traditional European partners has fallen from 7% to 3% and in 1998, LDCs accounted for only 0.38% of world trade. This level has decreased further of late as commodity prices have fallen to a 40-yearlow. The inability of governments or specific sectors to make necessary reforms can lead to major shocks in their economic systems. At the investment level, the East Asian currency crisis, the Mexican peso problems, and the collapse of the Argentinean currency are all results of global investors and speculators overheating, inflated currency markets, or leaving en masse when events turn sour. In Africa, the continual decline in prices for commodity markets is directly linked to market liberalization and this is having a major negative effect on countries whose economies are dependent upon export commodities such as coffee, cocoa, cotton, tobacco, etc. This shock treatment is unlikely to change in the near future and it is more likely that economic crises will occur more frequently as the globalization process gains greater momentum.

### **The Role of the WTO: Global Market Liberalization**

Despite the lack of restraint in global market liberalization, for most people at this time, the rewards or trends are still sufficiently positive to support the process and there are several studies, which statistically prove that overall poverty reductions across the world have been faster in the past 30 years than at any other time. However, conditions are not static and the speed of change is accelerating. The common analogy is to compare the process of globalization to a high-speed train. This train has left the station, it is not waiting for latecomers, and it is gaining momentum.

Whilst there are many advocates of globalization, there are also increasing number of critics to the process. The backlash to the first round of globalization was extreme with the rise of communism and fascism, which resulted in several wars during the 20th century. In this second round of globalization, more players and countries are involved and the key question in relation to stability is balance. Is the balance right between winners and loser sand is the rate of growth great enough, and equitable enough, for the majority of people to accept the terms and conditions and also tolerate the shocks that will lead us towards a richer, but culturally more homogenized world?

The rise in protest to the current round of globalization has been manifest in increasingly violent demonstrations at WTO meetings. The “Battle at Seattle” was clearly an organized attempt by many groups of disaffected and angry people to make it clear to leaders in the international community that the headlong, unfettered pursuance of liberalized global capitalism has drawbacks, that people are already feeling marginalized, and that some will be prepared to make their grievance manifest through violent protest.

The arguments for and against globalization can be extreme, depending on the position taken. Whilst advocates argue that all the current studies prove that liberalization leads to increased economic growth and that the greater the degree of liberalization the greater the rewards, critics suggest that globalization is increasingly marginalizing the poor and that LDCs do not have the required skills or infrastructure to enter this new world order.

### **Globalization towards Integration at its Best**

In order for companies, countries, and governments to benefit from the process, they should wholeheartedly take on the policies that support liberalization, that focus on competitiveness, free trade, and the call of the marketplace. Those most able to develop new, dynamic governance systems that support the private sector, reduce the role of state, and that attract investors will be rewarded by national growth. Avoiding these conditions will lead to economic oblivion.

### **Globalization Optimism and Future Prospect**

There is both optimism and concern for the future of globalization. The process is real, it is currently the most powerful force for change in this decade and those who ignore the process do so at their own peril. At present there is no global regulatory system and although potentially desirable, the will is not yet sufficient to demand such an institution. The “balance” and “rate” of globalization is an issue which will become increasingly vocalized on the world agenda and if current rates of change are to be our yardstick, there will be increasing evidence of winners and losers as the process accelerates.

Some of the least desirable aspects of globalization that are relevant to East Africa include the massive fall in terms of trade, dependence on donors, and the alternative of opting out of the globalization process and being cut off. There is evidence that those countries that are not making efforts to join the global market place are taking destiny into their own hands. Globalists will not coerce rogue states into the process, but will have an economic wall built around them to effectively obscure their existence. Zimbabwe is currently being internationally walled out and the consequences of this happening rather than systems being established to support the LDCs is a subject of concern.

The rise of the super trade blocs such as the expanded European Union (EU) and North American Free Trade Agreement (NAFTA) is also a matter of concern for those countries, which are not associated and have no means of presenting themselves with a common agenda. East African countries are in many respects prone to the more negative effects of these dimensions of globalization and all efforts should be made to seek ways to avoid the possibility of these aspects becoming a reality.

### **Conclusions**

Globalization and East African Integration was intended to assess the history of cooperation in East Africa and to describe the features of the new EAC created out of the ashes of the old. The new is nowhere near the attainment of the old in terms of the deepening and variety of services, although it is refreshing. Genuine co-operation or unity among the countries of East Africa is a source of strength in terms of all aspects of life: political, diplomatic, economic, financial, social and technological. From history on the East African integration the debate remains: When and how to co-operate or unite rather than whether, whether the environment for co-operation and working together exists as we are geographical neighbours, the partners have compatible systems of governmental organization, language and culture, harmony and absence of conflicts between the partners exists.

### **Recommendations**

Individual partners seeking to be integrated have to have transparent democratic mandates of their citizens. We should ensure that co-operation is to the benefit of all participants, and if for any reason, benefits are unequal at times, mechanisms for prompt correction must be an integral part of the co-operation machinery. The machinery for co-operation should also be such as to the pilling us of decisions on minor matters on the top authority.

### **References**

Milanovic, Branko (2002). The two faces of globalization: against globalization as we know it. Processed, May, World Bank, Washington, D. C.

- Mkandawire, Andika (2005). Maladjusted African economies and globalization. *Africa Development*, vol. 30, Nos. 1&2, pp. 1-33.
- Ocampo, José Antonio, and María Angela Parra (2006). e commodity terms of trade and their strategic implications for development. In *Globalization Under Hegemony: !e Changing World Economy*, Jomo K. S., ed. Oxford University Press, New Delhi.
- OECD (2010). *Development Aid at a Glance 2010*. Organization for Economic Cooperation and Development, Paris.
- Ouattara, Alassane (1997). E-Challenges of Globalization for Africa. Southern African Economic Summit, organized by the World Economic Forum, Harare.
- Weisbrot, Mark, Dean Baker, Egor Kraev and Judy Chen (2001). !e scoreboard on globalization, 1980-2000: twenty years of diminished progress. Center for Economic and Policy Research (CEPR), Washington, D. C.
- Weisbrot, Mark, Robert Naiman and Joyce Kim (2000). The emperor has no growth: declining economic growth rates in the era of globalization. Center for Economic and Policy Research (CEPR), Washington, D. C. Available from [http://www.cepr.net/images/IMF/!e\\_Emperor\\_Has\\_No\\_Growth.htm](http://www.cepr.net/images/IMF/!e_Emperor_Has_No_Growth.htm)