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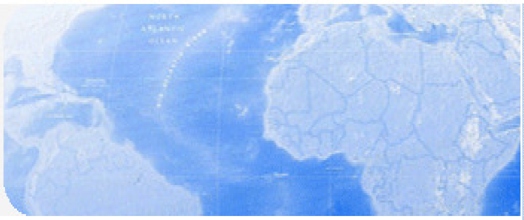

UNU-CRIS Working Papers

W-2013/4

South Sudan, Sudan and the East African Community: Potential of Enhanced Relationships

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Abstract

Since the independence of South Sudan both the South and the North face an even more urgent need to diversify their economies beyond oil. They also need to diversify their international partnerships. Despite the agreement of the North and South to continue to intensify their partnership, in practice mutual distrust sets narrow limits, at least in the short term. In this context, both Sudans have reached out to East Africa. While South Sudan has long sympathized with the region and is actively pursuing membership in the EAC, economic problems have also put pressure on the North, so much so that it has in fact also applied for membership. This paper discusses the economic and political implications for the two Sudans, as well as for the EAC, concerning their potential EAC membership, both in the short and long term. For all sides, there would be clear economic and political benefits, however there are equally challenges and risks, particularly in the short term. The article discusses the reasoning behind regional integration, followed by a brief overview of the situation in each of the Sudans and the EAC. This provides the basis for the discussion on the prospects of memberships for either or both of the Sudans in the EAC in the final section. The conclusion provides some recommendations.

Abbreviations

EAC	East African Community
EPA	Economic Partnership Agreement
COMESA	Common Market of Eastern and Southern Africa
ECOWAS	Economic Comunity of West African States
EALA	East African Legislative Assembly
GAFTA	Greater Arab Free Trade Agreement
GDP	gross development product
GoSS	Government of South Sudan
INEF	Institut für Entwicklung und Frieden
REC	regional economic community
RI	regional integration
RIA	regional integration agreement
RTA	regional trade agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SSNBS	South Sudan National Bureau of Statistics
UAE	United Arab Emirates
UNECA	United Nations Economic Commission for Africa
UNU-CRIS	United Nations University - Centre for Regional Integration Studies
WTO	World Trade Organisation

Introduction[2]

This year's open conflict between the two Sudans escalated the unresolved negotiation issues between the two countries. It sharply raised the economic challenges the two faced not only since and as a result of their separation (highlighting the loss of the majority of oil income in the North and broader state building in the South), however that had been visible much earlier, pre-dating the oil boom since a decade ago.

Declining productivity and competitiveness of Sudan's agriculture and its main exports have occurred since the late 1980s. The typical negative side-effects of an oil boom that started in the first decade of this millennium - the 'oil curse' – has only exacerbated the imbalances of the economy further, including: poverty, sectoral and spatial inequalities and the declining competitiveness of traditional export earners.

Similarly, the oil boom and the separation only exacerbated the need for urgent economic reforms to address these challenges and achieve broader economic development. One element of such a reform is the diversification of exports and trade partners and deeper integration into the world economy, in particular with regard to regional integration. Both Sudans have this present in their plans. Of particular interest in both cases is their desire to achieve membership in the East African Community (EAC), discussed in this paper.

The first section introduces the reasoning behind regional integration and develops a criteria to assess the prospect of the two Sudans' desired membership in the EAC. The next two sections give a brief overview of the present situation in the two Sudans, followed by an account of the ambitions and achievements of the EAC. The main part of the paper then discusses the benefits, costs, challenges, and wider implications of EAC membership for both countries. The paper concludes with some policy recommendations.

The concept of regional integration (RI)

In the age of globalisation, the increasing importance of the international political and economic environment for economic development is undoubted. Despite the current financial and economic crisis, it is also largely undisputed that increasing integration into the international economy is vital for increasing welfare – in particular for developing countries that hope to catch-up with the richer industrialised world. Economic integration through trade is the main and often first element, though not the only one.

[2] The author is grateful for comments received at the Sudan Conference in Bonn, 23-25 July 2012. This paper is written in a personal capacity and does not represent an official position of the Ministry of East African Community of the Government of Kenya.

Since the 1990s, regional agreements, in particular regional trade agreements (RTAs), have flourished. Integration into regional groupings is often seen as a stepping stone for global integration – although sometimes as an alternative as far as trade is concerned. This is particularly true with regard to the small economies.

The discussion on the implications, costs and benefits of RI in general, as well as RTAs specifically is long and multi-stranded (e.g. Baldwin 1997 and 2008, Benini and Plummer 2008, Gantz 2009, Oyejide et al 1997, UNECA 2010). No justice can be done here to all of the relevant aspects. However, key arguments for RI, the criteria to assess the benefits of RI and the measures that would be conducive to RI, are all discussed below. This is to provide a theoretical and empirical basis for evaluating the potential results of memberships of the Sudans in the EAC.

The key arguments for RI are as follows.

Market size, increased competition and efficiency: The economies of developing countries are generally small and integration with other countries will have scale effects by enlarging the market. Larger markets will lead to more competition and thus to increased efficiency. However, in present times of declining trade barriers this argument becomes less important.

Breaking national interest groups: Necessary and agreed policy reform, including trade liberalisation, is often blocked by import substituting industries or other interest groups with vested interests determined to maintain the status quo. In a regional integration arrangement (RIA), the influence of these national groups is weakened.

Voice: Small countries have little importance and influence in the international economy. Grouping in a RIA is a way to increase their voice on the international agenda.

Negotiation costs: Negotiating as a group, rather than by each state means reducing negotiation costs at the international level. A region can generate a more sizeable, appropriate and more representative negotiation team in comparison with national states. On the other hand, this may be more than weighed up by the negotiation costs necessary to arrive at these regional positions in the first place.

Credibility through lock-in: The policy of countries in an economic union with common policies is 'locked in' (i.e. individual governments are virtually unable to reverse the policies), which provides increased macroeconomic stability and credibility.

National sovereignty: The flip side of lock-in effects is of course the loss in national sovereignty, i.e. the scope of decision making power and flexibility for national policy changes ('policy space').

A step towards international integration: Most developing countries have more protected economies than others. Opening up in a gradual way, starting with regional integration, may be more feasible and entail lower adjustment costs than immediate integration in the world economy. An ‘incremental trade reform’ through RTAs may also be able to reach a higher degree of depth than the multilateral World Trade Organization (WTO) negotiations. Arguably it is easier to reach agreements between like-minded states (Gantz 2009). In effect, developing countries have in many instances accepted disciplines which they resist at the WTO level. The critical issue facing policy makers is whether deep integration initiatives in RTAs are throwing up impediments to deeper multilateral liberalisation.

However, when the created RIAs are highly protective, they can also be more harmful than beneficial for achieving global integration. The balance of trade creation and diversion effects (discussed below) is important.

Over the past two decades new interest in the field of economic geography has emerged and many new insights have been gained (well summarized in the World Development Report 2009 (World Bank, 2009)). Whether economic integration between countries differing in levels of development and endowment is likely to result in a balanced development or rather to polarization has been a contentious issue for some time. Much evidence points to a pattern of unbalanced growth in the first stage, with an eventual convergence in living standards in fully integrated regions. Welfare can spill over from rich and advanced regions to the poorer ones if these are well connected.

Traditional trade theory was sceptical concerning RI compared to the prospect of multilateral liberalization, as it was maintained that RI was the second-best option as it might divert trade. However, it is now recognized that when transport costs are considered, despite their reduction, regional agreements might be more beneficial overall than multilateral ones.

Modern technology provides high and almost unlimited potential in fragmenting production which allows for the spreading of production to various places. A related factor is that in modern trade, economies of scale are more important than the differences in natural endowments that constituted the major initial motives for division of labour among countries.

When it comes to the means to promote balanced development, geographic targeting was a prime instrument. However, it is now widely recognized that this means is often inefficient and may actually hold back marginal areas. Instead, more effective means are now considered to be institutions and infrastructure. Key proven instruments include the universal coverage of health and education services that alleviate backwardness in outlying areas. Secondly, connecting these areas well to the growth centres allows spill-overs of growth effects.

Based on these traditional and new arguments, the criteria to assess the benefits of regional integration can be developed. Trade creation and trade diversion should be clearly distinguished from one another for clarity purposes. Regional integration creates trade by replacing expensive domestic production with cheaper imports from the partner country, which is clearly a positive impact. However, it may also divert trade by replacing initially cheaper imports from a third country (outside the new RTA) with more expensive imports from a country within the region. Trade diversion is harmful, usually implying welfare loss resulting not only from an increase in prices for consumers, but also due to the undermining of competitiveness for the producers (who were meant to be supported) as a result of the higher import prices.

The strength of prior trading among RTA partners is important. If countries trade a lot before RTAs are created, they are described as 'natural trade partners'. RTAs among such partners are likely to result in more substantial trade, as well as be sustainable.

The complementarity of production and the demands of the RTA members are also important. When countries produce the same or similar goods and services, there will naturally be limited scope in terms of the demand for each others' commodities.

The orientation of economic and trade policy has a role: The success of RTAs is more likely, and likely to be more positive, when the overall stance of the partners on economic policy and particularly on trade policy is more similar. In contrast, it will be more difficult for countries which have substantially different outlooks on their commitments towards trade liberalisation.

The distributive effects of RI among RTA participants need to be considered. Although the overall effects of RTAs may be beneficial, these are not likely to be distributed between the participating countries equally. Even irrespective of this, there will undoubtedly be fears and anxieties of such negative effects on countries. In particular, there are likely to be greater fears in smaller, poorer and more peripherally located countries, as there is a possibility that the larger, richer, higher developed countries will gain more. On a related note, RTAs may also create envy on the part of non-members. Although aid donors and the international community are keen to promote RI's as a step towards greater global interdependence and integration, the schemes can cement and deepen inequities, create tensions and trigger conflicts (Khan 2009). Schemes of deeper integration therefore need redistributive mechanisms (as for instance the EU and SACU have put in place).

There are also distributive effects within RTA participating countries. The impacts of RTAs on domestic economic groups will usher benefits for some, and cause losses for others. Those sheltered by trade barriers from competition with imports will lose, while consumers, industries (potentially) using imports, will benefit. There will also be spatial impacts, including rural-urban impacts. Generally, urban groups are likely to be highly affected by RI effects, both positively and negatively.

As stated above, despite all hopes and ambitions, the majority of RI efforts have not delivered in line with its initial promises. All in all, reviews of successful RI schemes concluded that there are two conditions for successful RI (Mattli 1999):

- leadership by a key country;
- tangible effects of RI that are visible and felt by the population.

Before applying this framework to the case of the EAC, South Sudan and Sudan, the ensuing three brief sections introduces the three units.

The situation of Sudan

Sudan's structural economic problems have worsened over the past decades. The country has faced declining agricultural productivity since the 1990s and its export base has grown narrower. It is currently almost limited to commodities and concentrates on the Middle East (and to a lesser degree on Africa). Transaction costs are high. Key components of these are taxes and a largely declining transport network.

Sudan has a reputation for being a major agricultural producer and exporter, although its export position has eroded substantially over the years. Sudanese agriculture continues to be the backbone of the economy. It provides rich nourishment to a growing population. It also assures employment for two-thirds of the labour force, in addition to employment generation in upstream and downstream sectors. Further, agriculture supplies valuable inputs to domestic manufacturing and artisanal industries. The sector contributes more than one-third of the GDP and the lion's share of non-petroleum export earnings.

Sudan has not been able to produce the quantity and quality of the commodities demanded by the growing and discerning world markets and its export base has become ever narrower geographically, as well as in terms of the commodities exported. It especially lacks in value-added products.

In view of several factors, including low investment in agriculture, the competitiveness of agricultural exports has suffered and agricultural export earnings have stagnated, although they still remained as the dominant source of foreign exchange until the advent of petroleum exports in 1999.

From that time onwards, Sudan has turned from an agricultural exporter to a petroleum exporter, following the unprecedented boom of its petroleum export revenues. Oil has become dominant in the economy, inducing a development path that is not spreading through the economy and not leading to broad development. It has negative impacts on incentives. Further, although high growth was achieved, poverty has remained rampant.

Sudan remains one of the poorest countries in the world and poverty and food insecurity levels are increasing. There are great disparities between different regions, across the rural-urban and gender space, a situation exacerbated further by regional conflicts. The main traditional commodities exported by Sudan remain competitive overall, but are all losing ground to more competitive exporters. There are numerous taxes, fees and other charges levied on their way to the port (as well as in Port Sudan itself) which constitute a great burden on trade. On several value chains these charges are between 30% and as much as 75% of the total assembly and logistic costs incurred between the farm gate and the port of exit. Sudan's exports are increasingly concentrated on fewer products and fewer importing markets, largely in the Middle East and Asia. Very little is exported to other African countries, despite the preferential access to COMESA partners.

Compliance with international sanitary and phytosanitary standards (SPS) and technical barriers has been a major constraint for Sudan, especially for horticultural products and meat. However standards are an accepted reality in international trade and complying with them is often necessary for survival in world markets. SPS measures are only part of the problem. Non-SPS related quality characteristics of Sudan's exports also have to improve, including the appearance of horticultural produce destined for the export market; careful grading, packaging and labelling, all of which, combined, could ensure a better price for these products in the markets they are already being accepted into. Such improvements can be made immediately and the payoff will be equally as immediate (Konandreas 2009).

Like other African countries, Sudan has championed RI in all its development plans and in many declarations. Sudan is a member of the Common Market for Eastern and Southern Africa (COMESA) and the Greater Arab Free Trade Area (GAFTA). Moreover, discussions are held by the Horn of Africa group for a bloc of neighbouring states (all part of COMESA). Sudan has also been part of negotiations by an Eastern and Southern African (ESA) group (also part of COMESA) with the EU on an Economic Partnership Agreement (EPA). However, only four ESA countries have signed an EPA, not including Sudan. Like the other ESA non-signatories, Sudan has still an option to join. At the same time, COMESA is preparing a tripartite free trade area with two other African regional groupings, the Eastern African Community and the Southern African Development Community (SADC).

Sudan's actual and potential membership in existing and planned regional economic schemes

RTA	Members
COMESA (formerly PTA)	Egypt, Libya, Sudan, Kenya, Ethiopia, Uganda, Zabia, DR Congo, Mauritius, Madagascar, Zimbabwe, Swaziland, Rwanda, Malawi, Eritrea, Burundi, Djibouti, Seychelles, Comoros
GAFTA	Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Moroco, Oman, Palestine, Qatar, Saudi-Arabia, Sudan, Syria, Tunisia, United Arab Emirates (UAE), Yemen.
Horn of Africa	Djibouti, Eritrea, Ethiopia, Somalia, Sudan
ESA	Comoros, Djibouti, Eritrea, Ethiopia, Madagascar, Malawi, Mauritius, Seychelles, Sudan, Zambia, Zimbabwe
COMESA-EAC-SADC FTA	South Africa, Egypt, Angola, Libya, Sudan, Kenya, Ethiopia, Tanzania, Zambia, Botswana, Uganda, DR Congo, Mozambique, Mauritius, Namibia, Madagascar, Zimbabwe, Swaziland, Rwanda, Malawi, Lesotho, Eritrea, Burundi, Djibouti, Seychelles, Comoros
EAC	Burundi, Kenya, Rwanda, Tanzania, Uganda

Only COMESA is really operationalized, but Sudan is not part of its customs union which was launched in 2009. Among Sudan's regional preferential arrangements, COMESA (accounting for a mere 1.8% of total merchandize exports of Sudan in 2001-06) has not been a very dynamic export destination, aside from Egypt (also a GAFTA member) importing live animals, sesame, molasses, and cotton (86% of Sudan's exports to COMESA).

Despite the reduction in tariffs within COMESA, member states are still grappling with non-tariff barriers, in particular administrative entry procedures, including customs valuation, rules of origin and pre-shipment inspection, as well as SPS and TBT rules and regulations.

GAFTA is by far a much more important preferential trade arrangement (accounting for 12% of Sudan's total merchandize exports in 2001-06) with 40% share by Saudi Arabia, 27%by UAE and 14% by Egypt.

GAFTA should be a priority export market for Sudan, in view of the preferential market access Sudan enjoys as well as the many other advantages, such as its proximity (physical and cultural) and large and increasing appetite for value-added processed products where the preferential margins are far greater (Konandreas 2009: 9).

Since the advent of petroleum exports in 1999, Asia (and China in particular) has become the single most important destination of Sudanese exports (86% of total merchandize exports in 2006 and growing). The concentration of agricultural exports is less pronounced, with Middle Eastern countries accounting for some 30-35% (Saudi Arabia alone 20-25%), Asian countries (with China and India on top of the list) accounting for some 40-45% and European and other industrialized countries for about 25%. There is relatively little trade with African countries, including Sudan's COMESA partners (aside from Egypt). It is only with Asia that Sudan has a positive trade balance, mostly due to the huge petroleum exports to that region (Konandreas 2009: 7).

When petroleum is excluded, leaving primarily agricultural exports, there is a better diversification of export destinations, with Saudi Arabia at the top of the list (some 20-25%, depending on the year). All of the Middle Eastern countries together account for some 30-35% of total agricultural exports, European and other industrialized countries have a combined share of about 25% and the remainder is basically accounted for by Asian countries (with China and India at the top of the list).

While the sources of imports to Sudan are far more diversified than its export destinations, the broader picture, is also similar, with Asia and China in particular being the main origin of imports. Thus, Asia accounts for some 35% of total merchandize imports of Sudan, Arab countries of the Middle East and Gulf region some 25%, European countries for some 30% and the remainder from other countries (Konandreas 2009: 57-58).

There was little preparation for the economic impacts of the independence of South Sudan. The current account amounts to -1.2 bn US$, foreign exchange depreciation of 50%, and inflation is estimated at 28.6%. Food prices have more than doubled since 2009. While the country's imports are rising, non-oil exports are in decline. The budget is based on very optimistic assumptions.

The policy response so far appears to concentrate on the hopes of increasing oil exploration in the West. However, the need for a broader-based growth and diversification is pressing.

In June 2011 Sudan applied for membership in the EAC. The application was promptly rejected by the EAC presidents in a meeting in November the same year (Sudan Tribune 2011).

The situation of South Sudan

Considering the main economic and human development indicators, the situation in South Sudan is much more serious in many respects than that of Sudan - although the averages here also mask serious underdevelopment in the peripheral areas of the North.

South Sudan is unique, combining challenges of different country groups:

- It is a post-conflict economy with its particular challenge of state-building,
- It is land-locked,
- It is in many respects a virgin country as it was neglected during most of its colonial and post-colonial history.

All of these are heavy burdens. But the country also holds promise with its wealth of natural resources, young population, and the visible support of numerous other countries. The country has an abundance of fertile land, much of it only marginally used. It has a rich resource base: not only oil, but also minerals and agriculture. But a multitude of constraints hold back their exploitation: a lack of land rights, minimal infrastructure such as of roads, railway, river transport, electricity and the internet.

With well thought out approaches, South Sudan can realize its huge agricultural potential. In addition to oil, the country possesses other mineral and natural resources, all of which are only marginally utilized as yet. In contrast to oil, agricultural development has the potential to involve the majority of people and thus distribute incomes and wealth broadly, besides providing more obvious and desired food security.

Besides credit, technology and market access, a key condition for unlocking this potential, which is as of yet largely unfulfilled, is proper land rights. Only these will provide both the incentives to invest in the use of land and act as the basis for unlocking access to credit by providing the security vital for the necessary future investment.

Across the board, the skills base that is increasingly becoming the basis for raising incomes will have to be built. This will have to go beyond addressing the stark figure of illiteracy, but will also need to address the feasibility and accessibility of vocational training and higher education.

In virtually all of the challenges the country faces, lessons from the experiences of other countries (on how to industrialize, build state institutions, develop a modern agriculture), both in terms of positive and negative experiences, can be learnt from. However, these lessons cannot simply be replicated. They need to be carefully considered and whatever lessons they provide need to be tailored to the country's own specific context - which differs in various dimensions. To support this an indigenous research structure is needed, that is at best in its infancy at present.

Another area of concern is the still very difficult business environment. A virtually undisputed lesson of development is the fact that private initiative and enterprise is the driving force for development. While the government sets the policy framework and provides the necessary security and stability, it cannot successfully create better income levels. It rather must enable its citizens to strive for that themselves.

A final key bottleneck relates to the unresolved issues with the North and the mutual mistrust. Not only because of its shared history and the numerous human and family bonds, but also simply as a reality of being neighbours, North and South Sudan are bound together. History shows that the stability and success of neighbouring countries (or their lack) has a major impact on the success of a country. The sooner the conflicting issues are resolved, the better for both sides.

Currently major international partners are aware of the manifold challenges the country faces and are willing to assist. In particular the neighbouring countries Ethiopia, Kenya, and Uganda take an active interest in the stability and growth of the country. In addition to Europe and the US, China also plays an active role.

However, this interest of development partners, as well as of private investors, should not be taken for granted or viewed as guaranteed. If the success of their efforts and domestic efforts which the development community expects, and the security the investors need is not created and maintained, the positive interest will turn into disappointment and abandonment. Based on the experiences of others and South Sudan's records, there are already numerous doomsayers and voices that warn partners rather not to engage and to wait and see how the country is doing on its own (e.g. Lacher 2011).

The sudden decision to cut off oil exports (that constituted 98% of revenue) sharpened these challenges. Even when and if the open conflicts between the two Sudans are resolved, it will take months to return to the pre-crisis oil-production level.

The East African Community

The EAC with its five members (Burundi, Kenya, Rwanda, Tanzania, and Uganda) is one of 16 RI organisations in Africa, and one of seven recognized by the African Union (AU) as building blocks for African integration. In different respects the EAC is different from the other RECs in Africa. As the only one (besides the SACU that goes back to 1905), it has historical roots - and this is in two respects.

First, it already existed before (from 1967-1977 consisting of Kenya, Tanzania, Uganda, the three main countries), when it broke up, basically because of different policy outlooks (Kenya pro-western, Tanzania socialist, and Uganda under military rule)this was due to the other two countries feeling short-changed by dominant Kenya.

Secondly, the original EAC built on the joint British administration of East Africa that had given the region a number of common policies and institutions (Kenya and Uganda had a customs union since 1927, which Tanzania joined in 1927). These historical roots gave the EAC an important head-start over the other African RECs.

In 1999 the 3 former EAC countries founded the EAC again (the treaty became effective in 2000). Rwanda and Burundi joined in 2007. This 'second EAC' learnt from the first experience and is very ambitious in its treaties and plans. In 2004 a customs union protocol was signed (effective from 2005). The protocol provided for the progressive implementation of a customs union, within a transitional period of five years, ending in 2010.

The customs union was followed by the EAC common market protocol which was signed by the five EAC heads of states on the 20th of November 2009 and came into effect on 1st July 2010 following its ratification by all five EAC member states. This added to free trade in goods, free trade in services, capital, investment, and free movement in labour within the region.

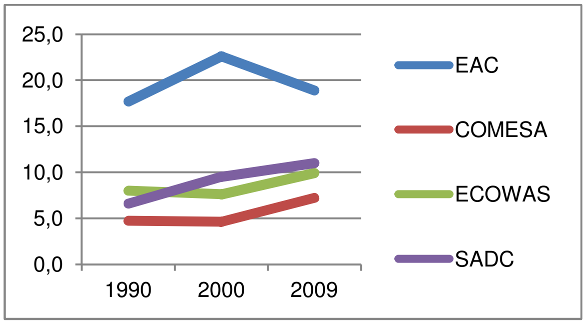
Further steps planned are a monetary union and a political federation. On the former, a protocol is negotiated at the time of writing and the political federation is envisaged as the final step. The scope of integration is very wide, including no less than 17 areas of cooperation with 60 elements.

Beyond plans and protocols, the institutional development of the EAC is progressing. As other RECs, the EAC has a parliament (the East African Legislative Assembly (the EALA)) - but of these, only the EALA has actual law making competence. The EAC also has a judiciary - the East African Court of Justice. The EAC also established a crisis prevention mechanism and three members (Burundi, Kenya, Uganda) actually sent forces to establish peace in Somalia.

Although there are various delays in implementing the customs union and common market protocols (notably non-trade barriers that are creeping up, replacing the abolished tariffs), the EAC has made great strides and is ahead of other African RECs.

Arguably, most important factors to assess the success of a RI scheme are the outcomes, the results these protocols and institutions have. As trade integration is, as in other RECs, the first and most important dimension of the EAC, the fundamental question to ask concerns changing in trade within the region. As the following graph shows, EAC's record is in fact remarkable.

Merchandise exports within trade blocs (% of total bloc exports)



source: African Development Indicators 2011

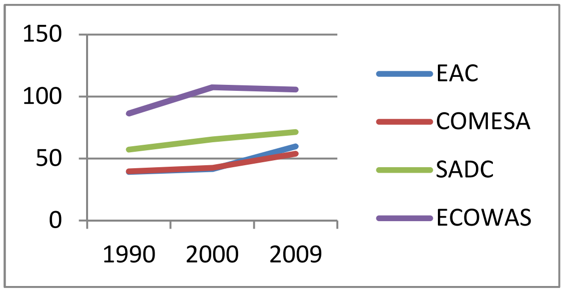
The graph above shows that the EAC countries trade much more (about double) with each other than those in the other RIAs. This is significant and very hopeful, as it defies the traditional argument that South-South trade, trade among developing countries, will not be successful as the countries are not 'natural trade partners': because they tend to export agricultural or mineral goods, while importing industrial goods, there is not a potential for much trade - key trade partners will rather be the North - industrial countries - and thus trade agreements with them are more important.

These assumptions are clearly confirmed by the data on COMESA, ECOWAS, and SADC. The data of EAC provides more grounds for hope. When the still numerous barriers to regional trade within the EAC are gradually removed, it can be expected that trade will grow substantially further. At the same time, the main markets are likely to remain the richer countries in Europe, Asia, and America, for the foreseeable future.

However, it is doubtful to which degree this high integration is due to the EAC. First, trade was already relatively high when the new EAC had just started (2000). More importantly, the share of regional trade declined after 2000. This gives a sobering perspective on the efforts of trade liberalisation agreements and confirms the impression that the reductions in tariffs have largely been replaced by non-tariff measures (NTM). All in all, the data can more readily be taken to show the degree to which EAC countries are natural trade partners.

The share of regional trade in total trade depends basically on the absolute size of the two. The following figure shows that of the four compared RIAs, EAC is in third position, with a low degree of international trade integration.

Importance of trade in GDP (%)

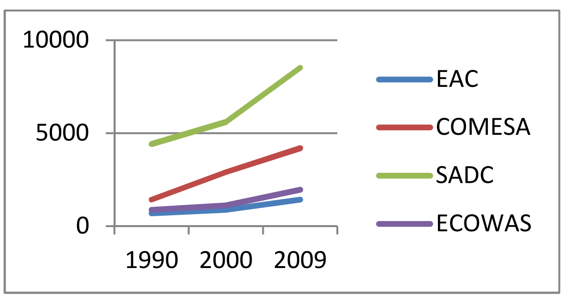


Source: World Development Indicators

However, compared to past figures, EAC achieved the highest increase among the 4 schemes, both over the past 20 years (1990-2009) as well as in the most recent decade (2000-09). ECOWAS is the most integrated bloc, but its degree of integration is now declining.

RI is not pursued for its own sake. It is an intermediate objective that is expected to lead, or at least contribute, to broader development goals, chief among them being growth. The following graph shows the growth in income levels in terms of purchasing power parity, i.e. taking into account the different living costs in countries. It is thus the best indicator of actual life quality.

Per-capita Growth (1990-2009)



source: World Development Indicators

On this count, the EAC is clearly trailing the majority of other regions. In particular, SADC incomes are superior to others', and the gap has been widening.

At the same time, most EAC countries (Rwanda, Tanzania, Uganda) plus Ethiopia, another important East African neighbour to both Sudans, are rated among the 17 hopeful countries of 'emerging Africa', that have left behind years of conflict, stagnation, mismanagement, and poor governance (Radelet 2010).

Growth, investment and trade have accelerated. Average incomes have doubled in 15 years, poverty and infant mortality are declining while primary school enrolment is up. Democracy has become the norm while governance has slowly but steadily improved.

This break from the past is based on several deep and fundamental transformations:

- The shift towards democracy has brought more capable leadership, greater accountability, and better governance.
- Stronger economic policies - much less state intervention, fewer disincentives and penalties against agriculture, and a healthier business climate – encouraged new investment, unleashed entrepreneurial energy, and sparked economic growth.
- The end of the 25 year debt crisis freed up financial resources, created more space for well-governed countries to design their own strategies for sustained development and poverty reduction, and changed how donors support them.
- The rapid spread of cell phones and the internet have helped diminish geographical barriers.
- A new generation of political, business and community leaders is rising to the fore, bringing new ideas and energy.
- While the development is still fragile and not irreversible, it sets a clear departure from the past (Radelet 2010).

As an expression of this, starting from a low base, the EAC countries have slowly but steadily improved various categories of governance: government effectiveness, regulatory quality, political stability, rule of law, voice and accountability (World Bank 2012).

Because of its positive developments, an increasing number of countries has expressed interest in membership in the EAC (Ethiopia, DR Congo), while three countries have actually applied (South Sudan, Sudan, Somalia).

However, the balance sheet of the EAC also shows a number of bottlenecks and raises question marks. Despite the customs union protocol, its realisation is still far from accomplished. Notably, non-trade barriers (NTBs) have to a high degree replaced the reduced or abolished tariffs (as elsewhere). The business conditions are far from perfect. While ease of doing business has improved in Rwanda and Tanzania, it deteriorated in all others over the period 2006-12. As noted above, welfare (income, health) improved, but less than in other RIAs.

The planned monetary union and political federation has a long way to go. According to public sentiments surveys (EAC 2011), while large parts of the population are in favour of the RI process of the EAC, there are numerous fears and concerns with respect to deeper integration - and some of these are in fact well-founded.

The monetary union is inspired by the Euro zone experience. While recent troubles of this zone are acknowledged and indicators as conditions for the realization of the EAC monetary union are planned, thinking in the region tends to regard a monetary union as essential. However, the benefits of a monetary union with an incomplete customs union and common markets are overestimated while the risks are not fully acknowledged. An effective monetary union does not only need a degree of converged economic indicators (inflation rate, exchange rate, debt), more importantly it requires a convergence of economic policies and priorities, as the national governments lose an important instrument which could be used to implement national priorities.

Concerning the lessons from the debt crisis in some Euro zone countries, an important one is that a high degree of political federation (in the area of fiscal policy) is needed for an effective monetary union to have a positive impact on the member economies.

Another concern on the EAC is its top-down character. Despite government-wide, business and civil society consultations, the EAC RI process has hitherto been very much driven by the presidents of the partner states. While this explains its fast pace, it is also responsible for the delays in implementation, limited society-wide ownership and risks to sustainability. All of the current presidents are going to step down in the coming years, and it is not certain that their successors will share similar enthusiasm for the integration project.

The planned deepening of the EAC will also necessitate major changes the speed and success of which cannot be taken for granted. In the EU, the core countries' Second World War trauma was - and is - a driving force for integration. This motivation - or another similarly strong one - is missing in the EAC. In order to deepen integration, major competences need to be shifted to the still weak and merely executing decisions by the secretariat, the parliament and the Court of Justice. In addition, new institutions need to be established - in particular, a Competition Board. With higher competence, much higher capacity needs to be created.

This will not only need strong political will and drive to convince the population, but also additional resources which will necessitate two factors. First, the high degree of dependence on outside donors needs to be phased out, as its extent is not sustainable. This change will require a departure from the current practice of equal participation in the financing of the EAC. Because of the significant differences between the five member states, both in size and also in terms of their present level of development, it is simply not possible to tax all of them to the same extent. This topic, however, has not gone beyond initial discussions and has not been seriously addressed as of yet.

Perspectives of South Sudan and Sudan's membership in the EAC

This section discusses EAC membership of each of the two Sudans, both from the point of view of the membership candidates and of the EAC (see the following table for overview of the basic data of all). For membership to be successful and sustainable, it needs to have positive effects for both involved parties - the existing and the new members. What is more, these also need to be seen as real and tangible by their leadership and their wider population.

Basic data on EAC, South Sudan and Sudan

	population (million)	land area ('000 km^2)	GDP (mill., $, current), 2010	GNI per capita, PPP, current US$, 2010
Burundi	8.4	28	1,611	400
Kenya	40.5	580	32,198	1640
Rwanda	10.6	26	5,628	1150
Tanzania	44.8	945	22,915	1440
Uganda	33.4	242	17,011	1250
South Sudan	8.3	644	13,227	984
Sudan	43.6	1861	62,046	2030

sources: World Bank Indicators, South Sudan National Bureau of Statistics

What would be the result of EAC membership for South Sudan from South Sudan's point of view? First and foremost, it brings an element of stability and security to South Sudan and its neighbours. Besides being a fundamental element of human welfare in itself, it is definitely an indispensable condition for economic development in the country.

The economic relationships between the EAC and South Sudan have increased tremendously in recent years. EAC membership will strengthen, secure and regulate the access to goods, services, capital, and ideas from the EAC, many of which will be just as appropriate for the market, as populations and conditions are similar.

Once the vast agricultural potential of South Sudan is realized, East Africa will be its first and major market. And in the process of making this potential a reality, the EAC can play a major role, due to its experience. Furthermore, the EAC will provide a corridor for South Sudan's access to the world market (a pipeline for its oil is in the planning stage).

As reported, the quality of governance is a vital determining factor for the success of both RI and wider development in general. While the governance indicators of the region are not high, they are improving and prime attention is given to this process. Regular reports, monitoring and discussions take place and South Sudan would gain tremendously from taking part in this process. Besides contributing to the process of improving governance, the process in itself will strengthen those in the country that favour improved governance and help the process of establishing institutions fit for this purpose.

It would be as important for the country to raise its voice by becoming part of the EAC. Even more importantly, in the face of a weak civil society and fledgling parliament and accountability institutions, the credibility of national policies, plans and actions will increase when they are locked into the EAC process, which would reduce the likelihood of policy reversal.

As South Sudan separated from the Sudan that was negotiating an Economic Partnership Agreement (EPA) with the EU, and Sudan dropped out in any case from signing any EPA, South Sudan could begin its own EPA by becoming part of the EAC negotiations. Despite all the hindrances and concerns, the EU is still the major trading partner for the region and will remain attractive despite the predicted continual rise of China, primarily due to its high per capita incomes. Raising the relationship in both trade and development with such a major partner will be important in order to guarantee a shift from an emergency mode to a development one.

Being part of the EAC could also be a stepping stone for becoming a member of the World Trade Organization, which will also become important for trade expansion and diversification in the medium term. In the EPA process institutions will be created that are necessary for WTO accession as well. At the same time, in the absence of moving forward the WTO Doha Round, regional agreements are vital, and the EU is the first non-oil trade partner (trade in oil does not need the WTO framework).

However, for South Sudan it will be important to rapidly build up its capacity in both negotiation and policy research in order to arrive at an agreement that will be in the best interest of the country. While the government has applied for EAC membership, not everybody in the country supports the plan. Some are reported to be in favour of a longer process, firstly by having observer status only, while others believe the country should have bilateral relations with the EAC members instead of full membership. Mechanisms will have to be built into an agreement that allows the country to take a path of structural change, production and export diversification and avoid a fate of polarization - becoming simply a market for the goods of neighbouring countries and paying by oil.

What are and what should be the main concerns of the EAC? According to the EAC Treaty (2000), its Partner States may negotiate 'with any foreign country' the granting of membership to, or association of that country with the Community or its participation in any of the activities of the Community.' (Art 3 of the EAC Treaty)

Six conditions are spelt out by Art 3 - the new member's:

1. acceptance of the Community as set out in this Treaty;
2. adherence to universally acceptable principles of good governance, democracy, the rule of law, observance of human rights and social justice;
3. potential contribution to the strengthening of integration with the East African region;
4. geographical proximity to and inter-dependence between it and the Partner States;
5. establishment and maintenance of market driven economy; and
6. social and economic policies being compatible with those of the Community.

Following the application of the Government of South Sudan, the EAC Council of Ministers established a Verification Committee composed of members of all the EAC Partner States and the Secretariat to assess the readiness of South Sudan to become a member. The Committee visited South Sudan in July 2012 and presented its report at the Council meeting in August.

The committee members made a brief, but comprehensive visit and approached 26 ministries, parliament, five commissions, civil society and the private sector, Auditor Generals and other statutory bodies. With the help of interactive sessions, the team assessed the institutional and legal frameworks, policies, strategies, projects and programmes, as well as existing areas of cooperation. On this basis, the team identified challenges and prospects. Naturally, the team was not able to assess the degree of implementation of the plans and legal regulations in any detail.

Concerning basically all of the conditions (with the exception of number four, the geographical proximity that is obviously fulfilled), the committee found that the respective laws exist and plans are generally in line with EAC principles and priorities, but that the necessary institutions are in many cases nascent or not yet operational. It is also noted that the limited knowledge among government officials and other stakeholders about the EAC may constitute a problem for smooth integration into the EAC. Furthermore, it noted that the unresolved conflict with Sudan may undermine the country's effective integration into the EAC. The report also noted that not all of the stakeholders in South Sudan supported the prospect of an EAC membership. In conclusion, the report stopped short of giving clear recommendations for or against membership.

It is reported that the last EAC meeting of the Council of Ministers discussion on the matter was adjourned until the meeting of Heads of State, particularly due to Tanzania requesting more time for national consultation on the matter. However, it felt that at least in Kenya and Uganda which are geographically proximate and that have the strongest interaction and effects of being in their particular neighbourhood (both positively and negatively), that it is expected that membership will be granted, sooner or later.

Beyond the recent EAC assessment that concentrated on the criteria of the EAC Treaty, what are the other necessary considerations? Increased stability and security in the region will also clearly be a major interest in bringing South Sudan into the EAC community. Economic interests are certainly also a major factor. Since the advent of peace in the South in 2006, economic relationships have risen tremendously. Reportedly, 40% of Uganda's exports go to South Sudan, and 20% of Kenya's. South Sudan is also an outlet, both for skilled labour and for investment. The recently launched LAPSSET corridor (Lamu Port-South Sudan-Ethiopia) plans to provide a major connection. The production structures of the EAC and South Sudan are complementary. In particular Kenya is more advanced industrially, although it tends to suffer food deficits.

While South Sudan needs substantial capacity building, in the longer term it will strengthen the EAC. While it is early to assess South Sudan's policy, its orientation towards market economies is similar.

At the same time, it should be recognized that there may be a trade-off between the further widening of the EAC and the deepening process. One is likely to be at the cost of the other. However, as yet, the RI is still in a fledging stage - new members will not necessarily delay deepening integration.

The EAC membership application of Sudan has been shelved for the time being as it does not border any EAC country at this time. If, or once, South Sudan is a member, Sudan would also be eligible on this basis.

Independently of this, what is the case - or the case against - Sudanese membership? With respect to economic interaction, it is quite minimal at present. The absence of any direct infrastructural link did not help their case. As reported, Sudan's links are currently more with the Middle East and Asia especially China.

However, if and when agriculture is revived and diversified, the EAC could be a major market for Sudan. EAC membership would also support a process of economic reform and export diversification. The EAC is clearly more advanced and started the process of deeper integration far before the RIAs which Sudan is a member of. EAC membership would also be a way to lock in Sudan's policy reform process - if it is to happen. While some indicators can be found indicating to this, the time and priorities do not seem to be ready in the present time, when both economic crisis management and political-military fighting against insurgents in the West, South and East are dominating the policy agenda instead.

Under current circumstances in the country, the unexpected membership application is more appropriately interpreted as a strategic move to undermine South Sudan's aspirations. In this context, beyond the lack of direct neighbourhood links, the high disparities both in governance and trade policies do not augur well for accession to membership.

From the EAC’s point of view, the official justification for the final rejection was based on the clear need for a joint border. However, the deeper concern has reportedly been the high disparities in governance indicators (in particular democracy and human rights), and more importantly, the gap between the EAC expected and actual Sudanese levels of ambitions with respect to improving those.

Related to this, the trade policy outlook is very different. While the EAC looks at liberalizing, Sudan still has high trade barriers. In addition, the policy credibility of Sudan's government remains a problem.

Under these circumstances, EAC membership for Sudan would definitively delay the process of deepening the EAC. As the last table shows, Sudan would also be a very big member state: big in population and bigger in economic and income size too. It would be the biggest member in economic terms and thus would be more difficult to absorb than the newer members, such as Rwanda and Burundi, as well as the aspirant member state: South Sudan.

Nevertheless, stability and security would speak to a stronger relationship - but this does not have to be membership. Market access is not an important concern on the part of the EAC at this point, as trade is minimal. The increased relationship could also happen within IGAD (where Kenya, Sudan and Uganda are members). Furthermore, infrastructure links could intensify interaction and thus increase trust. All in all, it would be more realistic for Sudan to follow South Sudan and at the time when it is truly ready, become a member on EAC terms.

Conclusion

The promised benefits of the EAC will multiply in the process of deepening. As it is still in the beginning stages, new members do not necessarily delay the process. It should be ensured that such negative effects are minimized and that new members are made to comply (and helped to comply) with the attained status of EAC integration. They should join when they are ready to meet the principles and status of the EAC, not before.

An important part of the preparatory stage is society-wide awareness raising and consensus building so that the membership plans are owned by the country, rather than merely by the government of the day.

The process of EAC integration of South Sudan and hopefully Sudan at a later stage, will improve the status of regional security. It will also strengthen domestic policy reform - but it cannot replace nor force this process.

In the process of deepening and widening the EAC should take care to avoid becoming inward-looking. 'Open regionalism' will be vital to retain and actually increase integration into the world economy as well as overall competitiveness. For this, further improvement of the business climate will be vital.

In the process of deepening, distributive effects between and within the member countries needs to be addressed in order to achieve balanced development. The overall capacities to negotiate, administer, implement and monitor RI and its impacts will be imperative.

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