

# East African Community Customs Union

## Implications and Benefits of the EAC Customs Union

### What is a Customs Union

In the theory of economic integration, a Customs Union is supposed to be the third stage of integration after a Preferential Trade Area and a Free Trade Area. However, the Treaty for the Establishment of the East African Community provides that a Customs Union shall be the first stage in the process of economic integration. Therefore, real economic integration in the region will commence with the coming into being of the Customs Union.

The Treaty provides that the Customs Union shall be followed by a Common Market, then a Monetary Union and subsequently a Political Federation.

### Main features of a Customs Union

The main features of a Customs Union include the following:

- i. A common set of import duty rates applied on goods from third countries (Common External Tariff, CET);
- ii. Duty-free and quota-free movement of tradable goods among its constituent customs territories;
- iii. Common safety measures for regulating the importation of goods from third parties such as phyto-sanitary requirements and food standards.
- iv. A common set of customs rules and procedures including documentation;
- v. A common coding and description of tradable goods (common tariff nomenclature, CTN);
- vi. A common valuation method for tradable goods for tax (duty) purposes (common valuation system);
- vii. A structure for collective administration of the Customs Union.
- viii. A common trade policy that guides the trading relationships with third countries/trading blocs outside the Customs Union i.e. guidelines for entering into preferential trading arrangements such as Free Trade Area's etc with third parties.

Such main features of the EAC Customs Union are embodied in the Customs Union Protocol and its annexures, Common Customs Law (and regulations) and the Treaty.

### Objectives of the Customs Union

While the objectives of the East African Community are broader and cover almost all spheres of life, as stipulated in paragraph 5(i) above, the main objective of the customs union is formation of a single customs territory. Therefore, trade is at the

core of the customs union.

It is within this context that internal tariffs and non-tariff barriers that could hinder trade between the partner states have to be eliminated, in order to facilitate formation of one large single market and investment area. Similarly, policies relating to trade between the partner states and other countries, such as the external tariffs, have to be harmonized. Therefore, within a customs union, partner states have to behave as a single customs territory and trading bloc.

The aim of creating one single customs territory is to enable partner states to enjoy economies of scale, with a view to supporting the process of economic development. Unlike in developed countries, economic integration is not just for purpose of trade per se, but as a vehicle for bringing about faster economic development.

Nevertheless, a customs union on its own will not bring about faster economic development. Therefore, it has to be supported by other measures such as development of infrastructure, to link production areas to markets. In addition, measures to support development of human resources across the region are similarly important.

### **Benefits of a Customs Union**

On the average, the size of EAC countries is around 30 million people in population with a GDP of around US \$10 billion. Such economies on their own are too small to attract any major meaningful investment in today's globalised economy, where mass production is vital to reduce unit costs.

In 2000, with their total GDP of US\$25.553bn (Kenya-\$10.357bn; Tanzania-\$9.027bn; and Uganda-\$6.17bn) and a combined population of around 86 million people, the 3 countries combined compared unfavourably with Vietnam with a total GDP of \$31.344bn and a population of 79 million people. Vietnam would have been more attractive to investors since it is one customs territory.

By moving towards the creation of one economic region through the Customs Union, EAC will create a single market of over 90 million people (2002) and a combined GDP of around US\$30 billion. This large economic region can only be meaningful if it is more than a simple aggregation of neighbouring countries. Currently, trade in the region is carried out under different external tariffs; customs regulations, procedures and documentation.

The EAC Customs Union will assist to level the playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on goods imported from third countries, which should assist the region to advance its economic development and poverty reduction agenda.

Further to this, the customs union will promote cross-border investment and serve to attract investment into the region, as the enlarged market with minimal customs clearance formalities, shall be more attractive to investors than the previously small individual national markets. In addition, the Customs Union will offer a more predictable economic environment for both investors and traders across the region,

as regionally administered CET and trade policy will tend to be more stable.

Private sector operators based in the region with cross-border business operations will be able to exploit the comparative and competitive advantages offered by regional business locations, without having to factor in the differences in tariff protection rates, and added business transaction costs arising from customs clearance formalities. The regionally based enterprises will also get better protection, as enforcement of the CET will be at a regional level.

Most importantly, however, is the signaling effect that will arise from the member States agreeing to implement a common trade policy in their relationship with the rest of the world? This is important in view of the developments at global level, where countries are entering into economic partnership as regional groupings.

Adjustment of the national external tariffs to the common external tariff will result into major welfare gains for consumers, if the CET on finished goods will be lowered as a result of such adjustment.

### **Challenges of the Customs Union**

While the Customs union will generate major benefits, it will also bring about greater competition among domestic firms. In the short run, the firms that stand to gain most are those that are already competitive. It is with this consideration that the principle of asymmetry was adopted in the phasing out of internal tariffs, in order to provide firms located in Uganda and Tanzania with an adjustment period of five years. Nevertheless, such firms may in the medium term overcome lack of competitiveness, through:

- additional investment in newer production technologies;
- specialization in activities where they have a competitive advantage
- Re-training of human resources; and
- Forming strategic alliances with their competitors

Another implication of the customs union is that it will minimize discretionary powers earlier enjoyed by partner states, and which sometimes had created uneven playing ground for firms. Such powers, in particular, relate to granting of exemptions from customs duties. The partner states have undertaken harmonization of their exemption regimes which shall be administered regionally. In some cases, this has been viewed negatively as reduction of national sovereignty.

### **CONCLUSION**

In view of the current global trend where trade negotiations are increasingly being carried out under regional blocs, formation of a customs union in East Africa is not a matter of choice but a necessity. It would be difficult for partner states to negotiate a Free Trade Area (FTA) with other regional blocs unless they have liberalized trade among themselves. Due to the multiple memberships of the partner states in other regional organizations, the EAC Customs union could enter into a FTA with other trading blocs, or in the extreme circumstance, merge with them to make a larger

trading bloc.

It is worth noting that countries which on their own have strong competitive economies such as Germany, France and UK are strong supporters of EU, which is still expanding, taking on board former less developed countries of eastern and central Europe. The USA together with Canada and Mexico have come together under NAFTA, and want to expand taking on board countries of central and Latin America. In Asia, the countries of south East Asia are revolving around Japan. Therefore, it will be difficult for small countries such as those of Africa to negotiate with such giants on their own.

The process of regional integration as stipulated in the Treaty for the Establishment of the East Africa Community aims at creating opportunities for the East African people. However, it will be difficult for the East African to realize such opportunities without deepening economic integration through formation of a Customs Union. Therefore, formation of the EAC Customs Union is a necessary step towards translating provisions of the Treaty into economic opportunities for the East Africans.

INFORMATION AND PUBLIC RELATIONS OFFICE

EAC SECRETARIAT

ARUSHA

19 FEBRUARY 2004

**SOURCE:** [www.eac.int](http://www.eac.int)