World Economic Situation and Prospects

Weekly Highlight

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Increasing regional integration in East Africa

East Africa has taken some important steps towards promoting regional integration and cooperation in the past few months. A cross-border payments system that will help to boost intraregional trade and reduce bottlenecks was launched in December. The East Africa Payments System will allow real-time payments clearing in Kenya, Tanzania and Uganda. Burundi and Rwanda will join later as their banking systems become more advanced. This is a step towards full monetary integration envisioned as part of a monetary union for the East African Community (EAC), which they hope to implement within the next 10 years. In addition, Tanzania opened up its capital account to investors from the other members of the EAC in December.

A single customs area was also launched in the last quarter of 2013 between Kenya, Rwanda, South Sudan[1] and Uganda to improve economic connections between the countries and remove existing non-tariff barriers. Goods would only be weighed at the point of entry into each country, significantly reducing transit times. It is estimated that this will cut transport times by almost two thirds from both Rwanda and Uganda to Mombasa (Kenya's largest port), to eight days and five days, respectively. In addition, new investments in railroads are expected in the near future, which will help to reduce transport times and lower freight costs as well as connect important intraregional markets. For example, the mapping stage has been announced for a new rail link between Kigali, the capital of Rwanda, and Kampala, the capital of Uganda. This is part of a larger project, which is planned to link Kigali to the port at Mombasa. Transport is estimated to account for a significant portion of import/export costs in some countries, though greater in Rwanda and Uganda than in Kenya.

Recent oil discoveries in Kenya and Uganda have increased interest in establishing a regional infrastructure for exporting oil. Discussions are underway to link new oil discoveries by way of a pipeline to the expanded port in Lamu, Kenya. The potential 1400 km pipeline was estimated to cost $4 billion, given the difficult terrain that it will have to cross. There is also the potential to run further pipeline extensions to the already operating oil fields in South Sudan, which currently send their oil through Sudan.

The degree to which regional integration in East Africa actually takes place will only be clear as these projects move forward, considering the previous proposals that have failed to materialize. For instance, an earlier plan to link Kigali and Dar es Salaam—Tanzania's largest city—by way of a new rail line was proposed in 2008, but the project has stalled and little progress is expected in the near future. Moreover, there are still a number of relevant issues such as transportation bottlenecks, non-tariff barriers and limited mobility of labour that will need to be addressed on the road to greater regional integration.

1 South Sudan is not officially a member of the East African Community although connections are quickly forming between the South Sudanese economy and the economies of Kenya and Uganda.