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Policy Perspectives On Competition And Inclusive Growth In The East Africa Community

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Abstract: This paper looks at two key issues: the extent of which competition related laws and institutions are converged within the EAC; and assesses the competitiveness of each member states and how this impact on inclusive growth between the member states. The paper argues if benefits of integration are not shared inclusively between the member states, this can have a profound effect on the success of EAC's long-term harmonious relationship between the member states.

This paper recommends that inter-sectoral and institutional linkages should be created between member states as vehicles that can be used to review legal and institutional disparities between member states and proposed solutions on how to close the existing gaps on competition related institutions and legislation.

Keywords: the EAC, competition laws and authorities; economic policies, integration, and inclusive growth.

I. INTRODUCTION

Since the days of the mercantilists, economic theories and their adoptions are closely linked to economic and social pressures. It can be argued that the mercantilists wrote for the rulers' interests who wanted to enhance national powers through accumulation of precious metals; Adam Smith's free market benefited factory owners from cheap imports and harmed landowners in England (Smith 1976), and today's globalization and economic integration are intended to help firms, individuals, and countries with better factors of production, governance, and infrastructure. Every new economic postulation, have losers and the winners.

As the wind of the globalization blow across the continent, no country will withstand its power. South Sudan, the world youngest nation, joined the East Africa Community (EAC) about five years into her independence (Karuri, 2016). Economic integration as the case with EAC creates a common market for factors of production, goods, and services; while monetary and political integration is underway.

What this intends to do is to remove economic tools from national authorities to higher-level authorities at the EAC. In a free market world of Adam Smith, protection of key strategic national industries was an exception. While other industries, firms, and individuals were not protected. Hence, impacted negatively by a free market to some extent.

The premises of this view lies in the fact that a government holds powers to decide what protectionism framework it can put in place to protect its key economic establishments as it plays in an international and regional economic arena. An economic integration takes away tools that were previously used by economies to safeguard their self-interests. If a country faces economic challenges: monetary policy; selectively identified subsidies; quotas, or exchange rate policies were used to direct the economy as seen fits (Counsil of Economic Advisers 2016; Africa 2016).

What will remain of a country's economic policy if these tools' deployment is stationed at a level higher than the national treasury and central bank a country? Worst, countries integrated together as the case in the EAC possess different economic capabilities in terms of in institutions, labor, capital, and natural resource endowments.

Consequently, economies such possess a different competitive edge in the market and hence expected to face different economic challenges or aspirations at different times. To reconcile these disparities, will prove to be a scary task for policy-makers (Guetechin, 1996). How to share costs and benefits of integration remain unresolved both in theory and practice.

The differences in capabilities of firms and individuals between states can also be reflected in institutions' disparities across countries. Countries with strong economic capabilities have strong institutions. While those with weak economies are expected to have weak institutions. Integration of economies like in the East Africa Community create laws and organizations that supersede the member states laws and institutions.

With differences between countries in terms of capabilities, laws, and organizations, member states have different interests in the discharge of the EAC's mandates. With integrated economies, the best practices is to create a competition law and competition authority that enforces competition measures within the member states. For this authority to be effective, each member state must have institutions and laws at the national level that complement and support the community's authority at the national levels.

This paper seeks to assess the levels of competition capacities in term of laws and policies within the East African countries; assesses the market competitiveness of each member states; establishes how differences in capacities between member states in the market, impaired inclusive sharing of the integration's benefits; and recommends policy framework on how to operationalize the EAC's competition authority with an inbuilt safeguard for differences in capacities amongst member states for an inclusive growth for all of the member states.

This study contributes to the policy debate on economic integration and competition policy by ascertaining the levels of competition's policies, competition's authorities and related institutions within the EAC member states; analyze markets' competitive of each member state; and recommends policies on the convergence of policies and institutions for inclusive growth for all of the member states.

II. BRIEF LITERATURE ANALYSIS

In "The Wealth of Nations," Adam Smith (1776) made the greatest scholarly contribution that continues to define economic policies and debates today. The view that a man acts always in self-interest. If this concept is true, it means any new policy or debate that is undertaken, therein, are people acting in self-interest. Does this possess a risk to anyone, firm or a country in the economic policy-making process? Yes, it should.

As a man acts in self-interest, it does so in an environment controlled by governments, firms, and individuals who possess different information and economic capabilities. In this environment, is it possible that an actor can influence a policy that disadvantaged another actor? Modern economic thinking is traced to mercantilists' writings. At the time mercantilists wrote their ideas, the identifiable economic actors were state - albeit, weak; merchants who controlled firms; and laborers.

The mercantilists identified three sectors of the economy namely: manufacturing, rural sector and foreign trade as the basis of their analysis. At the center of mercantilists' argument was the role of government to regulate economic activities. This proposition can be deduced from many perspectives with regards to Adam Smith's principle of self-interest. Seen from the nature of sectors and level of technology at that time, it can be understood that the economies operated at less than full employment.

The question is, in whose interest was the protectionist's ideology of the mercantilists? What if, had they advocated for liberalization of trade? Answering these questions provide a theme that this paper attempt to demonstrate, the fact that successful economic theories, benefit strong economic actors. At the time of the mercantilists, merchants were the most important economic class. The impact of the mercantilists' idea of imports' control maximized money supply (Salvatore, 2010) in today's macroeconomic understanding.

Accumulation of precious metals as a proxy for today's increase in money supply can be understood better with our understanding of the quantity theory of money. An increase in money supply increased economic activities which utilizes under-used economic capacities in the economy that benefit merchants. This explained why mercantilists advocated for protectionism (Appleyard et.al, 2006).

During the mercantilists' time, there was no factor mobility. This disadvantaged laborers as merchants exploited excess economic capacity for their self-interest. Had economies been liberalized, laborers would have benefited from competition that would have led to higher wages. By portraying trade as a zero-sum game, mercantilist ideologues and states disadvantaged laborers at the expense of the merchants who imposed protectionism ideology that kept the wages very low.

After mercantilism settled, its impact led to new dynamics. Accumulation of precious metals that led to the emergence of strong governments that encroached on other state's territories for more precious metals and raw materials. Over-utilization of cheap labor lead to over-exploitation of local resources, heighten the need for more resources outside the borders, this necessitated colonization.

The industrial revolution freed laborers from the merchants by creating the machines as the most important factor of production. First, as mechanization increased in the states that had acquired more precious metals, the speed at which under-utilized economic capacities were used increased. Second, labor was no longer the most important factor of production as it was replaced by the machine (Appleyard et.al, 2006).

If the markets were not being freed, the machines would have increased in supply relative to labor-supply. The cost of a laborer would have increased for the merchants, coupled with under-utilization of the machine, the gains to the merchants/firms would have been reversed. This demonstrates that even free trade and mercantilism affected laborers negatively. It is clear from above analysis that weak economic actors, be they state, or individuals, in most cases, they are the losers in a new economic policy or in economic ideology.

Today, liberalization has been moved to a higher level of globalization and economic integration. The most commonly cited benefits of integration are technological innovations, reductions in prices, cross-border flows of trade and investment. It seems there is a consensus that an integration

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and globalization of economies lead to overall efficiencies and economic growth.

Studies carried in Europe, found that single market led to competition which is associated with an increase in production and innovation (Rodrik, 1997). Further studies, found that even after liberalization, monopolistic tendencies do not disappear due differences in research and development cost, advertisement effects, imperfect market and loyalty that big firms enjoy.

Every time a new economic theory or policies are instituted and implemented, there are always the losers, who tend to be the weakest economic actors. Economic integration might be not an exception. Though an economic integration leads to an overall increase in economic growth, its impact on wealth redistribution cannot be ignored. The winners might be the strongest economic actors, be they, states or individuals as shown by the analysis of mercantilism above.

The uneven distribution of wealth has a potential to cause economic disagreement between member states of an economic block in the future (See the euro by Stiglitz). If member states have different capabilities in labor, capital, technology, and financial markets, they cannot compete equally in an integrated market. This has a tendency to cause non-inclusive economic growth amongst the member states.

This paper attempt to address four issues: assess the levels of competition capacities within the East African countries; assess the market competitiveness of each member states; establishes how differences in market's capacities could impair inclusive sharing of the integration's benefits; and, finally, from the findings, recommends policy framework on how to operationalize the EAC's competition authority with an inbuilt safeguard for differences in capacities amongst member states to achieve an inclusive growth for all member states.

This study contributes to the policy debate on economic integration and competition policy in three ways. No study that I am aware of has done the comparative approach of the institutional framework within the EAC countries. It uses available data to provide evidence on institutional divergences or convergences within the EAC states. Its findings will provide policy options for the EAC countries on policies and institutions convergence for member states in for an inclusive growth for all member states.

III. METHODOLOGY AND DATA

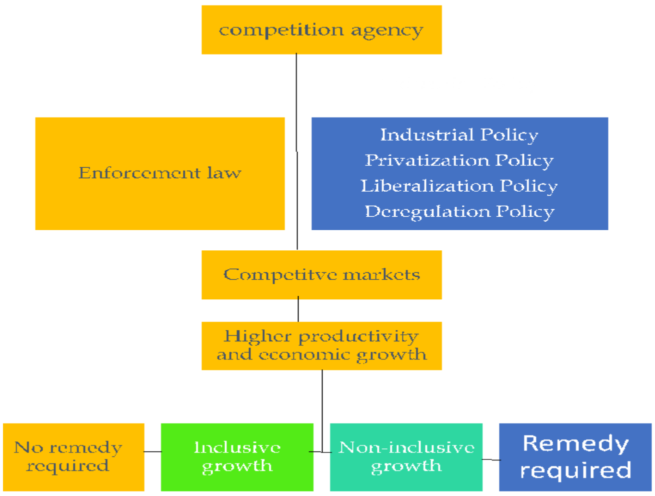
This paper adopts an analytical approach. It reviews available secondary data on legislation, laws and institution and economic rationale to provide justifications for positions which it adopts. It reviews legislation and reports that relate to competition laws and agencies for the member states. Based on the findings, the paper proceeds to make a conclusion whether competition authorities within the member states have converged to enable the EAC's competition authority to discharge its mandate.

The paper also adopts a comparative approach. It uses global competitiveness data from the World Economic Forum to compare the economic competitiveness of each member state. Additional analytics are made using trade as a percentage of Gross National Product, and "The Ease of Doing Business" by World Bank are used to provide further insights.

The findings the above analysis provide the basis for that assumption that member states with strong regulations and institutions have a strong competitive edge, and they placed in a better place to benefit from an economic integration compare to those with weak legislation, and institutions.

This section also discusses the implications of findings this study. The paper argues that if anti-competitive regulations are to be successful, three conditions need to be met. There is a need to analyse and pursue regulatory and institutional convergence between member states on anti-competitive practices and associated regulations and institutions; there is a need for member states to pursue complementary policies like on liberalization, trade policies, industrial policies, privatization, and enabling business environment; and there has to be inclusiveness in sharing benefits of integration and competitive markets between the member states.

This paper uses a modified model in Frederick Jenny's work (Jenny, 2014). The original model analysed the processes that needed to be carried out in implementing a successful competitive process. This model, identified enforcement of competition laws, deregulation, privatization and industrial policies as important ingredients for a successful competitive market that has a capacity to enhance economics' growth. This paper's contribution to the model was to inquire how additional growth resultant from competition and integration can be shared between the member states.



Source: Frederick Jenny, 2014

Figure 1: Analysis framework for competition policy and inclusive growth

In section five discusses implications of findings in section 4, suggests policy options and concludes. The discussions are guided by a couple of issues. Whether anti-competitive laws and institutions are well developed to facilitate a fair competition in the market within the community? If not, what needs to be done? Do member states have fair economic capabilities for fair competition for inclusive growth? If not, what needs to be done? The study hypothesis was that if the benefits of competition and integration are not shared inclusively, there is a potential for a sabotage of the community's processes in the future. This statement provides basis for the paper's conclusion.

IV. RESULTS

The laws, and institutions that handle competition issues within the EAC's states were reviewed. The findings show wide disparities across the member states as shown in table 1. Key issues that can facilitate fair competition within the member states include the availability of procurement law, procurement authority, competition law, competition authority, standard certification body, and laws dealing with mergers and acquisitions.

It was found that South Sudan and Burundi have no competition laws nor were authorities established. For Uganda and Rwanda, the legislations for competition laws and operationalization of the authorities were at the final stage of establishment (Mbaraga, 2017). Except for Kenya and Tanzania, most member states, didn't have laws on mergers and acquisitions. South Sudan didn't procurement law and authority.

The divergences in laws and institutions will impede on the ability of the EAC's competition authority that has been established to discharge its mandate. These divergences in laws and institutions can lead to differences in reporting standards, lack of unification of standards, enforcement and professional ethics. The EAC's procurement conference that was held in Kigali (Seth, 2014) called for the establishment of the EAC Procurement Secretariat. This was a realization of a need to harmonize laws and institutions within the community.

Without convergence of laws and institutions, competition authority within an integrated economic block might not be able to discharge its mandate. These analyses show that Burundi and South Sudan lagged behind on vital institutions and policies that can support the EAC's anti-competitive authority to implement anti-competitive practices at the national levels. As this paper has argued before, these lags in institutions and laws demonstrate, these are the weakest economies within the EAC.

	Procurement Law	Procurement Oversight	Procurement Professional Body	Competition Law	Competition Authority	Standard's body	Laws on M&A
Kenya	Yes	PPOA	KISM	Yes	Yes	KEBS	Guidelines by PPOA
Uganda	Yes	PPDA	IPPU	Progress	Progress	UNBS	No
Rwanda	Yes	RPPRA	OPP	Progress	Progress	RNSB	No
South Sudan	Yes	No	No	No	No	No	No
Burundi	Yes	RPPA	No	No	No	BBS	No
Tanzania	Yes	PPRA	PSPTB	Yes	Yes	TBS	Provided within the competition law

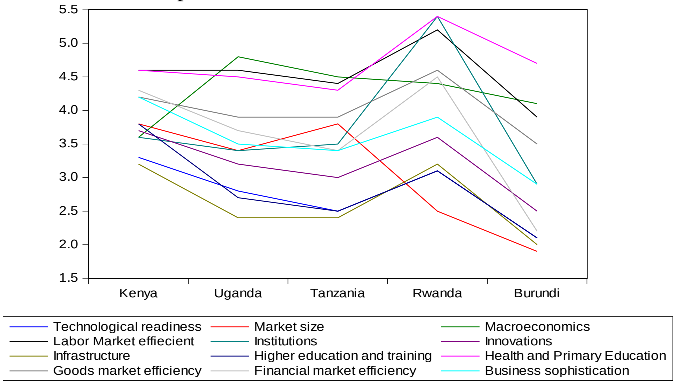
Institute of Procurement Professionals of Uganda
Kenya Institute of Supplies Management
Public Procurement and Disposal of Public Assets Authority
Procurement Oversight Autthority
Institute of Procurement and Supplies Professionals and Technicians Board
Rwanda Public Procurement Regulatory Authority
Competition Authority of Kenya
Kenya Bureau of Standards
Uganda National Bureau of Standards
Tanzania Bureau of Standards
Fair Competition Authority
National Competition and Consumer Protection Policy
Order of Procurement Professionals
Rwanda National Standards Bureau
Burundi Bureau of Standard
Regulatory Public Procurements Authority

Sources: Review of various legislations, and reports

Table 1: Summary of regulations and institutions that handle competition in the EAC member states

Modern explanations for trade are based on the beliefs that each country has an advantage compared to other countries as determined by its factors of production endowments (Salvatore, 2010; Appleyard et.al, 2006). This section adopts a comparative approach by comparing the factors of production for the member states. In figure 2, various indicators for a country's competitiveness are presented.

The data used in this analysis is obtained from the World Economic Forum database for 2015/2016 global competitiveness report. Key indicators on which data is collected are institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market efficiency, technological readiness, market size, business sophistication, and innovations.

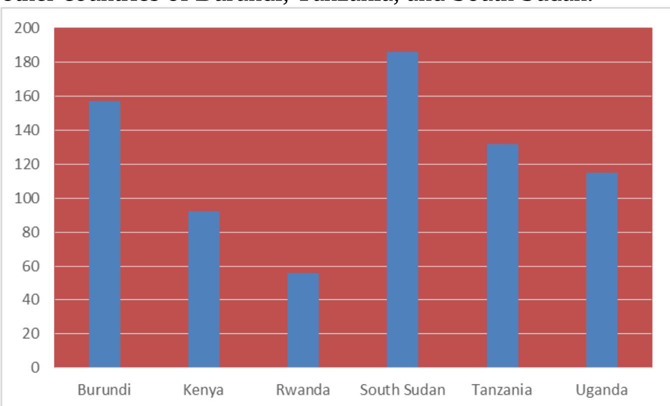


Source: World Economic Forum

Figure 2: 2015/2016 EAC's member states competitiveness scores

From a glance, it is easy to conclude that Rwanda, Kenya, and Uganda seem to be doing well in this ranking. The data for South Sudan was not available. These countries that performed well have been very supportive of speedy integration, they are commonly referred to as 'coalition of the willing.' Furthermore, these countries were found to have better institutions and laws on competition, procurement and standards at national levels.

Another important indicator of a business environment, competitiveness is "the ease of doing business report," which is prepared by the World Bank annually. The report ranked countries based on ease of doing in a country. Figure 3, ranked the EAC's member states using data obtained from the World Bank database for 2017 annual report. As can be seen from figure 3, Rwanda, Uganda, and Kenya again out-performed other countries of Burundi, Tanzania, and South Sudan.

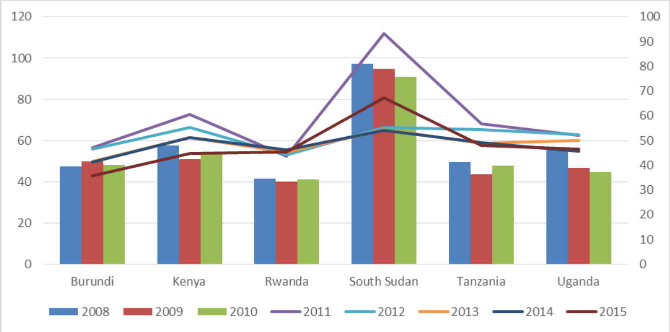


Source: The World Bank

Figure 3: The 2017 Ease of Doing Business Ranking for the EAC's member states

In an attempt to show whether good, consistent performance by Kenya, Rwanda, and Uganda translate into better economic benefits. In figure 4, an analysis of trade as a percentage of GDP shows that Rwanda, Kenya, and Uganda performed well compared to the other member countries.

South Sudan higher GDP is treated as an outlier as this comes from oil export which made-up over 95% south Sudan's export. It can be argued that Rwanda, Uganda and Kenya better regulations, ease of doing business, competitiveness indicators will translate to better trade as a percentage of GDP. This indicates why Rwanda, Uganda, and Kenya have been very excited about the speedy integration and hence, "the coalition of the willing."



Source: The World Bank

Figure 4: Trade as percentage of GDP

The findings in this study provide some very useful insights for policy and regulatory convergence. The operationalization of the EAC's competition authority without harmonizing member states laws and institutions, will inhibits its ability to discharge the mandate.

This integration of economies with different legal, institutional, and factors of production capabilities, is likely to generate economic growth that is not shared inclusively between the member states. If some member states feel they are not benefiting fairly from the integration, they are likely to sabotage or request for an exit as the case with Britain in the Euro-zone recently.

V. CONCLUSIONS AND RECOMMENDATIONS

This study found three critical issues that need to be addressed if competition authorities are to be successful and if economic integration was to be sustainable through inclusive sharing of gains. First, legal, institutional and factors of production capabilities need to be enhanced and converged between EAC's member states. The disparities could cause the skewed distribution of gains from competition, which could cause distrust and sabotage of the EAC's activities, "the coalition of willing," and Brit-exit show this can be a reality.

This paper recommends that inter-sectoral and institutional linkages should be created between the member states. This can be a vehicle that can be used to review legal and institutional disparities between member states and solutions proposed on how to close the existing gaps.

In conclusion, this study found that there are greater disparities between member states in terms of laws, institutions and competitive abilities of each member state. This can have a profound effect on the success of the EAC's competition authority and inclusive growth within the community. There is a need to address such issues at an early stage for sustainability and harmonious relationship within the EAC.

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