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MBEMBE BINDA
University of Rwanda, Rwanda

THE ATTRACTION OF FOREIGN DIRECT INVESTMENT IN THE EAST AFRICAN COMMUNITY: A TWO-EDGED SWORD FOR EQUITABLE ECONOMIC DEVELOPMENT

Abstract:

Created in 1999, the East African Community (EAC) is regional integration community constituted by six sub-Saharan countries, i.e. Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. One of the purpose of this integration is the promotion of equitable economic development of its member states through the attraction of foreign direct investment. However, although all EAC member states are developing countries, there exist deep discrepancies between their economies regarding key investment determinants such as their economic productivity, human capital, infrastructure, and normative framework. Despite these discrepancies, the member states have adopted a common market consecrating the free movement of goods, persons, services and capital. Yet, according to well tested New Economic Geography theory, a common market between highly asymmetric economies tend to cause agglomeration of FDI in the territories of the common market's member states that present the best comparative advantage in terms of FDI determinants. Accordingly, only one or two EAC member states will end up reaping all the benefits of the common market in attracting the majority of FDI. This would definitely jeopardize the attainment of the EAC goal to reach an equitable distribution of FDI between its members states. As a consequence, the worse-off member states would be tempted to defect from the regional integration, which might lead to the collapse of the EAC just as it already happened in 1964 and in 1977 against the background of economic imbalances claims between member states.

This paper takes this threat seriously and examines which legal and institutional framework is needed to mitigate the divisive nature of FDI in the EAC. It is postulated that partial transfer of competence on investment from the member states to a central body within the EAC in accordance with the principle of subsidiarity would effectively address the side effects of an intra-EAC competition for FDI attraction. But to be successful, this must be done within the framework of a robust common investment policy that the member states have to adopt. Otherwise, instead of being the wished catalyst of equitable economic development of the EAC member states, FDI is highly likely to rather become the trigger of a fatal intra-EAC competition.

Keywords:

regional integration, common market, foreign direct investment, east african community

JEL Classification: F15, K33, K29