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Integration of the Ethiopian Financial Service Sector through regional financial arrangements: a step before the WTO accession?

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Abstract

There are arguments for and against liberalisation of the Ethiopian financial service sector to the outside world. Proponents argue that opening the Ethiopian financial service sector to foreign investors has the benefits of efficiency, increased employment opportunity and increased access to the poor.[1] On the other hand, opponents fear liberalisation for its risks of financial instability, weakening the domestic financial institutions and the possibility of leaving out the poorest section of the society from accessing the financial institutions.[2] However, there is common understanding what matters most is how liberalisation is managed.

The progress of Ethiopia's move to WTO accession will probably see it commit on at least some components of its financial service sector. The possibility of integration with the financial service sector closed cannot sustain long. There are also arguments that the Ethiopian financial sector must be open for competition for reasons other than the WTO accession. However, integration in this sector is more sensitive than others due to the adverse effects it would have if risks of integration materialise. Hence, integration moves must be thought of wisely so as to attain the benefits and get well prepared for the challenges. Regional financial integrations are the best ways to achieve these objectives. Though they must not be thought of as separate moves, they reap the benefits Ethiopia wants to exploit and have adequate flexibilities enabling it to prepare for the challenges. Hence, Ethiopia must use regional financial integrations as learning stages for wider integrations.

With this argument, the article discusses the benefits and challenges of RFIs among developing countries, compare them with integration at multinational level and analyses Ethiopia's move to integrate its financial service sector. The article identifies the COMESA and EAC as the two dominant integrations with meaningful implications on the financial service in East Africa. This article asserts that there remains a lot to be done in terms of regional integration on financial service sector.

Keywords

financial service sector, integration, COMESA, EAC

Abbreviations

AEC- African Economic Community

AfDB- African Development Bank

[1] Kozo Kiyota, Barbara Peitsch, and Robert Stern (2007) 'The Case for Financial Sector Liberalization in Ethiopia', Gerald R. Ford School of Public Policy The University of Michigan, Ann Arbor, Michigan, Discussion Paper, No. 565, p. 8-12.

[2] Kiyota, Pietsch and Stern, id, p. 17-18.

CBE- Commercial Bank of Ethiopia

CM- Common Market

COMESA- Common Market for Eastern and Southern Africa

CU- Customs Union

EAC- Eastern Africa Community

FTA- Free Trade Agreement

GATS- General Agreement on Trade in Services

GDP- Gross Domestic Product

GTP- Growth and Transformation Plan 2010/11-2014/15

IGAD- Inter-Governmental Authority for Development

LDC- Least Developed Country

MERCOSUR- Mercado Común del Sur (Market of the South- trade cooperation among Southern American Countries)

MFI- Micro Financing Institution

MFN- Most Favored Nation Treatment

MU- Monetary Union

NBE- National Bank of Ethiopia

OECD- Organ

PTA- Preferential Trade Agreement

RFI- Regional Financial Integration

RTA- Regional Trade Agreement

SADC- Southern Africa Development Community

SDT- Special and Differential Treatment

WTO- World Trade Organisation

1. Critical Examination of the Benefits and Challenges that may Emanate from RFIs Constituted of Developing Countries and LDCs[3]

Regional integrations can take different forms based on their nature and/or depth. It can be a political, social or economic integration or any combination of those. In addition, based on the depth, integration can range from the lower preferential trade agreement (PTA) to political and economic union. In between are placed free trade agreements (FTA), customs unions (CU), common markets (CM) and economic and Monetary Unions (MU).[4]

RFIs among developing countries, which proliferated even in the presence of multilateral agreements on the area, offer several benefits for members if properly run. However, such integrations face multiple constraints that affect their beneficial uses.

1.1 Benefits derived from RFIs Constituted of Developing Countries

The positive effects of trade agreements go beyond the economic benefits. Security issues are some of the reasons for joining RTAs. Coulibaly cited sources to conclude that RTAs reduce the risk of conflict within a region.[5] In addition to the peace and security, they can also promote exchange of cultures and civilization among the community members.

The commonly cited economic benefit of RTAs among developing countries is the economies of scale that comes due to increased market access. This is one of the major

[3] As Ethiopia is grouped under the LDCs, focus must be given to impacts of integration to financial service sector of LDCs. However, for the ease of mentioning, the phrase 'RFIs among developing countries' also includes LDCs.

[4] Rolf Mirus and Natalya Rylska, 'Economic Integration: Free Trade Areas vs. Customs Unions', Western Centre for Economic Research, 2001, p. 2. See also Levent Aydin and Rustem Yanar (2011) 'Is it Viable an Economic Integration among 'CNETAC' Countries? Evidence from 'Gravity Equation' 1(4) International journal of Economics and Management Sciences 84- 97, p. 85; Kealeboga Masalila (2009) 'Overview of Initiatives to Promote Convergence in the Context of Regional Integration: An African Perspective', 2.2 in Irving Fisher Committee on Central Bank Statistics (2010) 'Economic and Financial Convergence en route to Regional Economic Integration: Experience, Prospects and Statistical Issues amidst Global Financial Turmoil' 32 ICF Bulletin.

[5] Souleymane Coulibaly (February 2008) 'On the Complementarity of Regional and Global Trade', Reshaping Economic Geography Background Paper, World Bank, p. 3. See also Aydin and Yanar, id, p. 95.

reasons for integrations in Africa[6], where domestic economies are characterized by small markets. RTAs reduce tariff and non-tariff barriers among members that ease the difficulties business persons could face in trading activities. Integration unleashes the production, export and consumption potential. By increasing investment, production and trade, it helps reduce poverty.

On the other hand, where there are regional institutions that supervise or regional laws that govern trade activities, the need for making several national laws and standards and establishing many national financial institutions decreases. This is very essential for LDCs with infrastructural and financial constraints.[7]

RFIs among developing countries put demands on members to follow standards which go in line with their economic status. Mode 4 financial liberalization which requires movement of persons and labour under RFI, for instance, put labour standards, which are less burdensome in RFIs among countries with less developed economies.[8]

RTAs also help members to have more negotiating power in continental or multilateral negotiations by establishing common stand. This is one of the objectives included in EAC[9] and COMESA.[10] On the other hand, governments can use commitments in RFIs to defend protectionist stands in their home countries.

The other benefit is the added commitment governments show to stick to reform plans. RFIs among developing countries, similar with the effects of joining the WTO, work to improve the legal and institutional frameworks of a member country. These commitments in RFIs bring more accountability on the part of governments to stick to reforms. For instance, a monetary union aims at avoiding exchange rate instability and achievement of

[6] African Development Bank and African Development Fund (February 2000) 'Economic Cooperation and Regional Integration Policy', 2.1.3.

[7] Paul Brenton et al, 'Africa's Trade in Services and the Opportunities and Risks of Economic Partnership Agreements', p. 127 in Paul Brenton and Gozde Isik, (November 2011) 'Defragmenting Africa: Deepening Regional Trade Integration in Goods and Services' The World Bank.

[8] Paul Brenton and Gozde Isik, 'Introduction: Linking African Markets: Removing Barriers to Inter-African Trade', p. 16 in Paul Brenton and Gozde Isik, (November 2011) 'Defragmenting Africa: Deepening Regional Trade Integration in Goods and Services' The World Bank.

[9] Semboja Haji Hatibu Haji (2009) 'East African Economic Integration, Base Case Economic Analysis' 3(2) African Integration Review 185- 222, p. 195.

[10] The Treaty establishing COMESA (COMESA Treaty), Art 3(e).

macroeconomic stability.[11] This harmonization reduces the costs of doing business resulting in wider provision of financial services.[12] Furthermore, when RFIs have dispute settlement organs, investors have more confidence in the regional forums than national ones.

RFIs promote efficiency in the economic field by opening up competition and movement of capital and people. Transfer of technology, know-how and show-how, and managerial skills can also be facilitated through RFIs. This reduces the major constraints in trade in financial services such as lack of information, managerial skills and technology.[13] They also benefit consumers by offering them cheaper and higher quality products and services. With this understanding, EAC has made competition in the financial service sector a basic strategy in the financial service sector.[14]

Researches indicated that the south-south trade integration have brought trade related benefits to their members.[15] Some other researches showed that integration among developing countries brings no less benefit than an integration between developed and developing countries.[16]

Despite all the benefits, trade among developing countries have been described as minimal. It accounted for 6% of all trade on merchandise and 10% of all trade in services.[17] This shows how big the space is for increased integration among developing countries. Most of RFIs have failed to meet many of their objectives, particularly the objective for deeper integration.[18] The next section briefly analyses the problems of financial integration among developing countries.

[11] Masalila, supra note 4, 1.2.
[12] Andrew Lovegrove (2007) 'Financial Sector Integration in Two Regions of Sub-Saharan Africa; How Creating Scale in Financial Markets can Support Growth and Development' Making Finance Work for Development, World Bank, p. 9.
[13] Ivan Zuyuulu 'Convergence in the SADC and African Economic Integration Process: Prospects and Statistical Issues', p. 102 in Irving Fisher Committee on Central Bank Statistics (2010) 'Economic and Financial Convergence en route to Regional Economic Integration: Experience, Prospects and Statistical Issues amidst Global Financial Turmoil' 32 ICF Bulletin.
[14] Lovegrove, supra note 12, p. 103.
[15] Lucian Cernat (2003) 'Assessing South-South Regional Integration: Same Issues, Many Metrics', hereinafter UNCTAD, 21 Policy Issues in International Trade and Commodities Study Series, UNCTAD/ITCD/TAB/22, Geneva, p. 17.
[16] OECD, South-South Trade: Vital for Development, OECD Policy Brief, 2006, p. 1.
[17] OECD, ibid.
[18] Cernat, supra note 15, p. 6..

1.2 Challenges Faced by RFIs Constituted of Developing Countries

Dependence on import-export taxes as means of revenue has created countries not to commit lest they lose the immediate revenues.[19] Hence, developing countries may be more concerned about the loss of revenues because of integration than the medium or long term benefits of integration. This is of special importance for member countries of COMESA, where trade taxes constitute more than 10% of national fiscal revenues.[20] In addition, the difficulty and cost of determination of rules of origin in integration less deep than CU might frustrate trade integration. At times, producers opt to pay the duties than incur the costs of ascertaining origin as the latter may be higher and time-taking.[21] LDCs suffer more as they lack the needed expertise. This problem is aggravated when a country is a member of two or more RTAs, a common phenomenon in Africa.[22] Membership in more than one RTA similar in nature complicates the supervision and governance of the integration in addition to the financial burden it imposes on the country.

Poor infrastructure is another weakness of RTAs among developing countries. Poor port facilities, means of transport, communication, and technology adversely affect trade among RTA members. In general, trade among developing countries have more constraints than trade among developing and developed countries, and five times more barriers than trade among developed countries.[23]

In African RFIs, the major problems are lack of adequate means of communication, technology, know-how, managerial skills, poor regulatory and institutional framework, poor financial sector, macro-economic instability, very restrictive financial market, presence of the

[19] Gebremedhin Birega 'Preliminary Country Paper of Ethiopia on Competition Regime: Capacity Building on Competition Policy in Select Countries of Eastern and Southern Africa', p. 15

[20] Bryn Saxe, 'Despite Enormous Benefits, Policymakers Reluctant to Join COMESA's Free Trade Area', Addis Fortune Newspaper, 21 November 2008, Volume 9, Number 451, rabujetrieved at http://www.addisfortune.com/Vol%209%20No%20451%20Archive/ecconomic_commentary.htm on October 30, 2012.

[21] Mirus and Rylska, supra note 4, p. 3.

[22] Masalila, supra note 4, 2.7.

[23] OECD, supra note 16, p. 1, 5.

public sector in the market, lack of currency convertibility, lack of political commitment and corruption.[24]

Large size of the public sector,[25] weak economies,[26] political instability and conflicts, lack of common vision and commitment to economic integration,[27] lack of convertibility of currency,[28] problems related to rule of law and governance,[29] overambitious goals,[30] lack of compensation scheme for weak member countries,[31] and trade diversion effects[32] are some other reasons cited for weak performance of RFIs among developing countries.

Non-complementarity of trade is also cited as a setback to deeper integrations. However, lack of trade complementarity is more relevant to trade in goods than RFIs for two reasons. First, RFIs among developing countries are characterised by weak financial institutions in member countries. Hence, there is an ample room for competition in similar services. Second, trading in similar financial services strengthens efficient and fair competition as can be exemplified by financial service trade among developed countries.[33]

Another challenge is the issue of sovereignty. The level of sovereignty surrendered in international trade agreements differs as to the level of integration, mode of liberalisation, and presence and effectiveness of enforcement systems.

In FTAs and CUs, which are regarded as lower levels of economic integration and has less to do with financial integrations, they mainly act as a forum of discussion taking little off the sovereignty of members. The latter takes away the power of member countries to determine

[24] African Development Group (2010) 'Financial Sector Integration in Three Regions of Africa; How Regional financial Integration can Support Growth, Development and Poverty Reduction' SILDAR, Tunis, p. xxv.
[25] Haji, supra note 9, p. 197.
[26] Zuyuulu, supra note 13, p. 102. See also Haji, id, p. 187.
[27] Aydin and Yanar, supra note 4, p. 89. See also AfDB and ADF, supra note 6, 2.2.3; Haji, supra note 9, p. 197
[28] Masalila, supra note 4, 4.4.
[29] AfDB and ADF, supra note 6, 2.2.3.
[30] AfDB and ADF, ibid.
[31] AfDB and ADF, ibid. See also Haji, supra note 9, p. 195; Masalila, supra note 4, 4.1.
[32] Rosabel B. Guerrero, 'Regional Integration: The ASEAN Vision in 2020', p. 52 in Irving Fisher Committee on Central Bank Statistics (2010) 'Economic and Financial Convergence en route to Regional Economic Integration: Experience, Prospects and Statistical Issues amidst Global Financial Turmoil' 32 ICF Bulletin.
[33] Brian Copland and Aaditya Mattoo, 'The Basic Economics of Services Trade', p. 93 in Aaditya Mattoo, Robert M. Stern and Gianni Zanini (2008) 'A Handbook of Trade in Services' Oxford University Press.

rate of tariff on non-members, determination of which is made by the RTA. When there are supranational institutions established, they act as monitoring bodies only.[34]

Significant implications on the financial sector start when the integration is transformed to a CM. By ratifying the CM, members agree to allow and guarantee free movement of services and service suppliers, commitments which they make in the four modes of trade in services.[35] The CM also requires countries to coordinate and harmonize national economic and monetary policies and to adhere to the macroeconomic convergence criteria.[36] They also need to coordinate and harmonize financial policies and regulatory frameworks for smooth operations of the payment system and ensure convertibility of national currencies in all transactions.[37]

When it is MU, where a member country renounces its national currency, its ability to decide on monetary policy is highly compromised.[38] Hence, issues such as determining the interest rate of the currency transfers from central bank of a member country to a central bank of the trade community.[39]

In economic unions, fiscal, monetary and labour market policies are harmonized.[40] Such harmonization is essential for a union that, without it, competition, which is important factor for the integration, would be distorted.[41] In such cases, there will be common rules and guidelines which need to be supervised by institutions of supranational nature. In this integration, the member countries' power is confined to implementing the supranational agreements.[42]

Surrendering sovereignty through RFIs is not bad by itself. It can improve the performance of governments making them accountable to supranational institutions in addition to the domestic system. There are also higher standards imposed making governments responsible.

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[34] Mirus and Rylska, supra note 4, p. 7.
[35] Protocol on the Establishment of the EAC Common Market 2009, Art 16(1) and (2).
[36] EAC Common Market Protocol, id, Art 30.
[37] EAC Common Market Protocol, id, Art 31.
[38] Ahmed Alkholifey and Ali Alreshan 'GCC Monetary Union', 3.4.2 in Irving Fisher Committee on Central Bank Statistics (2010) 'Economic and Financial Convergence en route to Regional Economic Integration: Experience, Prospects and Statistical Issues amidst Global Financial Turmoil' 32 ICF Bulletin., 3.3.
[39] Alkholifey and Alreshan, ibid.
[40] Mirus and Rylska, supra note 4, p. 4.
[41] Ibid.
[42] Ibid.

On the contrary, loss of sovereignty may deny policy space for a member country in cases where the supranational agreements do not take into account interests of all members.

Two major conclusions can be made at this point. First, RFIs among developing countries act as a learning stage of weighing the benefits and costs of integration. They play a balancing role between the interests of integration and restriction. While they liberalize trade among members and bring the advantages of integration, they also avoid the adverse effects of integration by restricting the involvement of non-members. Researches indicate that the south-south trade integration have improved trading positions of members in relation to non-members with the exception of Andean Community and MERCOSUR.[43]

Second, the deeper an integration is, the more meaningful it becomes as the regional laws are more comprehensive and more harmonized and regional institutions are more powerful in their supervision and governance. However, to reap the benefits of RFIs, they do not have to be at their highest stage. In addition to acting as building blocks for further integration, less deep RFIs also bring the benefits discussed above to some extent.

2. Regional Financial Integrations in East Africa

Studies have shown that RFIs play key roles in promoting economic growth and poverty alleviation.[44] However, financial trade integration has recorded slower pace of integration in Africa compared to that registered in trade in commodities.[45]

The financial integration also concerns to integration agreements among the RFIs, which is a necessary step in forming an African Economic Community (AEC) envisaged in the Abuja Treaty. The treaty aspires to ultimately form a continental economic and monetary union with a continental central bank by the end of 2034 by setting timelines for the establishment of preceding integrations.[46] A best example is the tripartite agreement among COMESA, SADC and EAC. The tripartite indicated market integration, infrastructural development and

[43] Cernat, supra note 15, p. 17.
[44] Lovegrove, supra note 12, p. 4. See also AfDB, supra note 24, p. xix, 27.
[45] AfDB, id, p. xv.
[46] 1991 Treaty to establish the African Economic Community (Abuja Treaty), Art 6.

industrialization as three pillars of the integration.[47] Though the objective of forming EAC-SADC-COMESA Tripartite FTA in 2012 did not materialize[48], negotiations are undergoing indicating that it could be realized in 2014.[49] The tripartite agreement, which is of particular importance to deal with the multiplicity of membership common in the regions, has trade in services as its second phase of integration.[50] Furthermore, there are movements to assure harmonization of fiscal and monetary policies among the COMESA-EAC-SADC tripartite initiative.[51]

Two RFIs are selected for analysis on regional integration of the Ethiopia financial sector. COMESA is chosen because it has agreements on financial sector and Ethiopia is a party to it, though not in its fullest scale. EAC is selected because of its geographical proximity, significant achievements, and the possibility of Ethiopia's accession. These communities are integrations among neighbouring countries with developing and least developed economic status.

2.1. COMESA and Financial Sector Integration

COMESA started as a PTA among Southern and Eastern African countries in 1982 and later transformed into a common market in 1994.[52] The community market formed FTA, to which majority of the members have joined.[53] The community intends in progressive realisation of integration with adequate flexibilities for members to consider their economic development in making commitments.[54] As a result, members are now at different stages of integration. While some have finalized moves to join its CU and negotiating on its CM, some others have

[47] Declaration Launching the Negotiations for the Establishment of the Tripartite FTA, 12 June 2011, preamble. See also Sindiso Ngwenya (The Secretary-General, COMESA), Opening Remarks at the Opening of the 31st Meeting of the Intergovernmental Committee, 15 November 2012, Uganda, retrieved at www.mtic.go.ug/comesa2012/index.php?option=com_joomdoc&task=doc_download&gid=23&Itemid=85 on Oct 30, 2012.

[48] COMESA-EAC-SADC Tripartite Framework: State of Play, retrieved at http://www.eac.int/index.php?option=com_content&view=article&id=581&Itemid=201 on Oct 30, 2012.

[49] COMESA (Oct 2012) 'Regional Integration and Foreign Direct Investment in COMESA', COMESA Investment Report 2012, p. 6. See also Ngwenya, supra note 47.

[50] Declaration Launching the Negotiations for the Establishment of the Tripartite FTA, 12 June 2011, par. 5.

[51] COMESA (2011) 'Report of the Thirtieth Meeting of the Council of Ministers on Harnessing Science and Technology for Development' 10-11 Oct 2011, CS/CM/XXX/2, par. 70.

[52] AfDB, supra note 24, p. xxi.

[53] AfDB, ibid. By 2007, 13 of the 19 members have joined the FTA. Note that Ethiopia is not a party to the FTA.

[54] The principle of 'variable geometry' is applied, for instance, in the COMESA CU Agreement (The Council Regulations Governing the COMESA Customs Union, Legal Notice No. 1 of 2009, 15(1) Official Gazette of COMESA, June 9, 2009, Art 5(4)).

not even joined its FTA. COMESA is collection of countries with diversified size, population, legal systems, economic standing and stages of liberalisation but with no single dominant economy that influences decisions of the community.[55]

The ultimate objective of COMESA is to see a regional integration that has no physical, technical, fiscal and monetary barriers in trading. PTA, FTA, CU, CM and economic community with common currency and unified macroeconomic policy are the steps of past, present and future cooperation.[56] COMESA intended to achieve CU in 2012 (the original intention had been to establish the union in 2009), CM in 2015 and MU in 2018.[57] Broadening membership of the FTA, establishing the CM in 2015 and finalizing negotiations on trade in services are some of its current priorities.[58]

To achieve the objectives of integration, COMESA has institutions of law making, law enforcement and dispute settlement. The Authority composed of heads of member countries to direct the policy of the integration, the Council of Ministers, the various committees, the secretariat and the Court of Justice are established.[59]

Creating a single financial market that supports the integration is the ultimate objective of COMESA on financial sector.[60] Cooperation in monetary and financial matters is intended to lead to gradual convertibility of currencies and payment union that ultimately leads to a monetary union.[61] For this purpose, harmonization of macroeconomic policies and removal of obstacles to free movement of persons and capital are the specific undertakings members

[55] Marion Jansen and Yannick Vennes (March 2006) 'LIBERALIZING FINANCIAL SERVICES TRADE IN AFRICA: GOING REGIONAL AND MULTILATERAL' WTO Staff Working Paper ERSD-2006-3, p. 19. See also AfDB, supra note 24, p. 45.

[56] Trade, Customs, Monetary Affairs, retrieved at http://programmes.comesa.int//index.php?option=com_content&view=article&id=83&Itemid=106 on Oct 30, 2012.

[57] Emily Bumuru (Trade in Services and Trade Facilitation Coordinator under COMESA Secretariat)'COMESA Program on Trade in Services', PP presentation, slide 2, retrieved at http://www.ileap-jeicp.org/downloads/lusaka_march_2012/presentations/3-4/comesa_au_lusaka_meeting_presentation.pdf on Oct 30, 2012. See also, Mangeni Mangeni 'Trade in Services; COMESA Perspectives', PP presentation, slide 3, retrieved at http://www.thecommonwealth.org/files/223343/FileName/TheCOMESAexperience.pdf on Oct 30, 2012.

[58] COMESA, supra note 51, par. 447.

[59] COMESA Treaty, Art 7.

[60] Trade, Customs, Monetary Affairs, supra note 56.

[61] COMESA Treaty, Art 4(4).

have agreed to.[62] When the intended single financial service market is realized, financial institutions formed in one member can function in other members and also it would be possible for the institutions to open their branches in any member country.[63] Pending the establishment of a common central bank, payments are agreed to be made through the COMESA Clearing House.[64]

Chapter 10 of the COMESA Treaty is devoted to agreements on financial and monetary matters. Obligations undertaken include:[65] promotion of payments through national currencies (Art 72(a) and Art 77(1)); harmonising fiscal and monetary policies (Art 72(c)); integration of national financial structures (Art 72(d)); Removing all exchange rate restrictions (Art 76(1)a); improving balance of payments (Art 76(1)b); liberalisation of financial sectors (Art 76(1)d); abolition of restrictions on current account transactions (Art 77(2)); formation of exchange rate union (Art 78(1)); creating conducive environment for free movement of capital (Art 80(b)); creating stock exchanges and their association (Art 80(b)); developing a region-wide network of national capital markets (Art 80(d)); permission to residents of the community to participate in stock markets (Art 80(e)); free movement of capital and integration of financial system (Art 81(a)); and encouraging cross-border trade in government securities (Art 81(c)).

Relevant to this are added commitments on free movement of persons, labour, services and capital which include removal of obstacles to free movement of persons, labour and services (Art 4(6)e and Art 164(1)); concluding a protocol to facilitate the implementation of the obligations (Art 164(2)). These undertakings are to be implemented progressively and in accordance with the timelines decided by the organs of the community.[66]

For the implementation of the above undertakings, some measures and decisions have been made. Adoption of the framework on applying the Basel Core Principles, which contains

[62] COMESA Treaty, ibid.
[63] AfDB, supra note 24, p. 44.
[64] COMESA Treaty, Art 73.
[65] COMESA Treaty, Chapter 10 (Articles 72-83).
[66] The articles in the paragraph and the preceding one refer to the COMESA Treaty.

internationally accepted standards on banking supervision, in 2003 and a report on harmonization of financial system development in 2007 are some important ones.[67]

The Committee on Trade in Services forwards recommendations, which if approved by the Council of Ministers, become legal documents creating rights and obligations on members. Accordingly, the COMESA Regulation on Services and its Negotiating Guidelines was adopted in 2009. Of the 11 members that had submitted their schedules on trade in services based on the guideline, more countries (all 11) made commitments only on two other sectors (communication and tourism) than those which made commitments on financial sector (10 members).[68]

Financial sector, along with transport sector, has been the focus of trade in services in COMESA from the earliest of negotiations. The sector was one of the seven priority service areas selected in the first meeting of the Committee on Trade in Services in September 2009.[69] In the second meeting in May 2010, when members decided to start negotiations on four service sectors, financial sector was one of them.[70] The third meeting in May 2011 saw members exchanging information based on the drafts on the four sectors.[71] When the committee started a complementary program to deal with some details of service sectors, it started with the insurance sector.[72] That was made intentionally taking the importance of the sector in facilitating intra-regional trade, investment and transport.[73] The priority sectors were differed from other service sectors because members must make minimal limitations on their commitment on the sectors due to their importance in facilitating the whole integration.[74]

In the field of developing programs and action plans on finance and monetary integration, the COMESA Committee of Governors of Central Banks is given the mandate to submit reports and recommendations to the Council of Ministers.[75] In doing so, it consults reports and

[67] AfDB, supra note 24, p. xxi, 44.
[68] Mangeni, supra note 57, slide 23. See also COMESA on Track in Eliminating Non-Tariff Barriers, COMESA Summit Bulletin, issue No. 3, 19 November, 2012, p. 4.
[69] Bumuru, supra note 57, slide 5.
[70] Bumuru, ibid.
[71] Bumuru, id, slide 6.
[72] Bumuru, id, slide 7.
[73] Bumuru, id, slide 8.
[74] Mangeni, supra note 57, slide 21.
[75] COMESA Treaty, 13(1), (2).

recommendations of the Finance and Monetary Affairs technical committee.[76] The Committee of Governors is a special organ established to bolster efforts in the financial and monetary matters while all other issues are collectively handled by the Intergovernmental Committee.[77]

To promote integration in Eastern and Southern Africa, the Eastern and Southern African Trade and Development Bank (PTA Bank) is established.[78] It has financed several projects including strengthening the banking and insurance sectors.[79]

In line with the intention of the COMESA Treaty to strengthen the role of private sector in the integration[80], COMESA Bankers Association was established to facilitate sharing of information and increase correspondences among banks in the community.[81]

As a result of the integration, the service sector dominated investment among the COMESA members comprising 43 of the 50 largest intra-COMESA investments in 2008-2010.[82] Half of the investment on service sector was covered by financial sector investments.[83] The openness of the financial sector enabled many banks to become regional businesses.[84] The integration has also established a regional payment and settlement system.[85]

Domination of the financial sector by banking institutions, diversity of member countries, lack of material and human resource capacity, absence of developed stock exchange markets, domination of the pension service by public sector, problems in implementation of accounting and banking supervision standards and failure to attain macroeconomic stability

[76] COMESA Treaty, Art 13(2).
[77] COMESA Treaty, Art 14(2)a.
[78] AfDB, supra note 24, p. 50.
[79] AfDB, ibid. According to the report, 22% of the 2.5 Billion Dollars the PTA has financed was expended on banking and insurance sector (page 51). Tanzania, which had withdrawn its membership, had received the maximum amount. (page 51).
[80] COMESA Treaty, Arts 151 and 152.
[81] COMESA Bankers Association, retrieved at http://www.comesabankers.org/default.asp on Oct 30, 2012.
[82] Mangeni, supra note 57, slide 7.
[83] Mangeni, ibid.
[84] AfDB, supra note 24, p. 47.
[85] Monetary Affairs, 15(4) Official Gazette of COMESA, June 9, 2009, p. 4.

in general and financial soundness in particular by some member countries are major problems identified in the community.[86]

2.2. EAC and Financial Sector Integration

EAC is the renovation of the previous east African community which came into effect in 1967 but later to collapse after 10 years.[87] Renegotiations started with formation of tripartite commission in 1993 and culminated in concluding a treaty that formed the new EAC in 1999.[88] The community which started as a group of three countries (Uganda, Kenya and Tanzania) has accepted the accession applications of Burundi and Rwanda in 2007.[89] It formed customs union in 2005 and common market in 2010.[90] Negotiations to form a monetary union, which started in 2011, are underway.[91]

The EAC, with the brand '*One People, One Destiny*', is one of the successful integration frameworks in Africa both in financial and other trade areas. Each member country has established a national ministry to solely deal with the EAC integration issues.[92] This shows the extent of focus members have exerted for the success of the community.

EAC aims at ultimately forming a political union that will also have common currency.[93] CU, CM, MU and political federation are the stages of integration envisaged in the EAC Treaty.[94] Consolidating the CU, implementing CM, establishing MU and preparing for the political federation in the region are the major intentions of the present development strategy.[95]

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86 AfDB, supra note 24, pages 44, 47, 54, 55, 57, 60.

87 Lovegrove, supra note 12, p. 27.

88 History of EAC, retrieved at http://www.eac.int/index.php?option=com_content&view=article&id=44&Itemid=54 on Oct 30, 2012. See also Lovegrove, supra note 12, p. 27.

89 Accession Treaty of Rwanda 2007; Accession Treaty of Burundi 2007.

90 EAC Common Market retrieved at http://www.commonmarket.eac.int/ on Oct 30, 2012. Also refer to Protocol on the Establishment of the East African Customs Union, 2004 and Protocol on the Establishment of East African Common Market, 2009.

91 Aims and Objectives, retrieved at http://www.eac.int/index.php?option=com_content&view=article&id=44&Itemid=54 on Oct 30, 2012.

92 4th EAC Development Strategy (2011/12-2015/16), 'Deepening and Accelerating Integration; One People, One Destiny' (August 2011), p. 11.

93 Treaty for Establishment of the East African Community (EAC Treaty), preamble and Art 5(2). Lovegrove, supra note 12, p. 27.

94 EAC Treaty, Art 5(2).

95 4th EAC Development Strategy, supra note 92, p. 8, 11.

EAC involves integration of three of the organs of governments with the East African Legislative Assembly as legislative, East African Court of Justice as judiciary and the Summit of Head of State, Council of Ministers, the Secretariat and EAC institutions as executive organs.[96]

In the financial sector, chapter 14 of the EAC Treaty is committed to undertakings on monetary and financial cooperation. Obligations include:[97] facilitating economic integration through establishing monetary stability by harmonising macroeconomic policies (Art 82(1)a); maintaining the existing convertibility of currencies (Art 82(1)a); harmonisation of macroeconomic policies especially in exchange rate, interest rate, monetary and fiscal policies (Art 82(1)b); removing obstacle to free movement of goods, services and capital (Art 82(1)c); removing all exchange restrictions on import-export (Art 83(2)a); maintaining free market exchange rate and increasing levels of international reserve (Art 83(2)b); liberalising financial service of members (Art 83(2)d); harmonising banking acts (Art 85(b)); promoting the establishment of regional stock exchange (Art 85(h)); ensuring unimpeded flow of capital through removal of controls (Art 86(a)); ensure acquisition of shares and other securities by residents (Art 86(b)); and encouraging cross border trade in financial instruments (Art 86(c)).

In addition, members have undertaken to allow free movement of persons, labour, service and right of establishment and residence by adopting national measures (Art 104(2)) and a regional protocol on the area (Art 104(2).[98] Development of financial markets is one of the focuses of the present development strategy of the integration.[99]

The resultant EAC CM has as major objective widening and deepening cooperation among members in economic and social areas.[100] The common market and its required integration is progressive.[101] The same is true for trade in services.[102] Members also agree to harmonise

[96] EAC Treaty, Art 9. 4th EAC Development Strategy, id, p. 10.
[97] EAC Treaty, Chapter 14 (Arts 82-88).
[98] The articles in the paragraph and the preceding on refer to the EAC Treaty.
[99] 4th EAC Development Strategy, supra note 92, p. 15.
[100] EAC Common Market Protocol, supra note 35, Art 4.
[101] EAC Common Market Protocol, id, Art 2(5). See also the EAC Treaty, Art 76 (2).
[102] EAC Common Market Protocol, id, Art 23(1).

their labour policies and facilitate free movement of labour.[103] In all undertakings, members promise to progressively avoid existing restrictions and not add new ones.[104]

Commitments in the transfer of capital include free movement of capital of residents of member countries and removing restrictions on current payments.[105] Like in the service trade, members agree to progressively remove limitations and not add new ones.[106] General exceptions are listed under Art 25 of the protocol. Members are also permitted to take safeguard measures when there are serious problems in the national financial systems including problems related to balance-of-payments.[107]

In the CM, members can apply exceptions to trade in services.[108] Like the GATS, the implementations of these exceptions shall not bring arbitrary and unjustifiable discrimination and shall also not be a disguised restriction on trade.[109] Moreover, there are security exceptions.[110]

Analysis of the EAC members' commitment schedule shows that restrictions on the financial sector are mainly made on mode 3 with Mode 4 determined by another schedule on free movement of workers.[111] Elimination was mainly to be applied in 2010 but many restrictions are planned to be eliminated by the end of 2015, the latest year for removal of restrictions.[112]

As in other sectors, EAC has also registered significant progress in financial integration.[113] EAC made noteworthy achievements in currency convertibility, harmonization of fiscal and

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103 EAC Common Market Protocol, id, Art 12(2).

104 EAC Common Market Protocol, id, Art 16(5). Commitments by member countries to eliminate restrictions on services is stated in Annex V of the protocol (Schedule of Commitments on the Progressive Liberalisation of Services 2009).

105 EAC Common Market Protocol, supra note 35, Art 24.

106 EAC Common Market Protocol, id, Art 24(2). Commitments by member countries to eliminate restrictions on capital is stated in Annex VI of the protocol (Schedule on the Removal of Restrictions on the Free Movement of Capital 2009.)

107 EAC Common Market Protocol, id, Art 26.

108 EAC Common Market Protocol, id, , Art 21.

109 EAC Common Market Protocol, ibid. Compare with Art ???// of GATS.

110 EAC Common Market Protocol, id, Art 22.

111 EAC Secretariat (November 2009) 'The EAC Common Market (Free Movement of Workers) Regulations', Annex II.

112 EAC Secretariat (November 2009) 'EAC Common Market, Schedule of Commitments on the Progressive Liberalisation of Services', Annex V., p. 54-64.

113 4th EAC Development Strategy, supra note 92, p. 10.

monetary policies, harmonization of banking laws and trading in stock exchanges.[114] Members have improved performance in meeting the convergence criteria for integration which are stated as benchmarks by EAC.[115]

The listing of stock exchange markets, though limited and dominated by Kenyan companies, has improved the private capital flow in the community.[116] To reduce these challenges, member states have created East African Member States Securities Regulatory Authority.[117] Though with limited numbers, some stock brokerages of members have branches in other members.[118]

There is high level of regional integration in the banking sector with influential foreign banks having branches in all member countries.[119] There are banks of member states which work outside their domicile such as the state-owned Kenyan Commercial bank.[120] There are also some insurance companies at community level, though all Kenya-based.[121]

Domination of the financial sector by banking institutions,[122] mainly Kenyan banks,[123] disparity in economic development among members,[124] consensus based rule making,[125] lack of material and human resources,[126] lack of common tax regimes, infrastructural problems, differing licensing and regulatory standards, restriction on mobility of labour and differing capital movement requirements,[127] weak penetration of the insurance sector,[128] diversity of the existing capital markets, weak cross-border listing,[129] are some challenges identified.

[114] 4th EAC Development Strategy, id, p. 33.
[115] 4th EAC Development Strategy, ibid.
[116] Smita Wagh, Andrew Lovegrove, and John Kaskangaki, 'Scaling up Regional Financial Integration in the EAC', p. 149 in Paul Brenton and Gozde Isik, (November 2011) 'Defragmenting Africa: Deepening Regional Trade Integration in Goods and Services' The World Bank.
[117] Lovegrove, supra note 12, p. 38.
[118] Wagh, Lovegrove, and Kaskangaki, supra note 116, p. 147.
[119] Wagh, Lovegrove, and Kaskangaki, ibid. See also Lovegrove, supra note 12, p. 32.
[120] Lovegrove, ibid..
[121] Wagh, Lovegrove, and Kaskangaki, supra note 116, p. 147.
[122] Lovegrove, supra note 12, p. 32
[123] Wagh, Lovegrove, and Kaskangaki, supra note 116, p. 145
[124] Lovegrove, supra note 12, p. 29
[125] Lovegrove, id, p. 29-32.
[126] Lovegrove, ibid.
[127] Wagh, Lovegrove, and Kaskangaki, supra note 116, p. 147.
[128] Wagh, Lovegrove, and Kaskangaki, id, p. 145.
[129] Wagh, Lovegrove, and Kaskangaki, id, p. 146.

Moreover, the other sectors of economy and governance, essential for RFI, have encountered problems to the community members rendering financial integration costly.[130]

In conclusion, member countries have struggled and have failed to reach many of the macroeconomic convergence criteria in both COMESA[131] and EAC.[132] However, the integrations have provided the intended objectives of liberalisation and trade creation in almost all sectors in both communities. These communities have made important progresses in integrating financial sectors of member countries. In comparison, EAC proved deeper and more meaningful integration in financial service sectors.

One report shows that majority of the banking institutions in EAC asserted that the current state of financial integration in the community have brought advantages for them that they would not enjoy in its absence.[133] With the successful implementation of CM in COMESA and the launching of the upcoming monetary union in EAC, financial sector integration will advance to higher stages. Moreover, with better integration in the tripartite framework, financial integrations will be more meaningful to member countries' financial sector.

3. Trade in Financial Services under WTO Framework

Multilateral trade in services is mainly governed by the GATS. The instrument is one component of the single package WTO agreement. Accordingly, when a country joins the WTO trading regime, it is bound by GATS obligations, in addition to the other multilateral agreements.

Financial service sector is one of the nearly 160 service sectors recognized by GATS. It by itself is classified into 16 subsectors, with 4 insurance and 12 banking and other financial institutions.[134]

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[130] Lovegrove, supra note 12, p. 48.
[131] COMESA, supra note 51, par. 69.
[132] 4th EAC Development Strategy, supra note 92, p. 33.
[133] Wagh, Lovegrove, and Kaskangaki, supra note 116, p. 147.
[134] Jansen and Vennes, supra note 55, p. 17.

MFN (Art II) and transparency (Art III) are the two main general obligations under the GATS, which are not conditional upon specific commitments. While the first requires member countries to treat all WTO members at equal terms in trade in services, the second obliges members to disclose any regulatory or institutional frameworks arranged by members that affect trade in services. GATS follows gradual and conditioned liberalisation of trade in services. Even with membership in the WTO, a country is at liberty to follow almost any regulatory means for its service sector.[135] However, there is an obligation for continuous liberalization requiring member to periodically enter into successive rounds of negotiations for better liberalisation.[136]

As a result, the extent of liberalisation made by a member is determined by the specific commitments it makes in relation to service sectors.[137] These commitments are recorded in schedules that are agreed by member countries. Once such commitments are made, member countries bind themselves to follow the national treatment and market access obligations.[138] Hence, in the schedule is written the services that are liberalised (and when) and the specific commitments under the headings of the two obligations (market access and national treatment). Moreover, details of the commitments must be made under the heading of the four modes of liberalisation.

GATS provides possibility of modifying or withdrawing specific service sector liberalisation commitments made by member countries.[139] In doing so, a member is required to arrange compensatory schemes for affected members through negotiation or arbitration.[140] Moreover, serious balance-of-payments problems can also be justifications for suspending specific commitments if some conditions are fulfilled in doing so.[141] Unless used for arbitrary and unjustifiable discrimination or disguised restriction on trade in services, the general

[135] General Agreements in Trade in Services (GATS Agreement), Preamble. See also Rudolf Adlung and Aaditya Mattoo, 'The GATS', p. 53 in Aaditya Mattoo, Robert M. Stern and Gianni Zanini (2008) 'A Handbook of Trade in Services' Oxford University Press; and Wendy Dobson, 'Financial Services and International Trade Agreements: The Development Agenda', p. 292 in Aaditya Mattoo, Robert M. Stern and Gianni Zanini (2008) 'A Handbook of Trade in Services' Oxford University Press; and WTO Council for Trade in Services 'Guidelines and Procedures for The Negotiations on Trade in Services' S/L/93, 29 March 2001, par.1.
[136] GATS Agreement, Art XIX:1.
[137] GATS Agreement, Arts XVI-XVIII. See Adlung and Mattoo, supra note 135, p. 25.
[138] Adlung and Mattoo, ibid.
[139] GATS Agreement, Art XXI.
[140] GATS Agreement, ibid. See also Adlung and Mattoo, supra note 135, p. 62.
[141] GATS Agreement, Art XII.

exceptions can also suspend the application of GATS obligations.[142] The security exception under Art XIVbis is an additional exception.[143]

The domestic regulation rule in the Annex on Financial Services of the GATS allows the regulation of financial markets for reasons of prudence, investor, consumer and public interest protection, financial system integrity and stability, and monetary and national development so long as it is not unnecessary barrier to trade in services, be not more burdensome than necessary to ensure the quality of service, and be administered in a reasonable, objective and impartial manner.[144] These provisions are very important for LDC members as they provide much needed flexibilities to adjust to difficult circumstances while promoting integration of trade in services.

3.1. The GATS and LDCs

Special and differential treatment (SDT)[145] for developing countries, with particular emphasis for LDCs, is one of the core pillars of WTO system.[146] The agreement has recognized the special focus that need to be given to LDCs in integrating their economies to the multilateral regime.[147] Accordingly, LDCs are expected only to make commitments and concessions compatible with their economic development.[148] The committee on Trade and Development of WTO has a mandate to review the application of SDT provisions and make recommendations for appropriate actions.[149] Moreover, the Integrated Framework (IF) of the WTO also aims to connect LDCs with multilateral and bilateral donors in their efforts to integrate in the global economy.[150]

The GATS has many provisions that work for the interest of LDCs by giving them the needed flexibilities in committing to liberalisations of their service sectors. Account has been taken

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[142] GATS Agreement, Art XIV.
[143] GATS Agreement, Art XIVbis.
[144] GATS Annex on Financial Services, Par. 2(a).
[145] For comprehensive discussion of STD to LDCs in WTO regime, refer: WTO Committee on Trade and Development (5 October 2004) 'Special and Differential Treatment for Least Developed Countries' WT/COMTD/W/135.
[146] Agreement Establishing World Trade Organization (WTO Agreement), preamble,
[147] WTO Agreement, ibid.
[148] WTO Agreement, Art XI (2).
[149] WTO Agreement, Art IV (7).
[150] WTO Committee on Trade and Development 'Special and Differential Treatment for Least Developed Countries' WT/COMTD/W/135, (5 October 2004), Paragraph 17.

of the special interests of LDCs.[151] Art IV of the GATS is devoted to enhancing the participation of developing countries and LDCs.[152]

The GATS Agreement gives the Council of Trade in Services the mandate to adopt negotiating guidelines and procedures based on studies that must take into account the needs of LDCs.[153] Flexibilities include '*opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development situation and, when making access to their markets available to foreign service suppliers, attaching to such access conditions aimed at achieving the objectives referred to in Article IV*'.[154]

Accordingly, the Guidelines and Procedures for the Negotiations in Trade in Services approved by the Council for Trade in Services (March 2001) had, as one of its focus, promoting participation of LDCs. It requires members to take into consideration special developmental interests of LDCs.[155] This guideline was later complemented by decision on '*Modalities for the Special Treatment for LDC Members*', which calls members to exercise restraints in seeking commitments from LDCs.[156]

To avoid the non-enforcement of the 'special priority' framework which LDCs complained about,[157] the Eighth WTO Ministerial Conference in December 2011, which agreed on streamlining accession procedure for LDCs, adopted a waiver allowing members of WTO to provide preferential treatment to services and service suppliers of LDCs for fifteen years.[158]

3.2. WTO Accession and Commitments on the Financial Sector by LDCs

The Ministerial Conference decision calls for the promotion of technical assistance and capacity building activities to ease the accession of LDCs. The decision reiterated the need to

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151 GATS Agreement, preamble.
152 GATS Agreement, Art IV. Art IV(3) recognizes the special emphasis on LDCs.
153 GATS Agreement, Art XIX (3).
154 GATS Agreement, Art XIX (2). See also, Special Session of the Council for Trade in Services, 'Guidelines and Procedures for the Negotiations on Trade in Services', S/L/93, March 28, 2001, pars. 2, 6, 10 and 12.
155 Council for Trade in Services, ibid.
156 Special Session of the Council for Trade in Services, 'Modalities for the Special Treatment for LDC Members in the Negotiations on Trade in Services', TN/S/13, September 3, 2003.
157 Special Session of the Council for Trade in Services 'Communication from the Republic of Zambia on behalf of the LDC Group: A mechanism to operationalize Art IV:3 of the GATS'. TN/S/W/59, 28 March 2006.
158 Ngwenya, supra note 47, p. 5. See also Ministerial council briefing note on LDCs, http://www.wto.org/english/thewto_e/minist_e/min11_e/brief_ldc_e.htm

enhance decision of the General Council 2002 on accession of LDCs.[159] The 2002 decision, which noted that no LDC had acceded under Art XII of WTO Agreement that time, adopted to apply SDT during accession.[160] Elements of the decision include constraints in seeking commitments from LDCs; application of WTO SDT provisions for acceding LDC countries; restraint from using plurilateral agreements as a condition of accession; commensurate and reasonable commitments taking development needs; and regular review of implementation of the decision in the sub-committee on LDC.[161]

However, the accession scenario does not reflect this flexibility. Not only that acceding LDCs committed on more sectors but also made less limitations,[162] a phenomenon described as *WTO-plus obligations and WTO-minus rights*. Commitments increased in cases of accession as a country must negotiate with all interested WTO members.[163] Original WTO LDC members have made much less commitment than those which joined later. Countries that have acceded since 1995, in turn, have on average committed around 104 sub-sectors which are greater commitments than those made before 1995.[164] What can be understood from this is that the flexibilities in the GATS substantially wither away in accession negotiations.

Another fact is that countries which have acceded at earlier stages have made fewer commitments in their financial sector than those which acceded at later stage. For example, while Cambodia and Nepal, LDCs which joined in 2004, committed in 94 and 77 service sub-sectors respectively, Cape Verde, an LDC which acceded in 2008, has committed in 108 sub-sectors.[165]

As a result, there is high probability that Ethiopia will commit on its financial service sector though it cannot yet be decided on what types of financial services and in what modes. Liberalisation of financial sector, along with telecommunication sector, is the major issue to

[159] Ministerial Conference Decision of 17 December 2011 on Accession of LDCs (WT/L846, 19 December 2011).
[160] Decision of the General Council of 10 December 2002 on Accession of LDCs (WT/L508, 20 January 2003).
[161] Decision of the General Council of 10 December 2002 on Accession of LDCs (WT/L508, 20 January 2003). See also Council for Trade in Services, supra note 154, par. 15.
[162] Adlung and Mattoo, supra note 135, p. 72. See also Peter John Williams (2008) 'A Handbook on Accession to the WTO' Cambridge University Press, p. 50-53.
[163] Adlung and Mattoo, id, p. 56.
[164] Williams, supra note 162, p. 50-51.
[165] Docs. WT/ACC/UKR/152/Add.2, 25 January 2008; WT/ACC/CPV/30/Add.2, 06 December, 2007.

be settled in the negotiations between Ethiopia and interested WTO members (mainly the EU and the US).[166] The settlement of the issues will see Ethiopia complete the road to accession which may come as soon as 2014.[167] Research works on Ethiopia's financial sector liberalisation also expressed the high possibility that Ethiopia will commit in its financial sector in joining the WTO.[168]

3.3. RFIs in the GATS

Before the WTO multilateral trade regime, bilateral and other regional trade agreements (RTAs) had been the dominant forms of trade. These arrangements have even increased in large numbers after the coming into effect of the WTO. Currently, there is maximum number of RTAs than has ever been with their number increasing at increasing rate.[169] For instance, there have been more than 200 regional agreements established in the African Continent alone, most of which RTAs.[170]

Currently, the trend seems to shift from multilateral trading system to regional cooperation. Hence, RTAs are no more the exceptions. The relationship between RTAs and WTO is two-fold. There are arguments stating that the proliferation of RTAs is because of the failure of the multilateral regime to move forward.[171] Some others argue that the proliferation of RTAs is the reason for the slow progress of the multilateral trading system. Arguments still exist on whether RTAs are building or stumbling blocks for the multilateral trading system. Setting the arguments aside, the WTO has given recognition to regional arrangements.[172]

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[166] Ethiopia may join the WTO in 2014, Capital Newspaper, 14 January, 2013, retrieved at http://www.capitalethiopia.com/index.php?option=com_content&view=article&id=2303:ethiopia-may-join-wto-by-2014&catid=35:capital&Itemid=27. See also Interview with Pascal Lamy, Fortune Newspaper Vol. 13, No. 663, Jan 13, 2013, retrieved at http://addisfortune.net/interviews/african-nations-have-no-policy-space-issues-with-wto/. On January 25, 2013.

[167] Ethiopia may join the WTO in 2014, ibid. See also Interview with Pascal Lamy, ibid.

[168] Solomon Abay (2011) 'Ethiopia's Accession to the WTO and Financial Market Regulatory Reform', p. 198 in Fikremarkos Merso and Markus Krajewski (eds) Acceding to the WTO from a Least-Developed Country Perspective - The Case of Ethiopia, Nomos publishers, Baden-Baden, Germany; Gebrehiwot Ageba and Derk Bienen (2008) 'Ethiopia's Accession to The WTO and The Financial Service Sectors', Trade and Development Discussion Paper No.02/2008, p. 1.

[169] Cernat, supra note 15, p. 3.

[170] Marcelo Ollareaga and Manuel de la Rocha (2003) 'Multilateralism and Regionalism: Trade Opportunities for Sub- Saharan Africa' 38(1) Africa Spectrum 99-109, p. 103.

[171] Guerrero, supra note 32, p. 53. See also Mirus and Rylska, supra note 4, p. 1.

[172] GATT, Art XXIV and GATS Agreement, Art V.

In sum, the multilateral trading in services for new members is characterised by contradictions. Whereas the WTO Agreement, GATS and subsequent decisions have put adequate flexibilities and SDT for LDC members, both original and acceding, the actual fact shows that acceding countries have committed more than the original LDC members. This shows that there are failures in implementing the agreements that favour LDCs.

In relation to RFIs, the multilateral trade has recognised and supported their formation. Hence, there is no contradiction if a country commits in both aspects. Which integration a country opts and how is to be decided by critically analysing the benefits and costs of such integrations.

4. Ethiopian Financial Sector Integration through RFIs

Poverty eradication is the main agenda of the development plans Ethiopia have had under the incumbent government.[173] Major achievements have been registered in all economic sectors to achieve this agenda. In the previous 5-year plan, Ethiopia had registered 11% economic growth on average.[174] This growth prospect is planned to continue in the new plan.[175] The country aspires to double its 2009/10 GDP in 2014/15 and achieve middle income status in 2020-23.[176]

The service sector, which accounted for the highest share in the GDP, scored best in terms of growth.[177] The sector has overcome agriculture in share of GDP as the primary sector starting from 2008/09.[178] However, it remains much less significant in terms of employment opportunities and earning of foreign exchange.[179] In those areas, agriculture is the dominant sector.

On trade area, promoting investment and trade (domestic and foreign) and eradicating rent seeking are the policy directions of the present plan. There is also intensification of

173 Growth and Transformation Plan 2010/11-2014/15, Ethiopia (GTP), volume 1, p. vii.
174 GTP, id, p. 1.
175 GTP, id, p. 22.
176 GTP, id, p. 1.
177 NBE Annual Report 2010/11, p. 9.
178 GTP, supra note 173, p. 4-5.
179 NBE Annual Report 2010/11, p. 9.

international trade as an objective of focus. Ethiopia's better integration is targeted by increasing the benefits accruing to Ethiopia in the international trade negotiations.[180] These objectives and targets are to be met by completing the WTO accession process, and strengthening regional integrations and bilateral ties.[181]

4.1. The Ethiopian Financial Sector

Financial sector is defined under Ethiopian law to comprise of banking, insurance and micro-financial institutions, postal savings, money transfer institutions and some other ones as defined by the NBE.[182] The financial sector in Ethiopia is mainly comprised of the banking, insurance and micro-finance institutions.[183] The banking sector dominates the economy in terms of capital followed by micro-finance institutions.[184] There are 18 banks (3 under state ownership), 15 insurance companies (1 under state ownership) and 19 micro-finance institutions.[185] This number is increasing at increasing rate. Moreover, there is also high expansion of the branches of the financial institutions,

In a move to modernise the financial service, some technologies such as ATM and core banking system are flourishing.[186] Also introduced are mobile money transfer services.[187]

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[180] GTP, supra note 173, p. 63.
[181] GTP, id, p. 64.
[182] Banking Business Proclamation No. 592/2008, Federal Negarit Gazetta Year 14 No. 57, 25 August 2008, Art 2(9).
[183] NBE Annual Report 2010/11, p. 46.
[184] NBE Annual Report 2010/11, p. 6-7. In 2010/11, the banking sector has total capital of ETB 16 billion compared to less than a billion in insurance companies and 3 billion for micro-finance institutions.
[185] Banks (http://www.nbe.gov.et/financial/banks.html), Insurers (http://www.nbe.gov.et/financial/insurer.html) and Microfinance Institutes (http://www.nbe.gov.et/financial/microfinanceinstitutes.html). Lucy Insurance Company joined afterwards as the sixteenth insurer. (Lucy Insurance gets going, Capital Newspaper, 8 January 2013, retrieved at http://www.capitalethiopia.com/index.php?option=com_content&view=article&id=2285:lucy-insurance-gets-going&catid=54:news&Itemid=27 on January 30, 2013.
[186] Addis Bank Pairs up for Mobile Money Transfer retrieved at http://www.2merkato.com/201207251479/addis-bank-signs-on-for-mobile-money-transfer on January 30, 2013.
[187] CBE launches full-fledged Internet Banking, Capital Newspaper, 18 June 2012, retrieved at, http://www.capitalethiopia.com/index.php?option=com_content&view=article&id=1222:cbe-launches-full-fledged-internet-banking&catid=35:capital&Itemid=27 October 30, 2012.

Many banks have signed agreements for mobile banking.[188] For proper implementation and legitimacy of the mobile banking, NBE has issued a directive on e-banking.[189]

Nevertheless, the Ethiopian financial sector is at an infant stage faced with several challenges. Though the financial institutions are one of the most profitable businesses in the country, there is still lack of access. For instance, Ethiopia remains one of the most unbanked countries in the world, the figure for 2010/11 being one branch for 82 thousand people.[190] Moreover, Addis Ababa, the capital city, hosts significant proportion of the existing financial institutions[191], with the exception of micro-finance institutions, which are located mainly in the regional states. The MFIs are established to address the needs of part of the society with no physical or financial capacity to access formal banking sector.[192]

The state-owned Commercial Bank of Ethiopia is a dominant one in the banking sector. It had 43% of all bank branches and 39% of the total capital.[193] It had also mobilised 58% of the total deposits.[194] Private sector involvement is much better in insurance sector with 80% of total branches and 70% of the total capital.[195]

Capital market is narrow in base and shallow with treasury bills as the only regular securities market.[196] Treasury bills have been transacted regularly in two weeks' time with 28, 91, and 128 maturity dates.[197] The NBE Bill market was also created to raise funds for important sectors of the economy.[198] Government bonds have also been utilized to finance government expenditure, this time with more size and frequency to help finance the construction of the Renaissance Dam, which is expected to cost around €3.3 Billion.

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[188] Addis Bank Pairs up for Mobile Money Transfer, ibid. See also http://www.ethiopiainvestor.com/index.php?option=com_content&task=view&id=3395&Itemid=88. January 30, 2013.

[189] Ethiopia Issues E-Banking Directive retrieved at http://www.2merkato.com/201301111973/ethiopia-issues-banking-directive on Oct 30, 2012.

[190] NBE Annual Report 2010/11, p. 6.

[191] NBE Annual Report 2010/11, p. 6

[192] Micro-Financing Business Proclamation No. 626/2009, Federal Negarit Gazetta Year 15 No. 33, 12 May, 2009, Art 3(1).

[193] NBE Annual Report 2010/11, p. 49. Take note that 7% of total branches and 14% of total capital are owned by the other two state-owned commercial banks (page 49).

[194] NBE Annual Report 2010/11, p. 52.

[195] NBE Annual Report 2010/11, p. 50.

[196] NBE Annual Report 2010/11, p. 7.

[197] NBE Annual Report 2010/11, p. 57.

[198] NBE Annual Report 2010/11, p. 61.

There is no stock exchange in the financial market and nothing that shows for its preparation.[199] Furthermore, sale of corporate bonds is at infant stage.[200]

Ethiopia's telecom sector, an essential requirement for financial service development, is very weak even in sub-Saharan Africa standards. In 2010, the internet use stood at 8 per 1000, the second from the least among 19 members of COMESA.[201] The next least was more than double that of Ethiopia, and for Kenya and Mauritius, the figures stand 24 and 38 times higher respectively.[202] Mobile subscription also stands at the second lowest in the group with 81 per a thousand population.[203] The Ethiopian telecom sector is fully owned by the government that apparently has slowed the growth prospect.

In general, the financial sector infrastructure is weak, the manpower not adequate both in quantity and quality aspects, and the payment system is at starting level.[204]

The NBE is the organ mandated with the licensing and supervision of all financial institutions of the country.[205] The organ has extended powers in financial issues though has no dispute adjudication system. Regulations include setting entry (for example, determining minimum capital and reserves), operational (for example, approval for opening branches and regulating the selection of boards of directors and chief executives) and exit requirements for financial institutions, regulating all foreign exchange payments and remittances, provision and regulation of payment, clearing and settlement services, etc.[206]

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[199] The NBE official website makes no mention of the existence or preparation of stock exchange. The financial laws does not mention it either.

[200] NBE Annual Report 2010/11, p. 7.

[201] COMESA (Oct 2012) 'Annual Bulletin of Infrastructure Statistics 2012', p. 38.

[202] COMESA (Oct 2012) 'Annual Bulletin of Infrastructure Statistics 2012', p. 38.

[203] COMESA (Oct 2012) 'Annual Bulletin of Infrastructure Statistics 2012', p. 42.

[204] Gebrehiwot and Bienen, supra note 168, p. 7.

[205] The National Bank of Ethiopia Establishment (As Amended) Proclamation No. 591/2008, Federal Negarit Gazetta Year 14 No. 50, 11 August 2008, Art 5(7), Art 14.

[206] Banking Business Proclamation No. 592/2008; Commercial Registration and Business Licensing Proclamation No. 686/2010, Federal Negarit Gazeta, Year 16, No. 42, 24 July 2010; Ethiopian Insurance Corporation Establishment Council of Ministers Regulation No. 201/1994, Negarit Gazeta, Year 53, No. 110, 19 September, 1994; Commercial Bank of Ethiopia Establishment Council of Ministers Regulation No. 202/1994, Negarit Gazeta, Year 53, No. 111, 22 September, 1994; Construction and Business Bank Establishment Council of Ministers Regulation No. 203/1994, Federal Negarit Gazeta, Year 53, No. 112, 22 September, 1994; Development Bank of Ethiopia Re-establishment Council of Ministers Regulations No.

The financial sector, which was open to foreign financial institutions three decades before, is at present, though privatized, not open for non-nationals.[207] Such prohibition is claimed to be made due to underdevelopment of regulatory capacity, weakness of international competitiveness of the domestic financial institutions and non-liberalisation of the foreign exchange regime of the country.[208]

In the free movement of labour, Ethiopian laws do not allow investors to hire expatriates in permanent basis. Whenever they have expatriate employees, investors have the duty to replace them with Ethiopian workers after providing training.[209] Exceptions apply only to expatriates at top management positions with the consent of the Investment Authority.[210]

In free movement of capital, investors can make remittances in foreign currency of profits and dividends, principal and interest payments on external loans, payment for transfer of technology and proceeds of sale or liquidation of enterprise.[211] Due to the problems of foreign exchange reserves the NBE is currently controlling allocation of foreign exchange by giving final approval of applications made to commercial banks.[212] Ethiopia also puts exchange controls on current and capital account transactions.[213]

The focus of the monetary policy in the new plan is to maintain price and exchange rate stability.[214] Efficiency, accessibility and competitiveness of the financial sector are the areas of focus in the financial system. Capacity building programs and increased participation of

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83/2003, Federal Negarit Gazeta, Year 9, No. 28, 24 January, 2003, and NBE Establishment Proclamation No. 591/2008, Art. 5 (7).

[207] Banking Business Proclamation No. 592/2008, Art 2(5) and Art 9; Micro-Financing Business Proclamation 626/2009, Art 2(3) and Art 25. The same is true for the business of insurance loss assessors, insurance surveyors, insurance agents, insurance brokers and insurance actuaries (NBE directives No. SIB/12/1996, SIB/22/2002, SIB/30/2010, SIB/31/2010 and SIB/11/1996 respectively, available at www.nbe.gov.et.)

[208] Industrial Development Strategy of the Federal Democratic Republic of Ethiopia (Amharic Version, Nehasie 1994, August 2002, p. 109-114). See also National Bank of Ethiopia (NBE) (2004), NBE, 2002/2003 annual report, Addis Ababa, Ethiopia, available at: www.nbe.gov.et/ on October 30, 2012.

[209] Investment Proclamation 280/2002, Federal Negarit Gazeta Year 8, No. 27, July 2, 2002, Art 13(5) and (Art 36(2)).

[210] Investment Proclamation, ibid.

[211] Investment Proclamation, id, Art 20(1).

[212] National Bank controls all forex applications, Capital Newspaper, 14 January 2013, retrieved at http://www.capitalethiopia.com/index.php?option=com_content&view=article&id=2313:national-bank-controls-all-forex-applications&catid=54:news&Itemid=27 on January 30, 2013.

[213] AfDB, supra note 24, p. 53. Solomon, p. 185

[214] GTP, supra note 173, p. 33.

the private sector are implementation strategies. Moreover, faster, electronic means of payment systems will be introduced and enhanced. International standards on financial systems will be used aiming at reduction of transaction costs and facilitation of the banking services. Access to financial services is expected to grow from 20% in 2009/10 to 67% in 2014/15.[215]

4.2. Ethiopia and Regional Financial Integrations

Africa stands the third continent both as export destination (18%) and source of imports (6%) for Ethiopia.[216] Export to Africa does not show diversity in terms of both commodity and location. 4 countries (3 COMESA members and Somalia) import 95% of the total export which is dominated by few agricultural products.[217] Egypt, Sudan and Kenya (all COMESA members and one EAC member) and South Africa are the dominant source of imports.[218] For Ethiopia, trade in the COMESA region stood at 5.32% of its trade volume.[219] The most populous member of the integration and fifth in GDP, Ethiopia stood 8th in exports and 10th in imports to the COMESA community.[220]

The above figures show how weak Ethiopian foreign trade is linked with Africa even in comparison to other African countries. Africa is the first export destination for 7 African countries (5 of them with more than 50% of their exports), and second destination for 25 African countries.[221] In total, for 14 African countries, Africa constitutes more than 25% of their total exports.[222]

A study made by the World Bank on service liberalisation indicated Ethiopia to be the most restrictive of all 102 countries studied.[223] The study found that African countries are

[215] GTP, id, p. 34.
[216] NBE Annual Report 2010/11, p. 75.
[217] NBE Annual Report 2010/11, p. 75.
[218] NBE Annual Report 2010/11, p. 77.
[219] Ethiopia Trade Statistics Profile- 2011. The percentile is an understatement when the informal trade through the borders is included.
[220] COMESA (Oct 2012) 'International Trade Statistics Bulletin' No. 11, 2012, p. 39.
[221] AU Conference of Ministers of Trade (2010) 'Trade Liberalization, Investment and Economic Integration in African Regional Economic Communities towards the African Common Market and Economic Community' 2010 Session of the Conference of African Union Ministers of Trade, par 12.
[222] AU Conference of Ministers of Trade, ibid.
[223] Brenton et al, supra note 7, p. 125.

relatively liberal on trade in services.[224] Moreover, according to a study report in regional integration of financial sector, Ethiopia was located in the second category, a category of members which can join the first stage of integration.[225] While this was better than six COMESA members, it lagged far behind Kenya and four others which were at the fifth category capable of joining the third stage.[226]

While COMESA as a region moved to the CU stage and getting prepared to achieve CM in 2015, Ethiopia is still in the first stage of integration and, according to the 2012 Summit Report, finalizing preparations to join the FTA.[227] Ethiopia is not among the 11 members which submitted commitment schedules on trade in services.[228] In addition, Ethiopia did not sign the Regional Payment and Settlement System (REPSS) of COMESA.[229]

On the positive sides, Ethiopia has subscribed for shares in the ZEP-RE (COMESA PTA Re-Insurance Company).[230] The Yellow Card, motor vehicle insurance, is one instance where an insurance payment made in member states of COMESA is recognized in Ethiopia.[231]

CBE has opened its branch in South Sudan in 2009.[232] This made the bank the first Ethiopian financial institution with international branches. In fact, the bank had the experience of opening an international branch in Djibouti in 1950s, which was closed in 2004 for business reasons.[233] The business in South Sudan proved attractive generating lucrative profits.[234] An

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224 Brenton et al, ibid.
225 AfDB, id, p. xxi.
226 AfDB, ibid.
227 COMESA on track in Eliminating Non-Tariff Barriers, supra note 68, p. 3.
228 Mangeni, supra note 57, slide 23. See also COMESA on Track in Eliminating Non-Tariff Barriers, supra note 68, p. 4.
229 COMESA, supra note 51, par. 65.
230 COMESA, supra note 51, par. 398.
231 Vehicle Insurance Against Third Party Risks Proclamation No. 559/2008, Federal Negarit Gazeta Year 14, No. 7, Arts 33 and 2(11).
232 Banks: Who Dares, Wins, Africa Business 17 Oct 2011, retrieved at http://www.africanbusinessmagazine.com/special-reports/country-reports/south-sudan-wide-open-for-business/banks-who-dares-wins On Oct 30, 2012.
233 CBE to Open Second Branch in South Sudan, retrieved at http://www.ethiopiainvestor.com/index.php?view=article&catid=126%3Aask-questions-2&id=3148%3Acbe-to-open-second-branch-in-south-sudan&tmpl=component&print=1&page=&option=com_content on Oct 30, 2012.
234 CBE to Open Second Branch in South Sudan, ibid.

Ethiopian private bank, United Bank, has followed suit by completing preparations to open a branch in South Sudan and has plan to do the same in other African countries.[235]

Better moves in financial integration is expected both at multilateral and regional levels in near future. With WTO accession negotiations going to higher stages and financial sector liberalisation as a major issue, integration is expected in the not-too-far future. COMESA's PTA bank and its monetary institute are at present headed by Ethiopians.[236] This may also have its own impact on the liberalisation moves.

4.3. Better Financial Integration at Regional Level

Analysis of Ethiopia's status in the East African RFIs discussed in previous sections show that the country has not properly enjoyed the benefits created by regional financial integrations discussed in detail under chapter one. This is not peculiar to Ethiopia though. There is evidence that the sub-Saharan region has not adequately gained the benefits of financial sector integration at regional level.[237] Moving towards better integration at regional level can enhance the existing strengths of the financial service sector and minimize the challenges.

Joining RFI frameworks requires some minimum standards which may go beyond the financial sector. Harmonization of some laws, sharing of information, and change in the regulatory and institutional frameworks in the integrated sub-sectors are necessary.[238] Moreover, for proper functioning of integration, regulations on cross-border enforcement of commercial and financial transactions are important.[239] These, in turn, require courts and tribunals to be competent to enforce regional and foreign laws.

Moreover, harmonisation of trade and financial laws and institutions means that NBE, which has full supervisor power on all financial institutions in Ethiopia, must concede some of its

[235] Ethiopian private bank to join banking industry in South Sudan, Tigrai Online, April 16, 2012 retrieved at http://www.tigraionline.com/articles/article120429.html on Oct 30, 2012.
[236] 'Final Communiqué of The Sixteenth Summit of COMESA Authority of Heads of State and Government', 24 November 2012, Uganda, p. 16.
[237] Lovegrove, supra note 12, 103.
[238] Lovegrove, id, p. 18, 21.
[239] Lovegrove, id, p. 22.

regulatory authority. This is not helpful considering the financial and resources constraints the bank faces in regulating.

The Ethiopian financial service sector will benefit from deeper integration at regional level. The presence of already established standards in the financial sector saves time, energy and money of the NBE and the financial institutions. International financial reporting standards, which are followed by EAC members, have, for instance, brought about consistency of reporting in the region.[240] Moreover, following such standards boosts the confidence of investors.

In the financial sector Ethiopia can benefit from joining EAC in terms of convertibility of its currency, reduction of barriers to its trade, assistant in preparing monetary and fiscal policies, free movement of capital and capital market development.[241]

The financial sector of Ethiopia could also benefit from sustained regional market. The activities of the CBE and United Bank in South Sudan may, in the future, depend on reciprocity and they may be discriminated against other banks of EAC members if South Sudanese application for membership is granted. In addition, membership also brings access of more financial markets in EAC and COMESA.

With all the rules and commitments, the regional arrangements also provide flexibility to members to adjust their integration commitment to their specific needs. The COMESA Treaty has committed one entire chapter for special treatment of members classified as LDCs and economically depressed members.[242] Furthermore, members have agreed to set up a reserve fund for helping members with balance-of-payment difficulties and imbalances.[243] COMESA even mandates the Council of Ministers to decide on remedies to the loss of revenues of a member due to higher integration moves.[244] Members are also allowed to take

[240] Lovegrove, id, p. 16.
[241] EAC key Achievements, retrieved at www.eac.int on Oct 30, 2012.
[242] COMESA Treaty, Chapter 22 (Arts 144-151).
[243] COMESA Treaty, Art 75(1).
[244] COMESA Treaty, Art 60.

safeguard measures in cases of disturbances to the economy in general or the balance-of-payments.[245]

Likewise, noticing imbalance as one cause of failure of the parent agreement[246], EAC treaty endorses equitable distribution of benefits as one of the fundamental and operational principles of the integration.[247]

Ethiopia will also benefit from assistance by the regional development banks in its endeavours for integration. The COMESA Adjustment Facility extends support to countries which face financial losses in making adjustments on their policies to promote integration including loss of revenue from integration.[248] The EAC also has partnerships with many donor organizations and countries that work on deeper integration.[249]

The fear of denial of access to the lowest strata of the society, another risk of integration, can be avoided by devising means for competition to go down or forcing banks to finance the unreachable. Regulated competition has brought about more access to the local community in Kenya.[250]

The weak economy cannot be taken as a justification against integration. The Ethiopian macroeconomic factors show similarity with members of the communities. The EAC macroeconomic convergence benchmark for proper integration, for instance, includes a minimum of 7% economic growth, one digit inflation rate, one digit interest rate, budget deficit to be less than 5% and minimum of 20% saving rate.[251] In the third phase of the development strategy (2005/06-09/10), many of the criteria were not met.[252] Poverty is pervasive; there is high unemployment and there is trade deficit in EAC.[253] Moreover, the

[245] COMESA Treaty, Art 61.
[246] EAC Treaty, preamble.
[247] EAC Treaty, Art 6(e) and 7(1)f.
[248] COMESA, 'Regional Integration and Foreign Direct Investment in COMESA', COMESA Investment Report 2012, p. 45.
[249] EAC Developing Strategic Partnership, retrieved at http://www.eac.int/index.php?option=com_content&view=article&id=45&Itemid=55 on Oct 30, 2012.
[250] Lovegrove, supra note 12, p. 104.
[251] 4th EAC Development Strategy, supra note 92, p. 16.
[252] 4th EAC Development Strategy, ibid.
[253] 4th EAC Development Strategy, id, p. 20.

manufacturing sector is at infant stage[254] and the export sector is characterised by primary agricultural commodities.[255] These facts describe the Ethiopian economy to smaller or greater extent. In fact, Ethiopia aspires to achieve middle income status in 2020-23, sooner than the intentions of some countries in EAC which aim to achieve the status in 2030.[256]

Moreover, there are arguments that countries with weaker economies can benefit from RFI more than strong-economy members.[257] This is because of the possible economies of scale that results from wider markets created by the integration.[258]

In conclusion, it is not only the deepest integrations that bring benefits to their members. Regionalisation on selected matters of the financial sector can help in improving the financial system of a member. For comparison, the relative integration of the travel service industry brought about remarkable growth.[259] Moreover, starting with smaller level of integration can prove very essential in integration process of a country as exemplified in the case of Central European countries in relation to European integration.[260]

Concluding Remark- Starting Smaller

RFIs act as learning stages for wider and deeper integrations both for the Ethiopian financial system and the financial institutions. Financial systems which prove resilient in times of financial instability at regional level get more ready for financial instability at global level.[261] The relative similarity in economic standing of the members means that there is relative easiness in adopting regulations and standards set by the integrations. The proximity also eases cooperation making domestic reforms more successful.[262]

Same logic also works for financial service institutions. It is more feasible for Ethiopian financial institutions to create comparative advantage at regional level than at multilateral

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254 4th EAC Development Strategy, id, p. 22.
255 4th EAC Development Strategy id, p. 23.
256 4th EAC Development Strategy, id, p. 14.
257 Lovegrove, supra note 12, p. 32.
258 Lovegrove, ibid.
259 COMESA, supra at 220, p, 41.
260 Lovegrove, supra note 12, p. 31.
261 Aaditya Mattoo and Pierre Sauve, 'Regionalism in Services Trade', p. 224 in Aaditya Mattoo, Robert M. Stern and Gianni Zanini (2008) 'A Handbook of Trade in Services' Oxford University Press.
262 Mattoo and Sauve, id, p. 237.

trade because domestic financial institutions can compete better with the institutions which are situated in similar circumstances. For instance, CBE is competing with Kenyan and other foreign banks and doing well in South Sudan.[263] One can imagine if the bank would be at the same competitive position if it had to compete with financial institutions of developed countries. The experience at regional level readies the institutions for wider integrations and acute competition. Evidence shows that financial institutions that have proved competitive at regional level have more probability of success in wider integrations.[264] Furthermore, RFI better address the infant industry argument against liberalisation, which has been advocated in restricting the Ethiopian financial sector.[265]

Once the importance of starting regional is answered, the next question to answer is how feasible RFIs analysed in chapter two are. In integrating, it is not the number but the effectiveness that matters. In fact, being a member of many arrangements can be financially and administratively burdensome. This in turn leads to the situation of '*more cooperation but less integration*'. A country may be forced, by practical necessities, to choose among the RFIs when the integration deepens as it requires more commitments, in terms of finance and sovereignty. Tanzania's withdrawal from COMESA is a case for illustration. Hence, Ethiopia needs to do cost-benefit analysis of multiple membership of RFIs.

COMESA and EAC are the two most feasible integrations relevant to Ethiopia's move for RFI. Ethiopia is already a member of COMESA and it needs to deepen its integration. Ethiopia is still concluding negotiations to join the community's FTA and lags behind.[266] To make meaningful financial integration, Ethiopia must commit in joining the community's common market which is under negotiation.[267]

EAC is also an attractive option for several reasons. First, the community is one of the highly integrated regions in Africa.[268] Moreover, EAC display the highest growing regional

[263] CBE to Open Second Branch in South Sudan, supra not 233.
[264] Mattoo and Sauve, supra note 261, p. 224.
[265] FDRE Industrial Development Strategy, supra note 208, p. 109-114. See also NBE 2004 and 2002/2003 annual reports, supra note 208.
[266] COMESA on track in Eliminating Non-Tariff Barriers, supra note 68, p. 3.
[267] Bumuru, supra note 57, slide 2. See also, Mangeni, supra note 57, slide 3.
[268] AU Conference of Ministers of Trade, supra note 221, par 13.

integration in terms of trade in services in Africa with 17% growth rate.[269] Accordingly, Burundi and Rwanda, which were already members of COMESA, have improved their economic performance since accession to EAC, significant part of it attributed to the integration.[270] Second, EAC, with only five members, is much easier to handle than COMESA, with 19 geographically diversified countries.

Ethiopia needs to request accession to EAC by fulfilling the requirements of accession[271] and successfully negotiating with member countries. The accession process would probably be easy as the four members of EAC (except Tanzania, which itself was a member of COMESA) are members of COMESA and have had integration experiences with Ethiopia. In addition, Ethiopia is working in integrating itself to the community in the electric sector. The five countries that benefit from the Eastern Highway Electricity Project, a project to buy electric energy from Ethiopia, are the five EAC members.[272]

There is no need to start commitments for all sectors at the same time. Hence, not committing to deeper integration of trade in goods may not prohibit integration in the financial sector. The RFIs discussed are such flexible documents that accommodate these choices. For instance, DR Congo, which has not joined the COMESA FTA,[273] has written commitment schedule on trade in ten service sectors including financial sector.[274]

The WTO accession and its implementation are protracted and costly. The financial service sector is of more concern due to its volatility and instability. Countries need to get ready to implement the financial service commitments they would make in a way to reap the benefits and escape from its negative implications before accession. Countries with integration experiences at regional level have had better success at multilateral level.[275]

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[269] AU Conference of Ministers of Trade, id, par 21.
[270] 4th EAC Development Strategy, supra note 92, p. 22.
[271] Art 3(3) of the EAC Treaty lists the requirements of membership to the community.
[272] EEPCo to supply power For 5 East African nations: Capital Newspaper 17 December 2012, retrieved at http://www.capitalethiopia.com/index.php?option=com_content&view=article&id=2141:eepco-to-supply-power&catid=35:capital&Itemid=27.
[273] COMESA on track in Eliminating Non-Tariff Barriers, supra note 68, p. 3.
[274] Mangeni, supra note 18, slide 23.
[275] WTO and Ethiopia, p. 111, retrieved at http://addischamber.com/AACCSA/userfiles/2011-09-29_PSDBooks/WTOOptionII.pdf- on October 30, 2012.

However, RFIs shall be complemented with financial reform moves at national, bilateral and multilateral levels. RFIs shall not compromise future multilateral integration.[276] The East African RFIs promote integration at multilateral level. In fact, they regard themselves as a means for deeper and wider integrations.

The trend of change in focus from multilateral to regional and bilateral trading followed by WTO members and non-members stated under chapter three is another reason why Ethiopia must stick to the possible regional arrangements. In these regional integrations which are widening their scope from time to time, the continued restriction in the financial sector is not a wise option. Ethiopian financial sector may be left out of the successive moves of the integrations in the region making it more difficult to cope up at later stages. If the integrations change to monetary unions as they intend to do and go continental as envisaged in the Abuja Treaty, it will get much more complicated and costly to keep track. COMESA and EAC Treaties also recognise that the integrations are building blocks for the continental integration.[277] Therefore, financial sector benefits more and avoids risks better if integration to RFIs is enhanced as soon as possible.

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[276] Brenton et al, supra note 7, p. 127. See also Jansen and Vennes, supra note 55, p. 10.
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