

Abstract (summary):

This dissertation assesses the political and economic feasibility and desirability of an East African (EA) monetary union. A wide range of indices for optimum currency area (OCA) are developed for Kenya, Tanzania, Uganda, Rwanda, and Burundi, and a comparison made to see how these countries fit the OCA criteria relative to existing monetary unions in Africa and Europe. The overall evidence is that the EA countries are not a feasible monetary area. Intra-regional trade between them is low as is the degree of factor mobility. There seems to be insufficient evidence of long-term macroeconomic convergence among the East African countries. A measure developed by Morrison (1982) is used to evaluate the degree of fiscal discipline. It shows that the countries are susceptible to internal political pressures that often make them fail to exercise control over expenditures. On the exchange rate variability criterion, the evidence was more favorable, but the estimated cross-correlations of a two-year real GDP growth that takes into account lags in recognition of shocks, implementation, and effects of policy response were either low or negative between the EA countries, implying that it would be costly to adopt common policy responses.

Politically, the EA countries lack comparable political institutional structures as in the CFA franc zones and the CMA to sustain a monetary union among the sovereign states. The political systems are heterogeneous, challenging the eventual formation of a political federation. Measures of the strength of governments that include Relative Political Capacity (RPC) and veto power show little evidence of EA governments being strong enough to assure the responsible fiscal policies necessary for a well functioning monetary union.