

**The Interaction between Intra-Regional Investment and Trade Flows
Evidence from the East African Community**

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Abstract

The study sought to determine the relationship between intra-regional investment and intraregional trade flows within the EAC over the period 2008-2016. To do this, we considered bilateral flows from five EAC countries over the period 2008-2016. The study employed the system Generalised Method of Moments (SGMM) estimation method. The results show a strong relationship that bilateral investment flows positively influence intra-EAC trade flows establishing a complementary relationship, however, the impact is minimal. Further, the shift from substitution to complementary in the later years implies lack of significant complementary linkage. Consequently, countries provide specific investment incentives to key sectors of the economy that drive intra-EAC trade such as manufacturing to attract FDI and Cross-Border Investments (CBI). Additionally, there is need to track full implementation of the Customs and Common Market protocols in order to develop the region as a Common Investment Area with similar laws and policies favourable to FDI and growth of local investments.

Key words: bilateral investment flows, bilateral trade flows, SGMM, complementary, substitution