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Systematic Review: Determinants of Economic Growth in East Africa

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Abstract:- This systematic review focuses at determinants of economic growth in East Africa, covering those factors that help or hinder the economic growth of the region. The research thus underlines serious requirements for growth in the economy of East Africa with emphasis placed on the poorest continent in the world. It also underscores the dual challenge facing the countries of East Africa in driving high economic growth while managing fast-growing populations. The findings pinpoint the requirement for addressing these drivers so that the growth of the economy is more sustainable, the alleviation of poverty, and the creation of jobs in the region.

I. INTRODUCTION

Economic growth, typically defined as GDP or GDP growth per capita, represents an important dimension of economic growth, along with broader factors such as social structures, human psychology and public institutions that affect equity lack of and poverty reduction (Hagerdal, 2013). Macroeconomic theories, including the Solow model and endogenous growth, provide valuable insights into the drivers of economic growth, including physical and human capital growth, technological development, and government behavior

Economic Growth in the African context remains an urgent priority, especially considering the continent's status as the poorest in the world (Basu et al., 2005) East African countries face the dual challenge of driving economic growth high and at the same time manage a rapidly increasing population (Taş et al., 2013). Furthermore, sub-Saharan Africa remains vulnerable to internal and external shocks, with stagnant investment hampering efforts to diversify economic policies and stimulate growth method (Nkurunziza & Bates, 2003). Over the last three decades, conflict, adverse weather conditions and deteriorating terms of trade have further hampered economic growth in the region (Basu et al., 1999).

It emphasizes the important roles of capital formation, human capital development, industrial innovation (FDI), targeted policies and the importance of trade as important drivers of economic growth in countries emphasizing the participation in the East African Community (Onyango & Were, 2022). This underscores the importance of attracting foreign investment and promoting the establishment of an efficient monetary policy to foster economic growth in the region

Amidst the challenges of unemployment, poverty and sustainable development, East African countries have prioritized the primary goal of achieving strong economic growth but, despite ongoing efforts, regional is engaged in an ongoing struggle to significantly reduce widespread poverty and keep pace with more developed countries (Nkurunziza & Bates , 2003).

- *Demonstrating Economic Growth in the East African Community (EAC).*

Measures of economic growth have traditionally relied on growth in GDP or real GDP per capita over time (Jackson & McIver, 2001). However, different countries have different levels of GDP per capita in the long run, which are influenced by different country factors. These factors include capital formation, human development, demographic change, technological innovation, economic openness, trade openness, etc. Economies that devote a large share of their output to investment in 2010, technological innovation and trade have higher per capita GDP growth rates than an economy that produces less resources for these productive processes

It is important to note that there are huge differences in per capita income across countries, with poorer countries accounting for less than 5% of the per capita income of rich countries and in addition differences in growth rates in different countries is not constant over time.

Especially in the East African Community (EAC), East African countries have low real GDP growth per capita, which means a potential crisis in countries achieving sustainable economic growth rapidly have the potential to significantly reduce poverty, increase democracy and political stability, improve the natural environment and reduce crime and violence (Loayza & So, 2002).

However, the EAC member countries have experienced slower economic growth, with annual GDP growth rates varying from negative to positive rates between 2000 and 2013 such as -2.4% to 5.5% on Kenya, 2.0% to 4.9% in Tanzania, and -0 in Uganda from 1% to 7.1%, from -0.09% to 7.9% in Rwanda, and the largest increase was in Burundi from -2.8% to 1.8%. According to On the general level, Rwanda had higher GDP per capita compared to others, while Burundi had the lowest growth rate. East

African countries have strategic visions named Vision 2030, Vision 2035 and Vision 2025 to be achieved, demonstrating how important the subject of economic growth has become. (Nkurunziza and Bates, 2004)

But this diversity of forces propelling economic expansion must acknowledge that each economy has its own particular forces. The objective of this study is to examine the role of capital formation for investment and other variables in relation to GDP per capita. These measures need to be taken seriously, and the necessary policy recommendations need to be implemented to promote sustainable economic growth, ultimately reducing poverty and encouraging employment. (Nkurunziza and Bates, 2004) Methodology. Dealing with these important problems requires a deep understanding of the determinants of economic growth in both developed and developing nations.

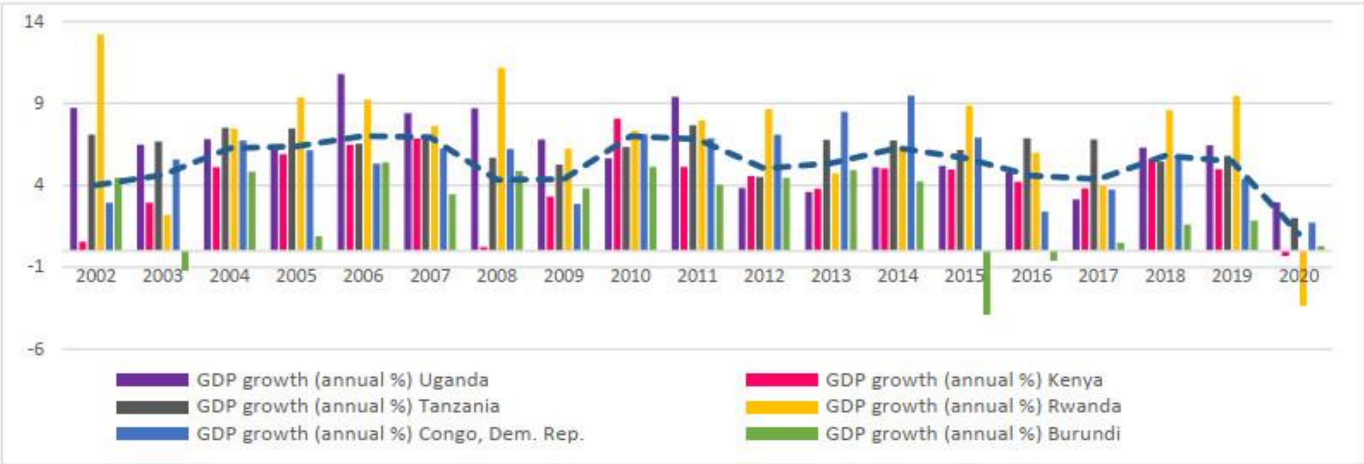

Fig 1 World Development Indicators, 2022

II. METHODOLOGY

The methodology used in this study included a systematic review using descriptive analysis. The data collection consists primarily of data collected from three quantitative research studies conducted in East Africa from 2015 to 2023. Besides, supporting research on the topic includes description of factors affecting economic growth in East Africa from the demand side, supply side and macroeconomic factors Basic data used

The search process consisted of two stages: title and abstract screening, followed by full-text screening. The researcher conducted a hand search strategy using specific search terms obtained from the Internet, which identified many papers related to the topic from this group of papers, three studies were deemed worthy of inclusion in the review around. The study operated under the assumption that the dependent variable, economic growth, is influenced by the denominator variables. However, in this study, the main determinants of economic growth in East Africa are Foreign Direct Investment (FDI), Infrastructure Development (ID) Human Capital Development (HCD), and Integration Development (ID).).

➢ *Foreign Direct Investment*

The fact that most fast-developing countries receive increasing shares of global regional FDI and implement FDI-oriented export and development policies tends to support a more positive view of relationship a between FDI and economic growth (Aitken and Harrison, 1999). There is, too. Recent research at the firm or industry level emphasizes factors such as weak absorptive capacity, suppressive effects on the domestic economy, reliance on external insecurity, deteriorating balance of payments, and highlighting the negative competition between foreign-linked and domestic firms (Haddad and Harrison, 1993).

In a study focusing on Venezuela, Aitken and Harrison (1999) found no evidence of profit spillover effects between foreign and domestic firms. Similarly, Haddad and Harrison (1993) and Mansfield and Romeo (1980) found no positive effect of FDI on economic growth in developing countries such as Morocco The relationship between FDI and productivity growth, between capital accumulation, and technological progress is less controversial in theory than in practice.

There is disagreement about the impact of specific environmental factors on the growth of FDI. Some studies suggest that education plays no significant role, while others argue that there is a positive growth effect when a country has a sufficiently educated workforce to benefit from extensive industrial FDI.

Karkovich and Levine (2002) critiqued previous research, arguing that concurrent biases, country-specific effects, and background dependent variables were not adequately accounted for in post-maturity. Generalized method of moments (GMM) panel estimators are used to estimate consistent and efficient parameters. This study aims to combine some of the methods used by Karkovich and Levine and also use Two Stage Least Squares (2SLS) panel estimators. The paper concluded that it is important that economic growth is very unstable in the East African region, which featured inflation and budget surpluses in the 80s-90s there were attacks. Though inflows of FDI have traditionally been large in the East African region, this has changed in the

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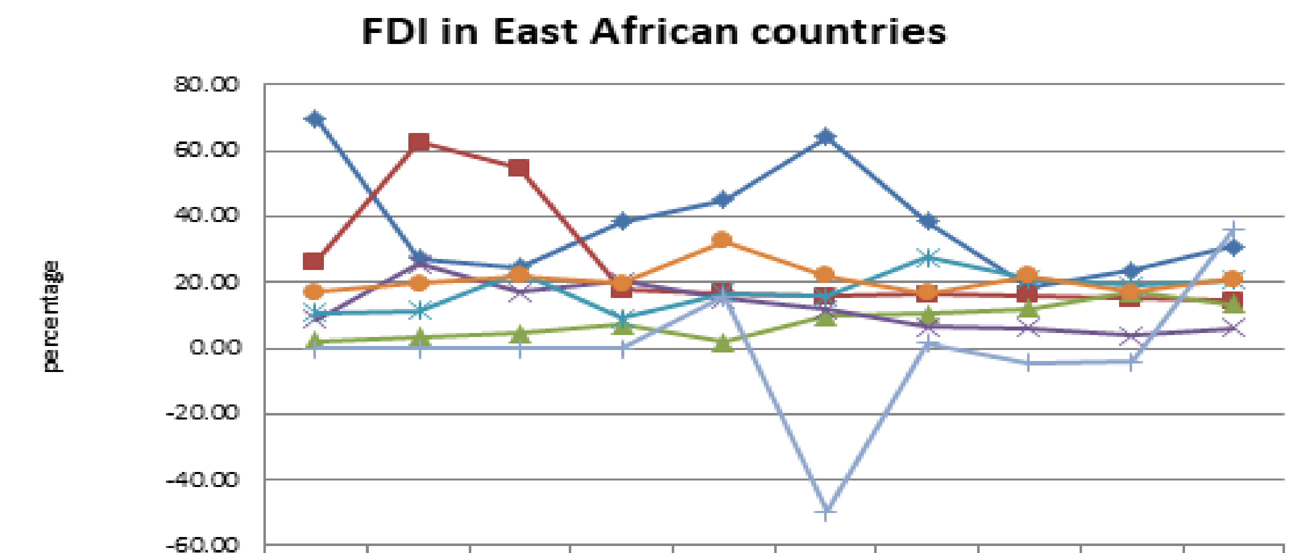
2000s. This study, unlike that of Karkovich and Levine, considers foreign direct investment inflows as a share of GDP and also includes the results of an analysis on the impact of FDI on economic growth. Results show that even though neither FDI nor per capita income has a growth effect independently, the effect of FDI inflows is very dependent on how stable an economy is.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Djibouti	69.86	27.11	24.52	38.58	45.28	64.44	38.33	18.65	23.71	31.07
Eritrea	26.45	62.96	55.01	17.80	16.93	15.93	16.46	16.27	15.34	14.51
Ethiopia	2.27	3.29	4.49	7.27	2.07	9.85	10.47	12.26	17.08	13.53
Kenya	8.58	25.90	17.53	20.31	15.40	11.74	6.94	6.29	4.10	6.17
Rwanda	10.77	11.60	23.21	9.59	16.67	15.81	27.96	21.11	18.97	20.83
Sudan	17.18	19.80	21.96	19.73	32.74	22.16	16.86	21.86	17.13	21.09
South Sudan	0.00	0.00	0.00	0.00	15.92	-49.32	1.68	-4.64	-3.79	35.95

Fig 2 FDI in East Africa, 2021

➢ *Infrastructure Development*

According to the IMF (2017) report, infrastructure in East Africa faces significant challenges and significant disparities in diversity. The study shows that electricity generation is 43% in low-income countries and 32% in middle-income countries, while access to transportation is 24% and 18% these emphasizing the differences in services available in the region.

Similarly, the World Bank (2017) conducted a survey which highlighted significant disparities in electricity, water and transport infrastructure. The study findings show that this infrastructure gap acts as a barrier to economic activity, hindering the overall development of the region.

With East Africa's rapidly growing population and the recent ratification of the Free Trade Agreement, infrastructure holds great potential as a basis for economic transformation in the region (IEA, 2019). By streamlining and improving infrastructure, East Africa can stimulate local businesses, attract investment and facilitate economic growth.

However, existing infrastructure in sub-Saharan Africa, including East Africa, exhibits poor performance in all aspects (Calderón et al., 2018). The Industrialization Index developed by the World Economic Forum gives Sub-Saharan Africa a score of 2.91 out of 7, indicating a high level of development. Additionally, most landlocked countries in the region account for 40 populations the % face additional logistical challenges that should not be made to areas far from global market areas (Calderón et al., 2018).

It should be noted that measuring infrastructure and its impact on economic growth is a complex task. Kodongo and Ojah (2016) highlight the limitations of panel analysis when examining the relationship between industry and economic growth, as it fails to account for the diversity of industries in different countries In order to overcome these challenges overcome Calderon and Cerven (2010), Kodongo and Ojah (2016), and Calderon et al. (2018) propose alternative measures of infrastructure such as the Africa Infrastructure Development Index and the African Infrastructure Quality Index, which consider both quantity and quality

Effective public investment in infrastructure has been identified by the IMF (2015) as a driver of economic growth on several fronts. The reduction of infrastructure costs for the private sector and the enhancement of private physical human capital growth are among the positive effects of such investments.

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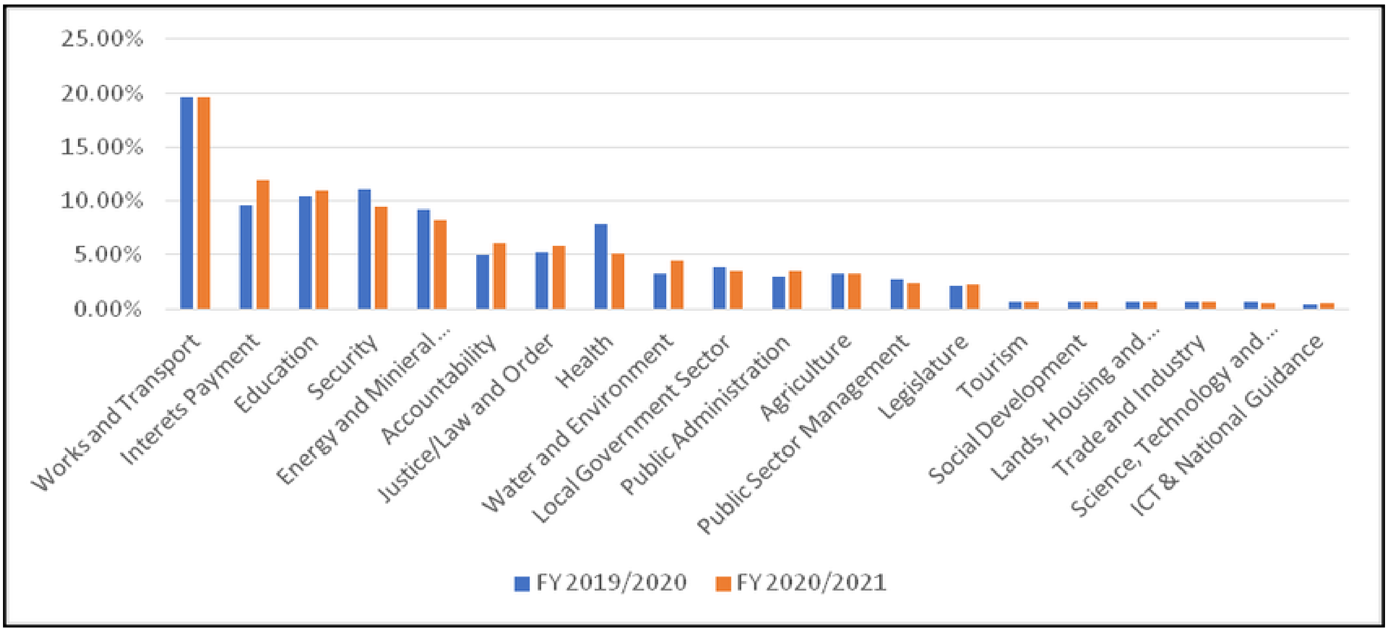

Fig 3 African Infrastructure Development Index, 2019

➢ *Human Capital Development*

The endowment of human capital, or the abilities, skills, and capacities of persons employed in productive sectors, may have a major impact on long-term economic growth. For people, societies, and economies as a whole, investing in human capital is crucial; this is particularly true in light of the shifting demographics. (World Economic Forum, 2013) Economic growth depends on human capital since more educated individuals are more likely to innovate, embrace new technologies, and increase productivity (see Lucas, 1993; Romer, 1993, and Fishlow, 1966).

Several studies have examined the relationship between human resources and Economic Growth. Detailed studies by Kanu and Ozurumba (2014), Rakotoarisoa, Shapouri, and Trueblood (2014), Orla et al. (2013), Ndambiri et al. (2012), Richard and Blessing (2010), Daniel and Mark (2004), Paula, John, and Goddard (2001) emphasize the importance of human and physical capital in economic growth.

Examining the challenges of slow growth in Africa, Geoffrey and Andrew (1997) attributed it to weak monetary policy, lack of openness of international markets, lack of access to seas, climatic conditions in areas where rainfall and sunshine and other geological factors.

In addition, Nelson-Frederick (2006) examined the relationship between investment in human capital, physical capital, and economic growth in the Kenyan economy. Surprisingly, the findings showed that Kenya did not see the expected uptick in economic growth. This highlights the complexity of sport performance and the need to consider a range of factors affecting Economic Growth.

Furthermore, Khadharoo and Seetanah (2006) studied the relationship between public capital and economic growth in Mauritius over a 50-year period. Using a vector error correction model, their study showed that public capital contributes significantly to the economic growth of Mauritius. This highlights the importance of strategic public investment to support economic growth and development.

Collectively, these studies highlight the interplay between human capital, capital investments in physical development, and their impact on economic growth. These studies highlight the integration strategy pursued by East African countries is characterized by a sequence starting with the establishment of free trade, followed by customs integration, common markets, and finally finance integration (Muthaura 2001). Despite significant obstacles to effective and meaningful integration, regional integration is considered essential for Africa's development.

If the economies of member states are in a certain level of growth and diversification, the member of the linear importance of investments in human and physical capital in enhancing economic growth.

➢ *Integration Development*

The model is likely to benefit more. Weak economies are at greater risk of commercialization (Muthaura, 2001). Thus, the integration of these microfinance should also include investment in each region. In African economies, with very few exceptions, trade is based on northern markets rather than neighboring countries, and specialization is based on basic comparative advantage so an economic base of rational adjustment and strong specialization is needed very much to enable profit sharing (Muthaura, 2001; Fosu, 2003).

Although unilateral tax rates have been significantly reduced in the subcontinent over the past two decades, tax rates are still relatively high compared to developed countries (Fosu, 2003).). is significantly higher than normal (Fosu, 2003) This poses a challenge for intersegmental marketing and complex specialization.

The African development fragmentation is characterized by unequal distribution of natural resources, uneconomies of scale in the production and distribution of goods and services, and the effect of size on the prices of public goods (Thomas & Tostensen, 2005). & Tostensen , 2005). Given the differences in the economies and politics of developed and African countries, the use of a linear approach has also created challenges (Thomas & Tostensen, 2005). However, attempts are being made to overcome these challenges in the African context, recognizing the need for anchoring economic and financial bases for rational change and robust specialization (Muthaura, 2001; Fosu, 2003; Thomas & Tostensen, 2003). 2005).

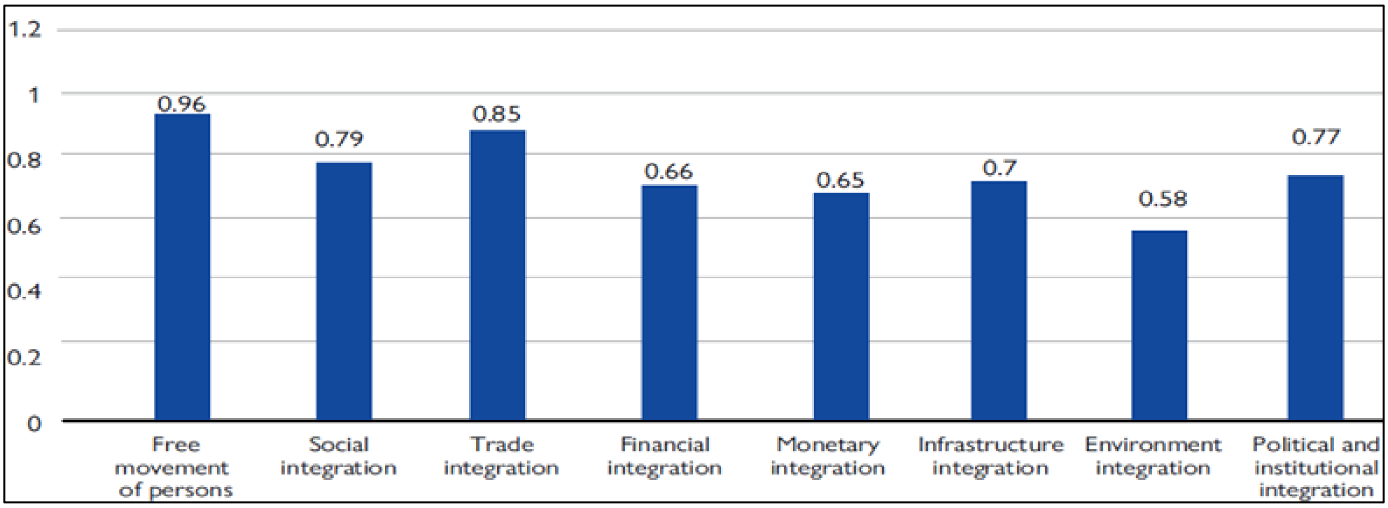

Fig 4 African Union 2021

III. RESULT, CONCLUSION AND POLICY RECOMMENDATION

➢ *Description of Reviewed Literatures*

In this part of the study, the supervisor presents some characteristics of the literature related to the subject matter, the nature of the information presented, and the subject being studied

Table 1 Summary of Reviewed Studies

No	Authors	Title	Type of Data	Years
1	Murungi S.M., Okiro K., Nyamute W. & Oleche M.	The Determinants of East African Economic	Panel Data	1980-2019
2	Rael Adhiambo Onyang	Determinants of Economic Growth in the East	Panel Data	2000-2013
3	Muuz Hadush et al.	Determinants of economic growth in East African countries	Pane Data	2002-2018

Source: Reviewed literatures 2024

However, this study focused on the determinants of economic growth in East Africa. The sign (S) in (+) indicates that the change was found to be significant from the literature reviewed and (-) indicates the impact of the change.

Table 2 Determinants of Economic Growth

No	Authors	Variables			
		FDI	**ID**	**HCD**	**ID**
1.	Murungi S.M., Okiro K., Nyamute W. & Oleche M.	**S (+)**	**S (+)**	**S (+)**	**S (-)**
2.	Rael Adhiambo Onyang	**S (+)**	**S (+)**	**S (+)**	**S (+/-)**
3.	Muuz Hadush, Kidanemariam Gebregziabher and Sisay Biruk	**S (+)**	**S (+)**	**S (+)**	**S (-)**

Source: Reviewed literatures 2024

The given above shows that the infrastructure development and economic growth in East Africa have a literal relationship. Such evidence was mentioned by Murungi and. (2023); and as well, Rael Adhiambo Onyango (2015); and the Muz Hadush (2023). Therefore, this means that investments in infrastructure such as route networks, energetic infrastructure, or communication infrastructure greatly impact economic growth in the region

Firstly, the data above exhibits a positive correlation atthe East African level between the education of people and economic development. Murungi and others. (2023); Rael Adhiambo Onyango (2015); and so on Muz Hadush (2023). This suggests that working on the education sector, which is both teacher and student education, as well as people's health-consciousness, isthe major driver behind the increased economic development in the region.

The above table shows that there is a positive relationship between FDI and economic growth in East Africa. This evidence is cited by Murungi and. (2023); as well as Rael Adhiambo Onyango (2015); and so forth Muz Hadush (2023).

In other words, the fact that FDI, in which foreign companies build up business or organizations or invest in the area, has a major role and thus made an event to increase economic growth. Under the table, it is evident that the factor of coalition growth and the economic success in East Africa are negatively correlated. This means that the issues of regional integration, such as quotas, political turbulence, and/or weak institutional structure, can hinder the growth of the region.

IV. CONCLUSION AND RECOMMENDATIONS

Murungi et al. (2023), Rael Adhiambo Onyango (2015), and Muz Hadush including others. (2023), collectively show a positive relationship between infrastructure development and economic growth. It is to say that investments in infrastructure like transportation networks, energy infrastructure, and communication infrastructure are the main factors for economic growth in the region so it is the government and regional stakeholders who are the first to participate in and invest in improving and expanding infrastructure and Sustainable economic growth will occur.

Just as is the case of human capital, its development has a positive relationship with economic growth in East Africa. All of the studies by Murungi et al. (2023), Rael Adhiambo Onyango (2015), and Muz Hadush among others. (2023) confirm that the education of the workforce, health, and ability to learn skills is catalyst for economic growth and thus administrators have to invest in the human capital development first. Raising the educational level and healthcare access of the people will bring about the availability of a more efficient and skilled workforce, the continuous expansion of the economy, and thus the enhancement of the people's living standards.

Furthermore, the findings revealed foreign direct investment (FDI) as a contributor to the growth in East Africa. Among the several points raised by Murungi et al. (2023),Rael Adhiambo Onyango (2015), and Muuz Hadush et al. (2023), it is noted that foreign direct investment is the most reliable source of development help where foreign companies decide to do business or to invest in the region that otherwise could not show any growth in economics. Since this is the most responsible factor, the governments and relevant bodies should permit one to bring foreign investments to the country. This might also include the development and introduction of investor-friendly policies, maintaining political stability, rationalizing regulatory frameworks, and enabling the easier of business activities. Taking active steps to develop the region as an inviting zone may lead to stronger economic development and more workplaces.

What's more, the results of the study display that in Economorphism in East Africa has a negative relationship with economic growth. This means the economic reasons, which were linked with regional integration, like barriers to trade, political instability, or the weak institutional structure, can be the factors that cause an Economic growth slowdown in the area.

In conclusion, the research results suggest that the main concerns of the East African policy-makers should be infrastructure development, the training of human resources, and the attraction of Foreign Direct Investment in order to boost economic development. On top of this, to ensure sustainable economic development, the other issues related to regional integration should be tackled. Policymakers will be able to stir the growth cycle and improve living standards in East Africa by implementing these measures.

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