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**The Effect of East Africa Community Trade Block on Economic Growth in
Kenya**

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of Arts in**

International Conflict Management

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DECLARATION

I, Beatrice Thuita hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed.....

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Supervisor's name and Full Titles: DR MARTINE OLECHE

Signed.....

Date.....

DEDICATION

To my mother, Rev Francisca Wambui Muthoga

To my friend, the late Lawrence Wesley Magwabi

The entire congregation of True Life Restoration Ministries

ACKNOWLEDGEMENT

I wish to appreciate the contribution of all that in one way or another participated in the successful completion of this work.

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LIST OF ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AfDB	Africa Development Bank
AEC	African Economic Community
AEO	Authorized Economic Operator
AGOA	Africa Growth Opportunity Act
AMU	Arab Maghreb Union
AU	African Union
AUC	African Union Commission
CET	Common External Tariff
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
EA	East Africa
EAC	East African Community
ECCAS	Economic Community of Central African States
ECT	Electronic Cargo Tracking
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
EEC	European Economic Community
EFTA	European Free Trade Area
EPA	Economic Partnership Agreement
EPZ	Export Processing Zones
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
FPTA	Free and Preferential Trade Area
GDP	Gross Domestic Product
ICT	Information Communication and Technology
IDF	Import Declaration Form
ITTLS	Immigration Tourism Trade Labor and Services
IMF	International Monetary Fund
KIPPRA	Kenya Institute for Public Policy Research and Analysis

KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MEAC&RD	Ministry of East African Community & Regional Development
NCIP	Northern Corridor Integration Projects
NTB	Non-Tariff Barriers
OSBP	One Stop Border Posts
RDA	Regional Development Authorities
REI	Regional Economic Integration
REC	Regional Economic Community
RNCD	Regional & Northern Corridor Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCT	Single Customs Territory
SEZ	Special Economic Zones
SMART	Secondary Materials and Recycled Textiles Association
SPS	Sanitary and Phyto-Sanitary
TBT	Technical Barriers to Trade
TF	Trade Facilitation
UN	United Nations
USA	United States of America
USD	United States Dollar

ABSTRACT

During the 1990s, there was a global wave of Regional Integration Arrangements. They formed the most noticeable developments in the international trading system and were claimed to be the drive towards the promotion of trade and economic growth. In Africa, the need to increase regional cooperation by creating unified economic blocs became the motivational factor to form regional integration arrangements.

In East Africa, the narrative was not different as the leaders envisioned a united region with unrestricted movement of goods, services and people to create larger markets that will enhance trade and investment and lower unemployment and poverty. The current East African Community was revived in July 2000 and transformed to a Customs Union in 2005.

The objective of the study was to determine the effect of the East Africa Trade Block on Kenya's economic growth. The time series data used for analysis was the years 2004-2017. Customs Union, volume of exports and imports and Gross Domestic Product were the variables used in the study. Descriptive analysis was used to analyze information from public documents to derive conclusions from the discoveries.

The study revealed that the formation of the Custom Union had a positive effect on trade and economic growth in Kenya despite several bottlenecks that the study has provided recommendations for. The findings also illustrate an increase in Kenya's intra-EAC trade. We can therefore conclude by saying that Regional integration is beneficial to a country's trade and economic growth what is needed is political commitment from member states.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

A country's Gross Domestic Product (GDP) grows because of trade and this becomes a motivation for countries to engage in trade outside its borders. Trade between countries exists, however it is restricted to the trade of commodities and services but less on dynamics of production. Africa embraced economic assimilation to bring to bear its impact in a globalized economy, to combine its wealth to formulate an influential economy.¹

Regional Economic Integration talks about commercial guidelines of selectively decreasing or abolishing trading barriers between states. It is also defined as the process countries in a specific region unite towards realization of economic progression and stability.²

The bottom point of cooperation entails trade, whereas a profound cooperation will go further than trade. For economic integration to occur there has to be physical closeness, culture, history, similar ideologies, and a common language.³ Promotion of unrestricted movement of commodities and services, decreasing trade tariffs, increasing skillful human resource and avoiding wrangles amongst the States leads to better regional trade integration.⁴

¹ Makungu, L.G. (2015). The role of the East African Community in the economic development of the East African region

² Haarlow, J. (1997). Regional Cooperation and Integration within Industry and Trade in Southern Africa: General approaches, SADC and the World Bank

³ Mwashu, O.N. The benefits of Regional Economic Integration for Developing Countries in Africa: A case of East African Community. P69-92

⁴ Davoodi, H.R. (2012). The East African Community after ten years deepening integration.

The benefits from regional cooperations include; cheap commodities and services owing to a free and open market, improved economic well-being, enhanced trade policies and efficiency of labor force that bring about savings in costs owing to expansion of market.⁵

1.2. Statement of the Problem

Economic growth in Kenya as projected in vision 2030 is 10% however, the growth rate has been fluctuating since independence thus remaining lower than expected. This has prompted the Government of Kenya to work together with the Ministry of East African Community to encourage trading in the region as one of its key strategies towards attaining the anticipated 10% growth rate.

Regional integration in developing countries is encouraged for economic development. The intention is to form larger markets for trade and investment and lower trade barriers and decrease costs of trade. The initial experience of the previous EAC is a learning and reference point in regards to the current East Africa integration process. The Customs Union, Common Market and Monetary Union protocols have been ratified by the EAC though implementation is gradual and is yet to be fully achieved thus the question, does this have an effect on the trade relations between member states and does this affect their economic growth?

The EAC has been plagued with challenges from its earliest inception in 1967 leading to its collapse in 1977. The current EAC is facing a couple of challenges, this despite the back drop of ambition intended to fast track execution of the Customs Union, the Common Market and Monetary Union agreements.

⁵ Jose, M.P. and Lorenzo, S. (2012). European integration and inequality among Countries: A lifecycle income analysis. *Review of International Economics*, Wiley Blackwell, Vol, 20(1), pages 186 – 199, 02.

Therefore it would be imperative to examine the type of connection between the East African States; and if regional trade blocks indeed have a progressive or undesirable impact on a country's economic development rate. The study will also be examining the effect of Customs Union on economic growth in the Republic of Kenya.

1.3. Research Questions

In addressing the problem, this research paper seeks to respond to the following questions;

- i. What is the profile of Kenya's economic growth after establishment of the Customs Union
- ii. What is the profile of the East African Trade Block
- iii. What is the role of East African Community Regional Integration to Kenya's Economic growth

1.4. Research Objectives

The overall objective of this research paper is to analyze the effect of East African Community trade block on economic growth in Kenya. The detailed objectives are:

- i. To examine the profile of Kenya's economic growth after the establishment of the Customs Union
- ii. To examine the profile of East African Community Trade Block
- iii. To examine the role of East Africa Community Regional Integration to Kenya's Economic growth

1.5. Literature Review

1.5.1. Summary of Regional Economic Integration (REI)

Formation of interstate economic communities is mainly for the reason of the anticipated benefits. Advanced phases of economic integration are exhibited by free trade thus possible rapid economic growth of its partner states.

The impact of integration is well-defined as the significant results of commercial progress of partner countries brought about by enhanced market size; utilization of savings on cost of production; improved competition and increased investment.⁶

Enhanced competition is the highest outcome of economic integration. This is because it inspires producers to be resourceful to compete with others, join or be forced out of the industry. The European Economic Community (EEC) has proven, large trade and industry integrations are more likely to lead to growth because of a larger market created. Furthermore, potentially stronger economies of scale have led to rapid independent productivity, all the more reason to believe, integration leads to growth.⁷

Regionalism has increased thus translating to a rise in regional economic integration. The factors that have contributed to this increase may include: an aspiration to find secured admission to major markets; globalization, and the governments wish to be bound to superior policies.⁸

Regional economies take a number of varied forms involving various phases of economic integration, the first to be established is a Free Trade Area (FTA) followed by a Customs Union,

⁶ Iyoha, A. Milton. Enhancing Africa's Trade; From Marginalization to an Export led Approach to Development, African Development Bank, Economic Research Working Paper Series (77), 2005

⁷ Salvatore, Dominic. International Economics, 8Ed, Willey International Edition, 2007

⁸ Schiff, Maurice and Winters, L. Alan. Regional Integration and Development, the World Bank, 2003.

Common Market and lastly, a Monetary Union and Political Federation. Trade groups enclose countries around an area of the world to shorten the distance goods will travel between countries. Distribution networks are established in neighboring countries causing a reduction of delivery cost. Neighboring countries are eager to harmonize their policies and this is made so by the fact that they may have common history and interests.⁹

Regional Integration benefits are dependent on levels of economic assimilation; the more profound the assimilation, the better the gains for member states. Degrees of cooperation will depend on readiness and dedication of member states to sacrifice part of their independence.

Formation of Trade comes about when shared external trade policies and internal unrestricted trade cause production change from well-established to low cost partner states. Trade diversion arises when expensive importations from a partner state substitute importations from the other countries. The overall gain will depend if trade formation was more than trade diversion.¹⁰

Economic integration serves an economic purpose away from trade liberalization achievements. It reduces worry and improves reliability, therefore it becomes easier for the private sector to strategize and spend. Whether countries benefit from regional trade arrangements will depend on opportunity and coverage the agreements provide, nature of enactment mechanisms and conditions in which the arrangement can be modified.

Economic integration serves as an incentive for investing and attracting Foreign Direct Investment (FDI). It helps ensure production is set as per each country's comparative advantage,

⁹ Daniels, John D, Radebaugh, H. Lee, Sullivan, P. Daniel. International Business "Environments and Operations." 10th Ed. Pearson Education: Upper Saddle River, New Jersey, United States, 2004

¹⁰ Todaro, M.P and Smith, S. Steven. Economic Development ,9th Ed, 2006

thus leading to specialization; further leading to output and services that are greater than before. This therefore makes the region better.

Regional economic integration in Customs Union form enhances a country's negotiating capacity. When discussing trade and global commodity agreements with third parties, it is required to embrace an integrated position on pertinent subjects. This is likely to attain more trade concessions as a block as opposed to independently.

The political objectives of Regional Economic Communities (RECs) include; security, governance, democracy, and human rights. Hoekman argues that regional economic integration enhances security because trade is increased between member countries therefore familiarity amid its citizens is increased and misconception decreased.

1.5.2. Regional Economic Communities

Regional economic integration has existed for hundreds of years.¹¹ Post WW II witnessed the increasing amounts of interests in incorporating national economies at regional levels. These efforts struggled owing to political differences between states and unanticipated economic hurdles. This growing interest came from the awareness of the restrictions imposed by a country's borders and projected benefits of trading regionally, investing and economic efficacy.

In 1951, France, Netherlands, Luxembourg, Britain, Italy and former West Germany established the European Coal and Steel Community (ECSC). The formation of the European Economic Community (EEC) followed later around 1957 and thereafter, formation of the

¹¹ Schiff, Maurice and Winters, L. Alan. Regional Integration and Development, the World Bank, 2003.

European Free Trade Association (EFTA) in 1960.¹² These arrangements, endurance and accomplishment of the EEC caused increase of integration arrangements in Asia, Latin America and Africa.¹³

1.5.3. Regional Economic Integration in Africa

Accomplishment of the European Union invigorated commercial cooperation in Africa as a way to motivate rates of economic expansion. However, some if not most of these efforts had limited success.¹⁴

Economic integration in Africa has faced challenges and therefore not been actualized. Some of these challenges include: overlapping associations owing to establishing many economic groupings; similarities in geographical sizes of African nations and competition for similar agricultural commodities in the international market space. These challenges have made it difficult to encourage trading and attract FDI. External trade barriers, inadequate resources, insufficient markets, poor transportation infrastructure and costly trade have made African nations not to gain the advantages of economic cooperation.¹⁵

Examples of Economic communities in Africa include the Southern African Customs Union (SACU), Southern African Development Community (SADC), Economic Community of Central African States (ECCAS), Common Market for Eastern and Southern Africa (COMESA), Economic Community of West African States (ECOWAS), Arab Maghreb Union (AMU) and the

¹² Daniels, John D, Radebaugh, H. Lee, Sullivan, P. Daniel. International Business “Environments and Operations.” 10th Ed. Pearson Education: Upper Saddle River, New Jersey, United States, 2004

¹³ Schiff, Maurice and Winters, L. Alan. Regional Integration and Development, the World Bank, 2003

¹⁴ Salvatore, Dominic. International Economics, 8Ed, Willey International Edition, 2007

¹⁵ Yang, Yongzheng and Gupta, Sanjeev, Regional Trade Arrangements in Africa: Past performance and the way forward, IMF Working Paper WP/05/36, 2005

African Economic Community (AEC) which was formed around 1991 after signing the Abuja treaty.¹⁶

Economic integration is a likely answer to Africa's fragmentation issue because it brings together developing countries for shared socio-economic, political and cultural benefits. Realistically though, Africa's need for integration is alleged to result from the nature of individual country problems in efforts to mechanize and revolutionize their economies while at the same time realizing self-reliance.

Individual country problems are; troubles gaining access to vital materials resulting from uneven distribution of resources and insufficient funds; struggling to find effective and reasonable technologies suiting local market environments and difficulty in safeguarding local and international markets for industrial goods.

The smallness of a country's markets and the competition they have with each other at the global market scene for similar agricultural produce decreases their bargaining power therefore the need for regional groupings to intensify their negotiating power.

Regional integration and globalization therefore remain crucial for Africa's development plan. Small national economies have opted for strategic groupings to gather information and capitalize on resource centered comparative advantage.

¹⁶ Iyoha, A. Milton. 2005. *Enhancing Africa's Trade; From marginalization to an export led approach to development*. Economic Research Working Paper Series (77), Africa Development Bank.

1.5.4. Pre-conditions and key principles for successful regional integration

For a positive regional assimilation, there are several political pre-conditions and they communicate to the realization of harmony and safety in countries, governmental and public obligations and a shared trust between states. With respect to economics, minimum verges of macro-economic steadiness and decent fiscal administration, stability in prices, accurate real exchange tariffs and comprehensive national developments to open market lead to successful assimilation.¹⁷

Principles of integration ensure interstate and national plans are harmonious and reciprocally beneficial. Open regionalism is one such principle which ensures sub-regional strategies are propagated in an identical ideological standard as domestic development policies. Second principle is subsidiarity which gives guiding principles for apportioning duties among nations and regional establishments to simplify the assimilation process. Third principle is pragmatism which is also known as gradualism. Assuming differences in country's state of affairs, integration may advance realistically in order to utilize demonstration cases and minimize occurrences of policy setbacks.¹⁸

1.6. Hypotheses

- i. Regional economic cooperation has affirmative effects on economic development of East African Community partner states.

¹⁷ Sachs, J and A Warner. 1995. "Economic Reform and the Process of Global Economic Integration." Brookings Papers on Economic Activity 1-118.

¹⁸ Collier, P and JW Gunning. 1995. "Trade Policy and Regional Integration." Chap. 18 in Implications for the Relations between Europe and Africa, 387-410. World Economy.

- ii. There exists a connection between intra-trade in the East African Community and economic development for member states
- iii. Establishment of Customs Union, Common Market and Monetary Union have a positive effect on member states trade and economic growth

1.7. Justification

This research establishes the effect of EAC trade to regional economic development and if it has improved trade and growth among its partner states, more so Kenya. Several factors that inhibit or enhance economic growth for Kenya have been acknowledged and specific actions needed by policy makers as the country works towards achieving the projected 10% economic growth by 2030.

This research will be useful to the Ministry of Commerce and the Ministry of East African Community and Regional Development as a source of information for making sound decisions on economic integration. The study will contribute to existing literature and to other researchers on expansion of trade for partner states in the East African Community. It will also stimulate further studies on the correlation between the Customs Union, trade and economic growth in Kenya.

1.8. Theoretical framework

Customs Union and Comparative Advantage theories will be the two main theoretical references to be used in this study. The major issue for East Africa's regional cooperation is attaining a shared agreement on which arrangement is the best for the regional establishment to implement in order to produce maximum benefits to partner states. Much needs to be coordinated in the area of policy if speedy results are to come by.¹⁹ In a region that is still economically

¹⁹ From <http://www.ekon.sun.ac.za/ehssa/Mngomezulu1.pdf>

underdeveloped by global standards, much effort is necessary to identify the ideal theories and principles to guide in development and economic growth.

1.8.1. Customs Union Theory

The welfare dimension of regional integration is addressed in this theory. Ideally, a Customs Union is established in the third phase of an economic integration after a Free and Preferential Trade Area (FPTA).²⁰ The EAC integration procedure deviates in that, establishment of their Customs Union was the initial phase in the economic integration process. Creation of a Single Customs Territory (SCT) is as a result of a Customs Union.

Trade becomes a fundamental focus in regards to economic activity of integration partners. The main aim is realization of savings on cost in a bid to achieve economic growth. Through realization of a Common External Tariff (CET), the Customs Union seeks to attain harmony between the partner states.

Jacob Viner defines Customs Union as a procedure for leveling costs on imported commodities from non-partner states and at the same time eliminating intra-tariff barriers on partner states. The theory suggests that a Customs Union points to trade diversion or creation. Shifting from costly internal manufacture to low cost manufacture in another partner state in the Union causes Trade creation.

Trade deviation on the other hand, will occur in cases whereby, member states move from low cost external manufacture to costly manufacture amongst partner states of the Union. Trade

²⁰ Schiff, M., & Winters, L.A. (1998). Dynamics and Politics in Regional Integration Arrangements: An introduction. *The World Bank Economic Review*, 12(2), 177-195

deviation is therefore believed to be the opposite of trade creation which improves welfare of people and states.

1.8.2. Economic Integration Theory

This theory gives insights into the likely impacts on a member country's trade from taking part in a Customs Union. This theory is considered as a commercial guideline for selectively decreasing or removing trade obstructions between member states.²¹ The key motivation is political and commercial inclinations amongst the member states.

States in an economic arrangement remove or decrease trade costs and trade obstructions amongst the member states whilst upholding the costs and obstructions for non-member countries.

1.8.3. Comparative Advantage and Economic Performance

All economies rely on other economies and are influenced by external happenings. Countries enjoy complete advantage over others in the making of a product. This becomes the case if Country A utilizes smaller amounts of resources in production of a particular product than Country B.

A country will enjoy comparative advantage in manufacture of a product if that product is manufactured at lower costs as compared to other produces. Focusing in on production of a commodity that a state has comparative advantage on, the state then should make the most of their collective production and distribute their incomes more resourcefully. The foundations of comparative advantage are a country's resources, amount and value of labor, land and natural resources.

²¹ Salvatore, Dominic. International Economics, 8Ed, Wiley International Edition, USA, 2006

Heckscher-Ohlin theory gives details on realities of a nation's comparative advantage on account of its national resources. Country A will have comparative advantage in the manufacture of an item if it has the necessary inputs to be used in the production of that item. Unrestricted trade is founded on this theory of comparative advantage and assumes, if a country specializes and trades based on comparative advantage, its consumers will pay less for the commodity and consume more while the resource is used efficiently²².

1.8.4. Conclusion

Regional integration is a complicated process whose understanding cannot be quickly derived from mere theoretical postulations. Arrival at the most appropriate theoretical approach to explain regional integration needs to take into consideration the unique patterns followed by the particular region under study. For the EAC, Comparative Advantage Theory is best placed in that it offers insights into the possible ways that Kenya can maximize its output and profit in the regional and international market.

1.9. Research Methodology

This paper is a qualitative research that assumed a historical research design because of time and budget limitations that impede collection of primary data. The study explores, explains and seeks to appreciate the main components of the research from accessible information which is primarily secondary in nature. The paper borrowed from past studies as prevailing trends and on this, the present is clarified and future forecasted.

In exploring the effect of EAC trade block on economic development in Kenya, data of historical nature provided this understanding. This paper therefore made an effort to trace roles of

²² Heckscher Eli. P, Ohlin B.G. 1991. *Heckscher-Ohlin Trade Theory*. MIT Press.

the EAC and economic development of its partner states. It is assumed that integration and growth variables are definitely correlated.

1.9.1. Data Collection

This paper made use of secondary data through document scrutiny. Critical analysis of public and private documentation linked to the subject under study was executed. The sources of secondary data were: Kenya National Bureau of Statistics (KNBS), United Nations (UN) Statistics Division – National Accounts 2013, the East Africa Economic Outlook 2018 (Africa Development Bank {AfDB}), International Monetary Fund (IMF) World Economic Outlook 2017, East African Community facts and figures, East Africa Trade and Investment Reports, the East African Community Fifth Strategy Paper, journals, academic papers, conference reports, thesis and essays and books.

1.9.2. Research Procedure

Collection of qualitative information on the East African Community from prevailing sources focused on East Africa Community's role on the Economic Integration Framework. The main information collection tool was document study done by the researcher.

1.9.3. Description of Variables

The study focused on Uganda, Tanzania, Burundi, Kenya and Rwanda and sought to examine the following:

i. Gross Domestic Product (GDP)

GDP is the quarterly gross domestic product for Kenya and other EAC member countries at a given time measured in country statistical data in US dollars during the period from 2004 - 2017

ii. Trade

The total value of imports and exports within Kenya to the member countries in the Customs Union measured by reported values in US dollars during the period from 2004 – 2017

Imports are the foreign goods and services bought by either government, businesses or citizens. Exports are the goods or services produced in one country and are bought by an entity in another country.

1.9.4. Data Analysis

Inferential Analysis

Descriptive analysis was used to analyze information from public documents to derive conclusions from the discoveries and investigate the extent of association which is the degree of correlation between two variables gotten from the study. It aided to estimate and define the associations in terms of scale and trend.

1.10. Scope and Limitations of the research

Due to time constraint, the study lay its main emphasis on economic growth in regards to regional cooperation in the EAC. This research paper depended on secondary data which was acquired from reports, journals, academic papers, thesis and dissertations; conference proceedings and books. Customs Union, volume of exports and imports and Gross Domestic Product are the variables used in the study. The period under study captures the years from 2004 – 2017

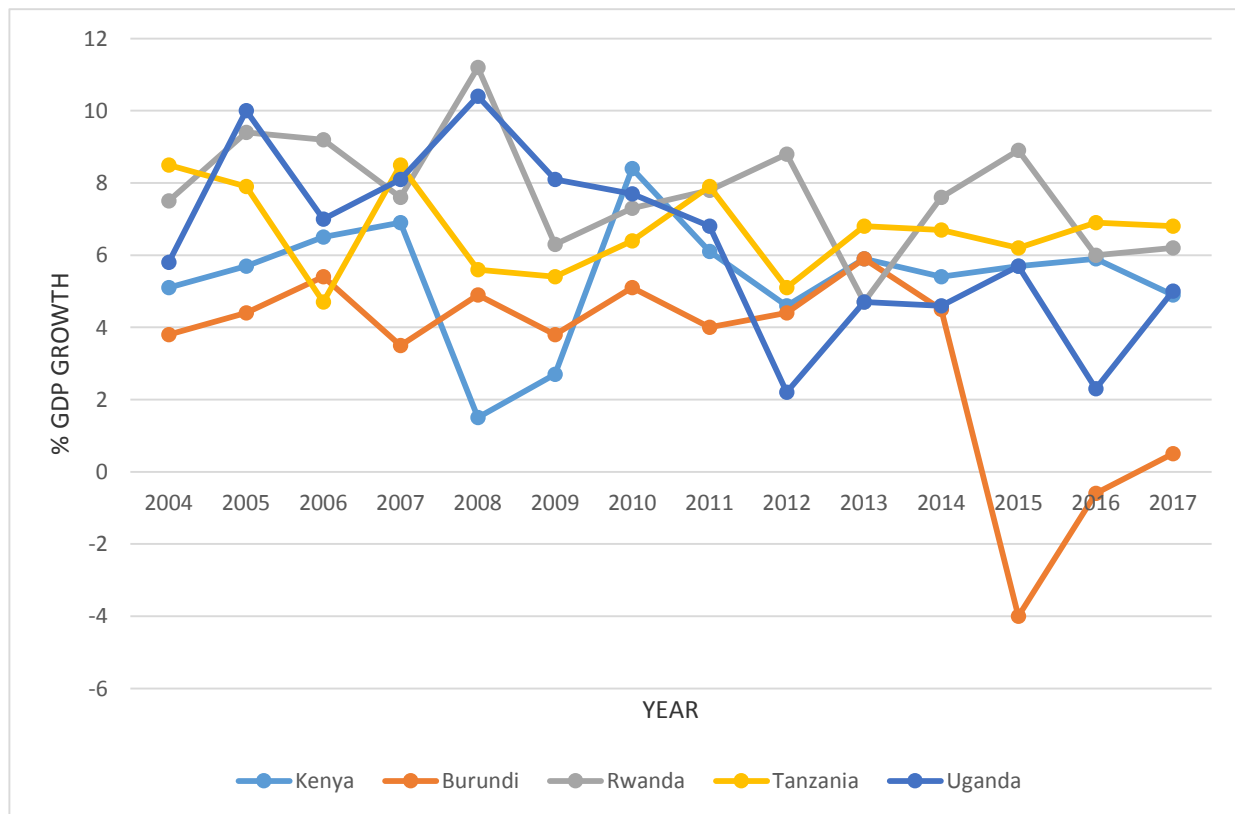
CHAPTER TWO

PROFILE OF KENYA'S ECONOMIC GROWTH AFTER ESTABLISHMENT OF THE CUSTOMS UNION

2.1. Kenya's Economic Growth from 2004-2017

Kenya's economy is considered the largest in the East African Community. However, the economy has not been steady as figure one illustrates. This is due to various reasons as will be discussed in this chapter.

Figure 1: Percentage Real GDP for EAC States 2004-2017



Source: Central Bank of Kenya

The Country's economic development rate has been inconsistent over the review period. The annual average GDP in 2004 was recorded at 5.1 percent, 5.7 percent in 2005, 6.5 percent in

2006 and rose to 7.0 percent in 2007. This growth was attributed to practical macro-economic guidelines in spite of increases in oil prices and drought in 2007. Kenya's intra-EAC trade deteriorated by 19.4 percent to USD 717.7 million from USD 890.7 million in 2005 after growing gradually in the preceding three years.²³

The Kenyan economy suffered from the 2007 post-election crisis due to the violence that erupted after the 2007/08 election. Kenya's average GDP growth dropped to 1.8 percent but was able to recover to 2.7 percent in 2009. Despite this, Kenya's economy remained fairly larger than that of its neighbors at about 35.7 percent. Kenya's East Africa (EA) regional trade accounted for 51.6% of total volume of trade. Its exports were more than its imports from partner states in so doing recorded a significant trade surplus.

Total trade increased by 41.9 percent to USD 1,018.4 million due to an upsurge in exports and imports. Total trade with Uganda improved from USD 401.1 million to USD 587.6 million while trade with Tanzania grew to USD 430.9 million. Kenya noted a trade surplus that increased to USD 409.9 million and USD 232.5 million respectively.²⁴

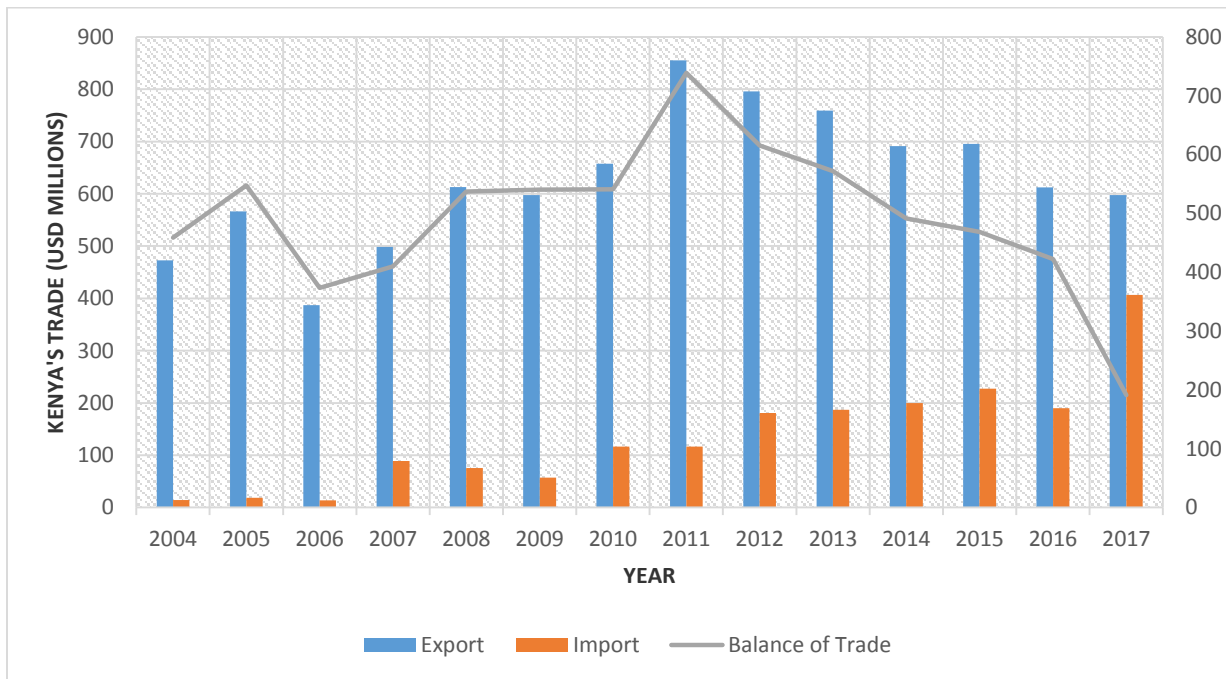
In 2008, Kenya's aggregate intra-EAC trade grew by 19.6 percent to USD 1,018 million. Intra-EAC importations deteriorated from USD 188.0 million to USD 181.0 million. This drop resulted from a 15 percent decline in the worth of trade in goods from Uganda predominantly oil seeds and cereals. Main imports from Uganda comprised of; tobacco, edible vegetables, oil seeds, cereals, animals and vegetable fats.

²³ The EAC trade and Investment report 2006

²⁴ The EAC trade and Investment report 2007

Main exports to Uganda from Kenya comprised of; oils, mineral fuels, salt, sulphur, earth, paper and paper board; stone and plastering materials

Figure 2: Kenya's trade with Uganda (USD millions) 2004-2017



Source: EAC Trade and Investment Report

From the review period of 2004-2009, Uganda's exports to Kenya grew to about USD 576 million from USD 470 million in 2004. Tanzania's exports equally grew to USD 388 million from USD 227 million. This trade pattern was heightened by the Common Market which was enforced in July 2010. Its Enforcement improved trade and investment and widened projections for economic development.²⁵

In 2011, Kenya's economy increased by 4.4 percent compared to 5.8 percent in 2010. This was credited to high oil and food prices in the global market.²⁶

²⁵ EAC facts and figures report 2016

²⁶ EAC Trade and Investment report 2011

In 2012, total trade increased by 6.0 percent to USD 1,957.3 million. Domestic exports declined by 1.5 percent to USD 1375.7 million. The products that declined included; mineral fuels, pharmaceutical products, iron and steel, animals and vegetable fat. The decline in the exports of mineral fuels was partly due to the closure of the refinery in Mombasa. Kenya's economy still managed to grow by 4.6 percent attributable to growth rates in electricity, construction, agriculture, water supply, forestry and fishing.²⁷

In 2013, Kenya's total trade decreased by 8.8 percent to USD 1,785.5 million. This was attributed to reduction in exports to the EAC region. The economy expanded by 5.7 percent owing to stable macroeconomic conditions characterized by low inflation, stable exchange rate and growth in the manufacturing, construction, transport and communications and financial services sectors. Progress in the construction sector was caused by increased business in infrastructural development and real estate. Growth in financial services sector was partly a result of enhanced financial innovations.²⁸

During the year of 2014, total EAC trade increased to USD 1,847.7 million. Domestic exports declined by 5.5 percent to USD 1144.4 million. Exports to Tanzania and Burundi declined while exports to Uganda and Rwanda improved. The main commodities included; tea, agricultural products, articles of clothing and apparel accessories, coffee, iron, steel.²⁹

Kenya's economy recorded a decelerated growth of 5.3 percent caused by: the demand side which comprised of government and private consumption that grew by 2.7 percent and 5.5 percent respectively. The demand side was mostly compelled by a strong private final consumption and a

²⁷ The EAC trade and Investment report 2012

²⁸ The EAC trade and Investment report 2013

²⁹ EAC Trade and Investment report 2014

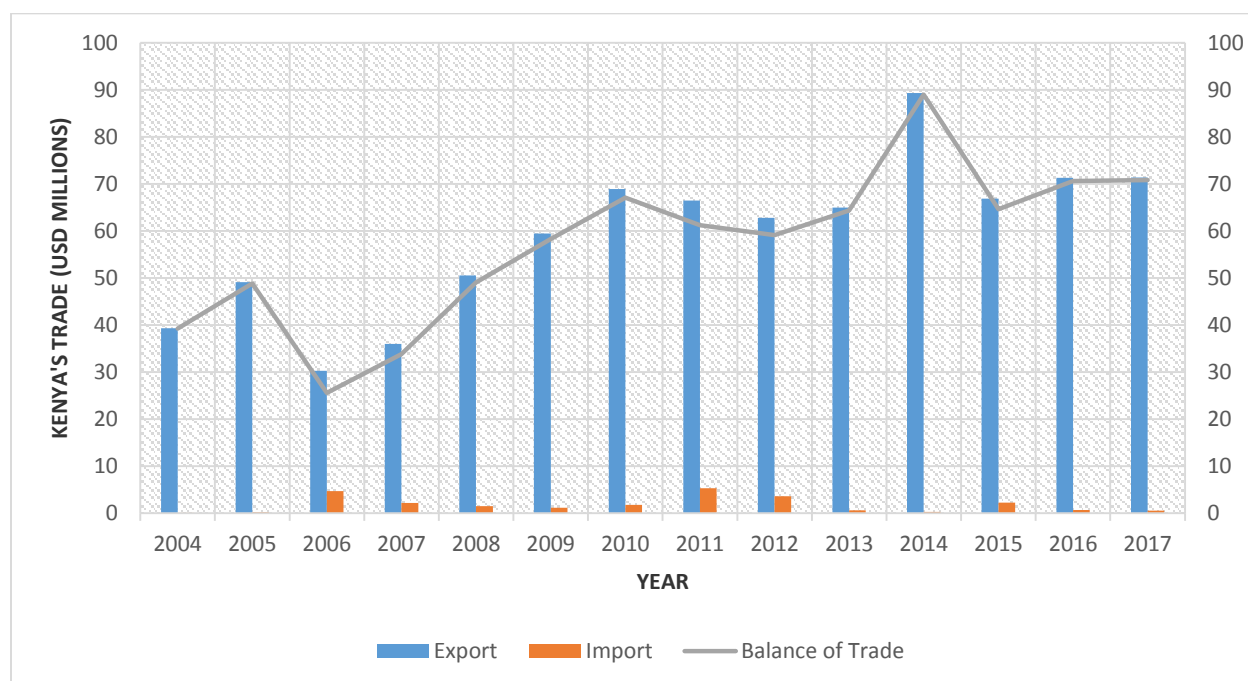
vigorous growth in fixed assets. Fixed asset investments expanded quickly on account of a vivacious growth in the real estate sector, the ongoing major infrastructural projects and improved investments in air transport equipment.

From the supply side major sectors of the economy included agriculture, fishing and forestry which contributed 14.5 percent to the growth followed by construction at 11.1 percent, wholesale and retail trade at 9.8 percent, education at 9.7 percent, finance and insurance at 9.1 percent. Kenya continued to lead intra-EAC trade in 2015 registering 33.4 percent of total intra-EAC trade.

Kenya's exports registered a decline of 10.1 percent to USD 1.3 billion. Local exports to Rwanda, Uganda, Tanzania and Burundi accounted for 11.9 percent, 49.3 percent, 34.5 percent, and 4.3 percent of Kenya's total exports respectively. The Country's aggregate intra-EAC trade declined by 8.3 percent to USD 1.7 billion. Local exports to Burundi fell by 6.0 percent to USD 64.6 million.³⁰

³⁰ The EAC trade and Investment report 2015

Figure 3: Kenya's trade with Burundi (USD millions) 2004 – 2017



Source: EAC Trade and Investment Report

The economy however still remained resilient, growing by 5.6 percent up from 5.3 percent in 2014. This growth was supported by infrastructure investments, improvement in agricultural productivity and low energy prices.

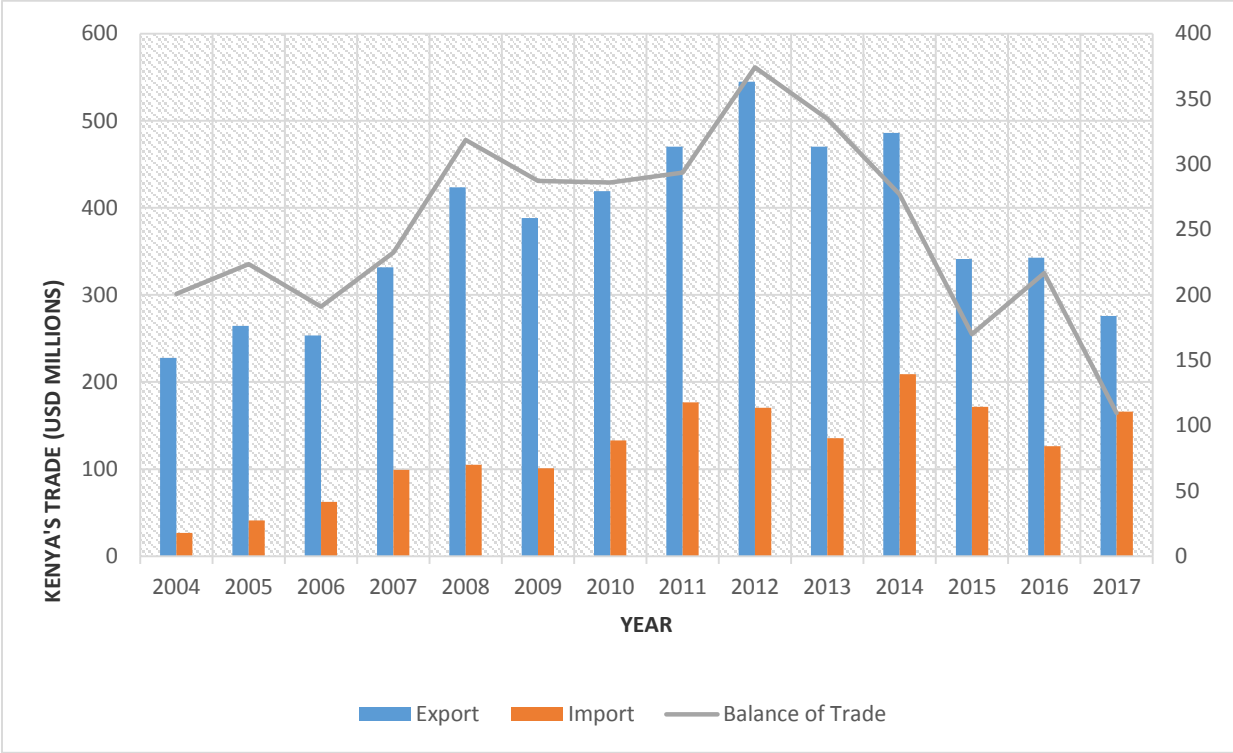
Kenya's aggregate intra-EAC trade reduced by 12.5 percent to USD 1,617.1 million in 2016 prompted by declines in imports and exports. Total exports to the region reduced by 6.8 percent to USD 1.2 billion mainly on account of reduction in total trade to Uganda which fell by 12.9 percent. Kenya had the bigger part of total trade at 44.4 percent while Uganda had 32.9 percent and Tanzania accounted 22.8 percent ³¹

Local exports to Uganda and Tanzania declined by 3.1 percent and 13.1 percent, to USD 612 million and USD 216 million, respectively. This could be attributed to: increased

³¹ EAC Trade and Investment report 2016

manufacturing capacity in Uganda and Tanzania for products that were previously imported from Kenya like iron and steel; cement, pharmaceuticals and sugar; restrictions on exports manufactured in the Export Processing Zones (EPZs); and, Stay of Application of import duties on products previously imported from Kenya like packaging materials, articles of conveyance, and wheat.

Figure 4: Kenya’s trade with Tanzania (USD millions) 2004-2017

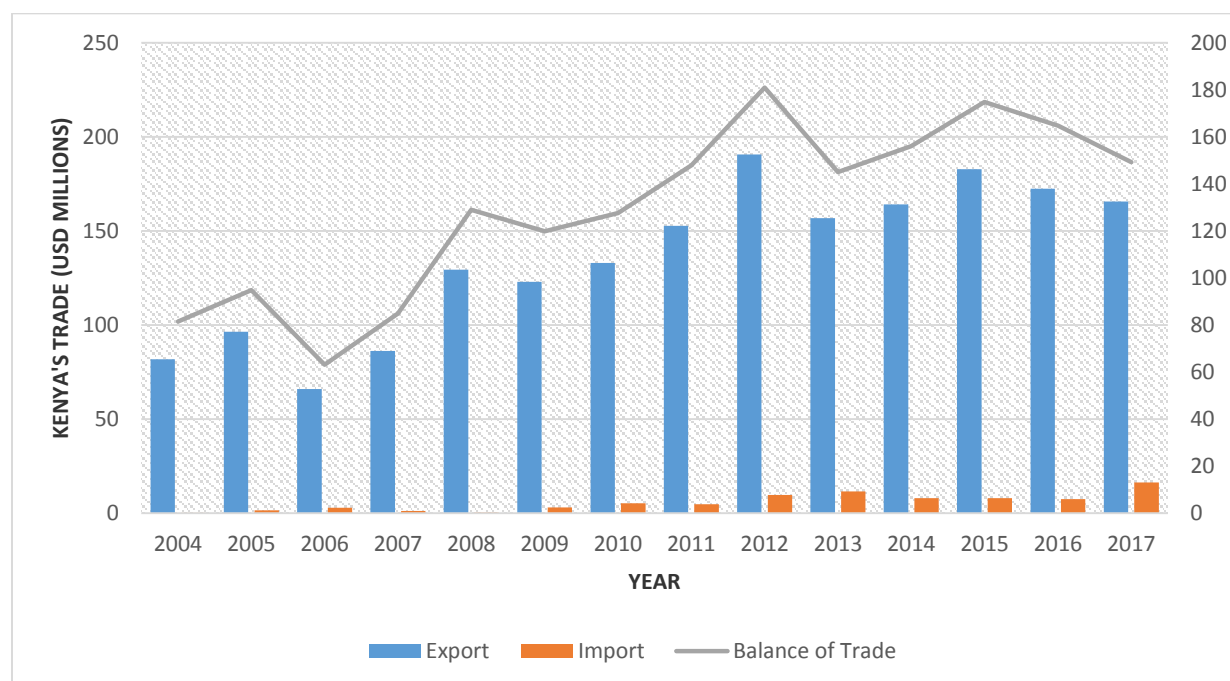


Source: EAC Trade and Investment Report

In 2016, exports to Rwanda dropped by 6.2 percent to USD 172 million. The decline was a result of falling intra-EAC export volumes of manufactured products like cement, iron and steel, salt, and medicaments. Imports from Rwanda were raw hides and skins.³²

³² The EAC trade and Investment report 2016

Figure 5: Kenya's trade with Rwanda (USD millions) 2004-2017



Source: EAC Trade and Investment Report

Intra-EAC imports grew by 14.1 percent to USD 2.5 billion in 2017 in contrast to negative growth over the past two years. Imports from the rest of the region to Kenya also grew for the first time in two years by 81.7 percent to USD 589.5 million. The increase was due to a large extent driven by higher imports from Uganda and to a lesser extent, increased imports from Tanzania.

Imports from Uganda were mainly in form of milk, dry beans and raw materials for the preparation of animal feeds. Imports from Tanzania mainly consisted of paper and paperboard; and ceramic products. Kenya was Uganda's main intra-regional trading partner and imports mainly included petroleum products, cement, iron and steel and pharmaceutical products. The economy therefore grew by 5.8 percent.³³

³³ The EAC trade and Investment report 2017

Kenya's intra-regional exports dropped by 7.4 percent attributed to falling intra-EAC export volumes of manufactured products like cement, iron and steel, salt, and medicaments. The drop was prompted by rival goods from Asian countries and member states substituting foreign imports with domestic production by instituting manufacturing plants to manufacture for themselves the same products that were originally distributed by Kenya. The existence and rise in NTBs also led to the deterioration in worth of exports

Kenya's growth fell to 4.9 percent because of prolonged uncertainty due to the elections that took place in the country coupled with adverse weather conditions in the previous years. Access to credit for the private sector persistently declined, constricting economic activity.

Kenya's economic performance in 2017 was interfered by factors like, heavy dependency on agricultural trading which is susceptible to international price variations; population growth exceeding economic development, and protracted drought that compels power rationing, slow road expansions and pronounced income and wealth disparities. Nevertheless progression of the country's economy was reinforced by public investment expenditure and solid non-agriculture sector performance.³⁴

2.2. Conclusion

From the above analysis, Kenya's economy is seen to fluctuate over the review period. The more glaring reasons are due to harsh weather patterns and political instability especially after conducting the national general elections. Despite this, Kenya still remains the bigger and more refined economy having practiced trade liberalization from its independence. However, with the

³⁴ The EAC trade and Investment report 2017

emergence of Rwanda and Tanzania, this dominance may be in contention. Countries like Uganda, Tanzania and Rwanda are now substituting imports by establishing their own manufacturing sectors. Kenya needs to remain constant in its economic development in order to achieve the 10% projected vision 2030 goal. This can be achieved if the country continues to be committed to the advancement of the EA economic integration by ensuring the agreed policies in various protocols are adopted and fully implemented locally.

Kenya has an advantage being that it has a vibrant and educated young population, it has a rising middle class that form a huge consumer base and market, trade is liberalized and has an advanced manufacturing sector; it has invested in major infrastructures to guarantee easy flow of commodities, people and services across borders; for example the Standard Gauge Railway (SGR) and major road constructions in the transport corridors as well as a well-equipped military.

Following the theory of comparative advantage, Kenya can focus on strengthening its manufacturing sector as its comparative advantage over its neighbors by ensuring the investment environment is conducive for investors. The agricultural sector can also focus on training its farmers on value chains, this can set apart the country from selling similar produces in the global market like its neighbors. Such a move can also save the country the headache of importing finished goods from the western countries. Kenya can also capitalize on e-commerce as it is already a pace setter in the East African Community.

Kenya also needs to invest in better disaster preparedness and mitigation to absorb the shocks of harsh climatic weather. Elections should be carried out in a peaceful, free and fair manner to avoid post-election violence. The private sector and non-governmental organizations can lobby and advocate for good governance to ensure the country's vast resources are well managed for maximum output at regional level.

CHAPTER THREE

PROFILE OF THE EAST AFRICAN TRADE BLOCK

3.1. The East African Community

It is constituted by the following countries; Uganda, Kenya, Tanzania, South Sudan, Rwanda and Burundi. Its Secretariat is based in Arusha, Tanzania.³⁵ In previous years, Kenya, Tanzania and Uganda enjoyed cooperation under economic regional integration.

The East African Community was established in 1967 – 1977 after which it collapsed. The objective of the three member states was to strengthen ties through a common market, custom tariffs and development of infrastructure for example railways, airways, ports and harbors to attain a balanced economic growth.³⁶

The former EAC was dissolved in 1977 reasons being; there was neither political will nor strong contribution of the private sector; benefits were disproportionately shared between member states owing to their different stages of growth and wanting guidelines thereof to speak to the issue.³⁷

In 1984, a mediation arrangement to divide assets and liabilities was signed. One provision was that, the three member states would search for parts of impending cooperation and make provisions for such a collaboration. This bore fruit with the then Heads of States ratified the

³⁵ From EAC official website: <http://www.eac.int>

³⁶ EAC 2012. Background of East African Community. From www.eac.int

³⁷ The treaty for the establishment of the East African Community, Arusha, Tanzania, 2002, p.1

agreement for founding the Permanent Tripartite Commission for East African Cooperation in 1993.³⁸

Complete set-up of the newly formed cooperation was finished and the current EAC started in March 1996 with a secretariat being launched in Arusha, Tanzania. Participating countries Heads of State assigned the secretariat to get on with the process of improving the arrangement into an agreement. This took approximately three years from April 1997 to November 1999. The treaty was enforced in July 2000 thus formation of the current EAC.

The general objective as envisioned in the founding agreement was to broaden the collaboration among partner states in socio-economic, political and culture sectors, research and technology sector, security and legal, defense and jurisdictional affairs for shared gains. The vision was recorded as having a successful, aggressive, protected and administratively unified East Africa. Its mission, broaden and expand socio-economic, political and cultural cooperation to advance the value of life for the population of East Africa through healthy competition, production of items that are value added, trade and business ventures.

The first EAC summit was held in Arusha in 2001 and was commemorated with the signing of protocols and formal launch. Rwanda and State of Burundi joined the EAC Customs Union in 2009 and later on in November of the same year, convention for establishing the EAC Common Market was signed which was later effected in January 2010 and enforced in July of the same year following ratification by the EAC member states. The Monetary Union protocol was established in 2013, and in 2016 South Sudan became the latest country to become a full EAC member.³⁹

³⁸ From EAC official website: <http://www.eac.int>

³⁹ From EAC official website: <http://www.eac.int>

The EAC member states have a distinctive regional cooperation and integration framework because they have a shared language, history, culture and infrastructure. Advantages of being a member of the EAC include: improved trade, larger market, more Foreign Direct Investment (FDI), a stronger negotiating opportunity, better security and conflict management system along with free cross border movement.⁴⁰

Partner states also carry out several projects together in the transport and communication segment, employment and reduction of poverty; environment management and tourism campaign. These benefits are not set and depend on the inner plan of integration, this includes the level of political commitments by partner states.

The Community is identified as the fastest rising economic cooperation in Sub-Saharan Africa. It has a 6.2 percent Gross Domestic Product (GDP) growth rate as of 2015 and total population of about 168 million persons

The EAC has an expanded economic base proposing varieties of commercial and investment prospects. Increasingly the region is forming an environment friendly for business with

⁴⁰ Mwasha, O.N. The benefits of Regional Economic Integration for Developing Countries in Africa: A case of East African Community. P69-92

a largely steady economic and political atmosphere, synchronized tariffs, market access to all regions in Africa, Middle East and Asia, as well as special market admission to the US, the EU and other developed nations.

The Fifth EAC development strategy 2016/17-2020/21, outlines broad strategic development objectives for the Community for the next five years in line with the EAC Treaty and Vision 2050. Formulation of the strategy document took into account the obligations of the Community within the development frameworks at intra and inter-regional, continental and global levels i.e. EAC Partner States, COMESA, SADC, AU Agenda 2063 and the Post-2015 UN Development Agenda).⁴¹

The general aim of the Strategy is building secure foundations for making East Africa into an established, vying and viable low-middle income region by 2021. To realize this goal, the Community will be focusing on seven key significant areas, that is: the merging of the Single Customs Territory; the expansion of interstate structures; the improvement of unrestricted circulation of all aspects of assembly as envisioned in the Common Market and Monetary Union Agreements; the improvement of regional trade growth; the enhancement of agronomic yields; campaign for regional harmony, safety and good governance as well as institutional makeover at the region and partner nation ranks.⁴²

The EAC CET was last reviewed in 2010 and the three-band rate was maintained yet the global and regional trade environment is dynamic and changed dramatically over that period.

⁴¹ EAC development strategy (2016/17-2020/21): Accelerating a people-centered and market driven integration. 2018-03. From <http://repository.eac.int>

⁴² EAC development strategy (2016/17-2020/21): Accelerating a people-centered and market driven integration. 2018-03. From <http://repository.eac.int>

Annual reviews have been undertaken during the pre-budget consultations and these have been on specific products.

The overall objective of the review was to align the law, tariff structure and rates to respond to changes in global trade and current economic environment in EAC; eliminate Stay of Application; review the sensitive lists and applicable rates taking into consideration supply capacity within the region.

Measures taken to increase trade include: the Customs Union Protocol signed in March 2004, enforced January 1st 2005. Its purpose: promoting free intra-regional trade in goods, encouraging production competence, improving local and foreign business ventures and encouraging economic expansion and industrial variations.⁴³

Secondly, the Common Market Protocol which was enforced in July 2010 after ratification in November 2009. The EAC sought to gradually convert to a single market permitting free flow of people, goods and services, industries and capital although assuring civil rights to residence. Analyses of significant laws were carried out to guarantee ease of operation for the Common Market.

Thirdly, the Trade and Investment Framework Agreements signed in 2011 with USA and China. This was aimed at encouraging trade of goods, exchange visits and cooperation in business ventures.

⁴³ www.eac.int/trade

Trade facilitation is the fourth and it's whereby member states agree to work together to make simpler regulating and harmonizing of trade information and records to simplify trade in goods. Lastly, Anti-dumping regulations, Competition Policy and Law, the Removal of Non-Tariff Barriers and Re-exports of goods.

Trading in the EAC continued to be dominated by agricultural produces, namely coffee, cotton, maize, rice, tobacco and wheat flour. Industrial commodities like petroleum, cement, textiles, beer, sugar, salt, confectionery, fats and oils; plastics, steel and steel products; paper and pharmaceuticals are also traded across the region.

Despite the increased total trade experienced by the EAC, there is a risk of falling intra-EAC trade due to existing challenges to the trade environment at the regional and international levels. These challenges include: inadequate value addition development and modernization of the agricultural sector which has affected the export prices; lack of diversification of industrial product; a restrictive trade regime that constrains the capacity of manufacturers to access the regional market for products that are manufactured from raw materials benefitting from exclusion and remission schemes; Non- Tariff Barriers that affected levels of trade among the partner states; and, competition for the EAC regional market from other producers and regional blocs which benefit from export subsidies from their respective governments.

The region is characterized by several challenges curtailing the pace of development. These include: high poverty rates, youth unemployment; inadequate infrastructure; and low levels of industrial development among others. These realities constitute major binding constraints to the regional pursuit of a middle income status in the medium-term hence dictating the critical need by the regional system as a whole, and individual partner states in particular, to consciously invest in ensuring they maintain macro-economic stability namely; develop the fiscal sector to drum up

national savings; cultivate steady establishments and a favorable business environment that encourages private sector contribution and Public Private Partnerships; low inflation and budget shortfalls; increase competitiveness and variety of exports; abolish anti-export biases as well as overcome infrastructural bottlenecks, human capital, peace and security.

CHAPTER FOUR

THE ROLE OF THE EAC TRADE BLOCK TO KENYA'S ECONOMIC GROWTH

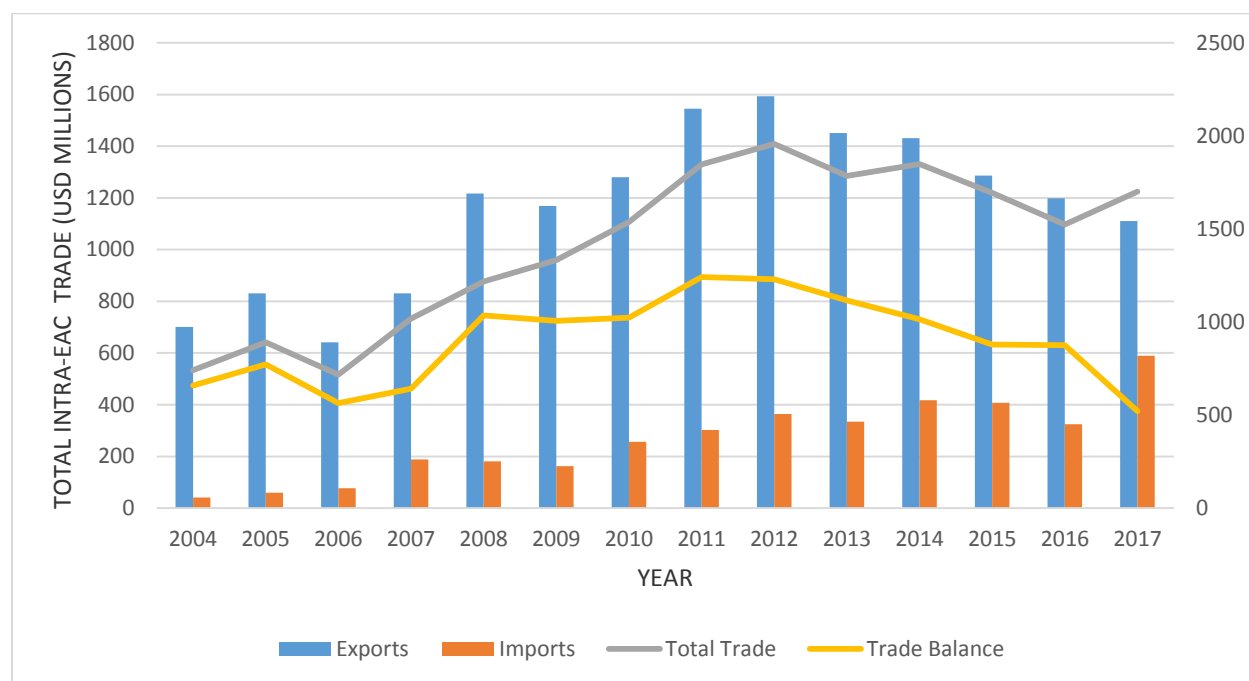
The culmination of the Cold War witnessed emergence of regionalism, Kenya's Foreign Strategy became centered on the East Africa region. This was aimed at advancing economic growth within the universal cooperation and regionalism agenda.

Regional integration has formed a major component of Kenya's Foreign Policy and an avenue for fast-tracking economic development as it brings lower transaction costs, expanded markets and bringing together of resources and enhanced utilization of savings on cost of production.

Kenya is the dominant player in commodity and service exports and major economy in the EA, thus making it a vibrant member and signatory to the Customs Union which it has been implementing since 2010. In 2015, Kenya exported 50% of its products to the EAC region with Uganda being its leading destination.⁴⁴ The exports consisted of manufactured goods, chemicals, small machinery, food and food products among others.

⁴⁴ Kenya National Bureau of Statistics 2016

Figure 6: Kenya's Total Intra-EAC trade (USD millions) 2004-2017



Source: EAC Trade and Investment Reports

EAC regional collaboration and assimilation envisioned is wide-ranging, encompassing trade, business and manufacturing expansion; economic and financial matters, science and ICT, infrastructure and services, workforce, environs and natural resource administration, food production and food security, tourism and nature administration, health, societal and culture undertakings.

With a combined GDP of USD 155.2 million, the EAC boasts of a ready market of approximately 168.2 million persons and an annual growth of 5.6 percent up from 4.9 percent in 2016. This has been driven by: a progressive manufacturing sector, characterized agro processing and industrial production; a flexible services sector especially construction, tourism and banking; an export sector consisting of commodities especially tea, coffee, horticulture and gold. The region processes significant amounts of extractives including high value minerals, oil, gas, and renewable energy generation potential.

For the initial five years after signing the Customs Union Protocol, an uneven tariff reduction programme was adopted as one way of dismantling internal tariffs. The first round was attained effective January 2006 whereby Kenya instantly removed all charges on commodities coming from member states while Uganda and Tanzania gradually eliminated rates on commodities in category A and abolish tariffs on category B. In January 2005, CET was enforced with limited exceptions. The shift from domestic costs led to a reduction in cost protection for Kenya and Tanzania but amplified in Uganda.

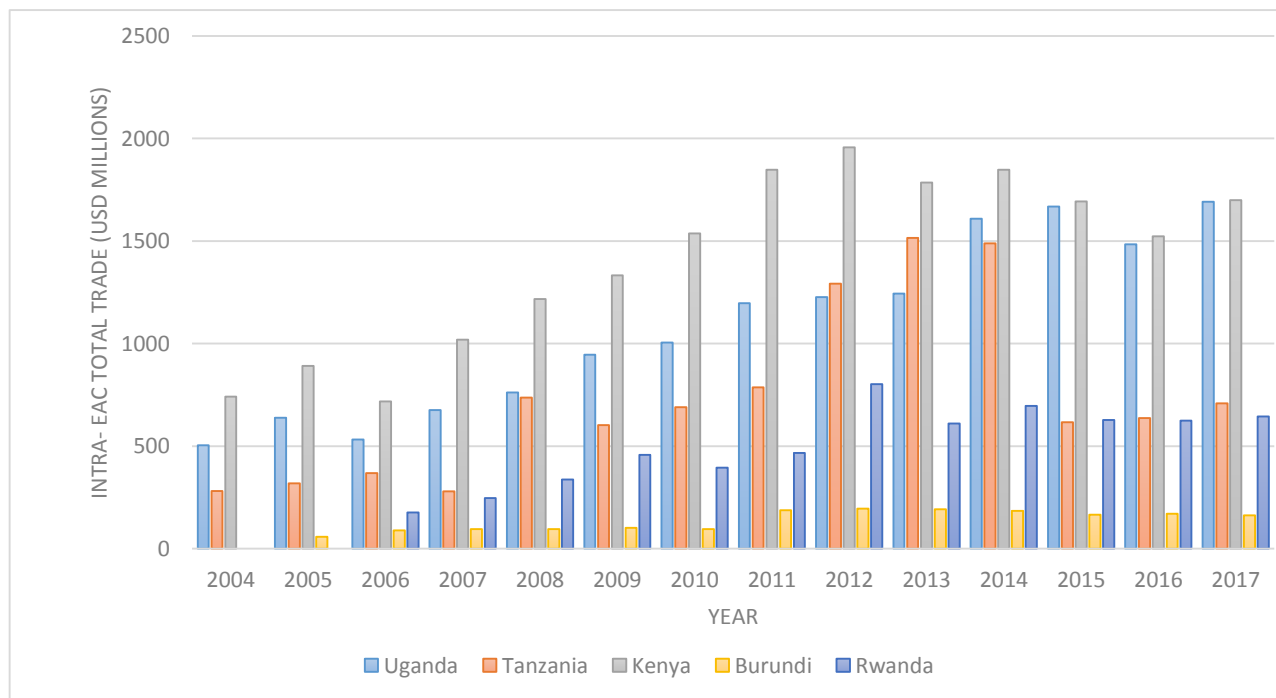
The EAC came up with a system for removal of NTBs by constituting national monitoring committees. All sorts of NTBs to trade were removed by member states this includes, system based and infrastructural barriers. The EAC also embraced a competition policy to forbid practices that unfavorably affect free trade and to ensure fair competition among the member states.

Identification and abolition of NTBs is based on an online monitoring and tracking system. In order to remove restrictions that make trade in the Community difficult or costly, partner states assented to the EAC Elimination of NTBs Act, 2017.

Regional integration is considered one way of combining resources. Tanzania, Kenya and Uganda are emerging states that have small markets which would not appeal to investors in a globalized economy. Economic integration created a single economy of 168 million persons and joint GDP of USD 155.2 billion. Therefore, the EAC offers its partner states a wider market where investors utilize savings on production and produce in a competitive way.

Formation of the Customs Union led to enhancement of intra-EAC trade. Aggregate trade grew from USD 1,979.2 million in 2006 to USD 3,339.4 million in 2008 while exports improved from USD 1,084.9 million to USD 1,902.9 million. Imports also grew from USD 874.3 million to USD 1,436.5 million.

Figure 7: Total Intra-EAC Trade (USD million) 2004-2017

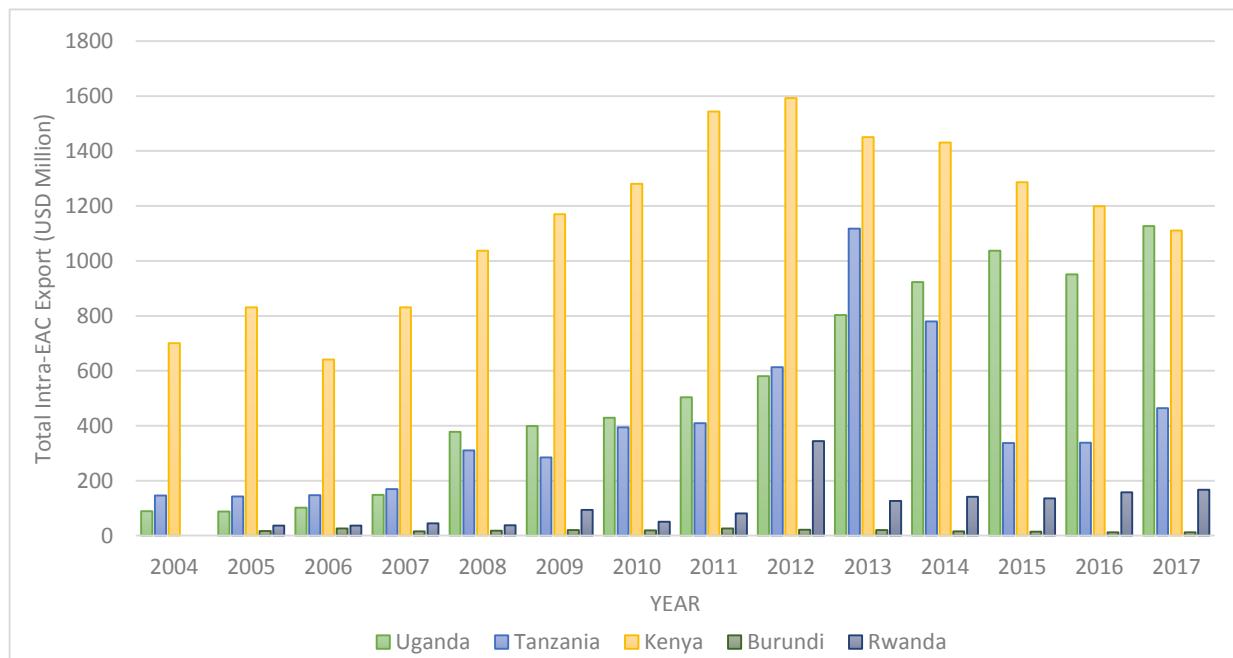


Source: EAC Trade and Investment Reports

Total EAC trade in 2017 grew by 8.6 percent to USD 46.9 billion on account of increased imports and falling exports. Imports grew by 19.5 percent to USD 32.2 billion in 2017. Exports from EAC in 2017 fell by 9.3 percent to USD 14.7 billion. On the other hand, intra-EAC trade grew in 2017. Figure 7, shows Kenya’s dominance of total intra-EAC trade all through 2004-2017. Therefore, it is safe to say that Kenya is indeed one of the bigger benefactors of the EAC integration.⁴⁵

⁴⁵ From: The EAC Trade and Investment Report 2017

Figure 8: Total Intra-EAC Exports (USD million) 2004-2017

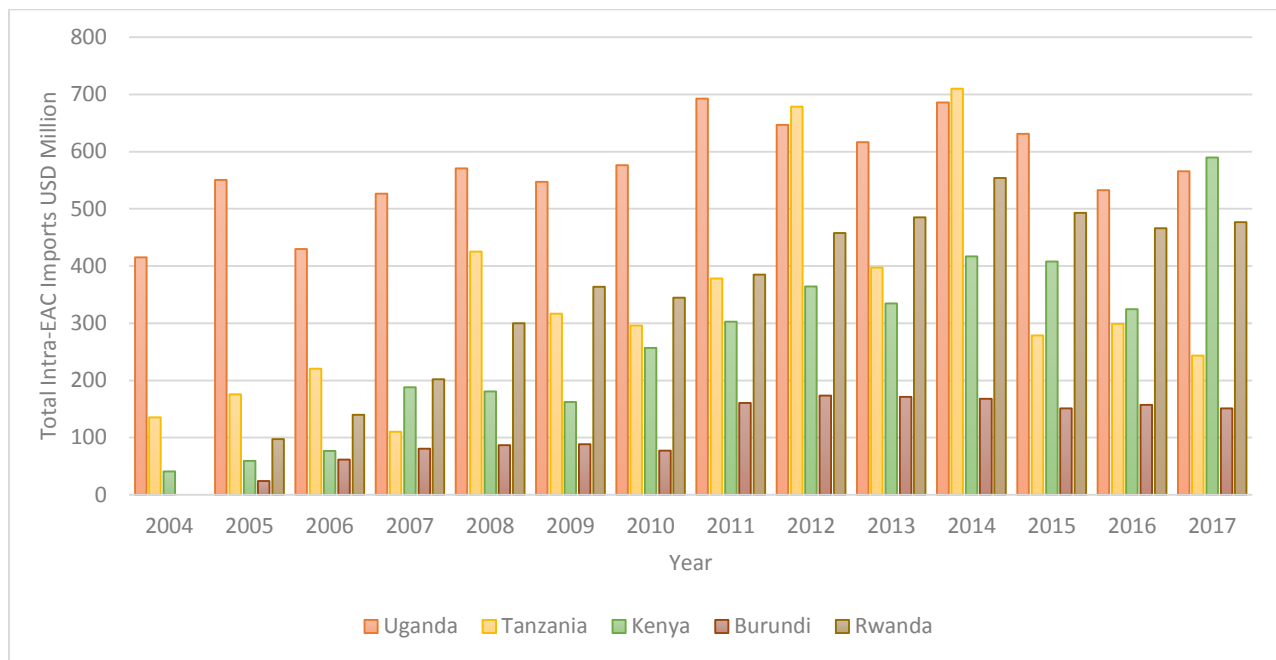


Source: EAC Trade and Investment Reports

Figure 8 illustrates total intra-EAC exports whereby Kenya is the region’s largest exporter however as from 2012 there’s a steady decrease in our exporting while Uganda, Rwanda and Tanzania have been having a steady increase. This as earlier discussed is due to import substitution. Our neighbors are no longer waiting for Kenya to process their goods, instead they have established their manufacturing sectors.

Figure 9 illustrates total intra-EAC imports whereby, Kenya has been the lower importing state in the economic integration and has been experiencing trade surpluses. However, this has been gradually changing since 2010 where we witness an increase in imports into the country with 2017 having the highest amount of imports therefore registering trade deficits.

Figure 9: Total Intra-EAC imports (USD million)2004-2017



Source: EAC Trade and Investment Reports

Currently tripartite meetings among members of SADC, COMESA and the EAC, are aimed at harmonizing and facilitating trade within the three trade blocs. This is with the focus of solving the issue of overlapping memberships. Due to multiple affiliations, the establishment of a Customs Union was essential as it can merge FTAs with other regional trading blocs to make a larger trade bloc.

As of 2017, the EAC secretariat and member states continued to consolidate the achievements of the SCT by widening its scope. Coverage of goods cleared was expanded to include all intra-EAC trade to facilitate unrestricted movements of goods inside the community.

Eliminating duplication of customs processes resulted in the drastic reduction of the period taken to clear and transport goods in the central and northern corridors.⁴⁶

SCT reduced budget of carrying out business in the EAC by removing replication of procedures, administrative costs, regulatory requirements and the risks associated with non-tariff barriers in the transportation of goods. SCT boosted trade on locally produced goods, particularly agricultural goods and enhanced investment flows. Functionality of the SCT One Stop Border Posts (OSBP) and development of the regional customs instruments were reinforced to drive and encourage trade and investment

In 2017, the region fully embraced the SCT characterized by the full rollout intra-trade and imports regime under the Single Customs Territory whereby all products within the EAC were expected to be transacted under the Single Customs Territory framework. To facilitate trade in the region, the EAC and World Customs Organization are implementing the Authorized Economic Operator (AEO) Programme.

The AEO and Post-Clearance Audit Manual were developed and updated while the regional Electronic Cargo Tracking (ECT) system is now fully operational on the Northern Corridor. By the end of 2017, 46 traders were accredited to the Regional AEOs to secure transfer and transit of goods across the region. The EAC developed the Regional bond which eliminated the dependence on multiple national bonds.

The EAC continued to develop the capacities of customs officials and stakeholders through sensitization and training on OSBPs and AEO. Customs computerization across the region was

⁴⁶ EAC Development Strategy 2016/17-2020/21: Accelerating a People Centered & Market-driven Integration. Arusha, Tanzania: East Africa Secretariat

boosted in all partner states with advancements of the customs and migration systems. At the regional level, an interconnectivity program was introduced to speak to the current flaws in customs assessment and observation of goods across the region. The interconnectivity platform provided a uniform and consistent mechanism to handle cargo and trade facilitation through risk management.

In 2017, ten (10) OSBPs were operationalized of which three were officially launched. In addition, the OSBP regulations were approved and the OSBP manual was realigned to the regulations. A centralized integrated customs platform for the whole of EAC registered tangible progress where the partner states were able to push and receive information to and from the centralized platform. Partner states added the staff deployed in other states therefore enhancing the integration of customs functioning and enhanced accountability, prevention of smuggling and more rapid cooperation in customs administration.

The EAC Secretariat made strides in developing and rolling out a system for centralized exchange of data under the SCT, regional Valuation and Risk Management modules.

All these initiatives have reduced the turn-around time from Mombasa or Dar es Salaam to Kampala or Kigali/ Bujumbura from over 18 days to an average of 2-4 days. With the full roll-out of all goods onto the SCT coupled with refinement of the operating environment particularly on procedures and the technologies being applied, the focus will shift to firming up the primary goal of a Customs Union which is free circulation of items.⁴⁷

⁴⁷ EAC Development Strategy 2016/17-2020/21: Accelerating a People Centered & Market-driven Integration. Arusha, Tanzania: East Africa Secretariat

The EAC continued to engage in the establishment of market access outside the region under different trade arrangements. These regional arrangements are at the global as well as continental level: The EAC-EU Economic Partnership Agreement (EPA) is part of EU's wider strategy to widen trade with other regional blocs. Negotiations for an EPA with members of the East Africa Community (EAC) were finalized in October 2014.

The EAC committed to liberalize the equivalent of 82.6 percent of importations from the EU by value. More than half of these imports enter the EAC duty free, not only from the EU but from other countries in the EAC Customs Union Protocol. Kenya and Rwanda ratified the agreement while Burundi, Tanzania and Uganda continue with consultations on the impact of the EPAs on their economies. In the meantime, the partner states still enjoy free access based on their classification as 'Least Developing Countries.'

The EAC–US arrangement regarding Trade Facilitation (TF), Sanitary and Phyto-sanitary (SPS) measures and Technical Barriers to Trade (TBT) was signed on 26th February 2015 during the EAC–US ministerial meeting in Washington, D.C. The objective of the agreement is to increase exports, expand investment, enhance job creation and economic growth.

The EAC Secretariat developed draft work plans on trade facilitation, SPS and TBT which were considered by the technical officials of the EAC and US during a joint meeting held in August 2017. The EAC partner states have finalized country specific priorities on TF in their respective National Action Plans to operationalize the enactment of EAC-U.S. TF, SPS, and TBT arrangement.⁴⁸

⁴⁸EAC Development Strategy 2016/17-2020/21: Accelerating a People Centered & Market-driven Integration. Arusha, Tanzania: East Africa Secretariat

The COMESA, EAC, SADC Tripartite Free Trade Area which is a stride towards a Continental Free Trade Area (CFTA), represents a combined market of twenty-seven (27) member states with a collective market of 632 million persons which is about 57 percent of Africa's total populace. It boasts of a Gross Domestic Product (GDP) worth USD 1.3 trillion which is about 58 percent of Africa's GDP. The CFTA will provide bigger market opportunities for EAC member states to export agricultural and manufactured products.

While Free Trade Areas ordinarily focused on trade liberalization by elimination of tariff and costs of equal effect, COMESA, EAC, SADC Tripartite Free Trade Area has three pillars i.e. market assimilation, collaboration in industrial and infrastructure expansion; and free flow of business persons. The industrial pillar will broaden manufacturing along the value chains in the region and enhance intra-tripartite trade

Infrastructure development will enhance interconnectivity, decrease the budget of carrying out business and increase the desirability of the EAC to national and external investment while the free movement will enable citizens of the tripartite partner states to travel freely and conduct trade in commodities and services. The region also offers a potential for development of the services sector particularly tourism. Twenty-one (21) of the twenty-seven (27) member states signed the FTA paving the way for ratification through their respective legislative assemblies.

The EAC negotiated exchange of tariff offers with Egypt and SACU with a view of finalizing the tariff structure that would be applicable between both parties under the tripartite FTA. EAC has so far reached a level of 65.8 percent immediate tariff liberalization and will be at 90.3 percent over a five-year period. SACU's expression to export motor vehicles among other products to the EAC region has also attained a 66.3 percent immediate tariff liberalization and will attain 87 percent over the five-year period.

The African Continental Free Trade Area (AfCFTA) is estimated to combine 55 partner states in the African Union establishing a market of approximately 1.2 billion people, a joint GDP of approximately USD 3.4 trillion. AfCFTA objectives is to form a single regional market for commodities with unrestricted flow of persons. The AfCFTA will have potential to improve intra-Africa trade by 52.3 percent through removal of import taxes and non-tariff barriers.

The AfCFTA provides a lever to strategically exploit Africa's trade and investment opportunities and contribute positively to sustainable structural transformation and economic growth of the members' economies. This is in agreement with the African Union's Agenda 2063,

Commencement of discussions for AfCFTA started at the African Union Commission (AUC) Conference in June 2015 and the EAC negotiated as a single bloc. The Republic of Rwanda and Kenya finalized the ratification and deposited the AfCFTA instruments. On supporting further negotiations, EAC developed a criterion for designating sensitive products that would be excluded from tariff exclusion. This included food security, protection of infant industry, employment, revenue loss and protection of natural resources.

The EAC Secretariat undertook an evaluation of the EAC Export Promotion Strategy 2013-2016 as part of the development of the export promotion strategy for the period 2017-2022. The new strategy will support increased trade and export for the region. Specifically, the strategy will inform regional initiatives: The EAC completed the Out-of-Cycle review of the Africa Growth and Opportunity Act (AGOA) to determine that EAC partner countries meet the eligibility criteria.

The review focused on Non- Tariff Barriers imposed on the United States based Secondary Materials and Recycled Textiles Association (SMART) with regard to the phase-in injunction on importations of worn clothes and shoes through imposition of specific rates on the importation of worn clothes and footwear.

EAC Secretariat approved the establishment of various Special Economic Zones (SEZs) schemes in the region. The schemes include, among others, free trade zones, tourist, ICT, science and technological parks as specified in Article 32 of EAC Customs Union Agreement. To support execution of the protocol, EAC Secretariat drafted regulations on the various investment promotion initiatives under the SEZ scheme to provide a clear and harmonized framework for the development, operations and management of SEZs in the region.

The EAC has transformed into one of the continent's fast-growing trading blocs. This was achieved through focus on infrastructure development like the upgrade of the sea harbor of Mombasa and Dar es Salaam as well as OSBP; elimination of tariffs on trade for partner states; identification and elimination of trade obstructions; support to trade development and conducive investment policies to attract FDI into the region.

While measures to attract Foreign Direct Investment were put in place, the level of FDI into the region in 2017 was low. Total FDI into the region fell by 3.9 percent to USD 6.6 billion in 2017 from USD 6.7 billion in 2016. This was mainly because EAC is a small domestic market due to a low per capita income. Also, a large proportion of the FDI was mainly concentrated in the extractives sector which does not provide much in terms of employment.⁴⁹

EAC as a region has a number of advantages with regard to future evolution of trade and business ventures. It is considered one of the leading exporters of agricultural produces in Sub-Saharan Africa particularly tea, coffee, cut flowers, fish and tobacco as well as significant extractives resources such as oil and gas, high value minerals and abundant renewal energy power generation potential. The region has sustained high economic growth levels - one of the highest in

⁴⁹ EAC trade and Investment Report 2017

Africa: labour costs in the region are still low and EAC's proximity to regional and international markets, creates a favorable environment for future trade and investment growth.

EAC is undertaking regional infrastructure projects to tackle infrastructure deficits and create opportunities for business ventures in infrastructure and other sectors like tourism, energy, manufacturing and agriculture. Investment prospects can be further boosted by fast tracking the integration process and strengthening the legal and institutional reforms with regard to business registration and resolving disputes. Further, there are opportunities for the region to develop and modernize the Information, Communication and Technology (ICT) that would support the integrated Border Management and support harmonization of customs processes across the Partner States.

The Ministry of East African Community and Regional Development (MEAC&RD) gives priority to the 2018-2022 Strategic Plan for the EAC cooperation and Regional & Northern Corridor Development (RNCD) as an imperative strategic tool for commencing and accelerating economic expansion for the Government of Kenya.⁵⁰

Participation in the EAC regional assimilation process, the Northern Corridor Integration Projects (NCIPs) and Regional Development Authorities (RDAs) play a role in carrying out and achieving Kenya's vision 2030 and other national priorities on the "Big Four Agenda"

In 2013, NCIP initiatives were established to avail a platform to advance carrying out of projects, programmes and activities that the EAC has agreed upon. The projects are as a result of integrating and accelerating growth in the region mainly on upgrading of infrastructure to allow for free circulation of people and goods.

⁵⁰ Ministry of EAC strategy 2018-2022

Time it takes to transport goods to and from Mombasa was a major concern. Other areas of interest were; simplifying labor and migration, customs processes and cooperation in advertising the EAC as a single tourism destination.

Development needs of member states led governments to form Regional Development Authorities (RDAs) that have directives to speak to expansion needs. RDAs have been unable to implement planned projects due to insufficient institutional ability, financial limitations, and adverse climate.

FDI stock and inward FDI flows from 2000 - 2004 were positive as compared to 1992 - 1997. Inward FDI has promoted markets of partner states by bringing new expertise and management best codes of conduct, investments and fresh methods of carrying out business. Countries may have additional reasons responsible for attracting FDI, but the Customs Union has also brought about a stable investment environment.⁵¹

Implementation of the CET at interstate level gives protection to regionally based enterprises. The EA Customs Union aided to level opportunities for regional producers through imposing even competition rules and regulations, customs processes and external costs on goods brought in from other countries.

A common passport has been introduced by EAC member countries and is useable within the community for ease across the border for nationals and it's given out in all the five EAC member countries. EAC passport holders can go into any East African state for six months devoid of an official stamp.

⁵¹ From: EAC Development Strategy 2006-2010

EAC member countries decided to get rid of visa requirements for their citizens in order to simplify the movement of people. Of importance is the free flow of people as it simplifies cross border trade and generates a feeling of harmony through improved relations between citizens of member states.

Issuing of inter-state permits which begun on 1st July 2003 is another measure undertaken by the EAC to ease cross border movement. The others include; a single migration departure/entry card, harmonization of procedures for work licenses and grouping process and synchronization of Labor Regulations and Employment Guidelines.

Regional Projects considered to have the ultimate influence on the lives and livelihoods of EA citizens are currently ongoing. They consist of: the East African Road Network Project, East African Power Master Plan, and Lake Victoria Development Programme among others.

Information and Communication Technologies (ICT) has mushroomed in the East African Community and is considered vital to economic growth, social equality and advancement. This importance led to the endorsement of a Tripartite Agreement on Road Transportation.

Purposes of the arrangement were to ease regional road transportation through lessened certification for staffs and automobiles at boundary points; to synchronize necessities for operating licenses, customs and immigration rules, and so on. The Sectoral Council on Transport, Communications and Meteorology was established to accelerate resolutions on transport and communications.

The member states approved an action program focusing on more employment opportunities and reduction of poverty. All partner states have poverty levels that remain high and the overall features are similar. All EAC guidelines, plans and programmes are intended to

completely and inevitably decrease poverty through integration. The plans and programs are evaluated to find out how they shall contribute to eradicate poverty.

In work and employment, the EAC took on a synchronized arrangement for issuing of entry and work certificates comprising of twelve subdivisions of entry and work certificates. In the tourism sector, the EAC member states adopted essential procedures encouraging tourism that is; the conventions on Environs and Natural Resource Administration and the conventions for the Standard Benchmarks for Grouping of hotels and eateries, and other facilities for tourists. The listed arrangements endorse East Africa as a single holidaymaker's destination and have led to desirability of more holidaymakers and increased influence on the East African economy.

In advancing of human resources, science and technology, the regional assessment on synchronization of syllabuses, exams, accreditation and endorsement is ongoing spearheaded by East African Advisory Committee on Education, Research and Training since 2002.

The EAC regional integration has reduced the threat of conflict by growing mutual dependence in the midst of memberships making conflict expensive. The assumption is that consistent political interaction will build confidence and enable cooperation, as well as security. East African Court of Justice and East African Legislative Assembly were established. These institutions are imperative in conflict resolve and achieving a political confederation.

CHAPTER FIVE

SUMMARY AND POLICY RECOMMENDATIONS

5.1. Summary and Possible Solutions of the Challenges Facing Regional Integration in Africa

5.1.1. Challenges Hindering Successful Regional Integration

One of the main problems with positive economic assimilation in African nations is irregular sharing of gains amongst its memberships. The gains are expected to accumulate largely to the more established countries therefore leading to pulling out of nations that are yet to develop. This causes economic integration to be unsuccessful. This is one major reason that triggered the fall of previous East African Community in 1977.

So as to evade this problem, the member states need to arrange for business support through industrialized organization by assigning some industries to each affiliate state according to their comparative advantage.⁵²

The East African Community member states may be unwilling to surrender their independence to a supra-national organization as is necessary for fruitful economic integration. Fearing to lose their sovereignty has caused the economic communities in Africa to be inter-governmental institutions. The other hitches are poor transport and communication systems as well as rivalry amongst themselves for agricultural export in the international market⁵³.

African states suffer from unforgiving macro-economic imbalances, external dues service problems, deficient trade economics, over prized exchanges, and thin tariff base with tax

⁵² Salvatore, Dominic. International Economics, 8Ed, Willey International Edition, USA, 2006.

⁵³ Ibid

obligations as a considerable basis of income.⁵⁴ Inadequate domestic and interstate capabilities, specially the absence of procedures and means for proper design, organization, execution, monitoring and practical amendment of programmes are other limitations to regional assimilation in Africa.⁵⁵

Protective importation replacement approaches accepted by countries since independence have led to regulations that limit trade. For example; certifying, exceptional duties for obtaining foreign interchange, governmental foreign exchange apportionment, improved importation payments and so on thus creating a hostile economic environment to the growth of regional communities.⁵⁶

Political obligations to African assimilation is limited to a set of civil leaders and high-ranking technocrats therefore execution, expenses, gains and prospects of assimilation are neither wholly agreed nor braced by all ranks of government or public opinion.⁵⁷

Institutional weaknesses, a propensity to unbalanced structures with numerous political selections, failure by regimes to honor their fiscal requirements to interstate establishments, poor preparation afore meetings and absence of follow ups by governments on resolutions made at interstate meetings by Heads of State contributes to the fall of economic assimilation in Africa.⁵⁸

⁵⁴ Matthews, Alan. Regional Integration and Food Security in Developing Countries, Food and Agriculture Organization of the United Nations, Rome, 2003.

⁵⁵ Maruping, Mothae. Africa in the World Economy-The National, Regional and International Challenges, FONDAD, The Hague, 2005

⁵⁶ Matthews, Alan. Regional Integration and Food Security in Developing Countries, Food and Agriculture Organization of the United Nations, Rome, 2003.

⁵⁷ Mistry, S. Percy. Africa's Record of Regional Cooperation and Integration, African Affairs, 2000.

⁵⁸ Matthews, Alan. Regional Integration and Food Security in Developing Countries, Food and Agriculture Organization of the United Nations, Rome, 2003.

Overlapping affiliations in regional societies has caused difficulties and irregularities owing to contradictory requirements and divided allegiances. The numerous affiliations could cost the nation and the outcome, differing policies. In order for partner states to benefit from integration, they should ensure full political obligation and good governance.

5.1.2. Possible Solutions to Enhance Economic Growth in the EAC and Other Regional Economic Integrations in Africa

Member States will require to join their political obligations by encouraging involvement of their populace and private sector in the integration process. They have a duty to form strong fundamentals for putting into practice of the Monetary Union and Political Federation Protocols. Governments need to support directives and abilities of regional establishments, structures and domestic management Ministries to efficiently manage the speed of regional integration.

Members must prioritize intervention plans for collective gains of regional integration, including effective usage of natural resources to advance the welfare of East Africans. A policy is to be established and enforced pursuing building of an economy that maximizes opportunities presented by the enormous regional market.

Regional Integration ought to heighten e-business prospects and ensure suitable interventions to guarantee full and well-organized engagement of human resource base in the region.

Partner states require to enrich the Tripartite Arrangement, create, stimulate and follow democratization and governance processes. There ought to be the will power to enact the EAC vision 2050 and align it to their domestic long term objectives.⁵⁹

Members in a regional integration have to motivate further synchronization of local and regional guidelines, rules and regulations in backing of the Common Market. The EAC ought to utilize international enterprises for planning suitable activities that rally resources to enlarge markets for goods and services.

The EAC should to endorse good associations with loyal multilateral and bilateral associates to source commercial resources and form a favorable atmosphere for incorporating the EAC into other regional and international trade cooperation. The EAC have a duty to also stimulate collaboration with other regional blocks to lead favorable alterations in international matters that touch on the region.

The EAC have to prioritize nation particular leading plans to speak to the gaps in the economies of partner states to take away doubts and anxieties around the gains of the community. It ought to withstand the spirit of shared quest of common foreign guidelines comprising of negotiating as a bloc in order to reinforce the regions stand and say in the international competitive environs.

In sustenance of peace and constancy, member states ought to carry on regional enterprises. The EAC have to plan and enact plans to reduce effects of global warming and environmental dilapidation.

⁵⁹ EAC Development Strategy 2016/17-2020/21: Accelerating a People Centered & Market-driven Integration. Arusha, Tanzania: East Africa Secretariat

5.2. Barriers to Kenya's Trade in the EAC

The EAC has indeed contributed to the growth of Kenya's economy, however there are still bottlenecks that Kenya has to work through to maximize on the opportunities that the EAC presents to further increase the country's growth. They include:

Institutional Barriers

Kenyan government and government agencies control and support trade and in performing their roles, these establishments at times obstruct open and smooth movement of commodities and services. The interferences happen because of setting merchandise criterions, official rules and conformism valuation measures that set up technical obstacles to trade. Example, Kenya Revenue Authority (KRA) is most important in intra-regional trade as it is in charge of implementation and managing of the customs regulations and management of CET. Authorization of items by KRA delays for the reason that the EAC lacks coordinated import/export certification and processes.

Presently, the digital data exchange system used by EAC revenue establishments functions in Rwanda, Uganda and Kenya. The system is yet to function in Burundi and Tanzania. Again, it is only customs in Kenya that works throughout the day and night, implying, if items are approved in Kenya, there will still be delays by other member states.

The Ministry of EAC organizes, enables and administers matters associated to the EAC. Similar government ministries from member states function to carry out the purpose of coming up with numerous guidelines for execution by the appropriate agencies. There however exists miscommunication amid the government officers at boundary points and those at ministries; resolutions and guidelines decided by the second frequently are not communicated to officers at boundary points.

Regulatory Barriers

Firstly, customs clearance dictates that a trader be duty-bound to acquire an Import Declaration Form (IDF) before bringing in or exporting a commodity outside the EAC. The form is given out by a selected management agency.

In Kenya, this consists of numerous agencies which conduct checkup, confirmation of taxable value and accreditation of complying. Often, the outcome is replication of effort and lost time. Some instances, compliance bodies have not put up checkup posts at major entrances into the country thus making merchants to travel extended distances for duties authorization.

Secondly, standards and certification which member states have to apply for to make sure they adhere to technical quality standards. There are however variances in produce standards and agencies credited to carry out the regularization measures the problem comes in when one country does not recognize another country's criteria and accreditations.

Thirdly, rules of origin of which presently, the EAC does not have, as an alternative, they use the ones approved by COMESA.

Fourth, licenses and permits consisting of a business, import/export, road transportation and municipal council licenses. Additionally, EAC originating businesses are not given preferential treatment making cross-border registering of companies demanding, burdensome and costly procedure.

Fifth, Police Checks and Roadblocks; Transporters and local people within the EAC have to contend with lots of roadblocks and police barriers along major roads disrupting effective movement of commodities. In Tanzania, Uganda and Kenya, for every 100 kilometers merchants come across up to seven barriers of which are expensive because police officers often ask bribes

Sixth, truck scales and inspections; obligatory weighing of commodities on transportation routes adds time and cost of maintenance for haulers. This is majorly the case on Kenyan and Tanzanian transport passageways.

Lastly, language barriers where even though English is the official dialect Burundi, customs officers maintain documents should be interpreted to French. To satisfy this condition, traders suffer extra overheads and time because interpretation may include traveling to Bujumbura to have the official papers certified.

5.3. Recommendations for Kenya's Trade Barriers

All border point agencies should essentially have synchronized assessment procedures to speed up clearance processes and decrease delays at the borders. Construction of one-stop border shops should be finalized.

The agencies ought to make simpler the various application forms to reduce long technical processes and establish more field offices for obtaining important information regarding the EAC.

Partner states governments ought to update duties clearance processes by decreasing the amount of mandatory trade documentation and agree the information to be inserted in these documents. The documents ought to be planned and identical in harmony with globally recognized criteria, best practices plus recommendations and should be adjustable for usage in computer systems.

Partner states should increase participation of the non-governmental sector in the assimilation progression as they seek out to deepen integration. The member countries ought to strengthen their assimilation efforts by making sure political constancy, trade liberalization, encouraging being competitive and having a profound integration into the global market. This will give a crucial improvement to their assimilation ambition.

Investors need to have the confidence on the Policy credibility of the region that assimilation processes won't be overturned and obstructions to regional economies reinstated suddenly

The member states have a duty to make sure political obligation is constant by observing the provisions of treaties and ensure there is adequate monetary and human capacity for apt execution of treaties, plans and strategies.

Lastly, determination is necessary to improve interstate infrastructure in the interior and across the borders of partner states.

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