



TRADE POLICY REVIEW

REPORT BY

EAST AFRICAN COMMUNITY

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the East African Community is attached.

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1 INTRODUCTION

1.1. The Treaty establishing the East African Community (EAC) came into force on 7 July 2000, thus a new beginning of the revived EAC. The EAC has six partner States, namely, Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. The EAC Customs Union came into force on 1 January 2005 and the Common Market on 1 July 2010. English is the official language of communication within the community policy structures.

1.2. EAC covers an area measuring about 2.3 million square kilometres. It has estimated total population of 185.5 million people. Kenya and Tanzania are the only countries with a coastal line of about 1924 km.

1.3. EAC's integration agenda is anchored on the establishment of a Customs Union, a Common Market, a Monetary Union, and ultimately a political federation of the East African States. The broader objective of the community is to develop policies and programmes aimed at widening and deepening cooperation among the partner States in political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs, for their mutual benefit. The operational principals of the community are:

- people-centered and market-driven co-operation;
- the provision by the partner States of an adequate and appropriate enabling environment, such as conducive policies and basic infrastructure;
- the establishment of an export-oriented economy for the Partner States in which there shall be free movement of goods, persons, labour, services, capital, information and technology;
- the principle of subsidiarity with emphasis on multi-level participation and the involvement of a wide range of stake- holders in the process of integration;
- the principle of variable geometry;
- the equitable distribution of benefits;
- the principle of complementarity; and
- the principle of asymmetry.

1.4. Five of the six EAC member States are Members of the World Trade Organization (WTO). Kenya is the only developing country among the six. All the others are least developed countries (LDCs).

1.5. The EAC countries are pursuing a deeper regional integration agenda with the goal of transforming the community into prosperous region with economically empowered citizens. This will be achieved through removal of all forms of barriers to trade, investments and movement of citizens.

1.6. The EAC countries also recognize the importance of adhering to multilateral obligations. The EAC countries hold a shared view that trade policy review mechanism is an important WTO tool that promotes the transparency, predictability and effectiveness of the multilateral trading system.

1.7. The EAC countries are members of other regional economic communities (RECs), namely, Common Market for Eastern and Southern Africa (COMESA): Burundi, Kenya, Rwanda and Uganda; Inter-Governmental Authority on Development (IGAD): Burundi, Kenya, South Sudan, and Uganda; Economic Community for Central African States (ECCAS): Burundi and Rwanda; and Southern African Development Community (SADC): Tanzania. All the EAC Countries are members of the African Union; the World Customs Organization, the World Health Organization, among others. In addition, the EAC Countries have signed the Tripartite Free Trade Agreement (TFTA) and the African Continental Free Trade Agreement (AfCFTA) and are in the process of ratifying them. Kenya and Uganda have ratified both the AfCFTA and TFTA, while Rwanda has ratified the AfCFTA.

1.8. In terms of trade regimes that EAC countries have concluded the negotiations on the Economic Partnership Agreement with the European Union (only Rwanda and Kenya have signed; Uganda, Burundi and Tanzania are still consulting at Heads of State level). Only four of the EAC countries are at the moment beneficiaries of the unilateral trade preference extended to African countries under the African Growth and Opportunity Act (AGOA). However, the application of duty-free treatment for eligible products in apparel sector from Rwanda was suspended effective from 31 July 2018.

2 THE MACROECONOMIC PERFORMANCE

2.1 Economic Performance

2.1. East Africa maintained an average economic growth of 5% over the period 2013-17. This was attributed to increased private consumption and public investment in infrastructure specifically roads, rail and electricity. The main drivers of growth in the EAC was household consumption and public investment specifically infrastructure and development in extractives sector. Household consumption contributed over 88% of growth in Kenya while infrastructure development contributed over 45% of growth in Uganda in 2017.

2.2. Economic growth among the different EAC countries varied over the period 2013-17. Burundi's economy recovered over the period from a negative growth of about 3.9% in 2015 to positive growth of about 1.7% 2017. The positive growth was driven mainly by developments in the agricultural sector, construction work and public infrastructure, as well as the dynamism of the agro-food industry, although to a lesser extent. The negative growth was attributed to among other factors, suspension of financial aid and declining foreign exchange reserves and investment.

2.3. Kenya's growth fell from about 6% in 2013 to 5.4% in 2014 to 4.9% in 2017. This was attributed to prolonged uncertainty during the general election, slowdown in the manufacturing sector occasioned by imports of cheaper manufactured products and subsequent reduction in the share of Kenya's manufactured export within the region, adverse weather patterns which affected agriculture productivity, and impediments to access credit. Nevertheless, growth was mainly supported by public investment spending and solid non-agriculture sector performance.

2.4. Rwanda continued to register positive growth averaging 7% since 2012 with a peak of about 8.9% registered in 2015 and a drop to 6% in 2016. Economic growth was mainly supported by growth in the agricultural and services sector, which contributed about 31% and 46.4% of GDP in 2017.

2.5. Tanzania was the fastest growing economy among the EAC countries registering a growth of 7.1% in 2017. GDP growth in 2017 was principally supported by infrastructure development, mining and quarrying and agricultural production. The rapidly growing sector of the economy include: mining and quarrying with growth of 17.5%, water supply at 16.7%, transportation and storage at 16.6%, information and communication at 14.7% and construction which accounted for 14.1%.

2.6. Uganda registered minimal growth in real GDP over the period 2013-17, its economic growth averaged about 4.3%. It registered real GDP growth of 4.8 % in 2017 from 4.3% in 2016. This growth was triggered by improvements in the services sector that grew by 5.7%, agriculture sector that grew by 1.6% and industry sector that grew by 3.3 % during the 2016-17 period.

2.1.1 Inflation

2.7. The EAC experienced increased inflation as a result of rising global commodity prices especially crude oil, rising from an average rate of 6.1% in 2013 to about 8% in 2017. All EAC countries experienced increase in headline inflation with the exception of Rwanda. In 2017, inflation rate in Burundi rose to 16.1% in 2017 from 5.6% in 2016 due to higher food prices.

2.8. In Kenya, annual average rate of inflation rose from 6.3% in 2016 to 8% in 2017. This was mainly driven by persistent high food prices attributed to unfavourable weather conditions during the second quarter of 2017 (April-June 2017). Headline inflation in Rwanda declined to 4.8% in 2017 from 5.7% in 2016 with the ease in exchange rate pressures and the significant fall in food inflation especially during the second half of the year.

2.9. The United Republic of Tanzania maintained single digit average inflation rate of 5.3% throughout 2017 compared to 5.2% recorded in 2016 consistent with contractionary fiscal policy and slower pace in the increase of domestic food prices.

2.10. Uganda's annual headline inflation for 2017 was recorded at 5.6% compared to 5.5% in 2016. There was a gradual increase in the headline inflation rate from 5.4% recorded for 2015 due mainly to increases in core inflation and in the Energy, Fuel and Utilities (EFU) inflation.

2.1.2 Exchange rate

2.11. The currencies for the East African countries continued to depreciate against the major currencies over the period 2013-2017. Specifically, EAC currencies depreciated against the U.S. dollar. Burundi franc (BIF) depreciated against the U.S. dollar BIF 1,555 in 2013 to BIF 1,729 in 2017.

2.12. The Kenyan shilling depreciated against the U.S. dollar from KES 88 per USD in 2013 to KES 103 in 2017. The weakening of the Kenyan shilling against the U.S. dollar in 2017 was largely occasioned by a strong U.S. dollar on the international markets and the dollar demand on the domestic market from local importers.

2.13. Rwanda franc continued to depreciate against the U.S. dollar from an average rate of RWF 647 per USD in 2013 to RWF 832 in 2017.

2.14. The value of the Tanzania shilling depreciated against the U.S. dollar throughout the period from TZS 1,598.66 in 2013 per USD to TZS 2,228.86 in 2017. The Uganda shilling depreciated against the U.S. dollar from UGX 2,587 in 2013 to UGX 3,611 in 2017.

2.1.3 Balance of payment

2.15. The EAC countries' current account over the period 2013-17 remained in deficits. The persistent current account deficit was attributed to increase in importation of goods and services. There has been a slight ease in the current deficit for Tanzania and Rwanda over the period from USD 4.9 billion in 2013 to USD 2 billion in 2016 and USD 1.3 billion in 2016 to USD 760 million in 2017 respectively. The improvement in the current account deficit for Rwanda to USD 760 billion from a deficit of USD 1.3 billion recorded in 2016, was due to a positive variation in trade balance where exports and imports variation were respectively 44.5% and negative 5.6% in 2017. Kenya's current account deficit expanded from USD 3.4 billion (5,2%) in 2016 to USD 4.8 billion (6,7%) in 2017, mainly on account of increased food and oil imports. The rise in food imports in 2017 was largely driven by increased maize and sugar imports to meet domestic shortfalls following adverse weather conditions while the rise in oil imports was reflective of higher global oil prices.

2.16. The Republic of Tanzania's overall balance of payments recorded a surplus of USD 1,649.5 million compared with USD 305.5 million recorded in 2016. This development is attributed to narrowed current account deficit coupled with increase in project grants and external borrowing. As a result, gross official reserves amounted to USD 5,906.2 million as at December 2017 compared to USD 4,325.6 million at end December 2016, which were sufficient to cover 5.4 months of projected import of goods and services. During the period, the current account deficit contracted by 43.5% to USD 1,218.1 million compared with a deficit of USD 2,154.6 million in the year ending December 2016. The outturn was explained by a narrow deficit in the trade balance and increase in the secondary income net inflow mainly official transfers.

2.17. Uganda's current account deficit over the period 2013-17 had recorded a positive trend especially from USD 2.2 billion in 2014 to about USD 711 million in 2016. However, in 2017, Uganda's current account deficit worsened by USD 417 million from 2016 to USD 1.1 billion.

2.1.4 External debt

2.18. Burundi's external debt rose by 2.7%, to USD 440.5 million in 2017 from USD 429.1 million in 2016. This increase is explained by the rise in new withdrawing of external credit of USD 8 million and by revaluation of USD 31.4 million slightly dampened by the USD 9.1 million in respect of amortization. Thus, the ratio of external debt service to export increased from 3.9% in 2016 to 5.9% in 2017. The external debt is composed by 77.3% of multilateral, 13.4% and 9.3% of the bilateral and commercial creditors respectively.

2.19. Kenya's public debt (net) as a percentage of GDP increased from 43.9% in 2013-14 to 51.2% in 2014-15 and 47.9% in 2016-17. The ratio of domestic to external financing stood at 66:34 in 2013-14; 53:47 in 2014-15; 44:56 in 2015-16 and 45:55 in 2016-17 progressing towards MTP II target to avoid crowding out the private sector in the credit market. Despite government borrowing of USD 2 billion through Sovereign Bond in 2013-14 and an additional USD 750 million from international investors by re-opening (tapping) the Bond in 2014-15, government's external debt remains largely on concessional terms. Kenya's total public debt increased to USD 42.5 billion in 2017 from USD 35.8 billion in 2016. Kenya's external debt stock increased to USD 22.1 billion in 2017 which represents about 29.6% of GDP from USD 17.8 billion or 25% of GDP in FY 2016. The increase in the external debt stock was largely reflective of increase in debt from bilateral and multilateral lenders. Bilateral debt increased to USD 8 billion in 2017 from USD 5.3 billion in 2016 while multilateral debt increased to USD 8.1 billion in 2017 from USD 7.1 billion in 2016.

2.20. Rwanda has maintained a low risk of debt distress through pairing careful debt management and strong domestic revenue collection, combined with an improved macroeconomic environment. Rwanda's debt stock stood at 47.3% of GDP at the end of 2017, a slight increase over 2016 mainly due to budget support directed to specific sectors (roads, energy and transport). Rwanda's external debt portfolio represented 79.7% of total public debt, 87% of the external debt portfolio consisted of concessional loans, which continues to be the main source of funding for public projects. Domestic debt stood at 8% of GDP at end-2017.

2.21. The United Republic of Tanzania external debt stock, comprising public and private sectors, amounted to USD 19.2 million at the end of December 2017, an increase of USD 1.8 million from the amount recorded during the corresponding period in 2016. The increase was mainly on account of disbursements for funding development projects and exchange rate movements. Central government debt remained dominant, accounting for 78.3% of total external debt, followed by private sector that accounted for 20.4%. Composition of external debt by creditor category continued to show that the debt owed to multilateral institutions account for the largest share (47.5%), followed by commercial creditors, which was 31.9% of the total debt.

2.22. Uganda's stock of public external debt disbursed and outstanding increased to USD 6.9 billion as at end of December 2017 from USD 5.4 billion as at end of December 2016. Uganda's public debt, though still sustainable, has risen in recent years, primarily on account of borrowing to finance infrastructure projects that are necessary to improve the economy's productive capacity and competitiveness over medium and long term. As at end of December 2017, the stock of multilateral debt amounted to USD 4,686.1 million, accounting for 67.9% of the total public external debt, as compared to 70.6% recorded at the end of December 2016. The share of outstanding external debt stock owed to bilateral sources continued on an upward trend rising to 29.6% of the total external debt outstanding at the end of December 2017, from 26.7% at the end of December 2016, mainly due to new loan disbursements from Japan and the Exim Bank of China for the continued support to road infrastructure. The share of private banks and other financial institutions rose to 2.5% in 2017 owing to a financing agreement between the Government of Uganda and the PTA bank.

2.2 Trade Developments

2.2.1 Intra-EAC trade

2.23. Intra-EAC trade is largely composed of manufactured products especially cement, petroleum, sugar, confectionery, beer, salt, fats and oils, steel and steel products, paper, plastics and pharmaceuticals. However, trade in food items is gaining prominence in the region, particularly, rice, maize, wheat flour, sorghum and other cereals. Intra-EAC exports have dropped over the years from USD 3.3 billion in 2013 to USD 2.9 billion in 2017. Although the EAC has one of the highest-share of intra-regional trade among the major RECs in Africa, the share of intra-EAC exports over the period dropped from 20.9% in 2013 to as low as 15.9% in 2015. In 2017, the region recovered from a lower share of 16.5% in 2016 to 19.7% in 2017. This was attributed to the growth in exports by Uganda, Tanzania and Rwanda.

2.24. There are a number of trade and trade facilitation initiatives under the 5th EAC Development Strategy (2016/2017-2020/2021) to enhance EAC trade both intra and extra particularly in textile, leather and chemicals.

2.25. EAC's top priorities to enhance intra-EAC trade and deepen integration in its medium-term policy framework, among others:

- consolidation of the Single Customs Territory (SCT) to cover all imports and intra-EAC traded goods including agricultural and other widely consumed products;
- infrastructure development in the region;
- enhancing free movement of all Factors of Production and other areas of cooperation across the Partner States as envisaged under the Common Market and Monetary Union Protocols.
- enhancement of regional industrial development through investment in key priority sectors, skills development, technological advancement and innovation to stimulate economic development;
- improvement of agricultural productivity, value addition and facilitation of movement of agricultural goods to enhance food security in the region.

2.26. The EAC is making strides in promoting regional value chains to boost production and grow EAC's trade values.

2.2.2 Extra-community trade

2.27. The EAC recorded a drop in its export to the rest of the world from USD 13.6 billion in 2016 to about USD 11.8 billion in 2017. This is against a backdrop of negative trade trends over the past three years from USD 16.1 billion recorded in 2014. The EAC's import from the rest of the world has equally dropped since 2015 from USD 34.1 billion to USD 29.7 billion in 2017. However, the region's trade deficit remains high due to substantial net imports of manufactured goods (97% of the EAC trade deficits), despite the positive contribution from net exports of mineral products such as ores and metals.

3 THE THRUST OF NATIONAL DEVELOPMENT POLICIES

3.1 National Economic Policies

3.1. The EAC countries have maintained an open economy approach to fostering economic growth with broad objective of improving business environment in preparation for the implementation of the monetary union.

3.2. The citizens of EAC are at liberty to move freely across partner states with additional rights of residence and establishment in line with the national laws of the respective partner states. The three EAC countries, namely, Kenya, Rwanda and Uganda recognize national identity cards as travel documents among the three countries under the Northern Corridor arrangement.

3.3. The EAC has maintained solid growth in recent years, with an annual average growth rate of around 6% between 2013 and 2017, more than double the African average. Tanzania and Rwanda registered the highest growth rates between 2013 and 2017. Backed by the increase in agricultural production amid favourable weather conditions and continued infrastructure investment, the economic prospects of the partner States are generally positive. The region expects to sustain robust growth in 2018 and 2019.

3.2 National Development Plans

3.4. The long-term and medium-term development strategies being implemented by the EAC countries in an effort to transform the community in the sphere of economic, social and political development include: Kenya's Vision 2030; Rwanda's Vision 2020 being revised to 2050, Tanzania's Vision 2025 and Uganda's Vision 2040.

3.5. Kenya's long-term development strategy, Vision 2030, aims to drive the country towards sustained high levels of inclusive economic growth and attainment of middle-income country status

by the year 2030. The Vision is based on three "pillars", economic, social and political transformation. The economic pillar aims to achieve an average economic growth rate of 10% per annum and sustaining the same until 2030. The social pillar seeks to engender just, cohesive and equitable social development in a clean and secure environment, while the political pillar aims to realize an issue-based, people-centred, result oriented and accountable democratic system. To realize socio-economic transformation, the three pillars are anchored on six foundations, namely, infrastructure; science, technology and innovation; land reform; human resource development; security and public service reform. The Vision is being implemented in successive, five-year Medium-Term Plans (MTP). The first such plan covered the period 2008–12. It is during this period that the Kenya Constitution 2010 was enacted under the political pillar that provided for the far-reaching reforms under Vision 2030. The second phase covered the period 2013–17. The implementation of the Vision during this period saw the introduction of devolution under the political pillar, public service reform, health and education, security and infrastructure. The third phase will cover 2018–22.

3.6. Rwanda's current guiding policy document, Vision 2020, aims to achieve middle-income status by 2020 through economic transformation from an agrarian to a high-productivity knowledge-based economy. The vision 2020 is now under review towards Vision 2050 with focus on a private-sector-led development, good governance, human resource development, big investments in infrastructure and a strong commitment to regional integration. In addition to gender equality, environmental protection and sustainable natural resource management, and science, technology and ICT. The Vision 2050 will be implemented based on a series of seven-year National Strategic (NSTs), and draws from lessons of the EDPRS I and II and a series of forthcoming analytical papers on drivers of growth prepared by the World Bank. The first NST runs from 2017–24 and is set around three main pillars with specific targets: economic transformation, social transformation, and transformative governance. Sectoral strategies underpinning the NST, are well aligned to ensure that Rwanda meets the sustainable development goals before 2030.

3.7. Tanzania's medium-term policy framework include among others: The National Strategy for Growth and Reduction of Poverty (NSGRP) and the Tanzania's FYDP II entitled Nurturing Industrialization for Economic Transformation and Human Development with a dual focus on growth and transformation and poverty reduction. These medium-term policy frameworks are all aligned with Tanzania's Development Vision 2025, which aims at transforming Tanzania into middle-income country by 2025. Four priority areas targeted under the plan's strategy to unleash Tanzania's latent growth potentials are: economic growth and industrialization; human development and social transformation; improving the environment for business and enterprise development; and strengthening implementation effectiveness. The priority sectors include automotive; petroleum; gas and chemicals; pharmaceuticals; building and construction; agriculture and agro-processing (cotton to clothing, textiles and garments, leather); coal; and iron and steel.

3.8. Uganda's National Development Plan (NDPII) is the second in a series of five-year development plans aimed at achieving the targets underlined in the Uganda Vision 2040. The goal of NDPII is to propel the country towards middle income status by 2020 through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth. The NDPII highlights three key growth opportunities (agriculture, tourism, minerals, oil and gas) and two fundamentals Infrastructure and human capital development.

4 THE STRENGTHS AND POTENTIAL OF THE EAC MEMBER STATES

4.1. The EAC countries continue to make considerable reforms to improve the doing business environment to attract investment across the region especially in oil and gas, agro-processing, mineral processing, tourism, financial services, telecommunication and transport.

4.1 Business Environment

4.2. Since 2013 there have been improvements in the Doing Business environment among the EAC countries. Rwanda, Kenya and Uganda have made considerable reforms during the period, Kenya rose in ranking by more than 10 places from 136th position in 2015 to 80th in 2018 and subsequently to 6th. Rwanda moved up 11th places to 29th in 2019 from 41st in 2018. Rwanda is ranked the 2nd easiest to do business in Africa after Mauritius. Uganda's positions had improved from 150th in 2015 to 112th in 2018 but dropped to 127th in 2019, while Tanzania and Burundi rankings have fluctuated from 134th in 2013 to 144th in 2019 for Tanzania and 159th in 2013 to 168th in 2019 for Burundi.

4.3. The business facilitation reforms made by the EAC countries include, among others:

- improved customs processing system;
- trade facilitating infrastructure including Standard Gauge Railway, One-Stop Border Posts, electronic cargo tracking;
- establishment of national electronic Single Window;
- introduction of electronic declaration, document processing and payment of customs duties and taxes; and
- rollout of authorized economic operators.

4.4. The EAC countries are rolling out other trade facilitation initiatives including: trade portals, call centres and business development services.

4.2 Agriculture and Fisheries

4.2.1 Agriculture

4.5. Agriculture sector represents one of the most important sectors in the EAC agenda. In all EAC countries, agriculture remains the dominant primary source of livelihood and employment to more than 70% of population across all member states. The region's main agriculture products include: tea, coffee, horticulture, fisheries, livestock, cashew nuts, cotton, tobacco, among others. It remains a major instrument for promoting an inclusive economic growth and enhancing the availability of food among member states. The EAC region also produces crops such as cloves, tropical fruits, spices, and essential oils particularly in the Island of Zanzibar.

4.6. The agriculture sector contribution to GDP among the EAC countries continue to remain substantial with average share above 30%. Its annual growth rate of about 3% registered over the period 2013-17 has not kept pace with the rest of the sectors. The highest growth rate over the period was recorded by Rwanda and Kenya with average growth of 5.1% and 4.3% respectively.

4.7. The EAC countries' medium to long-term policy frameworks aim at transforming the agriculture sector towards higher productivity through sustainable commercialisation of production to enhance smallholder farmers' income for improved livelihood, food security and nutrition.

4.2.2 Livestock and fisheries

4.8. All the EAC countries have considerable livestock sectors. The sector contributes about 3.5% of GDP for Rwanda, 1.4% for Burundi, 7% for Tanzania, 4.9% for Kenya and 4% for Uganda. The EAC registered increase in relative level of the aggregate volume of livestock production in comparison with the base period 2004-06. The regional livestock production index rose from 651.4 in 2013 to 664.2 in 2016. Burundi, Kenya and Uganda recorded relative increase in the aggregate for volume of livestock production unlike Rwanda and Tanzania that recorded a drop in the volume over the period 2013 to 2016.

4.9. Eradicating livestock diseases that adversely affect livestock products' access to external markets, remains a major challenge for livestock industry in the EAC. Exports of livestock products are limited to raw and semi-processed hides and skins outside the region. Currently, much of the production is for the domestic market particularly for meat and dairy products. Other major challenges facing the sector include inadequate veterinary extension services, poor infrastructure, lack of reliable markets, low levels of investment and insufficient processing industries.

4.10. In Uganda the medium-term policy framework targets increase in production of livestock products including beef production to 360,000 tonnes; pork to 139,185 tonnes, mutton and goat meat to 39,775 tonnes and poultry to 63,647 tonnes annually.

4.11. Fisheries subsector hold a strategic economic position among the EAC countries and contributes hugely to the GDP of member states. In Uganda, it accounts for 4.7% of total export earnings (ranking second). Its contribution to GDP is 2% for Burundi, 0.5% for Kenya, 0.3% for Rwanda, 2.2% for Tanzania, and 1.6% for Uganda. The regional total fisheries production has over the period 2013-16 dropped from 1.16 metric tonnes registered in 2014 to about 1.13 metric tonnes in 2016. The drop in the total production was registered by Kenya, Tanzania and Uganda.

4.12. Tanzania and Kenya have significant potential for development in marine products given the long coastal line in the Indian Ocean. The Blue Economy is a new economic frontier especially for Kenya and Tanzania and development of appropriate over-arching policies, legal, regulatory and institutional frameworks to guide the management, development and coordination of the fisheries sub-sector is in progress.

4.3 Forestry

4.13. Forestry is a key subsector in sustenance of the ecosystem and socio-economic wellbeing of the EAC countries. The Sector employs over 50,000 people directly and another 300,000 indirectly in Kenya, 61,243 in Rwanda the sector contributed 5.6% of GDP in 2017, in Tanzania the sector contributed 3.5% of GDP in 2017 and in Uganda the sector contributed 3.9%. Forest ecosystems enhances landscape resilience to climate change. In the EAC countries' water towers, forests provide environmental services that include water quality and quantity, reduction of soil erosion, and creation of micro-climatic conditions that maintain or improve productivity. Forests are also known to be among the most effective sinks of greenhouse gases, which cause climate change, and hence they are important in contributing to climate change mitigation.

4.4 Mining, Oil and Gas

4.14. The EAC countries have deposits of oil (Uganda, Kenya and Rwanda); gas (Tanzania and Rwanda); gold (Tanzania, Uganda, Burundi); nickel (Burundi, Tanzania); copper (Burundi, Uganda, Tanzania); diamond (Tanzania); vanadium (Burundi); phosphate (Uganda, Tanzania). The region is also endowed with other minerals including: gemstones, silver, salt, bauxite, cassiterite, columbite-tantalite, wolframite.

4.15. The sector still contributes minimally to the national income accounts for member states except for Tanzania whose share to GDP grew to 4.8% by 2016. The sector contributes about 1% of GDP for Burundi; 0.9% for Kenya and 0.7% for Uganda.

4.16. The EAC countries have considerable oil and gas deposits, for example, Tanzania has about 57.6 trillion cubic feet of natural gas discovered both offshore and onshore; Uganda has about 58 oil fields discovered, which may produce an estimated 2.5 billion barrels of oil equivalent, of which about 1.4 billion barrels are recoverable. Reserves of natural gas are estimated at 500 billion cubic meters.

4.17. Since the previous review, Kenya did not have viable oil and gas deposits. Oil and gas exploration in Kenya began in the 1950s within the Lamu Basin which only found gas of no commercial value. In April 2012, Tullow Oil made an exceptional oil discovery in the Tertiary rift, which has proved to be commercially viable. Further exploration has indicated significant gas discoveries offshore Lamu Basin and some parts of Northern Kenya whose commercial viability is yet to be determined.

4.18. The amount of commercially viable oil deposits in the Lokichar Basin is 760 MM Barrels with an upside of 1.6 billion barrels. The Government of Kenya with the oil exploring companies have agreed to a joint commercial development. A pipeline route to the port of Lamu has been identified to evacuate the oil and the engineering and design for the pipeline is under way. The first oil export is expected in 2022.

4.19. The member States have initiated a number of policy and legal reforms to enhance the development of the mineral resources sector in recent years. This has considerably increased investments and sector's share in the export earnings of member States. However, the sector is

poorly integrated into the national and regional value chain, hence very limited knock-on effects on the welfare of the people, thus restricting its real impact on economic transformation.

4.5 Manufacturing

4.20. The manufacturing sector in the EAC countries is key to the transformation of the respective economies. It contributes regional average above 7% of GDP with highest regional average of 8.2% recorded in 2013. Kenya, Uganda and Burundi are the three-member states with average share of above 8% over the period 2013-17.

4.21. The share of EAC manufactures merchandised exports has continued to grow accounting for more than 25%. However, the share more than doubled for the intra-EAC trade accounting for 51% of the merchandise exports over the period 2013-17.

4.22. The EAC's regional industrialization strategy (2012-32) aims to create a modern, competitive and dynamic industrial sector that is fully integrated into the global economy. Specifically, it aims to diversify the manufacturing base and raising local value-added content of resource-based exports to at least 40% by 2032; and strengthening the regions' institutional frameworks and capabilities for industrial policy design and implementation; and delivery of support services, among others.

4.6 Energy

4.23. The energy sector in the EAC region covers electricity, biomass and petroleum, which remains relatively underexploited within the region. For example, Burundi only produces about 30.6 MW compared to an exploitable potential of 300 MW. In 2017 Rwanda produced 671.4 million kWh, which was still insufficient to cover domestic demand and importing about 76.7 million kWh of electricity. Tanzania has installed power capacity of 1,522.62 MW, out of which 1,467.56 MW is connected to grid and the long term has target is to generate 5,000 MW by 2020-21. Kenya increased its installed capacity by 24% from 1,765 MW in 2012-13 to 2,333 MW by 2016-17. Uganda is expanding the capacity of power supply through construction of additional hydropower plants, namely, Karuma hydro power plant (600 MW), Isimba hydro power plant (188 MW), Ayago hydro power plant (600 MW), among others

4.24. The EAC countries have put in place medium to long-term policy measures to enhance investment and regulations in the energy sector including Energy Sector Strategic Plan for Rwanda 2013/14-2017/18.

4.7 Transport

4.25. The EAC has a number of transport corridors linked to the ports of Mombasa and Dar es Salaam, namely, the Northern Corridor, Central Corridor, among others. These corridors greatly facilitate movement of goods from and into the region. The EAC countries have continued to invest massively in transport infrastructure including ports, roads, railway networks, air ports.

4.26. The aviation facilities being expanded and upgraded within the community include, among others, Jomo Kenyatta, Moi and Kisumu, Julius Nyerere, Kilimanjaro, Entebbe, Kigali, Zanzibar. Rwanda and Kenya national carriers have continued to expand over the years beyond the African Continent. Tanzania and Uganda are making progressive efforts toward the revival of the national carriers. In early 2018, Uganda took a decision to revamp the national carrier, the Uganda Airlines. It is expected to start operations in December 2018.

4.27. The railway infrastructure expansion, which have commenced and being expanded include: Standard Gauge Rail (Mombasa to Nairobi). Uganda has restored the 9-km rail link to Tanzania via Lake Victoria connecting Port Bell to Mwanza (Central Corridor) in June 2018.

4.28. The East Africa Road Network Project (EARNP), covering a total of 137 km was done through construction of Modika-Nuno (23 km) and upgrading of Voi-Mwatate-Taveta (114 km) roads. The Lamu Port-South Sudan-Ethiopia Transport Corridor (LAPSSET) components where 4 lots were completed, namely, Isiolo-Merille River (136 km); Merille River-Marsabit (143 km); Marsabit-Turbi

(121 km) and Turbi-Moyale (127 km). In addition, construction of Lamu Port Headquarters and the port police building were completed including a new terminal and a 1.4-km runway at Isiolo Airport.

4.29. Improvement of shipping and maritime facilities to handle Panamax and Post Panamax container ships; completion of Berth No. 19 in Mombasa; construction of the first three berths at Lamu Port is ongoing; and acquisition of two ferries with a capacity of 1,500 seated passengers is ongoing.

4.30. The EAC countries will also benefit from the implementation of the Tripartite and Continental Infrastructural Master Plans.

4.8 Tourism and Wildlife

4.31. The EAC countries have a diversified tourism sector including national parks, wildlife reserves and sanctuaries, mountain climbing, beach, cultural and religious sites, rivers, waterfalls, birds, among others.

4.32. Tourism sector is among the leading foreign exchange earners for most of the EAC countries, namely, Kenya, Rwanda, Tanzania and Uganda. The share of tourism foreign earnings over the period has remained relatively higher for Tanzania with average share of 22.9% followed by Rwanda with share of 22.8%, Uganda 21.2%, Kenya 15.9% and Burundi with the least score of 1.3%. EAC single tourist visa for multiple entry is available for Kenya, Rwanda and Uganda since 2014 for any country of origin.

4.33. The community has a number of national parks, lakes, forest and wildlife reserves with a variety of wildlife. Uganda has 10 national parks (Queen Elizabeth, Murchison Falls, Kidepo Lake Mbuho, among others); 12 wildlife reserves and 14 wildlife sanctuaries.

4.34. Tanzania has many tourist attractions. More than 44% of the country's land area is covered with game reserves and national parks. There are 16 national parks, 29 game reserves, 40 controlled conservation areas and marine parks. Tanzania is also home to the famous "Roof of Africa", Mount Kilimanjaro. Tanzania has well-known tourist wildlife attractions in northern part of the country including: Mount Kilimanjaro Park, Serengeti National Park, Ngorongoro Reserve, Selous Game Reserve, Lake Manyara. Additionally, there are natural and cultural attractions that include sandy beaches, excellent deep-sea fishing, nature reserves, Stone-Town of Zanzibar, Kilwa ruins, Laetoli footprints, Olduvai Gorge and many others.

4.35. Rwanda presents tourism assets ranging from the natural attractions such as the world-famous mountain gorilla in the Volcanoes National Park, 13 species of primates in Nyungwe National park, about 700 species of birds, flora including the orchids, to the unique culture and heritage that make it a desirable destination for any type of tourist.

4.36. Kenya offers unique tourism products ranging from warm sunny beaches at the coast, scenic savannahs to snow-capped mountains astride the Equator. It has some of the world's greatest tourist attraction sites known for their diversity in landscape, culture and fauna and flora. Kenya is the home for the "game safaris", which is complimented with scenic landscapes across the famous rift valley, beautiful mountains, cultural diversity and adventure sports. It has 54 national parks and game reserves including the world famous Masai Mara and Tsavo. There are also beautiful marine parks and reserves along the Kenyan coast such as Malindi and Mombasa marine national parks.

4.9 Telecommunications

4.37. There is competition in all market segments of the telecommunications sector within the community, namely, internet data, audio voice, mobile money services. The sector has registered tremendous growth in subscriptions, internet data use, mobile money services, except for change of ownerships and amalgamation, which could be attributed to stiff competition.

4.38. The competition has fostered providers to adopt advanced technologies for internet data including: 3G, 4G and WiMax for wireless connections. The same applies to wired connections using ADSL, cable and fibre-optics.

4.39. The market is booming and has significant growth potential. The mobile penetration rose significantly for all the EAC countries over the period 2013-17. Kenya has the highest mobile penetration of about 80%, Rwanda 76.6%, Tanzania 72.9%, Uganda about 70% and Burundi about 57% by 2017.

5 A DYNAMIC TRADE POLICY

5.1 Overall Framework

5.1. The EAC countries are implementing a common market, which comprises various commitments, namely, free movement of goods and services, free movement of persons and labour, rights of establishment and residence, free movement of capital. Other areas of cooperation under the common market are protection of cross-border investments, economic and monetary policy, financial sector policy co-ordination, co-ordination of transport policies, consumer protection, among others.

5.2. The EAC is implementing a common external tariff (CET), which commenced in 2005 with three bands of 0% for raw materials and capital goods, 10% for intermediate goods and 25% for final/consumer goods. There are applied tariff rates above 25% for products treated sensitive within the community outlined under schedule one of the tariff book.

5.3. Nationally, ministries in charge of EAC affairs are responsible for the coordination of implementation of community obligations/commitments, as well as monitoring/assessment of the policies. Other ministries including trade, economic affairs and finance, foreign affairs, transport and works are key in the implementation of obligations/commitments made at the community level.

5.4. Within the framework of WTO General Agreement on Trade in Services, the EAC countries made specific commitments across 11 sectors, namely, business services; communication; tourism; transport; financial; education; environment; recreational, cultural and sporting; health; distribution and construction; and related engineering services. Tourism services is the only common sector committed by all EAC countries. At the EAC level, EAC countries have concluded negotiations in seven sectors, namely: business; communication; distribution; financial; tourism and transport, where they have made deeper commitments to open their markets further than at the WTO GATS level to facilitate the implementation of the common market.

5.5. In addition, EAC countries have undertaken to mutually recognize the academic and professional qualifications granted, experience obtained, requirements met, licenses or certificates granted in other partner States. An Annex to the CMP on Mutual Recognition of Academic and Professional Qualifications Regulations of 2011 is currently undergoing legal scrubbing. Furthermore, four MRAs have been signed for four professions, namely: accounting, architectural, engineering and veterinary, with accounting being the only one which has been signed by all the EAC countries.

5.2 Reforms Implemented or Under Way

5.6. The EAC has made significant trade policy reforms and more are on course for implementation over the next five years in order to achieve the community's deeper integration agendas including fully-fledged customs union, common market, monetary union and political federation.

5.2.1 Trade facilitation programme

5.7. The EAC has rolled out implementation of various trade facilitation initiatives covered by the community laws including the Treaty establishing the EAC, the Customs Union Protocol, Customs Management Act, Common Market Protocol. The trade facilitation measures adopted by the community include among others, adoption of the harmonized EAC customs procedures with reduced and standardized customs documents; standards, quality assessment, testing and metrology procedures; Single Window; Authorized Economic Operators; electronic cargo tracking system; single customs transit guarantee bond; establishment of One Stop Border Posts (OSBP) to reduce delays in clearance of goods at border posts; harmonization of business hours and attempt to operate on 24 hours in some borders stations; harmonization of transport regulations and standards;

and strengthen the NTB's monitoring mechanisms through national and regional monitoring committees but also SMS and online notifications and resolution mechanisms.

5.8. The EAC has in place a regional sub-committee on trade facilitation. The sub-committee developed a regional trade facilitation implementation action plan to promote a coordinated implementation of the WTO Trade Facilitation Agreement. With the exception of South Sudan, EAC countries have developed national action plans for implementation of the WTO Trade Facilitation Agreement and also notified the category A measures. The implementation of the action plan has been supported by some development partners including: Trade Mark East Africa (TMEA), German Technical Cooperation (GIZ), United Nation Conference on Trade and Development (UNCTAD), United States Agency for International Development (USAID), International Trade Centre (ITC).

5.9. The action plans so far supported by the development partners are publication, information availability through internet, advance rulings, notifications for enhanced controls or inspections, pre-arrival processing, electronic payment, separation of the release from final determination of the customs duties, taxes, fees and charges, risk management, post-clearance audit, establishment and publication of average release times, trade facilitation measures for authorised economic operators, expedited shipments, border agency cooperation, use of international standards, common border procedures and uniform documentation requirements, freedom of transit and customs cooperation, as well as the national and regional subcommittee.

5.2.2 Interconnection of customs computer systems

5.10. The EAC rolled out customs interconnectivity in 2013 with support from the African Development Bank under the East African Trade and Transport Facilitation Project. The customs interconnectivity has been enhanced through the Single Customs Territory (SCT) to facilitate seamless flow of information between customs stations and payment system to manage transfers of revenues between EAC partner States but also enhance risk management in customs operations including valuation and monitoring of goods.

5.11. The SCT has facilitated faster movement of goods across the EAC partner States reducing the time of cargo delivery, administrative costs on the importer or exporter and efficient mechanism of revenue management; and reduced risks associated with non-compliance on the transit of goods.

5.2.3 A proactive competition policy

5.12. The EAC has in place a competition authority charged with a mandate to curb unfair trade practices in the region and protect consumers from substandard goods. Kenya and Tanzania also have institutional and legal framework for implementation of competition policy. Tanzania has a Fair Competition Act of 2003, Kenya has Competition Act, Cap. 504 implemented by the Competition Authority of Kenya. While in Burundi, competition issues are governed by Law No. 1/06 of 25 March 2010 overseen by the Ministry of Trade and Industry. Rwanda also has in place Law "No. 36/2012 of 21 September 2012 relating to Competition and Consumer Protection", which was enacted in 2012.

6 DYNAMIC TRADE COOPERATION

6.1 Multilateral Trade Agreements

6.1. The EAC countries in their commitment to the multilateral trade agreements, continue to implement WTO commitments including participation in various committees and establishment of national agencies to implement the commitments such as the National Committee on Trade Facilitation Agreement (NCTF). The member states have also consistently notified the WTO on national development in regard to standards. For example, Tanzania in 2017 made 81 notifications of technical standards on various products including eggs, meat, beef, cereals, hard drinks, paper, first aid kits.

6.2. The EAC countries remain committed to the multilateral trading system and are taking note of the current challenges facing the WTO. The member states will continue to work with likeminded countries to address the challenges. Issues of development concern including special and differential

treatment still remain dear to the EAC countries. Efforts should therefore continue to foster the effective participation of developing countries in the multilateral negotiations to help them reap the benefits of the WTO Membership.

6.3. The EAC countries believe that the WTO Dispute Settlement System need to be preserved and strengthened to ensure available and predictable dispute settlement process. This will provide refuge for the weak and ensure continued existence of a rule based multilateral system.

6.4. The EAC countries are committed to ensure that the multilateral trading system provides equitable distribution of the benefits of the Multilateral Trading System (MTS) and effective integration of developing and least developed countries into the MTS, as well as adequate policy space for LDCs to industrialize and promote structural transformation. Thus, the need for the development dimension to continue to be the core of post-Buenos Aires work and the course towards finding an appropriate solution to the concerns of the developing countries and the least developed countries.

6.2 Bilateral and Regional Trade Agreements

6.5. The EAC countries individually have a number of bilateral economic cooperation with a number of third parties. For example, Burundi has a trade and economic cooperation with Turkey; Tanzania has with Turkey, Singapore, India, Algeria, and Comoros, among others. Rwanda has 23 bilateral trade agreements with both developed and developing countries. While Kenya has 27 bilateral trade agreements in force with both developed and developing countries that aim to strengthen the platforms of economic cooperation.

6.6. Two countries namely, Kenya and Rwanda have signed the Economic Partnership Agreement with the European Union (EAC-EU EPA). In addition, Kenya has ratified the agreement. However, Burundi, Tanzania and Uganda are still consulting at the Heads of State level.

6.7. The EAC countries have also jointly negotiated the Tripartite Free Trade Agreement (TFTA), which was signed by the Heads of States on 15 June 2015 in Egypt. The negotiations of the 2nd phase of the Agreement in Services, Intellectual Property, Competition Policy and Investment are due to commence in 2019. The Tripartite Task Force is coordinating the ratification and development of operational manuals for the implementation of the agreement.

6.8. All the EAC countries are negotiating the African Continental Free Trade Area (AfCFTA). The framework agreement establishing the AfCFTA was signed on 21 March 2018 in Kigali, Rwanda in addition to the Protocol on Free Movement of Persons, Rights of Residence and Establishment.

6.9. The AfCFTA's general objective is to create a single market for goods, services facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan African Vision of an integrated prosperous and peaceful Africa enshrined in Agenda 2063.

6.10. The EAC countries continue to individually implement their commitments in other regional economic communities, namely, Common Market for Eastern and Southern Africa (COMESA) where Burundi, Kenya, Rwanda and Uganda are implementing a full FTA; and Southern Africa Development Community (SADC) where Tanzania is also implementing a full FTA.

6.11. In short, the regional trade cooperation and development remains is a priority for the EAC countries specifically to widen market access for EAC goods and services in a manner that would enhance economic transformation in the community.

7 CONCLUSIONS

7.1. The policy reforms being initiated and pursued by the EAC under the various agendas is intended to consolidate and deepen EAC integration to provide more investment opportunities and greater transparency and predictably of the community within the multilateral trading system. The customs and trade facilitation reforms will further enable the EAC to improve on the doing business rankings and competitiveness.

7.2. The EAC will continue to collaborate with development partners to provide infrastructure in the community to address both the social and economic needs of the citizens.

7.3. The EAC countries have a shared view and believe in democratic process, rule of law and good governance to achieve sustainable economic growth and development. EAC will continue to pursue a ruled-based system through strengthening judicial systems and institutions including the national and regional courts of justice, security and defence.

7.4. The region is still faced with a daunting challenge of addressing socio-economic constraints including: disease and poverty. This will be achieved through promotion of regional value chains, proper land use, massive investment in agro-processing and manufacturing, as well as sound macroeconomic management.

7.5. The EAC countries believe in the multilateral trading system and are committed to ensure that it provides equitable distribution of the benefits through effective integration of LDCs into the MTS, as well as adequate policy space for LDCs to industrialize and promote structural and economic transformation.

7.6. The EAC is of the shared view that there is need for the development dimension of the Doha Development Agenda to continue as core component of the post-Buenos Aires work. Thus, an appropriate solution needs to be found to integrate the concerns of the developing countries and LDCs.

7.7. EAC partner States still require Trade Related Technical Assistance and Capacity Building (TRTA and CB) for institutional strengthening and human resource development to improve their negotiating capacity and implementation of regional and multilateral trade agreements.
