SUMMARY

1. Agriculture is at the core of economic developments in the East African Community (EAC). Its good performance, underpinned by favourable weather conditions and rising global demand for its exports in recent years, helped EAC countries to register positive economic developments from 2006 to 2007 and to recover relatively well from the global economic and financial crisis. However, low resilience, together with traditional farming practices and a narrow export base, have led to a significant economic slowdown in the region, in the wake of the global economic and financial crisis in 2008. Low tourist arrivals have also played a part, as the industry is crucial for Kenya (the only non-LDC in the region) and Tanzania, the two largest economies in the EAC.

2. Macroeconomic policies remain country specific. In general, narrow fiscal space, due to a large (untaxed) informal sector, ad hoc exemptions, and low capacity for efficient collection of internal taxes, is the main factor behind the fiscal deficits that have prevailed in the region over the review period. To a large extent, inflation has been imported due to the surge of international prices of commodities, mainly petroleum products.

3. Regional trade flows have increased significantly since 2006, thanks to continuous regional integration efforts, including recent steps towards the EAC customs union and its single market. Additional efforts, such as investment in infrastructure and streamlining administrative procedures, are expected to generate greater and more sustainable benefits. Intra-EAC investments have also risen since 2006; Kenya has been the most active EAC intra-regional investor.

4. Under the U.S. African Growth and Opportunity Act (AGOA), EAC countries benefit from duty-free and quota-free access to the U.S. market for a range of products until 2015. In their trade relations with the EU, EAC countries are granted preferences under the initialled Framework Economic Partnership Agreement (EPA) and under the Everything but Arms (EBA) initiative for those listed as LDCs (i.e. all but Kenya). The negotiations for a comprehensive EPA are on-going.

5. At the time of the last Review of the EAC, its original members, Kenya, Tanzania, and Uganda, were implementing the Common External Tariff (CET), launched in 2005. Burundi and Rwanda acceded to the EAC in 2007, and began implementing the CET in 2009. This enlargement has not yet been notified to the WTO. Serious impediments to the full and smooth implementation of the EAC Customs Union include 35 NTBs, which were identified by the EAC Secretariat and are being eliminated for the full operationalization of the FTA component of the community.

6. A number of legal documents have been adopted at the EAC level with a view to fully harmonizing members' trade policies *vis-à-vis* third countries. However, multiple memberships of regional economic communities by individual EAC countries remain among the main impediments to full harmonization, and further complicate trade-related procedures in the region; the recent launch of negotiations under the COMESA-EAC-SADC Tripartite Forum appears to be geared at rationalizing the integration process in the region.

7. Efforts are under way in EAC countries to streamline customs procedures and documentation requirements; regional priorities highlight the full harmonization of customs-related issues. Pre-shipment inspection is still required by Burundi. On certain products, Kenya and Tanzania require pre-shipment inspection by selected companies on TBT and SPS grounds. EAC countries continue to use different customs systems: Burundi, Rwanda, Tanzania, and Uganda use ASYCUDA, while Kenya uses the SIMBA 2005 system; the two systems are somewhat interconnected. The EAC provisions on customs valuation have been aligned on the WTO Agreement on Implementation of

Article VII of GATT 1994. However, national customs administrations encounter implementation difficulties. Appeal mechanisms for customs-related disputes are at national levels.

8. Since the last Review of the EAC, the CET average rate has decreased from 12.9% to 12.7%. Three tariff bands (zero, 10%, and 25%) apply to the large majority of imports; higher rates, ranging from 35% to 100%, and alternate duties apply to 58 tariff lines of "sensitive" items. As a consequence, for some lines, applied alternate tariffs may exceed bound *ad valorem* rates. Bindings cover 21.6% of all Burundi's tariff lines, 15% of Kenya's, 100% of Rwanda's, 13.5% of Tanzania's, and 15.9% of Uganda's. In the cases of Burundi and Rwanda, CET *ad valorem* rates on certain products are higher than bound levels. Duty and tax exemption and concession schemes are being harmonized in the EAC framework. The schemes, including ad hoc duty and tax exemptions, have led to significant revenue forgone in the region.

9. No contingency measures have so far been imposed by EAC countries. However, efforts are being made to establish trade remedies committees. EAC countries do not maintain quantitative restrictions and, in consequence do not require import licencing to administer such measures.

10. All EAC members have notification authorities and enquiry points under the WTO SPS and TBT Agreements. Capacity weaknesses are still noticeable in standards development and implementation, and there are challenges for some export products to comply with technical regulations in international markets. While technical regulations issues remain country-specific, some 1,200 (voluntary) standards have been harmonized for uniform application by EAC members. Regulations regarding production and trade in genetically modified organisms (GMOs) are still at an early stage. Kenya is the only EAC country with a full GMO- related institutional framework.

11. National export regimes are yet to be fully harmonized. Harmonized export promotion instruments include mainly: manufacturing under bond, export processing zones, and duty remission schemes. Under these schemes, manufacturers are required to sell at least 80% of their products outside the EAC. The effectiveness of export promotion instruments in the community is yet to be assessed.

12. Export taxes continue to be applied by some EAC countries: in 2006, Kenya and Tanzania increased their export taxes on hides and skins from 20% to 40% of the f.o.b. value. Tanzania maintains an export tax of either 15% of the f.o.b. value, or US$160/tonne on raw cashew nuts. Uganda maintains a cess of 1% on exports of coffee, 2% on cotton, and US$0.8/kg on raw hides and skins.

13. In general, open tendering is the rule in public procurement by EAC countries. Except for Uganda, where the Public Procurement and Disposal of Public Assets Act of 2003 was amended, all EAC countries have brought new procurement law into operation. Competition issues are not yet regulated at the regional level; at national level, only Kenya and Tanzania have fully functioning competition laws and institutions.

14. The EAC Regional IP Protocol and Policy on the utilization of Public Health-Related WTO-TRIPS flexibilities was adopted in 2011. It aims at maximizing the benefits of TRIPS flexibilities, through harmonization of EAC countries' policies on IPRs to facilitate manufacturing and importation of essential medicines. Efforts are being made in Kenya and Uganda to adopt stand-alone legislation on geographical indications. In Rwanda, a new Act (Law on the Protection of Intellectual Property) entered into force in 2009, while Burundi is revising its legal provisions on patents and copyrights. In general, some improvements have been made in recent years regarding the enforcement of IPRs laws.

15. Sectoral policies are yet to be harmonized within the EAC. Agriculture is at core of poverty alleviation and is an important source of foreign exchange for EAC countries. Food security remains the main objective of national agriculture policies, although public support to the sector remains low, compared with actual needs. Government intervention for regulation purposes remains somewhat excessive and distortive. Tariffs are the main trade policy instrument in the sector.

16. Mining is relatively marginal in the region, except in Tanzania, where it has boomed in terms of both exploration and extraction for over a decade, and in Uganda, where commercially viable petroleum deposits have been discovered. During the review period, the mining regime in Tanzania underwent legal reforms, with increases in royalties and taxes aimed at maximizing the contribution of the sector to the economy.

17. The contribution of manufacturing to GDP remains relatively low, at less than 10% in general. Low productivity (underpinned by lack of innovation), the high costs of inputs (including unreliable and expensive power supply), and the unskilled labour force are, *inter alia*, the main reasons behind the sector's poor performance. Various programmes are in place at national levels to promote the sector. However, making the general business environment more conducive to investments continues to be a challenge.

18. The services sector constitutes the main economic activity. However, its potential for overall economic development remains untapped. The wave of liberalization of telecommunication services, together with the rise of mobile banking services, has helped to boost the subsector. In most EAC countries, improvements in transport services and in regulating banking services remain a challenge.

19. EAC countries have taken steps towards mainstreaming trade into their national development strategies. They have individually and collectively benefited from aid for trade. Nonetheless, they need more assistance to address the bottlenecks that hinder their efforts to make trade contribute significantly to their economic development.