SUMMARY

1. The East African Community (EAC) consists of Burundi, Kenya, Rwanda, Tanzania, Uganda, and South Sudan (which is not yet a WTO Member). Agriculture remains the key driver of the economies of the EAC countries but the services sector is the main contributor to their GDP. In fact, most of the populations (about 80%) live in rural areas and depend on agriculture for their livelihood. High costs of doing business limit the importance of manufacturing to these economies, while recent oil discoveries, mainly in Kenya and Uganda, are expected to boost the economic development of the countries. Nonetheless, EAC countries face various socio-economic challenges despite their favourable conditions for agriculture, their important sources of renewable energy, and their total population of over 168.2 million. With the exception of Kenya, they all remain least developed countries (LDCs) and are yet to significantly diversify their economies.

2. During the period under review, the EAC WTO Members recorded strong GDP growth driven by increased public investments in transport and energy infrastructures, favourable weather conditions and strategic policy interventions. Agricultural production was boosted and, driven by buoyant tourism activities, the services sector also recorded a good performance. Individually, performance was mixed. Kenya's good economic performance helped it to acquire the status of lower-middle-income country in 2014, according to the World Bank's classification. Rwanda's strong and continuous economic growth has also been accompanied by steady improvements in many of its social indicators. However, the economy of Burundi has been severely affected by its political crisis since 2015, although recovery signs were noticeable in 2016 and 2017.

3. Ongoing reform efforts by EAC countries aim at establishing a monetary union by 2024. Indeed, in 2013, they adopted the East African Monetary Union Protocol (EAMU Protocol), on top of the macroeconomic convergence framework in place since 2007. Price stability is the primary objective of monetary policies in all EAC WTO Members. However, core macroeconomic policies are not yet harmonized and remain country specific. Inflation, highly volatile during the review period, is driven mainly by international food and oil prices. As a consequence, agricultural performance, especially domestic food supply, is also a determinant of inflation. Regarding fiscal matters, notwithstanding reforms undertaken, domestic resources mobilization remained insufficient to match increased public expenditures, mainly on ongoing infrastructure projects, which translate into continued fiscal deficits.

4. The ratio of EAC WTO Members' trade (including intra-EAC trade) in goods and services to GDP remains moderate, at about 50%. The low intra-EAC trade in goods (at around 10% of the total merchandise trade of the Community over the review period) reflects, *inter alia*, informal (unrecorded) cross-border trade; poor infrastructure; and non-tariff barriers including cumbersome administrative procedures. In other words, nearly 90% of the EAC's trade in good takes place outside the region, with imports originating mainly from China, India, the European Union and the United Arab Emirates, which are also among the main export markets. Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC) countries (excluding EAC member States) are also important destinations.

5. Overlapping membership of regional economic communities by individual EAC countries, notably COMESA and SADC, remains a challenge and further complicates the national trade regimes. In June 2015, negotiations were concluded for a Tripartite (COMESA-EAC-SADC) Free Trade Agreement (FTA) in Goods, with a view to rationalizing the integration process in the region. Negotiations on trade in services and on other trade-related areas (including competition policy, intellectual property rights) are expected to start after the launch of the FTA on trade in goods.

6. Under the U.S. African Growth and Opportunity Act (AGOA), Kenya, Rwanda, Tanzania, and Uganda benefit from duty-free and quota-free access for a range of products, including selected agricultural and textile products. Kenya, Tanzania, and Uganda are also eligible for preferences under the "wearing apparel" provisions of the AGOA. The negotiations on an Economic Partnership Agreement (EPA) with the European Union were concluded in October 2014. As at December 2017, the EPA was ratified by Kenya and signed by Rwanda. Under the Everything but Arms initiative of the European Union, all EAC countries, except Kenya, are eligible for preferences.

7. The EAC seeks to promote the Community as a single investment area; its Treaty calls for the harmonization and rationalization of investment incentives, including those relating to taxation of industries. However, the legal and institutional frameworks for investment remain country-specific.

8. The national investment codes are generally liberal, with no major restrictions on foreign presence. Local and foreign investors receive the same treatment in terms of incentives.

9. Under the WTO Trade Facilitation Agreement (TFA), Kenya, Rwanda, and Uganda have deposited their instruments of acceptance. All EAC WTO Members have notified their Category A commitments. A Regional Trade Facilitation Sub-Committee was established in 2015 to coordinate the implementation of the TFA and other trade facilitation measures decided at the regional level. EAC countries continue to fulfil their notification obligations at various degrees. However, there are several areas where notifications remain outstanding.

10. Customs procedures are carried out by licensed customs clearing agents. Pre-shipment or destination inspections for customs valuation purposes are not required in any EAC country. However, pre-shipment inspection for conformity assessment purposes is required for certain goods in Burundi and Kenya. Although some customs procedures and documentation requirements continue to be country-specific, and national customs continue to use different computer systems, noticeable progress has been made towards full harmonization, in accordance with the provisions of the EAC Customs Management Act, 2004 (as amended in 2009), and the EAC Customs Management Regulations, 2010.

11. A regional Authorized Economic Operator (AEO) programme was introduced in 2016. All imports into the EAC and intra-EAC transfers of goods are cleared under the EAC's single customs territory (SCT) model. Under the SCT, imports are declared only at the country of destination, and are released at the first point of entry; the goods are then moved under a single bond to the final destination. Customs valuation is broadly based on the provisions of the WTO Agreement on Implementation of Article VII of GATT 1994. However, national customs administrations encounter implementation difficulties.

12. Since the last Review of EAC members, the CET average rate slightly increased from 12.7% in 2011 to 12.9% in 2018. Three tariff bands (zero, 10%, and 25%) apply to most imports; higher rates, ranging from 35% to 100%, and alternate duties apply to a list of "sensitive" items. As a consequence, the *ad valorem* CET rates exceed a number of corresponding *ad valorem* rates bound by Burundi, Kenya and Rwanda. Moreover, for some lines, applied alternate tariffs may exceed bound *ad valorem* rates. Bindings cover 22.4% of all Burundi's tariff lines, 16.1% of Kenya's, 100% of Rwanda's, 14% of Tanzania's, and 16.5% of Uganda's. In accordance with the provisions of the EAC Customs Management Act, 2004, and the EAC Customs Management (Duty Remission) Regulations, 2008, the national duty and tax exemption and concession schemes are mostly harmonized in the EAC. The schemes, including ad hoc duty and tax exemptions, have led to significant revenue forgone by EAC countries.

13. Fees on some services and documents issued by Customs have been harmonized. A development levy of 1.5% on a list of products from non-EAC countries is also collected. Various other duties and charges are levied individually by EAC countries.

14. All EAC members apply internal taxes (VAT and excise duties), whose regimes are not yet harmonized. VAT applies to goods and services, including imports, at standard rates ranging from 16% in Kenya to 20% in Tanzania. Reduced rates are in place in Kenya (12%) and Uganda (6%). Exports are zero-rated under the national VAT regimes. Excise duties are levied on a list of products at rates which are determined by individual EAC members.

15. No contingency measures have so far been imposed by EAC countries. They are governed by the EAC Customs Union (Anti-Dumping Measures) Regulations, 2004; the EAC Customs Union (Subsidies and Countervailing Measures) Regulations, 2004; and the EAC Customs Union (Safeguard Measures) Regulations, 2004. EAC members may initiate investigations and reviews against each other. However, this has never happened. Kenya also has national legislation on trade remedies.

16. The export regime, including procedures and documentation requirements, is not yet fully harmonized. All EAC countries apply export taxes on raw hides and skins. In addition, export duties

and taxes are collected on specified items by Burundi (minerals); Kenya (wet blue leather, crust leather, and raw macadamia nuts); Tanzania (raw cashew nuts, wet blue leather, and fish and fish products); and by Uganda (raw tobacco, fish and fish products, and coffee). In general, these measures are meant to encourage domestic value addition. A number of export promotion instruments are harmonized within the EAC. These include: manufacturing under bond, export processing zones, and duty remission schemes. Goods benefiting from any of these schemes are destined primarily for export, and manufacturers are required to sell at least 80% of their products outside the EAC.

17. Standards and technical regulations regimes remain country-specific to a large extent. However, harmonization efforts are ongoing at the regional level, and the East African Standards Committee (EASC) oversees the development of new standards and the harmonization of the existing ones. As at 30 September 2018, the EAC catalogue included 1,526 standards, of which 1,007 were international. On SPS, harmonized measures and procedures have been developed for plants; mammals, birds and bees; fish and fishery products; and food safety. In general, EAC countries continue to experience challenges in the harmonization of their regimes on SPS-related measures, standards and technical regulations, particularly with regards to the mutual recognition of inspection certificates, and this contributes to further increasing trade costs in the region. During the review period, several measures were notified by EAC countries in the areas of SPS and TBT.

18. None of the EAC countries has notified a state-trading enterprise pursuant to Article XVII:4(a) of GATT 1994 and paragraph 1 of the Understanding on the Interpretation of Article XVII. However, state-owned enterprises remain an important feature of the economies. Competition is regulated at both regional and national levels. The EAC's Competition Act was adopted in 2006, and came into force in 2014. Its implementation agency, the EAC Competition Authority, deals with all competition issues having cross-border effects. In principle, domestic competition issues remain under the jurisdiction of national competition laws and institutions. Uganda does not have a formal regime on competition, and Burundi and Rwanda are yet to establish their competition authorities.

19. Intellectual Property Right (IPR) issues are not harmonized in the EAC, but efforts are being made at regional level to assist EAC member States to implement the TRIPS Agreement with a view to promoting copyright and cultural industries, traditional knowledge, geographical indications, and technology transfer. Furthermore, a regional IP Protocol and Policy were adopted by the Council of Ministers in 2013 to maximize the benefits of TRIPS flexibilities. The protection of IPR remains a challenge for individual EAC countries. While the framework for IPR protection is yet to be fully established in Burundi, in Kenya for example, a well-established Anti-Counterfeit Agency is tasked with combatting counterfeiting, trade in counterfeit goods and other related dealings; and anti-counterfeit legislation is being amended to increase the penalties, and broaden the scope to include unbranded goods and labels. At the regional level, actions are being initiated to fight counterfeit and pirated products. An EAC Anti-Counterfeit Bill is being drafted to provide a legal framework for EAC members to prohibit trade in counterfeit goods.

20. Sectoral policies are not harmonized within the EAC, but countries are making joint efforts under several regional initiatives, mainly on agriculture and services, their main economic sectors. Agriculture plays a key role in the economies of all EAC member States, in terms of contribution to GDP, livelihood, and foreign exchange earnings; one of the agriculture policy priority is to achieve food security. Its contribution to GDP ranged from around 25% in Uganda to around 42% in Burundi. Agricultural exports are dominated by coffee, cut flowers, tea, tobacco, fish and vegetables.

21. With high costs of doing business due, *inter alia*, to high regulatory burden and increased import competition, manufacturing is characterized by limited value addition. It is highly concentrated in agro-processing activities, and is dominated by micro, small and medium enterprises. Costly and unreliable energy supply is also a major impediment to the development of manufacturing within the EAC. In a move to attract foreign investment, including in the manufacturing sector, the EAC countries provide, *inter alia*, corporate income tax incentives, and remission of customs duties and VAT.

22. The services sector constitutes the main contributor to GDP in all EAC countries. However, its potential remains untapped. Under the GATS, EAC countries have individually undertaken commitments, generally on a few service categories. Under the EAC Common Market Protocol, the member States are committed to liberalizing a list of services in, *inter alia*, finance, transport, communication, tourism, and business services across all modes of supply. The number of

subsectors covered by the commitments range from 59 in Tanzania to 101 in Rwanda. Countries are also committed to refraining from introducing any new restrictions on the provision of services.