THE EAST AFRICAN COMMUNITY

EAC TRADE AND INVESTMENT REPORT 2017

Accelerating Market Driven Integration

EAC Secretariat

Arusha, Tanzania
March, 2018

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ACRONYMS

AEO	Approved Economic Operator
AfCFTA	Africa Continental Free Trade Area
AfDB	African Development Bank
AGOA	African Growth and Opportunities Act
API	Burundi Investment Promotion Authority
BOT	Bank of Tanzania
BOU	Bank of Uganda
CBK	Central Bank of Kenya
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
EAC	East African Community
EALA	East African Legislative Assembly
ECOWAS	Economic Community for West African States
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FRW	Rwanda Francs
GDP	Gross Domestic Product
GNS	Gross National Savings
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPAs	Investment Promotion Agencies
Ken Invest	Kenya Investment Authority
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
NISR	National Institute of Statistics of Rwanda
NMC	National Monitoring Committees
NTBs	Non-Tariff Barriers
RDB	Rwanda Development Board

RO	Rules of Origin
ROW	Rest of the World
RRA	Rwanda Revenue Authority
SADC	Southern Africa Development Community
SCT	Single Customs Territory
SCTIFI	Sectoral Council on Trade, Industry, Finance and Investment
TBP	Time Bound Programme
TFTA	Tripartite Free Trade Area
TIC	Tanzania Investment Centre
TIFA	Trade and Investment Framework Agreement
TRA	Tanzania Revenue Authority
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Authority,
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
URA	Uganda Revenue Authority
USA	United States of America
VAT	Value-Added Tax
WTO	World Trade Report

FOREWORD

The EAC Vision 2050 is East Africa Community's blueprint for economic development and foreign direct investment promotion. However, the slow growth of the global economy over the last three years affected the achievements of the annual targets under the EAC Vision 2050. While there has been progress on trade and investment, especially as a result of increasing global prices for commodities, the benefits have only accrued to the developed economies. At the same time, the impact of the slowdown in global economic development over the past four years still has an impact on Foreign Direct Investments and growth of trade in the EAC.

The annual EAC Trade and Investment Report is a critical tool to facilitate informed decision making by Partner States and other stakeholders on trade and investment matters in the East Africa Community and also strategies to unleash the region's growth potential. The Trade and Investment Report 2017, prepared in collaboration with Partner States, highlights the achievements, challenges and trends in Trade and Investment in the region. The Republic of South Sudan joined the Community in 2016, and the Secretariat has drawn a clear road-map for integration of the Republic of South Sudan in all EAC projects and programmes.

In 2017, the EAC Secretariat and Partner States continued to consolidate the achievements of the Single Customs Territory (SCT) by widening its scope. Coverage of goods cleared was expanded to include all intra-regional trade to facilitate free movement of goods within the Community. Eliminating duplication of customs processes resulted in drastic reduction of the period taken to clear and transport goods in the Central and Northern corridors.

Partner States have also constructed infrastructure at the borders and the ports to improve the amenities and facilitate trade in the region. The Partner States and the Secretariat, with support from the Development Partners planned to construct 15 One-Stop Border Posts in the EAC region, out of which, 13 have so far been completed and 10 of these are already operational.
During the period under review, the EAC Secretariat continued to play its role of coordinating trade negotiations between Partner States and the Third Parties, particularly the European Union

–East African Community Economic Partnership Agreements (EU-EAC EPAs), Common Market for Eastern and Southern Africa-East African Community-Southern African Development Community (COMESA-EAC-SADC) Tripartite Agreement, Continental Free Trade Area as well as the African Growth and Opportunities Act (AGOA) and the East African Community-United States Investment Partnership Agreement.

I would like to take this opportunity to acknowledge the support from TradeMark East Africa who have continued to assist the EAC integration process by facilitating the preparation, production and printing of the EAC Trade and Investment Report. The Secretariat appreciates this support.

Lastly, I would like to express my appreciation of the effort demonstrated by the Team of Experts from the EAC Partner States and EAC Secretariat who contributed to the compilation of the EAC Trade and Investment Report 2017. It is through them that the Secretariat is greatly honoured to accomplish this task.

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Amb. Liberat Mfumukeko
Secretary General, EAC

EXECUTIVE SUMMARY

The East African Community (EAC) has a total population of about 168.2 million with a combined GDP of US$155.2 billion with annual growth of 5.6 percent. As one of the fastest growing regional integration areas, growth in the EAC was driven by; 1) a progressive manufacturing sector characterised agro-processing and industrial production; 2) a buoyant services sector especially construction, tourism and banking; 3) an export sector consisting of commodities especially tea, coffee. horticulture and gold. The region possesses significant amounts of extractives resources including oil, gas, high value minerals and abundant renewable energy generation potential.

This Report aims at providing a detailed analysis of the trends for the year, synthesise the challenges - and prospects for enhancement of trade and investment in the region. The Report provides a platform for stakeholders, academics and policy makers to review the status of trade and investment, interrogate the challenges and address the proposed policy recommendations to drive the region to bolster links with the global economy. The EAC strategy for trade and investment enhancement includes signing agreements with other countries and trading blocs to promote trade and investment. Notably, the EAC-COMESA-SADC Tripartite FTA, the AfCFTA and the EAC- U.S Trade and Investment Partnership Agreement registered good progress during the period under review although implementation challenges existed.

East Africa maintained its lead in in Africa growth with an economic growth of 5.6 percent in 2017, up from 4.9 percent in 2016. This economic growth was attributed to higher infrastructure investment in advanced economies specifically roads, rail and electricity, increased private consumption as well as recovery in several commodity exporters buoyed by improved weather conditions that enabled agricultural production to rebound after poor harvests in the past two years. The construction sector improved in the EAC countries including South Sudan while the expansion of the services sector particularly information and communication technology was instrumental in improved economic growth. The Manufacturing sector also increased especially in Kenya and Tanzania. Nevertheless, growth among the different Partners States varied in 2017 with Tanzania the fastest growing economy among the Partner States at 7.1 percent while South Sudan economy contracted by about 6.8 percent.

EAC merchandise trade with the rest of the world recorded an 8.6 percent growth to USD 46.9 billion in 2017 from US$43.1 billion in 2016. This was against a backdrop of negative trade trends over the past two years. The rise is total trade could be explained by increased agricultural production as a result of improved weather conditions, rising global demand for goods from developing countries, especially in Asia as a result of increased incomes for oil exporting countries arising from increased global crude oil prices which peaked at US$58 per barrel in 2017, the highest since 2015.

While the total trade in the EAC grew, overall, total trade was meagre and accounted for only 0.2 percent of global trade in 2017 compared to 0.3 percent in 2016. Also, a large proportion of trade between the East African Partner States as well as with the rest of the world consist of trade in primary commodities although trade in finished goods is increasing. Overall, the region registered a trade deficit with the rest of the world in 2017 partly due to an increase in imports into the region. The deficit for the EAC increased by 63.1 percent to USD17.4 billion from a deficit of US$10.7 billion registered in 2016.

Total intra-regional exports grew by 8.1 percent to USD2.9 billion in 2017 from USD2.7 billion in 2016. At the same time, Intra-EAC Imports also grew by 14.1 percent to USD12.5billion in 2017 from US$2.2 billion in 2016 signalling increased trade among the EAC partners. The impressive intra-regional trade was attributed to favourable weather conditions over the year which resulted into increased production of agricultural commodities, elimination of some restrictive EAC policies that allowed increased intra-EAC trade. For example, Kenya lifted the restriction on importation of sugar form Uganda. Partner states eliminated distortionary NTBs that were inhibiting trade with other Partner States as well as growth in manufacturing and industrial production that increased intra-EAC trade in intermediate and finished goods.

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 diversification implying that there is minimal scope for Intra-regional trade in manufactured products among the EAC Partner States; a restrictive trade regime that constrains the capacity of manufacturers to access the regional market for products that are produced from raw materials that benefit from exemptions and remission schemes; Non- Tariff Barriers that affected the level of intra- EAC 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.

Foreign Direct Investment inflows are important for increased trade and economic growth of a region. While measures to attract Foreign Direct Investment have been put in place, the level of FDI into the region is still low. Foreign Direct Investments into East Africa decreased by 25.3 percent to USD 6.6 billion in 2017. Investment inflows to the EAC were concentrated in manufacturing, construction and energy sectors. China, India and UK continued to be the major sources of FDI to EAC. FDI inflows to EAC were meagre and constituted only 0.4 percent of global FDI flows. The low level of FDI inflows was mainly attributed to the lack of effective markets due to low per capita income as well as structural and institutional challenges that make the EAC less attractive to investors. The EAC global competitiveness as well as 'Doing Business' reports show that there is a lot required in order to improve the business environment. The Report notes that the low level of FDI inflows was mainly due to: the low economic growth in the region that cannot guarantee a big market for commodities that is necessary to attract investments; inadequate investment climate with regard to poor infrastructure and ICT, high cost of electricity and inadequate business polices; low level of investor confidence; and, lack of affordable credit.

The Report is structured in three parts covering 5 chapters: Part One is the background covering chapters 1 to 3. Chapter 1 is the introduction and outlines the timelines and progress for the EAC integration. Chapter 2 reviews the global macroeconomic position and analyses the macroeconomic position of the EAC Partner States in light of the global context.

Part Two deals with the trade and investment outlook in the region. Chapter 3 reviews the trade among the partner states as well as with the rest of the world. The chapter also reviews the impact of different trade promotion policies on customs revenue in the Partner States and concludes with an analysis of the challenges to trade development in the region. Chapter 4 analyzes Foreign Direct investment inflows as well as intra-regional investment flows. The chapter concludes with an analysis of the challenges of attracting investment to the region. Part Three is the conclusion section. Chapter 5 draws conclusions on the analysis of the trade and investment outlook in the region.

PART I: INTRODUCTION

1 CHAPTER 1: THE EAST AFRICAN COMMUNITY INTEGRATION PROCESS

The Treaty for the East African Community (EAC) was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three Partner States - Kenya, Tanzania and Uganda. The Republic of Rwanda and the Republic of Burundi became full Members of the Community on 1 July 2007. The Republic of South Sudan acceded to the Treaty on 15 April 2016 and become a full Member on 15 August 2016. The region is implementing a Common Market, has put in place the right fiscal architecture to achieve a monetary union by 2023 and adopted a Political Confederation as a transitional model for the East African Political Federation.

The manufacturing sector contributes about 8.9 percent of the Gross Domestic Product (GDP) in East Africa. This ratio is considerably below the average target of about 25 percent that all the five Partner States have set to achieve by 2032. In order to transform the region economically, the EAC industrial policy is aimed to improve the competitiveness of the industrial sector, enhance the expansion of trade in industrial goods within the Community, the export of industrial goods from the Partner States in order to achieve structural transformation of the economy and foster the overall socio-economic development in the Partner States. A five-year Action Plan were developed to progressively steer the region in achieving its vision. At the same time, the services sector has been prioritized with respect to tourism, ICT and financial services.

The EAC developed the 5th EAC Development Strategy, 2017-20121 with the aim of building a firm foundation for transforming the EAC into a stable competitive and sustainable lower-middle region by 2021. The Strategy prioritizes infrastructure development to spur industrialization, exploitation of natural resources, Foreign Direct Investment and economic Development. This infrastructure will reduce the time and cost of import and export of goods in the region.

1.1 Overview of the EAC Integration

Customs Union

The aim of the EAC Customs Union was to create a level playing ground with uniform policies in regard to competition, customs procedures and external tariffs on goods imported from Third World countries. The attainment of the Single Customs Territory is premised on the need to consolidate the implementation of the Customs Union in accordance with the Treaty establishing the EAC and Protocol. This framework spells out the main pillars of the Single Customs Territory which include Free Circulation of Goods, Revenue Management and the Legal and Institutional Framework.

The EAC Common External Tariff and the EAC Rules of Origin are annexes to the Protocol establishing the EAC Customs Union. The two instruments are a pillar of the EAC Customs

Union. The EAC Common External Tariff (CET) is structured under three bands of 25% for finished goods, 10% for intermediate goods and 0% for raw materials and capital goods, in addition there are a limited number of products under the sensitive list that attract rates above the maximum rate of 25%. The EAC (CET) HS Code 2012 was updated to HS 2017 in line with the WCO and WTO requirements and regulation and the protocol for enhanced cooperation on Sanitary and Phyto-Sanitary Measures was approved and passed by the 3rd East African Legislative Assembly (EALA).

The EAC is currently undertaking a comprehensive review of the EAC Common External Tariff, and the EAC Customs Management Act 2004 as per the provisions of Article 12(3) of the Customs Union Protocol. 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. Annual reviews have been undertaken during the pre-budget consultations and these have been on specific products. The overall objective of the review is 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 of supply capacity within the region and address any inconsistence identified in the EAC CET and the EAC Rules of Origin.

The mandate to prepare and produce the EAC Trade and Investment Report is anchored in Article 4, paragraph f of the EAC Customs Union which provides for "production and exchange of customs and trade statistics and information". The Sectoral Council for Trade, Industry, Finance and Investment (SCTIFI) meeting held on 27th February 2017, among others, decided that the EAC Annual Trade Reports be adopted by the Council every year in August.

1.2 Establishment of EAC Single Customs Territory

A Single Customs Territory (SCT) reduces the cost of doing business by eliminating duplication of processes, administrative costs, regulatory requirements and the risks associated with non-tariff barriers in the transit of goods. The SCT enhances trade in locally produced goods, particularly agricultural goods and boosts investment flows in the region. The operationalization of the Single Customs Territory, the One Stop Border Posts and development of the regional customs instruments were reinforced to drive and promote trade and investment in the region.

Customer-centric procedures have been put in place to eliminate duplications and reducing the cost of doing business. In 2017, the region fully embraced the SCT characterised by the full roll-out of intra-trade and imports regime under the Single Customs Territory whereby all products within the EAC are expected to be transacted under the Single Customs Territory framework. To facilitate trade in the region, the EAC in conjunction with the World Customs Organization is 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 automation across the region was enhanced in all Partner States with upgrades of the Customs systems and migration to more advanced and robust systems. At the regional level, an interconnectivity program was initiated to address the current weaknesses in customs valuation and monitoring of goods across the region. The interconnectivity platform has provided a uniform and consistent mechanism to handle cargo and trade facilitation through risk management.

In 2017, ten (10) One Stop Border Posts (OSBPs) were operationalized of which three were officially launched. Mobilisation of funds for completion of three remaining OSBPs (Gatuna/Katuna, Manyovu/Mugina, and Kanyaru/Akanyaru) remains on-going. When completed, these will complement the over 12 existing OSBPs that were completed over the previous five years and lead to improvements in border clearance time. 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 has registered tangible progress where the Partner States are able to push and receive information to and from the centralized platform. Partner States increased the number of staff deployed in other Partner States and this has enhanced the integration of customs functioning and better accountability, deterrence of smuggling and closer cooperation among customs administration.

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

All these initiatives 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 Single Customs Territory 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- Free circulation of goods.

Identification and elimination of Non-Tariff Barriers in the EAC 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. A gap analysis on the implementation of the Act was undertaken, with support from the EU and a report has been produced. Regulations to operationalize the Act were also developed and are currently under discussion among the Partner States.

1.3 EAC Trading Arrangements with other Regional Blocs

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 the members of the East Africa Community (EAC) were finalized in October 2014. The EAC committed to liberalise the equivalent of 82.6 percent of imports from the EU by value. More than half of these imports enter the EAC duty free, not only from the EU but from the rest of the world under 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 Cooperation Agreement on Trade Facilitation, Sanitary and Phytosanitary (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 implementation of the EAC-U.S. Cooperation Agreement on TF, SPS and TBT.

The COMESA-EAC SADC Tripartite Free Trade Area, a building block towards the Continental Free Trade Area (CFTA) represents an integrated market of twenty-seven (27) Member States with a combined market of 632 million which is about 57 percent of Africa's total population; and with a Gross Domestic Product (GDP) of US$1.3 Trillion which is about 58 percent of Africa's GDP. This area provides expanded opportunities for export of agricultural and manufactured products. While Free Trade Areas ordinarily focus on trade liberalization through the removal of tariff and charges of equivalent effect, the COMESA-EAC-SADC Tripartite Free Trade area has three pillars namely, market integration, cooperation in industrialization and infrastructure development, and the movement of business persons. The industrial pillar will broaden manufacturing along the value chains in the region and enhance intra-tripartite trade Infrastructure development will improve interconnectivity, reduce the cost of doing business and increase attractiveness of the region to domestic and foreign investment while the free movement will enable nationals of the tripartite Member states to move freely and conduct trade in goods and services. The region also provides 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 agreement will come into force once ratification is attained by three quarters of the members. 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 liberalisation and will be at 90.3 percent over a five-year period. SACU that expressed a strong desire to export motor vehicles among other products to the EAC region has also attained a 66.3 percent immediate tariff liberalisation and will attain 87 percent over the five-year period. However, these levels of progress in negotiations will be presented to the council of Ministers for approval. Tanzania extended a tariff to Egypt comprising 96.89 percent for immediate liberalization and the remaining tariff lines will be gradually phased out in five years.

The African Continental Free Trade Area (AfCFTA) is expected to bring together all 55 Member States of the African Union. This will create a market of more than 1.2 billion people with a combined GDP of more than US$3.4 trillion. The AfCFTA aims to create a single continental market for goods and services with free movement of persons and will have the potential to boost intra-Africa trade by 52.3 percent through elimination of import duties and non-tariff barriers and import. In line with the African Union's Agenda 2063, 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 economies of the Member States. Negotiations for the African Continental Free Trade Area (AfCFTA) were launched at the African Union Commission (AUC) Summit 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. O support 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. Following the submission of tariff concession schedules for trade in goods by each State Party (including the particular 90 percent of products that are to be liberalised, list of sensitive products requiring an extended time period for liberalisation, and list of excluded products that are to be temporarily exempted from liberalisation), initial market access offers as well as a list of product specific rules of origin were developed.

1.4 Export Promotion Initiatives

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 the EAC Partner States 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 a ban on imports of worn clothes and footwear through imposition of specific rates on the importation of worn clothes and footwear. The out of cycle review resulted in the suspension of the republic of Rwanda from the AGOA program for a period of 6 months pending further evaluation.

EAC Secretariat approved the establishment of establishment of various Special Economic Zones (SEZs) schemes in the region. The schemes include, among others**,** Industrial Parks, Free Trade Zones, Tourist Parks, ICT Parks, Science and Technological Parks as provided under Article 32 of the EAC Customs Union Protocol. In order to support implementation of the protocol, the EAC Secretariat drafted regulations on the various investment promotion initiatives under the SEZ scheme to provide a clear and harmonised framework for the development, operations and management of SEZs in the region.

1.5 EAC Trade and Investment Outlook

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 ports of Mombasa and Dar es Salaam and the One-Stop Border Posts (OSBP); elimination of tariffs on trade among Partner States; identification and elimination of trade barriers; support to trade development and conducive investment policies to attract FDI into the region.

Total EAC trade in 2017 grew by 8.6 percent to US$46.9 billion on account of increased imports and falling exports. Imports into the region grew by 19.5 percent to US$32.2 billion in 2017 Exports fell for a second consecutive year. Exports from EAC in 2017 fell by 9.3 percent to USD14.7 billion. On the other hand, intra-EAC trade grew in 2017.Intra-regional imports grew by 14.1 percent to US$2.5 billion while intra- regional exports grew by 8.1 percent to US$2.9 billion in 2017. Nevertheless, intra-EAC imports and exports accounted for only 7.7 percent and 18.7 percent of total imports and exports respectively signalling that intra-regional trade constituted a small proportion of total EAC trade in 2017. While the EAC has been successful in eliminating tariffs on trade among the Partner States, non-tariff barriers remain. In addition, challenges of uniform application of regulations on trade, costly administrative measures, infrastructure bottlenecks and low economic growth has hampered trade in the region.

While mMeasures 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 USD6.6 billion in 2017 from US$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.

1.6 Prospects for Future Trade and Investment

EAC as a region has a number of advantages with regard to future growth of trade and investment. The region is one of the leading exporters of agricultural commodities 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 Africa: labour costs in the region are still low and EAC's proximity to regional and international markets, creates a conducive environment for future trade and investment growth.

EAC is undertaking regional infrastructure projects to tackle infrastructure deficits and create opportunities for investments in infrastructure as well as 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.

1.7 Purpose of the Report

The 2017 Trade and Investment Report reviews trade and investment in the EAC in the context of global trade and investment climate. The Report focuses on market driven integration as the driver of economic development and growth and examines their impact on government revenue and economic development in the region. Trade and investment are important since they drive productivity; increase overall employment; labour development; and increase access to a range of products at low prices that drive up the standard of living.

The Report analyses the challenges to growth of trade and investment in the region. The evidence collected in this Report shows that EAC has the potential to grow and increase if the region can focus on improvements in a few critical areas. These critical areas are elaborated in the policy recommendations. Specifically, the findings of the Trade and Investment Report 2017 will inform the Council of Ministers and the Summit of the Heads of State on trade and investment matters for the period under review.

2 CHAPTER 2: MACROECONOMIC AND TRADE DEVELOPMENTS OUTLOOK

2.1 Global Economic Outlook

Global economic output grew 3.8 percent in 2017. This was 0.1 percent higher than projected and 0.6 percent higher than 2016 (IMF, WEO, April 2018). The key to economic growth in 2017 was the upswing in world trade and investment, particularly among advanced economies coupled with increased manufacturing output in Asia particularly in technology. The report revealed strong economic growth in Europe, North America and Asia as well as some emerging economies like Brazil, China and South Africa. Improved global weather conditions and rising headline in developed economies as well as resurgent global crude oil prices which rose by over 20 percent to US$58 per barrel are some of the factors that accounted for improved growth in 2017, the highest growth since 2010.

The United States Dollar and the Euro remained resilient in real effective terms. The GB Pound sterling, Chinese Renmimbi and South African rand appreciated by 4percent, 2 percent and 7 percent respectively due to higher interest rates, improved geopolitical environment and stronger global commodity prices. However, the Japanese Yen and Mexican Peso depreciated by 5 percent and 7 percent respectively mainly due uncertainty around regional integration negotiations. Overall, capital markets remained resilient propped by increased portfolio inflows

Table 2:1 Summary of Global Output Growth 2013-2017 (Percentage Change)

Region/ Country	2013	2014	2015	2016	2017
Global	3.4	3.4	3.1	3.1	**3.8**
Advanced Economies	1.4	1.9	1.9	1.7	**2.3**
USA	2.2	2.4	2.4	1.6	2.3
Euro Area	-0.4	0.9	1.7	1.7	2.4
United Kingdom	1.7	3.1	2.2	1.8	1.7
Japan	1.6	0.0	0.5	1.0	1.8
Emerging Markets and Developing Asia	5.0	4.6	4.0	4.1	4.7
China	7.0	7.3	6.9	6.7	6.8
India	7.7	7.2	7.6	6.8	6.7
Middle East and North Africa	2.4	2.7	2.3	3.9	**2.5**
Sub -Saharan Africa	5.2	5.1	3.3	1.4	2.7
South Africa	2.2	1.6	1.3	0.3	0.9

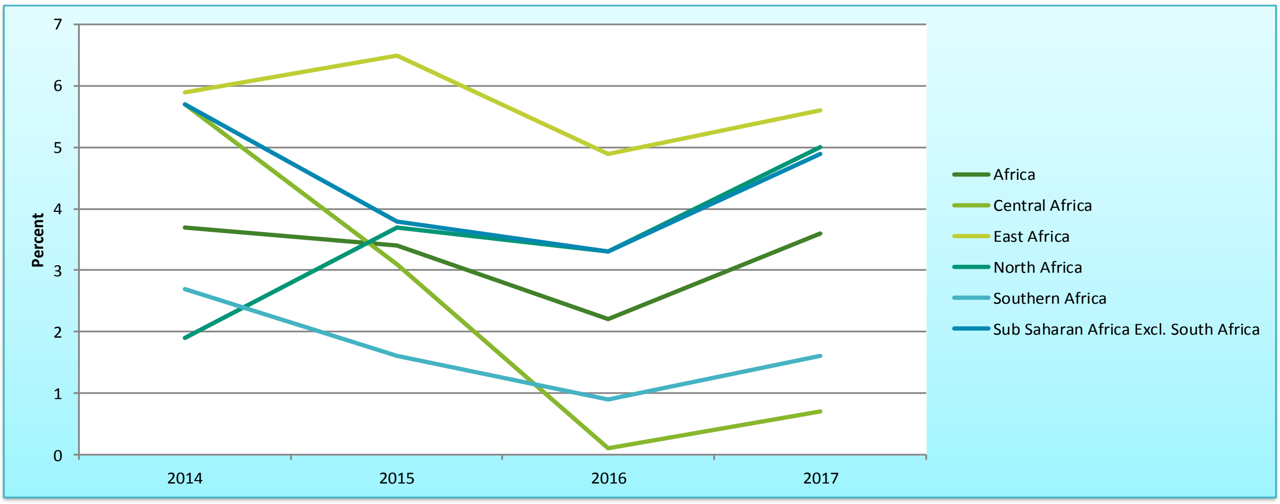
Source: IMF, World Economic Outlook, April 2018

2.2 Africa Economic Outlook

Economic growth for the Africa region rebounded after global economic factors and regional shocks had slowed economic growth in 2016. Real output grew 3.6 percent in 2017, up from 2.2 percent in 2016. Overall, there was positive growth outlook for both resource and non-resource rich African economies. This was mainly as a result of better global commodity prices. Growth in North Africa excluding Libya averaged 4.0 percent, 0.3 points lower than 2016 growth. Sub-Saharan Africa excluding Nigeria slowed to 3.2 percent compared to 3.8 percent growth in 2016. Among net- oil importing economies, growth averaged 3.9 percent up from an average of 2.9 percent in 2016. While Africa grew at about the same rate as global economic growth, increasing population growth implies that per capita growth was below the world average. Also, positive economic growth was not adequate to support much needed infrastructure, human capital and investment development to ensure sustained economic growth in the future

Infrastructure development in the region, financed largely by external borrowing, will require prudent management to ensure returns to investment – especially generated in local currencies are large enough to sustain interest repayments that are mainly in foreign currencies. This calls for review of fiscal policies to ensure that public investment in infrastructure, health and education across the continent are sustained. Tax policy reforms were undertaken across the region but tax-to-GDP ratios are still below the 25 percent threshold that would enable scaling up infrastructure spending. In order to increase revenue yield, there is need to review existing exemptions and leakages that characterize most tax systems on the continent. Progress was achieved on further liberalization of the EAC capital market to facilitate cross border listing. However more need to be done to deepen the market and encourage uptake.

Figure 2:1 **Economic Growth for Selected African Economies, 2014-2017 (percentage)**



Source: AfDB- AEO 2018

2.3 EAC Economic Performance

2.3.1 Economic Growth

East Africa maintained its lead in regional growth in Africa with economic growth of 5.6 percent in 2017, up from 4.9 percent in 2016 (figure 2.2). This was attributed to increased private consumption and public investment in infrastructure specifically roads, rail and electricity. The improved weather conditions coupled with increases in global commodity prices have enabled agricultural production to rebound after poor harvests in the past two years. The main drivers of growth in the EAC was household consumption and public investment specifically infrastructure and development of extractives. for example, household consumption contributed over 88 percent of growth in Kenya while infrastructure development contributed over 45 percent of growth in Uganda.

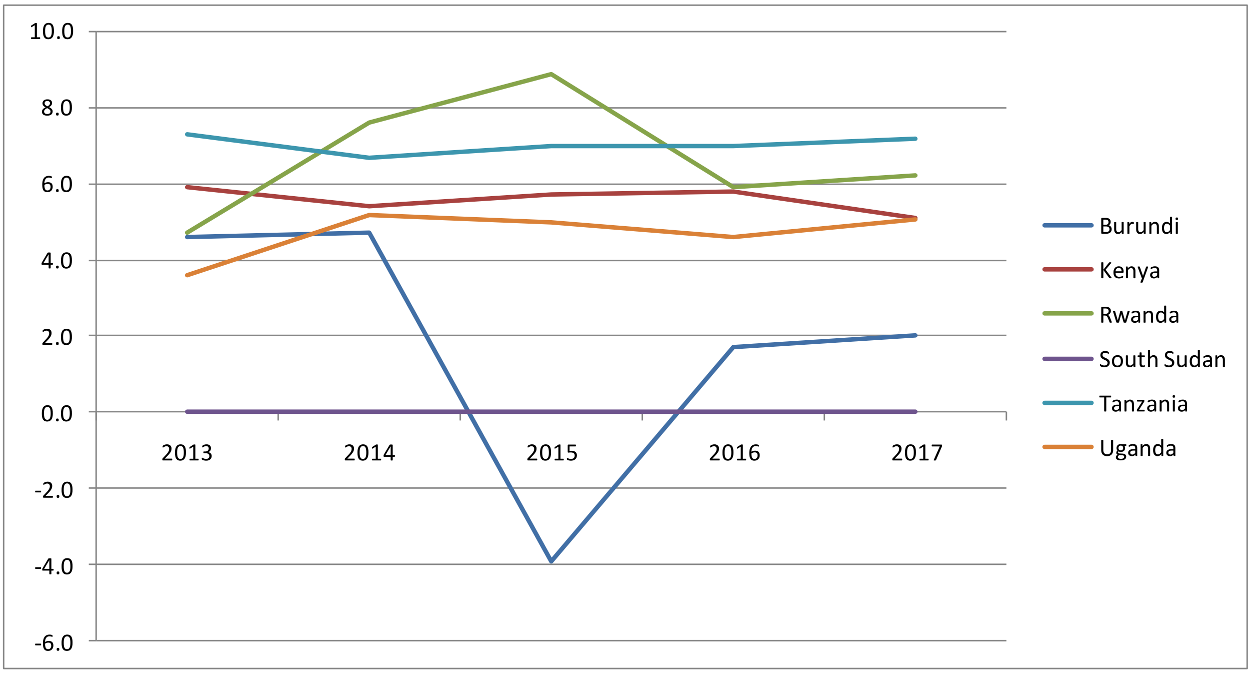
Economic growth among the different Partner States varied in 2017. Burundi economy grew an estimated 1.3 percent in 2017 down from 1.7 percent in 2016. This was a result of weakened economic growth due to a combination of suspension of financial aid as well as declining foreign exchange reserves, declining investment. Kenya growth fell to 4.9 compared to 5.9 percent in 2016 mainly as a result of prolonged uncertainty due to the elections that took place in the country coupled with adverse weather conditions in the previous years. Nevertheless, growth was mainly supported by public investment spending and solid non-agriculture sector performance. Rwanda's economy grew 6.2 percent in 2017, up from 5.9 percent in 2016. Economic growth was mainly supported by growth in the agricultural sector which grew by 7 percent as a result of higher commodity prices. However, there was weaker performance in the services and industrial sectors compared to 2016.

Real GDP of South Sudan contracted by 6.8 percent in 2017. This resulted from prolonged civil strife and a fall in global crude oil prices. The contraction of the South Sudan economy affected Uganda and Kenya given the dependence of the East African Partners on the nascent market.

Tanzania was the fastest growing economy among the Partner states registering growth of 7.1 percent in 2017 compared to 7.0 percent in 2016. GDP growth in 2017 was principally supported by infrastructure development, mining and quarrying and agricultural production. Rapidly growing economic activities include: mining and quarrying which grew at 17.5 percent, water supply grew at 16.7 percent, transportation and storage grew at 16.6 percent, information and communication grew at 14.7 percent and construction which grew at 14.1 percent. Economic activities in agricultural sector grew by 3.6 percent compared to 2.1 percent in 2016. The growth of agricultural sector was due to availability of sufficient rainfall in crop production areas, the increase of extension services and access to sufficient water as well as feed for livestock.

Economic performance in Uganda generally remained strong despite the recent slowdown in real GDP growth, which grew at 4.8 percent in 2017 from 2.3 percent in 2016. Uganda pursued a cautious expansionary fiscal policy stance to support key infrastructure projects in transport and energy, while keeping recurrent expenditure under control. The macroeconomic policy stance for 2017 remained focused on containing inflationary pressures, enhancing exchange rate stability, and stepping up domestic resource mobilization growth by 0.5 percentage point of GDP. Uganda continued to have a low risk of debt distress, however, the debt-to GDP ratio during 2017 increased and was growing faster than government resources. The financial sector was unable to fully support economic activity, rendering the Central Bank's effort to raise liquidity in the economy and stimulating economic activity largely ineffective. The major internal risks for 2017 where reduced domestic revenue mobilization and higher public spending on contingencies, poor institutional capacity and governance, and weak public financial and investment management systems.

Figure 2:2 EAC- GDP Growth, 2013-2017 (annual percent)



Source: World Bank: Statistical Abstracts 2018:

2.3.2 EAC Inflation

The EAC experienced increased inflation as a result of rising global commodity prices especially crude oil. All Partner states experienced increase in headline inflation with the exception of the Republic of Rwanda:

In 2017, Burundi inflation rose by 16.1 percent up from 5.6 percent in 2016 mainly due to higher prices for food products. Food prices increased by 24.1 percent from 7.2 percent in 2016. Non-food prices also rose in 2017 though marginally compared to food prices by 8.9 percent in 2017 from to 4.8 per cent in 2016. The rise in inflation was mainly attributed to the drought experienced in the fourth quarter of 2016 and the first quarter 2017, and to the depreciation of the national currency. The increase in food inflation is attributable to the rise of prices in the bread and cereals which increased by 27.7 percent from 4.8 percent in 2016, vegetables by 28.6 percent from 3.4 per cent in 2016, oils and fats by 5. 0 percent from negative 6.6 percent in 2016, fish and seafood by 23.4 percent from 31.9 percent in 2016, meat by 10.4 percent from 8.9 percent and sugar by 19, 3 percent from 6.7 percent in 2016. Similarly, the rise in non-food sector was mainly driven by higher prices in restaurants and hotels which rose by 7.3 percent in 2017 from

3.1 percent in 2016; housing, water, electricity, gas and other fuels by 7.6 percent in 2017 from 3.1percent in 2016; transportation by 9.0 percent in 2017 from 2.5 percent in 2016; furniture, household appliances and current household repair by 7.6 percent in 2017 from 1.6 percent in 2016.

Kenya's annual average rate of inflation in 2017 increased by 1.7 percentage points to 8.0 percent from 6.3 percent in 2016. The rise was mainly driven by persistent high food prices attributable to unfavourable weather conditions during the second quarter of 2017 (April-June 2017).

Overall, headline inflation in Rwanda declined to 4.9 percent in 2017 from 5.7 percent in 2016 mainly in line with the ease in exchange rate pressures and the significant fall in food inflation especially during the second half of the year. Food inflation dropped to 9.8 percent from 10.7 percent and vegetables inflation declined to 9.5 percent from 20.1 percent during the same period following the improved performance of the agriculture sector. Imported inflation increased from 4.7 percent in 2016 to 6.0 percent in 2017 due to lagged effect of high FRW depreciation against the USD in 2016. Core inflation, that excludes energy and fresh products, eased to 3.9 percent in 2017 from 4.1 percent in 2016 mainly in line with the still low level of aggregate demand. Domestic inflation also dropped to 4.5 percent in 2017 from 6.1 percent in 2016 in line with the aforementioned decline in food prices. The Republic of South Sudan headline inflation rate reached 187.9 percent in 2017 down from 379.8 percent in 2016. The increase was mainly driven by high price in food and non-alcoholic beverages.

The United Republic of Tanzania maintained single digit average inflation rate of 5.3 percent throughout 2017 consistent with contractionary fiscal policy, general slowdown in global commodity prices, particularly oil prices, and slower pace in the increase of domestic food prices. In 2017, headline inflation averaged at 5.3 percent compared to 5.2 percent recorded in 2016, with December 2017 recording the lowest headline inflation of 4.0 percent in December 2017 despite the festive season. Inflation is projected to continue slowing down in the near-term, on the assumption of stability in global oil prices, improved domestic power supply, and increased food supply in the domestic and neighbouring country markets on account of improved weather condition.

Uganda's annual Average Headline Inflation for the calendar year 2017 was recorded at 5.6 percent compared to 5.5 percent recorded during the calendar year ended 2016. The Annual Average Core Inflation for the calendar year 2017 was recorded at 4.4 percent from the 5.9 percent recorded during the calendar year ended 2016. This decrease was due to Other Goods Inflation which was largely driven by Sugar that dropped to 5.0 percent for the year ending December 2017. Food Crops inflation rose largely driven by rising food prices of particularly vegetables and partially the prolonged drought experienced in 2017. The Annual Energy, Fuels and Utilities (EFU) Inflation increased to 7.5 percent for the year ending December 2017 compared to 3.9 percent recorded for the year ended 2016. This was due to Annual Inflation for solid fuels (charcoal and firewood) and Liquid Energy Fuels inflation.

2.3.3 EAC Exchange Rate

The currencies for the East African countries depreciated against the major currencies during the year. Specifically, EAC currencies depreciated against the United States Dollar.

In 2017, the Burundian franc (BIF) depreciated against US dollar by 4.5 percent to an annual average of BIF 1,729.01 from an average of BIF 1,654.63 to the US dollar in 2016. Over the same period, the BIF depreciated by 4.6 percent against the Swiss franc; by 1.6 percent, 4.3 percent and 6.7 percent against the Yen Japanese, the SDR and the Euro respectively while it appreciated by 0.6 percent against the Pound Sterling. Within the EAC region, the BIF appreciated by 2.2 percent and by 1.1 percent vis-à-vis the FRW and the UGX while it depreciated by 2.6 percent and 2.1 percent against the KES and the TZS respectively.

The Kenya Shilling strengthened against the Pound Sterling and the Japanese Yen but weakened against the US Dollar and the Euro in 2017. It traded at an average of 103.4 to the USD, 133.11 per Pound Sterling, 116.7 per Euro and 92.21 per 100 Japanese Yen. This was against an average of 101.50 to the USD, 137.68 per Pound Sterling, 112.38 per Euro and 93.65 per 100 Japanese Yen in 2016. The weakening of the Kenya Shilling against the US Dollar in 2017 was largely occasioned by a strong US Dollar on the International Markets and Dollar demand on the domestic market from local importers. The performance of the US Dollar on the International Markets was fuelled by positive sentiment surrounding strong US economic data over the review period and expectations of an increase in the Federal Funds rate and eventual increase in December 2016 and March 2017.

Rwanda's exchange rate pressures in 2017 eased owing to improved export receipts in line with a continued recovery in international commodity prices, diversification of exports as well as the decline in the import bill. As a result, the FRW depreciated by 3.07 percent (y-o-y) against the USD in 2017 compared to a depreciation of 9.7 percent in 2016. In 2017, the FRW depreciated by 13.2 percent and 16.9 percent (y-o-y) against the British pound and Euro respectively following the improved economic performance in the Euro area as well as the depreciation of USD against these currencies. The FRW depreciated by 2.3 percent, 2.7 percent and 0.4 percent against the Kenyan, Ugandan and Tanzanian shillings respectively, while appreciating by 1.0 percent against the Burundian franc. The FRW real effective exchange rate depreciation increased to 9.2 percent (y-o-y) in 2017 from 3.4 percent in 2016, mainly attributed to the depreciation of the nominal exchange rate of FRW against currencies of some of the major trading partners and the increase in the inflation differential. The FRW real effective exchange rate depreciation increased to 9.2 percent (y-o-y) in 2017 from 3.4 percent in 2016, mainly attributed to the depreciation of the nominal exchange rate of FRW against currencies of some of the major trading partners and the increase in the inflation differential.

The South Sudanese Pound (SSP) depreciated to SSP130 to the US Dollar on the official market while the rate was SSP190 to the US Dollar in the parallel market from SSP80 to the US Dollar on the official market in 2016

The value of the Tanzania shilling against the US dollar remained broadly stable throughout 2017, consistent with improvement in the current account balance. The shilling however experienced a short-lived sharp depreciation against the US dollar in January 2017, triggered by the global strengthening of the US dollar largely associated with the policy decision to raise interest rate in the US in December 2016. In the wholesale market, the shilling exchange rate fluctuated within a range of Tanzania Shillings, 2,188 - 2,254 against the US dollar in 2017, compared with a range of Tanzania shillings 2,167 - 2,200 to the US dollar in 2016.
The Uganda Shilling depreciated by 5.3 percent to Uganda Shillings 3,611.3 to the US Dollar in 2017 down from an average of Uganda Shilling 3,420.1 to the US Dollar in 2016. The weakening of the Uganda Shilling during the year was attributed to elevated uncertainty surrounding the local political environment as well as in neighbouring Kenya during the year.

2.3.4 EAC Balance of Payment

Overall, the EAC Partner states maintained the current account deficits that accumulated over the previous three years. The persistent current account deficit in the region was attributed to increase in the goods and services account deficit.
The Republic of Burundi's balance of payments in 2017 was characterized by an increase in the current account deficit to negative US$ 359.3 million from negative US$ 339.6 million and the capital account surplus of $ 107.9 million in 2017 from US$ 70.5 million in 2016. The balance of payments recorded a slight net lending of $ 251.5 million compared to negative $ 269.1 million in 2016. The increase in the current account deficit could be attributable to the rise in the goods and services account deficit of 14.2 per cent to US$ 622.6 million in 2017 from US$ 545.0 million in 2016, partially offset by an increase of the secondary income surplus of US$ 263.3 million in 2017 compared to US$ 205.5 million in 2016. The financial account also recorded a slight decrease of net lending of negative US$ 220.4 million in 2017 compared to negative US$ 258.4million in 2016 due to the increase in foreign liabilities partially offset by a decrease in reserve assets of US$ 15.0 million.

Kenya’s Balance of Payments in 2017 stood at US$ 164 million deficit from US$ 129 million surplus in 2016. The current account deficit deteriorated US$ 5,018 million or 6.7 percent of GDP in 2017 from US$ 3,697 million which was about 5.2 percent of GDP in 2016, 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. Meanwhile, receipts from exports remained relatively stable over the review period supported by resilient agricultural exports. The capital account surplus decreased to US$ 184 million in 2017 from US$ 206 million in 2016 as a result of a decrease in inflows of capital transfers in the form of project grants. Over the same period, inflows to the financial account increased to US$ 4,604 million from US$ 4,137 million in 2016 on account of short-term capital inflows.

Rwanda's reserves at the end of 2017 stood at US$ 92.6 million from a negative of US$ 10.0 million in 2016. The improvement in the current account deficit of US$ 621.56 billion from deficit of US$ 1,335.78 million recorded in 2016, this was due to a positive variation in trade balance where exports and imports variation were respectively 44.5 percent and negative 5.6 percent in 2017.

The Balance of payments of South Sudan amounted to 50.4 million while the current account deficit continued to fall gradually and amounted to US$ 2.5 billion 2017 from USD935 million in 2016.

The Republic of Tanzania's overall balance of payments recorded a surplus of US$ 1,649.5 million compared with US$ 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 US$ 5,906.2 million as at December 2017 compared to US$ 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 percent to US$ 1,218.1 million compared with a deficit of US$ 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

Uganda's overall balance of payments in 2017 recorded a surplus of US$494.3 million. This was an improvement from the surplus of US$318.6 million registered in 2016. The external sector recorded a surplus balance of US$494 million in 2017, which was 55% (US$176million) improvement from a surplus of US$319Mn recorded in 2016. Net borrowing balance from the current and capital accounts increased by US$384Mn during 2017, compared with 2016. The Current Account Deficit (CAD) widened in 2017 by US$384million (67percent), in comparison with 2016; as a result of increase in both the Services (US$309million) and Goods account (US$I51million) deficits. Services account recorded increased payments to non-residents for transport services (US$145 million) amidst a decrease in receipts from travel services (US$142million). The Import bill, in the Goods account recorded increased payments (US$544million), although this was moderated by an increase in export earnings (US$393 million). The Net inflows (liabilities) through the financial account increased by US$110million year on year as, all sub accounts of the Financial Account contributed to the increase in net inflows during the year, with the exception of the Portfolio, which recorded increased outflows year on year. This increase in financial inflows was sufficient to finance the CAD. Debt Instrument inflows increased by 19 percent to US$607 million largely on account of the decline (US$ 113 million) in the debt instrument assets. While Portfolio net outflows (assets) increased by US$443 million (665percent), driven by increased exit by non-residents from the Uganda securities market (decline in liabilities). The Other investment net inflows increased by 104 percent, owing to a US$388 million decrease in currency and deposit assets. Official foreign exchange reserves increased to US$ 3.65 billion at end of 2017(5.3 months of future imports) from US$ 3.0 billion in 2016.

2.3.5 EAC National Savings

Burundi gross national savings has fluctuated substantially in recent years as a result of increasing domestic consumption. Gross national savings contracted by 5.4 percent of GDP in 2017. This was mainly as a result of decrease in the primary and secondary incomes during the year. In Kenya, the level of gross savings decreased from USD 8.0 billion in 2016 to USD 6.4 billion in 2017. As a share of GDP, the gross savings increased marginally to 11.6 percent from 11.2 percent over the same period. Rwanda's level of saving increased by 15.5% percent, to US$ 971.2 million in 2017, from US$ 841.2 million in 2016. The gross national savings share to GDP increased to 10.6 percent in 2017 from 9.9 percent in 2016. These increases are due to increases from the Gross National Income of 8.04 in 2017 compared to 2016.

In Tanzania, the level of gross national savings increased by 6.5 percent to US$ 11.5 billion in 2017 from US$ 10.8 billion in 2016. The share of National Savings to GDP decreased from 22.8 percent to 22.2 percent over the same period.

Although Uganda's gross national savings (percent of GDP) fluctuated substantially in recent years, it tended to decrease between 2004 - 2017 periods, posting 19.8 percent of GDP in 2017 from 19.4 percent of GDP in 2016. The world gross national savings (percent of GDP) remained relatively stable at 25.8 percent of GDP in 2017, compared to 25.8 percent of GDP recorded in the previous year 2016. This indicates that Uganda's Gross National Savings as a percent of GDP is below the world's average percentage points. Uganda's gross domestic saving decreased to 19.84 percent of GDP in 2017 from 20.10 percent of GDP or USD3,700ml in 2016. Meanwhile, the Household final consumption expenditure per capita (private consumption per capita) for Uganda was estimated at USD482 in 2017 compared to USD 485 in 2016.

2.3.6 EAC External Debt

The external debt of the republic of Burundi rose by 2.7 per cent, to US$ 440.5 million in 2017 from $ 429.1 million in 2016. This increase is explained by the rise in new withdrawing of external credit of US$ 8.0 million and by revaluation of US$ 31.4 million slightly dampened by the US$ 9.1 million in respect of amortization. Thus, the ratio of external debt service to export increased from 3.9 percent in 2016 to 5.9 percent in 2017.The external debt is composed by 77.3 percent of multilateral, 13.4 percent and 9.3 percent of the bilateral and commercial creditors respectively.

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 percent of GDP from USD 17.8 billion or 25.0 percent 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.

Rwanda's public debt in 2017was mostly composed of loans from multilateral institutions, such as IDA and other multilateral institutions, representing 66.5 percent of total public external debt. The remaining 23.3 percent were from bilateral partners. Comparatively, the public external debt stock of Rwanda rose by 9.2 percent, to US$ 4.0 billion at the end of 2017 from US$ 3.6 billion at the end of 2016. This was mainly driven by an increase of 18.4 percent of multilateral debts, which rose to US$ 2.6 billion in 2017 from US$ 2.2 billion in 2016.
The United republic of Tanzania external debt stock, comprising public and private sectors, amounted to USD 19,180.2 million at the end of December 2017, an increase of USD 1,822.7 million from the amount recorded during the corresponding period in 2016. The increase was mainly on account of disbursements and exchange rate movements. Central government debt remained dominant, accounting for 78.3 percent of total external debt, followed by private sector that accounted for 20.4 percent. Composition of external debt by creditor category continued to show that the debt owed to multilateral institutions accounting for the largest share (47.5 percent), followed by commercial creditors, which was 31.9 percent of the total debt.

Uganda's stock of public external debt disbursed and outstanding increased to US$ 6.9 billion as at end of December 2017 from US$ 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 US$4,686.1 million, accounting for 67.9 percent of the total public external debt, as compared to 70.6 percent 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 percent of the total external debt outstanding at the end of December 2017, from 26.7 percent 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 (Albertine road network, Entebbe express highway, Entebbe International Airport Expansion and Kampala Flyover construction) and the Energy sector developments (Karuma and Isimba hydro dams). The share of private banks and other financial institutions rose to 2.5 percent in 2017 owing to a financing agreement between the government of Uganda and the PTA bank. The currency composition of the stock of external debt remained predominantly denominated in Special Drawing Rights (SDR). As at end December 2017, the SDR denominated debt accounted for 46.4 percent of the public external debt while USD and EUR denominated debt accounted for 72.9 percent of the external debt stock, an indication of the portfolio's vulnerability to movements in these currencies for the Ugandan economy.

PART II: TRADE AND INVESTMENT: TRENDS, CHALLENGES AND PROSPECTS

3 CHAPTER 3: MERCHANDIZE TRADE

3.1 Global Merchandize Trade

Global merchandise trade volume grew to 4.7 percent in 2017 from 1.8 percent in 2016 principally driven by rising import demand especially in Asia. The largest gains were recorded on the import side in developing economies, where trade growth surged to 7.2 percent in 2017 from 1.9 percent in 2016. Import demand also picked up in developed countries, albeit less dramatically, as merchandise trade growth in volume terms increased to 3.1percent in 2017 from 2.0 percent in 2016. Merchandise exports grew 3.5 percent in developed countries and 5.7percent in developing countries in 2017, up from 1.1 percent and 2.3 percent respectively in 2016.

Asia had the fastest trade volume growth of any region in 2017 on both the export side (6.7percent) and the import side (9.6percent) following two years of slower expansion. North American exports and imports rebounded strongly in 2017 with growth of 4.2 percent and 4.0percent, respectively, after stagnating in 2016. South and Central America and the Caribbean's import growth turned positive again in 2017 with an increase of 4.0 percent, following three years of steep declines. Meanwhile, European trade flows continued to expand at a moderate pace, with growth of 3.5 percent for exports and 2.5 percent for imports in 2017.

Africa, the Middle East and the Commonwealth of Independent States, saw steady export growth of 2.3 percent in volume terms due to demand for oil and other natural resources. Imports of the combined regions increased slightly by 0.9 percent, partly as a result of higher primary commodity prices, which increased export revenue in resource exporting countries and provided revenues for increased imports. Energy prices more than doubled since January 2016, but even at nearly US$70 per barrel oil prices still remain below the US$100 level that prevailed before the middle of 2014.

Trade volume growth in 2017, the strongest since 2011, was driven mainly by cyclical factors, particularly increased investment and consumption expenditure. as well as increasing quantities and rising prices. Increased investment spending highly correlated with trade, and higher commodity prices, which raised incomes in resource-based economies and encourage investment in the energy sector.

The Dollar value of global merchandize trade was also influenced by rising nominal effective exchange rate of the US Dollar against most convertible currencies leading to increased prices for energy, food, raw materials and metals by between 7percent and 24 percent. This also partly explained why the dollar value of merchandize trade growth was stronger than in volume terms rising by 11 percent to USD 17.2 trillion yet exports increased by only 4.6 percent in 2017.

Table 3:1: Global Trade: Exports and Import, 2015-2017 (percentage growth)

	Volume of Exports				Volume of Imports		
Economic Group or region	2015	2016	2017		2015	2016	2017
Global Level	**2.6**	**1.3**	**4.6**		**2.9**	**1.2**	**4.8**
Developed Economies	**2.7**	**1.4**	**3.5**		**4.7**	**2.0**	**3.1**
North America	0.7	0.5	4.2		6.7	0.4	4.0
Europe	3.6	1.4	3.5		4.3	3.1	2.5
Developing Economies	**2.0**	**1.3**	**5.7**		**0.5**	**0.2**	**7.2**
Africa	4.9	1.2	2.3		3.2	-4.6	0.9
Asia	1.1	1.8	6.7		2.9	2.0	9.6
Latin America & the Caribbean	2.5	2.0	2.9		-5.8	-8.7	4.0
Transition Economies	**-0.2**	**-3.0**	**2.1**		**-19.9**	**7.3**	**8.2**

Source: WTO Secretariat World Statistics Reveiw2018

3.2 Merchandize Trade in Africa

Africa has enjoyed advances in trade and regional integration. The region experienced steady export growth of 2.3percent in volume terms due increased oil and commodity prices arising from improved weather conditions. Meanwhile, imports of the combined regions increased slightly by 0.9 percent, partly as a result of higher primary commodity prices, which raise export revenue in resource exporting countries and allow more imports to be purchased. Energy prices more than doubled since January 2016, but even at nearly US$70 per barrel oil prices still remain below the US$100 level that prevailed before the middle of 2014.

Total value of exports grew by 18. 3 percent to US$417 billion in 2017 while imports grew by 7.8 percent to US$ 534 billion over the same period. Exports for oil exporting countries amounted to US$ 154 billion while non-oil exports amounted to US$173 billion. Total trade over the 2017 year amounted to US$951 billion. However, Africa trade still constitutes a small fraction of global merchandize trade. Exports from Africa represented only 2.4 percent of global merchandize exports while imports represented about 3.1 percent of global merchandize imports (WTO 2018).

3.3 EAC Regional Merchandize Trade

3.3.1 Sectoral Distribution of EAC Trade

A large proportion of trade between East African countries as well as with the rest of the world consists of trade in primary commodities although trade in finished goods is also increasing. The main exports from the EAC in 2017 included tea, coffee, cocoa and horticultural products. Mineral ore, especially gold and diamond, constituted a sizeable percentage of the exports.

Formal trade among the EAC partner states constitutes manufactured commodities especially iron and steel as well, textiles and chemicals although trade in food commodities is gaining prominence in the region. The key food items traded among the partner states include rice, maize, sorghum and other cereals. East Africa is heavily dependent on imports especially from China, the Far East and Europe. The key imports include petroleum products, machinery, electronics, motors and iron and steel. Also, importation of food stuff especially rice and wheat constituted a large proportion of the imports over the year 2017.

3.4 Total EAC Trade Trends

The EAC recorded an 8.6 percent growth in trade to USD 46.9 billion in 2017 from USD43.2 billion in 2016. This was against a backdrop of negative trade trends over the previous two years. The rise is total trade was on account rising global import demand for goods from developing countries especially from Asia; Global prices for oil peaked at USD58 resulting in increased revenues for resource exporting countries resulting into increased demand for raw materials and agricultural products from the region in 2017; Increased investments in infrastructure and manufacturing over the previous two years also resulted into increased trade. In addition, higher commodity prices resulted into increased export revenues for the region.

Total EAC exports in 2017 decreased by 9.3 percent to USD 14.7 billion from US$16.2 billion in 2016. The bulk of EAC exports were destined to EAC, EU and COMESA, amounting to USD2.9 billion, USD2.3 billion and USD 2.0 billion, respectively. The main products exported by the region included gold, coffee and tea. Total EAC imports grew by 19.5 percent to USD 32.2 billion from US$26.9 billion in 2016 Imports from the EU accounted for about 12.9 percent, while intra-EAC imports accounted for about 7.7 percent in 2017. The increase in imports was attributed to the rise in global crude oil prices that could have increased the import bill for petroleum products which was among the key imports into the region. Other imports included motor, sugar, wheat and rice.

Overall, trade was meagre and accounted for only 0.2 percent of global trade in 2017 compared to 0.3 percent in 2016. Also, the region continued to register a trade deficit with the rest of the world in 2017 partly due to an increase in imports into the region. The deficit for the EAC increased by 63.1 percent to USD17.4 billion from US$10.7 billion registered in 2016. The challenges to improved trade between the EAC and the rest of the world include: a restrictive trade policy that may risk retaliation from other trading blocs; restrictive monetary policy in the region that could lead to fluctuations in exchange rates disrupt merchandize trade; and, worsening geopolitical tensions in the Great Lakes region and Horn of Africa could affect industrial development and trade trends.

Table 3:2: EAC-Total Trade Flows, 2013-2017 (US$ million and percentage change)

Trade Flow	Destination/Origin	2013	2014	2015	2016	2017	Percentage change			
							2014	2015	2016	2017
Exports	Total EAC Exports	**15,965.0**	**19,373.4**	**16,819.6**	**16,234.5**	**14,727.3**	21.3	(13.2)	(3.5)	(9.3)
	Intra-EAC Total Exports	3,339.4	3,290.1	2,823.0	2,681.4	2,898.2	(2.6)	(14.2)	(5.0)	8.1
	COMESA	2,734.3	2,669.9	2,335.5	2,416.2	1,976.7	(2.4)	(12.5)	3.5	(18.2)
	SADC	2,184.8	2,976.9	1,496.5	1,682.9	1,420.2	36.3	(49.7)	12.5	(15.6)
	Rest of Africa	678.5	862.3	606.0	799.6	328.3	27.1	(29.7)	31.9	(58.9)
	EU	2,230.7	2,744.6	2,398.8	2,341.3	2,301.1	23.0	(12.6)	(2.4)	(1.7)
	USA	462.0	660.5	521.9	667.1	755.7	43.0	(21.0)	27.8	13.3
	Total Exports to Rest of the World	4,335.2	6,205.6	6,054.1	5,594.4	5,191.8	43.1	(2.4)	(7.6)	(7.2)
	Intra-EAC % share to Total Exports	20.92	16.79	20.26	16.83	19.68				
	COMESA % share to total exports	17.13	13.78	13.89	14.88	13.42				
	SADC % share to total exports	13.68	15.37	8.90	10.37	9.64				
	Rest of Africa % share to total exports	4.25	4.45	3.60	4.93	2.23				
	EU % share to total exports	13.97	14.17	14.26	14.42	15.62				
	USA % share to total exports	2.89	3.41	3.10	4.11	5.13				
	Total exports to Rest of the World % share to total exports	27.15	32.03	35.99	34.46	35.25				
Imports	Total EAC Imports	**33,216.4**	**35,325.1**	**36,632.8**	**26,926.9**	**32,165.5**	7.8	(26.5)	(26.5)	19.5
	Intra-EAC Total Imports	2,179.5	2,535.3	2,524.4	2,181.0	2,488.3	14.0	(0.4)	(13.6)	14.1
	COMESA	1,036.7	1,051.4	1,038.3	1,068.9	1,535.5	26.0	(11.4)	2.9	43.7
	SADC	2,237.8	2,199.7	2,527.8	1,648.0	2,410.3	(1.9)	(24.3)	(34.8)	46.3
	Rest of Africa	159.4	68.9	84.7	103.0	90.2	(73.6)	2,133.4	21.7	(12.4)
	EU	4,763.2	5,383.3	5,287.8	4,061.1	4,138.0	11.5	(28.1)	(23.2)	1.9
	USA	1,078.4	2,423.3	1,794.9	868.9	921.6	125.1	(64.9)	(51.6)	6.1
	Total Imports to Rest of the World	21,761.4	21,705.2	23,492.2	16,996.0	20,587.6	2.5	(26.1)	(27.7)	21.1
	Intra-EAC% share to Total imports	6.6	7.1	6.6	8.1	7.7				
	COMESA % share to total imports	3.1	3.0	2.8	4.0	4.8				
	SADC % share to total imports	6.7	6.2	6.9	6.1	7.5				
	Rest of Africa % share to total imports	0.5	0.2	0.2	0.4	0.3				
	EU % share to total imports	14.3	15.2	14.4	15.1	12.9				
	USA % share to total imports	3.2	6.9	4.9	3.2	2.9				
	Total imports to Rest of World % share to total imports	65.5	61.4	64.1	63.1	64.0				
Total Trade							2014	2015	2016	2017
	Total intra EAC Trade	**5,518.9**	**5,825.4**	**5,347.4**	**4,862.3**	**5,386.4**	**(3.0)**	**(8.2)**	**(9.1)**	**10.8**
	Total Trade	**49,181.4**	**54,698.5**	**53,452.3**	**43,161.4**	**46,892.8**	**14.1**	**(25.4)**	**(19.3)**	**8.6**
	EAC Trade Balance	**(17,251.3)**	**(15,951.6)**	**(19,813.2)**	**(10,692.4)**	**(17,438.2)**	**(6.9)**	**(29.7)**	**(46.0)**	**63.1**

Source: National Statistical Offices and Revenue Authorities of Partner States

Notes:

(1) COMESA excludes Kenya, Uganda, Burundi and Rwanda

(2) SADC excludes Tanzania

Intra-Regional Merchandize Trade

3.4.1 Significance of intra-Regional Merchandise Trade

The composition of EAC trade continued to be dominated by agricultural commodities, namely coffee, tobacco, cotton, rice, maize and wheat flour. Manufactured goods such as cement, petroleum, textiles, sugar, confectionery, beer, salt, fats and oils, steel and steel products, paper, plastics and pharmaceuticals were also traded across the region.

EAC intra-regional imports grew by 14.1 percent to USD2.5 billion in 2017 from USD2.1 billion in 2016 in contrast to negative growth over the past two years. Kenya's imports from the rest of the region grew for the first time in two years by 81.7 percent to USD589.5 million. The increase was 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. Uganda and Rwanda’s imports also grew although more modestly at 6.2 percent to USD565.5 million and 2.2 percent to USD476.6 million respectively in 2017. Kenya was Uganda's main intra-regional trading partner and imports mainly included petroleum products, cement, iron and steel and pharmaceutical products. Rwanda's intra-regional imports were dominated by imports from Uganda and Kenya mainly composed of salt, fats, cereals, and soaps, iron and steel, plastics and paper. Tanzania's intra-EAC imports decreased by 18.6 percent to US$243.2 million largely due to reduced imports from Kenya as a result of progress in industrialization. Tanzania's key imports from the EAC partners included pharmaceuticals products, soaps, plastic items and other consumer goods. Burundi main EAC trading partners was Tanzania and imports mainly consisted of chemical fertilizers, cement and textile articles. South Sudan's imports from the EAC grew by 15 percent to US$462.5 million in 2017 and accounted for 80.0 percent of total imports. The main trading partners were Kenya and Uganda and imports mainly consisted of maize, sugar and manufactured commodities.

Intra-regional exports grew by 8.1 percent to US$2.9 billion from US$2.7 billion in 2016. Noticeably, exports from Tanzania and Uganda to the other Partner States grew by 37.3 percent and 18.4 percent respectively in 2017. Rwanda experienced a modest growth in exports to the other Partner States of 6.4 percent. Kenya's Intra regional exports declined 7.4 percent. This was mainly attributed to falling intra-EAC export volumes of manufactured products like cement, iron and steel, salt, and medicaments Burundi experienced decline of 6.0 percent while South Sudan exports to the EAC declined by 24.2 percent.

The growth in intra-regional trade could be attributed to:

i. Favourable weather conditions over the year which increased production of agricultural commodities leading to higher exports that are traded among the Partner States especially maize, rice and dairy products;

ii. Elimination of restrictions for imports of sensitive products thus allowing for greater trade among the Partner States particularly for rice and sugar;

iii. Elimination of e some of the NTBs resulting in greater intra-regional trade for products like edible oil, and dairy products.;

iv. Increased trade in intermediate products including cold rolled steel sheets and clinker and;

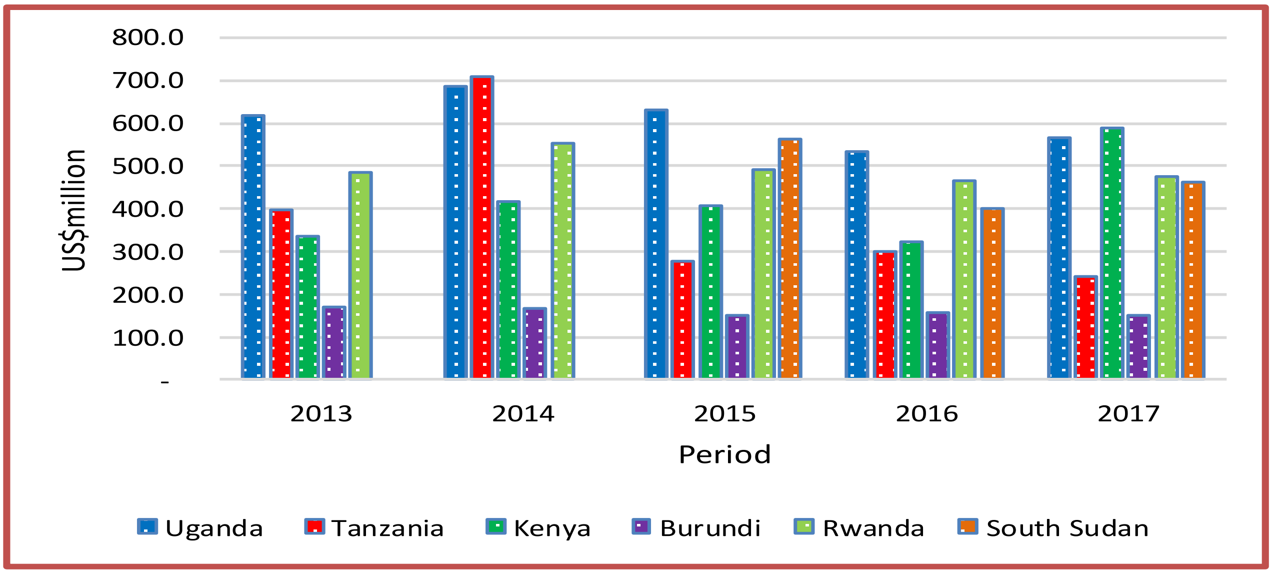
v. Increased intra-regional re-exports of petroleum products as a result of higher global prices during the year.

Table 3:3: Total intra EAC Trade, 2013-2017 (US$ million and percentage change)

		2013	2014	2015	2016	2017	Percentage Change			
							2014	2015	2016	2017
Imports	Uganda	616.9	686.1	631.0	532.6	565.5	11.2	-8.0	-15.6	6.2
	Tanzania	397.0	709.9	278.6	298.8	243.2	78.8	-60.8	7.3	-18.6
	Kenya	334.5	416.9	407.8	324.4	589.5	24.6	-2.2	-20.5	81.7
	Burundi	171.4	168.1	151.1	157.2	151.0	-1.9	-10.1	4.0	-3.9
	Rwanda	485.0	554.2	492.7	466.2	476.6	14.3	-11.1	-5.4	2.2
	South Sudan	0.0	0.0	563.2	402.0	462.5			-28.6	15.0
	Total	**2,004.8**	**2,535.3**	**2,524.4**	**2,181.1**	**2,488.3**	**26.5**	**-0.4**	**-13.6**	**14.1**
Exports	Uganda	802.8	922.5	1,036.7	950.9	1,126.3	14.9	12.4	-8.3	18.4
	Tanzania	1,118.0	779.5	337.4	338.3	464.5	-30.3	-56.7	0.3	37.3
	Kenya	1,451.0	1,430.8	1,285.9	1,199.0	1,110.5	-1.4	-10.1	-6.8	-7.4
	Burundi	20.1	15.7	14.8	12.3	11.5	-21.9	-5.3	-17.1	-6.0
	Rwanda	125.8	141.6	135.2	157.4	167.4	12.6	-4.5	16.4	6.4
	South Sudan	-	-	13.0	23.6	17.9			81.4	-24.2
	Total	**3,517.6**	**3,290.1**	**2,823.0**	**2,681.4**	**2,898.2**	**-6.5**	**-14.2**	**-5.0**	**8.1**
Total EAC Trade value	Uganda	1,244.0	1,608.6	1,667.7	1,483.5	1,691.8	29.3	3.7	-11.0	14.0
	Tanzania	1,515.0	1,489.4	616.0	637.1	707.7	-1.7	-58.6	3.4	11.1
	Kenya	1,785.5	1,847.7	1,693.7	1,523.4	1,700.1	3.5	-8.3	-10.1	11.6
	Burundi	191.4	183.8	165.9	169.5	162.6	-4.0	-9.7	2.2	-4.1
	Rwanda	610.8	695.8	628.0	623.5	644.1	13.9	-9.7	-0.7	3.3
	South Sudan	-	-	576.2	425.6	480.4			-26.1	12.9
	Total	**5,346.7**	**5,825.3**	**5,347.4**	**4,862.6**	**5,386.6**	**9.0**	**-8.2**	**-9.1**	**10.8**

Source: Partner States Revenue Authorities, Central Banks and National Statistics Offices

Figure 3:1 Total intra-EAC Imports, 2013-2017 (US$ million)



Source: Partner States Revenue Authorities, Central Banks and National Statisitcs Offices

3.5 Country Specific Trade Trends

3.5.1 Burundi

3.5.1.1 Burundi's International Trade

Burundi's total trade increased by 19.0 percent to US$ 905.5 million in 2017 from US$ 760.7 million recorded in 2016. This was attributed to the growth in both exports and imports during the year. Exports from Burundi increased by 12.9 percent to US$149.5 million in 2017 from US$ 132.4 million in 2016. At the same time, imports increased by 20.3 percent to US$756.0 million in 2017 from US$628.3 million in 2016.

In 2017, Burundi's major trading partners were the EAC, European Union, China and India. Total trade with the EAC amounted to US$ 162.6 million in 2017 down from US$ 169.5 million in 2016 and accounted for 17.8 percent of total trade. Burundi's imports from the EAC were dominated by fertilizer and Portland cement from the United Republic of Tanzania.

Trade with China amounted to US$105.5 million or 13.9 percent of total trade while trade with India amounted to US$106.4 million, about 11.8 percent of total trade over the year 2017. Other notable trade partners over 2017 included the United Arab Emirates (UAE) and the COMESA Partner States. Overall, Burundi's trade deficit deteriorated by 22.3 percent to US$ 606.5million in 2017 from US$495.9 in 2016 accounting for 22.3 percent.

Figure 3:2 Burundi's Imports Exports and Trade Balance, 2013-2017 (US$ million)

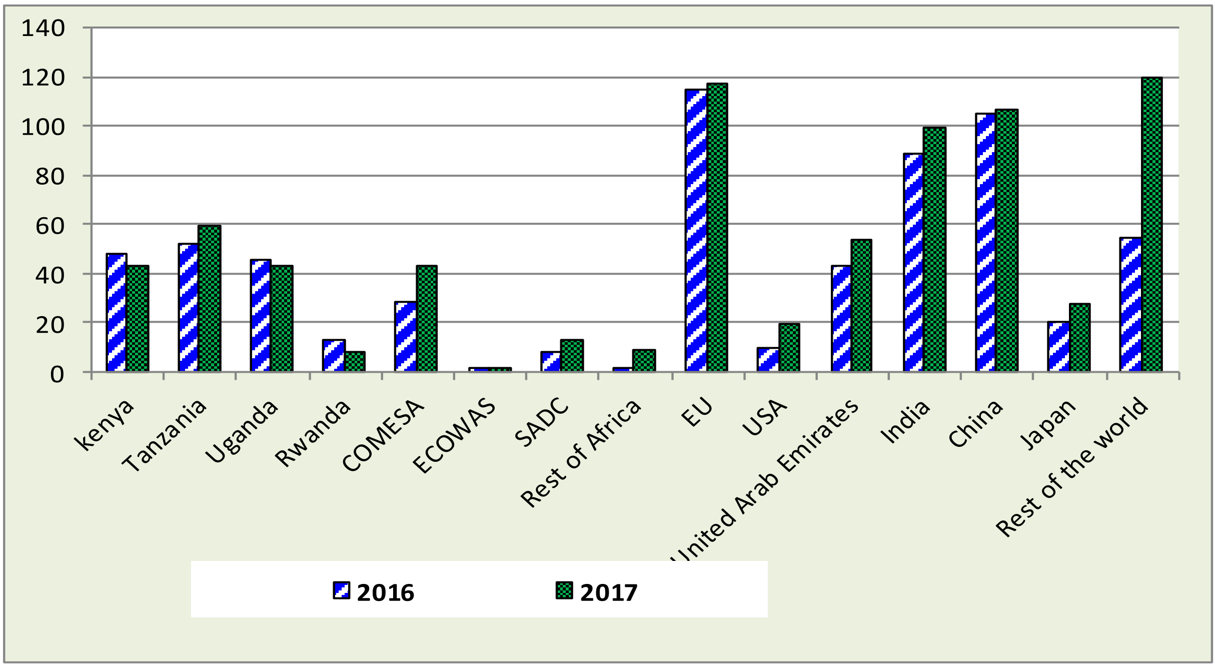
Source: OBR and ISTEEBU, 2018

Imports

In 2017, Burundi's imports increased by 20.3 percent, to US$ 756.0 million from US$ 628.3 million recorded in 2016. The increase mainly resulted from the increase in importation of petroleum due to increase in the global prices, pharmaceutical products (accounting for 20.8

percent and 9.8 percent respectively), motor cars and vehicles for the transport of persons (41 percent) mineral or chemical fertilizers (48.3 percent), sugar, confectionery, rice and maize.
Over 2017, Burundi's main sources of imports included EAC, EU, India and China. Burundi's imports from EAC amounted to US$ 151.0 million and accounted for 20.0 percent of total imports, while imports from EU amounted to US $ 116.8 million and accounted for 15.5 percent of total imports. Imports from India and China accounted for 14.1 percent and 13.1 percent of Burundi's total imports respectively. Most of the imports from India consisted of medicaments and petroleum oil while imports from EAC consisted of mineral or chemical fertilizers and iron and steel.

Figure 3:3 Burundi's Imports by Country/ Region of Origin

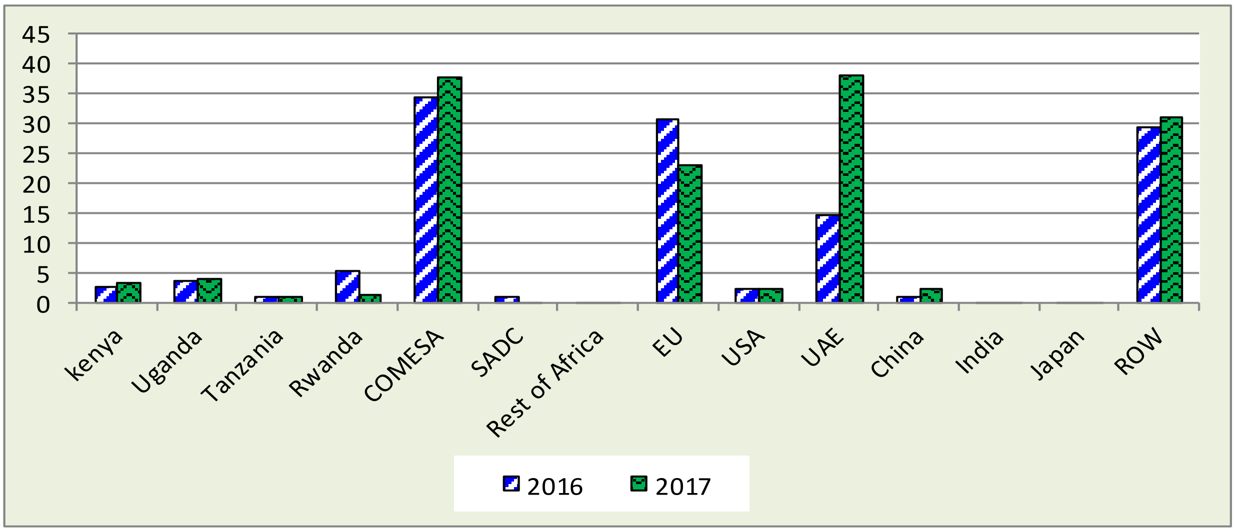


Source: OBR and ISTEEBU, 2018

Domestic Exports

Overall domestic export earnings increased by 14.4 percent to US$ 144.6 million in 2017 from US$126.3 million in 2016. The increase was mainly attributed to the improvement in the volume of tea exports which increased by 22.8 percent. The increase in the value of tea exports was in response to the rise of tea prices at the global tea auction market. Check price of tea on the auction. During the year, the UAE was the biggest export destination for Burundi accounting for 26.5 percent of total domestic exports. Other notable export destinations outside the EAC included COMESA and the EU, with exports accounting for 26.2 percent and 15.9 percent respectively.

Figure 3:4: Burundi's Exports by Country /Region of Destination



Source: OBR and ISTEEBU, 2018

Re-Exports

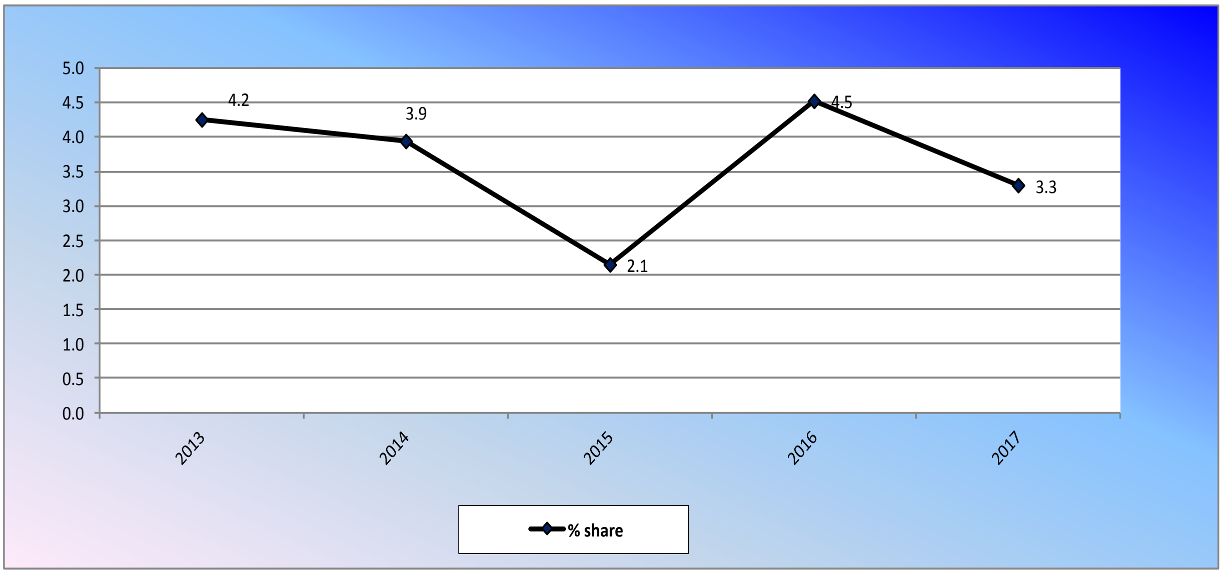
In 2017, Burundi's re-exports declined by 17.7 percent to US$ 4.9 million from US$ 6.0 million in 2016. The share of re-exports to total exports decreased to 3.3 percent compared to 4.5 percent in 2016. The goods that were re-exported include instruments and appliances used in medical mainly re-exported to Democratic Republic of Congo and motor cars and other motor vehicles for the transport of persons re-exported to Tanzania.

Table 3:4 Burundi's Re-Exports as Percentage of Total Exports 2013-2017

	Re-exports	Domestic exports	Exports	% share
2013	9.6	216.3	225.9	4.2
2014	6.5	158.4	164.9	3.9
2015	3.1	141.2	144.3	2.1
2016	6.0	126.4	132.4	4.5
2017	4.9	144.6	149.5	3.3

Source: Burundi National Bureau of Statistics, 2018

Figure 3:5: Burundi's Re-Exports Share of Total Exports 2013-2017 (percent)



Source: Burundi National Bureau of Statistics

3.5.1.2 Burundi's Intra-Regional Trade

Burundi's trade with EAC Partner States declined by 4.1 percent to US$162.6 million in 2017 from US$ 169.5 million in 2016. The decline in intra-EAC trade was a result of a fall in the volume of both imports and exports.

Intra-Regional Exports

In 2017, Uganda and Kenya were the main destinations of Burundi's exports accounting for 41.1 percent 34.7 percent of total intra-EAC domestic exports respectively. The key commodities exported included coffee, soap and oil seed. Burundi's domestic exports to Partner States fell by 23.1% percent to US$9.5 million in 2017 from US$ 12.3 million in 2016. The decline in Burundi's domestic exports was attributed to the fall in both volume and value of soap and oil seed exported to Rwanda and Tanzania respectively.

Table 3:5: Burundi: Intra-EAC Exports, 2013-2017 (US$ million)

Intra-EAC exports flows	2013	2014	2015	2016	2017
Intra-EAC domestic exports	17.4	13.6	13.6	9.9	9.5
Intra-EAC re-exports	2.6	2.0	1.2	2.4	2.1
Total Intra-EAC exports	20.1	15.7	14.8	12.3	11.5
Percent share of intra-re-exports	**13.0**	**12.8**	**8.1**	**19.5**	**18.1**

Source: ISTEEBU and OBR.

Intra-regional re-exports

In 2017, Burundi's re-exports to EAC Partner States decreased to US$ 2.1 million in 2017, compared to US$ 2.4 million registered in 2016. During the period, re-exports accounted for 18.1 percent of Burundi's total exports.

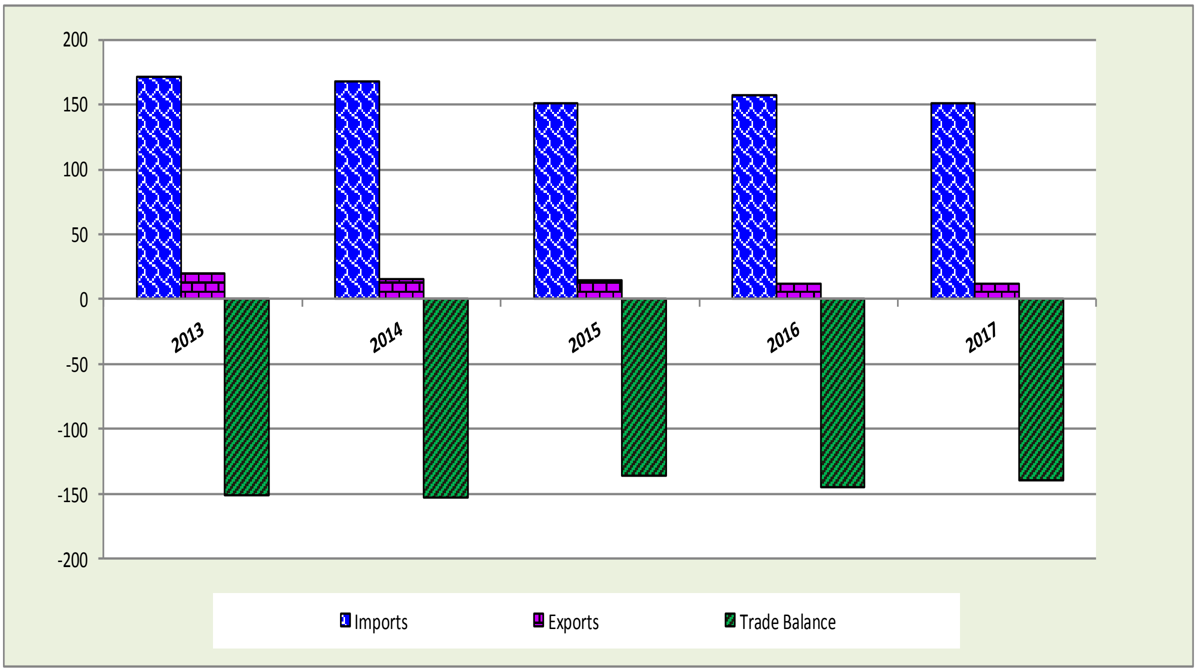
Intra-Regional Imports

Burundi's imports from EAC Partner States decreased by 3.9 percent to US$ 151.0 million in 2017, from US$157.2 million in 2016. This was attributed to the fall in trade with Rwanda, Kenya and Uganda which declined by 41.8 percent and 10.9 percent and 6.4 percent respectively. Tanzania continued to be the major source of intra-EAC imports, accounting for 38.9 percent of total imports. The main imports from Tanzania included mineral and chemical fertilizers, cement and textile articles.

Intra-Regional Trade Balance

Burundi's total trade with other EAC Partner States in 2017 decreased by 4.1 percent to US$ 162.6 million, from US$ 169.5 million recorded in 2016 as a result of decline in both during the period. As result, Burundi's trade balance with EAC remains in deficit. However, the Intra- EAC trade deficit reduced by 3.8 percent to US$139.5 million in 2017, from US$144.9 million in 2016.

Figure 3:6: Burundi's Trade with EAC Partner States, 2013-2017 (US$ million)



Source: OBR and ISTEEBU

Table 3:6 Burundi's Trade with EAC Partner States, 2013-2017, (US$ millions)

		2013	2014	2015	2016	2017	% of change 2014	2015	2016	2017
Kenya	Imports	54.2	54.4	48.0	47.8	42.5	0.3	(11.7)	(0.5)	(10.9)
	Exports	1.0	1.2	2.4	2.5	3.6	15.3	99.4	2.7	47.2
	Total trade	55.3	55.6	50.4	50.2	46.2	0.6	(9.3)	(0.3)	(8.1)
	Trade Balance	-53.2	-53.2	-45.6	-45.3	-38.9	(0.0)	(14.3)	(0.6)	(14.1)
Rwanda	Imports	12.2	10.2	7.8	12.6	7.3	(15.8)	(24.1)	61.8	(41.8)
	Exports	9.8	7.6	5.9	5.2	2.4	(22.7)	(21.8)	(12.8)	(52.8)
	Total trade	22.0	17.8	13.7	17.8	9.8	(18.9)	(23.1)	29.5	(45.0)
	Trade Balance	-2.4	-2.7	-1.8	-7.4	-4.9	12.9	(30.8)	302.3	(34.1)
Uganda	Imports	45.9	36.5	41.3	45.3	42.4	(20.5)	13.3	9.6	(6.4)
	Exports	6.1	3.8	4.2	3.5	4.2	(37.4)	9.5	(16.1)	19.0
	Total trade	52.0	40.3	45.5	48.8	46.6	(22.5)	13.0	7.2	(4.6)
	Trade Balance	-39.8	-32.7	-37.2	-41.8	-38.2	(17.9)	13.8	12.5	(8.5)
Tanzania	Imports	59.1	67.0	54.0	51.6	58.8	13.4	(19.5)	(4.5)	14.0
	Exports	3.1	3.0	2.3	1.1	1.3	(1.5)	(24.4)	(50.4)	13.8
	Total trade	62.2	70.1	56.3	52.7	60.1	12.7	(19.7)	(6.4)	14.0
	Trade Balance	-56.0	-64.0	-51.7	-50.4	-57.5	14.3	(19.2)	(2.5)	14.0
Iintra-EAC**	**Imports**	**171.4**	**168.1**	**151.1**	**157.2**	**151.0**	(1.9)	(10.1)	4.0	(3.9)
	Exports	**20.1**	**15.7**	**14.8**	**12.3**	**11.5**	(21.9)	(5.3)	(17.1)	(6.0)
	Total trade	**191.4**	**183.8**	**165.9**	**169.5**	**162.6**	(4.0)	(9.7)	2.2	(4.1)
	Trade Balance	**-151.3**	**-152.5**	**-136.3**	**-144.9**	**-139.5**	0.8	(10.6)	6.3	(3.8)

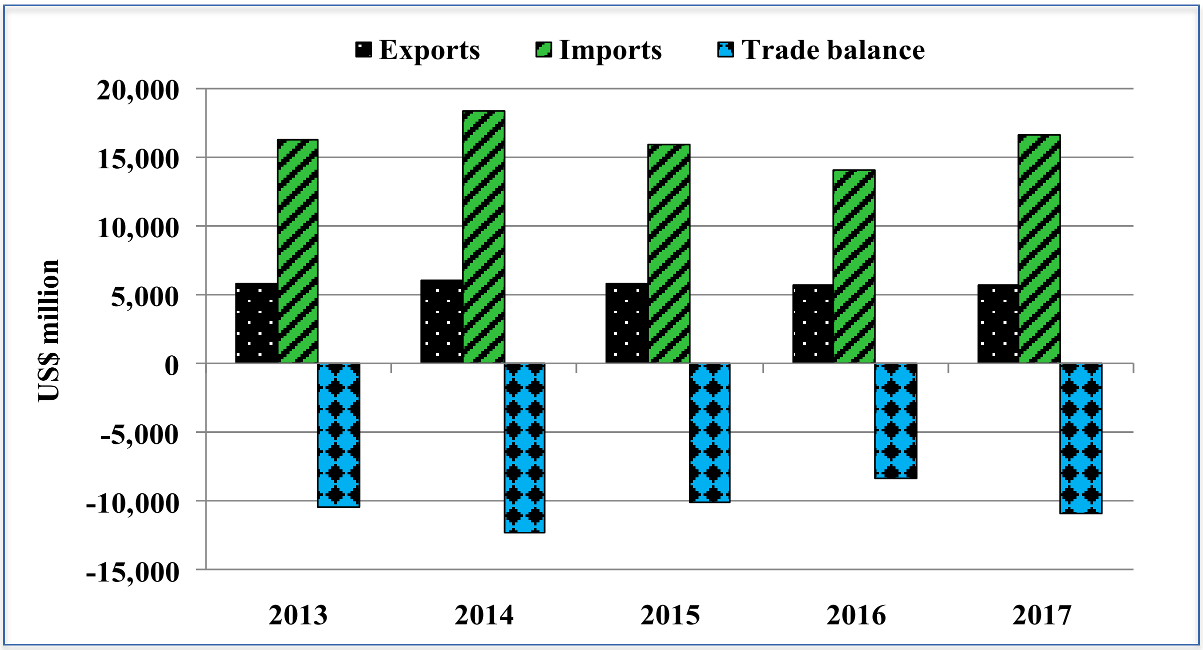
Source: OBR and ISTEEBU

3.5.2 Kenya

3.5.2.1 Kenya's International Trade

Kenya's total trade increased by 13.3 percent from US$19.8 billion in 2016 to US$22.4 billion in 2017. The trade deficit widened by 30.1 percent from US$8.4 billion in 2016 to US$10.9 billion in 2017. This could be attributed to increase in merchandise imports which grew at 18.3 percent relative to a marginal increase of 0.9 percent in exports. China, EU, India and EAC were Kenya's leading trading partners, accounting respectively for 17.3 percent, 14.3 percent, and 7.6 percent of the total trade. Trade with China increased by 13 percent to US$ 3.9 billion in 2017, from US$ 3.4 billion in 2016, reflecting high imports of railway equipment related to the ongoing Standard Gauge Railway Project. However, total trade with the EU and India declined by 2.4 percent and 20.4 percent respectively, to US$ 3.2 billion and US$ 1.7 billion.

Figure 3:7 Kenya's Total Exports, Imports and Trade Balance, 2013-2017

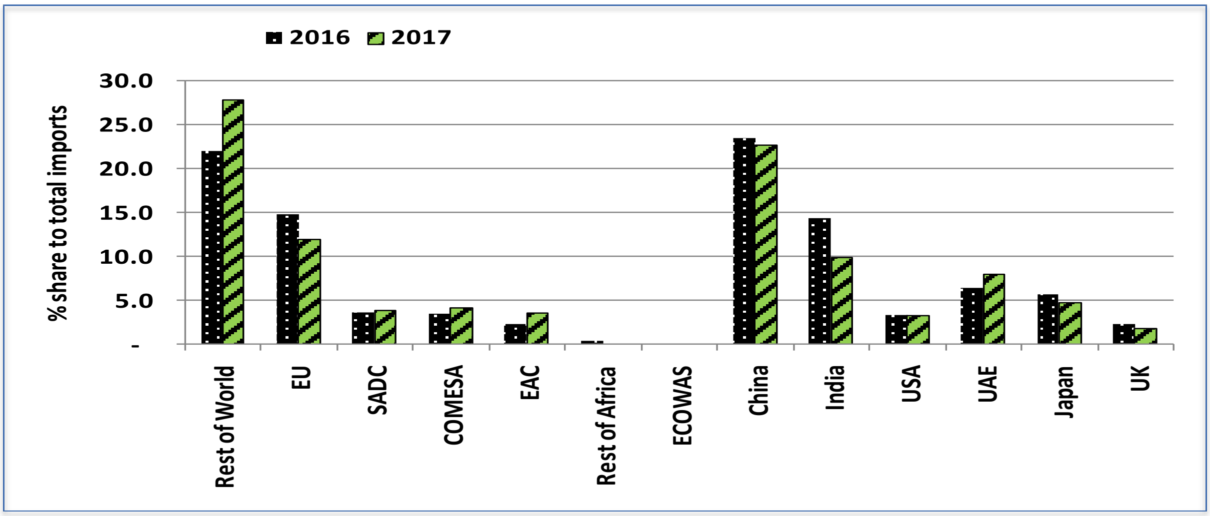


***Source**: KRA, KNBS & CBK*

Imports

Kenya's imports increased by 18.3 percent in 2017 to US$ 16.7 billion from US$ 14.0 billion in 2016. The rise in imports was largely occasioned by higher food and oil imports over the review period. This resulted from increased maize and sugar imports following the Government tax waiver on the commodities to meet domestic shortfalls while the rise in oil imports was reflective of higher global crude oil prices. Other major imports included petroleum oils, palm oils and flat rolled products of iron and non-alloy steel. China, EU and India were Kenya's major sources of imports. Accounting for 22.6 percent,11.9 percent and 9.9 percent of total imports respectively

Figure 3:8 Kenya's Imports by Country/Region of Origin (percent share)

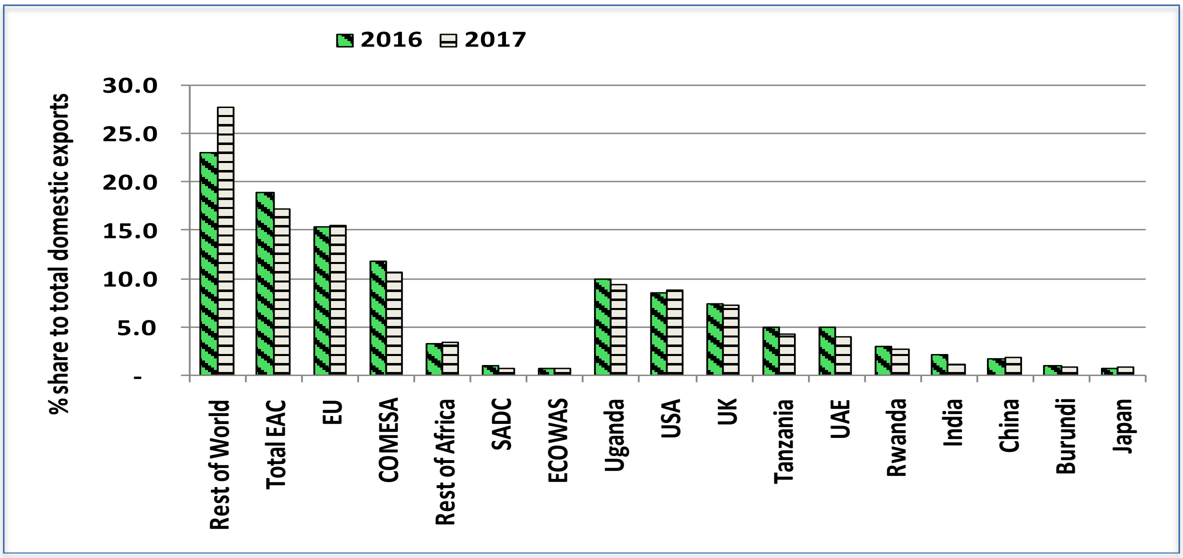


Source: *KRA, KNBS & CBK*

Exports

Kenya's domestic exports increased by 2.8 percent to US$ 5.1 billion in 2017, from US$ 5.0 billion in 2016. This was due to an increase in agricultural exports mainly in the horticulture and tea sectors. The main export destinations in 2017 were the EAC, the European Union (EU) and COMESA which accounted for 17.3 percent, 15.5 percent and 10.7 percent of total domestic exports respectively. However, domestic exports to the EAC and COMESA declined while those the EU increased to USD798million in 2017 from USD771 million in 2016.

Figure 3:9 Kenya's Domestic Exports by Destination (percent share)

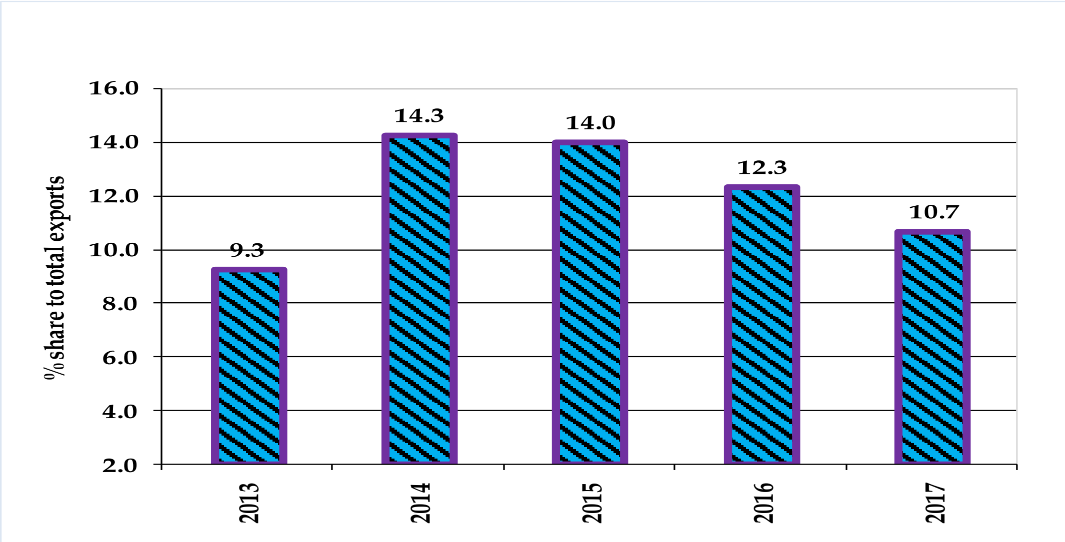


Source*: KRA, KNBS & CBK*

Re-Exports

Kenya's re-exports declined by 12.6 percent from US$ 703 million in 2016 to US$ 614 million in 2017. As a result, the share of re-exports to total exports declined from 12.3 percent to 10.7 percent during the review period. The decline in re-exports was mainly attributed to lower re exports of petroleum products to the EAC region.

Figure 3:10 Kenya- Re-Export as Percent of Total Exports, 2013-2017 (percentage)



Source: KRA, KNBS & CBK

3.5.2.2 Kenya's Intra Regional Trade

Intra-Regional Exports

Domestic exports to Uganda, Tanzania, Rwanda and Burundi respectively accounted for 54.5 percent, 24.8 percent, 15.5 percent and 5.3 percent of Kenya's total intra-EAC exports. Kenya's domestic exports to the EAC Partner States declined by 6.5 percent to US$ 887 million in 2017, from US$ 948 million in 2016. Consequently, domestic exports to the EAC as a share of total exports, declined from 16.7 percent to 15.4 percent over the same period. Domestic exports to Uganda and Tanzania declined respectively by 3.1 percent and 13.1 percent, to US$ 483 million and US$ 220 million, respectively. Domestic exports to Rwanda and Burundi also declined by 6.2 percent and 7.4 percent, to US$ 137 million and US$ 47 million, respectively, during the review period. The decline in exports was a result of falling intra-EAC export volumes of manufactured products like cement, iron and steel, salt, and medicaments. This could be attributed to: increased 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.

Intra-EAC Re-Exports

During the review period, Kenya's intra-EAC re-exports decreased by 10.9 percent from US$ 250.5 million in 2016, to US$ 223.3 million in 2017. Consequently, the share of re-exports to total exports to the EAC countries decreased from 20.9 percent to 20.1 percent over the same period. The re-exports were mainly destined to Uganda and Tanzania, accounting for 51.2 percent and 25.1 percent respectively, of total intra-EAC re-exports. The main re-exports to Uganda were petroleum oil and palm oil while those to Tanzania were nuclear reactors, boilers and machinery, electrical machinery and equipment and petroleum oils.

Table 3:7 Intra-EAC Exports, 2013-2017 (US$ million)

	Intra-EAC Export Flows	2014	2015	2016	2017
Kenya	Intra-EAC Domestic Exports	1,143.4	1,070.2	948.5	887.2
	Intra-EAC Re-exports	287.4	215.7	250.5	223.3
	Total Intra-EAC Exports	1,430.8	1,285.9	1,199.0	1,110.5
	Percent Share of Intra-Re-exports	20.1	16.8	20.9	20.1

Source: *KRA, KNBS & CBK, 2018*

Intra-Regional Imports

In 2017, Kenya's imports from EAC Partner States increased by 81.7 percent, from US$ 324 million in 2016, to US$ 590 million. The increase was to a large extent driven by higher imports from Uganda and to a lesser extent, increased imports from Tanzania. Imports from Uganda increased to US$ 407 million in 2017 from US$ 190 million in 2016 and were mainly in form of milk, dry beans and raw materials for the preparation of animal feeds. These imports were geared towards meeting domestic shortfalls resulting from the drought during the first half of 2017. Imports from Tanzania increased to US$ 166 million in 2017 from US$ 126 million in 2016 with the increase driven by imports of paper and paperboard and ceramic products.

Table 3:8 Kenya's Trade with EAC Partner States, 2013-2017, (US$ million)

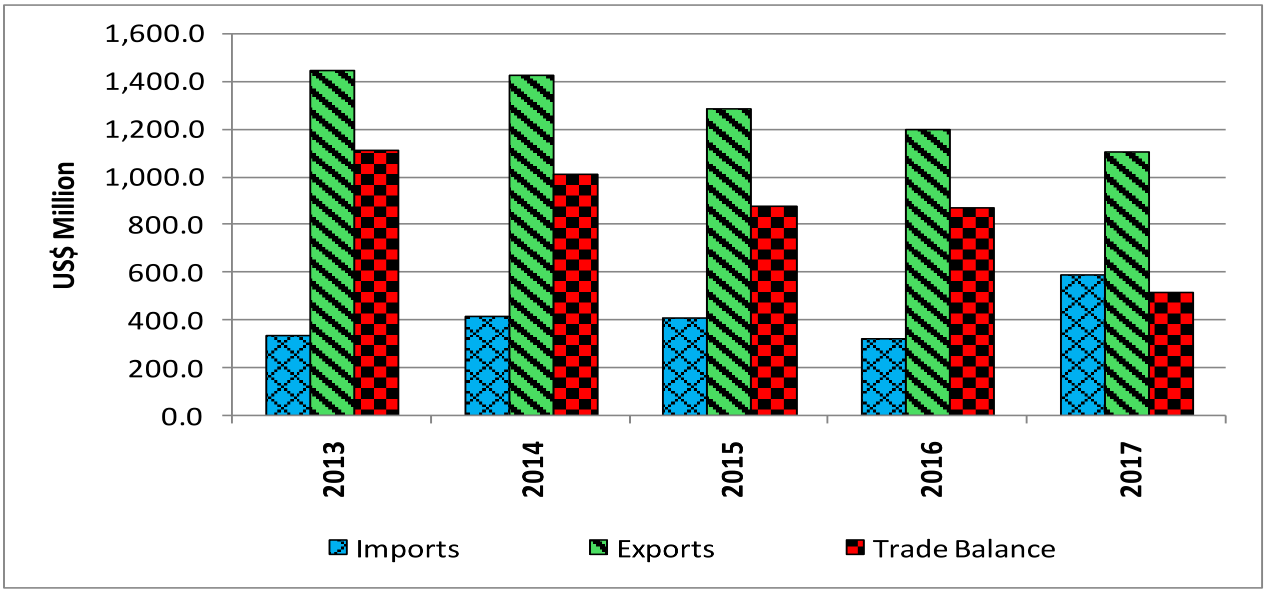
		2013	2014	2015	2016	2017	% change 2014	2015	2016	2017
Burundi	Imports	0.6	0.3	2.3	0.7	0.6	-45.1	577.3	-70.3	-14.6
	Exports	65.0	89.3	66.9	71.3	71.4	37.3	-25.1	6.7	0.1
	Total Trade	65.6	89.6	69.2	72.0	72.0	36.6	-22.8	4.1	-0.1
	Trade Balance	64.4	88.9	64.6	70.7	70.8	38.1	-27.3	9.4	0.2
Rwanda	Imports	11.7	8.1	8.0	7.6	16.3	-30.3	-1.6	-4.7	113.3
	Exports	156.8	164.2	182.1	172.4	165.6	4.8	10.8	-5.3	-4.0
	Total Trade	168.4	172.4	190.1	180.0	181.9	13.7	10.3	-5.3	1.0
	Trade Balance	145.1	156.1	174.0	164.8	149.3	7.6	11.5	-5.3	-9.4
Uganda	Imports	186.8	199.6	226.0	189.9	406.5	6.9	13.2	-16.0	114.1
	Exports	759.0	691.3	695.5	612.4	597.8	-8.9	0.6	-11.9	-2.4
	Total Trade	945.7	890.9	921.5	802.3	1004.3	-5.8	3.4	-12.9	25.2
	Trade Balance	572.2	491.7	469.5	422.5	191.2	-14.1	-4.5	-10.0	-54.7
Tanzania	Imports	135.5	208.9	171.5	126.2	166.1	54.2	-17.9	-26.4	31.7
	Exports	470.2	485.9	341.4	342.8	275.8	3.3	-29.7	0.4	-19.5
	Total Trade	605.7	694.8	512.9	469.0	441.9	14.7	-26.2	-8.6	-5.8
	Trade Balance	334.8	277.1	170.0	216.6	109.7	-17.2	-38.7	27.5	-49.4
Intra-EAC	Imports	**334.5**	**416.9**	**407.8**	**324.4**	**589.5**	**24.6**	**-2.2**	**-20.5**	**81.7**
	Exports	**1,451.0**	**1,430.8**	**1,285.9**	**1,199.0**	**1,110.5**	**-1.4**	**-10.1**	**-6.8**	**-7.4**
	Total Trade	**1,785.5**	**1,847.7**	**1,693.7**	**1,523.4**	**1,700.1**	**3.5**	**-8.3**	**-10.1**	**11.6**
	Trade Balance	**1,116.4**	**1,013.8**	**878.1**	**874.6**	**521.0**	**-9.2**	**-13.4**	**-0.4**	**-40.4**

Source: *KRA, KNBS & CBK, 2018*

Trade Balance

Kenya's total trade with EAC Partner States improved by 11.6 percent, to US$ 1.7 billion in 2017, from US$ 1.5 billion in 2016. Kenya's trade surplus with EAC Partner States narrowed to US$ 521 million in 2017 from US$ 874.6 million in 2016. Total exports to the region declined by 7.4 percent to US$ 1.1 billion, mainly reflecting lower exports to Uganda and Tanzania over the review period.

Figure 3:11Kenya's Trade with EAC Partner States, 2013-2017 (US$ million)



Source: *KRA, KNBS & CBK, 2018*

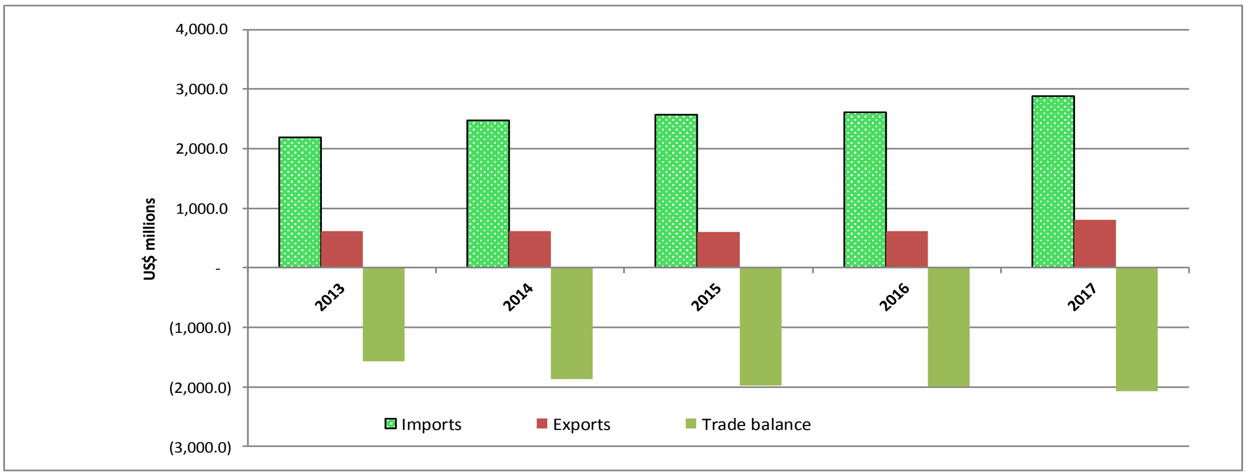
3.5.3 Rwanda

3.5.3.1 Rwanda's International Trade

Rwanda's Total External trade increased by 14.5 percent to US$ 3.7 billion in 2017 from USD 3.2 billion in 2016. Exports during the year increased by 31.9 percent to US$ 806.2 million and accounted for 21.9 percent of total trade, while imports amounted to US$ 2.9 billion and accounted for 78.1 percent of total trade in 2017. China, EU, United Arab Emirates, India and Kenya were Rwanda's main trading partners.

Total trade with China, EU, United Arab Emirates, India and Kenya amounted to US$ 526.5 million, US$ 420.2 million, US$ 363.8, US$ 271.0 and US$269.8 million respectively. In 2017, trade with China and EU increased but trade with India declined, with imports from India declining by 14.4 percent to US$ 271.0 million in 2017 from US$ 316.5 million in 2016. Overall, the trade deficit increased by 3.8 percent to US$ 2.1 billion in 2017, from US$ 1.9 billion in 2016. This increase in the trade deficit was attributed to increase in imports over the year.

Figure 3:12 Rwanda's Total Exports, Imports and Trade Balance, 2013-2017 (US$ millions)

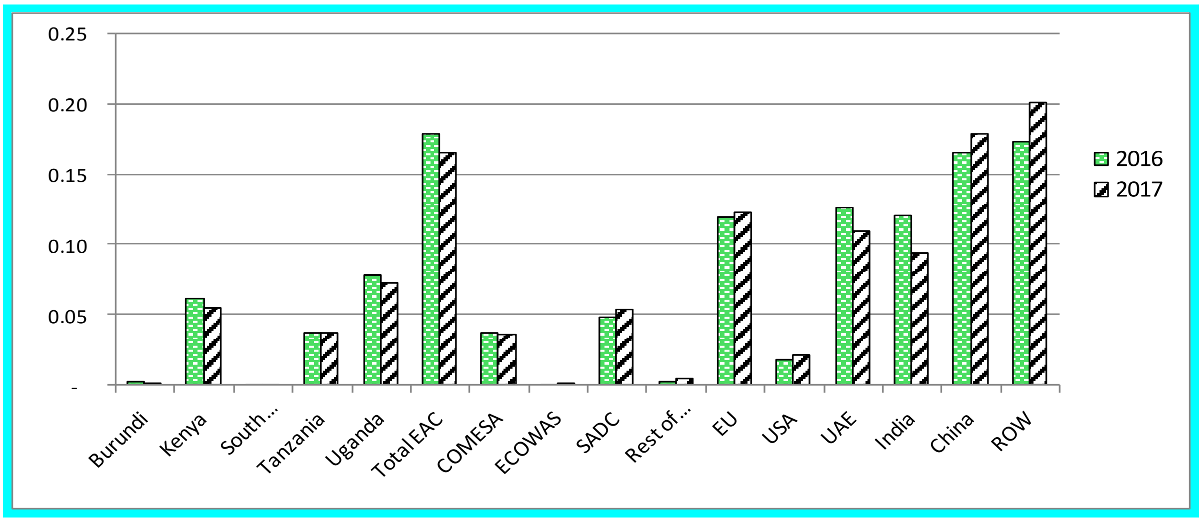


Source: *NISR, 2018*

Imports

Rwanda's imports increased by 10.4 percent to US$ 2.9 billion in 2017, from US$ 2.6 billion in 2016. Rwanda's imports in 2017 were dominated by Petroleum Oils, Cane and beet sugar, and chemically pure sucrose in solid form, vehicles, Electrical apparatus for power lines installation. The main sources of Rwanda's imports were China, EU, United Arab Emirates, India and Uganda which contributed 57.5 percent of the total imports. Imports from China, EU and Uganda increased during the year 2017, while imports from the UAE decreased. Imports from China increased by 19.3 percent to US$ 514.1 million in 2017, from US$ 430.9 in 2016. Similarly, imports from EU and Uganda increased by 13.0 percent and 2.6 percent respectively.

Figure 3:13 Rwanda's Imports by Country/Region of Origin (percent shares)

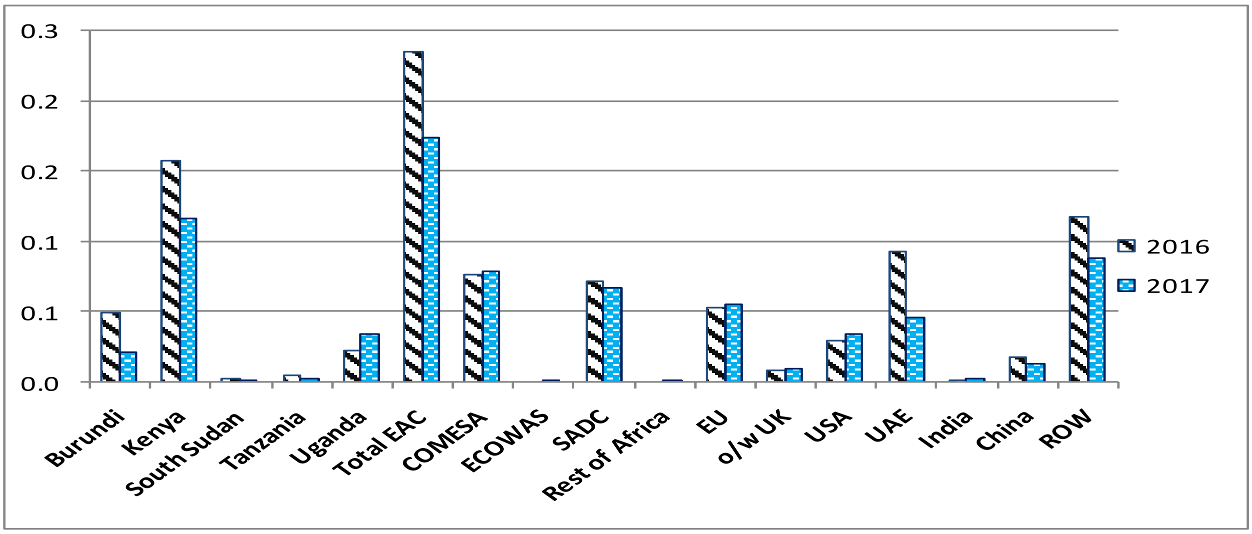


Source: *NISR, 2018*

Exports

Rwanda's domestic exports increased by 26.9 percent to US$ 516.7 million in 2017, from US$ 407.3 million in 2016. The key export destinations were EAC, COMESA and SADC that accounted for 32.4 percent, 14.6 percent and 12.5 percent of total exports respectively. The main domestic exports include coffee, tea, ores, precious stones, products of the milling industry, and residues and waste from the food industries. The increase in exports was due to increased process of tea and precious stones on the global market.

Figure 3:14: **Rwanda's Domestic Exports by Destination (percent)**

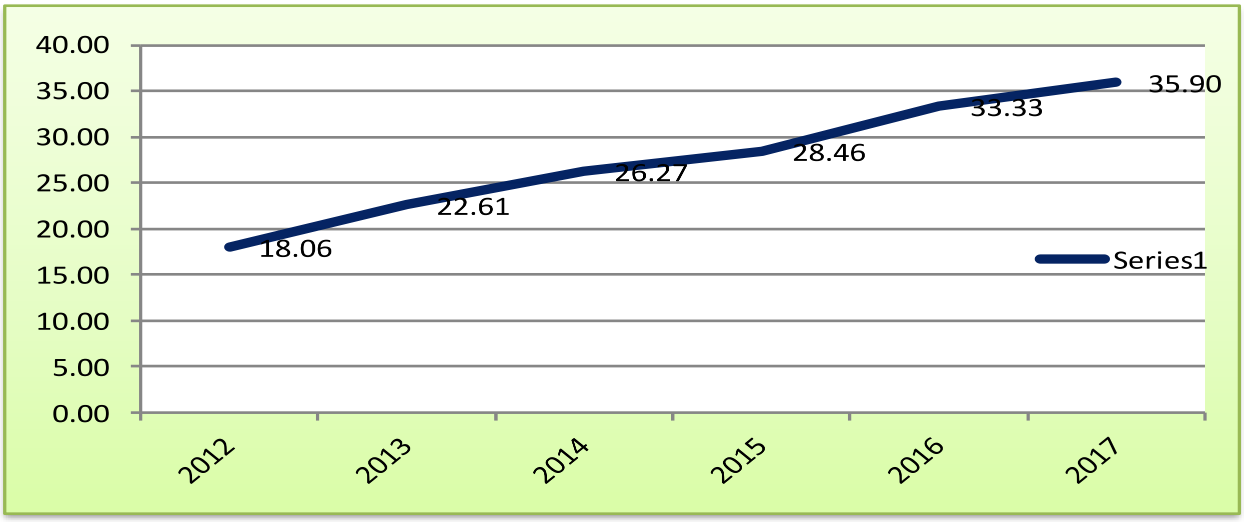


Source: *NISR, 2018*

Re-Exports

The share of Rwanda's re-exports to total exports increased by 7.7 percentage point in 2017. The value of re-exports went up by 42.2 per cent to US$ 289.4 million in 2017, from US$ 203.6 million in 2016. The main re-exports products included mineral fuels, and mineral oils.

Figure 3:15: Share of Rwanda's Re-Exports to Total Exports, 2013-2017



Source: NISR,2018

3.5.3.2 Rwanda's Intra-Regional Trade

Intra-Regional Exports

Domestic exports to EAC Partner States increased by 21.0 percent to US$ 138.7 million in 2017, from US$ 114.6 million in 2016. Domestic exports to Uganda increased by 126.4 percent to US$ 29.3 million in 2017 from US$ 12.9 million in 2016. Similarly, domestic exports to Kenya increased by 15.6 percent to US$ 104.3 million in 2017 from US$ 90.2 million in 2016. Domestic exports to Burundi registered a decrease of 57.9 percent to US$ 3.1 million in 2017 from US$ 7.1 million in 2016 while also domestic export to Tanzania decreased at 51.2 percent to US$ 1.4 million in 2017 from US$ 2.9 million in 2016. Finally, domestic exports to South Sudan decreased at 48.6 percent to US$ 0.6 million in 2017 from US$ 1.2 million in 2016.

Table 3:9 Rwanda Intra-EAC Exports, 2013-2017 (US$ million)

Intra-EAC export flows	2013	2014	2015	2016	2017
Intra-EAC Domestic Exports	107.8	95.3	119.4	114.6	138.7
Intra-EAC Re-exports	35.5	20.9	19.8	32.9	28.4
Total Intra-EAC Exports	143.4	116.1	139.3	147.5	167.1
Percent Share of Intra-Re-exports	24.8	18.0	14.2	22.3	17.0

Source: *RRA and NISR, 2018*

Intra EAC Re-Exports

Rwanda’s re-exports to the EAC Partner States decreased by 13.7 percent to US$ 28.4 million in 2017, from US$ 32.9 million in 2016. The main re-exports to EAC region comprised of mineral fuels, nuclear reactors, boilers, machinery and mechanical appliances & vehicles.

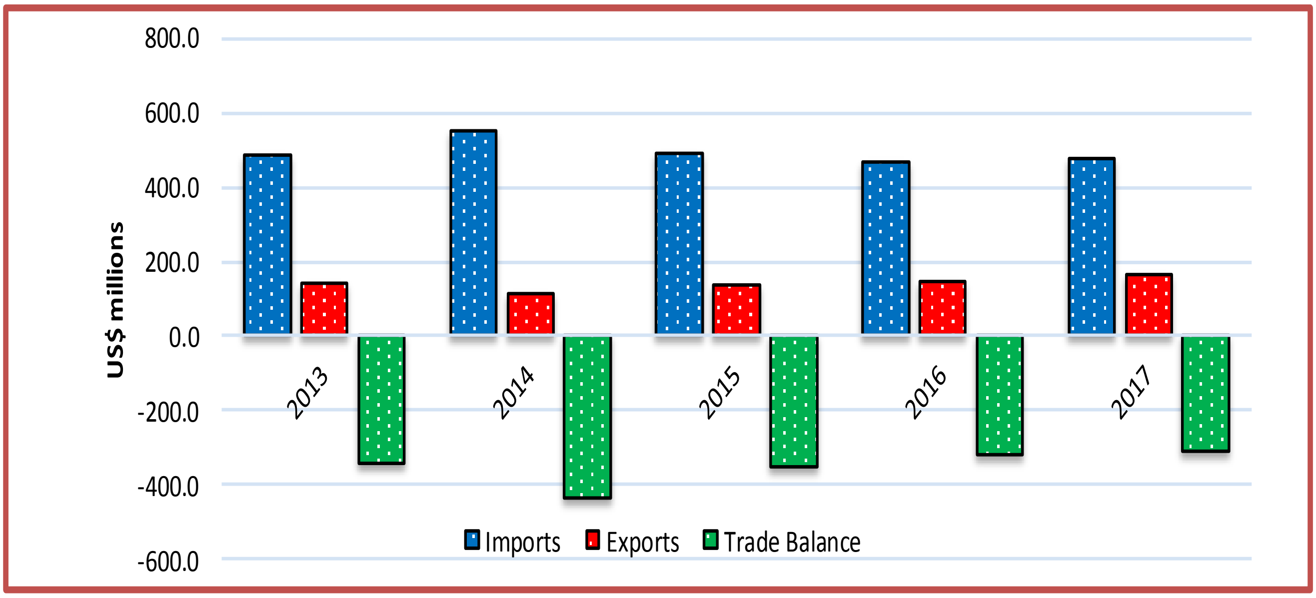
Intra-Regional Imports

Rwanda's imports from EAC Partner States increased by 2.2 per cent to US$ 476.6 million in 2017, from US$ 466.2 million in 2016. Rwanda's imports from EAC Partner States were dominated by imports from Uganda with a share of 44.0 percent, followed by Kenya with 33.1 percent. The main imports from Uganda included salt, fats, cereals, and soaps; while the main imports from Kenya were salt, fats, iron and steel, plastic articles, and paper, including paper articles.

Trade Balance

In 2017, Rwanda's total trade with EAC increased by 4.9 percent to US$ 643.8 million in 2017, from US$ 613.7 million in 2016. Kenya was Rwanda's main trading partner in 2017 with 41.9 per cent, followed by Uganda with 37.6 per cent, Tanzania with 16.8 per cent, Burundi with 3.6 percent and finally South Sudan with 0.1 per cent. The country's trade balance with the EAC showed a deficit of US$ 309.5 million in 2017 lower than a deficit of US$ 318.6 million in 2016.

Figure 3:16 Rwanda Trade with EAC Partner States, 2013-2017 (US$ million)



Source: NISR, 2018

Table 3:10 Rwanda's Trade with EAC Partner States, 2013-2017, (US$ million)

		2013	2014	2015	2016	2017	% change			
							2014	2015	2016	2017
Burundi	Imports	7.6	6.9	8.8	5.5	3.0	-9.3	27.2	-37.3	-46.2
	Exports	20.0	19.3	17.2	36.2	19.4	-3.6	-10.5	110.1	-46.4
	Total trade	27.6	25.4	26.0	41.7	22.4	-7.9	2.4	60.3	-46.4
	Trade Balance	12.4	13.1	8.4	30.7	16.4	6.0	-35.5	263.7	-46.4
Kenya	Imports	143.8	191.1	159.4	160.2	157.8	33.0	-16.6	0.5	-1.5
	Exports	80.6	103.7	105.1	100.4	112.0	28.8	1.3	-4.5	11.5
	Total trade	224.3	237.2	264.5	260.6	269.7	5.8	11.5	-1.5	3.5
	Trade Balance	-63.2	-87.4	-54.3	-59.8	-45.8	38.3	-37.9	10.2	-23.4
South Sudan	Imports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	174.7
	Exports	0.0	0.1	5.3	1.2	0.6	244.5	9597.3	-76.6	-48.6
	Total trade	0.0	0.1	5.3	1.2	0.6	244.5	9597.3	-76.6	-48.3
	Trade Balance	0.0	0.1	5.3	1.2	0.6	244.5	9597.3	-76.7	-48.9
Tanzania	Imports	95.5	80.4	83.5	96.0	106.2	-15.9	4.0	15.0	10.6
	Exports	17.9	6.5	2.4	6.1	2.3	-63.98	-62.85	153.89	-63.02
	Total trade	113.5	86.8	85.9	102.1	108.4	-23.5	-1.0	18.9	6.2
	Trade Balance	-77.6	113.7	-81.1	-89.9	-103.9	-246.5	-171.4	10.9	15.5
Uganda	Imports	238.1	275.8	241.0	204.4	209.7	15.8	-12.6	-15.2	2.6
	Exports	7.3	12.1	10.5	14.7	33.8	66.1	-13.3	40.0	130.1
	Total trade	245.4	306.2	251.5	219.1	243.5	24.8	-17.9	-12.9	11.1
	Trade Balance	-230.8	-150.4	-230.5	-189.7	-175.9	-34.8	53.3	-17.7	-7.3
Intra EAC	**Imports**	**485.0**	**554.2**	**492.7**	**466.2**	**476.6**	**14.3**	**-11.1**	**-5.4**	**2.2**
	Exports	**125.8**	**141.6**	**135.2**	**157.4**	**167.4**	**12.6**	**-4.5**	**16.4**	**6.4**
	Total Trade	**610.8**	**695.8**	**628.0**	**623.5**	**644.1**	**13.9**	**-9.7**	**-0.7**	**3.3**
	Trade Balance	**-359.3**	**-412.6**	**-357.5**	**-308.8**	**-309.2**	**14.9**	**-13.4**	**-13.6**	**0.1**

Source: NISR, 2018

3.5.3.3 Rwanda's Informal Cross Border Trade

Informal cross border trade in Rwanda decreased by 20.2 percent to US$ 121.7 million in 2017 from US$ 152.5 million in 2016 and accounted for about 3.3 percent of formal trade in 2017, down from 4.74 per cent in 2016. Informal cross border imports decreased by 23.9 percent to US$ US$ 23.2 million in 2017, down from US$30.29 million in 2016. Similarly, informal cross border exports also decreased by 19.3 percent to US$ 98.4 million in 2017, from US$121.9 million in 2016. The total informal trade balance showed a surplus of US$ 75.1 million in 2017 lower than the surplus of US$ 91.3 million in 2016.

3.5.4 Republic of South Sudan

3.5.4.1 South Sudan International Trade

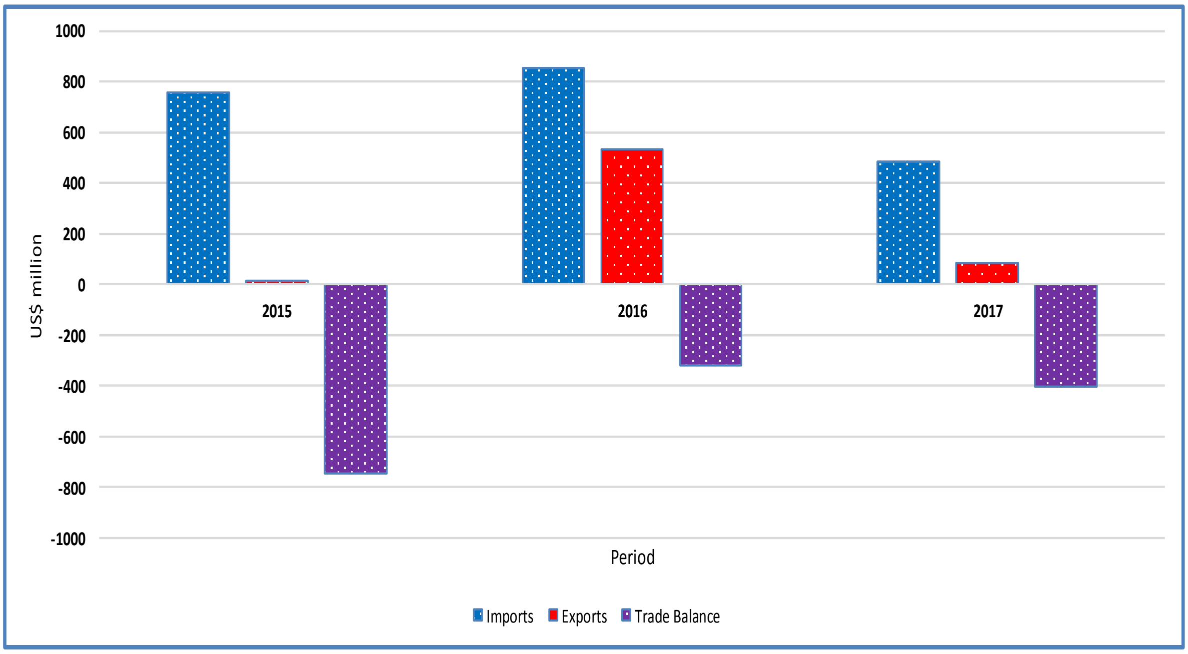
The South Sudan total trade decreased by over by 59.3 percent to US$567.6 million in 2017 from USD1.4 billion in 2016. The key trading partners for were Uganda and Kenya with trade with the two Partner States accounting for 53.8 percent and 28.6percent respectively. Overall, the EAC and EU were South Sudan's key regional trading partners accounting for 84.7 percent and 3.3 percent respectively. The decline in trade was associated with the prolonged civil strife that devastated the country; constrained road transport to the border towns as well as the fall in global crude oil prices.

Table 3:11: South Sudan Total Trade, 2015-2017(US$ million)

Partner State	Country/Region	2015	2016	2017	% Change 2016	% Change 2017
South Sudan	Kenya	175.3	160.9	162.2	-8.2	0.8
	Uganda	382.7	241.2	305.5	-37.0	26.7
	Tanzania	0.1	8.9	0.0	8690.7	-100.0
	Rwanda	5.5	5.5	12.7	0.0	131.3
	Rest of Africa	9.0	22.4	0.0	147.3	-100.0
	EU	72.1	255.8	18.4	254.6	-92.8
	UAE	0.0	1.5	0.0	0.0	-100.0
	China	18.5	198.9	1.3	972.7	-99.3
	USA	21.6	132.8	13.2	515.6	-90.1
	Japan	13.7	70.7	3.5	416.7	-95.0
	India	0.0	3.5	0.0	0.0	-100.0
	Rest of the World	74.8	291.4	62.8	289.7	-78.4
	Total Trade	**773.3**	**1393.5**	**567.7**	80.2	**-59.3**

Source: comtrade, 2018

Figure 3:17 South Sudan's Total Exports, Imports and Trade Balance, 2015-2017



Source: SSNBS/SSIA

Table 3:12: South Sudan total trade by country/ Regional blocs, 2015-2017 (US $ Million)

Country/Region	2015	2016	2017	% Change 2016	% Change 2017
Kenya	175.1	160.2	162.2	-8.5	1.2
Uganda	383.5	242.1	305.5	-36.9	26.2
Rwanda	5.5	5.5	12.7	0.0	131.3
Tanzania	0.1	8.9	0.0	8706.8	-100.0
Total EAC	564.2	416.7	480.4	-26.1	15.3
COMESA	21.2	14.0	0.0	-33.9	-100.0
ECOWAS	1.8	3.3	0.0	78.4	-100.0
SADC	0.0	0.0	0.0	0.0	0.0
Rest Of Africa	9.0	22.4	0.0	147.3	-100.0
EU	72.1	255.8	18.4	254.8	-92.8
o/w United Kingdom	18.5	16.3	3.1	-12.2	-80.9
USA	21.6	132.8	13.2	515.6	-90.1
Rest of the World	64.9	532.3	52.6	720.2	-90.1
	773.3	**1393.5**	**567.7**	**80.2**	**-59.3**

Source: Comtrade 2018

Imports

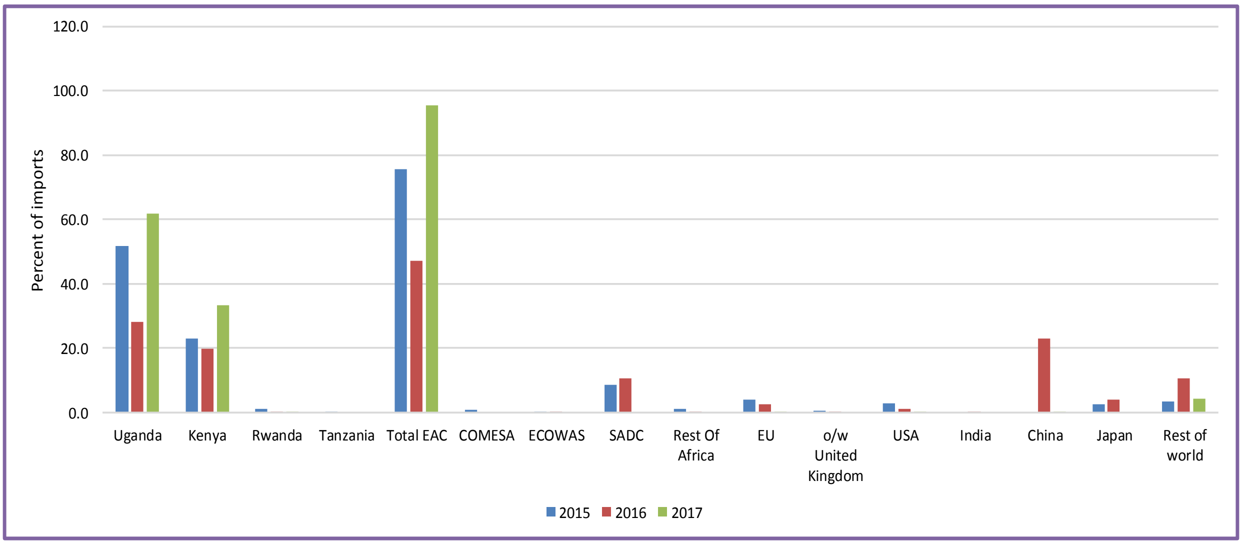
South Sudan imports in 2017 decreased by 43.4 percent to USD484.3 million in 2017 from USD853.3 million in 2016. The bulk of imports to South Sudan originated from the EAC which accounted for over 80 percent of total imports. Other imports originated from the EU and USA and China. Total imports from the EAC increased by 15.1 percent to US$462.5 million from US$ 402 million in 2016. Uganda and Kenya were the main import partners in 2017 with imports amounting to US$ 299.9 million and US$162.0 million respectively. The bulk of the exports constituted of maize, wheat and cement.

Table 3:13: South Sudan imports by Country /Region of origin, 2015-2017 (US $ Million)

Country/Region	2015	2016	2,017	% Change 2016	% Change 2017
Uganda	392.6	239.6	299.9	-39.0	25.2
Kenya	175.0	169.0	162.0	-3.4	-4.1
Rwanda	8.5	1.4	0.6	-83.4	-55.1
Tanzania	0.1	0.0	0.0	-100.0	0.0
Total EAC	576.2	402.0	462.5	-30.2	15.1
COMESA	7.2	0.0	0.0	-100.0	0.0
ECOWAS	0.1	1.5	0.0	1735.7	-100.0
SADC	66.4	91.4	0.0	37.7	0.0
Rest Of Africa	9.0	2.5	0.0	-72.4	-100.0
EU	29.6	20.8	0.2	-29.6	-99.1
o/w United Kingdom	4.7	2.6	0.0	-44.3	-99.2
USA	21.6	10.8	0.3	-50.1	-97.3
India	0.0	1.8	0.0	0.0	-100.0
China	0.0	195.7	0.1	0.0	-100.0
Japan	18.6	34.7	0.0	86.8	-100.0
Rest of world	26.8	89.5	21.2	234.5	-76.3
Total	760.1	853.3	484.3	12.3	-43.2

Source: comtrade, 2018

Figure 3:18 South Sudan's Imports by Country/Region of Origin (percent shares)



Source: comtrade, 2018

Exports

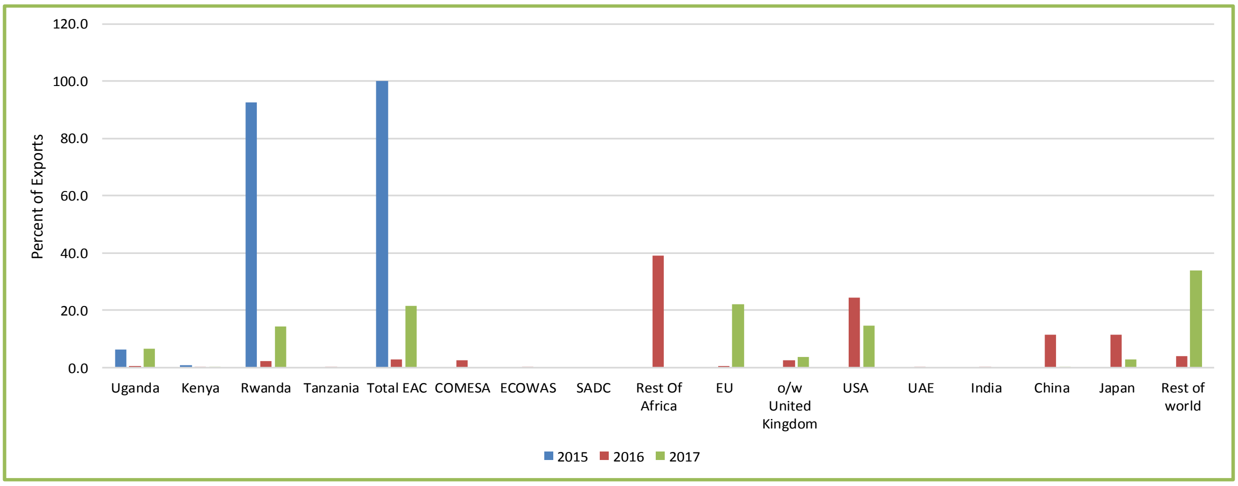
South Sudan exports decreased by 84.3 percent to US$83.5 in 2017 from US$532.2 million in 2016. The EU and USA were South Sudan’s main export destinations. amounted to USD216.5 million of which USD129.2 or 59.6 percent of all exports were destined to the United States of America. The major exports constituted of gum Arabica and timber.

Table 3:14: South Sudan exports by Country /Region, 2015-2017(US$ million)

Country/Region	2015	2016	2017	% Change 2016	% Change 2017
Uganda	0.84	2.50	5.61	198.93	124.41
Kenya	0.10	0.20	0.20	100.00	0.00
Rwanda	12.05	12.07	12.07	0.17	0.00
Tanzania	0.00	0.88	0.00	0.00	-100.00
Total EAC	13	15.65	17.88	20.33	14.25
COMESA	0.00	13.98	0.00	0.00	0.00
ECOWAS	0.00	1.74	0.00	0.00	-100.00
SADC	0.00	0.00	0.00	100.00	0.00
Rest Of Africa	0.00	207.70	0.00	100.00	-100.00
EU	0.00	2.40	18.40	100.00	666.67
o/w United Kingdom	0.00	13.98	3.10	100.00	-77.83
USA	0.00	129.40	12.20	100.00	-90.57
UAE	0.00	1.70	0.00	100.00	-100.00
India	0.00	1.71	0.00	100.00	-100.00
China	0.00	61.20	1.27	100.00	-97.93
Japan	0.00	61.12	2.31	100.00	-96.22
Rest of world	0.00	21.60	28.30	100.00	31.02
Total Exports	**13.01**	**532.19**	**83.46**	**3991.83**	**-84.32**

Source: comtrade and mirror statistics (Uganda, Kenya and Tanzania)

Figure 3:19: South Sudan's Domestic Exports by Destination (percent)



Source: comtrade and mirror statistics (Uganda, Kenya and Tanzania)

3.5.4.2 South Sudan's Intra-Regional Trade

Intra-Regional Exports

The Republic of South Sudan's exports to the EAC decreased by 24.2 percent to US$17.9 million in 2017 from US$23.6 million in 2016. About 68.0 percent of the exports to EAC Partner States amounting to US$12.1 million were destined to Rwanda. The exports consisted mainly of timber as a result of the increasing demand for the booming construction sector in Rwanda

Intra-Regional Imports

South Sudan's imports from the EAC partner states increased by 15.1 percent to US$462.5 million in 2017 from US$402 million in 2016. The main imports from Kenya and Uganda consisted of foodstuffs mainly maize, dairy products and wheat as well as manufactured goods like cooking oil, iron and steel products, cement and textiles.

EAC Trade Balance

South Sudan's trade deficit with the EAC region increased by 17.5 percent to US$445 million in 2017 from US$378 million in 2016. The increase in the trade deficit was attributed to the increase in the imports as a result of resumption of trade during the year.

Figure 3:20 South Sudan's Trade with EAC Partner States, 2015-2017 (US$ million)

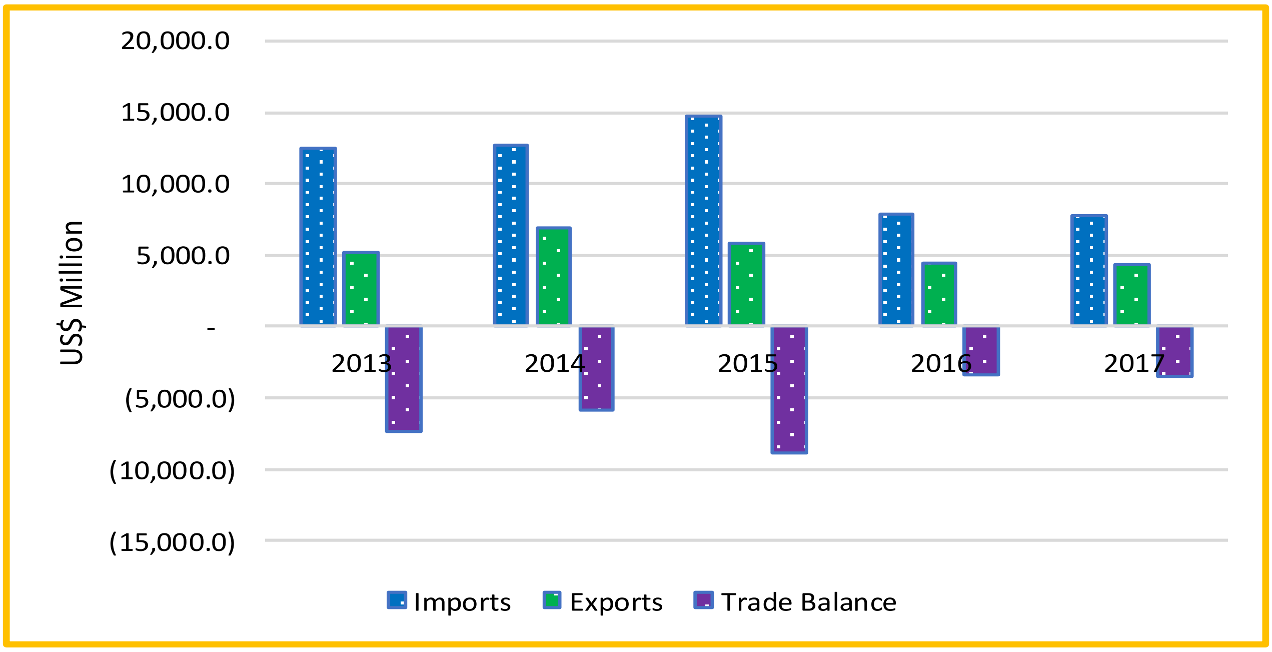
Source: SSNBS and SSIA

3.5.5 Tanzania

3.5.5.1 Tanzania's International Trade

Tanzania's total trade decreased marginally by 1.5 percent to US$ 12.1 billion in 2017, from US$ 12.3 billion in 2016. The decrease in total trade was attributed to a decline in merchandise exports and imports during the year. Tanzania's main trading partners during 2017 included India, South Africa, Vietnam, Kenya and China. Overall trade deficit remained broadly unchanged widening by 1.0 percent to US$ 3.5 billion in 2017 from US$ 3.4 billion in 2016. This development is largely explained by contraction of exports earnings during the period under review.

Figure 3:21 Tanzania's Exports, Imports and Trade Balance, 2013 – 2017 (US$ million)

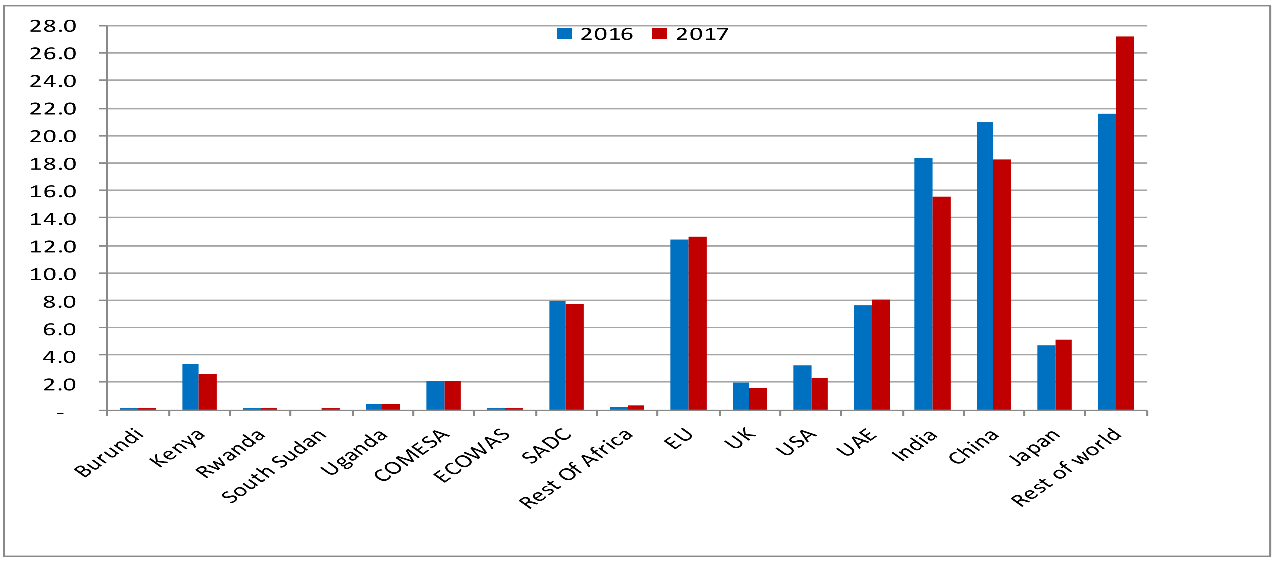


Source: TRA and NBS,2018

Imports

Tanzania's imports decreased marginally by 0.9 percent to US$ 7.8 billion in 2017, from USD 7.7 billion. Much of the decline was registered in imports of capital and intermediate goods. The decline in the imports of capital goods was associated with the completion of major projects and extractives exploration activities, while decline in imports of intermediate goods (mostly oil imports) was partly associated with the shift to natural gas instead of oil in power generation. During the year, Tanzania's main import countries were China, India, EU, SADC countries particularly South Africa; and UAE. Tanzania's imports from China included machinery, electrical appliances, vehicles, iron and steel, while imports from India were mostly composed of petroleum products, pharmaceuticals and vehicles. Major imports from SADC were iron and steel, pharmaceutical products and paints.

Figure 3:22: **Tanzania's Imports by Country/Region of Origin, 2016-2017 (percentage share)**



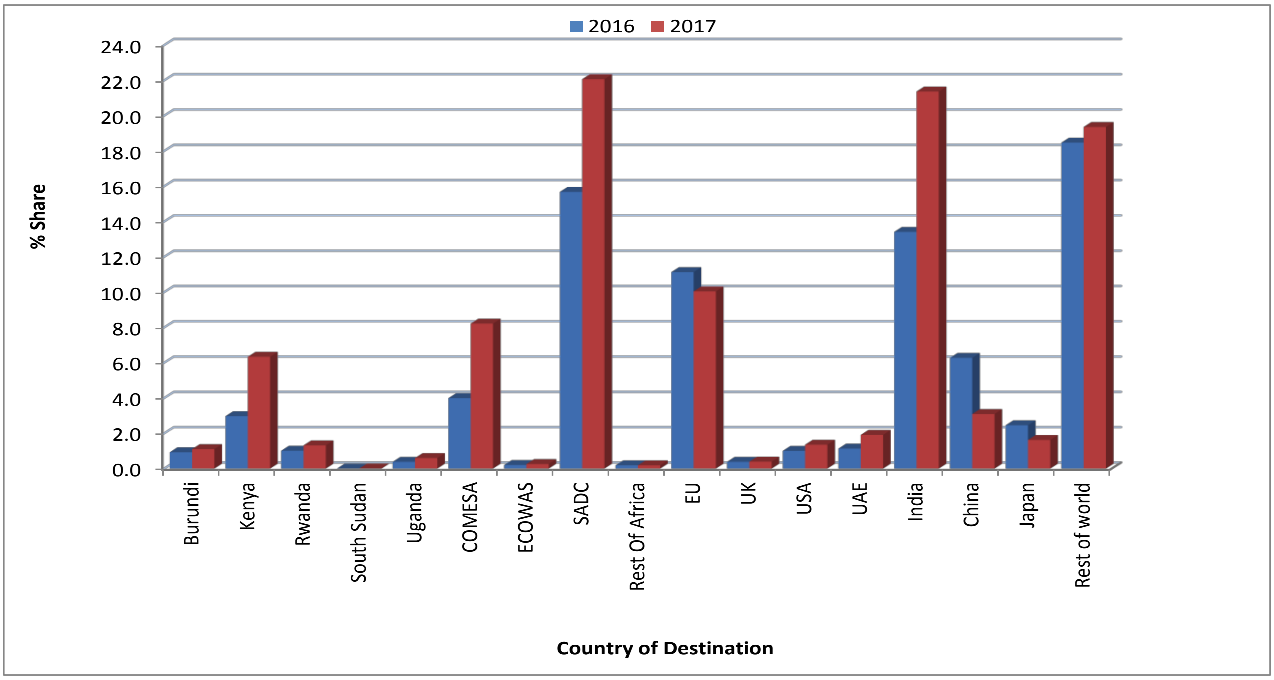
Source: TRA and NBS, 2018

Exports

Tanzania's domestic exports decreased by 2.5 percent to US$ 4.3 billion in 2017, from US$ 4.4 billion in 2016. The decline in exports was largely explained by decrease in most of the traditional exports particularly tobacco, coffee and cotton as a result of by low production following decline in global demand of the commodities. A decline was also experienced in minerals and edible oil exports. Despite the decline in exports, there was a notable increase in the exports value of cashew nuts following a bumper harvest due to good weather condition, free and timely supply of farm inputs coupled with increased prices in the world market. This explains the presence of Vietnam in the top five major export destinations.

During the period under review, India, South Africa, Vietnam, Kenya and Switzerland were among the leading destinations for Tanzania's domestic exports. Within Africa, the major export destinations were SADC, EU, COMESA and EAC jointly accounting for 49.7 percent of all exports. Major products exported include gold, precious metals, cashew nuts, edible oil, cement plastic items and horticulture products.

Figure 3:23 Tanzania's Domestic Exports by Destination, 2016-2017 (percentage share)

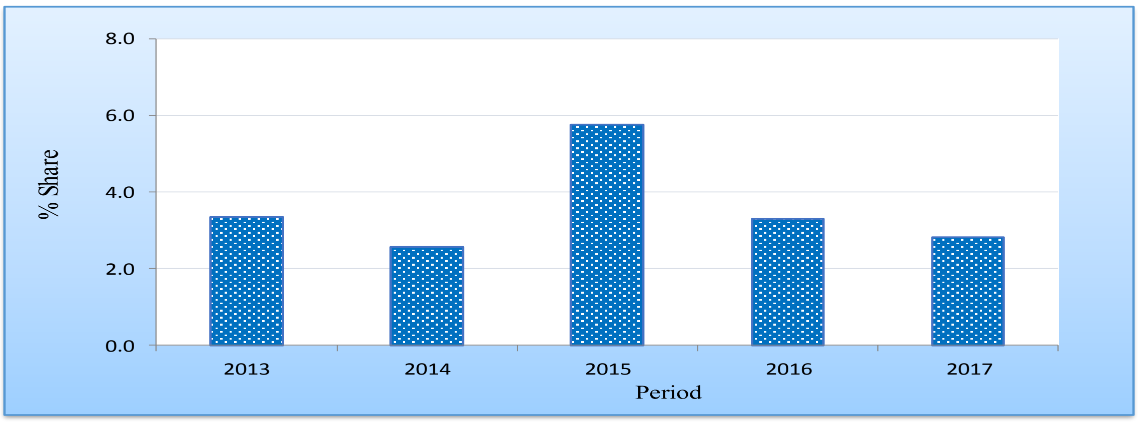


Source: TRA and NBS, 2018

Re-Exports

In 2017, Tanzania's re-exports declined by 31.2 percent to US$ 129.2 million, from US$ 187.7 million in 2016. The share of re-exports to total exports decreased to 2.8 percent recorded in 2017, compared with 3.3 percent in 2016. The decline in re-exports is associated with one-off exportation of machinery items in 2016, which did not occur in 2017. Most of the re-exports were destined to Kenya, Zambia, Democratic Republic of Congo, Malawi and Rwanda. The goods re-exported included machinery, fertilizers, motor vehicles, and petroleum products.

Figure 3:24 Share of Tanzania's Re-exports to Total Exports, 2013- 2017 (percentage share)



Source: TRA and NBS,2019

3.5.5.2 Tanzania's Intra-Regional Trade

Tanzania's intra-EAC trade increased by 11.1 percent to US$ 707.7 million in 2017 from US$ 637.1 million recorded in 2016. This good performance is largely explained by increase in exports to the EAC market although imports declined during the period. Major products exported include edible vegetables, live animals and paper products.

Intra-regional exports

Tanzania's domestic exports to EAC Partner States increased significantly by 43.5 percent to US$ 430.5 million in 2017, from US$ 300.0 million recorded in 2016. Kenya remained the major destination, accounting for 68 percent of Tanzania's domestic exports to EAC Partner States, followed by Rwanda which accounted for 14.1 percent of domestic exports. Burundi and Uganda accounted for 11.8 percent and 6.4 percent, respectively. During the period, exports to Kenya went up by 73.1 percent, with significant increase recorded in exports of edible vegetables, live animals, cereals, paper and paper products. Meanwhile, exports to Rwanda increased by 5.4 percent to USD 60.5 million in 2017 from USD 57.4 million recorded during 2016 with substantial increase recorded in exports of petroleum products and cosmetics. Likewise, exports to Uganda increased to USD 27.5 million in 2017 from USD 21.7 million recorded in 2016. Exports which recorded increase include textiles, fish products and optical items. Despite the increase in exports to other Partner States, exports to Burundi went down mainly on account of a substantial decrease in exports of petroleum products and fertilizers. During 2017, exports to South Sudan amounted to USD 0.17 million, products exported include cosmetics, petroleum products and wheat flour.

Table 3:15 Tanzania's Intra-EAC Exports, 2013-2017 (US$ million)

Intra-EAC Trade flows	2013	2014	2015	2016	2017
Intra EAC Domestic Exports	419.5	601.0	304.7	300.0	430.5
Intra EAC Re-exports	698.5	178.5	32.7	38.32	34.03
Intra EAC Total Exports	1,118.0	779.5	337.4	338.3	464.5
Percent Share of Intra-Re-exports	62.5	22.9	9.7	11.3	7.3

Source: TRA & NBS, 2018

Intra EAC Re-exports

Tanzania's re-exports to EAC Partner States decreased to US$ 34.03 million in 2017, compared to US$ 38.2 million in 2016. During the period, Tanzania's major re-export destinations were Kenya and Rwanda which accounted for 75.1 percent of total re-exports. Notable decline was registered in re-exports to Kenya particularly on motor vehicles and machinery. The major re-exports to EAC Partner States were mineral fuels, motor vehicles, fertilisers, machinery, cereals (particularly wheat) and tyres.

Intra-regional imports

In 2017, Tanzania's imports from EAC Partner States decreased to US$ 243.2 million, from US$ 298.8 million in 2016. This development is largely explained by decrease in imports from Kenya, which is the leading source of imports in the region. Imports from Kenya decreased 23.6 percent to US$ 203.4 million, while imports from Burundi decreased by 68.9 percent and imports from Uganda and Rwanda rose by 18.2 percent and 17.3 percent, respectively. During 2017, imports from South Sudan amounted to USD 2.1 million with the main imported item being worn clothes. Major imports from EAC Partner States include pharmaceuticals products, soaps, plastic items and other consumer goods. The decline in imports is largely associated to import substitution policies which led to the establishment and expansion of industries to produce goods like cement, plastics, and iron and steel which were previously imported from the region.

Table 3:16 Tanzania's Trade with EAC Partner States, 2013-2017 (US$ million)

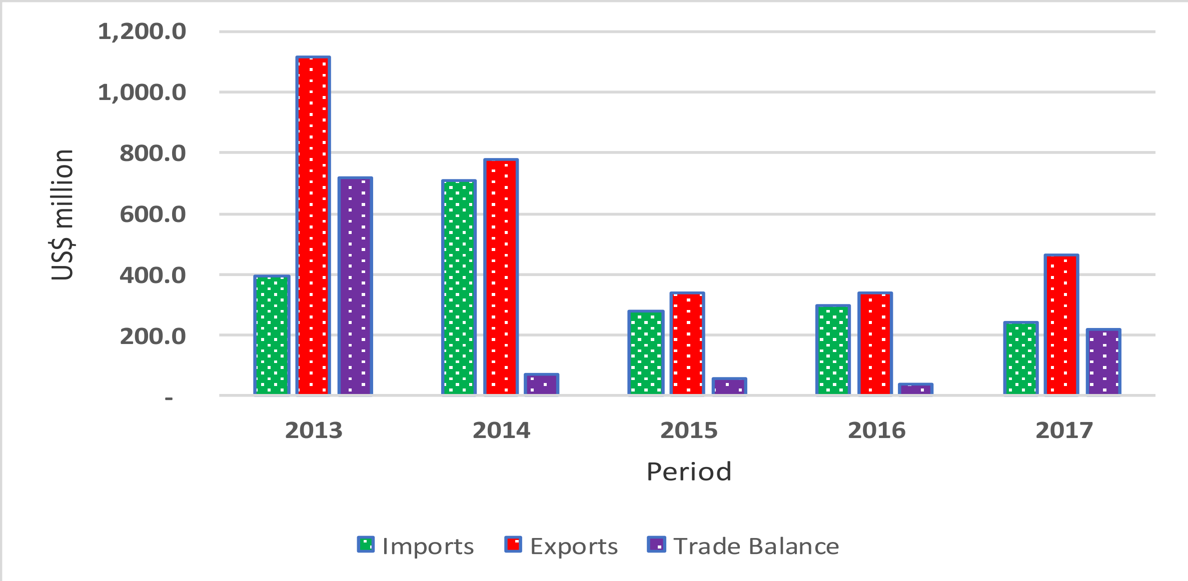
		2013	2014	2015	2016	2017	% Change			
							2014	2015	2016	2017
Kenya	Imports	336.00	657.9	237.3	266.4	203.4	95.8	-63.9	12.3	-23.6
	Exports	864.00	577.6	210.9	189.7	308.9	-33.1	-63.5	-10.1	62.8
	Total trade	1,200.0	1,235.5	448.2	456.1	512.3	3.0	-63.7	1.8	12.3
	Trade Balance	528.0	- 80.3	- 26.4	- 76.7	105.5	-115.2	-67.1	190.5	-237.6
Uganda	Imports	58.00	48.2	39.2	30.6	36.1	-16.9	-18.7	-22.1	18.2
	Exports	76.00	93.0	56.2	28.1	33.0	22.4	-39.6	-50.0	17.4
	Total trade	134.0	141.2	95.4	58.7	69.1	5.4	-32.4	-38.5	17.8
	Trade Balance	18.0	44.8	17.0	- 2.4	- 3.1	148.9	-62.1	-114.4	27.0
Burundi	Imports	2.00	0.6	1.0	0.8	0.2	-70.0	66.7	-23.0	-68.9
	Exports	68.00	61.6	39.8	55.0	53.8	-9.4	-35.4	38.1	-2.2
	Total trade	70.0	62.2	40.8	55.8	54.0	-11.1	-34.4	36.6	-3.2
	Trade Balance	66.0	61.0	38.8	54.2	53.5	-7.6	-36.4	39.7	-1.3
Rwanda	Imports	1.00	3.2	1.1	1.1	1.3	220.0	-65.6	1.5	17.3
	Exports	110.00	47.3	30.5	65.6	68.7	-57.0	-35.5	115.0	4.8
	Total trade	111.00	50.5	31.6	66.7	70.0	-54.5	-37.4	111.0	5.0
	Trade Balance	109.0	44.1	29.4	64.5	67.4	-59.5	-33.3	119.2	4.6
South Sudan	Imports	0.00	-	-	-	2.1	-	-	-	-
	Exports	0.00	-	0.1	-	0.2	-	-	-	-
	Total trade	0.00	-	0.1	-	2.3	-	-	-	-
	Trade Balance	0.00	-	0.1	-	- 1.9	-	-	-	-
Intra-EAC**	**Imports**	**397.0**	**709.9**	**278.6**	**298.8**	**243.2**	**78.8**	**-60.8**	**7.3**	**-18.6**
	Exports	**1,118.0**	**779.5**	**337.4**	**338.3**	**464.5**	**-30.3**	**-56.7**	**0.3**	**37.3**
	Total trade	**1,515.0**	**1,489.4**	**616.0**	**637.1**	**707.7**	**-1.7**	**-58.6**	**3.4**	**11.1**
	Trade Balance	**721.0**	**69.6**	**58.8**	**39.4**	**221.4**	**-109.1**	**4.0**	**-32.9**	**461.27**

Source: TRA and NBS, 2018

Intra-Regional Trade Balance

Tanzania's total trade with other EAC Partner States in 2017 increased by 11.1 percent to US$ 707.7 million, from US$ 637.1 million in 2016. Likewise, Tanzania's trade balance with EAC Partner States remained a surplus amounting to US$ 221.4 million, up from US$ 39.4 million recorded in 2016. The development was mainly driven by increase in exports coupled with a decrease in imports. During the period under review, Tanzania recorded a trade surplus with all EAC Partner States with the exception of Uganda and South Sudan.

Figure 3:25 Tanzania's Trade with EAC Partner States, 2013 – 2017 (US$ million)



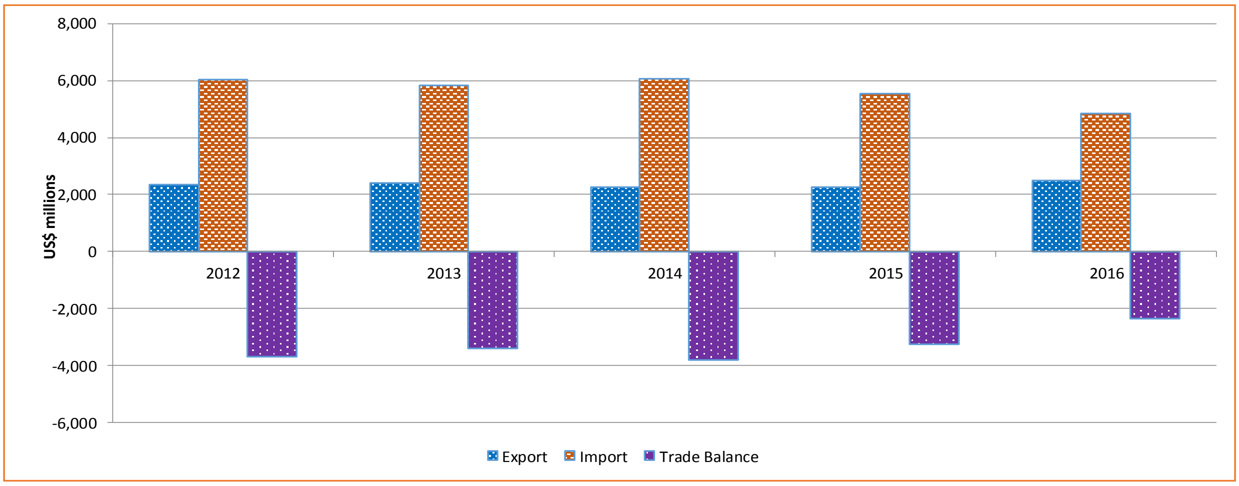
Source: TRA and NBS, 2018

3.5.6 Uganda

3.5.6.1 Uganda's International Trade

Uganda's total trade amounted to US$9.2 billion in 2017 up from US$7.8 billion in 2016. Overall, Uganda continued to experience a trade deficit. The trade deficit widened to US$ 2.2 billion in 2017, from US$ 2.0 billion registered in 2016. The increase in trade deficit was attributed to increased value of formal imports mainly capital and consumer goods due to high demand by the private sector during 2017.

Figure 3:26 Uganda's Total Exports, Imports and Trade Balance, 2013-2017 (US$ millions)



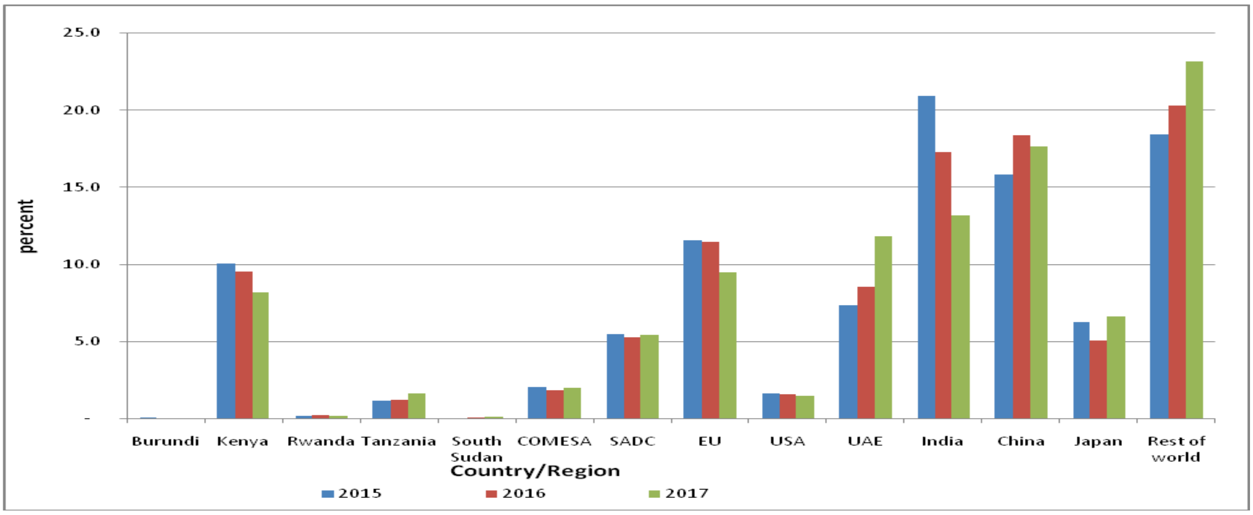
Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics, 2018

Imports

The total imports bill in 2017 was US$5.7 billion up from USD4.9 billion in 2016, of which formal imports accounted for US$ 5.6 billion, while informal imports were estimated at US$80.9 million. The imports bill increased by 16.0 percent in 2017 after a decrease of 12.5 percent in 2016.

The major products imported formally during 2017 were; Mineral fuels (US$1,036.4 million), Nuclear reactors, boilers, Machinery & Mechanical appliances and their parts (US$558.6 million), Vehicles and their parts (US$458.4 million), Electrical machinery and equipment (US$316.4 million), Plastics and articles of plastic (US$289.1 million), Iron and steel (US$283.6 million).

Figure 3:27 Uganda's Imports by Country /Region of Origin, 2015-2017 (percentage)



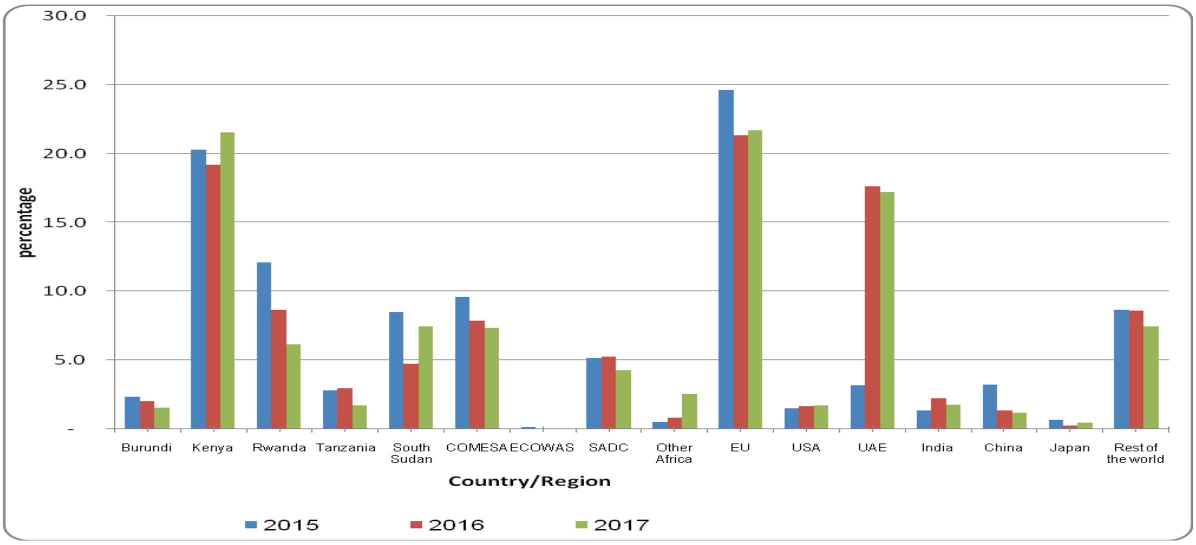
Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics, 2018

Domestic Exports

Overall export earnings increased by 18.9 percent to US$3.5 billion in 2017, of which, formal exports were US$2.9 billion, while informal exports amounted to US$ 549.0 million. Formal exports increased by 16.9 percent to US$2.9 billion in 2017, from US$2.5 billion in 2016. On the other hand, informal exports significantly increased by 31.0 percent to US$549.0 million in 2017, from US$419.2 million in 2016. The increase in informal trading was attributed to resumption of trading with South Sudan during the year as well as increased export of agricultural produce to Kenya especially maize and bananas

The major export destinations for Uganda's formal domestic goods were; European Union amounting to US$536.7 accounting for 21.7 percent of the 2017 domestic exports. Earnings from Kenya were US$ 532.0 million, accounting for 21.5 percent while earnings from United Arab Emirates were US$425.1 million representing 17.2 percent of export earnings. The main exports comprised of coffee, tea, gold, fish fillets and maize.

Figure 3:28 Uganda's Domestic Exports by Country/Region of Destination (percentage share)

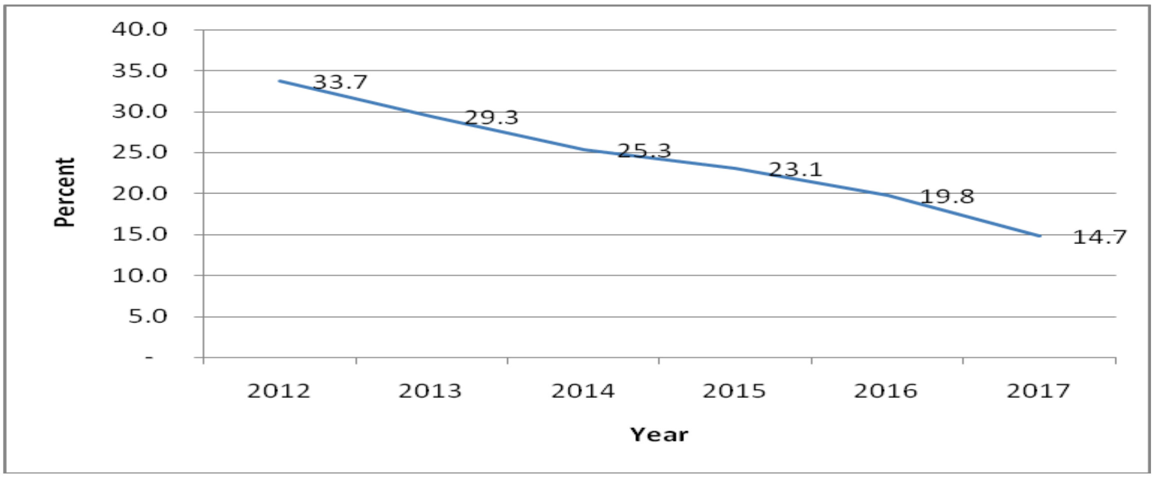


Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics, 2018

Re-Exports

Uganda's re-exports reduced by 12.5 percent to US$ 427.9 million in 2017 from US$ 490.6 million registered in 2016. As a result, the share of re-exports to total exports declined to 14.7 percent during the year from 19.8 percent in 2016. The main re-export products from Uganda were (grain and aviation fuel). The decline in re-exports was attributed to a contraction in re-exports to the COMESA and the Middle-East.

Figure 3:29 Uganda's Re-exports as Percent of Total Exports (percentage change)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics

3.5.6.2 Uganda's Intra-Regional Trade Trends

Intra-Regional Exports

Uganda's domestic exports to the EAC Partner States increased by 18.4 percent to US$ 1,126.3 million in 2017, from US$950.9 million in 2016. In 2017, domestic exports to Kenya improved by 36.6 percent to US$552.0 million and exports to South Sudan also increased by 25.2 percent to US$ 299.9million. Contrasting this improvement was domestic exports to Tanzania continuing to deteriorate, recording a decrease of 27.7 percent to US$49.8 million. The main domestic exports to EAC partner states comprised grain, energy, cement, milk and tobacco. Uganda milk exports of Lato milk and Fresh diary made inroads to Kenya while plans to export milk to Rwanda and Tanzania are progressing. The increased export of milk was attributed to lower production costs allowing producers to sell their milk at lower prices. currently the value of exports is about US$80million.

Table 3:17 Uganda's Intra EAC Exports, 2013-2017 (US$ million)

	Intra-EAC export flows	2013	2014	2015	2016	2017	% change
Uganda	Intra EAC Domestic Exports	605.3	668.7	803.6	750.2	949.8	***26.6***
	Intra EAC Re-exports	197.5	253.9	233.0	200.7	176.5	***-12.1***
	Intra EAC Total Exports	802.8	922.5	1,036.7	950.9	1,126.3	***18.4***
	Percent Share of Intra-Re-exports	24.6	27.5	22.5	21.1	15.7	

Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics,2018

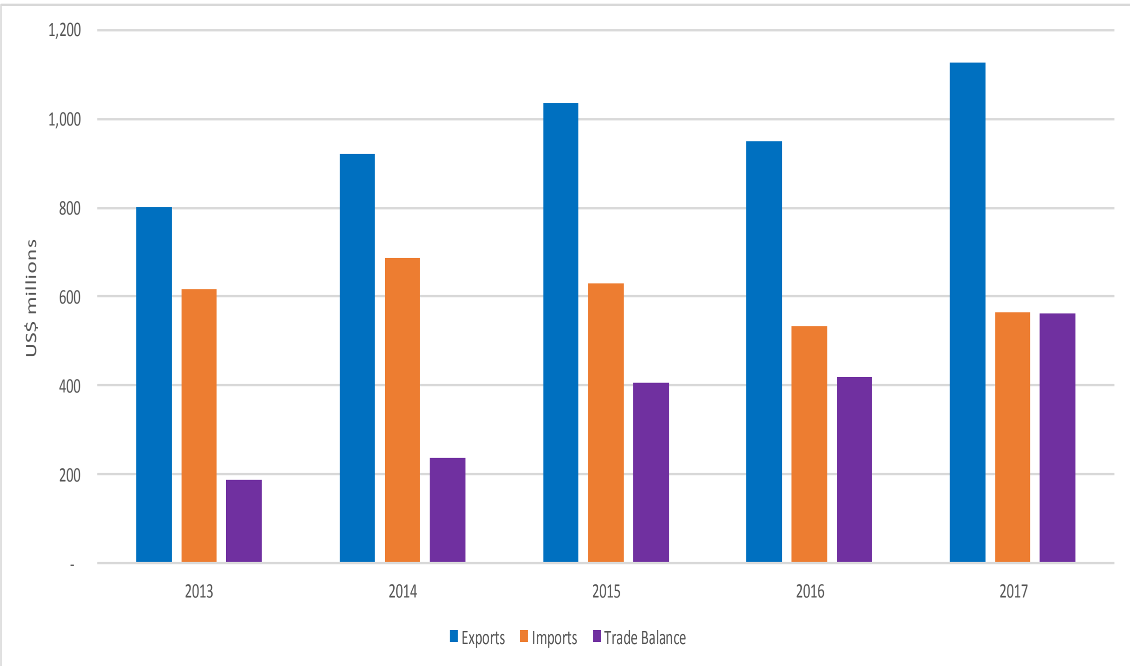
Intra-Regional Imports

Uganda's formal imports from EAC Partner States increased by 6.2 percent to US$565.5 million in 2017, from US$532.6 million in 2016. Kenya continued to be the major source of Intra-EAC imports, accounting for 80.8 percent of Uganda's Intra-regional imports valued at US$ 457.2 million in 2017. The main imports from Kenya included petroleum products, cement, iron and steel and pharmaceutical products. Imports from Tanzania also increased to US$ 91.8 million in 2017 from US$ 59.7 million in 2016. The main imports from Tanzania included petroleum products, coffee and plastic products.

Intra-Regional Trade Balance

Uganda's total trade with EAC Partner States improved by 14 percent to US$1.69 billion in 2017, from US$1.48 billion in 2016. Uganda's trade surplus with EAC Partner States increased to US$560.8 million in 2017, from US$ 418.3 million in 2016. Total exports to the region increased by 18.4 percent to US$1,126.3 billion in 2017, from US$950.9 million in 2016.Kenya was the major trading partner in the EAC regional bloc whose total trade increased over time. In 2017, total trade increased by 16.9% to US$1,009.2 million from US$ 863.1 million in 2016. With exception of Kenya where significant trade deficits were recorded, Uganda was a net exporter to other EAC partner states.

Figure 3:30 Uganda's Trade with EAC Partner States, 2013-2017 (US$ million)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics, 2018

Table 3:18 Uganda's Trade with EAC Partner States, 2013-2017, (US$ million)

		2013	2014	2015	2016	2017	Percentage Change 2014	2015	2016	2017
Burundi	Imports	0.5	4.1	3.4	1.3	1.1	809.0	(17.9)	(61.8)	(18.0)
	Exports	48.7	43.5	46.3	45.1	43.0	(10.8)	6.5	(2.5)	(4.7)
	Total trade	49.2	47.6	49.7	46.4	44.0	(3.3)	4.4	(6.6)	(5.1)
	Trade Balance	48.3	39.3	42.9	43.8	41.9	(18.5)	9.1	2.1	(4.3)
Rwanda	Imports	7.4	10.9	9.4	10.1	9.8	47.1	(13.9)	7.6	(2.5)
	Exports	216.3	245.3	237.6	193.3	181.6	13.4	(3.2)	(18.7)	(6.0)
	Total trade	223.7	256.2	246.9	203.3	191.5	14.5	(3.6)	(17.7)	(5.8)
	Trade Balance	208.9	234.5	228.2	183.2	171.8	12.2	(2.7)	(19.7)	(6.2)
Kenya	Imports	562.8	593.9	554.5	459.0	457.2	5.5	(6.6)	(17.2)	(0.4)
	Exports	314.4	297.4	427.0	404.1	552.0	(5.4)	43.6	(5.4)	36.6
	Total trade	877.2	891.3	981.5	863.1	1,009.2	1.6	10.1	(12.1)	16.9
	Trade Balance	(248.4)	(296.5)	(127.5)	(54.9)	94.8	19.4	(57.0)	(57.0)	(272.6)
South Sudan	Imports	0.3	1.5	0.8	2.5	5.6	457.6	(43.7)	204.5	120.3
	Exports	175.4	280.3	265.0	239.6	299.9	59.8	(5.4)	(9.6)	25.2
	Total trade	175.7	281.8	265.9	242.1	305.5	60.4	(5.6)	(8.9)	26.2
	Trade Balance	175.2	278.8	264.2	237.0	294.3	59.2	(5.2)	(10.3)	24.2
Tanzania	Imports	45.9	75.7	62.9	59.7	91.8	64.9	(16.9)	(5.1)	53.8
	Exports	48.0	56.0	60.8	68.9	49.8	16.8	8.5	13.3	(27.7)
	Total trade	93.9	131.7	123.7	128.6	141.6	40.3	(6.1)	4.0	10.1
	Trade Balance	2.0	(19.7)	(2.1)	9.2	(42.0)	(1,069.6)	(89.2)	(531.4)	(557.4)
Intra-EAC**	**Imports**	**616.9**	**686.1**	**631.0**	**532.6**	**565.5**	**11.2**	**(8.0)**	**(15.6)**	**6.2**
	Exports	**802.8**	**922.5**	**1,036.7**	**950.9**	**1,126.3**	**14.9**	**12.4**	**(8.3)**	**18.4**
	Total trade	**1,419.7**	**1,608.6**	**1,667.7**	**1,483.5**	**1,691.8**	**13.3**	**3.7**	**(11.0)**	**14.0**
	Trade Balance	**186.0**	**236.4**	**405.6**	**418.3**	**560.8**	**27.1**	**71.6**	**3.1**	**34.1**

Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics

3.5.6.3 Uganda's Informal Cross-Border Trade

A survey conducted by the Uganda Bureau of Standards (UBOS) in collaboration with the Bank of Uganda (BOU) collected information on cross border trade between Uganda and her neighbours that is not recorded by the Customs Department of the Uganda Revenue Authority (URA). Informal exports and imports are grouped into 3 categories; Industrial, Agricultural and other products depending on the level of processing of the goods transacted. During 2017, Industrial products dominated informal trade exports while Agricultural products dominated informal imports whose market shares stood at 63.4 percent for informal exports and 54.7 percent for informal imports respectively.

Informal Cross Border Exports

Uganda's informal exports grew by 23.6 percent to US$549.0 million in 2017 from US$419.2 million recorded in 2016. Generally, informal exports receipts from neighbouring countries increased for all countries, led by Kenya increasing by 44.1 percent. Informal exports to DR Congo grew by 18.1 percent to US$270.0 million in 2017 from US$ 221.3 in 2016, Tanzania by 13.4 percent to US$50.5 million from US$43.8 million and Rwanda by 14.1 percent to US$39.0 million from US$33.5 million in 2016. The informal exports to South Sudan also improved by 13.4 percent to US$ 47.8 million in 2017 from US$41.6 million recorded in 2016. In 2017, manufactured informal exports increased by 24.1 percent to US$347.9 million from US$282.2 million in 2016. Notably, Maize informal exports rose to US$ 48.3 million in 2017 from US$ 14.8 million in 2016.

Table 3:19 Uganda's Total Informal Exports, 2013-2017, (US$ million)

	2013	2014	2015	2016	2017
Burundi	15.1	15.0	1.9	-	-
Democratic Republic of Congo	135.0	139.5	181.4	221.3	270.0
Kenya	69.7	92.9	96.4	79.1	141.7
Rwanda	27.9	24.5	21.8	33.5	39.0
South sudan	130.8	119.5	79.5	41.6	47.8
Tanzania	42.8	23.3	18.2	43.8	50.5
Total Trade	421.3	414.7	399.2	419.3	549.0

Source: Uganda Bureau of Statistics

Informal Cross Border Imports

Informal cross border imports increased by 19.8 percent to US$80.9 million in 2017 from US$64.8 million in 2016. D.R Congo was the leading source of Uganda's informal imports accounting for 35.5 percent of total informal imports in 2017. Informal imports from D.R Congo amounted to US$28.7 million accounting for 35.5 percent of total informal cross border imports. Informal imports from Kenya increased by 2.7 percent to US$ 27.4 million from US$ 26.6 million in 2016. Agricultural products dominated informal imports accounting for 54.7 percent in 2017. The value of agricultural informal imports increased to US$42.3 in 2017 from US$38.9 million in 2016. Industrial products imports rose to US$ 26.0 million in 2017 from US$25.3 million in 2016.

Table 3:20 Uganda's Total Informal Imports, 2013-2017, (US$ million)

	2006	2007	2008	2009	2010
Burundi	-	-	-	-	-
Democratic Republic of Congo	17.7	21.3	18.3	20.3	28.7
Kenya	26.5	30.8	31.9	26.6	27.4
Rwanda	2.5	2.2	1.2	2.5	3.2
South sudan	5.6	3.8	2.3	2.5	2.3
Tanzania	1.3	7.7	10.7	13.0	19.3
Total Trade	53.6	65.8	64.4	64.9	80.9

Source: Uganda Bureau of Statistics

3.6 Special Category Considerations in the EAC Customs Union

the EAC Partner States established the Customs Union Protocol to support trade liberalization, among other things. The main features of the Protocol include; the elimination of internal tariffs on goods traded among the Partner States; the adoption of a 3-band CET;; the application of EAC rules of origin; the establishment of an exemption and remission regime in order to promote and facilitate export-orientated investments; production of export-competitive goods, and attracting foreign direct investments. The implementation of these provisions of the protocol has implications for customs revenue performance as outlined in this section.

Table 3:21 Duty Foregone due to Exemptions and Remissions, 2013-2017 (US$ millions)

Partner States	Heading	2013	2014	2015	2016	2017	Percentage change			
							2014	2015	2016	2017
Uganda	Value of Exemptions	591.6	295.6	305.9	322.0	286.8	(50.0)	3.5	5.3	(10.9)
	Revenue Foregone	130.8	53.2	70.1	81.8	70.6	(59.3)	31.8	16.7	(13.7)
	Total Trade Taxes	1,285.9	1,505.9	1,486.8	1,463.1	1,601.1	17.1	(1.3)	(1.6)	9.4
	Percent Foregone	9.2	3.4	0.1	0.1	0.1	(63.0)	(97.1)	(44.1)	78.9
Tanzania	Value of Exemptions	3940.8	3664.2	2868.1	7069.3	2255.4	(7.0)	(21.7)	146.5	(68.1)
	Revenue Foregone	1131.9	730.9	592.6	444.1	475.4	(35.4)	(18.9)	(25.1)	7.0
	Total Trade Taxes	2108.8	2315.3	2338.3	2542.0	2680.7	9.8	1.0	8.7	5.5
	Percent Foregone	34.9	24.0	20.2	14.9	15.1	(31.3)	(15.7)	(26.4)	1.3
Kenya	Value of Exemptions	3621.0	3032.8	3126.5	2619.3	3087.1	(16.2)	3.1	(16.2)	17.9
	Revenue Foregone	838.5	621.0	664.2	597.8	777.0	(25.9)	6.9	(10.0)	30.0
	Total Trade Taxes	3163.0	3885.4	3838.6	4804.5	4453.1	22.8	(1.2)	25.2	(7.3)
	Percent Foregone	21.0	13.8	14.8	11.1	14.9	(34.2)	7.0	(25.0)	34.3
Rwanda	Value of Exemptions	671.1	684.3	646.6	576.6	558.1	2.0	(5.5)	(10.8)	(3.2)
	Revenue Foregone	169.1	189.4	182.2	157.3	166.0	12.0	(3.8)	(13.7)	5.5
	Total Trade taxes	310.8	342.7	369.4	382.8	388.1	10.3	7.8	3.6	1.4
	Percent Foregone	54.5	55.3	49.3	41.1	42.8	1.4	(10.8)	(16.7)	4.1
Burundi	Value of Exemptions	369.8	77.8	340.8	203.9	370.5	(79.0)	338.2	(40.2)	81.7
	Revenue Foregone	70.8	7.6	80.4	54.3	91.3	(89.3)	964.7	(32.4)	68.1
	Total Trade taxes	124.8	147.5	143.2	150.6	184.3	18.2	(2.9)	5.1	22.4
	Percentage Foregone	56.8	5.1	56.1	36.1	49.5	(91.0)	996.2	(35.7)	37.4

Source: Partner States Revenue Authorities, Central Banks and National Statistics Offices

3.6.1 Exemptions and Remissions

The total value of exemptions in the EAC region decreased by 39.2 percent to US$6.6 billion for the year 2017 from US$10.8 billion in 2016. The main reason for the decrease is the elimination of a number of exemptions and stay of application at the regional level. However, the value of imports that were subject to exemptions increased in all the Partner States with the exception of Rwanda and Uganda.

Burundi's imports subject to exemptions increased by 81.7 per cent to US$ 370.5 in 2017 from US$ 203.9 million. Revenue foregone increased also by 54.3 per cent to 91.3 million in 2017from US$ 54.3 million in 2016. Trade taxes increased by 22.4 percent to US$ 184.3 million in 2017 from US$ 150.6 million in 2016. In Kenya, the value of goods imported under exemptions and remissions regime increased by 17.9 percent to US$ 3.1 billion in 2017 from US$ 2.6 billion in 2016. Similarly, revenue foregone increased by 30 percent to US$ 777.0 million in 2017 from US$ 597.8 million in 2016. Rwanda's imports subject to exemptions decreased by 3.2 per cent to US$ 558.1 million in 2017, from US$ 576.6 million in 2016, while revenue foregone increased by 5.6 per cent to US$ 166.0 million in 2017 from US$ 157.3 million in 2016. Trade taxes increased by 1.4 per cent to US$ 388.1 million in 2017 from US$ 382.8 million in 2016.

In 2017, the value of goods imported under exemptions and remissions regime into the United Republic of Tanzania amounted to US$ 2,255.4 Million, which was 8.9 percent higher than US$ 2,071.8 Million recorded in 2016 . However, the revenue foregone as a result of the exemptions went down to US$ 475.4 million in 2017, from US$ 454.3 million in 2016 while the revenue foregone as a percentage of customs revenue decreased slightly to 15.1 percent in 2017 from 15.2 percent.

The value Uganda's imports under exemption and remissions regime decreased to US$ 286.6 million in 2017, from US$ 322.0 million in 2016. Similarly, revenue forgone as a result of the exemptions decreased to US$70.6 million from US$81.8 million recorded in 2016. The major goods imported under the exemption regime included helicopters/plane parts, mosquito nets, photo sensitive semi-conductor device, medical diagnostic and as laboratory reagents.

3.6.2 Sensitive Products

While the EAC CET has a maximum rate of 25 percent. There is a category of goods classified as 'sensitive products' that attract CET rates above the maximum 25 percent when imported into the region or from one Partner State to another. The Value of sensitive goods imported into the region increased by 26 percent to US$2.9 billion in 2017 from US$2.3 billion in 2016. At the same time, the value of EAC intra-regional imports of sensitive goods increased by 15 percent to US$ 320.8 million in 2017 from US$277.9 million in 2016.

Burundi's imports of sensitive goods from non-EAC Partner States increased by 121.6 per cent to US$ 118.8 million in 2017 from US$ 53.5 million in 2016. The key sensitive products imported included wheat, sugar, rice, maize, worn clothing. Burundi's imports of sensitive goods from EAC Partner States also increased by 14.7 per cent to US$ 25.1 million in 2017 from US$ 21.8 million in 2016. The sensitive products imported by Burundi from EAC Partner States included wheat and worn clothing.

The volume of goods imported into Kenya under the sensitive category from non-EAC countries also increased by 43.6 percent to US$ 1,062.5 million in 2017, from US$ 739.9 million in 2016. This was largely driven by increases in imports of wheat and meslin which increased to US$ 410 million in 2017 from US$ 284.5 million in 2016; rice to US$ 258.3 million in 2017 from US$ 136.6 million in 2016; cane or beet sugar to US$ 216.6 million in 2017 from US$ 170.8 million in 2016; maize to US$ 19.1 million in 2017 from US$ 0.8 million in 2016; and milk concentrate to US$ 18.9 million in 2017 from US$ 3.2 million in 2016. Kenya's imports of sensitive products from EAC Partner States increased by 56.6 percent to US$ 110.2 million in 2017, from US$ 70.4 million in 2016, mainly on account of increase in milk and cream imports which in total increased to US$ 79 million in 2017 from US$ 24.3 million in 2016.

In 2017, Rwanda's imports of sensitive goods from non-EAC Partner States increased by 60.4 percent to US$ 473.8 million from US$ 293.8 million in 2016. Major imports included sugar, rice, motor vehicles for the transport of goods, wheat, cement and maize. Rwanda's imports of sensitive goods from EAC Partner States decreased by 4.10 per cent to US$ 99.1 million in 2017 from US$ 103.4 million in 2016. Major sensitive products imported by Rwanda from EAC Partner States included cement which accounted for 38.5 percent, maize accounted for 22.1 percent, cereal flour which accounted for 7.8 per cent and sugar accounted for 5.8 percent

Total imports of sensitive goods into the United Republic of Tanzania decreased by 12.4 percent, to US$ 609.4 million in 2017, from US$ 695.6 million in 2016. Import of sensitive goods from non-EAC countries decreased by 14.3percent to US$ 588.4 million in 2017, from US$ 686.5 million in 2016. All sensitive products from non-EAC Partner States showed a significant decline. The value of sensitive goods imported from EAC Partner States into the United Republic of Tanzania increased by 132.29 percent to US$ 21.0 million in 2017, from US$ 9.0 million in 2016. Sensitive products imported into the United Republic of Tanzania included wheat, industrial sugar, motor vehicles for transport of goods, milk etc.

In 2017, the total value of non-EAC partner state sensitive goods imported in Uganda increased by 20.6 percent to US$645.3 million, from US$512.2 million recorded in 2016. The value of sensitive goods imported from non-EAC Partner States accounted for 90.8 percent of the total value of sensitive products imported in 2017. The major sensitive goods imported from non-EAC Partner States included wheat and muslin, motor vehicles, sugar, worn clothing, woven fabrics, cement and rice. Import of sensitive goods from EAC Partner States into Uganda decreased by 12.3 percent, to US$65.4 million in 2017. . Sensitive products imported form EAC Partner States mainly constituted cement, rice and packing materials.

3.6.3 Excisable Goods

The value of excisable goods into the Partner States increased in 2017 compared to 2016 with the exception of Tanzania and Uganda.The total value of excisable goods imported into the EAC region increased by 4.1 percent to US$7.9 billion in 2017 from US$7.5 billion in 2016.

The value of excisable goods imported into Burundi increased by 31.5 per cent to US$ 228.2 million in 2017 from US$ 173.5 million in 2016 mainly on account of increase in imports of cars, petroleum products and sugar which represented 92.6 per cent of the value of imported excisable goods in 2017. The value of imported excisable goods into Kenya increased by 25.8 percent, to US$ 3.3 billion in 2017, from US$ 2.6 billion in 2016. This was mainly on account of increase in imports of petroleum products which increased to US$ 2.4 billion in 2017, from US$ 1.8 billion in 2016. In 2017, Rwanda's value of imported excisable goods increased by 3.4 per cent, to US$ 706.6 million from US$ 683.6 million in 2016. The increase in import of excisable goods was attributed to the ongoing application of new valuation of motor cars and other motor vehicles for the transport of persons. This increased the excisable duty on motors to US$ 220.6

million in 2017 from US$ 176.3 million in 2016 and accounted for 31.2 per cent of the value of imported excisable goods in 2017.

The value of excisable goods imported goods into Tanzania decreased by 1.1 percent to US$ 2,614.0. million in 2017, from US$ 2,641.9 million in 2016. The decrease was mainly on account of the reduction in imports of fuel ~~by 3.2 per cent~~ and motor vehicles which accounted for up to 40.0 percent and 17.0 percent of all imported exercisable goods respectively.

Uganda's imports of excisable products decreased to US$ 1.1 billion in 2017, from US$ 1.4 billion in 2016. The major excisable imports were petroleum products which accounted for US$ 886.9 million, beverages accounted for US$34.6 million and cement which accounted for US$ 24.9 million. These commodities jointly accounted for over 94 percent of the total value of excisable duty in 2017.

3.6.4 Tariff Bands

The EAC Common External Tariff (CET) is characterized by a three-band structure. The structure has a minimum rate of 0 percent on raw materials and capital goods; a middle rate of 10 percent on intermediate products and a maximum rate of 25 percent on finished goods; the designation of a group of (58) goods as sensitive products with ad-valorem tariffs ranging from 35 percent to 100 percent.

The volume of goods imported into the EAC under the 0% tariff band increased among all Partner States in 2017 compared to 2016 while the performance of imports under the other tariff bands was mixed. Burundi's imports of goods under 0% tariff band increased by 24.3 per cent to US$ 582.1 million in 2017 from US$ 468.0 million in 2016. Goods under the 0% tariff including exempted goods accounted for 77.0 percent of the total value of imports. The value of goods imported under the 10% band increased by 23.6 per cent to US$ 52.9 million from US$ 42.8 million and accounted for 7.0 percent of total imports. Goods imported into Burundi under the 25 percent tariff increased by 1.9 percent to US$ 105.8 million in 2017 from US$ 103.8 million in 2016 and accounted for 14.0 per cent of the total imports.

The value of goods imported into Kenya under the zero percent tariff band increased to US$ 10.1 billion in 2017 from US$ 8.1 billion in 2016 and accounted for 60.4 percent of total imports compared to 57.6 percent in 2016. Similarly, The share of goods imported under 10 percent and 25 percent tariff bands accounted for 11.9 percent and 20.7 percent respectively in 2017 from 14.4 percent and 22.2 percent respectively in 2016. Meanwhile, the share of goods imported under the tariffs that are over 25 percent increased to 7 percent in 2017 from 5.7 percent in 2016.

Rwanda's imports of goods under zero percent tariff band including exempt goods increased by 13.3 percent to US$ 1.3 billion in 2017 from US$ 12 billion in 2016, and accounted for 45.2 per cent of the total value of imports. Imports under the 10 percent tariff band increased by 2.3 percent to US$ 651.5 million in 2017 from US$ 532.6 million in 2016 and accounted for 22.7 percent of total imports, while imports under the 25 percent tariff band increased by 4.3 per cent, to US$ 924.5 million in 2017 from US$ 865.7 million in 2016 and accounted for 32.15 percent of the total imports.

In 2017, United Republic of Tanzania's merchandise imports under the zero tariff bands increased to US$ 5.18 billion from US$ 4.2 billion recorded in 2016 and accounted for 10.6 percent increase of the total imports. On the other hand, the value of imports under 10 percent tariff band decreased to US$ 1.1 billion in 2017 from US$ 1.5 billion recorded in 2016. Likewise, the value of goods imported under the 25 percent tariff band decreased by 13.2 percent to US$ 1.6 billion in 2017, from US$ 1.9 billion in 2016. The value of goods imported under the tariff bands above 25 percent also decreased by 70.8 percent to US$78.0 million in 2017, from US$ 267.2 million registered in 2016.

In 2017, the value of goods imported into Uganda under the 0 percent tariff band increased by 59.4 percent to US$4.4 billion in 2017 from US$3.3 billion recorded in 2016 and accounted for 79.3 percent of total imports. The major imports under the 0 percent tariff band included crude palm oil, mineral fuels and oils, machinery and appliances, electrical equipment, pharmaceutical products and iron and steel. Imports under the 10 percent tariff band decreased marginally to US$556.4 million in 2017 from US$561.7 million in 2016. The main products under 10 percent band included wheat, vehicles for the transport of goods, new pneumatic tyres, bituminous mixtures and vehicles parts and accessories, The value of imports under the 25 percent tariff band decreased by 62.9 percent to US$437.6 million in 2017 from US$712.8 million in 2016, and accounted for 7.8 percent of total imports in 2017. goods imported under the 25 percent tariff band mainly included vehicles, palm Olein and footwear.

Table 3:22 EAC-Value of Imports by Tariff Band, 2013-2017 (US$ million)

Partner State	Tariff Band	2013	2014	2015	2016	2017	% change			
							2014	2015	2016	2017
Kenya	**0**	10,430.4	11,995.2	9,652.3	8,121.9	10,073.8	15.0	(19.5)	(15.9)	24.0
	10	2,197.5	2,352.9	2,248.2	2,035.7	1,993.1	7.1	(4.4)	(9.5)	(2.1)
	25	2,938.5	3,137.5	3,257.2	3,137.1	3,447.4	6.8	3.8	(3.7)	9.9
	>25	844.6	920.6	842.7	810.3	1,172.8	9.0	(8.5)	(3.8)	44.7
	Total	**16,411.0**	**18,406.2**	**16,000.4**	**14,105.0**	**16,687.0**	**12.2**	**(13.1)**	**(11.8)**	**18.3**
Tanzania	0	7,303.3	7,539.0	10,739.0	4,184.1	5,008.9	3.2	42.4	(61.0)	19.7
	10	2,257.1	2,309.8	1,729.0	1,531.9	1,084.9	2.3	(25.1)	(11.4)	(29.2)
	25	2,697.1	2,663.1	2,008.0	1,852.5	1,608.1	(1.3)	(24.6)	(7.7)	(13.2)
	> 25	267.5	255.3	229.0	267.2	78.0	(4.6)	(10.3)	16.7	(70.8)
	Total	**12,525.0**	**12,767.3**	**14,705.0**	**7,835.7**	**7,779.9**	**1.9**	**15.2**	**(46.7)**	**(0.7)**
Uganda	0%	4,150.9	4,258.6	3,992.2	3,323.1	4,437.9	2.6	(6.3)	(16.8)	33.5
	2%	-	-		-	-	-	1.0	2.0	3.0
	4%	2.6	2.5	0.1	0.8	1.5	(2.9)	(95.5)	625.9	84.3
	6%	35.1	38.3	11.5	17.0	21.6	9.1	(69.9)	47.1	27.2
	10%	547.8	650.6	561.7	556.4	556.2	18.8	(13.7)	(0.9)	(0.0)
	25%	861.7	883.7	754.1	712.9	437.6	2.5	(14.7)	(5.5)	(38.6)
	>25%	219.4	239.9	208.5	219.3	141.1	9.3	(13.1)	5.2	(35.6)
	Total	**5,817.5**	**6,073.5**	**5,528.1**	**4,829.5**	**5,595.9**	4.4	(9.0)	(12.6)	15.9
Rwanda	0%	1,161.2	1,256.8	1,156.1	1,147.5	1,299.7	8.2	(8.0)	(0.7)	13.3
	5%	287.5	63.0				(78.1)	(100.0)	-	-
	10%	295.5	209.5	507.8	532.6	651.5	(29.1)	142.4	4.9	22.3
	15%									
	25%	280.8	919.2	865.7	886.0	924.5	227.3	(5.8)	2.4	4.3
	>25%	164.6	31.1	44.6	39.0		(81.1)	43.3	(12.7)	(100.0)
	Total	**2,189.5**	**2,479.7**	**2,574.2**	**2,605.0**	**2,875.7**	13.3	3.8	1.2	10.4
Burundi	0%	649.75	597.78	619.8	468.0	582.1	(8.0)	3.7	(24.5)	24.4
	5%	-	-							
	10%	199.61	57.45	58.1	42.8	52.9	(71.2)	1.2	(26.4)	23.6
	15%	-	-				-	1.0	2.0	3.0
	25%	132.80	116.22	102.8	103.8	105.8	(12.5)	(11.6)	1.0	2.0
	>25%	23.25	10.45	12.2	13.6	15.1	(55.1)	16.7	11.5	11.2
	Total	**1,005.41**	**781.90**	**792.8**	**628.2**	**756.0**	(22.2)	1.4	(20.8)	20.3

Source: Partner States Revenue Authorities, 2018

3.6.5 Customs Revenue Performance

The EAC Partner States registered increased customs revenue collection in 2017 compared to 2016 with the exception of the republic of Kenya. Overall, customs revenue collections in the EAC increased by a marginal 1.3 percent to US$14.4 billion in 2017 from US$14.2 billion in 2016.

In 2017, Burundi's total customs revenue increased to US$ 184.3 million from US$ 150.6 million 2016. The share of total customs revenue to total tax revenue decreased to 42.3 percent in 2017 from 42.6 percent in 2016. Value-Added Tax (VAT) on imports increased by 8.7 percent in 2017 and accounted for 47.9 percent of the total customs revenue. The VAT and import duty collections were performed at 105.4 percent and 119.4 percent of the target in 2017 respectively compared to 99.7percent and 100.4 percent of the targets in 2016, respectively.

Kenya's total customs revenue declined to US$ 4.5 billion in 2017 from US$ 4.8 billion in 2016 although that resulted in a performance 99 percent of the set target of US$ 4.5 billion. The share of total customs revenue to the total revenue, decreased to 32.4 percent in 2017 from 36.1

percent in 2016. VAT on imports decreased by 17.6 percent to US$ 1.4 billion in 2017 from US$ 1.6 billion in 2016 and accounted for 32.4 percent of the total customs revenue. VAT and import duty performance rates decreased to 95.6 percent and 92.3 percent in 2017, from 124.2 percent and 110.9 percent in 2016 respectively.

Rwanda's total tax revenues increased by 8.0 per cent, to US$ 1,397.7 billion in 2017 or 101.6 per cent of the 2017 target. Customs revenue collections increased by 7.3 per cent to US$ 388.1 million in 2017 from US$ 382.8 million in 2016 which was 97.31 percent of the 2017 customs revenue target of US$ 398.8 million. Exercise duty and VAT on imports recorded an increase of 14.1 per cent and 5.6 per cent respectively while import duty increased by 10.5 per cent and accounted for 25.0 percent of the total customs revenue.

Tanzania's total revenue collected in 2017 increased by 13.96 percent to US$ 6.7 billion, from US$ 6.5 billion in 2016. Similarly, customs revenue increased by 17.0 percent to US$ 2,680 Million in 2017 from US$ 2,660 Million recorded in 2016 which can be explained by increase in VAT on imports to US$ 893.6 million from US$ 820.2 million in 2016.The share of customs revenue to total revenue amounted to 39.8 percent in 2017 compared to 41.0 percent in 2016. Import duty and Excise duty performed at 87.4 percent and 68.1 percent of the set targets of US$ 547.9 million and US$ 707.0 million, respectively.

Uganda's customs revenue in 2017 improved by 9.4 percent to US$ 1.6 billion in 2017 from US$ 1.5 billion recorded in 2016. This was 96.2 percent of the set target of US$ 1.7 billion. VAT on imports accounted for 38.2 percent of the total customs revenue with Excise duty contributing 33.7 percent. When compared to their respective targets for the year, excise duty registered the highest performance of 98.8 percent, followed by VAT on imports at 96.8 percent and import duty at 93.0 percent while other taxes that included environmental- and withholding tax) performed at 91.7 percent. The key taxable imports included fuel, vehicles parts, electrical machinery, sugar, beverages, machinery, iron and steel and animal or vegetable fats and oil. The proportion of customs revenue to total revenue marginally increased to 43.0 percent in 2017 from 42.3 percent in 2016.

Table 3:23 Customs Revenue Collected by EAC Partner States, 2013-2017 (US$ million)

Partner state	Tax head	2013		2014		2015		2016		2017		Performance Target		% change	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	2016	2017	2016	2017
Kenya	Import Duty	738.9	676.9	920.5	777.6	827.8	805.7	798.9	885.8	930.9	859.5	110.9	92.3	9.9	16.5
	Excise Duty	527.6	506.8	621.3	603.8	651.5	638.5	746.5	769.2	813.7	803.9	103.0	98.8	20.5	9.0
	VAT Imports	1,237.1	1,166.7	1,699.5	1,484.7	1,577.9	1,398.4	1,283.6	1,594.4	1,509.1	1,442.6	124.2	95.6	14.0	17.6
	Other	847.2	812.5	931.8	1,019.4	422.7	539.2	1,141.3	1,555.0	1,315.3	1,347.2	136.3	102.4	188.4	15.2
	Total Customs Revenue	3,350.9	3,163.0	4,173.1	3,885.4	4,048.9	3,838.6	3,970.3	4,804.5	4,498.1	4,453.1	121.0	99.0	25.2	13.3
	Total Revenue	**10,017.6**	**9,597.5**	**12,371.1**	**11,514.7**	**12,170.6**	**11,362.3**	**12,539.8**	**13,322.7**	**14,481.2**	**13,763.7**	106.2	95.0	17.3	15.5
	% age of Customs Revenue to Total Revenue		**32.96**		**33.74**		**33.78**		**36.06**		**32.35**				
Burundi	Import Duty	24.2	20.8	30.5	28.7	32.8	28.1	21.3	21.4	21.6	25.8	100.4	119.4	-23.8	20.2
	Excise Duty	6.2	7.2	11.2	12.8	97.3	71.7	15.2	21.0	27.1	37.7	137.8	139.3	-70.7	79.5
	VAT	74.6	83.8	95.3	95.7	177.5	86.2	81.5	81.3	83.8	88.4	99.7	105.4	-5.7	8.7
	Other	8.7	13.0	4.4	10.3	5.3	4.6	17.3	26.9	36.2	32.4	155.1	89.7	483.8	20.8
	Total Customs Revenue	113.7	124.8	141.4	147.5	312.8	190.7	135.4	150.6	168.6	184.3	111.2	109.3	-21.0	22.4
	Total Tax Revenue	**352.5**	**359.9**	**419.8**	**423.9**	**469.1**	**375.8**	**335.0**	**353.3**	**416.6**	**436.1**	105.5	104.7	-6.0	23.4
	% Customs Revenue to Total Revenue		**34.68**		**34.79**		**50.7**	**40.4**	**42.6**	**40.5**	**42.3**				
Rwanda	Import			86.0	80.7	82.0	96.9	86.2	91.5	95.3	97.1	106.1	101.9	(5.6)	10.5
	Excise Duty			84.0	82.7	93.3	87.0	81.5	87.4	92.9	83.9	107.2	90.4	0.4	14.0
	VAT Imports			160.7	138.8	137.0	146.8	144.8	150.3	152.9	149.8	103.8	98.0	2.4	5.6
	Other			19.8	40.4	37.9	38.6	59.3	53.6	57.7	57.2	90.4	99.1	38.8	(2.7)
	Total Customs Revenue			**350.4**	**342.7**	**350.2**	**369.4**	**371.8**	**382.8**	**398.8**	**388.1**	102.9	97.3	3.6	7.3
	Total Revenue			**1,232.1**	**1,194.2**	**1,235.0**	**1,278.8**	**1,274.1**	**1,302.1**	**1,376.3**	**1,397.7**	102.2	101.6	1.8	8.0
	% age of Customs Revenue to Total Revenue				**7.7%**		**28.9**		**29.4**		**27.8**				
Tanzania	Import Duty	444.0	407.5	530.5	502.3	430.1	398.5	580.1	649.7	547.9	478.9	85.6	112.0	63.1	(5.5)
	Excise Duty	518.8	476.5	577.4	486.7	477.0	562.4	547.8	628.5	707.0	481.6	98.0	114.7	11.7	29.1
	VAT	878.9	796.5	945.9	857.7	909.3	801.9	963.4	820.2	1,019.2	893.6	106.0	85.1	2.3	5.8
	Other	439.9	428.4	518.9	468.7	594.6	575.5	587.7	561.7	858.8	826.6	126.9	95.6	(2.4)	46.1
	Total Customs Revenue	2,281.7	2,108.8	2,572.7	2,315.3	2,410.9	2,338.3	2,678.9	2,660.1	3,132.9	2,680.8	104.1	99.3	13.8	16.9
	Total Revenue	**5,999.9**	**5,517.6**	**6,903.1**	**6,384.5**	**6,340.3**	**5,938.6**	**6,715.6**	**6,491.5**	**7,653.3**	**6,736.8**	99.3	96.7	9.3	14.0
	% age of Customs Revenue to Total Revenue	**38.0**	**38.2**	**37.3**	**36.3**	**38.0**	**39.4**	**39.9**	**41.0**	**40.9**	**39.8**				
Uganda	Import	245.1	269.9	306.4	301.0	287.8	282.3	306.7	287.3	330.5	307.4	93.7	93.0	1.8	7.0
	Excise Duty	435.8	401.0	482.5	477.5	455.9	480.3	481.7	504.6	547.4	540.6	104.7	98.8	5.0	7.1
	VAT Imports	541.3	522.0	591.2	614.4	581.6	603.0	623.8	560.9	630.7	610.8	89.9	96.8	-7.0	8.9
	Other	123.7	93.0	131.6	113.1	105.9	121.1	160.6	110.3	155.2	142.3	68.7	91.7	-8.9	29.0
	Total Customs Revenue	1,346.0	1,285.9	1,511.7	1,505.9	1,431.3	1,486.8	1,572.9	1,463.1	1,663.8	1,601.1	93.0	96.2	-1.6	9.4
	Total Revenue	**3,159.8**	**3,022.5**	**3,634.1**	**3,512.2**	**3,402.0**	**3,435.3**	**3,568.5**	**3,459.3**	**3,902.5**	**3,725.1**	96.9	95.5	0.7	7.7
	% age of Customs Revenue to Total Revenue		**0.4**		**0.4**		**0.4**		**42.3%**		**43.0%**				

Source: EAC Partner States Revenue Authorities, 2018

3.7 Prospects for Merchandize Trade

The EAC region still depends on the export of agricultural commodities with minimal value addition and that face price volatility in international markets. The region has undertaken efforts to address the challenges that affected trade over the previous year. It is encouraging that the region has identified some of the causes that inhibit intra-trade within EAC, especially those caused through the application of the current CET and Rules of Origin. The EAC commissioned the revision of the CET with a view to having Rules of Origin and CET that are facilitative of EAC intra-trade and encourage investment and industrialization. EAC also initiated EAC NTB monitoring framework in order to eliminate and discourage imposition of new NTBs in the region.

The construction of the Standard Gauge Railway as part of the Northern Corridor Project from Mombasa and its prospective extension to Uganda and South Sudan as well as the railway from Dar es Salaam to Kigali, is expected to reduce the cost and time of transportation of cargo to and from other Partner States served by the ports of Mombasa and Dar es Salaam respectively. Partner States will need to fast track the Common Market Protocol and other trade agreements under EPAs and AGOA to enable enhanced movement of goods and factors of production within the region. This will increase the potential for increased industrial development and skilled labour.

4 CHAPTER 4: INVESTMENT CLIMATE AND TRENDS IN THE EAC

4.1 Global Investment Trends

The global Foreign Direct Investment (FDI) fell by 23% in 2017 to an estimated US$ 1.43 (UNCTAD, 2018). The drop was associated with a declinein the value of the cross-border Mergers and Acquisition (M&A) that deteriorated by 22 percent as well as a decrease of 14 percent in the value of greenfield investments. FDI flows to developed countries fell by 37 percent to $712 billion while cross-border M&As decreased by 29 percent largely on account of slower FDI growth in the United Kingdom and North America. Despite the decline, United States remained the largest recipient of FDI attracting an estimated US $ 275 billion in inflows followed by China with US$ 136 billion. FDI flows to other developed economies increased by 7% due to recovery of investments in Australia (UNCTAD, 2018).

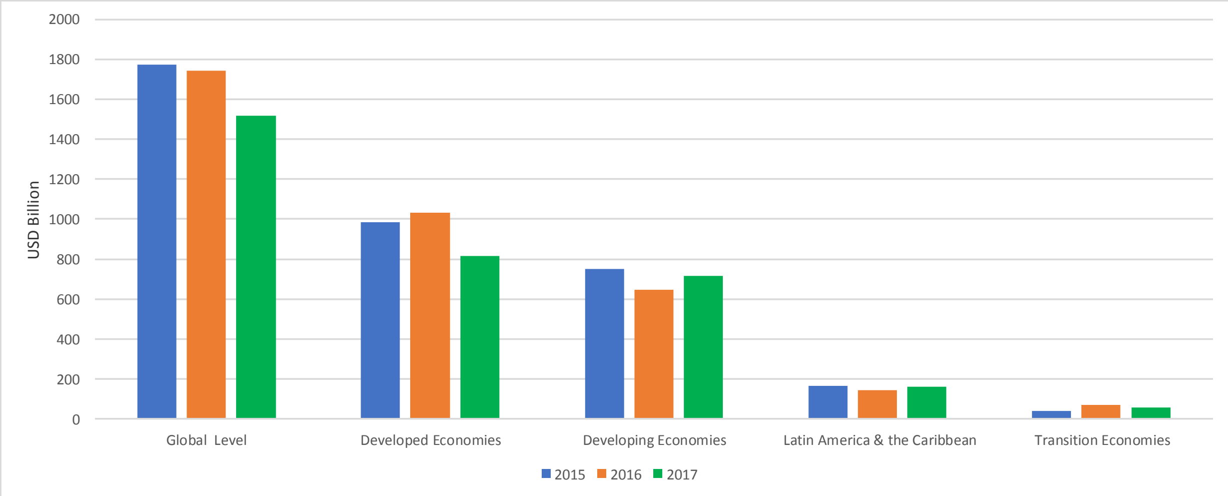
FDI to developing economies was stable in 2017 and remained close to the 2016 levels of US $ 671 billion. Flows rose in developing Asia, Latin America and the Caribbean as developing Asia regained its position as leading recipient region for FDI in the world followed by European Union and North America. FDI to transition economies declined by 27 percent to an estimated US $ 47 billion and this constituted the second lowest level since 2005. The decline was mainly due to the decreased inflow to the Russian Federation and sluggish inflows across most of the Common Wealth Independence State (CIS).

Cross-Border Merger & Acquisition (M&A) declined in 2017 by 22 percent to US $694 billion for the first time in three years due to the decline in equity investments at the global level by 40 percent particularly in natural resources where a number of divestments took place and in manufacturing where it slowed down and to a lesser extent in services that accounted for more than 60% of the sales value in 2017. The fall in Greenfield investments was concentrated in services, however there are similar trends in manufacturing which has an implication for industrial development in which the levels has been consistently lower over the past 5 years when compared to the preceding five-year period across all developing regions.

The accelerating pace of technological innovations that has increasingly automated manufacturing and this has made FDIs seeking for domestic cheap labour through relocation to such areas become less relevant. This may have contributed to the current investment trends. Governments around the globe have invigorated their industrial policies in recent years in the aftermath of the global economic landscape due to the need of a proactive policy that facilitates a transition towards new sectors and activities with higher productivity and more value added, while fostering sustainable and inclusive development.

The declining investment trend especially in the Least Developed Countries (LDCs) underscores the need for a conducive investment environment characterized by open, transparent and non-discriminatory investment policies. It is also acknowledged that the decline in FDI in the least developed countries and developing countries is attributed to a number of challenges that ranges from structural constraints such as lack of adequate infrastructure and scarce access to finance to strategic issues. Further regions or developing countries with small markets are at risk of additional pressure on their investment policies as investors are increasingly looking for locations that offer best conditions to deliver quality products close to the customer and through effective production processes.

Figure 4:1 FDI Inflows by Region, 2015-2017 (US$ billion)



Source: UNCTAD 2018

Table 4:1 FDI Flows by Region, 2015-2017 (US billions and percentage of total)

Economic Group or region	FDI Inflows			FDI Outflows		
	2015	2016	2017	2015	2016	2017
Global Level	1774	1863	1430	1621	1473	1430
Developed Economies	984	1133	712	1184	1041	1109
Europe	566	524	304	728	526	418
North America	390	494	300	330	354	419
Developing Economies	752	670	671	406	407	381
Africa	61	53	42	11	11	12
Asia	524	475	476	359	385	350
Latin America & the Caribbean	165	140	151	36	9	17
Oceania	2	2	2	1	1	2
Transition Economies	38	64	47	32	25	40
Percentage Share in Global Flows						
Developed Economies	55.5	60.8	49.8	73.6	71.9	77.6
Europe	31.9	28.1	21.3	41.8	35.5	29.2
North America	22	26.5	21.0	23.2	25.2	29.3
Developing Economies	42.4	40	46.9	24.4	26.4	26.6
Africa	3.5	2.8	2.9	1.1	1.3	0.8
Asia	29.5	25.5	33.3	21.2	25	24.5
Latin America & the Caribbean	9.3	7.5	10.6	2	0.1	1.2
Oceania	0.1	0.1	0.2	0.1	0.1	0.1
Transition Economies	2.1	3.4	3.3	2	1.7	2.8

Source: UNCTAD, FDI/MNE Data Base 2018

4.2 Investment Flows in Africa

Foreign Direct Investments (FDI) inflows to Africa declined by 21 percent to US $42 billion in 2017 (UNCTAD 2018). Harmful macro-economic effects of commodity burst are still being felt in some of the African countries though commodity prices have started to rise again. The end of the commodity price super-cycle has cut earnings from primary exports in many African countries thus undermined planned investments (Africa Economic Outlook 2018). Further weaker external conditions have exposed fiscal vulnerabilities in natural resources-depended economies as well as several others.

FDI decreased in the major big African economies (UNCTAD 2018): Nigeria by 21% to an estimated US $ 3.5 billion, Angola by 43% to an estimated US $ 2.3 billion, Egypt by 9% to an estimated US$ 7.4 billion, South Africa by 41 percent to US $1.3 billion. FDI decreased by 22 percent in Central Africa's commodity-rich economies to an estimated US $ 5.7 billion. Flows to Congo decreased by 67 percent to US $ 1.2 billion in contrast to DRC that recorded an increase of 11% to an estimated US $ 1.3 billion due to the global race for cobalt used in electric car batteries. Ethiopia recorded FDI inflows estimated at US $ 3.6 billion (down 10 percent) with increasing investments in manufacturing, agriculture and health sector.

Table 4:2 Outflows in Africa Economies 2017 (US billions and percentage change)

Country	Value (Billions of dollars)	Percent Change
Angola	$1.6	40.3 %
South Africa	$7.4	64.5 %
Nigeria	$1.3	-1.4%
Morocco	$1.0	65.7%
Togo	$0.3	22.9 %

Source: UNCTAD WIO 2018

4.3 Prospects for Improved Investment Flows into Africa

Africa has been hailed as the next frontier for global investment as a result of the increase of commodity prices. The recovery in Commodity prices has brought countries such as Nigeria and Angola out of recession and improved their attractiveness to investors. Growth in Africa is projected to continue to rise to 3.2 percent in 2018 and 3.5 in 2019 on the back of the recovery of commodity prices and the gradual strengthening of domestic demand (World Bank Brief, 2018). Non-resource intensive countries are expected to expand at a firming pace due to robust investment growth. However structural reforms would be needed to boost potential growth given the demographic and investment trends.

The regional outlook is subject to risks and is tilted on the downside. The United States and Europe with stronger than expected activity in Africa could push regional growth up due to greater exports and increased mining and infrastructure investment but abrupt slowdown in China could generate adverse spillovers to the region through lower than expected commodity prices.

There are prospects for inter and intra-regional investments through the economic partnership agreements. These include the Africa Continental Free Trade Area and the EAC-Comesa-SADC tripartite. These agreements once operational, should encourage stronger FDI flows to about US $ 50 billion in 2018 provided the global policy environment remains supportive (UNCTAD 2018). Further the prospect of FDIs through the potential EAC-EU Economic Partnership Agreement (EPA).

4.4 EAC Investment Outlook

EAC economic growth is estimated to reach 5.9 percent in 2018 and 6.1 percent in 2019. While the economies of the EAC have mainly depended on export of Agricultural commodities, the industrial sector is growing with increased manufacturing activity across the region. The extractives sector is growing with recent discoveries of oil and gas to complement the existing mining sector. Foreign Direct Investment inflows are critical to support mechanisation of agriculture and industrial development. Partner States are committed to improving their investment environment with targeted investments into infrastructure, industrial development and, oil production and refining as well as investment in renewable energy to reduce the huge import bill and dependence on fossil fuels. However, growth prospects have been hampered by declining FDI inflows with global FDI estimated to continue the decline experienced over the last two years. Foreign Direct Investments into East Africa decreased by 25.3 percent to USD 6.6 billion in 2017 from USD8.8 billion in 2016. FDI inflows into the region accounted for a meagre 0.4 percent of global foreign direct investment inflows in 2017, down from 0.5 percent in 2016. At the same time, total intra-EAC investment flows decreased by 22.3 percent to USD197.0 million in 2017 from USD254.1 million in 2016. As a result, Intra-EAC Investment flows were low despite efforts to create a conductive business environment to foster FDI inflows. There is need for the region to diversify investment sources in order to ensure growth and industrial development. This will require reforms towards improvement of the EAC investment climate as well as the efforts in investment promotion activities to unlock domestic and regional investments in order to increase FDI into the region to about USD7.8 billion in 2018 and 9.4 billion in 2019.

4.5 Importance of FDI in EAC

Foreign Direct Investment (FDIs) is one of the measures for economic growth and economic transformation. EAC Partner States continued to promote investment opportunities to attract FDIs into the various priority sectors. The importance of FDI to EAC is the injection of foreign capital, human capital and technology transfer, and increased productivity in order to promote a competitive domestic sector and provide important innovation and linkages with domestic firms. FDI does no only entail creation of new firms or the transfer of ownership form domestic to foreign firms, it also requires governance mechanisms and other macroeconomic conditions that support investment promotion. These include: targeting inflation, reduction in tax burden and availability of skilled human resources. In addition, there is need for concerted government effort to attract FDI into areas of high employment and productivity to ensure that host governments benefit.

4.6 Regional Bankable Projects[1]

The EAC development a number of bankable projects to enhance Public- Private-Partnership (PPP)as part of the investment promotion strategy for the region. The bankable projects that reflect adopted by the six Partner States are aimed to transform the region into an investment and manufacturing hub as part of the EAC strategy 2063. This involved development of consistent policies on ease of doing business, business legal reform and capital repatriation. Also, the EAC embarked on improvements to credit worthiness in order to enhance FDI and domestic financing. To encourage private sector participation, Partner states established Public Private partnership (PPP) entities as part of the investment promotion strategy. The units were charged with the responsibility of identifying bankable projects as well as undertaking analysis of the challenges that inhibit PPP initiatives in the region.

The EAC developed a number of bankable projects as part of the investment promotion strategy for the region in order to transform the region into an investment and manufacturing hub as part of the EAC strategy 2063. These included: The Blue Tanganyika Complex- a US430.8 million PPP commercial real estate mixed-use development; The US$4.95 billion Lamu Port project in Kenya that included port facilities and a Special Economic Zone (SEZ); The Rwanda National Fruit Development Project, a US$180million project for processing fruit into dried products, juices, concentrates, jams, wine, syrups and powders; The US$85 million Mice project in Entebbe, Uganda which included an International Convention Centre, Hotel, Spa and Marina; The US$646 million Tanzania Mchuchuma Coal to Power project, hat involves construction of 300MW coal fired power plant and the transmission line from Mchuchuma to Makambako; and the USD 664 million, 400kV North West Grid Mbeya – which involves construction of 1,148km of transmission lines and associated substations as an extension of national grid to North-

[1] For catalogue on Bankable projects, see www.eac.int

Western part of the country from Mbeya to Nyakanazi via Sumbawanga, Mpanda and Kigoma to enhance grid connection in North west Tanzania.

4.7 Investment Climate in the EAC

The 2017 Rand Merchant Bank (RMB) Investment Attractiveness Index revealed that the Investment climate reforms undertaken by the East Africa Partner States led to the increase in the attractiveness of the EAC Partner States and assesses four aspects: Three of the EAC Partner States were in top the 10 in 2017 report. Tanzania ranked 7th in 2017 from 9th in 2016, Rwanda ranked 8th from 12th in 2016, and Kenya 6th from 5th in 2016. Uganda ranked 11th from 15th last year. Tanzania's ranking was a result of reforms to combat corruption, facilitate corporate registration and licensing, as well as the quest to boost domestic productivity and reduce import dependence. Rwanda's attractiveness was attributed to the government's efforts to diversify the economy and the steady position and improvement in the ease of doing business index. Kenya's marginal fall though one of the strongest economies in Africa was attributed to issues such as corruption, rising public debt and ethnic divides.

The According to the 2017 Global Competitiveness rankings, most EAC Partner States improved their competitiveness rankings with the exception of Rwanda and Uganda. Rwanda ranked 58th from 52nd position and Uganda from 113th to 114th. Lower health and primary education and macroeconomic environment scores caused Rwanda's decline. Tanzania's rankings rose to 113th from 116th in 2016, Kenya from 96th to 91st while Burundi improved to 129th from 135th.

The World Bank's 'Ease of Doing Business' report (2018) ranked Rwanda 41st from 56 in 2017 report out of 190 countries. Rwanda reduced the time to complete a property transfer from 12 to 7 days, by reducing the time needed to conduct a title search and registration and made enforcement of contracts easier by making judgments rendered at all levels in commercial cases available to the general public on the judiciary website. Kenya moved 12 positions to 80th. This was a result of reforms that Kenya undertook to establish an online system to ease filing and paying taxes, elimination of fees to obtain clearance from National Environment Management Authority (NEMA) and National Construction Authority, merged procedures in starting a business and invested in its distribution lines and transformers. The Republics of Uganda, Tanzania and Burundi deteriorated compared to 2017. Tanzania moved to position 137th from 132nd. Although, Tanzania fell in ranking, the Government was credited for increased efficiency of the One-Stop-Shop by improving its coordination among agencies and streamlining of building permits process although registering a property in Tanzania became more expensive as a result of increase in land and property registration fees. Uganda was ranked 122nd from last year's 115nd position. Uganda improved its electronic submission and processing of documents for exports by reducing the time for export documentary compliance, border and processing of rules of origin certificate while Burundi is ranked 164th from 157. Burundi's position deteriorated after the country increased the cost of registering a business thus making starting a business expensive. South Sudan was ranked 187 out of 189 economies in overall ease of doing business. While South Sudan was open to Foreign Direct Investment, civil conflict, lack of transparency and inadequate infrastructure and electricity made FDI into South Sudan difficult. Foreign currency allocation was tightly controlled by government and mainly limited to financing medicine, fuel and other essential items. The inadequate access to hard currency was a hindrance to investment inflows. Government undertook judicial reforms and established the South Sudan Revenue Authority but limited resources limited the full roll-out of reforms that would have improved the business environment.

Table 4:3 EAC- global Competitiveness Ranking 2015/16-2017/18

Country	Global Ranking				Change
	2014/15	2015/16	2016/17	2017/2018	2016/17 - 2017/18
Burundi	139	136	135	129	6
Kenya	90	99	96	91	5
Rwanda	62	58	52	58	-6
Tanzania	121	120	116	113	3
Uganda	122	115	113	114	-1

Source: Global Competitiveness Index Report 2016/16 (World Economic Forum)

4.8 EAC Investment Flows

Foreign Direct Investments into East Africa decreased by 25.3 percent to US$ 6.6 billion in 2017 from US$8.8 billion in 2016.Inflows to Burundi and Rwanda grew by 356.2 percent and 91.3 percent to US$65.1 million from US$14.6 million in 2016 and to USD1.2 billion in 2017 from US$ 600.1 million in 2016 respectively. FDI into Kenya, Tanzania and Uganda fell by 60.6 percent, 7.0 percent and 14.2 percent to US$717.7 million, US$3.3 billion and US$1.3 billion in 2017 respectively. South Sudan registered FDI inflows amounting to US$462.5 million in 2017. Investments were mainly in the Petro-chemical, hospitality and ICT sectors. China, Uganda, Sudan, Saudi Arabia and America were the biggest contributors to FDI into South Sudan in 2017. FDI from China, Sudan Uganda amounted to US$341.1 million, US$100.0 million and US$10.0 million respectively. Overall, FDI inflows to the EAC were concentrated in manufacturing, construction and energy sectors. FDI into manufacturing, construction and energy amounted to US$ 3.1billion, US$795.6 million and US$ 3.5 billion in 2017 respectively. China, India and UK continued to be the major sources of FDI to EAC with inflows amounting to US$781 million, US$500.9 million and US$438.9 in 2017 respectively.

Table 4:4 FDI Inflows into EAC Region 2013-2017 (US$ million)

Country	2013	2014	2015	2016	2017	Percent Growth 2016/2017
Burundi	7	3.2	1.8	14.6	65.1	346.2
Kenya	514	874.1	2,187.4	1,820.2	717.7	-60.6
Rwanda	111	359.2	1,065.3	600.1	1147.7	91.3
Uganda	1,146.0	1,755.0	517.0	1,524.6	1308.7	-14.2
South Sudan	86.0	44.0	213.2	315.1	462.5	46.8
Tanzania	1,872.0	5,502.9	3,449.7	4,822.3	3,318.0	-7.0
Total	3,736.0	8,538.4	7,434.4	9,096.9	7,019.7	-22.8

Source: EAC Investment Promotion Agencies 2018

The number of jobs created as a result of FDI inflows to EAC increased by 73.0 percent to 111,316 in 2017 up from 64,334 jobs created in 2016 (table 4.5). FDI to Uganda contributed 45,728 jobs or 41.1 percent of total jobs created. FDI into Tanzania created 22,895 jobs accounting for 20.1 percent while the FDI inflows into Rwanda created 20,756 jobs accounting for 18.6 percent of total jobs created. FDI inflows to Kenya created 19,976 jobs accounting for 18.0 percent of total jobs created while FDI inflows into Burundi accounted for 1.8 percent of the total jobs created.

Table 4:5 Number of Jobs Created through Foreign Direct Investment 2013-2017

Country	2013	2014	2015	2016	2017	% change 2017
Kenya	18,896	6,702	10,851	13,645	19,976.0	46.4
Tanzania	43,098	57,706	38,153	18,187	22,895.0	25.9
Uganda	16,235	28,980	16,343	23,759	45,728.0	92.5
Rwanda	3,845	5,169	6,921	8,033	20,756.0	158.4
Burundi	0	956	51	710	1,961.0	176.2
Total EAC	32,570	11,758	72,319	64,334	111,316.0	73.0

Source: *EAC Investment Promotion Agencies 2018*

4.9 Intra-EAC Investment Flows

The Total Value of intra-EAC investment flows is represented in table 4.5. Total intra-EAC investments decreased by 22.3 percent to USD197.0 million in 2017 from USD254.1 million in 2016. The total value of intra-EAC investments into Kenya amounted to USD25.2 million while Investments to Rwanda, Tanzania and Uganda amounted to USD66.6 million, USD33.8 million and USD 71.3 million in 2017 respectively. Burundi did not register any investments from the other Partner States. Similarly, the number of projects registered under Intra-EAC investments decreased by 29.7 percent to 64 projects in 2017 from 91 projects in 2016. Uganda registered 42.2 percent of all projects while Tanzania, Rwanda and Kenya registered 39.1 percent,15.6 percent and 3.1 percent of all projects arising from intra-EAC investments in 2017 respectively.

Table 4:6 : Intra-EAC Investment Flows

Partner State	Source	2013		2014		2015		2016		2017		Year to Year Growth 2017/ 2016	
		No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values
Burundi	Tanzania	4.00	19.97	-	-	-	-	9.00	0.50	-	-	-	-
	Uganda	1.00	1.03	-	-	-	-	8.00	0.15	-	-	-	-
	Kenya	1.00	5.79	-	-	-	-	15.00	1.73	-	-	-	-
	Rwanda	5.0	4.2	2.0	1.4	0.0	0.0	7.0	0.2	-	-	-	-
	Rest of World	11.0	37.7	8.0	149.6	1.0	1.8	77.0	12.0	10.0	65.1	-87.0	442.5
	Total	**22.0**	**68.7**	**10.0**	**151.0**	**1.0**	**1.8**	**116.0**	**14.6**	**10.0**	**65.1**	**(91.4)**	**345.9**
Kenya	Tanzania	2.0	66.5	-	-	3.0	12.3	2.0	0.2	2.0	25.3	-	12550.0
	Uganda	0.0	0.0	2.0	0.9	7.0	7.2	4.0	5.3	0.0	0.0	-100.0	-100.0
	Rwanda	0.0	0.0	0.0	0.0	4.0	112.4	1.0	0.2	0.0	0.0	-100.0	-100.0
	Burundi	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
	Rest of World	61.0	857.7	122.0	873.2	236.0	2,055.1	225.0	1814.5	192.0	692.4	-14.7	-61.8
	Total	**63.0**	**924.2**	**124.0**	**874.1**	**251.0**	**2,187.2**	**232.0**	**1820.2**	**194.0**	**717.7**	**-16.4**	**-60.6**
Rwanda	Tanzania	2.0	2.5	1.0	1.7	2.0	5.8	3.0	6.2	1.0	1.0	-66.7	-83.9
	Uganda	3.0	1.0	2.0	19.1	3.0	3.2	3.0	76.4	1.0	49.8	-66.7	-34.8
	Kenya	5.0	9.1	4.0	5.4	4.0	21.5	1.0	1.5	5.0	7.7	400.0	413.3
	Burundi	0.0	0.0	0.0	0.0	0.0	0.0	3.0	36.1	3.0	8.1	0.0	-77.6
	South Sudan									0.0	0.0	0.0	0.0
	Rest of World	51.0	632.3	104.0	495.0	73.0	815.1	38.0	479.9	79.0	1081.2	107.9	125.3
	Total	**61.0**	**644.9**	**111.0**	**521.2**	**82.0**	**845.6**	**48.0**	**600.1**	**89.0**	**1147.7**	**85.4**	**91.3**
Tanzania	Kenya	27.0	57.0	32.0	83.6	14.0	33.4	6.0	2.4	21.0	32.9	250.0	1294.1
	Uganda	0.0	0.0	3.0	10.4	3.0	10.6	2.0	3.1	3.0	0.6	50.0	-82.2
	Rwanda	1.0	1.8	1.0	0.0	3.0	11.3	0.0	0.0	1.0	0.3	-	-28.5
	South Sudan							0.0	0.0	0.0	0.0	0.0	0.0
	Burundi			1.0	10.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Rest of World	276.0	2783.6	386.0	5398.8	285.0	3394.4	126.0	3563.3	226.0	3284.7	79.4	-7.8
	Total	**304.0**	**2842.4**	**423.0**	**5502.9**	**305.0**	**3449.7**	**134.0**	**3568.8**	**251.0**	**3318.5**	**87.3**	**-7.0**
Uganda	Tanzania	2.0	0.7	4.0	7.6	1.0	1.6	3.0	2.9	2.0	3.0	-33.3	3.4
	Kenya	14.0	64.8	16.0	67.5	11.0	17.9	21.0	109.8	16.0	33.0	-23.8	-69.9
	Rwanda	2.0	1.8	0.0	0.0	1.0	0.3	1.0	2.9	3.0	3.9	200.0	34.5
	South Sudan							2.0	4.5	6.0	31.4	200.0	597.8
	Burundi	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Rest of World	322.0	1248.5	399.0	2041.0	232.0	496.9	287.0	699.5	234.0	843.9	-18.5	20.6
	Total	**341.0**	**1316.2**	**419.0**	**2116.1**	**245.0**	**516.7**	**314.0**	**819.6**	**261.0**	**915.2**	**-16.9**	**11.7**

Source: Partner States Investment Promotion Agencies, 2018

4.10 Country Specific Analysis

4.10.1 Burundi

Intra-EAC Investment Flows

In 2017, domestic investments in the Republic of Burundi amounted to USD 5.7 million, and covered nearly all main economic activities except energy and agriculture.

Table 4:7 Domestic and Intra –EAC Investment Flows to Burundi, 2017 (US$ million)

Activity	Burundi	Kenya	Uganda	Rwanda	Tanzania	TOTAL
Agriculture	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.1	0.0	0.0	0.0	0.0	0.1
Energy	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.8	0.0	0.0	0.0	0.0	0.8
Mining	1.0	0.0	0.0	0.0	0.0	1.0
Services	3.7	0.0	0.0	0.0	0.0	3.7
Others	0.1	0.0	0.0	0.0	0.0	0.1
TOTAL	**5.7**	**0.0**	**0.0**	**0.0**	**0.0**	**5.7**

Source: Burundi Investment Promotion Authority, 2018

Burundi Investment Inflows

Burundi's investment flows are summarized in Table 4.8. According to table 4.8, total investment inflows into Burundi increased about fivefold to USD 65.1 million in 2017, up from USD 14.6 million in 2016. Burundi did not register any investments from other Partner States in the EAC region in 2017 compared to FDI inflows of USD 2.3 million (or 15.7percent of total inflows) in 2016. The spectacular growth of FDI in 2017 was on account of improved security as well as policy reforms and investment promotion activities undertaken by the Burundi Investment Promotion Authority especially in the mining, manufacturing and energy sectors.

Table 4:8 Burundi-Foreign Direct Investment In-flows, 2013-2017 (US$ million and percent)

Country	Source	2013		2014		2015		2016		2017		% change	2016 over 2017
		Number of Projects	Values	Number of Projects	Values	Number of Projects	Values	Number of Projects	Values	Number of Projects	Values	Number of Projects	Values
Burundi	Tanzania	4.0	20	0	0	0	0	9	0.5	0	0	-100	-100
	Uganda	1	1	0	0	0	0	8	0.2	0	0	-100	-100
	Kenya	1.0	5.8	0	0	0	0	15	1.7	0	0	-100	-100
	Rwanda	5.0	4.2	2.0	1.4	0	0	7	0.2	0	0	-100	-100
	R of World	11.0	37.7	8.0	149.6	1	1.8	77	12.1	10	65.1	-87.0	439.9
	Total	**22**	**68.7**	**10**	**151**	**1**	**1.8**	**116**	**14.6**	**10**	**65.1**	-91.4	345.6

Source: Burundi Investment Promotion Authority

Mode of Market Entry

Most foreign direct investment inflows into Burundi took the form of equity investments in green field projects particularly in the mining sector. The other in-flows were in the form of a portfolio investments particularly from India, Belgium and Oman.

Sectoral Distribution of Foreign Investment

In 2017, Burundi registered 10 Foreign Direct Investment projects. The largest number of projects registered were in the mining sector accounting for 10 percent of all projects. The manufacturing sector accounted for 30 percent of all projects while the agricultural sector accounted for 20 percent of all projects. The utilities sector registered one project of USD 35.77 million and accounted for 54.9 percent of all investments in 2017. Other sectors, namely mining and quarrying; manufacturing and agriculture accounted for 21.6 percent, 17.9percent and 5.3 percent of the investment, respectively.

Table 4:9 Burundi's Sectoral Distribution of Foreign Investment 2015-2017

Sector	2015			2016			2017		
	Number of Projects	Amount	Employment	Number of Projects	Amount	Employment	Number of Projects	Amount	Employment
Agriculture, forest, fishering and hunting	0	0	0	2	0.4	15	2	3.6	92
Construction	0	0	0	8	1.5	75	0	0	0
Manufacturing	0	0	0	8	5.1	98	3	11.7	297
Mining and quarrying	0	0	0	4	1.4	78	4	14.1	397
Finance, Insurance, Real estate and business services	0	0	0	36	2.5	208	0	0	0
Community, Social and Personal Services	1	1.8	51	2	0.6	25	0	0	0
Wholesale, retail trade, Tourism	0	0	0	50	2.6	178	0	0	0
Transport, Communication &storage	0	0	0	4	0.3	28	0	0	0
Utilities (water & energy)	0	0	0	2	0.1	10	1	35.8	1175
Total	**1**	**1.8**	**51**	**116**	14.6	710	10	65.1	1961

Source: Burundi Investment Promotion Authority,2018

Burundi's Sources of Foreign Direct Investment

The main sources of investment for Burundi in 2017 are presented in Table 4.10 The table shows that the main sources of investment are Belgium, which registered one project with a total value of USD35.8 million, Russia which registered four projects amounting to USD13.6 million, Oman registered three projects worth USD10.9 million, India registered four projects worth USD4.4 million while Moldova registered one project worth USD0.4 million

Table 4:10 Burundi's Major Sources of Investment 2015-2017 (US$ million)

2015				2016				2017			
Country	Number of Projects	Employment	Value (US$ MN)	Country	Number of Projects	Employment	Value (US$ MN)	Country	Number of Projects	Employment	Value (US$ MN)
TURKEY	1	51	1.80	INDIA	19	104	4.4	Belgium	1	1,175	36
				KENYA	15	81	1.7	Russia	3	369	14
				CHINA	9	127	1	Oman	1	200	11
				TURKEY	7	88	0.8	India	4	189	4
				TANZANIA	9	34	0.5	Moldova	1	28	0
				UGANDA	8	25	0.1				
				RWANDA	7	15	0.2				
TOTAL	**1**	**51**	**1.80**	**TOTAL**	**74**	**474**	**8.7**	**TOTAL**	10	1,961	65.1

Source: Burundi Investment Promotion Authority, 2018

Employment Creation

Burundi's investment inflows created 2777 direct jobs, compared with 8768 jobs created in 2016, as shown in Table 4.11. Domestic investment created 816 jobs while FDI inflows created 1961 jobs. The majority of jobs created by direct foreign investments in 2017 mainly concentrated in the energy sector with 1175 jobs, or more than 50% of jobs created by FDI, followed by the mining sector with 397 jobs or more than 15% of jobs created by FDI. The essential jobs created by local investment come from the manufacturing sector with 378 jobs out of the total of 816 or 46% followed by the service sector with 320 jobs or 39%. The other 15% are divided between other sectors.

Table 4:11: Employment Creation, 2013-2017 (percent)

	2013	2014	2015	2016	2017
Burundi	2,545	956	51	8,768	2,777

Source: Burundi Investment Promotion Authority, 2018

Burundi Initiatives to Catalyze Investment

The Burundi Government created the Burundian Investment Promotion Agency to support the promotion of investments in the country. In 2017, the Agency organized investment missions as well as regional and international workshops and fairs to promote investments in the country. To facilitate the investor registration process, the Authority has developed an online electronic system to track and track investments in the country and help investors improve the quality and level of exports produced in the country.

The Republic of Burundi developed an initiative to create cooperatives across the whole country in order to mobilize local investment capital. Also, the country undertook several reforms to improve the investment climate and promote small and medium enterprises. Some of the reforms relate to simplifying the tax system to enable small and medium-sized enterprises (SMEs) meet their statutory obligations, provision of tax incentives, VAT exemptions, improvement in electricity supply and road infrastructure.

4.10.2 Kenya

Overview of Kenya's Investment Environment

Kenya's GDP growth improved to 6.0% in 2016, up from 5.6% in 2015, driven by public investments in infrastructure, building& construction, manufacturing, finance and insurance, information and communication technology (ICT). However, prolonged political activity since late 2016 and up to October 2017 contributed to decreased uptake of new private investments; particularly re-investments as companies held back profits or downsized. Second, private sector access to credit continued to decline, constricting economic activity. Kenya's economic performance was hampered by other factors such as heavy dependence on agricultural exports that are vulnerable to world price fluctuations, population growth that has outstripped economic growth, and prolonged drought that has necessitated power rationing, slow road infrastructure expansion, and pronounced income and wealth disparities.

Nevertheless, the outlook is positive, with growth projected 5.5% in 2018. The Country is also a major regional communications and logistics hub, with a sea port in Mombasa and a new one being built in Lamu. The country aims to have a robust, diversified and competitive manufacturing sector to transform into an industrialized middle-income economy by 2030 in line with governmental blue print; Vision 2030. The overall goal for the industrial sector is to increase its contribution to GDP by at least 10% per annum and propel the country towards becoming Africa's industrial hub.

Table 4:12 Foreign Direct Investment Flows in EAC Region, 2013-2017 (US$ million)

Source	2013		2014		2015		2016		2017		Percent Change, (2017 over 2016)	
	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values
Tanzania	2.0	66.5	-	-	3.0	12.3	2.0	0.2	2.0	25.3	0%	12740%
Uganda	0.0	0.0	2.0	0.9	7.0	7.2	4.0	5.3	0.0	0.0	-100%	-100%
Rwanda	0.0	0.0	0.0	0.0	4.0	112.4	1.0	0.2	0.0	0.0	-100%	-100%
Burundi	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.0	0.0	0.0	0%	0%
Rest of World	61.0	857.7	122.0	873.2	236.0	2,055.1	225.0	1814.5	192.0	692.4	-15%	-62%
Total	**63.0**	**924.2**	**124.0**	**874.1**	**251.0**	**2,187.2**	**232.0**	**1,820.2**	**194.0**	**717.7**	**-16%**	**-61%**

Source: Kenya Investment Authority

Intra-EAC Investment Flows

Intra- EAC investment flows into Kenya declined despite the economic, legal and regulatory reforms plus the devolution and governance re-engineering. Total FDI inflows into Kenya dropped from US$ 1.8 billion in 2016 to US$ 717 million 2017 as per investments registered by Kenya Investment Authority (KenInvest). The drop was attributed to heightened political activity and the electioneering process which caused investor apathy. The Authority registered 2 projects from Tanzania valued at US$ 23.5 million. One project invested in manufacturing sector- MM

Integrated Steel Mills Kenya Ltd and Century Cinemax Ltd respectively. In 2017, the total value of investment projects registered by KenInvest from East Africa increased by 75 percent to US$ 23.5 million in 2017 from US$ 5.7million in 2016. The number of investment projects received from the rest of the world however declined to 192 in 2017 from 225 projects in 2016.

Sectoral Distribution of FDI Inflows in EAC

Kenya's Sectoral distribution of foreign direct investments is summarized in table 4.13. In 2017, the Kenya Investment Authority (KenInvest) registered fifty-five projects in Finance, Insurance and Real Estate; fifty-three projects in Transport and Communications; and thirty-five projects in manufacturing sector. Growth in the sectors was propelled by public investments in infrastructure; and increased growth of the ICT sector in Kenya. Growth in the Tourism sector rebounded greatly earning USD1.2 billion in 2017, a 20 per cent growth from $989 million the previous year 2016. In the year 2016, Wholesale, Retail, Trade and Tourism sectors registered (87) projects, followed by manufacturing with 37 projects.

The leading sectors in terms of FDI inflows in 2017 were, manufacturing which attracted investments worth USD 223 million; Utilities (Water and Energy) attracted investments worth USD 176 million and the Construction Industry US$ 142 million. The growth in energy sector is attributed to new investments in geothermal and wind power projects; contributing to reduction in production costs. Growth in the construction sector is driven by both local and foreign investors; and who have diversified into investments across multiple market segments from retail, industrial, housing and office space. These efforts are being complimented by government focus on big four sectors; and construction of affordable housing units is one of the main focus. These sectors accounted for 31.3 percent, 24.5 percent and 19.7 percent of the total investment projects registered in 2017 respectively. In 2017, Kenya experienced a number of challenges namely, Economic growth deceleration to a 5- year low at 4.8 percent, poor rains, increase in oil prices, fluctuation of Kenya currency, decline in credit growth and prolonged electioneering period which weighed down on economic activity.

Table 4:13 Kenya's Sectoral Distribution of Foreign Direct Investments, 2016-2017

Sector	2016			2017		
	No. of projects	Amount (US$ m)	Employment	No. of projects	Amount (US$ m)	Employment
Agriculture, fishing, forestry & hunting	8	17	973	2	4	90
Community, Social & Personal services	28	97	1,458	8	34	619
Construction	12	154	4,049	12	142	1,891
Finance, Insurance, Real estate & Business services	26	114	2,486	55	44	573
Manufacturing	37	79	1,578	35	223	13,059
Mining & Quarrying	1	1	25	4	5	144
Transport, Communication & Storage	20	443	543	18	62	153
Utilities (water & energy)	13	573	839	7	176	2,162
Wholesale, retail trade, Tourism	87	343	1,694	53	28	1,285
TOTAL	**232**	**1,820**	**13,645**	**194**	**718**	**19,976**

Source: Kenya Investment Authority

Kenya's Source of Investments, 2016-2017

Kenya's leading sources of FDI inflows in 2017 included Germany amounting to USD 2.0 billion; China contributed USD 1.9 billion and India which contributed USD 554 million. These three countries accounted for 32.9 percent, 30.8 percent and 8.9 percent of the total FDI inflows respectively. UK investment into Kenya amounted to USD843 million. The sectors from these countries were in Energy, Construction/ real estate development and ICT and Telecommunications sectors. In 2017, China surpassed Europe and the U.S as the biggest source of foreign direct investment for Kenya. In 2016, China, Japan and UK were the main source of investments, attracting 46.3 percent, 16.7 percent and 0.6 percent of the total FDI investments inflows into Kenya respectively. Part of the investment was as a result of mergers and acquisitions.

Table 4:14 Kenya's Major Sources of Foreign Direct Investment 2016-2017

	2016				2017		
	No. of projects	Employment	US $ million		No. of projects	Employment	US $ million
UK	23	4,711	843	Germany	8	2,042	70
France	5	456	305	Spain	3	5	68
China	31	2,420	108	China	32	1,910	45
India	24	508	107	UK	15	363	31
Denmark	5	171	81	India	18	554	30
Netherlands	8	263	81	Canada	2	69	30
Japan	4	167	58	Netherlands	7	504	28
South Africa	9	2,099	56	Israel	2	212	28
Germany	4	95	51	Switzerland	1	222	27
Canada	4	173	36	Tanzania	2	313	25
Sub total	**117**	**11,063**	**1,726**	**Sub total**	**90**	**6,194**	**382**
Rest of the World	115	2,582	94	Rest of the World	104	13,782	335
Grand Total	**232**	**13,645**	**1,820**	**Grand Total**	**194**	**19,976**	**718**

Source: Kenya Investment Authority

Mode of Entry of Investment into Kenya

In the year 2017, the mode of FDI entry into Kenya was green-field investments, joint-ventures, and equity and non-equity modes. The non-equity modes category included export and contractual agreements while the category of equity mode included joint venture and wholly owned subsidiaries.

Employment Creation

The total number of jobs created from the FDI flows to Kenya in 2017 are summarized in Table 4.15. The total number of jobs created in 2017 were 19,976 compared to 13,645 in 2016. The largest percentage of the jobs created were in manufacturing sector; i.e.13,059 accounting for 65.4percent of the total jobs created during the period. Utilities (water and energy) created 2,162 jobs or 10.8 percent; while construction sector ranked third creating 1,891 job opportunities in Kenya; that is a 9.4 percent of the total jobs created during the period as per KenInvest data.

This shows a significant improvement in spite of challenges faced by investors during the period such as low credit uptake due to the capping of interest rates introduced by amending the Banking Act, 2015. Other challenges were high octane political season causing investor apathy, and decline of the Kenya currency. However, over the last three years, Manufacturing; Construction, Building and Real Estate; Finance and insurance, ICT and Tourism sectors were leading in terms of employment creation in Kenya.

Table 4:15 Number of Jobs Created through Foreign Direct Investment 2013-2017

Country	2012	2013	2014	2015	2016	2017	% Change 2016
Kenya	3,898	18,896	6,702	10,851	13,645	19,976	46%

Source: Kenya Investment Authority, 2018

4.10.3 Rwanda

Intra-EAC Investment Flows

FDI inflows to Rwanda increased by 91.3 percent to US$ 1.147.7 million in 2017 from 600.1 million in 2016. The number of investment projects also increased by 85.4 per cent from 48 projects to 89 projects over the same period. In 2017, the number of intra- EAC investment projects to Rwanda remained 10 as the same as it was in 2016 while the value decreased by 44.7 per cent from US$ 120.2 million in 2016 to US$ 66.5 million in 2017. Uganda had a share of 74.8 per cent followed by Burundi and Kenya with 12.1 and 11.6 per cent share respectively.

Rwanda Foreign Direct Investment Inflows

Rwanda's Foreign Direct Investment flows are summarized in Table 4.16. According to the table, the total inflows to Rwanda increased by 91.3 percent to US$ 1.147.7 million in 2017 from 600.1 million in 2016. Inflows from the EAC contributed US$ 66.5 million, accounting for 5.8 percent of the total inflows in 2017. Inflows from the rest of the world increased by 125.3 percent, to US$ 1.081.2 million, from US$ 47.9 million in 2016.

Table 4:16 Foreign Direct Investment flows in EAC Region 2013-2017

Partner State	Source	2013		2014		2015		2016		2017	
		No of Projects	Values (USD m)	No of Projects	Values (USD m)	No of Projects	Values (USD m)	No of Projects	Values (USD m)	No of Projects	Values (USD m)
Rwanda	Tanzania	2	3	1	2	2	6	3	6.2	1	1.0
	Uganda	3	1	2	19	3	3	3	76.4	1	49.8
	Kenya	5	9	4	5	4	22	1	1.5	5	7.7
	Burundi	0	0	0	0	0	0	3	36.1	3	8.1
	Total	10	13	7	26	9	30.5	10.0	120.2	10.0	66.5
	Rest of World	51	632.3	47	333.4	73	815.1	38.0	479.9	79.0	1,081.2
	Total	**61**	**644.9**	**54**	**359.6**	**82**	**845.6**	**48**	**600.1**	**89**	**1,147.7**

Source: Rwanda Development Board, 2018

Mode of FDI entry into the Economy Market Entry

The most common mode of market investment entry in Rwanda was in the form of Foreign Direct Investment (FDI), portfolio and other investments.

Sectoral Distribution of FDI Inflows

In 2017, the total number of projects registered increased to 89 from 48 projects registered in 2016, with 30.3 percent of all projects registered in the manufacturing sector amounting to 27 projects. FDI inflows to the construction sector amounted to US$465.4 million, accounting for 40.6 percent of total investment. Inflows to the mining sector amounted to US$151.7 million, accounting for 13.2 percent of total investment while investment flows to the energy sector amounted to US$139.8 million in 2017.

Table 4:17 Sectoral Distribution of Foreign Direct Investment 2016-2017

Sector	2017		
	No. of projects	Amount (US$ m)	Employment
Agriculture	7	56.6	2,661.0
Agroprocessing	11	23.3	2,089.0
Construction	10	465.4	2,938.0
Energy	6	139.8	4,313.0
ICT	4	32.4	221.0
Manufacturing	27	90.3	4,926.0
Mining	8	151.7	1,376.0
Services	8	82.5	1,308.0
Tourism	8	105.6	924.0
TOTAL	**89**	**1,148**	**20,756**

Source: Rwanda Development Board, 2018

Rwanda's Major Sources of Foreign Direct Investment

Rwanda's major sources of investment inflows are summarized in Table 4.18. The major source of investment inflows to the country in 2017 came from Poland amounting to USD398.7 million followed by the United Kingdom mounting to USD202.4 million while Germany, China and Uganda's investments in Rwanda amounted to USD64 million, USD56.8 million and USD49.8 million respectively.

Table 4:18 Major Sources of Foreign Direct Investment

Country	2016			Country	2017		
	Number of Projects	Employment	Value (Million US$)		Number of Projects	Employment	Value (Million
United Kingdom	2	734	181.12	Poland	1	1834	398.
Uganda	3	64	76.36	United Kingdom	8	3566	202.
China	6	959	44.87	India	15	1948	84.
Portugal	1	15	44.04	Germany	2	147	64.
United States of America	3	591	42.84	CHINA	14	1974	56.
Burundi	3	381	36.06	Uganda	1	95	49.
Canada	2	2690	33.28	United Arab Emerates	2	280	35.
Singapore	2	346	31.11	UAE	2	130	33.
Syria	1	173	29.78	Bangladesh	2	788	28.
India	8	780	29.76	United States of America	4	295	28.
Subtotal	31	6733	549.23	Subtotal	51	11057	981.
Other countries (incl. Rda)	**80**	**6544**	**610.61**	**Other countries (incl. Rda)**	**86**	**26491**	**691.**
Total	**111.0**	**13,277.0**	**1,159.84**	**Total**	**137**	**37,548**	**1673.**

Source: Rwanda Development Board, 2018

Employment Creation

The total jobs created through FDI in 2017 were 20,756. Majority of the jobs were created in the manufacturing sector, totalling 4,926 and accounting for 23.7 percent of all jobs created in the economy. Investment flows to the Energy sector created 4,313 jobs and accounted for 20.8 percent of all jobs created by FDI in Rwanda.

Table 4:19 Number of jobs Created by Foreign Direct Investment, 2013-2017

Country	2013	2014	2015	2016	2017
Rwanda	3,845	5,169	6,921	8,033	20,756

Source: Rwanda Development Board, 2018

Prospects for investment development in Rwanda

Rwanda has a fully functioning electronic portal managed by the Rwanda Development Board that combines company registration, information on tax obligations and duties, and value added tax registration, saving entrepreneurs an average of two days and eliminating unnecessary back and forth exchanges with government officials. A number of reforms are being done in a bid to improve the doing business environment in Rwanda. The following are the recent reforms registered in Rwanda which continue to place the country on a competitive edge: streamlining the issuance of construction permits, simplifying registration of business, enforcing contracts and paying taxes. Rwanda has also made trading across borders easier by removing the mandatory pre-shipment inspection for imported products.

4.10.4 Tanzania

Intra-EAC Investment Flows

Total Investment in-flows into Tanzania declined by 31.1 percent to US$3,318.0 Million in 2017 from US$4,822.3 in 2016. FDI in-flows from the EAC Partner States amounted to US$ 33.3 million; Kenya's investment into the United Republic of Tanzania amounted US$32.5 million and was mainly concentrated in the manufacturing sector amounting to US$ 16.5 million. Other EAC countries with notable investment flows were Uganda amounting to US$ 0.6 million, mainly in the services and manufacturing sectors, while Rwanda's investment amounted to US$0.3 million in the real estate subsector. The manufacturing sector attracted 143 projects which amounted to US$2,326.2 million in the automotive spare part manufacturing and building materials. Activities of Finance, Insurance, Real Estate and Business services were for residential apartments, office building and bank establishment. Activities of Agriculture were mainly in the areas of serial and sugarcane plantation.

Table 4:20 Intra - EAC Investment Inflows to Tanzania, 2017 (US$ Million)

Activity	Burundi	Kenya	Rwanda	South Sudan	Uganda	Total
Agriculture	-	-	-	-	-	0.0
Construction	-	1.5	0.3	-		1.8
Energy	-	-	-	-	-	0.0
Finance	-	3.0		-	-	3.0
Human Resources	-	-	-	-	-	0.0
Manufacturing	-	16.5	-	-	0.2	16.7
Natural Resources	-	-	-	-	-	0.0
Services	-	0.8	-	-	0.3	1.1
Telecom	-	-	-	-	-	0.0
Tourism	-	1.5	-	-	-	1.5
Transportation	-	9.2	-	-	0.1	9.3
TOTAL	**0.0**	**32.5**	**0.3**	**-**	**0.6**	**33.4**

Source: Tanzania Investment Centre (TIC)

Tanzania Foreign Direct Investment Inflows

The total investment flows for Tanzania decreased by 31.11 percent to US$ 3,318.02 million in 2017, from US$4, 822.3 million in 2016. Inflows from the EAC contributed a meagre 1.00 percent of the total investment flows, amounting to US$ 3,318.02 million, while investment flows from the rest of the world amounted to US$ 3,284.68 million. Kenya's FDI inflows to Tanzania increased by 402.87 percent to US$32.49 million in 2017, from US$6.5 million in 2016. Similarly, investment flows from Uganda and Rwanda also decreased by 82.29 percent and 28.57 percent respectively. However, the investment inflows from the rest of the world decreased by 31.74 percent.

Table 4:21: Tanzania's Foreign Direct Investment Flows, 2016-2017

Partner State	Source	2016		2017		% Change, (2017 over 2016)	
		No of Projects	Values	No of Projects	Values	No of Projects	Values
Tanzania	Kenya	12.0	6.5	21.0	32.5	75.0	402.9
	Uganda	2.0	3.1	3.0	0.6	50.0	-82.3
	Rwanda	1.0	0.4	1.0	0.3	0.0	-28.6
	Burundi	0.0	0.0	0.0	0.0	-	-
	South Sudan	0.0	0.0	0.0	0.0	-	-
	Rest of World	136.0	4812.3	226.0	3284.7	66.2	-31.7
	Total	151.0	4822.3	251.0	3318.0	66.2	-31.2

Source: Tanzania Investment Centre,2018

Mode of Market Entry

In the year 2017, the mode of FDI entry into Tanzania took the form of green field investments n the manufacturing and construction sector. Other investments took the form of equity acquisitions especially in the utilities and the finance and banking sector.

Sectoral Distribution of the FDI Inflows

In 2017, Tanzania registered a total of 251 projects as depicted in Table 4.22. The majority of the projects were in the manufacturing sector, totalling 143 projects, while investments into services (Finance, Real Estate, Insurance and Business Services) and agricultural (agriculture, fishing, forestry, and hunting) sectors, registered 28 and 19 projects respectively. Investment flows in the utilities sector amounted to US$299.6 million while investment flows into the transport and communication; and services sectors amounted to USD48.2 million and USD51.0 million respectively. Other FDI flows were concentrated in the wholesale, retail trade and tourism sectors amounting to USD45.5 million.

Table 4:22 Sectoral Distribution Foreign Direct Investment, 2013–2017 (US$ Million)

Sector	2016			2017		
	No. of projects	Amount (US$ m)	Employment	No. of projects	Amount (US$ m)	Employment
Agriculture, fishing, forestry & hunting	22	522.5	4,403	19	321.00	2,071
Construction	4	69.7	667	2	6.3	77
Manufacturing	109	407.1	6,384	143	2,326.2	14,383
Mining & Quarrying	-	-	-	-	-	-
Finance, Insurance, Real estate & Business services	39	855.5	2,979	28	220.30	2,657
Community, Social & Personal services	20	40.2	761	19	51.0	1,101
Wholesale, retail trade, Tourism	25	96.2	1,493	19	45.5	998
Transport, Communication & Storage	17	323.7	1,337	16	48.2	1,201
Utilities (water & energy)	7	2,424.7	163	5	299.6	407
TOTAL	243	4,739.5	18,187	251	3,318.1	22,895

Source: Tanzania Investment Centre (TIC), 2018

Tanzania's Major Sources of Foreign Direct Investment

The major sources of Foreign Direct Investment flows to Tanzania are summarized in Table 4.23. The major source of FDI were Denmark, Germany followed by China. Investment flows from Denmark amounted to USD953.0 million and established 4 projects, while the investments flows from Germany amounted to USD946.9 million, established 2 projects while Investment flows from China amounted to USD376.2 million and created 11,577 jobs in 2017. Investment flows from India and UK amounted to USD227.1million and 177.9 million respectively created 339 jobs while investment from Kenya amounted to USD32.5 million created 914 jobs in 2017.

Table 4:23: Tanzania: Major Sources of Foreign Direct Investments, 2016-2017

2016				2017			
Country	Number of Projects	Employment	Value (Million US$)	Country	Number of Projects	Employment	Value (Million US$)
Mauritius	6	235	2,405.12	Denmark	4	2,581	952.98
China	17	4,598	650.11	Germany	2	2,440	946.91
United Kingdom	1	4,508	375.64	China	104	6,555	376.17
Iran	59	1,600	313.15	India	33	2,023	227.05
Congolese	34	680	300.00	UK	13	1,016	177.86
Libyan	3	115	238.32	Maritius	8	780	121.17
Indian	2	1,008	110.26	Luxembourg	1	2	108.90
British Virgin Island	2	771	64.06	Australia	4	477	92.38
USA	1	224	30.86	Kenya	21	914	32.49
United Arab Emirates	4	28	25.01	Ukraine	2	321	31.56
Sub Total	**129**	**13,767**	**4,512.53**	**Sub Total**	192	17,110	3,067.45
Other Countries	**114**	**4421**	**227.00**	**Other Countries**	**59**	**5,786**	**250.56**
Total	**243**	**18,187**	**4,739.53**	**Total**	**251**	**22,895**	**3,318.02**

Source: Tanzania Investment Centre, 2018

Employment Creation

The total number of jobs created in 2017 was 22,895 compared to 18,187 created in 2016, which is the increase of 26 percent (Table 4.23). The largest percentage of the jobs created were in the manufacturing sector (62.8) while the Finance, Real Estate, Insurance and Business Services sectors; and agricultural sectors created 2,657 and 2,071 jobs in 2017 respectively.

Table 4:24: Tanzania - Number of Jobs Created by Foreign Direct Investment

Country	Year					% Change	% Change
	2013	2014	2015	2016	2017	2016	2017
Tanzania	43,098	57,706	38,153	18,187	22,895	-68	26

Source: Tanzania Investment Centre

Prospects for investment flows into Tanzania

Tanzania, like many other developing economies continued to implement policies which aimed at improving the investment climate in order to attract more FDI inflows. The Tanzania's long-term development ideal is enshrined in the Vision 2025, which is implemented through Five-Year Development Plans (FYDP). The Government through the FYDP II selected subsectors as an intervention for Fostering Economic Growth and Industrialization. These subsectors include: Manufacturing, Mining and Metals, Construction, Agriculture, Trade, Natural Resources Management, Environment and Climate Change, Tourism, Science Technology and Innovation and Creative Industry. The Government is expecting to attract more local and foreign investors while implementing the FYDP II

To realize that ambition of transforming Tanzania into middle-income country, the government is committed to infrastructure development throughout the country. The key infrastructure that are targeted include; upgrading of the central railway to Standard Gauge Railway (SGR), enhancing capacities of the ports, expanding and modernizing the airports, connecting all key production areas with bitumen roads, enhancing power generation and transmission lines, investing in incubation programs to create industrial base, and further improving information and communication infrastructure.

In financial year 2018/18 the Government prioritised to facilitate primary industrial development for economic growth, to integrate economic growth and human development and also creating conducive investment climate and business environment. This will make Tanzania to be more attractive investment destination within the region.

4.10.5 Uganda

Intra-EAC Investment Inflows

In the year 2017, investment inflows into Uganda decreased both in value and in the number of projects according to Uganda Investment Authority (UIA). Total investment flows in the country decreased by 24 percent to US$1.16 billion in 2017, of which US$393.5 was domestic investment (Table 4.24). The reduction is attributed to the fact that, Uganda Investment Authority (UIA), an agency in charge of investment made a paradigm shift in the last quarter (Oct – Dec) of year 2017 from manual processing of Investment Licenses to automated application and processing of Investment License's and other services offered by the One Stop Centre via the eBiz at www.ebiz.go.ug. By the end of the year, 2017, the portal was still undergoing some transitional 'hiccups'. UIA hence recorded very few projects because it was a learning period. Since most of the processes have undergone testing and are ready for launch, UIA anticipates better service delivery in 2018.

Investment inflows from EAC Partner States amounted to US$464.8 million and created by 111 projects. Kenya's investment in Uganda amounted to US$33.0 million from 16 projects, while investment flows from South Sudan amounted to 31.4 from 6 projects. Tanzania and Rwanda investment flows together amounted to US$6.9 million. Investment flows from the rest of the World increased by 20.6 percent to US$843.9 million in 2017, from US$699.5 million recorded in 2016. With regard to employment creation, investment flows from Kenya created 1,337 jobs, while investments from South Sudan created 231 projects. Tanzania and Rwanda investments created 103 jobs and 132 jobs respectively.

Uganda Foreign Direct Investment Inflows

Uganda's investment flows are summarized in table 4.25. Total inflows decreased by 14.2 percent to USD1.3 billion in 2017, from USD1.5 billion in 2016, while the number of projects decreased to 345 in 2017 from 440 in 2016. In addition, the number of jobs created reduced to 45,728 in 2017, from 46,305 in 2016. This also attributed to impact of introduction of online investment licensing requirements.

Table 4:25 Foreign Direct Investment Flows to Uganda, 2013-2017

Partner State	Source	2015		2016		2017		Percent Change, (2017 over 2016)	
		No of Projects	Values US$ m	No of Projects	Values US$ m	No of Projects	Values US$ m	No of Projects	Values US$ m
	Uganda	107.0	602.0	126.0	705.0	**84**	**393.5**	**-33.3**	**-44.2**
Uganda	Tanzania	1.0	1.6	3.0	2.9	2	3.0	-33.3	3.4
	Kenya	11.0	17.9	21.0	109.8	16	33.0	-23.8	-69.9
	Rwanda	1.0	0.3	1.0	2.9	3	3.9	200.0	-
	S. Sudan			2.0	4.5	6	31.4		
	Burundi	-	-	0.0	0.0	-	0.0	-	-
	sub total	**120.00**	**621.84**	**153.0**	**825.1**	**111**	**464.8**	**109.5**	**-110.7**
	Rest of World	232.0	496.9	287.0	699.5	234	843.9	-18.5	20.6
	Total	**352.0**	**1118.7**	**440.0**	**1524.6**	**345**	**1308.7**	-21.6	**-14.2**

Uganda Investment Authority

Sectoral Distribution of Foreign Direct Investment

The manufacturing sector emerged top in terms of investment by number of projects, value, and even job creation. The sector attracted 163 projects worth US$ 548 million and created 16,571 jobs. This translated into a percentage increase of 47.9% in projects, 41.9% in value and 35.6% in number of jobs created.

Investment inflows into the construction sector on the other hand reduced to US$185 million in 2017, from US$193 million in 2016. The sector registered 20 projects from 45 and created 13,806 jobs in 2017. The agricultural sector investment flows reduced to US$137million from US$405million in value and registered a decrease in number to 45 of projects from 82. Additionally, the number of jobs created in the sector reduced to 4,559 jobs in 2017 compared to 16,155 jobs in 2016.

Table 4:26 Sectoral Distribution of FDI trends in Uganda, 2016-2017 (US$ million)

Sector	2016			2017		
	No. of projects	Amount (US$ m)	Employment	No. of projects	Amount (US$ m)	Employment
Agric, Hunt, Forest & Fish	82	405	16,155	**45**	**137**	**4,559**
Community & Social Services	10	28	844	**9**	**35**	**1,659**
Construction	45	193	3,596	**20**	**185**	**13,806**
Electricity, Gas & Water	12	135	929	**11**	**99**	**1,653**
Fin, Ins, Real Est & Biz Svs	69	236	4,500	**58**	**117**	**4,776**
Manufacturing	174	327	17,370	**163**	**548**	**16,571**
Mining & Quarrying	8	17	420	**12**	**116**	**1,301**
Transport, Storage & Comm	18	213	1,634	**17**	**59**	**1,678**
Wh & Ret, Cat & Accom Svs	21	33	857	**11**	**13**	**501**
TOTAL	**439**	**1,587**	**46,305**	**346**	**1,309**	**46,504**

Source: Uganda Investment Authority

Uganda's Sources of Foreign Direct Investment

The major sources of investment inflows in 2017 were China, India, Ethiopia and Turkey as depicted in Table 4.27 below. The continued investment from China and India reveal a shift from labour intensive investments to capital intensive investments as well as the wage increases.

Table 4:27 Uganda: Source of Foreign Direct Investment, 2016-2017 (US$ million)

Country	2016			Country	2017		
	No. of Proj	Amount (U	Employment		No. of Proj	Amount (U	Employment
China	76	188	4411	China	59	303.3	16867
Kenya	21	110	2342	India	47	155.1	4735
South Kore	2	100	64	Ethiopia	4	62.7	572
India	87	99	5171	Turkey	9	62.6	1166
Sudan	3	78	227	British Virgin Island	4	50.4	1867
Norway	2	67	563	UK	14	26	1223
Bermuda	1	39	69	Lebanon	5	25.5	959
United King	12	23	864	Norway	2	23.2	652
Egypt	4	19	220	US	6	21.8	1534
Lebanon	4	16	631	Italy	1	19.4	246
Sub Total	212	739	14562	Sub-total	151	750	29821
Rest of the	103	211	9197	R. of the World	167	558	15907
Total	315	950	23759	Total	469	1308	45728

Source: Uganda Investment Authority, 2018

Mode of Market Entry

Uganda in 2017 recorded a decrease in terms FDI attraction of about 26.3 percent by value and 108.6 percent by number of projects. Most of these investments were mainly Greenfield and a few joint ventures. The investments were mainly by both equity and borrowings from foreign affiliates. The major recipient sectors of FDI were mining & quarrying, at 85 percent.

Employment Creation by the Foreign Direct Investment

Foreign Direct inflows into Uganda generated 45728 jobs in 2017, compared to 23759 jobs in 2016. The majority of the jobs were generated by investments in Manufacturing (16,571) and Construction (13,806).

Table 4:28: Uganda-Number of Jobs Created by Foreign Direct Investment

Country	Year					% Change	
	2013	2014	2015	2016	2017	2016	2017
Uganda	63,583	28,980	16,343	23,759	45,728	64.70%	18.70%

Source: Uganda Investment Authority, 2018

Uganda's Prospects for Investment Promotion

Uganda sits right in the middle of the group of East African countries where growth has hovered at about 5 percent a year, better than many other economic regional blocks, but not enough to spur the swift development that is so needed. With increased infrastructure investment and the development of the oil sector, growth could accelerate to 6 or 6½ percent in the coming years. The question is 'how can Uganda seize opportunities to sustain strong growth and promote investments?'

The Government's strategy to scale up infrastructure investment is well conceived. It is intended to lift growth while maintaining debt at a sustainable level. Issues of investment and taxation point to a common theme: *the quality of Uganda's governance and institutions must improve*. Good governance and strong institutions are cornerstones of economic growth and there should be no room for complacency, especially as Uganda's oil sector develops.

The most important policy challenge of all is inclusive growth. Uganda's achievements in poverty reduction are commendable and if this trend can be continued, there will be clear benefits as Investment promotion will be forthcoming. Coupled with the competing demands of Uganda's growing population, the government will have to constantly balance priorities even as investment is ramped up, it is essential to make resources available for social spending.

Uganda's economic freedom score is 62.0, making its economy the 83rd freest in the 2018 Index. With improvements in judicial effectiveness and property rights outpacing lower scores for the tax burden and labour freedom indicators. Uganda is ranked 5th among 47 countries in the Sub-Saharan Africa region, and its overall score is above the regional and world averages. The 2017 Index of Economic Freedom ranked Uganda better than some of its regional neighbours, at 62.0 compared to Kenya (54.7) and Tanzania at (59.9), Burundi at (5.9) with Rwanda leading the index in all EAC partner stats at (69.1).

Uganda's Priority Sectors for Investment are; Commercial Agriculture and Agro processing; adding Value to Minerals; ICT and Oil & Gas: Uganda has the unrivaled potential to be the food basket of the East African Community, as well as the Great Lakes regions, with the capacity to export processed food stuffs to the wider COMESA economic bloc if more investment is targeted at processing more of the agro products. Secondly Uganda has large under-exploited mineral deposits of gold, oil, high grade tin, tungsten/wolfram, salt, beryllium, cobalt, kaolin, iron-ore, glass sand, vermiculite, phosphates (fertilizer), Uranium and rare earth elements. According to the Petroleum Exploration and Production Department in Uganda, 21 oil and/or gas discoveries have been made in the country to date (2017). 87 oil wells have been drilled and there are 21 fields in existence. Currently over 3.5 billion barrels of STOIIP have been discovered with over 1.2 billion barrels of oil equivalent estimated as recoverable. Although, historically, the ICT sector has been defined by the telecom sub-sector, the IT hardware, software and services sub-sectors are also growing- with several opportunities in IT Enabled Services (ITES), ICT infrastructure setup, software development and hardware assembly. The IT Industry has a market size of US$918 million (2013), and is expected to grow to US$1.8 billion by 2020; driven by 72% local demand; 20% international and 8% from the region.

4.10.6 South Sudan

South Sudan Foreign Direct Investment inflows

Formed in 2011, the government of South Sudan initiated reforms to attract investment. The main objective is to support infrastructure development, revive oil production and increase industrialization and agricultural production as a mechanism for import substitution. The reforms undertaken include the formation of the South Sudan Revenue Authority, improving air and road transport and accession to the EAC.

In 2017, South Sudan registered FDI inflows amounting to US$462.5 million up 46.8 percent from of US$ 315.1 million in 2016. The bulk of the FDI was geared towards extractives, banking, pharmaceutical production, ICT and hospitality sectors. FDI into the extractives sector amounted to US$ 338 million while US$100 million was invested in the banking sector; US$3.5 million was invested in the pharmaceutical sector; US$22.0 million went into the services sector especially hospitality, transport and food production. China, Uganda, Republic of Sudan, Saudi Arabia and America were the biggest contributors to FDI into South Sudan in 2017. FDI from China was mainly concentrated in the extractives sector while investment from Saudi Arabia, Republic of Sudan, USA and Uganda were concentrated in the services sector particularly banking, ICT and hospitality. FDI from China, Sudan Uganda amounted to US$341.1 million, US$100.0 million and US$10.0 million respectively. The investment generated 449 jobs in 2017, 74.7 percent higher than the employment opportunities created in 2016. The majority of the jobs were created in the banking sector which accounted for over 66.8 percent and the telecommunications sector which accounted for 10.2 percent of all jobs generated in 2017.

FDI outflows to the EAC Partner States increased to US$31.4 million in 2017 from US$4.5 million in 2016. The investment was mainly concentrated in the services sector in Uganda.

South Sudan has developed an investment strategy to support enhanced Foreign Direct Investment over the next three years. The strategy includes reforms to business registration, infrastructure development especially expansion of the airport and road network to Uganda and Kenya and reforms in the financial sector to attract FDI.

4.11 Prospects for Improved Investment Flows into the EAC

The EAC region has a conducive environment to attract and promote investment. The infrastructure network of roads, railway, port and air transport has recently undergone extensive development and rehabilitation. The region is endowed with enormous resources with potentially very high returns on investment. These include; agro-processing based on a vibrant agricultural sector; eestablishment of wood-based industries like saw-milling, partial boards, furniture and joinery; Livestock and Dairy Sector especially through the eestablishment of abattoirs of international standards; establishment of tanneries and allied industries for manufacture of leather products; diary processing; fisheries, aquaculture and fish processing plants as well as investments in horticulture and floriculture

The Manufacturing sector has wide range and lucrative investment opportunities in all EAC Partner States. To entice investors, Partner States offered generous incentives importation of machinery, transport equipment and raw materials as well as various manufacturing incentive schemes. Some of the investment opportunities include: assembly and production of light and medium equipment and machinery; production of beverages; textiles and apparel; electronics and electrical equipment; iron and steel; packaging; chemicals, plastics and allied products as well as pharmaceutical production. There are huge potentials for construction especially in the housing sector due to the existence of large quantities of cement as well as skilled manpower in the region. The region also has potential for Foreign Direct Investments in tourism with attractive cultural background and potential for hotel and leisure facilities development as well as eco-tourism and tourism related services. Other service sectors include banking, insurance and real estate development.

The recent discovery of viable quantities of oil and gas as well as industrial minerals has created potential for investment in the extractives sector. Mining is also gaining prominence as a source of FDI will large discoveries of gold, limestone, vermiculite, iron and steel, silica and rare earth minerals in the region. The region is moving into the production phase of oil and gas. Refining of oil and gas will create employment in the Petro-chemical sector and save foreign exchange on the importation of petroleum into the region. Partner States initiated value addition in the mining sector in order to ensure job creation and revenue to host governments. This included the establishment of a gold refinery in Uganda as well as factories that use industrial minerals like cement.

The region has great opportunities for social sector investment in areas like education services, technology parks and industrial parks as well as health sector development through the establishment of hospitals, manufacture of drugs and medicines as well as health insurance provision.

PART III: CONCLUSIONS AND PROSECTS

5 CHAPTER 5: CONCLUSIONS AND PROSPECTS

5.1 Conclusions

The East Africa Trade and Investment report aimed to provide a detailed analysis of the trends for the year and highlighted prospects for enhanced trade and investment in the region. EAC's strategy for trade and investment enhancement included partnerships with other countries and trading blocs to promote trade and investment. Notably, the EAC-COMESA-SADC Tripartite FTA, AfCFTA and the EAC- U.S Trade and Investment Partnership Agreement registered good progress during the period under review although implementation challenges existed.

The report reveals that EAC economic growth of 5.6 percent in 2017 was attributed to higher infrastructure investment in advanced economies specifically roads, rail and electricity, increased private consumption as well as recovery in agricultural commodity exports buoyed by improved weather conditions after poor harvests in the past two years as well as high global prices for minerals and a resurgent manufacturing sector especially in Kenya and Tanzania. Nevertheless, growth among the different Partners States varied in 2017 with Tanzania the fastest growing economy among the Partner States at 7.1 percent while South Sudan economy contracted by about 6.8 percent.

EAC merchandise trade with the rest of the world recorded an 8.6 percent growth to USD 46.9 billion in 2017 from US$43.1 billion in 2016. This was against a backdrop of negative trade trends over the past two years. The rise is total trade could be explained by increased agricultural production as a result of improved weather conditions, rising global demand for goods from developing countries, especially in Asia as a result of increased incomes for oil exporting countries arising from increased global crude oil prices which peaked at US$58 per barrel in 2017, the highest since 2015.

While the total trade in the EAC grew, overall, total trade was meagre and accounted for only 0.2 percent of global trade in 2017 compared to 0.3 percent in 2016. Also, a large proportion of trade between the East African Partner States as well as with the rest of the world consist of trade in primary commodities although trade in finished goods is increasing. Overall, the region registered a trade deficit with the rest of the world in 2017 partly due to an increase in imports into the region. The deficit for the EAC increased by 63.1 percent to USD17.4 billion from a deficit of US$10.7 billion registered in 2016.

Total intra-regional exports grew by 8.1 percent to USD2.9 billion in 2017 from USD2.7 billion in 2016. At the same time, Intra-EAC Imports also grew by 14.1 percent to USD12.5billion in 2017 from US$2.2 billion in 2016 signalling increased trade among the EAC partners. The impressive intra-regional trade was attributed to favourable weather conditions over the year which resulted into increased production of agricultural commodities, elimination of some restrictive EAC policies that allowed increased intra-EAC trade. For example, Kenya lifted the restriction on importation of sugar form Uganda. Partner states eliminated distortionary NTBs that were inhibiting trade with other Partner States as well as growth in manufacturing and industrial production that increased intra-EAC trade in intermediate and finished goods.

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 diversification implying that there is minimal scope for Intra-regional trade in manufactured products among the EAC Partner States; a restrictive trade regime that constrains the capacity of manufacturers to access the regional market for products that are produced from raw materials that benefit from exemptions and remission schemes; Non- Tariff Barriers that affected the level of intra- EAC 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.

While measures to attract Foreign Direct Investment have been put in place, the level of FDI into the region is still low. Foreign Direct Investments into East Africa decreased by 25.3 percent to USD 6.6 billion in 2017. Investment inflows to the EAC were concentrated in manufacturing, construction and energy sectors. China, India and UK continued to be the major sources of FDI to EAC. FDI inflows to EAC were meagre and constituted only 0.4 percent of global FDI flows. The low level of FDI inflows was mainly attributed to the lack of effective markets due to low per capita income as well as structural and institutional challenges that make the EAC less attractive to investors.

5.2 Prospects for growth of the Trade and Investment Sectors in EAC

The EAC is among the fastest growing regions in Africa. However, the level of trade and investment is still low to sustain the expected growth. Despite the challenges, prospects for enhanced trade and investment exist in the region: The EAC commissioned the revision of the CET with a view to having Rules of Origin and CET that are facilitative of EAC intra-trade and encourage investment and industrialization. EAC also initiated EAC NTB monitoring framework in order to eliminate and discourage imposition of new NTBs in the region. The construction of the Standard Gauge Railway as part of the Northern Corridor Project from Mombasa and its prospective extension to Uganda and South Sudan as well as the railway from Dar es Salaam to Kigali, is expected to reduce the cost and time of transportation of cargo to and from other Partner States served by the ports of Mombasa and Dar es Salaam respectively. Partner States will need to fast track the Common Market Protocol and other trade agreements under EPAs and

AGOA to enable enhanced movement of goods and factors of production within the region. This will increase the potential for increased industrial development and skilled labour.

The EAC region has a conducive environment to attract and promote investment. The infrastructure network of roads, railway, port and air transport has recently undergone extensive development and rehabilitation. The region is endowed with enormous resources with potentially very high returns on investment. Partner States offered generous incentives importation of machinery, transport equipment and raw materials as well as various manufacturing incentive schemes for assembly and manufacture of machinery and vehicles. Existence of minerals, raw materials and abundant skilled labour presents a huge potential for the manufacturing and construction sectors while the existence of wildlife and other attractions presents a potential for investment in tourism.

The recent discovery of viable quantities of oil and gas as well as industrial minerals has created potential for investment in the extractives sector. Mining is also gaining prominence as a source of FDI will large discoveries of gold, limestone, vermiculite, iron and steel, silica and rare earth minerals in the region. The region is moving into the production phase of oil and gas. Refining of oil and gas will create employment in the Petro-chemical sector and save foreign exchange on the importation of petroleum into the region. Partner States initiated value addition in the mining sector in order to ensure job creation and revenue to host governments. This included the establishment of a gold refinery in Uganda as well as factories that use industrial minerals like cement.