THE EAST AFRICAN COMMUNITY

EAC TRADE AND INVESTMENT REPORT 2018

Maximizing Benefits of Regional Integration

EAC Secretariat

Arusha, Tanzania

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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 East African Community is the fastest integrating regional bloc on the African continent. This can be witnessed by the big integration milestones achieved in the shortest period. These include the implementation of the Customs Union and the Common Market. The implementation of the EAC Monetary Union will commence in 2024 after which the Region will go for Political Federation. The ultimate objective of the EAC integration agenda is to increase social-economic integration to lift up the welfare of EAC citizens.

In conjuction with the EAC Partner States and with support from TMEA, the EAC Secretariat prepares and publishes Annual EAC Trade and Investment Report. The Annual Report is a critical tool to facilitate informed decision making by Partner States and other stakeholders on trade and investment matters in the East African Community. The Report provides a comprehensive analysis of trends in Trade and Investment in the region and with the rest of the world. Specifically, the Report portrays the dynamics of the intra-EAC trade in 2018. The Report also highlights investment climate and trends in EAC region and specifically illustrates the intra-EAC investment flows in 2018.

The EAC Secretariat continued to play its role of coordinating trade negotiations between Partner States and the Third Parties. Specifically, the EAC will continue to promote Trade and Investment with the Common Market for Eastern and Southern Africa (COMESA) and the theSouthern African Development Community (SADCA under the Tripartite COMESA-EAC-SADC Agreement and the African Continental Free Trade Area. The EAC Trade and Investment Report 2018 was prepared at the time when there was an accelerated momentum at the continental level to ratify the African Continental Free Trade Agreement (AfCFTA). The implementation of the AfCFTA will integrate the EAC regional economy into the African continental trade and bring about sustainable trade and investment opportunities and unleash the region’s growth potential.

The Republic of South Sudan is a new member of the Community having joined in 2016, and the Secretariat drew a clear roadmap for integration of the Republic of South Sudan in all EAC projects and programmes.

Partner States have also constructed infrastructure at the borders and ports to improve the amenities and facilitate trade in the region. The Partner States and the Secretariat, with support from 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.

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 Rreport. The Secretariat appreciates this invaluable support.

Lastly, I would also like to express my appreciation of the diligence 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 2018.

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Amb. Liberat Mfumukeko
Secretary General, EAC

EXECUTIVE SUMMARY

The East African Community (EAC), with a population of about 168.2 million and a combined GDP of US$ 155.2 billion is one of Africa's fastest growing regional blocs. Growth in the EAC is driven by a progressive manufacturing sector characterised by agro-processing and industrial production and exports. The Export Sector is dominated by tea, coffee and horticulture. The region possesses significant amounts of extractive resources including oil and gas, high value minerals and renewable energy.

This report provides a detailed analysis of the trends for the year and synthesise the prospects for enhancement of trade and investment in the region. The aim is to provide a platform for stakeholders, academics and policy makers to review the status of trade and investment, examine the developments at the regional and global level that have an impact on trade and investment in the EAC and measures to link the region to the global economy.

Key developments during the year with potential to influence future trade and investment outcomes include the positive economic growth of the region that positions the EAC as a trade and investment hub; the growing Global Value Chains that impact on agricultural production and industrial processes; logistical infrastructural development; and, the Africa Continental Free trade Area (AfCFTA). The East African Economy expanded at 5.7 percent in 2018, up from 5.6 percent in 2017. This was attributed to increased infrastructure investment in roads, rail and electricity, increased private consumption, as well as recovery of commodity exports buoyed by improved weather conditions. The construction sector improved in the the whole of the EAC There was also remarkable expansion of the services sector, particularly information and communication technology as well as manufacturing. All Partner States with exception of South Sudan experienced higher growth in 2018. Burundi's economy grew by 3.8 percent up from 1.3 percent in 2017. Rwanda's economy experienced the highest growth in the region expanding by 8.6 percent in 2018 up from 6.2 percent in 2017. Kenya, Tanzania and Uganda also grew by 6.3 percent, 6.9 percent and 5.6 percent in 2018 up from 4.9 percent, 6.8 percent and 4.8 percent, respectively in 2017.

Merchandize trade grew by 11.7 percent to USD 52.4 billion in 2018 from US$ 46.9 billion in 2017 as a result of increase in the import bill and a fall in exports during the year. Total EAC exports decreased by 4.7 percent to USD14.0 billion in 2018 from USD 14.7 billion in 2017 of which, intra-EAC exports accounted for 22.4 percent. The decline in exports was attributed to low international prices of mainly agricultural commodities on account of higher production resulting from improved weather conditions coupled with a drop in the export of primary minerals. This was a due to a fall in international demand resulting from the declining economic growth in China and the Far East. As a result of all this, earnings from coffee, tea and minerals fell by more than 24 percent during the year.

Exports to EAC and SADC amounted to USD 3.1 billion and USD 1.9 billion respectively in 2018. This signified the growing importance of the EAC and SADC markets. The increase in exports to SADC excluding Tanzania was attributed to the increased benefits arising from the membership to the EAC-COMESA- SADC Tripartite. The main products exported by the Region included agricultural products especially maize, sugar, rice, coffee and tea as well as manufactured goods. Outside the Africa Continent, the EU was our biggest trading partner and exports to the EU increased only by 6.5 percent to USD2.5 billion in 2018 from USD 2.3 billion in 2017 and constituted about 17.5 percent of total EAC exports. However, exports to the USA and the rest of the world fell by 20.6 percent and 12.7 percent respectively during the year mainly due to falling demand.

Total EAC imports grew by 19.2 percent to US$ 38.3 billion in 2018 from US$ 32.2 billion in 2017. Imports from the EU amounted to USD 4.3 billion and accounted for about 11.3 percent, while imports from the rest of the world declined but still constituted 44.3 percent of total imports. The main source of imports from the rest of the world were Asia and the middle East signifying the importance of countries like China, India and UAE as trading partners. The increase in imports was mainly under petroleum products arising from the higher global crude oil prices to USD73 per barrel on average during the year. During the year, imports of petroleum products, vegetable edible oil, motors, machinery and medicaments constituted over 60 percent of total imports. Overall, the region continued to register a trade deficit with the rest of the world in 2018 partly due to an increase in imports into the region. The deficit for the EAC increased by 39.4 percent to USD 24.3 billion in 2018 from USD17.4 billion registered in 2017.

The composition of EAC trade continued to be dominated by agricultural commodities, namely coffee, tobacco, cotton, rice, maize and wheat flour. However, 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 13.9 percent to USD 2.8 billion from USD 2.5 billion in 2017 and accounted for 7.4 percent of total EAC imports. Kenya's imports from the rest of the Parner States continued the growth experienced in the previous year. Imports into Kenya grew by 14.7 percent to USD 676.5 million. The increase was, to a large extent, driven by higher imports from Uganda and Tanzania. Imports from Uganda were mainly 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’s imports from the Region grew by 40.8 percent to USD 796.3 while Rwanda’s imports from within the Region also grew by 14.7 percent to USD 549.1 million in 2018.

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 salt, fats, cereals, and soaps, iron and steel, plastics and paper from Uganda and Kenya. Tanzania’s intra-EAC imports increased by 24.5 percent to USD 302.7 million in 2018 from USD 243.2 million in 2017. Tanzania’s key imports from the EAC partners included pharmaceuticals products, soaps, plastic items and other consumer goods, mainly from Kenya and Uganda. Burundi and South Sudan’s imports from the EAC fell by 11.1 percent and 18.5

percent respectively in 2018. Burundi main EAC trading partners was Tanzania and imports mainly consisted of chemical fertilizers, cement and textile articles. South Sudan's main trading partners were Kenya and Uganda and imports mainly consisted of maize, sugar and manufactured commodities.

Intra-regional exports grew by 5.6 percent to USD 3.2 billion in 2018 from US$ 2.9 billion in 2017. Noticeably, exports from all Partner States grew with the exception of South Sudan during the year. Burundi experienced 44.3 percent growth in exports while exports from Uganda, Tanzania and Rwanda grew by 11.4 percent, 9.5 percent and 6 percent respectively during the year. Exports from Kenya to the other Partner states experienced a modest growth of 0.1 percent in 2018.

Despite the increased total trade, the region continues to face challenges related to the trade performance. These include: vulnerability of the agricultural sector to the vagaries of nature; dependence on exports of primary products; and, the rising oil prices. As such, there is need to reduce dependence on imports of fossil fuels, motors, crude palm oil, textiles and capital items. Initiatives such as fast tracking the production of EAC oil and gas reserves, assembly of motors in the region and improvement of agricultural production through irrigation, post-harvest handling and value addition should be explored.

Foreign Direct Investments into East Africa decreased by 15.9 percent to USD 5.7 billion in 2018 from US$ 6.8 billion in 2017. Inflows to United Republic of Tanzania increased by 2.3 percent to US$ 3.1 billion while inflows to Burundi and Rwanda decreased by 76.8 percent and 11.5 percent to US$ 15.1 million from US$ 65.1 million in 2017 and to US$ 1015.3 million in 2018 from US$ 1147.7 million in 2017, respectively. FDI into Kenya, South Sudan and Uganda fell by 32.4 percent, 11.7 percent and 51.8 percent to US$ 485.5 million, 408.6 million and US$ 630.6 million in 2018, respectively. Overall, FDI inflows to the EAC were concentrated in manufacturing, construction and services sectors. FDI into manufacturing and construction amounted to US$ 2.1 billion and US$ 1 billion in 2018, respectively. China and India continued to be the major sources of FDI into the EAC with inflows amounting to US$ 1.1 billion and US$ 281.02 million respectively. Total intra-EAC investments decreased by 20.8 percent to USD152.7 million in 2018 from US$ 192.9 million in in 2017.

The Trade and Investment Report 2018 focuses on market-driven integration as the driver of economic development and growth. Trade and investment are important drivers of productivity; employment generation; and access to a range of products at low prices necessary to enhance the standard of living. The Report is aimed to showcase progress in regional trade and investment. The report shows that EAC has to focus on improvements in critical areas if the region is to grow. This information should of strategic importance to policy makers, scholars and private sector.

This Report is structured in three parts covering 4 chapters: Part One includes the background chapter which highlights the introduction to the EAC, analyses the macroeconomic trends and outlines key initiatives that have the potential to affect trade and investment in the region. Part Two deals with the trade and investment outlook in the region. Chapter 2 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 3 analyses 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 concluding section while Chapter 4 draws conclusions.

PART I: INTRODUCTION

1. CHAPTER 1: BACKGROUND

1.1. The East African Community

The Treaty for the East African Community (EAC) was signed on 30 November 1999 and entered into force on 7 July 2000. The Republics of Rwanda and 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 2024 and adopted a Political Confederation as a transitional model for the East African Political Federation.

The Protocol for the EAC Customs Union came into force in January 2005. The key pillars of the EAC Customs Union are the Common External Tariff and the EAC Rules of Origin and the Customs Management Act 2005. The EAC Common External Tariff (CET) is structured under three bands of 25 percent for finished goods, 10 percent for intermediate goods and 0 percent for raw materials and capital goods. In addition, there is a limited number of products under the sensitive list that attracts rate above the maximum of 25 percent.

The EAC Single Customs Territory (SCT) came into effect in 2014. Implementation of the SCT was aimed to improve trade facilitation through introduction of 'hard and soft infrastructure'; In 2018, the focus of the EAC Secretariat was on operationalization of the primary goal of the Single Customs Territory- free circulation of goods. Elimination of non-tariff barriers based on an online monitoring and tracking system, improved infrastructure like the One Stop Border Posts (OSBP), introduction of the Integrated Border Management (IBM) and use of Information, Communication and Technology (ICT) has led to increased trade and investment in the region.

1.2. Macroeconomic Context

1.2.1. Global Economic Outlook

The global economy grew at 3.6 percent in 2018, 0.2 percent lower than the growth registered in 2017 (IMF, April 2019). The slowdown resulted from declining manufacturing output. With the exception of the United States of America, all advanced economies experienced sluggish growth over the year. The European Union experienced slower growth, averaging 1.8 percent due to challenges in consumer and business confidence and sluggish vehicles sales as a result of enforcement of more stringent emission standards as well as lower demand from importers in Asia. The UK growth fell by 0.4 percent to 1.4 percent in 2018 as a result of the continuing uncertainty over the 'No Deal Brexit'. Among emerging markets, India experienced strong growth 0.4 percent higher than in 2017. However, China experienced slower growth in 2018 compared to 2017 mainly as a result of tensions with the USA and declining manufacturing output. The extended truce in the US–China trade dispute has provided a welcome respite in an otherwise turbulent policy backdrop that included Brexit negotiations, discussions over the Italian budget, changes in Mexican policy direction under the new administration, the US federal government shutdown, and US policy on Iran (IMF April 2019).

Table 1.1: Summary of Global Output Growth 2014-2018 (percentage change)

Region/ Country	2014	2015	2016	2017	2018
Global	**3.4**	**3.1**	**3.1**	**3.8**	**3.6**
Advanced Economies	**1.9**	**1.9**	**1.7**	**2.3**	**2.2**
USA	2.4	2.4	1.6	2.3	2.9
Euro Area	0.9	1.7	1.7	2.4	1.8
United Kingdom	3.1	2.2	1.8	1.7	1.4
Japan	0.0	0.5	1.0	1.8	0.8
Emerging Markets and Developing Economies	**4.6**	**4.0**	**4.1**	**4.7**	**4.5**
China	7.3	6.9	6.7	6.8	6.6
India	7.2	7.6	6.8	6.7	7.1
Middle East and North Africa	**2.7**	**2.3**	**3.9**	**2.5**	**1.8**
Sub -Saharan Africa	5.1	3.3	1.4	2.7	3.0
South Africa	1.6	1.3	0.3	0.9	0.8

Source: IMF, World Economic Outlook, April 2019

Global inflation remained moderate but is projected to rise over the next year in most of the developed economies. Surging global crude oil prices contributed to additional inflationary pressures in oil-importing countries over the course of 2018, while currency depreciation against the US dollar put upward pressure on imported prices in many countries. By contrast, some of the commodity-exporting countries in Africa and the Commonwealth of Independent States (CIS) that experienced sharp currency depreciations in response to the commodity price shocks of 2014/15 have seen inflation recede in 2018, as the exchange-rate shock has been absorbed into the price level (IMF 2019).

Urgent and concrete policy action is needed to change the trajectory of the global economy towards a sustainable path and implement the policy changes needed to deliver the ambitious goals of the 2030 Agenda for Sustainable Development. This includes sound macroeconomic policies, structural and redistributive reforms, and industrial policies, adapted as appropriate to country-specific circumstances. At the international level, progress relies on a cooperative and long-term strategy for global policy in key areas such as climate change, sustainable consumption and responsible finance, supported by declines in income and gender inequality. Despite the growth projections anticipated in 2019, a withdrawal from multilateralism will pose further setbacks for those already being left behind (IMF April 2019).

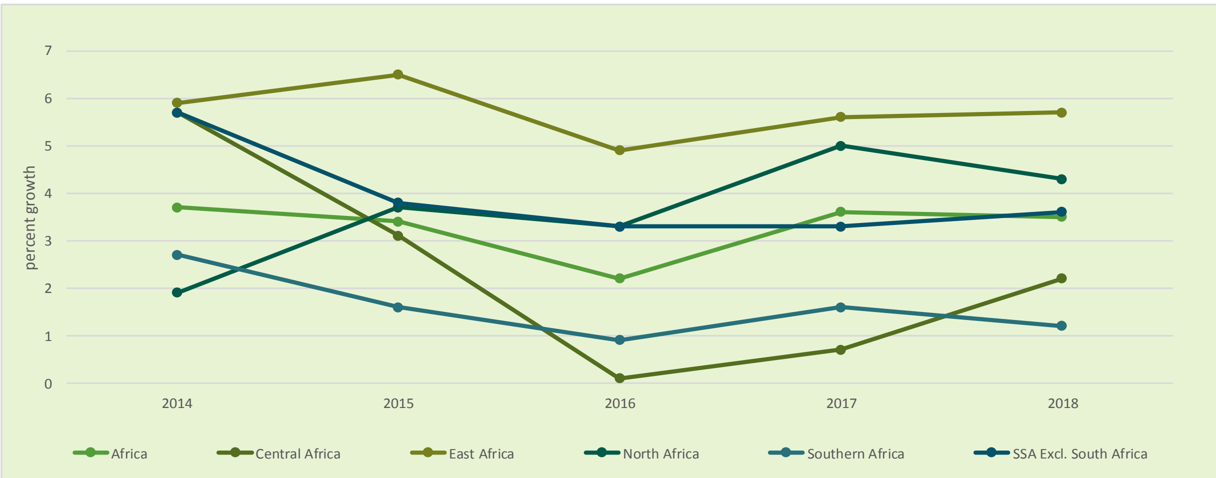
1.2.2. Africa Economic Outlook

Africa's economic growth continues to strengthen, reaching an estimated 3.5 percent in 2018, about the same as in 2017 and up 1.4 percentage points from the 2.1 percent in 2016. East Africa led with GDP growth estimated at 5.7 percent in 2018, followed by North Africa at 4.9 percent, West Africa at 3.3 percent, Central Africa at 2.2 percent, and Southern Africa at 1.2 percent. Southern Africa's subdued growth is due mainly to South Africa's weak development, which affects neighboring countries. Growth in Central Africa is gradually recovering supported by recovering commodity prices and higher agricultural output but remains below the average for Africa as a whole (AfDB 2019).

Africa's average inflation fell from 12.6 percent in 2017 to 10.9 percent in 2018. Double-digit inflation occurred mostly in conflict-affected countries like South Sudan and countries that are not members of a currency union but remains low in members of the CFA zone because of its link to the euro. Domestic resource mobilization has improved as a result of tax reforms and higher commodity prices but revenues still fall short of the continent's developmental needs (IMF 2019).

Lessons from countries in the Far East show that reforms to lower the cost of money transfer and strengthen platforms for crowd-funding has the potential to avail resources for economic development. There is need to reduce the high transfer costs and limited interbank services in the region to help formalize intra-Africa remittances flow. Widespread illicit financial outflows, hurting most African countries and limiting potential for further investment in infrastructure, power needs to be tackled. Policy interventions should be focused on increasing the share of intermediate and capital goods in imports could help countries benefit from scale and scope economies and exploit knowledge transfers from more advanced economies (AfDB 2019).

Figure 1.1: Economic Growth in Selected African Economies, 2014-2018 (percentage)



Source: AfDB- AEO 2019

1.2.3. EAC Macro Economic Performance

Economic Growth

East Africa maintained its lead in regional growth on the Africa Continent with economic growth of 5.7 percent in 2018, up from 5.6 percent in 2017 but this growth masked variations across the countries. On the supply side, EAC growth was driven by industrial, infrastructure and agricultural development while on the demand side, the main driver for economic growth across East Africa was increased consumption.

The economy of Burundi grew at 3.8 percent due to good performance in the primary and secondary sectors. The performance of primary sector was due to 5 percent growth in the value added in the agricultural sector mainly tea, livestock and fisheries. However, economic activity decelerated by 4.7 percent in the tertiary sector where the health and social sectors experienced the highest deceleration of 14 percent in 2018. Kenya's real Gross Domestic Product (GDP) grew by 6.3 per cent in 2018 compared to 4.9 per cent in 2017 mainly as a result of increased agricultural production and accelerated manufacturing activities.

Rwanda economy recorded an average growth of 8.6 percent up from 6.1 percent growth recorded in 2017 as a result of good performance in industrial, services and agricultural sectors which grew by 10 percent 9 percent and 6 percent respectively. The industrial sector was mainly boosted by large construction projects like the Bugesera airport. The services sector was mainly driven by good performance in transport and trade which grew by 16 percent in 2018. Rwanda's service sector's growth also resulted from good performance in the telecommunication and hotel sector that grew by 18 percent and 10 percent respectively in 2018.

The economy of South Sudan continued to contract in 2018 as a result of the fall in crude oil production due to civil conflict in the country while Tanzania's real GDP grew at 6.9 percent up from 6.8 percent in 2017. The growth of the economy of Tanzania was mainly driven by the construction sector which accounted for 22.8 percent, Agricultural sector, 19.9 percent and Transport and Storage by 12.4 percent. Activities that recorded the highest growth rates were Arts, Entertainment and Recreation (13.5 percent); Construction (12.9 percent) and Transport and Storage (11.8 percent) while Finance and Insurance recorded the lowest growth rate of negative 0.5 percent in the year 2018.

Uganda's economy grew 5.6 percent in 2018 up from 4.8 percent in 2017. This was attributed to robust agricultural production as a result of improved weather conditions and positive growth in the services, infrastructure and industrial sectors especially chemical and pharmaceutical production. Uganda's macroeconomic policy in 2018 was focused on containing inflationary pressure, enhancing exchange rate stability and stepping up domestic resource mobilization. In the financial sector, private sector credit continued to recover gradually in 2018 on account improvement in asset quality with the decrease in non-performing loans that lowered the risk averseness of banks, lagged impact of monetary easing and the associated eased credit conditions.

Figure 1.2: EAC- GDP Growth, 2014-2018 (annual percent)

Source: Compiled from Partner States Central Bank data 2019

EAC Inflation

The East Africa Community's average inflation remained relatively stable in 2018. Burundi experienced a deflation of 2.6 percent in 2018 down from 16.1 percent in 2017. The deflation was caused by sharp drop in food and non-food prices especially bread, cereal and vegetables in 2018. Prices of Sugar, jams, honey, chocolate and confectionery also experienced a deflation of 6.6 percent in 2018 compared to prices increases of 21 percent in 2017. The country experienced deceleration in non-food inflation with inflation falling in the beverages and tobacco, clothing furnishing, household equipment, hotels, transport and footwear sectors.

Kenya's average inflation rate stood at 4.7 per cent in 2018 compared to 8.0 per cent in 2017 majorly as a result of considerable declines in prices of food. The low food prices were mainly attributable to favourable weather conditions experienced in 2018. Rwanda's inflation dropped to 1.4 percent in 2018 from 4.9 percent in 2017 on average. This was mostly reflected in the decrease in food inflation to negative 2.6 percent in 2018 from 9.8 percent in 2017, as a result of good agricultural production. Imported and domestic inflation declined to 4.4 percent and 0.5 percent in 2018 from 6.0 percent and 4.5 percent in 2017 respectively. The aforementioned decrease in food prices was the main contributor to the downward trends in domestic inflation. The decline in imported inflation was a result of decreasing prices of some imported foodstuffs such as dry maize and rice, following favorable weather conditions in the region. As a result of aggregate demand that remained non-inflationary, core inflation stood at 1.6 percent in 2018 from 3.9 percent in 2017.

Republic of South Sudan experienced high inflation rates as a result of a number of factors including depreciation of the South Sudan Pound, contraction in the GDP arising from disruption of crude oil exports, increased monetization of the fiscal deficit as well as over reliance on imported capital and consumer goods. The year-on-year annual Consumer Price Index (CPI) increased by 93.3% in 2018. The spread between the official and the parallel market exchange rates remained wide averaging 44 percent during the year despite the recent exchange rate appreciation.

Tanzania's headline inflation remained low and stable, below the medium-term target of 5 percent. Annual inflation was 3.4 percent in 2018*,* mostly contributed by low domestic food prices resulting from adequate food supply in most parts of the country. The moderate food prices more than offset the impact of increase in oil prices in the world market prices, and depreciation of the currency. Inflation is expected to remain low over the medium-term, supported with favourable domestic food conditions and prudent fiscal and monetary policies. Upside risks remain owing to uncertainty surrounding global oil prices and food supply situation in the region. Uganda's annual Average Headline Inflation for 2018 was recorded at 2.6 percent compared to 5.6 percent recorded during 2017. The Annual Average Core Inflation for 2018 was recorded at 2.4 percent from the 4.4 percent recorded during in 2017.

The decline in headline inflation was partly due to the favourable weather conditions, which results in good agricultural yields leading to negative food crop and related items inflation of -1.5 percent for 2018 up from 13 percent recorded during the drought-stricken seasons of 2017. The decline in Annual Food Crops and Related Items Inflation was due, particularly to annual fruits Inflation that decreased to minus 18.4 percent for the year ending 2018. Headline and core inflation initially increased in May 2018, mainly driven by the shilling depreciation and global oil prices, however this slide was neutralized by the decline in food price inflation in the second part of 2018.

EAC Exchange Rate

The exchange rate performance of the EAC Partner States' currencies was mixed in 2018. While some currencies appreciated against the majority of the convertible currencies, other EAC currencies depreciated during the year. In 2018, the Burundian Franc (BIF) depreciated against US$ by 3.1 percent to an annual average of BIF 1,782.88 from an average of BIF 1,729.01 to the US$ in 2017. Over the same period, the BIF depreciated by 3.8 percent against the Swiss Franc; by 3.8 percent against the Japanese Yen, by 6.9 percent against the Pound Sterling, by 5.3 against the SDR and by 7.8 percent against the Euro. Within the EAC region, the BIF appreciated by 1.4 percent and by 0.1 percent vis-à-vis the RWF and the UGX while it depreciated by 5.3 percent and 1.3 percent against the KES and the TZS, respectively.

The Kenya Shilling strengthened against Indian Rupee, the US Dollar, Saudi Riyal and UAE Dirham to exchange at 1.48 per Indian Rupee, 101.29 per US Dollar, 27.01 per Saudi Riyal and 61.17 per UAE Dirham, respectively in 2018. However, the Kenyan Shilling weakened against the Euro and Pound Sterling by 2.5 per cent and 1.5 per cent, respectively, in 2018, to exchange at 119.63 per Euro and 135.25 per Pound Sterling. In the EAC region, the Uganda Shilling and Tanzanian Shilling weakened against the Kenyan Shilling, to exchange at 36.81 per Kenya Shilling and 22.48 per Kenya Shilling, respectively, during the period. Similarly, Rwandese Francs weakened against Kenyan Shilling to exchange at 100 Rwandese Francs per KSh8.50, over the same period.

Relative to 2017, the FRW depreciated by 4.0 percent against the USD in 2018, compared to a depreciation of 3.1 percent registered in 2017, following the relatively increased demand for dollars to finance imports. Compared to the British pound and Euro, the FRW appreciated by 2.0 percent and 0.1 percent respectively, while it depreciated by 6.2 percent against the Japanese Yen. With regard to regional currencies, the FRW depreciated by 5.5 percent, 1.2 percent and 1.8 percent against the Kenyan, Tanzanian and Ugandan shillings.

The South Sudan Pound continued to depreciate in formal and parallel markets to SSP155 to the dollar at the Bank of South Sudan and SSP278 to the dollar at parallel market. In 2018, the value of the Tanzania shilling against the US dollar remained broadly stable. The stability of the shilling was consistent with prudent monetary policy, streamlined fiscal measures, enhanced use of gas in electricity generation instead of oil and substitution of imported goods with local manufactured goods such as ceramic tiles. In the wholesale market, the exchange rate fluctuated within the range of TZS 2,244.7 to TZS 2,291.8 against US dollar, compared with the range of TZS 2,226.3 to 2,249.1 per US dollar recorded in 2017.

The Uganda Shilling continues to be affected by domestic and external forces on account of the open economy. The average exchange rate for 2018 was recorded as Uganda shillings 3,727.80 per the US Dollar down from Uganda Shillings 3,611.36 recorded in 2017. This was a depreciation of 3.2 percent in 2018.

The shilling was generally stable for most of the first three quarters of the financial year, supported by inflows from NGOs and coffee export proceeds and forex bureau being able to offset outflows from oil, manufacturing and telecom sectors. However, the weakening was largely on account of global strengthening of the US Dollar and elevated US dollar demand from oil, manufacturing and telecommunications sectors, as well as offshore investors, amidst low inflows from export receipts. Speculative activity could have also heightened the pace of depreciation as economic agents positioned themselves in anticipation for further depreciation.

EAC Balance of Payments

In 2018, Burundi's balance of payments was characterized by a decrease in the current account deficit to negative US$ 362.2 million from negative US$ 373.3 million and in the capital account surplus of US$ 118.4 million in 2018, from US$ 168.1 million in 2017. The balance of payments recorded a slight net lending of US$ 243.9 million in 2018 compared to negative U$ 205.2 million in 2017. The decline in the current account deficit was due to the increase of the secondary income surplus of US$ 251.5 million in 2018 compared to US$ 241.3 million in 2017, partially offset by an increase in the goods and services account deficit of 0.9 per cent to US$

619.8 million in 2018, from US$ 614.3 million in 2017. The financial account also recorded a high increase of net lending of negative US$ 233.6 million in 2018 compared to negative US$ 188.6 million in 2017 due to the increase in foreign liabilities partially offset by a decrease in reserve assets of US$ 30.0 million.

In 2018, Kenya's balance of payments position improved to a surplus of USD1,044 million from a deficit of USD 164 million in 2017. Similarly, the current account balance improved to a deficit of USD 4,362 million, in 2018 from a deficit of USD 4,868 million in 2017 Net financial inflows grew to USD 6,561 million in 2018 from USD 5,287 million in 2017, mainly driven by increased in inflows of foreign direct investment.

The current account deficit in Rwanda slightly increased in 2018 compared to 2017, due mainly to growth in the trade deficit. In 2018, the total current account deficit is estimated at $746.9 or 7.9 percent of GDP from $ 709.5 million in 2017, or 7.8 percent of GDP. The trade deficit in goods and services rose by 8.4 percent amounting $ 1069.1 million due mainly on the increase of imports of goods and service. The imports increased due to higher oil prices in 2018 compared to 2017 also, the increase is on account of upswing domestic demand of imports of capital goods due to a continued rise in investment as well as intermediary goods for production purposes to support the growing manufacturing sector. In addition, the service deficit increased, mainly as results of rise in debits from transports services on higher imports, weighing on increased travel surplus. The surplus in travel services is due to a rise of travel credit (1.2 percent) and a fall in travel debit (-6.3 percent).

A small increase in the primary income deficit was associated with an estimated increase in the compensation of employees by 21.4 percent and as light increase in investment income balance (0.2 percent). By contrast, high growth in the secondary income surplus (10.2 percent) due to a rise in private transfers from abroad, where remittances rose 22.1 percent, was the strongest factor fostering a decrease in the current account deficit. The Rwanda's current account deficit has been financed by increased financial inflows in 2018 compared to a year earlier. The financial account is estimated at $ 838.4 million in 2018, or 8.8 percent of GDP, from $ 678.8 million, or 7.4 percent in 2017, due to higher inflows from direct investment and other investment. Net inflows from direct investments increased by 12.3 percent due to a rise in new equity inflows (9.2 percent) as well as debt capital inflows (47.8 percent). The increase in foreign direct investment partly is on account of improved business environment in Rwanda and the financing of activities by existing investors, reflecting increased earnings for investment. In addition, the increase in other investment inflows reflect higher borrowings by both private and public sectors. As results of the above developments, the accumulation of reserves assets rose to $ 133.3 million in 2018 from $ 92.6 million in 2017. Gross official reserves stand at $ 1319.1 million, or 13.9 percent of GDP in 2018 from 1163.3 million, or 12.7 percent of GDP.

South Sudan Current Account Balance is all transactions other than those in financial and capital items. The major classifications are goods and services, income and current transfers. The focus of the BOP is on transactions (between an economy and the rest of the world) in goods, services, and income. While considering some of the data challenges facing the country to compile the balance of payment, the current account balance amounted to 281.7 million USD and good and service account stood at 458.4 million USD. The Primary income and secondary income have declined considerably at negative rate while the capital account has shown positive growth at 116.5 USD Million.

During 2018, Tanzania's overall balance of payments recorded a deficit of USD 784.0 million from a surplus of USD 1,669.6 million recorded in 2017, partly explained by the widening current account deficit. As a result, gross official reserves amounted to USD 5,044.6 million as at end December 2018 compared to USD 5,900.3 million as at end December 2017. This level of reserve is sufficient to cover 4.9 months of projected imports of goods and services excluding foreign direct investments related imports. The import cover remained above the country and EAC benchmarks of 4.0 months and 4.5 months, respectively. During the period, current account deficit broadened to USD 2,345.3 million compared with a deficit of USD 1,880.7 million recorded in 2017, mainly due to the growing imports, particularly transport equipment, and building and construction materials consistent with the ongoing infrastructural development projects. In the financial account, Tanzania received USD 1,883.8 million in terms of equities and non-equity inflows from non-resident institutional units, 12.6 percent lower than USD 2,154.8 million reported in 2017. The inflows were mainly in the form of foreign direct investments and other investments particularly drawings. During the same period, the disbursement of funds for the general Government amounted to USD 1,211.5 million, slightly lower compared to USD 1,238.8 million recorded in 2017.

Uganda's current account position in 2018 remained relatively weak, widening from US$1,272 million in 2017 to US$ 2,465 million in 2018 largely driven a 40 percent increase in the trade deficit. Annually, the import bill also increased by 17 percent in 2018 supported by private sector imports for investment such as machinery and equipment, gold and base metals reflecting a pickup in economic activity. In addition, oil imports grew by US$215 million, reflecting the increase in oil price in 2018 relative to the previous year. The impact of the import growth on the current account balance was partly moderated by a 5 percent increase in export receipts largely driven by a rise in gold exports which increased by 23.2 percent to US$514.9 million. The net exports of gold were estimated at US$52.5 million. The income deficit deteriorated year on year by US$ 422 million in 2018 on account of increased investment income payments by non-residents. However, the current transfer's surplus improved by US$89 million and the services deficit rose by US$ 168 million over the same period.

Annually, the net Capital inflows through the financial account decreased by 14 percent to US$ 1,162.3 million in 2018, and this was mainly on account of significant outflow of capital through other investment, owing to a US$490 million build-up in currency and deposits assets held abroad by domestic banks and private sector and a US$239 million reduction in loan disbursements to the government sector. This was however moderated by a US$ 311 million increase in FDI inflows coupled with decreased portfolio net outflows.

The surplus in the financial account in 2018 was insufficient to finance the high current account deficit, leading to an overall deficit balance of US$324 million in 2018, a contraction of US$807 million from an overall surplus balance of US$483 million in 2017. The stock of reserves as at the end December 2018 stood at US$3,414.5 million, equivalent to 4.3 months of future imports of goods and services.

EAC National Savings

Burundi's Gross National Savings in 2018 increased to US$ 152.9 million from US$ 116.71 million recorded in 2017. It was due to the high consumption of private and public sectors from US$ 3,341.3 to US$ 3,475.8 in 2018, added the sharp rise of secondary incomes from US$ 241.0 million in 2017 to US$ 257.6 in 2018. As a share to GDP, Gross National Savings increased to 4.5 percent in 2018 against 3.6 percent reported in 2017. In Kenya, the level of gross savings increased from US$ 8.3 billion in 2017 to US$ 9.0 billion in 2018. As a share of GDP, the gross savings decreased from 10.5 percent to 10.2 percent over the same period. For Rwanda, the level of gross savings decreased from US$ 1.01 billion in 2017 to US$ 0.89 billion in 2018. As a share of GDP, the gross savings decreased from 12.6 percent to 10.5 percent over the same period. Tanzania's gross national savings remained relatively unchanged at USD 10.9 billion in 2018. Also, the share of national savings to GDP averaged about 26.8 percent over the same period as a result of more inclusive financial sector in the country. Though increasing, Uganda's level of financial inclusion remains low to support robust mobilization of savings. As a result, Uganda's gross national savings as a percent of GDP fluctuated substantially in recent years, it tended to decrease ending at 20.25 percent of GDP in 2018, an increase from 19.8 percent of GDP recorded in 2017.

EAC External debt

The EAC Partner States experienced increased external indebtedness during 2018. Burundi's external debt grew up by 2.2 percent, from US$ 469.0 million in 2017 to US$479.1 million in 2018. The increase was mainly due to the rise of new drawings on external loans (US$ 12.5 million in 2018 against US $ 8.2 million in 2017). The new drawings concerned OPEC, BADEA and EXIM BANK. These funds were directed to the road sector, agricultural and livestock development projects and to the various projects in the mining and energy. Public external debt mainly financed public facilities accounting for 46.6 percent, miscellaneous projects accounting for 27.1 percent, productive sectors accounting for 19.3 percent and social sector accounting for 7.0 percent. The ratio of external debt service to export of goods and services decreased from 5.1 to 3.3 percent.

Kenya's total public debt increased from USD 38.3 billion as at end of June, 2017 to USD 44.9 billion as at end of June, 2018. Kenya's external debt stock increased from USD 22.1 billion as in 2017 which was about 28.0 percent of GDP to USD 25.4 billion amounting to 28.9 percent of GDP in 2018. The increase in the external debt stock was largely reflective of increase in debt from Bilateral and Multilateral lenders. Bilateral debt increased from USD 7.0 billion in as at end of June, 2017 to USD 8.1 billion as at end of June, 2018, while Multilateral debt increased from USD 8.1 billion as at end of June, 2017 to USD 8.2 billion as at end of June, 2018.

Rwanda's external public debt stock increased from USD 3.0 billion as at end December, 2017 to USD 3.4 billion as at end December, 2018. The increase in the external debt stock was largely due of increase in debt from Bilateral and Multilateral lenders. Bilateral debt increased from USD 0.35 billion at end December, 2017 to USD 0.38 billion as at end December, 2018, while Multilateral debt increased from USD 2.25 billion as at end December, 2017 to USD 2.68 billion as at end of December, 2018. Servicing the external debt increased by 36.9 percent from USD 60 million in 2017 to USD 82.1 million in 2018.

The external debt stock in Tanzania comprising public and private sector debt, amounted to USD 21,060.5 million at the end of December 2018, being an increase of USD 1,880.3 million from the levels recorded end of the previous month and corresponding period in 2017. The increase was mainly on account of disbursements and exchange rate movements. Central government debt which accounted for 75.9 percent of the debt stock, followed by private debt that accounted for 23.3 percent. Composition of external debt by creditor category continued to show that the debt owed to multilateral institutions accounting for 46.4 percent, while debts to commercial creditors amounted to 33.2 percent of the total debt.

The total public debt stock in Uganda increased by 12.5 percent to USD 11.52 billion as at end December 2018 from USD 10.24 billion as at end December, 2017 out of which domestic and external debt amounted to USD 3.86 billion and USD 7.66 billion and accounted for 33.5 percent and 66.5 percent respectively. The nominal value of public debt as a percentage of GDP stood at 41.8 percent as at end December 2018. The Present Value of external debt to GDP increased from 30.1 percent in 2017 to 31.7 percent in 2018.

In 2018, the outstanding portion of the Country's Debt, including arrears, that is borrowed outside Uganda stood at USD 7.66 billion representing a growth of 11 percent compared to USD 6.88 billion at end December 2017. The increment in stock is attributed to disbursements from Exim Bank of China and World Bank loans, as well as foreign exchange rate movements. The external debt stock increased by USD 0.8 billion and this increase was mainly from China which increased by 25 percent and World Bank debt increased by 40 percent. Public debt service involves payment of principal, interest and other contractual obligations in relation to government debt. External and domestic debt service was USD 353.4 million and USD 1.9 billion respectively in 2018. The biggest proportion of the bilateral creditors stock was from China accounting for about 75 percent while AFD (France), UKEF (UK), Japan and others accounted for the 25 percent. The high stock of debt from China was associated with financing for Karuma and Isimba Hydro Power projects, while new loans approved by parliament were aimed to improve water supply and sanitation in the country. As at end of December 2018, the stock of multilateral debt amounted to US$ 5.02 billion, accounting for 43.6 percent of the total public external debt. The share of outstanding external debt stock owed to bilateral sources declined to 22.5 percent of the total external debt outstanding at the end of December 2018, from 29.6 percent at the end of December 2017 mainly as a result of loan repayments (debt servicing).

The total outstanding stock of government domestic debt at cost increased by 17.7 percent from USD 3.4 b billion in 2017 to USD 3.8 billion in 2018. Given that the current debt stock is largely from Multilateral Creditors, Uganda's external debt stock is denominated mainly in SDR and accounted for 43 percent and USD accounted for 33 percent. However, because of the changing trends in the Development Cooperation arena, other currencies such as the EUR, GBP and JPY gained prominence in the current external debts stock. The share of T-Bills increased from 24 percent to 25 percent while T-Bonds reduced from 76 percent to 75 percent. However, this is still within the 30:70 T-Bills to T-Bonds ratio set out in the Public Debt Management Framework (PDMF) 2013. Out of the outstanding domestic debt stock at cost, T-Bills amounted to USD963.3 million, while T-Bonds amounted to USD2.9 billion. Domestic interest payments in 2018 will increase by 4 percent to USD540.3 million from USD536.1 million in 2018. Increased issuance of Domestic debt led to a rise in yields which impacted the level of interest payments.

EAC and Global Value Chains

Global value chains have gained prominence as a vehicle for economic development, industrialisation, employment creation and value addition. As well they are a key avenue for entry of developing countries into the global trading system. Already a number of developing countries such as Morocco and Ethiopia have been mainstreamed into the global trading systems through the value chains. Development of global value chains is anchored in reduction of fixed trade costs and greater diversification. Also, trade facilitation needs to be improved since goods in the global value chains have to cross borders multiple times.

Global value chains also depend on harmonizing rules of origin since duties and other customs restrictions depend on the origin of imports that go into finalizing. A pillar of Africa's development strategy is to accelerate industrialization by promoting regional value chains, since countries are often said to get richer by producing the goods that rich countries consume.

African countries have participated little in global trade supply chains except in upstream activities as providers of unprocessed goods and mineral ores. But experience in textiles and apparel, supermarkets, and automotive show that East African countries are getting progressively more involved in trade in tasks through regional value chains. Key to this is a reduction in trade costs as goods cross borders multiple times. To develop cross-border supply chains, improving customs management and adopting simple and transparent rules of origin are essential.

Integrating EAC into Regional Markets

States sign regional arrangements to increase trade among members. The trade benefits arise from three key channels. First through eliminating tariff and others charges of equivalent effect. Second removing non-tariff barriers and measures and third, through improved trade facilitation to reduce the costs of trading across countries. Trade facilitation involves improvements in infrastructure as well as other measures that improve customs management, tracking and institutional border management

The Six countries in the EAC belong to a number of regional blocs. The Partner States, with the exception of the Republic of South Sudan are members of the World Trade Organization (WTO). Partner States are also members of the EAC, SADC-in the case of the United Republic of Tanzania, COMESA and are finalizing ratification of the Continental Free Trade Agreement. Integration of the EAC Partner States has implications for the merchandize trade and investment in the region. Integrating into the regional trading systems covers more measures than those covered under the WTO. This includes tariff reductions and other preferences that go beyond what was bound at the WTO including other provisions like free movement of labour and capital.

African Continental Free Trade Area

Africa is characterized by small fragmented markets necessitating the need for integration of markets, infrastructure and other factors of production like labour and capital if Africa is to increase competitiveness and play a bigger role in the global market economy. Integrating the Africa continent could encourage industrial and agricultural production along the global value chains, create larger markets and provide growth opportunities for small and medium firms

The African Continental Free Trade Area (AfCFTA) was signed in Kigali, Rwanda in March 2018. The AfCFTA will bring together all 55 member states of the African Union covering a market of more than 1.2 billion people, including a growing middle class, and a combined gross domestic product (GDP) of more than US$3.4 trillion. In terms of numbers of participating countries, the AfCFTA will be the world's largest free trade area since the formation of the World Trade Organization. The AfCFTA has the potential both to boost intra-African trade by 52.3 percent by eliminating import duties, and to double this trade if non-tariff barriers are also reduced (UNECA 2019).

The main objective of AfCFTA is to create a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Customs Union. It will also expand intra-African trade through better harmonization and coordination of trade liberalization and facilitation and instruments across the RECs and across Africa in general. The AfCFTA is also expected to enhance competitiveness at the industry and enterprise level through exploitation of opportunities for scale production, continental market access and better reallocation of resources.

As in other free trade agreements, the negotiations on rules of origin for the CFTA are likely to be dominated by strong industry lobbying. During the negotiations so far, West and Central Africa have preferred general rules of origin, which would probably resemble those in the East Asia and the Pacific region. On the other side, Egypt, Kenya, and South Africa have pushed for product-specific rules of origin, and South Africa has lobbied for adoption of the SADC rules of origin on a sector- or product-specific basis. If South Africa's position prevails, the result would be costly rules of origin that would likely deny preferences to the low-income partners (such as

Ethiopia, Mozambique, Tanzania, and Zambia). When the more developed partner has a comparative advantage in the upstream capital-intensive sector, such as weaving in textiles and apparel or engine building in the automobile sector, rules of origin create a captive market in the low-income partner, which has no choice but to source (at a higher cost) from the more developed partner. Potential benefits from the AfCFTA include elimination of tariff and non-tariff barriers in goods and services, customs improvements leading to reduction in cost of trading across borders

The Common Market for East and Southern Africa

The COMESA-EAC SADC Tripartite Free Trade Area, a building block towards the Continental Free Trade Area (CFTA) 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. This will improve interconnectivity, reduce the cost of doing business and increase attractiveness of the region to domestic and foreign 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. The region is also endowed with 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 creating opportunities for investments in infrastructure as well as other sectors such as tourism, energy, manufacturing and agriculture. Investment prospects could be further boosted by fast tracking the integration process and strengthening the legal and institutional reforms relating to business registration and resolving disputes. In order to maximize benefits from regional integration, EAC Partner States need to strengthen the EAC Secretariat so that it can serve the region better and play a bigger role in integration; Establish a credible central data unit to capture and disseminate all trade statistics in the EAC for use by the Secretariat and Partner States in planning, management and monitoring of the Single Customs Territory. Given the declining global and regional economic performance, EAC needs to avoid policy measures that could affect economic performance and reduce output. Macroeconomic and monetary policy should aim to maintain growth momentum and avoid downturns. At the national level, monetary and debt policy should remain on sustainable track to achieve the EAC convergence by 2023 and inflation targets remain anchored. For the 2019 year, if the current slowdown turns out to be more severe and protracted than expected in the baseline, macroeconomic policies should become more accommodative, particularly where output remains below potential and financial stability is not at risk. Across all economies, the imperative is to take actions that boost potential output growth, improve inclusiveness, and strengthen resilience. At the multilateral level, the main priority is for countries to resolve distortionary barriers that would further destabilize a slowing global economy.

1.3. Merchandise Trade Trends

1.3.1. Global Merchandise Trade

Global trade registered a 3.0 percent growth in 2018 compared to 4.6 percent in 2017. The slowdown reflects the impact of increased trade tensions on spending on capital goods and a more general slowdown in global activity. Trade growth in 2018 was weighed down by several factors including new tariffs and retaliatory measures affecting widely-traded goods, weaker global economic growth, volatility in financial markets and tighter monetary conditions in developed countries, among others (WTO April 2019).

The slowdown in merchandise trade volume growth in 2018 was broad based, reflecting weaker import demand in both developed and developing countries, although some regions were more strongly affected than others. There are continuing challenges to global trade development. These include the effect of Brexit as well as the continuing trade disputes between China and the United States. A major exception to the trend was North America, where a buoyant US economy contributed to strong export growth of 4.3 percent in 2018. Other regions including encompassing Africa, the Middle East and Commonwealth of Independent States saw export growth accelerate to 2.7 percent. South America's trade flows have continued to recover gradually but have been buffeted by weaker external demand and domestic economic shocks (WTO 2019).

World merchandise exports totalled US$ 19.48 trillion, up 10 percent from the previous year. The rise was driven partly by higher oil prices, which increased by roughly 20 percent in 2018. The value of commercial services trade rose nearly as much, with exports totalling USD 5.80 trillion in 2018, up 8 percent from the previous year. The fastest merchandise export growth in nominal terms was recorded by oil producers, including the Kingdom of Saudi Arabia and Russian Federation whose exports increased 34.8percent and 25.6 percent respectively. On the export side, the slowdown was mostly due to reduced shipments from developed countries, which contracted year-on-year in three out of the four quarters of 2018.

Merchandise imports registered a 5.4 percent growth in 2018 compared to 4.8 percent in 2017. Merchandize imports into developed economies grew by only 2.5 percent compared to 3.1 percent in 2017. Despite the slower overall growth, imports into North America grew by 5.0 percent in 2018 compared to 4.0 percent in 2017. Imports to Asia and Africa grew by 5.0 percent and 0.8 percent in 2018 respectively.

The Dollar value of global merchandise trade was also influenced by rising nominal effective exchange rate of the United States Dollar against most convertible currencies leading to increased prices for energy, food, raw materials and metals by between 7 percent and 24 percent. This also partly explained why the dollar value of merchandise trade growth was stronger than in volume terms rising by 10.4 percent to US$ 18.9 trillion yet exports increased by only 3.6 percent in 2018.

Table 1.1: Global Trade: Exports and Import, 2015-2018 (percentage growth)

	Volume of Exports					Volume of Imports			
Economic Group or region	2015	2016	2017	2018		2015	2016	2017	2018
Global Level	**2.6**	**1.3**	**4.6**	**3.0**		**2.9**	**1.2**	**4.8**	**5.4**
Developed Economies	**2.7**	**1.4**	**3.5**	**2.1**		**4.7**	**2.0**	**3.1**	**2.5**
North America	0.7	0.5	4.2	4.3		6.7	0.4	4.0	5.0
Europe	3.6	1.4	3.5	1.6		4.3	3.1	2.5	1.1
Developing Economies	**2.0**	**1.3**	**5.7**	**3.5**		**0.5**	**0.2**	**6.8**	**4.1**
Africa	4.9	1.2	2.3	2.8		3.2	-4.6	0.9	0.8
Asia	1.1	1.8	6.7	3.8		2.9	2.0	8.3	5.0
Latin America & the Caribbean	2.5	2.0	2.9	0.6		-5.8	-8.7	4.6	5.2
Transition Economies	**-0.2**	**-3.0**	**2.1**	**2.7**		**-19.9**	**7.3**	**8.2**	6.5

Source: WTO Secretariat World Statistics Review 2019

1.3.2. Merchandise Trade in Africa

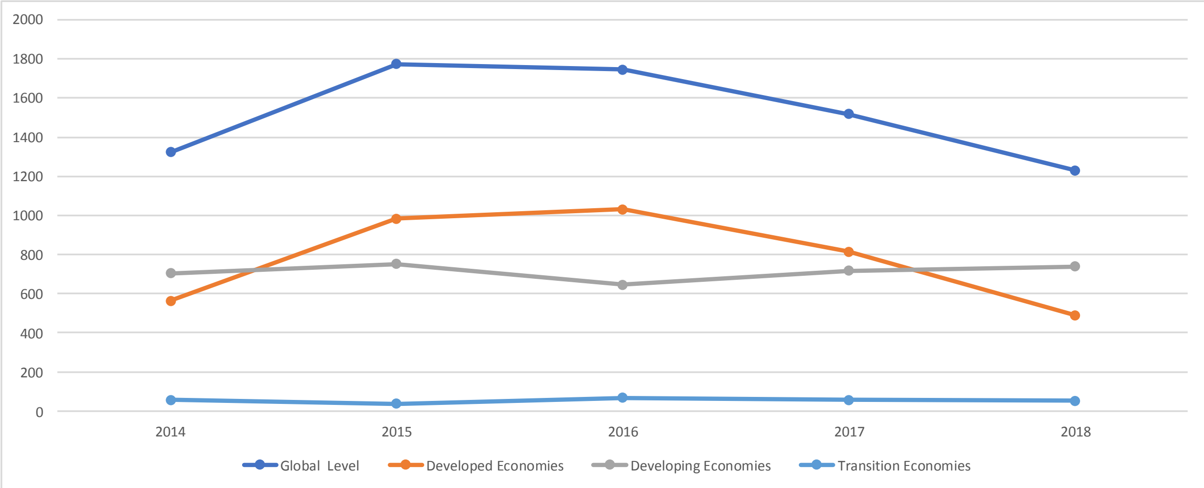
Merchandize trade in Africa continued to grow despite contractions in global trade in 2018. In volume terms, exports from Africa grew by 208 percent in 2018, up from 2.3 percent in 2017 in part due to increased oil and commodity prices arising from improved weather conditions. Crude oil prices increased slightly to US$ 64.9 per barrel but were more stable than the previous period providing impetus for increased export volumes during the year. Growth in imports fell marginally 0.8 percent, partly as a result of higher commodity prices, which reduced the volumes of imports for most import dependent land locked countries. However, Africa trade still constitutes a small percentage of global merchandise trade. Exports from Africa represented only 2.1 percent of global merchandise exports while imports represented about 2.4 percent of global merchandise imports (WTO 2019).

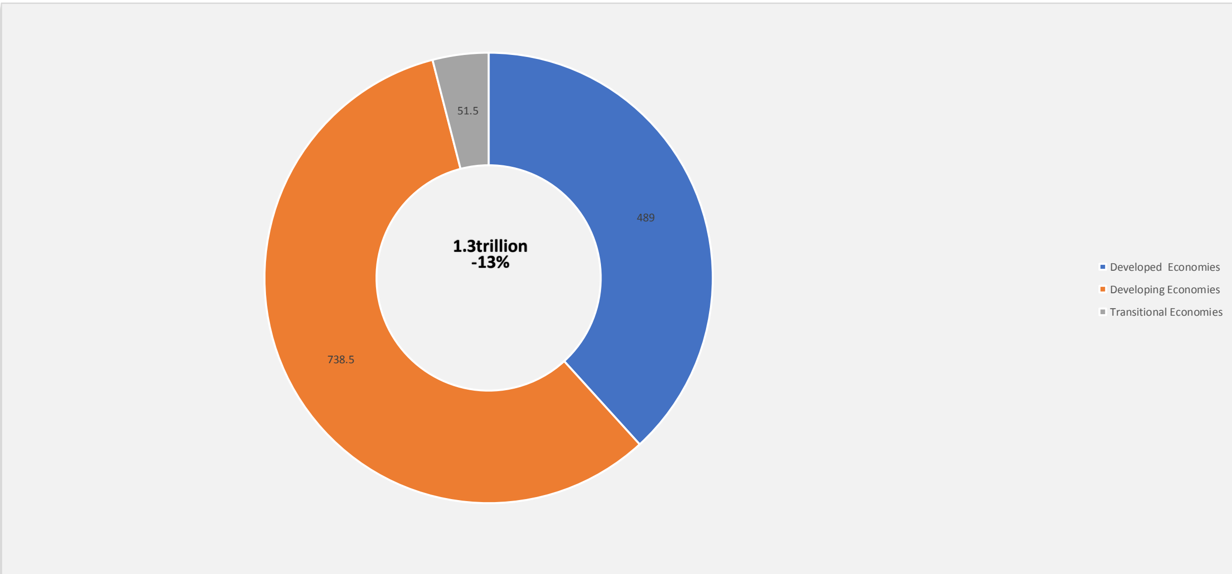
1.4. Investment Trends

1.4.1. Global Investment Trends

Global Foreign Direct Investment (FDI) fell by 13 percentage in 2018 to an estimated USD1.3 trillion from USD1.47 trillion in 2017. The decline in FDI was concentrated in developed countries where FDI inflows fell by 26 percent to an estimated USD556.9 billion mainly due to large repatriations of accumulated foreign earnings by the United States multinational Enterprises (MNEs) following tax reforms by the Trump administration. This led to a 72 percent decline in flows to Europe to about USD171.9 billion. The United States experienced an 18 percent decline with FDI inflows declining to USD251.8 billion in 2018.

Figure 1.3: Global FDI Inflows by Region, 2015-2018 (US$ billions)





Source: UNCTAD 2018

Table 1.2: FDI Flows by Region, 2015-2018 (US billions and percentage)

Economic Group or region	FDI Inflows				FDI Outflows			
	2015	2016	2017	2018	2015	2016	2017	2018
Global Level	1774	1746	1518	1297	1594	1452	1220	1014
Developed Economies	984	1032	815	556.9	1173	1044	877	558.4
Europe	566	563	384	171.9	666	515	371	418.4
Developing Economies	752	646	678	706.1	389	383	462	417.6
Africa	61	59	41	45.9	18	18	13	9.8
Asia	524	443	493	511.7	339	363	411.8	401.5
Latin America & the Caribbean	165	142	155	146.7	31	1	3	6.5
Oceania	2	2	2	1.5	1	1	3	2
Transition Economies	38	68	47.5	34.2	32	25	38.4	38.2
Percentage Share in Global Flows								
Developed Economies	55.5	59.1	53.7	39.8	73.6	71.9	71.9	71.4
Europe	31.9	30.5	25.3	27.5	41.8	35.5	30.4	34.8
North America	22	24.3	22.1	22.4	23.2	25.2	25.1	23.7
Developing Economies	42.4	37	44.7	48.6	24.4	26.4	37.9	26.5
Africa	3.5	3.4	2.7	4.7	1.1	1.3	1.1	1.5
Asia	29.5	25.3	32.5	31.8	21.2	25	33.8	34.7
Latin America & the Caribbean	9.3	8.1	10.2	8.6	2	0.1	0.2	0.3
Oceania	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Transition Economies	2.1	3.9	3.1	3	2	1.7	3.1	1.8

Source: UNCTAD, FDI/MNE Data Base, 2019

1.4.2. Africa Investment Trends

Africa has achieved one of the fastest and most sustained growth spurts in the past two decades, yet growth has not created jobs in higher productivity sectors. Africa's working-age population is projected to increase from 705 million in 2018 to almost 1.0 billion by 2030. The source and nature of growth also matter. Africa has the highest rate of estimated informality in the world, at 72 percent of non-agriculture employment — and as high as 90 percent in some countries, thus without meaningful structural change, most of the jobs generated are likely to be in the informal sector, where productivity and wages are low and work is insecure, making the eradication of extreme poverty by 2030 a difficult task.

The challenge is to create dynamism particularly for small firms' chances of transitioning into medium and large firms. The implication is that the dominance of small firms drives down aggregate productivity, particularly in the manufacturing sector, and prevents firms from creating enough high-quality jobs for Africa's growing labor force. Attracting large investments requires infrastructure development, reforms to improve business environment, building the regional value chains to help firm growth. This implies promotion of investment into industrial development to builds on countries' comparative advantage in manufacturing sector.

Firm productivity, and thus firm growth, is shaped by four interrelated factors: infrastructure and functioning institutions; markets; global value chains and clusters; and direct investments. Formation of industrial zones can mitigate infrastructure constraints of small and medium firms. African firms that engage in exporting, operate in proximity to other firms, and attracting foreign direct investment tend to be more competitive and therefore to thrive Policymakers should identify the frontier products that countries can diversify into, as well as the capabilities needed.

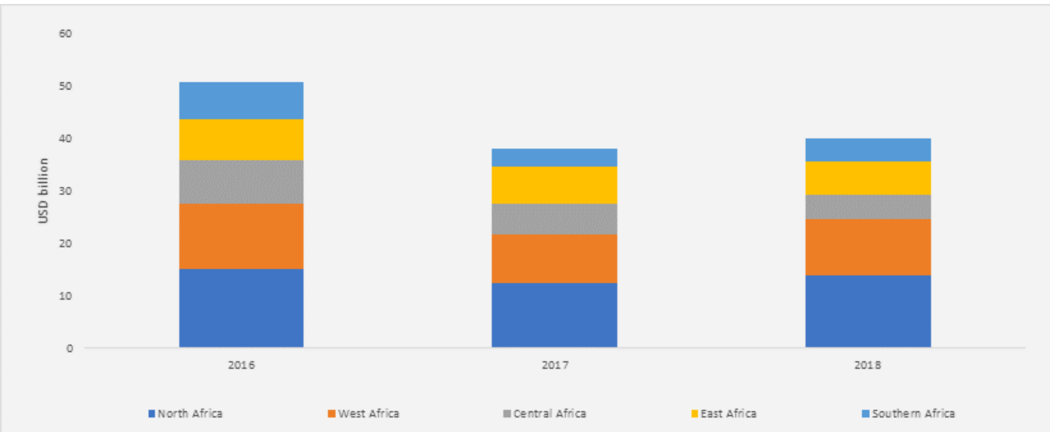
they should also alleviate unnecessary constraints to doing business, especially those that firms have identified as primary obstacles and that are within government's ability to deal with, develop industrial strategies in collaboration with stakeholders particularly the private sector, and focus on identifying priority issues and creating a strong competitive environment. Countries need to clear their own paths to sustainable economic transformation. Finally, to avoid redundancy and increase synergies between neighboring countries, regional industrial zones could be established to reap the benefits of externalities and agglomerations and to build a critical mass of skilled labor.

FDI Inflows to Africa

FDI inflows to Africa increased by 6 percent to USD45.9 billion in 2018 from USD 41.4 billion in 2017 but the growth was concentrated in a few economies and heavily skewed towards natural resources based FDI. FDI to Egypt decreased by 8.2 percent to USD 6.8 billion in 2018 from 7.4 billion in 2017. The investments were mainly in real estate, food processing and oil and gas exploration. South Africa registered a strong FDI growth in 2018 with inflows amounting to USD5.4billion up from USD 2.1 billion in 2017 mainly driven by FDI in mining, petroleum, food processing and ICT. FDI to oil producers like Nigeria declined by 36 percent to USD2.0 billion while there was a net divestment in Angola of USD 5.7 billion in 2018. (UNCTAD 2019)

Despite the fall in inflows to Egypt,Inflows to North Africa rose from USD 13.4 billion to USD 14.3 billion in 2018 while Southern Africa inflows from divestment of USD 1.0 billion to FDI of USD4.2 billion in 2018. Western Africa, Central Africa and Eastern Africa experienced decline in FDI of 20 percent,6 percent and 14 percent respectively. Implementation of the Continental Free Trade Agreement could potentially spur FDI in greenfield projects targeting manufacturing sector.

Figure 1.4: FDI Inflows in Africa Economies 2016- 2018 (US billions)



Source: UNCTAD WIO, 2019

Prospects for Improved Investment Flows into Africa

While the rising growth in Africa will enhance the attractiveness of the continent to investors, 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 EPAs, US-Africa investment forum and China-Africa investment forum which have encouraged stronger FDI flows amounting US$ 40 billion in 2018 and should continue to grow provided the global policy environment remains supportive (UNCTAD 2019).

PART II: TRADE AND INVESTMENT: TRENDS AND PROSPECTS

2. CHAPTER 2: EAC MERCHANDISE TRADE

2.1. EAC Regional Merchandise Trade

A large proportion of trade between East Africa and the rest of the world consists of primary commodities although trade in finished goods is also increasing. The key exports from the EAC in 2018 included tea, coffee, cocoa and horticultural products although mineral ore, especially gold and diamond, constituted a sizeable percentage of the exports. The region has experienced increased trade with neighbouring blocs reflecting the importance of establishing transport corridors and reducing the cost of export in order to link the region into the global value chain trading system.

Formal trade among the EAC partner states constitutes manufactured commodities especially iron and steel as well as textiles and chemicals. Trade in food commodities is also 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, iron and steel. Also, importation of food stuff especially rice and wheat constituted a large proportion of the imports in 2018.

2.2. Sectoral Distribution of EAC Trade

2.2.1. Total EAC Trade Trends

The EAC Merchandize trade in the EAC grew by 11.7 percent growth to USD 52.4 billion in 2018 from US$ 46.9 billion in 2017. The growth in merchandize trade resulted from increase in the import bill for the region while export volumes fell during the year.

Total EAC exports decreased by 4.7 percent to USD14.0 billion in 2018 from USD 14.7 billion in 2017. The decline in exports was attributed to low international prices of mainly agricultural commodities on account of higher production as a result of improved weather conditions coupled with a drop in the export of primary minerals as a result of fall in international demand especially due to decline in economic growth in China and the Far East. Earnings from coffee, tea and minerals fell by more than 24 percent during the year.

Exports to the EAC and SADC grew by 5.6 percent and 33.7 percent to USD 3.1 billion and USD 1.9 billion during the year during the year respectively implying that Partner States exprted to the EAC, COMESA and SADC than they exported tothe rest of the world. The increase in exports to COMESA excluding EAC countries could also be attributed to the increased benefits arising from the membership to the COMESA and SADC FTAs. The main products exported by the region included agricultural products especially maize, sugar, rice, coffee and tea as well as manufactured goods. Outside the Africa Continent, the EU was EAC's major trading partner with exports to the EU increasing only 6.5 percent to USD2.5 billion in 2018 from USD 2.3

billion in 2017 and constituted about 17.5 percent of total EAC exports. Exports to the USA and the rest of the world fell by 20.6 percent and 12.7 percent respectively during the year.

Total EAC imports grew by 19.2 percent to US$ 38.3 billion in 2018 from US$ 32.2 billion in 2017. Imports from the EU amounted to USD 4.3 billion and accounted for about 11.3 percent, while intra-EAC imports grew by 13.9 percent to USD2.8 billion in 2018 and accounted for 7.4 percent of total EAC imports. This increased growth of intra-EAC trade signified the growing importance of intra- EAC merchandize trade. Total imports from China, India and EU in 2018 amounted to USD 7.0 billion, USD3.9 billion and USD 3.7 billion and constituted 18.1 percent, 10.2 percent and 9.8 percent of total imports respectively. Imports from the rest of the world declined but still constituted 44.3 percent of total imports. The main source of imports from the rest of the world Asia and the middle East signifying the importance of countries like China, India and UAE as trading partners. The statistics reveal that 80 percent of EAC imports are composed of petroleum products, crude palm oil, machinery and medicaments. Other imports included textiles, wheat, and rice.

Overall, the region continued to register a trade deficit with the rest of the world in 2018 partly due to an increase in imports into the region. The deficit for the EAC increased by 39.4 percent to USD 24.3 billion in 2018 from US$17.4 billion registered in 2017. Given that EAC has commercially viable deposits of fossil fuels, fertile soils with condusive business environment and a budding motor assembly industry, the EAC needs to enhance domestic production of petroleum products, edible oil, medicaments and assembly of motor vehicles in order to reduce the trade deficit.

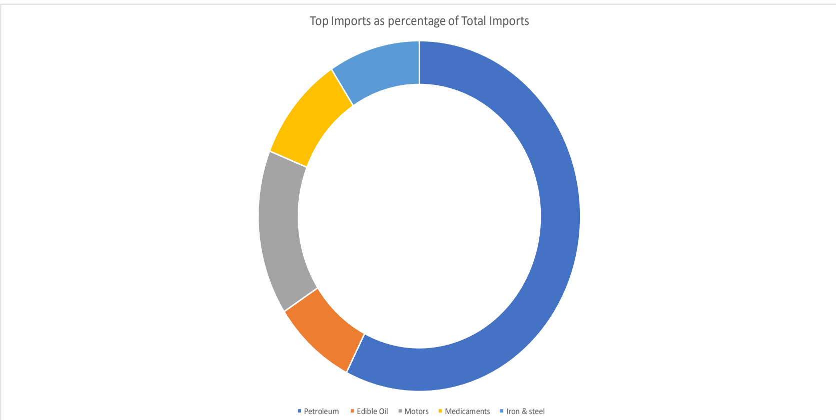


Table 2.1 : EAC-Total Trade Flows, 2014-2018 (US$ million and percentage change)

Trade Flow	Destination/Origin	2014	2015	2016	2017	2018	2015	2016	2017	2018
Exports	Total EAC Exports	**19,373.4**	**16,819.6**	**16,234.5**	**14,727.3**	**14,027.9**	(13.2)	(3.5)	(9.3)	(4.7)
	Intra-EAC Total Exports	3,290.1	2,823.0	2,681.4	2,977.4	3,145.1	(14.2)	(5.0)	11.0	5.6
	COMESA	2,669.9	2,335.5	2,416.2	1,976.7	1,548.1	(12.5)	3.5	(18.2)	(21.7)
	SADC	2,976.9	1,496.5	1,682.9	1,420.2	1,898.4	(49.7)	12.5	(15.6)	33.7
	Rest of Africa	862.3	606.0	799.6	328.3	225.4	(29.7)	31.9	(58.9)	(31.4)
	EU	2,744.6	2,398.8	2,341.3	2,301.1	2,451.4	(12.6)	(2.4)	(1.7)	6.5
	USA	660.5	521.9	667.1	755.7	599.8	(21.0)	27.8	13.3	(20.6)
	Total Exports to Rest of the World	6,205.6	6,054.1	5,594.4	5,191.8	4,533.1	(2.4)	(7.6)	(7.2)	(12.7)
	Intra-EAC % share to Total Exports	16.79	20.26	16.83	20.22	22.42				
	COMESA % share to total exports	13.78	13.89	14.88	13.42	11.04				
	SADC % share to total exports	15.37	8.90	10.37	9.64	13.53				
	Rest of Africa % share to total exports	4.45	3.60	4.93	2.23	1.61				
	EU % share to total exports	14.17	14.26	14.42	15.62	17.48				
	USA % share to total exports	3.41	3.10	4.11	5.13	4.28				
	Total exports to Rest of the World % share to total exports	32.03	35.99	34.46	35.25	32.32				
Imports	Total EAC Imports	**35,325.1**	**36,632.8**	**26,926.9**	**32,165.5**	**38,329.4**	(26.5)	(26.5)	19.5	19.2
	Intra-EAC Total Imports	2,535.3	2,524.4	2,181.0	2,490.6	2,835.9	(0.4)	(13.6)	14.2	13.9
	COMESA	1,051.4	1,038.3	1,068.9	1,535.5	1,135.9	(11.4)	2.9	43.7	(26.0)
	SADC	2,199.7	2,527.8	1,648.0	2,410.3	2,104.7	(24.3)	(34.8)	46.3	(12.7)
	Rest of Africa	68.9	84.7	103.0	90.2	186.9	2,133.4	21.7	(12.4)	107.1
	EU	5,383.3	5,287.8	4,061.1	4,138.0	4,327.6	(28.1)	(23.2)	1.9	4.6
	USA	2,423.3	1,794.9	868.9	921.6	942.9	(64.9)	(51.6)	6.1	2.3
	Total Imports to Rest of the World	21,705.2	23,492.2	16,996.0	20,587.6	16,977.6	(26.1)	(27.7)	21.1	(17.5)
	Intra-EAC% share to Total imports	7.1	6.6	8.1	7.7	7.4				
	COMESA % share to total imports	3.0	2.8	4.0	4.8	3.0				
	SADC % share to total imports	6.2	6.9	6.1	7.5	5.5				
	Rest of Africa % share to total imports	0.2	0.2	0.4	0.3	0.5				
	EU % share to total imports	15.2	14.4	15.1	12.9	11.3				
	USA % share to total imports	6.9	4.9	3.2	2.9	2.5				
	Total imports to Rest of World % share to total imports	61.4	64.1	63.1	64.0	44.3				
Total Trade							2015	2016	2017	2018
	Total intra EAC Trade	**5,825.4**	**5,347.4**	**4,862.3**	**5,467.9**	**5,981.1**	**(8.2)**	**(9.1)**	**12.5**	**9.4**
	Total Trade	**54,698.5**	**53,452.3**	**43,161.4**	**46,892.8**	**52,357.4**	**(25.4)**	**(19.3)**	**8.6**	**11.7**
	EAC Trade Balance	**(15,951.6)**	**(19,813.2)**	**(10,692.4)**	**(17,438.2)**	**(24,301.5)**	**(29.7)**	**(46.0)**	**63.1**	**39.4**

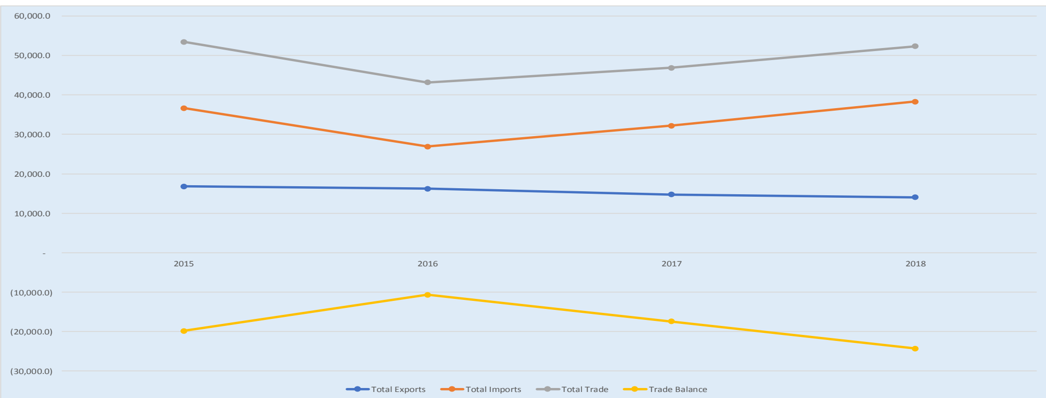
Source: National Statistical Offices and Revenue Authorities of Partner States

Notes:

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

(2) SADC excludes Tanzania

Illustration: EAC Trade Balance 2018

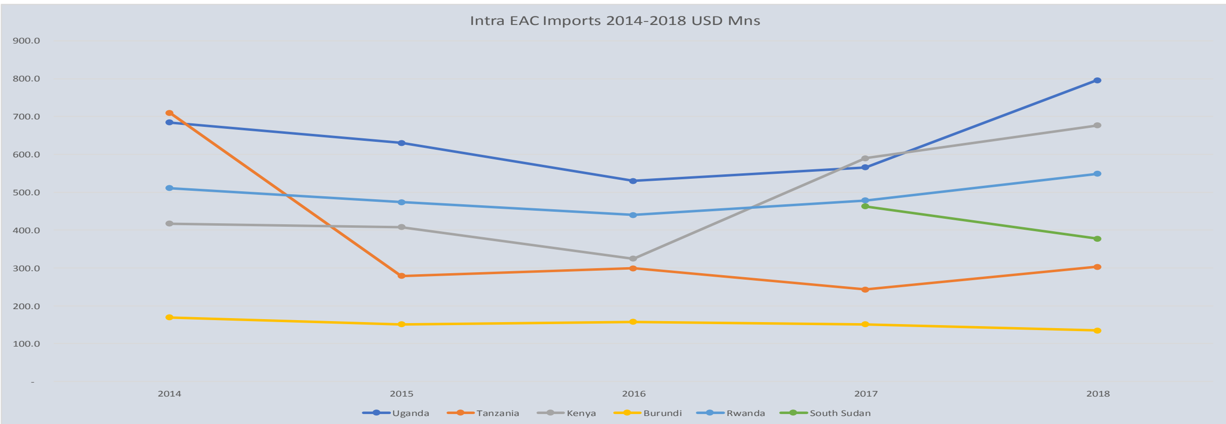


2.2.2. Intra-EAC Merchandise Trade

The composition of EAC trade continued to be dominated by agricultural commodities, namely coffee, tobacco, cotton, rice, maize and wheat flour. However, 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 13.9 percent to USD 2.8 billion from US$ 2.5 billion in 2017. Kenya's imports from the rest of the region continued the growth experienced in the past year. Imports into Kenya grew by 14.7 percent to US$ 676.5 million. The increase was, to a large extent, driven by higher imports from Uganda and Tanzania. Imports from Uganda were mainly 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's imports from the region grew by 40.8 percent to USD 796.3 while Rwanda's imports also grew by 14.7 to USD 549.1 million in 2018. 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 increased by 24.5 percent to USD302.7 million in 2018 from US$ 243.2 million in 2017. Tanzania's key imports from the EAC partners included pharmaceuticals products, soaps, plastic items and other consumer goods. Burundi and South Sudan's imports from the EAC fell by 11.1 percent and 18.5 percent respectively in 2018. Burundi main EAC trading partners was Tanzania and imports mainly consisted of chemical fertilizers, cement and textile articles. South Sudan's main trading partners were Kenya and Uganda and imports mainly consisted of maize, sugar and manufactured commodities.

Illustration: Intra-EAC Imports



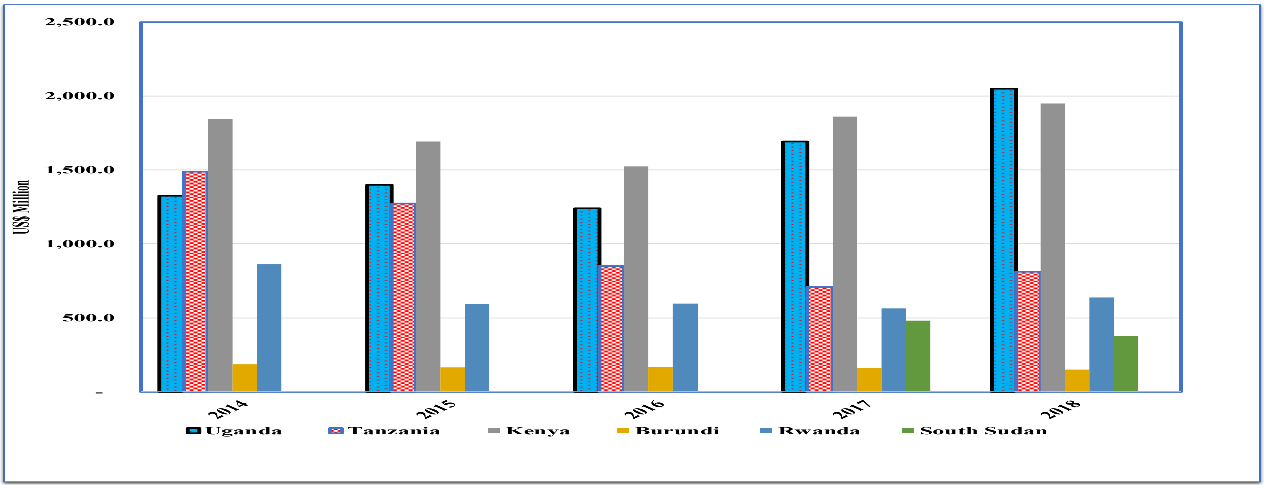
Intra-regional exports grew by 5.6 percent to USD3.2 billion in 2018 from US$ 2.9 billion in 2017. Noticeably, exports from all partner states grew with the exception of South Sudan during the year. Burundi experienced the highest growth in exports during the year with exporting growing by 44.3 percent to USD16.6 million in 2018 from USD11.5 million in 2017. Exports from Uganda, Tanzania and Rwanda grew by 11.4 percent, 9.5 percent and 6 percent respectively during the year while exports from Kenya to the other Partner states experienced a modest growth of 0.1 percent in 2018. This could be attributed to reducing export of manufactured commodities as a result of corresponding industrial development in the other Partner States. The growth in intra-regional trade was attributed to 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; Elimination of Non-Tariff Barriers (NTBs), as well as increased intra-EAC trade in intermediate products like cold rolled iron and clinker.

Table 2.2: **Total intra-EAC Trade, 2014-2018 (US$ million and percentage change)**

		2014	2015	2016	2017	2018	Percentage Change			
							2015	2016	2017	2018
Imports	Uganda	684.6	630.2	530.0	565.5	796.3	-8.0	-15.9	6.7	40.8
	Tanzania	709.8	278.6	298.8	243.2	302.7	-60.7	7.2	-18.6	24.5
	Kenya	416.9	407.8	324.4	589.8	676.5	-2.2	-20.5	81.8	14.7
	Burundi	169.1	151.1	157.2	151.0	134.3	-10.7	4.0	-3.9	-11.1
	Rwanda	511.0	474.1	439.8	478.6	549.1	-7.2	-7.2	8.8	14.7
	South Sudan				462.5	377.0				-18.5
	Total	**2,491.4**	**1,941.8**	**1,750.2**	**2,490.6**	**2,835.9**	**-22.1**	**-9.9**	**42.3**	**13.9**
Exports	Uganda	642.2	771.6	711.0	1,126.3	1254.5	20.1	-7.9	58.4	11.4
	Tanzania	779.5	995.2	552.5	464.5	508.6	27.7	-44.5	-15.9	9.5
	Kenya	1,430.8	1,285.9	1,199.0	1,272.5	1273.8	-10.1	-6.8	6.1	0.1
	Burundi	15.7	14.8	12.3	11.5	16.6	-5.7	-16.9	-6.5	44.3
	Rwanda	352.4	118.8	156.6	84.6	89.7	-66.3	31.8	-46.0	6.0
	South Sudan				17.9	2.0				-88.8
	Total	**3,220.7**	**3,186.3**	**2,631.4**	**2,977.4**	**3,145.2**	**-1.1**	**-17.4**	**13.1**	**5.6**
Total EAC Trade value	Uganda	1,326.9	1,401.8	1,241.4	1,691.8	2,050.7	5.6	-11.4	36.3	21.2
	Tanzania	1,489.3	1,273.8	851.3	707.7	811.3	-14.5	-33.2	-16.9	14.6
	Kenya	1,847.7	1,693.7	1,523.4	1,862.3	1,950.3	-8.3	-10.1	22.3	4.7
	Burundi	184.8	165.9	169.5	162.5	150.9	-10.2	2.2	-4.1	-7.1
	Rwanda	863.4	593.0	596.4	563.2	638.8	-31.3	0.6	-5.6	13.4
	South Sudan				480.4	379.0				
	Total	**5,712.1**	**5,128.1**	**4,382.0**	**5,467.9**	**5,981.1**	**-10.2**	**-14.6**	**24.8**	**9.4**

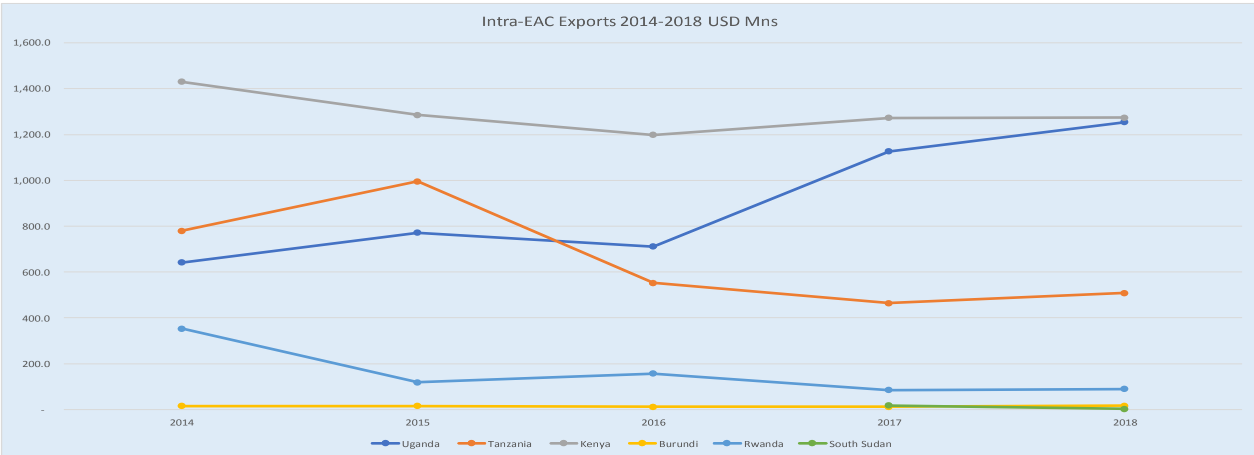
Source: Partner States Revenue Authorities, Central Banks and National Statistics Offices

Figure 2.1: Total Intra-EAC Imports, 2014-2018 (US$ million)



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

Illustration: Intra-EAC Exports 2014-2018



2.3. Country Specific Trade Trends

2.3.1. Burundi

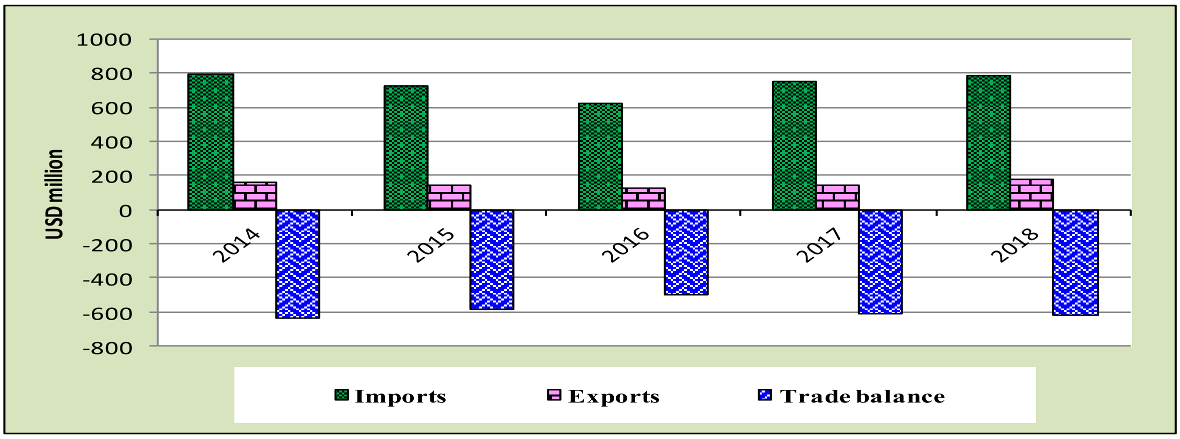
Burundi's International Trade

Burundi’s total trade increased by 7.5 percent to USD 973.7 million in 2018, from USD 905.5 million recorded in 2017 as a result of growth in both exports and imports during the year. Exports from Burundi increased by 20.5 percent to USD 180.2 million in 2018 from USD 149.5 million in 2017. At the same time, imports increased by 5.0 percent to USD million 793.5 in 2018 from USD 756.0 million in 2017.

In 2018, Burundi's key trading partners were the EAC, European Union, United Arab Emirates and China. Total trade with the EAC amounted to USD 150.9 million in 2018 down from US$ 162.6 million in 2017 and accounted for 15.5 percent of total trade. Burundi’s imports from the EAC were dominated by maize and cement from Tanzania while exports to EAC were especially coffee exported to Kenya and Uganda.

Trade with European Union amounted to USD 143.9 million and accounted for 14.8 percent of total trade while trade with United Arab Emirates amounted to USD 131.2 million, about 13.5 percent of total trade over the year 2018. Other notable trade partners in 2018 included the COMESA Member States. Overall, Burundi's trade balance remains in deficit. During the period under review, deficit deteriorated by 1.1 percent to USD 613.3 million in 2018 from USD 606.5 in 2017.

Figure 2.2: Burundi's Imports Exports and Trade Balance, 2014-2018 (US$ million)



Source: Burundi National Bureau of Statistics, 2019

Imports

Burundi's imports in 2018 increased by 5.0 percent, to USD 793.5million from USD 756.0 million recorded in 2017. The rise mainly resulted from the increase in cement imports which increased by 48.6 percent, petroleum oils grew by 21.7 percent, while mineral or chemical fertilizers and products of iron or steel grew by 15.0 percent and 5.3 percent respectively.

In 2018, Burundi's imports were mainly from EAC, EU, India and China. Imports from EAC amounted to US$ 150.9 million and accounted for 15.5 percent of total imports, while imports from EU amounted to USD 143.9 million and accounted for 14.8 percent of total imports. Imports from United Arab Emirates and China accounted for 13.5 percent and 11.1 percent of Burundi's total imports, respectively. Most of the imports originated from EU consisted especially of medicaments while imports from EAC mainly included products of iron or non-alloy steel, cement and maize.

Illustration: Burundi Key imports

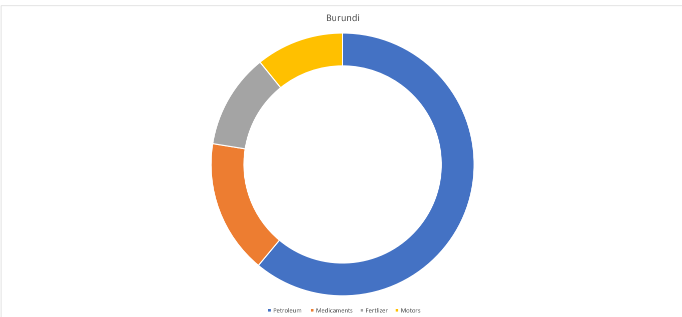
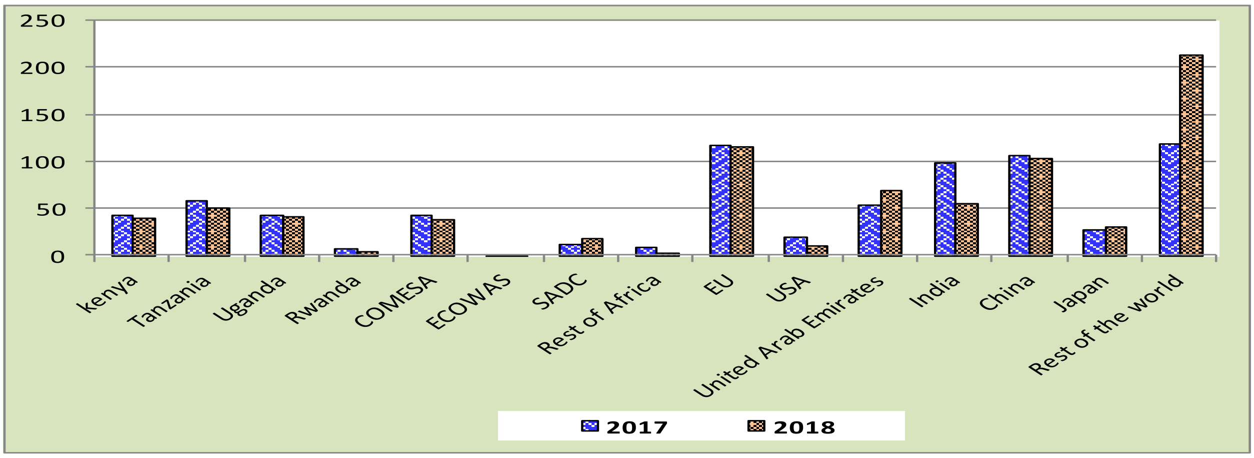


Figure 2.3: Burundi's Imports by Country/ Region of Origin, 2017-2018

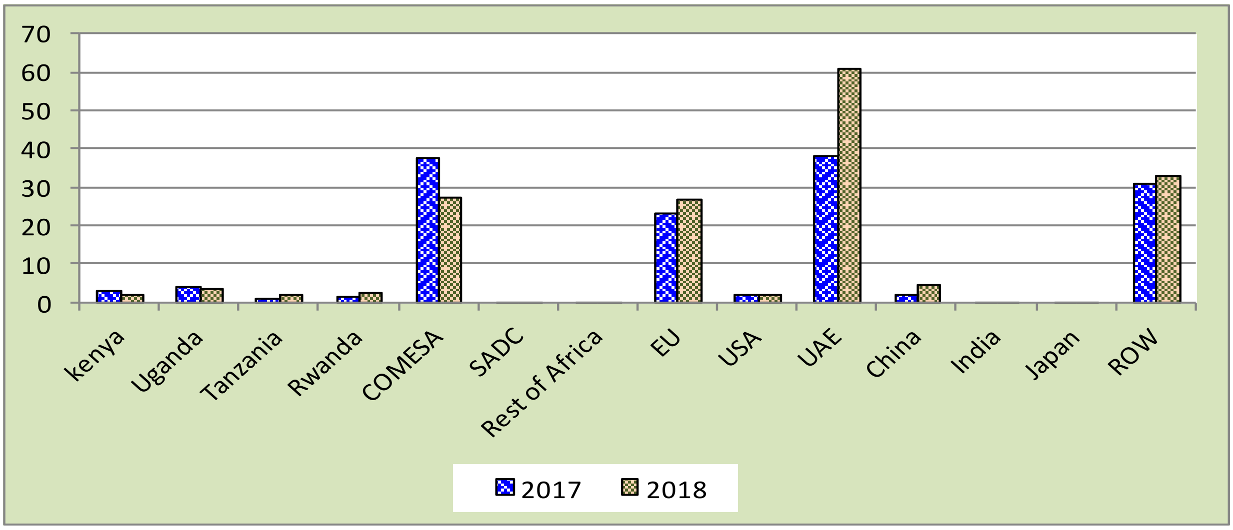


Source: Burundi National Bureau of Statistics, 2019

Domestic Exports

Overall domestic export earnings increased by 14.5 percent to USD 165.5 million in 2018 from USD 144.6 million in 2017. The increase was mainly attributed to the improvement in the volume of coffee and tea exports which increased by 31.5 percent and 2.9 percent respectively. The increase in volume of coffee exports is associated with cyclicity phenomenon while the improvement in the volume of tea is attributed to weather conditions among others the abundance of rains in 2018. In 2018, the UAE was the biggest exports destination for Burundi, accounting for 36.7 percent of total domestic exports. Other notable export destinations outside the EAC included COMESA and the EU, with exports accounting for 16.4 percent and 16.3 percent, respectively.

Figure 2.4: Burundi's Exports by Country /Region of Destination, 2017-2018

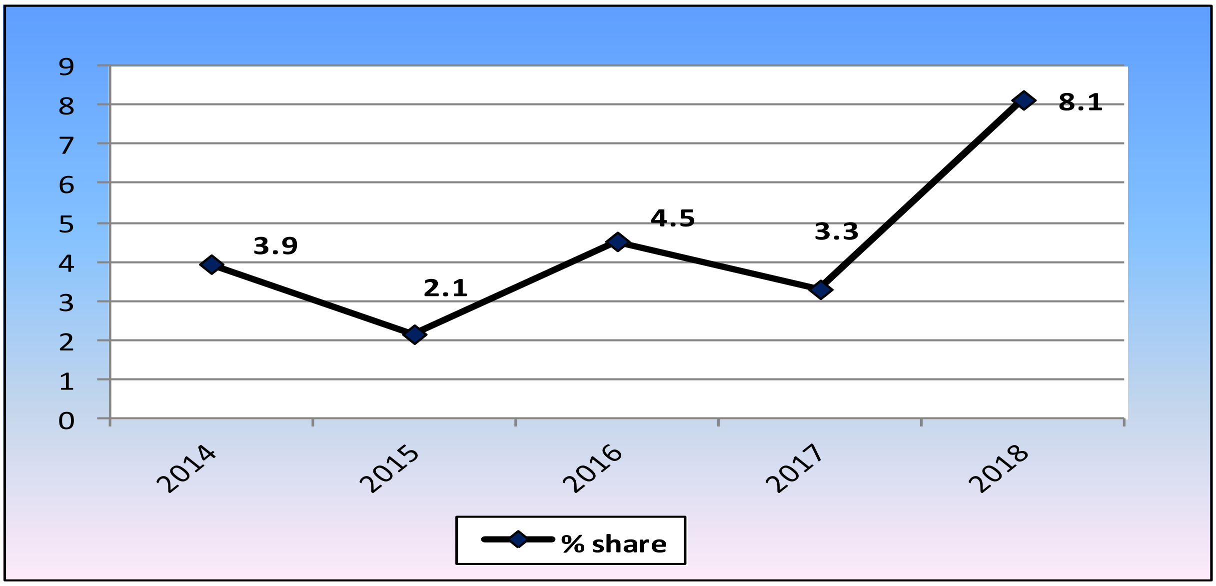


Source: Burundi National Bureau of Statistics, 2019

Re-Exports

Burundi's re-exports in 2018 increased to USD 14.7 million from USD 4.9 million in 2017. The share of re-exports to total exports increased to 8.1 percent compared to 3.3 percent in 2017. The goods that were re-exported included mainly petroleum oils re-exported to Democratic Republic of Congo and kerosene. Note that data on kerosene re-exports have been collected since 2018. Re-exports included also equipment for photographic and motor cars and other motor vehicles for the transport of persons re-exported respectively to Rwanda and Republic democratic of Congo.

Figure 2.5: **Burundi's Re-Exports Share of Total Exports 2014-2018 (percent)**



Source: Burundi National Bureau of Statistics,2019

Burundi's Intra-Regional Trade

Burundi’s trade with EAC Partner States declined by7.1 percent to USD 150.9 million in 2018 from USD 162.6 million in 2017. The decline in intra-EAC trade was a result of a fall in the volume of imports mainly imports of medicaments and petroleum oils.

Intra-Regional Exports

In 2018, Uganda and Rwanda were the main destinations of Burundi’s exports accounting for 36.1 percent and 22.7 percent of total intra-EAC domestic exports, respectively. The key commodities exported included coffee and soap. Burundi’s exports to Partner States increased by 43.6 percent to USD 16.6 million in 2018 from USD 11.5 million in 2017. The rise in exports was largely attributed to the increase in both volume and value of coffee exported to Uganda.

Table 2.3: Burundi: Intra-EAC Exports, 2014-2018 (US$ million)

Intra-EAC exports flows	2014	2015	2016	2017	2018
Intra-EAC domestic exports	13.6	13.6	9.9	9.5	10.3
Intra-EAC re-exports	2.0	1.2	2.4	2.1	6.3
Total Intra-EAC exports	15.7	14.8	12.3	11.5	16.6
Percent share of intra-re-exports	**12.8**	**8.1**	**19.5**	**18.1**	**38.1**

Source: Burundi National Bureau of Statistics, 2019

Intra-Regional Re-Exports

In 2018, Burundi’s re-exports to EAC Partner States increased to US$ 6.3 million in 2018, compared to US$ 2.1 million registered in 2017. During the period, re-exports accounted for 38.1 percent of Burundi’s total exports to EAC Partner States.

Intra-Regional Imports

Burundi’s imports from EAC Partner States decreased by 11.0 percent to USD 134.3 million in 2018, from USD 151.0 million in 2017. This was attributed to the fall in trade with all Partner States respectively 37.9 percent for Rwanda, 15.2 for Tanzania, 7.8 percent for Kenya and 3.9 percent for Uganda respectively. Tanzania remains the main source of intra-EAC imports, accounting for 37.1 percent of total imports. During 2018, the main imports from Tanzania included cement and maize.

Intra-Regional Trade Balance

Burundi’s total trade with other EAC Partner States in 2018 decreased by 11.0 percent to US$ 150.9 million, from US$ 162.6 million recorded in 2017. As a result, Burundi's trade balance with EAC remained in deficit. The Intra- EAC trade balance deficit reduced to USD 117.8 million in 2018, from USD139.5 million in 2017. While exports increased in 2018, the intra-regional trade balance remains in deficit because the volume of imports is very high compared to export's volume.

Figure 2.6: Burundi's Trade with EAC Partner States, 2014-2018 (US$ million)

Source: Burundi National Bureau of Statistics, 2019

Table 2.4 : Burundi's Trade with EAC Partner States, 2014-2018, (US$ millions)

		2014	2015	2016	2017	2018	Percentage change			
							2015	2016	2017	2018
Kenya	Imports	54.4	48.0	47.8	42.5	39.2	(11.7)	(0.5)	(10.9)	(7.8)
	Exports	1.2	2.4	2.5	3.6	4.2	99.4	2.7	47.2	15.7
	Total trade	55.6	50.4	50.2	46.2	43.4	(9.3)	(0.3)	(8.1)	(5.9)
	Trade Balance	-53.2	-45.6	-45.3	-38.9	-35.0	(14.3)	(0.6)	(14.1)	(10.0)
Rwanda	Imports	10.2	7.8	12.6	7.3	4.5	(24.1)	61.8	(41.8)	(37.9)
	Exports	7.6	5.9	5.2	2.4	5.4	(21.8)	(12.8)	(52.8)	122.6
	Total trade	17.8	13.7	17.8	9.8	10.0	(23.1)	29.5	(45.0)	2.3
	Trade Balance	-2.7	-1.8	-7.4	-4.9	0.9	(30.8)	302.3	(34.1)	(118.3)
Uganda	Imports	36.5	41.3	45.3	42.4	40.8	13.3	9.6	(6.4)	(3.9)
	Exports	3.8	4.2	3.5	4.2	4.4	9.5	(16.1)	19.0	6.1
	Total trade	40.3	45.5	48.8	46.6	45.2	13.0	7.2	(4.6)	(3.0)
	Trade Balance	-32.7	-37.2	-41.8	-38.2	-36.3	13.8	12.5	(8.5)	(5.0)
Tanzania	Imports	67.0	54.0	51.6	58.8	49.8	(19.5)	(4.5)	14.0	(15.2)
	Exports	3.0	2.3	1.1	1.3	2.5	(24.4)	(50.4)	13.8	93.7
	Total trade	70.1	56.3	52.7	60.1	52.3	(19.7)	(6.4)	14.0	(12.9)
	Trade Balance	-64.0	-51.7	-50.4	-57.5	-47.3	(19.2)	(2.5)	14.0	(17.7)
Iintra-EAC**	**Imports**	**168.1**	**151.1**	**157.2**	**151.0**	**134.3**	(10.1)	4.0	(3.9)	(11.0)
	Exports	**15.7**	**14.8**	**12.3**	**11.5**	**16.6**	(5.3)	(17.1)	(6.0)	43.6
	Total trade	**183.8**	**165.9**	**169.5**	**162.6**	**150.9**	(9.7)	2.2	(4.1)	(7.1)
	Trade Balance	**-152.5**	**-136.3**	**-144.9**	**-139.5**	**-117.8**	(10.6)	**6.3**	**(3.8)**	**(15.6)**

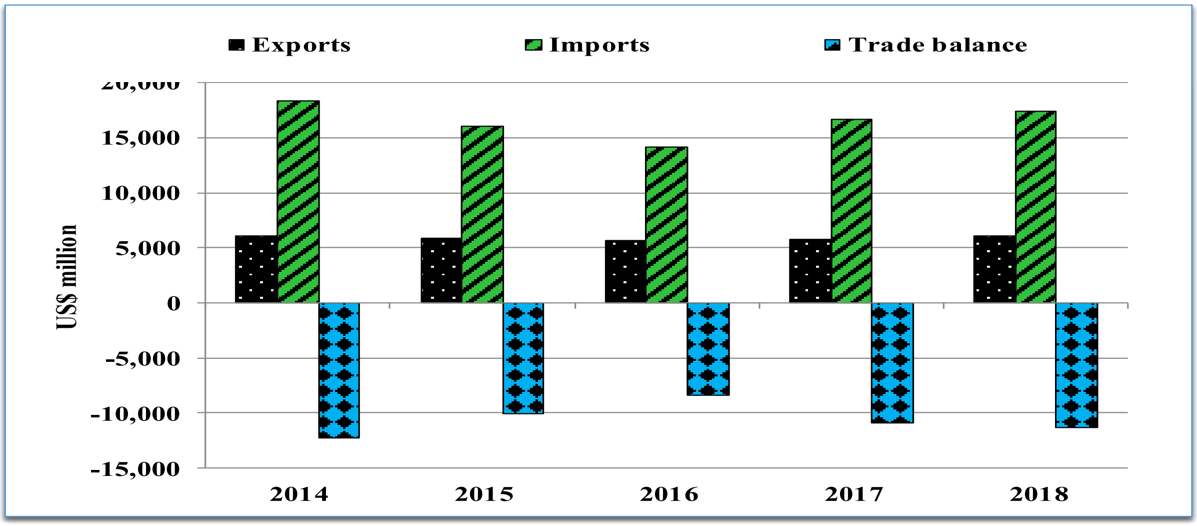
Source: Burundi National Bureau of Statistics, 2019

2.3.2. Kenya

Kenya's International Trade

Kenya's total trade increased by 4.4 percent to USD23.4 billion in 2018 from USD22.4 billion in 2017. The increase in total trade was attributed to increase in both imports and exports during the year. China, EU, India, EAC and COMESA remained Kenya's leading trading partners, during the review period. Kenya's total trade with COMESA during the year decreased by 4.7 percent to USD1.2 billion in 2018 from USD1.3 billion in 2017. At the same time, trade with EAC increased by 4.7 percent to USD 1.9 billion in 2018 from USD1.8 billion in 2017. This signifies increasing trade with EAC partners compared to trade with other integration blocs. Kenya's total import bill rose by 4.1 percent from USD 16.7 billion in 2017 to USD 17.4 billion in 2018. Total export earnings rose by 5.3 percent from USD 5.7 billion in 2017 to 6.1 billion in 2018. The continued increase in imports relative to total exports resulted to worsening of the trade deficit from USD 10.9 billion in 2017 to 11.3 billion in 2018.

Figure 2.7: Kenya's total exports, imports and trade balance, 2014-2018 (USD Millions)



***Source**: KRA, KNBS & CBK, 2019*

Imports

Kenya's total import bill rose by 4.1 percent to USD 17.4 billion in 2018, mainly on account of increased value of imports of petroleum products and industrial machinery. The leading sources of Kenya's imports were China, European Union, India and United Arab Emirates, jointly accounting for 52.4 percent of the total imports in 2018. Imports from Japan constituted 5.7 per cent total imports in 2018, compared to 4.7 percent in 2017. The increase in the share of imports from Japan was on account of increased importation of transport machinery and road motor vehicles. Imports from EU grew by 9.0 percent to USD 2.2 billion in 2018 from USD2.0 billion in 2017 while imports from EAC and India also grew by 14.7 percent and 11.0 percent to USD676.5 million and USD1.8 billion in 2018 respectively.

Illustration: Kenya key imports

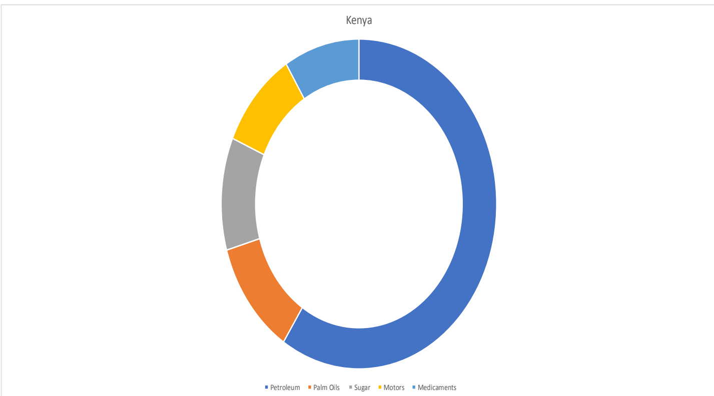
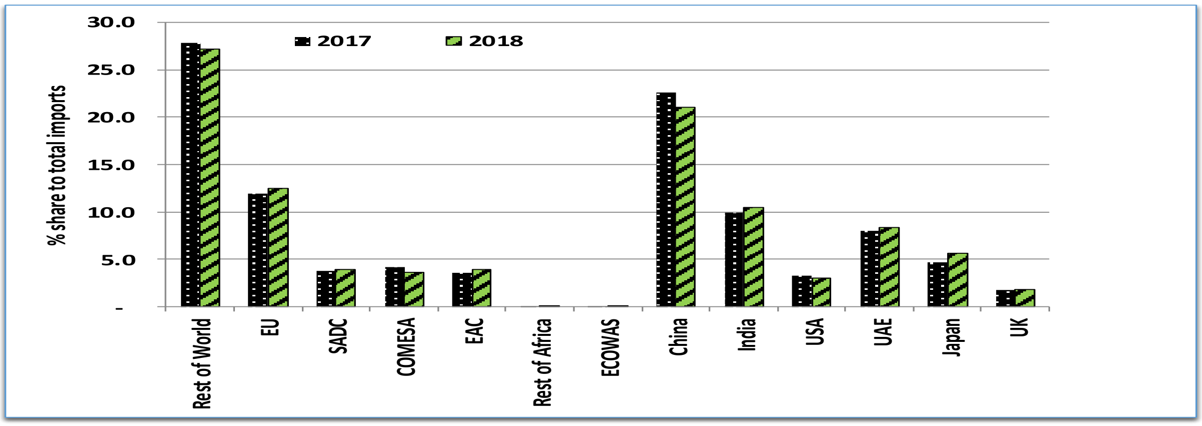


Figure 2.8: Kenya's imports by country/region of origin, 2017-2018 (percent share)

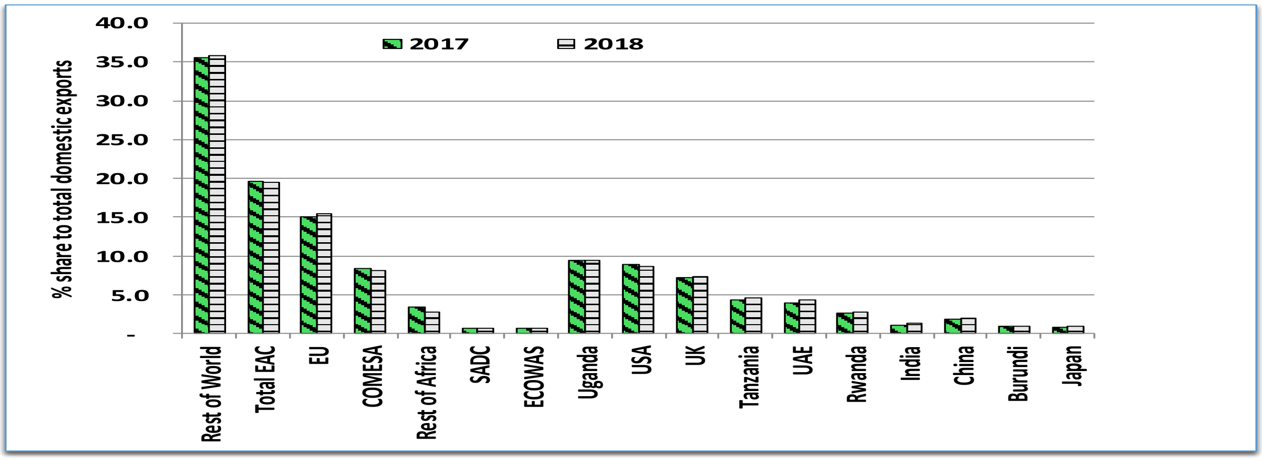


Source: *KRA, KNBS & CBK, 2019*

Domestic Exports

Kenya's domestic exports increased by 4.2 percent from USD 5.1 billion in 2017 to USD 5.3 billion in 2018. The leading exports were tea, horticulture, articles of apparel and clothing accessories; coffee, titanium ores and concentrates, collectively accounting for 62.0 per cent of the total domestic export earnings. The main export destinations continued to be EAC, which accounted for 19.5 percent of the total domestic exports, the European Union accounted for 15.5 percent of the total domestic exports, the USA, which accounted for 8.7 percent of the total domestic exports, and COMESA, which accounted for 8.1 percent of the total domestic exports. Kenya's earnings from domestic exports to EU, Japan and UAE grew by 7.4 percent, 15.0 percent and 11.5 percent to USD,826.5 million, USD50.1 million and USD228.2 million in 2018 respectively. However, Kenya experienced a fall in exports to South Sudan with exports declining by 18.7 percent to USD 96.9 million in 2018 from USD119.2 million in 2017 as a result of continued civil strife in the country.

Figure 2.9: Kenya's domestic exports by destination 2017-2018 (percent share)

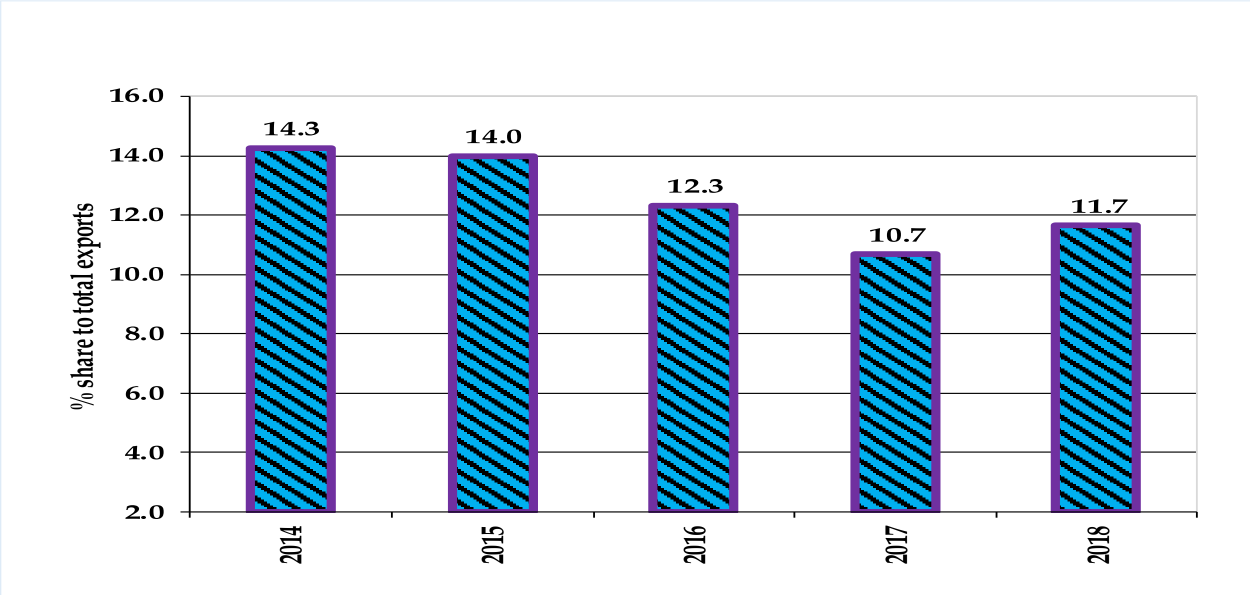


Source*: KRA, KNBS & CBK*

Re-exports

Kenya's re-exports increased by 14.9 percent to USD 705.5 million in 2018 from USD 614.2 million in 2017. Re- exports accounted for 11.7 percent of the total exports, as presented in 2018. The increase was mainly attributed to re-exports of petroleum products which grew by 11.2 per cent, and constituted 48.2 per cent of total re-exports in 2018.

Figure 2:10 Kenya- Re-export as percent of total exports, 2014-2018 (percentage)



Source: KRA, KNBS & CBK

Kenya's Intra Regional Trade

Intra-regional exports

Kenya's total exports to EAC Partner States increased marginally from USD 1,272.5 million in 2017 to USD 1,273.8 million in 2018. Domestic exports to the EAC Partner States increased by 3.8 percent to US$ 1,044.3 million in 2018. During the same period, domestic exports to Uganda, Burundi, Rwanda and Tanzania increased by 4.2 percent, 5.2 percent, 8.6 percent and 11.7 percent to USD 503.5 million, USD 49.1 million, USD 149.3 million and USD 245.4 million, respectively. Consequently, domestic exports to the EAC as a share of total exports, increased from 16.6 percent to 17.3 percent over the same period. In 2018, domestic exports to Uganda, Tanzania, Rwanda, South Sudan and Burundi accounted for 39.5 percent, 19.3 percent, 11.7 percent, 7.6 percent and 3.9 percent of Kenya's total intra-EAC exports, respectively. However, domestic exports to South Sudan declined by 18.7 percent to USD 96.9 million, during the review period.

Intra-EAC Re-Exports

During the review period, Kenya's intra-EAC re-exports decreased by 13.8 percent to USD 229.5 million in 2018 from USD 226.1 million in 2017. Similarly, the share of re-exports to total exports to the EAC countries decreased to 18.0 percent in 2018 compared to 20.9 percent in 2017. The re-exports were mainly destined to Uganda and Tanzania, accounting for 46.8 percent and 21.0 percent of the total intra-EAC re-exports respectively. The main re-exports to Uganda were palm oil, mineral fuels, sorghum and tractors, while those to Tanzania were dried leguminous vegetables, tractors and mineral fuel.

Table 2.5: Kenya Intra-EAC Exports, 2014-2018 (US$ million)

	Intra-EAC Export Flows	2014	2015	2016	2017	2018
Kenya	Intra-EAC Domestic Exports	1,143.4	1,070.2	948.5	1,006.4	1,044.3
	Intra-EAC Re-exports	287.4	215.7	250.5	266.1	229.5
	Total Intra-EAC Exports	1,430.8	1,285.9	1,199.0	1,272.5	1,273.8
	Percent Share of Intra-Re-exports	20.1	16.8	20.9	20.9	18.0

Source: *KRA, KNBS & CBK*

Intra-regional imports

In 2018, Kenya's imports from EAC Partner States increased by 14.7 percent from USD 589.8 million in 2017 to USD 676.5 million. The increase may partly be attributable to 20.1 percent and 5.9 percent increases in imports from Uganda and Tanzania, to USD 488.1 million and USD 175.9 million, respectively, over the same period. The main imports from Uganda remained as; unmanufactured tobacco, cane or beet sugar, leguminous vegetables, maize corn and milk, while those from Tanzania were uncoated Kraft paper and paperboard as well as maize and unglazed ceramic flags.

Table 2.6: Kenya's trade with EAC Partner States, 2014-2018 (US$ million)

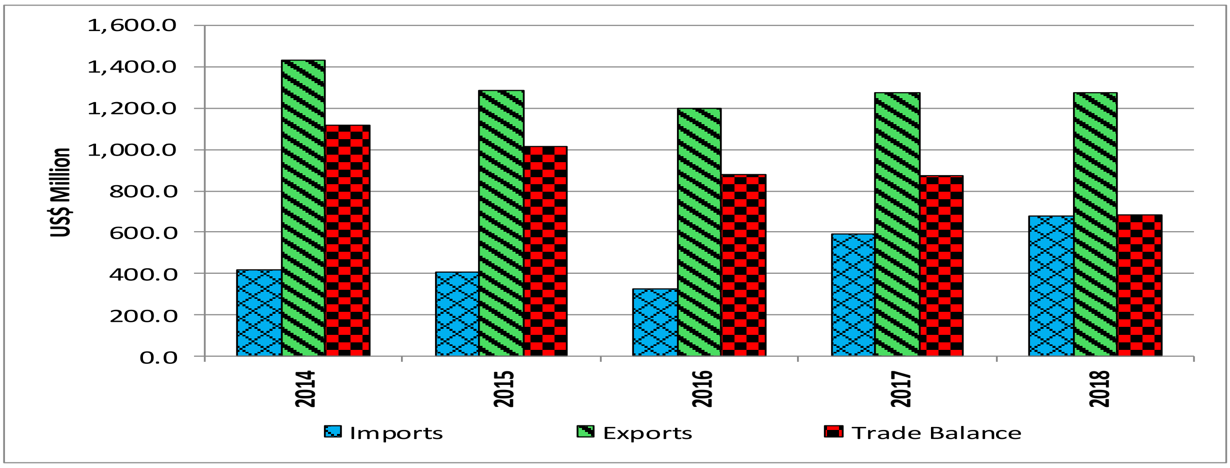
		2014	2015	2016	2017	2018	% Change 2015	2016	2017	2018
Burundi	Imports	0.3	2.3	0.7	0.6	0.7	577.3	-70.3	-14.6	16.3
	Exports	89.3	66.9	71.3	71.4	65.1	-25.1	6.7	0.1	-8.8
	Total Trade	89.6	69.2	72.0	72.0	65.8	-22.8	4.1	-0.1	-8.6
	Trade Balance	88.9	64.6	70.7	70.8	64.4	-27.3	9.4	0.2	-9.0
Rwanda	Imports	8.1	8.0	7.6	16.3	11.7	-1.6	-4.7	113.3	-28.1
	Exports	164.2	182.1	172.4	165.6	176.1	10.8	-5.3	-4.0	6.4
	Total Trade	172.4	190.1	180.0	181.9	187.9	10.3	-5.3	1.0	3.3
	Trade Balance	156.1	174.0	164.8	149.3	164.4	11.5	-5.3	-9.4	10.1
Uganda	Imports	199.6	226.0	189.9	406.5	488.1	13.2	-16.0	114.1	20.1
	Exports	691.3	695.5	612.4	597.8	610.9	0.6	-11.9	-2.4	2.2
	Total Trade	890.9	921.5	802.3	1,004.3	1,098.9	3.4	-12.9	25.2	9.4
	Trade Balance	491.7	469.5	422.5	191.2	122.8	-4.5	-10.0	-54.7	-35.8
Tanzania	Imports	208.9	171.5	126.2	166.1	175.9	-17.9	-26.4	31.7	5.9
	Exports	485.9	341.4	342.8	275.8	293.7	-29.7	0.4	-19.5	6.5
	Total Trade	694.8	512.9	469.0	441.9	469.6	-26.2	-8.6	-5.8	6.3
	Trade Balance	277.1	170.0	216.6	109.7	117.8	-38.7	27.5	-49.4	7.4
South Sudan	Imports				0.2	0.2				-33.9
	Exports				162.0	128.0				-21.0
	Total Trade				162.2	128.1				-21.0
	Trade Balance				161.8	127.8				-21.0
Intra-EAC	Imports	**416.9**	**407.8**	**324.4**	**589.8**	**676.5**	**-2.2**	**-20.5**	**81.8**	**14.7**
	Exports	**1,430.8**	**1,285.9**	**1,199.0**	**1,272.5**	**1,273.8**	**-10.1**	**-6.8**	**6.1**	**0.1**
	Total Trade	**1,847.7**	**1,693.7**	**1,523.4**	**1,862.3**	**1,950.3**	**-8.3**	**-10.1**	**22.3**	**4.7**
	Trade Balance	**1,013.8**	**878.1**	**874.6**	**682.8**	**597.3**	**-13.4**	**-0.4**	**-21.9**	**-12.5**

Source: *KRA, KNBS & CBK*

Trade Balance

Kenya's total trade with EAC Partner States increased by 4.7 percent to USD 1,950.3 million in 2018 from USD 1,862.3 million in 2017, mainly on account of increased total trade to Uganda, Tanzania and Rwanda. However, Kenya's trade surplus with EAC Partner States declined by 12.5 percent from USD 682.8 million in 2017 to USD 597.3 million in 2018.

Figure 2:11 Kenya's trade with EAC Partner States, 2014-2018 (US$ million)



Source: *KRA, KNBS & CBK*

2.3.3. Rwanda

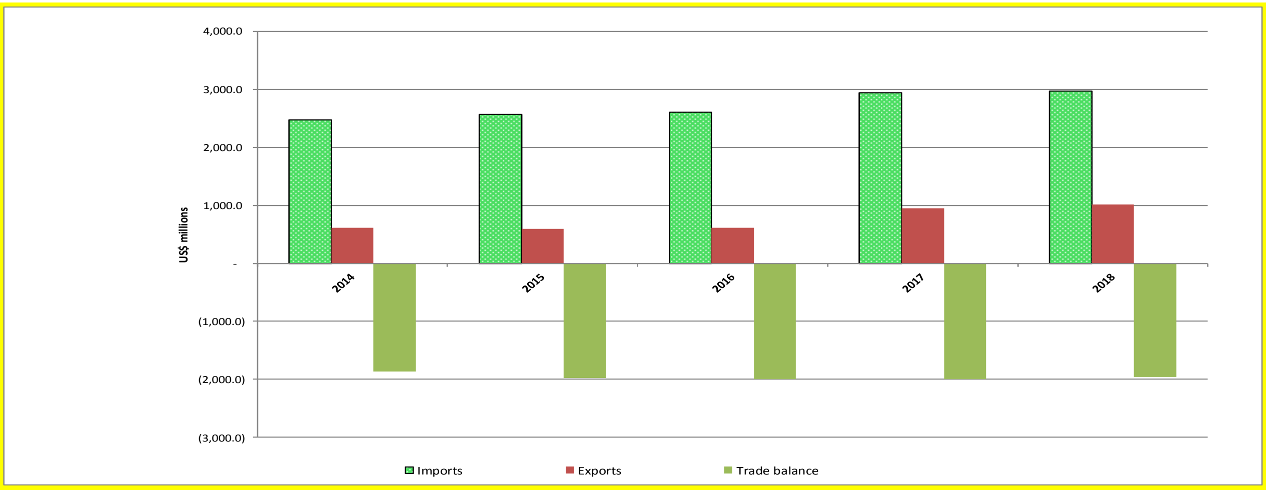
Rwanda's International Trade

Rwanda's Total External trade increased by 2.5 percent to US$ 3.9 billion in 2018 from USD 3.8 billion in 2017. Total trade with the EU grew by 6.9 percent to USD479.4 million fromUSD 448.7 million in 2017. Total trade to UAE, USA and Japan declined by 22.7 percent, 14.1 percent and 28.4 percent to USD 460.6 million, USD75.9 million and USD67.4 million respectively in 2018. Conversely, total trade with the EAC grew by 13.4 percent to USD 638.7 million in 2018 signifying the growing importance of the EAC as a major trading partner.

Exports during the year increased by 7.3 percent to USD 1018,8 million and accounted for 25.5 percent of total trade, while imports amounted to USD 3.0 billion and accounted for 74.5 percent of total trade in 2018. China, EU, United Arab Emirates, Uganda and India were Rwanda's main trading partners. Total trade with China, EU, United Arab Emirates, Uganda and India amounted to USD 562.4 million, USD 479.4 million, USD 460.6 million, USD 293.7 million and USD285.2 million respectively. In 2018, trade with EU, Uganda and China increased while trade with United Arab Emirates and India decreased.

Overall, the trade deficit decreased by 2.1 percent to USD 1.9 billion in 2018, from USD 2.0 billion in 2017. This decrease in the trade deficit was attributed to a slight increase of 0.9 percent in imports and a higher increase in exports of 7.3 percent in 2018.

Figure 2.10: Rwanda- Total Exports, Imports and Trade Balance, 2014-2018 (US$ millions)



Source: NISR, 2019

Imports

Rwanda's imports increased by 0.9 percent to US$ 3.0 billion in 2018, from US$ 2.9 billion in 2017. Rwanda's imports in 2018 were dominated by petroleum products, electrical machinery, nuclear reactors, cereals and vehicles. The main sources of Rwanda's imports were China, EU, United Arab Emirates, India and Uganda which contributed 44.2 percent of the total imports.

Imports from China, EU and Uganda increased during the year 2018, while imports from the UAE and India decreased. Imports from China increased by 7.7 percent to US$ 552.9 million in 2018, from US$ 513.2 in 2017. Similarly, imports from EU and Uganda increased by 8.3 percent and 15.5 percent respectively. The key imports into Rwanda in 2018 included petroleum products, motors, edible oils, electronics and medicaments which amounted to USD456.7 million, USD90.9 million, USD92.4 million, USD98.3 million and USD90.0 million respectively in 2018. The trend of imports highlights the regions' increasing dependence on importation of fossil fuels, motors, medicaments and edible oils.

Illustration

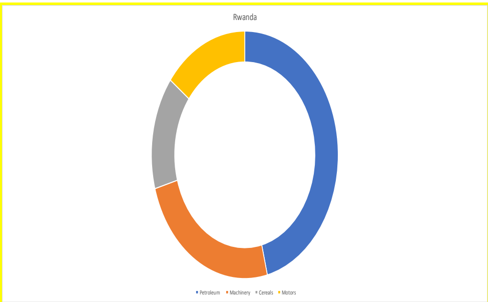
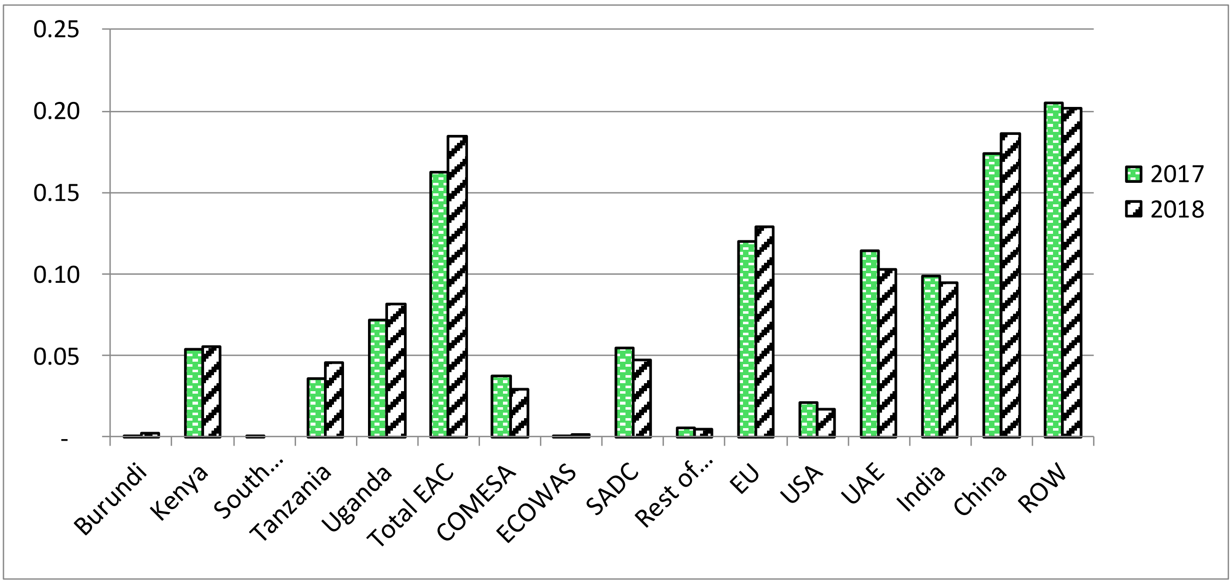


Figure 2.11: Rwanda's Imports by Country/Region of Origin, 2017-2018 (percent shares)

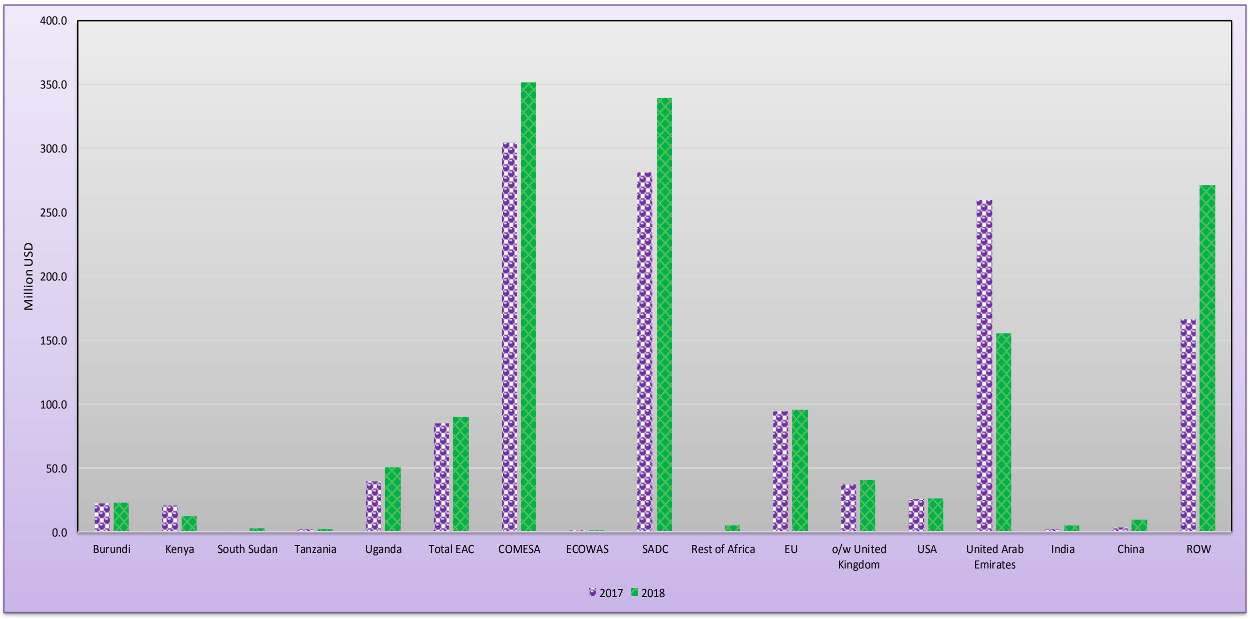


Source: *NISR, 2019*

Exports

Rwanda's exports increased by 1.4 percent to US$ 691.1 million in 2018, from US$ 681.5 million in 2017. The key export destinations were COMESA, SADC, United Arab Emirates, EU and EAC that accounted for 34.5 percent, 33.3 percent 15.3 percent, 9.4 percent and 8.8percent of total exports respectively. The main exports include coffee, tea, ores, products of the milling industry and edible vegetables. Coffee and tea exports amounted to USD152.0 million while exports of ores, milled products and animal feed amounted to USD124.1 million, USD25.8 million and USD21.9 million respectively in 2018.

Figure 2.12: Rwanda Exports by destination, 2017-2018 (Millions USD)

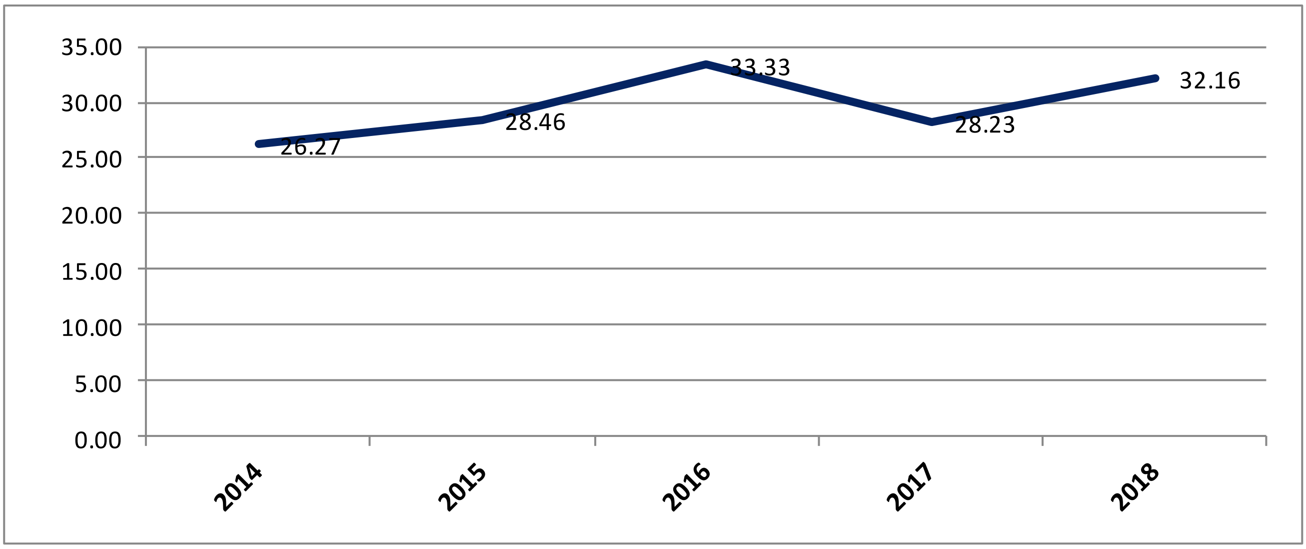


Source: *NISR, 2019*

Re-Exports

The share of Rwanda's re-exports to total exports increased by 3.9 percentage point in 2018. The value of re-exports went up by 22.2 per cent to USD 327.6 million in 2018, from USD 268.1 million in 2017. The main re-exports products included mineral fuels, Animal or vegetable fats and cereals.

Figure 2.13: Share of Rwanda's Re-Exports to Total Exports, 2014- 2018



Source: NISR, 2018

Rwanda's Intra-Regional Trade

Intra-Regional Exports

Domestic exports to EAC Partner States increased by 17.2 percent to USD 73.5 million in 2018, from USD 62.7 million in 2017. Domestic Exports to Uganda increased by 30.4 percent to USD 41.0 million in 2018 from USD 36.1 million in 2017. Exports to Kenya decreased by 41.25 percent to USD 11.20 million in 2018 from USD 19.2 million in 2017. Exports to Burundi registered an increase of 133.7 percent to USD 11.2 million in 2017 from USD 4.8million in 2017 while also Export to Tanzania decreased at 7.9 percent to USD 1.9 million in 2018 from USD 2.0 million in 2017. Finally, Exports to South Sudan increased at 252.5 percent to USD 2.2 million in 2018 from USD 0.6 million in 2017.

Table 2.7: Rwanda Intra-EAC Exports, 2014-2018 (US$ million)

Intra-EAC export flows	2014	2015	2016	2017	2018
Intra-EAC Domestic Exports	95.3	119.4	114.6	62.7	73.5
Intra-EAC Re-exports	20.9	19.8	32.9	21.9	16.2
Total Intra-EAC Exports	116.1	139.3	147.5	84.6	89.7
Percent Share of Intra-Re-exports	18.0	14.2	22.3	25.9	18.1

Source: RRA and NISR, 2019

Intra EAC Re-Exports

Rwanda's re-exports to the EAC Partner States decreased by 26.1 percent to USD 16.2 million in 2018, from USD 21.9 million in 2017. The main re-exports to EAC region comprised of mineral fuels; vehicles; preparation of cereals flour, starch or milk; nuclear reactors; other made up textile articles; sugar& sugar confectionary; animal or vegetable fats; essential oils& perfumery; edible preparations and furniture, bedding, mattresses.

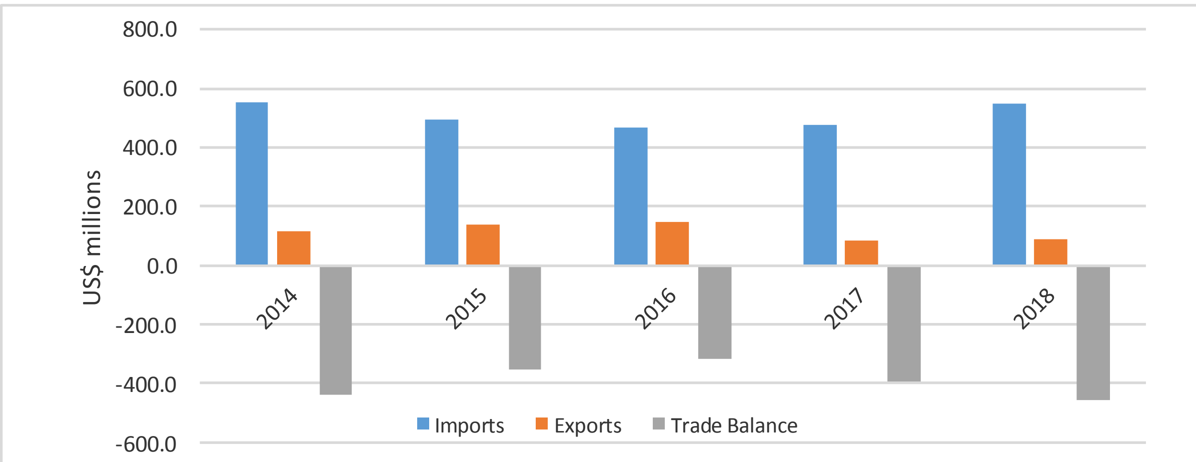
Intra-Regional Imports

Rwanda's imports from EAC Partner States increased by 14.7 per cent to USD 549.1 million in 2018, from USD 478.6 million in 2017. Rwanda's imports from EAC Partner States were dominated by imports from Uganda with a share of 44.4 percent, followed by Kenya with 29.9 percent. The main imports from Uganda included cereals, cement, fats, soaps and iron& steel, fish edible vegetables, products of milling industry, articles of iron and steel, and beverages; while the main imports from Kenya were salt, plastic articles, iron and steel, fats, soap, footwear, paper, sugars, pharmaceutical products, electrical machinery and fats.

Trade Balance

In 2018, Rwanda's total trade with EAC increased by 13.4 percent to USD 638.8 million in 2018, from USD 563.2 million in 2017. Uganda was Rwanda's main trading partner in 2018 with 46.0 per cent, followed by Kenya with 27.6 per cent, Tanzania with 21.4 per cent, Burundi with 4.5 percent and finally South Sudan with 0.5 per cent. The country's trade balance with the EAC showed a deficit of USD 459.4 million in 2018 greater than a deficit of USD 393.9 million recorded in 2017.

Figure 2.14: Rwanda Trade with EAC Partner States, 2014-2018 (US$ million)



Source: NISR, 2019

Table 2.8: Rwanda's Trade with EAC Partner States, 2014-2018, (US$ million)

		2014	2015	2016	2017	2018	% change			
							2015	2016	2017	2018
Burundi	Imports	6.9	8.8	5.5	3.0	6.5	27.2	-37.3	-46.1	118.3
	Exports	19.3	17.2	36.2	22.2	22.5	-10.5	110.1	-38.6	1.4
	Total trade	25.4	26.0	41.7	25.2	29.0	2.4	60.3	-39.6	15.2
	Trade Balance	13.1	8.4	30.7	19.3	16.0	-35.5	263.7	-37.3	-16.7
Kenya	Imports	191.1	159.4	160.2	158.5	164.3	-16.6	0.5	-1.0	3.6
	Exports	103.7	105.1	100.4	20.4	12.0	1.3	-4.5	-79.7	-41.2
	Total trade	237.2	264.5	260.6	178.9	176.3	11.5	-1.5	-31.3	-1.5
	Trade Balance	-87.4	-54.3	-59.8	-138.2	-152.3	-37.9	10.2	130.9	10.2
South Sudan	Imports	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
	Exports	0.1	5.3	1.2	0.7	2.9	9597.3	-76.6	-45.3	329.2
	Total trade	0.1	5.3	1.2	0.7	2.9	9597.3	-76.6	-45.0	326.1
	Trade Balance	0.1	5.3	1.2	0.7	2.9	9597.3	-76.7	-45.7	332.3
Tanzania	Imports	80.4	83.5	96.0	106.2	134.7	4.0	15.0	10.6	26.9
	Exports	6.5	2.4	6.1	2.3	2.1	-62.85	153.89	-62.92	-7.15
	Total trade	86.8	85.9	102.1	108.4	136.8	-1.0	18.9	6.2	26.2
	Trade Balance	113.7	-81.1	-89.9	-103.9	-132.6	-171.4	10.9	15.5	27.6
Uganda	Imports	275.8	241.0	204.4	210.9	243.6	-12.6	-15.2	3.2	15.5
	Exports	12.1	10.5	14.7	39.1	50.2	-13.3	40.0	166.0	28.3
	Total trade	306.2	251.5	219.1	250.0	293.7	-17.9	-12.9	14.1	17.5
	Trade Balance	-150.4	-230.5	-189.7	-171.8	-193.4	53.3	-17.7	-9.5	12.6
Intra EAC	**Imports**	**554.2**	**492.7**	**466.2**	**478.6**	**549.1**	**-11.1**	**-5.4**	**2.7**	**14.7**
	Exports	**141.6**	**140.5**	**158.6**	**84.6**	**89.7**	**-0.8**	**12.9**	**-46.6**	**6.0**
	Total Trade	**695.8**	**633.3**	**624.8**	**563.2**	**638.7**	**-9.0**	**-1.3**	**-9.9**	**13.4**
	Trade Balance	**-412.6**	**-352.2**	**-307.5**	**-393.9**	**-459.4**	**-14.6**	**-12.7**	**28.1**	**16.6**

Source: NISR, 2019

Rwanda's Informal Cross Border Trade

Total Informal cross border trade in Rwanda increased by 20.2 percent to USD 145.4 million in 2018 from USD 121 million in 2017 and amounted to about 3.6 percent of formal trade in 2018, from 3.1 per cent in 2017. Informal cross border imports decreased by 10 percent to USD 20.3 million in 2018, down from USD22.5 million in 2017.

Table 2.9: Rwanda Informal Cross Border Exports 2014-2018 (USD Million)

Destination	2014	2015	2016	2017	2018
Burundi	9.1	7.1	8.1	4.1	2.8
Democratic Republic of Congo	87.6	82.3	97.7	81.9	108.9
Tanzania	0.1	0.1	0	0	0
Uganda	10.6	19.3	26.8	12.3	13.5
Total Trade	**107.4**	**108.8**	**132.6**	**98.3**	**125.2**

Informal cross border exports increased by 27.2 percent to USD 125.1 million in 2018, from USD98.4 million in 2017. The total informal trade balance showed a surplus of USD 104.8 million in 2018 greater than the surplus of USD 75.8 million in 2017.

Table 2.10: Rwanda Informal Cross Border Imports 2014-2018 (USD Million)

Origin	2014	2015	2016	2017	2018
Burundi	6.7	6.6	8.2	4.2	4.2
Democratic Republic of Congo	2.8	3.0	2.1	3.0	2.1
Tanzania	0.5	0.4	0.6	0.9	2.0
Uganda	9.2	11.8	19.6	14.4	12.0
Total Trade	19.2	21.8	30.5	22.5	20.3

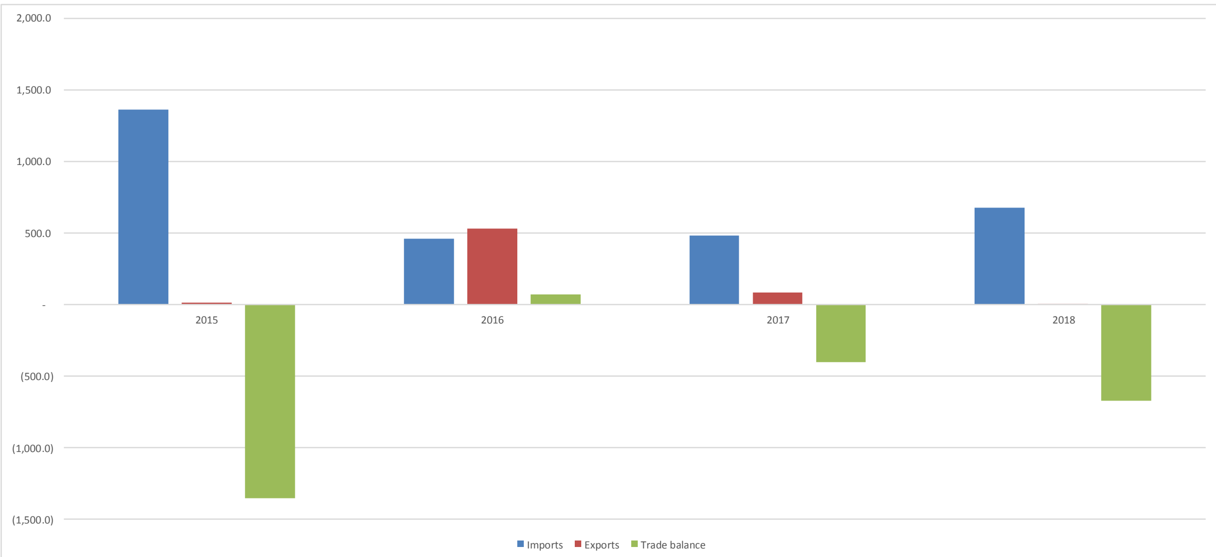
Source: NISR, 2019

2.3.4. Republic of South Sudan

South Sudan International Trade

South Sudan total trade increased by over 19.5 percent to USD 678.4 million in 2018 from USD 567.7 Million in 2017. The main trading partners were the EAC, EU, UAE and China with total trade amounting to USD137.5 million,43.1 million, USD49.2 million and USD 18.3 million respectively in 2018. Overall, the trade deficit increased by 67.7percent to USD672.0 million in 2018 from USD400.8 million in 2017.

Figure 2.15: South Sudan's Total Exports, Imports and Trade Balance, 2015-2018



Source: SSNBS/SSIA/Customs service 2019

Imports

South Sudan imports in 2018 increased by 3.64 percent to US$ 3,071.70 million in 2018, from US$ 2,963.80 million in 2017. The total share of South Sudan import originated from the EAC decreased by 18.50 percent to USD$ 376.9 million in 2018 from 15.1 percent to USD 462.5 in 2017. Other imports originated from the Kenya, EU, China. Rwanda and USA were the main imported partners in 2018 with imports amounting to US$ 267.7 million and US$ 43.10 million, USD$ 40.10 Million, USD$ 4.3 Million and USD$ 3.40 Million respectively. The bulk of the imports comprised maize, wheat, cement, Electronics, Machineries and raw materials for the Petro-chemical industry.

Illustration: South Sudan Key Imports: 2018

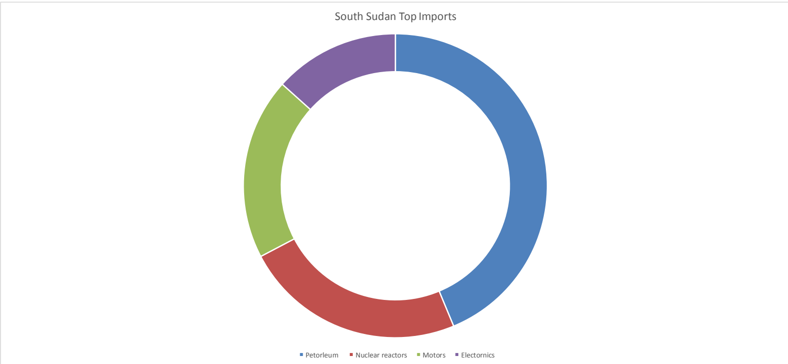
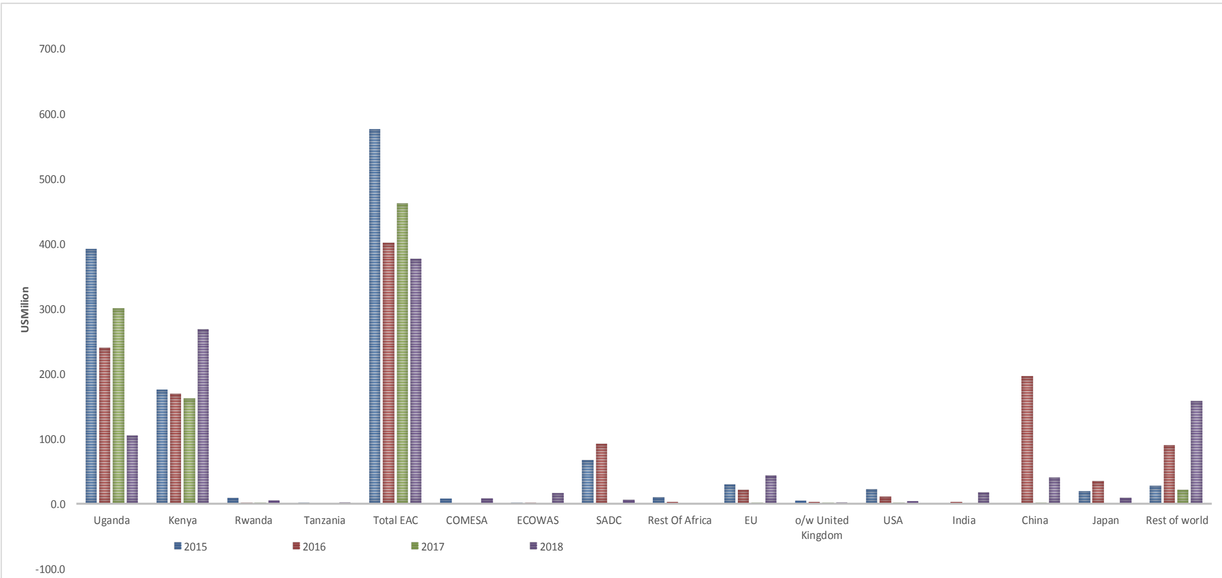


Figure 2.16 : South Sudan's Imports by Country/Region of Origin (percentage shares)

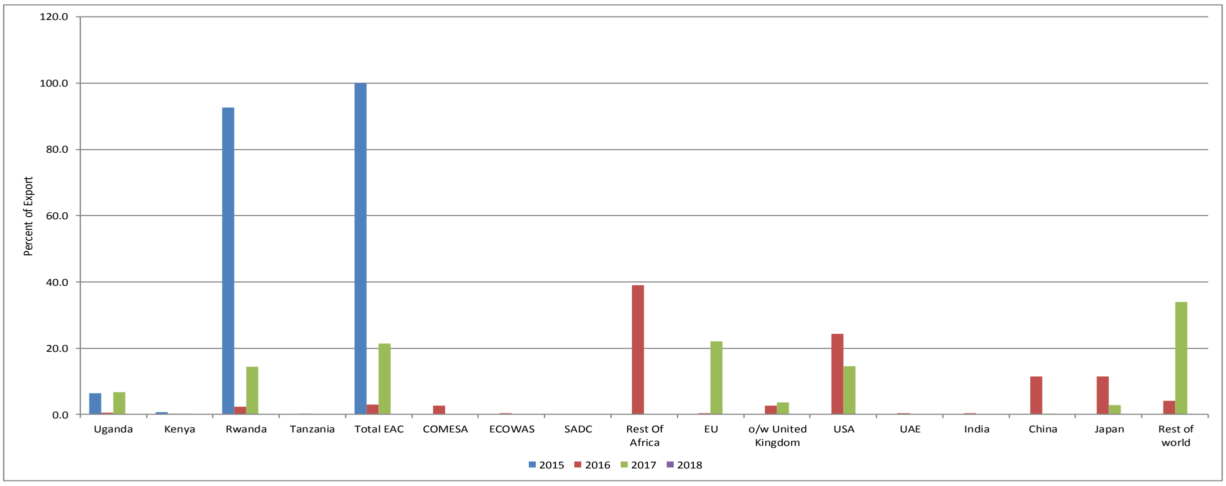


Source: Comtrade, and SSNBS, 2019

Exports:

South Sudan’s exports decreased by 96.2 percent to US$ 3.2 million in 2018, from US$ 83.5 million in 2017. The major exports comprised gum Arabic, teak logs, beams and, Animal products Aluminium waste and cast irons. The EAC and India were South Sudan’s main export destinations and amounted to USD 2.03 million. and USD1.23 Million respectively.

Figure 2.17: South Sudan's Domestic Exports by Destination (percentage)



Source: Comtrade and SSNBS 2019

South Sudan's Intra-Regional Trade

Intra-EAC Exports

South Sudan’s exports to the EAC declined by 88.8 percent to USD 2.00 million in 2018, from USD 17.9 million in 2017. The exports comprised mainly of teak logs and beams, Animal products not elsewhere specified Aluminium waste and cast iron.

Intra-EAC Imports:

South Sudan’s imports from the EAC partner states declined by 18.5 percent to USD 377 million in 2018 from USD 462.5 million in 2017. The main imports from Kenya and Uganda consisted of foodstuffs mainly maize, dairy products and wheat as well as manufactured goods such as cooking oil, iron and steel products, cement and textiles.

Table 2.11: South Sudan Trade with EAC Partner States, 2015-2018 (USD Millions)

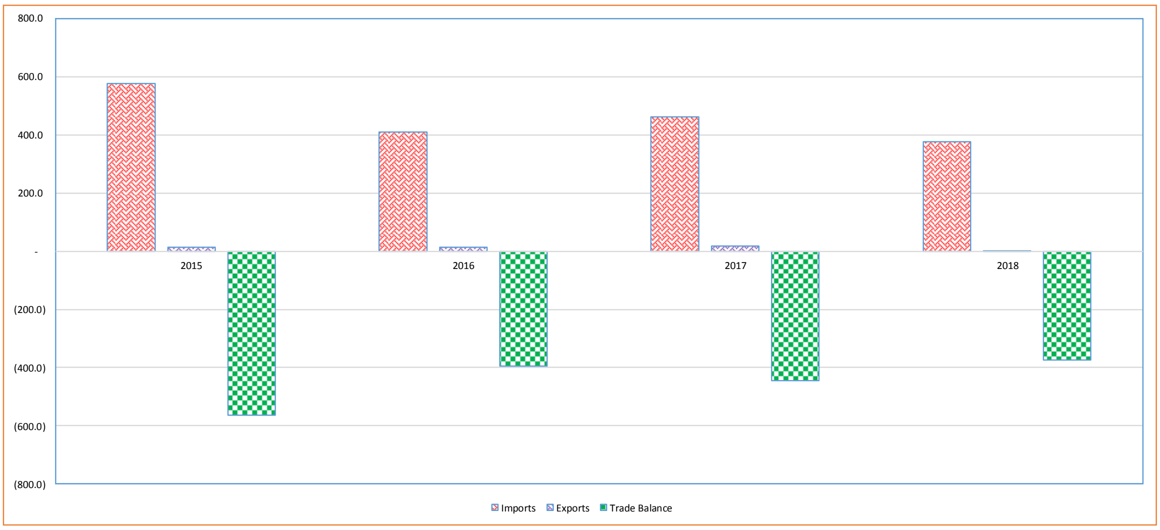
		2015	2016	2017	2018	Percentage Change 2016	2017	2018
Burundi	Imports	-	-	-	-	-	-	-
	Exports	-	-	-	-	-	-	-
	Total trade	-	-	-	-	-	-	-
	Trade Balance	-	-	-	-	-	-	-
Rwanda	Imports	8.5	1.4	0.6	4.3	(83.5)	(57.1)	616.7
	Exports	12.1	12.1	12.1	-	-	-	-
	Total trade	20.6	13.5	12.7	4.3	(34.5)	(5.9)	(66.1)
	Trade Balance	3.6	10.7	11.5	(4.3)	197.2	7.5	(137.4)
Kenya	Imports	175.0	169.0	162.0	267.7	(3.4)	(4.1)	65.2
	Exports	0.1	0.2	0.2	-	100.0	-	(100.0)
	Total trade	175.1	169.2	162.2	267.7	(3.4)	(4.1)	65.0
	Trade Balance	(174.9)	(168.8)	(161.8)	(267.7)	(3.5)	(4.1)	65.5
Uganda	Imports	392.6	239.6	299.9	104.8	(39.0)	25.2	(65.1)
	Exports	0.8	2.5	5.6	2.0	212.5	124.0	(64.3)
	Total trade	393.4	242.1	305.5	106.8	(38.5)	26.2	(65.0)
	Trade Balance	(391.8)	(237.1)	(294.3)	(102.8)	(39.5)	24.1	(65.1)
Tanzania	Imports	0.1	-	-	0.2	(100.0)	-	-
	Exports	-	-	-	-	-	-	-
	Total trade	0.1	-	-	0.2	(100.0)	-	-
	Trade Balance	(0.1)	-	-	(0.2)	(100.0)	-	-
Intra-EAC**	**Imports**	**576.2**	**410.0**	**462.5**	**377.0**	**(28.8)**	12.8	(18.5)
	Exports	**13.0**	**14.8**	**17.9**	**2.0**	**13.8**	20.9	(88.8)
	Total trade	**589.2**	**424.8**	**480.4**	**379.0**	**(27.9)**	13.1	(21.1)
	Trade Balance	**(563.2)**	**(395.2)**	**(444.6)**	**(375.0)**	**(29.8)**	12.5	(15.7)

Source: SSNBS, 2019

EAC Trade Balance

South Sudan's trade deficit with the EAC region decreased by 15.7 percent to US $ 375 million in 2018, from US $444.6 million in 2017.

Figure 2.18: **South Sudan's Trade with EAC Partner States, 2015-2018 (US$ million)**



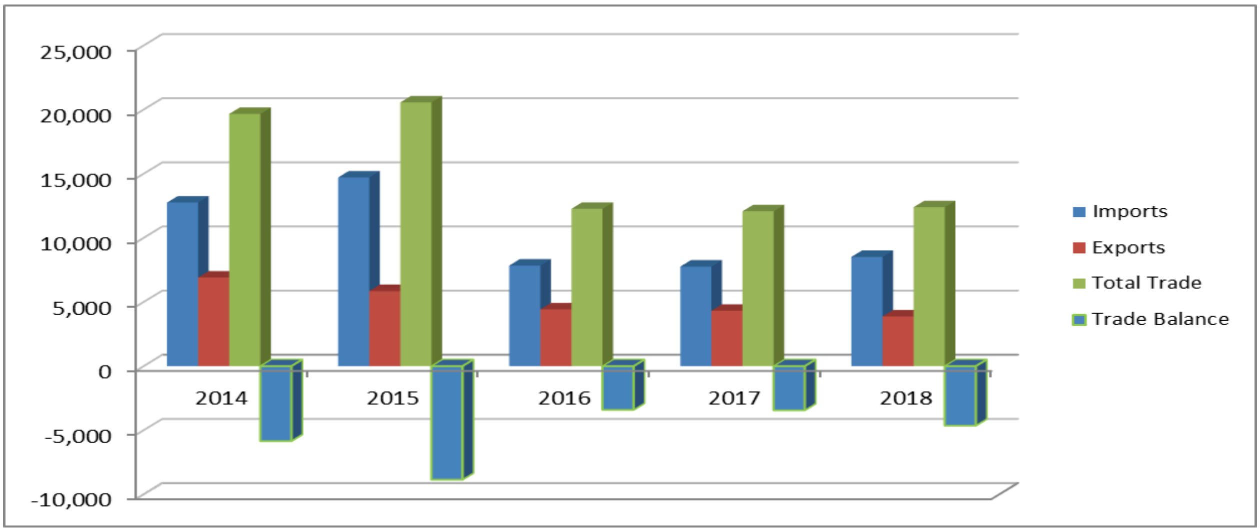
Source: SSNBS and SSIA, 2019

2.3.5. United Republic of Tanzania

Tanzania's International Trade

Tanzania's total trade increased by 2.6 percent to USD 12.4 billion in 2018, from USD 12.1 billion in 2017. The increase in total trade was largely attributed to an increase in merchandise imports by 9.8 percent relative to a decline of 10.2 percent in export of goods. India, China, South Africa, Kenya and UAE continued to be the main Tanzania's trading partners. An overall trade deficit widening by 34.8 percent to US$ 4.6 billion in 2018 from US$ 3.4 billion recorded in 2017. This development is consistent with the decline of exports earnings during the period under review.

Figure 2.19: Tanzania's exports, imports and trade balance, 2014 – 2018 (US$ Million)



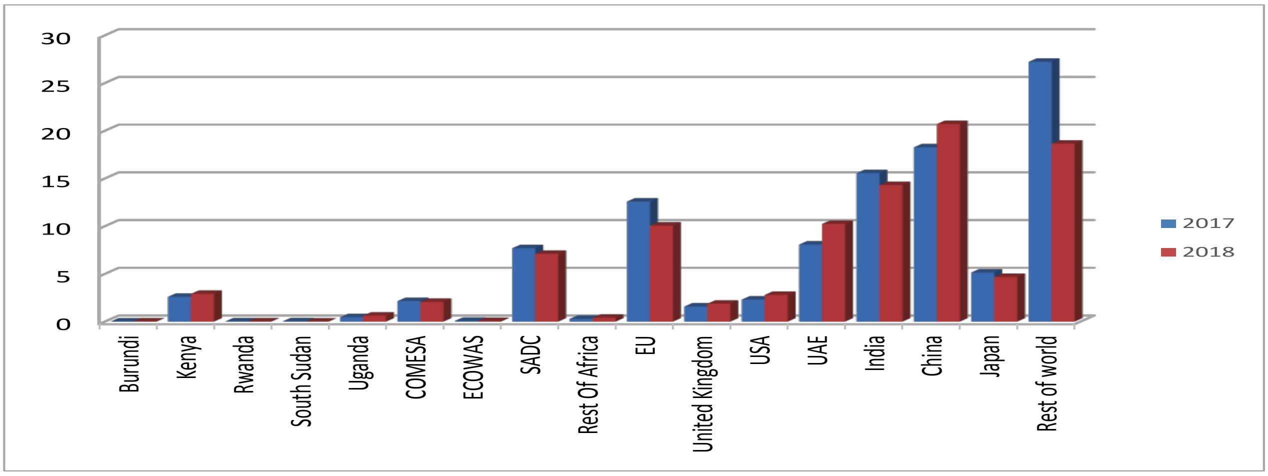
Source: National Bureau of Statistics 2019

Imports

Tanzania's imports increased by 9.8 percent to US$ 8.5 billion in 2018, from US$ 7.8 billion, with all import categories recording increases except for food and food stuff. The increase in import bill was attributed to import of capital goods like transport equipment, and building and construction materials for the construction of the Standard Gauge Railway (SGR), roads, airports, and ports. Oil imports continued to account for the largest share of goods import reaching 23 percent in 2018. Importation of food and food stuff declined substantially on account of food availability across the country following good harvest in 2017.

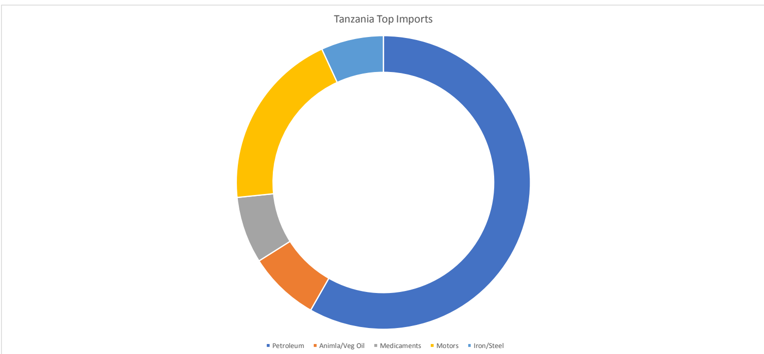
China, India and United Arab Emirates remained the Tanzania's main import source countries accounting for 20.7 percent, 14.3 percent and 10.2 percent, respectively. Tanzania's imports from China included tyres, tractors, motorcycles and flat rolled products of iron, while those from India were mostly petroleum products, pharmaceuticals and vehicles and from UAE mostly sourced petroleum products and plastic items. Other equally important sources of imports were SADC and EU regions. The major imports from these regions were flat rolled products of iron, motor vehicles, mixture of odoriferous substances, semi-finished products of iron and maize coin.

Figure 2.20: **Tanzania's imports by country/region of origin, 2017-2018 (percentage share)**



Source: National Bureau of Statistics 2019

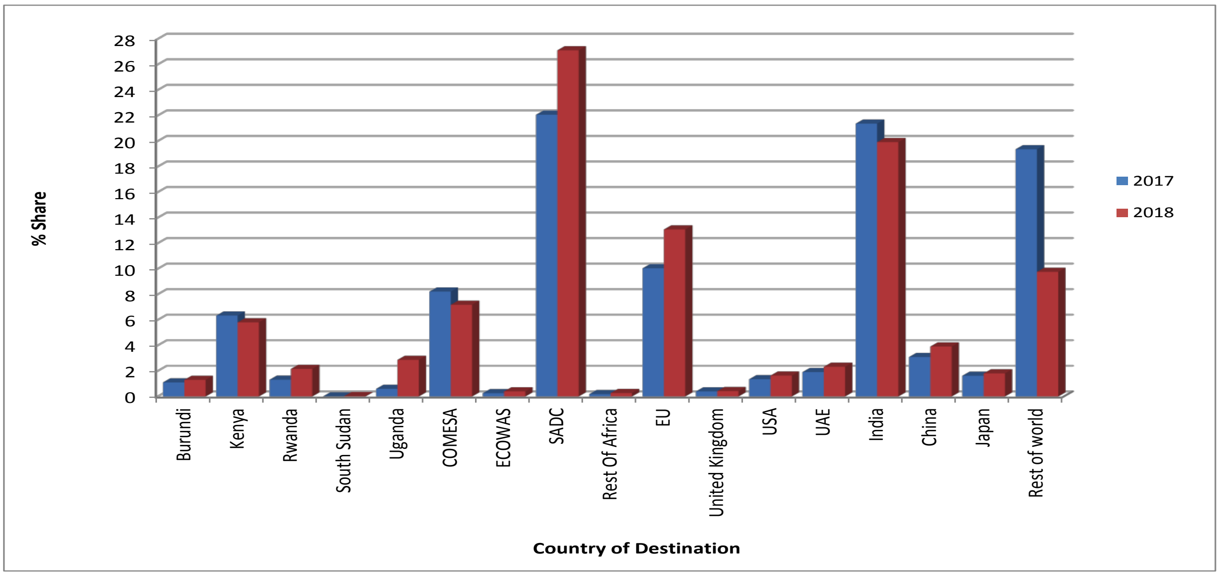
Illustration: Tanzania Key Imports 2018



Exports

Tanzania’s domestic exports declined by 10.2 percent to US$ 3.9 billion in 2018, from US$ 4.3 billion recorded in 2017. The decline in exports was largely explained by decrease in export values of the traditional exports particularly cashew nuts, tea, and cloves. The low performance of raw cashew nuts exports is associated to delays in exporting the crop following government intervention to safeguard farmers from getting lower prices and decision to add value by processing the crop locally. Meanwhile, the decline in export values of tea and cloves was on account of low prices in the world market. During the period under review, India, South Africa, Switzerland, Belgium and Kenya were the leading destinations for Tanzania’s domestic exports. Region-wise, majority of exports went to EU, SADC (mostly to South Africa) and COMESA. Major items exported include gold, tobacco, coffee, cashew nuts, pigeon peas, fish and horticulture products.

Figure 2.21: Tanzania’s domestic exports by destination, 2017-2018 (percentage share)

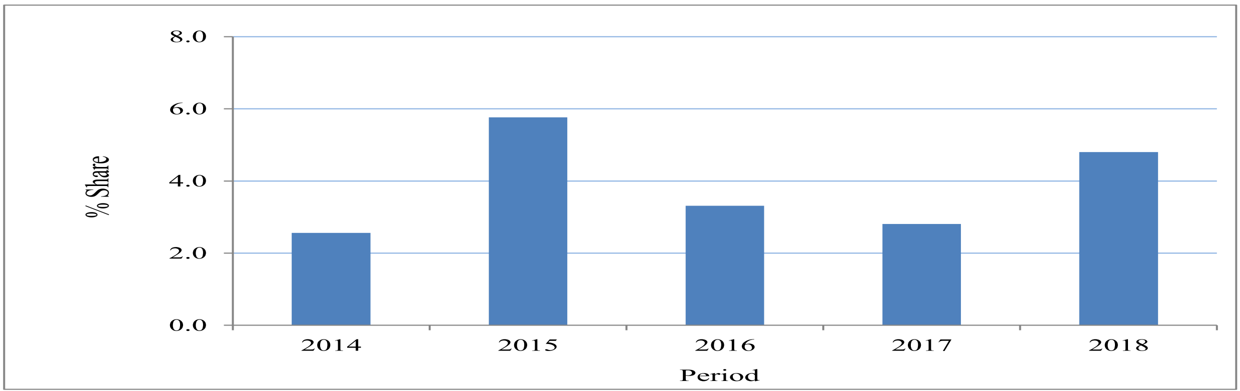


Source: National Bureau of Statistics, 2019

Re-exports

Tanzania’s re-exports increased by 44.5 percent to US$ 186.7 million in 2018, from US$ 129.2 million registered in 2017. The share of re-exports to total exports increased to 4.8 percent recorded in 2018, compared with 2.8 percent in 2017. Most of the re-exports were destined to Rwanda, Zambia, South Africa and Uganda. The goods re-exported include motor vehicles, fertilizers, machinery and parts thereof, iron/steel structures, turbo-jets, turbo propellers and other gas turbines and articles and equipment for gymnastics, athletics.

Figure 2.22: **Share of Tanzania's Re-exports to Total Exports, 2014 – 2018 (percentage share)**



Source: National Bureau of Statistics

Tanzania's Intra Regional Trade

Total intra-EAC trade increased by 14.6 percent to US$ 811.3 million in 2018 from US$ 707.7 million recorded in 2017. This good performance is largely explained by increase in both exports and imports to and from the EAC market.

Intra-regional exports

Tanzania's domestic exports to EAC Partner States increased by 4.2 percent to USD 448.6 million in 2018, from USD 430.5 million recorded in 2017, with much increase registered in exports destined to Uganda. Nonetheless, Kenya remained the major destination, accounting for 48 percent of Tanzania's domestic exports to EAC Partner States, followed by Uganda which accounted for 24 percent of domestic exports. Rwanda accounted for 18 percent of domestic exports. Burundi and South Sudan accounted for 11 percent and 1.1 percent, respectively.

During the period under review, exports to Uganda increased to USD105.7 million from USD 27.5 million recorded in 2017, with significant increase recorded in exports of cosmetics, maize, petroleum oils, paper products and paperboard and rolled iron or non-alloy steel. Likewise, exports to Rwanda increased by 31.8 percent to USD 79.7 million in 2018, with substantial increase recorded in exports of petroleum jelly, cosmetics, cement, bricks, tiles and rice. Conversely, exports to Kenya and Burundi went down by 26.6 percent and 5.5 percent respectively.

Table 2.12: Tanzania's intra-EAC exports, 2014-2018 (US$ million)

Intra-EAC Trade flows	2014	2015	2016	2017	2018
Intra EAC Domestic Exports	779.4	924.8	300.0	430.5	448.6
Intra EAC Re-exports	44.3	32.6	38.3	34.0	60.0
Intra EAC Total Exports	823.7	957.4	338.3	464.5	508.6
Percent Share of Intra-Re-exports	5.4	3.4	11.3	7.3	11.8

Source: National Bureau of Statistics, 2019

Intra EAC Re-Exports

Tanzania's re-exports to EAC Partner States increased to US$ 60.0 million in 2018, compared to US$ 34.0 million recorded in 2017. During the period, Tanzania's major re-export destinations were Rwanda accounted for 40.7 percent followed by Uganda and Burundi which accounted for 22 percent and 19.6 percent, respectively. Kenya accounted for 17.3 percent of total re-exports. The major re-exports to EAC Partner States were cosmetics, fertilisers, petroleum products, chemical products, motor vehicles and mineral fuels.

Intra-regional imports

Tanzania's imports from EAC Partner States increased by 24.5 percent to USD 302.7 million in 2018, from USD 243.2 million recorded in 2017. The increase was largely attributed by increased in imports from Kenya, which is the leading source of imports in the region, while imports from Uganda and Rwanda increased by 45.8 percent and 4 percent, respectively. Major imports from EAC Partner States include rolled iron and non-alloy steel, pharmaceuticals products, soaps, tractors, plastic items, electrical accumulators and stoppers, caps and lids for bottles.

Table 2.13:Tanzania's trade with EAC Partner States, 2014-2018 (US$ million)

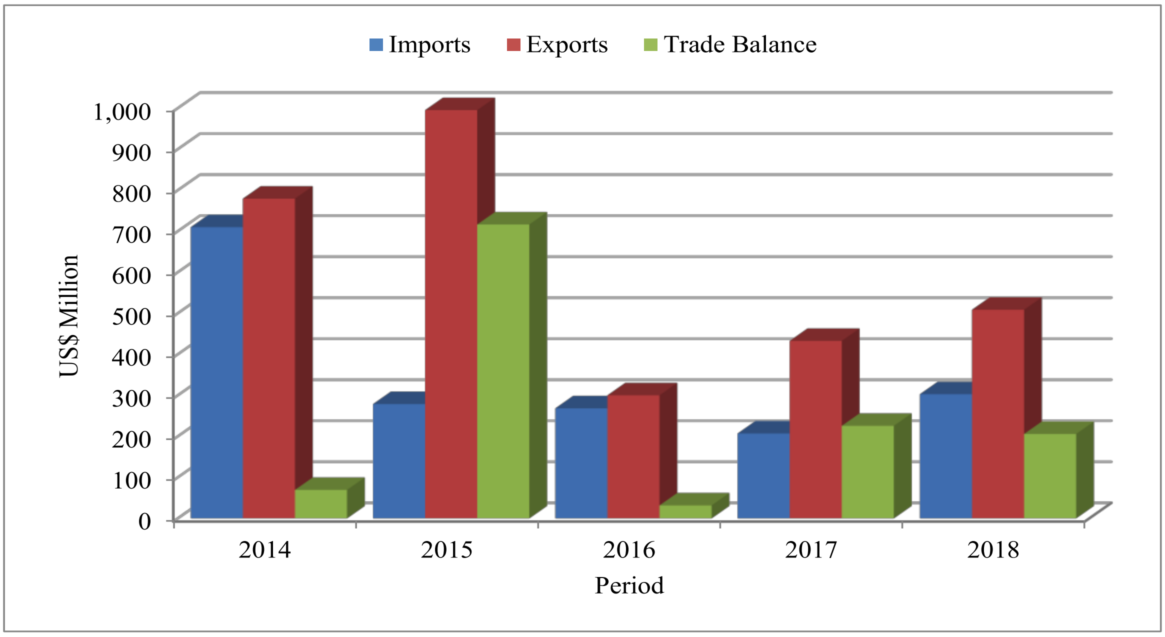
		2014	2015	2016	2017	2018	% Change			
							2015	2016	2017	2018
Kenya	Imports	657.9	237.3	266.4	203.4	247.5	-63.9	12.3	-23.6	21.7
	Exports	602.2	812.0	189.7	308.9	224.5	34.8	-76.6	62.8	-27.3
	Total trade	1,260.1	1,049.3	456.1	512.3	472.0	-16.7	-56.5	12.3	-7.9
	Trade Balance	-55.7	574.7	-76.7	105.5	-23.0	931.8	-113.3	237.6	-121.8
Uganda	Imports	48.2	39.2	30.6	36.1	52.7	-18.7	-22.1	18.2	45.8
	Exports	100.4	55.9	28.1	33.0	118.9	-44.3	-49.7	17.4	260.3
	Total trade	148.6	95.1	58.7	69.1	171.6	-36.0	-38.3	17.8	148.2
	Trade Balance	52.2	16.7	-2.5	-3.1	66.2	-68.0	-114.7	26.9	-2229.7
Burundi	Imports	0.60	1.00	0.8	0.2	1.0	66.7	-23.0	-68.9	326.8
	Exports	64.4	41.3	55.0	53.7	59.8	-35.9	33.2	-2.4	11.4
	Total trade	65.0	42.3	55.8	53.9	60.8	-34.9	31.8	-3.3	12.8
	Trade Balance	63.8	40.3	54.2	53.5	58.8	-36.8	34.6	-1.4	9.9
Rwanda	Imports	3.20	1.1	1.1	1.3	1.4	-65.6	1.5	17.3	4.0
	Exports	56.6	48.3	65.6	68.7	104.1	-14.7	35.8	4.7	51.5
	Total trade	59.8	49.4	66.7	70.0	105.5	-17.4	35.1	4.9	50.6
	Trade Balance	53.4	47.2	64.5	67.4	102.7	-11.6	36.6	4.5	52.5
South Sudan	Imports	0	1.1	0	2.1	0.2	-	0.0	0.0	-90.4
	Exports	0	-	-	0.2	1.3	-	0.0	0.0	664.7
	Total trade	0.0	-	-	2.3	1.5	-	0.0	0.0	-33.8
	Trade Balance	0.0	-1.1	0.0	-1.9	1.1	-	0.0	0.0	-156.9
Intra-EAC**	**Imports**	**709.9**	**279.7**	**298.8**	**243.2**	**302.7**	**-60.6**	**6.8**	**-18.6**	**24.5**
	Exports	**823.6**	**957.5**	**338.4**	**464.3**	**508.6**	**16.3**	**-64.7**	**37.2**	**9.5**
	Total trade	**1,533.5**	**1,237.2**	**637.2**	**707.5**	**811.3**	**-19.3**	**-48.5**	**11.0**	**14.7**
	Trade Balance	**113.7**	**677.8**	**39.6**	**221.2**	**205.9**	**76.9**	**-94.2**	**458.6**	**-6.9**

Source: TNBS & TRA, 2019

Intra-regional trade balance

Tanzania's total trade with other EAC Partner States in 2018 increased by 14.6 percent to USD811.3 million, from USD 707.7 million recorded in 2017. However, Tanzania's trade balance with EAC Partner States remained a surplus amounting to USD 205.8 million, down from USD 221.4 million recorded in 2017. The development was mainly driven by increase in imports that outweighed the impact of the increase in exports. During the period under review, Tanzania recorded a trade surplus with all EAC Partner States except Kenya.

Figure 2.23: Tanzania's Trade with EAC Partner States, 2014-2018 (US$ million)



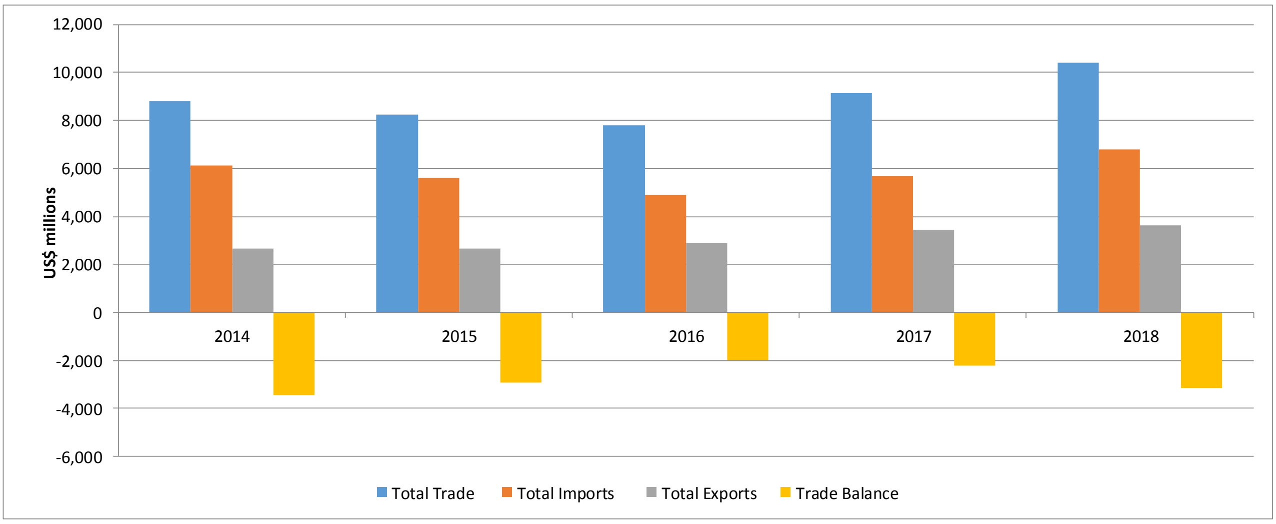
Source: National Bureau of Statistics,2019

2.3.6. Uganda

Uganda's International Trade

Uganda's trade with the rest of the world increased by 15.3 percent to USD 9.8 billion in 2018 up from USD 8.5 billion in 2017, however overall, Uganda continued to experience a trade deficit. The trade deficit widened to US$ 3.6 billion in 2018, from US$ 2.7 billion registered in 2017. The increase in trade deficit with the rest of world can be attributed to a 20.3 % increase in imports in formal imports mainly capital and consumer goods due to high demand in the extractives and private sectors during 2018.

Figure 2.24:Uganda's Total Exports, Imports and Trade Balance, 2014-2018 (US$ million)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics, 2019

Imports

Uganda's imports grew by 20.3 percent to USD6.7 billion in 2018 from USD5.6 billion in 2017.The increase in 2018 was much higher than the previous period signifying growing imports into the country.

The major products imported into the country during 2018 included Mineral fuels, vehicles, iron and steel and non-monetary gold

China, India and UAE remained Uganda's key import sources. Imports from China grew by 20 percent to USD 1,184.4 million from to USD 986.0 million in 2017. The key imports from China were mainly capital items in form of machinery, Iron & steel and consumer goods (foot wear and textiles). While imports from India increased by 11 percent from USD 736.3 million in 2017 to USD 817 million in 2018. Key imports from India were mainly pharmaceutical products and petroleum products. Similarly, Imports from UAE increased by 19 percent from USD 659.7 million in 2017 to USD 784.1 million in 2018.

Considering blocs, EAC remains the major source of imports for Uganda. Imports from EAC region increased by 41 percent to USD796.3 million in 2018 from USD 565.5 million in 2017. Besides the EAC, EU remained Uganda's main import source with imports increasing by 13 percent to USD 600.5 million in 2018 from USD 529.4 million in 2017. Imports from COMESA increased by 62.7 percent to USD 182.8 million in 2018, from USD 112.3 million in 2017.

Illustration: Uganda key imports 2018

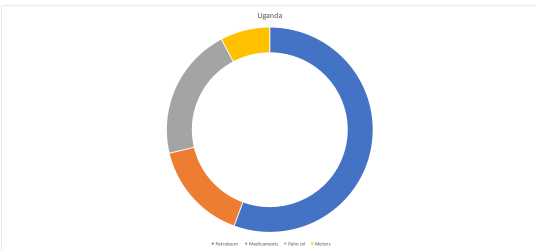
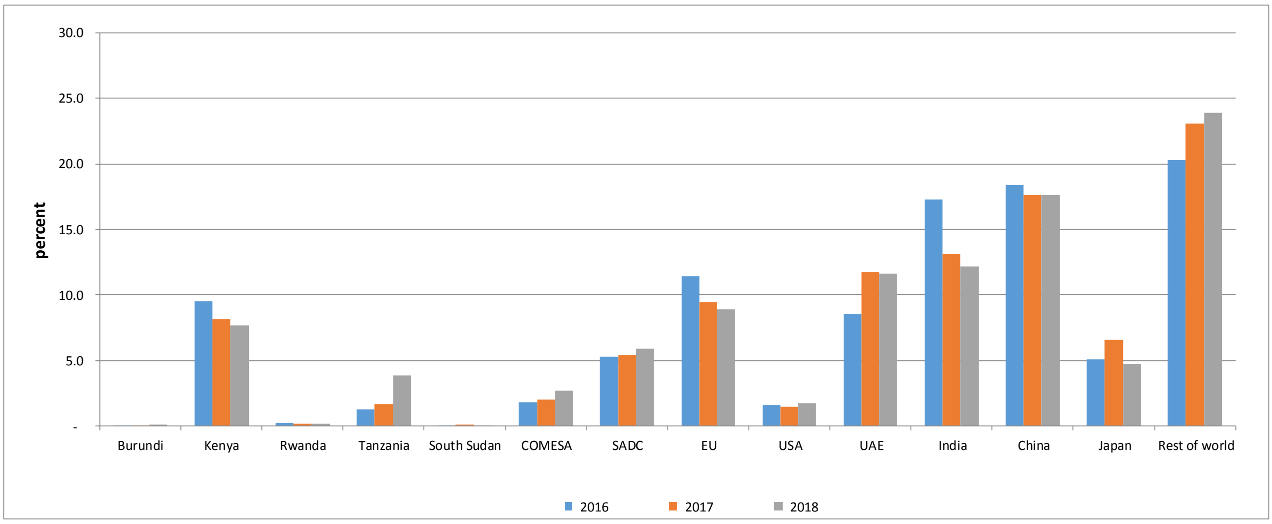


Figure 2.25: Uganda's Imports by Country /Region of Origin, 2015-2018 (percentage)



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

Domestic Exports

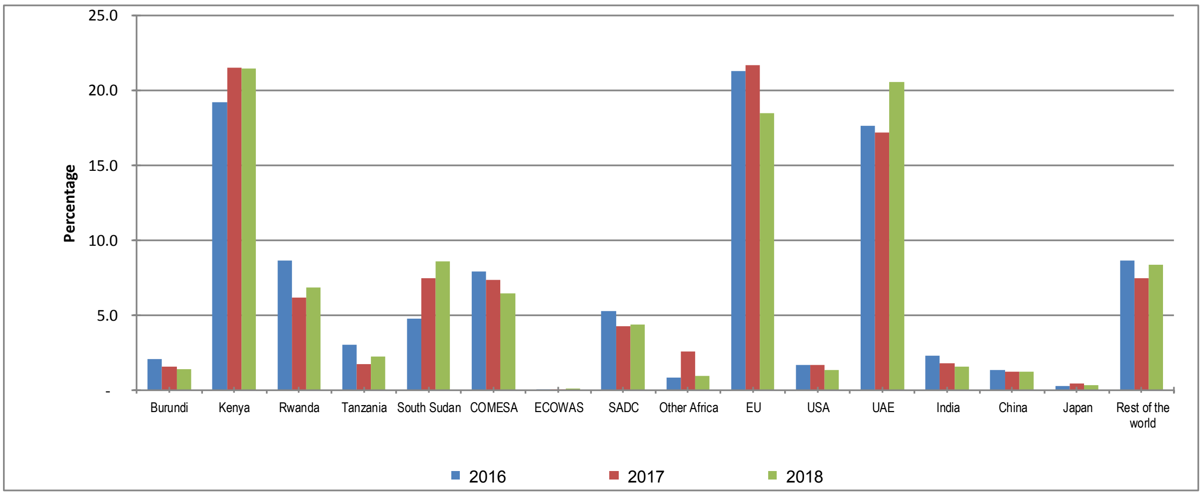
Uganda's domestic exports to the whole world increased by 6.1 percent to USD 2,624.4 million in 2018 from USD 2, 473.5 million in 2017. The increase in exports is mainly due to increased production arising from Uganda's export-oriented policies over the last three years. These include policies restricting immature fishing that allowed the lakes to restock and increase fish exports, value addition in the diary and dairy products sections that increased export volumes for dairy products, increased industrial manufacturing due to increased efficiency in power supply thus reducing costs, revival of key export products especially in the cotton and apparel sectors. The increase in exports from Uganda is due to growth in agricultural production as a result of favourable weather conditions over the last two years.

The domestic exports from Uganda were mainly destined to the EAC with the region accounting for 40.4 percent of Uganda's formal domestic exports. Domestic Exports to SADC grew by 9.0 percent to USD 114.9 million in 2018 from USD105.1 million in 2017. The key exports to SADC included cement, crude palm oil and rice and were mainly destined to Democratic Republic of Congo (USD 91.2million).

However, domestic exports to COMESA (excluding EAC) decreased to USD169.3 million in 2018 from USD 181.2 million in 2017 and exports to EU decreased by 9.6 percent from USD 536.6 million in 2017 to USD485.4 million in 2018.

UAE remains Uganda's key export country with exports to the country growing by 26.8 percent to USD539.2 million in 2018 form USD425.1 million in 2017. However, exports to other key destinations especially USA fell in 2018. This implies challenges in taking advantage of the AGOA policy even when opportunities exist.

Figure 2.26: Uganda Domestic Exports by Country/Region of Destination (percentage share)

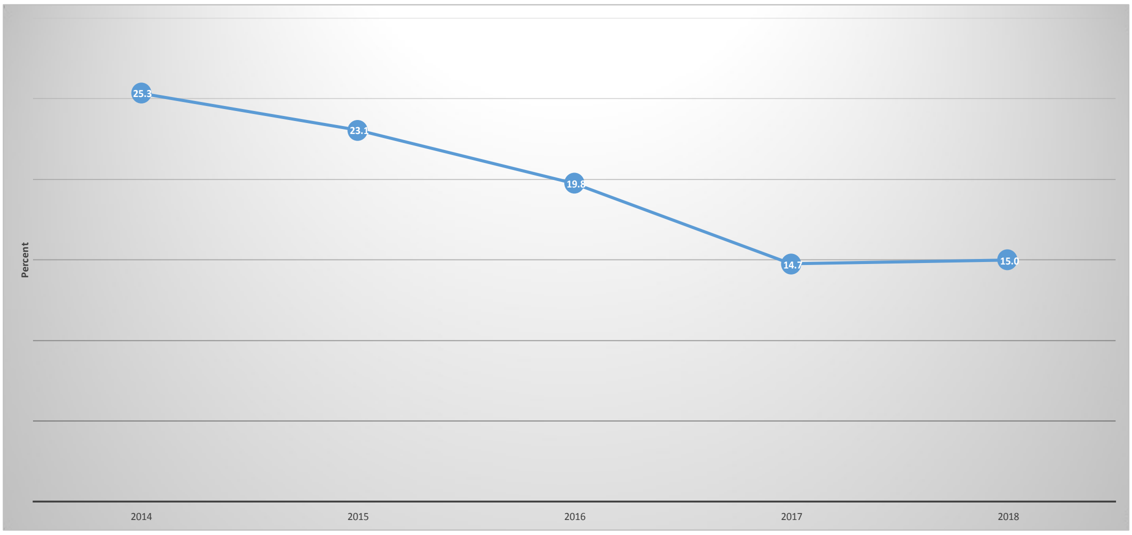


Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics, 2019

Re-Exports

Uganda's re-exports grew by 8.2 percent to USD 463.0 million in 2018 from to US$ 427.9 million in 2017. The key products re-exported from Uganda were mainly fuel, sugar and rice and while the major destinations for re-export were South Sudan and D.R Congo. As a result, the share of re-exports to total exports increased slightly to 15 percent during the year from 14 percent in 2017.

Figure 2.27: Uganda's Re-exports as Percent of Total Exports (percentage change)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics,2019

Uganda's Intra-Regional Trade Trends

Intra-Regional Exports

Uganda exported more to EAC than any other trading bloc showing the increased importance of the region for Uganda's industrial development. Uganda's intra-regional exports increased by 11.4 percent to USD 1,254.5 million in 2018 from USD 1,126.3 million in 2017. Most of the goods were finished manufactured goods reflecting the country's growing industrial base in manufactured goods but agricultural products also contributed a substantial amount to export earnings. The key agricultural products exports were sugar, bean and maize reflecting a growing agro-processing sector in the country.

Uganda's export earnings to Kenya amounted to USD 580.2million. The key exports to Kenya included tea USD77.5 million in 2018, legumes worth USD 53. Million, electricity amounted to USD48.3 million in 2018, maize amounted to USD44.8 million, milk and milk products worth USD43.05 million. Exports to United Republic of Tanzania grew by 33.1 percent to USD 66.3 million in 2018 from USD 49.8 million in 2017. The key commodities exported to Tanzania included iron & steel, tobacco and electricity. Exports to Rwanda grew by 16.5 percent to USD 211.6 million in 2018 from USD 181.6 million in 2017. The key commodities exported to Rwanda included cement, soap and maize.

Exports to South Sudan grew by 18.6 percent to USD 355.8 million in 2018 from USD 299.9 million in 2017. The key commodities exported to South Sudan included sorghum, maize flour and beans. Exports to Burundi dropped by 5.4 percent to USD 40.7 million in 2018 from USD

43.0 million in 2017. The key commodities exported to Burundi included iron and steel, plastics and tobacco.

Intra-EAC Re-exports

Uganda's intra-EAC domestic exports increased by 11.7 percent from USD 949.8 million in 2017 to USD 1,061.4 million in 2018. The re-exports from Uganda to EAC partner states increased by 9.4 percent to USD 193.1million in 2018 from USD 176.5 million in 2017. The share of re-export to the total formal exports in 2018 declined marginally to 15.4 percent from 15.7 percent in 2017. The main goods re-exported are sugar, palm oil and motor vehicles.

Table 2.14: **Uganda's Intra-EAC Exports, 2014-2018 (US$ million)**

	2014	2015	2016	2017	2018
Exports	923	1,037	951	1,126	1,254
Imports	686	631	533	566	796
Trade Balance	236	406	418	561	458
Uganda' total imports	6,074	5,528	4,829	5,596	6,729
EAC imports as a % of total Imports	11.3	11.4	11.0	10.1	11.8
Total Trade	1,609	1,668	1,484	1,692	2,051

Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics, 2019

Intra-Regional Imports

Uganda's total imports from the region increased by 40.8 percent to USD 796 million in 2018 from USD566 million in 2017. The big increase in imports from the region was caused mainly by the increased imports from the United Republic of Tanzania.

Uganda imports from Kenya increased by 12.8 percent to USD 515.9million in 2018 from USD457.2 million in 2017. The key products imported included unwrought gold, rolled iron and steel and petroleum oils.

Imports from Tanzania amounted to 258 million in 2018 up from 91.8 million in 2017. The key imports from URT in 2018 included gold, which amounted to USD158million, rice amounting to USD29.0 million. Imports from Burundi also increased to USD5.4 million in 2018 from USD 1.1

million in 2017. The key products imported from Burundi included; iron and steel, raw hides and skins and ferrous waste.

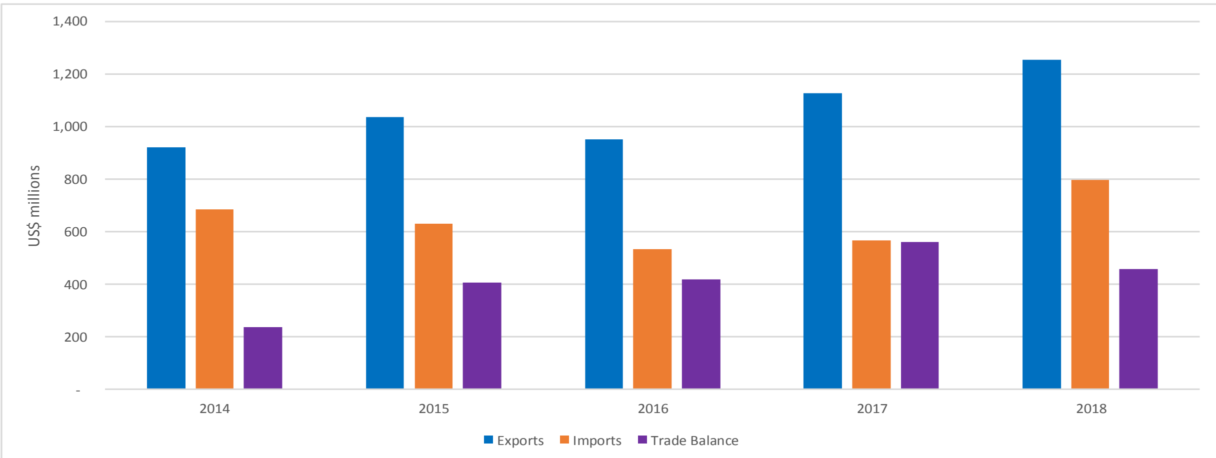
Intra-Regional Trade Balance

Uganda's total trade with EAC Partner States improved by 21.2 percent to USD 2,050.7 million in 2018 from US$ 1,691.8 million in 2017. Total exports to the region increased by 11.4 percent to USD 1,254.5million in 2018 from US$ 1,126.3 billion in 2017. While total imports grew by 40.8 percent to USD796.3 million in 2018 from USD 565.5 million in 2017. Consequently, Uganda's trade surplus with EAC Partner States fell by 18.3 percent to USD458.2 million in 2018 from US$ 560.8 million in 2017.

Kenya was the major trading partner in the EAC regional bloc whose total trade increased over time. In 2018, total trade increased by 8.6 percent to USD 1,096.0 from USD 1,009.2 million from in 2017.

Although Uganda exports to Tanzania increased from USD 49.8 million in 2017 to USD 66.3million, it could not match the increase registered in imports of 129% from USD 141.6 million in 2017 to USD 325.0 million in 2018. Accordingly, this made the trade deficit with Tanzania to more than triple from USD42.0 million to USD192.5 million.

Figure 2.28 : Uganda's Trade with EAC Partner States, 2014-2018 (US$ million)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics, 2019

Table 2.15: **Uganda's Trade with EAC Partner States, 2014-2018, (US$ million)**

		2014	2015	2016	2017	2018	Percentage Change 2014	2015	2016	2017	2018
Burundi	Imports	4.1	3.4	1.3	1.1	5.4	809.0	(17.9)	(61.8)	(18.0)	408.1
	Exports	43.5	46.3	45.1	43.0	40.7	(10.8)	6.5	(2.5)	(4.7)	(5.4)
	Total trade	47.6	49.7	46.4	44.0	46.0	(3.3)	4.4	(6.6)	(5.1)	4.5
	Trade Balance	39.3	42.9	43.8	41.9	35.3	(18.5)	9.1	2.1	(4.3)	(15.8)
Rwanda	Imports	10.9	9.4	10.1	9.8	13.1	47.1	(13.9)	7.6	(2.5)	33.0
	Exports	245.3	237.6	193.3	181.6	211.6	13.4	(3.2)	(18.7)	(6.0)	16.5
	Total trade	256.2	246.9	203.3	191.5	224.7	14.5	(3.6)	(17.7)	(5.8)	17.4
	Trade Balance	234.5	228.2	183.2	171.8	198.5	12.2	(2.7)	(19.7)	(6.2)	15.6
Kenya	Imports	593.9	554.5	459.0	457.2	515.9	5.5	(6.6)	(17.2)	(0.4)	12.8
	Exports	297.4	427.0	404.1	552.0	580.2	(5.4)	43.6	(5.4)	36.6	5.1
	Total trade	891.3	981.5	863.1	1,009.2	1,096.0	1.6	10.1	(12.1)	16.9	8.6
	Trade Balance	(296.5)	(127.5)	(54.9)	94.8	64.3	19.4	(57.0)	(57.0)	(272.6)	(32.2)
South Sudan	Imports	1.5	0.8	2.5	5.6	3.2	457.6	(43.7)	204.5	120.3	(42.8)
	Exports	280.3	265.0	239.6	299.9	355.8	59.8	(5.4)	(9.6)	25.2	18.6
	Total trade	281.8	265.9	242.1	305.5	359.0	60.4	(5.6)	(8.9)	26.2	17.5
	Trade Balance	278.8	264.2	237.0	294.3	352.5	59.2	(5.2)	(10.3)	24.2	19.8
Tanzania	Imports	75.7	62.9	59.7	91.8	258.8	64.9	(16.9)	(5.1)	53.8	181.9
	Exports	56.0	60.8	68.9	49.8	66.3	16.8	8.5	13.3	(27.7)	33.1
	Total trade	131.7	123.7	128.6	141.6	325.0	40.3	(6.1)	4.0	10.1	129.6
	Trade Balance	(19.7)	(2.1)	9.2	(42.0)	(192.5)	(1,069.6)	(89.2)	(531.4)	(557.4)	358.3
Intra-EAC**	**Imports**	**686.1**	**631.0**	**532.6**	**565.5**	**796.3**	**11.2**	**(8.0)**	**(15.6)**	6.2	40.8
	Exports	**922.5**	**1,036.7**	**950.9**	**1,126.3**	**1,254.5**	**14.9**	**12.4**	**(8.3)**	18.4	11.4
	Total trade	**1,608.6**	**1,667.7**	**1,483.5**	**1,691.8**	**2,050.7**	**13.3**	**3.7**	**(11.0)**	14.0	21.2
	Trade Balance	**236.4**	**405.6**	**418.3**	**560.8**	**458.2**	**27.1**	**71.6**	**3.1**	34.1	(18.3)

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

Uganda's Informal Cross-Border Trade

A survey conducted by the Uganda Bureau of Statistics (UBOS) in collaboration with the Bank of Uganda (BOU) collected information on cross-border trade between Uganda and her neighbours that are not recorded by the Customs Department of the Uganda Revenue Authority (URA). Informal exports and imports are grouped into three categories: Industrial, Agricultural and Other Products depending on the level of processing of the goods transacted.

Informal Cross-Border Exports

Uganda's informal exports fell by 0.4 percent to USD546.6 million in 2018 from US$ 549.0 million in 2017. Informal exports to Kenya increased by 5.8 percent from USD 141.7 million in 2017 to USD 150.0 million in 2018. The informal exports to Kenya mainly comprised of maize and maize flour and beans. Informal export to United Republic of Tanzania fellby 46.8 percent to USD 26.9 million in 2018 from USD 50.5 million in 2017. The value of informal export to DRC almost remained the same at USD 270.0 million in 2017 and USD 269.8 million in 2018. The main products exported informally to DRC were clothes, fish and shoes. Informal exports to Rwanda increased by 26.9 percent to USD 49.5 million in 2018 from USD 39.0 million. The major informal exports to Rwanda were shoes & clothes maize flour and sorghum. The value of informal export to South Sudan increased slightly by 5.4 percent to USD from USD 50.4 million in 2018 form USD 47.8 million in 2017. The main products exported informally to South Sudan were clothes, beans and maize flour.

The biggest fall in informal exports was experienced in the exports to the United Republic of Tanzania which fell by 46.7 percent to USD 26.9 million in 2018 from USD 50.0 million In 2017. The fall in exports to URT was mainly attributed to strict restrictions on the exportation of unprocessed agricultural products like maize and beans within the region.

Table 2.16: Uganda's Total Informal Exports, 2014-2018, (USD million)

	2014	2015	2016	2017	2018	% Change 2018/2017
Burundi	15.0	1.9	-	-	-	-
Democratic Republic of Congo	139.5	181.4	221.3	270.0	269.8	-0.1
Kenya	92.9	96.4	79.1	141.7	150.0	5.8
Rwanda	24.5	21.8	33.5	39.0	49.5	26.9
South sudan	119.5	79.5	41.6	47.8	50.4	5.4
Tanzania	23.3	18.2	43.8	50.5	26.9	-46.7
Total Trade	414.7	399.2	419.3	549.0	546.6	-0.4

Source: Uganda Bureau of Statistics, 2019

Informal Cross-Border Imports

Uganda's informal Imports fell by 25.8 percent to USD560.0 million in 2018 from US$ 80.9 million in 2017.Kenya was the leading source of Uganda's informal imports in 2018, followed by DRC and then Rwanda.

Informal imports from Kenya reduced by 8.9 percent from USD 27.4 million in 2017 to USD 25.0 million in 2018. Similarly, Informal imports form DRC went down by 18.8 percent to USD 23.3 million in 2018 from USD 28.3 million in 2017. For Tanzania and South Sudan, informal imports remained generally low with values estimated at US$ 3.7 and US$ 3.2 Million in 2018 respectively. It is important to note that, informal imports have been low on account of customs interest in collecting taxes on small consignment entering the country, making most of the goods formally declared.

Table 2.17 Uganda's Total Informal Imports, 2014-2018, (US$ million)

	2014	2015	2016	2017	2018	% Change 2018/2017
Burundi	-	-	-	-		-
Democratic Republic of Congo	21.3	18.3	20.3	28.7	23.3	(18.8)
Kenya	30.8	31.9	26.6	27.4	25.0	(8.9)
Rwanda	2.2	1.2	2.5	3.2	4.8	50.9
South sudan	3.8	2.3	2.5	2.3	3.2	40.3
Tanzania	7.7	10.7	13.0	19.3	3.7	(81.0)
Total Trade	65.8	64.4	64.9	80.9	60.0	-25.8

Source: Uganda Bureau of Statistics

2.4. 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.

2.4.1. EAC Imports of Goods under Exemption and Remission Schemes

The total value of exemptions grated to firms in the EAC decreased by 5.8 percent to USD6.2 billion in 2018 form USD6.5 billion in 2017. Similarly, the total revenue foregone as a result of implementing the exemptions regime in the EAC decreased by 3.4 percent to USD1.5 billion in 2018 from USD 1.6 billion in 2017. As a percentage of trade taxes, the total revenue foregone decreased marginally to 16.5 percent in 2018 from 17.0 percent in 2017

Burundi's imports subject to exemptions decreased by 7.8 percent from US$ 370.5 million in 2017 to US$ 341.7 million in 2018. Revenue foregone decreased also by 7.9 percent from US$ 91.3 million in 2017 to US$ 84.1 million in 2018. Trade taxes increased by 8.2 percent to US$ 199.4 million in 2018 from US$ 184.3 million in 2017. Kenya's value of goods imported under exemptions and remissions regime decreased by 2.5 percent from US$ 3.1 billion in 2017 to US$ 3.0 billion in 2018. Similarly, revenue foregone decreased by 5.5 percent from US$ 777 million in 2017 to US$ 733 million in 2018. Rwanda's imports subject to exemptions decreased by 11.9 percent to US$ 624.5 million in 2018, from US$ 558.1 million in 2017, while revenue foregone increased by 8.0 percent to US$ 179.2 million in 2018, from US$ 166.0 million in 2017. Trade taxes increased by 10.4 per cent to US$ 428.4 million in 2018, from US$ 388.1 million in 2017. The value of goods imported under exemptions and remissions regime into the South Sudan amounted to US$ 533.66 million in 2018, which was 85.45 percent more than US$ 37.03 million in 2017. So, the revenue loses as a result of the exemptions reduced to US$ 187.7 million in 2018, from US$ 13.7 million in 2017 while the revenue loses as a percentage of customs revenue decreased to 76.15 percent in 2018 from 60.30 percent in 2017. The value of goods imported under exemptions and remissions regime into the Tanzania amounted to US$ 1,826.5 million in 2018, which was a decrease of 19.0 percent compared to US$ 2,255.4 million recorded in 2017. Similarly, the revenue foregone as a result of the exemptions went down to US$ 440.8 million in 2018, from US$ 475.4 million registered in 2017 while the revenue foregone as a percentage of customs revenue decreased to 14.5 percent in 2018 from 15.1 percent recorded in 2017. The value of Uganda's imports under exemption and remissions regime increased to US$ 373.8 million in 2018, from US$ 286.8 million in 2017. The corresponding revenue foregone during 2018 amounted to US$ 88.2 million which was an increase of 24.9 percent compared to the year 2017.

Table 2.18: **Duty foregone Under the Exemptions/Remissions, 2014-2018 (USD ml and % change)**

Partner states	Heading	2014	2015	2016	2017	2018	Annual %age change 2016	Annual %age change 2017	Annual %age change 2018
Uganda									
	Value of Exemptions	295.6	305.9	322.0	286.8	373.8	5.29	-10.93	30.32
	Revenue Foregone	53.2	70.1	81.8	70.6	88.2	16.72	-13.71	24.88
	Total Trade taxes	1,505.9	1,486.8	1,463.1	1,601.1	1,790.3	-1.59	9.43	11.81
	%age Foregone	**3.41**	**0.05**	**0.06**	**0.04**	**4.92%**			
Tanzania									
	Value of Exemptions	3,940.80	2,868.14	7,069.29	2,255.44	1,826.52	79.39	-21.36	-19.02
	Revenue Foregone	730.88	592.62	444.12	475.42	440.75	-25.06	7.05	-7.29
	Total Trade taxes	2,315.31	2,338.34	2,541.95	2,680.72	2,673.78	8.71	5.46	-0.26
	%age Foregone	**23.99**	**20.22**	**14.87**	**15.06**	**14.15**			
Kenya									
	Value of Exemptions	3,032.79	3,126.48	2,619.33	3,087.09	3,009.14	-16.22	17.86	-2.53
	Revenue Foregone	621.03	664.18	597.78	777.04	733.99	-10.00	29.99	-5.54
	Total Trade taxes	3,885.43	3,838.59	4,804.50	4,453.15	4,174.90	25.16	-7.31	-6.25
	%age Foregone	**13.78**	**14.75**	**11.07**	**14.86**	**14.95**			
Rwanda									
	Value of Exemptions	684.34	646.55	576.64	558.09	624.5	-10.81	-3.22	11.91
	Revenue Foregone	189.42	182.22	157.31	166.04	179.2	-13.67	5.55	7.96
	Total Trade taxes	342.70	369.36	382.75	388.06	428.4	3.63	1.39	10.40
	%age Foregone	55.27	49.33	41.10	**42.79**	**41.84**			
Burundi									
	Value of Exemptions	77.76	340.77	203.90	370.47	341.67	-40.16	81.69	-7.77
	Revenue Foregone	7.55	80.38	54.30	91.29	84.09	-32.45	68.12	-7.88
	Total customs revenue	147.47	143.22	150.57	184.28	199.33	5.13	22.39	8.16
	%age Foregone	**5.12**	**56.12**	**36.06**	**49.54**	**42.19**			

Source: Partner states revenue authorities, central banks and National Statistics offices, 2019

2.4.2. EAC imports of Sensitive Products

The total value of sensitive products imported from non-EAC countries increased marginally by 1.4 percent to USD4.9 billion in 2018 from USD 4.8 billion in 2017. At the same time, the total value of sensitive products imported from EAC Partner States increased by 4.4 percent to USD 2.4 billion in 2018 from USD 2.3 billion in 2017. Burundi's imports of sensitive goods from non-EAC Partner States decreased by 30.9 percent from US$ 118.8 million in 2017 to US$ 82.1 million in 2018. The key sensitive products imported included wheat, sugar, rice, maize, motor vehicles for the transport of goods and worn clothing. Burundi's imports of sensitive goods from EAC Partner States increased by 15.5 percent to US$ 29.0 million in 2018, from US$ 25.1 million in 2017. The sensitive products imported by Burundi from EAC Partner States included wheat, cement and maize.

Kenya's imports of sensitive products from non-EAC countries increased by 21.2 percent to US$ 1,287.8 million in 2018, from US$ 1062.5 million in 2017. This was largely driven by increases in imports of wheat and meslin from US$ 410.2 million in 2017 to US$ 423.52 million in 2017;wheat or meslin flour from US$ 0.38 million in 2017 to US$ 2.19 million in 2018;tobacco products from US$ 1.42 million in 2017 from US$ 1.99 million in 2018:worn clothing and other worn articles from US$ 126.02 in 2017 to US$ 167.08 million in 2018; primary cell and batteries from US$ 6.19 million in 2017 to US$ 21.46 million in 2018. Imports of sensitive products from EAC Partner States increased by 69.5 percent to US$ 186.8 million in 2018, from US$ 110.2 million in 2017, mainly on account of increase in milk and cream imports which in total increased from US$ 51.6 million in 2017 to US$ 73.50 million in 2018 as well as maize imports which increased from US$ 1.57 million in 2017 to US$ 15.26 in 2018.

In 2018, Rwanda's imports of sensitive goods from non-EAC Partner States decreased by 25.1 percent to US$ 281.0 million in 2018 from US$ 375.0 million in 2017. Major imports included wheat & meslin and flower thereof; rice; cane or beet sugar; motor vehicles for the transportation of goods; worn clothing and other worn articles; milk and cream; primary cells and primary batteries and maize. Rwanda's imports of sensitive goods from EAC Partner States increased by 27.0 percent to US$ 125.3 million in 2018, from US$ 98.7 million in 2017. Major sensitive products imported by Rwanda from EAC Partner States included cement which accounted for 39.4percent; maize accounted for 22.5 percent; rice accounted for 10.8 percent, cereal flour accounted for 9.3 percent; sacs and bags of a kind used for the packing of goods accounted for 3.9 percent and sugar accounted for 3.8 percent.

Total imports of sensitive goods from non-EAC countries into the United Republic of Tanzania decreased by 14.3 percent, to US$ 566.8 million in 2018, from US$ 588.4 million recorded in 2017. The value of sensitive goods imported from EAC Partner States into Tanzania decreased by 14.9 percent to US$ 17.8 million in 2018, from US$ 21.0 million in 2017. Sensitive products imported into Tanzania included wheat, rice, cement, motor vehicles for transport of goods and milk.

In 2018, the total value of sensitive products imported into Uganda amounted to US$ 706.6 million of which 90.5 percent were imported from non-EAC countries. The major sensitive products imported from non-EAC countries included Wheat, vehicles, cement, worn clothing, sugar and rice. The major sensitive products imported from EAC Partner States included rice, cement and stoppers, caps and lids.

2.4.3. EAC Imports of Excisable Goods

The value of imports of excisable goods into the EAC increased by 15 percent to USD 10.0 billion in 2018 from USD8.6 billion in 2017 mainly on account of increase in excisable imports by all Partner States in 2018. The main products imported by all Partner States was petroleum products. This further strengthens the need to develop existing oil and gas resources that are readily available in EAC Partner States.

The value of excisable goods imported into Burundi increased by 7.4 percent to US$ 244.9 million in 2018, from US$ 228.2 million in 2017.This was mainly on account of an increase in imports of petroleum products, beverage, spirits and vinegar, which represented 66.7percent of the value of imported excisable goods in 2018. The value of imported excisable goods imported into Kenya increased by 20.0 percent, from US$3.3 billion in 2017 to US$ 3.9 billion in 2018. This was mainly on account of increase in imports of petroleum products from US$ 2.4 billion in 2017 to US$ 2.9 billion in 2018. In 2018, Rwanda's value of imported excisable goods increased by 1.34 percent, to US$ 782 million from US$ 772 million in 2017. The imports of mineral fuels increased by 11.2 percent, to US$ 552.2 million in 2018 from US$ 496.6 while imports of vehicles decreased by 20.5 percent to US$175.7 million percent from US$ 220.9 million. This was due to the local assemble of vehicles in Rwanda. The value of excisable goods imported into South Sudan increased by 73.5 percent to US$ 493.6 million in 2018, from US$ 130.6 million in 2017. The increase was as a result of the increase in import of fuel which increased by 45.1 percent, vehicles and other cars which increased by 14.4 percent, spirits whose imports increased by 9.8 percent and malt beers whose imports increased by 9.4 percent. The value of excisable goods imported into Tanzania increased by 20.0 percent to US$ 3,137.9 million in 2018, from US$ 2,641.9 million in 2017. The increase was mainly on account of the increase in imports of manufactured tobacco by 85.3 percent, vehicles/railway/roll-stock parts and accessories (30 percent), plastics and articles thereof (22.9 percent) and mineral fuels (15.8 percent) of all imported exercisable goods. Uganda's import value of excisable products decreased by 8.1 percent to US$ 1.44 billion in 2018 from USD1.5 billion in 2017 mainly on account of reduced imports of reduced imports of Plastics, cement, furniture products, Perfumes and soap detergents. The major excisable products remain Petroleum products, sugar, cigarettes and alcohol products including spirits, wines & beers. The new products added to the list of excisable products during 2018 include cooking oil and selected vehicles whose values amounted to US$ 97.8 million.

2.4.4. EAC Imports categorized by Tariff Bands

Total value of goods imported into the EAC region increased by about 19 percent to USD38.3 billion in 2018 from USD 32.2 billion in 2017. Overall, EAC imports under all the tariff bands increased in 2018 relative to 2017. Raw Materials and capital goods under the zero percent tariff band increased by 5.3 percent to USD23.7 billion in 2018 from USD 22.6 billion in 2017. Imports of intermediate products that attracted 10 percent import tariff increased by 11.9 percent to USD4.4 Billion in 2018 from USD3.9 billion in 2017. Imports of finished products that attract a tariff of 25 percent on importation amounted increased by 10.9 percent while the highest increase in imports, amounting to 26.5 percent in 2018 occurred in the category of goods that attract import tariff rates above 25 percent.

Burundi's imports of goods under zero percent tariff band decreased by 27.9 percent from US$ 582.1 million in 2017 to US$ 420.0 million in 2018. Goods under the zero percent tariff, including exempted goods, accounted for 52.9 percent of the total value of imports. The value of goods imported under the 10 percent tariff band increased by 84.7 percent to US$ 97.8 million in 2018 from US$ 52.9 million in 2017 and accounted for 12.3 percent of total imports. Goods imported into Burundi under the 25 percent tariff increased by 108.0 percent to US$ 220.1 million in 2018 from US$ 105.8 million in 2017 and accounted for 27.7 percent of the total imports.

Imports into Kenya under zero percent tariff band accounted for 57.2 percent in 2018 from 60.4 percent in 2017. Similarly, the value of goods imported under the zero percent tariff band decreased from US$ 10.1 billion in 2017 to US$ 9.9 billion in 2018. The share of goods imported under 10 percent and 25 percent tariff bands accounted for 12.8 percent and 21.2 percent respectively in 2018 from 11.9 percent and 20.7 percent respectively in 2017. Meanwhile, the share of goods imported under the over 25 percent tariff bands increased from 7 percent in 2017 to 8.7 percent in 2018.

Rwanda's imports of goods under zero percent tariff band including exempt goods increased by 4.9 percent to US$ 1,333.5 million in 2018 from US$ 1,270.7 million in 2017, and accounted for 44.8 percent of the total value of imports. Imports under the 10 percent tariff band increased by 16.5 percent to US$ 758.9 million in 2018 from US$ 651.5 million in 2017 and accounted for 25.5 percent of total imports, while imports under the 25 percent tariff band decreased by 8.2 percent, to US$ 848.5 million in 2018 from US$ 924.5 million in 2017. This accounted for 28.6 percent of the total imports.

In 2018, Tanzania's merchandise imports under the zero tariff bands increased by 6.9 percent to US$ 5.4 billion from US$ 5.0 billion recorded in 2017. On the other hand, the value of imports under 10 percent tariff band increased to US$ 1.3 billion in 2018, from US$ 1.1 billion recorded in 2017. Likewise, the value of goods imported under the 25 percent tariff band increased by 16.8 percent to US$ 1.9 billion in 2018, from US$ 1.6 billion recorded in 2017. The value of goods imported under the tariff bands above 25 percent decreased by 18.0 percent to US$ 64 million in 2018, from US$ 78.04 million registered in 2017.

The value of goods imported into Uganda under the zero percent tariff band in 2018 accounted for 81.3 percent of the total value of imports and amounted to USD5.5 billion in 2018. Goods imported under the 10 percent tariff band decreased marginally by 0.7 percent to USD552.1 million in 2018 from USD556.2 million in 2017 while finished goods imported under the 25-tariff band increased by 17 percent to USD511.8 million in 2018. Similarly, goods imported under tariff rates above 25 percent increased by 20.4 percent to USD 169.9 million in 2018. Overall, imports into Uganda increased by about 20.3 percent in 2018.

Table 2.19: EAC- Imports by Tariff Band, 2014-2018 (US$ million)

Partner state	Tariff band status	2014	2015	2016	2017	2018	% change 2011	% change 2016	% change 2017	% change 2018
Uganda	0%	4,258.60	3,992.18	3,323.15	4,437.91	5,471.60	23.2	-16.8	33.5	23.3
	2%	-	-	-	-	-	(100.0)	-	-	-
	4%	2.49	0.11	0.81	1.50	5.87	(26.5)	625.9	84.3	291.9
	6%	38.27	11.52	16.95	21.57	18.09	(6.0)	47.1	27.2	-16.1
	10%	650.60	561.66	556.40	556.21	552.10	16.0	-0.9	0.0	-0.7
	25%	883.71	754.11	712.86	437.57	511.84	17.1	-5.5	-38.6	17.0
	>25%	239.86	208.53	219.28	141.14	169.93	(7.9)	5.2	-35.6	20.4
	Total	**6,073.53**	**5,528.12**	**4,829.46**	**5,595.90**	**6,729.44**	**20.7**	**-12.6**	**15.9**	**20.3**
Kenya	0%	11,995.15	9,652.30	8,121.88	10,073.77	9,942.42	26.4	-15.9	24.0	-1.3
	10%	2,352.88	2,248.24	2,035.74	1,993.06	2,237.72	13.3	-9.5	-2.1	12.3
	25%	3,137.52	3,257.21	3,137.07	3,447.43	3,685.75	12.2	-3.7	9.9	6.9
	>25%	920.64	842.70	810.32	1,172.78	1,512.16	30.7	-3.8	44.7	28.9
	Total	**18,406.19**	**16,000.44**	**14,105.01**	**16,687.05**	**17,378.05**	**22.5**	**-11.8**	**18.3**	**4.1**
Tanzania	0%	7,539.03	5,862.26	4,184.11	5,008.90	5,356.25	62.5	-28.6	19.7	6.9
	10%	2,309.82	2,071.97	1,531.87	1,084.92	1,281.31	(19.1)	-26.1	-29.2	18.1
	25%	2,663.14	2,373.45	1,852.51	1,608.05	1,878.35	61.5	-21.9	-13.2	16.8
	>25%	255.26	237.80	267.21	78.04	64.00	47.7	12.4	-70.8	-18.0
	Total	**12,767.25**	**10,545.48**	**7,835.69**	**7,779.91**	**8,516.18**	**38.8**	**-25.7**	**-0.7**	**9.5**
Rwanda	0%	2,042.69	2,088.50	2,113.41	2,451.08	2,555.43	80.8	-13.1	57.6	4.3
	5%	73.57	-	-	-	-		-	-	-
	10%	182.20	195.63	191.05	205.22	188.08	(28.4)	-13.3	210.7	-8.4
	15%	-	-	-	-	-		-	-	-
	25%	206.16	246.29	264.39	262.61	201.75	(50.0)	-5.3	36.0	-23.2
	>25%	46.27	44.15	38.43	24.74	9.14	(72.1)	-10.4	-100.0	-63.0
	Total	**1,704.39**	**1,982.76**	**1,780.24**	**2,875.71**	**2,954.41**	**17.22**	-10.2	61.5	2.7
Burundi	0%	597.78	619.77	468.00	582.11	419.99	38.2	-24.5	24.4	-27.9
	5%	-	-	-	-	-	11,118.2	-	-	-
	10%	57.45	58.12	42.80	52.92	97.76	386.6	-26.4	23.6	84.7
	15%	-	-	-	-	-	94.1	-	-	-
	25%	116.22	102.76	103.80	105.84	220.11	19.5	1.0	2.0	108.0
	>25%	10.45	12.20	13.60	15.12	55.62	4.2	11.5	11.2	267.8
	Total	**781.90**	**792.85**	**628.20**	**755.99**	**793.47**	**70.6**	**-20.8**	**20.3**	**5.0**

Source: Partner States revenue authorities, 2019

2.4.5. Customs Revenue Performance

In 2018, Burundi's total customs revenue increased to US$ 199.3 million, from US$ 184.3 million 2017. The share of total customs revenue to total tax revenue increased to 42.5 percent in

2018 from 42.3 percent in 2017. Value-Added Tax (VAT) on imports increased by 6.8 percent in 2018 and accounted for 47.3 percent of the total customs revenue. The VAT and import duty collections were performed at 122.9 percent and 152.5 percent of the target in 2018, respectively compared to 101.9 percent and 115.4 percent of the targets in 2017, respectively. Kenya's total customs revenue declined to US$ 4.2 billion in 2018 from US$ 4.5 billion in 2017, resulting into a performance rate of 78 percent of the set target of US$ 5.3 billion. The share of total customs revenue to the total revenue, decreased to 32.8 percent in 2018 from 32.4 percent in 2017. VAT on imports accounted for 33.3 percent of the total customs revenue and decreased by 3.5 percent to US$ 1.39 billion in 2017 from US$ 1.44 billion in 2017. VAT and import duty performance rates decreased from 95.6 percent and 92.3 percent in 2017, to 76.8 percent and 77.8 percent in 2018, respectively. Rwanda's total tax revenues increased by 8.5 percent, to US$ 1516.3 billion in 2018, or 102.1 percent of the 2018 target. Customs revenue collections increased by 10.4 percent to US$ 428.4 million in 2018 from US$ 388.1 million in 2017 which was 102.6 percent of the 2018 customs revenue target of US$ 417.5 million. Excise duty and VAT on imports recorded an increase of 8.1 per cent and 10.1 percent, respectively while import duty remained constant and accounted for 28.3 percent of the total customs revenue. Tanzania's total revenue collected in 2018 decreased marginally by 0.2 percent to US$ 6,726.9 million, from US$ 6,736.8 million recorded in 2017. Similarly, customs revenue decreased by 1.9 percent to US$ 2,629.2 million in 2018, from US$ 2,680.8 million recorded in 2017 which can be explained by the decrease in excise duty on imports to US$ 133.7 million in 2018, from US$ 481.6 million in 2017. The share of customs revenue to total revenue amounted to 39.1 percent in 2018 compared to 39.8 percent in 2017. Import duty and excise duty performed at 99.8 percent and 40.1 percent of the set targets of US$ 519.1 million and US$ 333.0 million, respectively. In Uganda, International trade remained a major source of revenue with Customs revenue contributing 41.8 percent to total revenue in 2018. The contribution is within the average of 42.7 percent posted for the last three years. Import duty which amounted to US$ 351.0 million in 2018 contributed 19.61 percent to total Customs revenue. This is in line with the average of 19.27 percent posted in the last three years, suggesting that there is no major structural change in imports attracting import duty in the last four years**.** The major dutiable items include; worn clothing, used shoes, motor vehicles, wheat, cement, tyres and cartons & boxes of paper. Excise duty and VAT continued to be the major sources of customs revenue which accounted for 31.8 percent and 39.2 percent respectively in 2018.

Table 2.20: **EAC- Customs Revenue Performance, 2015-2018 (US$ million and % change)**

Partner state	Tax head	2015		2016		2017		2018		2016	2017	2018	2018
		Target	Actual	Target	Actual	Target	Actual	Target	Actual	Performance rate			% change
Uganda													
	Import	287.8	282.3	306.7	287.3	330.5	307.4	349.3	351.0	93.66	93.02	100.49	14.2
	Excise Duty	455.91	480.35	481.75	504.60	547.44	540.63	599.60	570.35	104.74	98.76	95.12	5.5
	VAT Imports	581.64	603.02	623.80	560.93	630.70	610.79	644.15	704.29	89.92	96.84	109.34	15.3
	Other	105.94	121.10	160.59	110.31	155.23	142.29	151.93	164.63	68.69	91.67	108.36	15.7
	Total Trade taxes	**1,431.27**	**1,486.79**	**1,572.88**	**1,463.13**	**1,663.83**	**1,601.12**	**1,745.01**	**1,790.29**	**93.02**	**96.23**	102.59	11.8
	Total Revenue	**3,401.97**	**3,435.34**	**3,568.47**	**3,459.30**	**3,902.53**	**3,725.10**	**4,264.45**	**4,282.49**	**96.94**	**95.45**	100.42	15.0
	%age of Trade taxes to Total Revenue		**43.3**		**42.3**		**43.0**		**41.8**				
Kenya													
	Import Duty	827.75	805.71	798.93	885.83	930.89	859.47	1,096.46	853.54	110.88	92.33	77.85	-0.7
	Excise Duty	651.52	638.48	746.53	769.19	813.69	803.94	987.63	695.97	103.04	98.80	70.47	-13.4
	VAT Imports	1,577.91	1,398.39	1,283.58	1,594.45	1,509.12	1,442.57	1,812.03	1,391.90	124.22	95.59	76.81	-3.5
	Other	422.70	539.23	1,141.31	1,555.03	1,315.34	1,347.17	1,391.80	1,233.48	136.25	102.42	88.62	-8.4
	Total Trade taxes	4,048.88	3,838.59	3,970.34	4,804.50	4,498.07	4,453.15	5,287.92	4,174.90	**121.01**	**99.00**	78.95	-6.2
	Total Revenue	**12,170.57**	11,362.26	**12,539.84**	**13,322.73**	**14,481.23**	**13,763.73**	**16,460.33**	**12,718.54**	**106.24**	**95.05**	77.27	-7.6
	%age of Trade taxes to Total Revenue		**33.78**		**36.06**		**32.35**		**32.83**				
Tanzania													
	Import Duty	430.14	398.49	580.05	649.74	547.86	478.89	519.06	517.97	112.01	87.41	99.79	8.2
	Excise Duty	476.96	562.44	547.77	628.48	707.01	481.64	333.00	133.65	114.73	68.12	40.14	-72.3
	VAT	909.26	801.88	963.36	820.16	1,019.24	893.62	971.33	964.36	85.14	87.68	99.28	7.9
	Other	594.56	575.53	587.74	561.69	858.78	826.62	23.73	36.79	95.57	96.26	155.04	-95.5
	Total Trade taxes	**2,410.93**	**2,338.34**	**2,678.92**	**2,660.07**	**3,132.88**	**2,680.77**	**2,945.46**	**2,629.20**	**99.30**	**85.57**	89.26	-1.9
	Total Revenue	**6,340.3**	**5,938.6**	**6,715.6**	**6,491.5**	**7,653.30**	**6,736.77**	**7,560.41**	**6,726.85**	**96.66**	**88.02**	88.97	-0.1
	%age of Trade taxes to Total Revenue		**0.39**		**40.98**		**39.79**		**39.09**				
Rwanda													
	Import	82.05	96.90	86.23	91.46	95.25	97.10	82.0	96.9	106.07	101.94	118.10	-0.2
	Excise Duty	93.29	87.04	81.47	87.38	92.91	83.95	93.3	87.0	107.25	90.35	93.30	3.7
	VAT Imports	137.00	146.80	144.80	150.31	152.93	149.83	137.0	146.8	103.81	97.97	107.15	-2.0
	Other	37.87	38.62	59.29	53.61	57.70	57.18	37.9	38.6	90.42	99.10	102.00	-32.5
	Total Trade taxes	**350.20**	**369.36**	**371.79**	**382.75**	398.79	388.06	**350.2**	**369.4**	**102.95**	**97.31**	105.47	-4.8
	Total Revenue	**1,235.04**	**1,278.79**	**1,274.13**	**1,302.15**	**1,376.25**	**1,397.70**	**1,235.0**	**1,278.8**	**102.20**	**101.56**	103.54	-8.5
	%age of Trade taxes to Total Revenue		**28.88**		**29.39**		**27.76**		**28.88**				
Burundi	Import Duty	32.80	28.11	21.34	21.43	21.58	25.76	20.48	31.22	100.42	119.36	152.47	21.2
	VAT	97.29	71.74	15.24	21.00	27.06	37.70	76.78	94.37	137.77	139.32	122.91	150.3
	Excise Duty	177.46	86.22	81.51	81.28	83.82	88.38	28.83	41.98	99.72	105.44	145.61	-52.5
	Other	5.29	4.60	17.31	26.86	36.18	32.44	53.50	31.77	155.12	89.67	59.37	-2.1
	Total cutoms revenue	**312.84**	**190.67**	**135.41**	**150.57**	**168.64**	**184.28**	**179.59**	**199.33**	**111.20**	**109.28**	110.99	8.2
	Total Tax Revenue	**469.05**	**375.76**	**335.01**	**353.31**	**416.57**	**436.14**	**442.66**	**469.40**	**105.46**	**104.70**	106.04	7.6
	%age of Trade taxes to Total Revenue		**50.74**		**42.62**		**42.25**		**42.46**				

Source: EAC Partner States Revenue Authorities, 2018

2.5. Prospects for Growth of EAC Merchandise 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 EAC has prioritized agricultural development through enhancement of post harvest handling and regional value chain in order to increase exports and enter into the global value chain system. Already accounting for about 36% of GDP in the EAC economy, the agriculture sector still retains a lot of untapped potential, specifically for commercial farming. Agriculture is a sector that is central to the EAC economy, contributing between 24 and 44% of GDP in the five Partner States, while also accounting for the livelihood of about 80% of the region's population. The key to sector growth, however, lies in a shift from subsistence to commercial farming. Opportunities for large-scale commercial farming exist in the region for food and cash crops.

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. 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.

3. CHAPTER 3: INVESTMENT TRENDS IN THE EAC

3.1. EAC Investment Outlook

FDI 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.

FDI, Industrial development and Employment 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, technology transfer and increased productivity in order to promote a competitive domestic sector and provide important innovation and linkages with domestic firms. FDI does not only entail creation of new firms or the transfer of ownership from 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.

3.2. EAC Investment Flows

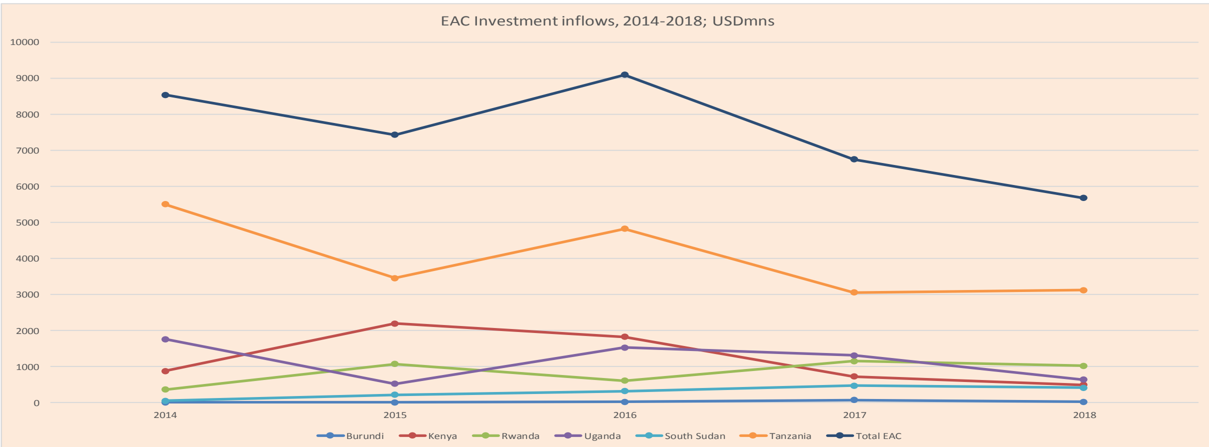
Foreign Direct Investments into East Africa decreased by 15.9 percent to USD 5.7 billion in 2018 from US$ 6.8 billion in 2017. Inflows to United Republic of Tanzania increased by 2.3 percent to US$ 3.1 billion, Inflows to Burundi and Rwanda decreased by 76.8 percent and 11.5 percent to US$ 15.1 million from US$ 65.1 million in 2017 and to US$ 1015.3 million in 2018 from US$ 1147.7 million in 2017, respectively. FDI into Kenya, South Sudan and Uganda fell by 32.4 percent, 11.7 percent and 51.8 percent to US$ 485.5 million, 408.6 million and US$ 630.6 million in 2018, respectively. Overall, FDI inflows to the EAC were concentrated in manufacturing, construction and services sectors. FDI into manufacturing and construction amounted to US$ 2.1 billion and US$ 1 billion in 2018, respectively. China and India continued to be the major sources of FDI to EAC with inflows amounting to US$ 1.1 billion, US$ 281.02 million respectively.

Table 3.1: **FDI Inflows into EAC Region, 2014-2018 (US$ million and percentage growth)**

Country	2014	2015	2016	2017	2018	Percent Growth 2017/2018
Burundi	3.2	1.8	14.6	65.1	15.1	-76.8
Kenya	874.1	2,187.4	1,820.2	717.7	485.5	-32.4
Rwanda	359.2	1,065.3	600.1	1147.7	1,015.3	-11.5
Uganda	1,755.0	517.0	1,524.6	1308.7	631	-51.8
South Sudan	44.0	213.2	315.1	462.5	408.6	-11.7
Tanzania	5,502.9	3,449.7	4,822.3	3,051.4	3,122.4	2.3
Total EAC	8,538.4	7,434.4	9,096.9	6,753.1	5,677.5	-15.9

Source: EAC Investment Promotion Agencies, 2019

Illustration: EAC FDI Inflows: 2014-2018



FDI and Employment in the EAC

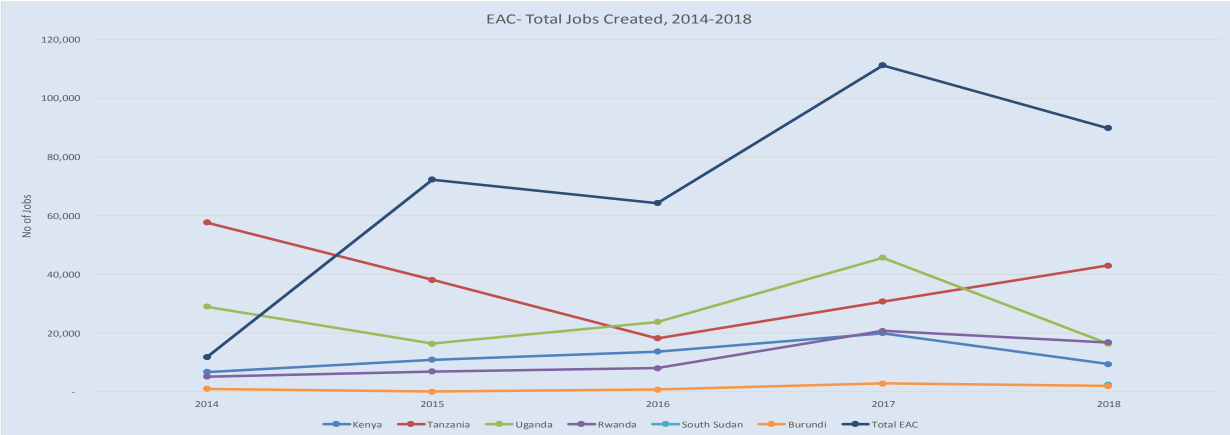
The number of jobs created as a result of FDI inflows into EAC decreased by 19.3 percent to 89,877 in 2018 from 111,316 in 2017. FDI to Uganda contributed 16,362 jobs or 18.2 percent of total jobs created. FDI into Tanzania created 43,021 jobs accounting for 39.9 percent while the FDI inflows into Rwanda created 16799 jobs accounting for 18.7 percent of total jobs created. FDI inflows into Kenya created 9385 jobs accounting for 10.4 percent of total jobs created while FDI inflows into Burundi and South Sudan accounted for 2.2 percent and 2.6 percent of the total jobs created.

Table 3.2: Number of Jobs Created through Foreign Direct Investment, 2014-2018

Country	2012	2013	2014	2015	2016	2017	2018	% change in 2018
Kenya	3,898	18,896	6,702	10,851	13,645	19,976.0	9,385.0	(53.0)
Tanzania	35,879	43,098	57,706	38,153	18,187	30,742.0	43,021.0	39.9
Uganda	14,103	16,235	28,980	16,343	23,759	45,728.0	16,362.0	(64.2)
Rwanda	17,311	3,845	5,169	6,921	8,033	20,756.0	16,799.0	(19.1)
South Sudan							2,357.0	100.0
Burundi	0	0	956	51	710	2,777.0	1,953.0	(29.7)
Total EAC	16,465	32,570	11,758	72,319	64,334	111,316.0	89,877.0	(19.3)

Source: *EAC Investment Promotion Agencies 2019*

Illustration:



3.3. Intra-EAC Investment Flows

The Total Value of intra-EAC investment flows is represented in the table below. Total intra-EAC investments decreased by 20.8 percent to USD152.7 million in 2018 from US$ 192.9 million in in 2017. The total value of intra-EAC investments into Kenya amounted to US$ 2.8 million down from USD 25.3 million in 2017 while investments into Rwanda, Tanzania and Uganda amounted to US$ 29.4 million, US$ 69.4 million and US$ 27.9 million in 2018, respectively. Burundi registered one investment from the other Partner States amounting to USD0.4 million. Similarly, the number of projects registered under Intra-EAC investments decreased by 28.8 percent to 42 projects in 2018 from 59 projects in 2017. Uganda registered 18 projects while Tanzania, Rwanda and Kenya registered 16,6 and 6 projects arising from intra-EAC investments in 2018, respectively.

Table 3.3: Intra-EAC Investment Flows, 2015-2018 (USD millions and No. of Projects)

Partner State	Source	2015		2016		2017		2018	
		No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values
Burundi	Tanzania	-	-	9.00	0.50	-	-	1.00	0.40
	Uganda	-	-	8.00	0.15	-	-	-	-
	Kenya	-	-	15.00	1.73	-	-	-	0.00
	Rwanda	0.0	0.0	7.0	0.2	-	-	0.0	-
	Rest of World	1.0	1.8	77.0	12.0	10.0	65.1	5.0	14.7
	Total	**1.0**	**1.8**	**116.0**	**14.6**	**10.0**	**65.1**	**6.0**	**15.1**
Kenya	Tanzania	3.0	12.3	2.0	0.2	2.0	25.3	**2.0**	0.4
	Uganda	7.0	7.2	4.0	5.3	0.0	0.0	2.0	1.8
	Rwanda	4.0	112.4	1.0	0.2	0.0	0.0	2.0	0.6
	Burundi	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
	Rest of World	236.0	2,055.1	225.0	1814.5	192.0	692.4	186.0	482.7
	Total	**251.0**	**2,187.2**	**232.0**	**1820.2**	**194.0**	**717.7**	**192.0**	**485.5**
Rwanda	Tanzania	2.0	5.8	3.0	6.2	1.0	1.0	3.0	7.5
	Uganda	3.0	3.2	3.0	76.4	1.0	49.8	1.0	0.2
	Kenya	4.0	21.5	1.0	1.5	5.0	7.7	2.0	21.7
	Burundi	0.0	0.0	3.0	36.1	3.0	8.1	0.0	0.0
	South Sudan					0.0	0.0	0.0	0.0
	Rest of World	73.0	815.1	38.0	479.9	79.0	1081.2	81.0	985.8
	Total	**82.0**	**845.6**	**48.0**	**600.1**	**89.0**	**1147.7**	**87.0**	**1015.2**
Tanzania	Kenya	14.0	33.4	6.0	2.4	16.0	29.1	12.0	42.7
	Uganda	3.0	10.6	2.0	3.1	3.0	0.6	4.0	26.7
	Rwanda	3.0	11.3	0.0	0.0	1.0	0.3	0.0	0.0
	South Sudan			0.0	0.0	0.0	0.0	0.0	0.0
	Burundi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Rest of World	285.0	3394.4	126.0	3563.3	202.0	3021.4	254.0	3053.0
	Total	**305.0**	**3449.7**	**134.0**	**3568.8**	**222.0**	**3051.4**	**270.0**	**3122.4**
Uganda	Tanzania	1.0	1.6	3.0	2.9	2.0	3.0	5.0	4.7
	Kenya	11.0	17.9	21.0	109.8	16.0	33.0	9.0	9.9
	Rwanda	1.0	0.3	1.0	2.9	3.0	3.9	1.0	2.0
	South Sudan			2.0	4.5	6.0	31.4	2.0	4.7
	Burundi	0.0	0.0	0.0	0.0	0.0	0.0	1.0	6.6
	Rest of World	232.0	496.9	287.0	699.5	234.0	843.9	165.0	602.7
	Total	**245.0**	**516.7**	**314.0**	**819.6**	**261.0**	**915.2**	**183.0**	**630.6**
South Sudan	Tanzania							4.0	14.8
	Kenya							7.0	7.7
	Rwanda							0.0	0.0
	Uganda							2.0	0.3
	Burundi							0.0	0.0
	Rest of World							37.0	385.5
	Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**50.0**	**408.3**

Source: Partner States Investment Promotion Agencies, 2019

3.4. Initiatives to support investment at regional level

The EAC has developed strategies to enhance investment promotion in the region. Based on the comparative advantage in agricultural and diary sector, the EAC has promoted investment in the agro processing and diary sector especially with regard to value addition in the tanneries sector. The manufacturing sector has a wide range and lucrative investment opportunities in all EAC Partner States. To entice investors, Partner States offered generous incentives in importation of machinery, transport equipment and raw materials as well as in various manufacturing 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. Promotion of investments in the construction sector related especially in the housing sector based on the existence of large quantities of cement as well as skilled manpower in the region. The region also has potential for FDI 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 with 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.

3.5. Country Specific Analysis

3.5.1. Burundi

Domestic and intra-EAC Investment Flows

Political stability and the end of the civil war has improved economic activity. The country has made substantial progress in the implementation of structural reforms in the management of public finance and measures to protect the Central Bank and the Treasury.
Burundi’s general attitude toward foreign investment is increasingly welcoming. Considerable efforts have been made to create an environment conducive to domestic and foreign private investment

Several strengths and opportunities, if tapped, will have a considerable impact on growth and job creation. They include underexploited mining potential for peat, limestone, nickel, coltan, phosphates, vanadium, carbonatites, and other minerals; exploitable hydropower potential of 1,300 MW, with less than 40 MW tapped; and the development of the 650-kilometre Lake Tanganyika, whose roughly 10 ports could make it an interregional trade hub. In this regard, renovating Bujumbura port will boost trade, especially among countries of the subregion, such as Democratic Republic of Congo, Rwanda, Tanzania, Uganda, and Zambia.

Domestic and intra-EAC Investment Flows

In 2018, domestic and intra-EAC investment flows to Burundi amounted to US$71.7 million and covered nearly all the main economic sectors except agriculture and construction. This represents a sharp increase compared to the US$5.7 million of investments which were recorded in 2017. These investments were mainly concentrated in the energy sector, other services (Printing and related support activities, Waste treatment, Health Care Providers & Services) and manufacturing representing 46.7%, 33.2% and 10.3% respectively of all the local and intra-EAC investments flows. Local investments took US$ 71.2 million from the US$ 71.7 representing almost 99% of all the domestic and intra-EAC investments flows. Huge investments in the energy sector in 2018 from local investors have led to a strong increase in domestic investment flow. With the exception of investments from Tanzania, Burundi did not register investments from any other Partner States in the EAC region in 2018.

Table 3.4: Domestic and Intra –EAC Investment Flows to Burundi, 2018 (US$ million)

Activity	Burundi	Kenya	Uganda	Rwanda	Tanzania	TOTAL
Agriculture	0.0	0.0	0.0	0.0	0.0	**0.0**
Construction	0.0	0.0	0.0	0.0	0.0	**0.0**
Energy	**33.5**	0.0	0.0	0.0	0.0	**33.5**
Manufacturing	**6.9**	0.0	0.0	0.0	**0.5**	**7.4**
Mining	1.1	0.0	0.0	0.0	0.0	**1.1**
Services	5.9	0.0	0.0	0.0	0.0	**5.9**
Others	23.8	0.0	0.0	0.0	0.0	**23.8**
TOTAL	**71.2**	**0.0**	**0.0**	**0.0**	**0.5**	**71.7**

Source: Burundi Investment Promotion Authority, 2019

Burundi Foreign Direct Investment Inflows

Foreign Direct Investments into Burundi dropped drastically from US$ 65.1 million in 2017 to US$ 15.1 in 2018. Inflows from the EAC Partner States were from Tanzania and contributed US$ 0.4 million, accounting for a mere 2.5 % of the total inflows. Nevertheless, this investment represents a slight improvement compared to 2017 where no investments from the EAC partner states were recorded in Burundi.

Inflows from the rest of the world declined sharply from US$ 65 million in 2017 to US$ 15.1 million in 2018. The number of investment projects from the rest of the world also dropped from 10 projects in 2017 to 5 projects in 2018.

Table 3.5: Burundi-FDI In-flows, 2014-2018 (US$ million and percentage change)

Country	Source	2014		2015		2016		2017		2018		% change 2017 over 2018	
		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	0	0	0	0	9	0.5	0	0	1	**0.4**		
	Uganda	0	0	0	0	8	0.15	0	0	0	0.0	0.0	0.0
	Kenya	0	0	0	0	15	1.73	0	0	0	0.0	0.0	0.0
	Rwanda	2.0	1.4	0	0	7	0.16	0	0	0	0.0	0.0	0.0
	R of World	8.0	149.6	1	1.8	77	12.05	10	65.06	5	**14.7**	-0.5	-0.8
	Total	**10**	**151**	**1**	**1.8**	**116**	**14.6**	**10**	**65.06**	6	**15.1**	-0.4	-0.8

Source: Burundi Investment Promotion Authority, 2019

Mode of Market Entry

Most foreign direct investment inflows into Burundi in 2018 took the form of greenfield projects particularly in the manufacturing and construction sectors whereas in 2017 most FDIs went to mining, utilities, manufacturing and agriculture.

Sectoral Distribution of Foreign Direct Investment

Foreign Direct Investments into Burundi dropped drastically from USD 65.1 million in 2017 to USD15.1 in 2018. Inflows from the EAC Partner States were from Tanzania and contributed USD 0.4 million, accounting for a mere 2.5 percent of the total inflows. Nevertheless, this investment represents a slight improvement compared to 2017 where no investments from the EAC partner states were recorded in Burundi.

Inflows from the rest of the world declined sharply from USD 65 million in 2017 to USD 15.1 million in 2018. The number of investment projects from the rest of the world also dropped from 10 projects in 2017 to 5 projects in 2018.

Table 3.6: Burundi’s Sectoral Distribution of Foreign Investment 2016-2018

YEAR	2016			2017			2018		
SECTOR	Number of projects	Amount	Jobs	Number of Projects	Amount	Jobs	Number of Projects	Amount	Jobs
Agriculture, forest, fishering and hunting	2	0.4	15	2	3.6	92	0	0.00	0
Construction	8	1.5	75	0	0	0	2	1.2	120
Manufacturing	8	5.1	98	3	11.7	297	3	12.7	366
Automobile							1	1.2	92
Mining and quarrying	4	1.4	78	4	14.1	397	0	0.00	0
Finance, Insurance, Real estate and business services	36	2.5	208	0	0	0	0	0.00	0
Community, Social and Personal Services	2	0.6	25	0	0	0	0	0.00	0
Wholesale, retail trade, Tourism	50	2.6	178	0	0	0	0	0.00	0
Transport, Communication &storage	4	0.3	28	0	0	0	0	0.00	0
Utilities (water & energy)	2	0.1	10	1	35.8	1,175	0	0.00	0
Total	**116**	**14.6**	**710**	**10**	**65.1**	**1,961**	**6**	**15.1**	**578**

Source: Burundi Investment Promotion Authority,2019

Burundi's Sources of Foreign Direct Investment

The main sources of investments into Burundi in 2018 were Russia which registered one project with a total value of US$ 10.8 million accounting for 71.5 percent total FDI inflows; China which registered two projects amounting to USD 1.5 million; India registered one project worth USD 1.2 million; Canada registered one project worth US$ 1.2 million while Tanzania registered one project worth USD 0.4 million.

Table 3.7 Burundi's Major Sources of Investment, 2016-2018 (US$ million)

2016				2017				2018			
Country	No. of Projects	Employ-ment	Value (US$ MN)	Country	No. of Projects	Employ-ment	Value (US$ MN)	Country	No. of Projects	Employ-ment	Value (US$ MN)
INDIA	19	104	4.4	BELGE	1	1,175	35.8	RUSSIA	1	260	10.8
KENYA	15	81	1.7	Russia	3	369	13.6	CHINA	2	120	1.5
CHINA	9	127	1	OMAN	1	200	10.9	INDIA	1	49	1.2
TURKEY	7	88	0.8	India	4	189	4.4	CANADA	1	92	1.2
TANZANIA	9	34	0.5	MOLDAVIE	1	28	0.4	TANZANIA	1	57	0.4
UGANDA	8	25	0.1								
RWANDA	7	15	0.2								
TOTAL	**74**	**474**	**8.7**	**TOTAL**	**10**	**1,961**	**65.1**	**TOTAL**	**6**	**578**	**15.1**

Source: Burundi Investment Promotion Authority, 2019

Employment Creation

The number of direct jobs created as a result of FDI inflows into Burundi amounted to 1953 jobs in 2018, compared to 2,777 jobs created in 2017. Domestic investment created 1375 jobs in 2018 against 816 jobs created in 2017. Burundi's foreign direct investments inflows created 578 jobs in 2018, compared to 1961 jobs created in 2017 representing a sharp decline.

The largest percentage of jobs created was in the manufacturing sector; i.e. 366 jobs accounting for 63.3 percent of the total FDI jobs created in 2018. Construction created 120 jobs or 20.7 percent while the automotive sector created 92 job accounting for 15.9 percent.

The essential jobs created by local investments come from the manufacturing sector with 506 jobs created (36.8 percent), transport 178 jobs (12.9 percent), health 171 jobs (12.4 percent) and energy 131 jobs (9.5 percent).

Table 3.8: Employment Creation, 2014-2018 (No. of Jobs)

	Year						
Country	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Burundi	2,245	2,545	956	51	8,768	2,777	1953

Source: Burundi Investment Promotion Authority, 2019

Prospects for investment and development in Burundi

Burundi's private sector is small and relatively underdeveloped. However, tremendous efforts have been devoted to private sector development and investments promotion. Procedures, time and costs related to business registration have been significantly reduced for the benefit of the investor. Fiscal and non-Fiscal incentives are offered in order to attract investors in the country and to be able to reap the positive effects of foreign direct investments.

In 2018, Burundi launched the National Development Plan (NDP) for 2018-2027, as an appropriate response to the problem of poverty in the country. The National Development Plan 2018-2027 (NDP) is aligned with the African Union Agenda 2063 and the Sustainable Development Goals. The Government's key priority for the next 10 years is structural transformation of the economy to alleviate poverty. It is on the basis of this Plan that there are intensive marketing campaigns into labour intensive sectors with large employment multipliers such as manufacturing sectors and the government is geared towards developing policies and action plans to implement the NDP.

Burundi Government's recent initiative to encourage and support cooperatives has led to the creation of thousands of rural cooperatives. Cooperatives play a major self-help role in rural areas; particularly where private businesses hesitate to go and public authorities do not provide basic services. They are instrumental in providing opportunities for productive employment as well as for the sustainable development of their communities.

In addition, 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.

3.5.2. Kenya

Overview of Kenya's Investment Environment

Kenya has aligned her developmental goals to the Big Four Agenda in the next five years 2018-2022. The Big Four prioritizes manufacturing, universal healthcare, affordable housing and food security as the main sectors of focus in the plan period. It envisages enhancing structural transformation, addressing deep-seated social and economic challenges, and accelerating economic growth to at least 7% a year. By implementing the Big four strategy, Kenya hopes to reduce poverty rapidly and create decent jobs. The manufacturing sector growth trajectory is to enhance contribution to GDP to 15% of GDP by 2022, and propel the country towards becoming Africa's industrial hub. Major industries include agriculture, forestry and fishing, mining and minerals, industrial manufacturing, energy, tourism and financial services.

Kenya has the potential to be one of Africa's success stories from its growing youthful population, a dynamic private sector, highly skilled workforce and improved infrastructure. Addressing the challenges of poverty, inequality, governance, low investment and low firm productivity to achieve rapid, sustained growth rates is a major goal for Kenya.

Domestically, improved business confidence and continued macroeconomic stability will contribute to growth. A strategic geographic location with sea access, opportunities for private investors, and the discovery of oil, gas, and coal along with continued exploration for other minerals makes Kenya a favorable destination for attraction of FDIs.

Macroeconomic performance

Kenya's real Gross Domestic Product (GDP) is estimated to have expanded by 6.3 per cent in 2018 compared to 4.9 per cent in 2017. The growth was mainly supported by stable macroeconomic environment characterized by low oil prices, rebound in tourism, strong remittance inflows, increased agricultural production, accelerated manufacturing activities, sustained growth in transportation; vibrant service sector activities and a government led infrastructure development initiative. During the review period, Per Capita GDP was estimated at USD1, 839. On the supply side, services accounted for 52.5% of the growth, agriculture for 23.7%, and industry for 23.8%, during the review period (KNBS survey 2018). On the demand side, private consumption was the key driver of growth. The public debt to GDP ratio increased considerably over the past five years to 57% at the end of June 2018. Half of public debt is external. The share of loans from non-concessional sources has increased, partly because Kenya issued a $2 billion Eurobond in February 2018. Debt sustainability analysis conducted by International Monetary Fund (IMF) in October 2018 elevated the country's risk of debt stress to moderate. To stimulate growth, the Central Bank of Kenya reduced the interest rate to 9% in July 2018 from 9.5% in May. Nonetheless, a law capping interest rates discourages savings, reduces credit access to the private sector (especially small and medium enterprises), and impedes banking sector competition, particularly by reducing smaller banks' profitability. The exchange rate was more stable in 2018 than in 2017. Domestically, improved business confidence and continued macroeconomic stability will contribute to growth. A strategic geographic location with sea access, opportunities for private investors, and the discovery of oil, gas, and coal along with continued exploration for other minerals makes Kenya a strong contender of FDI in the region.

Intra-EAC Foreign Direct Investment (FDI) flows

Intra- EAC investment inflows into Kenya increased from 2 projects in 2017 projects to 6 projects in 2018 sourced from Tanzania, Rwanda and Uganda. However, there were two (2) more joint venture projects co-owned by other investors from Rwanda and Tanzania. In the last three years, Kenya has recorded an increase in investment enquiries and projects from Tanzania, Uganda and Rwanda, averaging two (2) Foreign Direct Investments (FDI). Between 2016 and 2018, total value of intra EAC FDI flows averaged 1.0 percent as compared to value of projects received from the rest of the world implying that. The trend of Intra EAC FDI inflows is way below expected levels of at least 5.0 percent in spite of the progress on the Customs Union and Common Market protocols in the EAC. In 2018 for instance, the total intra EAC investment inflows into Kenya dropped from US$ 25.3 million in 2017 to US$ 2.8 million in 2018. The drop could be attributed to slow credit uptake due to banking law caps on interest rate, high cost of production, low expansion of urban infrastructure, industrial unrest and isolated insecurity incidences.

Six (6) projects were registered from other EAC Partner States and were mainly in-service industry and Manufacturing sector. Kenya ICT infrastructure is fairly advanced making the country a competitive investment destination. The manufacturing sector offers a wide range of incentives and tax holidays under the Export Processing Zones. The special economic zones when implemented under the Special Economic Zones Act, 2015 will provide much more incentives for investors looking to set base in industrial and techno zones. Additionally, some of the world's largest *multinational corporations* have set their regional headquarters in *Kenya*.

Kenya's financial sector has also grown immensely in the past few years, and this is one of the reasons as to why Kenya is among the largest economies in East Africa by GDP. Due to this, numerous companies have established themselves in Kenya to take advantage of the available opportunities in the region.

Table 3.9: Foreign Direct Investment Flows into Kenya, 2014-2018 (US$ million)

Source	2014		2015		2016		2017		2018		Percent Change, (2018	
	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	-	-	3.0	12.3	2.0	0.2	2.0	25.3	2.0	0.4	0%	-99%
Uganda	2.0	0.9	7.0	7.2	4.0	5.3	0.0	0.0	2.0	1.8	#DIV/0!	#DIV/0!
Rwanda	0.0	0.0	4.0	112.4	1.0	0.2	0.0	0.0	2.0	0.6	#DIV/0!	#DIV/0!
Burundi	0.0	0.0	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	#DIV/0!	0%
Rest of World	122.0	873.2	236.0	2,055.1	225.0	1814.5	192.0	692.4	186.0	482.7	-3%	-30%
Total	**124.0**	**874.1**	**251.0**	**2,187.2**	**232.0**	**1,820.2**	**194.0**	**717.7**	**193.0**	**485.5**	**-1%**	**-32%**

Source: Kenya Investment Authority, 2019

Sectoral Distribution of FDI Inflows in EAC

In the year 2018, Kenya Investment Authority (Ken Invest) registered fifty-two (52) projects in Finance, Insurance, Real estate & Business services. Forty-Seven (47) projects in Manufacturing; and forty-two (42) projects in Tourism, Wholesale and Retail sector. These sectors have been leading in terms of number of new investments projects through 2016-2018. Kenya continues to attract new investments in the above sectors in view of improved regulatory framework, advanced ICT infrastructure, incentive regimes and market access. For example, the Nairobi International Financial Centre Act. No. 25 of 2017, seeks to provide for legal framework to facilitate and support the development of an efficient and globally competitive financial services sector in Kenya. In terms of total value of investments; Finance, Insurance, Real estate & Business services valued USD 145.2 Million, Manufacturing USD 142.2 Million; Utilities (water & energy) USD 72.9 Million; and Wholesale, retail trade, Tourism USD 57.5 Million against overall contribution of USD 486 Million. The percentage capital contribution (value) from the four leading sectors was 86.0% of the total capital value of all the new investments registered by KenInvest in 2018.The manufacturing sector remains a vibrant sector for growth.

Table 3.10: Kenya's Sectoral Distribution of Foreign Direct Investments, 2016-2018

Sector	2016		2017			2018		
	Amount (US$ Mn)	Employment	No. of projects	Amount (US$ Mn)	Employment	No. of projects	Amount (US Mn)	Employment
Agriculture, fishing, forestry & hunting	17	973	2	4	90	9	2.1	767
Community, Social & Personal services	97	1,458	8	34	619	-	-	-
Construction	154	4,049	12	142	1,891	10	46.3	288.0
Finance, Insurance, Real estate & Business services	114	2,486	55	44	573	52	145.2	757
Manufacturing	79	1,578	35	223	13,059	47	142.2	3,834
Mining & Quarrying	1	25	4	5	144	2	0	38
Transport, Communication & Storage	443	543	18	62	153	17	19.4	251
Utilities (water & energy)	573	839	7	176	2,162	8	72.9	654
Wholesale, retail trade, Tourism	343	1,694	53	28	1,285	42	57.5	2,796.0
TOTAL	**1,820**	**13,645**	**194**	**718**	**19,976**	**187**	**486**	**9,385**

Source: Kenya Investment Authority, 2019

Kenya's Source of Foreign Direct Investments,

Foreign investments into Kenya remain relatively weak, however, Kenya is one of the largest recipients of FDI in Africa, with FDI inflows significantly increasing since 2010. The increase is attributable to investments, coming mainly from China, in the mining, Infrastructure, and construction industry.

In 2018, China, Japan and Portugal were the three top sources of the total number of foreign direct investment (FDI) flows to Kenya. China, India and United Kingdom remain strong sources of foreign direct investments to Kenya as per trends from 2016-2018.

In 2018, ten (10) countries brought in 30.0 percent of the total FDI inflows to Kenya in terms of projects value (capital contribution). This is against 53.0 percent and 95.0 percent of the total value of investment projects sourced from the top ten countries in 2017 and 2016 respectively. Kenya amounted to US$843 million. Part of the investment was as a result of mergers and acquisitions

Table 3.11: Kenya's Major Sources of Foreign Direct Investment, 2016-2018

	2016				2017			2018			
	No. of projects	Employment	US $ million		No. of	Employment	US $ million		No. of	Employment	US $
UK	23	4,711	843	Germany	8	2,042	70	Portugal	46	2	23
France	5	456	305	Spain	3	5	68	Jordan	78	5	4
China	31	2,420	108	China	32	1,910	45	China	1,667	27	45
India	24	508	107	UK	15	363	31	India	464	14	6
Denmark	5	171	81	India	18	554	30	USA	130	11	12
Netherlands	8	263	81	Canada	2	69	30	Japan	50	7	40
Japan	4	167	58	Netherlands	7	504	28	UK	75	6	1
South Africa	9	2,099	56	Israel	2	212	28	Egypt	64	6	1
Germany	4	95	51	Switzerland	1	222	27	Italy	75	5	1
Canada	4	173	36	Tanzania	2	313	25	Switzerland	237	4	16
Sub total	**117**	**11,063**	**1,726**	**Sub total**	**90**	**6,194**	**382**	**Sub total**	**2,886**	**87**	**149**
Rest of the World	115	2,582	94	Rest of the World	104	13,782	335	Rest of the world	6,449	100	337
Grand Total	**232**	**13,645**	**1,820**	**Grand Total**	**194**	**19,976**	**718**	**Grand Total**	**9385**	**187**	**486**

Source: Kenya Investment Authority

Mode of Entry into Kenya

Modes of entry have been via joint- venture, import-export, Greenfield investments, mergers and acquisitions, equity and non-equity modes; and wholly owned subsidiaries.

Employment Creation through FDIs

As per the Table 4.15 below, the total number of jobs created in 2018 were 9,385 compared to 19,976 jobs created in 2017.The manufacturing sector accounted for 41.0 percent of the total number of jobs created from FDIs; underscoring government commitment to propel manufacturing sector as one of the main sectors of growth. Agriculture accounted for 8.1 percent, Wholesale, retail and Tourism 7.1% and Construction 6.0 percent of the total number of jobs created in 2018 from FDIs. It is worth noting, these jobs were created through direct facilitation by KenInvest and are not representative of the total number of jobs created in the country during the period.

Table 3.12: Number of Jobs Created through Foreign Direct Investment, 2014-2018

Country	2014	2015	2016	2017	2018	%-Change 2017/2018
Kenya	6,702	10,851	13,645	19,976	9,385	- 53.0

Source: Kenya Investment Authority, 2019

Prospects for Investment Development in Kenya

The Kenyan government has taken measures aimed at implementing reforms to attract FDI. As a result, the country made remarkable progress in the Doing Business ranking as published by the World Bank in the ease of Doing Business Report. Kenya rank 61st out of 190 countries in 2018 from 80th position in 2017 report. Kenya simplified procedures for business creation, shortened the period of processing business licences, permits and approvals; simplified the process to register property, strengthened access to credit; and made paying taxes and resolving insolvency easier. The development of public-private partnerships as part of the 'Vision 2030' strategy has a positive influence on FDI inflows. Kenya plays a pivotal role in the East African Community, acting as a regional economic hub as it benefits from a strategic geographic location with sea access, a growing entrepreneurial middle class, a diversified agriculture and expanding services sector, and recently discovered hydrocarbons resources have the potential for FDI attractions. Nevertheless, numerous obstacles to investment persist, notably the country's quality of road infrastructure, terrorist risk and political uncertainties, social and ethnic divisions, and governance issues. To bend the curve of poverty, GDP growth needs to be sustained at levels of between 7 percent and 10 percent over several years. Growth will best be sustained by creating policy predictability as well as a political and investment climate that encourages investors to make long-term commitments, even across election cycles. These investments must be targeted at improving the human skills base of Kenya as well as providing the basic infrastructure that citizens need to thrive.

3.5.3. Rwanda

Overview

The Republic of Rwanda has made progress in building a business-friendly environment and has emerged as a top global reformer in the key international rankings that measure economies on their 'Ease of Doing Business' and competitiveness of the economy. The country's focus is on accelerating targeted investments with the aim of structural shift in exports to high value goods and services and target investments with large job multipliers and develop the associated value chains with aim of creating productive and decent jobs. The country's identification of priority sectors like Manufacturing, Agro processing, ICT, Energy and others with relevant, tax incentives have improved its investments levels and economic Growth in general.

Rwanda Foreign Direct Investment Inflows

Rwanda's Total Investment inflows reached US $ 2.006 million compared to US$1.673million in 2017 which is 20 percent increase and this increment was all coming from domestic investments which moved from US $525.7 million in 2017 to US $ 991.1million in 2018 an increment of 88.5 percent. Domestic investments also accounted for 49.4 percent while Foreign Direct Investments contributing 50.6 percent of total investments. However, Foreign Direct Investments decreased by 11.6percent compared to 2017.

Intra EAC investment projects contributed US$ 29.5Million from 6 projects which is 44 percent decrease compared 10 projects with USD 66.5Million in 2017; Reinvestments, expansion and new domestic investment projects mainly from Manufacturing sector account for 23 percent of registered investments and this was the main reason of the better performance of Domestic investments.

Table 3.13:Foreign Direct Investment flows in EAC Region, 2014-2018 (USD Million)

Partner State	Source	2014		2015		2016		2017		2018	
		No of Projects	Values (USD)	No of Projects	Values (USD)	No of Projects	Values (USD)	No of Projects	Values (USD)	No of Projects	Values (USD)
Rwanda	Tanzania	1	2	2	6	3	6.2	1	1.0	3	7.54
	Uganda	2	19	3	3	3	76.4	1	49.8	1	0.24
	Kenya	4	5	4	22	1	1.5	5	7.7	2	21.69
	Burundi	0	0	0	0	3	36.1	3	8.1	0	0.0
	Total	7	26	9	30.5	10.0	120.2	10.0	66.5	6	29.5
	Rest of World	47	333.4	73	815.1	38.0	479.9	79.0	1,081.2	81	985.80
	Total	**54**	**359.6**	**82**	**845.6**	**48**	**600.1**	**89**	**1,147.7**	**87**	**1,015.3**

Source: Rwanda Development Board 2019

Mode of FDI entry into the Economy Market Entry

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

Sectoral Distribution of FDI Inflows

In 2018, Foreign Direct Investment inflows had 87 investment projects; the leading sector was manufacturing with 47 projects amounting to USD 242.8million, created 7714 Jobs and accounted for 24 percent and 46 percent of total FDI inflows and pledged jobs respectively. This resulted from consistent improvement in performance and attraction to manufacturing sector. However, in terms of value in FDI inflows by sector, services including finance, insurance, real estate and other business services took the majority share of FDI inflows with USD399.7million from 10 projects which is 39 percent of the total FDI inflows for the period 2018.

The favourable Government policies have led to better and improved performance in easy of doing business. Conducive tax incentives like Import duty and VAT exemption on Machinery and Raw materials on manufacturing firms are behind the attraction and the increase in projects of this sector in investment generation both in FDIs and Domestic Investments.

Table 3.14: Rwanda- Sectoral Distribution of FDI, 2018 (USD Million and No of Jobs)

Sector	No of projects	Amount(USD)	Jobs created
Wholesale, retail trade, Tourism	18	104.6	1161
Agriculture, forestry and fishing	9	21.3	4041
Manufacturing	81	440.7	11726
Construction	2	162.3	324
Community, Social & Personal services	8	61.0	1217
Utilities (water & energy)	8	80.0	3273
Finance, Insurance, Real estate & Business services	24	772.1	3516
Transport, Communication & Storage	13	275.8	3668
Mining and quarrying	10	88.6	2312
Total	**173**	**2006.4**	**31238**

Source: Rwanda Development Board, 2019

Rwanda's Major Sources of Foreign Direct Investment

The key sources of FDI into Rwanda included Nigeria, USA China, India and the United Kingdom. Nigeria was the leading source of FDI with investment amounting to USD 264.6 million in 2018. Investments form the United States of America amounted to USD 244.1 million while India, China, Germany and United Kingdom's investments followed with USD181.1million, USD 61.5 million, USD 57.6 million and USD 54 million respectively.

Table 3.15: Rwanda - Major Sources of FDI, 2016-2018 (USD Million)

Country	2016			Country	2017			Country	2018		
	Number of Projects	Employment	Value (Million US$)		Number of Projects	Employment	Value (Million US$)		Number of Projects	Employment	Value (Million
United Kingdom	2	734	181.12	Poland	1	1834	398.7	Nigeria	2	640	264.58
Uganda	3	64	76.36	United Kingdom	8	3566	202.4	United States of America	12	8196	244.1
China	6	959	44.9	India	15	1948	84.5	India	19	2265	181.1
Portugal	1	15	44.0	Germany	2	147	64.0	China	14	1045	61.5
United States of America	3	591	42.8	CHINA	14	1974	56.8	Germany	2	673	57.6
Burundi	3	381	36.1	Uganda	1	95	49.8	United Kingdom	3	114	54.0
Canada	2	2690	33.3	United Arab Emerates	2	280	35.3	Slovenia	1	110	23.3
Singapore	2	346	31.1	UAE	2	130	33.0	UAE	2	341	22.0
Syria	1	173	29.8	Bangladesh	2	788	28.7	Kenya	2	180	21.7
India	8	780	29.8	United States of America	4	295	28.3	Not specified	1	121	16.0
Subtotal	31	6733	549.2	Subtotal	51	11057	981.5	Subtotal	58	13685	945.9
Other countries	**80**	**6544**	**610.6**	**Other countries**	**86**	**26491**	**691.5**	**Other countries**	**115**	**17553**	**1060.5**
Total	**111.0**	**13,277**	**1159.8**	**Total**	**137**	**37,548**	**1673**	**Total**	**173**	**31,238**	**2006.4**

Source: Rwanda Development Board, 2019

Employment Creation

Foreign Direct investments contributed 16,799 jobs in 2018 and this is 53.7 percent of 31,238 jobs generated for the period and manufacturing sector being the main contributor with 45.9 percent of overall jobs created by FDI.

Table 3.16: Number of jobs Created by Foreign Direct Investment, 2014-2018

Country	2014	2015	2016	2017	2018
Rwanda	5,169	6,921	8,033	20,756	16,799

Source: Rwanda Development Board, 2019

Prospects for Investment Development in Rwanda

Rwanda has maintained and further improved tremendously in ease of doing business rankings and rank 29th out of 190 economies in 2019 report compared to 41st position in the 2018 Ease of Doing Business Report. This was achieved due to a lot of reforms that facilitate business and investments in particular. All the investment and business-related services are accessed online from Business registration, investment registration, environment impact assessment and licensing to tax declaration and tax payment, all these have reduced the time taken and procedures which in turn eased doing business.

Some of the recent reforms registered in Rwanda that continue to place the country on a competitive edge includes among others: repealed laws on construction permits and Environment laws and thus streamlining the issuance of construction permits; and reducing time and procedures for environment impact assessment.

3.5.4. South Sudan

South Sudan Investment Outlook

South Sudan's economy is mainly dependent on revenues from Oil. However, South Sudan has enormous potential in other productive sectors and the government has made it priority to focus on the development of non-oil sectors to achieve long term sustainable growth. Therefore, the current government of the Republic of South Sudan and the South Sudan Investment Authority (SSIA) are working tirelessly to attract Foreign Direct Investment (FDI) and to open up potential investment opportunities in local, regional and international market across all priority sectors.

The government of the South Sudan initiated a number of strategic reforms to attract Local and International investors. The main objective is to support infrastructure development and increase industrialization and agricultural production. The reforms undertaken include the establishment of One Stop Shop for South Sudan Investment Authority. The concept of One Stop Shop is to bring business and regulatory agencies together in a user friendly and efficient process for issuance of investment certificate, licences and permits as well as providing customer care services. This concept is being implemented to offer sound and effective investment climate in South Sudan and therefore positioning itself as the major investment location in Africa. One of these reforms is Tax Concessions and incentive for FDIs.

Incentives to attract FDIs into South Sudan

The Government of the Republic of South Sudan has designated the following sectors as priority for Investment, and investors in these sectors are entitled to the benefits and incentives Agriculture and Agribusiness. The key sectors include infrastructure, mining, energy, forestry, manufacturing, ICT, financial services, pharmaceuticals, tourism and quarrying

Domestic and intra-EAC and Foreign investment inflows

South Sudan registered total investments amounting to USD457.3million in 2018. Domestic investments amounted to USD 48.7 million, intra EAC investment were USD 71.5 while Foreign Direct Investment (FDI) inflows from rest of the world accounted for USD 385.8 million. The bulk of the FDI was geared towards extractives, banking, Construction, ICT and Hotel and hospitality sectors, the Foreign Direct Investment (FDI) into the extractives sector. China, Tanzania and South Africa were the biggest contributors to FDI into South Sudan in 2018. Foreign Direct Investment (FDI) from China was mainly concentrated in the extractives sector while Foreign Direct Investment (FDI) from the Republic of Sudan, Kenya and Uganda were concentrated in the services sector particularly banking, ICT and Hotel and hospitality Industry. South Sudan has developed an investment strategy to support enhanced Foreign Direct Investment (FDI) over the next three years. The strategy includes reforms to business registration, infrastructure development, especially expansion of the airport and road network to

Uganda, Ethiopia, Sudan and Kenya and reforms in the financial sector to attract Foreign Direct Investment (FDI).

Table 3.17: South Sudan- Foreign Direct Investment flows, 2018 (USD Million)

Country	2018	
	Number of Projects	Value (Million US$)
South Sudan	67	48.70
Tanzania	4	14.8
Kenya	7	7.7
Rwanda	0	0.0
Uganda	2	0.3
Burundi	0	0.0
Rest of the World	37	385.8
Total	**117**	**457.3**

Source: South Sudan Investment Authority, 2019

South Sudan Sectoral Distribution of Foreign Direct Investments

The bulk of the Foreign Direct Investment into South Sudan in 2018 was concentrated in the extractives sector with investments amounting to USD358.2 million. The extractive sector contributed 87.5% of the total FDI inflows with most of the inflows from the Petroleum sector. FDI into the construction sector amounted to USD21million while investments into banking and public services attracted investment amounting to USD13.5 million and USD12.7 million respectively.

Table 3.18: South Sudan Sectoral Distribution of Foreign Investment, 2018 (USD Million)

Sector	2018		
	Number of Projects	Amount in US $ million	Jobs created
Agriculture, forest, fishering and hunting	3	1.6	29
Construction	10	21.0	141
Manufacturing	0	0.0	0
Mining and quarrying	27	358.2	780
Finance, Insurance, Real estate and business services	4	13.5	60
Community, Social and Personal Services	6	12.7	72
Wholesale, retail trade, Tourism	3	1.3	63
Transport, Communication & Storage	0	0	0
Utilities (water & energy)	1	1.0	15
Total	**54**	**409.3**	**1,160**

Source: South Sudan Investment Authority,2019

South Sudan Major Source of Investments

South Sudan leading sources of FDI inflows in 2018 included China amounting to US$ 355.4 million; Tanzania contributed US$ 14.8 million and South Africa contributed US$ 12.2 million. The three countries accounted for 77.7 percent, 3.2 percent and 2.3 percent of the total investment inflows respectively.

Table 3.19: South Sudan- Major Sources of FDI, 2018 (USD million)

Country	Number of Projects	No. of Jobs Created	Value (US$ Million)
China	18	583	355.4
Tanzania	4	43	14.8
South Africa	4	125	12.2
Kenya	7	82	7.7
Sudan	4	66	7.5
Somalia	5	112	4.5
United Kingdom	1	12	2
Malaysia	1	15	1.5
Egypt	1	15	1.0
Ghana	1	16	1.0
Sub Total	46	1069	407.6
Others (Incl. RSS)	71	1288	49.7
TOTAL	**117**	**2357**	**457.3**

South Sudan Investment Authority, 2019

Number of Jobs Created

In 2018, investments into the republic of south created 2357 direct jobs. The bulk of the jobs were created by investments from China, South Africa and Somalia amounting to 583 jobs,125 jobs and 112 jobs respectively in 2018. In terms of sectoral distribution, the bulk of jobs were created in the mining and quarrying as well as the construction sector. Mining and quarrying created 780 direct jobs while the construction sector created 141 direct jobs in the South Sudan economy over the year.

Prospects to Improved FDI Flows into the Republic of South Sudan

The establishment of South Sudan business registry in 2008; the Investment Promotion Act 2009, and the establishment of South Sudan Investment Authority are clear demonstrations of the commitment of the Government of the Republic of South Sudan to facilitating, promoting and developing the leadership of the private sector in the development of the Republic of South Sudan. Also, the Government of South Sudan is committed to working with local and foreign investors to harness the emerging business opportunities throughout the country.

In view of wide range of investment opportunities, the Government of the Republic of South Sudan established in 2012 One Stop Shop Investment Centre to streamline and simplify business set-up processes and have team of investment promotion officers to evaluate investment opportunities and identifying the right location for their projects. Also, the Government understand the key role played by infrastructure in maximizing the returns for investors. Therefore, the government have put in place measures to establish public private partnership (PPP) to help build critically needed power and transformation infrastructure. These measures include policies and regulations governing contacts, finance, banking and operations with appropriate mechanism for handling operational matters including dispute resolutions in consonance with international practices and laws; Clear commitment for the national/sub-national government to these long tenure strategic projects, given the multiple layers of project, economic and socio-political risks. This communicates the aspect of partnership with government, rather than as typical contractor-client relationship; Transparency of rules, timeliness of decision making and tamely resolution of any likely issues that may arise must underline the above to create investor conference. Further, the Government of the Republic of South Sudan has designated Agriculture, hard and soft infrastructure, Mining, agri-business, Energy, Tourism and Social sectors as priority for Investment, and investors in these sectors are entitled to the benefits and incentives.

3.5.5. Tanzania

Overview of Tanzania Investment environment

Tanzania like many other developing economies continued to implement policies aimed at improving investment climate in order to attract more FDI inflows. The Tanzania's long-term development strategy 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 whilst 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 an industrial base, and further improvements to Information and Communication Infrastructure (ICT).

During 2018, Tanzania Investment Centre (TIC) continued to undertake initiatives to improve delivery of services. To this end, a special committee, National Investment Facilitation Committee (NIFC), chaired by TIC and comprising of CEOs of Government institutions and investors in the services sector was formed to address challenges related to coordination and facilitation of services. Further, all institutions that are providing support to investors including Immigration Services Department, Tanzania Revenue Authority (TRA), Ministry of Works and Labour, Ministry of Land, Tanzania Bureau of Standards (TBS), and Tanzania Drugs and Food Authority (TDFA) seconded senior officers to the TIC. The filing system has also been automated to improve efficiency in the approval process. These initiatives are intended to reduce the number of days taken to get all the necessary facilitation and permits to three working days from an average of 14 working days in the previous years.

In the financial year 2018/19 the Government prioritised to facilitate primary industrial development for economic growth, integrate economic growth and human development and also creating conducive investment climate and business environment. This is envisaged to make Tanzania more attractive investment destination.

Tanzania Foreign Direct Investment Inflows

The total registered foreign direct investments in Tanzania increased by 2.3 percent to USD 3,122.4 million in 2018, from USD 3,051.4 million in 2017, with EAC investment accounting to 5.93 percent of the total investment flows, worth US$ 69.4 million, while that of the rest of the world amounted to USD 3,053.4 million as compared to USD 3,021.4 million recorded in 2017. Kenya's FDI inflows to Tanzania increased by 46.8 percent recording USD 42.7 million in 2018 compared to USD 29.1 million recorded in 2017. Similarly, investment inflows from Uganda increased from USD 0.56 million in 2017 to USD 26.7 million in 2018. However, planned investments from the rest of the world increased marginally by 1.0 percent to USD 3,053.1 million in 2018, compared to USD 3,021.4 million in 2017.

Table 3.20: Tanzania's Foreign Direct Investment Flows, 2017-2018 (USD Millions)

Partner State	Source	2017		2018		% Change, (2018 over 2017)	
		No of Projects	Values	No of Projects	Values	No of Projects	Values
Tanzania	Kenya	16.0	29.1	12.0	42.7	-25.0	46.8
	Uganda	3.0	0.6	4.0	26.7	33.3	4667.9
	Rwanda	1.0	0.3	0.0	0.0	-100.0	-100.0
	Burundi	0.0	0.0	0.0	0.0	-	-
	South Sudan	0.0	0.0	0.0	0.0	-	-
	Rest of World	202.0	3,021.4	254.0	3,053.0	33.7	1.0
	Total	**222.0**	**3,051.4**	**270.0**	**3,122.4**	**28.8**	**2.3**

Source: Tanzania Investment Centre,2019

Intra-EAC Investment Flows

Foreign Direct Investments (FDIs) registered in Tanzania amounted to US$ 3,122.4 Million in 2018 of which; FDI originated from the EAC Partner States amounted to US$ 69.4 million. Kenya's registered investment in the United Republic of Tanzania was US$ 42.7 million; mainly concentrated on manufacturing sector and construction. Other EAC countries that registered notable investment was Uganda with total investments amounting to US$ 26.7 million, mainly in the manufacturing sector.

Table 3.21: Tanzania - Intra - EAC Investment Inflows, 2018 (US$ million)

Activity	Burundi	Kenya	Rwanda	South Sudan	Uganda	Total
Agriculture	-	0.88	-	-	-	0.88
Construction	-	14.70	-	-		14.70
Energy	-	-	-	-	-	-
Finance	-	-		-	-	-
Human Resources	-	0.50	-	-	-	0.50
Manufacturing	-	18.60	-	-	25.80	44.40
Natural Resources	-	0.30	-	-	-	0.30
Services	-	-	-	-	-	-
Telecom	-	2.70	-	-	-	2.70
Tourism	-	-	-	-	0.90	0.90
Transportation	-	-	-	-	-	-
Total	**0.00**	**42.70**	**0.00**	**0.00**	**26.70**	**69.40**

Source: Tanzania Investment Centre (TIC), 2019

Sectoral Distribution of the FDI Inflows

In 2018, Tanzania registered a total of 270 projects from FDIs. The majority of the projects were registered in the manufacturing sector (133), followed by Construction (34) and Transport, Communication & Storage (25). Other registered projects concentrated on agriculture, fishing, forestry and hunting; and finance and insurance, and business services which amounted to USD.522.46 million and USD. 92.04 million, respectively.

Table 3.22: Tanzania- Sectoral Distribution FDI, 2017–2018 (US$ Million)

Sector	2017			2018 (Prov)		
	No. of projects	Amount (US$ Mn)	Employment	No. of projects	Amount (US$ Mn)	Employment
Agriculture, fishing, forestry & hunting	12	260.45	1,926	20	522.46	6,570
Construction	2	10.83	365	34	405.64	13,336
Manufacturing	134	2,227.12	11,666	133	1,425.42	14,637
Mining & Quarrying	-	-	-	1	0.91	7
Finance, Insurance, Real estate & Business services	24	190.43	14,252	23	92.24	2,833
Community, Social & Personal services	14	38.41	660	7	9.17	431
Wholesale, retail trade, Tourism	16	26.61	687	21	103.57	1,995
Transport, Communication & Storage	16	42.87	799	25	253.12	3,105
Utilities (water & energy)	4	254.62	387	6	309.90	107
TOTAL	**222**	**3,051.35**	**30,742**	**270**	**3,122.42**	**43,021**

Source: Tanzania Investment Centre (TIC), 2019

Tanzania's Major Sources of Foreign Direct Investment

The major sources of Foreign Direct Investment to Tanzania in 2018 were China, Singapore, India and Kenya. Registered investment from China amounted to USD264.5 million; with 86 projects expected to create 20,794 direct jobs. Investments from Singapore amounted to USD 51.2 million with projected employment of 251 jobs. Investment from India and Mauritius amounted to USD 41.7 and USD 29.2, with expected creation of 827 and 890 direct jobs, respectively while investments from Kenya amounted to USD 42.7 million in 2018.

Table 3.23:Tanzania: Major Sources of Foreign Direct Investments, 2017-2018

2017				2018			
Country	**Number of Projects**	**Employment**	**Value (Million US$)**	**Country**	**Number of Projects**	**Employment**	**Value (Million US$)**
Germany	2	4,840	1,890.41	China	86	20,794	264.53
China	67	16,774	330.11	Singapore	1	251	51.23
UK	14	1,017	178.35	Kenya	12	1,012	42.70
India	29	1,953	167.89	India	11	827	41.72
Luxembourg	1	2	110.00	Mauritius	9	890	29.03
Australia	4	477	91.98	Australia	3	308	26.95
Mauritius	4	412	49.00	South Africa	9	299	14.13
Kenya	16	701	29.09	Saudi Arabia	1	305	13.00
UAE	3	160	26.74	Belgium	1	384	12.79
Ukraine	1	324	25.00	Switzerland	2	573	12.19
Sub Total	**141**	**26,660**	**2,898.57**	**Sub Total**	**135**	**25,643**	**508.27**
Other Countries	**81**	**4,082**	**152.78**	**Other Countries**	**135**	**17,378**	**2,614.14**
Total	**222**	**30,742**	**3,051.35**	**Total**	**270**	**43,021**	**3,122.42**

Source: Tanzania Investment Centre, 2019

Employment Creation

The total number of expected job creation in 2018 was 43,021 compared to 30,742 planned in 2017, which is equivalent to an increase of 39.9 percent. The largest proportion is projected in the manufacturing sector (14,637) while construction and agriculture sectors are expected to create 13,336 and 6,570 direct jobs, respectively.

Table 3.24: Tanzania - Number of Jobs Created by Foreign Direct Investment 2016-2018

	2016	**2017**	**2018**	**% change 2018/2017**
Tanzania	18,187	30,742	43,021	39.9

Source: Tanzania Investment Centre, 2019

Prospects for Investment Flows into Tanzania

Tanzania is endowed with abundant investment opportunities. Apart from being a peaceful and politically stable, it has rich natural resources and occupies a strategic geographical location in the Eastern and Central African region facilitative of trade and investments. Detailed information on investment opportunities, incentives and business environment, among other information can be accessed through Tanzania Investment Centre website namely *www.tic.go.tz*.

The country's strong growth of around 7 percent over the past decade coupled with the ongoing air, road and rail infrastructure developments as well as utilities provision offer bright prospects for investment inflows to Tanzania. Notable projects lined up for 2019/20 include manufacturing of cement, tiles, steel, soap and detergents; and beverages as well as banking services.

3.5.6. Uganda

Uganda Foreign Direct Investment Outlook

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. The most important policy challenge of all is inclusive growth. Uganda's achievements in poverty reduction are commendable and if this trend is continued, there will be clear benefits as investment promotion will be forthcoming.

In an attempt to stimulate private investment in small-scale renewable energy projects, the Government of Uganda through the Electricity Regulatory Authority (ERA) adopted a Renewable Energy Feed-in Tariff (REFiT) scheme in 2012. ERA and the German development bank, KfW, developed and implemented the Global Energy Transfer performance that steadily improved. Through this, up to 15 Independent Power Producers (IPPs) using various renewable energy sources and totalling 150 MW of generation capacity, were expected to become operational by 2018. This is now actualized in investment statistical data in table 4.24.

Investment Inflows into Uganda

In 2018, investment inflows into Uganda decreased both in value and in the number of projects registered. Total investment flows into the country decreased by 22.4 percent to USD 1.01 billion in 2018, of which US$ 385.3 million was domestic investment. This decline was attributed to changes in the system of licensing after introduction of the e-Biz system of licensing of projects. Some investors lacked capacity and could not cope with the requirements of this system.

It is however important to note that even as there is a decline in investments, the quality of investments by value registered was remarkable. Major investments are visible in power generation but also in secondary industries that serve the power generation processes and construction in the oil and gas sector. The success at country level in attracting such investments is mainly attributed to the following factors that have been identified: stable country context; clear policy framework; transparent, consistent and fair regulation; coherent power sector planning; and competitive bidding practices. At the project level, these factors were generally as follows: favourable equity partners; favourable debt partners; creditworthy off-taker; secure and adequate revenue stream; credit enhancements and other risk management and mitigation measures; positive technical performance; and strategic management and relationship building.

Intra-EAC Investment Flows in Uganda

Investment inflows from EAC Partner States amounted to US$ 413.2 million of which USD385.3 million was Uganda investments. The number of projects recorded from these investments was 98 in total. Burundi recorded the second highest value in terms of investments from East Africa. The investment recorded is in agro-processing and was attributed to Uganda`s success in coffee export as a result of the high demand of its unique Arabica coffee that blends most of the world coffees. This is also attributed to the special incentives for the agro-processing sub sector.

Kenya still maintained its position in terms of highest investment both in value and number of projects. On the general trend, there is a decline in investments from both Kenya and South Sudan by 70 percent and 85 percent respectively compared to 2017. Tanzania on the other hand recorded an increase in both the value of investments and number of projects with a percentage increase of 56.7 percent. The major investment from Tanzania was in Transport and haulage. The decision for this investment is anticipated to be attributed to Uganda`s Strategy to position herself as a regional logistics hub within the context of a logistics centred economy as a key national development strategy, inclusive of the local content initiatives giving advantage to establishments within Uganda.

Foreign Direct Investment Inflows

Uganda's overall investment flows decreased by 22.4 percent to USD 1,015million in 2018, from USD 1,309 million in 2017, while the number of projects decreased to 263 in 2018 from 345 in 2017. Additionally, the number of jobs created declined to 24,448 in 2018, from 46,504 in 2017. The decline was attributed to impact attributed to the introduction of online investment licensing requirements. The total value of FDIs for 2018 decreased by 31.1 percent and was at US$ 630.6million compared to US$ 915.2 million in 2017.

Table 3.25: Uganda- Foreign Direct Investment Flows, 2016-2018 (USD Millions)

Partner State	Source	2016		2017		2018		Percent Change, (2017 over 2016)		Percent Change, (2018 over 2017)	
		No of Projects	Values US$ m	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	126.0	705.0	84	393.5	79.0	385.3	-33.3	-44.2	-6.0	-2.1
Uganda	Tanzania	3.0	2.9	2	3.0	5.0	4.7	-33.3	3.4	150.0	56.7
	Kenya	21.0	109.8	16	33.0	9.0	9.9	-23.8	-69.9	-43.8	-70.0
	Rwanda	1.0	2.9	3	3.9	1.00	2.00	200.0	34.5	-66.7	-48.7
	S. Sudan	2.0	4.5	6	31.4	3.00	4.70	200.0	597.8	-50.0	-85.0
	Burundi	0.0	0.0	-	0.0	1.00	6.60	0.0	0.0	0.0	0.0
	sub total	**153.0**	**825.1**	**111**	**464.8**	**98.0**	**413.2**	-27.5	-43.7	-11.7	-11.1
	Rest of World	287.0	699.5	234	843.9	165.0	602.7	-18.5	20.6	-29.5	-28.6
	Total	**440.0**	**1524.6**	**345**	**1308.7**	**263.0**	**1015.9**	-21.6	-14.2	-23.8	-22.4

Uganda Investment Authority Investment data, 2019

Sectoral Distribution of Foreign Direct Investment

The manufacturing sector continued to top other sectors in terms of investment by the number of projects, value, and even job creation. The sector attracted 139 projects worth US$ 360.3 million and created 12,731 jobs. The sector however registered a decline in performance in general terms. This is still explained by introduction of online licensing system with stringent requirements and verification.

Projects in manufacture of food products, dominated the manufacturing sector with 31 projects recorded followed by manufacture of beverages with 15 projects. This is attributed to the fact that Uganda is the food basket for the region naturally provided to it through its two rainy seasons per year. In terms of value the key projects under manufacturing mainly dealt in solar water pumps and heaters, cotton wool processing and manufacture of surgical gloves, manufacture of white petroleum products, and manufacture of textile and salt processing.

The Agriculture sector followed the manufacturing sector in terms of performance. The main areas of investment by value were in aquaculture, fruit processing, poultry processing, coffee processing, processing of cereals, and production of agricultural fertilizers and production of macadamia nuts.

Investment inflows into the construction sector also declined to US$ 151.6 million in 2018, from US$ 185 million in 2017. The sector registered 19 projects in 2018 from 20 projects recorded in 2017 and created 2,515 jobs in 2018.

Table 3.26: Uganda- Sectoral Distribution of FDI Trends, 2016-2018 (US$ million)

Sector	2016			2017			2018		
	No. of projects	Amount (US$ m)	Employme	No. of projects	Amount (US$ m)	Employme	No. of projects	Amount (US$ m)	Employmer
Agric, Hunt, Forest & Fish	82	405	16,155	45	137	4,559	42	251.9	4,951
Community & Social Services	10	28	844	9	35	1,659	6	5.2	251
Construction	45	193	3,596	20	185	13,806	19	151.6	2,515
Electricity, Gas & Water	12	135	929	11	99	1,653	7	31.5	682
Fin, Ins, Real Est & Biz Svs	69	236	4,500	58	117	4,776	11	120.1	832
Manufacturing	174	327	17,370	163	548	16,571	139	360.3	12,731
Mining & Quarrying	8	17	420	12	116	1,301	11	31.1	922
Transport, Storage & Comm	18	213	1,634	17	59	1,678	18	57.6	1,038
Wh & Ret, Cat & Accom Svs	21	33	857	11	13	501	10	6.6	526
TOTAL	**439**	**1,587**	**46,305**	**346**	**1,309**	**46,504**	**263**	**1,015.9**	**24,448**

Source: Uganda Investment Authority

Uganda's Sources of Foreign Direct Investment

The major source of investment inflows in 2018 continue to be China investing in 57 projects worth US$362.6M, and expected to create 5,598 jobs. Investments by value were realized mainly in Agriculture and agro-processing, manufacturing and Real Estate Development specifically in the development of Industrial Parks. Development of private Industrial parks in Uganda is a new concept encouraged by Governments move to provide special investment incentives for both developers and Operators in industrial parks. The incentives include tax holidays, VAT exemptions, stamp duty exemptions and excise duty exemptions.

Table 3.27: Uganda: Source of Foreign Direct Investment, 2017-2018 (US$ million)

Country	2017			Country	2018		
	No. of Projects	Amount (US$m)	Employment		No. of Projects	Amount (US$m)	Employment
China	59	303.3	16867	China	57	362.6	5,598
India	47	155.1	4735	Lebanon	1	65.0	150
Ethiopia	4	62.7	572	United Arab Emirates	2	51.3	363
Turkey	9	62.6	1166	India	43	51.0	3,675
British Virg	4	50.4	1867	Russia	1	14.2	22
UK	14	26	1223	Canada	7	12.3	686
Lebanon	5	25.5	959	Kenya	9	9.9	853
Norway	2	23.2	652	Denmark	1	9.0	453
US	6	21.8	1534	Burundi	1	6.6	339
Italy	1	19.4	246	British Virgin Island	2	6.6	701
Sub Total	151	750	29821	Sub-total	124	588.4	12,840
Rest of the	167	558	15907	R. of the World	60	42.2	3522
Total	469	1308	45728	Total	184	630.6	16,362

Source: Uganda Investment Authority, 2019

Employment Creation by the Foreign Direct Investment

Foreign Direct inflows into Uganda registered a decline in employment generation by 64.2% in 2018, compared to a decline of 18.7% in 2017. The majority of the jobs were generated by investments in manufacturing (12.731) and Agriculture (4, 951).

Table 3.28:Uganda-Number of Jobs Created by Foreign Direct Investment, 2014-2018

Country	Year					% Change		
	2014	2015	2016	2017	2018	2016	2017	2018
Uganda	28,980	16,343	23,759	45,728	16,362	64.70%	18.70%	-64.22

Source: Uganda Investment Authority, 2019

Uganda's Prospects for Investment Promotion

Uganda enjoys a unique location in the middle of Sub Saharan Africa within the East African region, where growth has hovered at about 5 percent a year. This growth is 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 6.5 percent in the coming years. The question is 'how can Uganda seize opportunities to sustain strong growth and promote investments?'

The most important policy challenge of all is inclusive growth. Uganda's achievements in poverty reduction are commendable and if this trend is 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 Priority Sectors for Investment are: commercial agriculture and agro processing; tourism; adding value to minerals; ICT and oil and gas. Uganda has the unrivalled potential to be the food basket of the East African Community, as well as the Great Lakes regions, with the capacity to export processed foodstuffs to the wider COMESA economic bloc.

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, by 2017, 21 oil and/or gas discoveries had been made in the country. Eighty-seven 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. Investment Opportunities include: Processing Minerals; constructing an oil refinery; constructing an oil pipeline for crude oil; and Constructing an oil pipeline for petroleum.

PART III: CONCLUSIONS AND PROSPECTS

4. CHAPTER 4: CONCLUSIONS AND PROSPECTS

4.1. Conclusions

Key developments that have a potential to influence current and future trade and investment outcomes include; the continued positive economic growth of the region will be an opportunity to position EAC as a trade hub and investment destination; the Global Value Chains initiative will have an impact on how agricultural production, industrial processes as well as logistics will be structured; the Africa Continental Free trade Area (AfCFTA) presents both opportunities and challenges. The AfCFTA has the potential to integrate Africa's fragmented markets, enhance competitiveness, increase access to regional and global markets and better re-allocation of resources; and, the continued decline of global Foreign Direct Investments (FDI) inflows and the impact on industrial development and economic growth especially on the EAC.

Overall, the region continued to register a trade deficit with the rest of the world in 2018 partly due to an increase in imports into the region. The deficit for the EAC increased by 39.4 percent to USD 24.3 billion in 2018 from US$17.4 billion registered in 2017. The increase in the deficit was attributed to increase in imports mainly due to spike in global crude oil prices that peaked at USD73 per barrel and increased the import bill for petroleum products. Other imports included machinery, motors, textile, wheat and rice. The EAC is faced with imports of fossil fuels, textile, leather, crude palm oil, motors and machinery which accounts for a large proportion of import bill. On the other hand, the region mainly exports agricultural commodities which are in most cases unprocessed and fetch very little on the global market

EAC intra-regional imports grew by 13.9 percent to USD 2.8 billion in 2018 from US$ 2.5 billion in 2017. Similarly, Intra-regional exports grew by 5.6 percent to USD3.2 billion in 2018 from US$ 2.9 billion in 2017. Noticeably, exports from all partner states grew with the exception of South Sudan during the year. The growth in intra-regional trade could be attributed to increase in agricultural production as a result of improved weather conditions; elimination of Non-Trade Barriers among Partner States and increased trade in manufactured products with a higher value. It was also noted that Intra-EAC trade did not grow as anticipated despite the existence of conducive environment. This was mainly attributed to increase in the imports from COMESA and SADC during the year signifying the growing importance of the two regional blocs in EAC. In addition, there has been impressive industrial development in all the Partner States as a result of elimination of tariff and non-tariff barriers. While this is good for economic development of the region generally, it implies that intra-regional trade in manufactured commodities is limited due to the lack of heterogeneity in industrial development.

The FDI into the EAC continued the decline experienced in earlier years. Foreign Direct Investments into East Africa increased marginally by 1.9 percent to USD 7.2 billion in 2018 from US$ 7.1 billion in 2017. Inflows to Burundi and Rwanda grew by 10.1 percent and 74.8 percent to US$ 71.7 million from US$ 65.1 million in 2017 and to US$ 2.0 billion in 2018 from US$ 1.2 billion in 2017, respectively. FDI into Kenya, Tanzania, South Sudan and Uganda fell by 32.4 percent, 5.9 percent, 1.1 percent and 22.8 percent to US$ 485.5 million, US$ 3.2 billion, 457.3 million and US$ 1.0 billion in 2018, respectively.

4.2. Prospects for Growth of Trade and Investment Sectors in EAC

The EAC region has a conducive environment to attract and promote investment. The infrastructure network of roads, railways, 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. The existence of minerals, raw materials and abundant skilled labour presents a huge potential for the manufacturing and construction sectors while the abundance 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 with 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.

To ensure sustained growth in trade and investment in the region, the region has to support initiatives that reduce the import bill on fossil fuels, motors, crude palm oil, textiles and capital items. Initiatives such as fast tracking the production of EAC oil and gas reserves, assembly of motors in the region and support to improved agricultural production including irrigation, post-harvest handling and value addition should be explored. Further reforms will include establishment of a credible central data unit to capture and disseminate all trade statistics in the EAC for use by the Secretariat and Partner States in planning, management and monitoring of the Single Customs Territory.

Further, there is need for reforms to ensure sustained economic growth above 7.0 percent to guarantee a big market for commodities that is necessary to attract investments; enhance reforms in the investment climate with regard to infrastructure and capital market developments. In addition, there is need to continue the initiatives already underway in the region to boost domestic investment growth and development.