Non-tariff Measures: Unintentional Restrictions on EAC Growth

Constantine Bartel
Center for Corporate Responsibility and Sustainability (CCRS)
at the University of Zurich, Switzerland

Abstract

The best policy intentions to protect the general public have a downside. They also can create barriers to trade. NTMs in agriculture and food are a primary factor behind the decreasing export growth to the European Union (EU) despite African countries enjoying considerable EU preferential market treatment. The by surveys performed in five EAC countries of Uganda, Tanzania, Kenya, Rwanda and Burundi barriers showed the NTMs that most restrain trade within and between these countries. In a continent where having access to essential services is a challenge, these too become barriers to productive enterprises and trade. The paper, therefore, argues that the successful implementation of the AfCFTA depends on many non-trade policies and programmes – such as conflict resolution, fighting corruption and, developing transport corridors and telecommunication networks, liberalisation of the movement of people, improvement of trade logistics, and governance reforms. It also depends on making regional integration work for SMEs.4[4]

1. Introduction

There are two distinct categories of NTMs 1) technical measures and 2) non-technical measures. Technical measures are product-specific properties such as characteristics, technical specifications and production process of a product. They are meant to ensure quality and food safety, environmental protection and national security, and protecting animal and plant health. Methods to assess and to conform to compliance of a product fall in the same category. Non-technical measures refer to trade requirements, such as shipping requirements, customs formalities, trade rules, taxation policies. Other problems that companies face are procedural obstacles (POs) or challenges related to the implementation of NTMs and TBEs or the trade-related business environment. These are problems caused by the lack of adequate testing facilities to comply with technical measures or excessive paperwork in the administration of licences. These can range from delays and costs of poor infrastructure or the behaviour of customs officials.

The frequency and complexity of the measures, which include SPS and TBT, can negatively affect the trade flows especially in poorer countries. Quality requirements and controls imposed in Uganda and partner countries are necessary as long as they do not add cost and delays putting products at a competitive disadvantage in international markets. These Non-tariff Measures are mandatory requirements, rules or regulations legally set by the government of the exporting, importing or transit country (ITC 2018). NTMs become an obstacle to trade for exporters and importers when they are perceived to be ''burdensome'' by the latter. Usually, partner countries apply 70 per cent of NTMs, and 30 per cent occur at home. That is why it is a challenge to design non-tariff measures (NTM) that not only protects consumers and supports national development and growth, but also facilitates the process of regional integration (Poonam Mohun 2014). An efficient NTM regime on imported inputs used in domestic processing and export drives competitiveness. Some methodologies (UNCTAD, ITC) evaluate the potential economic benefits from realising NTM-related integration. If a country gets it right, it could increase its GDP by up to 3 per cent. Gains in employment are estimated to go up by 2-5 per cent (UNCTAD NTM data). In addition to government policies and requirements, African exporters also face standards imposed by private firms as well as NGO's that promote Fair Trade certificates for European clients and consumers. African producers and exporters are expected to cover the costs associated with training and packaging to get the certificates. NTMs in the case of agro-food goods are a leading factor behind decreasing export growth to the European Union (EU). This is even though African countries have considerable preferential market treatment (CITE).

1.1 The growing role of NTMs in trade

With the implementation of open trade policies since the 1980s, African countries have benefited from effective integration in the world economy. Significantly improved market access through the reduction of barriers to trade has yielded fast growth in trade flows, Multilateral, bilateral and regional integration efforts are widely recognised to have played an essential role in this trend,

Yet the liberalising trend has not been even. As tariffs have fallen in most markets, non-tariff measures have come to loom ever more significant as impediments to effective market access, particularly for developing countries. For example, Intra-African trade is currently 15 per cent of its total trade, compared with 19 per cent intra-regional trade in Latin America, 51 per cent in Asia, 54 per cent in North America and 70 per cent in Europe.

Trade negotiators have long recognised that non-tariff measures are progressively replacing tariff measures regarding trade restrictiveness, At the launch of the Doha Development round in 2001, WTO Ministers agreed to "reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries".[3]

The concept of a "non-tariff measure" is contested. In principle, all trade policies other than tariff duties can be considered non-tariff measures. That includes technical measures such as technical requirements and conformity assessments, but also non-technical measures such as quantity control measures, price control measures, government procurement restrictions or rules of origin, In many cases, domestic policies not explicitly intended to affect trade have unexpected trade-restricting effects. For example, policies conceived to protect human or animal health or the environment can often act as non-tariff measures, and such policies have at times been used as alternatives to explicitly protectionist measures in efforts aimed at protecting domestic markets. Following the financial crisis in 2008, many countries applied non-tariff measures of this kind for protectionist purposes.

In developing countries, and especially in Africa, non-tariff measures are a significant concern for exporting and importing firms. Also because according to Deardorff (1987) non-tariff measures are more solicited since their effects are more direct than tariffs.

Compliance with complex requirements that often vary across products and markets can be costly, and weak trade-related infrastructure and burdensome administrative procedures can lay waste to business plans predicated on timely delivery. Moreover, the impact of non-tariff barriers is magnified in Sub-Saharan Africa, where countries often rely on one or two export products for the bulk of trade-related foreign exchange inflows (Mold, 2005).

1.2 NTMs, their classification and other obstacles to trade

Unlike tariffs, non-tariff measures are not necessarily comparable across countries and products. Several attempts to identify and classify non-tariff measures have been undertaken, UNCTAD, for instance, launched an initiative on the definition, classification, collection and quantification of non-tariff barriers. The Multi-Agency Support Team (MAST) and the Group of Eminent Persons on Non-Tariff Barriers (GNTB) define non-tariff measures as a wide range of trade policy measures, other than customs tariffs, exerting an economic impact on international trade in goods, services, and factors of production. These measures can take a great many forms of regulations and restrictions, mainly in the form of regulations legally imposed by either the home country or the partner country affecting and distorting trade by increasing transactions costs or by prohibiting the transaction outright,

UNCTAD's Multi-Agency Support Team (MAST) developed a widely used classification system for non-tariff measures to provide a concise definition of NTMs, a classification system of NTMs to facilitate data collection process and analysis and ways to collect information on NTMs. It also provides guidelines for the use of data and their quantification methodology,

1.3 Understanding the company perspective on NTMs and POs

Despite such efforts, non-tariff measures and their effects on trade remain difficult to quantify. Again, different approaches have been proposed to assess non-tariff measures' impact on trade (Deardorff and Stern 1997).

One such approach is based on a large-scale company survey. It is an approach that ITC used to gauge business perspective on burdensome non-tariff measures, procedural obstacles and other technical barriers to trade faced in trading with partner countries. The survey allows identifying where obstacles occur and the institutions involved, whether in the originating country or the country of destination, It captures the day-to-day reality faced by exporters and importers. This approach can yield novel and valuable information on non-tariff measures that policymakers and trade support institutions can use to identify the specific needs of the different business sector.

The principal obstacles faced by companies in developing countries according to the OECD are technical measures, additional charges and burdensome customs procedures (OECD 2005). Technical regulations, standards and conformity assessment measures, and sanitary and phytosanitary measures (SPS) often hit African exporters to the developed world disproportionately hard, since many specialise on agricultural exports to the North (Wilson 2000, et al., In south-south trade, companies are mostly stymied by costly customs and administrative procedures due to the lack of trade-related infrastructure and unusual behaviour on the part of officials, and by non-tariff measures such as import charges and other additional costs.

Other surveys have focused on non-tariff measures at the regional level. In 2008, the World Bank's report on NTMs in the East African Community identified several non-tariff barriers to intra-EAC trade, highlighting restrictive practices, technical barriers to trade, and sanitary and phytosanitary measures as critical restrictions. The study asked government officials, companies (producers/exporters/importers/transporters) to identify NTMs constraining intra-regional trade between EAC members (2008b).

Other surveys break down non-tariff measures by sector, product and country. In the EAC region, trade in maize and beef is often limited by high duties, unusual payments at customs, licensing requirements, lack of road infrastructure, discriminatory behaviour by customs agents and burdensome administrative procedures and documentation requirements (Karugia et, al, 2009). In the dairy sector, intra-EAC trade remains limited, with only 1 Per cent of the regional production crossing borders due to lack of infrastructure for production, transport and storage (Jensen, Keyser and Strychacz, 2010).

According to a survey on Kenya's exports in the EAC-COMESA region, the significant non-tariff barriers take the form of quality standards inspection procedures and sanitary and phytosanitary measures given the structure of Kenya's export in these markets, These types of non-tariff barrier arise due to the slow harmonization of trade policies among the EAC countries (Ihiga, 2007).

The East African Business council referred to Kenya as the "worst offender regarding non-tariff barriers" in the EAC. The progress of the East African Customs Union, the establishment of the Common Market in 2010 and the implementation of the East African Monetary Union Protocol are boosting to the regional integration process.[7] However, Okute M, (2017) finds that technical Barriers to Trade regarding technical requirements, voluntary standards and conformity assessment procedures still negatively affect trade. Kenyan exporters face institutional barriers to trade in the EAC citing difficulties with application procedures of numerous certification and conformity assessments, and the procedure for obtaining the certificate of origin being cumbersome, lengthy, and amounting to a barrier to trade.

In Uganda, burdensome non-tariff measures include documentation requirements at customs for export, use of clearing agents, lack of standards harmonisation among EAC countries, vehicle registration and licensing, taxes and subsidies. Procedural obstacles include delays in clearance, roadblocks, numerous stops along the Northern corridor, poor infrastructure and trade-related facilities for testing and cooling, power shortages, language barriers, discriminatory behaviour by customs officials and immigration procedures (Okumu, 2010).

Being landlocked, Uganda depends on the neighbouring countries to access the sea and for trade-related infrastructure such as rail, road, sea freight, clearing and forwarding services. For imports, critical non-tariff measures include administrative procedures at customs on matters such as documentation, transiting procedures, quality inspection and certification procedures (Tumuhimbise and Ihiga, 2007).

2. Economic and social structure of EAC countries

The imported goods that make up the structure of African imports are metal products, machinery, equipment, chemical products and other industrial goods, and means of transportation. The majority of imported goods come from the EU, China, India and the US.

The EAC adopted its 2016 roadmap to optimise the utilisation of its resources to accelerate productivity and the social wellbeing; Vision 2050 is about transforming the EAC region into an upper middle-income region based on the principles of inclusiveness and accountability (EAC Vision 2050). The TFTA is instrumental in achieving the transformation, hence preparing the ground towards a continent-wide integration.

2.1 Gross domestic product and human development

With a population of 150 million in 2017 and a surface of 1,82 million square kilometres, EAC countries vary widely regarding income, industrial structures, and social indicators, despite historical ties. Compared to regional integration schemes in Sub-Saharan Africa, the East African Community is making noticeable economic progress and achieving real development gains, with combined Gross Domestic Product of US$ 146 billion (EAC Statistics for 2016). Accounting for 41 per cent of that total, Kenya is the largest economy in the region, with a real GDP of US$79,511 billion in 2017, followed by Tanzania and Uganda at US$ 51,725 billion and US$ 26,349 billion, respectively, Rwanda and Burundi lagged behind with real GDPs of US$ 9,137billion and US$ 3,396 billion in 2017 (Table 1), respectively.

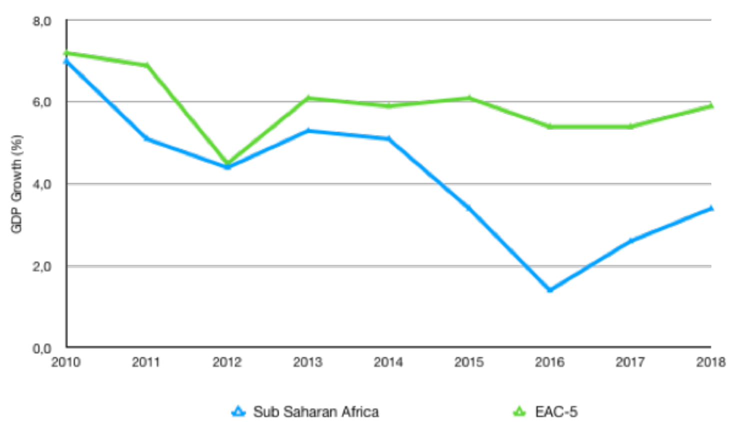
Table1: EAC real GDP (US$ billion) current prices

	2010	2011	2012	2013	2014	2015	2016	2017
Burundi	2,032	2,236	2,333	2,575	2,934	3,005	3,138	3,396
Kenya	40,000	41,672	50,422	55,126	61,544	63,995	70,527	79,511
Rwanda	5,774	6,492	7,316	7,623	8,010	8,294	8,475	9,137
Tanzania	31,086	33,583	39,088	44,414	48,256	45,634	47,653	51,725
Uganda	20,212	21,108	24,505	25,808	27,949	25,208	25,307	26,349
Total EAC	99,104	105,091	123,664	135,546	148,693	146,136	155,100	170,118

Source: International Monetary Fund, World Economic Outlook Database, April 2018

Since the turn of the century, the EAC member countries have experienced rapid growth and now rank among the fastest growing economies in sub-Saharan Africa and the developing world, Annual GDP growth rates have neared 6 per cent in the last decade in the EAC countries, compared to 5,4 per cent in other Sub-Saharan countries (Figure 1).

Figure1: EAC real GDP Growth (%)

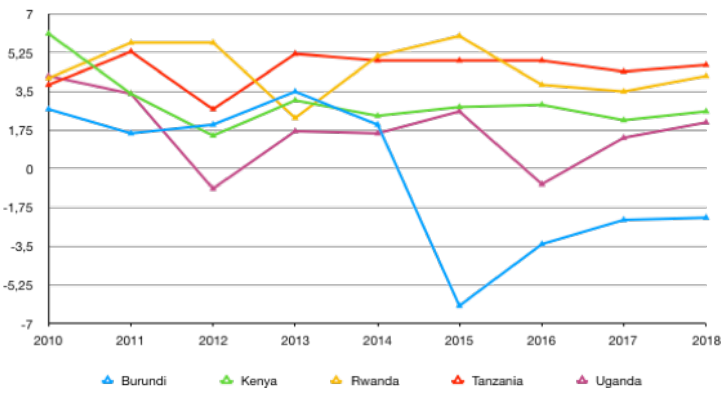


Sources: International Monetary Fund, Regional Economic Outlook Database, October 2017

Despite significant heterogeneity, growth rates remain active in all EAC members, According to the

IMF 2018 regional economic outlook, Rwanda, Tanzania, and Uganda are among the fastest growing economies coming in at 4,2 per cent, 4,7 per cent and 2,1 per cent in 2018, Burundi's economy at -2,2 per cent in 2018, after growing by 2,7 Per cent in 2010 (Figure 2).

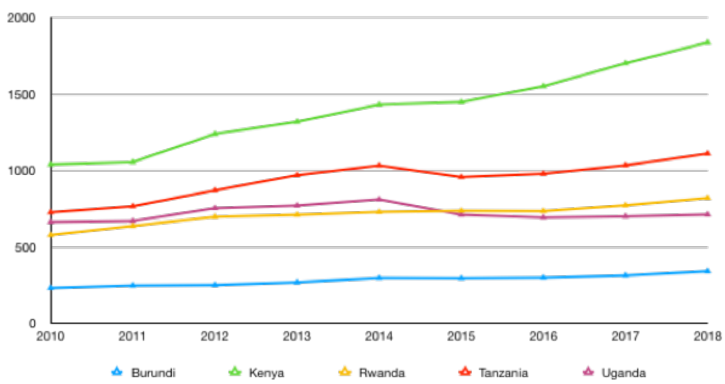
Figure 2: EAC countries Real Per Capita GDP Growth (%)



Sources: International Monetary Fund, World Economic Outlook Database, October 2018

in the context of sound economic growth, the EAC countries are experiencing rising average real per capita GDP, more than doubling to US$518 from US$252 in 2000, However, significant disparities remain among the EAC countries with real per capita GDP in 2018 ranging from US$ 339,894 in Burundi to US$ 1,837,710 in Kenya (Figure 3), Moreover, compared to other sub-Saharan countries, the EAC countries seem to be lagging behind. To sustain the regional GDP growth, EAC countries need to improve domestic resource mobilisation and expand the fiscal space to support public investment this would strengthen overall macroeconomic stability.

Figure 3: Real GDP per capita (US$)



Source: International Monetary Fund, World Economic Outlook Database, April 2018

2.2 Sector contributions to GDP

Structural transformation (Structural change, productivity, and employment) is far more vital for reducing poverty than per capita economic growth. The AfDB finds that between 1981 and 2008 in Sub-Saharan Africa, poverty declined only by four Percentage points. Despite more than a decade's robust growth, the lack of structural transformation is revealed by the small contribution industrial sector's to GDP of about 18 per cent (see table 2). Following Uganda's path-breaking pro-market reforms of the 1980's, other EAC member countries implemented a wide range of trade and trade-related policies including as part of the Structural Adjustment Programmes (SAP). The programme aimed to liberalise productive sectors and open the financial sector to international competition while reducing governments' involvement in the economy, EAC countries have pursued a trade liberalisation agenda through both multilateral agreements and regional integration schemes,

Table 2 Structural change and growth

	Agriculture (% of GDP)	Industry (% of GDP)	Services (% of GDP)	Manufacturing (% of GDP)
Burundi	39.5	15.1	45.3	22.2
Kenya	24.0	22.0	54.0	36.9
Rwanda	34.6	15.1	50.3	15.4
Tanzania	31.5	25.0	43.5	26.1
Uganda	27.0	21.9	51.1	24.6
East Africa average)	**27.6**	**18.0**	**54.5**	**19.9**

Source: value added are computed based on AfDB, statistics department 2017: Average includes: Comoros, Djibouti, Ethiopia, Sudan, Seychelles

The economic structure of the East African Community has shifted from the primary sector (mainly agriculture) to industrial and service sectors in the past three decades. The agriculture sector used to account for 28 per cent of Kenya's GDP; 41 per cent of Tanzania's, and 38 Per cent of Uganda's in the late 1990's. By 2009 it accounted for 23,2 per cent in Kenya; 28,8 per cent in Tanzania; 24,8 per cent in Uganda; 36,1 per cent in Rwanda and 43,9 per cent in Burundi. In recent years, the EAC countries' GDP growth shifted towards the service sector, which is increasingly the backbone of the Kenyan economy at 64 per cent of GDP, Uganda's service sector accounted for almost half of GDP since 2001, and 63 per cent in 2010, The key sub-sectors driving the Ugandan economy are financial services, telecommunications and transport (African Economic Outlook, 2011).

Among the EAC countries, the services sector accounted for a significant share of the GDP, except Burundi where the services and the primary sector both account for 44 per cent of GDP. At the same time, the manufacturing sector seems to be playing a declining role in the economy, particularly for Rwanda where it accounts for just 7,5 per cent (AfDB, 2011). However, the drivers of economic growth show considerable variation from one EAC country to another, Tanzania experienced a significant shift in GDP composition over the past few years. The service sector amounted to 55,8 Per cent along with the primary sector with 28, 8 Per cent in 2010. The share of the manufacturing sector accounts for 15, 5 per cent in 2010, mainly due to the construction sector. In 2017, the service sector in Tanzania stood at 43,5 per cent along with the primary with 31,5 per cent in 2017; the share of the manufacturing sector accounts went up over 10 per cent to 25 per cent.

Rwanda's primary economic drivers in 2010 were services and manufactured sector with respectively 9,6 and 8,4 per cent increase (World Bank, 2011). In 2010, the services and primary sector were the leading sectors in terms of GDP with respectively 56, 5 and 36,1 per cent meanwhile the manufacturing sector accounts for 7, 3 per cent of GDP in Rwanda in 2010. In 2017, the services and primary sectors are the leading sectors regarding GDP with respectively 50,3 and 34,6 per cent meanwhile the manufacturing sector accounts for 15 per cent of GDP in Rwanda in 2017. Burundi's GDP is driven by the primary and services sector up to 44 and 44,3 per cent while the manufacturing sector accounts for 11,8 per cent of GDP. With a growth rate increasing from 1,8 per cent to 4,6 per cent in 2010, the primary sector was the principal driver of the economic growth, mainly due to an increase in coffee exports in 2010, compared to the drop recorded in the manufactures and services sector. In 2017, the primary sectors in Burundi were slightly low at 39,5 per cent, services a Percentage higher at 45,3 per cent while the manufacturing sector also grew to 15,1 per cent of GDP.

In Kenya, the services sector accounts for 64,1 per cent of GDP while the manufactured and primary sector amounts respectively 23,2 and 12,6 per cent in 2010. The primary and manufacturing sector accounting for 23,2 and 12,6 per cent is the primary component of the economic growth in 2010. With 7,8 per cent growth in 2010, the manufacturing contributed to Kenya's growth mainly due to the increase in food, beverages and tobacco industries by 12 per cent. In 2017, Kenya's services sector dropped to 54, per cent of GDP while the manufacture registered remained at 22 per cent and primary sector at 24 per cent in 2017.

Uganda's economic growth is mainly accountable for the growth in the manufacturing sector accounting for 12, 8 per cent of GDP increasing to 8,9 per cent in 2010 compared to 5,8 per cent in 2009, While accounting respectively to 62,4 and 24,8 per cent, the services and primary sector registered a slow growth with 5,8 and 2,1 per cent in 2010 (African Economic Outlook, 2011). In 2016, coffee, cocoa beans, cement and solid cane, beet sugar were led the country's agriculture export products to the East Africa region. In 2017, Uganda's manufacturing sector dropped to 54, per cent of GDP while the manufacture registered strong growth accounting for 36.9 per cent and primary sector 24 per cent in 2017.

2.3 The composition of EAC Trade

Below are highlights of on the composition of trade commodities, the leading trade partners and diversification in the EAC. Intra-regional imports constitute Mineral fuels, oils, distillation products with 10,4 per cent, salt, sulphur with 9,74 per cent, iron and steel with 6,2 per cent, machinery, with 5,17 per cent and cereals with 4,32 per cent of total imports from the region.

Kenya, Uganda and Tanzania are the leading trade actors in the EAC region; Kenya and Uganda have met with more success than Tanzania in diversifying their trade structure. As EACs largest exporter, Kenya's main export products to its EAC partners are mineral products, which account for 17 per cent of Kenya's total exports in 2010. Alongside were iron and steel products (7,1 per cent), animal and vegetable fats (6,7 per cent), plastics and articles thereof (6,3 per cent) and vehicles other than railway and tramway (4,6 per cent).

In contrast, Kenya's trade structure with the rest of the world remains mainly concentrated in primary products and traditional markets (European countries and new emerging partner countries such as UAE, Sudan, and Egypt). Kenya's main exports to the rest of the world are fresh food (40 Per cent) and minerals (7 Per cent). The deepening and expansion of regional integration have widened trade opportunities for Kenyan firms. It was able to diversify its export structure and emerge as a significant exporter of manufacturing products in the Eastern African region. Although relatively low, Kenya's main import lines include fresh food products and manufactured products. Imports of cereals amount to 10,8 per cent of Kenya's total imports from the EAC region, paper imports account for 9,4 per cent, textiles articles for 7,9 per cent, tobacco product for 7,7 per cent, edible vegetables for 6,5 per cent and grain, seed, fruit for 6,0 per cent of Kenya's total imports from the EAC region in 2010.

Tanzania and Uganda remain the largest destination for Kenya's exports within the EAC, accounting for more than 48,8 per cent and 35,6 per cent of total exports and 48,8 and 48,1 per cent of total imports in 2010. Burundi and Rwanda do not constitute a significant export market for Kenya with only 10 per cent and 6 per cent of Kenya's total exports in the EAC region.

Intra-regional trade accounts for a significant share in Uganda's overall trade, In Uganda, agro-based products remain the main export products to the EAC region with coffee, tea, mate and spices accounting for 16,6 Per cent of total exports to the region, animal and vegetable fat equivalent to 8,1 Per cent and cereals products up to 7,0 Per cent. Nevertheless, certification of agriculture products and meeting the essential technical requirements is a significant challenge in Uganda. Improving export-quality management within Uganda – including laboratories for testing, certification and standards development – would improve the competitiveness of micro, small and medium-sized enterprises (MSMEs). The share of manufactured products in Uganda's export structure is increasing, In 2010, manufactured products including machinery, boilers, represent 6,6 per cent of Uganda's exports to the EAC region, followed by iron and steel product at 6,4 Per cent and tobacco products at 4,5 Per cent.

The main category of imports from the EAC region to Uganda was mineral products (such as salt, sulphur and mineral oils) at 28,5 per cent of imports, followed by iron and steel products (6,5 Per cent), beverages and spirits (5,9 Per cent) with plastics and articles thereof accounting for 4,7 Per cent in imports from its EAC partners. Although Kenya is Uganda's second largest import partner (contributing to 11 Per cent to Uganda's total imports), Uganda is mainly exporting to Kenya and Rwanda with 44,5 per cent and 35,7 per cent of Uganda's EAC exports in 2010 going to those countries, respectively. Trade between Uganda, Tanzania and Burundi is much smaller, Uganda's exports to Tanzania and Burundi represent 7,5 Per cent and 12,3 Per cent of Uganda's total share of exports, Uganda imports from Kenya up to 90 Per cent of its imports from the EAC region.

Rwanda exports mainly to Kenya among the EAC countries, up to 72,6 Per cent of Rwanda's total exports within the region, With 47,3 Per cent, Uganda is Rwanda's largest import country, followed by Kenya and Tanzania with 29,7 Per cent and 22,2 Per cent of Uganda's total import within the region in 2010.

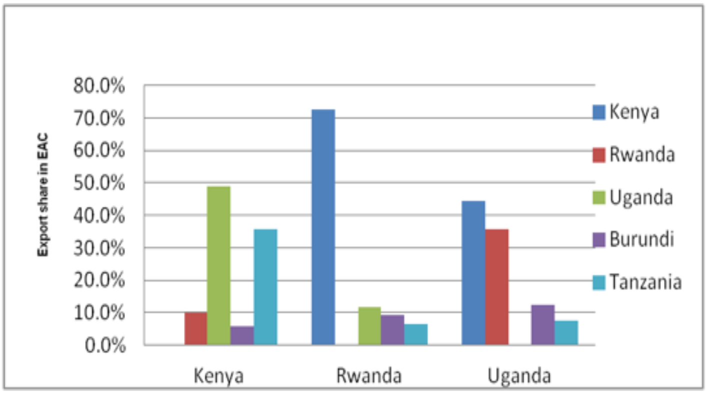
Tanzania's exports to EAC countries are mainly of manufactured goods: fertilisers (14,2 Per cent), mineral fuels and oils (12,2 Per cent), plastics and articles thereof (10,9 Per cent) and other made textile articles (7,0 Per cent). The major products imported by Tanzania from its EAC partners were mineral fuels, vehicles other than railway, tramway, machinery. The increase in trade among the EAC countries plays a significant role in improving Tanzania's exports. The level of diversification is relatively high in Tanzania with trade structure mainly dominated by manufactured goods.

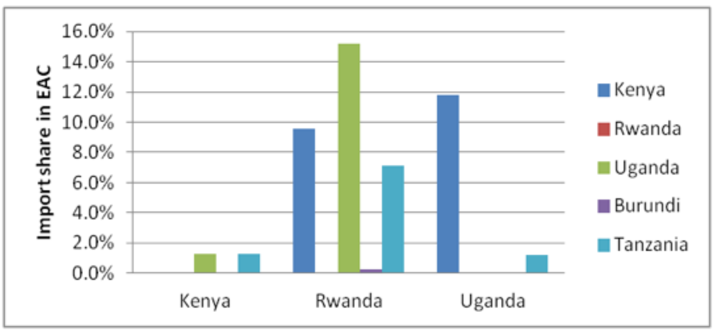
In Rwanda, imports from the EAC region have increased more rapidly than exports to it. A net importer from the EAC, Rwandan imports from the block concentrate on minerals like salt, sulphur and mineral oils (20,6 per cent), animal and vegetable fats (8,6 Per cent), iron and steel (6,9 Per cent) and cereal (6,5 Per cent). Whereas exports to the EAC countries are concentrated on traditional commodities such as coffee, tea, mate and spices, which account for 65 per cent of Rwanda's exports to the EAC region. Kenya is a significant trade partner for Rwanda and Uganda. It is worth noting that trade figures among these countries include re-exports, given that Uganda and Rwanda are landlocked countries, Trade with Kenya accounts for the lion's share of Rwanda's EAC trade.

Burundi's share of EAC trade rose to 4.2 per cent in 2012 has grown from the share of 2.6 per cent recorded in 2010. Total intra-EAC trade increased by 20.5 per cent reaching the highest value of $ 4.4 billion. Its export performance depends heavily on fresh food products and specifically tea, which, accounts for 95 Per cent of agricultural exports and 55 Per cent of exports in the EAC countries. Its other exports include raw hides and skins, iron and steel, Imports play a significant role in Burundi (IGIHE 2013)

The country imports a wide variety of goods. Minerals and manufactured goods represent 18 and 30 Per cent of imports from the EAC region, respectively. Burundi's import structure reflects its weak manufacturing base and its modest domestic market.

Figure 4: Share of export in the EAC





Sources: Calculations based on Trade Map data, 2011

According to the trade competitiveness index, the EAC countries have a relative level of complementarity and competitiveness with an average index for the region of 23,2. The competitiveness index, ranging from 0 to 100, measures the similarity between the export structure of a country and the import structure of another country. The higher the index between two countries, the higher the product complementary between the two countries. The exceptions are Rwanda and Burundi with an average index of 8,2 because efforts to diversify both their trade partner and goods beyond traditional products (such as coffee and tea) have not yielded strong enough results, Kenya and Uganda's structure corresponds to that of their EAC partner countries, with an average index of 23,5 and 22,6, respectively, in 2010.

3. Survey Results

3.1 Companies' perceptions of NTMs within the EAC

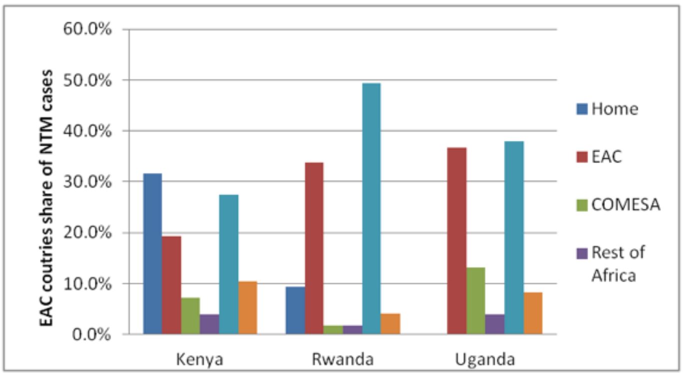
The following summarises the cases of burdensome NTMs and POs affecting the EAC exports of Kenya, Rwanda and Uganda. The surveyed EAC countries report burdensome NTM mainly while trading with their central export destination market, except for Kenya (Figure 4). To enter the OECD market, EAC exporters must meet many international standards to ensure consumer health, environmental protection or national security. These trade requirements tend to be more stringent, particularly with the growing awareness about climate change or fair trade issues among the OECD countries. It is a challenge for any EAC countries to meet these requirements since it requires essential investment in trade-related infrastructure such as storages facilities, testing laboratories.

Of the 764 Kenyan exporting and importing companies interviewed, 563 said they face or have faced difficulties complying with NTMs in the past one year. The NTMs cases that Kenyan firms report as prohibitive and caused by Kenyan rules, regulations, and procedures is higher than the ones reported in partner countries. 31,7 per cent of the NTM cases Kenyan firms reported originate from Kenya. 27,4 per cent of NTMs reported by Kenyan firms arises from OECD countries and a further 19,3 per cent from East African Community partners.

In Uganda and Rwanda, trade restrictions arising in the home country were less relevant - just 0,2 per cent in Uganda and 9,3 per cent in Rwanda. In these countries, the perception is that of burdensome NTMs come from the OECD and EAC region. The survey finds the share of reported NTM cases considered damaging in the OECD is unusually high for Rwandan companies, amounting to 49,4 per cent of NTMs reported in our survey. The OECD's share of difficult cases reported by Ugandan exporters is also relatively high, at 37,9 per cent, comparing to Kenya where reported NTM cases in the OECD countries account for just 27,4 per cent of cases.

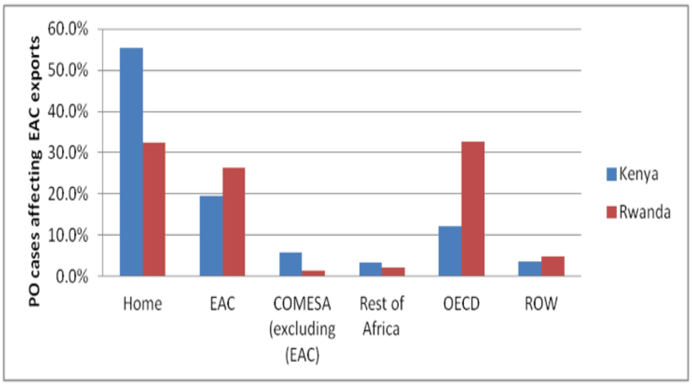
The three EAC countries survey face relatively fewer trade barriers when trading with partners in the COMESA region and the rest of Africa than in trading within the EAC itself. The reason appears to be that relatively few EAC companies exports to the broader COMESA and rest of Africa markets, giving fewer chances for the perception of burdensome NTM to arise than in the exports destination countries within the EAC itself.

Figure 4: Share of NTM cases faced by exporting companies in Kenya, Rwanda and Uganda by region



Sources: ITC survey on NTMs

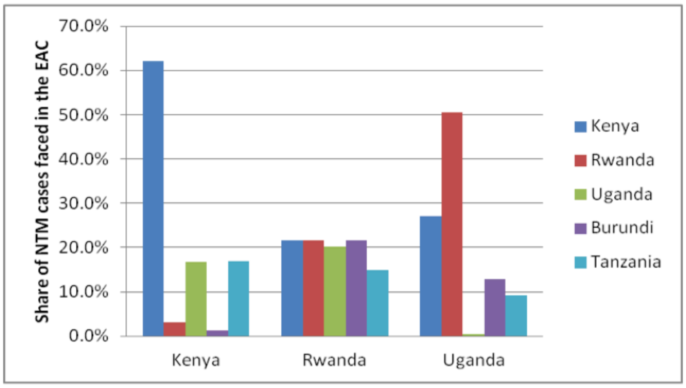
For Kenyan firms, NTMs encountered in Uganda and Tanzania account for the highest share of reported cases, at 8,5 and 8,6 per cent respectively. This is not surprising since Uganda and Tanzania are Kenyan firms' main export destination in total trade, Compared to the total reported NTMs, Kenyan firms' perception of burdensome NTM is more significant in Uganda and Tanzania with 16,6 per cent, and 16,9 per cent of total reported NTM within the EAC region. Of the reported NTM cases within the EAC region, the share of Ugandan and Rwanda companies facing barriers in Kenya is significant with



21,6, and 27,6 per cent of total EAC reported NTM cases.

Whether a firm resides in the home or host country, it cannot escape procedural obstacles linked to obligations encountered by exporting companies in their efforts to satisfy the conditions to meet non-tariff measures. The procedural obstacles that raise the cost of trade in the region also limit the modest scale of trade within the EAC.

Figure 5: Share of NTM cases faced by exporting companies in Kenya, Rwanda and Uganda in the EAC



Sources: ITC survey on NTMs

For Kenyan and Rwandan firms, procedural obstacles are a significant impediment to exports. For Kenyan exporters, 55,4 per cent of barriers happens within Kenya. Kenyan exporting companies face further procedural obstacles in the EAC region (19,6 per cent of reported cases, and with the OECD countries (12,3 per cent), Procedural obstacles affecting Kenya's imports from the OECD accounted for 12,5 per cent (Figure 6).

In Rwanda, procedural obstacles are mainly faced in the country with 32,3 per cent of total procedural obstacles faced by the country and in the OECD region with 32,7 per cent of total procedural obstacles faced by the country whereas domestic cases of procedural obstacles are mainly affecting

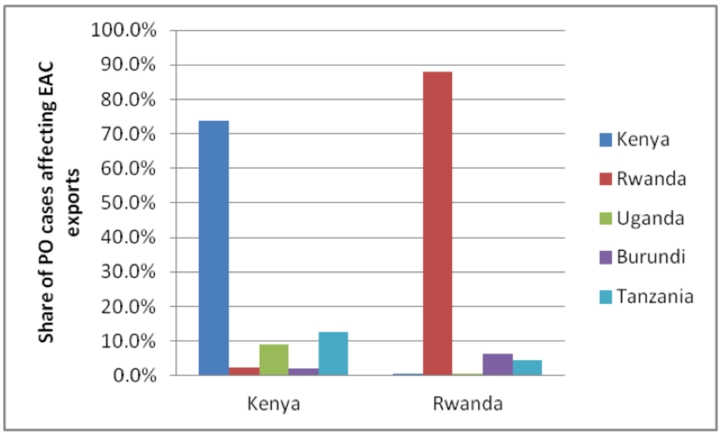
Rwanda's l imports with 51,7 per cent. Of the 530 Rwandan exporting and importing companies interviewed, 393 said they face or have faced difficulties complying with NTMs in the past one year.

Figure 6: Share of PO cases affecting Kenya, Rwanda and Uganda exports by region
Sources: ITC survey on NTMs

Domestic procedural obstacles affecting Kenyan exports target exports to the EAC (73,9 per cent). In Rwanda, the concentration is even higher. 88% of procedural obstacles arising in Rwanda affect exports intended for its EAC partners.

Far fewer obstacles affecting Kenya's companies involved NTMs imposed by their foreign partners: 9,1 per cent related to Ugandan measures and 12,5% to Tanzanian NTMs. Of the 504 Tanzanian exporting and importing companies interviewed, 373 said they face or have faced difficulties complying with NTMs in the past one year.

Figure 7: Share of PO cases affecting Kenya, Rwanda and Uganda exports within the EAC region



Source: ITC survey

3.2 Cases of burdensome NTMs and POs affecting Kenya, Rwanda and Uganda imports

Much like on the exporting side, most reported NTMs on imports occur in the domestic country rather than arising from trading partners' rules and regulations. The share of NTM cases with regards to imports arising from the home country is unusually high in Kenya, at 93,7 per cent, followed by Rwanda, where the figure is 65,2 per cent.

Very few cases of NTMs reported by Kenyan importing companies originate from its EAC trade partners (0,3%) and few again (3,4 per cent) originate from the OECD region. Kenya imports more from the OECD region than from the EAC region, so companies have more interactions liable to give rise to burdensome NTM on imports from the OECD region than the EAC region. 31,8 per cent of the NTMs reported by Rwandan companies originates in their EAC partners, notably Tanzania (17,9 per cent) and Kenya (9,2 per cent).

4. Discussion

A primary aim of Africa's ambitious effort is the expansion of intra-African trade by lowering the trade barriers to goods and services while encouraging the movement of people throughout the continent. But in the current In a global context of looming trade wars, expected increases in tariffs and welfare losses, Milasoa Chérel-Robson (ATDF 2018) contemplates that Africa's tiny share of global manufacturing production and trade is likely to raise further questions on what the signature of the African Continental Free Trade Area (AfCFTA) is and means for the continent's future. One pertinent question is whether the AfCFTA can deliver on Africa-wide industrial development? These include the need for a greater understanding of how the provisions of the AfCFTA could support the diverse range of African countries in their efforts to set on a sustainable path for industrial development.

Notwithstanding the historical significance of the confidence shown by African leaders in the benefits that it brings, the AfCFTA comes with burning questions:

1. What is at stake in the AfCFTA?
2. How reliable is the AfCFTA to deliver?
3. The governance and effectiveness of the institutions.

Challenges in translating the AfCFTA into industrial development also depend on the institutional capacity to implement it as well as on progress on good governance across the continent. These would inform on the likelihood of the AfCFTA's ability to be more than a mere political intent as stated in its companion document.

Trade allows more efficient allocation of national resources. But the optimal extent of trade is to be determined by decisions about costs and benefits of production and consumption at the margin. From the1960', Africa's approach to regional integration was informed by development strategies of the 'deterioration of terms of trade' (Singer, 1950), industrialisation through 'import substitution' and trade as a development engine (Prebish, 1950).

The proliferation of non-tariff barriers in the EAC risks nullifying any increases in regional trade resulting from the phasing out of tariffs and quota reductions. A concern raised by a business representative in Kenya is that the implementation of the EAC customs union would have little impact on export opportunities in Tanzania since exports are 'always subjected to suspended duties'.

Transformative is the word most commonly used when people refer to the African Continental Free Trade Area (Chaytor, B., ATDF 2018) However, many including the World Bank are left wondering how come leaders publicly and, by and large, genuinely pledge support for integration, but real barriers to trade remain in place? (World Bank 2012). For example, all believe that the free movement or mobility of business people is essential to trade freely. Still, disagreements among the same leaders and their national governments are hindering the EAC and the SADC to adopt a regional labour mobility agreement (Bruegel 2018).

As the EAC countries make efforts to industrialise, at the same time member countries are prone to adopting protectionist measures when they feel that their efforts are being undermined. The reason could be rooted in the approach and strategies that countries adopt to embark on integration. Integration as a tool within regional development strategy has been applied using approaches such as a) integration by the market, b) complex integration, c) the functional approach, and d) the structural approach.

Africa's approach to integration is remarkably different from the functionalism and neo-functionalism approach adopted by European countries. Functionalism is where nations maximise their interest assisted by international organisations based on functional rather than territorial principles.

In the functionalist approach, economic integration is the first step towards a political union to guarantee peace and Neo-functionalism emphasises the role of institutions in furthering integration.

Also, Africa's integration is different from integration between developed countries, which is built on existing growth, and interdependence of high technological levels of production. It is why the most critical obstacles to south-south integration for African countries, are the lack of growth opportunities. This and the absence of large developed economies in the neighbourhood show that effective regional integration is more than merely signing agreements and removing tariffs. By creating a Continental Free Trade Zone, Africa hopes to achieve its long-standing goals of integration (Benefits of AfCFTA-UNECA). However, it will come down to addressing on-the-ground constraints that paralyse the daily operations of ordinary producers and traders. Contentious violations of customs rules have shown how domestic interests can stall integration efforts as has happened in 2012, the potential for trade wars between Kenya, Tanzania and Uganda is a challenge for the East African Community's economic integration agenda. For example, when Kenya accused Ugandan traders of repackaging sugar bought cheaply from outside the region and selling it in Kenya as Ugandan products. In retaliation, Kampala banned Kenyan beef and beef products. Allegations that Tanzanian traders had repackaged and relabelled rice bought cheaply from Asia, Uganda added an 18% value-added tax (VAT) on rice imports from Tanzania.

Sustaining the integration process between African countries would also require fundamental structural changes necessary for boosting economic growth. These include effective regulatory mechanisms to capitalise on economic potential, strengthening institutions to enforce existing regulations and prevent traders from circumventing the system.**[15]**

The EAC made significant steps towards economic integration when it removed internal customs tariffs in 2010, and established a common external tariff (CET) for imports into the member countries in 2015 making it the best regional performer based on the forecast of average annual GDP growth of 6 per cent over the 2016-18. North Africa follows with 3.8 per cent, Central Africa forecast to expand by an average of 2.9 per cent, West Africa with an average annual growth of 1.9 per cent and Southern Africa with an average yearly growth of only 1.6 per cent over the same period (IMF 2016).[16] However, there are still challenges. Boosting economic growth in the long term will require enterprises that grow. One such area is in the services sector. Trade in services presents opportunities for growth and job creation in Africa.

Domestic regulatory hurdles and trade barriers continue to fragment the services markets, and the cost of trading in services is high. Uniform standards in services trade can improve the quality, completeness, and comparability of information.[17] However, when common international standards are applied equally to large and small firms, SMEs could find it costly to use auditing and accounting services. There is a need to support SMEs actively.

Making Regional Integration Work for SMEs

Deeper regional integration is considered a powerful tool to build markets, generate new opportunities for growth, job creation and improved living standards. However, for many developing countries, SME's are the "missing link" that is preventing them from embarking on the path to inclusive and sustainable economic growth and development[18] and linking to regional and international markets. Romer (1987, 1990) offers an array of policy tools to policymakers in developing countries to restore the missing link and spur structural transformation and stimulate growth.[19] The prospect of capturing positive externalities (Idem) and spillover effects from innovative enterprises is an essential aspect of the model (Romer 1986).

Leveraging the benefits of regional integration remains a critical part of any enterprise development strategy. As the Doha round of multilateral trade talks continues to struggle to advance, negotiations at the bilateral and regional level continue to proliferate. Nonetheless, the proliferation of economic integration initiatives has proven that regional integration can continue apace independently of the slow pace of multilateral trade negotiations.

The central role of the nation-state as an economic unit is slowly giving way to strategic alliances that harness knowledge and resources through integration.

Regional economic integration is a powerful tool in efforts to improve the efficiency of resource allocation, speeding technology transfer and enhancing local standards of living. Also, yet the realisation has slowly dawned on policymakers that national borders present considerably more significant impediments to regional integration than had previously been imagined.

Among the common objectives and tangible outcomes that regional integration can accomplish is encouraging economic transformation by:

1. Facilitating regional trade, such as by simplifying and expediting border procedures;
2. Putting in place customs unions;
3. Working towards common markets and economic union[21]
4. Facilitate market entry.

A global and regional economic integration strategy must incorporate the creation of trade and investment relations with the construction of active (regional) markets by enhancing the productive capacities of developing countries in Africa and beyond. For example, central to South Africa's trade policy has been its support for a coherent industrial development policy that involves systematic and continued technological upgrading of the productive sector and helps move South African firms towards producing higher value-added and more knowledge-intensive products and services. In this respect, Rules of Origin, standard setting and work on trade facilitation are critical components of an integration strategy targeting development outcomes.

The regional integration process is a critical part of efforts to reduce transport and energy costs, exploit economies of scale, develop viable service industries, promote foreign direct investment, encouraging labour mobility and expand markets for trade. These processes expand the opportunities open to local entrepreneurs, making regional integration a vital piece of the broader Enterprise Development Agenda.

When such policies fail, it is generally due to the absence of demand awareness, with state planners pushing producers including through preferential agreements into areas that do not support the sustainable transformation of the economy or international buyers are not interested.

References :

Deardorff and Stern (1997), Beghin and Bureau (2001), Bora et al, (2002), Dean et al, (2003), Andriamananjara et al, (2004) and Ferrantino (2006),

East African Community, EAC Vision 2050 (Arusha, Tanzania, 2016).

Ihiga, S., (2007a), A Survey of Non-Tariff Barriers that Affect Kenyan Imports and Exports Within EAC and COMESA Countries.

IMF Regional Economic Outlook: Sub-Saharan Africa, October 2016

ITC's (2015) SME Competitiveness Outlook

Karugia, J., Wanjiku, J., Nzuma, J., Gbegbelegbe, S., Macharia, E., Massawe, S., Freeman, A., Waithaka, M., and Kaitibie, S. 2009. The impact of non-tariff barriers on maize and beef trade in East Africa. ReSAKSS Working Paper #29. International Food Policy Research Institute (IFPRI).

Karugia, J., Wanjiku, J., Nzuma, J., Gbegbelegbe, S., Macharia, E., Massawe, S., Freeman, A., Waithaka, M., and Kaitibie, S. 2009. The impact of non-tariff barriers on maize and beef trade in East Africa. ReSAKSS Working Paper #29. International Food Policy Research Institute (IFPRI).

Michael F. Jensen, John Keyser, and Nicholas Strychacz (2010) Non-Tariff Barriers and Regional Standards in the EAC Dairy Sector 1 June, 2010

Michael F. Jensen, John Keyser, and Nicholas Strychacz (2010) Non-Tariff Barriers and Regional Standards in the EAC Dairy Sector 1 June, 2010

OECD (2005): Looking Beyond Tariffs: The Role of Non-Tariff Barriers in World Trade, Paris, France: OECD Publishing

Okute M, (2017). Non-Tariff Barriers to Trade in East Africa Community: A Case of Exporters in Kenya MSc in Business Administration, United States International University - Africa Spring 2017

Poonam Mohun (2014) Beyond tariff walls: Non-tariff hurdles in sub-Saharan Africa. Bridges Africa | ICTSD https://www.ictsd.org/bridges-news/bridges-africa/news/beyond-tariff-walls-non-tariff-hurdles-in-sub-saharan-africa

Prebish, R. (1950): "The Economic Development of Latin America and its Principal Problems," Economic Bulletin for Latin America (reprinted in 1962), 7(1), 1–22.

Romer, P.M. (1986). "Increasing returns and long-run growth." Journal of Political Economy 94, 1002–1037.

Romer, P.M. (1990). "Endogenous technological change." Journal of Political Economy 98, S71–S102.

Singer, H. W. (1950): "The Distribution of Gains between Investing and Borrowing Countries," The American Economic Review, 40, 473–485.

TC (2018) Addressing Non-tariff measures can help Ugandan companies boost their competitiveness. http://www.intracen.org/news/Addressing-Non-tariff-measures-can-help-Ugandan-companies-boost-their-competitiveness/

The primary objectives of regional economic integration mentioned by Balassa and DeRosa

Tumuhimbise, C. and S. Ihiga. 2007. "A survey of non-tariff barriers that affect Ugandan imports and exports within EAC and COMESA countries." Accessed March 2009. http://ntb.africonnect.com/media/uganda.pdf.

Wafula Okumu (2010) Resources and border disputes in Eastern Africa, Journal of Eastern African Studies, 4:2, 279-297, DOI: 10.1080/17531055.2010.487338

Wilson (2000), Stephenson (1997) , Michalopoulos (1999) and Otsuki,Wilson and Sewadeh(2001)

World Bank. 2012. De-fragmenting Africa: deepening regional trade integration in goods and services (English). Washington, DC: World Bank. pp142

Notes

Economic integration in East Africa will prove challenging https://globalriskinsights.com/2015/10/economic-integration-in-east-africa-will-prove-challenging/

https://www.uneca.org/stories/whole-continent-will-benefit-african-continental-free-trade-area

Overview – Ministry of East African Community Affairs .... https://www.meaca.go.ug/meaca-overview/

Non-Tariff Barriers To Trade in East Africa Community: A .... http://erepo.usiu.ac.ke/bitstream/handle/11732/3265/ANYAL%20MICHAEL%20OKUTE%20MBA%202017.pdf?sequence=1&isAllowed=y

Bruegel (2018Free trade in Africa: An important goal but not easy to http://bruegel.org/2018/04/free-trade-in-africa-an-important-goal-but-not-easy-to-achieve/

According to Deardorff (1987) non-tariff measures are more solicited since their effects are more direct than tariffs.

The MAST is composed of the Food and Agriculture Organization of the United Nations (FAO), International Monetary Fund (IMF), International Trade Centre UNCTAD/WTO (ITC), Organisation for Economic Co-operation and Development (OECD), United Nations Industrial Development Organization (UNIDO), World Bank and World Trade Organization (WTO), It was also represented by observers from the United States Department of Agriculture (USDA), the United States International Trade Commission (USITC) and the European Commission. The GNTB is composed by Deardorff, Krueger, Mitra, De Paiva Abreu, Winters and Yerxa,

Africa's Unexplored Potential of Trade in Services. http://www.worldbank.org/en/news/feature/2016/08/04/africas-unexplored-potential-of-trade-in-services.print

ATDF – Entrepreneurship, Technology & Innovation. https://atdforum.org/

CONSTANTINE BARTEL

Constantine Obura Bartel is researching embeddedness of Swiss MNC in developing countries and guest lecturer on Sustainability, Innovation and Development. He is founder of the African Technology Development Forum (ATDF). The scope of past research and publications cover agriculture, trade, business development, science technology and innovation, environment and development. He has both private and public sector experience having held senior management positions in multilateral institutions and consulting firms. He consulted for the Governments of Canada, Finland, Costa Rica and implemented projects for international and multilateral institutions.