

# UNU-Wider authors' workshop

## Smokestack-free industries in the East African Community

Working draft

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- What is the EAC?

- How has it helped local value chains?

- How has it helped structural transformation?

- Case study: dairy industry in Uganda

# The EAC: the most advanced regional economic community (REC) in Africa



- Key aspects of the EAC:

- **Customs Union** (harmonised import duty, free trade within the area) started in 2005 by Kenya, Tanzania and Uganda. Rwanda and Burundi started applying it in 2009.
- **Common Market (CM)** started in 2010: free movement of services, labour and capital, in addition to goods. Implementation still needs to be completed, especially in national laws.
- Potential next steps include a monetary union

# Tariff barriers in the EAC have dropped

- Key aspects of the Customs Union (CU):
  - Common External Tariff (CET) on imports from third countries;
  - Higher external tariffs on a list of sensitive items;
  - Duty-free trade between the partner states; and
  - Common customs procedures.
- However, non-tariff barriers (high transport costs, bureaucracy, corruption and expensive settlement of payments) remain high.

<b>Good</b>	<b>Common External Tariff</b>
Raw materials, capital goods, agricultural inputs, certain medicines and certain medical equipment etc.	0%
Intermediate goods and other essential industrial inputs	10%
Finished products	25% (maximum)

# East Africa is more economically diversified than the continent's average

	Kenya	South Sudan	Tanzania	Rwanda	Uganda	Ethiopia	Burundi
Poverty headcount	45.9%	50.6%	28.2%	44.9%	19.7%	29.6%	66.9%
Life expectancy	61	55	64	63	58	63	56
GNI p.c. (current USD)	1,290	970	920	700	670	550	270
GDP growth (2015)	5.3%	3.4%	7.0%	7.0%	4.5%	9.9%	4.7%

*Source: WDI data accessed on 2 March 2016.*

- In 2015, East Africa was growing at 6.5% compared to 3.7% for Africa
- The region receives large and increasing FDI inflows.
- As of 2014, none of the countries in the region were net exporters of fossil fuels or food commodities (although this may change). Success stories cover sectors as diverse as cut flowers, financial services, IT and tourism.
- Growth is driven by services and construction including public investment programmes, and partly by industry and agriculture.

# Objectives and structure of the paper

- **Geographical focus:** the five “established” EAC partner states and, where possible, South Sudan. Some comparisons also made with Ethiopia (not part of the EAC but trades significantly with the region).
- **Key objectives:** assess the impact of the EAC CU and regional integration efforts on:
  - Development of Regional Value Chains (RVCs), in particular in smokestack-free industries;
  - Volume and type of intra-EAC trade;
  - Development of industries that can compete internationally.
- Focus on the CU as an instrument as it is has been operational since 2005 and significant progress has been made in its implementation.
- Analyses current trade flows and regional value chains in the region, and provides a case study of the dairy industry in Uganda, which has expanded significantly over the last decade, partially thanks to export opportunities within the EAC.

- What is the EAC?

- How has it helped local value chains?

- How has it helped structural transformation?

- Case study: Development of the EAC dairy industry

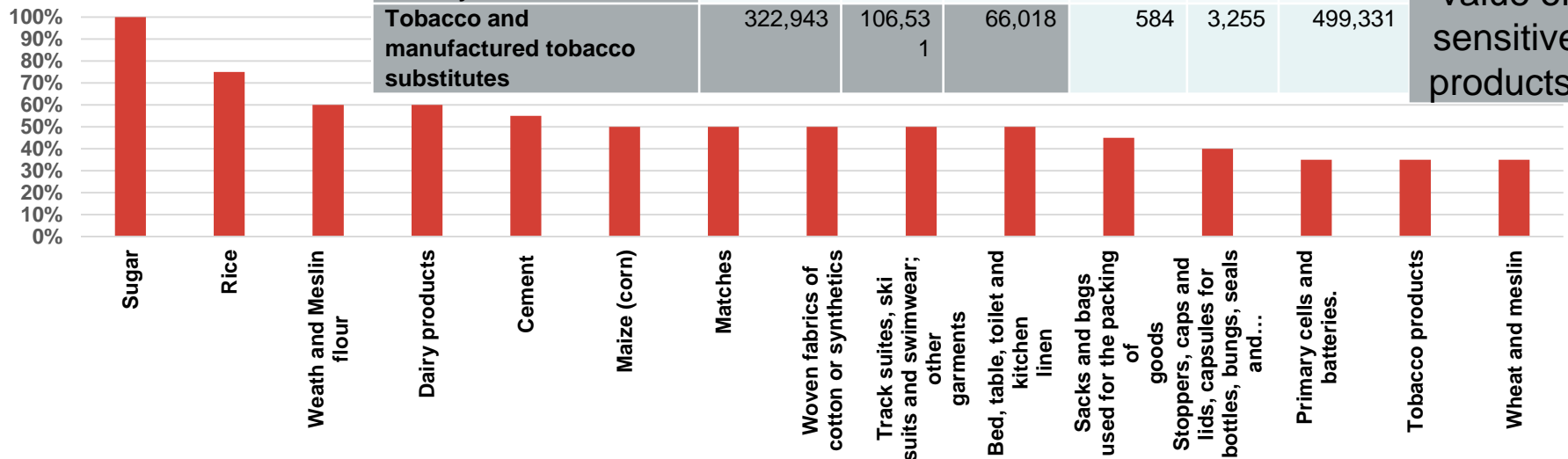
# EAC applies higher tariffs on sensitive items

Sugar has the highest protection, (100% tariff for some types). Rice is also heavily protected, (75% tariff), followed by wheat, meslin flour and dairy products at 60%.

Global exports of selected sensitive items, 2014, US\$ '000

	Tanzania	Kenya	Uganda	Rwanda	Burundi	EAC
Sugar	61,374	486	64,556	3,023	-	129,439
Rice	19,193	218	28,688	14,897	-	62,996
Wheat or meslin flour	16,129	84	29,250	20,387	4,626	70,476
Dairy products	152	13,194	24,553	3,080	19	40,998
Maize (corn)	107,400	4,522	28,977	181	-	141,080
Cement, concrete or artificial stone	309	735	252	372	-	1,668
Matches	544	368	1,906	1	-	2,819
Woven fabrics of cotton	7,176	1,175	711	862	7	9,931
Bed, table, toilet and kitchen linen	121	728	366	15	-	1,230
Track suites, ski suits and swimwear; other garments	4	5	2	-	-	11
Sacks and bags for the packing of goods	22,532	3,386	2,931	537	10	29,396
Primary cells and batteries	34	963	1,481	709	1	3,188
Tobacco and manufactured tobacco substitutes	322,943	106,531	66,018	584	3,255	499,331

Shaded were larger than US\$ 5 million of exports. In 2014 Tanzania and Uganda exported highest value of sensitive products.





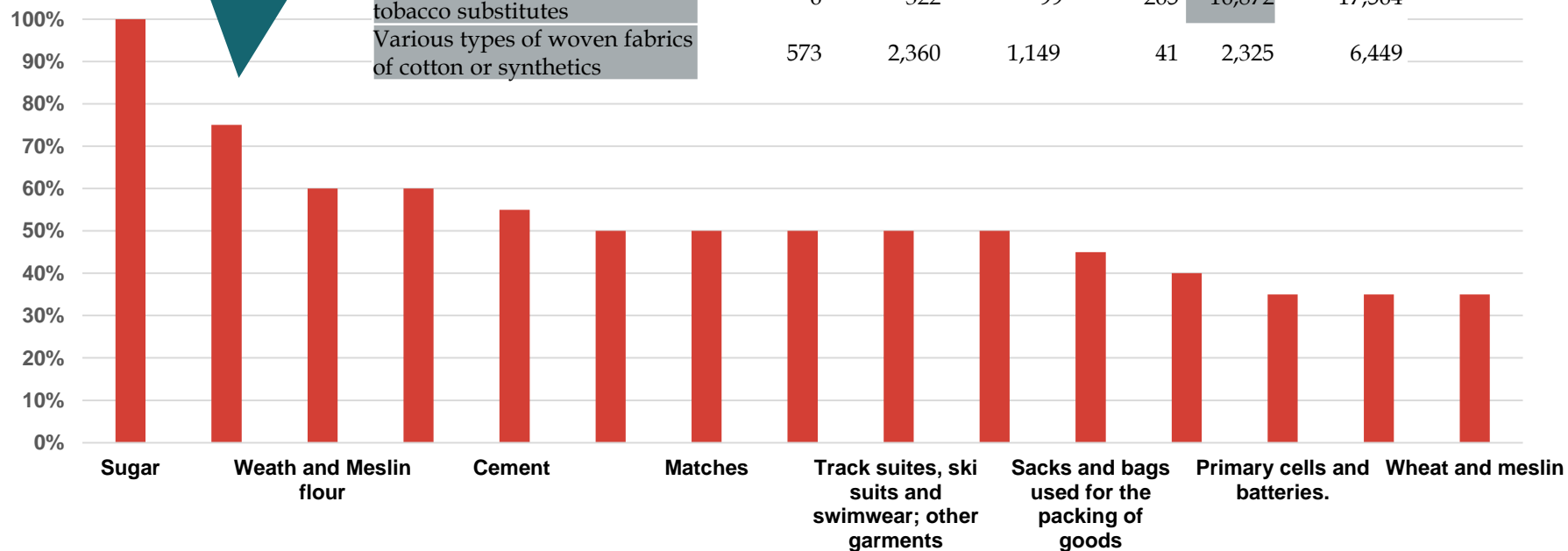
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Intra-EAC exports of selected sensitive items, US\$ '000

Latest data available 2013-15	Rwanda	Uganda	Tanzania	Burundi	Kenya	EAC
Cane or beet sugar and chemically pure sucrose, in solid form	202	12,015	542	2	3,151	15,912
Rice	910	2,616	17,991	1	829	22,347
Wheat or meslin flour	437	264	687	0	589	1,978
Wheat and meslin unmilled	5	869	9	179	2,231	3,294
Milk, cream, buttermilk, yoghurt and most other dairy products	275	17,950	88	10	11,140	29,464
Maize (corn)	143	22,601	54,254	14	3,181	80,193
Articles of cement, concrete or artificial stone	1,388	79,177	18,991	..	95,618	195,174
Tobacco and manufactured tobacco substitutes	6	322	99	265	16,872	17,564
Various types of woven fabrics of cotton or synthetics	573	2,360	1,149	41	2,325	6,449

Shaded were larger than US\$ 5 million of exports.



# In sectors protected by higher tariffs, regional value chains have developed

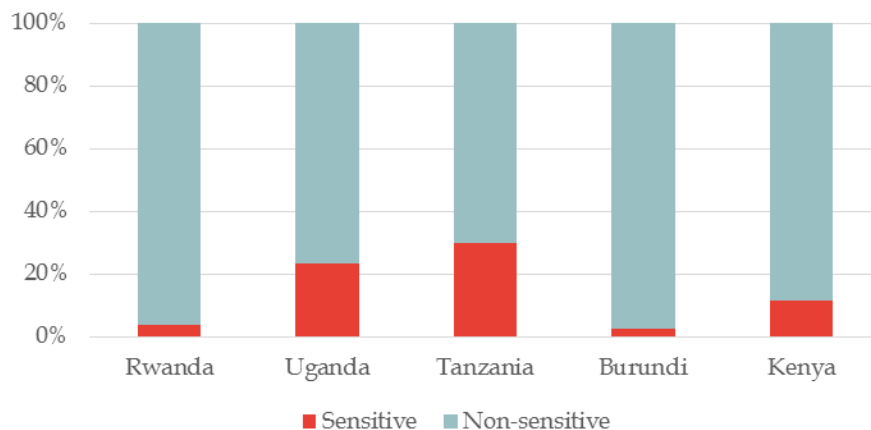
Trade in sensitive products within the EAC, top 5 exports for each trading partner (share of a country's exports to the trading partner, 2014)

Sensitive product / exporter	Rwanda	Kenya	Uganda	Tanzania	Burundi
Rice	Tanzania (2%)			Uganda (13%) Burundi (6%)	
Construction materials including cement	Burundi (7%)	Uganda (12%)	Rwanda (29%) Burundi (12%)	Rwanda (11%) Burundi (24%)	Maize makes up 21% of Tanzania's exports to Kenya
Sugar			Rwanda (3%)		
Maize			Tanzania (8%)	Kenya (21%)	
Tobacco (manufactured)		Rwanda (2%) Uganda (2%)			Tanzania (14%)
Milk, cream and milk products			Kenya (7%)		
Textiles				Kenya (21%) Uganda (14%) Burundi (8%)	Kenya (1%)

Value chains have developed, notably (in this order) in cement, maize, tobacco products, textiles, rice, sugar and dairy.

# But not all members make extensive use of the tariffs on sensitive products

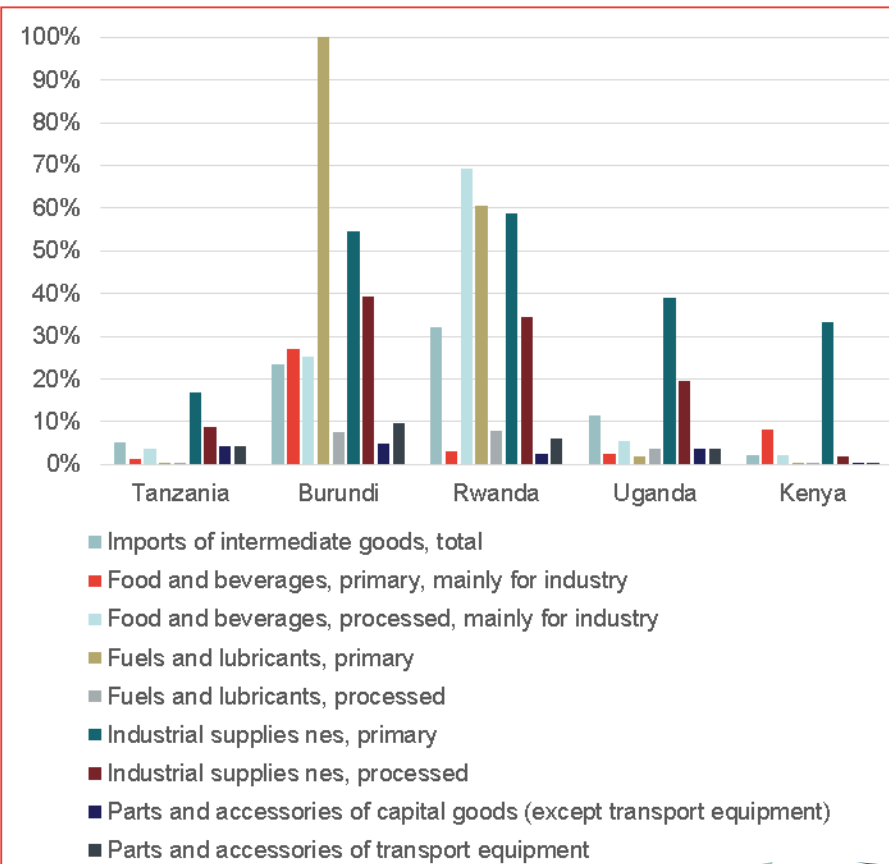
- Throughout the paper, Uganda comes out as the country that benefited the most from regional integration (regional exports of sensitive items, FDI etc.), with possibly Burundi benefiting the least.
- This is mostly because Uganda's economy is driven by agriculture, which has benefited the most from the CU, while for ex. Kenya and Tanzania rely more on tourism and services.
- Tobacco, maize and sugar were the most exported sensitive products in the region.
- Apart from tobacco, all products that are subject to sensitive tariffs represent a larger share of intra-EAC exports than of global exports.



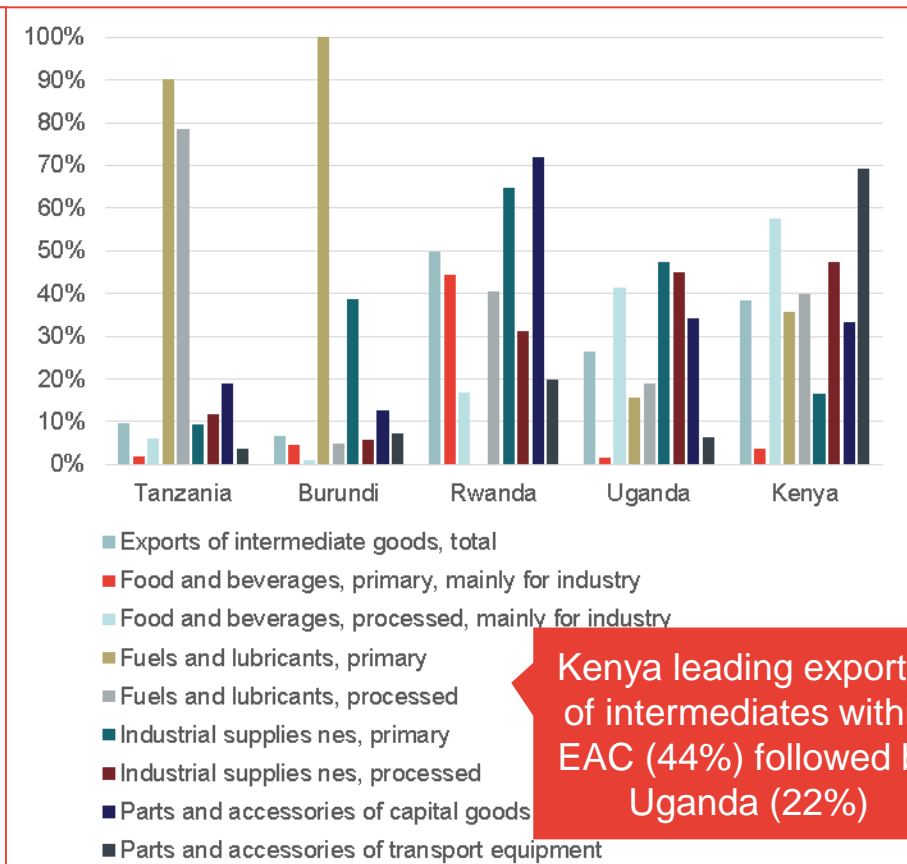
30% and 23% of intra-EAC exports from Tanzania and Uganda respectively are of sensitive products. The other three partner states export a much lower share of sensitive products within the region.

# Trade in intermediate goods in the EAC is low

Imports of intermediate goods from the EAC as % of world, 2014 (Kenya 2013)



Exports of intermediate goods to the EAC as % of world, 2014 (Kenya 2013)



Kenya leading exporter of intermediates within EAC (44%) followed by Uganda (22%)

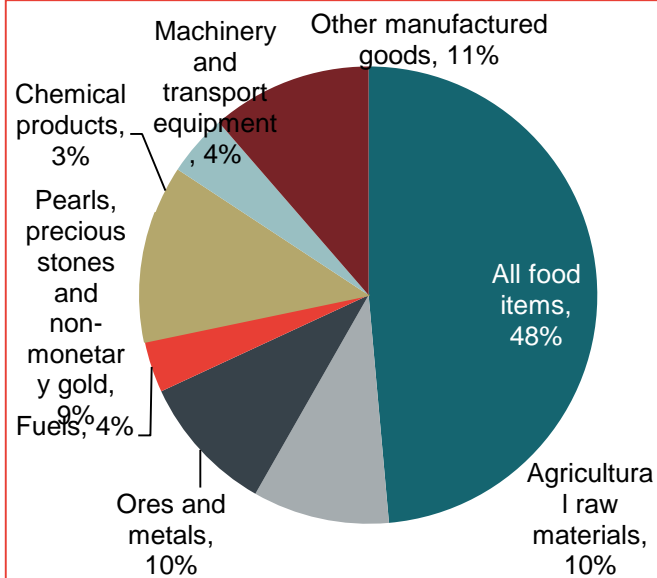
EAC countries imported only 6% of intermediate goods from EAC partners in 2014, compared to 14% for consumption goods. But in some categories, such as industrial supplies, the share was higher.

Value chains of basic products such as dairy and textiles are well developed within the region, but value chains of industrial inputs, especially processed, are not.

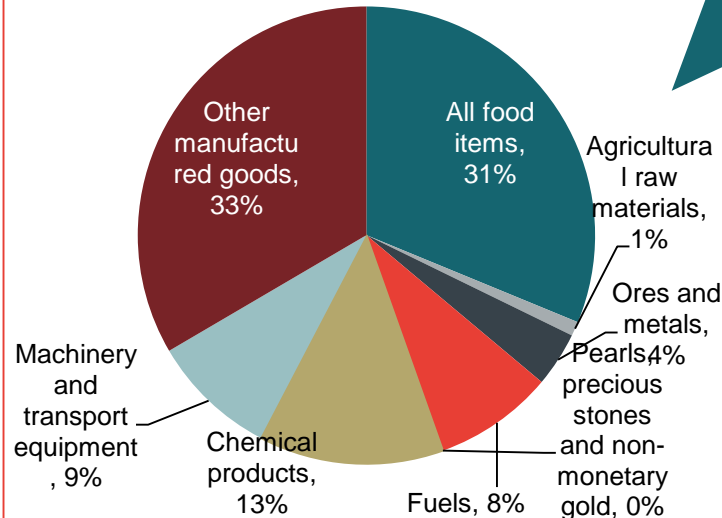
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# EAC has supported export diversification

## EAC exports to rest of world

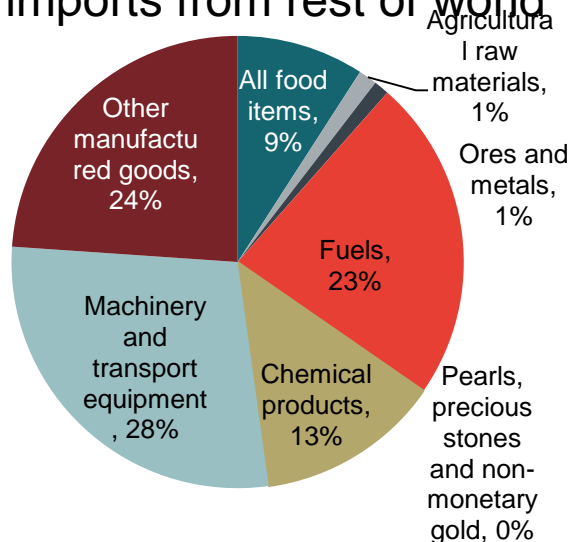


## EAC internal exports

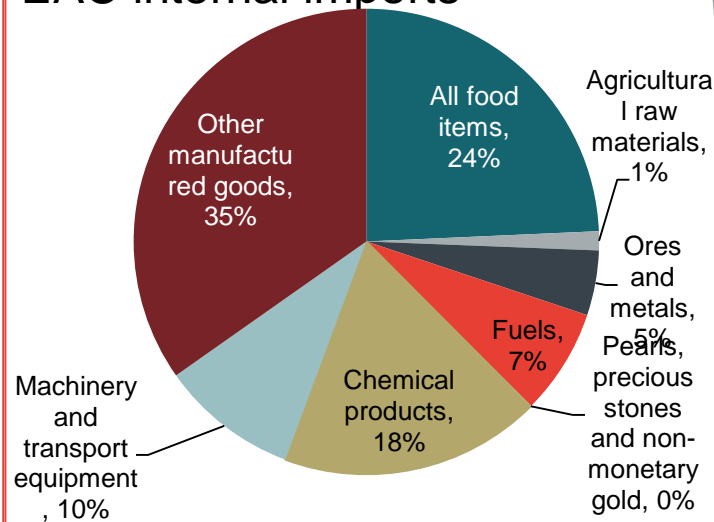


EAC internal exports are more diversified than EAC global exports and contain a larger share of manufactured goods (55% versus 19%).

## EAC imports from rest of world



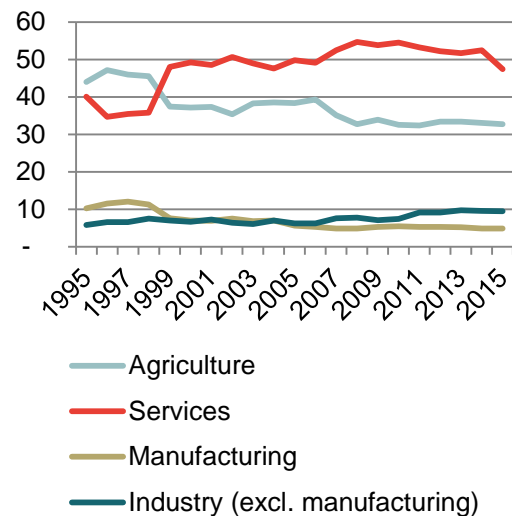
## EAC internal imports



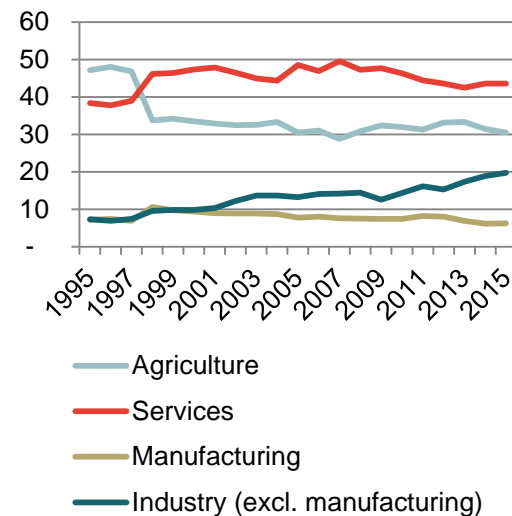
62% of EAC internal imports are manufactured goods, similar to the share in EAC global imports (65%). EAC seems to provide competitive opportunities for manufactured goods.

# But manufacturing's contribution to GDP has stagnated in the EAC

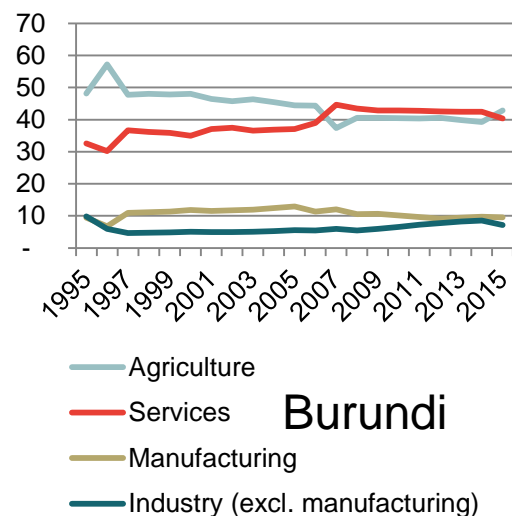
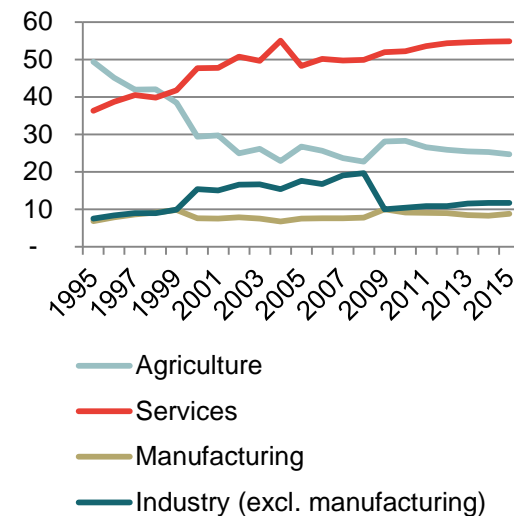
## Rwanda



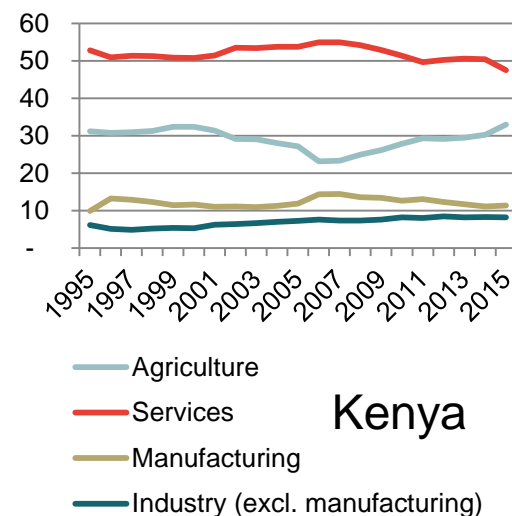
## Tanzania



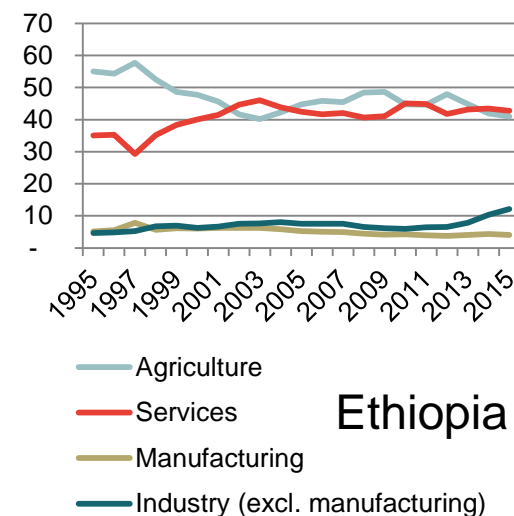
## Uganda



## Burundi



## Kenya



## Ethiopia

# EAC industrialisation strategy identified 6 strategic sectors

- Strategy aims to diversify manufacturing base, raise local value addition to exports, increase share of manufactured products in exports, raise R&D and innovation.
- Sectors in which the region has potential comparative advantage:
  - Iron-ore and other mineral processing
  - Petro-chemicals and gas processing
  - Energy and Bio-fuels
  - Agro-processing (capitalises on EAC's large production of food items, 46% of EAC exports to the world in 2014)
  - Fertilisers and agrochemicals
  - Pharmaceuticals
- This list contains smokestack-free industries and looks beyond traditional manufacturing. Examples of existing activities:
  - Uganda already processes agricultural products such as tea, sugar, coffee, cotton, grains, dairy, oils.
  - Kenya has a growing pharmaceutical industry.
  - In 2015. Yara Tanzania Ltd. established a USD 20 million fertilizer terminal in the port of Dar es Salaam.

Capitalise on EAC's competitive advantage in fuels and minerals extraction (minerals and fuels made up 14% of EAC's exports in 2014)

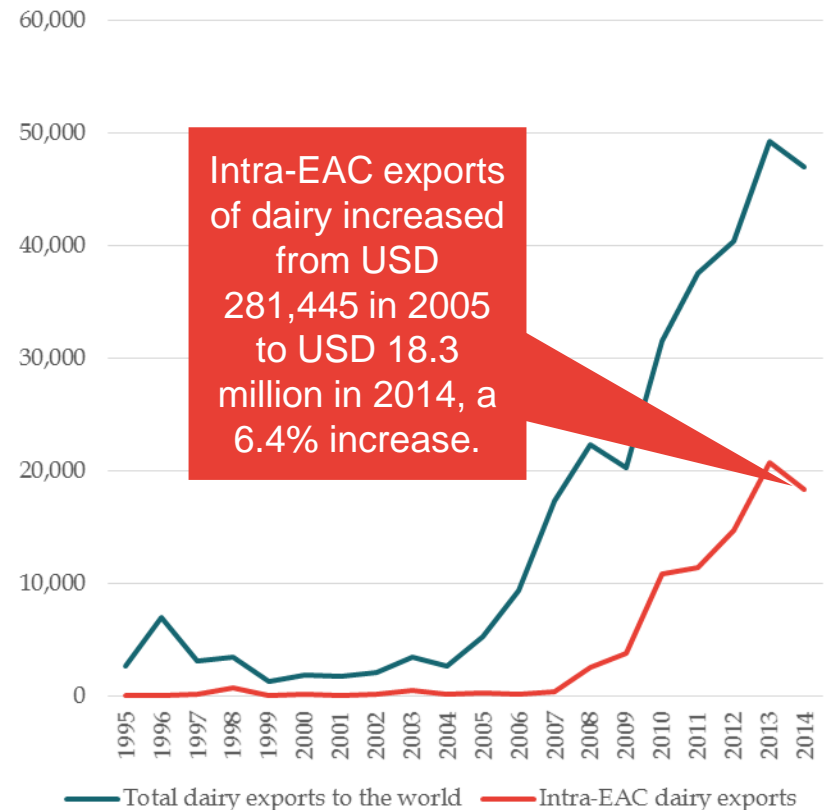
Starting from a lower base



- What is the EAC?
- How has it helped local value chains?
- How has it helped structural transformation?
- Case study:  
Development of the EAC dairy industry

# Tariff protection has advantaged the dairy sector in the EAC

- EAC applies 60% CET to dairy from outside. This has made intra-EAC imports more attractive.
- Intra-EAC exports of dairy as a share of total EAC exports of dairy increased from just 5% in 2005 to 39% in 2014.
- Many inputs for the dairy industry however need to be imported and face high taxes.
- East Africa is now the leading milk-producing region in Africa with 68% of the continent's milk output.
- Demand for dairy in Africa is expected to increase significantly, opening up opportunities for the EAC countries.
- Establishment of a Continental Free Trade Area would further support the sector.



EAC's dairy exports to both the region and the world increased significantly following the establishment of the CU.

# RVCs in dairy are extensive in the EAC

Ugandan informally exports raw milk to Kenya (illegally at the border). Kenya converts it into powder, pasteurized milk and cream

Ugandan companies formally export processed milk products within the region (particularly to Kenya and South Sudan). Ugandan dairy companies have higher processing standards than regional harmonised standards.

Ugandan companies import inputs from Kenya (e.g. packaging materials and spare parts), but also from elsewhere through Kenyan and Tanzanian ports (e.g. generators from India, machines from the Netherlands).

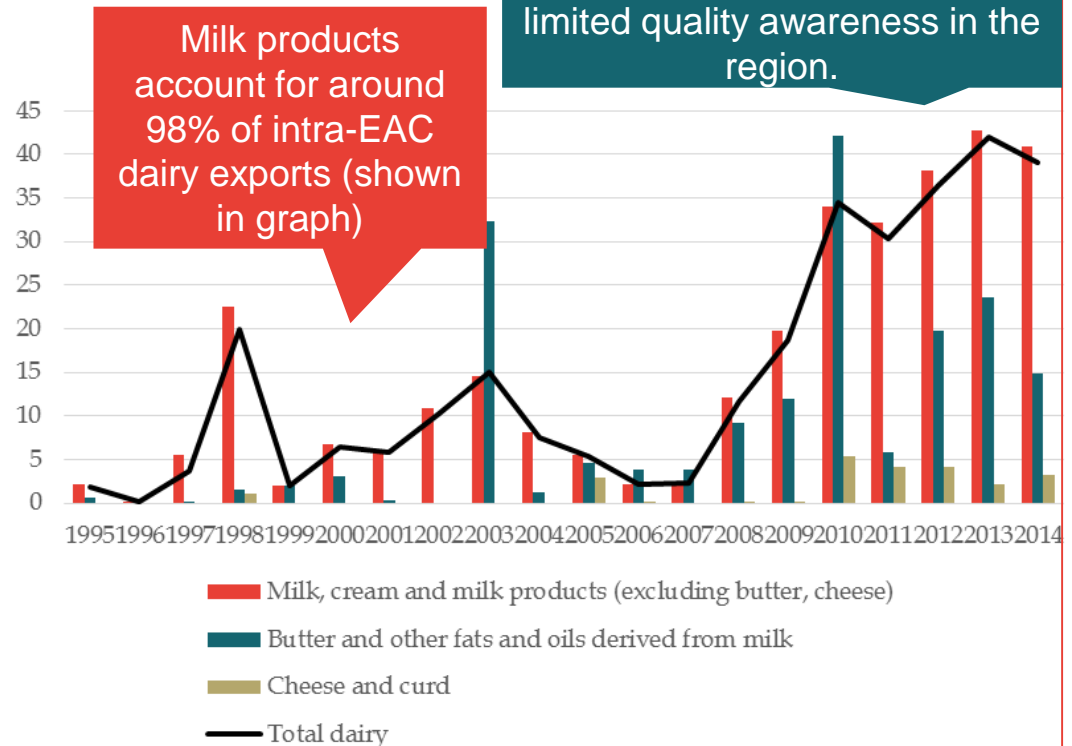
Uganda exports dairy products beyond the region (e.g. to India, US, Nigeria, Arab countries). Uganda's farming systems are dominantly organic so its exports pass stringent food safety systems in the US.

- EAC facilitated mergers in the region (e.g. In 2015 Kenyan Brookside Dairy Limited acquired Ugandan dairy company Sameer Agriculture and Livestock Limited)
- Eastern and Southern African Dairy Association (ESADA) organises annual East Africa Dairy Exhibition: companies showcase their technologies and network with potential clients. At the 2011 conference the “Extended Shelf Life” technology was launched in Kigali, which is now adopted by a large share of processors in the region.
- FDI inflows promote RVCs and cross-border trade in dairy.

# Uganda has recently become a leading exporter of dairy

- In 2014 Kenya and Uganda made up 44% and 48% of EAC global dairy exports respectively.
- But when looking at intra-EAC exports, Uganda made up 60% of intra-EAC dairy exports.
- Uganda's lead is new: in 2005 Kenya contributed 84% of all intra-EAC dairy product exports and 80% of total EAC exports of dairy products.
- In 2014, Uganda recorded a USD 15 million trade surplus in dairy products compared to a deficit of USD 2 million in 2005.

## Intra-EAC exports of dairy



# EAC and domestic policy helped to develop the Ugandan dairy sector

- The development of the Ugandan dairy sector is largely attributed to:
  - Country reforms (such as liberalisation of dairy industry in the 1990s);
  - EAC integration (harmonization of standards, Electronic Single Window) and tariff protection;
  - Supportive government policies (i.e. introduction and monitoring of standards by the Uganda National Bureau of Standards, investment incentives such as free land and tax holidays for the sector); and
  - Large number of cattle and milk production historically present in Western Uganda.
- Government invested in the sector through the National Agricultural Advisory Services (NAADS) and the National Agricultural Research Organisation (NARO).
- Dairy value chain created employment not only for 700,000 dairy farming households, but also for farm input dealers and dairy equipment dealers.
- However, the majority of the country's milk production goes unprocessed, reflecting the still infancy status of the industry.
- VAT of 18% on processed products reduces the demand for processed products and the incentives to process.

# Future directions for the paper

- Analyse the impact of changes in tariff lines (pre vs. post CU)
  - ❑ Impact on trade flows
  - ❑ Differential impacts on EAC partner states
  - ❑ Overall competitiveness impacts: costs of intermediate inputs
- Better identify the channels through which the EAC has promoted regional value chains (Mostly tariffs? Common industrial policy? Common infrastructure and energy projects? Other?)
- Better explore why Uganda has benefited more than other EAC partner states from the CU (Strategic location? Tariff structures? National policies to adapt to EAC provisions? Traditionally strong agricultural base?)
- If budget and time allow, add other case studies of regional value chains in IWS industries (e.g. services in Kenya, textiles in Tanzania, air industry in Rwanda, agro-processing in Burundi)

THANK YOU!

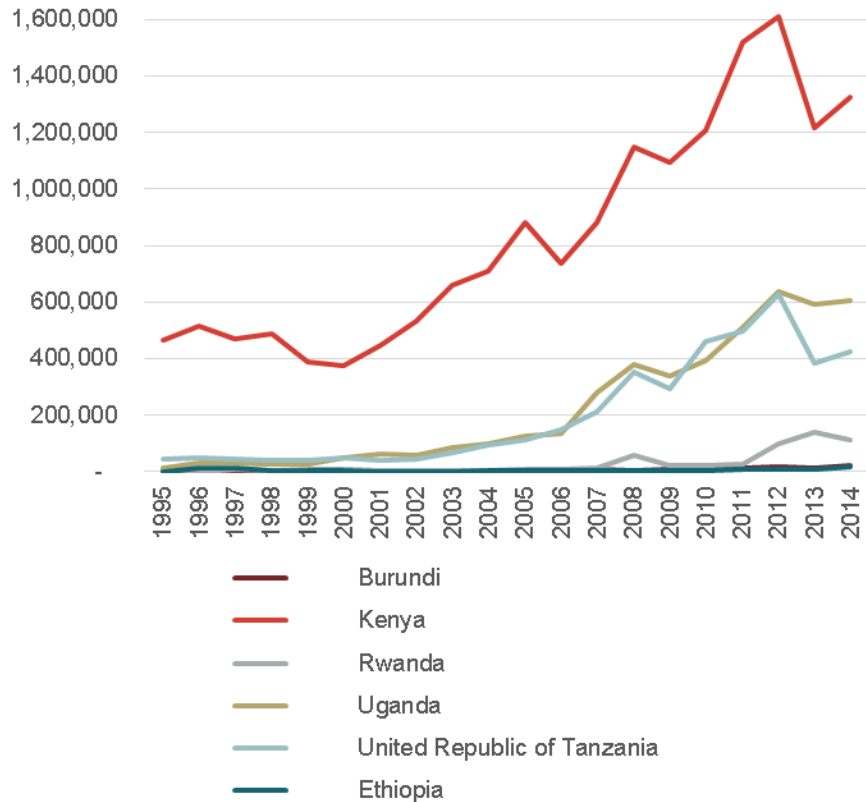
# Structural transformation following the CU has so far been low

- The EAC registered a significant decline in the GDP share of agriculture, hunting, forestry and fishing from 39% in 1995 to 33% in 2014.
- Minimal change in the compositions of GDP post 2005 (when the CU started) – except Rwanda which saw significant fall in share of agriculture post-CU.
- 60% of labour in EAC is still in agriculture. 7% in manufacturing.
- Manufacturing shares remained fairly constant across the EAC (excluding Kenya which saw a reduction) following 2005.
- The contribution of services to GDP has increased marginally since the CU.
- Significant structural change had taken place before 2005, leaving less scope for immediate additional restructuring following the establishment of the CU.
- Moreover, implementation of the CU has been gradual, with the implementation of the Common Market and trade facilitation measures moving at a slower pace.
- All countries saw growing shares for construction driven by public investments.
- Structural change is however a long term process which requires fundamental changes to the supply side of the economy. Enhanced integration can help to boost exports of more complex products.

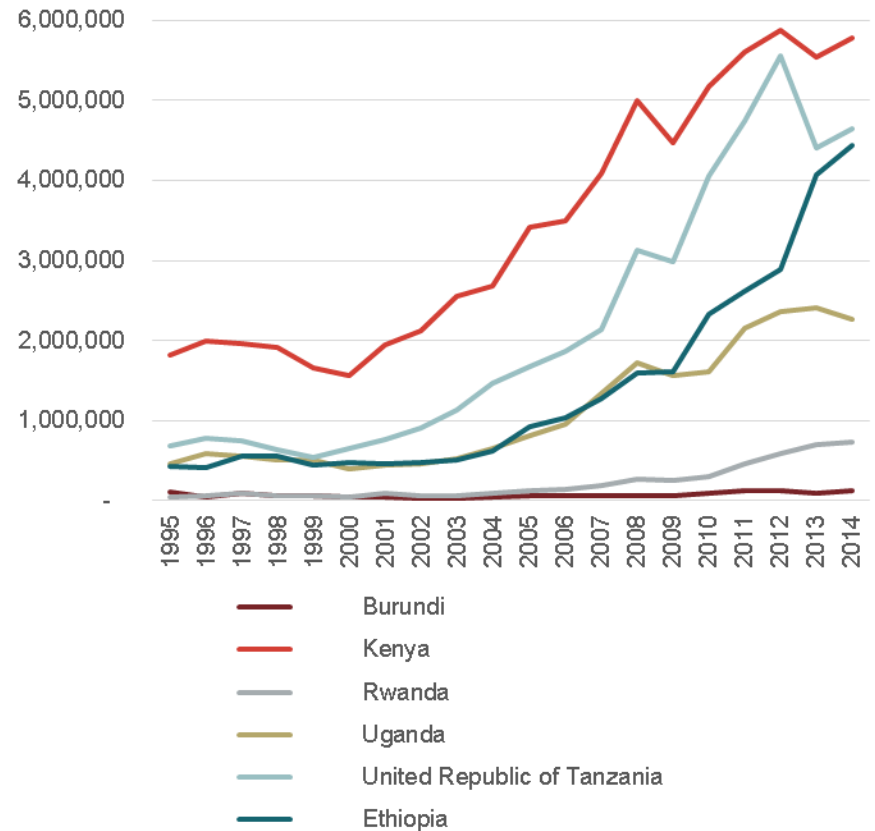


# Volume of trade within and outside the EAC

## Exports within the EAC

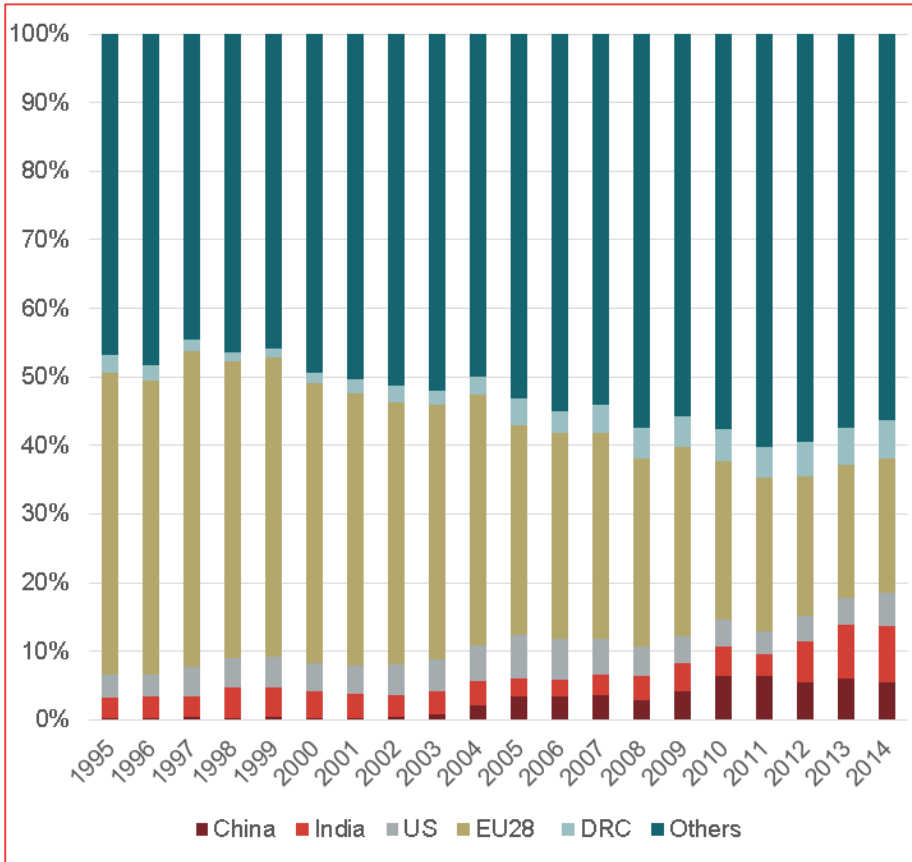


## Exports from the EAC to the rest of the world

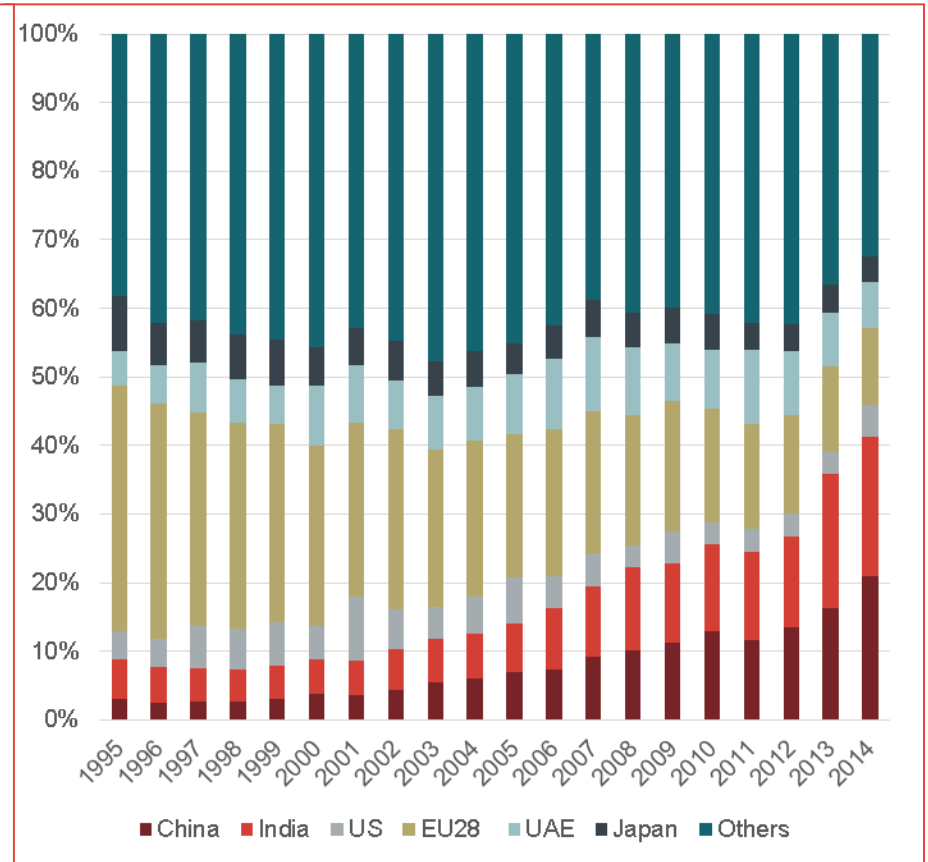


# EAC trade partners over time

## EAC export main partners

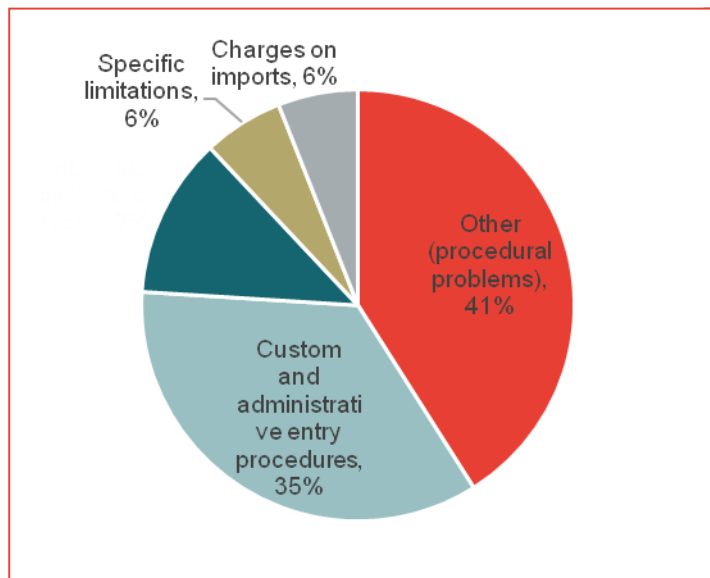


## EAC import main partners

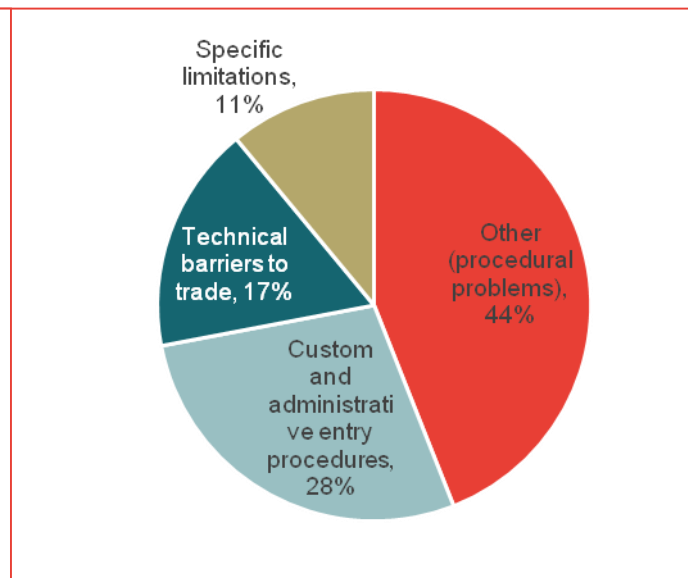


# EAC has made progresses in tackling non-tariff barriers to trade

## Resolved NTBs



## Unresolved NTBs



- EAC has an ambitious agenda for the elimination of remaining NTBs to trade and publishes a quarterly report of NTBs in the region
- Ongoing measures such as the East Africa tourist visa, joint energy and transport projects and one stop border posts are contributing to reducing NTBs in the EAC.
- As of December 2014, there were no unresolved NTBs under “government participation in trade and restrictive practices tolerated by government” or “Sanitary and Phytosanitary Measures”
- All NTBs falling under the category “charges on imports” had been resolved.

# Clarify story and identify recommendations

- Make story clearer and easier to read:
  - Organise paper in further paragraphs
  - At the end of every paragraph: so what?
  - Where possible present numerical evidence in tables or graphs instead than in the text
- Main issues identified by the paper:
  - Lack of structural transformation: most people employed in low-productivity sectors
  - Few sectors/firms able to compete in international exports
  - Mining and other developed sectors behave as enclaves separated from the rest of the economy
- Sectors with potential for Mozambique's future:
  - Services such as I.T., finance, transport and real estate
  - Tourism could benefit from investments and upgrades in transport (especially air), accommodation etc.
  - Horticultural products and food processing

Policy  
recommendations to  
address these issues?

How should Mozambique  
develop these sectors?