FACTORS THAT EXPLAIN THE LOW INTRA-EAC TRADE FOR THE PERIOD BETWEEN 2010 AND 2017: A CASE STUDY OF KENYAN EXPORTS

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING 2018
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651294

A THESIS SUBMITTED TO THE SCHOOL OF HUMANITIES AND SOCIAL SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR MASTER’S DEGREE IN INTERNATIONAL RELATIONS.

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING

2018
DECLARATION

I, undersigned, declare that this is my original work and has not been submitted to any other college, or university other than the United States International University- Africa for academic credit.

Signed: ___________________________ Date: ________________

Amos Kiarie Njoroge (651294)
Student.

This thesis has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ________________

Mr. Joseph Kimani Njuguna
Supervisor.

Signed: ___________________________ Date: ________________

Prof. Angelina Kioko
Dean, School of Humanities and Social Sciences.

Signed: ___________________________ Date: ________________

Ambassador Prof. Ruthie Rono.
Deputy Vice Chancellor Academic Affairs.
DEDICATION

This work is dedicated to my family for their understanding and overwhelming support without which I would not have been able to finalize. I also dedicate it to all the people who tirelessly work towards the realization of a stronger and a more united East African Community despite all the challenges they encounter. May we one day fully enjoy the fruits of their labour.
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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AU</td>
<td>African Union</td>
</tr>
<tr>
<td>CBI</td>
<td>Centre for the Promotion of Imports</td>
</tr>
<tr>
<td>CET</td>
<td>Common External Tariffs</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CPI</td>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>CU</td>
<td>Customs Union</td>
</tr>
<tr>
<td>EABC</td>
<td>East African Business Council</td>
</tr>
<tr>
<td>EABI</td>
<td>East African Bribery Index</td>
</tr>
<tr>
<td>EAC</td>
<td>East African Community</td>
</tr>
<tr>
<td>EACCM</td>
<td>East African Community Customs Management Regulations</td>
</tr>
<tr>
<td>EACCU</td>
<td>East African Community Customs Union</td>
</tr>
<tr>
<td>EPZs</td>
<td>Export Processing Zones</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Area</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HI</td>
<td>Historical Institutionalism</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>ICD</td>
<td>Inland Container Depot</td>
</tr>
<tr>
<td>IGAD</td>
<td>Inter Governmental Authority on Development</td>
</tr>
<tr>
<td>KDB</td>
<td>Kenya Dairy Board</td>
</tr>
<tr>
<td>KRA</td>
<td>Kenya Revenue Authority</td>
</tr>
<tr>
<td>NTBs</td>
<td>Non-Tariff Barriers</td>
</tr>
<tr>
<td>RCI</td>
<td>Rational Choice Institutionalism</td>
</tr>
<tr>
<td>RECs</td>
<td>Regional Economic Communities</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SID</td>
<td>Society for International Development</td>
</tr>
<tr>
<td>TBL</td>
<td>Tanzania Breweries Ltd</td>
</tr>
<tr>
<td>TFDA</td>
<td>Tanzania Food and Drug Authority</td>
</tr>
<tr>
<td>TI</td>
<td>Transparency International</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNECA</td>
<td>United Nations Economic Commission for Africa.</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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</table>
ABSTRACT

The East African Community (EAC) has taken a step forward by implementing a free trade area, customs union and a common market in its region. It is also on the journey of achieving an economic union and eventually a political federation. This implementation of the former requires the removal of all trade barriers in the intra-regional trade. The EAC region has incorporated the removal of trade barriers for efficient regional integration among the member states. However, the region has registered low trade in the past eight years.

This study is defined by two objectives: To examine why Kenyan export products are experiencing contraction within the intra- EAC trade integration and to evaluate why the level of intra-EAC trade is still low despite the decrease of trade barriers. To explain the process of regional integration, the study has used the concepts of rational choice institutionalism and historical institutionalism. Secondary data using qualitative methods was used to answer the research questions of the study.

The study found out that, several factors accrue to the low intra-EAC trade in the region. These includes: competition of Kenyan products by cheap foreign investor products, availability of NTBs, multiple memberships, disparities in tax regimes, underdeveloped telecommunications and infrastructure, corruption, revenue losses and border inefficiencies, partial harmonization of trade rules and states reluctance to surrender their authority to the common market. The study further offers recommendations for the findings and provides suggestions for further research study.
CHAPTER ONE: INTRODUCTION

1.1 Background

“When goods do not cross borders, soldiers will” is a quote ascribed to the French economist and Member of Parliament, Claude Frédéric Bastiat (Rothbard, 2011). In spite of the age of the quote (expressed in the 19th century) the element of it remains meaningful. An openness in trade is often defined to be a main tool not only for a stable environment, but also for the political development. The philosopher Murray N. Rothbard even appealed that “exchange is the lifeblood, not only of our economy, but of civilization itself” (Rothbard, 1990). Several rules of today are articulated with the essence of increasing the trade not only in order to upsurge the GDP of a developed state, but also in order to advance less development states. Policies about increased trade are hence implemented as national goals in some nations and as aid policies in other states.

Regional trade is trade which focusses on economic exchange mainly between countries of the same region or economic zone. States within similar economic zone trade with each other taking advantage of availability of economies of scale within the region because of prolonged market brought about by removal of tariff and Non-Tariff Barriers (NTBs). Common markets are being recognized in poorer regions of the world including Africa mainly to stimulate production of items within the bloc that would then be imported, boost foreign direct investments and defend infant industries from competition from non-member states (Bennett 1999).
Daniel et al. (2011) has recognized five forms of regional integration: free trade area, customs union, common market, economic union, and political union or federation. Free trade area- increases trade among its members by eliminating trade barriers among them, with each member left to create its own trade policy with non-members. Customs union is an economic integration whereby states eradicate all barriers to trade among themselves, but erect a mutual trade policy against non-members, by having a CET. In a common market, member states eradicate all barriers to trade and factors of production that is people and cross border investments, while an economic union exemplifies full integration of the economies of member states, going past the demand of a shared market by demanding member countries to blend their economic policies (tax, monetary and fiscal policies), and social welfare agendas in order to complement their economies into a single unit and erect a common trade policy against non-members.

In the East African Community, five partners (Kenya, Uganda, United Republic of Tanzania, Rwanda and Burundi) have been able to achieve a customs union with a shared external tariff executed in 2005. To eliminate internal tariffs, the joint market which bids for movement of labor, capital and trade (merchandise as well as services) was legally launched in the year 2010. The EAC integration course appears to be the most functioning and quickly executed in the African continent, by its display of strong political pledge on the part of the member states. This has seen the addition of a new member, The Republic of South Sudan, recognized during the 17th ordinary summit of the regional leaders of the EAC on the 2nd of March 2016.
Regardless of the reduction of all barriers to trade and factors of production hence guaranteeing free movement of people and cross border investments, right of residence and formation, trade in the region is still low. This study aims at examining the factors leading to the low intra-EAC trade in the period between 2010 and 2017.

1.2 Statement of the Problem

Intra-regional trade in EAC is still low and encompasses of only 9.4 per cent of total EAC. The EAC trade deficit depreciated by 36.8 per cent in 2016 partly due to a fall in imports into the region (Nakweesi, 2017). According to EAC Trade and Investment Report 2016, regional total trade deteriorated by 19.5 per cent for the second successive year. According to the report, total trade documented in 2016 reduced to $44.6 billion down from $55.4 billion recorded the prior year. Furthermore, total exports reduced by 6.8 per cent to $14.9 billion from $16.0 billion in 2015. Imports into the region also declined to $29.7 billion in 2016, down from $39.4 billion recorded in 2015. The total intra-EAC trade also deteriorated to $4.2 billion in 2016. Intra-EAC trade remains low and presently stands at 13 percent of the total trade volume. This relates poorly with other regional trade arrangements such as the European Union and the North America Free Trade Agreement, where intraregional trade accounts, respectively, for 60 percent and 48 percent of total trade portfolios (Muluvi, Kamau, Githuku & Ikiara, 2016).

The reduction of tariffs on intra-regional trade also known as Internal Tariffs (IT) and the efforts to diminish NTBs and development in trade facilitation are among the on-going initiatives to upsurge intra-EAC trade. Rather, the formation of a free-trade area, customs union and a common market should increase intra-trade within the EAC signifying that intra
trade relations between the member states should increase both steadily and in value terms (Shinyekwa & Othieno 2011). However, this is not the case and trade in the region is still low despite the implementation of such strategies. The reason for this trend despite all the effort needs examining.

1.3 Objectives

1. To examine why Kenyan export products are experiencing contraction within the intra-EAC trade integration.

2. To evaluate why the level of intra-EAC trade is still low despite the decrease of trade barriers.

1.4 Research Questions

1. Why are Kenyan exports experiencing trade contraction in intra-EAC regional trade integration?

2. Why is intra-EAC trade still low despite the reduction of trade barriers?

1.5 Significance of the Study

The study is aimed at providing valued information that may attest to be significant to the following groups:

1.5.1 The East Africa Community Secretariat

The East African Community Secretariat may use the results to articulate positive policies and a framework that is relevant and subtle to challenges that influence regional trade.
1.5.2 Multinational Corporations

The study is also important to multinational corporations that would want to invest or trade within the East African Community. They will be able to recognize the challenges they may come across and advance policies that will diminish their effects. Moreover, the study is also applicable to companies that have highly capitalized in the EAC intra-regional trade and export their products in the region. The study is important in the illumination of the factors affecting the production of their businesses.

1.5.3 Citizens of recipient states

The study will empower the citizens of the recipient state to lobby their leaders concerning the enactment of laws and invention of policies that effect trade relations with their neighboring states that will boost economic development in their regions.

1.5.4 Researchers

The study will donate to the current literature on the factors influencing the contraction of intra-regional trade in EAC. The study will offer valuable information to researchers on why intra-EAC trade is still low despite the reduction of trade barriers which are supposed to advance the levels of trade in the region. The study will be a significant source of information to scholars who would like to delve further on the topic of intra trade relations in regional integrations. Criticisms and omissions that may be understood or obvious in the study will also be vital for inspiring further research for the verification of the findings of this study.
1.6 Scope of the Study

The study is precisely limited to examine the factors influencing trade contraction in EAC. The scope of this study is restricted only to intra-regional trade between the EAC member states with a focus of investigating trade contraction in Kenyan exports to the EAC region.

1.7 Definitions of Terms

Trade: Based on this study, trade can be defined as exchange of goods and services between states for advancing the region’s institutional strength.

Integration: The act of different states coming together and merging their policies to achieve a common goal.

Regional Integration: Regional integration can be defined as a scenario where states under a certain geographical area surrender their sovereignty to each other and unify to carry out specific transactions with a purpose of achieving common objectives.

1.8 Chapter Breakdown

This paper consists of five chapters.

Chapter One: It will give a brief introduction of the research. It will also contain the statement of the problem, objectives of the study, research questions, and significance of the study, definitions of terms as well as the chapter break down.

Chapter Two: It will look at the theoretical foundations and literature review. It offers an assessment of the forms of regional integration in EAC and gives an overview of intra-regional trade in EAC from 2010 to 2017. The research gap is also identified.
Chapter Three: It discusses the methodological approaches used to collect data for this study. It also outlines the research design, the population and sample, data collection method, data analysis method, as well as the ethical considerations for the study.

Chapter Four: It analyses the data collected and provides the answers to the research questions of the study and is structured according to the specific research objectives of the study and also gives recommendations for the findings.

Chapter Five: This chapter offers the summary of the findings, identifying some of the defining findings of the study, the conclusion and recommendations. Limitations of the study are also highlighted.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

To fully appreciate and comprehend the nature of intra-regional trade in EAC, this chapter will probe into literature review to: first, show that EAC member states have embraced the process of regional integration by eliminating trade barriers and second; analyze the levels of EAC intra-regional trade within the study period. Thirdly, it will review some of the causes of the low intra-EAC trade highlighted by other researchers and some companies experiencing trade contraction in the region and finally, the knowledge gap is identified.

2.2 Literature review

2.2.1 The development of European trade

In the 18th century, Western Europe was rather of a periphery and (relatively other regions) underdeveloped. It had inadequate trade with few trading posts et cetera (Findlay & O’Rourke, 2009). What is elucidated to have advanced and amplified the European trade is mostly variables regarding cost reduction and Findlay and O’Rourke among others discuss the European increase of trade as an answer to the decrease of costs. The European trade upsurge was not secluded as exclusively intra-regional, rather, the intra-regional trade much advanced alongside the intercontinental trade (Findlay & O’Rourke, 2009). Nevertheless, the intra-European trade did increase and because the use of the European case is not to do an assessment but as to find variables, these sorts of missing similarities will not affect the credibility of the study.
The costs related with the European trade at this time concerned tariffs and various kinds of grants aiming at protecting national production from international competition (Findlay & O’Rourke, 2009). The isolationism can however be a dispute for an original national development of a competitive production, i.e. protectionism can be contended to be of importance when a state has not yet advanced adequately for international trade (cf. the infant industry argument) (Krugman & Obstfield, 2009). However, slightly differing to preceding arguments Allen argues that “the inter-continental trade flourishing was a key progress that boosted north-western Europe forwards” in the 18th century (Findlay & O’Rourke, 2009). Several minor European states had begun to slacken their trade strategies in the early 19th century or even the late 18th century. Nevertheless, in the 1850’s several of the main economies of Europe followed and began a liberalization course with e.g. average tariffs dropping and decreases of import prohibitions, therefore reducing costs linked with trade (Findlay & O’Rourke, 2009).

Another cost reduction, highlighted by Findlay and O’Rourke as donating to the enlarged trade, is the transport revolution. Following the industrialization came innovations in transport such as development of roads as well as the railroad. These transport developments reduced costs that were related with trade and together with this, the trade volumes and the trade divergence increased, i.e. a bigger variety of goods were trafficked among states (Findlay & O’Rourke, 2009). In addition to the transport novelties were the technological inventions, where the telegraph came to permit a closure of the communication between diverse areas. When the information speed rose, there was an enablement of the potential profits that could be made. Henceforth, the answers to supply and demand were alleviated as the coordination, due to the telegraph, was eased (Findlay & O’Rourke, 2009).
Another variable that is highlighted as significant for the development of European trade is the moderately peaceful environment that was present in the 19th century Europe. The trade prior on had been disturbed by common wars and escorted policies about blockades et cetera (Findlay & O’Rourke, 2009).

2.2.2 Overview of Intra-regional trade in Africa

Because the intra-regional trade of Africa is demarcated as a key instrument for evolving the continent, any determination to widen the understanding of the regional trade of today is of importance. Policies targeting at growing intra-African trade are stipulated among African states, in the African Union as well as in the EU and among several industrialized states (Briet, 2010).

Observed empirical effects of trade can be found in improved economic potentials for states as well as for individuals (World Bank, 2012). Nonetheless, in Africa, the amount of trade is very inadequate. Despite the continent’s politically postulated determinations to advance its global and intra-regional trade, the trade remains obstinately low (UNECA, 2012). The African share of the global trade is 3.2 percent, while the intra-regional African trade is 12.8 percent (WTO, 2013). The World Bank has recognized intra-regional trade, i.e. trade between African states, to be a crucial instrument for safeguarding a long-term economic development for the African states (World Bank, 2012). Still, the key trade partners for most African nations are found in the EU and in the US (UNECA, 2012).

In 2012 the intra-African trade was 12.8 percent of the total trade of the continent. This can be compared to the intra-regional trade in Asia which sums up to 53.4 percent or the intra-regional trade in the South and Central America which sums up to 26.6 percent (WTO,
2013). Other trade numbers can be found in table below. The numbers are the certified statistics and do not take the informal trade into account, which is rather challenging since the informal trade in Africa is presumed to be comparatively huge (UNCTAD, 2013).

**TABLE 1.1: MERCHANDISE TRADE WITHIN REGIONS (PERCENT OF TOTAL TRADE).**

<table>
<thead>
<tr>
<th>Region</th>
<th>2004</th>
<th>2008</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>9.9</td>
<td>9.6</td>
<td>12.8</td>
</tr>
<tr>
<td>Asia</td>
<td>50.3</td>
<td>50.1</td>
<td>53.4</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>20.7</td>
<td>19.2</td>
<td>18.5</td>
</tr>
<tr>
<td>Europe</td>
<td>73.8</td>
<td>72.8</td>
<td>68.6</td>
</tr>
<tr>
<td>North America</td>
<td>56.0</td>
<td>49.8</td>
<td>48.6</td>
</tr>
<tr>
<td>Middle East</td>
<td>3.6</td>
<td>12.0</td>
<td>8.6</td>
</tr>
<tr>
<td>South and Central America</td>
<td>23.2</td>
<td>26.5</td>
<td>26.6</td>
</tr>
</tbody>
</table>


Many strategies purpose at growing the intra-regional trade and e.g. the African Union has espoused regional integration as its predominant development approach for the continent, where the intra-regional trade establishes one part of the integration (UNECA, 2012). Regional integration would permit the now relatively small African markets and resource bases to become more competitive (UNECA, 2012).

The African policies targeting at growing the regional integration, hence growing the regional trade, are much absorbed on reducing tariffs. This is often founded in different regional free trade treaties among African states that are geographically close. Nevertheless, some deterrents to trade are found in non-tariff barriers (NTBs) (UNECA, 2012). NTBs are governmental or legal matters that may hinder trade (WTO, 2014). The ideas include import...
licensing, subsidies, complex rules of origin as well as roadblocks and harassments from immigration officials (WTO, 2014; UNECA, 2012).

Other interferences to trade can be found in missing infrastructure, but also in the many competing regional economic communities (RECs) with overlapping decrees (UNECA, 2012; Kimenyi et al., 2012; UNECA, 2012). In addition to these trade interruptions, financial infrastructure and technical infrastructure can also be presumed to disturb the intra-African trade (Taiwo & Moyo, 2012).

A hastening of the trade is not a clear goal per se but somewhat a political means to an end where an amplified intra-African trade can mean that economies of Africa can be more competitive, real and more of scale as the non-productive actors become ousted. Further on, it can lead to spill-over effects and entice foreign outlay (Kimenyi et al., 2012). Irrespective of which variable is reliant on and which is self-governing, the connection between trade and development inclines to be presumed in much of the policy making, and thus the execution of policies targeting at growing the trade.

However, the African trade has advanced during the last decade and the global trade has amplified widely. Yet, it is vital to note that it is only a few African states that are accountable for the augmented share of the global trade. In 2006 five African states were accountable for 73 percent of the total export of the continent. The exported goods are mainly oil and gas (Kommerskollegium, 2009).

Concerning the products that are subject to trade, many African states tend to specify in the same goods as their neighboring states do. One feature of the missing economic divergence is the related absence of comparative advantages (Kimenyi et al., 2012). When all states in a
region specify in the same products, there is little need for regional trade—and when the regional trade is of small scale, the capacity of producing divergence is small (Kimenyi et al., 2012). One advantage of divergence and hence specialization is that states can gain comparative advantages by producing the products that they are the most effectual in producing. By selling products a state has comparative advantages in producing, the state can gain a yield by which it e.g. can import other products (Krugman & Obstfeld, 2009).

The disparity to this can be empirically demonstrated in the current trade flows of Africa, where the exports from Africa usually comprises of primary supplies. Additionally, the trade patterns of the continent are dazzling the trade patterns of the colonial times, where the trade exports go to mostly Europe (UNECA, 2012). As an alternative, imports entail of more processed goods and the African imports are besides more expanded than their exports. Many African states have implemented aims of expanding their economy regarding risks of being reliant on exclusively upon a few types of goods (Kommerskollegium, 2009).

According to a study done by Grönbäck (2014), “Why do not African countries trade with one another? A qualitative study of factors affecting the intra-African trade” the author aimed at probing why in spite of many strategies which have been espoused to aid in increasing the trade, intra-regional trade remains obstinately low. The author uses Mali and Zimbabwe as the case study. In the results, the study exposed that; an absence of free trade was the key answer to why the states do not trade with other states in the African region. Another factor was the war-torn environment or a certain path dependency hindering trade reforms.
The author also intended at probing the factors distressing regional trade in Africa. The study found out that, one of the interference to trade facilitation is road blocks and inconsistent rules where the states have several REC memberships and the RECs adopt different sets of rules.

2.2.3 Regional integration in EAC

The EAC market has a shared GDP of US$ 147.5 billion and a population of 145.5 million persons in as of 2015. The treaty for creation of the East African Community was signed in 1999 and entered into force in 2000 following its consent by the original three-member states that is Kenya, Uganda and Tanzania. The membership of the EAC has since extended from the original three following the entry of the Republic of Rwanda and Republic of Burundi who consented to the EAC treaty in June 2007 and became full members of the community with effect July 2007 and later the republic of South Sudan in April 2016 (Kenya Institute for Public Policy Research and Analysis, 2017).

The EAC integration course is demarcated in four phases, namely: A Customs Union, a Common Market, a Monetary Union, and eventually Political Federation. The Customs Union came into force in 2005 and its purposes were to open and endorse trade and investments, competitiveness and industrial divergence. The Common Market was recognized in 2010 with the objective of uniting the Customs Union and to offer for free movement of goods, persons, services, labor, capital and the rights of establishment and residence in the EAC region. Later, the Monetary Union protocol was employed in 2013 to uphold monetary and financial steadiness in enablement of integration for sustainable economic development (Kenya Institute for Public Policy Research and Analysis, 2017).
EAC predicted the development of a single market and investment area in the region and the harmonization of strategies to inspire cross-border trade and investment, ease cross-border movements of goods and persons, growth of infrastructure and development of technological and human resource development (Munyao, 2012).

Kibua and Tostensen (2005) detected that preceding to the signing of the Treaty; several actions were understood in agreement with the 1997-2000 development strategy. They include: Confidence-building by setting up a defense liaison office at the EAC secretariat, and the signing of a Memorandum of Understanding on Foreign Policy Coordination; Coordination of policies, such as convertibility of currencies, reading of budget statements on the same day and time, representation of preferential tariff discount, organization of standards of goods and services, common recognition of health certificates issued by national bodies for goods traded in East Africa; enablement of cross-border movement of persons and goods through an East African passport, allowing a seven-day grace period for personal motor vehicles, generating immigration desks for East Africans at international airports, reintroducing interstate passes and retreating of visa charges for students; and lastly infrastructure growth by implementing projects in telecommunications, roads, civil aviation, posts, meteorology, energy, and other associated areas.

The East Africa Community Customs Union, a second expansion method covering the period 2001-2005 was prepared, concentrating mainly on the creation of a customs union and later on a common market and the expansion of collaboration for shared profit of member states. The most notable innovation of the second expansion approach is the formation of the East African Community Customs union by endorsement of EACCU protocol in November 2004 which was to be implemented over a five-year term by the partner states. They also decided
to resolve the delinquent of multiple memberships in regional blocs and to remove non-tariff barriers (Otieno, 2013). The purposes spelled out in the EACCU protocol (2005) include the liberalization of the regional trade regime based on shared benefits, development of economic development and industrial adjustment. The protocol presented for the development of a shared external tariff (CET), trade remedies and the prevention, investigation and destruction of custom offences and collection of customs duty by executing an unchanging standard of valuation of goods (Mbithi, Gor & Osoro, 2015).

Article 5(2) of the EAC Treaty offers that after the customs union, member countries will advance to a common market. The EACCM was employed in 2009 and came into force in July 2010 following the authorization by the heads of states of the five-member states; Kenya, Uganda, Tanzania Rwanda and Burundi. The EACCM protocol (2009) pledges free movement of goods, people and labor, rights of formation and residence, free movement of services and free movement of capital. The protocol also illustrates other areas of partnership by the member states and guidelines on competition, public procurement and subsidies (Lee & Lim, 2015).

So far, actions made towards a shared market include; first, the enablement of the movement of people through the outline of the East African passport, national identity cards and founding of EAC citizens’ desk at points of entry, employment of a single migration entry, special passes for border communities, progression of a protocol on the free movement of persons, labor, services and the right of formation and residence and coordination of labor policies and legislation, and second the coordination of economic policies through liberalization of the exchange rate and interest rates, similar investment incentives, events to blend economic policy and joint capital markets development policy (Cyrus, 2015).
2.3 Levels of Intra-EAC Trade Trend

2.3.1 EAC TRADE REPORT 2010-2014

**TABLE 1.2: EAC TRADE REPORT 2010-2014**

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<tr>
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<tr>
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<td>352.4</td>
<td>61.0</td>
<td>323.</td>
<td>36.0</td>
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</table>
From the table above, intra-regional trade values of EAC member states enlarged between years 2011 to 2013. Then, the value of intra-regional EAC trade abridged to US$ 5,632.9 million in 2014 from US$ 5,805.6 million recorded in 2013. The deterioration in intra-trade value in year 2014 can be accredited to negative weather situations in the EAC states which led to a reduction in the value of exports by 12.7 percent (EAC Trade Report, 2014). The composition of intra-EAC trade was mainly conquered by agricultural commodities namely; coffee, tea, tobacco, cotton, rice, maize, wheat flour and manufactured goods such as cement,
petroleum products, textiles, sugar, confectionery, beer, salt, vegetable fats and oils, iron and steel, paper, plastics, and pharmaceutical products (Mwangi, 2017).

### 2.3.2 TOTAL INTRA-EAC TRADE, 2011-2015

The table below entitles that, the value of intra-EAC trade declined by 10.0 percent from US$ 5.6 billion in 2014 to US$ 5.1 billion in 2015. According to the table, the deterioration was mainly accredited to the reductions of 8.3 percent, 19.2 percent and 27.5 percent in the value of total trade for Kenya, Tanzania and Rwanda, respectively.

#### TABLE 1.3: TOTAL INTRA-EAC TRADE, 2011-2015

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<td><strong>Total EAC Trade value</strong></td>
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<td>1,401.8</td>
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<td>1.4</td>
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<td>1,203.4</td>
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<td>1,765.3</td>
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<td>1,693.7</td>
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<td>3.5</td>
<td>-8.3</td>
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<tr>
<td>Burundi</td>
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<td>151.5</td>
<td>178.1</td>
<td>3.4</td>
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<tr>
<td>Rwanda</td>
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<td>879.5</td>
<td>817.5</td>
<td>592.7</td>
<td>71.9</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td>5,470.7</td>
<td>5,805.6</td>
<td>5,632.9</td>
<td>5,069.7</td>
<td>22.0</td>
<td>6.1</td>
<td>-3.0</td>
<td>-10.0</td>
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</tbody>
</table>

Uganda and Burundi recorded an increase in their shares of total intra-EAC trade while that of Kenya, Rwanda and Tanzania diminished. During the year, the level of intra-regional imports to Uganda condensed by 8 percent to US$ 630.2 million from US$ 642.2 million in 2014. On the other hand, the upsurge in total trade of Burundi could be accredited to the expansion in the level of imports which increased by 7.3 percent to US$ 151.1 million in 2015 from US$ 126.1 million in 2014. During the year, Kenya continued to rule intra-EAC trade, accounting for about 33.4 percent of total intra-EAC trade while Uganda and Tanzania accounted for 27.7 percent and 23.7 percent of the total intra-EAC trade, correspondingly. EAC intra-trade performance in 2015 depicted a downward drift with a decrease of 10 percent from US$5.6 billion in 2014 to US$5.1 billion. Investment flows in 2015 also declined by 16.4% from the previous year although the total amount was roughly double than that of 2012 and 2013. Similarly, the trade inconsistency with the rest of the world continued to increase in 2015 (East African Business Council, 2015).

In a nutshell, EAC intra-trade routine in 2015 displayed a descending trend with a decline of 10 percent from US$ 5.6 billion in 2014 to US$ 5.1 billion. Investment flows in 2015 also weakened by 16.4% from the previous year although the total expenditure was almost double than that of 2012 and 2013. Similarly, the trade shortage with the rest of the world continued to rise in 2015. The structure of intra-EAC trade was mainly subjugated by agricultural merchandises namely; coffee, tea, tobacco, cotton, rice, maize and wheat flour and industrial goods such as cement, petroleum products, textiles, sugar, confectionery, beer, salt, vegetable fats and oils, iron and steel, paper, plastics and pharmaceutical products as in preceding years.
The EAC trade and investment report 2015 discloses the trials that delay trade in EAC as Non-Tariff Barriers (NTBs) that raised the cost of doing business; poor infrastructure at the ports and along the main transport corridors; exclusion government that distorts the execution of the CET; low value addition in the region that disturbs the export earning of the partner states; absence of human and financial capitals by the performing agencies such as the investment linked rules and strategies that are not synchronized at the regional level; and uncooperative administrative and regulatory practices with regard to registering a business and getting licenses (East African Business Council, 2015).

According to the EAC secretariat trade report (2016), trade among the EAC member states was dwindling as member states looked outside for other trading partners. According to the report, intra-EAC trade decreased by 13 percent in three years, with total value deteriorating from $5.8 billion in 2013 to $5.06 billion in 2015. Between 2014 and 2015, intra-EAC trade contracted by 10 percent from $5.6 billion to $5.1 billion. In 2016, based on the report, a cocktail of features was stifling intra-EAC trade while disheartening regional integration process. Non-tariff barriers (NTBs), poor infrastructure at the ports and on the main transport corridors, low value addition in the EAC region and absenteeism of a shared position on the implementation of duty exception governments by the member states were known as key factors that pervert the Common External Tariff (CET). Another factor documented was the absence of a comprehensive investment plan to stimulate EAC states as a single investment destination. Due to this, the report professed that EAC member states were hence looking to substitute closer trade ties with states outside the bloc as the volume of trade between the member states was lessening. These are the EU, COMESA, Southern African Development
Community (SADC), United States of America, United Arab Emirates, India and China (Trademark East Africa, 2017).

Anyanzwa (2017) opposes that the EAC intra-regional trade weakening is due to the failure by member states to agree on trade liberalization and integration. These are the glitches destroying the benefits of Customs Union and Common Market. According to the author, the intra-regional trade creates only 9.4 per cent of the total trade of the bloc in spite of the employment of the Single Customs Territory that offers for removal of tariffs and other barriers to trade among the partner states.

2.3.3 Kenya’s trade balance in the EAC

Kenya hinges on Africa to absorb more than 40 per cent of its industrial exports. KNBS (2015) report designates a 30 per cent drop in exports to Uganda to $152.1 million from $228.18 million in 2014. Africa persisted to be the chief destination of the state’s exports, accounting for 40.6 per cent of the total during the review period. Within Africa, Uganda was the prime market for Kenya’s exports, accounting for 11.3 per cent of total export earnings, followed by Tanzania, which accounted for 5 per cent of total export earnings in the third quarter of 2016. Tanzania’s imports from Kenya dropped to $67.5 million in the third quarter of 2016, from $78.2 million over the same period two years beforehand. Rwanda, which in 2015 was the only state that had amplified its imports from Kenya, also recorded a drop to $43.12 million from $56.55 million.

The EAC region is the top Kenya’s export destination and accounted for 21.1 per cent of total exports in 2016. This was mainly accredited to liberalization of trade under the Customs Union and Common Market regimes. In 2017, Kenya exported Ksh 121.7 billion worth of
goods and services to the EAC equated to Ksh 126.8 billion exported in 2016, which signified a 4 per cent deterioration (KNBS, 2017).

**FIG 1.1 Kenya’s exports to EAC, 2012-2016**

Uganda has been the foremost destination for Kenyan exports followed by Tanzania, Rwanda and Burundi as designated by the figure above. In 2016, Uganda engrossed Ksh 62.2 billion worth of exports from Kenya equated to Ksh 68.8 billion in 2015 mainly due to deterioration in exports of cement, petroleum products, articles of plastics, alcoholic beverages and salt.

According to Gicobi (2017), Kenya’s exports to the East African region dropped in the first eight months with the largest deterioration being recorded exports to Tanzania. Tanzania cut imports from Kenya by more than $ 40.5 million to $ 134.2 million from $ 174.7 million, as a trade war rumbled between the two states. Kenya has whined about products like cement, edible oils, textiles, lubricants and products manufactures by industries outside the Export Processing Zones that have been deprived of preferential market access to Tanzania because of problems linked to the rules of origin. Kenya has objected Tanzania’s choice to execute a higher local content requirement of 75 per cent of total input in export tobacco, contrary to the EAC agreement.
Additionally, data from the Kenya Dairy Board (KDB) designates exports to Tanzania dropped to Ksh130 million ($1.3 million) in 2016 from Ksh648 million ($6.3 million) the previous year. The regulator features the drop to trade limitations by Tanzania on Kenyan products. Tanzania is one of the main markets for Kenyan milk products, but Dar es Salaam has executed tariffs that make it hard for dairy product to access the market. Dar es Salaam levies Ksh10.25 ($0.1) for every kilo of milk exported. Furthermore, data from the Kenya National Bureau of Statistics (2017) displays that exports to Uganda, which has been the main market for Kenya’s goods, weakened marginally in the eight months to August to $323 million, from $327.9 million (Trade Mark East Africa, 2017).

In the first eight months of 2017, Tanzania cut imports from Kenya to $134.2 million from $174.7 million in the same period in 2016, while Kenyan exports to Uganda fell to $323 million, from $327.9 million over the same period. In 2016, Kenya’s exports to Uganda and Tanzania deteriorated by 26.4 per cent and 46.7 per cent to $498.7 million and $252.9 million, correspondingly. Exports to Rwanda and Burundi deteriorated by 10.8 per cent and 18.3 per cent to $146.5 million and $ 50.4 million, respectively (Anyanzwa, 2018).

There seems to be a re-organization in trade relations, which has seen the other East African member states, over the time, trade more with each other but less with Kenya in what some see as a plot by Kenya’s neighbors to tame its overstated ego. This has left Kenya, for long the cornerstone of the EAC, isolated. For instance, in 2016, Rwanda’s trade with Uganda and Tanzania excavated as that with Kenya went down. Imports from Tanzania into Rwanda rose from a trifling 1.3 per cent 15 years ago to 5.1 per cent in 2015. Uganda’s share of imports to Kigali went up from 6.5 per cent to 12 per cent, in what many might see as re-organization of
relations among the East African states. But Kenya’s worst performance has been in Tanzania, whose diplomatic relations with Nairobi has in recent times plunged. From being the fourth position and commanding a 6.1 per cent share in Tanzania’s import bill, Kenya’s exports into Dares Salaam have plunged expressively leaving the state at 8th position in the log with a minute share of 1.6 per cent.

With these statistics, it is apparent that EAC states have not fully harnessed the opportunities presented by the EAC market. It is therefore important to investigate why intra-EAC trade is low despite the decrease of both regulatory and institutional trade barriers, by narrowing it down to the factors leading to the contraction of Kenyan exports in the region.

2.4 Research Gap

Trade value can decrease an economic bloc despite decrease of trade and institutional barriers to encourage trade as illustrated in the above literature. This leads to the questioning as to whether the reduction of trade barriers within the EAC regional integration is helpful to the member states and to EAC regional integration based on the discrepancies in trading values between the EAC member states from 2010 to 2017 as portrayed in the literature above. The above literature has registered some of the factors that donated to the trade discrepancies in EAC. This study aims to question the truth of claims made by the EAC and EABC reports and other researchers studied above on the causes of contracting intra-EAC trade. Some of the claims are: Non-Tariff Barriers (NTBs) that elevated the cost of doing business; poor infrastructure at the ports and along the main transport corridors; exemption regime that misrepresents the execution of the CET; low value addition in the region that disturbs the export earning of the partner states; absence of human and financial resources by
the executing agencies such as the investment related policies and strategies that are not harmonized at the regional level; and cumbersome administrative and regulatory practices with regard to registering a business and getting licenses.

My study seeks to examine the significance of each of these elements in the contraction of intra-EAC trade, by examining the factors contributing to the contraction of Kenyan exports in the region and the low intra-regional trade in EAC in general.

2.5 Theoretical framework

Trade and intra-regional trade as an academic subject is wide and multidimensional. The potential accesses and ways of understanding what affects trade are numerous and for this study to be viable, there is a need to limit the number of studied scopes. To select study objects in a reasonable way, theories are appropriate tools for directing the study about the development of trade to concern what has proven to be productive dimensions in earlier research. The theories of this thesis are hence used to make the study focused, but also in order to offer a broad understanding of what can affect the trade.

2.5.1 Selection of theoretical frameworks

Institutional analysis is used to answer questions mainly concerning how actors behave, what institutions do and why the latter persist over time (Hall & Taylor, 1996). Institutions can provide the codes of behavior by rules or norms and can provide frameworks for how to act in certain circumstances. Dependent on what is demarcated as an institution and what is recognized within the institutions, the understanding of what causes change (or non-change) may vary (March & Olsen, 2008). In the context of trade, and particularly the development
(or non-development) of trade, institutional analysis can permit a fit theoretical framework for organizing the approach to the mystery of the thesis. Hence, because institutionalism implies the interface between performance, ideas, agency and change, it can theoretically provide systematic tools that can offer a set of clarifications as of why the EAC trade is as limited as it is.

The Rational Choice Institutionalism is a viewpoint that understands the political life as organized by rational actors in a calculating way (March & Olsen, 2008). The analytical tools in this viewpoint are frequently used in the field of economics (Shepsle, 2008). Because trade is a stimulating topic for researchers in economics, many of the rational choice tools have been used in studies of economics. Hence, these sorts of studies have fixated much on costs, benefits and free rider difficulties in trade policies and it has showed fruitful to use these analytical tools in these sorts of studies. It is therefore persuasively useful to assume a viewpoint of rational choice also in this study because it can donate to an increasing knowledge about the intra-regional trade. Nevertheless, since this study is made from a social science perspective, it is appropriate to focus upon the institutionalism perspective and to also include another and balancing viewpoint of why EAC trade has not developed more. To widen the understanding about the partial trade this study will include the standpoint of Historical Institutionalism, a model which allows studies about e.g. structures and historical landscapes (Sanders, 2008).

The selected theories are developed from diverse viewpoints and hence permit diverse understanding of political systems (Hall & Taylor, 1996). Nevertheless, both the theories focus upon the role of institutions in the setting of social and political outcomes and the
viewpoints are not essentially limited, but rather harmonizing where they can be said to focus on diverse features of the system (March & Olsen, 2008). Because trade can be affected by many diverse institutions, the addition of two broad theories can be of importance when there are determinations of gaining a broader understanding about the issue.

Hence, this theoretical section will be followed by two discrete presentations of the Rational Choice Institutionalism and the Historical institutionalism since these two theories can provide the comprehensive understanding about the topic. These theories will nevertheless offer several possible descriptions of why the EAC intra-regional trade is as inadequate as it is and therefore how it can upsurge.

2.5.2 Rational choice institutionalism

Central assumptions

Rational choice institutionalism was authored by Barry R. Weingast (2002). The theory offers a distinguishing set of tactics to the study of institutions. It covers three classes of questions: the effects of institutions; why institutions are essential at all and the endogenous choice of specific institutions, including their long-term resilience and existence. The theory adopts that institutions are used by rational actors wanting to exploit their outcome. The theory is based on norms about the rational actor and is deriving analytical tools from the field of economics (Shepsle, 2008). In this viewpoint actors behave sensibly and have a fixed set of preferences. To exploit the outcome accordingly to these likings, the actors behave in a rational, instrumental and strategic manner.

The actors, i.e. the individuals, additionally act in accord with their prospects about the behavior of other individuals. Hence, an actor makes a calculation about how to exploit an
outcome according to his or her likings, but also deliberates the probable behavior of other actors and behave deliberately according to the latter as well (The Prisoner’s Dilemma) (Taylor & Hall, 1996). Politics can thus be demarcated as a set of collective action dilemmas, where actions that are done in order to exploit a consequence for an individual can, when done by many individuals, become collectively sub-optimal. Institutions are what structure relations between actors and it is through the former that the number of possible alternatives is limited and through which information is provided.

An institution can be understood as initiating from charitable agreements since it permits gains of cooperation. Hence, an institution can be understood as fashioned by pertinent actors and as something that endures to exist if it offers more benefits than any alternative would. However, an institution can, in accord to RCI, also be understood as an exogenous coerce and be more of a given game form in which actors’ act. The latter way of understanding institutions is often related with political institutions such as a congress or an electoral system. An institution is hence understood as the framework providing a certain spectrum of possible courses of action for the actors (the Median Voter Theorem) (Shepsle, 2008). The understanding of institutions as exogenously given is perhaps the most usual, however, Shepsle highlights how actors can push for a change of institutions, in line with standpoint of institutions as voluntary agreements, even if the institutions are understood as exogenous (Shepsle, 2008).

The further substance of an institution can also be understood otherwise by diverse Rational Choice Institutionalists. Some scholars describe an institution as an organizational unit with its impartially stern rules, whereas other outline it as a collective set of guidelines or norms
(Ostrom, 2007). Shepsle replies to this by defining institutions as either structured or unstructured. The structured institution is sturdy and does not change much over time. It is typified by institutions such as an administrative bureau, a court or an army. The compared and unstructured institution is defined as more unspoken and less formalized but does still alarm practices with encouraged patterns. Norms, within a legal system, that are not scripted is cited as an example of an unstructured institution (Shepsle, 2008).

The structured institution entails well-defined actors (e.g. politicians) that have comparatively clear likings (e.g. office preferences or policy preferences) and the actors act according to institutional rules. Following from this are clearly indirect outcomes (Shepsle, 2008). An unstructured institution does not offer as firm a basis to study as a structured such. Nevertheless, the main idea when studying this from an RCI viewpoint is the logic of collective action. A collective action should be unspoken as something that would mean a good public result, but something that can be expensive for the individual members of the collective, meaning that individuals have an inclination for wanting to free ride, i.e. not donate. The individual donations can also be of only trivial importance to the public good. To meet this problem, there is a need to reward the individuals who contribute to the public good with selective (not collective) compensations. An unstructured institution can hence be a norm or convention that deals with the problem of free-riding by offering rather of a payoff plan like what is called “take turns” or “tit for tat” (Shepsle, 2008).

2.5.3 Historical Institutionalism

 Historical institutionalism is best understood as a method to studying politics. This method is eminent from other social science tactics by its attention to real world empirical questions, its
historical alignment and its attention to the ways in which institutions structure and shape political behavior and consequences. Historical institutionalism is the toughest of the three streams to describe because it comprises so many diverse researchers and so many diverse methodological tactics. It assumes that institutional rules, restraints, and the replies to them over the long term guide the behavior of political actors during the policy-making process. Historical institutionalism blends the quantitative analysis of the rational choice stream with the idea- and culture-based thought of the sociological stream. It comprises an varied group of researchers with an extensive diversity of research outlines.

**Central assumptions**

The Historical Institutionalism (HI) is a theory that stresses institutions as the object that will clarify the responses of change (or non-change). It is not personalities that mostly will mark consequences, and it is moreover not here and now that is the most stimulating subject of a study. It is rather when longer periods of history are being studied that answers to big question can be found (Sanders, 2008). The dominant assumptions of HI concern how human political connections are controlled by institutions, where the latter is “the formal or informal actions, practices, norms and agreements entrenched in the organizational structure of the polity or political economy” (Taylor & Hall, 1996).

An institution can be a structure, actions of government or bank-firms relations et cetera. However, it is the institutions that structure the communal behavior and that produce characteristic results. The emphasis of HI is hence the construction, upkeep and adjustment of institutions (Sanders, 2008). The structuralist viewpoint of HI does further on mean that the individual is professed as an entrenched unit, where the institutions, i.e. norms and so
forth, comprise the filters through which the understandings of the individuals are made and therefore also the constructions of action. The institutions do therefore disturb the personalities and likings of individuals (Taylor & Hall, 1996).

Institutions, including the institution of the state, is not to be observed as neutral among other institutions, but rather as containing of diverse interests that all can affect certain results (Durić, 2011). The institutions, including structures et cetera, are human creations. Nevertheless, the expansion of the institutions is, conferring to HI, reliant upon the related features of the certain condition. The design of and the initial decisions about the institution is hence distressing its development. This is called path dependency, i.e. the idea of the development of institutions being marked by the history of the institutions (Taylor & Hall, 1996; Sanders, 2008). The same functioning forces will not produce the same outcomes in context A as in context B. The outcomes of a force (a reform or any action) will i.e. be reliant on the historical landscape in which the institution occurs, where diverse historical landscapes offer diverse sets of possible development paths. The path dependency structures are retorts to change and challenges (Taylor & Hall, 1996).

Within the paths of development diverse groups can gain combined power, e.g. trade unions or specific parties can gain much effect in a certain institution. According to the Historical Institutionalism the comparatively strong effect of some groups can be understood by looking at the historical growth of that certain institution with its certain context (Sanders, 2008). Hence, the standpoint of HI does stress how the development of institutions can dispense power unequally among diverse social groups and therefore how the growth of institutions may improve power asymmetries (Taylor & Hall, 1996).
The path dependency is unintended and hard to change (Durić, 2011). Nevertheless, when a path changes comparatively much it can often, according to some Historical Institutionalists, be sketched back to a so called critical juncture, i.e. a main and external event that disturbs the present political order. This is nevertheless a disapproved idea that not every Historical Institutionalist agrees on. It is hard to contend what causes a critical juncture, except for economic crises and military conflicts. Besides, a focus upon exclusively critical junctures as a way of generating change may disregard the course of incremental steps (Taylor & Hall, 1996; March & Olsen, 2008).

The Historical Institutionalism does also stress the relationship between institutions and ideas. Institutions are therefore not the only variable that might have causality with political outcomes. The dispersion of notions or opinions and socioeconomic development may disturb the institutions (Taylor & Hall, 1996). Institutional change can therefore take place even if it is a minority with diminutive means to attain change that wants it. Even if a change in a path is wanted by many, it can nevertheless be hard to bring about because of the path dependency. Another viewpoint of the fight of a certain path may be the costs that are related with change against non-change, where the loyalty usually is viewed as less expensive than change, hence overshadowing benefits of change (Durić, 2011).

2.7 Overview of the Literature

The literature above has reviewed literature on the origin of European trade and factors that has boosted its intra-regional trade, intraregional trade in Africa with an examination of factors that has contributed to the trade in the region and factors that led to the reduction of
trade in the region. The literature further reviews intra-EAC trade progress. The research gap is hence identified.

Additionally, to explain the independent and dependent variable of this study, rational choice institutionalism and historical institutionalism theories are found to be the most appropriate.
CHAPTER 3: METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to attain the study’s objectives and to answer the research questions. It offers a depiction of the research design, sources of data and the techniques for data collection and analysis. The chapter also inspects the ethical considerations for the study.

3.2 Research Design

Bryman and Bell (2007) defined research design as an overall plan that proposals a framework for the choice of data collection methods and data analysis procedures. The study employed a case study research design. The study used qualitative research design with a case study approach. A case study is an approach in research that emphasizes on gaining an in-depth understanding of a unit or event at a specific time. Willig (2008) noted that case studies are not considered by the approaches used to collect and analyze data, but rather its focus on a unit of analysis: a case. This study therefore focused on the East African Community to assess the factors influencing trade diversion in intra-regional trade despite the decrease of trade barriers. The unit of analysis was the EAC member states from which the intra-regional trade data and companies’ responses on pre-determined factors will be collected.

3.4 Data Collection Methods

Secondary data method was used in this study. Both qualitative and quantitative methods were used.
3.4.1 Secondary Data

The secondary data required for this study was longitudinal data on EAC intra-regional trade. A longitudinal study is a research design that encompasses repeated observations of the same variables over extended periods of time, often many decades. The study made use of archival data from 2010 to 2017 on intra-regional trade in EAC. The researcher used the EAC and EABC trade reports among others, to find out the actual products which have seen major contraction in the intra-EAC trade using Kenyan top commodity exports to the EAC member states as a case study. The data obtained was used to answer the research questions of the study.

3.5 Data Analysis

The data analysis used was content analysis where verbal data is categorized for the purpose of classification, summarization and tabulation. The approaches used was descriptive and interpretative.

3.6 Ethical Considerations

Use of secondary data is in itself, a highly ethical practice. It maximizes the value of any investment in data collection, it reduces the burden on respondents, it ensures replicability of study findings and therefore, greater transparency of research procedures and integrity of research work. But the value of secondary data is only fully realized if these benefits outweigh the risks. Hence, the researcher aimed at ensuring that the data used in this study did not cause harm or distress to the readers and also the researcher endeavors to avoid...
biasness during the analysis of the study where the researcher can be prompted to offer their views during the analysis of data.

Data was collected from different sources. The researcher determined the sources were credible by compiling data from East Africa Business council (EABC), EAC secretariat, Kenya National Bureau of Statistics (KNBS), UNCTAD, WTO, World Bank Doing Business Report among others that are global trade data for individual countries and all world trade organization, registered trading blocs.

3.7 Chapter Summary

Chapter three has described the research methodology that was employed in the study. The chapter has outlined the research design, sample and population under study, research methods, data analysis method and ethical considerations considered for the study. The next chapter, Chapter Four provides the research findings as per every objective of the study and presents a platform for the conclusion and recommendations in Chapter Five.
CHAPTER FOUR: ANALYSIS AND FINDINGS

4.1 Introduction
This chapter presents the results attained from data analysis as well as the interpretation and discussion of findings. It is organized as follows:

4.2 Background information
Regional trade denotes to trade which focuses on economic exchange mainly between states of the same region or economic zone. Regional trade integration is a significant pillar of trade and investment policy in the EAC states. The objective of the study was thus to determine the factors leading to the low intra-regional trade in EAC with a focus on the decline of Kenyan exports in the region.
4.3 Why are Kenyan exports experiencing trade contraction in intra-EAC regional trade integration

**FIG 1.2: KENYA’S TRADE BALANCE IN THE EAC, 2012-2016**

![Graph showing Kenya's trade balance in the EAC, 2012-2016](image)

*Source: KNBS (2017)*

Kenya has upheld a positive trade balance within the EAC over the years. Nevertheless, the surplus has been slowly deteriorating since 2011 from Ksh 110.3 billion to Ksh 88.8 billion in 2016 as designated by the Figure above (KNBS, 2017).

According to Kenya National Bureau of statistics (KNBS) (2017), this was due to amplified imports of agricultural products, including cereals and sugar to meet local demand. The deteriorating excess in the trade balance is also mainly accredited to consolidation of the manufacturing sector in the other partner states due to the window of protection provided during the early stages of execution of the Customs Union. Kenya exports edible oil, fabric, food, animal products, tobacco and cement to the region, but the growing push by local firms...
to set up subsidiaries in East Africa has seen a deterioration in the supply of these goods. The main drop in exports was recorded in cement, which dropped to $7.6 million, from $25.6 million in 2015.

Cement manufacturers blame the deteriorating volumes on the production of cheap imports, while the entry of Dangote Cement into markets like Tanzania compounded the difficulties as the firm presented a 40 per cent price cut on its products. Worries over adulteration of the state’s petroleum products saw its exports to neighboring nations drop to $13.9 million, from $20 million in the third quarter of 2015. British American Tobacco company on the other hand, accused the Tanzanian government of striking higher local content requirements for exports, leading to Kenya’s exports reducing to $23 million last year, from $38.6 million in 2015. Edible oil exports to the EAC dropped to $11.9 million from $12.4 million. Salt also dropped to $9.89 million from $13.69 in the third quarter of 2015 (Gicobi, 2017).

4.3.1 Availability of exports shops in the export markets

Joseph Kosure, the head of the bilateral Trade Division at the Ministry of Foreign Affairs and International Trade when interviewed by The East African said that the drop-in numbers could also be ascribed to firms setting up shop in traditional export markets, resulting to some drop-in orders from Kenya. According to Kosure, firms like Bidco and General Motors have established footprints in Uganda hence resulting in a drop in Orders (Olingo, 2017).

4.3.2 Non-tariff barriers

There are tenacious limitations and non-tariff barriers imposed on Kenyan products intended for export in the region. Between 2014 and June 2016, 17 new actions were presented in Tanzania, 13 in Kenya, 10 in Uganda, 4 in Rwanda and 2 in Burundi (East African
Community Secretariat, (2016). According to the East African Community Common Market Scorecard (2016), in 2016, Tanzania more than increased the number of non-tariff barriers (NTBs) it imposed on its regional partners. On the other hand, Kenya more than doubled the number of barricades and Uganda noted the highest submission rate. Tanzania’s NTBs rose from seven to 24 and Kenya’s amplified from to 23, putting into doubt the two states’ vow to easing intra-EAC trade. The scorecard which examines the movement of capital, services and goods designated that the EAC member states are ratifying laws and enforcing guidelines that go against the spirit of the Common Market Protocol. EAC member states have either passed new laws, revised guidelines or are in the course of doing both, which leads to a negative impact to some of the provisions of the EAC Common Market Protocol (Kenya Institute for Public Policy Research and Analysis, 2017).

In addition, Tanzania has already endorsed the Fisheries Institute Bill, 2016 and the Agricultural Institute Bill, 2016, which require mandatory local partnerships. The Medical, Dental and Allied Health Professionals Bill, 2016 is still in parliament. It suggests additional permission by the Medical Council and a restricted practice license for non-residents. The state also enforced the Immigration (Amendment) Regulations, 2016, which requires EAC nationals to buy $250 passes to engage in business, their profession or assignments. On the other hand, Kenya restricts professionals in the law and engineering sectors from practicing within its territory. For instance, the Advocates Act, Cap 16, Section 11 (Amended 2012) restricts advocates from other EAC partner states from Kenyan courts unless accompanied by a Kenyan advocate. Registration of foreign national (non-Kenyan) engineers is only allowed if at least 51 per cent of the shares in the firm are held by Kenyan citizens (Olingo, 2017).
4.3.3 Encroachment in key market segments by foreign products

According to Kenya National Bureau of Statistics (2017) data, Kenya’s exports to the EAC region dropped by the largest margin in three years in the third quarter of 2016, to $275.7 million from $380.3 million in the first nine months of 2015. According to the data, all states in the region cut their imports from Kenya. The drop in the exports was attributed to infringement in key market segments by Chinese products, local factors like taxation, new competing industries in export markets and unpredictability in South Sudan all donated to the trade down turn. Goods from China, some of uncertain quality, have flooded the market, making the Asian giant the major exporter to the region. The KNBS figures display that imports from China rose to $935.4 million in the third quarter of 2016, from $909.8 million over the same period the preceding year, making it the top source of imports in the Asian region. Moreover, disapproving taxation actions such as value added tax, industrial development fee as well as the railway development fund make Kenyan manufactured goods five per cent more expensive than imports from COMESA and SADC countries (Anyanzwa, 2016).

According to Anyanzwa (2018), Cheaper imports from Asia, Europe and the US are eating into East Africa’s intra-regional trade, with Kenya formerly providing 90 per cent of medicine in the EAC is losing out to India. According to the 2017 report on EAC’s competitiveness, India is exporting mostly hefty petroleum and medicine to the region while China is retailing an extensive range of manufactured goods plus clothes and footwear, and telecommunications apparatus. Furthermore, China, Japan, South Africa and India have taken up an advanced market share in the region for iron and steel products than the EAC partner
states put together. This has affected Kenyan exports to the region as China and India products seems to be more suitable fiscally the Kenyan products.

4.3.4 Enclosed borders and partial harmonization of trade rules

Reluctance by individual East African Community (EAC) states to entirely open their borders is hurting trade and development of local manufacturing firms. East African Business Council acting chairman Jim Kabeho argued that imperfect harmonization of trade rules by the six EAC states has hurt growth in regional trade. Some EAC states are still initiating non-tariff trade barriers at official borders such as rejection to identify certificate of origin for some goods, more than seven years after the Common Market Protocol was imposed on July 1, 2010. Individual states do not want to give away their authority to the common market. Kenya and Tanzania, for example, endure to disagree partly over certificates of origin at the Namanga border. The Kenya Association of Manufacturers has blames the Tanzania Food and Drugs Authority’s for demanding that some of the products from Kenya be registered, re-labelled and retested. The distrust among EAC states, Mr. Kabeho said, has provided room for an influx of cheaper goods accessible in the region into the bloc, mainly from China and India (Munda, 2018).

4.3.4 Multiple Memberships

Multiple membership of the EAC member states is another main subject distressing Kenyan exports to the region. For example, Tanzania membership in SADC affects Kenyan exports as it now trades more with South Africa than Kenya. This has donated to the weakening of Kenyan exports in the region.
4.4 Why is intra-EAC trade still low despite the reduction of trade barriers

4.4.1 Non-Tariff Barriers

According to the east African secretariat website, NTBs were the major weakness to full achievement of the objectives of the Treaty for Establishment of East African Community in 2011. The World Trade Organization, of which all five EAC states are members, defines NTBs as red tape or ‘various bureaucratic or legal matters that could comprise interruptions to trade while The EAC describes NTBs as ‘administrative and technical requirements forced by a Partner State in the movement of goods. While several NTBs may be clearly protectionist, the popular seek to meet a settled governing objective, such as food safety or product safety.

There are mutual reasons for NTBs such as safeguard to health, safety and security of human beings, animals and plants against environmental pollution, protection of home industries and consumers, safeguard national security and to safeguard against revenue loss. According to Society for International Development report 2012, (SID 2012) while there may be an accord that standing NTBs should be eradicated, there is contract on how to meet valid regulatory objectives in a less trade-restrictive manner. Many NTBs are entrenched in more structural challenges, such as insufficient government structures, mishandling, erratic application of rules and bureaucratic staff often coupled with low staff morale.

Establishing formal notification requirements has been a crucial step towards monitoring NTBs. In retort to the NTB challenge, the EAC Secretariat formed its first quarterly report in August 2011, highlighting the position of reduction of NTBs. The reporting device was first impelled by the East African Business Council in 2005. (SID 2012). The EAC’s August 2011
quarterly report on the subject stated that Tanzania led the region in being a main source of NTBs, followed by Kenya, and Burundi correspondingly. Rwanda had no grievances reported against it from the region. The states singled out as being the most affected by NTBs were Uganda, Rwanda Burundi, Tanzania, and Kenya respectively.

The general consequence of non-tariff barriers (NTBs) in the EAC region, like elsewhere, is that they effect in suspensions and augmented costs, which eventually hamper the free movement of goods and services. And according to many analysts, the decrease of NTBs is much more significant for increasing regional trade than tariff liberalization. An analysis by (Karugia, Wanjiku, Gbegbelegbe, Nzuma, Massawe, Macharia, Freeman, Waithaka, Kaititibie and Gulan. (2012)) validates that the decrease/decrease of NTBs in maize and beef trade in the East African region has important positive welfare insinuations. According to the study, entirely eliminating or even expressively dropping the present NTBs in maize and beef trade would upsurge EAC maize and beef trade, with Kenya and Tanzania importing more maize from both Uganda and Tanzania. Out of the understanding of the negative impact of NTBs, efforts have been made to decrease or eradicate them.

Within the EAC, consistency or absence of it can be seen by the occurrence of NTBs that states levy on products from other member states. To the degree that NTBs result from thoughtful rules and events, their presence in many ways indicates trade policy inarticulateness. Though EAC states have over the years conveyed the reduction of policy and process related NTBs, accomplishment has been restricted (Wild & Han 2010).

One of the most worrying NTBs within the EAC has been transit measures. The grave matter here is the absence of coordination of guidelines concerning axle loads and vehicle technical
stipulations within the EAC, which makes overload control supervision difficult. The opposing axle weights would mean, for example, that a truck from Tanzania transiting through Uganda must strip off excess cargo to avoid financial penalties. There are also limitations in the states on gross vehicle mass, which means that certain types of vehicles cannot transit through some states. A linked problem is the poor implementation of related rules and guidelines across the EAC region, owing to insufficient institutional volume and stern integrity issues ascending among public officials who operate weighbridges. This causes postponements at border points (UNCTAD, 2015).

In addition, the prevailing framework for monitoring NTBs is not only unsuccessful but does not deal with ad-hoc administrative cases which ascend in the course of cross border trade. This is because it takes long to constitute the committee meetings or for respective revenue authorities to exchange information to resolve developing NTB issues (Ubwani, 2013).

According to SID (2016) as cited by Ligami (2017), the report pointed fingers at Tanzania as the state with the highest number of NTBs in the region. For instance, to register any product in Tanzania, one is required to pay $2,000 against other states in the region charging $1,000. After registration, Tanzania stresses the same price for renewal after every five years besides an annual retaining fee of $300. According to the report, that was obtainable to the EAC Sectoral Council of Ministers on Trade, Industry, Finance and Investment on February 2, 2017, the Tanzania Food and Drug Authority (TFDA) registered injectables and other products per pack size and treats each pack as a product by itself. In other states in the world including the other EAC states, manufacturer’s register all products as one but highlight all the presentations on the same certificate. Kenyan exports to Tanzania are subjected to verification three times — at the manufacturers grounds, and the trucks have to pass through
ICD for full verification at the border. This consumes time and is costly for Kenyan exporters.

Rwanda on the other hand reported a biased charge of $300 by Tanzania on tourist vehicles from Rwanda entering the Tanzania national parks. Burundi on its part criticized of the cargo charges for transit trucks in both Kenya and Tanzania. The Mombasa County Government in Kenya charges Ksh6,000 ($60) per transit cargo truck and $5 for transit trucks waiting to load cargo in the parking yard every day, while Tanzania charges $4.37 for every cargo truck entering the country through Mugina/ Manyovu border (Ligami, 2017).

However, Tanzania conveyed that the Kenya Revenue Authority takes up to seven days for physical inspection and endorsement of admissions for Tanzania Breweries Ltd (TBL) deliveries at the border and the Kenya Bureau of Standards conducts double checks on products approved by the Tanzania Bureau of Standards and TFDA. There are manifold eminence checks for export products in Kenya that in some cases can mean up to 21 days delay,” said the report, adding that Kenya raised the EAC rules of origin and levies duties on TBL products by insisting Redds and Castle Lite beer are manufactured in South Africa while they are manufactured in Tanzania (Ligami, 2017).

Pursuant to the Kenya Excise Act 2015, the KRA presented tax stamps or printed codes on beer and keg manufactured or imported with manual application, which increases the cost to $5.5 per half liter and also introduced conditions for excise decrease that hamper TBL beer exports to Kenya. The other NTBs reported in the report are that Rwanda, charges an arbitrary fee of between $21 and $24 to transporters and importers transporting goods to Rwanda from Uganda. The fee is institutionalized, and no receipt is delivered. Uganda
reported that its transporters are complaining of being stopped by the Kenyan police after passing weighbridges. The police then demand weighbridge certificates and extort up to $100 at a time (Paul, 2014).

4.4.2 Multiple Memberships

According to Hill (2011), EAC states belong to numerous economic groupings or sub-groupings that sometimes compete, conflict or overlap amongst themselves rather than complement each other. This adds to the burden of coordination and harmonization and is wasteful replication in view of inhibited resources. EAC member states contribute in numerous regional integration initiatives, counting the COMESA, SADC, the IGAD, the AU, and the CBI). While Kenya and Uganda belong to COMESA; Tanzania belongs to SADC, while all EAC member states are members of AU and IGAD. Different CETs in different trading blocs obscure the administration of the EAC CET, which needs that the member states follow a mutual external trade policy against non-member states.

Overlapping memberships also obscure harmonization of activities. Members are usually torn between contending regulations and commitments and hence end up having to offer more time and resources on managing regional integration rather than participating in it. This is a real source of policy irregularities as states deal with multiple loyalties. It also obscures revenue administration. Since preferential arrangements under each of these agreements differ, importers can choose to import products under any regime. The differing rates prompt many importers to declare their imports under the lowest tariff regime, which has led to huge trafficking and customs fraud. Losses arising from fraud and other “spillages” have been projected in millions of dollars. (Mugenda & Mugenda, 2010).
4.4.3 Differing Tax Regimes

Differences in tax regimes by member states of EAC economic bloc effect in alterations and have negative impacts on cross-border business activities. They upsurge the cost of compliance and affect choices made by investors with respect to where to participate and where to source finance. The alteration in domestic tax rates such as excise duty and VAT rates decodes into diverse prices and costs to consumers for similar items (Kombo & Delno, 2011).

Delays by member states in harmonizing their tax regimes also cause imbalances in cross-border trade. Although the EACCM was launched back in 2009, the main taxes distressing the business community, such as value added tax (VAT), withholding tax and excise tax, are yet to be fully harmonized. Rwanda and Uganda charge VAT at the rate of 18 percent, Kenya charges 16 percent, and Tanzania, 18 percent. While Kenya and Tanzania offer tax incentives for investors, Uganda and Rwanda do not. Similarly, companies functioning in the export dispensation zones (EPZs) in Kenya and Tanzania are excused for the first ten years from income tax and withholding tax on payment to non-residents, but this is not the case in Uganda. There is therefore a discernment in Uganda that the EPZs and the related tax holidays provide an advantage to Uganda’s EAC partners (Kibua & Tostensen, 2014).

According to an EAC Secretariat report as cited by Ayieko (2013), the sustained interruption by East African Community partner states to harmonize their tax regimes caused inequalities in cross-border trade. The report, shaped by the EAC Secretariat to assess the application of the trading bloc’s Customs Union, exposed that, the predominant inequalities in the region’s tax have caused alterations in intra-trade among the EAC partners. According to the report,
although the Customs Union was launched in 2005, the main taxes distressing the business community such as value added tax, withholding tax and excise; the definition of tax laws, valuation events and dates of execution divisions were all not being coordinated.

The report argued that, these differences in the tax regimes effect in misrepresentations and have a negative influence on cross-border business activities. The report says, they upsurge the cost of compliance, affect the choices by investors with respect to where to capitalize and where to source finance. The modification in VAT rates, in effect, translates into diverse prices and costs to consumers for related items. This is an inconsistency of the goals of the EAC Treaty since no effectual distribution of resources is certain. The Treaty for the founding of the EAC, in distinguishing the role of tax coordination in East Africa integration, specifies that the partner states will assume to blend tax policies (Ayieko, 2013).

According to a report by the Kenya National Bureau of Statistics (KNBS) as cited by Anyanzwa (2016), Unfavorable taxation actions such as value added tax, industrial development fee as well as the railway expansion fund make Kenyan industrial goods five per cent more expensive than imports from COMESA and SADC states, according to the survey. This makes the other member states to desire to trade with other states than Kenya.

4.4.4 Industrial Concentration

Industries are fascinated to a region by size of the market and by the protection of rights granted under the common tariff within the regional economic block. There is a higher rate of industrial growth in Kenya than in the other states. This is varying hastily, nevertheless, as the other EAC states, through improvements and sound macroeconomic management, are
attracting generous foreign investment. In recent times, it has been Tanzania that has controlled the EAC states in enticing foreign direct investment (FDI) (Wasilwa, 2016).

According to the World Investment Report 2012 by UNCTAD, Tanzania’s FDI stood at US$377 million in 2006, equated with Uganda’s at US$307 million, Burundi’s at US$290 million, Kenya’s at US$51 million and Rwanda’s at US$15 million. FDI into Tanzania has mostly gone into the mining and extractive sectors, which is not only capital exhaustive, but it has restricted relations to the domestic economy.

4.4.5 Infrastructural (supply-side) Constraints and Competitiveness

Rigidities characterized by underdeveloped telecommunications and transport infrastructure blockages, energy shortages and trade are deficiencies to the free flow of goods and services within EAC region that reduction potential benefits. Transport is still a key obstruction of regional trade and is affected by inconsequential and unpaved links, inadequate and disappointing rail networks. The EAC transport network is composed of the two transport corridors; the northern and the central transport corridors. The Northern Corridor has the port of Mombasa in Kenya serving as the lifeline for Uganda, Rwanda and Burundi, ending in the city of Bujumbura. The Central Corridor has the port of Dar es Salaam as a key hub for imports, exports and trade for Rwanda, Burundi and the eastern part of the Democratic Republic of the Congo. The benefit with the Central Corridor is its two distinct paths; one runs in Burundi through numerous main cities and towns, while the other in Rwanda goes through Kigali (SID, 2012).
SID (2012) forecast that the traffic forecast for both the Northern and Central Corridors (the two main corridors in the region) would overcome present capacity. Demand on the main routes (highways, ports and railways) will upsurge by a factor of four from 24 million tons in 2015 to 100 million by 2030 at the ports. The roads would obtain 80 per cent more traffic by 2015 and four times more by 2030. The railways will have to lodge 6.5 million tons in 2015 and 18 million in 2030. According to the Society for International Development (SID) report on state of East Africa 2012, the region’s total road network in 2008 was 183,178 km, of which 91 per cent was unpaved, while only 9 per cent was paved.

4.4.6 Corruption

According to the World Bank Doing Business Report (2018), corruption and exploitation of power can delay the development of the business market. It can have adverse costs on the business climate and economic activities by growing the costs of doing business, hence discouraging private sector confidence. Excessive costs together with incompetent actions dishearten people from registering and transactions, steering them instead into the informal land market. Corruption in land management can have a direct negative impact on business operations.

Corruption is a critical issue with inferences on the welfares and prices of regional trade and integration in the EAC. There is alarm that widespread corruption particularly along the main trading routes is not only hindering trade flow but also corroding possible benefits (SID 2012). Transparency International (TI) surveys show widespread corruption within the EAC common market. The TI corruption perception index (CPI) summarizes the discernment of corruption as seen by business people and state analysts. The index ranges from 1 (corrupt) to
10 (clean). Between 2005 and 2008 Kenya was professed to have the highest level of exploitation in East Africa, until that discernment was moved to Burundi with a score of 1.9. After a dip between 2005 and 2006, Rwanda’s CPI score improved gradually to arise meaningfully ahead of its East African neighbors as the least corrupt state in the region by 2010. Tanzania peaked in 2007 with a CPI of 3.2, its highest over the past five years, but has faded since then due to several recent high-profile corruption outrages. I bribery index shows the most unethical institutions in the Region and those most prone to bribery.

According to the TI bribery index report (2011) almost all institutions tangled in corruption are in law enforcement, revenue collection and the judiciary, and seven of the ten institutions cited as the most corrupt were from Burundi and Uganda (SID 2012). These institutions play a key role in the enablement of trade and their being professed as corrupt may affect the direction of trade in the region.

According to the East Africa Bribery Index 2017 published by Transparency International Chapters in East Africa, as cited by Oduor (2017), bribery is still widespread in spite of efforts to reform public institutions and educate citizens on the significances of corruption. The East African Bribery Index (EABI) is an annual survey that seeks to record bribery practices of citizens while looking for public services. Since 2010, the survey has been conducted in Kenya, Uganda, Tanzania, Rwanda and Burundi. The public services surveyed by the index include security services (the police), judiciary, medical and health services, local government services, utilities (water and electricity), registry and licensing services (civil registration and business licensing), education, tax and land services.
In the region, the police in Tanzania, Kenya and Uganda, the judiciary in Uganda, and the police in Rwanda took the top five positions as the most bribery-prone institutions. The uppermost probability of bump into bribery was documented in the police services across the region; 71 per cent of defendants in Tanzania, 69 per cent in Kenya, 67 per cent in Uganda and 29 per cent in Rwanda interrelating with the police were asked (implicitly or explicitly) or presented to pay an inducement to get the services they were looking for (Oduor, 2017).

The study presented an upsurge in the size of bribe, with the main rise in Kenya (189 per cent) documented in medical and health services, rising from Ksh881 in 2014 to Ksh2,542 in 2017. The major bribe in Kenya was noted at the judiciary at Ksh14,083 followed by Ksh12,360 paid for tax services and Ksh8,956 paid for land services. The professed level of corruption endures to upsurge; 83 per cent of the defendants labeled the current level of corruption in Kenya as high, associated with 81 per cent who held a similar view in 2014. Only 10 per cent labeled the level of corruption as medium, with 4 per cent describing it as low (Oduor, 2017).

Absence of penalty of persons tangled in corruption and the sense that corruption is the norm are among the explanations accredited to the high perception level of corruption in EAC. Most respondents in Kenya (62 per cent), felt that the government was not doing enough to fight corruption, noting that cases were still widespread and that no action was being taken contrary to the corrupt. While it is easy to blame the government of not playing its role, 55 per cent of those interviewed designated that they had not taken any personal enterprise in the fight against corruption. Only 3 per cent reported corruption or have openly spoken out against corruption. This calls for communal accountability and civic-led action towards curbing the phenomenon (Cooper & Schinder, 2014).
4.4.7 Revenue Losses and Border Inefficiencies

A considerable amount of income that would replicate as welfares of incorporation is usually lost as “unofficial” exceptions and trafficking triumph in the EAC borders. The implementation of a common market also results to decrease of tariffs and customs duties against member states, and also calibration of tariffs against non-members. This results to loss of income in terms of customs duties. (Bolo, 2013).

The performance of trade procedure at border points includes a vast number of stakeholders as well as customs officials, freight forwarders, insurers, immigration authorities, police, plant inspectors, bankers, brokers, quality assurance, weights and measures and standards institutes, health, and port authorities to mention but a few. For actual border point facilitation, it is perilous that all these agents with changing roles work in tandem. This is infrequently the case, nevertheless. If for instance, examination of goods is assumed by diverse agencies, an importer must present diverse documents to each one and a lot of time and money are wasted. Measures to seal revenue losses and to blend border measures are hence critical in guaranteeing supreme reimbursements (Bennett, 2015).

4.5 Limitations of the Research

The study encountered several limitations, but this did not affect the quality of the research. One of the limitations the study experienced was that there was not enough time and resources to correct primary data as was the desire of the researcher. Hence, the study was only limited to secondary data sources. As a result the research may be affected by the scholars’ biases and the limitation of previous studies and the reports relied in the study.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions arrived at and policy recommendations and recommendations for further study.

5.2 Summary of the Findings

The study was guided by one major objective namely to examine the factors that explains the low intra-EAC trade for the period between 2010 and 2017 with a focus of Kenyan exports. The findings were as follows:

Kenya’s earlier dominance in EAC has been upended by more powerful forces. Unfortunately, the government seems to run away from this reality. First, after an extended period in which Kenya was the main supplier of various manufactured goods to the other EAC member states, they too have seen the growth of their own industries. The neighbors can now also manufacture household goods such as cooking oil, margarine, cosmetics, processed milk and sugar which used to be imported from Kenya. This has seen manufactured goods from Kenya decline significantly.

However, the presence of international investors cannot be ignored who are largely responsible for Kenya’s trade lose in the EAC region. China and India are majorly responsible for the decline of Kenyan exports into the EAC region. China’s entry into Kenya has been even tectonic, with the Asian country taking up 34 per cent of Kenya’s import bill while India accounting for 18 per cent, bring their total to 52 per cent. The fact is that Kenya’s old and rickety factories have been no match to efficient manufacturers in China and
India who have churned out an assortment of products that are five times cheaper and better quality than Kenya’s. Chinese manufacturers have not only beaten their Kenyan counterparts in the region but also in the latter’s own turf.

Several Kenyan manufacturers have crumbled under the heavy weight of cheap Indian and Chinese products which have flooded the market, putting tens of thousands of jobs on the line as well as job cuts due to closure of some local industries.

In the last ten years, in Rwanda, Kenya’s share of exports reduced by more than half from 16 per cent to 7.5 per cent, even as China’s imports into Kigali increased almost ten-fold from 2.4 per cent to 18 per cent. Imports from India also rose five times from 2.1 per cent to 10 per cent. Additionally, India’s imports into Uganda accounted for 20 per cent of Kampala’s total import bill while China’s accounted for 16 per cent. The two Far-East countries had eaten into Kenya’s pie leaving Nairobi with a small share of 9.7 per cent. The exception is the war-torn Burundi where the share of imports from Kenya went up from 5.1 per cent in 2000 to 2015. But even here, China’s and India’s foray have been significant. Share of imports from India into Burundi went up from 3.5 per cent to 11 per cent while China’s grew from four per cent to 13 per cent. This is a graphic visualization of how China and India have in the last 10 years voraciously eaten into Kenya’s trade pie across the region, leaving it with crumbs.

In addition, although the East African Community has been one of the success stories of Africa’s elusive trading blocks, divergent political interests have frustrated the fine operation of common market protocol which is supposed to allow for easier movement of goods and services, labor and capital. Tanzania, for example, went against the EAC Protocol and
introduced work permit of around $3,000 (about Sh300,000), a decision that might have hurt Kenya’s investment into the country (Kimeu, 2017).

Kenyan industrial exporters have set up shops in the export markets hence leading to a drop of orders from Kenya. There are persistent restrictions and non-tariff barriers imposed on Kenyan products destined for export in the region. This discourages Kenyan export traders from exporting their products in EAC because it is time consuming and costly.

EAC member states have not fully opened their markets as required by the customs union treaty. Partial harmonization of trade rules by the six EAC states has hurt expansion in regional trade. Some EAC countries are still erecting non-tariff trade barriers at official borders such as refusal to recognize certificate of origin for some goods. EAC member states are reluctant to surrender their authority to the common market. EAC member states are suspicious of each other and this has resulted to the influx of cheaper goods available in the region into the bloc, largely from China and India. This has affected Kenyan exports to the region as China and India products seems to be more convenient financially the Kenyan products.

Despite the decrease of trade barriers in EAC to allow the free movement of goods, people and services, non-trade barriers remain a predicament to the EAC intra-regional trade. NTBs leads to delays and increased costs, which ultimately hinder the free movement of goods and services. Existence of NTBs in the region signifies trade policy inarticulateness. Though EAC countries have over the years negotiated the decrease of policy and procedure linked NTBs, success has been limited. The existing framework for monitoring NTBs is not only ineffective but does not deal with ad-hoc administrative cases which arise in the course of
cross border trade. This is because it takes long to constitute the committee meetings or for respective revenue authorities to exchange information in order to resolve emerging NTB issues.

Multiple memberships are another key problem to the EAC intra-regional trade. EAC countries belong to several economic groupings or sub-groupings that sometimes compete, conflict or overlap amongst themselves rather than complement each other. Their focus is undivided. Overlapping memberships complicate coordination of activities. Members are usually torn between competing regulations and commitments and thus end up having to devote more time and resources on managing regional integration rather than actually participating in it. This is a real source of policy inconsistencies as countries grapple with multiple loyalties. It also complicates revenue administration.

Disparities in tax regimes by member states of EAC economic bloc result in distortions and have negative impacts on cross-border business activities. they increase the cost of compliance and affect decisions made by investors with regard to where to invest and where to source finance. The variance in domestic tax rates such as excise duty and VAT rates in essence translates into different prices and costs to consumers for similar items. Delays by member states in harmonizing their tax regimes also cause imbalances in cross-border trade.

Kenya was the main industrial state in the EAC and one of the major trading partners of all EAC member states. However, its role has been undertaken by foreign investors who are now exporting more industrial products to the other EAC states than Kenya. EAC member states prefer trading more with the foreign investors than Kenya because their export products are cheaper than those of Kenya.
Underdeveloped telecommunications and transport infrastructure bottlenecks, energy shortages and trade are impediments to the free flow of goods and services within EAC region that reduce potential benefits. Transport is still a major bottleneck of regional trade and is affected by disjointed and unpaved links, inadequate and underperforming rail networks.

Corruption is a critical issue with implications on the benefits and costs of regional trade and integration in the EAC. Rampant corruption especially along the major trading routes is not only hampering trade flow but also eroding potential benefits. Bribery is still rampant despite efforts to reform public institutions and educate citizens on the consequences of corruption. Lack of punishment of persons involved in corruption and the sense that corruption is the norm are among the reasons attributed to the high perception level of corruption in EAC.

A substantial proportion of revenue that would reflect as benefits of integration is usually lost as “unofficial” exemptions and smuggling prevail in the EAC borders. The adoption of a common market also leads to removal of tariffs and customs duties against member states, and also standardization of tariffs against non-members. This leads to loss of revenue in terms of customs duties.

5.4 Conclusions

From the above findings, the following conclusions were arrived:

Several factors ensue to the low intra-EAC trade in the region. These includes: competition of Kenyan products by cheap foreign investor products, availability of NTBs, Multiple memberships, disparities in tax regimes, underdeveloped telecommunications and infrastructure, corruption, revenue losses and border inefficiencies, competition of Kenyan
products by foreign investors products, partial harmonization of trade rules and states reluctance to surrender their authority to the common market.

There is a slightly heavier concentration of industries in Kenya and this has contributed to slow removal of trade barriers by some member states due to desire to protect domestic industries thus negatively influencing cross-border regional trade. Poor infrastructure which includes transport and telecommunication in member states hampers the regional trade. Multiple memberships do not directly influence regional trade in the EAC since all member states are committed towards full regional integration. Delays in the harmonization of tax regimes has led to moderate negative influence on regional trade. Non-tariff barriers are still being imposed by some member states and this negatively influences the regional trade.

The inferences of this findings are that although a lot of progress has been done towards implementation of the common market, a lot of political commitment and goodwill is required. This is especially so in the areas of addressing NTBs, harmonization of tax regimes and development of common infrastructure like ports, railways and airports

5.3 **Recommendations**

5.3.1 **Policy and Practice Recommendations**

The admission of cheap imports into the region has worn the attractiveness of products in the EAC region, taking up a large share of its markets. For this reason, it is significant for EAC member states to stiffen current ties with their EAC allies and therefore bank on their shared identities and interests to negotiate better markets access for their priority products under EAC industrialization policy.
The member states should work towards complete elimination of non-tariff barriers to ease regional trade. Member states should realize that opening the borders will ultimately lead to balancing of industry concentration and hence there is no need to insincerely protect domestic industries. There should be a mechanism of not only monitoring NTBs but also laws to deal with members who sustain them at the expense of other member states.

The member states should develop a common plan for infrastructure that will ease movement of goods and people. They should also consider giving up their international airports, ports, railways and weighbridges to be managed by and for the common benefits of the EACCM. The member states need to channel more resources and more investments towards infrastructural development to ensure all countries are at par.

Member states should accelerate coordination of tax regimes as this will decrease the trade imbalances, tax evasion schemes like trafficking as their will be no inducement to avoid official border points.

Member states should push through their pledge to full integration and focus more on building the EAC rather than spreading their energies on multiple trading blocks.

There is need to reinforce the capacity of numerous institutions of governance to deal with the unescapable problem of corruption. EAC member states should have a clean bill of health to increase public confidence. There is also the urgent need to impeach those tangled in corrupt practices both for deterrence as well as punishment value. Additionally, institutions should be encouraged and supported to set up internal integrity management initiatives. This could include setting up grievance resolution mechanisms for citizens to report any bribery incidents they encounter or service delivery charters outlining the services offered, the
amount of time taken, and fees charged to access the services. Technology is an enabler of responsibility. Institutions should consider digitization of diverse services to decrease service transaction time and minimize the human interface that facilitates bribery. According to the East African Bribery Index 2017, Huduma Centres, in Kenya which have positioned technology to manage customer and service processes, documented the least bribery incidents among the institutions listed. This would go a long way in helping institutions to fight corruption and advance service delivery even for the other EAC member states.

There is need for the formation of rapid response units within the ministries of trade in member states to facilitate “faster and more effective” means of dealing with cross border trade hitches. In addition, this will permit the national NTB monitoring committees to deal with structural as opposed to day to day operational issues.

EAC member states should contemplate abolishing their multiple memberships to evade divided attentions and fully oblige to assimilating in EAC and accomplishing the laid objective of the EAC treaty that they all agreed to.

For overlapping membership, a long-term solution is for the EAC member states to justify their involvement in RTAs. The suggestion to create a larger free trade area (FTA) bringing together SADC, COMESA and the EAC may help in finding a lasting solution.

In the context of the EAC, it is significant that the member states address weaknesses in their customs and revenue administration, border control, and transit arrangements to decrease losses on customs revenue collection. Also significant are matters of efficacy at border points. Measures to seal revenue losses and to blend border measures are therefore critical in guaranteeing maximum benefits.
5.4 Suggestions for further research

The study suggests that further research should be carried out on the factors influencing the low intra EAC trade with a focus on exports from the other EAC member states namely; Uganda, Tanzania, Burundi, Rwanda and South Sudan. The study has established that EAC has not fully reached its potential hence it is important to further investigate the factors hindering the accomplishment of its objectives.
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