



Briefing Paper

Buy Kenya, Build Kenya: Preserving EAC Regional Integration

By Martin Mulwa

Summary

The briefing paper aims to inform the finalization of the Buy Kenya, Build Kenya strategy by proposing provisions to ensure regional integration agenda is not lost in strategies aimed at promoting development of local industries. Regional integration is one of the tools that Kenya can leverage to ensure development of the country. However, national strategies such as Buy Kenya, Build Kenya offering prospects for improved competitiveness of local industries may come as a perceived risk to EAC regional integration. Promoting consumption of goods and services from EAC, developing local content for EAC goods and services and enhancing market for EAC products will ensure the regional agenda is kept alive.

Background

Regional Integration, in the form of Regional Trade Agreements (RTAs), is often viewed as a major policy tool that a country can use to climb the ladder of industrialisation and economic growth and attain better social welfare for its citizens. They can also provide an alternative platform for addressing contentious issues that hinder multilateral trade negotiations at the World Trade Organization (WTO), and contribute to freer markets by reducing tariffs and non-tariff trade barriers among member states, even though at the risk of diverting trade away from non-member states (Vollrath, 1998).

RTAs have two types of effect on welfare called static effects and dynamic effects. Trade, by taking advantage of differences in factor endowments, larger markets and the availability of new technologies generates gains from pure arbitrage, economies of scale, more sophisticated product differentiation and extended innovations.¹ Higher production efficiency brought about by enhanced competition, decreased average production costs due to economies of scale in larger markets, higher international investment, resulting from an increase in investment opportunities, enhanced technological change resulting from increased competition, all these dynamic effects change the welfare trajectory.²

In the East African Community (EAC), the regional bloc has come up with a Common Market Protocol (CMP) to boost trade between member states. The CMP entered into force in July 2010, following ratification by all the five Partner States: Burundi, Kenya, Rwanda, Tanzania and Uganda. The establishment of the EAC common market is in line with the provisions of the EAC Treaty. It provides for “Four Freedoms”, namely the free movement of goods; labour; services; and capital, which will significantly boost trade and investments and make

the region more competitive, productive and prosperous. It is a legal and binding commitment to a deeper and stronger functional integration by member states through the removal of all trade barriers on goods and services; and the liberalisation of the movement of factors of production (capital and labour).³

Kenya Trade Performance in EAC

Trade among the five EAC partner states grew from \$1.81 billion in 2004 to \$3.54 billion by the end of 2009, an increase of 96 percent.⁴ However, regional trade in EAC suffered setback in later years in spite of the efforts to boost investment and intra-regional trade. Over the period 2013-2015, Intra-EAC trade fell by 13 per cent, with total value dipping from \$5.8 billion in 2013 to \$5.06 billion in 2015.⁵ According to EAC Facts and Figures 2016 report, the decline in intra-regional trade is attributed to poor infrastructure, non-tariff barriers (NTBs), ineffective harmonisation of laws across member states, low value addition, low levels of industrialisation in the EAC region, and lack of a common position on the implementation of duty exemption regimes by the member states.

Intra-EAC trade currently stands at 9.6 percent of the region’s total trade volume,⁶ which is relatively low when compared with other regional trade arrangements such as the European Union and the North America Free Trade Agreement (NAFTA) where intra-regional trade accounts, respectively, for 60 percent and 48 percent of total trade portfolios. Agricultural commodities and manufactured products, to some extent, form the bulk of intra-EAC trade; food, live animals, beverages, tobacco and inedible crude materials dominate its trade. Kenya’s exports to the region, however, are more diversified and include

¹ Muhammad, K., & Yucer, A. (2009). Impact of Regional Trade agreements: Trade creation and Trade diversion in Western Hemisphere. *Université Paris-Dauphine Leda Mondialisation development*, 1-23.

² Ibid

³ East Africa Business Council, 2013

⁴ EAC (2011) Trade Report

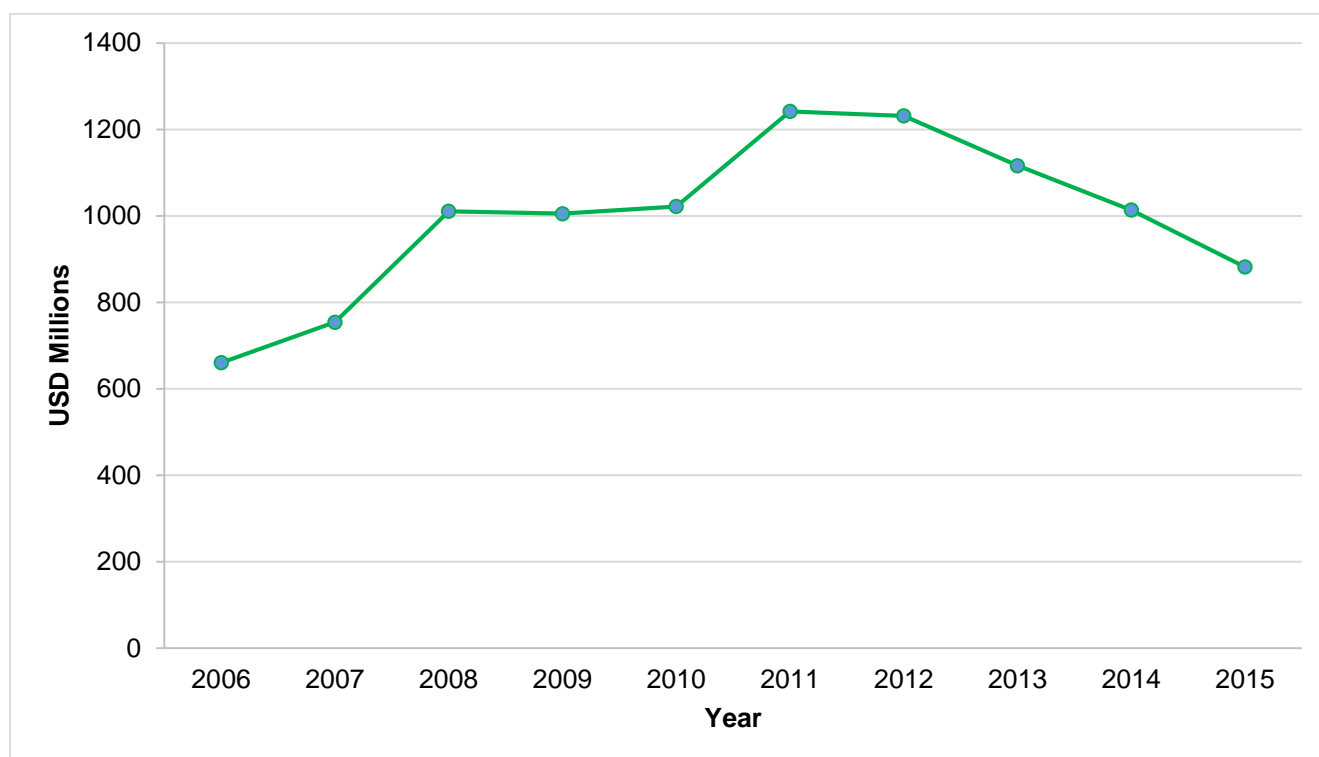
⁵ EAC Facts and Figure (2016) Report

⁶ EAC Facts and Figures (2016) report

chemicals, fuels and lubricants, machinery and transportation equipment. The EAC is a major destination for Kenya’s exports. For instance, in 2016 the EAC accounted for 21.1 per cent of Kenya’s total exports, while Europe accounted for 24.5.⁷ While East African regional integration widened the scope of trade opportunities for Kenyan businesses during the last 10 years, Kenya has not yet fully exploited these opportunities, a problem

that is increasingly associated with institutional and regulatory barriers to trade in the region.

Figure 1: Kenya EAC Trade Performance



Source: EAC Facts and Figures

⁷ Economic Survey, 2017

National Interest and Regional Integration

As countries come together to form a regional block, they each have unique resources and economic landscapes that allow them to benefit from the opening up of borders with their partners. However, power asymmetry of countries in their national interests can allow some members to advance their strategic interests at the expense of others creating inequality in sharing of welfare gains from the integration process.

Regional integration offers a route to overcome the disadvantages of the size of individual economies by pooling resources, strengthening the effectiveness of domestic policy-making and enlarging markets available to regional firms and consumers. The African destiny is summed up in the desire to develop, through collective self-reliance, regional integration where political integration and economic integration are two sides of the self-reliant approach.⁸ In recognition of the significance of regional integration in enhancing economic growth, Kenya has been an active participant in regional integrations including the EAC and COMESA.

The East African co-operation (1967-1977); an early initiative of the East African states which were all less developed, newly independent, and vulnerable to domination at the time initiated a convergence of their national interests. Kenya, Tanzania and Uganda desired to steer development in their respective countries and to protect each other from economic domination by extra-continental and even continental powers.⁹ The EAC's objectives were to strengthen and regulate industrial, commercial and other relationships of the partner states towards development and sustained expansion of economic activities. The benefits were to be shared equitably

through the harmonisation of economic policy, formulation of joint projects, and consultation in areas such as agriculture, education, energy, industry, tourism, balance of payments, transport and communications etc.¹⁰

Yet, EAC countries had individual national interests that could not be fully achieved within the structure of the co-operation. The three states were therefore not only partners but competitors to achieve their individual economic development and political superiority. The goals of the EAC could not be achieved because each country was in pursuit of its individual interests, which conflicted with the general interests of the co-operation. This lack of reconciliation of individual sovereign interests and community interests was a major cause of the collapse of the EAC in 1977.

Nevertheless, the EAC was later revived by the 1999 treaty that entered into force in 2000, and became a common market in 2010. While this indicates a renewed commitment to regional integration, balancing individual member states' national interests with their collective interests has remained a challenge.¹¹

Buy Kenya, Build Kenya Strategy

In 2015, the Ministry of Trade in Kenya developed the Buy Kenya, Build Kenya (BKBK) strategy.¹² The strategy seeks to enhance competitiveness and consumption of locally-produced goods and services. In order to achieve this, the strategy identifies commodities and services where the country has competitive advantages. The strategy

⁸ Mutharika, B. *One Africa One Destiny; Towards Democracy, Good Governance and Development* (Zimbabwe; Natprint Ltd, 1995) p. 154

⁹ Nyamira, J. (2008). *National interests as a constraint to regional integration*. Institute of development studies

¹⁰ Kyengo H., M.A Dissertation Thesis on Bargaining National Interests in East African Community - The Case of Kenya in EACU. 2006 p. 18

¹¹ Nyamira, J. (2008). *National interests as a constraint to regional integration*. Institute of development studies

¹² Buy Kenya Build Kenya strategy

pays keen attention on the issue of quality assurance and particularly on the need to upscale innovation in packaging and branding locally manufactured products for local consumption and external market.¹³

In bid to enhance competitiveness of local industries, the strategy proposes the reservation of 40 percent of public procurement Budget by government departments to locally-produced goods and services.¹⁴ The strategy also proposes; providing subsidies and incentives to local producers in targeted sectors; and enhancing quality infrastructure to produce quality and competitive goods and services. With regard to the creation of an enabling business environment, the strategy also plans for safeguarding of Intellectual Property Rights, increased investment in Industrial R&D, innovation and technology transfer.

Kenya is however not the only country in the region which has developed initiatives aimed at promoting consumption of local products, with “Buy Uganda, Build Uganda” and “Made in Rwanda” being premised on the same objective. All these policies aim to promote consumption of local goods and services; promote the use and conformity to standards to guarantee quality goods and services; and to provide capacity building programs to local suppliers of goods and services.

Adoption of such strategies could potentially help improve competitiveness of local industries. However, there are fears that such policies are resorting to protectionist measures which could potentially hamper efforts towards EAC regional integration by locking out products from neighboring counties.¹⁵

Safeguarding Regional Integration in the BKBK Strategy

Both the BKBK strategy and regional integration are essential ingredients of Kenya’s economic

development strategy. Hence, Kenya should ensure that promotion of development of local industries does not come at the expense of EAC regional integration. Rather, the BKBK strategy should leverage regional integration to ensure competitiveness and trade performance of local industries. To this end, the following is recommended in the development and implementation of the Buy Kenya, Build Kenya Strategy:

① *Promoting the consumption of commodities from EAC.* Promoting consumption of commodities produced within the EAC need to be prioritised under the BKBK strategy. The strategy should develop standards for commodities that partner states have to meet to be allowed to access the Kenyan market, in line with regional standards. This would also require reviewing the existing Public Procurement and Asset Disposal Act, 2015 to extend it to EAC produced goods and services.

② *Development of local content for EAC goods and services.* The BKBK strategy is set to develop the criteria for determining local content. The same needs to be developed for EAC commodities to prioritise their consumption over those commodities produced outside the EAC.

¹³ Ibid

¹⁴ Ibid

¹⁵ Njiraini Muchira (2017). Industrialist Fear the Return of Protectionist in East Africa. The East African Daily

③ *Enhancing market access for EAC produced goods and services.* This can be achieved through promoting competitiveness and consumptions of EAC products by ensuring safeguard measures to curb the influx of counterfeit and sub-standard products.

④ *Reducing the cost of doing business* in order to improve the competitiveness of industries in the EAC. This includes putting in place measures for reliable and affordable sources of energy in industries.

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