INDUSTRIALIZATION DRIVE, FISCAL POLICYAND CROSS BORDER TRADE PERFORMANCE AMONG EAST AFRICAN COUNTRIES

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Abstract

Industrialization has been considered as a key to the development of nations. Since its re-established in 1993, the East African block has been striving to develop various strategies to ensure equitable development within the region and increasing trade opportunities. For the past four years, the industrialization has been the key budgeting focus of the states. This study as analyses the policy reforms towards industrialization drive among the countries and its implications to the performance of the trade across the nations. A contextual analysis of the fiscal policies was undertaken based on Pelkmans (2006) industrial policy framework and review of the performance of the regional cross border trade based on the Country Similarity Theory and Porter's National Competitive Advantage Theory. The results suggests that Tanzania's fiscal focus have been industrial infrastructure development while the rest of the countries has been local manufacturing initiatives. EAC countries through common external tariffs have been in the recent years focusing on the promotion of local industries by setting high tariffs on the importation of processed food items and vegetable oils. However, Tanzania has been in the past five years a net exporter of raw food items and Kenya a net importer of food items across the member states. Kenya seems to leading the EAC bloc in industrialization and incentives provided as well as local tax revenues to the fiscal policy. It is therefore recommended from this study that strategic alliances for clustering and promotion of industrial policies based on the Pelkmans (2006) should be adopted for sustainable industrial policy in the region.

Key words: cross border trade, internationalization, government budgets, fiscal policy

1 INTRODUCTION

Among the regional trading arrangements (RTAs) that have proliferated in Africa, the East African Community (EAC) is a preferential trading area consisting of Kenya, Tanzania, Uganda, Rwanda, Burundi and South Sudan (joined the region in 15th April 2016). However, with the benefit of this article, the first four countries will be taken as a sample. The present or new EAC is a recovery of the original EAC, a customs union that was established in 1967, at the end of the colonial era and that, for a variety of political and economic reasons, collapsed in 1977. The new EAC formulated in year 2000 was aiming to achieve a deeper regional integration among the country member states with the desire of reaching the final stage of integration, the political federation. It should be note that, the target to reach the federation was 2015, regrettably, the integration is still in the common market, very far to reach the federation.

The combined 2016 GDP of Burundi, Kenya, Rwanda, Tanzania, and Uganda was US$ 154.9 billion, and the total population of these EAC member states was 168 million in 2016[1]. According to global trade and development statistics, the region recorded a growth of 3.7 per cent in 2015, above the world average and better than other regions except for East and South Asia which recorded 5.6 per cent on average in 2015 (UCTAD, 2018). The high-growth performance in Eastern Africa in recent years was the outcome of various macroeconomic policies, including improved exchange rate management, reductions in foreign debt, shrinking budget deficits, and the curbing of inflation (AfDB, 2014).

All countries in the block except Kenya are in the list of low income countries and are referred as least developed countries (UN, 2019). To realize the need to join the middle income economies in 2050 (EAC, 2015), EAC has set a policy for industrialization which was approved in November 2011 aiming at opening new opportunities for growth and expansion of cross border manufacturing and upgrading of small and medium enterprises (SMEs)[2]. The emphasizes of the policy being to foresee the role of the private sector in driving industrialization in the region and seeks to promote strategic dialogue between public and private sector and other key stakeholders based on principles of competitive partnerships. Nevertheless, the intra-trade with the region has to be given a great consideration, as the EAC partner states have agreed through the custom union to establish free trade (or zero duty imposed) on goods amongst themselves and have agreed on a common external tariff to be applied to imports from countries outside the EAC zone when sold to any EAC partner state. Goods moving freely within the EAC must comply with the EAC rules of origin and with certain provisions of the protocol for the establishment of the EAC customs union (EAC, 2017a). Also, through the EAC Common Market, entered in force since 2010, implies that the EAC partner states maintain a liberal stance amongst themselves towards freedoms of movement for all the factors of production and products (including; goods and services, persons, labour/workers and capital) and the two rights of establishment and the right of residence (EAC, 2017b). The underling EAC common market is operationalise by four principle; The non-discrimination of nationals of other partner states on grounds of nationality, equal treatment to nationals of other partner states, assurance of transparency in matters concerning the other partner states and also the sharing of information for smooth implementation of the protocol. Therefore the cross border trade in the name of intra-trade should be emphasized.

Cross border trade across the regional blocs offers market access to goods and services to wider groups (source). Also, it provides more choices of goods and services to consumers within the same trading block. The EAC among several trading blocs has been among other developing environment in which cross border trade has been evolving (Source). The region has already done several initiatives to galvanize the solidarity as far as the regional trade is concerned. With the population of almost 168mil people, the region is linked with one language - Swahili, which stands to be potential for substantial market (Mwakisale & Magai, 2015). Even the geographical position of the region as it is situated in the gulf of Africa offers some potential for doing business. It is from this background this study is set to analyze the industrialization drive and cross border trade

[1] These figures are the total of individual country values of GDP (current US$) and population statistics from the World Bank's World Development Indicators database, July 2017.

[2] The brief policy for industrialization can be accessed through this website; https://eacgermany.org/wp-content/uploads/2014/10/EAC-Industrialization-Policy-Brief.pdf, accessed on 24/02/2019; 1:32pm.

performance among the EAC member states. Research question for this paper is whether the industrialization drive within the EAC region is translating to the cross border trade within the region. The rest of the article is organized in six sections. After the introduction presented in section one, section two will present some literatures review including the theoretical aspect of both industrialization and trade. Section three presents the undertaken of methodological aspect employed in this article and the section will proceed by presenting some demographic and industrialization of the EAC region. Section four gives the findings and discussions, while the last section gives a conclusion and policy recommendations.

2 LITERATURE REVIEW: THEORETICAL ASPECTS

2.1 Modern or Firm-Based Trade Theories

The modern or firm-based trade theories was developed after World War II and are used to describe trade patterns of differentiated goods, for which brand name is an important component of the customer's purchase decision. In contrast to classical, the modern or firm-based theories evolved with the growth of the multinational company (MNC). This theory was developed to counter check the failure of the country-based theories that couldn't adequately address the expansion of either MNCs or intra-industry trade, which refers to trade between two countries of goods produced in the same industry. For example, Japan exports Toyota vehicles to Germany and imports Mercedes-Benz automobiles from Germany. Likewise, Tanzania exports maize grain to Kenya while importing maize flower from Kenya. Unlike the country-based theories, firm-based theories incorporate other product and service factors, including brand and customer loyalty, technology, and quality, into the understanding of trade flows.

2.1.1 Country Similarity Theory

The theory of country similarity was developed in year 1961 by Swedish economist named Steffan Linder. The theory explain the concept of intra-industry trade, proposing that consumers in countries that are in the same or similar stage of development would have similar preferences. The theory also emphasized that company's first produce for domestic consumption. When they explore exporting, the companies often find that markets that look similar to their domestic one, in terms of customer preferences, offer the most potential for success. Linder's country similarity theory then states that most trade in manufactured goods will be between countries with similar per capita incomes, and intra-industry trade will be common. This theory is often most useful in understanding trade in goods where brand names and product reputations are important factors in the buyers' decision-making and purchasing processes.

2.1.2 Global Strategic Rivalry Theory

This theory of global strategic rivalry emerged in the 1980s it was developed by Paul Krugman and Kelvin Lancaster. The theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive advantage are through the barriers to entry (obstacles a new firm may face when trying to enter into an industry or new market) for that

industry. The barriers to entry among others may: research and development, the ownership of intellectual property rights, economies of scale, unique business processes or methods as well as extensive experience in the industry, and the control of resources or favorable access to raw materials. But sometimes may include the sanitary and phytosanitary measures (SPS), the rule of origin, and the like.

2.1.3 Porter's National Competitive Advantage Theory

This theory of international trade explain the national competitive advantage, developed by Michael Porter in year 1990, the theory entails that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade. Again, the theory focused on explaining why some nations are more competitive in certain industries. To explain his theory, Porter identified four determinants of competitiveness:

i. ***Local market resources and capabilities (factor conditions).*** The theory cherishes the value of the factor proportions, which considers a nation's resources (e.g., natural resources and available labor) as key factors in determining what products a country will import or export. The theory also includes; skilled labor, investments in education, technology, and infrastructure as a new and advanced factors. Porter perceived these advanced factors as providing a country with a sustainable competitive advantage.
ii. ***Local market demand conditions.*** It is believed that, a sophisticated home market is critical to ensuring ongoing innovation, thereby creating a sustainable competitive advantage. Companies whose domestic markets are sophisticated, trendsetting, and demanding forces continuous innovation and the development of new products and technologies.
iii. ***Local suppliers and complementary industries.*** To remain competitive, large global firms benefit from having strong, efficient supporting and related industries to provide the inputs required by the industry. Certain industries cluster geographically, which provides efficiencies and productivity.
iv. ***Local firm characteristics.*** Local firm characteristics include firm strategy, industry structure, and industry rivalry. Local strategy affects a firm's competitiveness. A healthy level of rivalry between local firms will prompt innovation and competitiveness.

The four determinants of competitiveness was in heart of developer, however, he noted that government play a great part in the national competitiveness of industries. Governments can, by their actions and policies, increase the competitiveness of firms and occasionally entire industries.

2.2 Demographic and Geographical Structure of the EAC

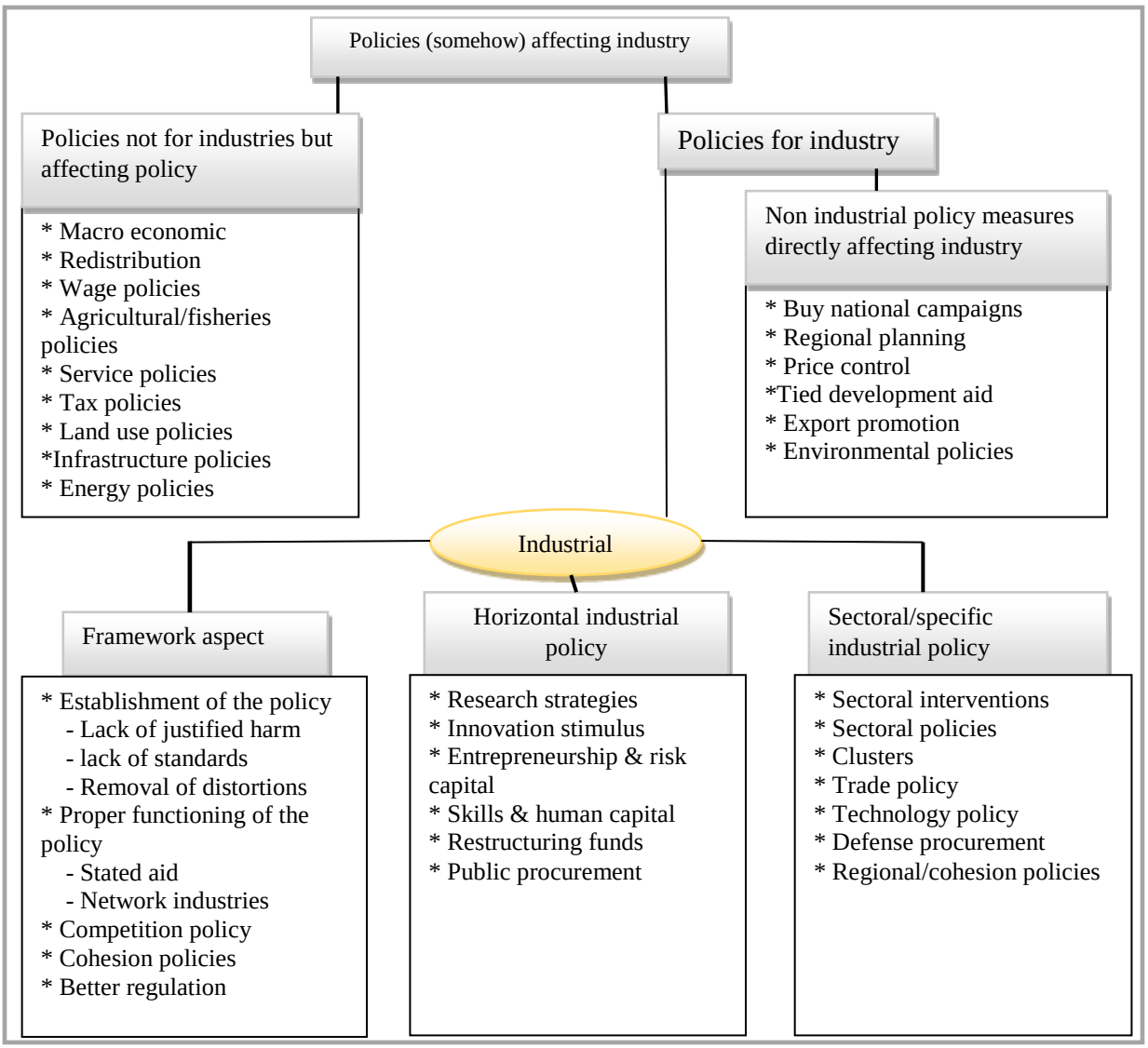
The EAC partner states especially the three founding countries (Tanzania, Kenya and Uganda) have a long history of regional integration since the colonial period. They share a common history, culture, and infrastructure, and have relatively uniform agro-climatic conditions (Ogalo, 2010), even the interaction of the people in term of intermarriage is of high degree. With the inclusion of other partner states, the EAC market is now a very large market attracting any firm to invest. The geographical location of the two partner states of Kenya and Tanzania situated along the ocean, as other countries are landlocked countries, gives a unique features of the region. Good enough all EAC partner states are members of World Trade Organization (WTO) and other trading

arrangements. With the exception of Kenya which is qualify to be in a group of Developing Countries (DCs), the remaining countries are Least Developing Countries (LDCs) enjoying the preferential treatment under the WTO. For example, they are enjoying the most favored nation (MFN) clause, the generalized system of preferences (GSP), and the like. Tanzania is the only member of the Southern African Development Community (SADC), while the rest of the partner states are members of the Common Market for Eastern and Southern Africa (COMESA).

2.3 Industrial Policy

Industrial policies are believed to be key drivers to the economic development (Robinson, 2009). Industrial policies play important role in promoting trade and can positively help industrialization. This industrial policy captured from (Pelkmans, 2006) includes both universal, broad, horizontal industrial policy elements, as well as targeted sectorial specific industrial policy elements. However, the framework industrial policy aspects presented in Figure 1 create systemic obstacles which severely limit acceptable activities in either the horizontal or sectoral agendas. For example, there is no horizontal or sectoral policies that can contravene the framework's competition policy. As competition policies ban any government aid or funding directly to firms, this limits national governments' powers to undertake sectoral policies. Similarly there is no horizontal or sectoral policies may interrupt on the freedom of movement of capital, goods, services or the right of establishment guaranteed under the framework. The only flexibility for national member governments to pursue sectoral policies is through trade policies in which the member states can agree to put some trade facilitation measure for their benefits. Most of the industrialized countries like South Korea, China and the like used this kind of industrial policy framework for their achievement, see annex 1.

Figure 1: Industrial policy for developed countries



Source: Pelkmans, 2006

2.4 Contextualizing cross-border trade

Cross-border trade (CBT) is an important form of trade in many developing economies of the world. It is a trade which is carried out across national boundaries or between people or business entities of different countries. Kaminski and Mitra (2010) defined CBT as the flow of goods and services across international land borders within a reach of kilometers specified by law. Muzvdziwa, (2007) condemned that CBT is a strategy undertaken by people as a social mechanism to escape poverty. Egbert (2006) emerges with a broad definition refers to CBT as a mass phenomenon, which, though well researched or analysed by anthropologists and sociologists is largely ignored by economists and entrepreneurship researchers (Bernard et al. 2003). CBT is broadly divided into two groups of formal and informal. It refereed as formal only when international trade is carried out by legally registered traders and fulfills all the legal requirements

of the trading countries. On the other hand it is deemed to be informal because the traders and their business enterprises are not registered, they sometimes lack structure, and operate outside national accounts.

Cherishing the definition of informal cross border trade (ICBT), Higgins (2012) and Moisé-Leeman (2009) concluded that, ICBT is almost legal but unregulated (unregistered, undocumented and officially unaccounted) trade. Njiwa, (2013) defined the ICBT as a trade which is not officially recorded and carried out by small businesses in the region of COMESA. While, (Dongala, 1993) pointed out that ICBT involves large number of participants operating at a lower scale than the formal sector and characterized by easy entry and exit of firms. Various studies (Chan, 2008; Kachere, 2012 and Kabber, 2011) have indicated that unemployment and poverty situations in countries are reasons for engaging in CBT by individuals. Chan (2008) affirms that CBT has increased as the outcome of unemployment. While, Kabber, 2011 adds that the paucity of formal employment opportunities and the continued decline in real wages has led many individuals (especially women) to join the CBT. This observation points to the fact that the growing rates of unemployment are the major determinant in motivating people to engage in CBT. The facts also is cherished by Malorova, (2008) as cited in Jawondo et al. 2012 work.

In the other hand, studies of Jawondo et al. 2012; Kachere, 2011 and Smallbore & Welter, 2012, show that CBT has risen as a result of confronting poverty situations in some countries. Titeca, 2012 also, observed that CBT in Uganda is linked with the marginal economically disempowered sections of society, whose quest is to look for survival in CBT activities. However in a positive note CBT play a great role in economic development. As reckoned by Eder, Yakovlev and Çarkoglu (2003), CBT in Eastern Europe is worth billions of dollars, and as reported by Southern Africa Trust (2008), the value in the Southern African Development Community (SADC) region averages US$ 17.6 billion annually. Chiwara and Ndiaye (2010) affirms that the CBT contributes between 30% – 40% to intra-SADC trade.

3 METHODOLOGY

The methodology adopted is documentary review. Documentary research method involves analysis of documents that contain information about the phenomenon we wish to study (Bailey 1994, Platt 1981; Scott 1990). The method involves in depth review and analysis of existing studies, publications, surveys, and related documents available in the private or public domain (Payne and Payne, 2004). The list of public document sources include government publications such as Acts of Parliament, policy statements, census reports, statistical bulletins, reports of commissions of inquiry, ministerial or departmental annual reports, consultancy reports, etc. Private documents often emanate from civil society organizations such as private sector businesses, trade unions and non-governmental organizations, as well of course from private individuals (Mogalakwe, 2006).The information collected and variables analyzed were based on the specific support to the industrial policy based on the fiscal policy as outlined by Pelkmans (2006) framework. Similar studies by Mkwizu, Monametsi and Swai (2019) and Komba (2016) adopted similar methodologies.

4 FINDINGS AND DISCUSSSIONS

4.1 Industrial Policy Frameworks of EAC

The UN, 2013 definition of industrialization coined by (Adelman, 1999 and Szirmai, 2011), is define as a global process of structural change where countries or regions struggle to become a leader in technology, creating wealth and dominating trade in the manufacturing sector. All of these depend on a process of reallocating factors of production from an agricultural sector characterized by low productivity and rudimentary technology to a modern industrial sector with higher productivity. However, on their struggles, developing countries depends on agriculture and other commodities like mining, while developed economies depend on manufacturing and services for the higher proportion of their national income. Manufacturing is also viewed as a more productive and dynamic sector than other sectors like agriculture, though some studies argued that no success in manufacturing without a success in agriculture and also agriculture has strong growth linkages and multiplier effects on the non-agricultural sectors. Thus, agriculture has the potential to stimulate the economic development, since most countries are still in the early stages of industrialization, (UN, 2013) Nevertheless, the EAC has taken some steps to consolidate its goal towards investment promotion, with Article 79 of the EAC Treaty which states that "the prime objective of Industrial development could be achieved through guaranteeing balanced industrial growth, creation of a competitive industrial base that hinges on diversification, increased export of manufactured goods and growth of indigenous entrepreneurs". In this context, the EAC has developed its Industrialization Policy 2012-2032, that fosters the creation of the EAC Common Market Protocol, as well as the African Union-Accelerated Industrial Development of Africa (AU-AIDA) initiative. In the EAC, member countries have specific industrial policies, the following sums up the key objectives of the EAC industrial policy:

i. Promoting the development of strategic regional industries;
ii. Strengthening national and regional institutional frameworks and capabilities for industrial policy design and implementation;
iii. Strengthening the capacity of industry support institutions;
iv. Strengthening the business and regulatory climate;
v. Enhancing access to finance;
vi. Facilitating the development of relevant technical skills;
vii. Facilitating the development of micro, small and medium enterprises;
viii. Strengthening industrial information management and dissemination systems;
ix. Equitable development, and developing support infrastructure along identified development corridors;
x. Promoting research, development and innovation;
xi. Promoting sustainable industrialization;
xii. Increasing access to markets;
xiii. Supporting gender in industry

The 2011 EAC industrial policy was not the first in the EAC bloc. The previous EAC bloc established in 1967 to 1979 witnessed an establishment of the industrial policy in the region which was driven by government resource allocation through establishment of state. Government owned manufacturing firms. The administration and resources allocation was proven to be failure as most of the established government industrial firms failed and subjected to privatization in 1990s. To mitigate this risk, EAC policy aimed to ensure sustainable and competitive industrial development

through involvement of private sector, and development of the SMEs. Earlier policy focus was often rather on delivering support to individual enterprises, especially parastatal companies, than on their efficiency and profitability

It should be noted that since the inception of the EAC Customs Union in 2005, several official efforts are being put in place to increase the CBT within the member countries. Some policy measure were set to support the CBT and the integration among EAC member counties, however, it is not easy as traders are still facing several constraints while crossing borders. These constraints discourages people from formal trade and forcing themselves to informal trade. And it should be noted that the informal trade has not been officially recognized. No policy measure have been layout to streamline the activities of informal cross-border traders. However, Ogolo (2010) pointed that the informal trade are the one that strengthening the regional integration networks and relationships more than formal trade. Therefore, it is the sincere hope of this article that policy makers from EAC partner states has to assist these type of trade as it sometimes provide inputs for the domestic industries in a respective countries. Supportive policies could seek to utilize the potential of informal trade and increase the multiplier effect that informal trade already has on, for example, education and health care. Indeed, in order to intercede in the ICBT problem, there is a need to recognize and acknowledged it as a part of our economy.

4.2 The EAC Fiscal Policy to Support Industrialization

4.2.1 Background

Fiscal policy has contributed a lot in industrialization in countries such as USA and Japan (Kimura, 1964), Hence, fiscal policy is an important in driving the industrialization agenda. The EAC regional states have been focusing on the implementing a fiscal policy measures towards industrialization as indicated in this section. Fiscal policies are also believed to foster economic growth and human development (Clements, Gupta and Inchauste, 2004). The use of common external tariffs have enabled the block to jointly negotiate the trade barriers with the rest of the world and build competitiveness for industrial development within member countries.

Based on the Perking Model, analysis was done based on the three industrial policies as reflected in the four countries in the EAC region i.e. Kenya, Tanzania, Rwanda and Uganda. This analysis of the EAC partner country's budget was based on two financial year of 2017/2018 and 2018/2019. As a tool to fiscal policy, the Government budgets assists the resource allocation to various sect of economic development within the respective country. To implement the EAC policy the government have duped their budgets to focus on industrialization for the past three years.

4.2.2 Framework Aspects

Based on the framework aspects of industrial policy, few aspects can be noted in the EAC fiscal policies 2017/18 and 2018/19. In Tanzania the government removed distortions which resulted from conflicting laws, regulations and procedures. Better regulations to harmonize procedures and reduce conflicting role of registered institutions through the implementation of Blue print for regulatory reforms were tabled in 2017/18. The government aimed to remove the overlapping work of authorities in approving, licensing and granting permits for business and investment as well as removal and abolish various levies and fees charged to manufacturers especially of salt manufacturers especially those by OSHA. Also related to the functioning of policies stated earlier,

the Tanzania and Kenya offer tax amnesty for the year fiscal year 2017/18, while in Uganda no penalty on the carrying forward of tax loses was imposed in 2018/19.

One of the notable policy aspect is the fiscal support to competition related to the industrial development. Kenya: among others allowed 100% tax deductions for the cost of buildings and machinery owned by SEZ enterprise in 2017/18. Kenya also provided for free exemption of goods imported and exported by SEZ enterprise. In 2017/18 Uganda introduced 10 years tax holiday on SEZ with 200mil capital or more, 5 years for US $ 30mil or US$10 mil for Ugandan citizen (which was down to US$5mil in 2018/19) and EAC citizen investor. The country also exempted feasibility studies, design and construction of industrial parks of SEZ whose investment is at least US$ 200mil. Further in 2018/19, exemptions were extended to the certain supplies in connection with textile manufacturing and leather products, this was also proposed by Rwanda in 2018/19. In 2017/18 Rwanda set aside funds to renovate industrial areas across the country towards promotion of exports. The country also proposed zero import duty for manufacturing raw materials.

In 2018/19 Kenya introduced duty on the importation of iron and steel products from 25% to 35% to support local manufacturers. It also introduced export duty for copper and scrap metals to protect local industrial base. Same measures applied to vegetable oils. Kenya has offered special incentives to Special Economic Zones (SEZ), with reduction of withholding tax payable to non-residents from 15% to 5%, and 100% deduction allowance for investment on the costs of building and machinery for enterprises licensed under SEZ in 2017/18. In 2018/19 the Government of Kenya provided a reduction of cost of electricity by US cents 9 per unit and allow manufacturing firms to provide an allowance of 30% after tax deduction on electricity bill, in additional of treating the 100% of electricity bill as an expense.

Kenya and Tanzania exempt tax to the inputs used to manufacture pesticides, to make the local industries competitive in 2017/18. Kenya exempt tax to materials used to packaging of products from fish processing. Rwanda taxes heavily importation of which is US$ 345 per metric ton or 45% in 2018/19.

4.2.3 Horizontal Industrial Policies

Policy wise, very little focus is on the horizontal industrial policies for the EAC budget review. In 2018/19 Kenya introduced VAT exemption to importation or local purchase of parts for computer assembly. This can be translated to enable innovation and drive manufacturing within the country. In 2018/19 aiming to improvement investment climate and formalization of the informal sector, which can drive entrepreneurship and local investment. To improve human capital and skills Uganda has provided in the 2017/18 budget incentive for exemptions for manufacturing industries employing at least 100 citizens.

To support the local industries various countries within the EAC block are implementing Made in EAC or Made in their respective countries products which are purchased by the government institutions including furniture. Also there is a developing trend of government to government business whereby the government looks for services and goods produced by its agencies before contracting out. Tanzania has exempted withholding tax on interest on government funded projects offered by banks and financial institutions in 2018/19.

4.2.4 Sectoral/specific industrial policy

Specific sector policies have been generated to accelerate the industrial drive within the EAC region. In Tanzania the 2017/18 and 2018/19 budgets aimed strongly in the improvement of supportive infrastructure electricity generation, rail network, roads and improving marine transport. Exemption of produce cess to the producers of agricultural crops aiming to process them for value addition in 2017/18. Special sectors such as pharmaceuticals, leather, footwear and textiles have been promoted by the EAC member states with various exemptions to ensure that they develop, given availability of local materials. Such policies has been restricting imports and providing exemptions of duties for importation and establishment of such industries.

To improve the trade and monitors industrial production, EAC countries introduced electronic/digital stamps to monitor production and tradeable goods in 2017/18 and 2018/19 with exception of Rwanda. Uganda has introduced VAT exemption on the SEZ what procures 70% of its raw materials locally subject to availability, and that directly employs min of 100 citizens.

EAC countries have been implementing the EAC Customs the common external tarries. In 2017/18; notable changes include imposition of 35% import duty on sugar, increase tax on importation of gypsum powder, increase a duty of crude palm oil, sunflower oil, olive oil, etc from 0% to 25%. Also increase in duties for products which could be manufactured in the region but imported. These include chewing gums, mineral water, tomato source, biscuits, chocolates, meat, sausages, raw materials for manufacturer of footwear and textiles.

4.2.5 Macroeconomic and Trade Policy

The allocation of the fiscal policy to the trading of the EAC selected four countries is as presented in Table 1. It can be noted that the percentage of total revenues is higher in Kenya (78%) as compared to the other countries. Tax revenues is among others contributed by the industrial activities.

Table 1: Macroeconomic and Trade Policy Indicators for the EAC

Indicator	Kenya	Rwanda	Tanzania	Uganda
Real GDP growth	4.9% (5.8%)	6.1% (5.9%)	7.2% (7.1%)	5.8% (3.9%)
Overall inflation	7.9% (6.3%)	4.9% (5.7%)	5.32% (5%)	3.6% (5.7%)
Country currency	KES	RWF	TZS	UGX
Exchange rate to the dollar (Local currency = US$1)	103	859	2281	3,800
Real GDP FY17/18 (billions)	9,721 (USD 94.4)	6,692 (USD 7.8)	132,629 (USD 58.0)	101,800 (USD 26.8)
Recurrent budget (billions)*	1,550 (1,347)	1,266 (1,131)	20,469 (19,712)	13,392 (11,902)
Development budget (billions)*	625 (640)	937 (783)	12,007(11,999)	12,975 (11,349)
Total budget 2018/19 (bil)*	2,557 (2643)	2,444 (2,115)	32,476 (31,712)	32,702 (29,008)
Projected tax revenue*	1,998 (1,705)	1,353 (1,200)	18,000 (17,106)	16,359 (15,062)
Other budget funding sources*	559 (524)	158 (138)	14,475 (14,606)	16,343 (15,578)
% of tax revenue to 2018/19 Budget*	78% (64%)	55% (57%)	55% (46%)	50% (52%)
Tax revenue as a % of GDP	21%	20%	14%	16%

Source: Budget Books of respective Countries, Summarized by the Researchers.

*Note figures in parenthesis indicates previous year estimates

4.3 The Status of Cross Border Trade in EAC

The East African Community (EAC) Partner States have a rich history of cross-border trade; however, a significant proportion of this trade is conducted informally. As already defined, the term ICBT refers to imports and exports of legitimately produced goods and services which directly or indirectly escape from the regulatory framework, and avoid certain taxes and regulatory measures (Ogolo, 2010). It encompasses all merchandise entering or leaving a country from or to another country, with the exception of transit goods (Wanjiru, 2009). Naheed (1994) points out that CBT occurs when a firm export or imports goods or services to consumers in or neighboring country. He emphasized that proximity between countries let say Kenya and Uganda or Tanzania and Burundi, a common history and cultural assimilation of the communities in two countries are vital predecessors to CBT. For example, for the key commodities and cash crops among others includes; maize, beans, sorghum and rice are more traded in EAC regional, as one of the cross border activities. Both of these commodities are consumed throughout East Africa. The white maize grain was the most regionally traded staple food commodity between October and December 2017 because of increasing supply within the region, and the more traded volume in metric ton is from Uganda to Kenya followed by the volume from Tanzania to Rwanda. The large volume of the beans trade in the region is from Uganda to Kenya. While for the sorghum is from Uganda to Kenya. Table 2 reflects the analysis of the CBT between October and December 2017 among selected pairs of countries for some staple food commodities from EAC.

Table 2: CBT Among Selected Pairs of Countries for Some Staple Food Commodities in EAC

Trade			**% Change**		
Commodity	(source destination)	Volumes in MT Oct –Dec 2018	July- Sept 2018	Year 2017	5 Year Average
Maize	Uganda - Kenya	29,752.00	-0.36	-0.37	-0.26
	Tanzania - Kenya	31,963.00	-0.14	-0.27	-0.14
	Tanzania - Rwanda	1,782.00	1.68	592.96	0.85
Sorghum	Uganda - Kenya	3,764.00	-0.03	-0.43	-0.44
	Uganda - Rwanda	4,967.00	4.70	2.76	0.43
Rice	Tanzania - Kenya	21,291.00	-0.04	-0.14	0.00
	Tanzania - Rwanda	20,754.00	-0.72	0.59	0.86
	Tanzania - Burundi	1,878.00	-0.10	1.79	0.65
Beans	Uganda - Kenya	60,036.00	0.34	0.08	0.23
	Uganda - Rwanda	1,158.00	-0.65	385.00	0.67
	Rwanda - Uganda	3.00	-1.00	-1.00	-1.00
	Tanzania - Kenya	1,818.00	-0.28	-0.05	-0.28

Source: FSNWG, (2019). Food Security and Nutrition Working Group

Table 2 indicates that Kenya is net importer of food commodities from the EAC countries, while Tanzania is the next exporter. The food products exported are mainly raw products to the countries. This does not contribute much to the industrial development in the exporting countries. Considering Tanzania case based on its trade partners in the EAC region, it can be noted that Tanzania has a net export to the EAC partner countries, notably the food products. There are however decrease in the importation for the 5 year period of raw products from Tanzania to its trading partners. While there is a decrease in percentage from Tanzania to Kenya, there has been

substantial increase in trade to Burundi and Rwanda in the past 5 years although the volumes are not as much. Considering total trade for Tanzania in values the following are the performance within the EAC trading partners in the past five year.

Table 3: Trade Data Reporter Tanzania in US$ Mil

Partner	Trade Flow	2013	2014	2015	2016	2017	Average Growth
Burundi	Exports	45,265,589	43,038,577	39,247,472	52,132,434	50,786,507	4%
	Imports	1,689,319	563,685	1,062,960	774,451	232,148	-19%
Kenya	Exports	228,412,303	445,964,695	793,894,376	313,885,916	291,540,870	26%
	Imports	335,594,672	654,713,728	237,319,476	267,744,424	201,322,358	5%
Rwanda	Exports	81,483,550	35,802,515	41,300,666	6,519,124	60,490,266	176%
	Imports	1,711,831	3,193,776	1,107,593	1,122,686	1,298,699	10%
Uganda	Exports	66,452,378	73,337,406	50,469,190	58,235,224	27,516,021	-15%
	Imports	58,030,085	47,986,526	39,234,352	30,707,529	34,146,091	-12%

Source: UN, 2019b. Trade Statistics Database

It can be noted from table 3 that Tanzania exports to the partner countries have been increasing while imports decreasing except for Rwanda and Kenya. These exports in value include food items discusses in table 2. It was clear from Table 2 that imports from Kenya may be industrial goods or other services other that raw food crops identified. For this case, we anticipate an increase

Despite the CBT within the regions, the physical infrastructural environments in the region is of great importance as it provide the connectivity within the region. Roads, railway, air, water and pipeline modes is also likely to influence the patterns of CBT flow. An inefficient of any mode of transport system (roads system) can result in poor access to country's own domestic market. With the World Bank Logistics Performance Index (LPI), describes the domestic logistic environment which may promote or erode country’s competitiveness indicators, it points to the relatively low quality of transport and ICT infrastructure for logistics (i.e. quality of infrastructure). Comparatively, Rwanda is ranked poor in most aspects of the LPI. Looking for the road connectivity index, Kenya (57.6), Tanzania (54.8) and Uganda (60.0) are almost half score as compared to USA (100.0) which is the top score. The, border compliance time to import in Kenya was shorter (18 hours) than any country in EAC region. However, Tanzania stands out as a particular case, with border compliance time to import that is almost twenty two times importation of Kenya. Also, for the export in Kenya at least it takes few hours (21) for the border compliance as compared to Rwanda which takes too much time (97 hours) from doing the same in EAC region. This comparison for both measures are reflected in Table 4.

Table 4: Selected Trade Facilitation Measures

	Kenya	Rwanda	Tanzania	Uganda	Top score
*Logistics Performance Index	3.33	2.98	2.99	3.04	---
*LPI: Quality of trade and transport-related infrastructure	3.20	2.62	2.81	2.73	---
+Overall Transport Infrastructure[3]	44.2	43.0	35.6	32.2	Singapore(92.1)
+Road Connectivity Index[4]	57.6	27.2	54.8	60.0	USA (100.0)
ICT Adoption	30.2	27.5	18.3	24.5	Korea (91.3)
Time to export, border compliance (hours)	21	97	96	71	---
Time to import, border compliance (hours)	18	86	402	154	---

Source: World Bank, (2019)
* Scores range is from 1 - 5 (from lowest to highest performance)
+ Scores is from 100

5 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The EAC states have been struggling to put into action industrialization policy aiming at cluster production around specific value chains that are aligned to regional and global production platforms for achieving the economies of scale. With high levels of poverty and unemployment, a comprehensive broad-based industrial development agenda is important to absorb the unemployed masses for the purpose of poverty eradication. The regional integration acts as the building block towards global production capacity. The industrialization drive is important to be funded through fiscal policies. It can be noted that EAC countries have various priorities in achieving the industrialization agenda. It is agreeable that the budget focus for the regional countries should be based on the sustainable industrialization. Based on the country similarity theory, it can be noted that Tanzania, Rwanda and Uganda have similar approach in exporting raw food products, while Tanzania is a net exporter of the products to the rest of the EAC countries and Kenya is net importer. However, Kenya is diversified by producing more industrial goods and offering more industrial based incentives than other countries.

Based on the Porter's National Competitive theory it seems that Tanzania and Kenya stands to be more competitive in the region as compared with other countries. This might be contributed by the fact that they are adjacent to the ocean and thus advantage to trade with other countries with improved infrastructure.

Fiscal policy support to the industrialization is high to the four countries based on the Pelkmans (2006) framework. Tanzania has been focusing in the past two fiscal policy on the infrastructure development and business formalization, and reduction or distortions in doing business. Kenya

[3]This indicator is calculated by the World Economic Forum by aggregating eight indicators that measure roads, railroads, air transport and water transport infrastructure.
[4] Average speed and straightness of a driving itinerary connecting the 10 or more largest cities that together account for at least 15 percent of the economy's total population

focus has been on the issuing incentives for special economic zones as well as manufacturing. Uganda has linked the industrialization agenda with job creation incentive and foreign direct investment attraction to the SEZs. All the EAC have been competitively protecting the region from trade activities especially related to the agro-processing which includes promotion of textile, leather and vegetable oils. Kenya has been further protecting the steel industries. Based on the results, there are differences in the focus. What is remaining unsolved is the place of the SMEs in the specific countries policy as reflected in the EAC industrialization policy.

5.2 Recommendations

Based other results of the study the following can be suggested to enable cross border trade and inclusive industrialization in the region.

a) Ensure emphasize in the agro processing. A cluster based industrialization especially involving common food products is essential for the development of the EAC individual states.
b) Fiscal policies in the infrastructure improvement is important to go hand by hand in preparing the citizens for entrepreneurship and industrial related skills by encouraging more private sector participation as suggested by Mkwizu, et al (2019).
c) Horizontal strategies for industrialization are important within the region. There should be purposive investment in research, skills, finance and public procurement of the locally manufactured local produce as suggested by Pelkmans (2006).
d) Given the common external tariff and the regional block integration, there should be need to establish and promote buy East African products as a one brand. This harmonization will be in line with several other measures including standardization measures currently in implementation.
e) Alignment of the policies and on time reviews are important for successful of industrialization agenda in the region.

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Annex 1: Experiences of some earlier industrializers

Period	Priority activities	Main instruments
1. Republic of Korea Industrial Policy		
1980 – 1990	Heavy and chemical industries priority sectors - steel petrochemicals, nonferrous metals, shipbuilding, electronics and machinery priority firms - selected large enterprises	Phased import liberalization ending of policy loans government influence over allocation of credit Investment incentives for research and development Easing of restrictions on FDI
1990 on wards	Private sector-led development restructuring of chaebol[5] after 1997 crisis	Financial sector liberalization; open capital account
2. China, Taipei		
1981 – 1990	High technology activities and exports Strategic sectors - information technology, machinery, precision instruments, biotechnology, electro-optics, environmental technology	Trade liberalization policy loans for strategic industries tax credits public investment in infrastructure and research facilities science parks encouragement to FDI
1990 on wards	Private sector-led development	Financial liberalization Interest rate decontrol Ending of policy loans Public sector for science and technology Encouragement to FDI Investment in education
3. Thailand		
1983 – 1996	Deregulation in the automobile and textile sectors	Export Promotion through FDI 100% foreign ownership supported Industrial estates developed and designated EPZ status Investment encouraged in specific areas-in line with division of country into 3 regions
4. Malaysia		
1980 – 1985	Shift economy from dependence on rubber and tin to palm oil and crude oil Investment shift to steel, cement, automobiles, and chemicals	2nd Phase of import substitution revisited
1986 – 1997	Designation of 12 key sectors non–resource industries – electric/electronic manufactures, textiles/garments, machinery, transport equipment and steel resource industries - wood processing, rubber manufacturing, palm oil processing, food processing, chemicals/petro chemicals, nonferrous metals and non-metal manufactures	Export orientation through promotion of FDI New export promotion law shifted priority to efficiency Authorization of wholly owned foreign subsidiaries deregulation of FDI and privatization of state entities
5. China		
1986 – 1992	Development of basic sectors - infrastructure establishment of Industrial policy department in the national planning committee in 1988 leading industries selected in 1989	Term “industrial policy” used for the first time in 1988 structural adjustment - to balance demand and supply by reducing high supply capacity in industry market economy attraction of foreign TNCs

[5]A chaebol is a large industrial conglomerate that is run and controlled by an owner or family in South Korea. A chaebol often consists of a large number of diversified affiliates, controlled by an owner whose power over the group often exceeds legal authority. In Korean, chaebol means "conglomerate"

Period	Priority activities	Main instruments
1992 – 2001	Create industries that could serve as a foundation for economic growth designated 4 lead industries - automobiles, machinery, construction and petrochemicals; later, service industries such as information technology were added - industry policy focused on agriculture, infrastructure, pillar industries and services pillar industries included building materials, housing, petroleum and automobiles, textile industry, improved quality in steel industry Increased profitability in the coal industry	Industrial policy focused on fostering market competitiveness – no discrimination between foreign and local companies, reform of state enterprises, introduction of foreign capital, social progress also targeted. In 1997, 5 major changes to industrial policy were effected: (a) development of housing (b) market competition emphasized (c) de-emphasis of state ownership (d) more labour mobility (e) preferential treatment for SMEs, including creation of a financing department
2001 and beyond	Financing facilities through state-owned commercial banks encouraged the following sectors: infrastructure, research and development, roads and railways through a "specific project financing" facility	Policies became more pro-FDI - targeted economic development zones principle of respecting market competition had emphasis at the expense of government intervention. Government mainly a guiding instrument, key features of industry policy at this stage, provision of financing measures (4 state-owned commercial banks supported industry) projects guaranteed by government had easier access to finance tax measures