



EAC INDUSTRIAL COMPETITIVENESS REPORT 2017



***Harnessing the EAC Market to Drive
Industrial Competitiveness and Growth***

In association with



외교부

Ministry of Foreign Affairs

Summary Report



EAC Industrial Competitiveness Report 2017

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Drive Industrial Competitiveness
and Growth**



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LIST OF FIGURES

Figure 1 MVA per capita (constant 2010 USD) for EAC and comparators	1
Figure 2 Contribution of the manufacturing sector to GDP (2000-2015).....	2
Figure 3 EAC manufactured exports by sector (2000-2014)	4
Figure 4 MVA per capita of EAC Partner States (constant 2010 USD)	5
Figure 5 Manufactured exports per capita (USD)	6
Figure 6 Types of manufactured products exported by Partner State.....	7
Figure 7 Concentration of manufactured export products and markets (2014)	8
Figure 8 Relative backward and forward linkages in the EAC in 2011	9
Figure 9 Destinations of manufactured exports of EAC Partner States (2014)	10
Figure 10 Market share in own regional markets for manufactured products.....	11
Figure 11 EAC Exports of cotton value chain products (1,000 USD).....	14
Figure 12 Global demand for cotton VC products (million USD).....	14
Figure 13 EAC exports of leather products (2008-2014)	15
Figure 14 Global demand and demand dynamism for leather-related products.....	16
Figure 15 Top 10 suppliers of leather footwear in the EAC (2008-2014).....	17
Figure 16 Expenditure on education as % of GDP	19
Figure 17 GFCF as a share of GDP	19
Figure 18 GERD per capita (in PPP, constant 2005), 2010.....	20
Figure 19 Capital goods imports.....	21

LIST OF TABLES

Table 1 Manufactured exports per capita (USD)	3
Table 2 Manufactured exports to destination (2000, 2014)	10
Table 3 EAC demand and market share (2000-2014)	12

LIST OF BOXES

Box 1 Enhancing intra-regional trade in SADC.....	13
Box 2 Lessons from Ethiopia's upgrading in leather and cotton.....	17



ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
CAGR	Compound Annual Growth Rate
CEMAC	Economic Community of Central African States
CET	Common External Tariff
DRC	Democratic Republic of Congo
EAC	East African Community
ECOWAS	Economic Community of West African States
EVAD	Export in Value-Added Database (World Bank)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GERD	Gross Expenditure on Research and Development
GFCF	Gross Fixed Capital Formation
LIDI	Leather Industry Development Institute
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa
MHT	Medium and high technology (UNIDO classification)
MVA	Manufacturing Value Added
NES	Not Elsewhere Specified
OSBP	One Stop Border Post
R&D	Research and Development
REC	Regional Economic Community
SA	South Africa
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
TIDI	Textile Industry Development Institute
TVET	Technical and Vocational Education and Training
UNComtrade	United Nations Comtrade Database
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
US	United States
USD	United States Dollar
VC	Value Chain
WDI	World Development Indicators (World Bank)



ACKNOWLEDGEMENTS

The EAC Industrial Competitiveness report is the product of joint efforts of the Department of Industrial and SME development of the EAC Secretariat and representatives from the public and private sector institutions responsible for industrialization in the five Partner States. It has been developed within the context of the EAC-UNIDO project “Strengthening Institutional Capacities for Industrial Policy”, funded by the Republic of Korea. The authors have been participating in a series of trainings on methodologies to measure industrial performance and this report is the result of the acquired skills.

More specifically, the team that compiled the report consisted of experts from partner states as follows; Republic of Kenya (Marion Wanjiku Muriithi, Office of the Attorney General and Anne Ndung’u, Kenya Association of Manufacturers); Republic of Rwanda (Fred Mugabe, Ministry of Trade, Industry and EAC Affairs and Alphonse Kwizera, Rwanda Association of Manufacturers); United Republic of Tanzania (Valency Mutakyamirwa and Esther Mkenda, Ministry of Industry, Trade and Investment); and Republic of Uganda (Tonny Bbale, Ministry of Industry, Trade and Cooperatives and Michael Oketcho, Uganda Manufacturers Association). The team also included EAC Secretariat staff (George Ndira; Jennifer Gache and Johansein Rutaihwa); and University of Dar es salaam staff (Neema Robert).

Antonio Andreoni (SOAS, University of London) drafted Chapter E on industrial drivers and supported in reviewing the document. Olayinka Babalola (SOAS, University of London) provided several case studies and language support as well as input to consolidate the theoretical overview in the introduction.

The team was guided and trained by Ruth Pollak (international expert, UNIDO) and Andrea Antonelli (project manager, UNIDO).

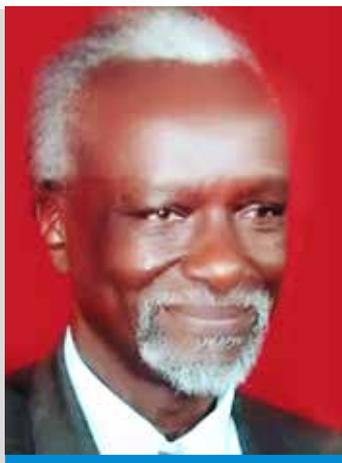
The report also benefitted from the feedback of the Steering Committee members which have been coordinating the implementation of this project. Furthermore Michele Clara (Senior Coordinator, Research and Policy Advice, UNIDO) provided valuable feedback to the draft report.

Finally, the production of this report would not have been possible without the much-appreciated financial support of the Republic of Korea.



FOREWORD

FOREWORD BY CHAIRPERSON OF THE EAC COUNCIL OF MINISTERS



This publication of the first East African Community Industrial Competitiveness Report 2017 (EAC-ICR 2017) happens coincidentally as the EAC winds up its first Industrialisation Action Plan (2012-2017). It therefore marks an encouraging achievement for the EAC as it begins further steps towards attaining another five (5) year plan envisioning the implementation of the EAC Industrialisation Policy 2012-2032.

This report enables us to assess the current performance of the industrial sector in the EAC region, particularly its competitiveness in the domestic and global markets. By this analytical output, we are well positioned to set more informed actions in the forthcoming Action Plan for the effective implementation of the industrialisation policy in the region. In this report, industrial competitiveness is understood as the capacity of countries to increase their industrial presence in domestic and international markets while developing industrial structures in sectors and activities with higher value added and technological content.

All East Africa Community Partner States have resolved to transform their respective economies into middle income status in the coming decades. Industrialization has been identified as an overarching strategy towards the EAC goal of economic transformation and the betterment of living standards of the people. It thus behoves all us to put in place systems and tools to help us track our progress and continuously evaluate the impact of our integration on the transformation vision and more crucially, on the manufacturing performance.

The EAC-ICR 2017 is one of the analytical outputs stemming from the capacity building activities under the EAC-UNIDO programme on 'Strengthening Capacities for Industrial Policy Formulation and Implementation' in the East African Community, funded by the Republic of Korea. The report aims at positioning the region's industry in the international scene by benchmarking its performance and capability against other comparators; and providing a compass to policymakers, the private sector (in particular manufacturing associations), and generally a wider audience of stakeholders interested and/or involved in industry on the broad direction of the industrial development trajectory of the EAC as a whole and of the internal dynamics among Partner States.

In view of the focus of the report on the EAC as a whole and on the five EAC Partner States, the report has analysed the progress towards the attainment of the goals set in the EAC Industrialisation Policy 2012-2032; and provides diagnostics of manufacturing sector performance in the EAC and individual Partner States. It benchmarks Partner States' performance against each other as well as selected comparators and complements this macro-level analysis with in-depth assessments of strategic value chains in the region and case

studies of success stories outside the region. Although in absolute terms, the EAC industrial performance, as measured by Manufacturing Value Added (MVA) and manufacturing trade growth rates, remains well above the global average, in relative terms it falls short of some of the targets set in its Industrialisation Policy; below similar regional economic communities in Sub-Saharan Africa such as Economic Community of West African States (ECOWAS), and more strikingly, it registered some signs of slowdown in recent years. MVA growth has slowed down in recent years, from 5.3% between 2005 and 2010, to 4.6% between 2010 and 2015, thus falling short of the 10-15% annual growth rate mentioned in the EAC Industrialisation Policy and Strategy and below Sub Saharan Africa (SSA) average. Furthermore, analysis of the cotton and leather sectors shows missed opportunities at the level of high-value added products in the value chain, such as for cotton apparel and leather footwear. Meanwhile, the analysis of industrial drivers has pointed to a number of key constraints to industrial competitiveness.

There are also several encouraging messages stemming from the findings of the report. First of all, the past 10-15 years have shown a process of upward convergence among Partner States both in terms of MVA and manufacturing trade values. Secondly, the EAC dynamic regional context provides probably the greatest opportunity for the region's firms to expand their production capacity (across several dimensions) and to test their ability to compete in the international markets. Thirdly, the EAC market for manufactured goods has been growing at a rate of 16% per annum between 2010 and 2014, significantly higher than other RECs in SSA and offering attractive opportunities for firms to continue exploiting the market. Nonetheless, although EAC's exports of the top regionally demanded products generally grew since 2010, it did not happen at the pace and extent needed to match the EAC demand growth, thus allowing firms from outside the region to gain larger market shares. As a result, EAC firms lost market shares in twenty two (22) out of the twenty five (25) most demanded manufactured goods, including cement, pharmaceuticals, iron/steel products, and fertilisers.

I therefore urge the EAC Partner States, the private sector and other stakeholders to make the best use of the findings of this report. The regional trends, while positive, alert us to the need to shift into a higher gear to increase international competitiveness for the long-run. This report aims at enhancing stakeholders' understanding of the manufacturing sector's performance and untapped investment opportunities. It is my expectation that such rich and unbiased information will help the public and private sectors participate in the domestic and regional industrialisation process dynamically and by sub sector approach to ensure stable and sustainable industrial growth. Let me conclude by exhorting the private sector and other key stakeholders to read this report and ultimately take advantage to invest and support our region's development.

We sincerely thank the Republic of Korea and UNIDO for their continued support.



Chairperson of the EAC Council of Ministers

Hon. Dr. Ali Kirunda Kivenjija

Second Deputy Prime Minister and Minister for EAC affairs, Uganda





FOREWORD BY EAC SECRETARY GENERAL

The East African Community Industrial Competitiveness Report 2017 (EAC-ICR 2017), is a joint initiative of the EAC and the United Nations Industrial Development Organization (UNIDO), aimed at tracking industrial development performance in the region. It has been developed to provide a compass to help the region navigate its way towards the industrialization goals of the Community. The East African region through its industrialisation policy and strategy set the target of growing the share of the manufacturing sector contribution to GDP to 25 percent by 2032, increasing the

growth in manufacturing employment and promoting diversification of the export base to realize structural transformation and sustainable growth.

Since the launch of the EAC Industrialisation Policy and Strategy by the EAC Heads of State in 2011, the Community has been involved in a number of initiatives geared towards expanding the market opportunities for the industrial sector in the region as well as improving the competitiveness of the region. These initiatives include the COMESA-EAC-SADC Tripartite Free Trade Area, the EAC-EU Economic Partnership Agreement (EAC-EU EPA), and a couple of other bilateral engagements with the USA, among others countries. Internally, the Community has made progress in reducing transaction costs to doing business, through improvements in customs administrative procedures, lowering of trade taxes, harmonisation of standards, while at the same time pursuing infrastructure development programmes in an efforts to lower the cost of production within the region, thereby boosting industrial competitiveness. Similarly, efforts have been made to remove policy and regulatory impediments in priority value chains through preparation of action plans, while at the same time supporting public-private sector engagement platforms as a way to show-case and provide investment information for potential business partnerships. The preparation of the ICR therefore comes at an opportune time as it provides a reality check on the state of the industrial sector and its performance amid these recent developments. It provides a mirror to view the state of the sector in the Community, reflect on the findings of the report and to help inform the possible course of action to restore or accelerate the pace of industrial growth in the region.

The development of this report is part of the on-going efforts in the implementation of the Industrialization Policy. In 2014, the EAC entered into a partnership with UNIDO and the Government of the Republic of Korea, implementing a joint programme aimed at “Strengthening Capacities for Industrial Policy Formulation and Implementation in the East African Community”. The overall objective of the programme is to enhance the region’s capacity for industrial policy design, monitoring and evaluation and assist the region attain the targets and outcomes envisaged in EAC Industrialisation Policy. The EAC Industrial Competitiveness Report 2017 (EAC-ICR 2017) is the result of the partnership and contributes to the on-going debate, raising important policy issues of the industrial sector based on rigorous analysis

of market data. During the preparation of the report the EAC Secretariat and Partner States were trained in a number of modules covering application of UNIDO Competitive Industrial Performance Index (CIP); Sectoral Competitiveness and Value Chain Analysis; Industrial Performance Drivers and Manufacturing Employment; and Designing an Effective Industrial Policy all focused on the manufacturing sector. Using UNIDO's methodology and indicators, the report assesses EAC's industrial performance vis-à-vis other regions and role models in Asia and sheds light on strategic short- and long-term industrialisation paths for EAC. The methodology considers the importance of benchmarking; the use of UNIDO's technological classification for manufactured trade and manufacturing value added (MVA); use of quantitative and transparent data; use of international data sources and classifications for cross-country comparisons; analysis of levels and trends; and macro and sectoral analysis.

The EAC-ICR 2017 highlights several areas of policy focus: the effect of regional integration on Partner States industry and the challenges ahead, the domestic and international opportunities that emerge in the new global market for manufacturers, the key role of modern skills for industrial development, and the likely 'quick win' scenario of a resource-based industrialisation process. Further, the report aims at enhancing stakeholders' understanding of the manufacturing sector's performance and untapped investment opportunities.

It is my expectation that this information will help the public and private sectors participate in the domestic and regional industrialization process more effectively. I would like to express my appreciation to everyone who was involved in the preparation of the EAC Industrial Competitiveness Report. I hope that the collaboration and commitment, which had been forged will be sustained in the implementation of the report's recommendations. Finally, I sincerely hope that the EAC-ICR 2017 will be deemed a valuable contribution to the existing debate on industrialisation in EAC, as well as a useful document for policymakers in the formulation of evidence-based industrial and trade policies.



Amb. Liberat Mfumukeko

EAC Secretary General

EXECUTIVE SUMMARY

1. MVA and manufacturing trade growth rates sustained by the EAC in recent years stand above global average but only around average of Sub-Saharan Africa.
2. However, these growth rates fall short of some of the targets set in the EAC Industrialisation Policy and stand below similar regional economic communities in Sub-Saharan Africa including ECOWAS.
3. The same growth rates of the manufacturing sector have not kept pace with the service sector, thus insufficient to impress that acceleration needed to achieve the structural change targets set in the regional and in most national industrial policies/overarching development plans.
4. The report argues that an important cause and at the same time consequence of this limited performance lies in the disconnected fabric of the industrial sector in the EAC Partner States, impressing only weak backward and forward linkages among manufacturing sub-sectors as well as with non-manufacturing sectors of the economy. Strong interlinkages would strengthen the economy and foster a more robust industrialisation process.
5. On the other hand, the past 10-15 years have shown signs of upward convergence among Partner States both in terms of MVA and manufacturing trade values, particularly with Tanzania, Uganda and Rwanda growing significantly faster than their regional role model, Kenya.
6. The EAC regional market proves to be one of the most dynamic markets in the world and hence provides a great opportunity for regional firms to expand.
7. While in most cases EAC manufacturing firms managed to increase their intra-regional exports in certain dynamic sectors, this did not happen at the pace and extent needed to match the EAC demand growth, thus resulting in the EAC losing market share particularly against emerging economies such as India (pharmaceuticals, heavy petroleum), China (iron and steel products and fertilisers) and Malaysia (fixed vegetable oils).

The above findings call for renewed efforts to boost the manufacturing sector in the region and in Partner States and should not discourage the latest emphasis placed by many Partner States in this important common endeavour. Coordination of industrial policies and related instruments under the regional aegis of the EAC, while ensuring their harmonisation with other policies, in particular trade, becomes the overarching policy recommendation of this report, setting down favourable conditions for EAC firms to exploit their own regional market as well as face the international scene. This way, they stand to enhance their industrial capabilities and produce the economic structural transformation envisaged by the EAC Secretariat and Partner States. The review of the Common External Tariff system, anchoring it to solid evidence as used in this report, could represent a powerful tool to reverse the observed trends and aid the EAC manufacturing sector hinging on its own dynamic market to develop the necessary capabilities to compete with more mature industrialised regions/countries.



BACKGROUND OF THE REPORT

The principal role of the industrial sector in transforming economies and setting them on a path to growth is widely accepted due to theoretical findings and strong evidence from countries which prioritise the development of the sector. In acknowledgement of the need to develop industry to stimulate economic development, the East African Community (EAC) developed an Industrialisation Policy and Strategy for 2012 to 2032. The policy and strategy, which was launched in 2011, is designed to promote structural transformation in the five Partner States with the manufacturing sector as the linchpin for the strategy's success.

One of the objectives of the first EAC Industrial Competitiveness Report is indeed to measure the progress towards the attainment of the industrial goals set in the regional industrial policy, by providing a diagnostic of manufacturing sector performance in the EAC and individual Partner States. It benchmarks Partner States' performance against each other as well as selected comparators and complements this macro-level analysis with in-depth assessments of strategic value chains in the region and case studies of success stories outside the region.

Other important related objectives are:

- Providing a compass to policymakers, the private sector (in particular manufacturing associations), and generally a wider audience of stakeholders interested and/or involved in industry on the broad direction of the industrial development trajectory of the EAC as a whole and of the internal dynamics among Partner States;
- Provide evidence-based, shared and implementable policy recommendations for the EAC and Partner States' policymakers who can use them for different purposes, including review of industrial policies, strategies, action plans;
- Provide useful market information to the private sector to reassess their market/trade expansion strategies and to the EAC to calibrate trade agreements in concordance and not in conflict with industrial development targets;
- Provide an important platform for public/private sector dialogue.

The report is the result of the collaboration among selected experts from the EAC Secretariat and Partner States, from both public and private sector, trained by UNIDO experts in selected courses and methodologies, including the UNIDO Competitiveness Industrial Performance analysis, under the regional project "Strengthening institutional capacities for industrial policy in the East African Community (EAC)" and funded by the Republic of Korea.



EAC INDUSTRIAL PERFORMANCE

REGIONAL LEVEL

Manufacturing production

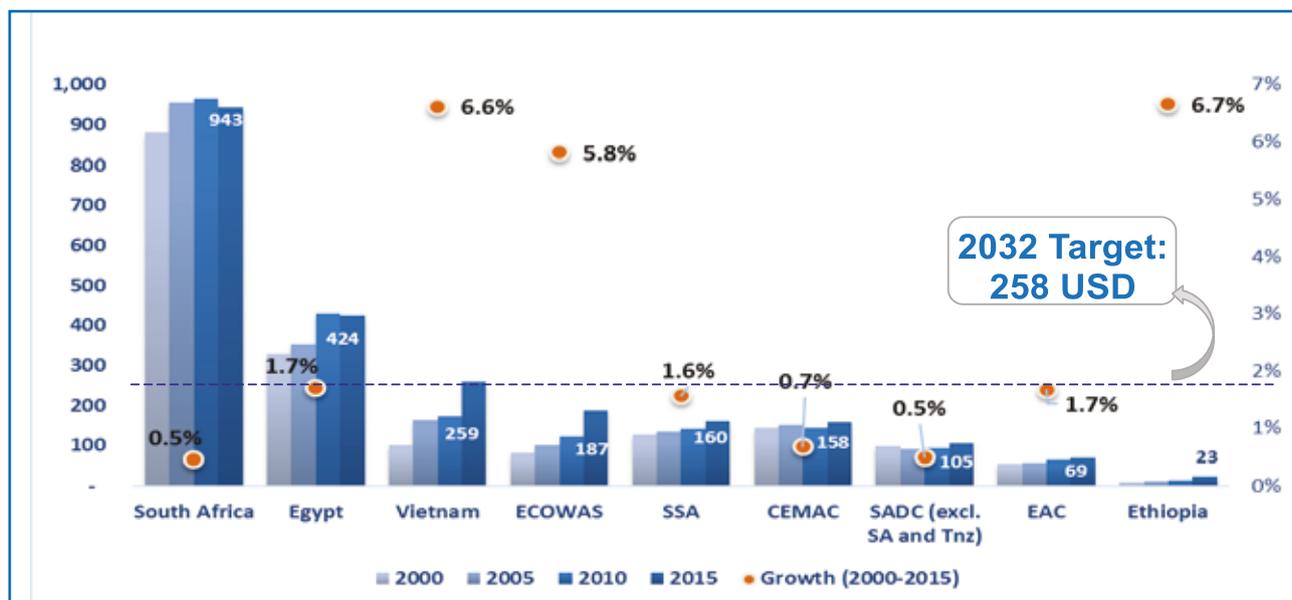
EAC MVA growth rates higher than world average but in line with SSA average and slowing down

MVA is used as a key indicator to measure manufacturing sector performance. At the regional EAC level, MVA growth has slowed down in recent years, from 5.3% between 2005 and 2010, to 4.6% between 2010 and 2015, falling short of the 10-15% annual growth rate mentioned in the EAC Industrialisation Policy and Strategy. Although the MVA growth rate is well above the global average (1.1% between 2010 and 2015), placing it in the context of the regional policy and of comparison with similar countries in Sub-Saharan Africa reveals that such growth is not so impressive (Ethiopia 14%, ECOWAS 11.8%, Vietnam 9.6% SADC excluding South Africa and Tanzania 5.3% annual average growth since 2010).

MVA per capita is expected to reach 87 USD in 2032 rather than the 258 USD target, under current growth rates

Discounting by population size shows that the EAC is still at a low level of industrial production. Additionally, based on the current growth rate, the region would only attain an MVA per capita level of about 87 USD in 2032, well below the goal of 258 USD by 2032 set in the EAC Industrialisation Policy and would not allow it to reach SADC's production capacity of 2015.

Figure 1: MVA per capita (constant 2010 USD) for EAC and comparators



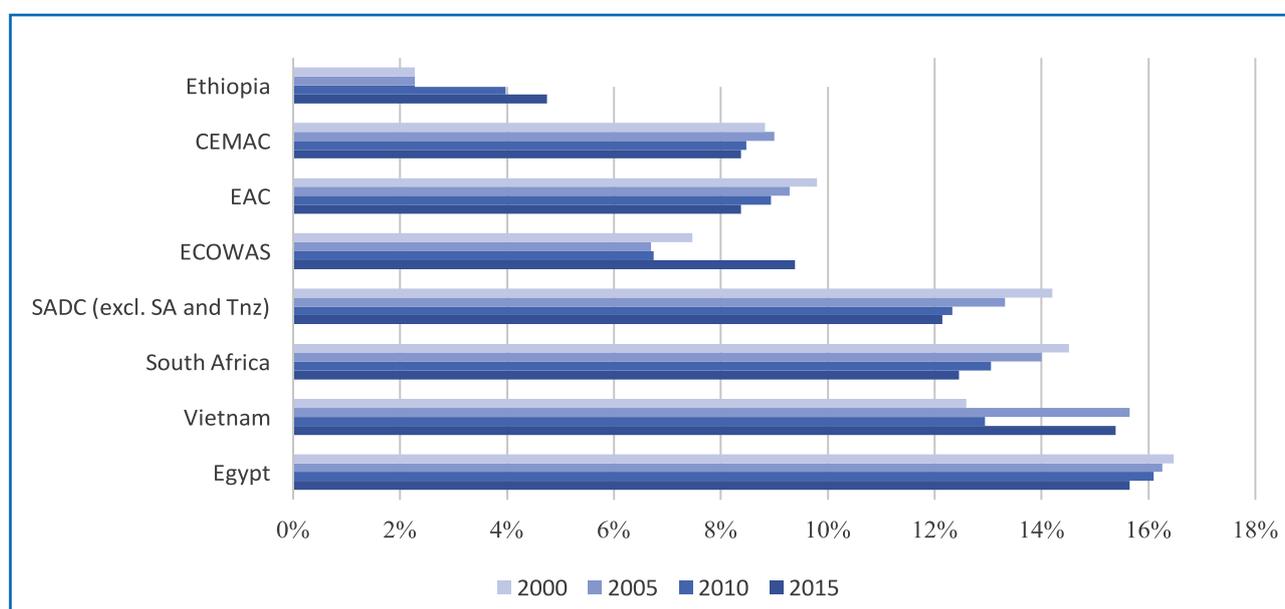
Source: WDI



No structural change towards manufacturing: the contribution of the manufacturing sector to GDP is declining

Due to the fact that MVA is growing slower than GDP, the share of manufacturing in GDP has been contracting from 9.8% in 2000 to 8.4% in 2015, thus not leading to the desired structural change towards manufacturing, falling short again of the regional target of 25% by 2032. The faster growth of EAC's GDP compared to its MVA stems from relative increase in value added from the service sector (6.1% per annum since 2000), whose contribution rose to almost half of GDP in recent years. These developments therefore neglect to a certain extent the benefits that the manufacturing sector can have on the economy as a whole, as understood from theoretical knowledge and empirical evidence.

Figure 2: Contribution of the manufacturing sector to GDP (2000-2015)



Source: Author's calculations, WDI

Manufactured exports

When looking at manufacturing trade data, the general picture offered by the report shows similar and even stronger patterns than observed in industrial production. In general, EAC's capacity to export manufactured products is just above half of its capacity to produce such products, implying that most of its production is catering for its own markets. Over the period of 2000-2014 annual growth was high at 12.4%.

Table 1: Manufactured exports per capita (USD)

	Value 2014	Compound Annual Growth Rates			
		2000- 2014	2000- 2005	2005- 2010	2010- 2014
Vietnam	1,380	21.8%	19.5%	22.1%	24.4%
South Africa	1,175	7.7%	10.5%	10.9%	0.5%
SADC (excl SA & TNZ)	241	4.9%	5.4%	2.7%	7.0%
Egypt, Arab Rep.	206	10.5%	9.8%	19.7%	0.7%
ECOWAS	89	13.3%	16.2%	22.8%	-0.8%
CEMAC	78	5.3%	11.6%	4.0%	-0.7%
EAC	38	12.4%	22.5%	11.6%	1.7%
Ethiopia	4	10.4%	3.8%	18.6%	9.0%

Source: UNComtrade

Growth of manufacturing export capacity is high on average, but declined from 22.5 % (2000-2005) to 1.7 % per annum (2010-2014)

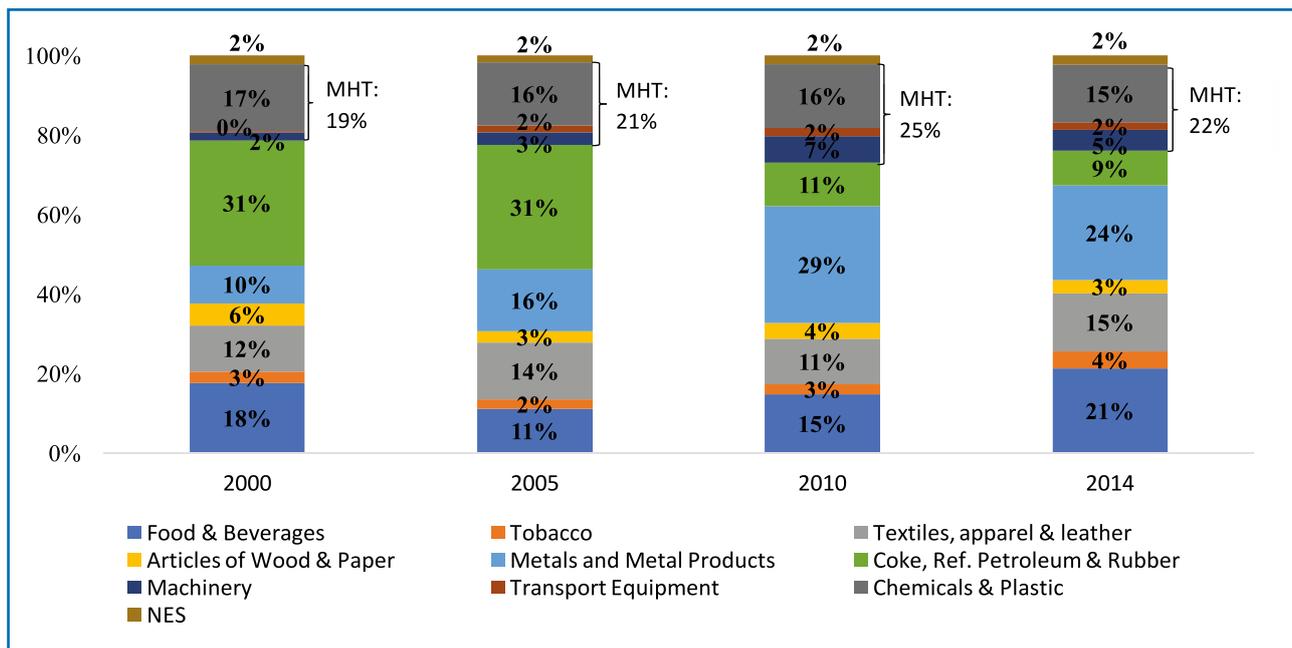
However, the excellent trend observed between 2000 and 2005 with manufactured exports per capita increasing at 22.5% per annum proved to not be sustainable in the long term, slowing down to 1.7% per annum between 2010 and 2014, as it was mainly driven by sectors that experience strong fluctuations in demand and price, such as base metals (manganese ore/concentrate), heavy petroleum and base metal waste, more specifically copper waste and scrap (the price of manganese has been decreasing rapidly, for example).

Agro-processing sectors, including food, beverages and tobacco, together with apparel and leather sectors, contributed to 40% of manufactured exports in 2014, growing at double digit rates, above the 5% average growth of all manufacturing sectors.

The metals sector with all the fluctuations it brings along remained the second largest sector in 2014, whereas chemicals and plastics, which comprise fertilisers, agro-chemicals, petrochemicals and pharmaceutical products, contributed to the largest group of medium and high-tech products. Their share in manufactured exports has not increased, and in 2014 accounted for 15% of the total. The sector grew by 2% per annum since 2010, below the average of total manufactured goods.



Figure 3: EAC manufactured exports by sector (2000-2014)



Source: UN Comtrade

NATIONAL LEVEL

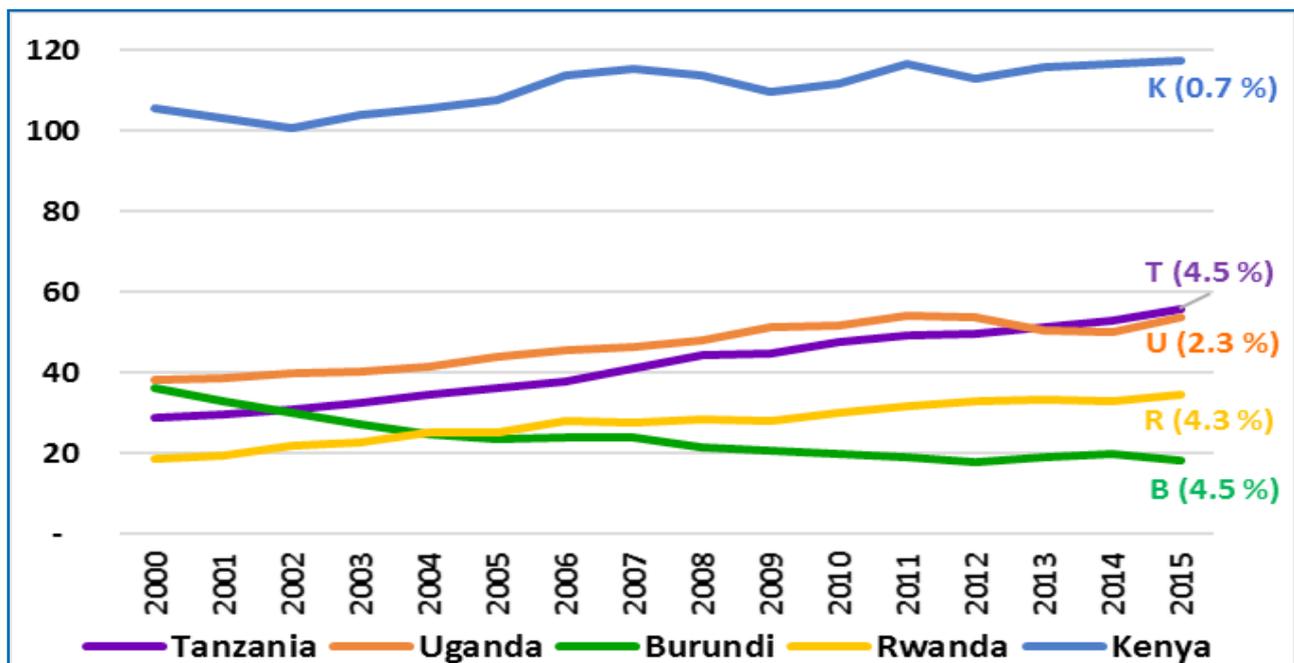
Manufacturing production

Slight convergence experienced among EAC Partner States in manufacturing production although the absolute gap remains high

When looking at individual industrial performance at national level, measured in terms of MVA, in the most recent years we observed a process of convergence across EAC Partner States with Tanzania, Uganda and Rwanda reducing the gap with Kenya. Particularly the last years analysed, 2014-2015, send an encouraging sign on the recent national efforts to boost industrial development in Tanzania, Uganda and Rwanda with MVA growth rates ranging from 8% (Rwanda) and 9% (Tanzania) to 11% (Uganda).

However, the gap is still significant, which is most noticeable when observing MVA per capita. The developments should be monitored more closely in the future, to ensure not only that the gap continues to decrease, but also that all countries, including the top performer, continue to increase their industrial capacities, therefore creating a form of upward convergence in the region.

Figure 4: MVA per capita of EAC Partner States (constant 2010 USD)



Source: WDI

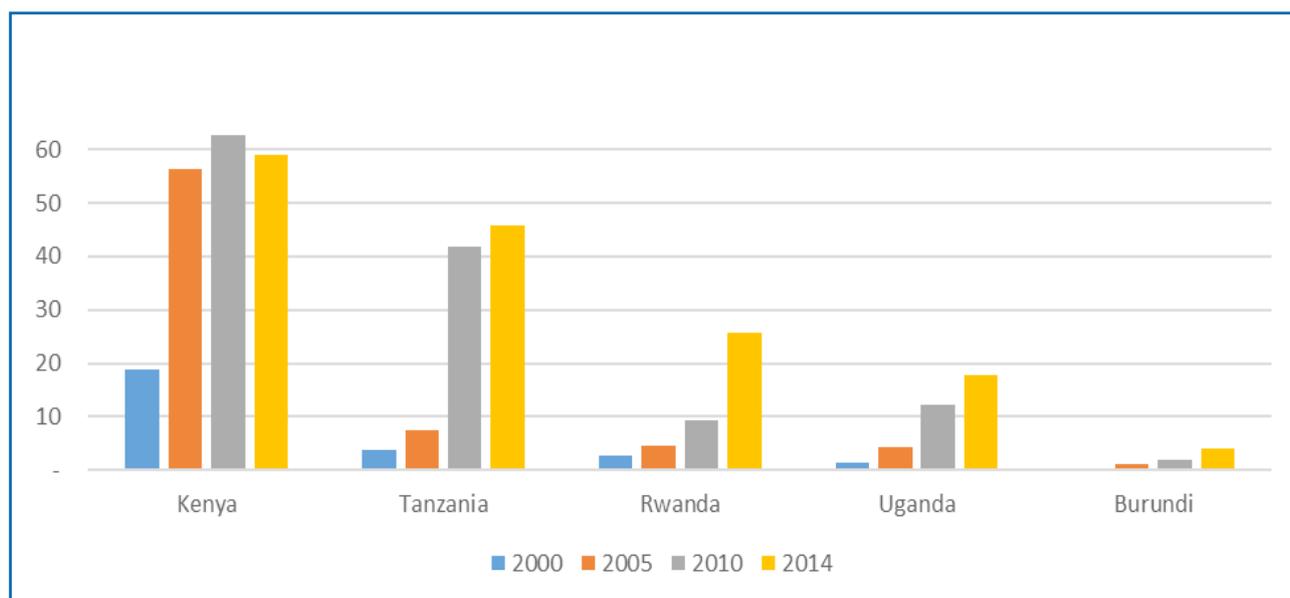
Note: Percentage in brackets is compound annual growth rate (2000-2015)

Partner States experienced spurts in the growth of manufactured exports at different stages

Although relatively high growth rates have been observed in most Partner States, the performances, with the exception of Tanzania, are not yet sufficient to drive the structural change of the respective economies towards manufacturing, as targets in most national development plans specify. In most cases, MVA as a percentage of GDP remains below 10%.

Manufactured exports

Convergence in industrial performance between the EAC countries is also apparent in the case of manufactured exports. Kenya experienced its fastest growth between 2000 and 2005 and was followed by Tanzania and Uganda, having their largest increases between the years of 2005 and 2010 (when looking at absolute values), and finally Rwanda and Burundi showing their highest growth rates in manufactured exports between 2010 and 2014.

Figure 5: Manufactured exports per capita (USD)

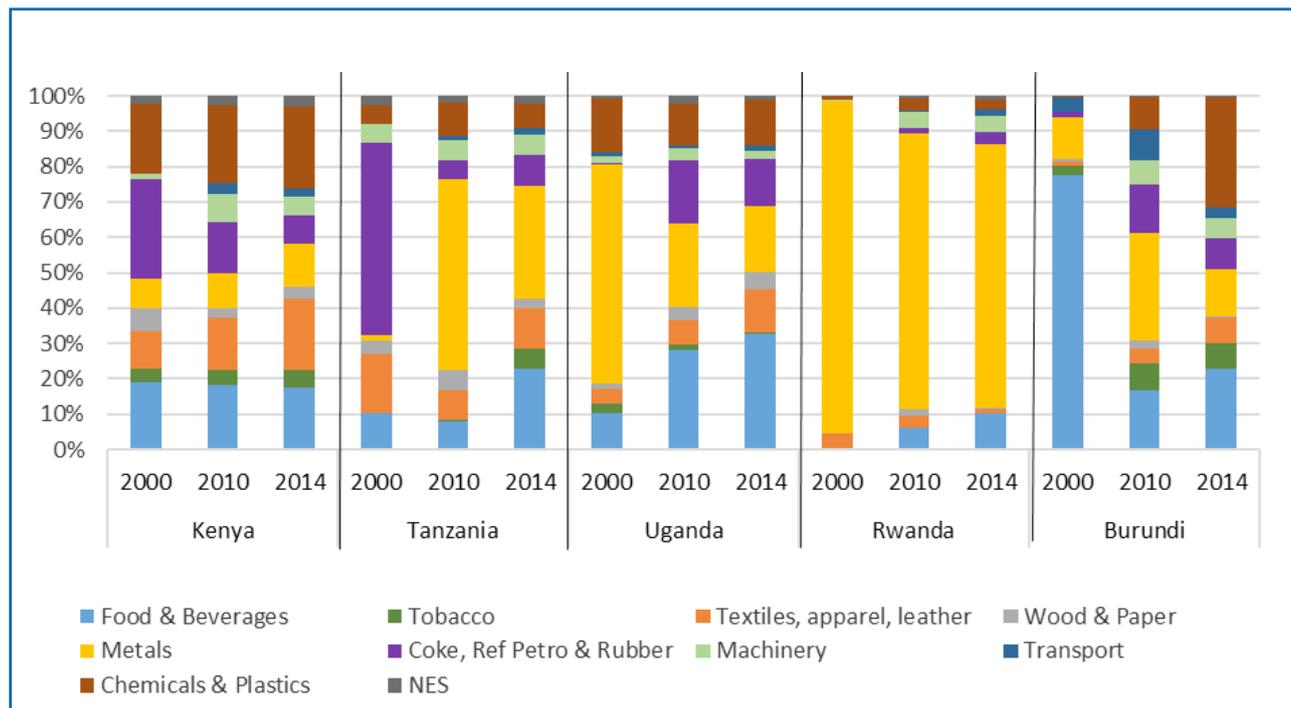
Source: UN Comtrade

Products exported and diversification

Most EAC Partner States have fairly diversified manufactured export baskets except for Rwanda. Burundi and Kenya have similar export structures, exporting mostly products from the chemicals and plastics sectors, followed very closely by food and beverages¹. Tanzania and Uganda also present similar export structures, with metal products, and food and beverages dominating their manufactured exports' basket. The textiles, petroleum and chemicals sectors follow. Rwanda's manufactured exports structure stands out from the rest of the EAC, as manufactured metals dominate the export basket (74 % in 2014), although other product groups gained some importance, such as food and beverages.

¹ Here we refer to export values and not quantities.

Figure 6: Types of manufactured products exported by Partner State

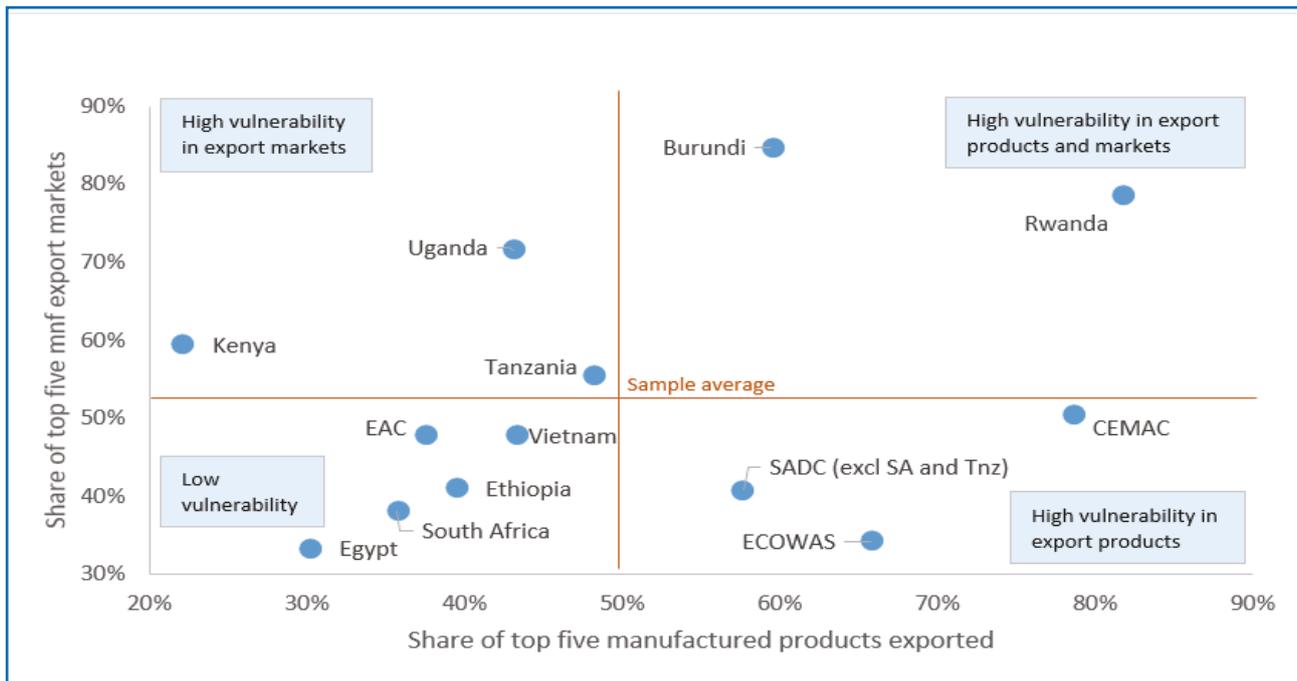


Source: UN Comtrade

All Partner States demonstrate relatively low market diversification, making exports vulnerable to demand shocks. Additionally, Burundi and Rwanda exhibit very low product diversification.

Product diversification reaches its highest in Kenya, as its top five products contribute to only 22% of manufactured exports. This contrasts with Rwanda, where 80% of its exports earnings derive from its five top products, in particular base metals. In terms of market diversification all EAC countries show a certain degree of vulnerability, with the top five destinations absorbing more than 50% of overall manufactured exports. In this respect, it is Tanzania to pave the way, showing the largest spectrum of markets reached by its manufactured products (belonging to both EAC and SADC helps in this direction).

Figure 7: Concentration of manufactured export products and markets (2014)



Source: UN Comtrade²

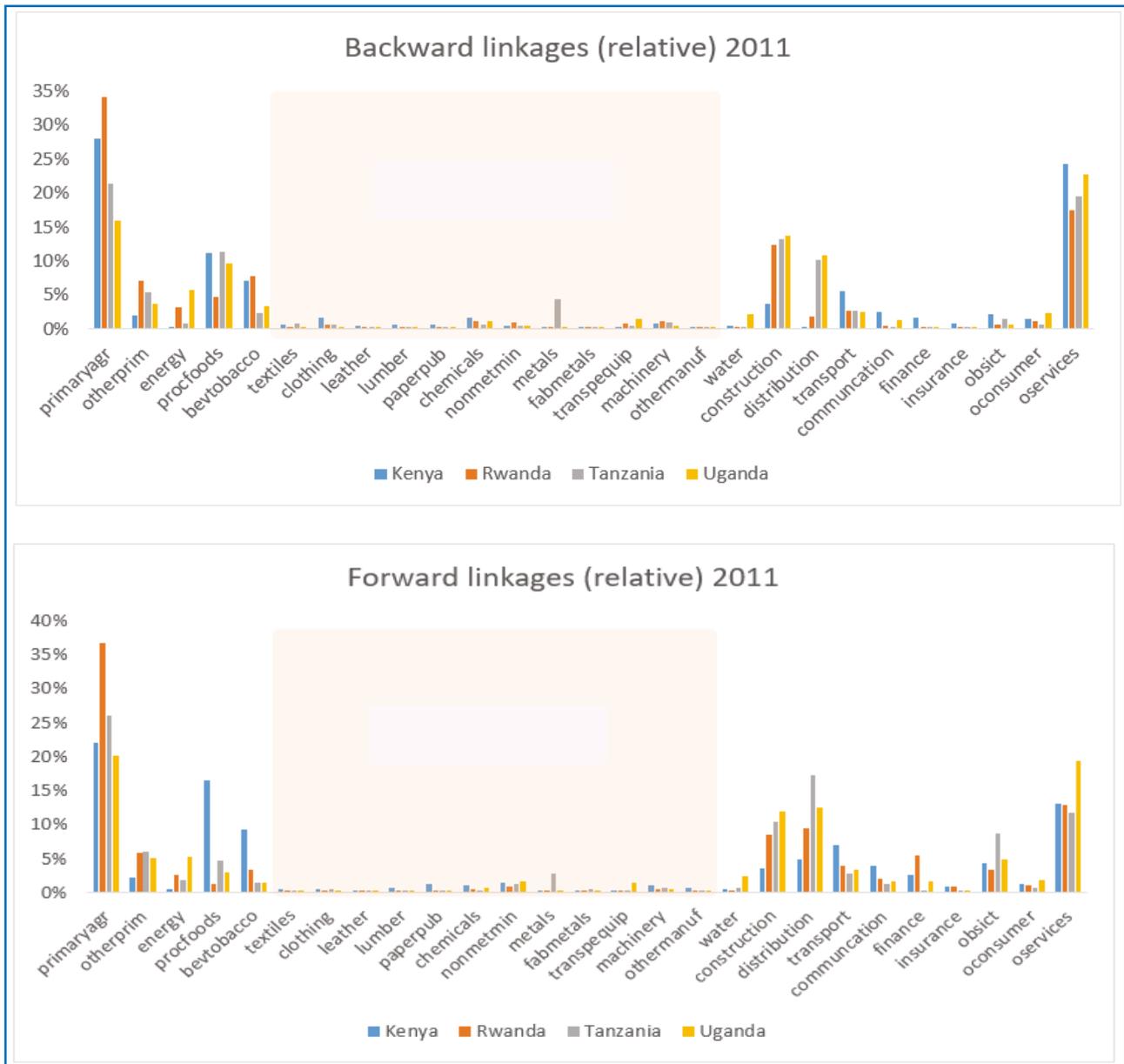
Forward and backward linkages

Very weak forward and backward linkages of manufacturing firms illustrate the challenges in the sector and hold back further growth.

Among the main sectors of an economy, it is the manufacturing sector that is expected to create the strongest inter and intra-sectoral linkages, by demanding inputs from the primary and secondary sectors and by exploiting the services sector. At the same time, goods produced in the manufacturing sectors are expected to be demanded by firms in different sectors. This creates a positive spiral effect, where sectors reinforce each other. In the case of the EAC, this has not yet taken place. The manufacturing sectors have particularly weak links with other sectors, both in terms of forward, as well as backward linkages. More national sourcing and building partnerships with domestic firms would have a range of positive spill-overs. For this a precondition is the competitiveness of domestic firms vis-à-vis foreign ones. To put this analysis in perspective, while in the EAC manufacturing sectors (which accounted for 14 out of 27 sectors observed) contributed to 22% of backward linkages and 16% of forward linkages in the economy, the respective shares in Vietnam were 40% and 27%. Taking out the food and beverages and tobacco sectors reduces the EAC share even further.

²This chart illustrates both product and market diversification by presenting the share of the top five manufactured products and markets per Partner State, for the EAC and for comparator countries and regions. The average values of all economies presented is used as a cut-off point for the analysis, to help identify the extent of concentration on either front.

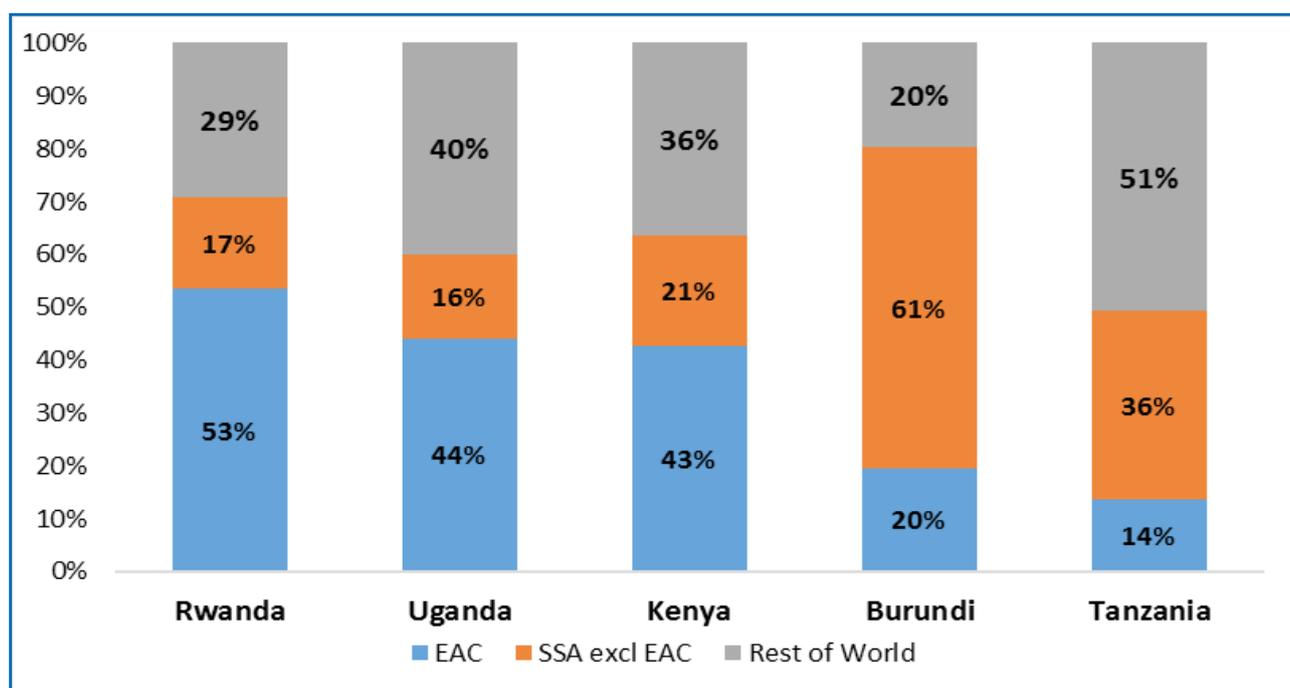
Figure 8: Relative backward and forward linkages in the EAC in 2011



Source: EVAD

OPPORTUNITIES FOR MANUFACTURING MARKET EXPANSION AT EAC LEVEL

The most encouraging finding of this report comes from the detailed analysis of the market opportunities offered by the EAC to its Partner States for expanding their manufacturing sectors. First of all, the EAC acts as a fundamental market for most of its Partner States, with high shares of manufactured exports remaining within the region, in particular for Rwanda, Uganda and Kenya. Exports to the rest of the world did not play the same role. In addition, it also provided the opportunity for all countries to expand their exports further to the regional market between 2000 and 2014, leading to a significant increase in their intra-regional manufactured trade ranging between 9% and 31% on average per annum.

Figure 9: Destinations of manufactured exports of EAC Partner States (2014)

Source: UN Comtrade

Table 2: Manufactured exports to destination (2000, 2014)

Manufactured Exports to destination (1,000 USD)															
	EAC		Growth rate (CAGR)			SSA (excl EAC)		Growth rate (CAGR)			Rest of World		Growth rate (CAGR)		
	2000	2014	00-10	10-14	00-14	2000	2014	00-10	10-14	00-14	2000	2014	00-10	10-14	00-14
Kenya	343,984	1,095,133	13%	-2%	9%	109,658	541,330	19%	-4%	12%	132,421	939,314	18%	8%	15%
Tanzania	20,370	326,116	33%	-1%	22%	16,880	844,055	35%	25%	32%	91,974	1,206,212	29%	0%	20%
Uganda	6,870	297,948	39%	13%	31%	7,356	107,384	36%	-9%	21%	15,936	269,677	15%	44%	22%
Rwanda	3,718	156,007	7%	114%	31%	6,496	50,428	10%	33%	16%	12,248	85,204	19%	4%	15%
Burundi	2,343	8,706	11%	6%	10%	49	26,876	65%	37%	57%	318	8,778	29%	20%	27%

Source: UN Comtrade

Secondly, throughout the years, the EAC market provided Partner States with the opportunity to export a larger share of higher value-added products. All countries, apart from Rwanda, exported a larger percentage of manufactured goods, as well as medium and high-tech products to the EAC, than to the rest of the world.

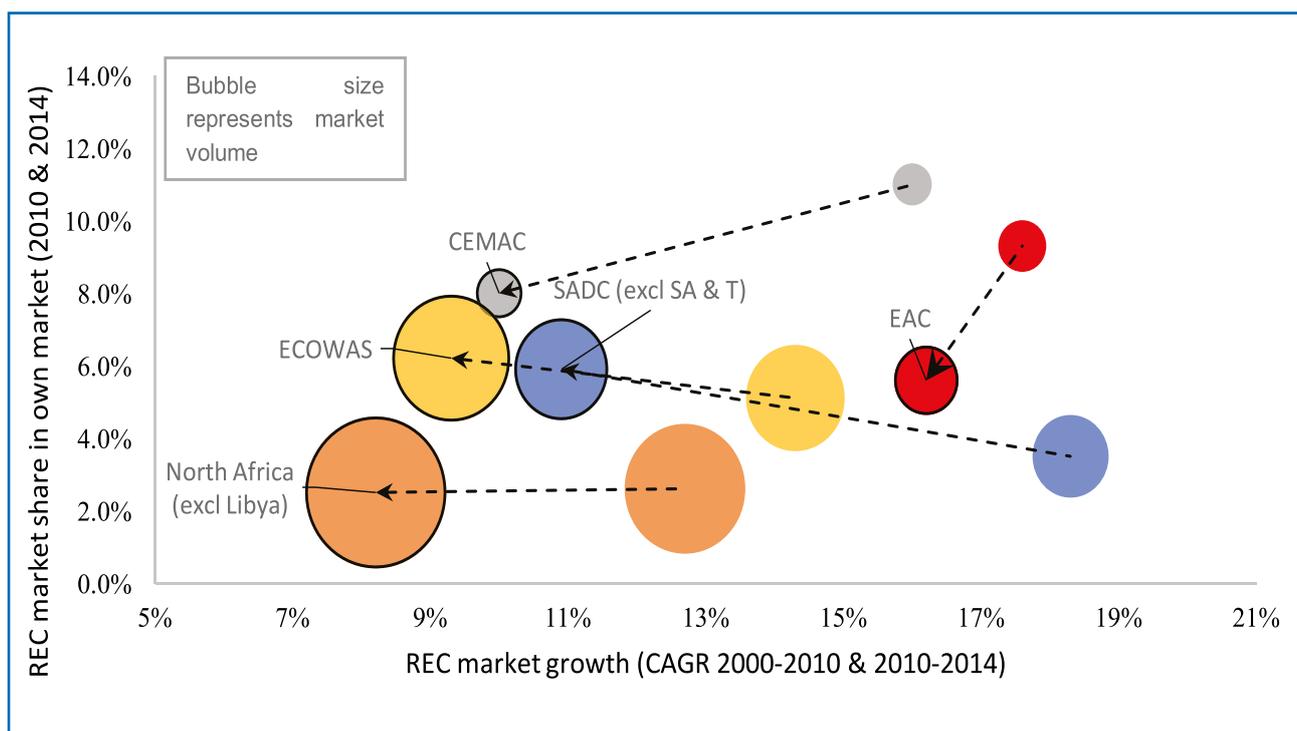


The EAC has been an important market for most Partner States, contributing to their fast export growth, more product diversification and a higher share of manufactured and medium- and high-tech products than markets outside the region.

Thirdly, and following from above, the EAC market allowed a more pronounced level of diversification of manufactured products traded within the region, with no domination of a particular sector. The largest exports came from the chemicals and plastic sector, as well as metals, followed by food and beverages. Whereas the top three products traded within the EAC contributed to 58% of total manufactured exports in 2014 in the EAC, the same figure at global level stands much higher at 71%.

Nonetheless, since 2010 we observed a slight contraction from the two biggest actors, Kenya and Tanzania, that diversified their markets more to Sub-Saharan African countries other than the EAC (in the case of Tanzania – mainly Congo, DRC, Zambia), and outside of Sub-Saharan Africa (for Kenya - mainly US, Serbia, India and China). Jointly, therefore, intra-regional manufactured trade has slowed down significantly, from an annual growth rate of 16% per annum between 2000 and 2010, to only 2% between 2010 and 2014. EAC manufacturing firms have therefore lost market share in one of the most dynamic regions, where demand for processed goods has been increasing at almost 17% per annum since 2010.

Figure 10: Market share in own regional markets for manufactured products



Source: UN Comtrade

Intra-regional trade has been growing slowly since 2010: EAC firms are losing market share in most of the highly dynamic products demanded in the region.

Findings concretely show several missed opportunities for EAC firms to tap into their own dynamic regional market. This was measured by trends in market shares across the period 2000-2014. A close examination of top 25 most demanded manufactured products showed that in most cases (22/25) EAC firms lost market share in the period, including cement, pharmaceuticals, iron/steel products, and fertilisers.

In most cases, EAC manufacturing firms managed to increase their capacities, experiencing positive growth rates in the period (except for heavy petrol/bitum oils) but not at the pace and extent needed to keep up with the growth of EAC demand, therefore allowing other international firms to gain larger market share.

Table 3: EAC demand and market share (2000-2014)

Manufacturing Sector	ProductDescription	EAC Demand				EAC supply (to EAC)						
		in 1000 USD		Growth rate		in 1000 USD		Growth rate		EAC Market Share		
		2014	2000-2010	2010-2014	2000-2014	2014	2000-2010	2010-2014	2000-2014	2000	2010	2014
1 (5) Coke, Refined Petroleum, Non-metallic Mineral Prods & Rubber	Heavy petrol/bitum oils	8,260,161	20%	15%	18%	69,106	-3%	-16%	-7%	24%	3%	1%
2 (1) Food, Beverages and Tobacco	Fixed veg oils not soft	1,191,787	19%	9%	16%	31,464	39%	-5%	24%	1%	5%	3%
3 (8) Chemical and Plastic Products	Medicaments include vet	1,134,325	17%	16%	17%	75,559	14%	14%	14%	10%	7%	7%
4 (7) Transport Equipment	Passenger cars etc	1,107,632	20%	5%	15%	3,851	16%	5%	13%	0%	0%	0%
5 (6) Machinery, Equipment and Telecommunications	Telecomms equipment nes	881,918	18%	-3%	11%	3,992	35%	-13%	19%	0%	1%	0%
6 (4) Metal Products	Flat rolled iron/st prod	728,439	19%	8%	15%	22,737	7%	0%	5%	13%	4%	3%
7 (7) Transport Equipment	Goods/service vehicles	708,415	17%	1%	12%	10,799	7%	2%	5%	4%	2%	2%
8 (7) Transport Equipment	Road motor vehiles nes	552,357	19%	13%	17%	16,613	18%	-3%	11%	6%	5%	3%
9 (6) Machinery, Equipment and Telecommunications	Civil engineering plant	543,693	21%	5%	16%	29,842	33%	13%	27%	2%	4%	5%
10 (8) Chemical and Plastic Products	Manufactured fertilizers	524,660	14%	10%	13%	24,844	26%	0%	18%	3%	7%	5%
11 (8) Chemical and Plastic Products	Primary ethylene polymer	462,029	20%	4%	15%	3,129	23%	0%	16%	1%	1%	1%
12 (1) Food, Beverages and Tobacco	Sugar/mollasses/honey	445,895	14%	3%	11%	17,242	32%	-17%	16%	2%	9%	4%
13 (8) Chemical and Plastic Products	Plastic nes-primary form	440,228	20%	17%	19%	3,387	17%	2%	12%	2%	1%	1%
14 (5) Coke, Refined Petroleum, Non-metallic Mineral Prods & Rubber	Lime/cement/constr matl	438,535	27%	7%	21%	167,389	24%	5%	18%	54%	42%	38%
15 (3) Wood and Paper Products	Paper/paperboard	414,225	17%	3%	13%	30,758	11%	1%	8%	15%	8%	7%
16 (7) Transport Equipment	Aircraft/spacecraft/etc	405,026	23%	-11%	12%	32,185	32%	85%	45%	0%	0%	8%
17 (6) Machinery, Equipment and Telecommunications	Special indust mach nes	402,926	20%	10%	17%	13,509	15%	35%	20%	2%	1%	3%
18 (5) Coke, Refined Petroleum, Non-metallic Mineral Prods & Rubber	Rubber tyres/treads	389,959	16%	8%	14%	10,050	3%	5%	4%	10%	3%	3%
19 (6) Machinery, Equipment and Telecommunications	Computer equipment	376,072	17%	3%	13%	3,431	42%	-35%	13%	1%	6%	1%
20 (4) Metal Products	Iron/steel pipe/tube/etc	364,616	19%	34%	23%	24,884	18%	11%	16%	16%	15%	7%
21 (4) Metal Products	Iron/steel bars/rods/etc	355,636	22%	7%	18%	25,246	21%	-5%	13%	12%	12%	7%
22 (7) Transport Equipment	Motorcycles/cycles/etc	343,837	19%	11%	17%	461	17%	-18%	6%	1%	0%	0%
23 (8) Chemical and Plastic Products	Pharmaceut exc medicamnt	325,650	18%	14%	17%	4,860	19%	-14%	9%	4%	5%	1%
24 (4) Metal Products	Iron/stl/alum structures	315,942	17%	20%	18%	6,733	12%	-5%	7%	9%	6%	2%
25 (6) Machinery, Equipment and Telecommunications	Electrical distrib equip	291,971	16%	19%	17%	8,731	32%	2%	23%	2%	5%	3%

Source: UN Comtrade³

An overarching policy recommendation stems from this report, pointing at the dynamism of the EAC market as providing probably the best opportunity and starting point for its own firms to expand their capacities and market share before moving into global markets

³ Heavy petrol/bitum oils: Fuel oils, such as motor spirit, kerosene/medium oils, gas oils, lubs (high petrol content) and other fuel oils. Fixed veg oils not soft: Linseed oil, palm oil, coconut (copra) oil, palm kernel oil, castor oil, tung oil and other fixed veg oils.



Box 1 Enhancing intra-regional trade in SADC

The SADC⁴ made greater strides than the EAC in increasing trade among its members since 2010, with intra-regional manufactured trade growing at 27% per annum between 2010 and 2014 (compared to 2% in the EAC), caused by relatively impressive growth rates of all member countries. A strong feature of the SADC strategy is its focus on removing obstructions to the free movement of goods and persons across country borders and a key objective is greater efficiency of transactions at border posts. The introduction of One Stop Border Posts (OSBPs) and harmonisation of customs procedures between member countries yielded positive developments in this regard. The first OSBP, the Chirundu border post between Zimbabwe and Zambia, is operational since 2009⁵ (SADC, 2015). Traffic at the border post more than doubled since its introduction and crossing time decreased from between 4 to 6 days to less than 30 hours on average. Other tools which have had positive impacts on intra-regional trade are the Regional Indicative Development Plan, Regional Infrastructure Development Plan, both supporting infrastructure development e.g. by setting up freight inspection facilities at terminals, Regional Spatial Development Initiatives, where different development corridors have been implemented since the 1990s, Integrated Regional Electronic Settlement System, to settle regional inter-bank transactions and the Southern African Power Pool to address power supply constraints. All these efforts have had a positive impact on regional integration in SADC and lessons can be learnt to further support intra-regional trade in the EAC

MAIN FINDINGS AT SECTORAL LEVEL

The report presents analysis for the cotton apparel and leather value chains more specifically, due to their strategic importance in the EAC and the potential to grow and create employment opportunities in the region.

Cotton apparel value chain

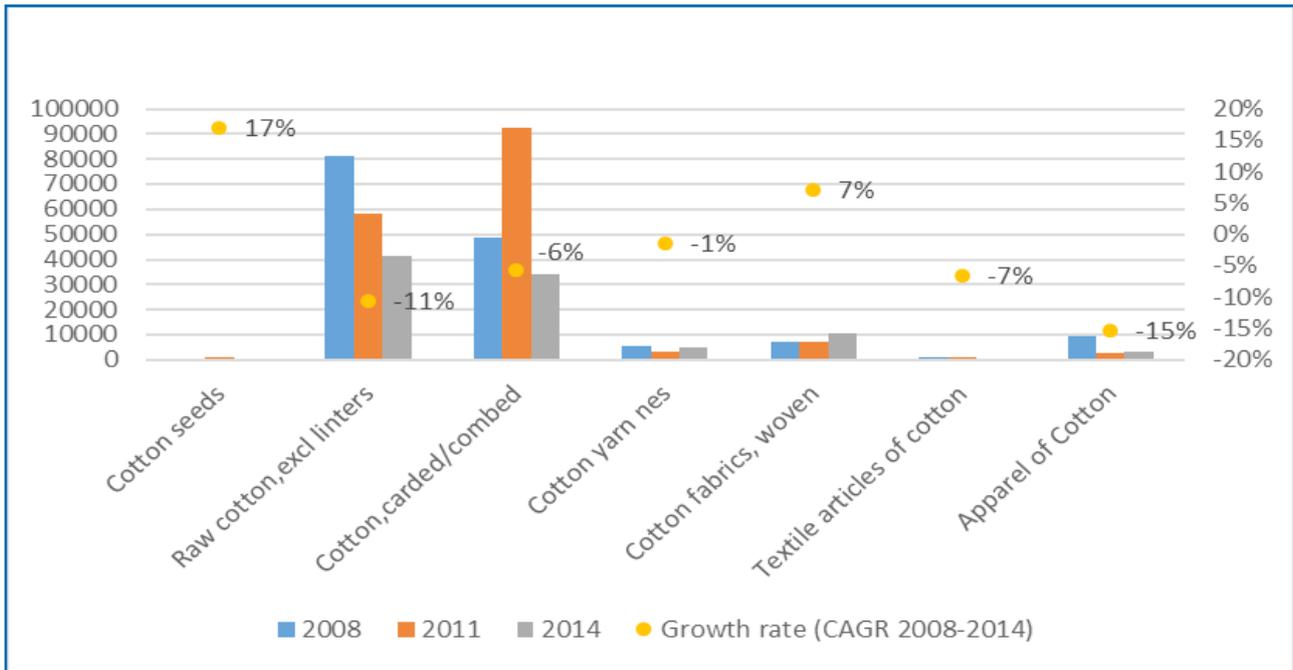
Out of all cotton-related products, the region still largely exports raw or carded/combed cotton (jointly accounting for 79%) and is hence missing opportunities to generate higher revenues. Tanzania and Rwanda experienced increases in their sales of manufactured cotton products to external markets, though the values remain low.

⁴South Africa and Tanzania are excluded from this analysis due to the dominance of the former in trade data in the region and to avoid double counting in the case of the latter in comparisons to the EAC.

⁵The bilateral agreement between Zimbabwe and Zambia for the Chirundu border post was signed in 2007



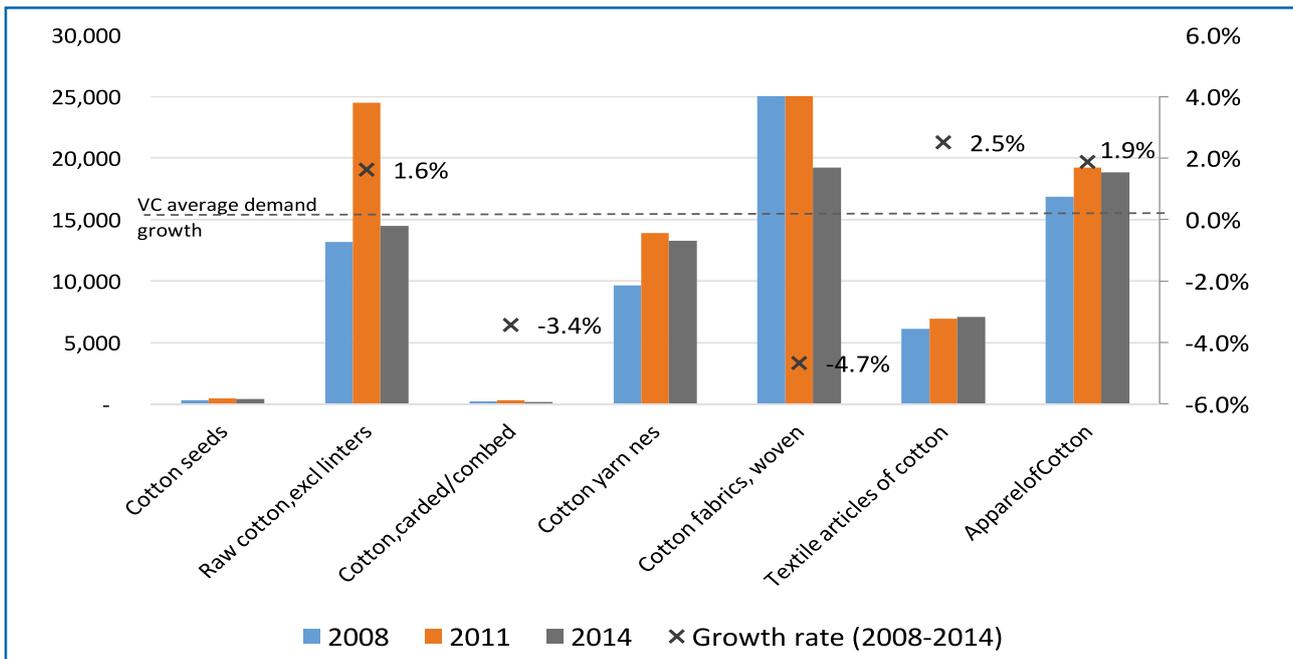
Figure 11: EAC Exports of cotton value chain products (1,000 USD)



Source: UN Comtrade

According to an examination of unit prices and global and regional demand dynamics, the most attractive product for the EAC to engage in is apparel of cotton, which has a particularly large and fast-growing demand in the region (18.5% annual growth). Furthermore, this demand is only a fraction of the demand for apparel in general in the region.

Figure 12: Global demand of cotton VC products (million USD)



Source: UN Comtrade



While the region continues exporting mainly raw and carded/combed cotton, producing and exporting cotton apparel mainly for the EAC, and cotton yarn (globally) is more attractive.

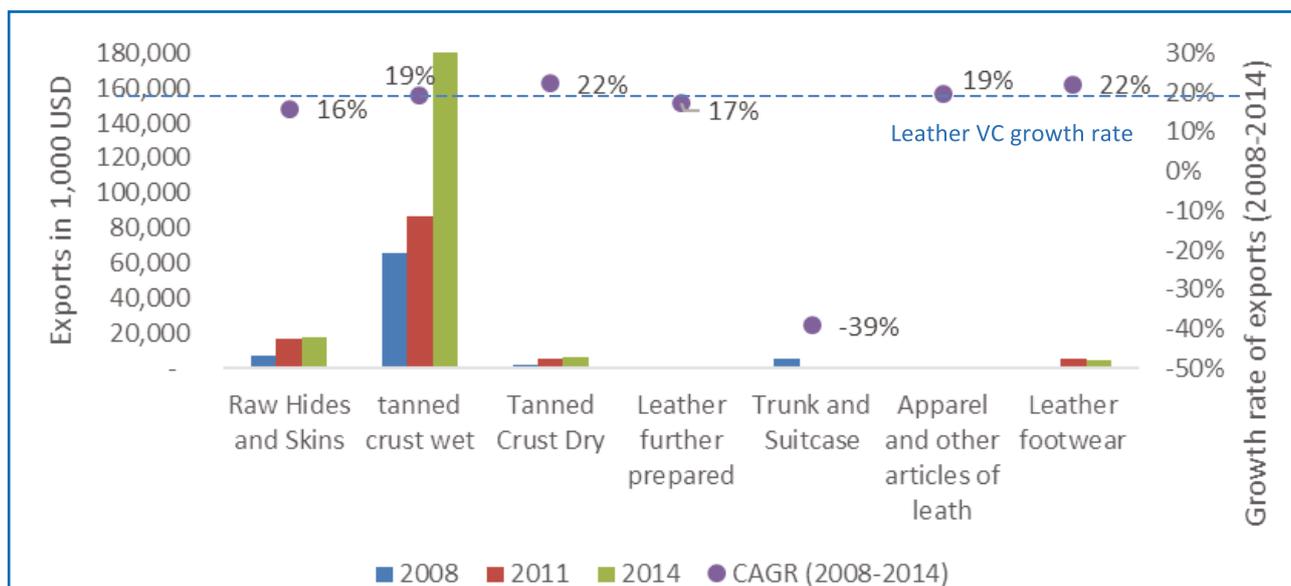
The EAC currently exports over half of its cotton apparel to North America (under the AGOA agreement) although the demand in this market has barely increased since 2008. The EAC itself is one of the regions with the fastest growing demand, making it an attractive market, however, regional firms have been losing market share to China, the US, South Africa and to a lesser extent Lesotho. Other Sub-Saharan countries and the MENA region also have fast growing demand for such cotton apparel.

Cotton yarn is another product to consider exporting more, as it has the fastest growing demand of all cotton-related products globally (5.5% per annum), although revenue will be lower than apparel. This offers an opportunity particularly for firms which are not yet able to produce cotton apparel. East Asia has both the largest and most rapidly expanding demand for cotton yarn and the EAC is already exploiting this market. The demand within the EAC is also growing fast (5.5% annually), offering new opportunities for its firms.

Leather value chain

Eighty three per cent of EAC's leather-related exports are leather in the form of wet blue and these have been increasing significantly throughout the period of 2008-2014, resulting in the expansion of exports of the whole value chain. However, exports of manufactured leather products, although they too have grown at similar rates, were unable to increase their share in overall exports. In fact, their share of the value chain has contracted from 9% to 3% between 2008 and 2014.

Figure 13: EAC exports of leather products (2008-2014)

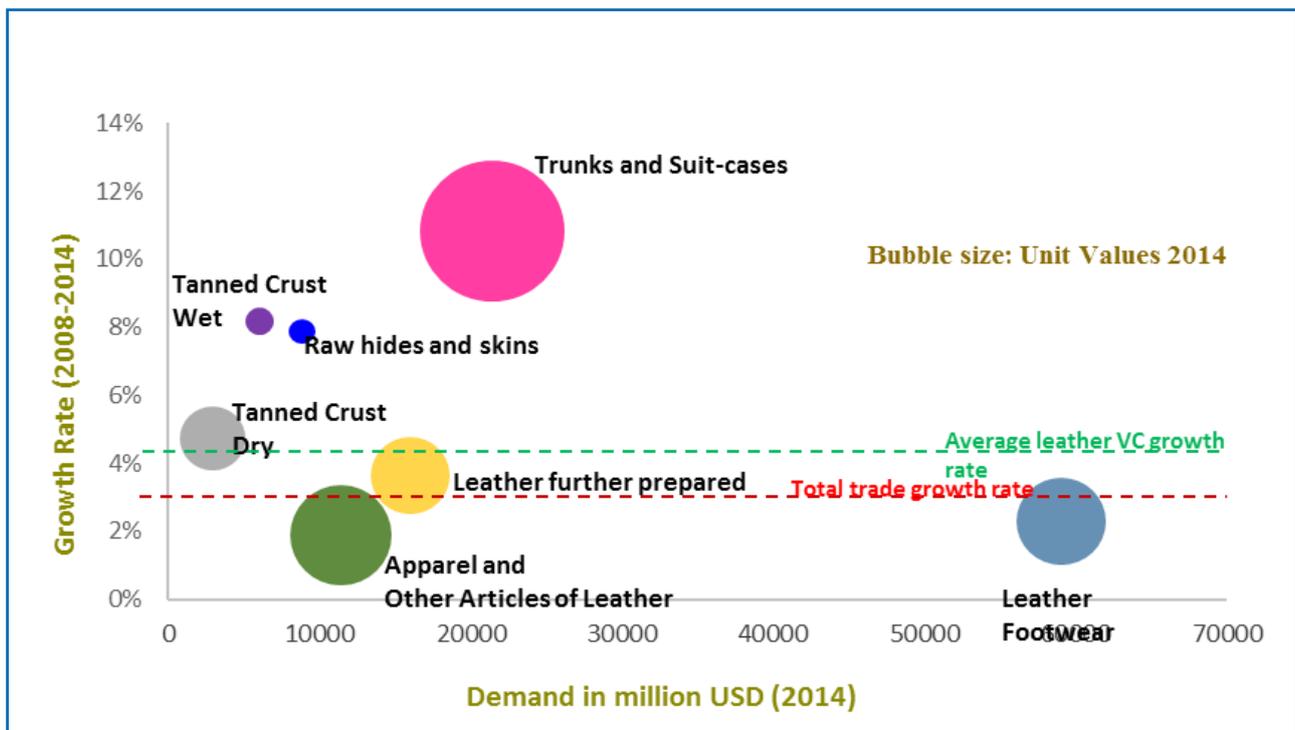


Source: UN Comtrade

The EAC is exporting an increasing share of wet blue and is currently missing out on the large leather footwear market

Within this value chain, the most largely demanded product group is leather footwear, both globally and in the EAC, and within the region it is also the product group where demand has been expanding most rapidly (13.6% yearly). Further market opportunities are identified by the imports for footwear (other than footwear made of leather), which are ten-fold. Interestingly, trunks and suitcases have the highest growth in demand globally (though not in the EAC), as well as the highest unit price.

Figure 14: Global demand and demand dynamism for leather-related products

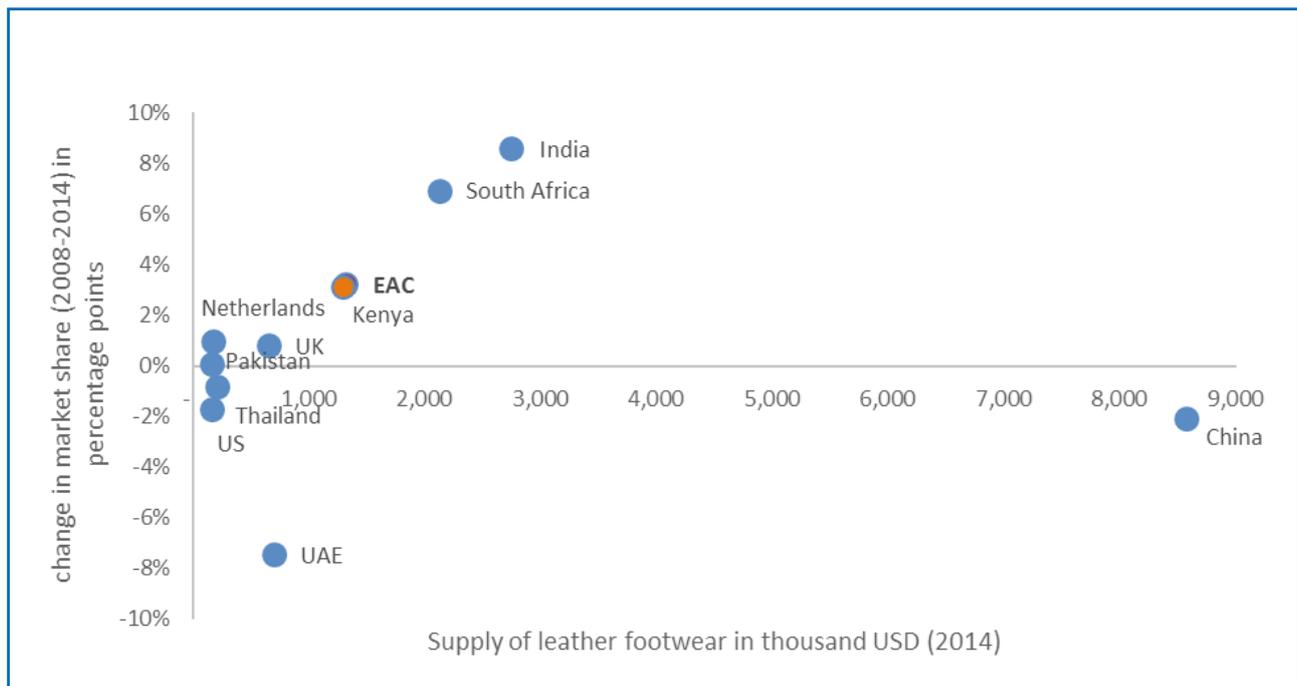


Source: UN Comtrade

Regional firms have been increasing their market share for footwear in the EAC. The main competition is coming from China, India and South Africa.

Background of the report EAC firms' regional market share in leather footwear has been enlarging since 2008, reaching 7% in 2014, which indicates the potential to further strengthen their position in the market. The main competitors are China (albeit losing market share), India and South Africa.



Figure 15: Top 10 suppliers of leather footwear in the EAC (2008-2014)

Source: UN Comtrade

Box 2 Lessons from Ethiopia's upgrading in leather and cotton

The Ethiopian government is adopting a proactive approach in its implementation of an agriculture-led industrialisation strategy and the leather and textile are among the prioritised sectors in previous development plans and in the current Growth and Transformation Plan (2015-2020) and Ethiopian Industrial Development Strategic Plan for 2013 to 2025. A multi-level approach is being deployed to provide the necessary incentives and support to the priority sectors. While this is implemented by the public sector, private sector involvement in the processes has a critical role.

As the result of the government's plans, both sectors have seen product upgrading over the last recent years. Until 2008 most leather exports were in the form of raw hides and skins and wet blue. By 2014, over 90% of leather exports are leather further prepared, while the remaining is in leather footwear. In cotton, the country moved from exporting mainly carded/combed cotton to the majority now being cotton yarn.

In addition to a variety of government initiatives and programs put in place at macro level, vigorous programmes have been implemented for the development of the leather and textiles sectors. On the one hand, to encourage local production of finished leather goods, a 150% tax was levied on exports of wet blue and pickled leather in 2008 and in 2011 a 150% levy was imposed on the export of crust. This stimulated foreign investment in the leather industry and led to an increase in the number of tanneries producing finished leather for export markets. Other fiscal and non-fiscal policy measures which apply to the leather and cotton sectors include customs duty exemptions on imports of capital goods and machinery, a variety of income tax exemptions, access to loans at

Box 2 Lessons from Ethiopia's upgrading in leather and cotton

concessional interest rates to upgrade sector technology, voucher and duty drawback provisions, loss carry forward provisions and bonded factory and manufacturing warehouse schemes. Relatively relaxed rules are also applied to retention of foreign exchange earnings by foreign firms for future operational use as well as the remittance of certain fund categories.

Government agencies were set up to support both sectors, namely the Ethiopian Textile Industry Development Institute (TIDI) and Leather Industry Development Institute (LIDI) and they have partnerships and are twinned with matching institutes in India to encourage learning and support. Short trainings were also held in India for Ethiopian managers of leather factories and opportunities were given to Ethiopians to obtain postgraduate and doctoral degrees in India related to the leather sector.

Increasing foreign direct investment is key to developing both sectors. The setting up of seven industrial parks facilitated increasing such investments, such as by the often-cited example of The Huajian Shoe City, developed by Huajian, one of the largest shoe companies in China and the Turkish textile and garment company, Ayka Tekstil. Several South Korean textile companies are planning to set up operations in Ethiopia and the DBL group from Bangladesh is currently constructing a vertical integrated garment factory there too. International retail clothing brands such as H&M, Primark and Tesco established offices in Ethiopia and are now sourcing finished garments from Ethiopian manufacturers.

EAC INDUSTRIAL DRIVERS

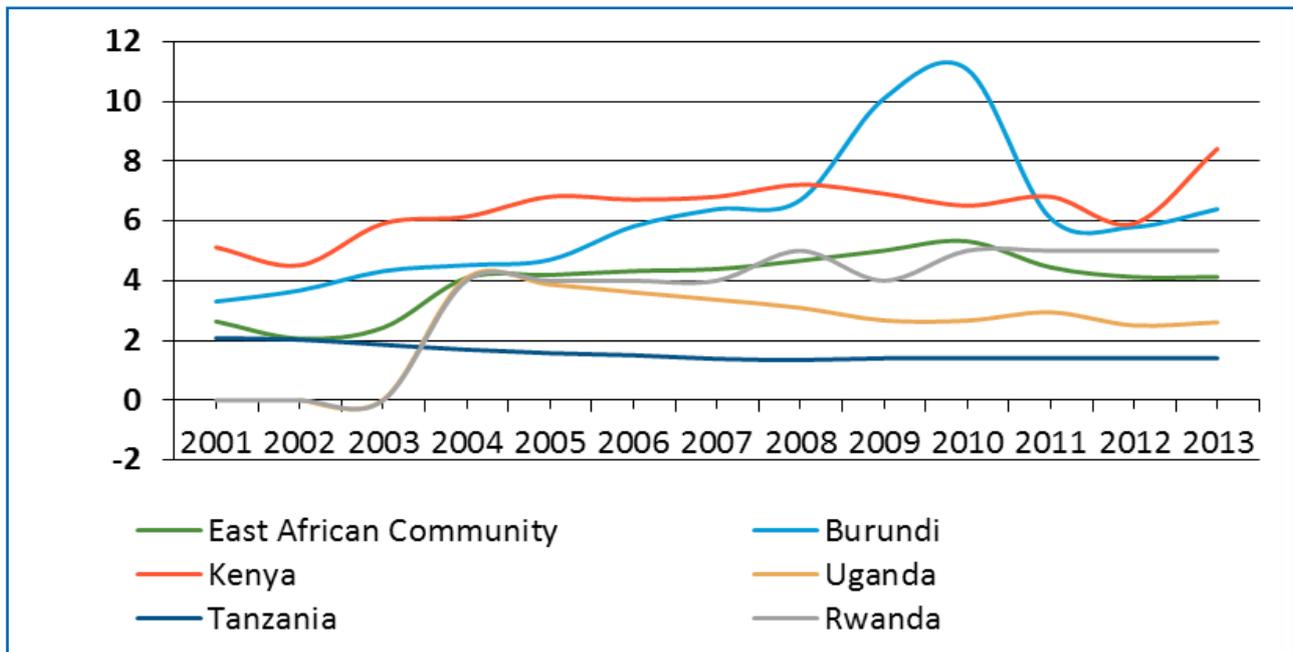
While most Partner States rely more significantly on FDI, Kenya invests more in education and R&D, and its banks provide more credit to the private sector.

Despite the limited availability of comparable data on industrial drivers across countries in the EAC, the analysis has pointed to a number of key constraints to industrial competitiveness. It has also shown how EAC countries have been dealing with them differently, and how this has driven them along varying industrial development pathways.

Kenya is the country in the region which has shown more significant *investments and outcomes in education (beyond primary)*. At the same time, however, less emphasis has been given in Kenya to supporting the development of vocational training. The comparison between the Tanzanian and Ethiopian cases, in this respect, has stressed two fundamental challenges. First, the need for reforming skills training programmes and curricula to reduce the skills gap and mismatches. Second, the involvement of the private sector alongside vocational training institutions appears critical, especially considering the need for very sector-specific skills profile development and more production and technical training facilities. Public-private partnerships in this area could offer opportunities for aligning interests and resources towards more skills, better skills, and higher level skills.



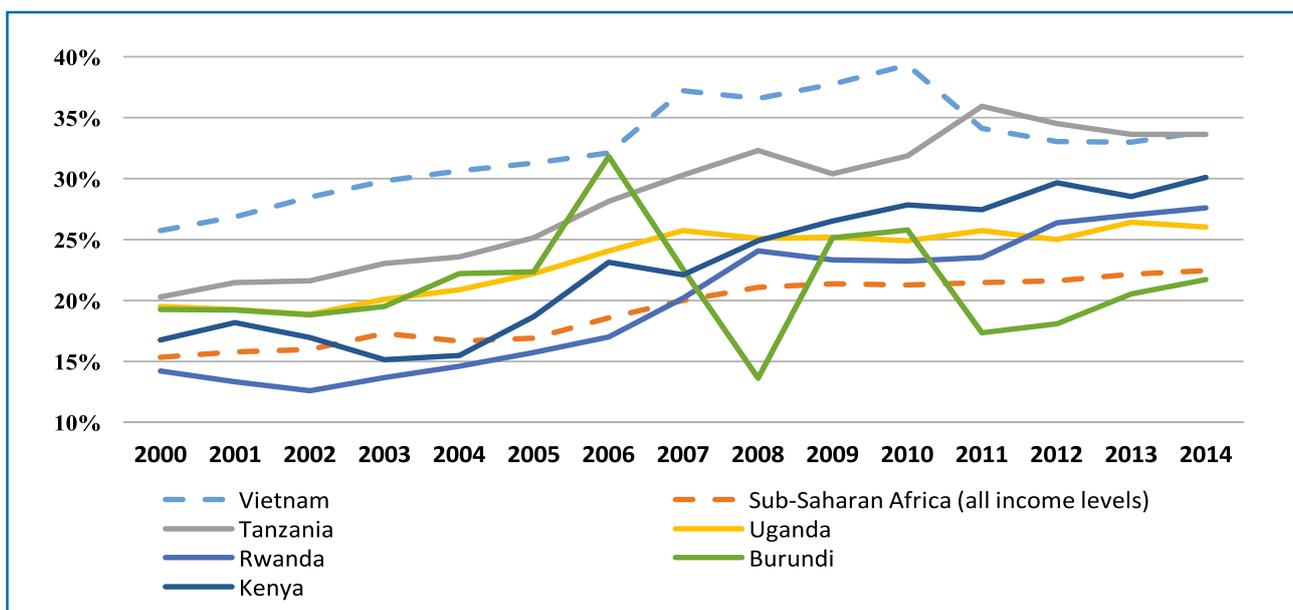
Figure 16: Expenditure on education as % of GDP



Source: EAC portal

While the supply of skills is important, the increasing demand for them is equally important. Demand for skills comes from the expansion and full utilisation of the existing production capacity, as well as the attraction of new domestic and foreign investments. Tanzania followed by Kenya are the two countries which showed the highest level of *gross fixed capital formation (GFCF) relative to GDP*. Increases in the shares of GFCF in GDP are observed in all countries with the exception of Burundi.

Figure 17: GFCF as a share of GDP



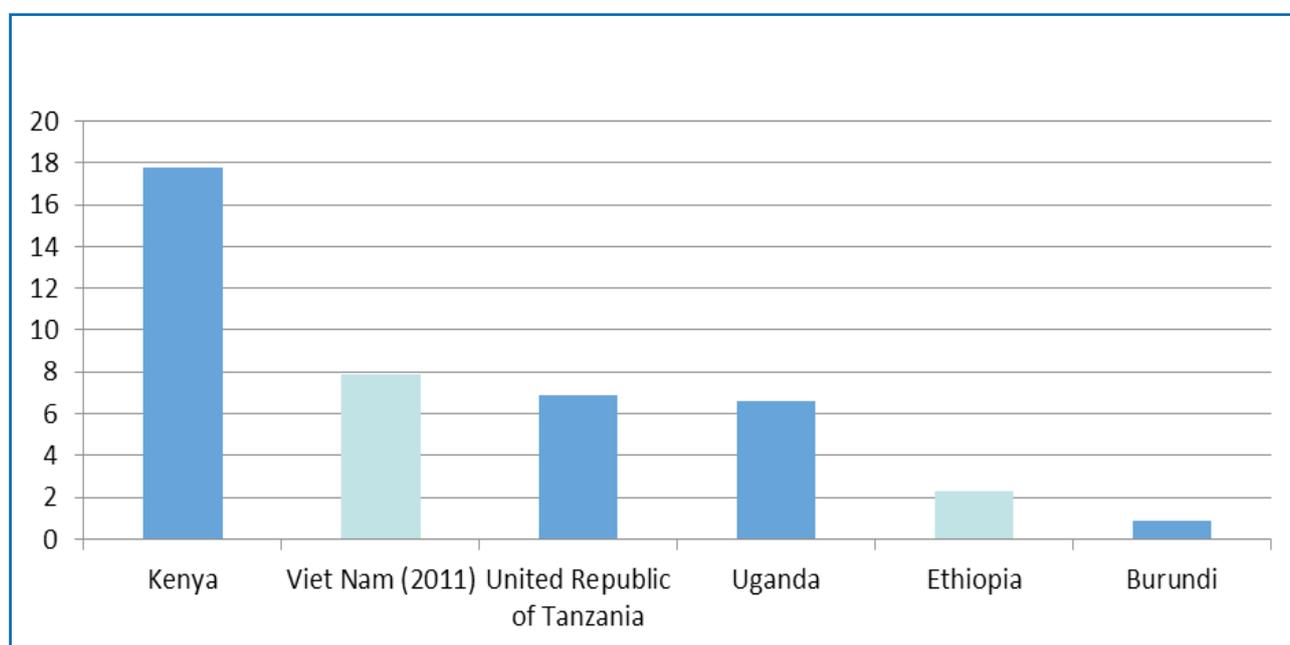
Source: Author's calculations, WDI



Moreover, the two countries that managed to attract more FDI in the EAC region are Tanzania and Uganda. In 2014 their FDI net inflows measured as a share of the GDP stabilised around 4.5%, however in both country cases it reached 6% in the mid of 2000s. Rwanda is the other EAC country which showed a significant upward trend since 2010.

Indicators such as *Gross Expenditure on Research and Development (GERD) per capita* try to shed some light on technological capabilities. Kenya proves to have the highest expenditure per capita on this. At earliest stages of industrialisation, investment in R&D tends to be driven by the public sector. However, this is not the case for all the EAC countries. While almost 60% of investment in R&D was financed by the public sector in Tanzania (and Ethiopia as country comparator), in Kenya the government financed only 26% of the overall GERD. In Uganda the contribution of the public sector is even lower- at just over 20%.

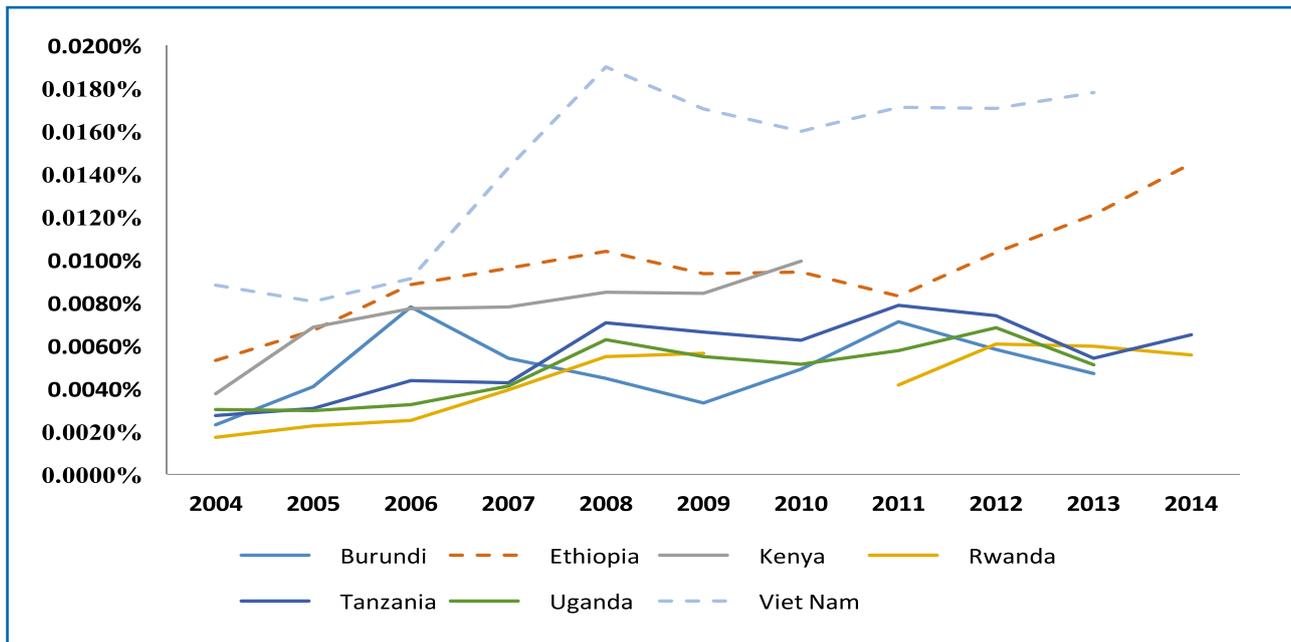
Figure 18: GERD per capita (in PPP, constant 2005), 2010



Source: WDI

Another important indicator of technological absorption is given by capital good imports (as % of GDP). Kenya is the only country in the EAC which showed a similar robust path until 2010 (after that data are missing). The other EAC countries are clustered together and show variations in the imports. Generally the capital goods imports among the EAC countries are very low and registered an alarming downward trend since 2010. Considering the limited domestic and regional production of capital goods, these downward trends in capital goods imports could slow down and dramatically affect the overall industrialisation process in the EAC.

Figure 19 Capital good imports (% of GDP)



Source: Author's calculations, OECD and WDI

While looking at *financial infrastructure for manufacturing development*, and keeping in mind the key driving role played by banks in financing investments in the private sector, only Kenya shows a performance higher than the Sub-Saharan Africa average. All other EAC Partner States present a quite low level of domestic credit reaching the private sectors and, thus, allowing much needed investments.

SELECTED POLICY RECOMMENDATIONS

- I. **Exploit the opportunities in the dynamic EAC market: All EAC Partner States present** a very high concentration of export markets. On the other hand, the EAC is a very dynamic market where demand for manufactured goods is growing annually at 16%, and at double digits for all the 20 most demanded manufactured products of the region. At the same time, the EAC Partner States are together losing market share on the vast majority of these. Some of the products where the EAC is a particularly interesting market are: fixed vegetable oils, medicaments and pharmaceuticals, iron and steel products, fertilisers, cement and heavy petroleum. The region is also an important market for medium and high tech products, where EAC firms have been more successful. Firms should continue to take advantage of this. Further measures to ease intra-regional trade is advised in order to support exporters and potential future exporters in the region.
- II. **Shift, in the medium and long term, from resource-based and low-tech sectors, to a larger share of medium and eventually high-tech sectors:** Three of the six priority sectors identified in the EAC Industrialisation Strategy are classified as medium and high tech (fertilisers and agrochemicals, pharmaceuticals, and energy and bio-fuels). However, since 2010 these sectors have been growing slower than the region's average of manufactured exports, resulting in a slight contraction of their share. There is therefore the need to i) increase the manufacturing base; ii) diversify production and exports; iii) develop the capacities to build competitive medium and high-tech sectors.
- III. **Upgrade smartly within sectors/value chains:** The short term should focus more on upgrading within sectors/value chains, that is, undertaking processing activities to add value to agricultural products or goods with currently low prices. However, it is important to first assess which products of the value chain are most beneficial to produce domestically.
- IV. **Strengthen forward and backward linkages to boost industrial and overall economic growth:** The very low levels of forward and backward linkages of the manufacturing sectors of EAC Partner States should be boosted by a) increasing the capacities of MSMEs to provide the products required by larger (exporting) firms in terms of product type, quality, quantity, price and reliability; and b) increasing local content by putting in place local content policies/preferential procurement schemes.
- V. **Support in developing and making available key industrial drivers to increase investment and boost industrial production and exports:**
 - a) Develop and promote post-primary education programmes (TVET and university programmes) catered to supplying the manufacturing sector with a range of



highly-skilled workers. This may require starting new skills training programmes or reforming existing ones to minimise the skills gap. In order to ensure skills mismatches are mitigated to the extent possible, strong involvement of the private sector is encouraged, not only in the initial design/restructuring of such programmes is required, but through continuous collaboration and dialogue.

- b) Attract foreign and domestic investments into the manufacturing sector to ensure EAC firms can exploit the emerging regional market for manufactured goods.
- c) Direct limited public resources to applied research and various forms of specialised extension services in order to support the development of technology and innovation.
- d) Strategically ease access to a selected set of capital goods and inputs required for production, without hampering the growth of national/regional producers of the same.
- e) Introduce dedicated policies for long-term financing, matching grants, ex-post rewarding schemes and other to encourage private investors.

VI. Cotton apparel value chain: Focus on upgrading its production and exports from raw, carded or combed cotton, to cotton yarn and apparel in particular, where unit prices are higher, and demand is large and fast-growing, especially in the EAC.

Cotton apparel: Exploit the opportunities in the EAC market and examine the main competitors (the US, South Africa and Lesotho). Expand to other SSA and MENA countries where demand is dynamic to ensure some level of market diversification and reduce the risk of supplying predominantly to markets which are already saturated, such as North America.

Cotton yarn: Those firms unable to produce cotton apparel and engage in the processing of cotton yarn should continue exploiting the East Asian market, where demand is very large and fast growing, and where the EAC has already established trading partners. Stepping into new markets, for example within the EAC or in other SSA countries where demand is growing would reduce the dependence on a single region and increase stability of exports.

VII. Leather value chain: Develop the leather footwear sector in order to exploit market opportunities and higher prices and diversify into other related finished leather products.

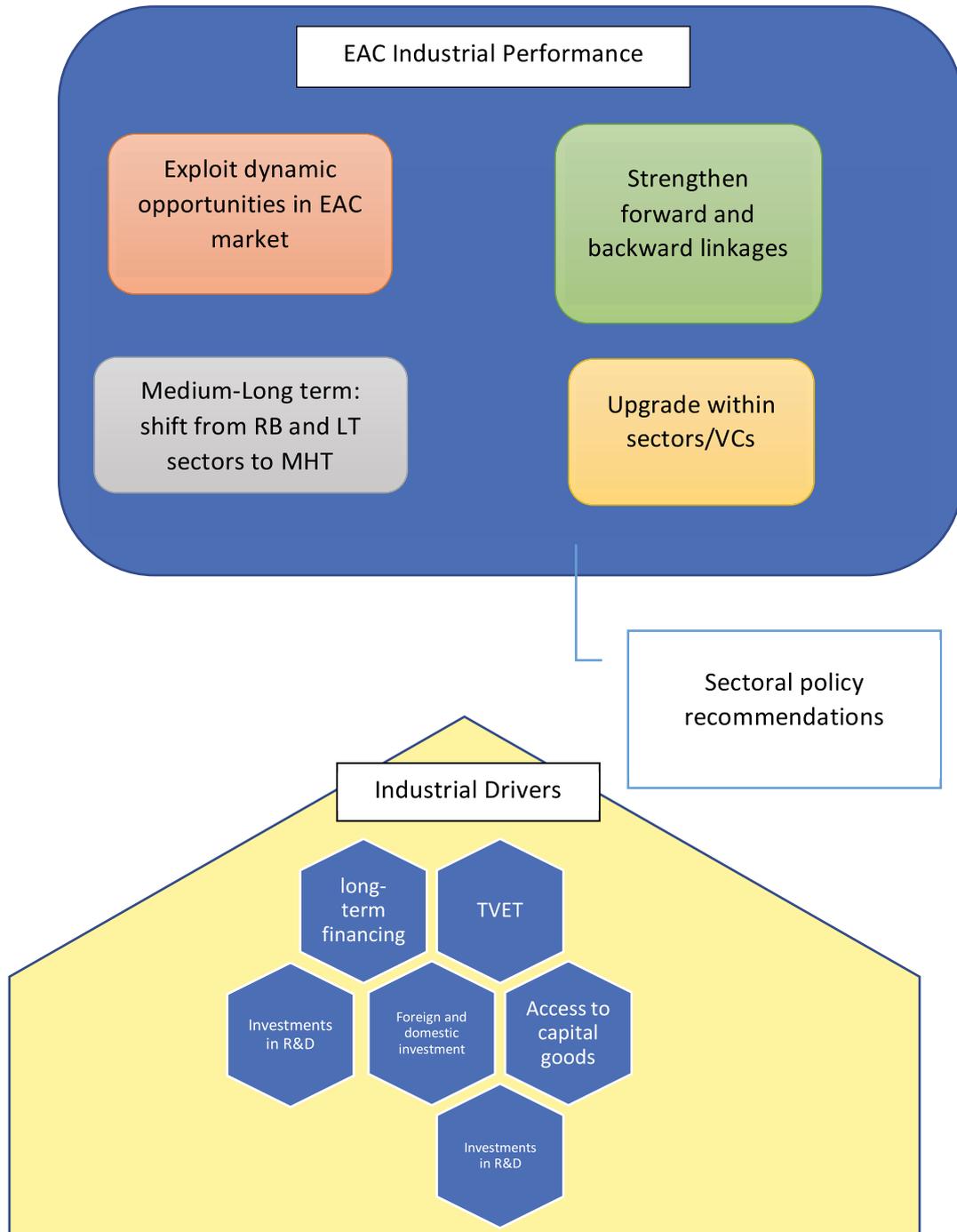
Focus on the rapidly expanding EAC market for leather footwear, while continuing to diversify into other markets as well. Most other regions also have highly dynamic markets with the exceptions of Europe and North America.

VIII. Ensure industrialisation as a top priority with ownership at highest political level and a solid, well-functioning M&E is undertaken

- a. Monitoring of industrial performance based on a set of harmonised indicators to become a regular exercise (annually) at national and regional level.** Due to the slowdown of industrial growth in the region, a regular evaluation of the industrial sector should ensure a monitoring and evaluation system is in place which is dynamic by nature, providing regular information on industrial development, so to create discussion and take action throughout the policy process, enabling the region to steer industrial development in the right direction.
- b. Monitoring of industrial and related policy measures and assessing performance at sectoral level, with the view of adjusting interventions in order to endeavour to meet the set targets.** Having an understanding of how specific policy measures should impact sectoral performance will support a policy cycle which is flexible to make adaptations as necessary in order to boost industrial performance. Anchoring the review of the EAC Common External Tariff to solid evidence from trade data is a concrete example of this. The three-band system of the CET should be reviewed and tailored to the exigencies of each sector and value chain, anchoring it to regular trade data for adjustments according to the observed impact.
- c. Regularly (biennially) produce analytical outputs to provide comprehensive and demand-driven information to decision-makers.** The EAC ICR 2017 is an example of what can be produced by the EAC, however, the type of analytical work produced should depend on the needs of the region and each Partner State.

Overview of main policy recommendations

Industrialization as a top priority - Monitoring and Evaluation – Evidence-based policy and decision-making



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