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Kenya and Uganda Bilateral Trade and Economic Partnership

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ABSTRACT: Kenya and Uganda indeed have strong bilateral relations that span various sectors, reflecting their shared interests and geographical proximity in the East African region. Both countries have a significant trade relationship, with goods and services flowing between them. They are also both members of the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), which facilitates trade cooperation and integration. This study highlights the ongoing infrastructure projects aimed at improving connectivity between Kenya and Uganda, such as road networks and the standard gauge railway (SGR), which is intended to link the two countries and enhance transport efficiency. Kenya and Uganda cooperate on security issues, including joint efforts in combating terrorism, cross-border crime, and maintaining regional stability through organizations like the East African Standby Force (EASF). Agriculture is a vital sector for both countries, and they share experiences and collaborate on agricultural development projects, technology transfer, and trade in agricultural products. As a result, Kenya and Uganda maintain a multifaceted relationship characterized by cooperation in various strategic areas, underpinned by historical ties, regional integration efforts, and mutual economic interests.

KEYWORDS: Uganda, Kenya, Geopolitics, Economic and Trade, Development and Governance

I. INTRODUCTION

The study on the factors determining bilateral trade between Kenya and Uganda during the period 2010-2024 focused on constructing import demand functions for each country to understand their trade dynamics. The study specified and estimated import demand functions for Kenya and Uganda regarding each other's goods. This involved identifying variables that affect import demand, such as income levels, population size, political factors (like conflicts), and lagged imports. Political conflicts were identified as having a negative influence on Kenya's demand for Ugandan goods. Instability or tensions between the two countries likely disrupted trade flows or reduced confidence in cross-border trade. The study provides valuable insights into the factors driving bilateral trade between Kenya and Uganda during the specified period, highlighting both the opportunities and challenges that influence trade relations between the two countries. Kenya and Uganda's commitment to forging a common ground to address persistent bottlenecks affecting bilateral trade reflects their shared determination to enhance economic cooperation and remove barriers that hinder smooth trade between the two countries. Both countries may prioritize joint infrastructure projects such as roads, railways, and border crossings to improve connectivity and facilitate the movement of goods and people. Efforts could be made to streamline customs procedures, reduce bureaucratic red tape, and harmonize trade regulations to simplify cross-border trade processes. Both sides are encouraging investments from both countries in each other's economies can strengthen economic ties and create opportunities for shared prosperity. Kenya and Uganda demonstrate a proactive approach to nurturing a more conducive environment for bilateral trade. This commitment not only aims to boost economic activities but also fosters deeper regional integration and stability in East Africa.

II. AFRICA CONTINENTAL FREE TRADE AREA (AfCFTA)

Uganda's ratification of the AfCFTA underscores its commitment to regional integration within Africa. By reducing tariffs and barriers to trade among member countries, AfCFTA aims to create a single market for goods and services across the continent. Implementation of AfCFTA from July 1, 2020, provides Uganda with opportunities to expand its export markets within Africa, capitalize on economies of scale, and attract more foreign direct investment (FDI) by being part of a larger market. Uganda is a member of the East African Community (EAC), which includes Kenya, Tanzania, Rwanda, Burundi, and South Sudan (observer status). The EAC aims to promote regional economic integration through initiatives such as the East African Customs Union (EACU) and the East African Common Market.

EAC countries benefit from reduced tariffs and streamlined trade procedures within the bloc, fostering closer economic cooperation and harmonization of policies. Uganda's membership in COMESA provides access to a larger market spanning 21 member countries. COMESA promotes trade liberalization through preferential tariffs and facilitates regional infrastructure development and economic integration (Uganda Country Report 2024).

III. TRADE AND INVESTMENT FRAMEWORK AGREEMENTS (TIFAS)

Uganda benefits from TIFAs signed between the United States and regional blocs like EAC and COMESA. These agreements facilitate dialogue on trade and investment issues, promote market access, and encourage economic cooperation between Uganda and the US. Uganda's participation in these regional and international trade agreements reflects its strategic approach to enhancing trade relations, promoting economic growth, and integrating more deeply into regional and global markets. These agreements provide frameworks for reducing trade barriers, harmonizing standards, and fostering cooperation in various economic sectors, which are crucial for Uganda's development aspirations (Ibid).

Within the EAC framework, member countries like Uganda and Kenya have agreements aimed at facilitating regional trade, including the transit of goods such as refined petroleum products. This facilitates smoother movement of goods across borders, reducing bureaucratic hurdles and transit costs. Uganda, a landlocked country, relies on transit routes through neighbouring Kenya to import refined petroleum products from producer jurisdictions. Agreements within the EAC ensure that transit procedures are streamlined and tariffs are minimized, which is crucial for Uganda to meet its energy demands efficiently. By enabling the import and transit of refined petroleum products through Kenya, Uganda's petroleum sector can access a wider range of suppliers and routes, enhancing supply chain resilience and potentially reducing costs. This arrangement helps mitigate challenges such as logistical constraints and supply disruptions that could otherwise affect Uganda's energy security. Such agreements underscore the political will and commitment of both countries to deepen economic cooperation and integration within the East African region. They also demonstrate the strategic importance of collaboration in critical sectors like energy, which is essential for regional development and stability. By and large, agreements allowing Uganda to import and transit refined petroleum products through Kenya from producer jurisdictions highlight the importance of regional cooperation in fostering economic growth, improving infrastructure, and enhancing energy security across East Africa. These agreements not only benefit Uganda's petroleum sector but also contribute to broader regional integration efforts within the EAC (Xinhua, 2024).

Ugandan President Yoweri Museveni "We are confident that these instruments will consolidate our strong relationship and anchor it on a transformative trajectory,". The expansion of Kenya's standard gauge railway to connect Naivasha to Kampala, Uganda, and potentially extend further to the Democratic Republic of the Congo (DRC), represents a significant infrastructure development aimed at enhancing regional connectivity and trade facilitation.

IV. REGIONAL TRADE AND CONNECTIVITY

Extending the SGR to Uganda and possibly the DRC aims to create a more efficient and reliable transportation corridor for goods between East African countries. This infrastructure project is crucial for reducing transport costs, improving logistics efficiency, and boosting trade volumes within the region. Improved connectivity through the SGR can stimulate economic growth by promoting investment, industrialization, and job creation along the railway corridor. It opens up opportunities for businesses in Kenya, Uganda, and potentially the DRC to access larger markets and enhance their competitiveness. The SGR expansion underscores Kenya and Uganda's commitment to strengthening bilateral relations and regional integration efforts. It aligns with broader initiatives like the East African Community (EAC) and the Africa Continental Free Trade Area (AfCFTA), facilitating smoother movement of goods and people across borders. Collaboration between Kenya and Uganda on addressing security challenges in the sub-region reflects their shared interest in maintaining peace and stability. By coordinating efforts, particularly in volatile areas like Sudan, South Sudan, Somalia, and the DRC, both countries aim to contribute to regional security and counter transnational threats such as terrorism and cross-border crime (Bharti, 2022).

The instruction to mobilize resources and report progress by the end of 2024 demonstrates the seriousness with which Kenya and Uganda approach these infrastructure and security challenges. Timely implementation will be crucial to realizing the economic and security benefits outlined. The SGR expansion and security cooperation initiatives between

Kenya and Uganda signify a proactive approach to enhancing regional integration, economic development, and stability in East Africa. These efforts are expected to foster closer ties between the two countries and contribute to the broader goals of regional peace and prosperity.

The signing of seven Memorandums of Understanding (MoUs) during the 2nd Session of the Joint Ministerial Meeting (JMC) between Kenya and Uganda in Kampala, Uganda, from May 12 to 14, 2024, marks a significant advancement in their bilateral relations. The MoUs likely cover a wide range of sectors, including trade, infrastructure, security, education, health, and cultural exchange. Each MoU outlines specific areas of cooperation, strategic objectives, and mechanisms for implementation. Kenya and Uganda demonstrate their commitment to deepening cooperation and collaboration across various fields. This strengthens their partnership and facilitates joint efforts to address shared challenges and pursue common goals. The signing of these MoUs reflects a positive trajectory in Kenya-Uganda relations, emphasizing shared interests, mutual respect, and a commitment to enhancing bilateral cooperation for the benefit of both nations and the region as a whole.

V. KEY AREAS OF BILATERAL COOPERATION

Foreign Service Institutions

The MoU aims to facilitate knowledge exchange and collaboration between the Foreign Service institutions of Kenya and Uganda. This includes sharing best practices, experiences, and expertise in diplomatic training and operations. By harmonizing diplomatic training structures and content, both countries can ensure consistency and alignment in preparing their diplomats for international assignments. This helps in standardizing skills, knowledge, and approaches to diplomacy, which is crucial for effective representation and negotiation on the global stage. The agreement is expected to enhance the diplomatic capabilities of both Kenya and Uganda by improving the quality and relevance of their diplomatic training programs. Diplomats from both countries will be better equipped to navigate complex international issues, engage in diplomacy effectively, and advance their national interests abroad. The MoU on cooperation in Foreign Service institutions underscores the commitment of Kenya and Uganda to nurturing a capable and professional diplomatic corps. It reflects a strategic effort to deepen bilateral relations, enhance diplomatic effectiveness, and contribute to regional and global diplomacy in a more cohesive and impactful manner (Diplomacy & Beyond, 2024).

Small and Medium-Sized Enterprises (SMEs)

The MoU on cooperation in the SME sector reflects a strategic partnership between Kenya and Uganda to leverage the potential of small and medium-sized enterprises for sustainable economic development. By pooling resources, sharing knowledge, and implementing supportive measures, both countries aim to create an enabling environment where SMEs can thrive, innovate, and contribute to broader socio-economic objectives. By strengthening the SME sector, the MoU encourages increased cross-border trade and investment between Kenya and Uganda. This can lead to enhanced economic integration, diversification of markets, and opportunities for joint ventures and partnerships among SMEs from both countries. SMEs play a crucial role in both Kenya's and Uganda's economies by contributing significantly to employment, innovation, and GDP. The MoU aims to create a supportive environment for SMEs to thrive through various initiatives and collaborations.

Education, Training, and Scientific Research

The Memorandum of Understanding (MoU) on cooperation in education, training, and scientific research between Kenya and Uganda represents a strategic initiative aimed at advancing academic collaboration and scientific development. Both sides have been agreed to cooperate in education and training to support capacity-building efforts in both Kenya and Uganda. This includes enhancing teaching methodologies, curriculum development, and professional development programs for educators and researchers. Joint research and collaboration in scientific fields can lead to technology transfer and innovation diffusion between Kenya and Uganda. This helps in adapting and applying research findings to local contexts, promoting socio-economic development and competitiveness. The strategic MoU on education, training, and scientific research underscores the commitment of Kenya and Uganda to promoting excellence in higher education, fostering innovation, and leveraging scientific advancements for mutual benefit. It signifies a concerted effort to harness the potential of academia and research in driving socio-economic progress and addressing regional challenges effectively (Diplomacy & Beyond, 2024).

VI. ENERGY SECTOR AGREEMENT

Tripartite Agreement on Refined Petroleum Products

This agreement allows Uganda National Oil Company Limited to import refined petroleum products directly from producer jurisdictions through Kenya. It addresses previous logistical challenges faced by Uganda's energy sector, ensuring smoother and more efficient importation of essential commodities. By streamlining the import and transit process, the agreement enhances energy security in Uganda and supports its economic stability by ensuring a reliable supply of petroleum products. Both countries have directed their trade ministers to address any remaining trade barriers and issues hindering bilateral trade. This proactive approach aims to ensure that the benefits of the agreements, including reduced tariffs and streamlined procedures, are fully realized to enhance economic cooperation and growth. The MoUs signed during the Joint Ministerial Meeting (JMC) cover a wide range of sectors including public service, youth, sports, education, SMEs, and gender equality. This comprehensive approach demonstrates Kenya and Uganda's commitment to fostering closer ties and addressing shared developmental challenges. President Museveni's state visit to Kenya underscores the importance of the bilateral relationship and the commitment of both leaders to deepening cooperation. Such high-level engagements reaffirm the strategic partnership between Kenya and Uganda and set a positive trajectory for future collaboration (President of Kenya, 2024).

President Museveni's advocacy for deepening free market and modern economy policies reflects a strategic vision for promoting shared prosperity, economic resilience, and sustainable development within the East African region and beyond. These policies are crucial for advancing regional integration, fostering innovation, and harnessing Africa's economic potential in the global arena. President Museveni states "We should eliminate barriers which hinder trade not only between Kenya and Uganda but also East Africa and Africa as a whole,". "Additionally, we have an instrument to guide our strategic cooperation in education, training and scientific research, as well as MOUs in the small and medium-sized enterprises sector, and gender equality and women's empowerment," (President of Kenya, 2024).

According to Daniel Kiptoo, the Director-General of the Energy and Petroleum Regulatory Authority said that "Uganda recently completed two big hydropower plants and now has excess power. There are discussions between Kenya Power and its Ugandan counterpart to lock this excess power through a PPA,". Kenya imported 55.85 million units of power from Uganda between January and March of the current year, while exporting a smaller amount of 10.65 million units during the same period. This indicates a net import of electricity from Uganda. However, the bulk of Kenya's electricity imports, reaching an all-time high of 408.78 Gigawatt-hours (GWh) in the first quarter, are sourced from Ethiopia, reflecting a strategic reliance on cross-border electricity trade to meet domestic demand. The decision to pursue a Power Purchase Agreement (PPA) with Uganda comes amidst Kenya's efforts to diversify its sources of electricity supply. This agreement is likely aimed at securing reliable and cost-effective power imports from Uganda, complementing domestic generation efforts. Locally generated hydropower remains the cheapest option on Kenya's national grid, priced at Ksh3.83 per unit. Geothermal power follows at Ksh10.28 per unit, while imported hydroelectricity is slightly higher at Ksh10.69 per unit as of February this year. These cost dynamics influence Kenya's sourcing decisions to balance affordability and reliability in electricity supply (The East African (2024).

The increase in imported electricity, particularly from Ethiopia and potentially Uganda under the new PPA, aims to stabilize electricity prices for consumers. Improved supply helps in maintaining grid stability and meeting growing demand, which is critical for Kenya's economic growth and development goals. Kenya's strategy of diversifying its electricity sources through increased imports from Uganda and Ethiopia aligns with its goals of enhancing energy security, stabilizing electricity prices, and supporting sustainable economic growth. The focus on PPAs and leveraging cheaper sources of energy domestically and regionally reflects efforts to optimize the cost and reliability of electricity supply for consumers and industries alike (Krebs and A. Rapport, 2012).

The discovery of oil in Kenya in 2012, particularly in Turkana County, has indeed intensified political contestation among various elite groups across different levels of governance and corporate interests. At the core-periphery level, the contestation involves tensions between the national government (core) and Turkana County (periphery), where the oil resources are located. Turkana County, as the host community, seeks greater benefits and control over local resources, while the national government aims to assert its authority and manage national interests, including revenue generation and resource allocation. The unveiling of devolution in Kenya in 2013 further complicated the governance landscape of the oil sector. Devolved governance structures empowered countries like Turkana to demand more

autonomy and control over local resources, challenging the centralized control traditionally held by the national government. The discovery of oil in Kenya, particularly in Turkana County, has intensified political contestation among various elite groups at multiple levels. These contestations have significant implications for governance, resource management, community relations, and the overall socio-economic development of the region. Managing these dynamics effectively is crucial for ensuring that oil resources contribute positively to Kenya's development goals while mitigating potential risks of conflict and inequality (Cannon and Stephen Mogaka, (2022).

VII. CONCLUSION

The research indicates a decision to build the oil pipeline through Tanzania reflects Uganda's strategic assessment of its economic and security interests, as well as considerations for maximizing the benefits of its oil resources. The development of this infrastructure is expected to have lasting impacts on Uganda's energy sector, regional dynamics, and economic development in East Africa. The discovery of substantial onshore oil reserves in Uganda in 2006 and later in Kenya in 2012 set off significant developments and negotiations regarding the transportation and refining of oil in the region. Uganda commissioned feasibility studies for both the Kenyan and Tanzanian pipeline routes. Total, a major player in the region's oil industry, conducted its study as well. Ultimately, Uganda announced its decision to proceed with building the pipeline through Tanzania. Historical mistrust and differing political systems between Uganda and Kenya, coupled with Kenya's perceived overconfidence and assumptions about Uganda's lack of viable alternatives, contributed to strained relations and Uganda's decision to look elsewhere for its oil pipeline. Kenya's ambitions to become East Africa's transport hub and its plans for regional economic integration have faced setbacks with Uganda's choice of pipeline route. Kenya's attempts to truck its oil to the coast and discussions about building its pipeline have not materialized due to a lack of funding and complexities in the geopolitical landscape.

While Kenya and Uganda continue to maintain complex and intertwined relations, Uganda's decision to prioritize the Tanzanian route for its oil exports underscores shifting geopolitical alignments and economic strategies within the EAC. The episode highlights the evolving dynamics of regional cooperation and competition, where traditional alliances are reshaped by economic imperatives, strategic interests, and external influences. The difference in time horizons between Kenya and Uganda reflects varying approaches to political governance and decision-making. Understanding these dynamics is crucial for assessing how policies are formulated, implemented, and sustained over time, ultimately impacting each country's development trajectory and governance effectiveness.

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