BUILDING THE FUTURE

A LOOK AT THE ECONOMIC POTENTIAL OF EAST AFRICA

U.S. CHAMBER OF COMMERCE
U.S.-Africa Business Center

Africa Expert Network

REPORT HIGHLIGHTS: BUILDING THE FUTURE

A LOOK AT THE ECONOMIC POTENTIAL OF EAST AFRICA

Building the Future: A Look at the Economic Potential of East Africa was compiled by the U.S. Chamber of Commerce and the Africa Expert Network to take an in-depth look at opportunities and challenges for U.S. investment in East Africa. This brief summarizes and highlights key findings of the full report, which will be available on our website www.usafricabusinesscenter.com.

INTRODUCTION

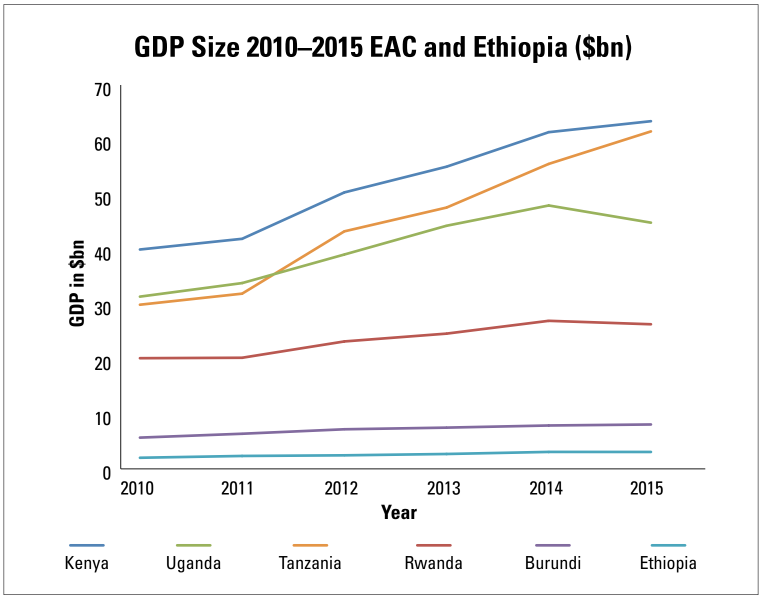
In July 2015, Barack Obama made history by becoming the first sitting U.S. president to visit Kenya. The visit captivated the country's attention and signaled a renewed interest in East Africa on the part of the United States. Six months before the visit, the U.S. government signed a new trade facilitation agreement with the East African Community (EAC), one of Africa's most dynamic regional trade organizations.

The deepening relationship between the United States and East Africa has yielded significant results. From 2010 to 2015, trade between the United States and the EAC increased by 103%. In 2014, U.S. exports to East Africa rose to over $2 billion. While most tariffs have been removed, there are still significant obstacles limiting U.S. trade with East Africa, including non-tariff trade barriers (NTBs), infrastructure bottlenecks, and infrastructure constraints.

This report highlights projects that have the potential to transform the future of EAC trade both regionally and globally and the ways in which U.S. firms can engage as investors and service providers.

REPORT HIGHLIGHTS

East African Economic Outlook and the EAC



Over the past decade, East Africa has been the fastest-growing region in Africa and is home to several of the fastest-growing economies in the world. Despite this, trade between the United States and the region's economies remains limited.

Building the Future covers East Africa's six critical economies: Kenya, Rwanda, Tanzania, Uganda, Burundi, and Ethiopia. Striking economic diversity is evident between the countries—Kenya's high service capacity, Ethiopia's sizable infrastructure investment, and Tanzania's tourism sector and developing logistics ambitions. And each of these countries have nuanced policy environments and provide unique investment opportunities for U.S. companies.

Regional integration has played a key role in boosting intra-East African trade and increasing the region's access to global markets. Since the EAC's establishment in 2000, the organization has implemented rapid institutional change that has turned the EAC into one of the continent's most dynamic trade blocks. The organization has been a key driver of East African infrastructure development (a major focus of the report) and has gradually reduced tariffs, trade barriers, and bottlenecks in the region, helping members increase their trade performance. Originally founded by Kenya, Uganda, and Tanzania, the EAC now includes Rwanda, Burundi, and South Sudan. Although Ethiopia is not a member, the country collaborates closely with the EAC on infrastructure projects and has signed several agreements to boost its trade with the EAC.

U.S. Engagement in the Region Has Not Matched Potential

Since 2000, the United States has signed several trade agreements with East African countries and regional organizations. Most recently, the United States signed a cooperation agreement on trade facilitation with the EAC that stands to create more opportunities for U.S. businesses in the region. However, U.S. trade with the region has been marginal and represents only 5% of total East African trade. In contrast, China and India have become the region's largest trading partners.

Country	Share of exports to the United States (% of total exports)	Share of imports from the United States (% of total exports)
Burundi	5.5%	4.0%
Ethiopia	4.2	3.7
Kenya	8.4	2.4
Rwanda	3.1	1.8
Tanzania	1.5	2.1
Uganda	1.9	2.1

The United States' share of East African trade in 2015

The United States is also facing competition from the EU, which has historically been one of East Africa's main trading partners. In 2014, the EU imported three times as many goods from Kenya than the United States. The EU also expects to see its share of East African trade increase over the next few years as an Economic Partnership Agreement with the EAC comes into force. The reciprocal deal is expected to be ratified by October 2016 and will grant EAC countries duty-free and quota-free access to the EU market. In contrast, the United States has yet to sign such an agreement.

Major U.S. Trade Agreements With East Africa

2000: African Growth and Opportunity Act (AGOA)

- All East African countries covered in this report are eligible

2001: U.S.-COMESA Trade and Investment Framework Agreement

- Agreement has limited scope
- Parties agree to increase trade relations
- Covers COMESA countries (Tanzania no longer a member; all other countries in this report still part of COMESA)

2008: U.S.-EAC Trade and Investment Framework Agreement

- Similar to 2001 COMESA agreement
- Only covers EAC countries (not Ethiopia)

2012: Rwanda-U.S. Bilateral Investment Treaty (BIT)

- Entered into force in 2012
- Protects U.S. investors' rights in Rwanda
- Rwanda is only EAC country to have a BIT with the United States

2015: U.S.-EAC Cooperation Agreement on Trade Facilitation

- Builds on 2008 U.S.-EAC TIFA
- New Trade and Investment Hub in Nairobi staffed by USAID
- Main provisions are on sanitary measures and trade barriers

Bottlenecks and Barriers to Trade

The EAC has been successful in eliminating internal tariffs, which have lifted some of the trade barriers among member states; however, challenges to trade and business remain. The organization still faces significant challenges integrating its new members into its current infrastructure, and numerous NTBs and trade-related bottlenecks continue to pose issues for foreign companies, although they are on the decline.

Despite measures to reduce NTBs, one of the main problems facing East African countries is that the regulations the national governments enact aren't always being implemented on the ground. In addition, costly administrative measures, such as licensing requirements, quotas and rules of origin, and technical regulations can create unnecessary barriers to trade.

Foreign registered trucks are still required to pay an annual fee of $600 to the Tanzanian government to operate in the country and an additional $500 every time they cross into the country, according to TradeMark East Africa.

Infrastructure bottlenecks, often caused by inadequate and aging infrastructure continue to significantly impact the cost of trade in the region. For example, borders can be major choke points for regional trade because of complex transit clearance procedures, outdated ICT systems, and limited port capacity. East African countries and their partners have implemented many "hard" infrastructure solutions to overcome these bottlenecks; however, "soft" infrastructure gaps have yet to be fully addressed. Inadequate "soft" infrastructure can be just as costly to businesses, and its development is essential to supporting East Africa's growing manufacturing hubs and increasing the region's participation in the global value chain. The full report both identifies bottlenecks and proposes practical solutions for the EAC to overcome them.

According to the Northern Corridor Transport Authority, delays caused by inadequate road networks cause an average loss of $800 per truck.

The Trade Facilitation Agreement (TFA), a landmark agreement concluded by the World Trade Organization in 2013, also has the potential to help East African countries tackle many of the bottlenecks and "soft" infrastructure challenges identified in the report. When TFA comes into force, the EAC countries will likely be among the leading beneficiaries of the agreement, particularly as the TFA contains provisions that require developed countries to provide technical assistance and capacity building to other WTO members for expediting the movement, release, and clearance of goods. Despite these sizable potential gains, as of June 24, 2016, the TFA has yet to be ratified, as only 86 of the 108 required WTO members have ratified the agreement.

Investment Opportunities and Transformative Projects

Despite the existence of trade-related bottlenecks and NTBs, East Africa possesses enormous investment potential for American companies. Governments are not only actively working to reduce trade barriers and address infrastructure challenges, but they are shifting their policies to attract foreign investment. Members of the EAC and Ethiopia are undertaking transnational and national infrastructure projects that have the potential to change the face of East African trade. These projects are creating opportunities for investors not only in the infrastructure sector but also in adjacent sectors, such as tourism, agriculture, energy, and manufacturing.

The number of large East African construction projects rose from 10 in 2014 to 61 in 2015.

In addition to outlining opportunities in each of the sectors mentioned here, the report takes an in-depth look at four major projects that will transform the business landscape. The projects selected portray the region's commitment to infrastructure-led growth and tackle widespread infrastructure deficiencies, as well as highlight the unique challenges associated with each.

- **The Northern Corridor Integration Projects (NCIP),** a regional initiative that encompasses 16 separate infrastructure projects, including a Standard Gauge Railway that will link most of the region's landlocked states to the Kenyan port of Mombasa.

- **Ethiopia's new Standard Gauge Railway,** a 5000 km rail line that would be the region's longest railway and help link Africa's most populous landlocked country to the Indian Ocean.

- **Tanzania's Bagamoyo Port project,** which stands to be East Africa's largest port when completed.

- **The One Stop Border Post (OSBP) system,** a "soft" infrastructure project that is being implemented across several EAC countries and will greatly improve the flow of goods in the region by consolidating customs procedures at the region's borders.

CONCLUSION

East African countries are some of the most promising trading partners for the United States on the African continent. The region is home to diverse and dynamic economies that have significant potential across several industries. The region is already a leading exporter of agricultural commodities (e.g. tea, coffee, and horticultural products), and large apparel manufacturers are increasingly sourcing their garments in Ethiopia and Kenya. Furthermore, East Africa has significant offshore gas reserves and is an emerging player in the renewable energy and power generation sector.

In the coming years, East African economies will likely follow in the footsteps of the "Next Eleven," a group of 11 countries that were identified by Goldman Sachs as the successors of the BRICS countries. Two factors will greatly contribute to the region's emergence: regional integration through the EAC, which will increase regional trade and remove trade barriers between East African countries, and the large-scale infrastructure projects currently under way, which will help link the region to the rest of the world.

East Africa's infrastructure development will help fulfill this gross potential. The three "hard" infrastructure projects presented in this report (the NCIP, Ethiopia's Standard Gage Railway, and the Bagamoyo Port) will greatly improve road, rail, and maritime transportation in the region in decades to come, thereby lowering transport costs, reducing delivery times, and improving productivity. Specifically, the two railroads will shorten freight times and decongest the region's road networks, while the Bagamoyo Port will create a new international trade hub that will help integrate East Africa into global supply chains.

To continue to improve trade in the region, East African governments and their partners need to continue to develop "soft" infrastructure projects and reduce impediments to trade. To do so, East African countries have a range of practical and technologically minded solutions at their disposal, such as expanding digitalization of customs processes, creating single customs windows, increasing de minimis values, and implementing advance customs rulings. These processes will help streamline the clearance process and further grow trade in the region. Finally, to support East African governments' efforts to facilitate trade and develop infrastructure, the report proposes practical and achievable solutions that can help reach their goals.

Recommendation 1: Increase digitalization of customs documents

Increasing digitalization of customs documents (such as cargo manifests, certificates of clearance, single entry forms, and certificates of conformity) would streamline the clearance process and enable the release of goods immediately upon arrival.

Recommendation 2: Create single customs windows and improve interoperability

Implementing the single window system, which has already been tested in Rwanda, across the EAC would enable multiple government agencies to access necessary documentation at the same time. This would cut costs and reduce delays.

Recommendation 3: Establish commercially meaningful de minimis values

By establishing commercially meaningful de minimis values, the EAC and Ethiopia would help clear low value cargo shipments, thereby facilitating clearance processes, reducing logistics costs for small and medium-size companies, and creating cost savings for consumers.

Recommendation 4: Implement advance customs rulings

Creating advance customs rulings for tariff classification, customs valuation, and country of origin would help expedite the clearance process in the EAC without compromising on important customs standards.

Recommendation 5: Encourage ratification of TFA by WTO member states

Ratifying the TFA, as Kenya has already done, would help increase East Africa's share of global trade and would contribute to higher GDP growth rates in the region.

Recommendation 6: Clarify the role foreign firms can play in the NCIP procurement process

Members of the Northern Corridor Initiative should clarify what role U.S. firms can play in supplying goods and services to the NCIP's 16 projects. To do so, NCIP countries should consider inviting representatives of foreign companies operating in East Africa to future NCIP summits.

Recommendation 7: Publish all the Request for Proposals for the NCIP and Ethiopia's Standard Gauge Railway online

To increase private sector involvement in the procurement process for the NCIP and Ethiopia's railroad, the governments of NCIP member states and Ethiopia should publish all Requests for Tender on a centralized online platform.

Recommendation 8: Continue to work with pro-trade organizations like TradeMark East Africa

Working with TradeMark East Africa (TMEA) and related organizations would help these projects and support the East African integration process.

Recommendation 9: Work to integrate rail and maritime infrastructure projects

East African countries should work together to ensure that their infrastructure projects are well integrated and do not compete with each other.

Recommendation 10: Address corruption at border posts

EAC countries should work together to address corruption at border posts by continuing to implement joint anti-corruption training programs and strategies by liaising with the private sector.

Recommendation 11: Ensure that all planned One Stop Border Posts are operational as soon as possible.

EAC countries should work together to make sure that all One Stop Border Posts being constructed are operational and work to reduce implementation delays for future OSBPs.

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