

BUILDING THE FUTURE

A LOOK AT THE ECONOMIC POTENTIAL OF EAST AFRICA



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



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Executive Summary

East Africa has been the fastest-growing region on the continent over the past decade, but trade between the United States and the region's main economies remains limited. In 2014, Kenya, Rwanda, Ethiopia, Tanzania, Uganda, and Burundi all had higher growth rates than the United States. Despite this growth, U.S. trade with the region has been marginal and represents only 5% of total East African trade. East Africa's main trading partners are China, India, and the European Union (EU).

Regional integration has played a key role in boosting intra-East African trade and increasing the region's access to global markets. The East African Community (EAC), a regional economic community that was originally founded in 1967 and revived in 2000, is the leading regional organization on the continent. Since 2000, the EAC has gradually reduced tariffs, trade barriers, and bottlenecks in the region, helping members increase their trade performance.

Several large-scale infrastructure projects that are underway stand to vastly improve trade in the region. These projects include the following:

- **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 5,000 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.

In spite of the progress being made through regional integration, significant barriers and bottlenecks to trade in East Africa remain. East African countries have taken steps toward eliminating non-tariff trade barriers (NTBs), but numerous NTBs that hamper regional and international trade still exist. Moreover, major bottlenecks remain, many of which are related to limited rail and road networks and insufficient maritime infrastructure. However, they are also related to soft infrastructure gaps, such as the need to modernize and standardize customs processes and the uneven observation of the World Customs Organization (WCO) *Immediate Release Guidelines*.

Introduction: A renewed interest in East African trade

In July 2015, Barack Obama made history by becoming the first sitting U.S. president to visit Kenya.¹ 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 his visit, the U.S. government signed a new trade facilitation agreement with the EAC, one of Africa's most dynamic regional trade organizations. The agreement aimed to increase trade between the United States and the EAC and created a \$64 million Trade and Investment Hub in Nairobi, Kenya.

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 more than \$2 billion.² But there are still significant obstacles limiting U.S. trade with East Africa. While most tariffs have been removed, NTBs, bottlenecks, and infrastructure constraints have limited U.S. businesses' ability to trade with the region.

This report highlights the 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. Part one profiles six of the region's leading economies, while part two looks at recent economic growth in these countries and its effects on trade. Part three outlines the effects of regional integration on trade and the current challenges facing the EAC. Part four outlines the main barriers and bottlenecks to trade. Part five outlines four transformational projects for East African trade and how U.S. firms can engage in them.

1. East Africa's six key economies

1.1 Kenya

Kenya is East Africa's largest economy and the United States' largest trading partner of the region.

The country's economy has recovered from the 2007 to 2008 political crisis, which resulted in the indictment of President Kenyatta by the International Criminal Court (ICC). In 2014, the ICC dropped charges against Kenyatta. Today, Kenya accounts for nearly 40% of the EAC's gross domestic product (GDP).³

Kenya is one of Africa's most diverse economies and has become a hub for U.S. companies in the region. Despite lacking the mineral wealth of some of Africa's largest countries, Kenya is a major producer of cash crops and ranks among the leading exporters of black tea, horticultural products, and coffee. In addition, its two major cities have become some of the region's key trade hubs. East Africa's largest port is located in Mombasa, while Nairobi, Kenya's capital, has become a regional center for U.S. companies operating in the region, including such companies as Google and IBM.

Vision 2030, the country's national development strategy, aims to transform Kenya into a middle-income country by 2030. Vision 2030 was implemented in 2008 and is based on three key pillars:

- The strategy's economic pillar aims to help Kenya maintain an annual GDP growth rate of 10% until 2030.
- The political pillar aims to solidify democracy and accountability in the country by enacting key political and judicial reforms.
- The social pillar aims to promote investment in human capital and social and environmental development.

1.2 Rwanda

The Heritage Foundation's *Index of Economic Freedom* ranked Rwanda as the "freest" country in East Africa in 2015. The small, landlocked country that lost close to 10% of its population during the 1994 genocide has now qualified as "moderately free" and ranked above several EU countries (including France and Spain). Kenya, Tanzania, Uganda, Burundi, and Ethiopia were all categorized as "mostly unfree."

A large part of Rwanda's economic success can be attributed to Vision 2020, the country's long-term development strategy. The Vision 2020 strategy aims to help Rwanda achieve middle-income country status by 2020.⁴ Vision 2020 is predicated on six pillars for development, one of which is "promotion of regional economic integration and cooperation."⁵ To increase its access to global markets, the country also implemented a National Export Strategy in 2011.

1.3 Tanzania

Tanzania is the second-largest economy in the EAC and boasts one of Africa's most stable democracies. Known for its vibrant tourist industry (Mount Kilimanjaro, Serengeti National Park, Zanzibar), Tanzania has significant mineral wealth and is home to the Port of Dar es Salaam, one of the region's major ports.

In spite of the country's stability, Tanzania ranked only 139th in the World Bank's 2016 Ease of Doing Business Rankings, below Rwanda (62nd), Kenya (108th), and Uganda (122nd). Given that the Port of Dar es Salaam handles cargo coming from several landlocked countries in East Africa and beyond (Rwanda, Burundi, Malawi, Zambia, and the Democratic Republic of the Congo (DRC)), improving Tanzania's trade infrastructure is critical for the region's success.

1.4 Uganda

One of the three founding members of the EAC with Kenya and Tanzania, Uganda is a major exporter of coffee, cotton, and tea. Despite the fact that Uganda is facing a decade long insurgency by the Lord's Resistance Army, tourism is one of the country's fastest-growing sectors. Most of Uganda's exports transit through the Port of Mombasa, making its bilateral relationship with Kenya crucial to the country's trade performance.

Like Kenya and Rwanda, Uganda has composed a long-term strategy document, *Uganda Vision 2040*, to guide its development. The strategy, which was finalized in 2013, aims to improve Uganda's integration in the global economy, increase its per capita income from \$560 to \$9,500, and modernize the country's key economic sectors within 30 years.

1.5 Burundi

An agriculture rich country, Burundi has been marred by political instability since President Pierre Nkurunziza announced in April 2015 that he would be running for a third term. In February 2016, the African Union sent 200 human rights monitors and military advisers to Burundi to help resolve the crisis.

While the country's economic performance still lags behind that of its neighbors, Burundi stands to gain from increased integration in the EAC. One of the region's only French-speaking countries, it adopted English as one of its official languages in 2013 to help facilitate trade and communication with other East African countries.

1.6. Ethiopia

Ethiopia is the fastest-growing country in Africa and the only country covered in this report not to be a member of the EAC. Ethiopia's growth rate has sparked renewed interest from U.S. businesses.

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Between 2006 and 2015, Ethiopia was the third fastest-growing economy in the world. Ethiopia's growth has largely been driven by infrastructure development and increased trade liberalization. In Barclays' *Africa Trade Index 2015*, Ethiopia ranked third in the "Trade Opportunity" category behind Nigeria and South Africa.

Despite Ethiopia's impressive growth and its growing market opportunities, the country has yet to fulfill its full economic potential. Per capita income remains low, investment freedom is limited, and the country is not part of the World Trade Organization (WTO). In addition, the country is landlocked and remains heavily reliant on the ports of Mombasa and Djibouti.

2. Economic growth in East Africa and its effects on trade

2.1 How East African economies have evolved over the past 10 years

East African countries are among the fastest-growing economies in the developing world.

According to the African Development Bank, East Africa was the continent’s fastest-growing region in 2015 and will remain in the lead in 2016.⁶ East Africa’s above average growth is not a new phenomenon. In 2014, the International Monetary Fund characterized the region’s growth since 2004 as “impressive” and “remarkable,” highlighting that East Africa had sustained solid growth rates over the past decade despite the 2007–2008 Global Financial Crisis.

East Africa’s economic development largely mirrors the growth of Asia’s new emerging economies. As shown in Table 1, East Africa’s leading economies have grown as fast as four of the Asian countries included in Goldman Sachs so-called Next-11 countries due to their economic potential (Bangladesh, Pakistan, the Philippines, and Vietnam). In 2014, Kenya’s GDP per capita exceeded that of Bangladesh and Pakistan. In addition, Ethiopia, Rwanda, and Tanzania all had higher GDP growth rates than any of these four countries in 2014.

Table 1: How GDP growth in East African countries compares with Asia’s emerging economies

Country	GDP per capita, current USD, 2014 ⁷	Annual GDP growth, 2014
Burundi	\$286.0	4.7%
Ethiopia	573.6	10.3
Kenya	1,358.3	5.3
Rwanda	695.7	7.0
Tanzania	955.1	7.0
Uganda	714.6	4.8
Bangladesh	1,086.8	6.1
Pakistan	1,316.6	4.7
Philippines	2,872.5	6.0
Vietnam	2,052.3	6.1

2.2 How regional trade has evolved

Since the inception of the EAC in 2000, Kenya has been the region’s leading exporter of goods and services. This remains true today. In 2014, Kenya exported more goods to the rest of the world and to the EAC than all of the countries covered in this report. Despite the fact that Kenya’s population (44.9 million) is lower than Tanzania’s (51.8 million), Kenya exports 3.7 times as many goods as Tanzania to the rest of the EAC.

At the other end of the spectrum, Burundi trades least with the rest of the world and the EAC. While Burundi and Rwanda are of similar size and have roughly the same number of inhabitants, Rwanda exports six times as many goods as Burundi to the rest of the world.

Table 2: EAC countries’ exports to the region and the rest of the world

Country	Value of total merchandise exports to the rest of the world (\$ million), 2014 ⁸	Value of exports to EAC countries (\$ million), 2011 ⁹
Burundi	\$125 million	\$24.4 million
Ethiopia	4,437	<i>Not EAC</i>
Kenya	6,115	1,544.4
Rwanda	736	70.8
Tanzania	4,645	416.8
Uganda	2,274	649.7

Despite Kenya’s position as the region’s leading exporter, intra-EAC trade still lags behind regional trade in other regions of the globe. As mentioned, Kenya’s GDP per capita and GDP growth is largely comparable to that of Vietnam and the Philippines. However, both of these countries are better integrated in the global economy and trade more with their neighbors. In 2014, Vietnam exported nearly 12 times as many goods to other Association of Southeast Asian Nations’ countries than Kenya exported to the EAC. In addition, over that same period, Vietnam exported 30 times as many goods to the rest of the world than Kenya.

Figure 1: Total and intraregional trade in Kenya, Vietnam, and the Philippines



2.3 Trade with the United States remains limited

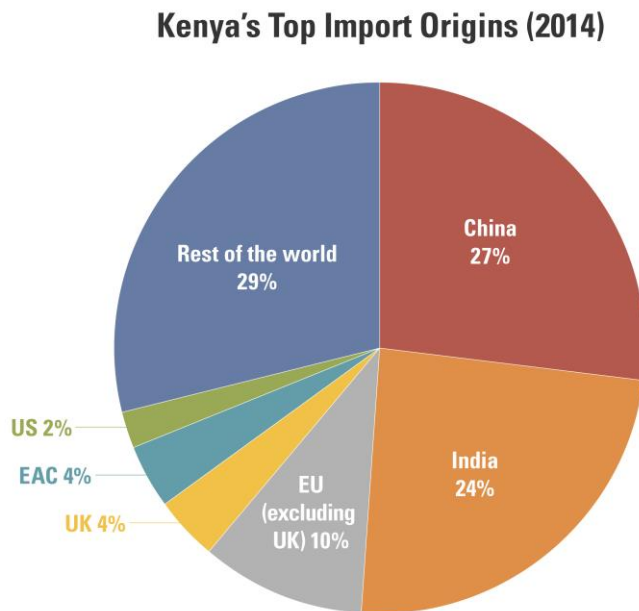
In spite of trade and investment promotion efforts undertaken in the past several years, East African trade with the United States remains limited. While trade between the United States and the EAC increased by 103% from 2010 to 2015, U.S. trade with East Africa still makes up a small fraction of East Africa’s trade with the rest of the world. In 2015, the United States’ share of imports among East African countries ranged from 1.8% to 4.0% (see Table 3).

Table 3: The United States’ share of East African trade

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

In contrast, China and India have become two of the region’s largest trading partners. As seen in Figure 2, **Kenya, the United States’ leading trading partner in the region, imported 14 times as many goods from China than it did from the United States in 2014.**

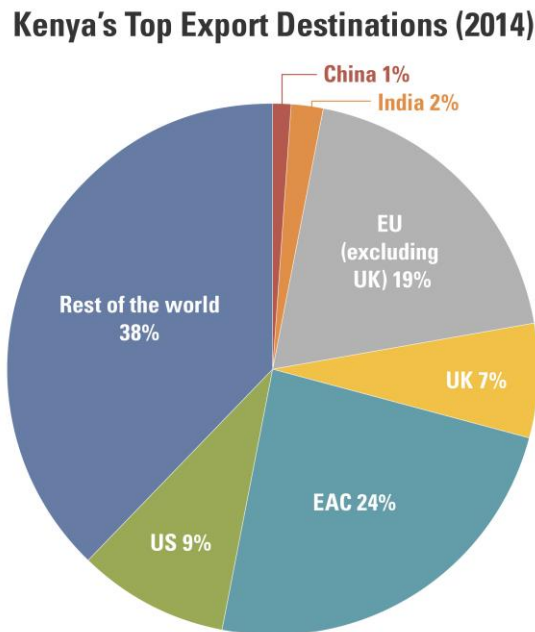
Figure 2: Kenya’s top import origins, 2014



The United States is also facing competition from the EU, which has historically been one of East Africa’s main trading partners. The EU is the main export destination for two of Kenya’s main industries, horticulture and tea. According to the Kenya Flower Council, Kenyan flowers currently account for approximately 38% of all flower sales in the EU. The U.K. is also one of the leading importers of Kenyan tea.

Figure 3 highlights the EU’s importance as a trading partner for Kenya. The EU imported three times as many goods from Kenya than the United States did in 2014. According to the WTO’s latest figures, the U.K. alone accounts for a larger share of Kenya’s exports than the United States.

Figure 3: Kenya’s top export destinations, 2014



In the next few years, the EU could see its share of East African trade increase as its new reciprocal trade agreement comes into force. The EAC is currently negotiating an Economic Partnership Agreement (EPA) with the EU, which will increase bilateral trade between the two regional organizations. The deal was finalized in October 2014; however, ratification has been delayed until January 2017.

The EPA is a reciprocal trade agreement that will grant EAC countries duty-free and quota-free access to the EU market. The deal will also improve EU businesses’ access to the EAC market and offer increased protection for EU investors. According to a recent University of Nairobi study, the EPA will increase manufactured goods imports from the EU into the EAC, and reduce the price of these goods for EAC consumers.⁷

The EU’s EPA with the EAC is part of a wider EU-led strategy that aims to increase European trade with Africa’s Regional Economic Communities. In 2014, the EU finalized EPAs with the Southern African Development Community and the Economic Community of West African States.

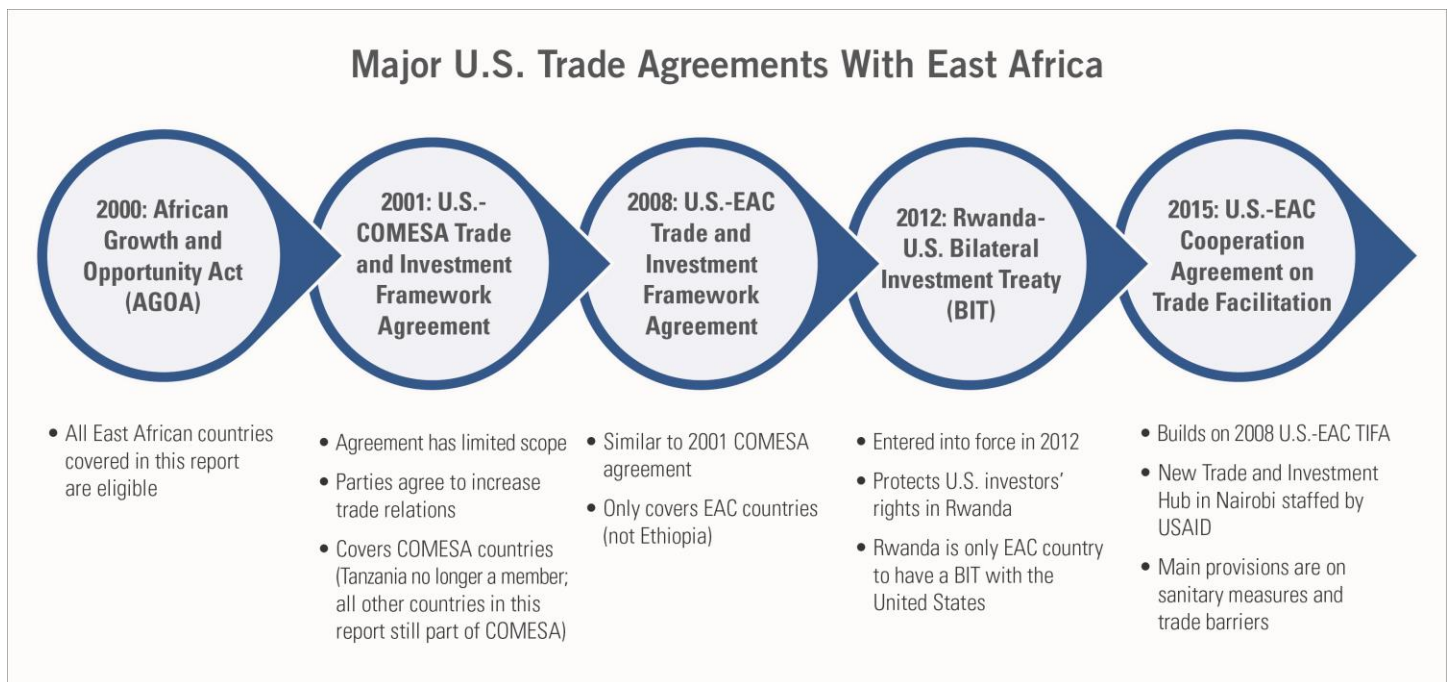
In contrast, the United States has yet to sign such an agreement. During the African Growth and Opportunity Act (AGOA) renewal process, several EAC leaders called for the United States to negotiate an EPA-style pact with the EAC. In September 2015, for instance, EAC Director General of Customs and

Trade Peter Kiguta called for the United States to start negotiations on a preferential trade partnership like the EAC-EU EPA.⁸

2.4 U.S. efforts to deepen trade with East African countries

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. Nevertheless, the United States has yet to sign a free trade agreement with the EAC or any of the countries in the region.

Figure 4: Major U.S. trade agreements with East Africa



3. Regional integration in the EAC and its impact on trade

3.1 The EAC

One of the main trade-related achievements in the region has been the creation of the EAC.

Originally a trade preferential agreement between Kenya, Tanzania, and Uganda, its scope and membership have gradually grown since the organization's creation. In 2007, the EAC accepted two new member states (Burundi and Rwanda). South Sudan became the organization's sixth member state in March 2016.

In many ways, the EAC was a pragmatic arrangement between the three original member states. Uganda is landlocked and relies on the ports of Mombasa (Kenya) and Dar es Salaam (Tanzania) to export its goods to the rest of the world. Kenya, East Africa's largest economy, has long exported much of its goods and capital to neighboring countries and wanted to lift regional barriers to increase regional trade opportunities.

The EAC's three new members offer a different set of challenges. While Rwanda is widely considered one of Africa's 21st century success stories, Burundi's recent history has been marred by economic and political instability, and the country continues to lag behind its EAC neighbors.

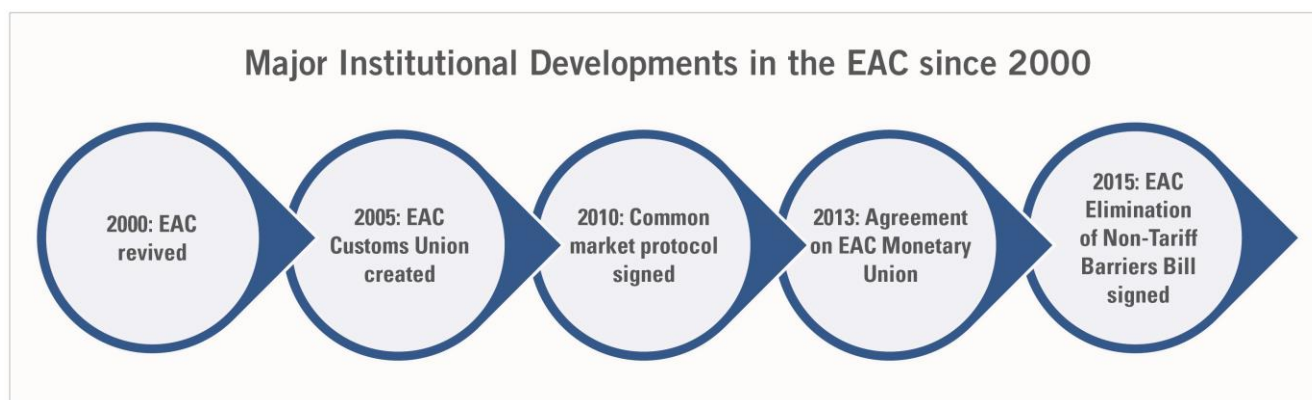
South Sudan, the organization's newest member, arguably faces even greater challenges. It is the world's newest sovereign state and has been tainted by internal political conflict since its independence in 2011. While South Sudan's oil and mineral wealth mean that the country has significant potential for growth, these industries are still largely unregulated.⁹ In addition, the decline in global oil prices has hurt the country's exports, which are largely oil based.¹⁰ The country's accession will nonetheless help grow the EAC's internal market and offer more trade opportunities for existing members.

Although Ethiopia does not have observer status with the EAC, the country has signed several agreements to boost its trade with the EAC.

3.2 The EAC's impact on business and trade

Since the EAC's establishment in July 2000, the organization has implemented rapid institutional change that has turned the EAC into one of the world's most dynamic trade blocks. Only five years after the organization's creation, the EAC established a new Customs Union that aimed to eliminate all customs tariffs between the member states. In 2010, the organization signed a common market protocol that established the free movement of goods, labor, services, and capital (also known as the "four freedoms").

Figure 5: Major institutional developments in the EAC since 2000



In 2013, the organization signed a protocol paving the way toward the East African Community Monetary Union, which would create a common currency among all member states. The common currency is expected to be introduced in 2024.¹¹ Experts have argued that the introduction of a common currency could reduce transaction costs among countries and help harmonize prices at a regional level.¹² In 2015 the organization introduced the EAC Elimination of Non-Tariff Barriers Bill. As its name suggests, the bill aims to eliminate all non-trade barriers in the region. The EAC’s approach to the NTBs is covered in more detail later in this report (see section 4.2 on the subject).

The EAC’s development has often been compared with the EU, which started as a free trade area and later grew into a single market and a monetary union. However, as seen in Table 4, regional integration in the EAC has been faster than in the EU.

Table 4: EU versus EAC at a glance

	European Union	EAC
Date of Foundation	1951 (Treaty of Paris) or 1993 (Maastricht Treaty)	2000 (EAC Treaty)
Number of members	28	5
Population	508.5 million ¹⁶	156.1 million
Land area	4.5 million sq. km	1.8 sq. km
Budget (2015)	€145 billion (approx. \$158 billion) ¹⁷	\$126 million ¹⁸
Percent of global GDP	30%	2% ¹⁹
Official languages	24	2
Customs union	Yes, since 1968	Yes, since 2005
Common market	Yes, since 1957	Yes, since 2010
Single currency	Yes, since 1999	No (but in development)

3.3 Current challenges for the EAC

While the EAC is one of Africa’s leading regional economic communities, the organization is still facing significant challenges. One challenge going forward will be increasing compliance with existing legislation to enhance regional and international trade. In 2014, the EAC secretariat published the *EAC Common Market Scorecard*, which tracks the implementation of the “four freedoms” by the member states. The scorecard found that several member countries had “a lenient attitude toward exemptions” and that this attitude was “slowing the development of the common market.”

Another challenge will be helping member states that are not well integrated into the organization. Rwanda, Burundi and South Sudan all joined the EAC after several key agreements were signed. In other parts of the world, rapid accession of new members has stunted the growth of regional communities. These countries will therefore need to catch up with the community’s three founding members--Kenya, Uganda, and Tanzania—and work with them to establish a coherent vision for the organization.

To integrate new member states, the organization will need to make sure that all member states have the same decision-making power. In theory, the organization’s three founding members (Kenya, Uganda, and Tanzania) are placed on an equal footing with countries that acceded to the organization later on. All decisions made by the EAC’s two main governing bodies, the Summit (heads of state) and the Council (country delegations made up of the minister responsible for the EAC, another designated minister, and the attorney general) are based on unanimity voting. But as the organization expands, the EAC will need to ensure that new member states have a seat at the table and are as involved as the founding members in the organization’s development.

Finally, the organization will need to continue to work with its neighbors to help EAC countries increase their trade with the wider region. One effective way for the organization to achieve this goal would be to grant “observer status” to neighboring states and regional communities. The EAC Treaty contains provisions that allow the organization to confer observer status to foreign countries so that they can attend debates and voice their opinions on matters that concern them. The organization has yet to use this provision.

4. Barriers and bottlenecks to trade

4.1 Tariffs

The EAC has been successful in eliminating internal tariffs, which has lifted some of the trade barriers among its member states. The organization has also created a Common External Tariff (CET) on imports, which sets different tariff rates on three types of goods. This CET has created some debate among member states and is not yet uniformly implemented.

Internal tariffs

The 2005 EAC Customs Union removed internal tariffs in the EAC. While most internal tariffs were removed immediately, certain tariffs on Kenyan exports to Uganda and Tanzania were gradually removed in order not to flood these two countries' markets with Kenyan goods. As of 2015, these tariffs had gradually reduced to 0%.¹³ Most of the organization's member states are also members of the Preferential Trade Area of the Common Market for Eastern and Southern Africa (COMESA), which sets preferential import tariffs for its members.

External tariffs

The EAC has CETs on all imports, which were originally created in 2005 and have been revised twice since (2007, 2012). The EAC has a "three-band" CET: A 0% tariff is set on primary goods (including raw materials and agricultural inputs), a 10% tariff is set on intermediate goods, and a 25% tariff is set on finished goods.¹⁴ The CETs are a source of debate among member states. The debates mostly focus on the tariffs and the rate of duty remissions (or how quickly they come into force).¹⁵ In 2015, for example, Kenya asked the EAC to be granted a delay in implementing the CET on several products to protect local industries from cheap imports.¹⁶

4.2 Non-Tariff Barriers (NTBs)

What are NTBs?

As their name suggests, Non-Tariff Barriers (NTBs) are trade barriers that restrict imports and exports but are not tariff based. These measures include costly administrative measures such as import licensing requirements, fees, quotas, and rules of origin. They also include technical barriers to trade, technical regulations that can serve a legitimate health or environmental purpose but can also be used to create unnecessary barriers to trade.

Are NTBs a problem in the EAC?

While the EAC has attempted to limit the number of NTBs, these barriers continue to have a significant impact on regional trade. Since the creation of the EAC, member states have repeatedly called for the suppression of NTBs. Article 13 of the 2005 East African Community Customs Union encourages EAC member states to remove all NTBs. With the help of trade advocacy organizations like TradeMark East Africa, the EAC has regularly monitored the status of NTBs in its member states and has held annual conferences on NTB elimination. In March 2015, the EAC Elimination of Non-Tariff Barriers Act 2015 came into force, supplementing the EAC's anti-NTB efforts.

Despite these measures, NTBs remain a problem in the EAC. One of the main problems facing East African countries is that regulations that the national governments enact aren't always being implemented on the ground. While East African heads of state may agree to anti-NTB legislation, these new principles don't trickle down to local officials or customs enforcement authorities.

For instance, according to TradeMark East Africa, foreign-registered cargo trucks are still required to pay an annual fee of \$600 to the Tanzanian government to operate in the country and an additional \$500 fee each time they cross into Tanzania.¹⁷ The Tanzanian Foreign Vehicles Transit Act Cap. 84 (R.E. 2006) imposes a charge of \$6 on foreign vehicles that do not exceed three axles and \$16 on foreign vehicles exceeding three axles for every 100 km travelled. According to the law, a round trip along the central corridor that stretches approximately 1,700 km amounts to approximately \$500 for any vehicle exceeding three axles. Although the Rwandan and Tanzania governments agreed to a reciprocal toll of \$152 for all vehicles in 2013, the Foreign Vehicles Transit Act still remains in effect.

The NTB Reporting and Monitoring Tool

One of the solutions to limit the impact of these barriers on trade is the NTB Reporting and Monitoring Tool, which was launched in April 2013. The reporting tool is a mobile phone and email-based system that allows truck drivers and traders to report NTBs to local authorities. Traders affected by these barriers can send a text message or an email to a central administrator, who then assigns the complaint to a focal point that resolves the issue. While this system still needs to be perfected, it could potentially increase the speed at which NTBs are reported. It also allows truck drivers and small traders to play a more active role in the suppression of trade barriers, which arguably affect them the most.

4.3 Bottlenecks

Bottlenecks are congestion points that delay shipments and increase the cost of trade. In East Africa, many of these bottlenecks are caused by inadequate or aging infrastructure. East African countries and their partners have implemented new hard infrastructure solutions to overcome these bottlenecks. According to Deloitte's latest *Africa Construction Trends Report*, the number of large East African construction projects rose from 10 in 2014 to 61 in 2015. Many of these new construction projects have sought to improve regional infrastructure.

However, many bottlenecks are also caused by soft infrastructure gaps, which have yet to be fully addressed by EAC governments. Efforts to facilitate trade have often placed a spotlight on hard infrastructure investments to the exclusion of soft infrastructure policies. Here are some examples of bottlenecks caused by soft infrastructure gaps:

- Border posts that require paper customs documents instead of electronic documents
- The uneven observation of the WCO *Immediate Release Guidelines*, which aim to expedite border clearance purpose.

Soft infrastructure policies are essential to supporting East Africa’s growing manufacturing hubs and increasing the region’s participation in global value chains.

The implementation of these policies will help governments fully leverage their hard infrastructure investments while driving commerce and economic growth. Notably, modern customs policies can play an important role in unlocking manufacturing opportunities. These policies can help lower high distribution costs, thus encouraging more companies to source from the region. Furthermore, customs improvements, such as ensuring consistency of service and reducing wait times, would help companies better plan their import and export activities and guarantee time-definite delivery.

Figure 6: Major trade-related bottlenecks in East Africa

Lengthy Border Crossings

Borders can be major choke points for regional trade

- Delays at border crossings can be long and transit clearance procedures can be complex, often requiring companies to deliver original documents to multiple agencies.
- Countries do not share data and use incompatible or outdated ICT systems.
- Frequent power cuts can temporarily interrupt border operations and add to delays.
- Customs schedules are different, meaning that a truck can be cleared to exit a country and wait for hours before it is allowed to enter into the adjoining country. A limited number of opening hours contributes to the overnight "stack up" problem.
- Underdeveloped risk management processes typically rely on customs officials to use individual localized knowledge rather than global best practices, leading to inconsistencies in the application of regulations and varying levels of scrutiny and integrity risks.

Soft Infrastructure

Outdated customs policies significantly hinder the flow of goods

- Customs do not accept electronic documents and data, such as e-manifests, and thus are not able to employ pre-arrival clearance.
- Outdated customs lists qualify goods for multiple categories, resulting in goods being either double-taxed or taxed at the higher rate.
- Single windows, a global best practice that enables cross-border transfers to lodge electronic information with a single body, are not used.
- De minimis levels are too low, not abided by, or nonexistent.
- Costs of holding goods at port are increasing.
- Certificates of conformity, such as the Kenya Bureau of Standards (KEBS) quality certification sticker, are not given until arrival.
- Countries do not take advantage of the WCO valuation database or *Immediate Release Guidelines*.

Road Infrastructure

Significant delays exist on the EAC's main road networks

- The EAC has two main transportation corridors: the Northern Corridor (1,050 miles), which connects the EAC to the port of Mombasa, and the Central Corridor (800 miles), which connects the EAC to the port of Dar es Salaam.
- According to the Northern Corridor-Transit Transport Coordination Authority, delays cause an average loss of \$800 per day for each truck.
- According to a World Bank study, there are road blocks every 30 km–50 km on East African roads.

Rail Infrastructure

Rail infrastructure is limited in East Africa

- Burundi and Rwanda have no operating railway.
- Less than 5% of cargo at the ports of Mombasa and Dar es Salaam are transported via rail.
- Kenya, Tanzania, and Uganda use meter gauge (not standard gauge), which limits cargo weight and total freight.
- Some ambitious projects in development, such as the Ethiopian Standard Gauge Railway and NCIP's Railway, are ongoing.
- Kenya is building a railway that would link most landlocked East African countries to the port of Mombasa, while Ethiopia is building a 5,000 km Standard Gauge Railway network (see case studies in section 5).

Port Infrastructure

Infrastructure constraints at ports is a major issue in East Africa (increase delays and cost)

- Major constraints include limited capacity, aging infrastructure, limited storage, unavailable dry port facilities, and limited ICT systems.
- At the port of Mombasa, the narrow gauge railway is old and can only transport 5% of the containers shipped to the port, creating traffic jams that cause significant delays and backlog.
- At the port of Dar es Salaam, there are no operational Inland Container Depots (dry ports used for temporary storage) or Container Freight Stations (consolidate goods into containers).
- From 2005 to 2010, piracy increased the risks and price of trade at the Port of Mombasa. However, piracy in the region has largely subsided.

4.4 The Trade Facilitation Agreement: a potential game changer for East African trade

Another way for East African countries to increase their trade performance would be to ratify the Trade Facilitation Agreement (TFA), a landmark agreement concluded by the World Trade Organization in 2013 that has yet to be entered into force. According to the Organisation for Economic Co-operation and Development, implementation of the TFA could reduce worldwide trade costs by between 12.5% and 17.5%. Moreover, the World Economic Forum has suggested that reducing supply chain barriers could increase global exports by 15% and global GDP by 5.0%.

Members of the EAC stand to benefit from the implementation of the TFA in several ways. A number of WTO studies have indicated that the TFA would have the strongest impact in Sub-Saharan

African countries, meaning that EAC countries would be among the leading beneficiaries of the agreement.

In addition, the TFA will help EAC members address many of the bottlenecks and soft infrastructure challenges outlined here. Moreover, 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. The TFA will also grant transition periods to EAC members for implementing commitments.

Despite these sizable potential gains, the TFA has yet to be entered into force because not enough WTO members have ratified the agreement. The TFA will only come into effect once it is ratified by two-thirds of WTO members, equivalent to 108 of the 162 WTO members. As of September 2016, only 94 members of the WTO have completed the ratification process. While Kenya, Uganda, Tanzania, and Burundi are all members of the WTO, only Kenya has ratified the agreement so far.

4.5 Practical solutions to overcome barriers and bottlenecks in East Africa

East African countries have implemented multiple trade facilitation measures since 2000, but they could further ease bottlenecks and trade barriers by continuing to streamline customs procedures and introduce new transparency measures.

Solution 1: Streamline customs procedures

The speed and efficiency of customs procedures in the EAC have increased in the past few years, but areas for improvement remain.

- ***Standards and systems:*** EAC member states should work to further streamline customs procedures by implementing modernized and efficient data and clearance systems and existing multinational standards for customs paperwork.
- ***New processes:*** EAC countries could benefit from reduced customs clearance times by accepting e-manifests, facilitating pre-arrival clearance, and creating single windows.
- ***Opening times:*** EAC countries should consider extending border posts' opening times to reduce customs clearance delays.
- ***Border security:*** EAC countries could introduce new joint border security policies to reduce risk in the cross-border movement of goods.

Solution 2: Enacting new transparency and governance measures

To overcome bottlenecks and barriers, countries should enact new governance and transparency measures.

- Transparency: EAC countries should publish all border-related procedures and policies online and make sure that they are updated regularly.
- Consistency: EAC countries should work to ensure that customs officials apply both regional and international border regulations consistently (e.g., the WCO's valuation database and *Immediate Release Guidelines*). Adopting a "one government at the border" approach would also help improve consistency.
- Advance notice on regulation: EAC governments should give advance notice to domestic and international firms when they are considering enacting new trade regulations or modifying existing ones.
- Transitional grace periods: The WTO's new TFA grants transition periods for countries to enact the agreement's provisions. Similarly, the EAC should create grace periods to help firms adapt to new policies.

5. East African trade: investment opportunities and transformative projects

5.1 Investment opportunities for U.S. companies

East Africa possesses enormous potential for investment from American companies, particularly as governments privatize industries, improve infrastructure, and reduce trade barriers. Government funds are being funneled into large infrastructure projects across the region, creating opportunities for U.S. companies not only in new and existing infrastructure initiatives but also in other industries, including tourism, agriculture, manufacturing, and energy.

5.1.1. Infrastructure

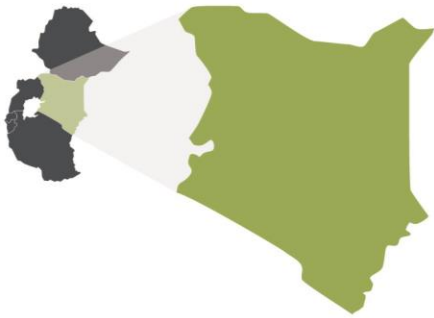
A number of countries in the region are welcoming foreign investment in infrastructure, particularly in the form of Public-Private Partnerships (PPPs). Foreign investment in large-scale infrastructure projects often requires close integration with government, and even more so in Ethiopia where private sector involvement can be dependent on select moments of private sector inclusion. As covered earlier in this report, mitigating infrastructure bottlenecks is critical to the future of growth in the region, and investment in the sector is increasingly viewed as a method of doing so.

The EAC member countries are relatively open to investment in infrastructure by foreign firms and are restructuring policies to reduce government involvement and increase commercial activities. Notably, at the NCIP meeting in April 2016, member states emphasized the need to encourage greater private sector participation. While the sector has historically been dominated by Chinese stakeholders, there has been a recent push to increase the involvement of U.S. firms. During a trade mission to the United States on ports modernization and security in March 2016, representatives from Tanzania, Ethiopia and Kenya expressed a desire for greater U.S. private sector participation. There are opportunities for U.S. firms to actively participate in feasibility studies, construction, development, and operation of projects.

A challenge encountered by many investors has been the lack of transparency around existing tenders. While requests for proposals are often published on government websites, they are often difficult to find, and contracts are allocated to companies most active in the local industry and government. Difficulty in identifying opportunities is amplified in transnational projects where the division of responsibilities between governments and ministries can be unclear. In an effort to expand participation to new organizations, the Kenya Private Sector Alliance called for expressions of interest for the local private sector to participate in the NCIP. Trademark East Africa, USAID's East Africa Trade Hub, and USTDA have also provided valuable platforms for foreign firms to identify investment opportunities.

Members of the EAC and Ethiopia have embarked on a wide range of projects that will transform the region's business landscape. In addition to the four transformational projects described in section 5.2, there are many others in air transport, port facilities, railways, road and water transport. A limited list of projects can be found in Figure 7. Strengthening infrastructure is key to supporting the growth of existing industries and generating new investment opportunities.

Figure 7: Infrastructure projects across East Africa



KENYA

- Modernization and development of Mombasa Sea Port
- Crude Oil Pipeline (NCIP)
- Power generation, transmission, and interconnectivity (NCIP)
- Enhancement of safety and security at ports
- Assessment and studies of port modernization and performance improvement
- Development of new berths Free Port and SEZs
- Installation of integrated physical security systems for new terminals
- Development of a cruise ship terminal
- Cargo trucking and container yard management solutions
- Dredging of Mombasa Port channels
- Rehabilitation of inland container depots
- Customs gates enhancement and implementation of smart gate concept (single gate pass)
- Enhancement of existing container berths and conversion of existing general cargo berths into container terminals
- Development of small ports

FOCUS ON LAPPSET

- Lamu Port: 32 deep sea berths at Manda Bay
- LAPPSET Highway which has been divided into four segments for construction purposes: (1) Lamu-Garissa (250 km); (2) Garissa-Isiolo (423 km); (3) Isiolo-Moyale (505 km); and (4) Isiolo-Nadapal (721 km)
- Crude oil pipeline
- Railways: Lamu – Isiolo – Nginyang – Lokichar – Nakodok (1,250 km) and Isiolo – Marsabit – Moyale (470 km)
- Nairobi commuter rail
- Railway cities
- Thika toll road
- Dry port at Voi
- Mombasa terminal
- Likoni terminal

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RWANDA

- Single Customs Territory (NCIP)
- Kibungo – Ngoma – Nyanza (130 km road)
- Nyagatare – Byumba – Base (130 km road)
- Kigali Ring Road (80 km)
- New Bugesera Airport Expressway
- Development of feeder and urban roads
- Development of a new modern international airport at Bugesera
- The Dar es Salaam – Isaka Kigali railway
- The Mombasa – Nairobi – Kampala – Kigali railway
- Dry Port of Kigali
- Inland waterway to connect the cities of Rubavu, Karongi, and Rusizi with the construction of new terminals and the equipment of new ships
- Public transportation system, organized around the Bus Rapid Transit System (BRT), composed of 43 km of dedicated bus lanes

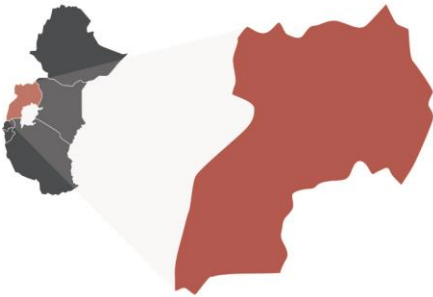


TANZANIA

- The Bagamoyo Port project
- Modernization of Dar es Salaam Port:
 - Strengthening and deepening of berth 1-11 and construction of a new RoRo berth
 - Deepening and widening of entrance channel and turning basin
 - Installation of conveyer systems and expansion of Silos capacity
- Construction of two additional container berths (13 and 14)
- New Oil Terminal: greenfield needs to be studied/ designed; procuring a consultant to undertake a feasibility study and preliminary design (2017)
- Development of new port at Mwambani Bay, Tanga; review the 2014 study and undertake preliminary design for implementation through PPP
- Development of four additional berths at Mtwara Port
- Expansion and modernization of Lake Ports (Tanganyika and Victoria)
- Renovation of Kilimanjaro International Airport
- 2,561 km standard gauge railway, which will link the port at Tanzania's commercial capital of Dar es Salaam to Rwanda, Burundi, and to the mining areas in the South and North of the country
- Upgrade of roads and construction and improvement of intersections

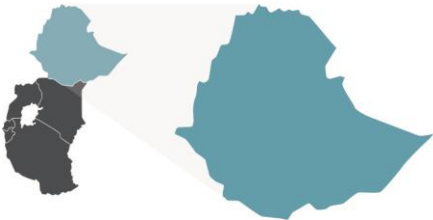
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UGANDA

- Development of the Standard Gauge Railway Network (NCIP), including the construction of substations
- Construction of a crude oil pipeline, small-scale refineries, and product pipelines (NCIP)
- ICT infrastructure (NCIP)
- Karuma and Isimba Hydro Power Dam projects
- Bridge construction: New Nile, Birara, Mitaano, and Ntungwe bridges
- Uganda/Rwanda: Kibuye – Busega – Mpigi and Kagitumba – Kayonza – Rusumo Roads Project
- Multi-National Uganda/Kenya: Kapchorwa – Suam – Kitale – Eldoret Bypass Roads Project
- Supply, delivery, training, and commissioning of road equipment



ETHIOPIA

- Development of the Standard Gauge Railway Network (NCIP), including the construction of substations
- Construction of a crude oil pipeline, small-scale refineries, and product pipelines (NCIP)
- ICT infrastructure (NCIP)
- Karuma and Isimba Hydro Power Dam projects
- Bridge construction: New Nile, Birara, Mitaano, and Ntungwe bridges
- Uganda/Rwanda: Kibuye – Busega – Mpigi and Kagitumba – Kayonza – Rusumo Roads Project
- Multi-National Uganda/Kenya: Kapchorwa – Suam – Kitale – Eldoret Bypass Roads Project
- Supply, delivery, training, and commissioning of road equipment

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BURUNDI

- As part of a regional electricity interconnection project, development of the HT 220 kV connection between Kigoma (Rwanda) and Gitega (Burundi)
- Construction of a railway line from Isaka to Kigali and from Keza to Musongati (via Gitega)
- Burundi/Rwanda/Tanzania partnership: Rusumo Falls Hydroelectric project
- Burundi/Rwanda/ Democratic Republic of Congo partnership: Ruzizi III Hydropower project
- Road Improvement and Asphaltting Project of Nyakararo-Mwaro-Gitega road (RN18) and Nyakararo-Mwaro-Kibumbu
- Burundi/Rwanda: Rehabilitation and development of the Nyamitanga-Ruhawa-Rusizi-Ntendezi-Mwityazo road

5.1.2 Tourism

Kenya's and Tanzania's national parks are already world renowned, with a history of attracting European and American tourists, and are established sources of revenue for their national governments and private businesses. As these economies and their sources of foreign investment diversify, opportunities to establish first-class hotels and tour operators are growing.

Uganda and Rwanda also have tourism sectors that are developing quickly in the areas of wildlife and natural attractions. Both countries are seeking to grow these sectors and capitalize on the reputation of the region and provide added legs on tours. Ethiopia has numerous, unique cultural sites that are growing centers of tourism receiving increased attention from the administration.

5.1.3 Agriculture and agro-processing

By 2050, the population of the EAC region plus Ethiopia is expected to reach 600 million. Opportunities to improve productivity for domestic and international markets are considered critical in each country in the region, not only to feed growing demand but to provide jobs to farmers in rural areas.

Rwanda, Ethiopia, Tanzania, Uganda, and Kenya are already significant exporters of coffee and tea, and growth in this capacity is welcomed and facilitated by their respective governments. Fertilizers and agrochemicals are of particular interest to EAC countries. Ethiopia has growing opportunities in livestock production as the 10th largest livestock producer in the world and the largest in Africa. Hide and skin production are poised for industrial transition, and opportunities are numerous for foreign investment.

5.1.4 Manufacturing

Sourcing opportunities are critical to Ethiopia's and Kenya's development strategies. Heavy investments in infrastructure in Ethiopia and low costs of labor are making the country a critical source for textile

production worldwide. Kenya, with its high levels of education and established service sector, has become an attractive target for foreign companies. Both countries have made commitments to establishing special economic zones with tax breaks and incentives to develop export industries, with Ethiopia's Eastern Industrial Zone already operational and open for private sector companies.

5.1.5 Energy

More than 200 million people in East Africa are without electricity, nearly 80% of its population. Developing local energy resources is top of mind for all East African countries in this report, especially as their populations are rapidly growing, particularly in urban environments.

Tanzania, Kenya, Ethiopia, and Rwanda are expected to add between 40,000 MW and 50,000 MW of generation capacity by 2030, and the private sector is welcomed to play a role in financing and services. Rwanda, Kenya, and Burundi are seeking investments to develop power generation projects, especially in hydropower and natural gas.

5.2. Transformative projects

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. The projects detailed here—NCIP, Ethiopia's Standard Gauge Railway, Bagamoyo Port, and One Stop Border Point System—were selected not only to portray the region's commitment to infrastructure-led growth and ambition to tackle widespread infrastructure deficiencies, but also to highlight the distinct challenges associated with each project. National governments have demonstrated commitment and collaboration in the development of these projects, the largest of which, NCIP, requires the transnational coordination of 16 projects. While Ethiopia is not a member of the EAC, the Ethiopian government has invested heavily in infrastructure integrating itself into the region to noteworthy success.

5.2.1 The Northern Corridor Integration Projects (NCIP)

Project details: The NCIP is a regional initiative that was created in June 2013 by the presidents of Kenya, Rwanda, and Uganda. The NCIP aims to develop several key infrastructure projects along the Northern Corridor, the transit corridor that links several landlocked countries in the Great Lakes region to the Kenyan port of Mombasa and accounts for approximately 70% of the region's traffic.¹⁸ At the NCIP's inaugural summit, the initiative's members agreed that Uganda would spearhead issues of railway development and political federation; Kenya, electricity generation and distribution and oil pipeline development; and Rwanda, customs, the single tourist visa, and the EAC e-identity card.

NCIP member countries hold multilateral summits every two months to discuss the progress of the projects. NCIP membership is growing. South Sudan and the DRC joined the organization in 2015, and Ethiopia has announced its intention to become a member. At the 12th Summit held in April 2016, the

ministers of finance were directed to create a harmonized financing model to facilitate greater private sector participation.

The NCIP is currently coordinating 16 projects

These 16 projects include the construction of a **Standard Gauge Railway** from Mombasa to Uganda, Rwanda, Burundi, and South Sudan. This project, which was launched in October 2013, will lead the creation of one of Africa's longest railways. The first section of the railway, which will link Mombasa to Nairobi, is expected to be completed in June 2017. This first segment would cut travel time between Kenya's largest cities from 15 hours to 4 hours. Ethiopia and the DRC have also indicated that they would like to be part of the rail line.

The cost of the project was estimated at \$14.8 billion excluding land and electrification, of which 50% is expected to be taken on by Uganda. Due to the magnitude of the project, governments were advised to encourage private sector participation as much as possible.

In January 2014, Kenya, Rwanda, and Uganda signed a **Single Customs Territory** agreement. Under the agreement, Ugandan and Rwandan customs officials are now stationed at the port of Mombasa, streamlining the customs process. Tanzania implemented a similar system in September 2014.

Challenges: Many of the NCIP projects are ambitious in scope and have the potential to change the face of East African trade. However, as is the case with many long-term infrastructure projects, changing circumstances can affect the project's completion. In the case of the Uganda–Kenya Crude Oil Pipeline, the decline in oil prices and conflicts between the international oil companies and the Ugandan government contributed to delaying the project. In addition, as more countries are added to these projects, reaching a consensus on their development will become more difficult.

U.S. private sector involvement: While NCIP member countries have asked local firms to participate in the projects, the exact role of U.S. firms across the NCIP's 16 projects is still unclear. To date, domestic firms have submitted a list of proposals and recommendations for possible investment through PPPs, in addition to having supplied materials to the projects (e.g., cement, steel products, and electricity cables) and having provided funding and technology to the projects.

5.2.2 Ethiopia's New Standard Gauge Railway

Project Details: In 2008, Ethiopia released plans to build a 5,000 km standard gauge electrified railway network across the country—originally projected for completion in 2020 but now projected for 2025—connecting the larger horn of Africa through routes to Sudan, South Sudan, Kenya, and Djibouti. This became a signature element of Ethiopia's five-year growth and transformation plan launched in 2010. The Ethiopian Railways Corporation, formed in 2007, has since signed agreements with Turkish firm Yapi Merkezi for \$1.7 billion, the China Railway Engineering Corporation and the China Communications

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Construction Company for a combined \$2.8 billion and construction agreements with Indian and Brazilian entities.

The Chinese firms, backed by loans from the Export and Import Bank of China and Ethiopian government funds, completed 800 km of rail connecting Addis Ababa with the Red Sea port of Djibouti ahead of schedule on November 20, 2015, allowing for the delivery of 3,000 tons of grain to drought affected areas where an estimated 15 million people will need emergency food in 2016. The rail line reduced shipping times from as high as three weeks by truck to as low as five hours by train, and it is projected to transport 11.2 million tons of freight in its first year and 24.9 million tons per year by 2025.

The electrified rail network will be constructed in two phases, linking 49 towns and cities through eight corridors. The first phase includes the now complete Addis Ababa–Dewela–Durale 1,067mm-gauge line from Addis Ababa to Djibouti, as well as four additional lines. The second phase will include seven other lines.

Goals: The rail plan is part of a larger modernization blueprint established in Ethiopia's five-year plan that intends to increase agricultural output, export revenues, and construction of modern power and transport systems. The expansion and modernization of railways will connect the economy to regional and global trade routes, attract foreign direct investment (FDI), reduce the endemic threat of famine and stimulate industrialization along rail corridors. The rail network will also link up with iron ore deposits in the West, oil and gas fields in the East and commercial agriculture, integrating the country's resources into one coherent transportation system. The plan will reduce many of the challenges faced by a landlocked nation by expanding port connections, making Ethiopia more attractive to outside investors concerned about the challenges of a sprawling inland market. On top of the already operational connection with the Port of Djibouti, the rail network adds new links with ports in Tadjourah, Djibouti, Mombasa, Kenya, and Berbera in Somalia (capital of the relatively stable Somaliland). It is hoped that efficient port connections and reduced transport and logistics costs will fuel the growth of Ethiopia's economy, including its fledgling manufacturing industry.

Challenges: Funding and implementation of infrastructure projects in Ethiopia remains a major challenge. Since a price tag of \$2.5 billion over seven years was projected in 2010, costs have risen dramatically. Relations between foreign contractors and local stakeholders and workers can often be tense, and costs can be high. For example, a significant portion of the road projects built by Chinese firms in Ethiopia are loss-making. Similar problems may arise for railway contractors. Significant delays have already occurred on some projects. The Weldiya–Semara–Elidar–Tadjourah line has been postponed five times, in part due to a local requirement to hire only contractors who have worked on a minimum of 180 km of railway or highway.

The success of the rail network will depend on other supporting infrastructure. Energy capacity may act as a barrier to the electrified railway's success. Expansion of Ethiopia's power supply through projects like the Grand Ethiopian Renaissance Dam will be necessary for the functioning of the rail network. The goal to expand trade connections throughout the horn of Africa and East Africa will also depend on other

nations' infrastructure pushes. Kenya's Mombasa-Nairobi rail project has encountered major challenges including accusations of bribery and corruption and has cost \$5.6 million per kilometer to build, more than double the international norm.

Overall Outlook: The successful completion of the Addis-Djibouti line is a promising sign, indicating that railway expansion in Ethiopia has the political and financial backing to succeed. However, inefficiencies and logistical problems could hamper the timely completion of other lines in Ethiopia. If Ethiopia succeeds in completing much of its planned 5,000km of railway over the next decade, it will stand as one of the more successful examples of infrastructure-led growth on the African continent, putting Ethiopia in league with South Africa in terms of land transport capacity. Despite many challenges, Ethiopia has attracted large amounts of FDI and loan financing, and the government appears to be capitalizing on this momentum. The project will likely increase Ethiopia's attractiveness as a market over the next decade and deliver major efficiency and increased trade.

5.2.3 Tanzania's Bagamoyo Port project

Project Details: The Bagamoyo Port project is Tanzania's bid to become East Africa's transport logistics hub and primary international trade entry point. It is also intended as a major industrialization stepping stone by serving as a platform for manufacturing and value addition. Further, the project includes infrastructure upgrades and railroad and highway connections that will expand trade, better integrate the larger East African region, and capitalize on recent oil and natural gas finds. The port will compete with Kenya's port expansions, including the improvement of the Mombasa Port and the construction of a new port in Lamu.

The port itself will occupy 800 hectares, with an additional 1,700 hectares set aside for a separate Portside Industrial Zone, and will be able to handle approximately 20 million containers annually. This will make it the largest port in Africa, capable of handling 20 times the cargo of the Dar es Salaam Port. The project will cost about \$11 billion, with funding coming from China Merchants Holdings International, a Chinese state-owned investment firm, and Oman's State Government Reserve Fund. Bagamoyo will form a central pillar in China's Maritime Silk Road initiative, which aims to expand trade connections between East Africa and China. China and Oman are partnering with the Tanzania Ports Authority (TPA) and the Export Processing Zone Authority (EPZA). A joint team from all three countries is preparing commercial and technical contracts for the implementation of the project.

Regional Integration: In addition to the port and the industrial zone, the project includes the construction of railways, road networks, electricity grids, water and gas pipelines, and communication networks. The project will connect to the central corridor railway and the TAZARA Railway through an extended link. Another link will connect Uhuru Highway to Zambia to Bagamoyo. Tanzania is also planning to use commercial loans to finance a 2,561 km, \$14.2 billion rail program over the next five years, slated to be the biggest project ever implemented by Tanzania. The rail program would connect commercial routes between Dar es Salaam, mining areas in the country's North and South, and commercial routes between Rwanda and Burundi.

Recent Developments: Reports emerged in early 2016 that the Tanzanian government was suspending the project. The Tanzanian Ministry of Works, Transport and Communications later refuted these claims, affirming that construction will commence before the end of this year upon conclusion of financing negotiations with key partners. The ministry confirmed that Tanzania, Oman, and China signed a Memorandum of Understanding regarding the project's implementation.

Challenges: The Bagamoyo Port project has been criticized for redundancies, over ambition, and misalignment of assets with economic priorities. The port is only 75km from Tanzania's main port in Dar es Salaam, and far from gas reserves in the South. Some see it as a legacy project of former President Jakaya Kikwete, who hails from Bagamoyo. Moreover, plans to upgrade the Dar es Salaam port, which is handling 90% of Tanzania's trade and is growing at 10% per year, could resolve capacity issues and create an additional \$2 billion in profits per year. Plans are in the works to construct two additional berths, and construction to modernize existing berths is set to begin in 2018. Other smaller scale plans to build a new port at Mwambani Bay and the development of four additional berths at Mtwara Port could also increase capacity in the medium term. Shipping agents worry that the immensely ambitious Bagamoyo Port won't have a significant impact for up to 20 years, claiming that with Tanzania's current pace of growth, the larger ships that the port is designed for will not be needed.

In addition, Tanzania's immense infrastructure gaps are likely to hinder both the construction and the operation of the port. Tanzania faces budget shortfalls that have raised the cost of borrowing, making new infrastructure financing difficult. Once the port is finished, operational costs will be very high, and the port will require regular and extensive dredging.

Overall Outlook: It remains unclear whether there is sufficient coordination, financing, and bureaucratic capital to get the Bagamoyo Port project off the ground. There also remain considerable doubts about whether the project can be sustained and maintained in the long run. Other promising smaller-scale investments exist that would expand port capacity and logistics infrastructure in a way that better matches short-to medium-term capacity needs. The Bagamoyo project is a long-term project that anticipates a fast-growing Tanzanian economy and will require significant follow-through from a large range of stakeholders interested in Tanzania's ambitious strategic vision.

5.2.4 The One Stop Border Point (OSBP) system

Project details: The three case studies listed thus far in this report are hard infrastructure development projects, which rely on the construction of large physical networks. In contrast, the OSBP system is a soft infrastructure project that is set to improve the flow of goods throughout the EAC. As mentioned, border delays are one of the major bottlenecks to East African trade. To ease bottlenecks at border crossings, the EAC has pursued an ambitious border consolidation strategy and is now developing 15 OSBP projects.

An OSBP is a joint border facility where customs officials from both adjoining states carry out border controls. One of the facilities' main benefits is that they reduce most of the delays and bottlenecks that

come with having two separate borders, many of which are outlined in the Bottlenecks section of this report. According to the Shipping Council of East Africa, some truckers choose to cross East African borders at illegal border points because they think there will be fewer delays and less red tape.¹⁹ However, these OSBPs are state-of-the-art facilities that will offer better cargo and passenger clearance.

In addition, under the OSBP system, border officials will have access to other tools that aim to facilitate efficient customs processes. One such measure is the Integrated Border Management System, an integrated IT system that will be shared by all EAC member states. According to experts, this will enable East African countries to share information about trade flows and cut the length of administrative procedures.

Further, border officials will also communicate through Joint Borders Committees (JBCs), which will allow neighboring countries to better solve border-related issues. JBCs are working groups composed of government officials and private stakeholders that have been set up at 16 border crossings in the EAC with support from the U.S. government.

In March 2016, Kenya opened its first OSBP with Tanzania, located at the crossing between Taveta (Kenya) and Holili (Tanzania). According to Kenya's Cabinet Secretary for East African Affairs, Phyllis Kandie, the crossing will reduce the time spent by trucks at the border by more than 30%. It will also reportedly shorten the distance between "Mombasa and Bujumbura (Burundi's capital) by 400 kilometers." Other OSBPs are being developed at the Namanga border (Kenya-Tanzania), the Busia and Malaba borders (Kenya-Uganda), and the Kanyarue- Akanyaru border (Burundi-Rwanda).

Challenges: While the OSBP system will help streamline border clearance, there has been significant delay in the construction and implementation of these consolidated border points. For instance, the Namanga OSBP, located at the border between Kenya and Tanzania, was scheduled to be completed in 2013 but has yet to be finished. Both countries have disagreed over the reasons for the construction delay.

In addition, the OSBP system does not address one of the major sources of delays at borders: corruption. Illegal fees and bribes remain prevalent at East African border crossings. In 2015, the EAC acknowledged that corruption in public institutions was a barrier to trade and passed the EAC Integrity and Anti-Corruption Bill. Much attention has been paid to corruption at ports. In February 2016, Kenya Ports Authority (KPA) Managing Director Gichiri Ndua and several other KPA senior executives were fired over corruption allegations. Nevertheless, low-level corruption at border crossings remains largely unpunished.

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. Further, 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 BRIC 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 underway, 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 Gauge Railway, and the Bagamoyo Port) will greatly improve road, rail, and maritime transportation in the region in decades to come, thereby helping lower transport costs, reducing delivery times, and improving productivity. Specifically, the two railroads will improve 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 increasing digitalization of customs processes, creating single customs windows, increasing de minimis values, and implementing advance customs rulings. These will help streamline the clearance process and further increase trade in the region.

Policy recommendations for East African countries

Part 1: Reducing impediments to trade
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, which 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.
Part 2: Supporting the transformative projects
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 and 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 that are in construction are operational and work to reduce implementation delays for future OSBPs.

BUILDING THE FUTURE

A LOOK AT THE ECONOMIC
POTENTIAL OF EAST AFRICA

- ¹ <https://www.whitehouse.gov/blog/2015/07/26/president-obama-travels-kenya-and-ethiopia>
- ² <https://www.census.gov/foreign-trade/balance/index.html>
- ³ <https://www.brookings.edu/opinions/africas-powerhouse/>
- ⁴ <http://www.worldbank.org/en/country/rwanda/overview>
- ⁵ http://web.undp.org/evaluation/documents/ADR/ADR_Reports/Rwanda/ch3-ADR_Rwanda.pdf
- ⁶ <http://www.informereastafrica.com/node/21552>
- ⁷ http://ijbed.org/admin/content/pdf/i-8_c-85.pdf
- ⁸ <http://agoa.info/news/article/5835-eac-push-for-long-term-trade-pact-with-us-to-replace-agoa.html>
- ⁹ <http://www.usip.org/sites/default/files/SR330-Establishing%20a%20Mining%20Sector%20in%20Postwar%20South%20Sudan.pdf>
- ¹⁰ <http://allafrica.com/stories/201603041051.html>
- ¹¹ <http://www.imf.org/external/pubs/ft/survey/so/2013/car123013a.htm>
- ¹² http://www.uneca.org/sites/default/files/PublicationFiles/towards_a_common_currency_in_the_eac-2012.pdf
- ¹³ http://www.eac.int/~eacint/customs/index.php?option=com_content&view=article&id=11&Itemid=107
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- ¹⁸ http://d3n8a8pro7vhmx.cloudfront.net/eatradehub/pages/41/attachments/original/1376400076/Malaba_JBC_Case_Study_rebranded_June_2013.pdf?1376400076
- ¹⁹ <http://www.busiweek.com/index1.php?Ctp=2&pl=2896&pLv=3&srI=59&spI=47>



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