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EADS Analytical Brief on Trade in the East African Community

March 2016

Introduction

The East African Community (EAC) is a vibrant economic community that set ambitious goals for deepening its integration. Three steps toward integration were launched – the customs union (2005), the common market (2010), and the monetary union (2013). Now, the five participating countries of Burundi, Kenya, Rwanda, Tanzania, and Uganda seek to introduce a single currency by 2024. The East African Heads of State view these changes as pivotal towards the ultimate goal of a political federation, under the understanding that it not only engenders the free movement of goods, services, and capital throughout the region, but also improves the welfare of the general population through sustained and inclusive growth.

Additionally, in July 2013, President Barack Obama announced Trade Africa, a new partnership to increase trade within Africa as well as between Africa and global markets. The White House noted: "The EAC is an economic success story, and represents a market with significant opportunity for U.S. exports and investment." The program initially focused on the EAC and set four goals for this initial phase:

- Double intra-regional trade in the EAC;
- Increase EAC exports to the United States by 40 percent;
- Reduce by 15 percent the average time needed to import or export a container from the ports of Mombasa or Dar es Salaam to land-locked Burundi and Rwanda in the EAC's interior; and
- Decrease by 30 percent the average time a truck takes to transit selected borders.

This brief will examine the EAC's trade patterns and the United States' role in promoting EAC trade.

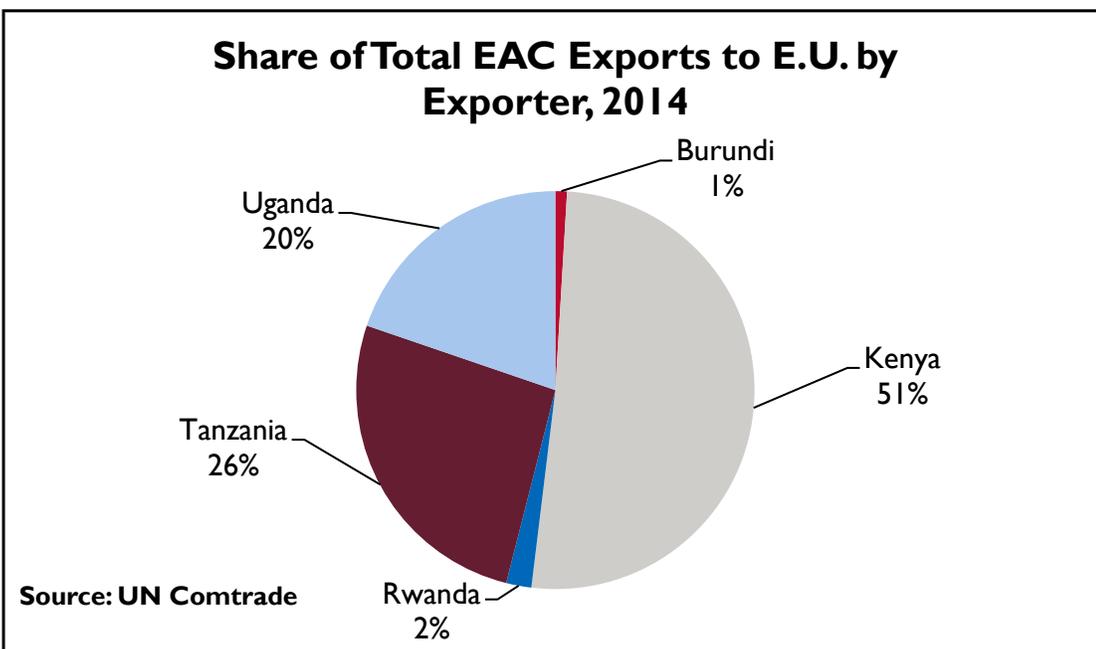
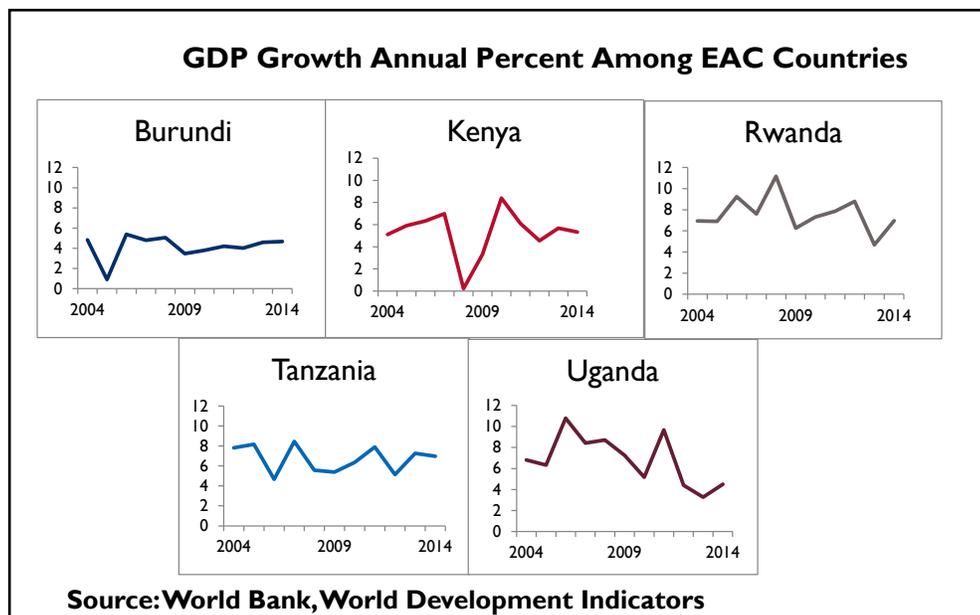
Overview of the East African Community

Kenya, Tanzania, and Uganda were the first to implement the EAC Treaty in 2000, which were then followed by Burundi and Rwanda in 2007. Similarly, each set of countries joined the customs union separately in 2005 and 2007 respectively. All five members received more than \$2 million in USAID assistance in FY2014. Kenya is considered lower-middle-income, while the others are classified as low-income countries by the World Bank.

The EAC experienced significant growth in the past decade. Population rose by 35 percent or 40.65 million people from 2004 to 2014. Burundi's population increased by 41 percent, which is the largest growth rate of the five member countries. The average Gross Domestic Product (GDP) per capita among the five member countries was \$806.88 in 2014. Tanzania's and Kenya's GDP per capita exceeded this average. Burundi's GDP per capita was the lowest at \$286.00.

GDP growth as an annual percentage change fluctuated considerably from 2004 to 2014 across all five EAC member countries. In 2014, growth ranged from 4.51 to 6.97 percent with Rwanda and Tanzania having the highest rates. The global financial crisis in 2008 affected the EAC members' GDP growth between 2008 and 2009. Kenya experienced the most significant downswing, reporting a rate of 0.23 percent in 2008, but has since returned to its pre-2008 levels.

Trade assumes a major role in the economies of the EAC member countries. In 2014, trade as a percent of GDP for EAC members ranged from 41 to 50 percent, which is below the average of developing countries in Sub-Saharan Africa at 60 percent. Yet when trade is examined more closely, exports as a percent of GDP are less significant ranging from 3 to 11 percent across the EAC. For example, Tanzania's trade as a percent of GDP is 49 percent, while its exports as a percent of GDP are 8 percent. Similar to many developing countries, EAC countries import more than they export. Exports from EAC to the rest of the world have more than quadrupled since 2000 and grown by 126 percent since 2006. According to the International Monetary Fund's Direction of Trade Statistics, the U.S. imports about \$698 million from the EAC, whereas the European Union (E.U.) imports \$2.72 billion. Additionally, about \$2.3 billion is traded within the EAC.



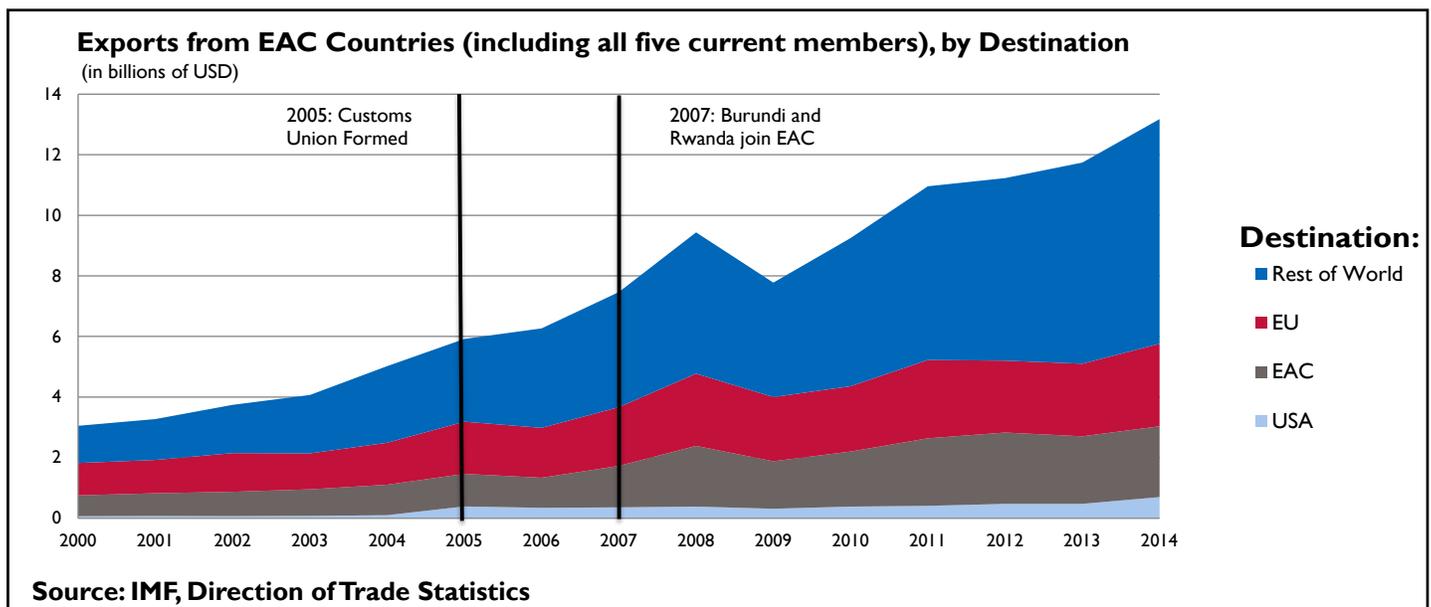
The E.U. is one of the largest recipients of goods from the EAC with trade increasing by 65 percent since 2006. Its three largest imports from the EAC are 'coffee, tea, mate, spices'; 'live trees, plants, bulbs, cut flowers'; and 'tobacco'. 'Coffee, tea, mate, and spices' is the largest E.U. import from Burundi, Rwanda, and Uganda constituting 86 percent, 48 percent, and 52 percent respectively of each country's total exports

to the E.U. Kenya exports \$1.55 billion to the E.U., of which 34 percent is 'live trees, plants, bulbs, cut flowers'. With this, Kenya accounts for 51 percent of the EAC's total exports to the E.U. Tanzania's largest export is tobacco at \$219.6 million or 27 percent of its total exports to the E.U.

| Selected Statistics on EAC Members, 2014 | | | | |
|--|-------------|---------------------------------|-------------------|----------------------|
| Country | Population* | GDP per capita (current US \$)* | Trade (% of GDP)* | Exports (% of GDP)** |
| Burundi | 10,816,860 | 286.00 | 41 | 3 |
| Kenya | 44,863,583 | 1,358.26 | 50 | 11 |
| Rwanda | 11,341,544 | 695.69 | 45 | 6 |
| Tanzania | 51,822,621 | 998.06 | 49 | 8 |
| Uganda | 37,782,971 | 696.41 | 47 | 7 |

*Source: World Bank, World Development Indicators

**Calculated by EADS with Data from the World Bank Indicators



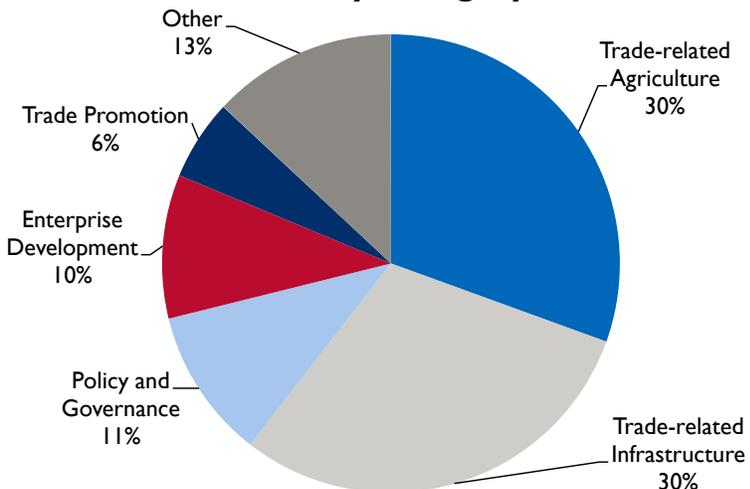
U.S. Support to the East African Community

In February 2015, the EAC member states and the U.S. signed a Cooperation Agreement in order to improve trade facilitation, harmonize sanitary and phytosanitary measures with international standards, and remove technical barriers to trade flows. There are three core objectives defined in the Cooperation Agreement:

- Implement the WTO's Trade Facilitation Agreement;
- Enhance food safety, plant and animal health;
- Build capacity to meet global standards.

The Agreement highlights the U.S.' commitment to support trade capacity building and training programs within the EAC by reducing unnecessary formalities at borders, improving the EAC's agricultural production, and training East African officials on new World Trade Organization (WTO) technical regulations.² These efforts will help facilitate trade by creating quality and consistent safety standards across countries. U.S. and African international competitiveness increases by meeting these international standards as it ensures continuity across borders, simplifies the process, and mitigates food insecurity.

U.S. Trade Capacity Building Funding to EAC Countries by Category, 2014



Source: Trade Capacity Building Database

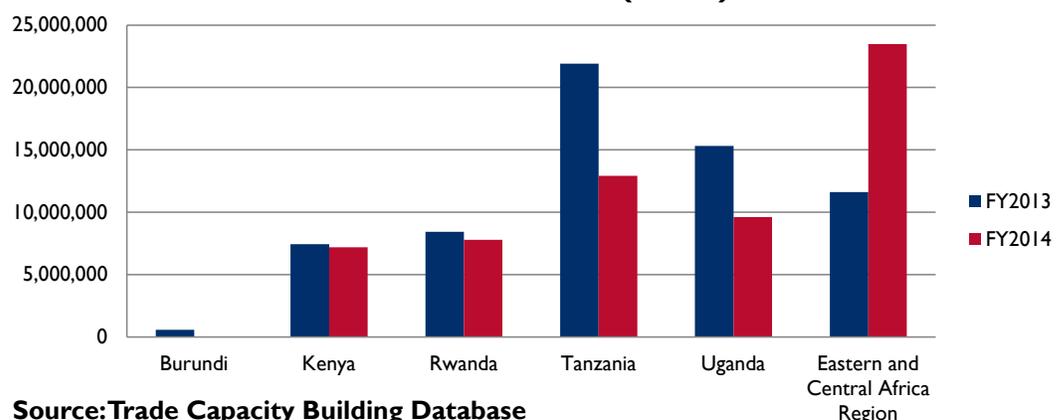
Additionally, the U.S. supports the EAC's ability to trade through its Trade Capacity Building (TCB) assistance. TCB is defined as measures, initiatives, and programs that strengthen the capacity of developing countries to engage in international trade. TCB funding can be assigned to either an individual country or a general geographic region, when there is insufficient country-level reporting. Therefore, the general geographic region is treated as a separate destination for TCB funding.³

U.S. bilateral TCB funding to Tanzania decreased by 41 percent, while

in Uganda it declined by 37 percent from 2013 to 2014. Even though significant reductions in bilateral funding to the individual countries occurred, funding to the Eastern and Central Africa Region more than doubled in 2014. Even so, the total amount of TCB funding to EAC member states and to the Eastern and Central Africa Region decreased by \$4.28 million from 2013 to 2014.

TCB funding disaggregated by category shows that 60 percent of bilateral U.S. TCB funding to EAC countries was spent strengthening and encouraging trade-related infrastructure and agriculture in 2014. The former seeks to establish trade-related telecommunications, transport, ports, airports, power, water and industrial zones, while the latter seeks to support

U.S. Trade Capacity Building Funding in 2013 and 2014 (USD)

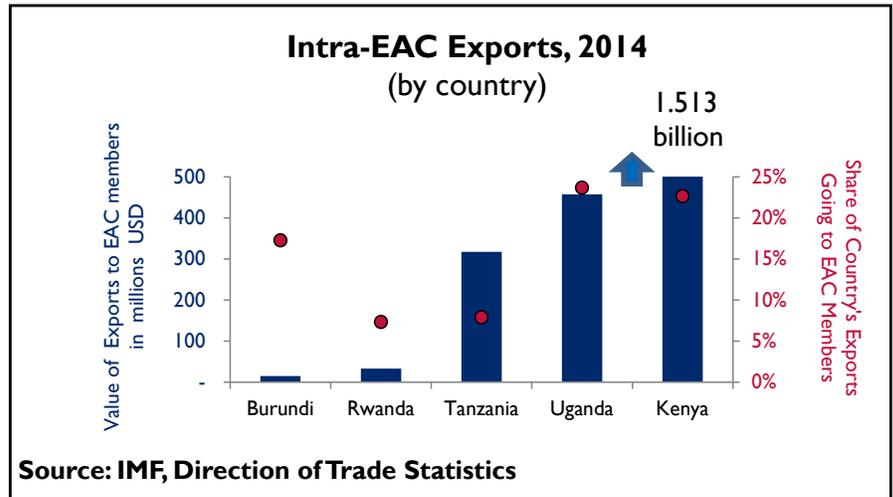


Source: Trade Capacity Building Database

trade-related aspects of the agriculture and agribusiness sectors. Uganda received the most TCB funding in the trade-related agriculture category at \$6.45 million, of which \$3.7 million was spent on USAID's AbiTrust activity. AbiTrust focuses on increasing production of maize, beans, and coffee as well as expanding financial services that support the agriculture sector. Meanwhile, Rwanda and Tanzania received trade-related infrastructure TCB funding at \$5.8 million and \$4.1 million respectively. Both countries utilized the money to improve roads throughout rural communities in order to reduce transit time of goods.

Trade within the East African Community

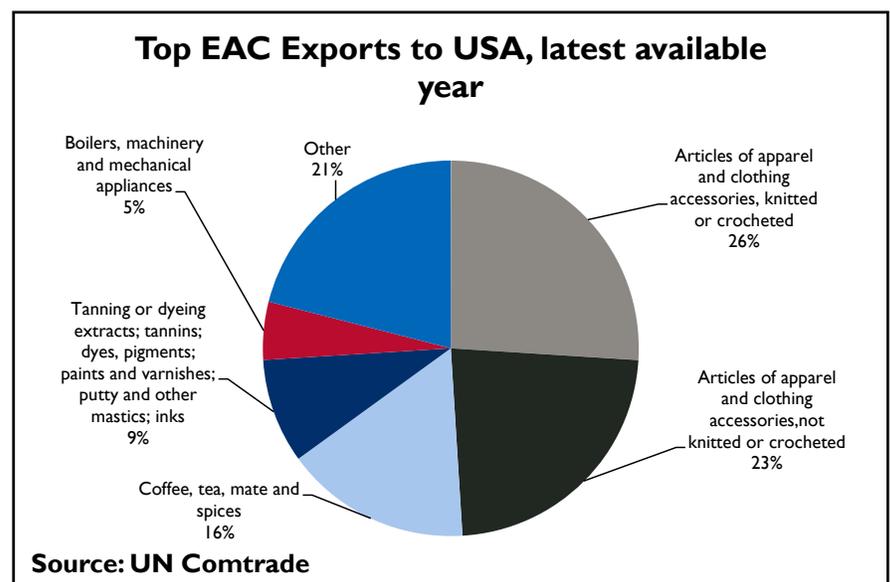
According to the IMF Direction of Trade Statistics, trade within the EAC has grown by 135 percent since 2006. Intra-regional exports vary substantially by country. Kenya's total value of intra-EAC exports is \$1.51 billion, while Burundi totals \$14.98 million. Additionally, 22.64 percent of Kenya's total exports are traded within the EAC, while 17.28 percent of Burundi's total exports are traded intra-regionally. Kenya's largest exports to the EAC by commodity are cement and petroleum at \$75.98 million and \$77.34 million respectively. Uganda is the largest importer of these products at about \$56 million for each category, while Burundi imports the least. Burundi's largest import by category from Kenya is mineral or chemical fertilizers at \$9.17 million.



Tanzania's largest intra-regionally traded commodities are cereals/maize as well as wadding, felts, and nonwoven materials, totaling \$97.39 million and \$63.38 million respectively. The total value of Tanzania's intra-EAC exports is \$317.56 million, of which the commodities mentioned above equal 51 percent. Kenya imports the most cereals/maize from Tanzania at \$94.08 million. It is important to note that the share of Tanzania's exports going to EAC members is only 7.91 percent, demonstrating that most Tanzanian exports are traded outside the EAC. Meanwhile, Rwanda has the lowest share of exports traded among EAC members at 7.34 percent and Uganda has the largest at 23.67 percent.

Trade with the United States

Since 2006, EAC trade with the U.S. more than doubled. The U.S. not only encourages trade through its trade capacity building, but also through the African Growth and Opportunity Act (AGOA). AGOA offers preferential access to U.S. markets for certain exports from East Africa, such as qualifying apparel and textile articles. All five EAC member countries are eligible for preferences under AGOA. Kenya utilizes AGOA extensively for trade preferences in order to gain access to the U.S. market for its apparel industry. According to UN Comtrade, 74 percent of Kenya's total exports to the United States were in the apparel industry



in 2013 (the most recently available year). AGOA was recently renewed in June of 2015 for another ten years.

Since the launch of Trade Africa in 2013, the EAC increased exports to the U.S. by \$223 million. Articles of apparel and clothing accessories is the largest broad category, accounting for nearly half of EAC exports to the U.S.. This category is predominantly exported by Kenya and

Tanzania at \$258 million and \$11 million respectively. 'Coffees, tea, mate, and spices' is also an important category totaling about \$87.8 million in exports from the EAC. This category is produced in all five EAC member countries. 'Coffees, tea, mate, and spices' totals 89 percent of Burundi's and 42 percent of Uganda's total exports to the U.S. 'Boilers, machinery, and mechanical appliances' comprise five percent of exports (or \$25.2 million) from the EAC to the U.S. and are exported from Kenya, Tanzania, and Uganda. Tanzania's total exports in this category equal \$22.4 million, of which \$20 million is comprised of rotary internal combustion piston engines.

According to the World Bank's World Development Indicators, the time to export in days varies significantly by country. The 'time to export in days' indicator is defined as the total number of calendar days that are necessary in order to comply with all procedures required to export goods. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed.

| Largest Export to USA from each EAC Country | | | | |
|---|--|---------------------------------|----------------------|---------------------------------|
| Country | Largest Commodity Export | Largest Commodity Export Amount | Total Exports to USA | Percent of Total Exports to USA |
| Burundi | Coffee, tea, mate, spices | \$726,630 | \$815,338 | 89 |
| Kenya* | Female Clothing | \$73,948,849 | \$347,269,958 | 21 |
| Rwanda | Ores, slag, and ash | \$6,078,957 | \$21,414,538 | 28 |
| Tanzania | Tanning or dyeing extracts, paints, dyes | \$50,851,789 | \$143,039,928 | 36 |
| Uganda | Coffee, tea, mate, spices | \$14,817,787 | \$39,785,690 | 37 |
| Source: UN Comtrade, 2014 | | | | |
| *Note: Data for Kenya is 2013 | | | | |

| Selected Trade Statistics 2014 | | | |
|--|-------------------------------------|-----------------------|------------------|
| Country | Cost to export (US\$ per container) | Time to export (days) | Trade (% of GDP) |
| Burundi | 2,905 | 32 | 41 |
| Kenya | 2,255 | 26 | 50 |
| Rwanda | 3,245 | 26 | 45 |
| Tanzania | 1,090 | 18 | 49 |
| Uganda | 2,800 | 28 | 47 |
| Source: World Bank, World Development Indicators | | | |

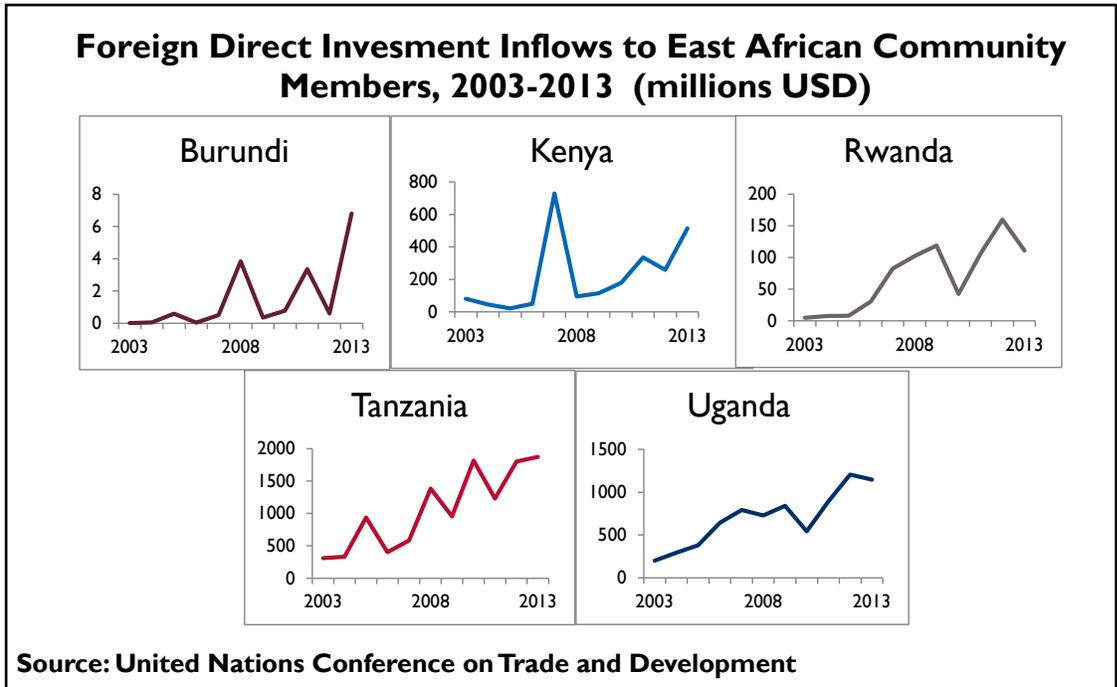
Tanzania takes the shortest time to export at 18 days and also has the lowest cost to export at \$1,090 per container. Burundi takes the longest to export at 32 days and trade constitutes the smallest percent of GDP at 41 percent. Its cost to export is also the second highest at \$2,905 per container. Rwanda has the highest cost to export at \$3,245, but it's time to export is the average among the EAC members at 26 days. The high cost to export from Burundi and Rwanda is most likely due to the landlocked locations of the countries. Trade as percent of GDP is highest at 50 percent in Kenya.

Investment in the East African Community

According to the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment

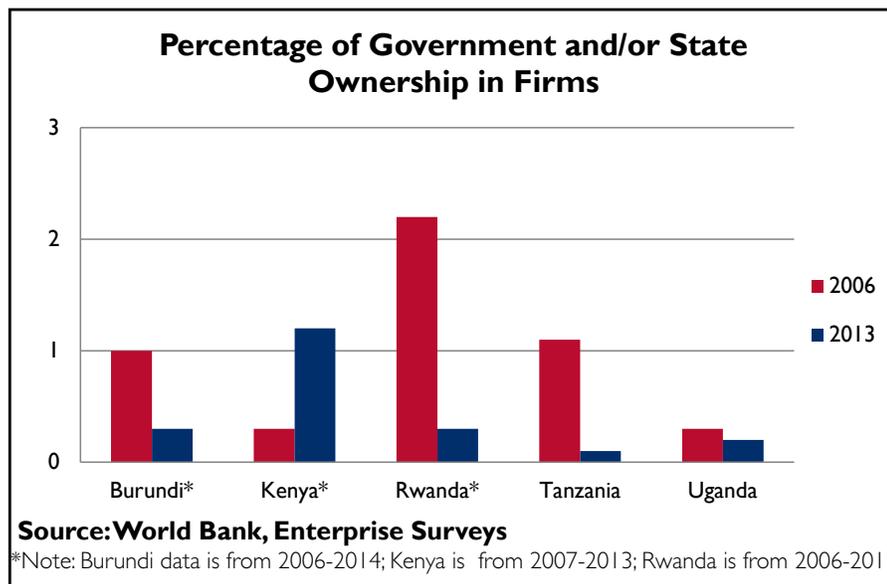
(FDI) is defined as investment made to engender a lasting interest in firms or enterprises operating outside of the investor’s country. There are three primary components of FDI: equity capital, reinvested earnings, and intra-company loans, which are defined as a loan between a parent and affiliate enterprise. FDI is critical to the EAC as it not only brings capital resources, but also technological advancement.

FDI significantly increased throughout the EAC from 2003 to 2013. There was a sharp increase in capital to Burundi, increasing by \$6.2 million from 2012 to 2013. Rwanda also experienced a considerable increase of capital rising 2,257 percent from 2003 to 2013. FDI to Kenya, Tanzania, and Uganda increased between 467 to 529 percent during the same period. Additionally, Uganda and Tanzania have



remained the primary destinations of foreign investment in the region since 2008. Tanzania and Uganda received \$1.87 billion and \$1.15 billion respectively in 2013.

Reforms within the East African Community



The EAC members have been making reforms to reduce corruption, privatize government corporations, and promote the private sector. All five countries implemented reforms through Structural Adjustment Programs (SAP), which are economic policies promoted by the World Bank and International Monetary Fund commencing in the 1980s.⁴ These reforms are designed to encourage structural changes within an economy by reducing government control and corruption as well as stimulating the private sector through increased competition. According to the World Bank’s Enterprise

Surveys data, the proportion of government or state ownership in firms decreased from 2006 to 2013 throughout all EAC members except Kenya. However, the percentage of government or state ownership is still relatively small as Kenya's in 2013 totaled 1.2 percent. Most enterprises throughout the EAC are owned domestically and privately. According to the most recent data available, domestic private ownership of firms ranged from 83.3 to 95.3 percent in the EAC. The difference between the state and domestic private ownership is accounted for by foreign private ownership. Enterprise Surveys data was first implemented in 2006 and therefore cannot be compared to the first introduction of SAP reforms in the EAC in the 1980s. However, it can be concluded that a large proportion of firms are owned privately and domestically, signifying less governmental influence in the private sector since 2006 throughout most of the EAC countries.

Conclusion

The EAC underwent significant economic changes since the inception of the 21st century. Population not only rose by 40.65 million throughout the community, but member countries also promoted increased economic integration. Additionally, the EAC increased trade to industrialized countries and saw a rise in foreign direct investment. The continued economic integration of the EAC will depend heavily on trade with fellow EAC member countries.

End Notes

1. "FACT SHEET: Trade Africa." The White House. The White House, 01 July 2013. Web. 10 Feb. 2016.
2. "Fact Sheet on U.S.-East African Community Cooperation Agreement." IIP Digital. Office of the U.S. Trade Representative, Executive Office of the President, 26 Feb. 2015. Web. 10 Feb. 2016.
3. The summation of individual country funding within a geographic region will not total the overall regional funding. For example, the sum of funding to Burundi, Kenya, Rwanda, Tanzania, and Uganda will not total the Eastern and Central Africa Region.
4. "Structural Adjustment Programmes (SAPs)." WHO: Trade, Foreign Policy, Diplomacy, and Health. World Health Organization, 2016. Web. 18 Feb 2016.

Additional Information

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Trade Data: For detailed trade data on the IMF Direction of Trade Statistics, United Nations Conference on Trade and Development (UNCTAD), and UN Comtrade datasets, please contact us at eads@usaid.gov.

Source Data: World Bank Enterprise Surveys and World Bank World Development Indicators, please visit the International Data and Economic Analysis (IDEA) at <https://idea.usaid.gov/>.

Trade Capacity Building Database: To view data on the U.S. Government's TCB funding, please visit the Trade Capacity Building Database (TCB) at <https://eads.usaid.gov/tcb/>.

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