EADS Snapshot on

Trade in East Africa

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On July 1, 2013, President Obama announced Trade Africa, a new partnership to increase trade within Africa and between Africa and global markets. The initiative will focus initially on the East African Community (EAC), which includes Burundi, Kenya, Rwanda, Tanzania, and Uganda. According to the announcement, Trade Africa sets four goals for its 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.

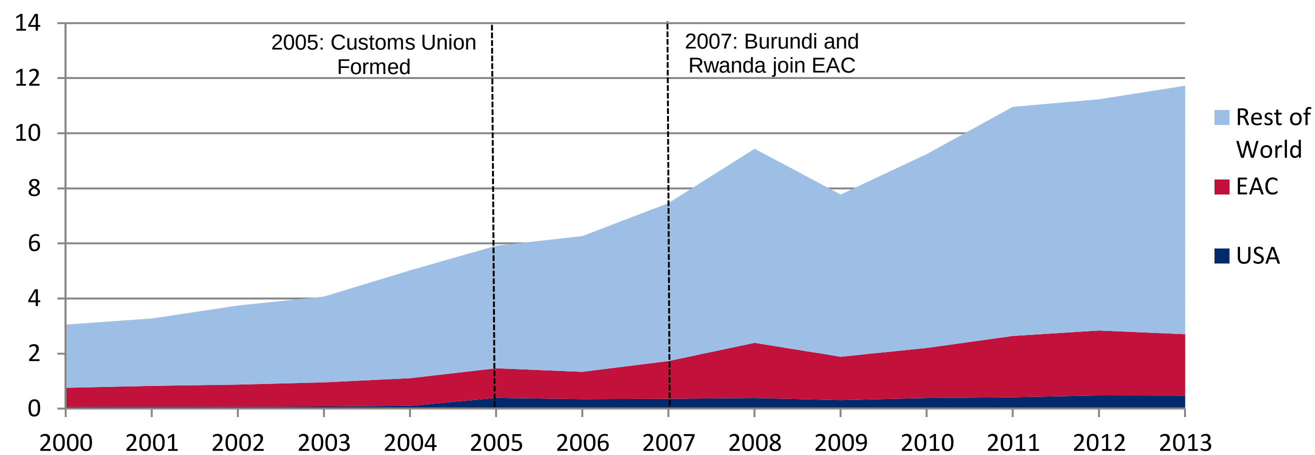
This snapshot looks at the EAC's trade patterns and the U.S.'s role in promoting EAC trade, and then considers each of Trade Africa's initial goals. It uses 2012 figures, which were the most recent available at the time Trade Africa was announced, as the baseline for all of the goals.

East African Community Overview

Kenya, Tanzania, and Uganda implemented the current EAC in 2000. The EAC put into effect a customs union in 2005 and a common market in 2010 with discussions ongoing for further integration in the future. Burundi and Rwanda joined the EAC in 2007 and the customs union in 2009. All five members are low-income countries and received over $2 million in USAID assistance in FY2013.

Exports from the EAC to the rest of the world have tripled since 2000 and grown by 27 percent since 2008. 52 percent of EAC exports (aggregating the most-recent data from the five member countries) are of agricultural products and mineral and metal resources comprise another 30 percent of exports. The five-year growth of imports from non-EAC countries is nearly twice that of exports, with mineral fuels accounting for almost 30 percent of the region's imports.

Exports from EAC Countries (including all five current members)
(in billions of USD)



Source: IMF, Direction of Trade Statistics

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Differences Between EAC Member Countries

Although the EAC member countries have many economic similarities, there are also significant economic and trade differences. The table below outlines some basic statistics the five countries.

Burundi is the smallest and poorest member of the EAC. It has the lowest exports and lowest export value per capita in the EAC region. Coffee and tea are 33 percent of its exports, and precious stones and metals are 43 percent, according to the most recent year of data available.

Kenya is the largest economy in the region, with the highest GDP per capita and most of the EAC's exports. Its trade is 49 percent of GDP (its exports are only 13 percent). 27 percent of Kenya's exports are of coffee and tea.

Selected Statistics on EAC Members, 2013

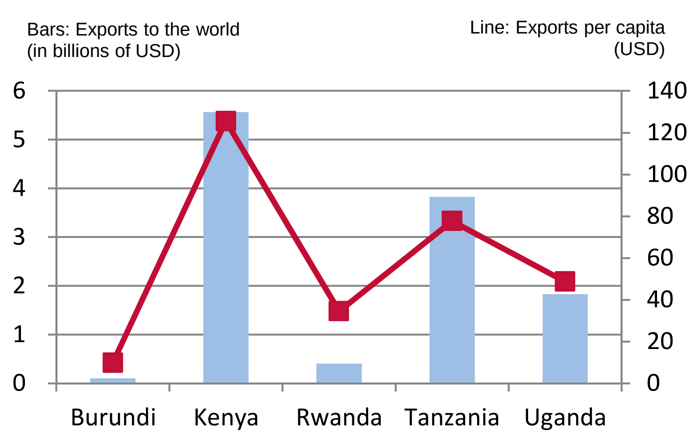
Country	Population	GDP per capita (USD)	Total trade (percent of GDP)	Exports (percent of GDP)
Burundi	10,162,532	267	28	4
Kenya	44,353,691	994	49	13
Rwanda	11,776,522	633	24	5
Tanzania	49,253,126	695	55	12
Uganda	37,578,876	572	30	9
Median for all Sub-Saharan countries		1,020	58	19

SOURCES: World Bank, World Development Indicators and IMF, Direction of Trade Statistics.

Rwanda has had strong economic and trade growth in recent years. It has the second-smallest population in the EAC and has the lowest trade as a percent of GDP. Its primary exports are mineral products (36 percent) and coffee and tea (18 percent).

Tanzania, the most populous EAC member, has the second-highest exports, though it trails Kenya by about one-third. Trade is 55 percent of Tanzania's GDP. In addition to agricultural products, Tanzania exports natural resources, especially precious stones and metals, which comprise 37 percent of exports.

Exports by EAC Member, 2013



Source: IMF, Direction of Trade Statistics

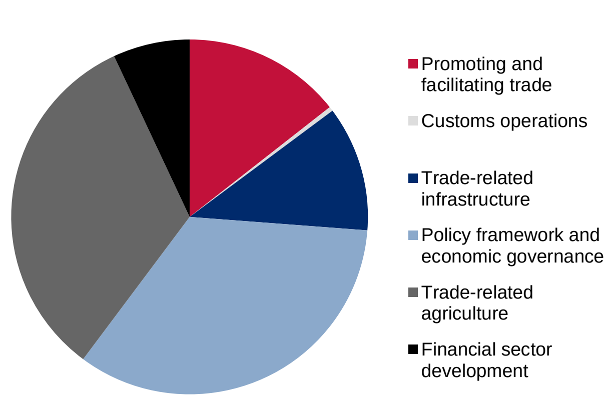
Uganda tends to fall in the middle of the region in several measures. It has the third-largest population and the third-largest trade volumes. Like Burundi and Rwanda, it is landlocked and depends on its neighbors (primarily Kenya) for access to the sea. Uganda's largest export category is coffee and tea, accounting for just over 20 percent of its export value.

U.S. Support to the EAC

The U.S. supports the EAC's ability to trade through Trade Capacity Building (TCB) assistance. TCB includes measures, initiatives, and programs that strengthen the capacity of developing countries to engage in international trade. TCB funding from all U.S. government agencies to specific EAC member countries increased over fifteen-fold since 2000. In 2013, funding was at $61 million, a 56 percent increase from 2012. It peaked in 2008 when the Millennium Challenge Compact for Tanzania was enacted but in 2009 returned to levels more in line with the trend seen during 2005–2007. The majority of TCB funding to the EAC member countries is for policy framework and economic governance, followed by trade-related agriculture.

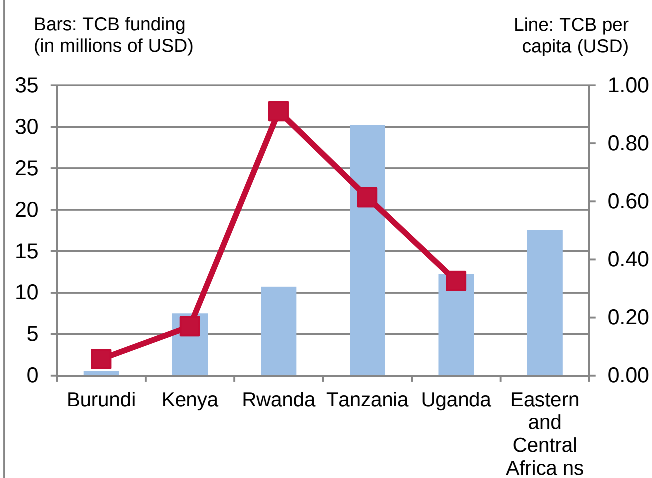
Non-country-specific TCB to Eastern and Central Africa ns doubled since 2008, but it is difficult to say how much of this applies directly to the EAC. The U.S. provides assistance to the EAC and the Common Market for Eastern and Southern Africa (COMESA) to support integration. The East Africa Trade Hub, a large regional project, supports trade in the EAC and other regional markets. The Trade Hub focuses on increasing the capacity of African firms to export under the African Growth and Opportunity Act (AGOA) and other trade arrangements, reducing barriers to trade, and strengthening agricultural markets. U.S. spending on TCB is distributed unevenly, with Burundi and Kenya receiving low levels of TCB per capita and Rwanda receiving the most per capita in 2013.

U.S. TCB Funding to EAC Countries by Category, 2013



Source: Trade Capacity Building Database

U.S. TCB Funding by Country, 2013



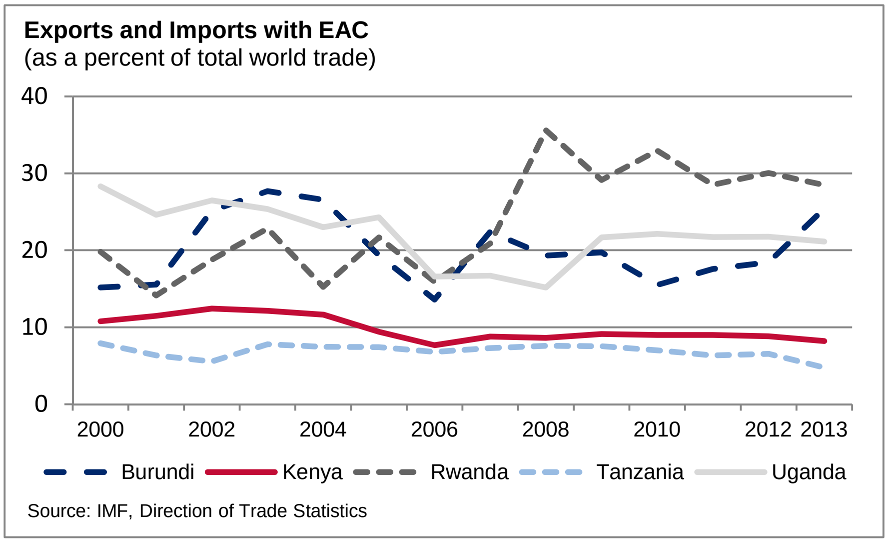
Source: Trade Capacity Building Database

Trade Within the East African Community

Intra-EAC trade values have grown by 24 percent in since 2008. If that rate of growth is sustained, it would take approximately seventeen years for intra-regional trade to double from its 2012 level, achieving the first Trade Africa goal. Currently, twenty-one percent of exports from EAC countries go to other EAC countries. In addition to the growth in trade levels, within the region we see a greater diversity of traded goods between countries than we see with the world. While EAC trade with the world is greatly concentrated, with agriculture and natural resources accounting for 82 percent of exports, these two categories only comprise 62 percent of trade within the EAC.

US TCB funding helps to support intra-regional trade. Agriculture, which receives the second-largest share of TCB funding to the EAC, comprises 33 percent of intra-EAC trade and raises incomes throughout the region. Support for infrastructure, trade policy, customs, and other forms of trade promotion also increase intra-EAC trade. In addition, the Power Africa initiative, announced concurrently with Trade Africa, aims to increase generation and access to electricity and will benefit EAC members Kenya and Tanzania. Power Africa may encourage investment in the private sector and increased trade in electricity.

Disparities Within the EAC



Despite the strong growth of trade within the EAC, there is a great deal of variation in country performance. Kenya is the largest player in the region, accounting for 65 percent of intra-EAC exports. Kenya is the only country to report a trade surplus with its neighbors; in 2012, it had over $1 billion more in exports than imports to the rest of the EAC. The other four countries report trade deficits within the EAC. Despite Kenya's large role in the region, intra-EAC trade only represents a small percentage of Kenya's overall trade with the world, reflecting its greater integration into the world economy. Tanzania's trade with the EAC also represents a small share of its total trade. Burundi, Rwanda, and Uganda have a higher share of their trade staying in the region.

Rwanda and Burundi both joined the EAC in 2007, but have integrated their economies to different extents. Rwanda saw a spike in exports to the EAC in 2008, though its growth in exports to the rest of the world slowed somewhat. The EAC's share of Rwanda's total trade increased from 21 percent to 36 percent from 2007 to 2008. Burundi saw no increase in the EAC's share of its total trade immediately after joining the EAC, though it did increase from 18 percent in 2012 to 25 percent in 2013.

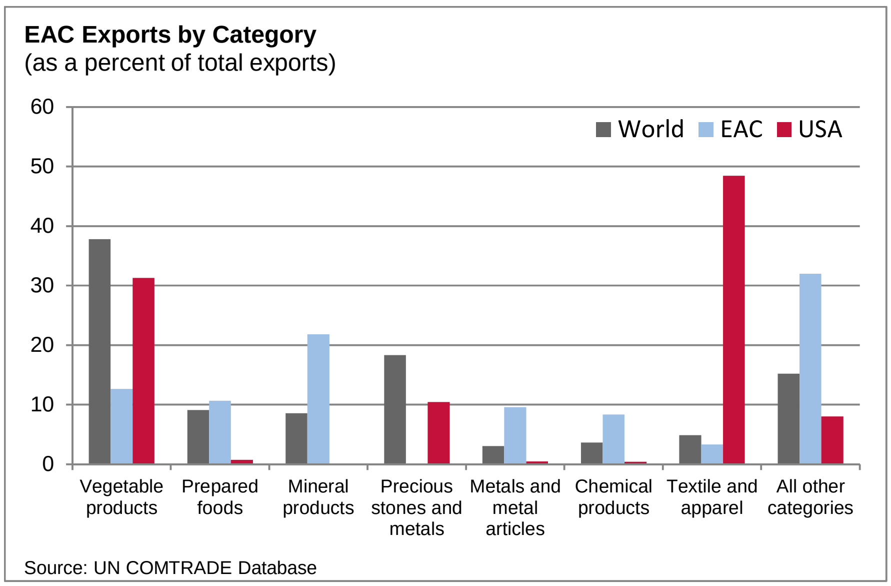
Trade with the U.S.

Exports from the EAC to the U.S. have grown 29 percent since 2008, following rapid growth since 2000. At the average growth rate since 2008, it would take 6.9 years to achieve the Phase I goal of increasing exports to the U.S. by 40 percent. In addition to the TCB funding described in the overview, the U.S. encourages trade through AGOA, which offers preferential access to U.S. markets for certain exports from East Africa. All five of the countries in the EAC are eligible for preferences under AGOA, and Kenya especially uses AGOA trade preferences to gain access to the U.S. market for its apparel industry. AGOA is set to expire in 2015, although President Obama is proposing to extend it. The 2013 AGOA Forum in Addis Ababa and the 2014 African Leaders' Summit in Washington, DC both included discussion of AGOA's extension.

The U.S. also encourages trade with the EAC through the Overseas Private Investment Corporation (OPIC), the Export-Import (ExIm) Bank, and the U.S. Trade and Development Agency (USTDA). Some of the funding from each of these agencies is considered TCB if it benefits the trade capacity of the host country. OPIC loans to U.S. businesses investing in the EAC have increased since 2001, especially in Kenya and Tanzania. The ExIm Bank provides export financing to U.S. businesses that plan to export to East Africa. Exports from the U.S. to the EAC have grown by over 400 percent since 2000. The EAC has a negative trade balance with the U.S., importing about $800 million more than it exports (although import figures, unlike export figures, include freight costs). The USTDA give funding to U.S. companies for project planning activities, pilot projects, and reverse trade missions in developing countries. These projects are intended to promote sustainable infrastructure and economic growth in the partner countries.

East Africa's Exports to the U.S.

EAC trade with the United States is different than its trade with the rest of the world. Looking at the most recent year of data from each EAC country, just under half of EAC exports to the U.S. are in the textile and apparel sectors, mostly coming from Kenya, despite the fact that these sectors account for less than five percent of the EAC's total exports. 31 percent are vegetable products, which are significant EAC exports to the world and the U.S., but not to fellow EAC countries. There are also several categories that account for a significant portion of East Africa's exports to the world but a small portion of exports to the U.S. The most conspicuous of these is mineral products, which account for nine percent of EAC exports to the world but less than one percent of exports to the U.S.



While the textile and apparel industries can be strong drivers of growth and employment, many of the textile exports from East Africa seem to be U.S.-bound and dependent on AGOA and other export preferences. The U.S. focus of the EAC's textile industry and concern expressed by the African Union[1] suggest that East Africa's textile sector may not be competitive without the U.S. continuing its system of trade preferences.

Country Differences

There is a great deal of variation between countries in their links to the U.S. market. Kenya is the largest exporter from the region to the U.S., accounting for 72 percent of the region's U.S. exports, while Burundi accounts for only 1 percent. Uganda's U.S. exports are heavily dependent on coffee and teas, which over half of its exports. Kenya, Rwanda, and Tanzania export primarily agricultural products and apparel. Precious stones and metals comprise 13 percent of Tanzania's exports to the U.S. and 11 percent of Kenya's, in the most recent year of data available for each country.

Import and Export Times

The third and fourth goals of the initial phase of Trade Africa are to reduce by 15 percent the time needed to import or export a container from Mombasa or Dar es Salaam to Burundi and Rwanda, and to decrease by 30 percent the time a truck takes to transit selected borders. The World Bank's Doing Business survey measures import and export times. Unfortunately, we don't have specific data on the time a truck takes to transit borders, but it shares many factors (customs regulations and infrastructure) with import and export times. The time to import or export varies greatly between countries in the region, with landlocked countries tending unsurprisingly to have longer times.

Number of Days to Export and Import

Country	2005	2010	2012	2013	2012	85 percent of 2012 level
			Time for export			
Burundi	**47**	**41**	**32**	**32**	**32**	**27.2**
Rwanda	**60**	**35**	**29**	**26**	**26**	**24.7**
Kenya	45	26	26	26	26	
Tanzania	30	24	18	18	18	
Uganda	38	33	33	30	28	
			Time for import			
Burundi	**71**	**60**	**46**	**46**	**43**	**39.1**
Rwanda	**95**	**34**	**31**	**30**	**27**	**26.4**
Kenya	62	24	26	26	26	
Tanzania	51	31	31	31	26	
Uganda	64	31	33	33	31	

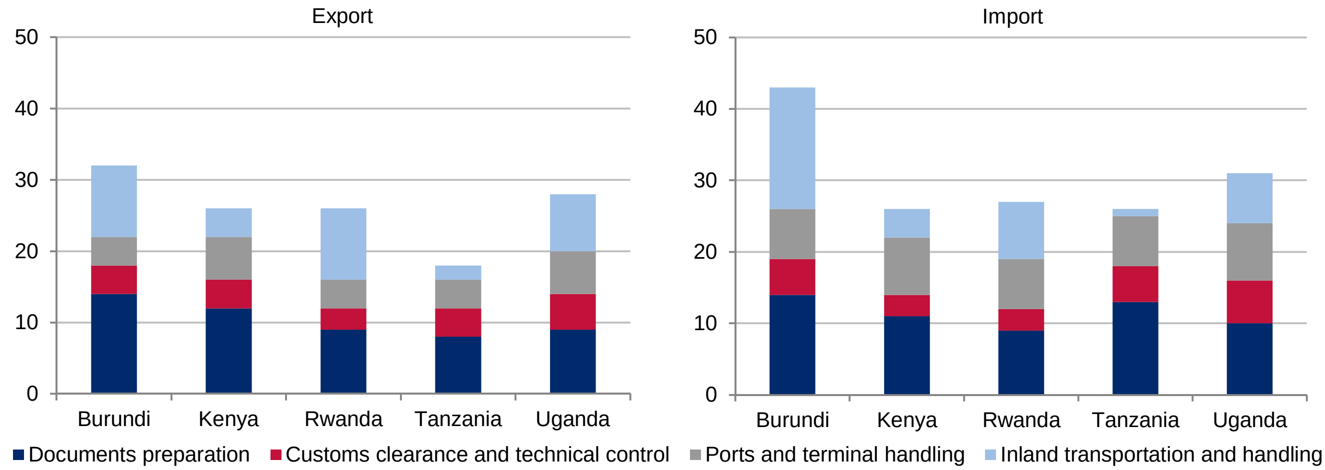
Source: World Bank, Doing Business in 2015.

Between 2005 and 2013, the (unweighted) average time to export from the EAC dropped by 18 days and the average time to import dropped by 38 days. Burundi and Rwanda, the two countries singled out in the Trade Africa goal, have seen drops in their average import times of 17 and 7 days, respectively, and drops in their average export times of 9 days each. At the rate of change since 2005, Burundi will take 2 years to reach the Trade Africa goal of reducing import times by 15 percent and 5 years to reach the export goal. Rwanda will take 1 year to reach each goal. However, the easiest reforms may have been made first, possibly stretching out the time remaining; Burundi has not improved export times since 2012. The U.S.'s TCB assistance helps further this goal, with trade-related infrastructure receiving 11 percent of TCB funding to the EAC in 2013, although this figure is highly variable year-to-year.

Remaining Challenges

Despite the progress made in the past several years, EAC import and export times could improve further. Waits for imports and exports harm supply chains, forcing businesses to keep more in inventory, and are a problem for time-sensitive exports such as agricultural goods or apparel. The World Bank breaks down the times to import and export into time to prepare documents; time to clear customs and technical control; waiting and handling at the port and terminal; and inland transportation and handling. These data can give additional insight into how countries might further speed up trade.

Days to Export and Import, by Category



Source: World Bank, Doing Business in 2015

Even given landlocked countries' longer times for inland transportation, Burundi's transport time for imports seems especially long. Document preparation in Burundi also shows room for improvement; it takes fourteen days compared to Rwanda's nine days. Imports to Burundi and Rwanda lose seven days clearing the port in Dar es Salaam, which handles the majority of their trade. A report by the U.S. International Trade Commission[2] also cites frequent roadblocks; inefficient inspection procedures; and weaknesses in port, road, and rail infrastructure as barriers to trade. The EAC Countries have been making reforms, however, and U.S. and other donor funding has the opportunity to address these challenges. Fortunately, progress toward the third and fourth goals of Trade Africa will help bring landlocked countries further into the regional and world economies, improving intra-EAC trade and trade with the U.S.

End Notes

1. *A Decade of African-US Trade under the African Growth and Opportunity Act (AGOA): Challenges, Opportunities and a Framework for Post-AGOA Engagement*. African Union, November 2010. Web. 30 July 2013.

2. Bonarriva, Joanna, Katherine Baldwin, Michele Breaux, and William Deese. *Trade Facilitation in the East African Community: Recent Developments and Potential Benefits*. Publication no. 4335. U.S. International Trade Commission, July 2012. Web. 30 July 2013.

Additional Information

For questions or more information, please contact the author, Katherine Shanahan, at kshanahan@usaid.gov.

Trade Data: To access the IMF Direction of Trade Statistics, UN Comtrade, and World Bank Doing Business datasets, please visit the Economic and Social Database (ESDB) at https://eads.usaid.gov/esdb/.

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/.

The **Trade Africa Fact Sheet** issued by the White House outlines the objectives of Trade Africa and can be found at http://www.whitehouse.gov/the-press-office/2013/07/01/fact-sheet-trade-africa.