22nd Meeting of the Intergovernmental Committee of Experts
Implementing the African Continental Free Trade Area in Eastern Africa: From Vision to Action

Kigali Convention Centre 20-22 November 2018
#ICE2018Rwanda
Macroeconomic and Social Overview of Eastern Africa

Establishing the Groundwork for the Creation of a Continental Market

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Kigali, Rwanda
Overview of Regional Performance
Eastern Africa – A consistently high performer

- Strong growth underpinned by improvements in agricultural production
- Prospects for regional growth bolstered by the resolution of the political conflict between Eritrea and Ethiopia
- Sustained push for infrastructure development

Notes: (*) Forecast. Data for Eastern Africa is the weighted average (based on current prices GDP figures) of the 12 countries (excluding Somalia and South Sudan).
Sources: National statistics, UNDESA, IMF, and UNECA calculations.
Sustained push for infrastructure investment …

Percentage of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>45</td>
<td>26</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>39</td>
<td>32</td>
</tr>
<tr>
<td>Rwanda</td>
<td>25</td>
<td>9</td>
</tr>
<tr>
<td>Comoros</td>
<td>20</td>
<td>16</td>
</tr>
</tbody>
</table>

Sources: National statistics and IMF.
Significant improvement in the business environment in Rwanda

2019 Doing Business Ranking
- 2nd in Africa
- 29th in the World

Diversified greenfield projects, e.g. automobiles, hotels and tourism, business and financial services

Source: UNCTAD.
Evidence of Diversification of FDI

Foreign Direct Investment (USD million)

Source: UNCTAD.
People living longer and healthier

Source: Gapminder.
Challenges in achieving the Sustainable Development Goals

Note: Green denotes SGD achievement, red highlights major challenges, while yellow and orange indicate that significant challenges remain. Grey refers to the lack of data for assessment.
Source: SDG Centre.
Quality, not access, becoming the major problem?

Illiteracy Rate

Percentage of population aged 15 to 49 who can not read

- Ethiopia (2016)
- Kenya (2014)
- Comoros (2012)
- D.R. Congo (2013-14)
- Burundi (2016-17)
- Uganda (2016)
- Madagascar (2008-09)
- Tanzania (2015-16)
- Rwanda (2014-15)

Source: Demographic Household Surveys.
And disturbing prevalence of violence against women

Percentage of women who have experienced physical violence

<table>
<thead>
<tr>
<th>Location</th>
<th>Women aged 15-49</th>
<th>Married or living together</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.R. Congo (2013-14)</td>
<td>51.8</td>
<td>56.9</td>
</tr>
<tr>
<td>Uganda (2016)</td>
<td>51.1</td>
<td>53.5</td>
</tr>
<tr>
<td>Tanzania (2015-16)</td>
<td>39.5</td>
<td>43.7</td>
</tr>
<tr>
<td>Kenya (2014)</td>
<td>44.8</td>
<td>47.2</td>
</tr>
<tr>
<td>Rwanda (2014-15)</td>
<td>34.5</td>
<td>39.2</td>
</tr>
<tr>
<td>Ethiopia (2016)</td>
<td>23.3</td>
<td>26.7</td>
</tr>
</tbody>
</table>

Source: Demographic Household Surveys.
Employment creation far below economic expansion

Average annual growth rate of GDP between 2006 and 2016 vs. Average annual growth rate of employment between 2006 and 2016

Countries shown: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia, Tanzania, Uganda, D.R. Congo

Sources: UNdata and ILO.
The Case for the AfCFTA for Eastern Africa
A Growing Consensus on the importance of the AfCFTA?

So far, 83% of respondents believe the Africa Free Trade Agreement is important in supporting economic development in Africa.
Tapping the rapidly growing markets in Africa

Enormous opportunity of a continental market

Consumption accounts for 85% of GDP

Source: IMF.

Source: UNdata.
Yet a significant part of consumption still met by imports

Eastern Africa trade performance (USD billion)

- Trade balance
- Exports
- Imports

Source: UNCTADStat.
Demand-side Perspectives

...and is being driven by manufactured goods...

Trade balance as a share of GDP by product groups, 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Food items</th>
<th>Agricultural raw materials</th>
<th>Fuels</th>
<th>Manufactured goods</th>
<th>Ores, metals, precious stones and non-monetary gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>-2%</td>
<td>0%</td>
<td>-3%</td>
<td>-13%</td>
<td>2%</td>
</tr>
<tr>
<td>Comoros</td>
<td>-9%</td>
<td>-1%</td>
<td>-1%</td>
<td>-21%</td>
<td>0%</td>
</tr>
<tr>
<td>D.R. Congo</td>
<td>-2%</td>
<td>0%</td>
<td>2%</td>
<td>-8%</td>
<td>14%</td>
</tr>
<tr>
<td>Djibouti</td>
<td>-7%</td>
<td>0%</td>
<td>-1%</td>
<td>-32%</td>
<td>0%</td>
</tr>
<tr>
<td>Eritrea</td>
<td>-5%</td>
<td>1%</td>
<td>-1%</td>
<td>-11%</td>
<td>3%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>1%</td>
<td>0%</td>
<td>-2%</td>
<td>-15%</td>
<td>0%</td>
</tr>
<tr>
<td>Kenya</td>
<td>0%</td>
<td>1%</td>
<td>-3%</td>
<td>-12%</td>
<td>0%</td>
</tr>
<tr>
<td>Madagascar</td>
<td>0%</td>
<td>0%</td>
<td>-4%</td>
<td>-17%</td>
<td>6%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-14%</td>
<td>7%</td>
</tr>
<tr>
<td>Seychelles</td>
<td>15%</td>
<td>-1%</td>
<td>-4%</td>
<td>-42%</td>
<td>0%</td>
</tr>
<tr>
<td>Somalia</td>
<td>-8%</td>
<td>2%</td>
<td>0%</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2%</td>
<td>0%</td>
<td>-8%</td>
<td>-22%</td>
<td>6%</td>
</tr>
<tr>
<td>Uganda</td>
<td>2%</td>
<td>0%</td>
<td>-2%</td>
<td>-6%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: UNCTADStat.
Large gap between domestic consumption and production

Share of apparent consumption supplied by domestic production in Ethiopia, 2013

Source: UNIDO.
Yet firms are operating under capacity

Manufacturing capacity utilization rate

- Tanzania (2013): 81%
- D.R. Congo (2013): 77%
- Uganda (2013): 74%
- Burundi (2014): 73%
- Kenya (2013): 72%
- Rwanda (2016)*: 65%
- Ethiopia (2015): 63%
- Madagascar (2013): 63%

Note: (*) Data is based on the Integrated Business Enterprise Survey by the National Institute of Statistics Rwanda (NISR) as it is not available from the World Bank's Enterprise Surveys. Sources: World Bank and NISR.
Of the Top 200 African Companies, only 10 are in our region

Top Companies in Eastern Africa

<table>
<thead>
<tr>
<th>Rank 2016</th>
<th>Company</th>
<th>Sector</th>
<th>Country</th>
<th>Turnover (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>Ethiopian Airlines</td>
<td>Air Transport</td>
<td>Ethiopia</td>
<td>2,417</td>
</tr>
<tr>
<td>62</td>
<td>Safaricom</td>
<td>ICT/Telecoms</td>
<td>Kenya</td>
<td>2,039</td>
</tr>
<tr>
<td>89</td>
<td>Ethio Telecom</td>
<td>ICT/Telecoms</td>
<td>Ethiopia</td>
<td>1,420</td>
</tr>
<tr>
<td>97</td>
<td>Mohammed Enterprises Tanzania</td>
<td>Diversified</td>
<td>Tanzania</td>
<td>1,256</td>
</tr>
<tr>
<td>114</td>
<td>Kenya Airways</td>
<td>Air transport</td>
<td>Kenya</td>
<td>1,018</td>
</tr>
<tr>
<td>117</td>
<td>KenolKobil</td>
<td>Petroleum</td>
<td>Kenya</td>
<td>991</td>
</tr>
<tr>
<td>128</td>
<td>Tanzania Electric Supply Company</td>
<td>Utilities</td>
<td>Tanzania</td>
<td>881</td>
</tr>
<tr>
<td>131</td>
<td>Total Kenya</td>
<td>Petroleum Services</td>
<td>Kenya</td>
<td>853</td>
</tr>
<tr>
<td>135</td>
<td>Kenya Power and Lighting</td>
<td>Utilities</td>
<td>Kenya</td>
<td>834</td>
</tr>
<tr>
<td>200</td>
<td>East African Breweries</td>
<td>Food and drink</td>
<td>Kenya</td>
<td>616</td>
</tr>
</tbody>
</table>

Firm Profitability

Profits are surprisingly high in diversified activities

- Our region accounts for 15% of African GDP, but only 5% of the top 200 companies
- Most of the top firms are in the ICT and utilities sectors, and in Kenya and Tanzania
- Net profit margin of agribusiness and ICT is particularly high

The Leading Trading Partner...

Africa already the leading trading partner for many member States....

Share of exports to Africa

Source: UNCTADStat.
Intra-Regional Tariffs Are High

Yet intra-regional tariffs are still often surprisingly high

<table>
<thead>
<tr>
<th>(%)</th>
<th>EAC</th>
<th>EU</th>
<th>North America</th>
<th>The rest of Africa</th>
<th>Ethiopia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processed food</td>
<td>0</td>
<td>0</td>
<td>1.9</td>
<td>15.1</td>
<td>26.9</td>
</tr>
<tr>
<td>Light manufacturing</td>
<td>0</td>
<td>0</td>
<td>0.6</td>
<td>8.6</td>
<td>23.2</td>
</tr>
<tr>
<td>Meat and livestock</td>
<td>0</td>
<td>0</td>
<td>0.2</td>
<td>6.2</td>
<td>13.6</td>
</tr>
<tr>
<td>Textiles and apparel</td>
<td>0</td>
<td>0</td>
<td>0.5</td>
<td>4.9</td>
<td>23.4</td>
</tr>
<tr>
<td>Heavy manufacturing</td>
<td>0</td>
<td>0</td>
<td>0.1</td>
<td>4.2</td>
<td>13.8</td>
</tr>
<tr>
<td>Grains and crops</td>
<td>0</td>
<td>0</td>
<td>0.1</td>
<td>1.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Extraction</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
<td>1.1</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>0</td>
<td>0</td>
<td>0.5</td>
<td>6.0</td>
<td><strong>16.5</strong></td>
</tr>
</tbody>
</table>

Source: Author calculations based on GTAP 10.0 database.
The *quantification* of potential benefits of AfCFTA

- **Different methodologies will give different results**

- Econometric approach – used generally post-hoc. Tentative results for EAC find that the block is currently under-trading at just 51 percent of potential within, and 60 percent with the rest of the continent.

- A Computable General Equilibrium model – Global Trade Analysis Project (GTAP) – was used to measure the static effects of the AfCFTA on East Africa

- Version 10.0, with 2014 baseline data
And the potential gains are large...

- **Increase exports of Eastern Africa by almost US$ 1 billion (US$ 925 million)**

- **Chief beneficiary sectors are labour-intensive ones**

- **Consumer welfare gain of US$ 1.4 billion**

Change in Eastern African exports to the rest of Africa by sector:

- Processed food: 76%
- Light manufacturing: 61%
- Heavy manufacturing: 31%
- Textiles and clothing: 18%
- Livestock and meat products: 17%
- Mining and extraction: 12%
- Grains and crops: 8%

Source: Author calculations based on GTAP.
### Big gains at little cost?

<table>
<thead>
<tr>
<th>Country</th>
<th>Tariff revenue loss as a share of total tariff revenue</th>
<th>Tariff revenue loss as a share of total government revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madagascar</td>
<td>0.7%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>4.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Uganda</td>
<td>8.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>6.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Kenya</td>
<td>3.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>6.2%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Note: Tariff revenue is the sum of import tariff rate times the value of imports by the type of import and source. Source: Author calculations based on GTAP 10.0 database.
Services are just as important…

And major opportunities in services

Trade balances of services and merchandise goods, 2017

-3,000 -2,000 -1,000 0 1,000 2,000 3,000 USD million

Tanzania: -5,700
Kenya: -10,900
Seychelles
Djibouti
Madagascar
Rwanda
Burundi
Uganda
Somalia
Ethiopia: -12,800
D.R. Congo

Merchandise trade balance
Service trade balance

Source: UNCTADStat.
Key Messages

1. Regional growth is solid – but not enough structural change
2. Strong social progress in some fields, but serious lags in others
3. Consumer demand is vibrant, but not met enough by regional firms
4. Production gap in manufactured goods is particularly large
5. AfCFTA could help unleash the potential of regional trade
Thank You!

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