East Africa: Obama Proposes New U.S.-EAC Trade Pact

By Charles Gichane

NAIROBI, Kenya, July 18, 2012 (Capital FM) - President Barack Obama has proposed a new United States-East African Community Trade and Investment Partnership that calls for a regional investment treaty that will ensure the fair and equitable treatment of investors.

Obama's Deputy National Security Advisor for International Economics Michael Froman, who spoke at the American Chamber of Commerce luncheon in Nairobi, announced that the partnership calls for a focus on trade facilitation to reduce bottlenecks at the border.

This will limit delays and unnecessary costs while giving investors confidence that their investments will remain secure.

"This initiative calls for greater engagement with the private sector through a new, first of its kind regional commercial dialogue, which will help facilitate private sector input into the trade and invest policy agenda in the region," he said.

"I'm pleased to tell you that our initiative has been well received by both the EAC and each of the member states, and we are now looking at how to ensure that it achieves concrete results," he added.

He also announced the launch of the new "Doing Business in Africa" campaign to help support US trade and investment in the region, which grew by 34 percent between 2010 and 2011.

"Our Export-Import Bank has financed record amounts for American companies doing business in Africa, with loans rising to a record high of $1.4 billion in 2011," he revealed.

"The Overseas Private Investment Corporation (OPIC) has invested over $3 billion in Sub-Saharan Africa, and just last year almost $1 billion was invested, which is a 300 percent increase from 2010," he stated.

He noted that the increased activity in the region includes a significant investment in the expansion of the Olkaria geothermal plant in Kenya.

Currently, Olkaria - Africa's first geothermal power field - produces 210 Megawatts (MW) of electricity, but Kenya aims to boost that output to 5,530 MW by 2030 by tapping the vast steam energy is the country's Rift Valley region.

Trade Minister Moses Wetangula, who met with Froman earlier on Thursday morning to discuss strengthening trade and investment between the two countries, said there is still much to be done in improving Kenya's trade volumes to the US.

"If you look at the American investments in this country from 20 years ago to today, they haven't grown but rather they have shrunk," he said.

"There have been divestitures from some American companies and one of the difficulties that have impacted on our trade is communication.

If we had direct flights from Kenya to the US - since Kenya is always trying to find its way into the American market and we already have an open skies agreement - I think it would help," he added.

Wetangula said there is still much to be done in improving trade volumes to the US especially under the African Growth and Opportunity Act (AGOA) Agreement, and added that Kenya is looking to double its trade profile with the US in the next five years.

EPZ companies notably in textiles accounted for 70 percent of the exports under AGOA, with 61 percent of companies operating in Kenya's EPZ being from China, UK, US, Taiwan, Qatar and the Netherlands among other countries.

The country's exports to the US remain very narrow, only having exported less than a hundred of the 6,500 eligible products in the AGOA framework; however, the government is in the process of implementing Special Economic Zones (SEZ) to expand the range.

Last month, President Obama launched a new US strategy toward Sub-Saharan Africa with the objectives of strengthening democratic institutions in the region, advancing peace and security, promoting opportunity and development and spurring economic growth, trade and investment.

"The President's new strategy will strengthen our economic ties by seeking to improve the enabling environment for trade and investment, enhancing economic governance, promoting regional integration and encouraging US companies to trade and invest in Africa," Froman stated.

Despite the halt of US investments in Kenya, Froman pointed out that from 2006-2009, US investment in Sub-Saharan Africa was up 64 percent and private investment flows to Africa have now substantially exceeded foreign aid.

"Trade among the five East African Community member States has doubled over the last five years and US trade with the EAC grew an impressive 34 percent between 2010 and 2011 alone," he said.

"The trends are all headed in the right direction and US and international investors are making Sub-Saharan Africa a priority and making Kenya a hub for doing business across the region and across the continent," he added.

Last week, the US International Trade Commission released a report on trade facilitation in the EAC which reported that EAC countries require a different collection of documents for import or export, and on average they require twice as many documents as the global best practice.

"Lengthy transit times at the border make the export costs of a container of textiles from the EAC nearly $2,500, compared to $580 for a competitor in Vietnam," he said.

"For a coffee exporter in the EAC, it takes an average of 29 days to obtain export documentation, transport the product to port, clear customs and get the cargo loaded on a ship, but that is twice as long as it takes for competitors in Brazil and Colombia," he acknowledged.

Froman emphasised that reform in EAC trade doesn't require a lot of money, but rather a great deal of political will.

"Agreement by leaders is important, but equally important will be leaders driving that message down through their respective bureaucracies so that the customs agent at the border doesn't continue to impose tariffs on his customs union partner because he refuses to recognise the certification of a neighbouring authority," he explained.

Numerous police roadblocks and weigh bridges on the central and Northern transport corridors have been blamed for rampant corruption and causing unnecessary delays for goods in transit.

During the Sixth Regional Forum on the Elimination of Non Tariff Barriers (NTB) in March, Kenya agreed that it would reduce the number of roadblocks from 36 to five, while Tanzania would reduce from 30 to 15 and Burundi and Rwanda would not have road blocks.

In addition, vehicles will only be weighed at weighbridges at the point of entry and exit. Member states also resolved to adopt a harmonised electronic cargo tracking system to replace roadblocks by December 2012, with Tanzania agreeing to remove the $200 fee charge for merchandise trucks entering the country.

Froman is leading a nine-member delegation of senior administration officials on a two-day visit to Kenya during which they will visit sites crucial to the growing US-Kenyan economic relationship, consult with Kenyan officials and American investors along with other key figures in Kenya's political and economic establishment. (END)