THE EASTERN AFRICA ASSOCIATION

ANALYSIS AND COUNTRY SPOTLIGHT

World Trade – Trade Deals

Germany's Chancellor Angela Merkel has described the Transatlantic Trade and Investment Partnership (TTIP) as "absolutely in the EU's interests". However, this long-planned trade deal with the US has effectively collapsed, with negotiations showing no signs of progress despite three years of talks, as disagreements, not just with the US but also between EU countries, "have killed off" any prospect of the TTIP being concluded. This was envisaged as the largest bilateral free trade agreement event, which would boost EU GDP by an estimated Euros 120 billion, it has been estimated.

The EU has blamed the US for the stalled talks for "failing to take into account EU values and interests" and that "they will not succumb to American demands". Many observers have viewed these as little more than a big business, corporate stitch-up. Negotiators have apparently failed to agree on a single item out of the 27 chapters of the proposed treaty. This has effectively demolished the argument that the UK remaining in the EU "would have been the best way for Britain to deliver global free trade". Remember President Obama's rather specious comment about "Britain being at the back of the queue?" It seems that now there no longer is one.

The UK was a major advocate of the deal but has now voted to leave the EU, so the collapse of the TTIP negotiations could have implication for Britain's future outside the Union and strengthen arguments that the country would be more nimble negotiating on its own, rather than having to coordinate the interests of the 27 other EU countries into one combined initiative.

Almost everywhere, economic nationalism is on the rise. As the backlash against globalisation has grown, both the protectionist rhetoric and practice are steadily being ramped up. Both US Presidential hopefuls, Hilary Clinton and Donald Trump (who has made clamping down on supposedly unfair foreign imports a centrepiece of his campaign), have spoken out against free trade deals, threatening to row back on or pull out of those already signed, including NAFTA, concluded in the 1990's. There is little chance of the so-called Trans-Pacific Partnership (TTP), involving 11 Pacific countries including Japan, of being passed by Congress, regardless of who becomes President. The Canadian-EU Trade Agreement is in trouble, as too are Japanese trade talks with Brussels.

Any chance of a global trade deal disappeared a long time ago but now, even the regional trade agreements that larger countries turned to as an alternative, are stumbling. What does all this tell us? First that the case for genuine free trade must continue to be made as loudly as possible. In the second instance, it is that the big "harmonising" free-trade deals that the regional blocks have aspired to, often involving issues that have nothing to do with trade, such as national security, development and the environment, are just too difficult and damaging to sovereign sensibilities to be a practical way forward.

There is no single market and no free movement of labour between the US and Canada and yet their trade is vigorous and generally dispute-free. Brexit should aspire to something similar, a vote for the advancement of free trade, not against it.

World Trade – African Trade and Investment

Like the majority of emerging markets, GDP growth in Africa dropped dramatically over the last three years. Of sub-Saharan Africa's "big five" economies – two are rapidly contracting (Nigeria and Angola, largely due to low global oil prices), one is static (South Africa, for a variety of reasons) and only Kenya and Ethiopia are bucking the trend, growing at a reasonable rate of around 5%. However, sub-Saharan Africa as a whole remains one of the fastest-growing in the world, against a backdrop of a global slowdown.

There has been a severe commodity price correction for many Africa countries to contend with, as well as sovereign debt servicing crises and localised conflicts hampering economic growth. Is the "Africa rising" narrative dead or is the continent simply reverting to the pre-commodity boom trend is therefore a key question to pose. The continent is so vast, so diverse, with so many economic differences and interests that the way it is reviewed and quantified has always been flawed. There is no single view and the wide geography, the nascent markets, lack of connectivity and low collaboration between countries, all prevent a common analysis being formulated.

Despite the factors behind the decline of overly resource-driven economies, the Eastern Africa region's growth trajectory remains generally buoyant. Kenya, Ethiopia, Tanzania and Rwanda are all "frontier" growth stories of the continent. In the next decade, the East African region will have a population of around 330 million people and the EAC is forecast to grow by 6% in 2016. At the region's current growth trend and extrapolating this forward 10 years, about US$350 billion is projected to be added to consumption in these markets – very close to the current GDP of South Africa. With Ethiopia turning increasingly towards its African neighbours for trade and investment links, adding Africa's second-most populous nation to these figures makes this part of the continent extremely attractive as a potential market.

However, during what are still undoubtedly challenging times, these countries need to embark on reforms which arguably should have been implemented when times were good but were not. The ease of doing business needs to improve, anti-competitive state-owned firms need to be privatised and greater efforts need to be made to stimulate cross-border, intra-regional trade. Ironically, the actual trend in the region may be in the opposite direction as "statist" and protectionist stances are becoming increasingly evident, with Tanzania leading the way under its new Government.

The role of the Eastern Africa Governments ought to be to cut bureaucracy, create the necessary human capital skills, encourage entrepreneurship and improve political governance, perhaps the most obvious but most difficult requirement. To truly develop, the leaders in Eastern Africa need to grasp these simple facts and act on them.

Kenya – Banking sector – interest rate cap

The issue dominating discussion on the economy at the moment is the passing of a Bill, with Presidential approval, to cap the interest rates of all commercial banks.

In this context, banks will be limited to an upper lending rate of 4 percentage points above the Central Bank Rate (CBR), currently 10.5%, hence 14.5% will be the maximum.

Depositors will receive a minimum interest rate of 70% of the CBR rate; viz 7.35%.

This "smacks of state power" so said one respected media scribe, and indeed this is what is so distasteful.

Whilst interest rates may well have been seen to be high in the past, averaging 18.5% or so, on loans in general, there was sound reason for this.

The Kenyan borrowing community does not have a great repayment record, and Court delays, sometimes of years, in processing any effort to foreclose on securities upon default is notorious.

However, despite the views of the Central Bank Governor, and advice to the contrary by the Cabinet Secretary to the Treasury, the President assented to what is formally known as the Banking (Amendment) Act of 2016.

The whole issue originated from a private MPs motion to Parliament and quickly gathered momentum, no doubt spurred by the many MPs heavily borrowed. President Uhuru no doubt calculated that his veto would imply be overwhelmed by a subsequent two thirds majority back in Parliament, enough to legitimately carry their vote, to implement the Bill.

There is, however, a wide-held belief that the ultimate decision is politically inspired, being a clearly populist measure in the build up to national elections in eleven months time.

And so, what next and where to from here?

Listed banks' share prices plunged overnight and shareholders took an average loss of around 16% in the first week.

The Kenyan Bankers Association deplored the decision, and the respected ratings agent, Fitch, is critical too.

Business analysts see the banks now rejecting high risk borrowers, which inevitably will exclude a great number of small and medium size businesses - the organisations, one might argue, who need funding the most. Perhaps here, one has the law of unintended consequences kicking in and killing the voiced belief by proponents of the Act, that there will be "mass loan access".

Uganda – Business in general

It is no surprise, therefore, that not only does Uganda's economic growth face a real downturn, but the business community too faces a challenging year ahead. There is genuine concern about the future, with no quick-fix in sight. Despite the traditional fiscal discipline imposed by the BoU, the gains have often been undermined by leakages in the budgets for security and the presidency, with the Treasury quite frequently shifting resources from different programme areas to meet supplementary expenditure from these two departments, affecting the performance of other parts of the economy.

Whilst telecommunications continue to thrive, speculative building progresses are well enough and financial services are holding their own, few other sectors can say the same. The business community, as a whole, is depressed, fresh investment slow and prospects in general are dull.

Hotel occupancy is well down, the retail spend is suffering and manufacturers are struggling to maintain momentum. Imports are down, lettable office space exceed demand and tourism is flagging.

However, there is some optimism in the oil sector as the recent issue of production licences to joint venture partners, Total Exploration, Tullow Oil, and the China National Oil Company, have brightened the economic mood.

In addition, further exploration licences for both oil and gas, have been issued to four overseas companies – Armour Energy of Australia, Walter Smith Petrolamn Oil, Oranto Petroleum and Niger Delta Petroleum Resources, all of Nigeria.

Conclusion

Uganda remains stable, politically, with more of the same for the next 5 years. President Museveni and the NRM remain firmly in power, and will no doubt brush off any opposition with disdain, as in the past.

The economy, though, with business in particular, is headed for a rough ride, having lost its largest export market and with no obvious alternative to make up for the momentum in economic growth enjoyed in the past.

Ethiopia – Infrastructure

The country has been engaged in one of the most challenging and expensive transport projects in Africa in its attempt to build a vast railway network and connecting this with the port of Djibouti, currently its only ocean outlet. The vast distances to be covered make rail the most cost-effective means of transport and the recent developments are expected to not only reduce the cost to business but also speed-up and improve the system's reliability. This should, in turn, stimulate regional trade and economic growth.

The original Addis Ababa-Djibouti 780km metre-gauge diesel railway was initially constructed more than 100 years ago but it struggled to cope with the increased and growing demands of higher imports and exports. It was therefore abandoned for both passenger and freight transportation and a new, electrified line is now close to completion. This has the potential to transform the region, as well as considerably speeding up the flow of goods to and from the capital.

However, the ever-increasing volumes of goods using Djibouti port have forced the government to seek alternatives and both Port Sudan and Berbera in Somaliland are under consideration as "complementary import routes" to ease the load.

Power generation also features high up on the list of the government's priorities and the Gibe 111 hydro-electric project recently began generating 800 MW of power. The Grand Renaissance Dam project continues, capable eventually of generating 6000 MW of power.

The Government has recently engaged with the private sector to also generate power from solar, wind, hydro-power and geothermal, aimed at producing nearly 10,000 MW, as part of the target to produce 18,000 MW by 2020.

Work is also progressing on a US$4 billion joint cooperation gas project between Ethiopia, Djibouti and China, which will include a natural gas pipeline, a liquefaction plant and an export terminal at Damerjog in Djibouti. The pipeline will be capable of transporting up to 12 billion cubic metres of liquefied natural gas to China. A Chinese firm will finance the project, which is expected to take 3 years to complete.

There are also recently-announced plans to construct two dams on the Awash River, primarily to benefit pastoralists in the surrounding region and to regulate the flows to prevent flooding.