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INSTITUTE FOR DEFENSE ANALYSES

Evolving Business Environment in East Africa: Regional Views

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Executive Summary

The Setting

In partnership with IDA, the Institute of Economic Affairs (IEA), a leading Kenyan think tank, organized a roundtable conference on October 22 and 23, 2012 at the Fairview Hotel in Nairobi to discuss the evolving business environment in the Eastern African region and the prospects for regional integration. This meeting included participants from Kenya, Tanzania, Uganda, Rwanda, and Ethiopia. Many of the participants had taken part in the first IDA-IEA sponsored conference on business-government issues in November 2011.

Themes

In contrast to the previous meeting's focus on the relationships between the private sectors and government in the individual East African countries, this roundtable took a regional approach. The deliberations were divided into three sessions, each of which was introduced by a presentation by one participant, as follows:

- First, David Owiro of the IEA presented a review of regional economies based on several leading indices.
- Second, Eric Ronge, Director of External Trade, Republic of Kenya, discussed the history and prospects of East African integration.
- Third, Kwame Owino, Director of IEA, considered the implications for trade, industrialization, and immigration policy of the relationships between China and the countries of the East Africa region.

State of the Eastern African Business Environment

This discussion was introduced by David Owiro's presentation on the East African economies as seen through the optic of the following selected international indices:

- Global Competitiveness Index (World Economic Forum)
- Index of Economic Freedom (Heritage Foundation)
- Corruption Perception Index (Transparency International)
- Doing Business Report (World Bank).

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This presentation effectively illustrated the differences among the countries of East Africa and sparked a lively debate among participants. Despite some concern over data quality, the participants agreed that in the aggregate the indices painted a reasonably accurate picture of the regional economic situation. Rwanda stood out as consistently near the top of the regional rankings. Conversely, Rwanda's neighbor, Burundi, most often brought up the rear. Kenya's numbers did not support its image and reputation as the economic leader of the region. In fact, the data portrayed mixed records for both Kenya and its neighbor, Tanzania. Kenya's challenges in the area of institutionalized corruption were clearly portrayed in the indices.

Most participants seemed more optimistic about their economic prospects and the relationship between business and government than they had at the meeting in November 2011. A Tanzanian participant cited reduction in the level of suspicion between government and the private sector. Others referenced a greater willingness on the part of government officials to work in partnership with the private sector. Notably, the Ethiopian participant lauded the new prime minister of his country for getting off to a good start with business, meeting soon after taking office with representatives from the various business sectors.

On the other hand, participants emphasized that there remains a significant gap between governments' pro-business rhetoric and their performance. In Tanzania, for example, costs for work permits have increased and business license requirements have become more onerous. In Ethiopia, the government has imposed a 25 percent deposit requirement for borrowers.

The political and ideological difficulties involved in making the transition from revolutionary socialist economic policies to free markets in Ethiopia and Tanzania were cited by participants as a source of the economic performance deficits of the governments in those countries. In Tanzania, the Nyerere-era constitution, which is not suited to the current multi-party system, is still in effect, pending the outcome of the extensive deliberations of the Constitutional Review Commission. In Ethiopia, senior government officials are still prone to favoring state enterprises and attempting to pick winners and losers in the economy. Ethiopia's political leadership remembers that many business leaders backed the opposition in the 2005 elections. In contrast to Ethiopia and Tanzania, Kenya has enjoyed a free-market economy since independence, and was seen by participants as deriving advantages from that history.

East African Integration

The discussion of East African integration was remarkable for its liveliness and candor. The spirited nature of the discussion was promoted by Eric Ronge, the presenter. Although he was a senior official of the Kenyan government, he admitted openly that the East African integration process is being driven somewhat artificially from the top downward by politicians and policymakers in the absence of demand from the bottom up. He referred to growing concern in Kenya and elsewhere that East Africa might be attempting to replicate the process of European integration too closely, and without an appreciation of regional economic realities.

The European Union was the result of a decades-long evolution that began with a customs union and a regional infrastructure initiative (European Coal and Steel Community). In East Africa today, there are yawning infrastructure gaps and inadequate plans to remediate them. The East African customs union is being undermined by the imposition by member nations of non-tariff barriers. Although there is considerable support among politicians and policymakers for a common regional currency, both the presenter and participants sounded cautionary notes, referencing the current problems of the Eurozone. Among the many differences between the European Monetary Union and a theoretical East African monetary arrangement is the fact that the latter would not be able to rely on any one country as a guarantor of the soundness of the currency. As one participant put it, “there is no Germany in East Africa.”

Despite these challenges, participants seemed unanimously of the view that regional economic integration was essential for progress and greater prosperity. Apart from traditional rationales for integration such as achievement of economies of scale, they saw several other advantages:

- Supporting the growing volume of intra-regional trade. Although intra-African trade is increasing only slowly as a proportion of total trade, the absolute numbers are growing impressively with the expansion of trade globally.
- Facilitating infrastructure investments through public-private partnerships;
- Providing market access for foreign direct investment.
- Promoting regulatory reform, such as harmonization of import-export rules and regulations.
- Institutional reforms, both domestic and regional, leading eventually to monetary union.

Achieving effective East African economic integration will depend on many factors, but two seemed most important from the point of view of participants:

- First, development of infrastructure, especially electric power grids and roads.
- Second, expansion of the East African Community to include Ethiopia. The current exclusion of that country from regional arrangements is unrealistic. If for political reasons it is not possible to include Ethiopia in the community in the near term, appropriate bilateral agreements should be negotiated in order to promote *de facto* integration.

China and Africa

Even before the commencement of the formal discussion on China and East Africa, China was the "elephant in the room," as coined by participants, and was mentioned in connection with virtually every topic. The discussions concerning China were strikingly nuanced and rooted in realism. China was viewed neither as the solution to all of East Africa's problems nor as the source of them. Instead, participants characterized China as a major, but problematic partner and a protagonist in the region's unfolding story.

The discussion focused on three aspects of the Chinese-East African relationship:

- Trade: From 2000-2008, trade between Africa and China expanded tenfold.
- Industry: China plans to build 50 Special Economic Zones (SEZs) throughout the world. Six of these have been established in Africa (Egypt, Ethiopia, Mauritius, Nigeria (2), and Zambia).
- Immigration: As of 2009, an estimated 580,000 to 800,000 Chinese nationals were living in Africa. The majority of this population was situated in five or so countries.

For each of the above three aspects of the China-East Africa relationship, participants painted a mixed picture.

- Trade has expanded, but not necessarily to African advantage. For example, imports of Chinese clothing and textiles drove local producers out of business in the 1990s.
- The SEZs are sources of employment, but sometimes produce cheap, low-quality goods. They have been accused of competing unfairly with African producers. There is often little contact between the Chinese workers in the SEZs and local populations. Labor and environmental standards were not always observed within the SEZs.
- Although Chinese immigration to Africa was not generally perceived by the participants to be a major problem, in part because the numbers have been relatively contained, there are troubling elements. Each of the several categories of Chinese workers in Africa has its own characteristics. Those workers who provide the labor for large infrastructure projects tend to stay to themselves, living frugally while earning more than they would in China, and returning home when their projects are completed. In contrast, Chinese petty traders and informal miners are in Africa for the long term, and they often compete directly with Africans, leading to social and labor tensions. Agricultural workers are a newer class of immigrants, and they seem to be almost invisible on the African scene, despite their reputed numbers.

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There were three additional points of interest in the discussion. First, participants were unanimously of the view that with Chinese business partners, “you get what you pay for.” Rwandan and Tanzanian participants referred to sub-standard performance by Chinese firms on government projects. Another participant noted that Chinese contractors would use inferior components “whenever your back is turned.”

The other side of the coin was that participants clearly thought that Chinese entrepreneurs in Africa had certain comparative advantages relative to Western firms. These factors were both tangible and intangible:

- Chinese companies are willing to work within the African business culture. Too often, Western firms expect Africans to learn Western business practices. Chinese firms adapt to African preferences for person-to-person communications and the high value that Africans place on personal relationships.
- Chinese firms size their offerings to African realities. They are willing to deal in smaller quantities. For them, a $100,000 deal is not too small. Western firms tend to look down on any opportunity not worth at least $500,000.
- Chinese take global markets seriously, treating them as integral to their success. Western firms often still view the African market as too small to care deeply about.

Finally, it was somewhat surprising that participants referenced China’s cultural outreach policy as an important element in its success in Africa. One participant nostalgically recalled the days when there were American cultural centers in every African capital. Now those centers are gone or have diminished in size. China has mimicked American cultural diplomacy, financing many professional and academic exchange programs and establishing Confucius Institutes all over Africa. Despite these large-scale Chinese efforts, participants made clear that African business leaders have retained a basic orientation toward the United States and Europe. It is important, however, not to take these attitudes for granted in the face of China’s integrated political-commercial-cultural offensive in Africa.

INSTITUTE FOR DEFENSE ANALYSES

Global Coverage Analyses Program – Africa

Economic and Demographic Issues

Private Sector Dialogue

Evolving Business Environment in East Africa: Regional Views

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November 19, 2012

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Evolving Business Environment in East Africa: Regional Views

Private Sector Dialogue: Summary of Discussion

The Institute for Defense Analyses (IDA) held a roundtable in partnership with the Institute for Economic Affairs (IEA) Kenya on October 22 and 23, 2012. Leading individuals from five African countries (Ethiopia, Kenya, Rwanda, Tanzania, and Uganda) met in Nairobi to participate in discussions on issues related to the relationship between business and government in East Africa and the Horn. Three observers from the IDA listened to the discussion in order to gain insights on the attitudes and opinions of African business leaders. The discussions, which were guided by three basic questions that provided the point of departure for each session, are summarized below.

In order to encourage candor, the conference was conducted under the "Chatham House Rule." Accordingly, statements in the following record are not attributed to specific participants.

Day One: Panel Discussion

On October 22, 2012, an informal panel discussion was held with the participants as a scene-setter for the roundtable. The following questions were addressed during the session:

- What is the state of the business-government environment in East Africa today?
- What factors are driving or hindering integration in East Africa?
- What is the degree of China's influence on trade, immigration, and industrial development?

What is the state of the business-government environment in East Africa today?

In this session, participants discussed and debated the role of the government in promoting and regulating the private sector, its relationship with business, and the expectations that the private sector has of their governments.

(Tanzania) There has been more partnering between government and business and the government has declared a greater willingness to work with the private sector. The Tanzanian government often makes pronouncements that business is the driver of economic growth, and that the private sector and small and medium enterprises (SMEs) are critical components. Unfortunately, there is more talk than action. Several contradictions remain, and we are getting mixed messages. For example, work permit fees have doubled (and in some cases tripled) and will continue to increase. The local government tax was removed three years ago, but was recently reinstated. The creation of the Business Environment Strengthening for Tanzania (BEST) program was a sign that the government wanted a better relationship.[1] In the past, there was a CEO roundtable, but this hasn't happened in three years due to disagreements between the private sector parties. The government says the private sector must have one voice (one agenda) before we can move forward.

(Tanzania) While this is all true, we tend to forget how far we have come. Tanzania had a closed society for decades. It has taken 20 years to make the transition from a socialist/state-controlled economy to a market economy. There is tension between business and civil society. The problem is that politicians feel insecure around business people. They "put up a wall" because they think that business people want to get into politics. The Public Private Partnership (PPP) Act of 2010 received a warm welcome, but hasn't made much progress in moving forward.[2]

(Tanzania) There is gradually less suspicion between government and private sector, but the barriers to business and trade still remain. Even though there is less resistance from government, I agree that mixed messages are being sent to business leaders. When it comes to the general public, there seems to be an increased suspicion, in terms of investors coming into the country to exploit resources (e.g., natural gas and uranium). In short, the business-government relationship appears to be getting better, but we are not really there yet. Tanzania may not have completely made the transition from socialism to free market.

(Ethiopia) The Tanzania situation is similar to that of Ethiopia. We are also in the process of transitioning from a socialist to a capitalist economy. The government recognizes the need to develop a free market economy, but they want to define it by their own terms. The main hindrance has been leadership. The government attitude is changing; leaders have an agenda. During the 2005 elections, business leaders supported the opposition, and the government is fearful that this could happen again. They are creating new business leaders and financing them. In essence, the politicians will "own"

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[1] BEST is a grant-giving program that assists organizations to create a better business environment by working with membership, trade and business associations from the private sector. These include Chambers of Commerce and sector specific bodies. The grants enable organizations to be successful in their dialogue with government to change policies, laws and regulations. Source: http://www.best-ac.org/

[2] The Tanzanian government launched a National Public Private Partnership (PPP) Policy in 2010. The main objective of the policy is to promote private sector participation in the provision of resources for PPPs enterprises in terms of investment capital, managerial skills and technology. Source: http://www.policyforum-tz.org/node/8349

them. They are betting on the younger generation (more than half the population is under 30), but this group is not well organized. There is also a power struggle within the business community – who is the representative? This makes it difficult for the government to engage. Under the leadership of the new Prime Minister, we see positive changes coming. PM Hailemariam Desalegne recently spoke on inflation and unemployment. This is definitely a good sign for the future.

(Kenya) Business drives growth and this is widely accepted. Private business lobbying groups are increasing and policy is favoring these groups. For example, we have the Kenya Private Sector Alliance (KEPSA).[3] Its level of influence at this point is still minimal.

(Kenya) Business is relatively well-organized. Due to the (post-election) crisis in 2008, business got a seat at the table. We have several industry associations. On the other hand, it is difficult to maintain a clear demarcation between government and business. For example, the banks have a strong relationship (marriage-like) with the government. There is also the assumption that business knows better as we are less corrupt and more efficient than the government.

(Kenya) Kenya is beginning to see the emergence of business lobbying group, but they tend to focus on a single industry. There is not a voice that reaches across all sectors.

(Uganda) Business and politics pretend not to like each other, but they are the same people.

What factors are driving or hindering integration in East Africa?

In this session, the participants discussed and debated the drivers and/or hindrances to regional integration in East Africa.

(Tanzania) Governments in the region are not "dancing to the same tune," making regional integration difficult. We have different histories, and each country has its own priorities and interests. Leadership is a challenge, but business can play a key role. We must have three things: (1) good leadership/good governance/good economic policies, (2) democracy, and (3) security. Military diplomacy and conflict resolution are new and emerging areas. This region is considered to be a future supplier of oil and gas. Uranium deposits, where are these going to go? Kenya has been a free market economy from the beginning, and other states in the region are at various stages of economic transition. This is one barrier to effective integration.

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[3] KEPSA is the apex body and single voice of the private sector, with a membership that comprises more than 60 Business Membership Organizations (BMOs) and in excess of 180 corporate organizations – and is still growing. Source: http://www.kepsa.or.ke/

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(Ethiopia) A couple of questions for the group: Do we really need EAC integration? What do we mean by integration? Timing is definitely an issue for Ethiopia.

(Uganda) Suspicion among countries is preventing integration. There is a perception that Kenya is trying to dominate the region. We have been trying to eliminate the barriers to trade, but Kenya recently imposed a cash bond for all imports transiting through the port of Mombasa to landlocked countries. This was seen as diminishing all efforts toward integration. Businesses are also fearful of the competition that integration could bring.

(Kenya) Yes, certain businesses have an interest in preventing open trade; they have the influence to create non-tariff barriers to block open trade. On the cash bond, there should have been better notification. The cash bond is supposed to prevent diversion of goods. It was intended to be security measure.

(Kenya) We are increasingly hearing the sentiment that multinational companies are bad. There is strong resentment from Kenyans (particularly in the case of hiring practices and labor). Kenya Airways is a good example. The government has a large stake, but KLM is the largest shareholder. Due to rising labor costs, they have been forced to lay off staff. There is increasingly a sense that they are hiring foreigners. The same is happening with oil companies – tensions over the sale of the Kenyan subsidiary of Shell.

(Kenya) Kenya Airways is one of the most successful airlines in Africa, but due to requirements contained in the new constitution, the company faces increasing labor costs. It is looking for cheaper labor by hiring in the cities it serves rather than using Kenyan expatriates. Yet, there is the public perception that Kenya Airways "belongs to us" even though it has been privatized. Companies are receiving pressure from politicians to hire locally. Industrial relations are more complicated. There are lots of strikes and ambivalence about transnational cooperation. It's a mixed bag.

(Tanzania) The same phenomenon is spilling over into other countries in the region. It's about mergers and acquisitions. Multinationals stay as long as they get good deals; companies come in to make a profit and then pull out. The government panders too much to investors (i.e., tax waivers). Civil society organizations have created awareness. There have been changes that our governments did not prepare us for.

(Ethiopia) On multi-nationalism, the Ugandan government has a great incentive for whistleblowers. For example, Shell got caught cheating on taxes when they sold out of Uganda.

(Tanzania) There are definitely specific hindrances to integration. They include political ambition and different political and economic agendas. We have not developed a regional identity. We are all interested in our local politics. There is an East Africa Assembly, but its deliberations are not known or widely publicized.

What is the degree of China's influence on trade, immigration, and industrial development?

In this session, the participants discussed and debated the Chinese presence in Africa and the associated pros and cons.

(Ethiopia) The labor costs in Ethiopia are increasing. The only Ethiopian value-added is labor. In Chinese industrial zones, they still bring their own equipment, technology, financial resources, and raw material. The increasing labor costs, however, may force the Chinese to rethink this model.

(Rwanda) China is taking over. Rwandans don't have employment. I think 80 percent of labor force is now covered by China. The problem lies in regulation. We are still using policies from 1992, and this is ineffective. The government is looking at how to change this and require greater local employment.

(Uganda) The problem goes back to governance and leadership. We should be able to supply raw materials and labor when we can, and this needs to be addressed in contracts with the Chinese.

(Kenya) Sub-Saharan Africa growth rates have been above the global average for ten years. Some of this is due to fundamental reforms and some due to the global downturn. Then there is China. Chinese influence in Africa cannot be denied. The African Union's new headquarters building was funded by China. West Africa is different – very open about the Chinese presence (example of Angola). Zambia also has a lot of Chinese. In East Africa, China has been involved in a lot of road construction. We issued 4,000 visas to Chinese last year. There are a growing number of Chinese restaurants. Recently (for the first time), Kenyans arrested two Chinese citizens who were selling/hawking counterfeit goods. Locals wanted the police to take action. There was a big demonstration in Nairobi – protesters circulated a petition against the Chinese. "Yes, we want you to build our roads, but we don't want you to compete with us." The Chinese are not racially conscious either. The government has sold the idea that "China is our friend," but the backlash is beginning.

(Tanzania) It's good that we have saved this "elephant" for last. The Chinese are very strategic in their engagement with Africa. They have a campaign to win the hearts and minds of Africans. For example, Star Times provides TV broadcast and satellite service at an affordable rate. They broadcast a Swahili language soap opera (making efforts to assimilate). Telecoms such as Huawei are doing good things in technology. There are definite advantages to the Chinese presence, but there are also drawbacks. China is in talks to buy a large stake in Barrick (gold mining corporation) – what will this mean? Colleagues, clients, and employees are worried. There are also many Chinese restaurants in Tanzania. They are constructing roads and building bridges. The airport terminal deal went sour because the Chinese wanted major concessions. The government put their foot down and the Chinese walked away. We have the same issue with petty trading. The element of xenophobia has led to violence; two Chinese nationals were killed recently.

(Uganda) On Chinese strategy in Africa, they are not noted for learning local languages but this might be changing. Some are making efforts to assimilate; I came across a Chinese man speaking our language fluently. Increasingly, the Chinese bring their own products and set up retail shops.

(Tanzania) The Chinese are responsible for the infrastructure. In East Africa, it doesn't matter who constructs it, if the environmental standards area up to par, or what interests the third party may have. We just want the road.

(Tanzania) Tanzania used to have a major textile industry, but it shut down because it couldn't compete with China. Now Tanzania is importing ready-made textiles; one of the top imports into Tanzania is second-hand clothing. The Chinese government is very effective in advancing the interests of Chinese businesses. The national bank negotiates extremely favorable deals for their companies. Huawei has replaced all telecommunications equipment and ZTE supplies the fiber optics. East African governments, however, are not similarly aggressive in advancing the interests of African businesses.

(Rwanda) We are poor; this is the problem. Our leaders don't take responsibility and don't have the bargaining power to negotiate favorable deals.

(Tanzania) There is an ethical dilemma. For example, I am going to China next month and have my own personal conflict (ethics vs. business sense). This Chinese company wants to sell everything in their shop for 1,000 Tanzanian Shillings (or 60 U.S. cents). People will go to the shop and quality doesn't matter. Where do we draw the line? How do you balance the long-term economic costs (putting local sellers out of business) with the fact that most people are poor and would benefit from such a sales model? Some of these products will end up crossing the border.

(Kenya) China is a very big supplier for the world in general. On the issue of quality, will the roads last in Kenya? Are all beneficiaries getting the same deal?

(Tanzania) The Chinese are also strategic when it comes to financing. We have an existing gas pipeline that a British company wanted to expand for a high rate of return. They were planning to get the loan from China.

(Kenya) This goes back to Chinese being strategic. The poaching of elephants is illegal, but ivory finding its way to Hong Kong. Yao Ming came to China to make a video to dissuade Chinese from buying ivory. Was this just a PR tactic?

(Tanzania) The Chinese need close supervision. You get what you pay for. On the 1000 shilling store, Kenya and Tanzania have something similar ("dogu-dogu" economy). Products are sold cheaply in small quantities. Multinationals are catching onto this trend. In the end, the cost is higher to the consumer, but the price is affordable at the time. I don't see the (1000 shilling) store as a bad idea because it fits in with our lifestyle.

(Kenya) The Chinese are engaged in industries where the government has a very huge presence. They are also filtering into retail sector. The attitude toward Chinese firms is that goods are of low quality. Kenya is quickly becoming a hub for multinationals.

(Kenya) Chinese presence has also affected international relations in the region from a business perspective. No Chinese airline has direct flights into Africa, but Korea has a direct flight from Seoul to Nairobi. Confucius Institutes are also prevalent. There are two in the biggest universities in Nairobi, one in Dar es Salaam, one in Addis, one in Kigali, etc. Are the Koreans trying to mirror the Chinese presence?

(Tanzania) In terms of Korean influence, there was a meeting sponsored by Samsung. They are trying to learn more about Africa. It remains unclear what the quality of the products will be. They are taking the best of the U.S. model and best of Chinese model.

Are we missing anything, need to cover certain topics more?

The participants discussed what topics may be missing from the discussion. They also suggested what needed to be addressed in greater depth.

(Tanzania) EAC integration needs to be discussed further. Who is leading the agenda? Tanzania is dragging its feet, but why? It could be a leadership problem. There is no Tanzanian policy (lack of literature) on East African integration. Tanzania talks about Kenya being a problem. What happened to this relationship? We need to keep these points in mind.

(Tanzania) We cannot ignore the security dimension. Security concerns are driving and hindering regional integration. Some countries want protection, but others don't want spillover of the problem. The business-government relationship is less important in this area.

(Kenya) Kenya's economic strength in the region is probably overstated. Economic growth is lagging behind the rest of the region. The one advantage of Kenya lies in its service industries. The fears about Kenya are political, and this is likely because we are failing in diplomacy. Another thing to consider is Turkey's potential presence in the region.

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Day Two: Roundtable Dialogue

On October 23, 2012, the participants participated in a formal roundtable dialogue. The previously mentioned topics (Business Environment in East Africa, EAC Integration, and China in Africa) were discussed in greater depth. Each session began with a presentation on the subject at hand followed by a round of plenary discussion among the participants.

Session 1: Business Environment in East Africa – Findings and Selected Indicators

David Owiro of IEA presented a review of regional economies based on four major indices: the Global Competitive Index, the Heritage Foundation and WSJ Index of Economic Freedom, the Transparency International Corruption Perception Index, and the World Bank's Doing Business Report.[4] A copy of his presentation is included in this report. The following are highlights from his presentation:

First, some noteworthy statistics on the region were identified: Ethiopia has the highest GDP, Kenya has highest public debt, FDI is driven by large projects in the oil and gas industry, and Kenya has highest tax to GDP ratio. The Heritage Foundation and WSJ Index of Economic Freedom gave Rwanda the highest overall score and Burundi the overall lowest score. In terms of labor freedom (ease of entering/getting work permits), Tanzania and Kenya scored similarly. The Transparency International Corruption Perception Index ranked Rwanda as the least and Burundi as the most corrupt in the EAC. The World Bank's Doing Business Report also favorably ranks Rwanda and Burundi maintains the lowest score. In terms of rule of law and corruption (time it takes and procedures necessary to resolve disputes), Tanzania ranks first and Kenya is second to last. The Tanzanian participants were surprised by this, believing the leaders to be Rwanda and Ethiopia. Tanzania is doing well in some instances. Kenya's case is mixed because they are moving forward or backwards in certain instances (most corrupt in the region).

Following the presentation, participants made comments on the statistics.

(Kenya) On ease of doing business (work permits), the Kenyan government has a deliberate policy to approve applications for engineers. Is it a Kenyan job or regional job? How does this affect integration? This trend is worrying because we are supposed to be an open market with the same standards. This needs further discussion. The scores should be better if we had a true community. One exception is Rwanda, where there are lots of Kenyan workers. It's about perception vs. reality.

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[4] Details of the indices can be found at the following URLs: http://www.heritage.org/index/ranking; http://transparency.org/country; and http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf

(Tanzania) If the data reflect the ease of hiring and firing in the labor market, then the figures make sense. Ease of trade could be another factor.

(Kenya) In terms of protecting investors, the ranking is very accurate for Kenya as we have a poor record of disclosing conflicts of interests. On trading across borders, road blocks/police checks in Kenya naturally affect Rwanda and Uganda adversely. In terms of bond fees, perception and reality are not too far part for this. On paying taxes, it is interesting that Kenya has the highest taxes, but ranks last. We have more formal businesses, whereas in Uganda and other places there are more informal businesses. I believe the data would change significantly if the informal sector were included. It is also reflects the number of tax regimes in the country and the length of time it takes to comply. Uganda also has many tax regimes, but, again, not many businesses are part of the formal economy.

(Tanzania) In terms of corporate tax vs. economic tax, the extractive industries are under fire. In terms or rule of law (contract enforcement) and corruption, the problems are associated with the banks and lending (several legal reforms). Enforcement of taxes is satisfactory, but our negotiation abilities are not so good. If Tanzania is first in resolving contract disputes, then I am really worried for the region. Uganda needs to learn from Tanzania in this respect because they really like litigation.

(Ethiopia) I've had a big problem with the data in this report (World Business) for a long time. The quality is questionable; data is based on anecdotal reports from within the country. Sometimes improvements just mean that those being interviewed are learning to operate within the system better. I recommend using data from Millennium Development Goals reports.

(IDA) Looking across the rankings, do you feel that taken together, these various indices reflect the realties you see on a day-to-day basis?

(Kenya) Kenya and Tanzania and, to some extent, Ethiopia have larger and more complex economies, so the data is more mixed. Rwanda is starting from a low base. Perhaps the region should be more integrated than it is now. The data give a fairly accurate picture.

(Kenya) Perhaps the data show that Kenya is not the dominant power that its neighbors fear it is. We are more bark than bite. Maybe Kenya it would not be so dominant in a more integrated regional system.

(Uganda) The reality of this is that it is getting countries to consider the advantages of integration. We hear debate on radio and TV stations. FDI goes to the poorly regulated economies.

(Tanzania) Are they investing because they can get away with shoddy practices?

(Kenya) The average GDP growth rates in East Africa are through the roof; clearly something is starting to happen in the region. Public debt is a reflection of legacies. Geographical differences are definitely present in the data. FDI in East Africa is chasing natural resources (in Tanzania) and industrial investments.

(Uganda) Kenya is one of the largest African investors in the EAC region and, in particular, in Rwanda.[5] Rwanda has yet to benefit from its openness.

(Tanzania) If the region had better infrastructure, all the countries would be better off by about 2 percent in terms of GDP growth.

(Kenya) The discussion about indicators needs to be informed by political economy issues (e.g., reform, port efficiencies, and access). An employer has a single mandate, but the government has a dual mandate to promote employment as well as economic growth.

(Kenya) Do governments understand what they need to make business easier? Formal systems make it easy for business to grow. How do you enhance capital markets? How much progress can we claim when every country in the region still ranks 100th or lower in global index of corruption? In terms of government debt, the countries with the lowest percentages are the ones that have received the most donor-funding. Kenya, in contrast, has not any donor budget support for 20 years. We need to unbundle these estimates and then look at them through the optic of how they create an environment for business to prosper.

(Kenya) What is the impact of language on labor freedom? Does this explain Ethiopia's relatively low ranking? Rwanda has embraced several languages; Kenya is still set on English, and Swahili in Tanzania. English is the language of commerce.

(Tanzania) We have not talked about the impact of diasporas and remittances. Kenya leads the region in this respect; the contribution to its GDP is substantial. This is insignificant in Tanzania.

(Uganda) Many Africans are not benefitting from economic growth. Many want to avoid the formal economy due to transaction costs. For example, there are farmers who want to cut corners.

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[5] Kenya was ranked among the top 20 investors in Africa between 2003 and 2011. Since 2008, Kenya has ranked among the top five in terms of compound growth of new FDI projects. Over this period, investment from Kenya into the rest of Africa has grown at a faster rate than from anywhere else in the world, at 77.8 percent. Source: http://www.ey.com/GL/en/Newsroom/News-releases/FDI-into-Africa-accelerates-as-investor-perceptions-begin-to-shift

Session 2: East African Integration

In this session, Eric Ronge (Ministry of Trade, Kenya) spoke on the progress and prospects of EAC integration. A copy of the presentation is included with this report. The following are highlights from his presentation:

What is the rationale for integration? There are traditional reasons, such as market access (economies of scale; increased and more diversified trade and investment). There is a huge potential for gas and oil, but we need better regulations. Food security is also another argument. There are non-traditional reasons as well: commitment for domestic reform, benefits from access to regional public goods, and increased bargaining power. As Pan-African integration has evolved from the 1960s, the traditional concerns have become more relevant to the private sector (e.g., institutional reforms). Evolution of the EAC? The history dates back to 1920s with the customs union among Kenya, Tanzania, and Uganda. More recently, we have the 1993 EAC cooperation, 2000 EAC community treaty, 2005 EAC customs union (still trade barriers between the countries), and the 2010 EAC common market (tariff barriers removed). The next steps would be monetary union and political union (although not too sure that there is a timeline for this). What opportunities does integration bring? Infrastructure investment under public/private partnerships, FDI market access, regulatory reforms (harmonization under the common market), and institutions (domestic reforms, monetary union, etc.).

Following the presentation, participants engaged in plenary discussion.

(Ethiopia) When we talk about integration, can we think of the pros and cons for our respective countries?

(Tanzania) How much are our leaders/policymakers committed to this regional integration in business? They seem to be focused more on FDIs rather than local business. Presidents travel with business people abroad, but not within the EAC. Is this happening and we don’t know about it? **Answers:** Integration is currently driven by policymakers, but it needs to happen at the individual level as well. There have been significant exchanges between business delegations (i.e., Tanzania and Kenya). On the FDI focus, my take is that so far the EAC common market aim is to harmonize relations within the community. There are significant FDI flows from Kenya to Tanzania. The integration process is aimed at enabling small-scale enterprises within the region.

(IDA) What lessons are members of the EAC drawing from the monetary union of the EU? What implications will this have? **Answer:** There has been a lot of concern as of late whether we are following the EU integration process too closely. Are we too lenient? Policymakers tend to overlook significant constraints to trade. Integration is coming at a time when countries are making individual reforms. We need to proceed with caution, especially in regard to monetary union. There are several questions. What roles will member countries play? How do you divide revenues from trade? Do significant subsidies go to the big players? Such a thought process has opened the eyes of policymakers who blindly follow the EU model.

(Tanzania) What are the current rates we are trading at? Is there an EAC brand? **Answers:** The volume of intra-African trade has actually grown and we are seeing more inter-regional investment. The quality of trade is getting more sophisticated, and we are developing value chains across borders.

(Uganda) Kenya should not apologize for investment as it is seen as the big brother in the region. There are serious distortions within the market so we need better regulation and fair policies. I agree with point about infrastructure. During the last five years, the government has been talking about joint energy projects, but there has been no action. What will be the role of business leaders? **Answer:** EAC integration has been a top-down approach driven by policymakers. There is not much demand from the bottom up. Kenya's trade in the region is much bigger than with the rest of the world. Kenya dominates in intraregional exports within EAC and COMESA.

(Kenya) International financial institutions, multilateral development banks (African Development Bank, World Bank, and IMF) are applying pressure for integration because it would dramatically reduce the costs for foreign investors. Kenya lost significant revenue when it adjusted to COMESA's external tariffs. The customs union only makes sense if there are equal opportunities in other counties. There is currently a bill in parliament that doesn't raise taxes, but increases the number of taxable goods. Who benefits from these revenues? There must be incentive for Kenya to keep participating.

(Tanzania) The top-down nature of integration is not concerning at this point. There are more opportunities for development and investment in post-conflict and post-socialist countries (i.e., Tanzania). The net flow of investment is from Kenya to neighboring countries. Thus, Kenya's advantage is sometimes a disadvantage because as neighboring economies develop, the net flow of revenue into Kenya may go down. The opportunities are there, but it depends on how you see things. We need to be broad in our thinking – we must think beyond who is winning and who is losing.

(Uganda) EAC countries need to focus on their strengths and what they have to offer. Uganda has agriculture and educational services, Kenya has manufacturing and technology – we need to maximize each country's advantages for the overall good of the region.

(Tanzania) Yes, we need to look at the success stories. Business-to-business relations are gradually moving in terms of cross-border business dealings. Sometimes local stakeholders get involved and complicate things. There are definite risks to consider when businesses move into new regions.

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(Ethiopia) Is there a branding issue with the EAC? Is there something that can be done to improve the image?

(Kenya) Free trade is also going to result in redistribution. In any major economic change, somebody loses.

(Kenya) As emerging markets in the region develop, we need to develop new institutional frameworks. For example, I am disappointed in the Nairobi Stock Exchange model, which focuses only on large companies, neglecting SMEs.

(Kenya) There are more SMEs in West Africa than large companies. Getting access to cheap capital is a problem.

(Kenya) Who is the baby in the EAC? It may be necessary to rethink basic elements of the EAC charter. Kenya is committed to some level of integration (open borders and free trade), but we are reluctant to lose our political autonomy. There are a huge number of bureaucrats participating in the EAC who have a vested interest in seeing integration happen according to the current model.

(Ethiopia) Would people have the same problem with a monetary union as they do with political integration?

(Uganda) In terms of monetary union, we shouldn't worry about who invests in the region. The more pressing concern is who sets the intellectual agenda. We have no regional development plan. The issue of sovereignty comes into play; this leaves the region vulnerable to outside manipulation by parties serving their own interests rather than regional interests. We need to focus on building regional synergies. What are the benefits?

(Kenya) Each country must organize its own policymaking.

(Ethiopia) What do people think about integration with other East African countries (Ethiopia, South Sudan, Somalia, etc.) that are not part of the EAC?

(Kenya) There is IGAD (Intergovernmental Authority on Development). The EAC charter allows for expansion, and South Sudan has applied for membership. The EAC is going nowhere unless it considers the membership of Ethiopia.

(Kenya) One of our biggest concerns should be Lake Victoria. There is a market here for good labor. Unemployment is a problem, especially among the youth. The Arab Spring is an example of what can go wrong.

(Tanzania) Tanzania is definitely open to Eastern Africa sharing common borders, people, etc. We have hosted workers and business professionals from around the region. We have other models to learn from. Ethiopia has a competitive advantage in terms of entrepreneurship and small businesses and managing the diaspora. We look to Kenya as a medical provider. Obviously, there are certain risk factors with the Sudans and Somalia.

(Ethiopia) Ethiopia has numerous trade agreements at the bilateral level. Infrastructure is a key component to integration sustainability and business development. Value chain integration is the future. A greater volume of trade needs to be developed; there is a low level of intra-Africa trade, and individual countries are more integrated with China than they are with one another.

(Tanzania) Most of us have spoken as civil society members, but we have politicized business issues. Are we still too political in our views of integration?

(Ethiopia) The problem lies in the international community and donors pushing integration. They favor regional businesses and are prejudiced against local businesses. This makes it political. The driving force needs to come from business leaders. At the same time, politicians are more open to dealing with non-African businesses rather than local investors. Are business leaders doing enough to facilitate meaningful integration?

(Kenya) Politics is far reaching, and this includes business. There is an aspect of competitiveness.

Session 3: China in Africa

In the last session, Kwame Owino of IEA gave a presentation on China in Africa. A copy of the presentation is included with this report. The following is a summary of his main points:

Chinese presence in Africa predates the independence of most African states, perhaps as early as the 16th or 17th centuries. There have been least 50 years of relations at the state level. After its revolution, China faced a more hostile international environment and reached out to non-aligned countries in Africa. The first big major Chinese infrastructure project was the Tanzania-Zambia railway.

Post-1991, trade flourished and there was an inflow of manufacturing into Africa. It started with toys and expanded to clothing by the mid-1990s – gradually driving local manufacturers out of business. Between 2000 and 2008, trade expanded tenfold to \$106 billion. China has also been forming connections with African institutions. For example, the African Development Bank annual meeting (2007) was held in Shanghai. There is also the Chinese Africa Foundation for International Understanding (CAIFU).

In terms of industrial presence, China plans to build Special Economic Zones (SEZs) modeled after those in Shenzhen and Xiamen. They plan to establish 50 worldwide, and six exist in Africa (Mauritius, Nigeria (two), Zambia, Ethiopia and Egypt). The zones will concentrate on manufacturing. Chinese firms will provide the capital and resources, while the African governments will provide “incentives” and limits to industrial action. China has forged local partnerships (joint Chambers of Commerce; 195 Chinese companies are members) to facilitate investment.

Based on this presence, what are some of the problems with China in Africa? These include labor and environmental standards, value addition and wages, relations with locals, infrastructure design and location, land transfer and easements (people displaced in Nigeria and Mauritius), no knowledge transfer (the Chinese are not training local talent bases), cheaper goods, and "unfair competition."

Immigration? There are scholarships for African students in China, but this is not widely pursued. In 2009, it was estimated that around 580,000 to 800,000 Chinese were in Africa (mostly in Angola, South Africa, West Africa, Zambia). It is worth noting that there are only five countries with more than 10,000 Chinese nationals. South Africa has 350,000 Chinese and Taiwanese. Kenya Airways and Ethiopian Airlines offer direct flights to Chinese cities. The visa has become a commercial good (if you pay double, you can get the visa in a day). Chinese workers in Africa make 30 to 400 percent more than the average wage in China. They live frugally and are not here to contribute to the local economy.

Who migrates? There are workers on large public works, transit immigrants (from Angola to Europe or U.S.), small-time entrepreneurs, and agricultural workers. Surprisingly, there are no "Chinatowns."

What kind of infrastructure has China provided? Some examples include roads (Kenya, Rwanda, and Congo), railway and power plants, pipelines and refineries, housing complexes (Angola; however poor quality, which may undermine Chinese credibility), and stadiums (Senegal).

Based on the above, there are several conclusions. Trade is a mixed picture. Is Chinese construction really cheaper? There is a shortage of reliable data on immigration. Results are also not clear on SEZs. Chinese firms have displaced local manufacturers (extent unclear), but local industries are pushing back.

The following is a summary of questions and comments addressed during the final session of the roundtable:

(Tanzania) What are we scared of? Where is the fear coming from? **Answer:** Most of the fear is based on the lack of information. There are several conspiracy theories. For example, Africans tend to believe that the Chinese are strategic and plan everything 50 years in advance (completely untrue, but China is willing to take risks). Also, China knows what it wants and will always get it. There are also generic statements – China is taking over Africa. China's development assistance in Africa (over a 10-year period) has been about $10 billion (U.S). This is not very much – development assistance in Kenya is about 10 percent of that of the U.S. contribution. Africans also tend to overestimate how much China can do for them.

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(Tanzania) In terms of Chinese strategic approach, what do we know about Chinese/African investment boards? The China Investment Board invests in projects all over the world. Membership is very competitive, but I made it on the board. What does this say?

(Kenya) Local business networks are one challenge to the China-Africa is relationship. They don't exist, and African business people can help in this case. Right now, most communication is at the government-to-government level.

(Uganda) China is making it easy for small entrepreneurs to go to Africa to do business. African leaders like to be close to China because the latter is not inclined to challenge poor governance.

(Kenya) China has made inroads in Africa through such strategies. Chinese technology is scaled in a way that businesses in this part of the world can deal with. It's not necessarily state of the art, but it's affordable. China looks at business from a global perspective. The ease of doing business with China can't be beat. It is often much easier to communicate with Chinese businesses because they make themselves available outside of business hours. The biggest frustration is the language barrier, but they make up for this in other areas. They are willing to deal on a smaller scale with smaller value business transactions. They have become a production center for the rest of the world.

(Tanzania) The arms industry cannot be ignored in this context. What about Chinese arm sales to Africa? Is this a security threat? There is not much transparency.

(Kenya) Human rights are also concerning, but there is no recourse to question the issue. Our leaders may have a relationship with China, but Africans don't have a voice.

(Tanzania) The military angle is definitely scary because China is a nuclear power. Are we so powerless that we cannot start driving the relationship? Is our government that naïve? With the level of transparency, advancements in technology, and intelligence – is there not another way to monitor what is going on?

(Kenya) Is China's non-interference policy their Achilles heel?

(Kenya) Look at the Sudans. Due to oil interests, China got stuck between two governments fighting each other. As more Chinese workers settle in Africa they are likely to become involved in conflicts. Will this cause China to shift its policy?

(Kenya) China tends to prefer not to get involved in issues not directly related to business. They are interested mainly in profiting from extractive industries. Governments that become too friendly with China are often willing to look the other way on issues related to investor protection, competition, and private property. Private sector enthusiasm and growth are not as vibrant in these countries.

(Ethiopia) Do we see a problem with Chinese immigration? There are less than a million workers among 2 billion Africans. Africans are great exporters of labor too. Regarding jobs and unemployment, as the value chain moves up in China and labor becomes more expensive, those jobs can move to Africa. It may be as much as an opportunity as it is a threat. Is Chinese financing really as bad as people make it out to be, or is it a matter of governments negotiating better terms? Africans are being told that China's presence is a bad thing, perhaps this is a concern from outside powers that are losing influence. There is also the natural fear of transitioning from old to new ways of business.

(Kenya) Something about this place makes people sensitive to foreigners. Foreigners are competing at higher levels, not the lower levels. China's presence is a coin toss – some of it will be good and some of it will be bad. It shouldn't concern us too much. Chinese relations with the African people are bad, and they need to correct this.

(IDA) Is Chinese behavior different in Africa than it is elsewhere? No, it acts the same way everywhere else. This is the way China is.

(IDA) Chinese migrants have been the targets of xenophobic attacks. This is partly due to Chinese culture. In times of economic insecurity and unrest, this is not uncommon. This is not unique, but may be new to Africa and more high profile.

(Tanzania) It is racism and xenophobia. Russians and Indians are known to mistreat Africans. We cannot be selective and only complain about the Chinese. These are the issues we need to improve upon. Our current president has inflamed sentiments regarding Chinese migrants. Our governments need to manage these relations. Recently, a Chinese delegation visited Tanzania, and they didn't want to experience the country. You could argue that these people should come and assimilate, but you could also argue that we should help them assimilate. The danger in the relationship is xenophobia and racism.

(Kenya) We choose not discuss this issue because it's not politically correct. African countries would rather focus more on external problems than internal problems. For example, we currently have an uprising in Mombasa that is driving tourism down by 70 percent. Racism vis-à-vis the Chinese may just be a reflection of deeper ethnic and tribal problems. Perhaps our problem is that we have a high tolerance for discrimination. The Chinese come and just join the list.

(Tanzania) The bottom line is that China is open for business. China has made trade easy (on all scales), they have technology, a model that works for Africa, and there is 24-hour access. But there are problems. There is no knowledge transfer, language is a barrier, and quality is an issue. We need to be vigilant. We should be wary of industrial military complex – on all scales. The Chinese policy of non-interference is both good and bad (human rights). China is holding the purse strings, but is also financially exposed. If global financial crisis continues, China will not be able to make big investments. Africans are duty-bound to ensure China's presence benefits us. There are both opportunities and major challenges, and it is up to Africans to stand up for their interests.

Session 4: Wrap Up and Conclusion

In the wrap-up portion of the roundtable, the participants were asked to comment on the success of the roundtable. What did they learn and what did they hear that surprised them? The following is a summary their comments:

(Uganda) First, nation-states within East Africa are still focused on their particular interests and are not keen to move toward monetary and political union. This is exemplified in the unwillingness of Kenya to reform its ports. Second, we need to deepen information on opportunities that already exist in trade regimes and the common market. Third, we must support SMEs because this is where jobs are going to come from. About 9,000 SMEs register each year, but only 20 percent make it to a second year.

(Tanzania) First, the figures on regional trade were definitely useful and eye-opening. The pace of integration is slow and frustrating, but there is interest. We are lucky to have the examples of the EU and success stories from Ethiopia. Second, will business leaders be in the driver's seat or will they be passengers towards regional integration? It's important that better management should take place. The EAC needs better branding, and I don't see this happening right now. Third, the issue of perception versus reality was apparent in the presentation of statistics. Do benchmarks fit the environment? Are we comparing apples with apples? We need to have more information and data. The arguments need to be based on facts and not generalizations.

(Kenya) First, we need to interrogate the numbers (data presented) further. Second, I am a believer in integration. It is currently driven by politicians who need to survive the next election cycle. As business leaders, we need to figure out how to move the agenda forward. Third, the perceptions of China within the EAC were very informing. It made me think about how I interact with fellow Africans and fellow Kenyans.

(Kenya) First, the EAC – depending on whom you listen to – and regional integrators should agree on a small program and work on it (i.e., promoting investments, infrastructure). Political federation may be desirable, but there is a lack of enthusiasm for this within some countries. We cannot put the cart before the horse. Second, this continent appears to be very inward looking. We need to strengthen penetration and generation of new ideas.

(Tanzania) First, we should have more of these sessions. Discussions like these remove fear and insecurity between neighbors. Second, I am going out with a different perspective of the Chinese. China is a large country with a large economy. When our governments negotiate with China, they need to focus on the macro rather than the micro. Third, most Tanzanian business people are fearful of Nairobi. We need to be less self-

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contained; business-to-business collaboration is important. Fourth, Kenya is moving because they are more efficient.

(Uganda) First, there is still a lot of skepticism about this integration process. We need to have more of these types of discussions in broader forums to increase awareness and understanding. Second, Kenya's economic power is overrated by the rest of the EAC, but it still sets the pace for economic success. Uganda can compete. Third, in our relations with China we cannot just look at the negatives and we need to focus on the positives. Our leaders should also focus on what we can gain from relations with the Chinese. This should be considered when negotiating contracts.

(Rwanda) First, Rwanda is importing from many other EAC members. We are not looking outside of Rwanda. Kenyans are the China of Africa. Yes, Rwanda has made lot of progress, but we should be farther along. There is unfulfilled potential. Second, relations between Africa and China are not just the responsibility of African leaders. We need services from other countries. It's up to us as citizens and business leaders to set the standards and make the decisions. Also, policymakers should not sign contracts based on the cheapest options.

(Kenya) First, the business environment within the region is a mixed bag. There is no premium for having a better business environment. Second, information on the Chinese economic zones was helpful. Third, on EAC integration and business environment, we should track policy and how governments respond to ideas and such forums.

(Tanzania) First, Tanzania does not have a set policy or document on EAC integration. I get the feeling that it is the same for other members. We need some sort of guidance. Second, looking at the economic data, it made me realize why people want integration to happen. Third, business leaders need to set the agenda and not have leadership do it for us.

(Kenya) First, China appears to have a better understanding of African business models than Africans do. Second, it would be interesting to compare business relations between Africans and Chinese to those between Africans and other Africans.

(Ethiopia) First, I learned what a "dogu-dogu" economy is. Second, the business community should try to push the governments towards integration. We should not trust them to reflect what is needed. We need a more proactive business community.

(Kenya) First, the macro perspective is important. Second, one thing that has come out from the data is that tax-to-GDP ratios are very low. Perhaps this increases our reliance on foreign aid/donors. Third, the role of SMEs has not been realized and needs to be a focus. Fourth, China provides Africa with technology, and we shouldn't waste money on reinventing the wheel. Fifth, governments in this region have no appreciation for what "business environment" means. Until this is developed, it will difficult to create a business environment that foreign investors will find attractive. There is a mindset that really needs to be tackled here. There are frameworks for FDI but not domestic investment, and governments seem to discriminate again their own people. Sixth, energy, energy, energy!! We cannot even think of exporting when we have energy-deficit countries right now (except for Ethiopia). It is a silent resource that is not getting enough attention.

(IDA) First, economic integration is just as hard in Africa as it is everywhere else. In the case of the EU, there is continuing tension between national and regional identities. Second, migrant labor creates anxiety in many societies, and this is a common problem. Third, history matters. We cannot start the clock today. Local historical and cultural habits are more deeply ingrained than we realize. It's important to pull out these historical legacies as they can sometimes be strengths.

(IDA) First, East Africa matters. The region has one of the fastest growing GDPs. It is not an area where extractive industries are important, rather the driver of growth has to be consumer growth. Second, it strikes me that the EAC integration process has been driven by politicians. This is pretty risky. Politics are way too important to leave to politicians. The people who have to deal with what happens to integration are the citizens. Business leaders should play a key role. In the European context, the steps were infrastructure first, then tariffs. The common market came last. Third, how should the United States view China in Africa? There are not very good reasons for the U.S. not to view China as a threat to American interests in Africa. Fourth, all of you are paying a high infrastructure tax. Closing this gap is important.

Agenda

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Evolving Business Environment in The Eastern African Region

22-23 October 2012, Fairview Hotel

Tentative Program

Monday, 22 October 2012	
08:00 – 13:00	**Arrival and Participants check in at Fairview Hotel, Nairobi**
16:00 – 16:15	**Welcome and Introductions** Kwame Owino, Institute of Economic Affairs George Ward, Institute of Defense Analyses
16:15 – 19:00	**Panel Discussion: Evolving Business Environment in the Eastern African Region**
19:00 – 21:00	**Dinner**
Tuesday, 23 October 2012	
08:30 – 09:00	**Session 1: Business Environment in Eastern Africa: Findings from Select Indicators** David Owiro, Institute of Economic Affairs Discussions
10:45 – 11:00	**Coffee/Tea Break**
11:00 – 12:45	**Session 2: East African Integration** Eric Ronge, Director of External Trade, Republic of Kenya Discussions
12:45 – 13:00	**Group Picture**
13:00 – 14:00	**Lunch**
14:00 – 15:30	**Session 3: China and Africa: Implications for Trade, Industrialization and Immigration Policy** Kwame Owino, Institute of Economic Affairs Discussions
15:30 – 15:45	**Coffee/Tea Break**

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15:45 – 17:30	**Session 4: Wrap Up and Conclusions** Kwame Owino , Institute of Economic Affairs George Ward, Institute of Defense Analyses
19:00 – 21:00	**Dinner for Participants, Fairview Hotel**
Wednesday, 24 October 2012	
07:00 – 10:00	**Participants check out at Fairview Hotel, Nairobi**

List of Participants

Participant List, Private Sector Dialogue, Nairobi

	Name	Organization
	Kenya	
1	Raphael Agung	Assistant Manager of Treasury, Commercial Bank of Africa
2	Sammy Muvela	Fund Manager, Zimele Asset Managers
3	Handerson Mwandembo	CEO, Brain Trust Strategies
4	Eric Ronge	Director, Department of External Trade, Ministry of Trade
5	Donald Ouma	Manager of Market and Product Development, Nairobi Securities Exchange
	Tanzania	
6	Victoria Chale	Director, People Dynamics
7	Reuben Mwaikinda	Partner, Lloyd Advocates
8	Mahmoud Thabit Kombo	Independent Consultant, MK Consulting
	Rwanda	
9	Eric Nyembo-Kitenge	La Vida
	Ethiopia	
10	Demissie A Demissie	Managing Partner, Goh Capital Partners
	Uganda	
11	Susan Karungi	Researcher, ACODE
12	Morrison Rwakakamba	CEO, Agency for Transformation
	IDA	
13	George Ward	Researcher, IDA
14	Ashton Callahan	Researcher, IDA
15	Caroline Ziemke-Dickens	Researcher, IDA
	IEA	
16	Kwame Owino	Chief Executive, IEA
17	David Owiro	Program Officer, IEA
18	Akoko Jacob Aketch	Rapporteur, IEA
19	Marion Ouma	Intern, IEA

Briefing – Selected Indices on Business Environment in Eastern African Countries

Selected Indices on Business Environment in Eastern African Countries

Institute of Economic Affairs,

23 October 2012

Contents

- World Economic Forum's Global Competitiveness Index
- Heritage Foundation's Index of economic Freedom
- Transparency International's Corruption Perception Index
- World Bank's Doing Business Report
  - ➢Kenya, Uganda, Tanzania, Rwanda, Burundi, and Ethiopia

Country Statistics, 2010

Country	Population *(million)*	GDP(PPP) US $ *(billion)*	% GDP Growth in 2010	Public Debt (% of GDP)	FDI flow US $ *(million)*	Tax to GDP Ratio (2009)
Kenya	39.7	66.0	5.0	52.3	133.0	19.5
Uganda	34.0	42.2	5.2	23.6	847.6	12.6**
Tanzania	41.3	58.4	6.5	40.1	700	12.0*
Rwanda	10	12.2	6.5	23.2	42.3	14.1*
Burundi	8.3	3.4	3.9	49.9	14.1	7.4*
Ethiopia	84.8	86.1	8.0	36.7	184	11.6*

Source: World Bank 2010, National Country Statistics, 2010

*Unofficial sources, **2009 World Bank sources

Index of Economic Freedom 2012

Values	Burundi	Ethiopia	Kenya	Rwanda	Tanzania	Uganda
Overall score	48.1	52	57.5	64.9	57	61.9
Fiscal freedom	72.2	74.8	77.7	77.2	79.7	80.4
Government spending	22.9	91.1	75.3	78.5	80.2	93
Business freedom	46.1	64.4	61.7	73.6	45.2	49.1
Trade freedom	78.9	65.6	66.7	78	73.5	73.6
Monetary freedom	70.9	67.1	79.1	75.2	69.4	74.6
Financial freedom	30	20	50	40	50	60
Property rights	20	30	30	35	30	30
Labor freedom	67.2	55.5	63.3	91.4	60.1	87.9
Freedom from corruption	18	27	21	40	27	25
Investment freedom	55	25	50	60	55	45

Source: The Heritage Foundation, http://www.heritage.org/index/ranking.

World Economic Forum: Global Competitiveness Index 2011 - 2012

- The World Economic Forum (WEF) produces an annual Global Competitiveness index (GCI) whose purpose is to provide information on the business operating environment and competitiveness of over 140 economies worldwide.
- WEF defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country.

GCI Methodology

- **Basic requirements**: examines the institutions, infrastructure, macroeconomic stability, health and primary education.
- **Efficiency enhancers**: examines higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness and market size.
- **Innovation and sophistication** factors: examines business sophistication and innovation
- The data are then scored on a scale of 1 to 7 where 7 is the best score

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Global Competitiveness Index 2011-2012 and 2010-2011

	GCI 2011-2012		GCI 2010-2011		
Country/Economy	Rank	Score	Rank	Score	Change
Rwanda	70	4.19	80	4.0	10
Kenya	102	3.82	106	3.6	4
Ethiopia	106	3.76	119	3.5	13
Tanzania	120	3.56	113	3.6	-7
Uganda	121	3.56	118	3.5	-3
Burundi	140	2.95	137	3.0	-3

Source: © 2011 World Economic Forum | www.weforum.org/gcr

The Heritage Foundation and the Wall Street Journal: Index of Economic Freedom

- The objective is to show economies that protect the liberty of individuals to pursue their own economic interests, resulting in greater prosperity for the larger society.

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The Heritage Foundation and the Wall Street Journal: Index of Economic Freedom

- It examines the ten economic freedoms, namely: **property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom, and financial freedom**
- The ten freedoms form components which are composites of different quantifiable measures drawn from different sources of data. Each of the ten freedoms is then graded on a scale of 0 to 100, with 100 being the perfect score.

Transparency International: Corruption Perception Index (CPI)

- The CPI defines corruption as the abuse of entrusted power for private gain.
- It measures the perception of public sector corruption within the countries covered by the survey based on observations drawn from around the world, including experts working and living in the countries being evaluated.

Corruption Perception Index 2011 of Selected Countries

Country	Country Rank	Regional Rank	CPI 2011 Score
Rwanda	49	4	5.0
Tanzania	100	14	3.0
Ethiopia	120	24	2.7
Uganda	143	30	2.4
Kenya	154	35	2.2
Burundi	172	45	1.9

Source: Transparency International, Corruption Perception Index 2011

World Bank: Doing Business Report 2012

- The Doing Business report assesses regulations affecting domestic firms in 183 economies and ranks the economies in 10 areas of business regulation
- Starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.
- The survey measures the time and cost associated with each indicator, as well as the number of procedures required to complete each task.

Doing Business report 2012 for selected countries

Values	Burundi	Ethiopia	Kenya	Rwanda	Tanzania	Uganda
Ease of Doing Business Rank	35	10	9	3	14	12
Dealing with Construction Permits	39	7	2	13	45	21
Getting Electricity	34	12	19	2	8	27
Registering Property	17	19	27	5	37	22
Getting Credit	39	33	2	2	12	6
Protecting Investors	5	19	16	3	16	23
Paying Taxes	23	6	36	3	25	14
Trading Across Borders	42	33	20	31	7	34
Enforcing Contracts	41	7	23	3	1	20
Resolving Insolvency	38	11	12	36	19	3
Starting a Business	14	11	25	1	20	27

Source: World Bank

Briefing – EAC Integration Process: Progress and Prospects

EAC INTEGRATION PROCESS: PROGRESS AND PROSPECTS

DEPARTMENT OF EXTERNAL TRADE, MINISTRY OF TRADE, KENYA,

23 October 2012

OUTLINE

- RATIONALE FOR INTEGRATION
- EVOLUTION OF INTEGRATION IN EAC SINCE 1993
- OPPORTUNITIES IN EAC INTEGRATION
- CHALLENGES OF FURTHER INTEGRATION SO FAR

Country Statistics, 2010

Country	Population *(million)*	GDP(PPP) US $ *(billion)*	% GDP Growth in 2010	Public Debt (% of GDP)	FDI flow US $ *(million)*	Tax to GDP Ratio (2009)
Kenya	39.7	66.0	5.0	52.3	133.0	19.5
Uganda	34.0	42.2	5.2	23.6	847.6	12.6**
Tanzania	41.3	58.4	6.5	40.1	700	12.0*
Rwanda	10	12.2	6.5	23.2	42.3	14.1*
Burundi	8.3	3.4	3.9	49.9	14.1	7.4*
Ethiopia	84.8	86.1	8.0	36.7	184	11.6*

Source: World Bank 2010, National Country Statistics, 2010
*Unofficial sources, **2009 World Bank sources

RATIONALE

- TRADITIONAL:
  - MARKET ACCESS
    - ECONOMIES OF SCALE
    - INCREASED AND MORE DIVERSIFIED TREADE AND INVESTMENT
- NON TRADITIONAL
  - COMMITMENT FOR DOMESTIC REFORM (LOCK IN EFFECT)
  - BENEFITS FROM ACCESSTO REGIONAL PUBLIC GOODS
  - INCREASED BARGAINING POWER

EVOLUTION OF EAC INTEGRATION SO FAR

- HISTORY OF EAC INTEGRATION DATES BACK TO 1920S WITH THE 1927 CUSTOMS UNION BETWEEN KENYA TANZANIA AND UGANDA
- MORE RECENTLY
  - 1993-EAC cooperation
  - 2000 July-EAC COMMUNITY TREATY
  - 2005 JANUARY-EAC CUSTOMS UNION
  - 2010-EAC COMMON MARKET
  - NEXT STEPS-MONETRAY UNION AND POLITICAL UNION (ANYONE'S GUESS)

Global Competitiveness Index 2011-2012 and 2010-2011

	GCI 2011-2012		GCI 2010-2011		
Country/Economy	**Rank**	**Score**	**Rank**	**Score**	**Change**
Rwanda	70	4.19	80	4.0	10
Kenya	102	3.82	106	3.6	4
Ethiopia	106	3.76	119	3.5	13
Tanzania	120	3.56	113	3.6	-7
Uganda	121	3.56	118	3.5	-3
Burundi	140	2.95	137	3.0	-3

Source: © 2011 World Economic Forum | www.weforum.org/gcr

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Source: World Bank

OPPORTUNITIES IN EAC INTEGRATION

- INVESTMENT OPPORTUNITIES
  - PPP INFRASTRUCTURE INVETSMENTS
  - FDI –MARKET ACCESS
  - REGULATORY REFORMS (HARMONIZATION UNDER THE COMMON MARKET)
  - INSTITUTIONAL (DOMESTIC REFORMS)- MONETARY UNION ETC

Briefing – Africa and China – Trade, Industry, and Migration

Africa and China

Trade, Industry and Migration

Outline

- When Did China Arrive?
- Trade
- Industry
- Immigration
- Conclude

2

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When Did China Arrive?

- Chinese presence and predate independence
- Admiral Zheng's Ships
- At least 50 years of relations
- Mauritius- Chinese connection
- Diplomatic relations
- Chinese construction -TAZARA

3

Post 1991

- Inflow of manufacturing into Africa
- Apparel and clothing in mid 1990s
- 10X trade expansion (2000-2008)-US$ 106
- ADB Annual meeting 2007 in Shanghai
- Chinese Africa Foundation International Understanding (CAFIU)

4

Industrial Presence

- Special Economic Zones
- Attempt to replicate Shenzhen and Xiamen
- 11th Plan – To build 50 SEZs
- Main zones to concentrate on manufacturing
- Chinese firms and funds marshal resources
- African governments provide “incentives” and limits to industrial action
- Joint Chambers of Commerce
- Cheaper goods and “unfair competition”

5

Features of SEZs

- Egypt Suez Cooperation Zone- local minority interest
- Mauritius-initial restrictions for local investors
- Chambishi Zone- Min investment of US$ 0.5 m
- Chinese insistence on open zones in Zambia
- Ethiopia Oriental Industrial Park- 30 Chinese staff
- Mauritius- 50-50 labour divide

6

Issues Around SEZ's

- Labour and environmental standards
- Value addition + Wages
- Relations with locals
- Infrastructure design and location
- Land transfer and easements – Lekki & Mauritius
- Knowledge transfer
- Business networks

7

Migration

- Scholarships for African students in China
- Zambia –Copper mines investment refurbishment
- SAIIA 2009 Estimates- 580-800 thousand Chinese in Africa
- Only 5 countries with more than 10000
- Arrival by government employment agencies

8

Dynamics of Migration

- African students and traders into economic zones
- Visa -commercial good
- Chinese workers incomes 30-400% higher
- Chinese entry – new kind of foreigner
- South African- Chinese and Taiwanese
- Direct flights from KQ and ETT to Chinese cities

9

Who Migrates?

- Workers on large public works
- Transit immigrants
- Small time entrepreneurs- China shops
- Agricultural workers
- No “China Towns”
- Chine-Africa Biz council reports farm migrants to Kenya and Senegal (?)

10

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Infrastructure

- Roads- Kenya, Rwanda and Congo
- Railways and power plants
- Stadiums- Tanzania, Senegal
- Pipelines and refineries
- Housing complexes- Angola

11

Conclusion

- Trade is a mixed picture
- Is Chinese construction cheaper?
- Limited figures on immigration
- RSA- Different across all 3 dimensions
- SEZ model- results to be seen

12

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On October 22 and 23, 2013, IDA and a Kenyan think tank cooperated in holding a roundtable conference for business leaders from the East Africa region on the evolving business environment and the prospects for regional integration. The meeting included participants from Kenya, Tanzania, Uganda, Rwanda, and Ethiopia. The evolving business environment was discussed on the basis of the results of internationally recognized indices related to business, competitiveness, and corruption. The business environment was viewed in relatively positive terms. In addition, the conferees discussed East African integration and the role of China in Afric

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