Visa confirms economic growth, integration in EAC countries

The five East African Community (EAC) countries of Burundi, Kenya, Rwanda, Tanzania and Uganda are benefiting from higher levels of economic growth and greater economic integration, as borne out by statistics released by global payments technology company Visa Inc.

The African continent is showing rapid economic growth, and more growth is expected, with the IMF forecasting that seven of the ten fastest growing economies in the world for the period 2011-2015 are in Africa.

Interestingly, this set of ten economies includes Tanzania, whilst Rwanda was one of the top ten over the 2001-2010 decade. Clearly, the EAC is a rapidly growing region within a continent that is already growing a a fast pace. This view is supported by the fact that the five countries that make up the EAC are forecast by the African Economic Outlook - a joint African Development Bank, OECD Development Centre and Unitec Nations initiative - to experience GDP growth of between 5.2% (Burundi) and 7.3% (Tanzania) in 2012.

To this end, this fast pace of economic growth in the EAC, a market of 125 million consumers, is evidence further by recently released Visa data which show that both inbound and outbound card usage in the EAC rose by an astonishing 44% from the second quarter of 2009 to the first quarter of this year. Notably, the growth in Visa card utilisation applies to cash withdrawals as well as electronic payments, reflecting the region's rising level of trade, a factor that is driving economic development and promoting country and regional competiveness.

Level of integration on the rise

"Perhaps more interesting is the rise of the level of integration within the EAC region, which is not far behir the rate of card use, displaying growth of 36% over the same period, indicating an increasing trend in cros border transactions amongst the five countries," notes economist Dr Adrian Saville, consultant to Visa.

"Uganda and Tanzania stand out in this regard, with increases in intra-regional financial transactions of 59% and 55%, respectively. Admittedly, this fast pace of growth comes off a low base, with intra-regional transactions that make up just 10.5% of total transactions. That said, the low base provides the potential fc further handsome growth in intra-regional activity."

The recently announced capital investment programme in the Rift Valley Railways - the consortium which manages the parastatal railways of Kenya and Uganda - will aid further integration, linking landlocked Ugan with Mombasa Port in Kenya.

East African Common Market Protocol

While still early days, the first anniversary of the East African Common Market Protocol was celebrated on

July 2011. The treaty provides for the free movement of goods, people, workers, services and capital with the EAC, as well as the right of citizens to reside in any of the member nations. The protocol is the second of four phases on the road to a single East African government. The first phase began in January 2010 wit the transition to a fully-fledged customs union that lifted all import duties between the five member states. The third phase will be a full monetary union with the adoption of a single currency and the final phase will l a political federation to centre policy-making and establish common political institutions.

"The Common Market has already started to benefit the smaller countries in the EAC. For example, the Vi data show that Tanzania's interregional activity rose 27% in the first nine months of its existence, while that Uganda was up a hefty 33% over the same period. In this vein, reports show that Kenya's exports to the region grew by 19% over the past year. Approximately 25% of Kenya's export goes to the East African region," comments Dr Saville.

Several trade agreements in place will further strengthen regional and continental economic integration. Rwanda, Uganda, Kenya and Burundi are members of the Common Market for Eastern and Southern Afric (COMESA). Tanzania belongs to the Southern African Development Community (SADC). A tripartite agreement exists between the EAC, COMESA and SADC to deepen economic integration of the Souther and Eastern Africa region. On a global level, under the US's African Growth and Opportunity Act (AGOA), EAC countries have duty-free access to the US market,the Generalized System of Preference (GSP) offe preferential tariffs on a range of products originating in developing countries.

A boost for regional trade

This has, in turn, boosted regional trade, but the potential benefits have not yet been fully exploited and are expected to further add to the EAC's integration.A commitment to the removal of non-tariff barriers to trade has served as a boost to intra-regional trade and economic growth. According to the World Bank Doing Business in East Africa 2011 report, the average time to start a business in East Africa fell from 37 days in 2005 to 24 in 2010.

The report notes that intra-EAC trade has grown by 50% since 2005 with the share of intra-EAC trade to tc trade continuing to increase. This trade, in goods and services, has expanded with the introduction of the Common Market. Agriculture, a major sector in all EAC economies with dairy products, coffee and tea and horticulture some of the agriculture commodities traded, is a major driver of this trade.

It is also apparent from the Visa statistics that tourism remains a major economic driver in the region. This borne out by the high ratio of inbound card usage relative to the outbound usage, which has averaged around 4.5 times in the EAC over the past two years. This means that the total value of card usage by foreigners within the East African region is 4.5 times the values accounted for by locals outside the region Kenya, in particular, is a key tourist destination.

In this regard, VisaVue travel data show that in the first six months of 2011 international visitors to Kenya spent 10.3% more compared to the same period last year, indicating that Kenya's important tourism indus is set for another encouraging year. Buoyed by these trends, Uganda has indicated that it hopes the regio increasing integration will help support its tourism potential through melding with established regional circu

If anything, the evidence suggests that this outcome is well within reach. That said, while the data indicate growing degree of integration within the EAC, and a concomitant enhancement of economic development the evidence also demonstrates that further material benefits can be expected.