The race to be the gateway to Eastern and Central Africa heats up

Competition to link the Great Lakes to the sea is good, but there is a risk of overcapacity and debt overhangs

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I: Gateway to the Great Lakes

Kenya and Tanzania are locked in a tight race to be the gateway to Eastern and Central Africa. Their target landlocked countries (Burundi, Rwanda, Uganda) and region (Eastern DRC) comprise an economic catchment area with a population of more than 200m (and growing) and a combined GDP of more than $250b.

Source: *The East African*

Through the ***Northern Corridor***, Kenya's aim is to be the logistical hub of the wider region. Plans include road and rail links from coastal ports in Mombasa and Lamu to Ethiopia, South Sudan, Uganda, Rwanda, Burundi, Eastern DRC, and Northern

Tanzania. Tanzania's ***Central Corridor*** ambitions include new road and rail links to coastal ports in Dar es Salaam, Tanga, and a planned new Bagamoyo port.

Two recent developments underscore the stakes in this competition. First, Tanzania signed a $2.2b deal with China to extend its new SGR line from Tabora to Kigoma (on Lake Tanganyika), effectively granting both Burundi and the DRC a direct rail link to the port of Dar es Salaam. The project will be completed in 2026. Extensions into Uganda and Rwanda are planned, although both will initially have road links to the SGR. The DRC current accounts for the largest share of transit cargo through Tanzania.

Second, Uganda revived Kenya's dreams of having its own SGR link into the Great Lakes. After financing from China fell through, Uganda opened talks with a Turkish firm on the possibility of building a line from Kasese to the Kenya border in Malaba. This development increases the chances that China (or some other financier) will give Kenya the loan needed to extend its own SGR to the Ugandan border. [1] Relatedly, Kenya announced that it is reconsidering a $1.73 road deal with a French firm to upgrade a key part of the Central Corridor; and recently resumed shipping operations on Lake Nyanza from the Kisumu port. Uganda accounts for the lion's share of transit cargo through Kenya.

And so the race is on for the status of *Gateway to the Great Lakes*. Who will win the race? And at what cost?

II: The cost of bad geography

Landlockedness is bad for economic performance. Among other things, being landlocked increases freight costs by as much as 50%. The increased cost of doing business puts downward pressure on both imports and exports (associated economic activity). The World Bank summarized the problem thus:

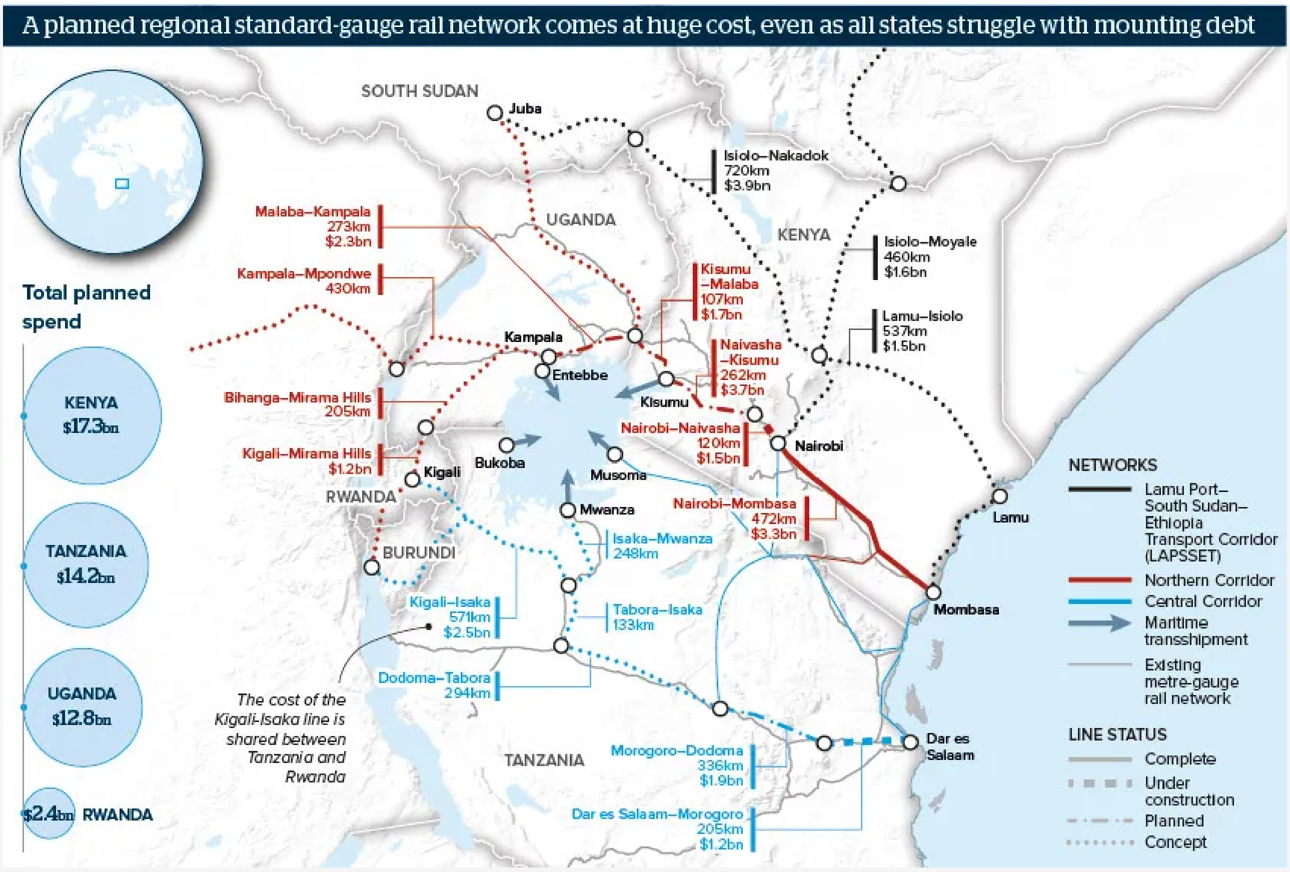
> *Most landlocked developing countries (LLDCs) face specific constraints imposed by geography. They remain on the periphery of major markets. They exhibit lower per capita income compared to their transit neighbors, and they are usually dependent on their transit neighbors' markets, infrastructure and institutions.*

This is the challenge facing Eastern and Central African countries like Uganda, Rwanda, Burundi, South Sudan, Ethiopia and Eastern DRC. All are landlocked and at the mercy of neighbors for their imports and exports.

Those neighbors' markets, infrastructure, and institutions have not always been friendly. For example, a diplomatic dispute between Kampala and Kigali led to the closure of the Rwanda/Uganda border for three years (Rwanda is lucky that it had alternative access to the sea through Tanzania). When Kenyan opposition protesters uprooted railway tracks, the economies of Uganda, Rwanda, and Burundi took a hit.

Source: SSATP

Historical economic stunting means that landlocked countries typically import more than they export and ship small volumes (thereby missing out on economics of scale). The stark disparity in imports/exports is often visible in the form of disproportionate road damage from overweight trucks (or poor engineering) on inward-bound lanes (see image of the road near the Kenya/Uganda Malaba border post).



Source: Oxford Analytica

As shown above, the planned projects come with huge price tags. Which is why it is important that Kenya and Tanzania calibrate their ambitions to ensure there is sufficient demand for their infrastructure offerings. Much of the infrastructure will be debt-financed. Given how much debt the two countries already have on the books, overcapacity that results in commercially non-viable projects would substantially increase the risk of debt overhangs.

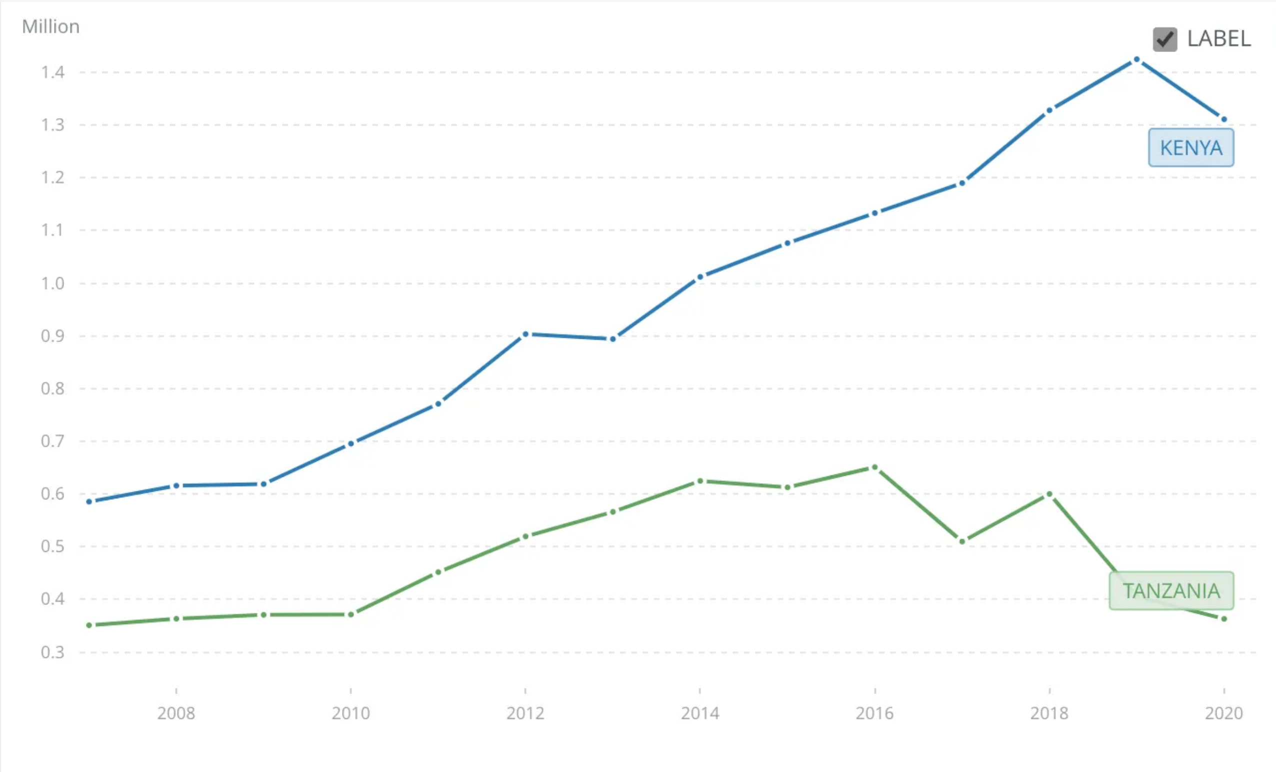
III: Kenya is the legacy leader, but Tanzania is catching up fast

The Northern Corridor currently has a lot more traffic than the Central Corridor, with the port of Mombasa having a throughput that is 4X that of Dar es Salaam (see below). However, Tanzania is catching up fast and stands a good chance of beating Kenya in the long run. Tanzania's long-run chances rest on four important structural advantages.

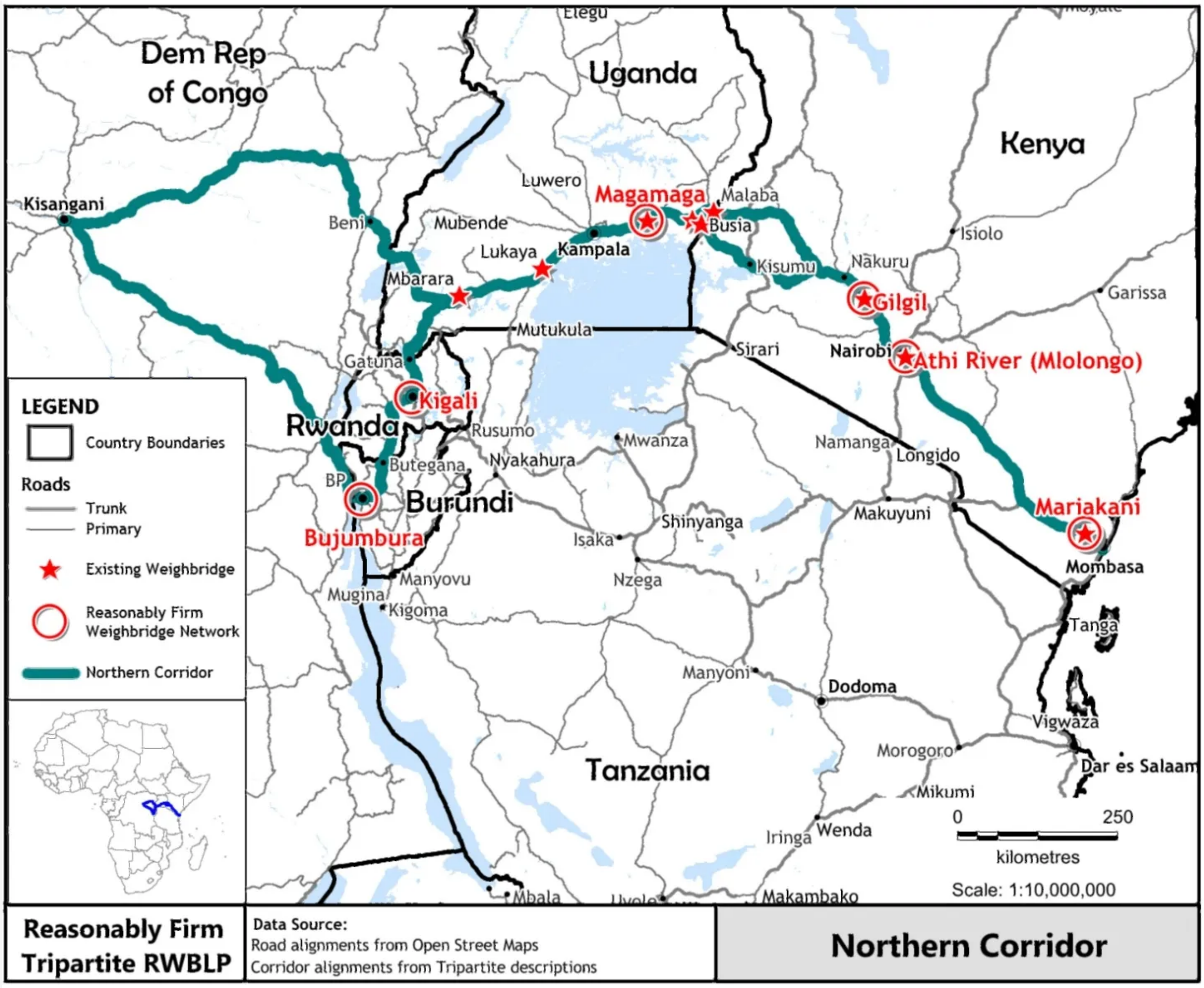
1. **The cost of land:** Infrastructure requires a lot of land. And in Tanzania, all land is public and vested in the president as a trustee on behalf of all citizens. This means that land acquisition for all manner of projects is significantly cheaper in Tanzania than in Kenya. For example, this was one of the reasons why Kenya lost to Tanzania in the race to link Uganda's oil fields to a coastal port via the

East African Crude Oil Pipeline (EACOP). Despite being longer, the Tanzania route was almost $1 cheaper.

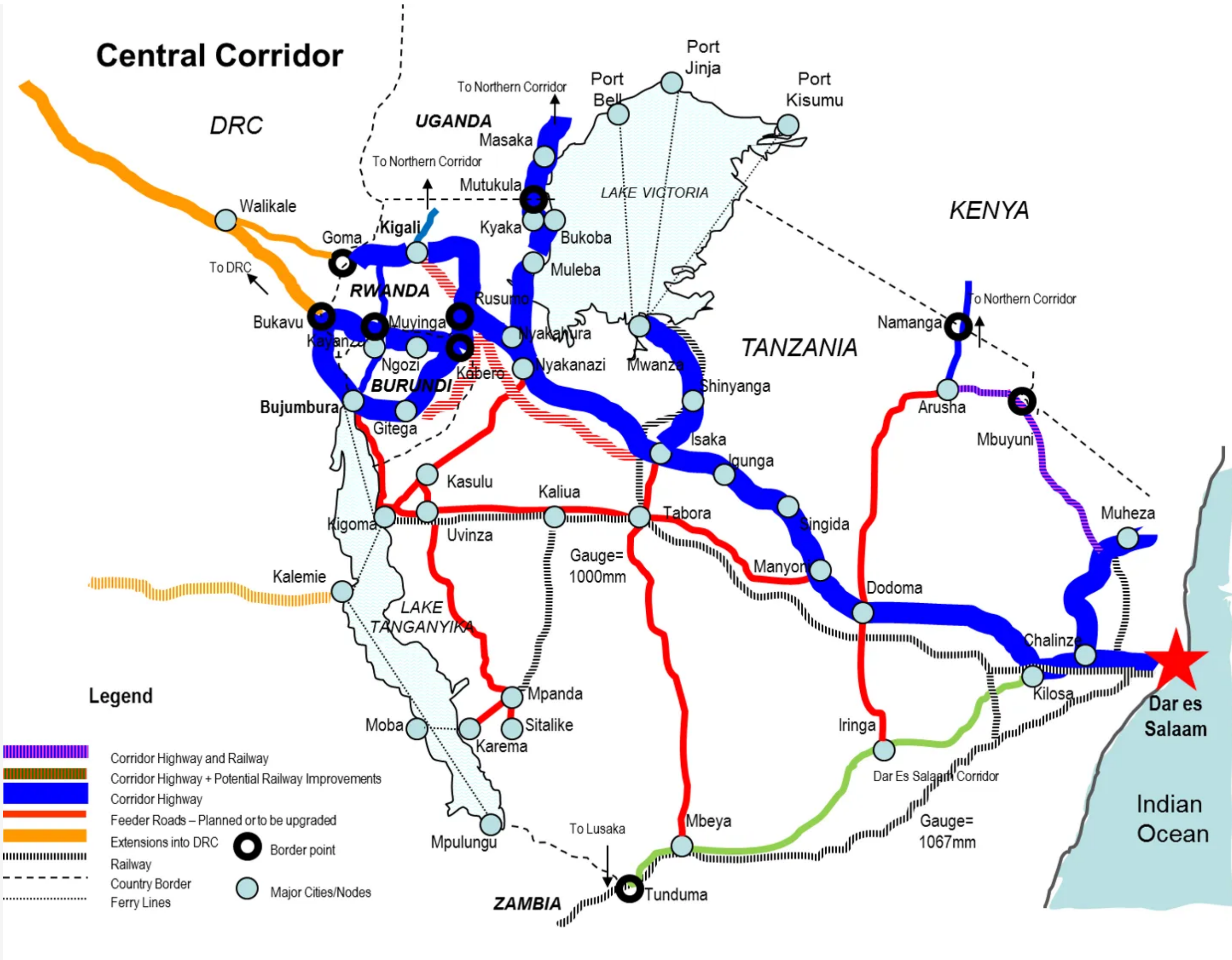
2. **Landlocked states' need for diversification:** While the bulk of regional traffic currently goes through Kenya, the Great Lakes states would certainly prefer to not put all their eggs in one basket. Therefore, as Tanzania grows its logistical capacities, the region's landlocked states will find reason to channel some traffic towards Tanga and Dar es Salaam at the expense of Kenya.



Container port traffic (TEU: 20 foot equivalent unit). Source: World Bank



Source: TTTFP



Source: GICA

3. **Hegemonic party dominance:** Tanzania's ruling party, the CCM, is likely to stay in power into the medium term, if not longer. The party's long time horizon is likely to provide assurances to investors and clients. Contrast that with Kenya where infrastructure projects are likely to live or die depending on which party is in power and the prevailing appetite for politically-motivated cost overruns.

4. **Natural resources:** Tanzania's sizable mining sector promises to provide an important fiscal buffer against costly infrastructure projects. Potential oil discoveries around Lake Tanganyika, coal, gold, gas reserves, among others will continue to generate sizable resource rents. Kenya, on the other hand, has to grow in order to be able to pay for infrastructure investments. This means that Tanzania will have a bigger fiscal headroom than Kenya, allowing it to be competitive.

IV: Winning, but at what cost?

Competition is great. It will incentivize improvements in port operations in both Mombasa and Dar es Salaam, removal of all manner of non-tariff barriers to trade, not to mention the creation of thousands of jobs. However, the spirited competition between Kenya and Tanzania risks creating over-capacity in the short run (population growth will guarantee demand in the long run). The worst possible outcome would be to have regional governments spend nearly $50b on infrastructure only to be stuck with mounting debts and railways operating below capacity.

Recall that Kenya has already spent almost $5b on a loss making railway. It desperately needs traffic (and the link to Uganda) to break even.

To avoid the problem of overcapacity, a little coordination might help. For example, the East African Community could facilitate negotiations towards shared guaranteed minimum traffic (defined by financing costs). Growth might also help. Increased output in the region would ensure that containers don't return to the coastal ports empty, thereby reducing the overall costs of operating railways.

Overall, the quest by both Kenya and Tanzania to overcome their neighbors' bad geography is more than welcome!

NB: *If were president of Tanzania I would seriously consider convincing regional governments to build a canal linking Lakes Kivu and Tanganyika (Bukavu to Bunjumbura) and making Kigoma a massive logistical hub*.

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1 Keen readers will notice that China is financing Tanzania's SGR extension but not Uganda's (and Kenya's so far). Tanzania's president Samia Suluhu Hassan visited China late last year, while there have been murmurs that William Ruto is keen on recalibrating Kenya-China relations.

1 Comment

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Great piece. Something I noticed while in Kenya in early 2020 is local Mombasa officials were very concerned about *internal* competition from other trade routes within Kenya.

I'm sure the discussion has moved on since then, but it's another feature of the broader competitive trade race you captured so well.

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