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REGIONAL INTEGRATION & TRADE DEVELOPMENT IN THE HORN OF AFRICA:

Progress & Challenges

Horn Economic & Social Policy Institute
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MOTIVATION

Regional integration gained traction over the years in the continent & beyond. [***UN SDGs, Agenda 2063, IGAD, HoA Initiatives***].

UN SDGs

- ***Goal 2:*** calls for *correcting and preventing trade restrictions and distortions in global agricultural markets*, including through the parallel *elimination of all forms of agricultural export subsidies and all export measures* with equivalent effect.
- ***Goal 8:*** need to *increase AfT for LICs*, through the *Enhanced Integrated Framework for Trade-related TA*
- ***Goal 17:*** strengthening the means of *implementation and the global partnership for SD*) --links directly the SDGs and trade policies. *[North-South & South-South Cooperation]*

AUC Agenda 2063 references regional cooperation and integration as one of its aspiration

Agenda 2063

- envisions a united (*integrated infrastructure connecting* the continent; and aspires to be a continent of seamless borders, and *management of cross-border resources through dialogue*).
- foresees infrastructure be in place *to support integration & growth*, *technological transformation, trade & dev't*.
- *regional trade growing from < 12% in 2013 to approaching 50%* by 2045.
- *share of global trade--2% to 12%.*
- called for action *to fast-track of the CFTA* by 2017 (UN General Assembly, 2015)

Few initiatives on integration & cooperation in region:

IGAD

- *Envisions to be REC for achieving peace and sustainable development in the region via promotion of cooperation, integration and supporting Member achieve security and peace.*
- *Cooperation, integration & social development is one of the four pillars of IGAD Regional Strategy (IGAD, 2016).*

HoA Initiative

- *Countries are also forging ahead to facilitate close cooperation on economic integration*

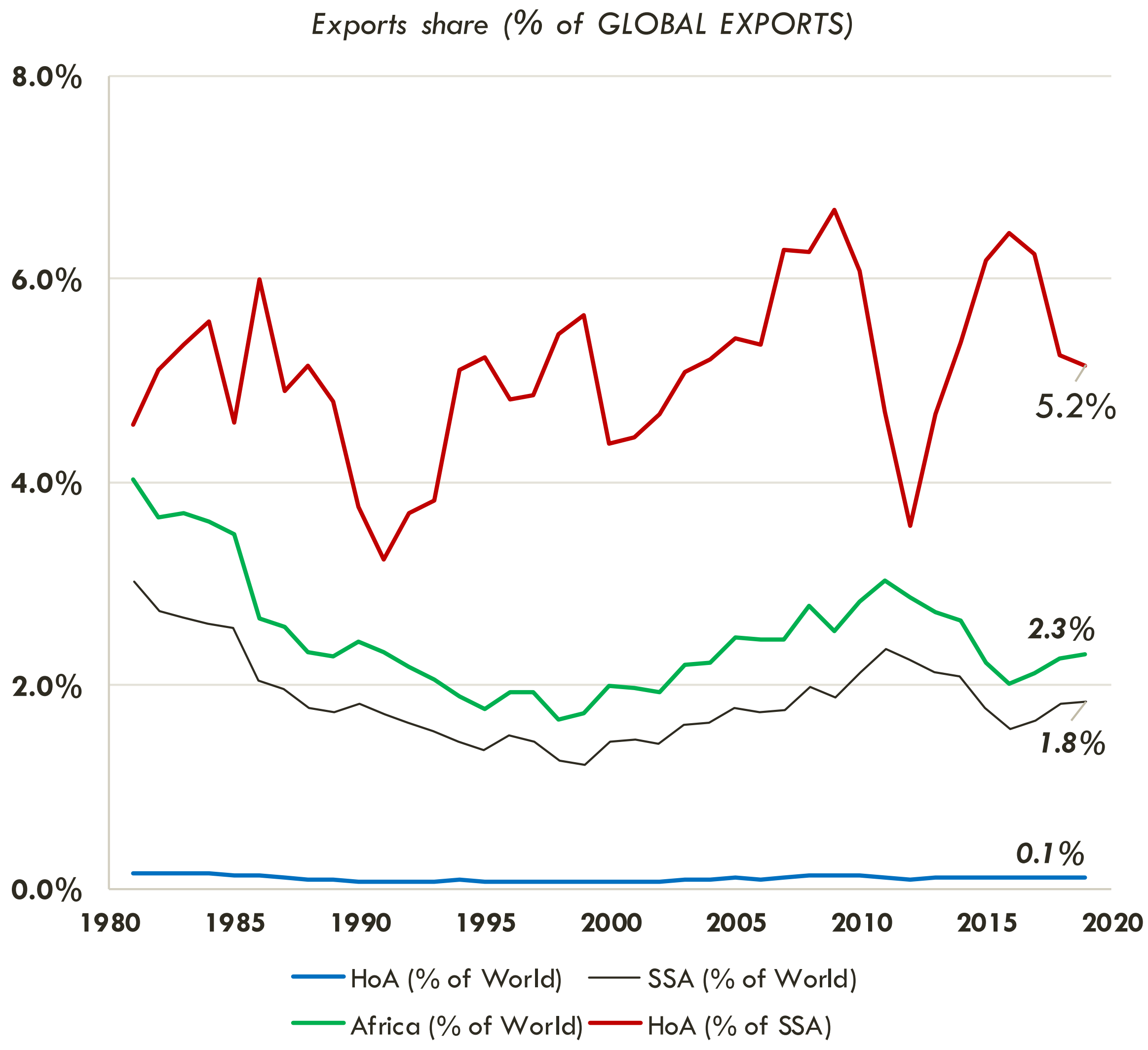
- Success stories in reducing tariffs within RECs. However, Africa & the HoA region fragmented, marginal global player.
- Regional trade in the HoA is low. In IGAD was only *15 % in 2018* compared to *18 % in SADC*, close to *19 % in EAC*, *64 % in EU*, and *36% for ASEAN* plus (UNCTAD, 2019).
- This study looks at the progress in implementing the trade facilitation measures, level of NTBs and its impact with focus on trade in the HoA. Specifically:
    - *Assess the trade policies, the role of trade facilitation measures in the economic integration;*
    - *Examine impact of trade facilitation and trade costs on trade among HoA;*
    - *Recommend ways of enhancing regional trade and deepen integration in HoA*

APPROACH: *Methodology & Data Source*

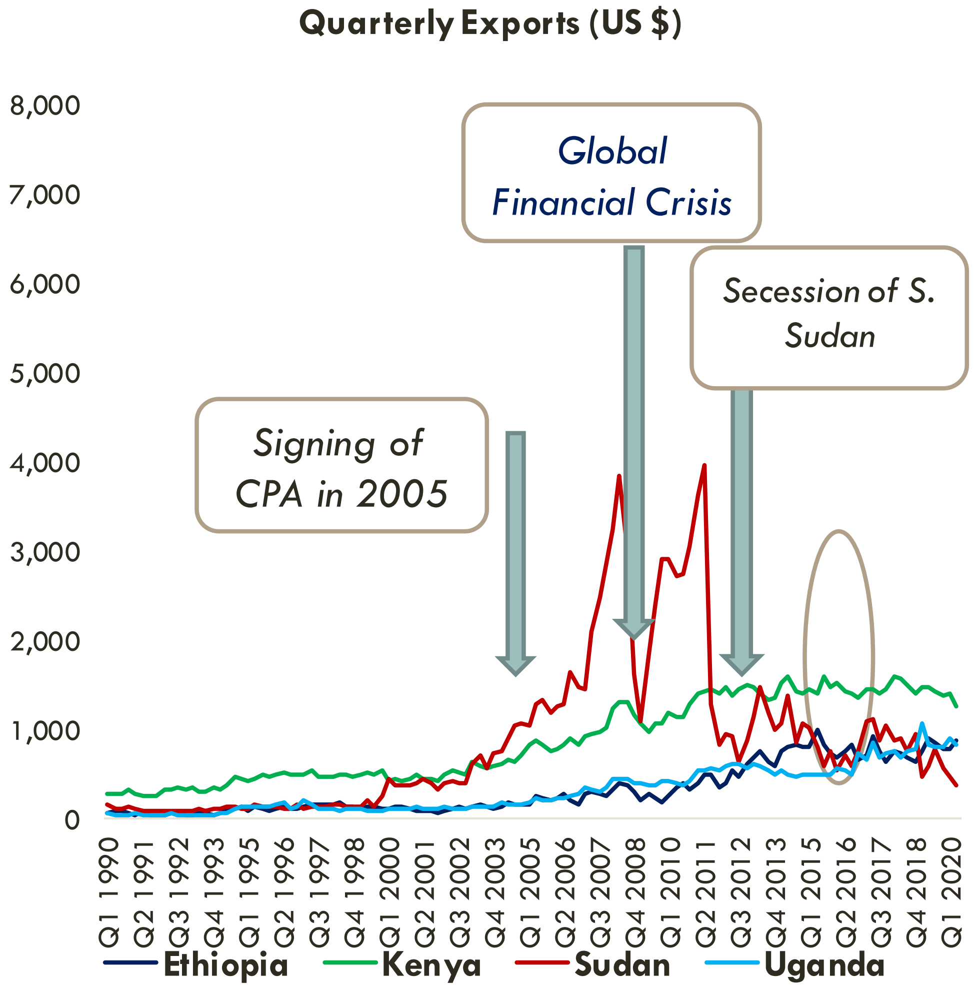
- Employed both *qualitative* and *quantitative* approach
- ***Qualitative Approach***:
  - *KIIs* conducted in countries except Eritrea with stakeholders (*chambers of commerce* and *associations of freight forwarders* and gov't agencies i.e. *Customs Offices*, *Ministry of Trade* and *Industry*).
  - *Policy document* reviews carried out.
- ***Quantitative Approach***:
  - Involves estimating the impact of trade costs on trade using *gravity model* (IMF DOTS, UNCTAD, CEPII, WB UNESCAP Database, Baier and Bergrstrand's EIA database and WDI).

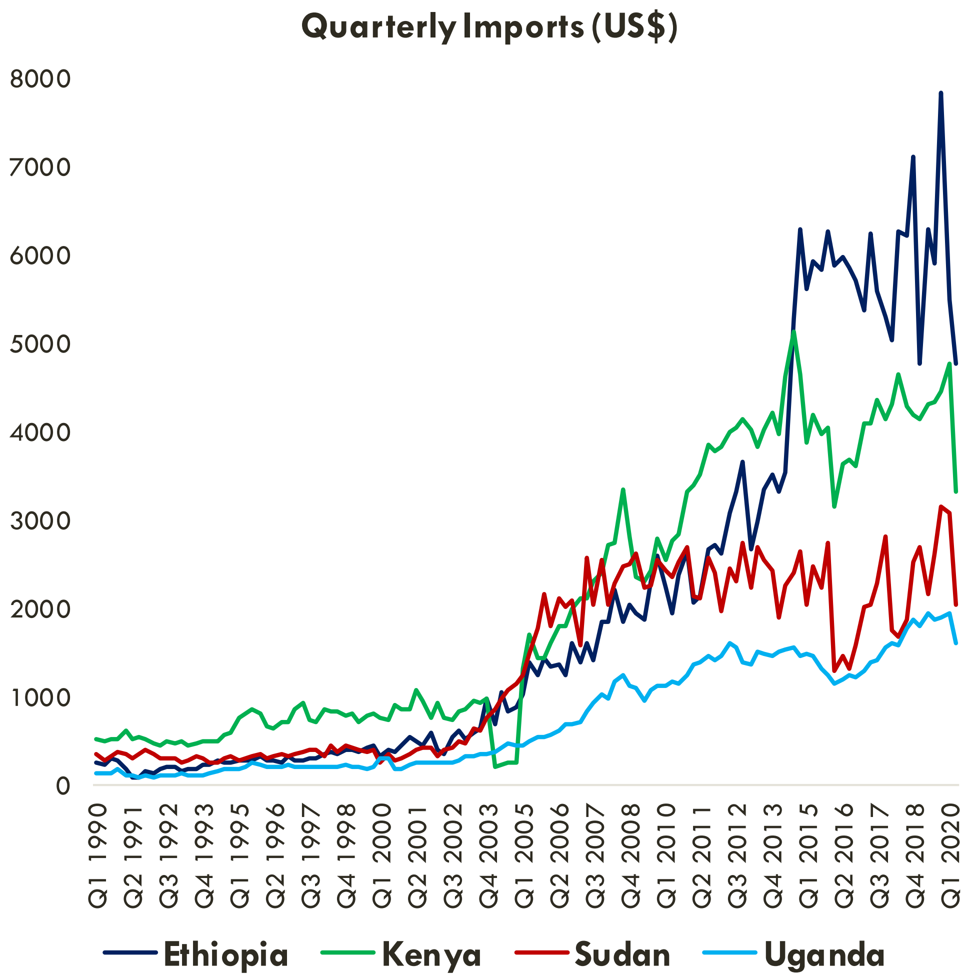
GLOBAL & REGIONAL TRADE OF THE HOA: *Overview*

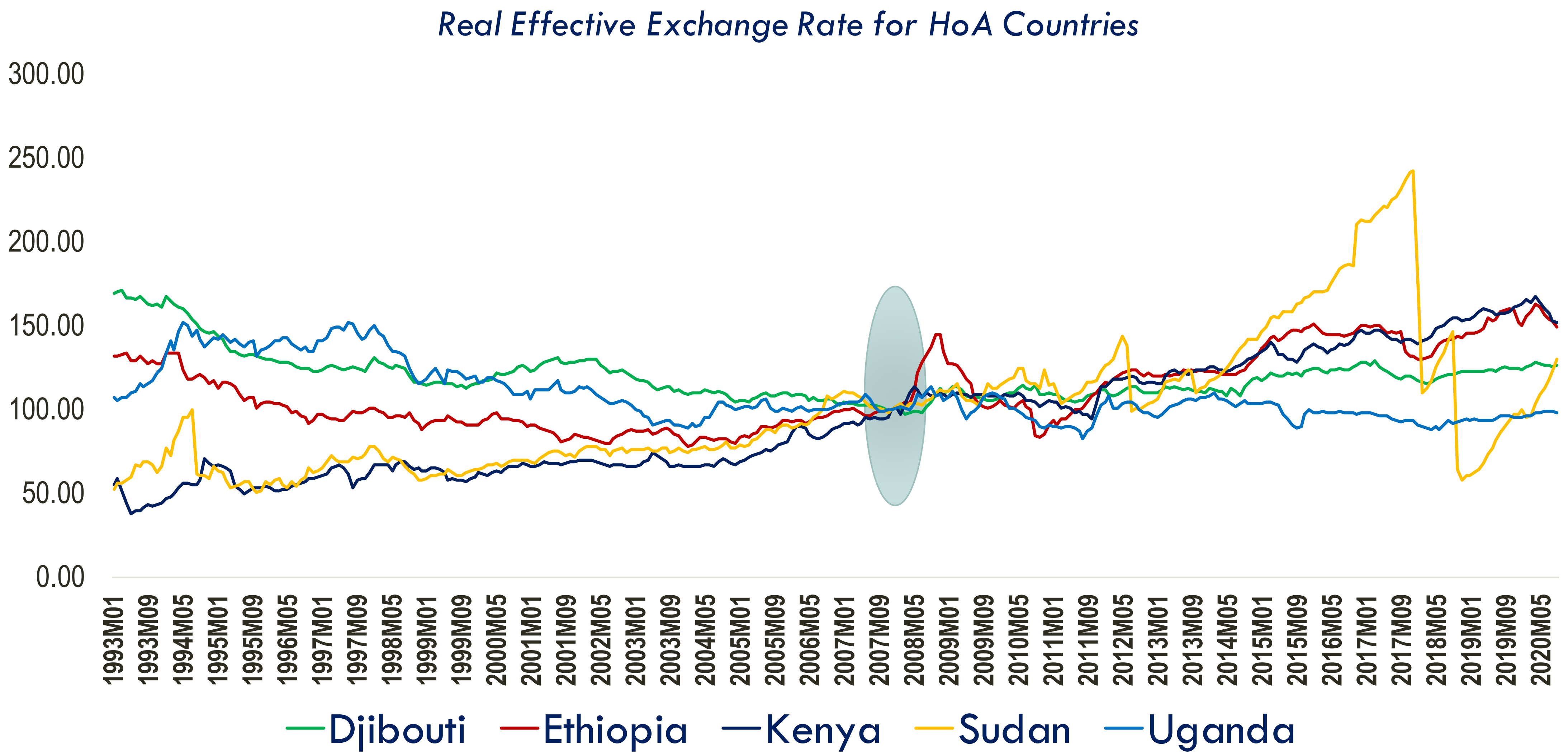
- HoA remain marginal player in the global trade; [*less than 0.1%* (global exports), *5.2%* [of % of SSA exports].
- *Poor export* [export growth between 1960 and 2018 being less than 1% per year] coupled with *growing imports* (more demand for consumer and capital goods) contributed to ballooning trade deficit particularly since 2000s [for all *economies* except of *Sudan* to some extent].
- *Appreciation of REER* vis-à-vis trading partners-impacting competitiveness (Magud and Sosa, 2010; Kifle and Potts, 2016; Fetene, 2017).
- *Low level of productivity, political instability*.



Exports & Imports for Selected HoA Countries (In US $ Millions)







Real Effective Exchange Rate for HoA Countries
300.00
250.00
200.00
150.00
100.00
50.00
0.00
1993M01
1993M09
1994M05
1995M01
1995M09
1996M05
1997M01
1997M09
1998M05
1999M01
1999M09
2000M05
2001M01
2001M09
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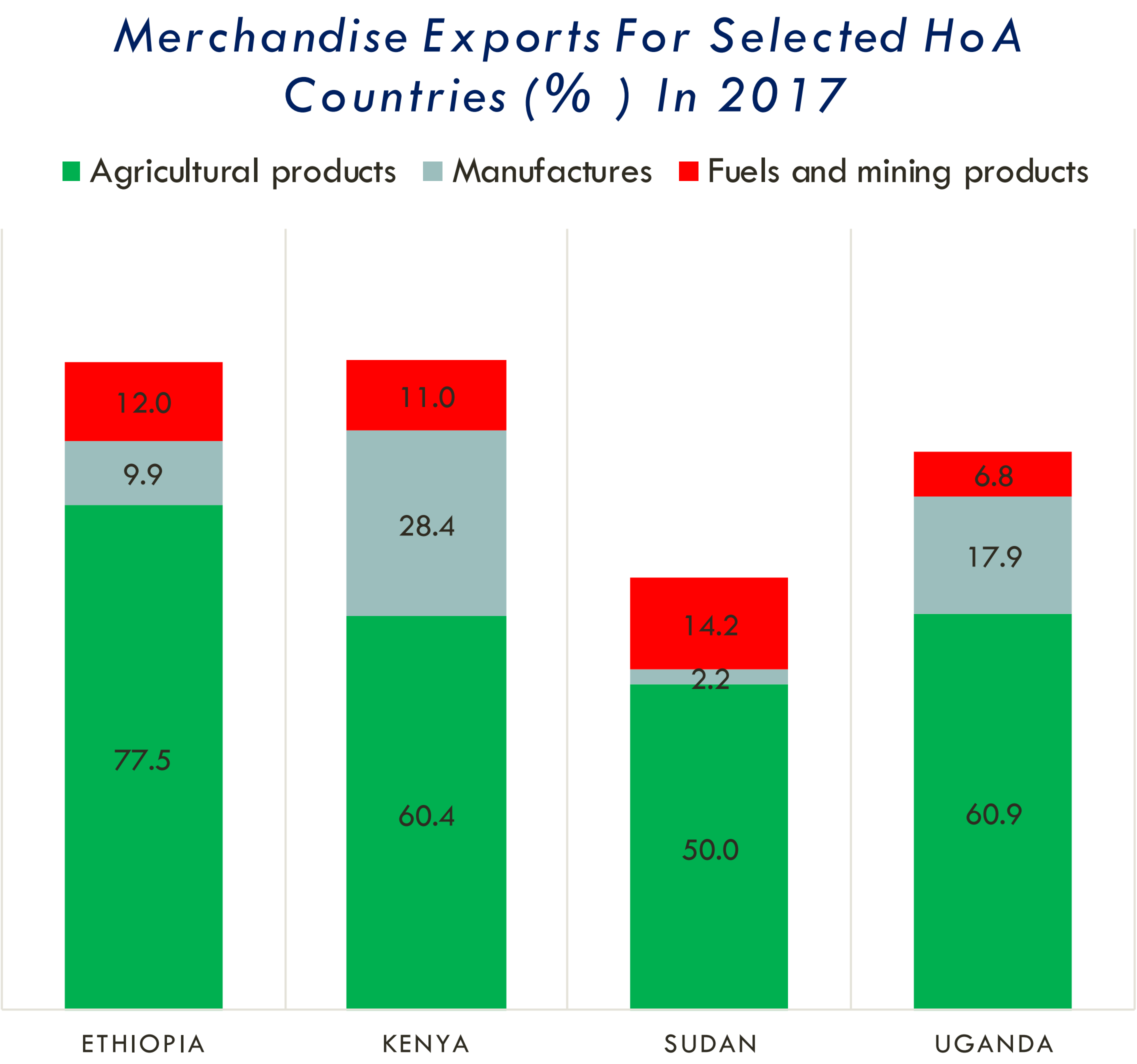
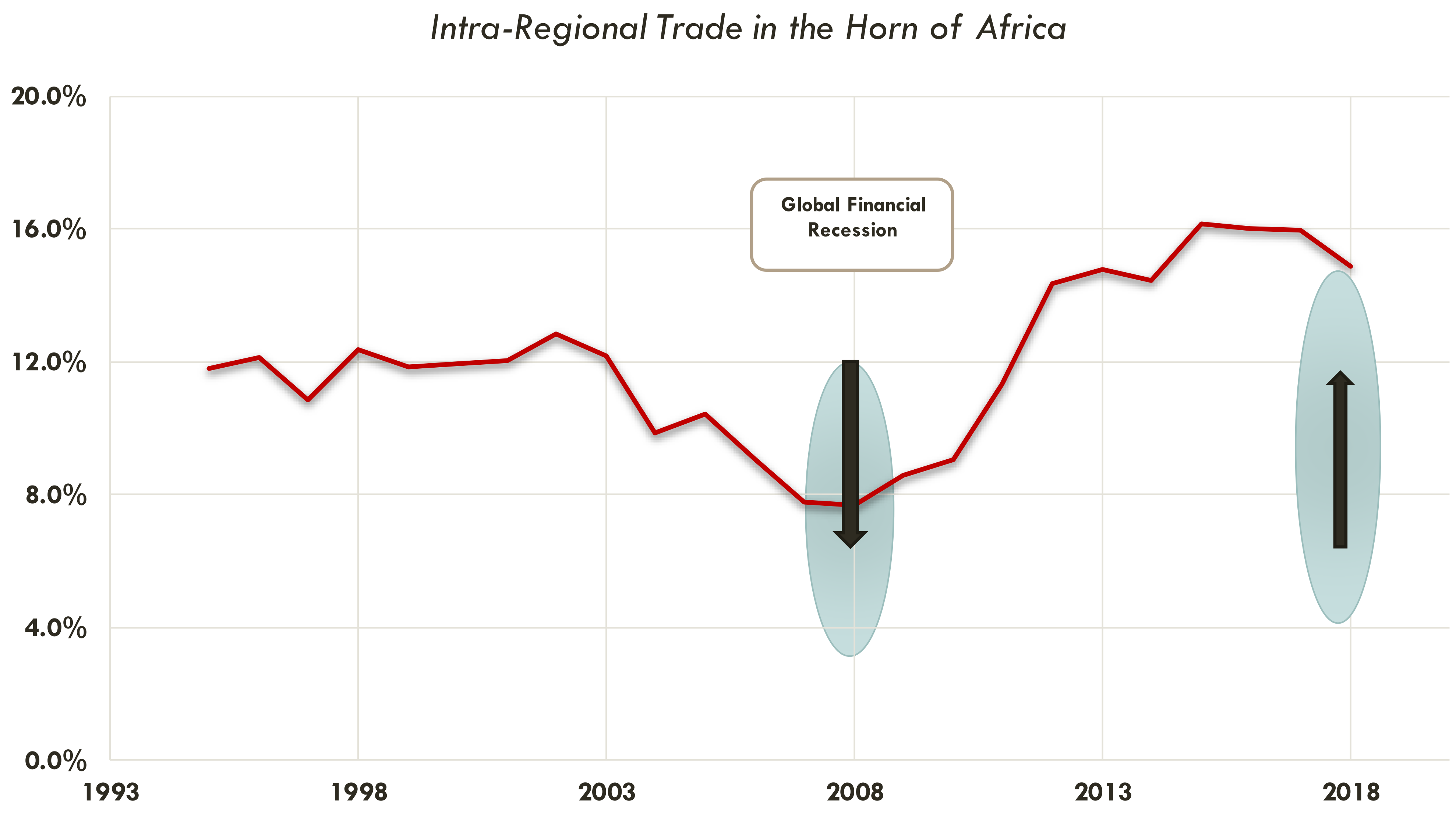
2013M09
2014M05
2015M01
2015M09
2016M05
2017M01
2017M09
2018M05
2019M01
2019M09
2020M05
Djibouti
Ethiopia
Kenya
Sudan
Uganda

- *Primary commodity dependence- 60% of IGAD exports is primary commodities.*
- *> than 77% of Ethiopia's, 60% of Kenya and Uganda is agricultural exports.*
- *Manufacturing exports constitute < than 10% [Ethiopia], 18% [Uganda, 2.2% [Sudan]*
- *In Ethiopia, for example, 3 commodities i.e. coffee, vegetables and oil seeds made 2/3 of exports in 2017.*



Regional Trade:

- Regional trade low relative to other regions [But country variation exists]
- Kenya & Uganda are active in trading-*owing to the removal of the tariffs within the community*- but also with other countries in region. [Ethiopia to a lesser degree]. Having a *trade surplus against other HoA*
- In 2015-19, *¾ of Kenya's exports* were to other countries in Horn. Uganda's exports to Horn made more than *50%, recently grown to 70* percent in 2019.
- Sudan & Ethiopia BTA spurred Ethiopia's exports to Sudan but not that much for Sudan's. In 2019, a *25% of Ethiopia's exports were to Sudan*, but Sudan's to Ethiopia negligible (only US *$ 53 million of close to 10 bn* Sudan's exports making 0.53 %).


Intra-Regional Trade in the Horn of Africa
20.0%
16.0%
12.0%
8.0%
4.0%
0.0%
1993
1998
2003
2008
2013
2018
Global Financial Recession

What Could Explains this?

- *Slow integration* & *trade* are to various ***structural*** & ***institutional*** factors:
  - *Weak physical* and *soft infra* making economies inaccessible and costly for trade.
  - *Structure of production* & *lack of trade complementarity* contributed to the low level of trade (***Alemayehu and Edris, 2015; Ali and Edris, 2013***).
  - Specialize in *production* and *exports of agricultural* products and their imports mainly consist of manufactured goods limiting the potential regional trade.
  - Accessing regional markets via PTA/FTA difficult for firms *due to the strict RoO* requirements limiting trade and rather serve as an instrument for protection (***Felbermayr et al*, 2019**). Members of the COMESA PTA/FTA, not much trade among the countries partly due to the strict RoO, cited by the private sectors as one of the factors deterring firms from trading with.

TRADE POLICIES IN THE HORN: *Review*

Diverse policy when it comes to trade;

Djibouti and ***Kenya*** in particular and ***Uganda*** to a lesser extent- [all WTO] could be characterized to have a relatively open economies with global orientation.

Ethiopia, ***Eritrea*** and ***Sudan***, seem to follow a restrictive trade policy approach-[not yet joined WTO].

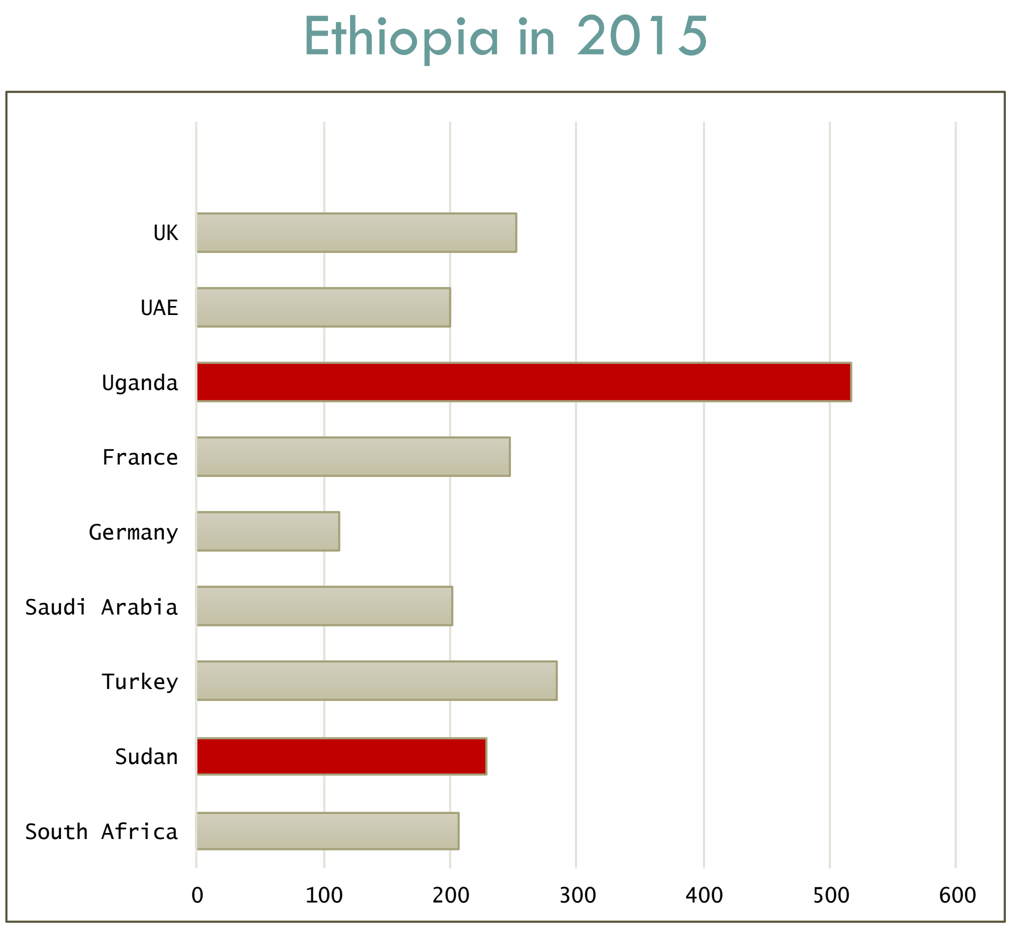
Somalia (the security situation), South Sudan (the civil & political unrest) & ***Eritrea***

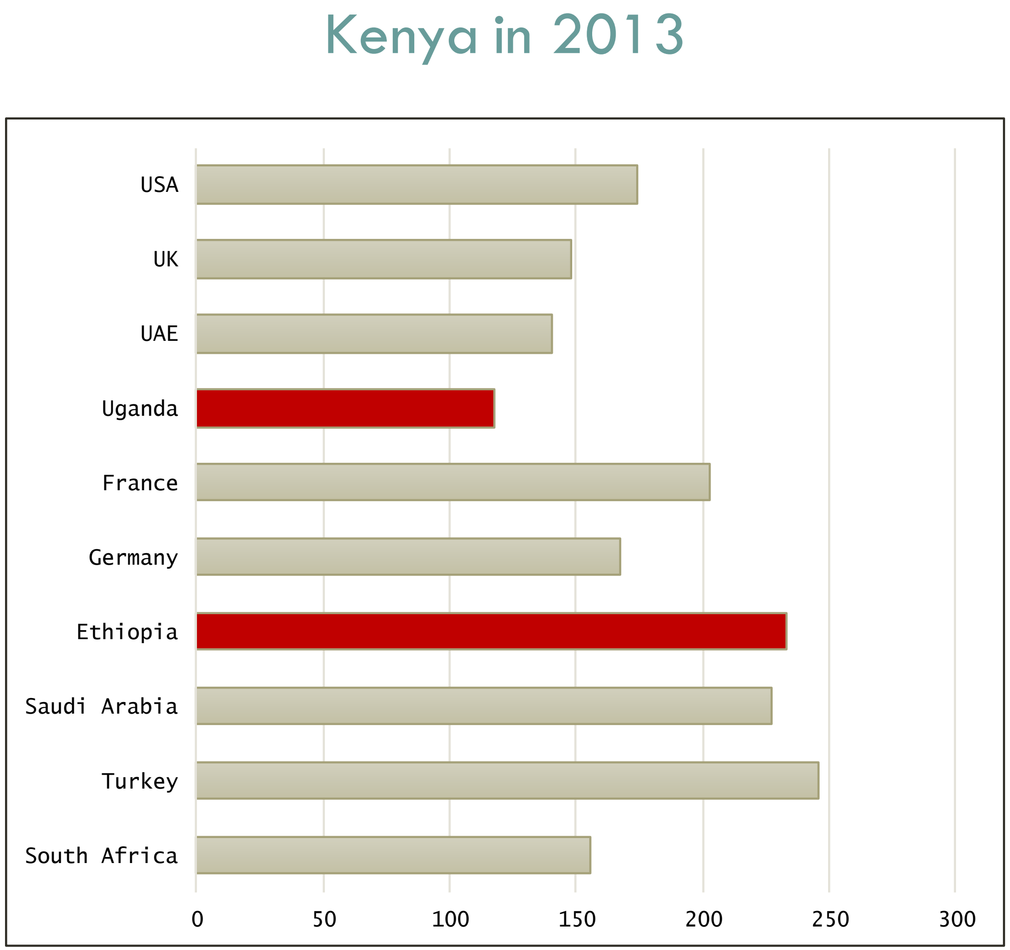
	Djibouti	Ethiopia	Kenya	Sudan	Uganda
Policy Direction	▪ Dictated by its ambition to be a regional trade and economic hub owing to the country's geographic location and size. ▪ VISION 2035: integration & cooperation [is one of the five core pillars of the government's vision by 2035 where it envisages a well-integrated Djibouti regionally and globally] ▪ Ethio-Djibouti corridor for regional integration.	▪ Measured approach when it comes to opening up. ▪ Gov't's DS orientation, Ethiopia tried to balance its goals of pursuing a trade policy that supports its long-term development objective with the goal of regional and global integration (Berihu, 2019).	▪ Aspires to eradicate poverty and ensure econ dev't (providing opportunity for expanded markets, and improve competitiveness- National Trade Policy (for 2017-2020) ▪ Implemented the NEDPS in 2018 to promote the export sector, improve productivity and stimulate the overall economic development and hence deliver a balance of trade surplus by 2022 .	▪ Seems to have a measured approach like Ethiopia ▪	▪ Prioritized "strengthening Uganda's competitiveness for sustainable wealth creation, employment and inclusive growth" [(NDPII 2015/16–2019/20)]. ▪ NDP II aims to: increase access at regional and global markets, Improve the country's trade infrastructures and supporting cooperatives to enhance their capacity to compete in the regional and international markets
PTA/FTA/BTA	COMESA FTA, IGAD and an active member of WTO	COMESA PTA, IGAD, BTA with Sudan	WTO, EAC, COMESA FTA, IGAD, CEN-SAD. Signed & ratified ACFTA	COMESA FTA, GAFTA, IGAD, and CEN-SAD. BTA with Ethiopia	EAC, COMESA FTA, IGAD, and WTO. Signed and ratified ACFTA
ACFTA	Signed & ratified the Agreement	Signed and ratified the Agreement	Signed and ratified the Agreement	Signed but not yet ratified	Signed and ratified the Agreement
WTO Accession Status	Active member	Applied to the WTO in 2003, but not yet finalized its bilateral agreement with the WTO due to the slow implementation of trade policy reforms.	Active WTO member	WTO accession process resumed following the Transitional Government in August 2019	Active member

TRADE COSTS IN THE REGION

- HoA ranked bottom in the various dimensions of doing business including *trading across countries* (***World Bank, 2020***).
- Kenya and Uganda best performing economies- ranked [117th and 121st respectively] in *trading across borders*.
- On the other hand, South Sudan and Sudan bottom ranked [180th and 185th].
- Time and cost of export is very high. In Sudan, it takes 3 full days to comply with export procedures at the border while the documentary compliance more than 3 days.
- Kenya lowest cost and time for export, border and documentary compliance from the region. Costs US $ 143 for export border compliance while the documentary compliance costs around US $ 191.

Bilateral Trade Costs of Ethiopia & Kenya With Selected Countries (For Agricultural Products)





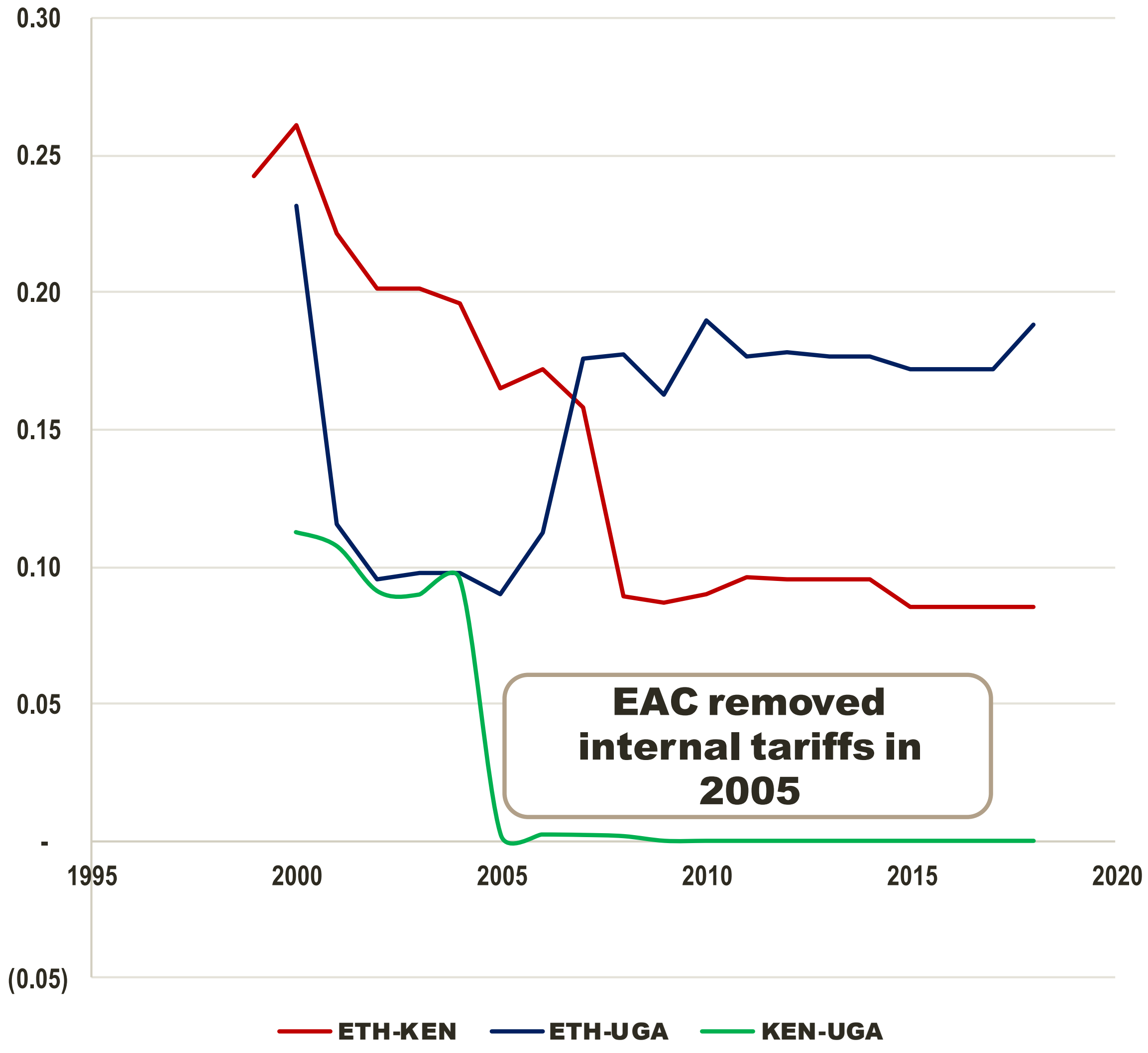
Bilateral Trade Costs (%) for Selected HoA Countries

Trade costs remain high though falling in recent years

Uganda & Kenya [EAC members] have currently zero tariff imposed

Ethiopian & Kenya was above 20% until 2004. Now reached around 10% in 2018

Yet it is considerably high for neighboring countries

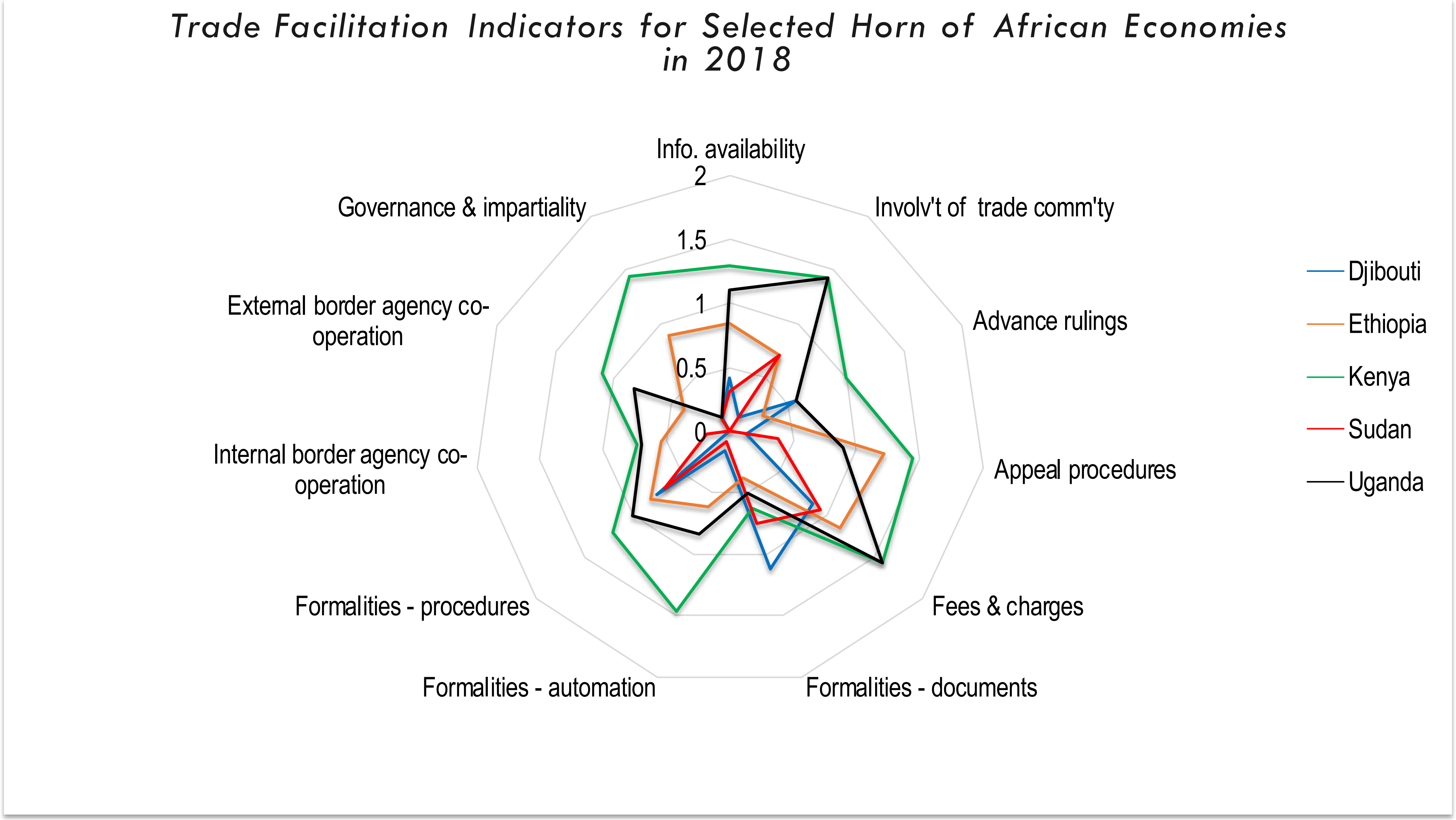


TRADE FACILITATION IN THE HOA: *Implementation Progress*

Implementation of 'trade facilitating' measures depends on various factors and performances across countries do vary.

Based on the progress in trade facilitation measures, be categorized into three groups.

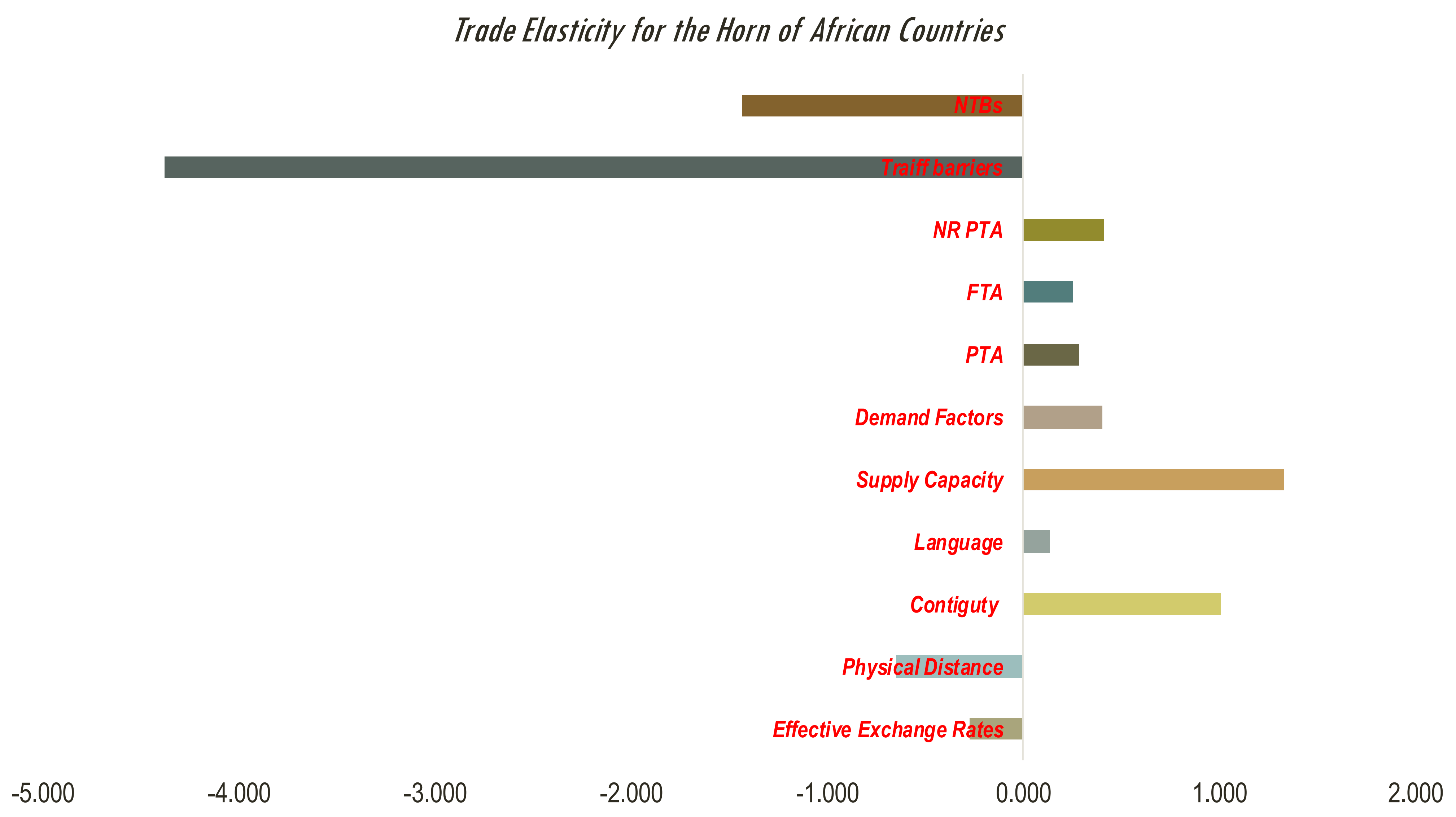
- ***South Sudan**, **Somalia** & **Eritrea**- haven't made much in putting measures.*
- ***Ethiopia** and **Djibouti im**plemented few of the measures*
- ***Kenya, Sudan** & **Uganda** [implemented formation of a national trade facilitation committee, stakeholders' consultation and accept copies of the original supporting documents]*



Trade Facilitation Indicators for Selected Horn of African Economies in 2018
Info. availability
Involv't of trade comm'ty
Advance rulings
Appeal procedures
Fees & charges
Formalities - documents
Formalities - automation
Formalities - procedures
Internal border agency co-operation
External border agency co-operation
Governance & impartiality
2
1.5
1
0.5
0
Djibouti
Ethiopia
Kenya
Sudan
Uganda

IMPACT OF NTBS ON TRADE IN HOA: *Gravity Model*

- Descriptive results that tariffs fallen considerably in the last decade or so --the proliferation of regional and BTA.
- Quantitative/econometric results reveal tariff remains a key factor in bilateral trade. 1 % increase in tariffs on tradable goods lead to 3.7 to 4.3 percent fall in exports. This is indicative of the extent tariffs detrimental effects on the exports.
- NTBs have a strong impact on trade showing both tariff and NTBs have remained to be critical factors affecting the HoA countries' trade in general.
- Signifies TF and logistics related costs have adverse effects on HoA trade volume
- Figure 5: ***Gravity Model Estimation Results***


Trade Elasticity for the Horn of African Countries
NTBs
Traiff barriers
NR PTA
FTA
PTA
Demand Factors
Supply Capacity
Language
Contiguty
Physical Distance
Effective Exchange Rates
-5.000
-4.000
-3.000
-2.000
-1.000
0.000
1.000
2.000

ECONOMIC COOPERATION: *Horn of Africa & Gulf Countries*

- Gulf been engaged in expanding their security, political and economic ties with the HoA countries.
- Security and the geopolitical consideration drive Gulf States in region. 2017 Gulf crisis played out accelerated power struggle and expansion to other areas.
- In their efforts to contest, two camps tried to build support from the HoA states through ***security***, ***investment*** and ***economic***.
- Saudi led camp been trying to create-a ***Red Sea Security Alliance*** with Sudan, Somalia and Djibouti.
- Gulf crisis contributed to interest in HoA, there been great relation in terms of trade and investment. Gulf region, been major trading partner.


HoA Countries Trade with GC (In Millions US $) in 2019
EXPORTS
IMPORTS
27.1
365.6
0.2
63.6
219.8
2,418.4
456.4
3,188.4
343.9
-
14.4
1.0
4,771.4
1,639.1
1,181.3
1,298.9
DJIBOUTI
ERITREA
ETHIOPIA
KENYA
SOMALIA
SOUTH SUDAN
SUDAN
UGANDA

- Gulf destination for migrant workers from Horn (from Ethiopia); & key source of remittance and investment flows to HoA.
- Gulf largest investors in the HoA. In 2000-17, Gulf invested around US $ 13 billion in HoA (Ethiopia and Sudan are investment destinations with US $ 8.6 billion and US $ 3.2 billion). Growing demand for agricultural produce in the ME.
- Infrastructure inv’t being executed by Gulf: DPWorld involved in a mega infrastructure [including the Berbera port in Somaliland].
- Not that concrete grand econ. & investment cooperation initiatives (like AGOA, EBA)

CONCLUSIONS & WAY FORWARD

- Interest for integration & cooperation in the HoA; much progress not been achieved in integrating.
  - Due to *prevalent insecurity in some member countries*,
  - *Inadequate economic infrastructure connectivity*; and
  - *Restrictive trade policies, economic structure, composition of trade*.
- Some progress in trade facilitation [but variation among countries]. ***Kenya & Uganda***, taken aggressive and bold measures in modernizing their CMS and easing the business climate for traders.
- Economies affected by *conflict* and *instability* are a long way from instituting *reforms* and *measures*. **Somalia** and **South Sudan** lag far behind [not yet *automated their CMS* and *customs administration*].

- Factors constrained implementation of TF include (*finance, trained labor force, political instability, corruption*).

- Logistic and physical infrastructure, slow implementation in TFM made it costly to trade across borders. [*High trade costs* which could be either tariff or non-tariff related costs];

- *Limited supply capacity, distance from the global markets, and restrictive trade policies.* We find 10 % reduction in tariff related costs could lead to a 40 % increase in trade; similarly a 10 percent fall in non tariff costs could increase exports by 10 %;

- *BTA (non-reciprocal ones)* created huge market potential & promoted the region's export.

- This exemplified in low *intra-regional trade* among economies and *weak integration*.

Way forward:

- Enhancing & strengthening productive capacity of the private sector [to encourage participation in regional efforts]. By Tackling the ***institutional, economic*** and ***political constraints***
- Addressing the *region's infra deficit* [coordinated investment in road, railways] including soft infrastructures;
- Harmonizing *trade & investment policies*; regional & continental bodies play a role in macroeconomic policy formulation to ensure efficient & coordinated interventions;
- *EAC & IGAD merger [North East Africa Bloc]* could be considered to reduce overlapping/duplicating obligation;
- Fast-tracking the *implementation of AfCFTA* [through signing & ratification of the agreement]
- Ensuring regional *socio-political & economic* stability.
- Negotiate trade agreements between GCC & *IGAD* members –or at least bilateral preferential access.

THANK YOU!!