



Waving or Drowning? The Impacts of the COVID-19 Pandemic on the East African Trade

Executive Summary

Despite the severe economic and social repercussions of the COVID-19 pandemic, the East African economies (Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda) have, by global standards, proven to be relatively resilient thus far. This report focuses on providing an analysis of the region's merchandise trade performance during this unprecedented period of disruption to global commerce. Among the principal findings, the report highlights the following:

- i) **Exports have mostly recovered to pre-crisis levels:** Aggregate exports from the region declined sharply in April 2020 but picked up again in the ensuing months. By the third quarter, most of the EAC Partner States' exports even surpassed their 2019 levels. Only South Sudan's exports failed to recover.
- ii) **Intra-EAC trade exhibited greater resilience than the extra-EAC trade:** Given the fragility of supply chains and the global trading system during the pandemic, extra-regional export was generally more impacted than intra-regional trade. However, the picture was mixed, with some extra-regional trade, such as minerals, doing exceedingly well.
- iii) **Imports rebounded rapidly:** Initial precipitous declines in imports broadly reflected the adverse trade performance of the EAC's main trading partners during the early phases of the pandemic, as reflected in sharply lower cargo volumes passing through the regional ports of Mombasa and Dar-Es-Salaam in April and May 2020. After lockdown restrictions by governments were eased and a broader global trade recovery started to occur, all the EAC Partner States imports subsequently recovered to pre-pandemic levels by the second half of 2020.
- iv) **Improved terms of trade:** Throughout 2020, the region's terms of trade broadly improved, with substantial declines in the value of oil imports playing a vital role in driving down the region's import bill.

Despite the recovery, the pandemic has had some significant negative impacts on other aspects of regional trade:

- i) **Informal cross border trade remains adversely affected:** For instance, in Uganda, informal cross border trade collapsed from an estimated monthly average of USD 44 million in the first quarter of the year to practically nothing after that. Regional borders remain closed for most informal cross-border traders, impacting negatively on the livelihoods of the communities that depend on such trade.

- ii) **The value and composition of the export basket have shifted:** The crisis has negatively impacted some traditional exports. For example, from the second quarter of 2020, tea exports recorded sharp declines. Coffee exports from Kenya and Tanzania followed a similar trend. Nonetheless, Burundi, Rwanda, Uganda, and Tanzania registered large increases in mineral exports. Hampered by disruption to both production and commerce, trade in manufactured goods has stagnated. As a result, the regional dependence on commodities trade has increased.

- iii) **Increased transit time in both the Northern and Central Corridors:** In prior years, the region had achieved remarkable improvements in transport times between the ports and the hinterlands. Unfortunately, the COVID-19 crisis has reversed some of these gains. Cargo transit times along the Mombasa-Malaba and Mombasa-Busia on the Northern Corridor were adversely affected, with average transit times almost doubling between January and September 2020. In a similar vein, the transit time from Dar-es-Salaam to various cities in the neighbouring countries more than doubled.

As a result of these outcomes, the report calls for urgent policy actions from the EAC Partner States in several areas, including:

- i) Despite growing fiscal pressures, EAC governments should continue to provide financial and regulatory **support to crucial export sectors**. The pandemic is far from over, and ring-fencing crucial export sectors from lockdown measures may still be necessary.

- i) The pandemic has exposed the vulnerability of certain global value chains. The relative resilience of intra-regional trade attests to the importance of **strengthening regional value chains (RVCs)**, especially as the region moves into the African Continental Free Trade Area (AfCFTA) implementation.

- ii) The EAC Partner States need to **double-down on policies to diversify their economies**. Unlike previous crises, the pandemic was fortunately not accompanied by an across-the-board decline in commodities' relative prices. However, excessive commodity export dependence still exposes the regional economy to unnecessary risks. The AfCFTA could be instrumental in achieving this goal.

- iii) Governments and other relevant stakeholders should **address the challenges facing informal cross-border traders**. The pandemic has had a severe negative impact on communities heavily dependent on informal cross-border trade, exacerbating the challenges faced by women traders.

- iv) The EAC Partner States should **support technological innovations** to address the bottlenecks that have arisen during the crisis along the Northern and Central Corridor. One good practice case is the *Regional Electronic Cargo and Driver Tracking System* (RECDTS), which facilitates the issuance of the COVID-19 digital certificates mutually recognised by the Partner States, contributing to reduced border points delays.

In conclusion, from a trade perspective, the region is still not out of the woods. The pandemic's rapidly evolving nature and its spillover effects may present a significant threat to trade and commerce within the EAC over the coming years. Partner States must continue with a tightly coordinated approach to addressing the pandemic's challenges.