Priming for Increased Intra-regional Trade: Trends in Trade, Investments and Trade Facilitation in East Africa 2015-2019

INTRODUCTION

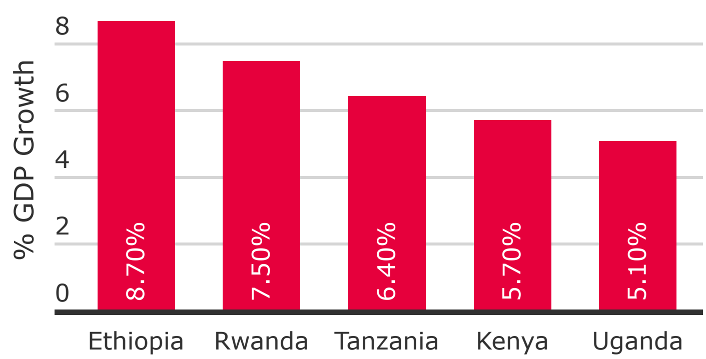
In the last decade, TradeMark East Africa, with the backing of its ten donors, implemented trade facilitation interventions that aimed at reducing trade barriers and enhancing business competitiveness in East Africa. Despite these interventions, which made a significant impact on reducing the time to trade, persistent declines in intra-regional trade and a trade imbalance heavily skewed towards manufactured imports (UNECA and TMEA, 2020) remain worrisome to East African policymakers and development practitioners. Is regional integration waning? How can the observed trends be turned around? What should trade facilitation champions like TMEA do to increase exports and intra-regional trade?

This policy brief sheds some light on these questions by examining the recent trends in trade, investment and trade facilitation in Eastern Africa. The brief dissects the different patterns in trade and services sectors, investment and selected trade facilitation indicators to provide policy insights for boosting intra-regional trade.

Regional Performance: Economic growth, trade, services and investment

At the aggregate level, the region has continually recorded strong macroeconomic performance (IMF, 2019). During the period 2015-2019, the average annual growth rate in real GDP hovered around 4%, surpassing the African (3.1%) and World (3.5%) average growth rates. At the country level, the data for 2015-2019 period also show Ethiopia (8.7%), Rwanda (7.5%), Tanzania (6.4%), Kenya (5.7%) and Uganda (5.1%) excelled in their growth performance. These figures suggest that Eastern Africa growth drives the widely celebrated African economic growth.

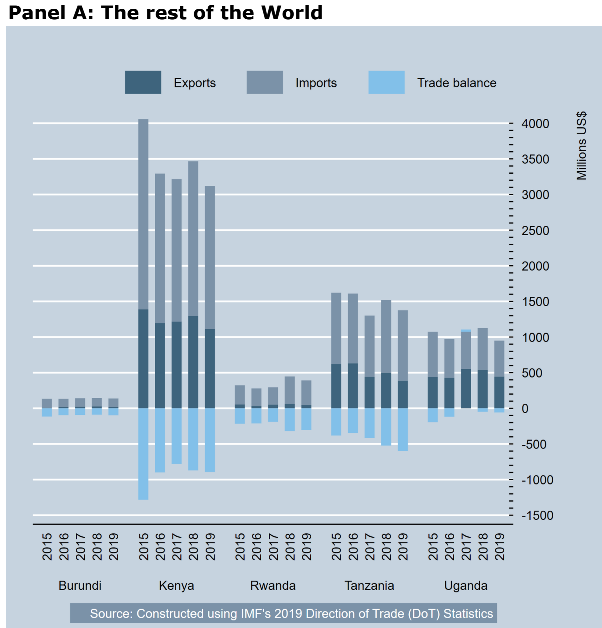
Figure 1: Growth performance of selected East Africa's economies: 2015-2019



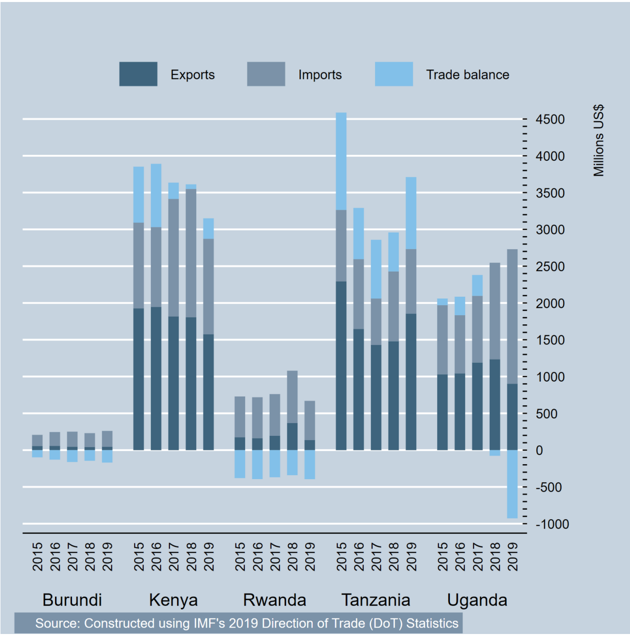
Such promising economic growth trends can, all else equal, indicate strong performance in critical components of the real GDP growth rate -- trade and investments. Analysing patterns of goods trade between EAC countries (Tanzania, Kenya, Uganda, Burundi and Rwanda) and the rest of the World and against other African countries, compared to the same patterns for non-EAC countries in the region shows that, over the period 2015-2019, trading with the rest of the World generated a persistent trade imbalance towards imports for both EAC and non-EAC countries (see Figures 2a and 1b). Nonetheless, intraregional trade seemed somewhat promising in some countries, like Kenya, Tanzania, Uganda, Ethiopia and DRC providing strong evidence that the region stands to benefit more if it trades with Africa than the rest of the World. Increased intra-regional trade, with corresponding increasing investments in regional value chains, would be crucial drivers for industrialisation and job creation in the region.

Figure 2a: Merchandise trade patterns: 2015-2019 – EAC countries

Panel A: The rest of the World



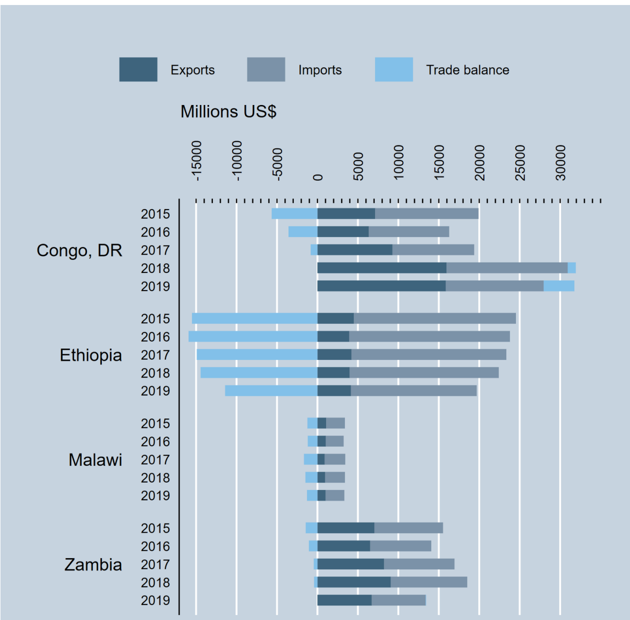
Panel B: Africa



Source: Constructed using IMF's 2019 Direction of Trade (DoT) Statistics

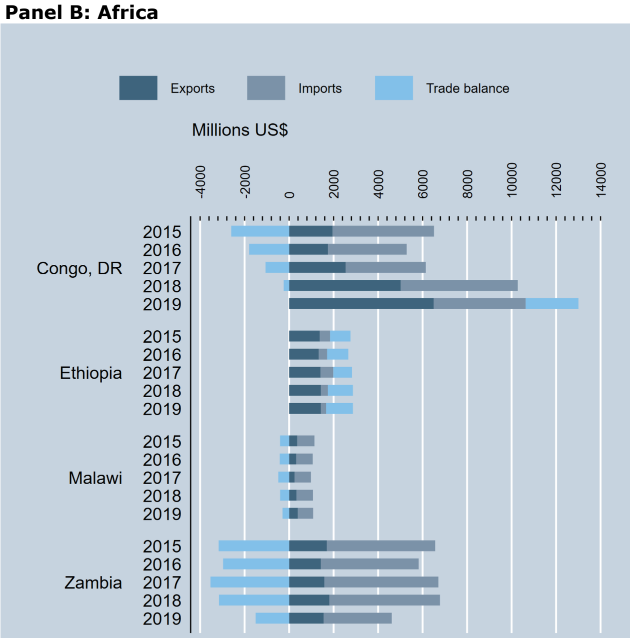
Figure 2b: Merchandise trade patterns: 2015-2019 – non-EAC countries

Panel A: The rest of the World



Source: Constructed using IMF's 2019 Direction of Trade Statistics

Panel B: Africa



Source: Constructed using IMF's 2019 Direction of Trade Statistics

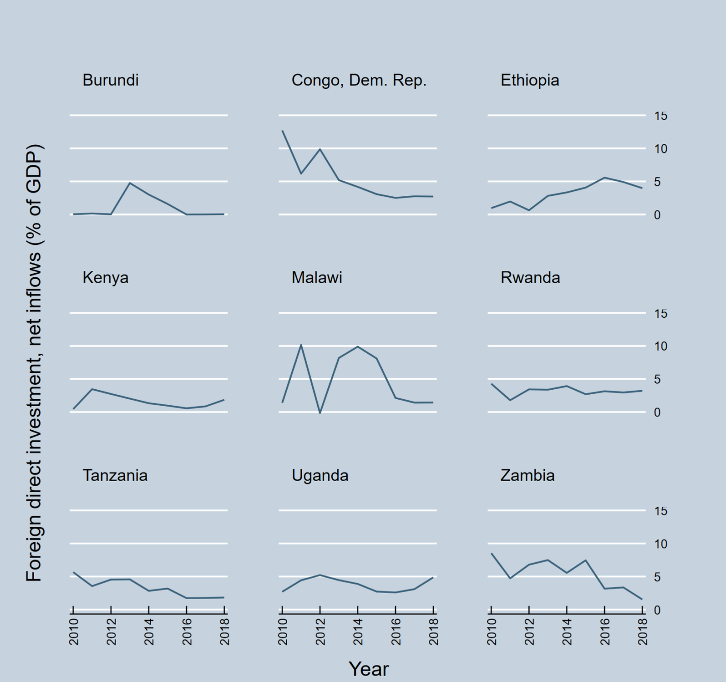
By contrast, patterns of services trade as a share of GDP in the region have been growing, although sluggishly (see Figure 3). Except for Mozambique, which shows increases from 15% in 2010 to about 30% in 2018, the share of services trade to GDP in other countries was very modest – the rates hovered slightly above 5% in 2010 and below 20% in 2018. **Services trade is undoubtedly an essential sector for increasing intra-regional trade in East Africa. Existing empirical evidence shows that services sectors, especially in high value-added economic activities, can contribute not only to economic growth but also to employment creation and trade generation** (*see, for example, Enache M. et al., 2016*). There is an upward potential given the currently low shares of services trade in GDP in Eastern Africa. If implemented successfully, the African Continental Free Trade Area (AfCFTA) can help fill this void.

Figure 3: Trends of service trade as a share of GDP

Source: Constructed using the WorldBank Group 2019 World Development Indicators

Figure 4 presents the patterns of net inflows of foreign direct investment (FDI) as a share of GDP. On the one hand, some countries--Burundi, DRC, Malawi, Kenya, Tanzania and Zambia– experienced a persistent downward spiral in the shares of FDI over the 2010-2018 period. On the other hand, Ethiopia and Uganda experienced modest increases (barely 5%) in their share of FDI inflows over the same period. Shares of FDI inflows in Rwanda remained constant (and below 5%) over the period. **Consistent with UNECA and TMEA (2020) report, if East Africa is to play a pivotal role in increasing intra-regional trade, investments in FDI – both intra and extra-regional inflows – are vital to unlocking such potential.**

Figure 4: Foreign direct investment, net inflows (% of GDP)



Source: Constructed using the World Bank Group 2019 World Development Indicators

Table 1: Ease of doing business scores

Economy	2019	2020	Score Change	%age Change
Rwanda	75.4	76.5	1.1	1.5%
Kenya	71.0	73.2	2.2	3.1%
Zambia	65.7	66.9	1.2	1.8%
Malawi	60.4	60.9	0.5	0.8%
Uganda	58.4	60.0	1.6	2.7%
Mozambique	54.6	55.0	0.4	0.7%
Tanzania	54.3	54.5	0.2	0.4%
Ethiopia	47.1	48.0	0.9	1.9%
Burundi	46.5	46.8	0.3	0.6%
Congo, Dem. Rep.	35.2	36.2	1.0	2.8%
South Sudan	33.6	34.6	1.0	3.0%
OECD high income	78.2	78.4	0.2	0.3%
Europe & Central Asia	71.8	73.1	1.3	1.8%
East Asia & Pacific	62.7	63.3	0.6	1.0%
Latin America & Caribbean	58.8	59.1	0.3	0.5%
Middle East & North Africa	58.4	60.2	1.8	3.1%
South Asia	56.3	58.2	1.9	3.4%
Sub-Saharan Africa	50.9	51.8	0.9	1.8%

Source: Extracted from the WorldBank Group ease of doing business score available at https://www.doingbusiness.org/en/data/doing-businessscore

Trade facilitation interventions

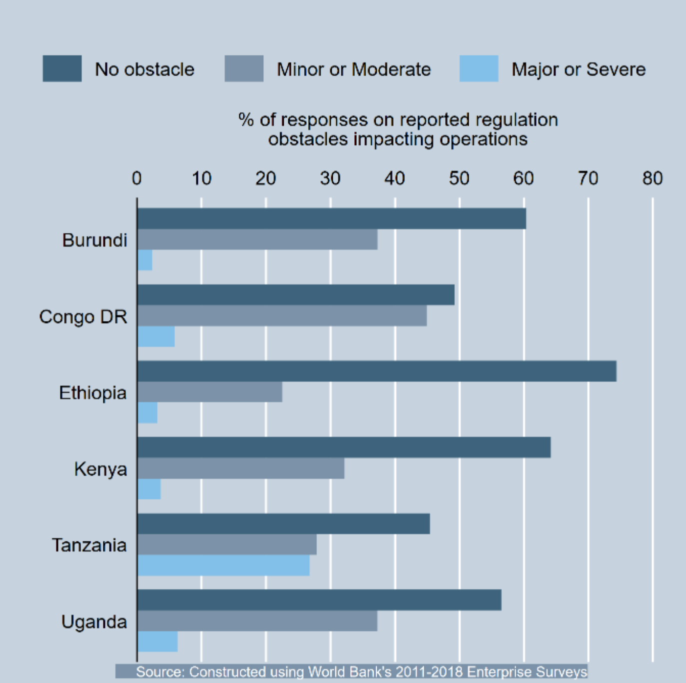
Investments and implementation of trade facilitation measures have unmatched potential in unlocking Africa's trade potential (IMF, 2019; World Bank 2020). This section provides data on a few indicators of trade facilitation: scores and rankings on the World Bank's Ease of Doing Business survey, reduction in customs, trade and transport barriers, the efficiency of Ports and transport sectors, and export facilitation.

Table 1 reports the scores on Ease of Doing Business across countries in Eastern Africa between 2019 and 2020. Overall, countries recorded strong performance signalling tangible improvements in the regulatory frameworks in the region, a good sign that the business environment is healthy and competitive, which is critical for trade facilitation. Rwanda, Kenya, and Zambia rank[1] high surpassing scores of such regional groupings as East Asia and Pacific, Latin America, Middle East and North Africa, South Asia and even Sub-Saharan Africa. Kenya, South Sudan, Congo DR, and Uganda recorded significant improvements in their scores between 2019 and 2020. Note that the positive percentage changes in scores only show movements across time and not necessarily improvements in the country's ranking.

Reduction in customs and trade regulations, as well as transport barriers, reflect the effectiveness of trade facilitation interventions. For example, as reported by surveyed[2] East African businesses, Figure 5 reveals perceptions of businesses on both customs and trade regulations (Panel A) and transport (Panel B) related barriers between 2011 and 2018. The analysis shows that only in Tanzania are business' perception of both regulatory and transport barriers rated major or severe.

Figure 5: Businesses perceptions on customs and trade regulations and transport barriers

Panel A: Customs and Regulatory Barriers

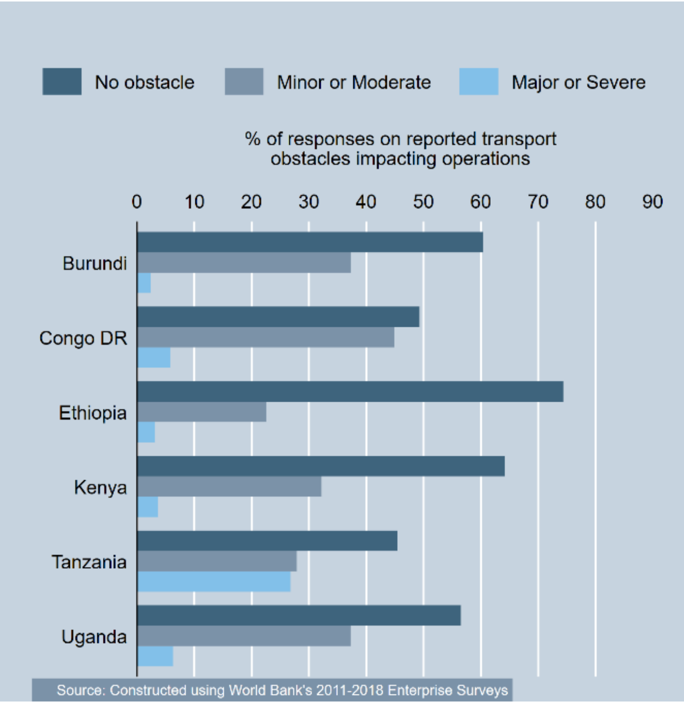


Source: Constructed using World Bank's 2011-2018 Enterprise Surveys

[1] Rwanda ranked high in access to credit, property registration, contract enforcements and access to electricity. Kenya ranked high in access to credit, protection of minority investors, and resolving insolvency. Zambia ranked high in issuing construction permits, getting credit, ease of tax payments, and resolving insolvency.

[2] Surveys conducted by World Bank Enterprise data collected between 2011 and 2018.

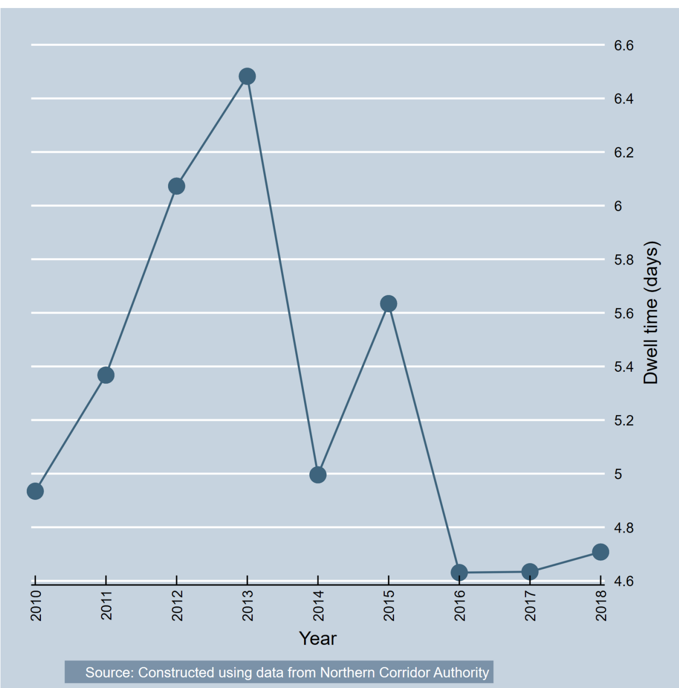
Panel B: Transport Barriers



The efficiency of Ports and transport infrastructures also offer a quick assessment of the effects of trade facilitation interventions in East Africa. Figure 6a shows declines from 6.5 days in 2013 to 4.7 days in 2018 in ship dwell time at Mombasa Port and steady declines from 14 days in 2010 to 8 days in 2018 in ship dwell time at the Dar es Salaam Port. Similarly, Figure 6b shows trends of transit times on the Northern corridor and Central corridor.While for Northern corridor, the analysis reveals that transit time along the corridor declined from 14 days in 2010 to roughly 3 days in 2018, for Central corridor transit times declined from roughly 7 days in 2010 to about 4 days in 2018.

Figure 6a: Dwell time at Mombasa and Dar es Salaam Ports

Panel A: Mombasa Port



Panel B: Dar es Salaam Port

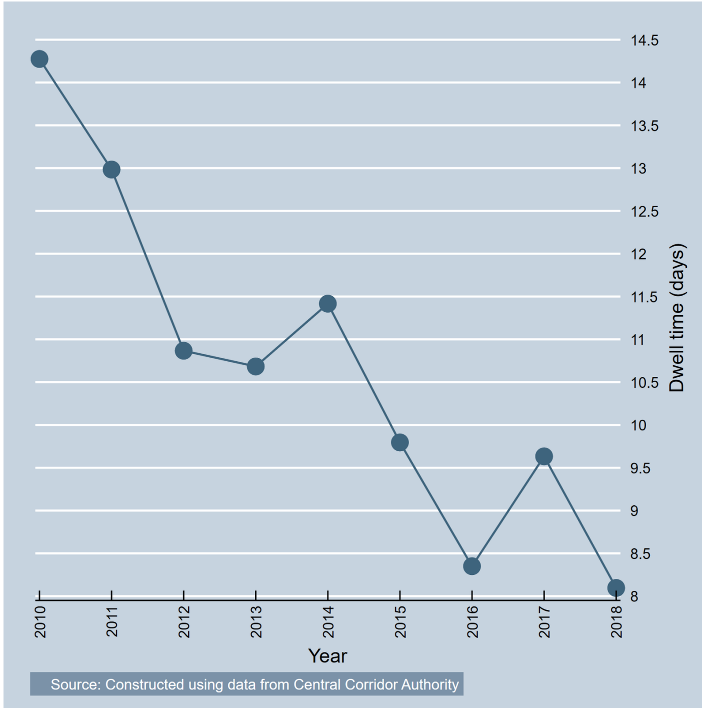
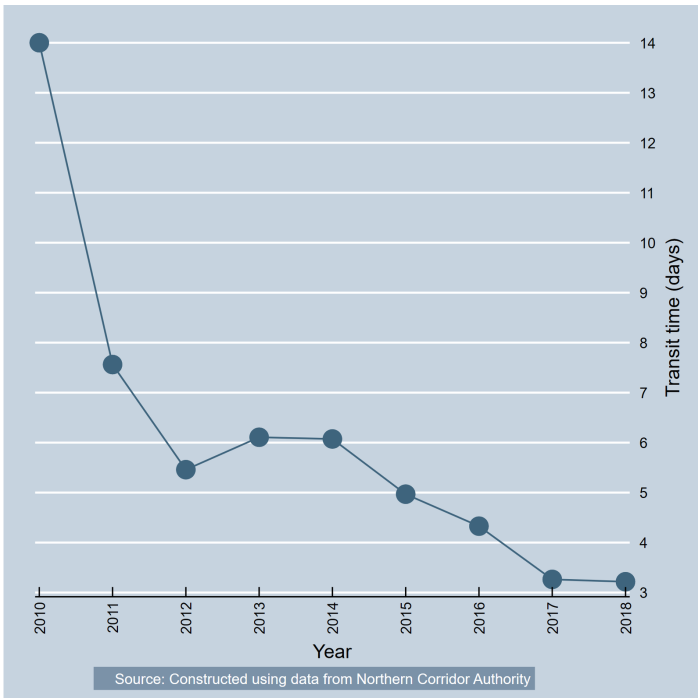
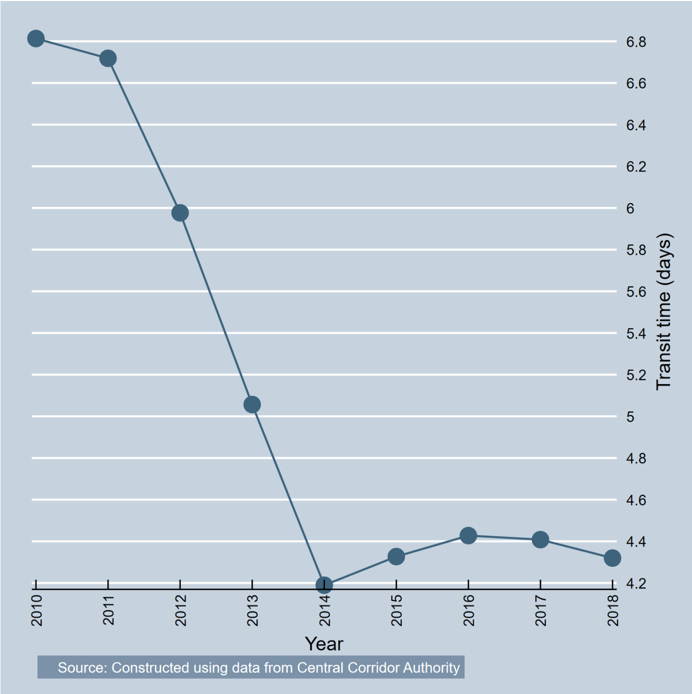


Figure 6b: Transit time at the northern and central corridors

Panel A: Northern Corridor

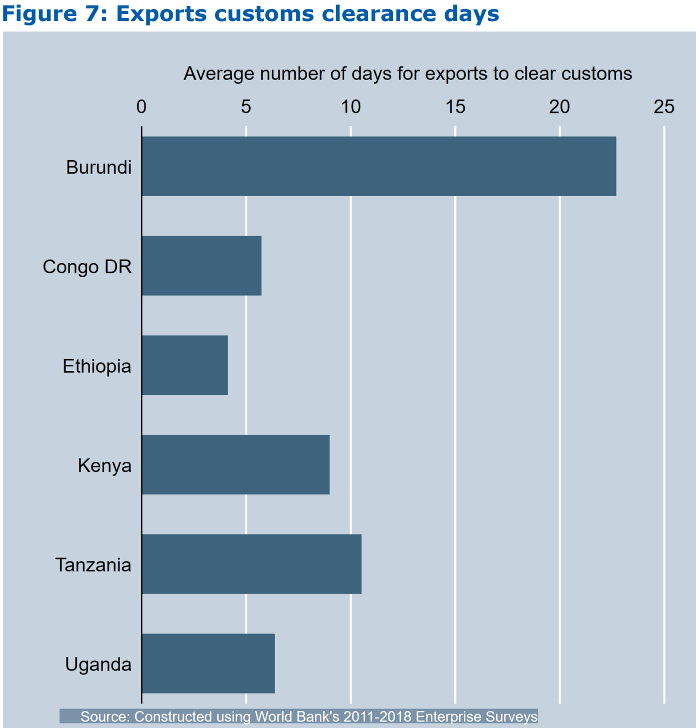


Panel B: Central Corridor



Export facilitation trends also offer evidence of the benefits of trade facilitation investments. Figure 7 shows the reported average number of days it takes for exports to clear through customs across countries in Eastern Africa between 2011 and 2018. Except for Burundi, the analysis reveals that it took less than the standard Sub-Saharan Africa average of 15 days for exports to clear through customs. The results indicate that Eastern African governments have made great strides in improving the exporting experience through reforms aimed at facilitating exports and reducing transaction costs.

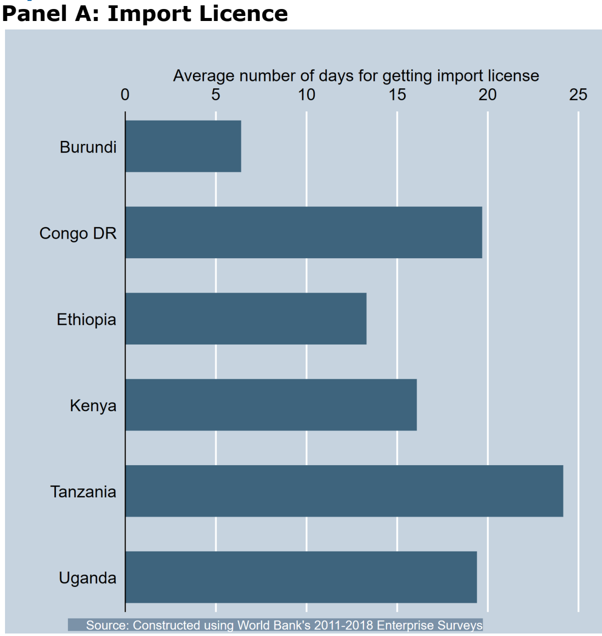
Figure 7: Exports customs clearance days



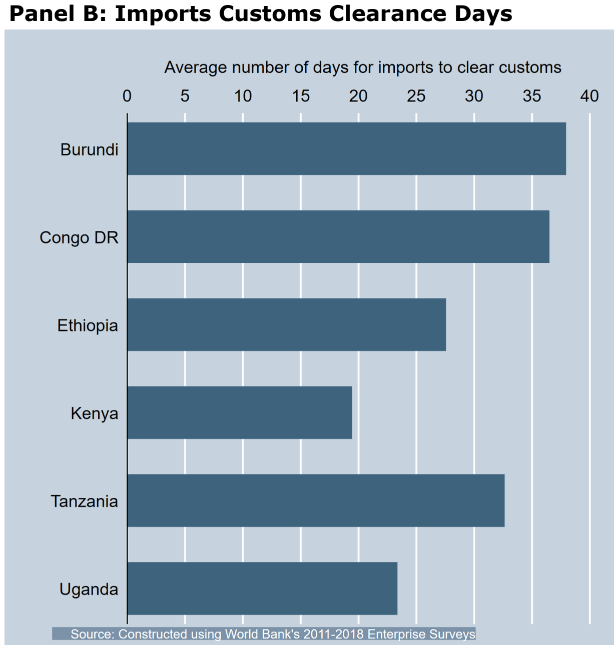
Despite the positive improvements, these results are not consistent across the entire region and do not represent significant advances on improving the persistent trade imbalance. For example, on ease of doing business scores, countries like Ethiopia, Burundi, DRC, and South Sudan are still lagging in their scores and their overall rankings, both with Sub-Saharan Africa and globally. Moreover, an analysis of the average number of days it took to get an import licence and clearance of imports at customs vary significantly across countries. Figure 8 shows a summary of the average number of days it took to get an import licence and clearance of imports through customs. Except for Tanzania, it takes less than the Sub-Saharan Africa average of 20 days to get import licence in all other countries. Importantly, only Kenya recorded the number of days below 18-20 days Sub-Saharan Africa average for imports custom clearance; the rest of the countries recorded days above the average.

Figure 8: Import licence and imports customs clearance days

Panel A: Import Licence



Panel B: Imports Customs Clearance Days



Conclusion

East Africa is not only faring well on macroeconomic indicators but also on trade facilitation indicators. The analysis reveals that trade facilitation interventions have worked in the region: from improvements in the regulatory environment, lower import and exports custom clearances to the reduction in dwell and transit times across trade corridors in the region.

Nevertheless, there are still areas of improvement that require more concerted efforts to turn things around. Translating the reduction in dwell and transit times to trade-wide impacts, especially on the export of goods and services from the region is a good starting point. Similarly, to reverse the persistent trade imbalance countries need to build their productive capacities and engage in regional value chains for producing high value-added goods for both international and intraregional export markets.

Implications for TMEA programming

The presented analysis provides a more recent snapshot of essential trade and economic indicators. The analysis provides insights on areas that TMEA can target for its implementation to better address trade facilitation for exports.

- Firstly, trade in services remains mostly untapped in the region. Through its Outcome 1B and 2 programmes, TMEA has the potential to bolster service trade in the region.
- Secondly, TMEA, through its Trade and Logistics Clusters, can significantly help governments and businesses attract both intra and extra-EAC FDI inflows needed for spurring industrialisation, manufacturing and job creation.
- Thirdly, despite reductions in time and cost to trade, more work to enhance business competitiveness for exporting is needed.
- Fourthly, the partnership with the African Union to support the AfCFTA, and the Boosting Intra-African Trade initiative, should provide TMEA with more space for novel trade facilitation interventions.

References

1. United Nations Economic Commission for Africa and TradeMark East Africa (2020). Creating A unified Regional Market: Towards the Implementation of the African Continental Free Trade Area in East Africa, Nairobi, Kenya.
2. The World Bank Group (2020), The African Continental Free Trade Area: Economic and Distributional Effects, Washington DC, USA
3. International Monetary Fund (2019): Regional Economic Outlook: Sub-Saharan Africa, Washington DC, USA
4. Maria Enache, Ejaz Ghani., and Stephen O'Connell (2016). Structural Transformation in Africa: A Historical View. World Bank Policy Research Working Paper #7743, Washington, DC, USA.

Data Sources

1. Real GDP growth data available at https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/AFQ
2. IMF's direction of trade statistics available at https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1390030341854
3. World Bank Ease of Doing Business Scores available at https://www.doingbusiness.org/en/data/doing-business-score
4. World Bank Ease of Doing Business Rankings available at https://www.doingbusiness.org/en/rankings
5. World Bank Development Indicators available at https://datacatalog.worldbank.org/dataset/world-development-indicators
6. Port dwell and transit times from Northern and Central Corridors Authorities.