



East African Community Regional Trade Policy amidst the COVID-19 Crisis

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The context

The COVID-19 pandemic has caused unprecedented global health and economic crises. National and international measures, including social and economic lockdowns, and suspension/ban of international passenger travel to control its spread have led to a breakdown of cross-border trade and value chains at national, regional and global levels. In its wake, the East African Community (EAC) and other countries must identify and implement measures to rebuild their economies for prosperity in a new normal world setting post-COVID-19.

The problem

The COVID-19 crisis has crippled international trade and brought today's highly interconnected world economies (through regional and global value chains) to a virtual standstill since early 2020, though some economic activities resumed from mid-year at a much-reduced capacity. The challenge for the EAC is to find a way to bounce back, compensate over and above the losses sustained during the crisis, and achieve sustainable economic growth.

Background

Since the COVID-19 pandemic started, EAC partner States have been working tirelessly to find the means to control its spread and also recover the unprecedented economic losses in production, cross-border trade, investment, employment and incomes. In this regard, the EAC is supported by donors to develop evidence-based policy measures to reinvigorate trade and economic growth, in addition to own resources. This study contributes to regional trade policy actions based on systematic examination of the scope of trade effects and the underlying trade environment that acts to amplify or cushion the impacts.

Key findings

This study was conducted offsite from November 2020 to April 2021. Data used in the analysis was obtained from EAC partner States and international data repositories. Key trade trends are analyzed using monthly (January-2019-to-September-2020) trade data and augmented by 2015-2019 annual series on some key trade fundamentals (determinants) for context. The main findings guiding the way forward include:

- (a) The EAC recorded dramatic trade and economic declines during March-May 2020, before posting tepid rebounds from June through August-September 2020, which were dampened by the effects of new waves of the virus driven by more easily transmissible variants. In fact, although the EAC recorded a couple of impressive rebounds month-on-month in 2020 and between 2019 and 2020, overall, cumulative total trade data shows that the EAC has not had an effective trade recovery so far.
- b) Trade in goods and services has been adversely affected, but services, and in particular tourism and hospitality sectors have been most impacted by loss of big-spending international tourists and business travellers. Domestic tourism needs further support.

- c) The economic pain of the COVID-19 crisis has been felt more acutely in the EAC and other economies heavily reliant on the-now disintegrated global value chains, particularly involving China, South Asia, Europe and the United States of America.
- d) The prevailing pre-COVID-19 internal economic structural and institutional weaknesses amplified the unfavourable effects. For example, despite progress on national trade policy management, customs modernization and trade facilitation and regional integration, there remains many loose ends in respect of regional harmonization and coordination of trade policy and facilitation, which instigated some of the longest cross-border cargo queues (more than 50 kilometres in some instances) and increased trade costs to the detriment of EAC's trade competitiveness.
- e) The emergence of COVID-19 underscored the usefulness of digitalization for facilitating e-commerce, cross-border trade, and other economic activities. E-commerce blossomed in the EAC during the COVID-19 crisis, albeit being dominated by mobile money transfers, concentrated in urban centres, and involving more males than females, and consumer goods than investment spending. Actually, e-commerce would have been bigger but for the undeveloped and uncoordinated legal frameworks, telecommunication infrastructure deficiencies and generally low economic purchasing power.
- f) The EAC has considerable untapped export potential, which when combined with reduced export production due to the crisis gives the region a large platform to rapidly expand trade over and above pre-COVID19-crisis levels.

Implications for policy makers

The COVID-19 crisis has highlighted the need for strong economic and in particular trade fundamentals, regional harmonization and coordination, optimizing output and export potential, digital technology and e-commerce, and expanding access to strategic markets. Thus, the EAC should implement reconstructive and remedial measures, including:

- (a) Expediting full harmonization and coordination for synergies in trade facilitation in respect of: (i) implementation of the trade cost-reducing WTO-Trade Facilitation Agreement, which covers paperless customs and other provisions where the EAC lags behind, such as Article 3 on advance ruling, Article 7 on release and clearance of goods including pre-arrival processing, electronic payment, risk management, post clearance audit, and authorized operators; and Freedom of transit (Article 11); (ii) enhanced issuance and mutual recognition of certifications for COVID-19 tests.

- b) Unequivocally desist from erecting artificial non-tariff barriers, some of which are inspired by non-trade matters such as immigration or political disagreements. The EAC should stay focused on the big prize of mutually beneficial regional economic integration enshrined in the EAC Treaty and fully abide by anti-Non-Tariff Barrier laws. To deepen trust, EAC should also run regular short-term (3-6 months) senior Customs staff exchanges in addition to existing cooperation arrangements.
- c) EAC should redouble efforts to revive and deepen integration of domestic value chains into regional and international value chains. In this respect, the EAC should expedite implementation of its Regional Trade Policy, Special Economic Zone strategy, and the COVID-19 Recovery Plan.
- d) EAC should address hurdles to effective external export market access by developing adequate capacity to comprehensively comply with legitimate non-tariff measures in key export markets, including for Sanitary and Phyto-Sanitary, technical and standards conformity.
- e) The EAC should intensify preparatory work and ratify preferential trade agreements such as the African Continental Free Trade Area, the East African Community-European Union Economic Partnership Agreement, the East African Community-United Kingdom Economic Partnership Agreement and others; and maximize the trade development assistance therein to seize advantageous positions (be the 'early bird') and expand export opportunities before preferential margins erode and market shares wane for late comers.
- f) EAC should fully embrace and advance growth and development of e-commerce by developing a supportive regulatory environment and culture, including on data protection, data security, market entry for competition, product pricing, deliberate community-level digital literacy interventions with supporting curriculum and supporting local content creation.
- g) EAC partner States should identify and support 'quick win' sectors. For example, in tourism (worth US\$ 5.3 billion annually in the EAC), hoteliers, airlines, supporting value chains and government should formulate competitive holiday/business travel packages. Global influencers on social media should be hired for branding and increased visibility.

Success will depend on the EAC taking the right course of action, at the right time, in the right manner. Hesitancy in taking decisive remedial and reconstructive economic and health (e.g. control and vaccination) actions will only deepen the crisis and self-inflicted marginalization from the rest of the world.



Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

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