Regional Trade Integration in Eastern and Southern Africa

Albert Makochekanwa and Greenwell Matchaya
Introduction

Regional integration is often seen as a powerful development strategy that provides a large parallel market for the development of new industries and minimizes external shocks through increased national income and bargaining power (Balassa 1961). At regional and subregional levels, economic cooperation has been one of the fundamental policy options for many developing countries in the last three decades (Jones 2002). There is consensus among policymakers, researchers, and political leaders that Africa could develop faster through regional integration. The United Nations Economic Commission for Africa (UNECA 2017) has suggested that regional integration and trading blocs are critical for African nations to achieve sustainable development and increase their participation in the global economy. In addition, UNECA has asserted that regional integration promotes economic growth and industrialization through fostering intraregional trade, infrastructure, and investment (McCarthy 1996). Cooperation of countries provides a huge market for new industrial development which reduces external vulnerability through increasing bargaining power and, in turn, improves standards of living. Regional trade cooperation of countries is regarded by UNECA as a key strategy to confront globalization challenges.

There is, therefore, a need to monitor and evaluate regional integration processes. This study documents the experiences of regional trade arrangements in the eastern and southern Africa (ESA) region, notably the Common Market for Eastern and Southern Africa (COMESA), for the periods 1960–1993 and 1994–2018. It also analyzes the indicators of trade flows and trade costs, to see whether there was progress in terms of trade flow expansion and cost reduction. Analyzing trade flows and trade costs indicators, as well as tracing the experiences of regional trade arrangements in the region, provides important information for monitoring the regional integration process.

Countries engage in both formal and informal trade in the ESA region. When available, informal cross-border trade data can provide complete and comparable external trade statistics necessary for the computation of balance of trade, national accounts compilation, and various other indicators. This point is important, especially when evaluated against the findings in some studies which have shown that informal trade may sometimes constitute a significant fraction of total trade (Gelan et al. 2010).

Consequently, the study also examines the magnitude and trends of informal agriculture trade using the limited data available and documented the major informal cross-border trade monitoring mechanisms that exist in the ESA region. The objective is to understanding the strengths and weaknesses of these mechanisms in order to improve them.

The origins of the regional blocs in ESA date to the 1960s. However, we find that the regional trade arrangements did not achieve the desired outcomes. Analysis of both trade flows and trade cost indicators reveals that COMESA is lagging behind other continental counterparts. Intra-regional trade flows are still low even when Informal Cross-Border Trade (ICBT) statistics are taken into account, and this may be attributable to high trading costs in the region. There is also evidence that COMESA member states are mostly trading with third countries, rather than with regional counterparts.
Section 6.2 presents a history of regional trade agreements (RTAs) in ESA. Sections 6.3 and 6.4 provide measurements of trade integration in the region, using a measure based on trade costs in section 6.3, and a measure based on the trade flows in section 6.4. As there is considerable ICBT in the region, and as many initiatives have been launched to measure this phenomenon, section 6.5 is dedicated to the importance of ICBT. We conclude the chapter in section 6.6.

History of RTAs in ESA

UNECA became the champion of regional integration in Africa for the purposes of economic development and proposed the division of the continent into regions in the 1960s. As a result, UNECA promulgated the Lagos Plan of Action (LPA) which was launched by the Organisation of African Unity (now African Union) in 1980. This led to the creation of separate but convergent and overarching regional arrangements in four African subregions: ESA, West Africa, Central Africa, and the Great Lakes region.

The ESA region registered the highest number of regional economic communities (RECs) in Africa, all characterized by multiple and overlapping membership. Before the launch of the LPA in 1980, the ESA region had already witnessed the creation of the East African Community (EAC) in 1967, of the Southern African Customs Union (SACU) in 1889 (revamped in 1969), and of the Economic Community of the Great Lakes Countries (CEPGL for the French acronym: Communauté Economique des Pays des Grands Lacs) in 1976. Following the recommendations of the LPA, the Preferential Trade Area (PTA) was formed in 1981 and was eventually replaced by COMESA in 1994.

The regional arrangements in the ESA region can be divided into two categories: those that fit into the LPA adopted in 1980, and those that were either in existence or came about outside the LPA (Table6.1). The existence of regional blocs before and outside the LPA indicates the importance placed upon them for political and socioeconomic reasons. The PTA and the Cross-Border Initiative (CBI) are the blocs that fit into the LPA. The regional integration arrangements that grew outside LPA include:

- SACU;
- the Southern African Development Coordination Community (SADCC), which was replaced by the Southern African Development Community (SADC) in 1992;
- EAC;
- the Intergovernmental Authority on Drought and Development (IGADD), which was superseded by the Intergovernmental Authority on Development (IGAD) in 1996;
- CEPGL; and
- the Indian Ocean Commission (IOC).

The other state-of-the-art regional trade arrangement is the COMESA-SADC-EAC Free Trade Framework, which was announced in 2008.
### Table 6.1 Regional trade arrangements in eastern and southern Africa regions

<table>
<thead>
<tr>
<th>Region</th>
<th>1960s and 1970s</th>
<th>1980s</th>
<th>1990s and 2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cross Border Initiative (CBI) 1993</td>
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<tr>
<td></td>
<td>Common Monetary Area</td>
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<tr>
<td></td>
<td>Indian Ocean Commission (IOC) 1984</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East African Community 1 (EAC I) 1967</td>
<td></td>
<td>Intergovernmental Development on Drought and Development (IGADD) 1986</td>
<td>Intergovernmental Development on Development (IGAD) 1996</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>COMESA-SADC-EAC Free Trade Area (Africa Free Trade Zone) 2008</td>
</tr>
</tbody>
</table>

Source: Compiled by authors.

### Experiences of Regional Trade Arrangements in the ESA Region before 1994

Within the ambit of the PTA for the ESA region were the EAC\(^1\) of 1967, the SACU of 1969 with its associated monetary union (the Common Monetary Area, CMA), the CEPGL of 1976, and the SADCC\(^2\) of 1980. These RECs were already in existence when the LPA was launched in 1980.

Some members of the PTA later joined the IOC in 1984 or the Intergovernmental Authority on Drought and Development (IGADD) in 1986. This section addresses the experiences of the regional trade arrangements within the geographical area of the PTA for the period 1960-1993, summarizing the trade arrangements each member state concluded. A summary of all the regional trade arrangements in the ESA region and their achievements and status by 1993 is given in Table 6.2.

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2 - The SADCC was set up as a relatively informal organization by "frontline states", and its aim was to reduce dependence on South Africa.
Table 6.2 Regional trade arrangements in ESA, 1960s–1993

<table>
<thead>
<tr>
<th>Regional bloc year formed</th>
<th>Countries involved</th>
<th>Main objective/aim</th>
<th>Achievements/status by 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAC 1967–1977</td>
<td>Kenya, Tanzania, Uganda</td>
<td>Strengthen economic and political ties between the member states through common market, common customs tariff, and a range of public services to achieve balanced economic growth</td>
<td>Collapsed in 1977 owing to political disparities. Signed the East African Co-operation Treaty in November 1993 which lasted until 1999</td>
</tr>
<tr>
<td>SACU 1969 (originally 1889)</td>
<td>Botswana, Eswatini, Lesotho, Namibia (1990), South Africa</td>
<td>Duty-free movement of goods with a common external tariff on goods entering any of the countries from outside SACU</td>
<td>Fully operational Customs Union, and a Common Monetary Area established in 1974. Admitted Namibia in 1990</td>
</tr>
<tr>
<td>CEPGL 1976–1994</td>
<td>Burundi, Congo DR, Rwanda</td>
<td>Promote economic and social development among member states through free movement of persons and international trade</td>
<td>Collapsed in 1994 owing to conflicts within and between member states, leading to lack of trust among them</td>
</tr>
<tr>
<td>IOC 1984</td>
<td>Comoros, Mauritius, Madagascar, Seychelles</td>
<td>Promote sustainable development through cooperation on diplomacy, environment, and trade</td>
<td>No significant progress had been made by 1993; limited capacity, connectivity and lack of regional infrastructure to implement regional initiatives</td>
</tr>
<tr>
<td>IGADD 1986</td>
<td>Djibouti, Eritrea (1993), Ethiopia, Kenya, Somalia, Sudan, Uganda</td>
<td>Provide coordinated efforts in managing drought and development across East Africa subregion with a focus on food security</td>
<td>No significant progress had been made by 1993 owing to conflict and lack of commitment by member states</td>
</tr>
</tbody>
</table>

Source: Compiled by authors.
Notes: EAC = East African Community, CEPGL = Communauté Economique des Pays des Grands Lacs, SACU = Southern African Customs Union, SADCC = Southern African Development Coordination Conference, PTA = Preferential Trade Area, IOC = Indian Ocean Commission, IGADD = Intergovernmental Development on Drought and Development.
The Multinational Programming and Operational Centres (MULPOC) for ESA, based in Lusaka, Zambia, successfully negotiated a treaty for the establishment of the PTA for the region. The treaty establishing the ESA PTA was signed by 16 countries \(^3\) in Lusaka in 1981.

The objectives of the PTA were to: (1) promote cooperation and development in all fields of economic activity, in particular trade, customs, industry, transport, communications, agriculture, natural resources, and monetary affairs; (2) raise the standards of living of the people of the region by fostering close relations among members; (3) create a common market by the year 2000 to allow the free movement of goods, capital, and labor within the subregion; and (4) contribute to the progress and development of all other countries in Africa.

To achieve these objectives, the PTA strategy included: (1) reducing and eliminating trade barriers; (2) simplifying and harmonizing customs and trade documents procedures and regulations; (3) introducing rules of origin to determine which goods should receive preferential treatment; (4) granting transit rights to all transporters; (5) introducing clearing and payments arrangements to promote trade; (6) developing coordinated and complementary policies; and (7) promoting industrialization and agricultural development.

Achievements of the PTA in terms of trade liberalization and promotion, transport and communications, and monetary and financial cooperation include:

- a 60 percent average tariff reduction on goods originating in the subregion;
- elimination of the Common List which stated the products in each member state that could be traded at reduced tariff rates, resulting in preferential exchange of all commodities originating within the subregion;
- streamlining of the Protocol on the Rules of Origin to facilitate intraregional trade and investment; deletion of the majority local equity and management clause. Value-added criteria have been applied with a commodity originating in the subregion if its value added is at least 45 percent;
- establishment of a computer-based subregional trade information network, with focal points in each member state providing information on enterprises in each country, and the country’s exports, imports, and tenders;
- rehabilitation and upgrading of interstate roads, railways, ports, and telecommunications links;
- facilitation of movement of vehicles within the subregion through the implementation of the PTA third-party motor vehicle insurance scheme (Yellow Card) in 1987;
- simplification and harmonization of road customs transit documents through the introduction of a single road customs transit declaration document;
- establishment of a clearing house in 1984;
- establishment of the PTA Trade and Development Bank for ESA (PTA Bank) in November 1985;
- formation of the PTA Association of Commercial Banks (BAPTA) in November 1987 to facilitate operations of the clearing house by establishing relationships between banks;
- introduction of PTA travelers’ checks, UAPTA, in August 1988 to enable citizens within the subregion to travel without having to use foreign currency;

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3 - Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Somalia, Eswatini, Tanzania, Uganda, Zambia, and Zimbabwe.
• launch of the PTA Monetary and Financial Harmonisation Programme in November 1990, paving the way for monetary union establishment to facilitate the regional integration process;

• establishment of the PTA Reinsurance Company (Zep-Re) in September 1992 to control outflow of foreign exchange in the form of payments overseas. Zep-Re demanded that companies cede 10 percent of their business to it; and

• adoption of the PTA Trade and Development Strategy in 1992 to enable member states to address problems and so enhance market integration and economic transformation for sustainable growth.

Some challenges remained: (1) high transport costs and border tolls; (2) lack of complementarity in production, trade, and consumption in the PTA, retarding trade and economic integration; (3) disparities in the economic activities and development of the members, militating against the regional integration process; and (4) more advanced economies tending to maximize their exports at the expense of weaker nations.

**Experiences of Regional Trade Arrangements in the ESA Region from 1994 to 2018**

The period from 1994 to 2018 witnessed significant creation and resurgence of interest in regional economic integration in the ESA region. COMESA was created in 1994 to replace the PTA while IGAD replaced IGADD in 1996. SADC replaced SADCC in 1992 and the CBI was created in 1993–1994. The EAC and the CEPGL, which had collapsed, were regenerated in 1999 and 2007, respectively. The EAC was re-establishing after a treaty was signed in November 1999 and entered into force in July 2000. The CEPGL was regenerated after more than 13 years of inactivity, under the pressure from the international community: the Council of Ministers of CEPGL held in Bujumbura in 2007 decided to relaunch the activities of the economic community.

This section documents the experiences of the regional trade arrangements involving COMESA member states in 1994-2018. The experiences of each regional trade arrangement are detailed in   .

The strategy for the 1990s was based on past experiences and member states’ determination to cooperate in bringing about sustainable growth and development. It aimed to bring about full market integration, beginning with the transformation of the PTA to COMESA in 1994.

COMESA is the largest trading bloc in Africa and has 21 member states, from Tunisia to Eswatini. COMESA is based on the concept of multi-speed development by which two or more member states can agree to accelerate the implementation of specific provisions of the Treaty while allowing others to join in later a reciprocal basis. Whereas the PTA emphasized decision by consensus (and so programs were pegged to the slowest-moving member states), under COMESA a two-thirds majority will prevail where consensus cannot be reached.

COMESA maintained the structures of the PTA, although the Tribunal was replaced by the Court of Justice. COMESA embodies the following principal elements which are not contained in the PTA:
• A full free trade area (FTA) involving trade liberalization under which there is free movement of goods and services produced within the common market and removal of all non-tariff barriers.

• A customs union involving zero tariffs on all products originating in the common market, and the adoption of a common external tariff on imports from non-COMESA countries.

• Free movement of capital and finance and a common investment procedure to create a more favorable environment for foreign direct investment, cross-border investment, and domestic investment.

• A payments union and eventual establishment of a COMESA monetary union.

• Free movement of persons and common visa arrangements, including the right of establishment and (eventually) the right of settlement.

COMESA is designed specifically to facilitate the business community in taking maximum advantages of regional integration. Governments of member states seek to create an environment for business to invest and produce more efficiently. The bloc has achieved the following since its inception in 1994:

• Increasing the number of member states from 19 to 21, when Somalia and Tunisia joined the COMESA regional bloc.

• Establishment of the institutions that support regional integration across member states, such as the COMESA Court of Justice; Federation of National Associations of Women in Business in Eastern and Southern Africa (FEMCOM); COMESA Business Council; and Regional Investment Agency, in addition to those adopted from PTA.


• In 2008, COMESA agreed to an expanded free trade zone including members of the other African trade blocs, the EAC, and the SADC to form an African free trade zone.

• In 2009, COMESA launched the customs union which was in the process of being implemented.

• Launch of new trade facilitation instruments that are creating a borderless economy, resulting in drastic reductions in the cost of doing business: COMESA Virtual Trade Facilitation System (CVTFS) and the online trading system known as the COMESA Electronic Market Exchange System (CEMES).

• The Yellow Card scheme, providing regional third-party motor insurance cover, which is a success story for COMESA market integration. More than 200 insurance companies are involved and over 200,000 interstate motorists use the Yellow Card. For instance, between Ethiopia and Djibouti over 500 motor vehicles cross the border of the two countries using Yellow Cards and over US$3 million compensations have been paid to road accident victims in Djibouti for the period 2012–2017 (COMESA 2014).

• Launch of a digital FTA, the first of its kind in Africa.
Although COMESA has amassed a number of achievements, the following challenges seem to be working against regional integration efforts:

- Overlapping membership of various countries is limiting full attention and commitment to COMESA aims. This has also led to some former member states (such as Tanzania) pulling out of COMESA for failing to cut ties with other blocs.

- Free movement of people between member states remains a challenge, if not impossible, as member states are too slow to ratify protocols already in place that should allow the free movement of people. Only four member states have signed the protocol of free movement of people (Burundi, Rwanda, Kenya, and Zimbabwe). This is due to the issue of reciprocity, where one country relaxes its visa rules but their nationals do not enjoy similar treatment in the corresponding member states.

- Low investments in infrastructure and energy to enhance social and economic integration through interconnectivity.

**Table 6.3 Experiences in regional trade arrangements in the ESA region from 1994 to 2018**

<table>
<thead>
<tr>
<th>Regional bloc year formed</th>
<th>Countries involved</th>
<th>Main objective/ terms</th>
<th>Achievements by 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACU 1969</td>
<td>Botswana Eswatini Lesotho Namibia South Africa</td>
<td>Duty-free movement of goods with a common external tariff on goods entering any of the countries from outside SACU</td>
<td>Established free trade area, customs union and monetary union. Harmonization of national and regional policies, e.g., common industrial policy in 2002</td>
</tr>
<tr>
<td>IOC 1984</td>
<td>Comoros Mauritius Madagascar Seychelles</td>
<td>To promote sustainable development through cooperation on diplomacy, environment, and trade</td>
<td>Preferential trade regime between Mauritius and Madagascar. Regional Integration Support Programme including EAC, IGAD, and COMESA</td>
</tr>
<tr>
<td>CBI 1993</td>
<td>Burundi Comoros Eswatini Kenya Madagascar Malawi Mauritius Namibia Rwanda Seychelles Tanzania Uganda Zambia Zimbabwe</td>
<td>Facilitate cross-border activity by eliminating barriers to cross-border flows of goods, services, labor, and capital</td>
<td>Harmonization of road transit charges. Launch of Road Customs and Transit Document and a single goods customs declaration form</td>
</tr>
</tbody>
</table>
## IGAD 1996

- Djibouti, Eritrea (1993)
- Ethiopia, Kenya, Somalia, Sudan, Uganda

**Promotion of peace, prosperity, and integration by assisting and complementing the efforts of member states to achieve regional integration through increased cooperation.**

- Significant progress toward establishing free trade area.
- Initiatives to improve the investment, trade, and banking environments of member states.

## EAC 1999

- Burundi (2007)
- Kenya
- Rwanda (2007)
- Tanzania
- Uganda
- South Sudan (2016)

**Strengthen the economic and political ties between member states through common market, common customs tariff, and range of public services to achieve balanced economic growth.**

- Free trade area, customs union, and common market.
- Established a 3-year revolving presidency in 2011, and elected a president for federation by 2013.
- Acceded to Africa’s free trade zone.

## COMESA 1994

- Burundi, Comoros, Congo, DR, Djibouti, Egypt, Eritrea, Eswatini, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Seychelles, Somalia, Sudan, Tunisia, Uganda, Zambia, Zimbabwe

**Promote joint development in all fields of economic activity and adoption of macroeconomic policies and programs to raise living standards of its people.**

- Free trade area in 2000.
- Proposed a customs union.
- Agreed to the SADC-EAC-COMESA Free Trade Zone in 2008.
- Launch of customs union in 2009.
- Launched digital free trade area.
- Increased membership from 19 to 22 by admitting Tunisia and Somalia.

## CEPGL 2007

- Burundi, Congo, DR, Rwanda

**Promote peace and economic and social development among member states through free movement of persons and international trade.**

- Sustainable peace in the Great Lakes countries.
- Facilitation of movement of people and goods within the region.

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Source: Compiled by authors.


The overall progress of the RECs in ESA is summarized in Table 6.4.
Table 6.4 Summary of overall progress of RECs in the ESA region

<table>
<thead>
<tr>
<th>Activity</th>
<th>COMESA</th>
<th>SADC</th>
<th>EAC</th>
<th>IGAD</th>
<th>SACU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Trade Area</td>
<td>Progressing</td>
<td>Progressing</td>
<td>Fully in force</td>
<td>Proposed</td>
<td>Fully in force</td>
</tr>
<tr>
<td>Customs Union</td>
<td>Launched in 2009</td>
<td>Proposed for 2010</td>
<td>Fully in force</td>
<td>Stalled</td>
<td>Fully in force</td>
</tr>
<tr>
<td>Common Market</td>
<td>Proposed for 2015</td>
<td>Proposed for 2015</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Currency Union</td>
<td>Proposed for 2018</td>
<td>Proposed for 2016</td>
<td>Proposed for 2024</td>
<td>-</td>
<td>Four countries participate</td>
</tr>
<tr>
<td>Visa Free</td>
<td>-</td>
<td>-</td>
<td>Proposed for 2018</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Political Pact</td>
<td>-</td>
<td>-</td>
<td>Proposed 2023</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Compiled by authors.

Note: EAC = East African Community, SACU = Southern African Customs Union, SADC = Southern African Development Community, COMESA = Common Market for Eastern and Southern Africa, IGAD=Intergovernmental Authority on Development.

The analysis suggests that EAC and SACU have made significant strides in promoting regional integration compared to other RECs. COMESA and SADC are yet to achieve a full FTA status. In COMESA, 16 of 21 member states are already participating in FTA, while in SADC only Angola and the Democratic Republic of Congo (DRC) are not participating in the established FTA. IGAD has proposed implementing the FTA, but no significant progress has been made so far.
Changes in the membership of RECs

A number of trade arrangements in the ESA region are expanding their membership (Table 6.5).

Table 6.5 Summary of the changes in selected regional blocs in the ESA region

<table>
<thead>
<tr>
<th>COMESA</th>
<th>SADC</th>
<th>EAC</th>
<th>IGAD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Founding states 1994</strong></td>
<td><strong>Founding states 1980</strong></td>
<td><strong>Founding states 2001</strong></td>
<td><strong>Founding states 1986</strong></td>
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<tr>
<td><strong>Joined later</strong></td>
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<tr>
<td><strong>Former states</strong></td>
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</table>

Source: Compiled by authors.
Note: EAC = East African Community, SADC = Southern African Development Community, COMESA = Common Market for Eastern and Southern Africa, IGAD = Intergovernmental Authority on Development.

COMESA is the only REC that has experienced the departure of five former member states (Angola, Lesotho, Mozambique, Namibia, and Tanzania), while five new member states have also joined the bloc (Egypt, Libya, Seychelles, Somalia, and Tunisia). Tanzania withdrew because of revenue implications, and Namibia cited unfair trade competition and financial constraints as the major causes for withdrawal from COMESA. Somalia was a former member of the PTA (a precursor of COMESA) which wanted to regain its status in the bloc. SADC, EAC, and IGAD have experienced a growth in membership as they witnessed admission of other members into the blocs. SACU, IOC, CEPGL, and CBI have not experienced membership expansion.
Overlapping membership in the ESA region

ESA registered the highest number of RECs in Africa, all characterized by multiple and overlapping membership. Table 6.6 shows that every country in the region, except for Mozambique, belongs to more than one REC.

Table 6.6 Membership of each regional economic community in the ESA region

<table>
<thead>
<tr>
<th>Countries</th>
<th>COMESA</th>
<th>SADC</th>
<th>SACU</th>
<th>EAC</th>
<th>IGAD</th>
<th>CEPGL</th>
<th>IOC</th>
<th>CBI</th>
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<tbody>
<tr>
<td>Angola</td>
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<tr>
<td>Botswana</td>
<td>✔️ (FTA)</td>
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<tr>
<td>Burundi</td>
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<td></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Comoros</td>
<td>✔️ (FTA)</td>
<td>✔️ (FTA)</td>
<td></td>
<td></td>
<td>✔️</td>
<td></td>
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<tr>
<td>Congo DR</td>
<td></td>
<td></td>
<td>✔️</td>
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<td>✔️</td>
<td></td>
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<tr>
<td>Djibouti</td>
<td>✔️ (FTA)</td>
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<td>Eritrea</td>
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<td>Ethiopia</td>
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<tr>
<td>Kenya</td>
<td>✔️ (FTA)</td>
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<td>✔️</td>
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<tr>
<td>Lesotho</td>
<td>✔️ (FTA)</td>
<td>✔️ (FTA)</td>
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<tr>
<td>Madagascar</td>
<td>✔️ (FTA)</td>
<td>✔️ (FTA)</td>
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<td>✔️</td>
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<tr>
<td>Malawi</td>
<td>✔️ (FTA)</td>
<td>✔️ (FTA)</td>
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<tr>
<td>Mauritius</td>
<td>✔️ (FTA)</td>
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</tbody>
</table>

Non-ESA countries that joined the RECs in the ESA region

| Egypt | ✔️ (FTA) |
| Libya | ✔️ (FTA) |
| Tunisia | ✔️ (FTA) |

Total members 21 16 5 6 7 3 4 14

Source: Compiled by authors.
The multiple membership had resulted in divided attention among members, which slowed regional convergence processes in the blocs.

After presenting the history of RTAs in ESA, we now evaluate the level of trade integration in the region.

Measurement of Trade Integration Based on Trade Costs

Tariffs, non-tariff measures, and transportation costs can directly impede the regional integration process. Examination of these costs gives a clear picture as to whether the conditions necessary for regional integration are satisfied in the ESA region. These indicators give a first proxy of regional integration, but they do not measure the actual realization of regional integration. This section gives an analysis of trade cost indicators in the COMESA region.

Tariffs

Chapter 3 has shown that in 2015 COMESA has now implemented low tariffs on intraregional trade: 1.9 percent, on average, which is lower than in SADC (3.8 percent) and in the Economic Community of West African States (ECOWAS) (5.6 percent in 2015, 0 percent now), but greater than in the Economic Community of Central African States (ECCAS) (1.6 percent) and in EAC (0 percent). However, in COMESA the average import duty on all imports remains relatively high at 6.9 percent, even if ECCAS and ECOWAS charge higher average import duties on all imports. This implies that average import duty on extraregional imports is high.

Bouët, Laborde, and Cosnard (2017) calculate the average duties applied on imports and faced by exports for COMESA member states. Analysis shows that Libya and Mauritius are relatively open in all sectors compared to other members. Protection is high in countries such as Djibouti (21.7 percent), Tunisia (16.5 percent), Sudan (15.6 percent), and DRC (15.4 percent). High restrictions in Djibouti are quite interesting and somewhat counterintuitive given the country’s historical role as a trading post, as well as limited production in many sectors of its economy. With respect to the agricultural sector, Egypt, Tunisia, and Seychelles have high import duties at 46.7 percent, 45.3 percent, and 36 percent, respectively.4

When evaluating the average duties faced by exports from the COMESA region, it can be concluded that merchandise exports from Libya, Eritrea, DRC, and Zambia face the lowest duties globally. Exports from Libya face 0 percent globally because they consist primarily of crude oil and petroleum, while exports from Kenya and Malawi (which are mostly agricultural products) face relatively high duties: 11.7 percent and 12.6 percent, respectively. Agricultural exports from Egypt, Tunisia, and Malawi face higher duties globally compared to other member states.

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4 - These average import duties are for 2007.
Chapter 6 - Monitoring Regional Trade Integration in Eastern and Southern Africa

Non-tariff Measures

With regional economic integration, conventional tariffs decrease, giving rise to non-tariff measures (NTMs). Although these NTMs are applied for protectionist purposes, governments may apply them for public policy reasons as well, such as for the protection of human and plant health. Examples of NTMs are sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), export measures, price and quantity control measures, trade remedies, and measures related to intellectual property rights and rules of origin.

Kee, Nicita, and Olarreaga (2009) and Bouët, Laborde, and Cosnard (2017) show that NTMs are present in the COMESA region. This supports the hypothesis that NTMs can be used by governments to protect human health by imposing food safety regulations. Egypt, Sudan, and Tunisia have higher averages of NTMs on all merchandise as well as on agricultural products. Uganda has the lowest NTMs, at 0.1 percent, followed by Rwanda (0.75 percent).

The Centre d’Etudes Prospectives et d’Informations Internationales (CEPII) provides data on NTM-Map which measures the incidence of NTMs based on the United Nations Conference on Trade and Development (UNCTAD) database (Gourdon 2014). The database covers a frequency index and coverage ratios for 63 nations over the period 2010–2012. The frequency index simply captures the percentage of products that are subject to one or more NTM. The coverage ratio captures the percentage of imports that are subject to one or more NTM.

Figure 6.1 Frequency index and coverage ratios by country (percentage)

<table>
<thead>
<tr>
<th>Country</th>
<th>Frequency Index</th>
<th>Coverage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>34</td>
<td>80</td>
</tr>
<tr>
<td>Egypt</td>
<td>44</td>
<td>60</td>
</tr>
<tr>
<td>Kenya</td>
<td>63</td>
<td>82</td>
</tr>
<tr>
<td>Madagascar</td>
<td>13</td>
<td>40</td>
</tr>
<tr>
<td>Mauritius</td>
<td>25</td>
<td>52</td>
</tr>
<tr>
<td>Uganda</td>
<td>69</td>
<td>98</td>
</tr>
<tr>
<td>Tunisia</td>
<td>13</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Gourdon (2014).
There is a large literature pointing out the considerable time and cost associated with exports and imports in Africa. These include cost and time spent on documentary compliance, border compliance, and domestic transport. According to the World Bank “Doing Business” indicators, Eswatini and Mauritius are the most efficient countries in the region, and the DRC is the least efficient. In DRC, in 2018, it took 336 hours and cost US$3,039 in border compliance to import a container, whereas it took only 3 hours and cost US$134 in Eswatini. Further analysis of Doing Business indicators shows that there is high heterogeneity in the region in terms of efficiency. Border and documentary compliance time when exporting or importing ranges from 2 hours to 336 hours. In terms of costs, it ranges from US$60 to US$3,039. Efficiency issues need to be addressed for member states to improve trade volumes.

Border infrastructure rarely caters for the needs of small-scale traders, often forcing them to share the clearance area with trucks and other vehicles, which increases insecurity and slows down procedures. According to Brenton and Soprano (2018), the vast majority of Africa’s small-scale traders are female: up to 70 percent-80 percent in some cases. Women traders are often among vulnerable groups across the continent, as they suffer sexual harassment, verbal abuse, and confiscation of their possessions. Research conducted in the ESA region also shows that there is a high prevalence of small-scale traders, especially women. The high levels of sexual harassment faced by small-scale traders has been documented by the Eastern African Subregional Support Initiative for the Advancement of Women (2012); Chiliya, Masocha, and Zindiye (2012); and FAO (2017). The analysis indicates that, in particular, these traders face sexual harassment, stigmatization, extortion, and bribery by customs officials. These are critical challenges that significantly reduce trade volumes in the region.

Measurement of Trade Integration Based on Trade Flows

This section discusses intraregional trade flows as measures of regional integration. More superior or refined indicators that are used for international comparisons are also used to measure the regional integration of COMESA.

Intra-COMESA Trade Shares

The simplest regional integration indicator, and the one most often used, is the share of intraregional trade in a region’s total trade. shows that intra-COMESA trade has been fluctuating in the period 2005-2017.
Figure 6.2 Intra-COMESA total exports (2005-2017)

Source: Authors’ calculations from COMTRADE (2019).

Total intra-COMESA trade as a percentage of total COMESA trade rose from 9 percent in 2008 to 14 percent in 2011 and 18 percent in 2015 ( ). The regular increase in trade share may be explained by the launch of a customs union in 2009. Table 6.7 also shows that this regional aggregate share looks low as compared to the intra-COMESA trade shares in Rwanda, Burundi, Uganda and Zambia.
### Table 6.7 Intra-COMESA trade as a share of total trade by country (2008–2015)

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<tr>
<td>Burundi</td>
<td>26%</td>
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<td>15%</td>
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<td>17%</td>
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<td>4%</td>
<td>11%</td>
<td>4%</td>
<td>3%</td>
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<td>22%</td>
<td>32%</td>
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<td>5%</td>
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<td>18%</td>
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Source: Authors’ calculations from COMTRADE (2019).

Note: Somalia and Tunisia not included since they joined COMESA in 2018; COMESA = Common Market for Eastern and Southern Africa.
The share of intra-COMESA trade to total country trade differs from country to country, with Rwanda having the highest share at 30 percent in 2015, followed by Burundi (23 percent), and by Uganda and Zambia at 21 percent. For the period 2008–2015, Rwanda, Burundi, DR Congo, and Zambia had a relatively high share of trade with other COMESA member states. In contrast, intra-COMESA trade has been below 5 percent for Egypt, Ethiopia, and Libya as the bulk of the trade of these countries is with trading partners outside the COMESA region.

Regional Trade Introversion Index

This index is based on modifications of both intra- and extraregional trade intensity indices, and compares a region’s share in trade with the rest of the world (see Chapter 3 for a detailed presentation). It is the ratio of the difference between intra- and extraregional intensity indexes to their summation. A positive figure shows that the region is more introverted than extraverted. Moreover, when the indicator is increased, it means that trade introversion increases. Comparison between regions is possible.

In chapter 3 of this report, Figure 3.8 illustrates the regional trade introversion indices for selected African regional communities for the period 2005–2017. The analysis shows that these indicators are very close for all African RECs, and that all these RECs are more introverted than extraverted. The Arab Maghreb Union (AMU)’s introversion is the least among the regional blocs.

Bouët, Cosnard, and Laborde (2017) estimate regional introversion indices of COMESA and the introversion of member states toward the region for the period 2000–2013. Burundi, DR Congo, Kenya, Rwanda, Uganda, and Zambia are more introverted toward the region. Libya appears to be the least introverted member state compared to the others. It can also be concluded that the introversion for countries such as Egypt and Eritrea has been increasing, while that of Comoros and Ethiopia was decreasing for the period 2000–2013.

The importance of ICBT

Informal cross-border trade (ICBT) describes trade transactions that, for one reason or another, are never captured by official customs agencies nor in a country’s official trade data. Traders engaged in ICBT often use unofficial routes and avoid customs controls. The term also includes transactions that pass through official routes but are intentionally under-reported or misreported (Ackello-Ogutu 1996; Macamo 1998; Minde and Nakhumwa 1998). In some cases, ICBT is referred to as parallel trade or smuggling. In government circles, for example, ICBT is more often associated with smuggling, tax evasion (Lesser and Moisé-Leeman 2009), and illegality than with innovation, enterprise, and job creation. Formal trade describes those international transactions that are well recorded and that can be traced through national data systems at border points or elsewhere.

There seems to be a growing body of case study evidence confirming that ICBT plays a critical role in poverty alleviation, food security, and household livelihoods in southern Africa (Crush 2015). For example, in the SADC, ICBT makes up an estimated 30 percent–40 percent of total intra-SADC trade, with an estimated value of US$17.6 billion (FAO 2017). CBT surveys indicate that, in some African countries, informal regional trade flows represent up to 90 percent of official flows (Lesser and Moisé-Leeman 2009), although in some cases the proportion may
be much lower than this. Surveys by the Uganda Bureau of Statistics and the Bank of Uganda have established that ICBT is an important part of Uganda’s regional trade, and accounts for between 25 percent and 40 percent of formal intraregional trade flows (UBOS and Bank of Uganda 2016; UBOS and Bank of Uganda 2005; UBOS and Bank of Uganda 2010), which underscores its importance in Uganda and its neighbors. The prevalence of ICBT in ESA varies between countries, but it is common where there are restrictive trade regimes (FAO 2017). Generally, though, ICBT is significant in the EAC (Ogalo 2010), and it remains a significant feature of regional trade and international mobility in southern Africa (Crush 2015).

The nature of ICBT, nevertheless, makes its data availability challenging and there continues to be a paucity of information on its dimensions. The absence of sufficient data means that ICBT does not receive the level of attention it deserves, and monitoring efforts are scant.

An inherent challenge that undermines the availability of ICBT data is how to monitor informal cross-border trade across countries and over time. Formal trade data are readily available because custom authorities placed at various official borders have a duty and capacity to capture the transactions from one country to another in their normal course of business. ICBT, however, is difficult to capture because the traders avoid custom authorities for one reason or another. Ackello-Ogutu (1996) recommends three techniques for collecting primary ICBT data: (1) border observation or border monitoring; (2) tracking movement of large transport vehicles; and (3) stocktaking at open markets. These techniques are applied either alone, or in combination, depending on the circumstances.

In general, border observation requires selection of popular and accessible border sites for the posting of enumerators. The monitors may then carry out border monitoring by applying census techniques to cover major agricultural and industrial commodities during a randomly selected number of weeks from each month over a period of 12 months (Ackello-Ogutu 1996). The second step is to estimate average monthly trade volumes from observed figures and then use such estimates to approximate the annual volume and value of unrecorded trade flows between two trading partners (Ackello-Ogutu 1996).

Border observation alone may not give a realistic picture of unrecorded trade as it may miss under-declaration of the true values and volumes of the goods being transported across borders. The tracking technique can complement border observation. The former aims to estimate the volume of unrecorded trade that passes across the border through misrepresentation or manipulation of the documentation procedures (Ackello-Ogutu 1996). To achieve this, tracking may be conducted only on a small sample (for instance, 10 percent) of the trucks passing through selected borders, and subsequently tracing cargo movement from the port of entry to the declared destination with the intention to compare the findings with those in the official customs records (Ackello-Ogutu 1996). This provides an estimate for unrecorded trade.

Finally, the stocktaking technique is more suitable for open border markets commonly found along the frontier roads between countries. The technique requires quantification of net import and export figures based on the volume of goods brought to the market by traders from each of the neighboring countries. This is done each day over all the selected days (Ackello-Ogutu 1996). This approach is combined with border observation on non-market days when the level of trade activity declines appreciably (Ackello-Ogutu 1996). The details of these initiatives are provided below.
Intergovernmental Initiatives

The FEWSNET initiative

Although the drive to monitor and collect ICBT data is not widespread in the COMESA region, compared with the drive to collect formal trade data, several initiatives utilizing a different combination of the methods above nonetheless exist. In the southern Africa region there are efforts by the Famine Early Warning Systems Network (FEWSNET), the World Food Programme (WFP), and the Food and Agriculture Organization (FAO) to track prices of various agricultural commodities across borders in Malawi, Zambia, Mozambique, Zimbabwe, Tanzania, and other countries.

FEWSNET was set up in 2004 in southern Africa to better understand regional trade flows in food commodities and to apply this information and analysis to the planning of food aid, humanitarian responses, and strategic food import decisions. The system consists of monitors being placed at key border posts shared by Malawi, Mozambique, Zambia, Tanzania, DR Congo, Zimbabwe, and South Africa. The goal of the initiative is to observe and record prices and volumes of informal trade flows of the main food commodities. Once collected, the information feeds into national and regional food balance sheets. It is also used by agro-business planners, research institutions, and international trade monitors and humanitarian agencies for planning. A monthly report is produced at the regional level using the data collected and is widely disseminated.

FEWSNET collects such data using the observation technique described in Ackello-Ogutu (1996) with the objective of better understanding regional trade flows to help plan food aid and humanitarian responses, and hence the approach relies on monitors placed at various border points. The job of the monitors is to collect daily import and export volumes and prices of commodities where possible, and subsequently transmit the data weekly to the FEWSNET country focal point. The focal point person consolidates the data, makes a preliminary analysis, and then transmits it to the FEWSNET regional office. At the regional level, a FEWSNET/WFP team produces monthly or quarterly reports which are disseminated through a distribution list with copies posted on the FEWSNET and other websites. At the country level, the data feed into the food balance sheets of Ministries of Agriculture. At the regional level, the ICBT trends feed into FEWSNET Regional and Global Price Watch Bulletins (FEWSNET 2011). The country nodes of FEWSNET present ICBT reports to food and nutrition security monitoring and evaluation bi-annually (FEWSNET 2012). FEWSNET collects some informal trade data, but these are often incomplete (Gelan et al. 2010).

The ACTESA informal cross border food trade monitoring system

The Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA) is a specialized agency of COMESA and was established in 2008. In 2010, ACTESA signed a Memorandum of Understanding (MoU) with COMESA to serve as an implementing institution for regional initiatives in strategically important agricultural value chains, trade, and investment. Since March 2011, ACTESA been collaborating with WFP and FEWSNET in cross-border trade monitoring through the Informal Cross Border Food Trade Monitoring System (ICB-FTMS) initiative.
Thus ACTESA works with FEWSNET country offices to enhance the tracking of ICBT (prices, quantities, and value) in the same areas that FEWSNET monitors. However, not all border crossing points or crops that are considered critical are currently monitored, owing to resource constraints. The map in Figure 6.3 illustrates where borders are currently monitored within the FEWSNET-ACTESA collaborative arrangement.

**Figure 6.3 Borders monitored by FEWSNET**

![Map showing borders monitored by FEWSNET](source: FEWSNET 2015)

The FEWSNET program monitors many borders in Malawi, Zambia, Mozambique, and Tanzania.

**Table 6.8 Borders monitored under the FEWSNET program**

<table>
<thead>
<tr>
<th>Malawi border points</th>
<th>Malawi border points</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>Center</td>
</tr>
<tr>
<td>Mbirima–Chitipa/Tanzania</td>
<td>Mchinji–Mchinji/ Zamb</td>
</tr>
<tr>
<td>Songwe–Karonga/Tanzania</td>
<td>Dedza–Dedza/Mozambique</td>
</tr>
<tr>
<td>Mqocha–Mzimba/Zambia</td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>South</td>
</tr>
<tr>
<td>Mwanza–Mwanza/Mozambique</td>
<td>Sankhulani–Nsanje/Mozambique</td>
</tr>
<tr>
<td>Mkumaniza–Chikwawa/Mozambique</td>
<td>Makhanga–Nsanje/Mozambique</td>
</tr>
<tr>
<td>Marka–Nsanje/Mozambique</td>
<td>Muloza–Mulanje/Mozambique</td>
</tr>
<tr>
<td>Marine–Nsanje/Mozambique</td>
<td>Naminkhaka–Phalombe/Mozambique</td>
</tr>
<tr>
<td>Tengani–Nsanje/Mozambique</td>
<td>Kolowiko–Phalombe/Mozambique</td>
</tr>
<tr>
<td>Chiponde/Kalanje–Mangochi/Mozambique</td>
<td>Nayuchi–Machinga/Mozambique</td>
</tr>
</tbody>
</table>

Source: FEWSNET 2015.
Table 6.8 presents the borders that are being monitored by FEWSNET in Malawi. Most of the borders are in the southern region; only two are being monitored at the center, and three are being monitored in the northern region. The agrarian structure in Malawi is such that the south is prone to famine as most of the land is less favorable to farming. The center, followed by the north, is the grain basket of Malawi. FEWSNET chose these borders based on the expectation of food shortages. The result, unfortunately, is that the amount of trade that takes place at the center is not fully captured.

The list of commodities monitored include: maize, maize flour, rice, beans, fresh cassava, dry cassava, sweet potatoes, millet, sorghum, pigeon peas, cow peas, groundnuts, sunflower, soy, wheat, wheat flour, green gram, European potatoes, cotton, maize seed, and fertilizers. Nevertheless, the key commodities that are fully reported are maize, rice, and beans. Maize constitutes the largest share of the total quantity.

Figure 6.4 presents maize quantities, both as reported formally and as tracked through ICBT monitoring. It shows the informal maize exports as well as the ratio of informal maize exports to formal maize exports by Malawi, Mozambique, Tanzania, Zambia, Zimbabwe, and South Africa into SADC/COMESA. This sample of countries and the period of coverage are determined by the availability of data.

Figure 6.4 Informal and formal maize exports by Malawi, Mozambique, Tanzania, Zambia, Zimbabwe, and South Africa into SADC/COMESA 2004-2013

Source: Authors’ computation based on FEWSNET (2019).
Note: ICBT for Informal Cross Border Trade; SADC for Southern African Development Community; MT for Metric Tons
In general, informal agricultural trade data are scant and are available only from 2004. The general trend is that the volume of formal maize trade has been volatile over time (ranging from under 250,000 metric tons in 2009 to around 3 million metric tons in 2011). This may be explained by the erratic rainfall patterns over time, considering that there is a close relationship between cereal production and annual rainfall (see, for example, Nhamo et al. 2019).

Figure 6.4 also shows that informal cross-border maize trade expressed as a ratio of formal trade accounts for between 4 percent and 15 percent and has been on the decline over time. This gives the informal maize exports by origin country. The seemingly lower ratio may be ascribed to data collection challenges for informal cross border trade for maize. The observed decline may point to the effect of regional integration (which encourages formal trade) in the southern Africa region, which would be in line with the finding by FAO (2017).

The FEWSNET program is a good effort toward understanding ICBT and price dynamics in the southern Africa region. Even if the amount of trade captured under the program may not reflect the totality of ICBT, the trends computed from such data may still be informative and the price changes may be useful for decision making.

The program covers a limited number of borders in these countries, so the data collected may not reveal all ICBT. There are also other times that FEWSNET monitors cannot collect data: for example, at night, when trade also continues. Furthermore, it is not practical to examine all assorted items packed in the same bags, a consideration that compromises the quality of data. As the program is donor supported and has not yet been domesticated in national budgets, its sustainability may also be called into question.
Chapter 6 - Monitoring Regional Trade Integration in Eastern and Southern Africa

The market analysis sub-group of the Food Security and Nutrition Working Group

The market analysis sub-group of the Food Security and Nutrition Working Group (FSNWG) monitors ICBT of 88 food commodities and livestock in eastern Africa to quantify the impact on regional food security (FSNWG 2017). It monitors informal trade across selected borders of Tanzania, Burundi, Rwanda, Uganda, Kenya, Somalia, Djibouti, Ethiopia, Sudan, South Sudan, and DRC. Data are provided by the East Africa Grain Council (EAGC), FEWSNET, FAO, the National Bank of Rwanda (NBR), and WFP (FSNWG 2017). The group monitors a representative sample, but does not cover all borders or collect data every day of the year.

The Southern Africa Migration Program

In 2007–2008, the Southern Africa Migration Program (SAMP) planned and implemented a major regional survey of cross-border trade in southern Africa as part of a larger project on migration, development, and poverty reduction. A series of individual country reports was produced by the project. For the Growing Informal Cities Report, the individual country datasets were combined into a single regional dataset. This provides important insights into the nature of ICBT and the character of informal traders across the SADC region (Crush 2015).

The SAMP survey covered 20 land border posts connecting 11 southern African countries using a threefold methodology. (1) All people crossing through the selected border posts were monitored over a 10-day period, and the number of ICBT traders counted. (2) Monitors observed the interactions of traders with customs officials and recorded the types, value, and volumes of goods declared and duties paid. (3) Monitors interviewed a sample of traders using an “origin and destination” survey tool which sought to trace origins and destinations of commodities. During the course of the exercise, more than 205,000 people—including 85,000 traders—passed through the border posts being monitored. The monitors recorded transactions of over 5,500 traders with customs officials and interviewed over 4,500 traders (Crush 2015).

The study by Minde and Nakhumwa (1998) involved monitoring frontier markets, informal routes, and crossing points along the border regions in Kenya, Malawi, Mozambique, Tanzania, Zambia, and Zimbabwe. Monitoring was done for 2 weeks per month for a period of 12 months. Trade volumes and values were obtained by aggregating the weekly trade volumes and values. For comparability, all the country studies adopted the same methodology (Minde and Nakhumwa 1998). Shortcomings included that not all borders could be covered and not all days of the year could be covered owing to resources constraints.

National Initiatives

Under the leadership of the Uganda Bureau of Statistics (UBOS) and the Central Bank of Uganda, ICBT surveys collect trade data between Uganda and her neighbors (Kenya, DRC, Rwanda, Tanzania, and Sudan) that are not included in the official records of the Uganda Revenue Authority (URA) and other authorities. To collect these data, the Uganda Bureau of Statistics and the Bank of Uganda (BOU) collaborate in monitoring efforts at the main border crossings of the country, using monitors.5

5 - https://www.bou.or.ug/bou/publications_research/icbt.html.
The approach to data collection at UBOS hinges on direct observation as described in Ackello-Ogutu (1996) and, where necessary, verification is done through inquiries made to traders, clearing agents, revenue officers, and security personnel, and through weighing to ascertain quantities for some selected items. The methods used are the most cost-effective way of gathering data at border posts where conditions are far from ideal.

The direct observation technique entails strategic positioning of enumerators at border posts to enable them to record all merchandise into and out of the country. All traded goods that are not recorded by customs authorities are captured at the point of crossing the customs frontier in counter books or specially designed forms, specifying the item, quantity, value, and mode of transport among others (UBOS and Bank of Uganda 2005).

The main objective of these surveys is to establish and track the magnitude of unrecorded trade between Uganda and her neighbors in order to improve the coverage of external trade statistics (UBOS and Bank of Uganda 2005), national accounts, and balance of payment (BOP) statistics. In the absence of these surveys, estimates by BOP and national accounts compilers grossly understate the contribution of informal trade to overall international merchandise trade statistics in the BOP current account (UBOS and Bank of Uganda 2005).

The initial surveys involved 14 border stations: 4 along the Uganda–Kenya border, 6 along the Uganda–DRC border, 2 along the Uganda–Rwanda Border, and 1 each along the Uganda–Sudan and Uganda–Tanzania borders for monitoring over a period of 140 days (each having 14 days monitored) in 10 months (UBOS and Bank of Uganda 2005) (Figure 6.6).

**Figure 6.6 Border points monitored**

Source: Adapted from UBOS and Bank of Uganda 2017.
By 2016, the ICBT survey covered 20 border points and 4 bus terminals, representing coverage of over 90 percent of the informal trade transactions between Uganda and its neighbors (UBOS and Bank of Uganda 2016). There were indications that unrecorded (informal) trade was still extremely high in ESA. For instance, Ackello-Ogutu (1996) estimated that 30,000–60,000 tons of maize were traded informally annually from Zambia to DRC, costing Zambia US$3 million, and that much of Malawian “surplus” maize in the early 1980s was Mozambican.

Official border points tend to be located next to unofficial border routes, hence substantial volumes of informal trade can easily go unrecorded. Some ICBT surveys do not consider the unrecorded value or volume of trade caused by under-reporting or misclassification at official border points. Currently all agencies monitor ICBT between 6 am and 7 pm, and hence do not account for night trading activities. A snapshot of the trends in informal cross-border trade is provided below.

Figure 6.7 shows that total trade (both exports and imports) has been increasing over time. Total exports have increased from US$1 billion in 2005 to almost US$3 billion in 2016, whereas total imports for all goods into Uganda have increased from just around US$2 billion in 2005 to over US$6 billion in 2014 before slightly declining to US$5 billion by 2016. Although both imports and exports have increased over the period from 2005 to 2016, it is important to note the large and yet widening gap between exports and imports, which implies Uganda runs a trade deficit annually and it is on the increase. Informal trade accounts for a small but significant share of total trade. Uganda, however, exports more than it imports informally. Generally, the share of informal imports to total imports has stayed stable since 2011 at just under 20 percent. Prior to 2011, the share of informal trade to total trade rose from under 10 percent in 2005 to 40 percent in 2009. The share of informal imports to total imports has been under 10 percent throughout the period, implying that Uganda's imports are dominated by formal imports. In passing, one could argue that, from a macroeconomic viewpoint, there is a need for Uganda to manage its imports to stabilize its trade balance. Increasing informal exports can play a role in reducing its trade deficit. Interestingly, informal exports account for more than 10 percent of formal exports, although informal imports account for a smaller share of formal imports. It is not clear whether this difference is due to under-declaration of informal imports.
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Figure 6.7 Comparison of Uganda’s formal and informal exports and imports – trade with neighbors – all goods 2004-2013

The surveys for ICBT in the initial years (2004-2005) showed that informal exports amounted to US$162.0 million, whereas informal imports were approximated to be as high as US$54.2 million. A comparison with US$189.7 million of formal (recorded) exports and US$432.5 million of formal imports with the five neighboring countries during the same period of the survey implies that informal (unrecorded) exports amount to approximately 85.3 percent of official exports, whereas informal imports amount to about 12.5 percent of official imports (UBOS and Bank of Uganda 2005, 2010, 2016).

Figure 6.8 Evolution of informal agricultural trade (in value and in share) between Uganda and neighbors 2005-2016

![Graph showing the evolution of informal agricultural trade between Uganda and its neighbors from 2005 to 2016.](image)


Figure 6.8 clearly shows that both informal agricultural exports from and imports into Uganda have been increasing over time. It also notes that informal agricultural exports supersede informal agricultural imports, implying that Uganda has an informal agricultural trade surplus. Increasing informal cross-border agricultural exports could further complement any effort the government may be undertaking to reduce the conspicuous total trade deficit highlighted previously. While we note in this section that total informal imports are much lower than total informal exports, informal agricultural imports account for more than 20 percent of the total informal imports and have been increasing over time. The range of this ratio is 20 percent–60 percent. The fraction is comparable to the share of informal agricultural exports in total informal exports. Informal imports, therefore, are dominated by agricultural informal imports, signifying that Uganda is increasingly relying on neighbors to meet its food demands. Once again, it is not clear whether the differential in shares for informal imports and informal exports is due to the under-declaration of informal imports often reported in such studies (e.g., Gelan et al. 2010).

The goods traded informally across borders include agricultural goods (maize, groundnuts, soybeans, maize flour, etc.) and industrial goods (shoes, clothes, petroleum jelly, beers, mattresses, etc.) (UBOS and Bank of Uganda 2016).

Adding ICBT to official figures for intra-Africa trade would increase the share of intra-Africa trade in total trade. Although there are no systematic statistics on this form of intra-Africa trade, surveys undertaken in some regions reveal that it represents a large share of officially recorded trade.
Ugandan informal exports to the DR Congo, Kenya, Rwanda, Sudan, and Tanzania represented US$224 million or 83 percent of its total recorded trade to these countries in 2006. In 2009 and 2010 Ugandan informal exports to its neighbors were worth US$790 million and US$520 million, respectively (UBOS and Bank of Uganda 2016).

Monitoring ICBT is resource intensive because, for complete coverage at an informal border crossing, there would have to be a dedicated monitor or group of monitors 24 hours a day, every day. Thus, it is not possible to collect all the trade data that flow through even a single border. Night trade, for example, is likely to be missed. To generate realistic estimates that would capture seasonal patterns, it would be desirable that the surveys cover the whole calendar year. This is not possible in many cases, owing to financial constraints (UBOS and Bank of Uganda 2005).
Conclusions

The RECs in the ESA region can be divided into two categories: those that fit into the LPA, and those that grew outside the LPA. The PTA, which was superseded by COMESA in 1994, was created as a result of the LPA to serve the ESA region. Within the geographic area of the PTA, the EAC, SACU, and CEPGL groupings existed before the LPA of 1980. The members of the PTA were also joined by IGADD in 1986; this was replaced in 1996 by IGAD, as well as by the IOC, which was founded in 1984. SADCC, a precursor of the SADC, was established in 1980. The CBI was established by 14 countries in 1993 as an approach to regionalism, with an emphasis on private sector involvement in policy formulation and implementation. The common feature among all the RECs is that their main aims converge toward regional integration and cooperation in economic, social, and political spheres.

The regional trade arrangements that existed between the 1960s and 1993 were created for political rather than economic reasons, as the majority of the states had conflicts within and between themselves. These conflicts led to sluggish performance and even the collapse of some RECs, for instance EAC and CEPGL, which fell apart in 1977 and 1994, respectively. Before 1994, almost none of the regional trade arrangements recorded membership expansion, except for SACU and SADC (which admitted Namibia in 1990), and IGADD (which admitted Eritrea in 1993). We also learn that only SACU achieved full FTA and customs union status: these were inherited from the colonial era. SADC was also transformed from a conference to a formally recognized regional community in 1992.

The period 1994–2018 saw growth in the number of RECs in the ESA region, with those that collapsed in the previous period being regenerated. Of the established regional trade arrangements, only COMESA, SADC, and SACU have FTA status, but these are only fully operational in the SACU bloc. COMESA launched a customs union in 2009 after acceding to the COMESA-SADC-EAC free trade zone in 2008. The regional trade arrangements did not achieve the desired outcomes, owing to problems such as multiple membership, which limited the cooperation of member states. The heterogeneity of states also seems to be working against the desired progress, as weaker states lose out to stronger states in each bloc.

The analysis of both trade flows and trade cost indicators reveal that COMESA is lagging behind other continental counterparts such as ECOWAS and the Central African Economic and Monetary Community (CEMAC). Intra-trade flows are still low in the region, and this could be attributable to high trading costs, as evidenced by tariffs, the presence of NTMs, strict border compliance requirements, and harassment of small-scale traders in the region. There is also evidence that COMESA member states are mostly trading with third countries, rather than with regional counterparts.

A few agencies and surveys in the region have monitored or attempted to monitor informal trade but much of the trade data remains unrecorded. It would appear that, for a quantitative assessment of informal trade, a long-term monitoring program at many border posts is required. Thus, making a deliberate effort to strengthen aspects of the existing initiatives could be valuable. To establish solid baselines for future monitoring, implementing comprehensive one-off surveys of specific borders between countries may be helpful.

Monitoring all borders has financial implications, hence there is need for monitoring agencies to identify key borders in a manner that can accurately represent the extent of informal trade in a particular country, as inaccuracy can lead to overemphasis elsewhere at the expense of the bigger picture.
REFERENCES


Chapter 6 - Monitoring Regional Trade Integration in Eastern and Southern Africa


Summary and conclusions

This 2019 AATM has assessed the performance of Africa’s agricultural trade, explored how effective regional trade arrangements have been in boosting integration and intra-African trade, and evaluated the potential impact of broader integration on the continent’s trade performance in the context of emerging protectionism. This chapter summarizes major findings and recommends policy actions that could improve regional integration and boost trade among African countries.

Africa’s agricultural trade deficit has been declining since 2012, and the continent’s share in global agricultural GDP has been increasing since 1995, as shown in Chapter 2. These trends are linked to the fast population and economic growth rates in Africa as compared with the rest of the world. African trade is characterized by a high concentration of exports in a relatively small number of products, generally raw or semi-processed commodities. Although intraregional trade in Africa is admittedly low as a proportion of total trade, especially when compared with other regions, the level of intra-African trade appears relatively high, meaning that African trade is more introverted than extraverted. Chapter 2 demonstrates that the share of intraregional trade in total trade depends not only on trade barriers, but also on geography, economic activity, and other factors. The low intra-African trade share is therefore the result not only of poor integration but also (and especially) of lower GDP levels in Africa. The chapter concludes that non-tariff measures (NTMs) are the main obstacle to improving Africa’s trade integration, with administrative barriers playing an important role, while tariff barriers are relatively low.

These findings are confirmed in Chapter 3, which investigated Africa’s trade from a regional perspective, that is, at the REC level. Across all RECs, low applied tariffs have not significantly boosted intraregional trade due to deficient infrastructure, costly NTMs and implicit behind-the-border barriers to trade. The quality of trade and transport-related infrastructure, including port infrastructure, is below the world average levels across all RECs. Strikingly, NTMs abound in intra-African trade and the extent of NTMs faced in a REC and imposed by countries of the same REC is relatively high. As a result, African RECs face lengthier times to export than their Asian counterparts. Chapter 3 confirms that Africa’s agricultural trade is more introverted than extraverted, finding SADC, ECOWAS, ECA and COMESA to be the most introverted, and AMU and ECCAS the least introverted.

Chapter 4 examined the evolution of competitiveness in key commodity value chains in Africa, showing that Africa’s comparative advantage in agriculture has strengthened in very recent years. This trend mainly reflects the performance of ECOWAS, SADC, and COMESA rather than that of UMA, CEMAC, or ECCAS. The continent is generally competitive in unprocessed or semi-processed products and not in processed products. Competitiveness is very high in some value chains, such as sesame seeds and legumes and pulses, but comparative advantage is declining in coffee and grapes. The chapter indicates that the increase in African agricultural exports is mainly driven by non-African demand for unprocessed and semi-processed products.

Assessing the likely effects of emerging protectionist threats on Africa’s world trade, Chapter 5 focused on the trade war between the United States and China. Using a global economic model, the chapter finds that the impact on Africa depends on the intensity of the trade war. Clearly, African countries could increase their exports to both the United States and China under a scenario based on the changes in tariffs observed from January 2018 to April 2019. However, total African exports to China would fall under a scenario that reflects the tariff changes observed in China and the United States after April 2019. The chapter further clarifies
that developing countries outside Africa (mainly Asia) are likely to be the main beneficiaries of the new opportunities in the US and Chinese markets. More interestingly, the gains for Africa could be amplified if the continent adopts a proactive strategy that includes deeper regional integration, such as the recently signed African continental free trade agreement. Furthermore, if much of the world were to become more protectionist, African exports would fall significantly, with SACU the most affected region, although intra-continental trade would increase. Deeper integration within Africa would be particularly important in this scenario because, in addition to the trade dispute between China and the United States, there is a clear challenge to multilateralism from the new protectionist US policy.

Chapter 6 focused on regional integration experiences in the Eastern and Southern Africa region. The chapter indicates that the regional trade arrangements that existed in the region between the 1960s and 1993 were created for political rather than economic reasons, as most of the states faced conflicts within and among themselves. These conflicts led to sluggish performance and even the collapse of some RECs, notably EAC and CEPGL, which fell apart in 1977 and 1994, respectively. From 1994 to 2018, the number of RECs in the ESA region grew, with those that collapsed in the previous period being regenerated. Of the established regional trade arrangements, only COMESA, SADC, and SACU have FTA status, and this is only fully operational in the SACU bloc. COMESA launched a customs union in 2009 after acceding to the COMESA-SADC-EAC free trade zone in 2008.

In sum, strengthening regional integration in Africa can bring considerable economic benefits but will require ambitious reforms such as addressing the issue of non-tariff barriers by harmonizing the rules of origin, standards, and product norms across different RECs. It is also crucial to make rules and procedures more transparent on customs websites to reduce the cost created by NTMs and thus lead to easier and more efficient implementation. Only with investment in reform will new regional integration initiatives, such as the AfCFTA or TFTA, be a success in terms of trade integration, growth of economic activity, development, and poverty reduction.