

WAVING OR DROWNING?

THE IMPACT OF
COVID-19 PANDEMIC
ON EAST AFRICAN TRADE



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Designed and printed by DLWV CREATIVE LTD.

First printing: FEBRUARY 2021

ISBN:-

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LIST OF ACRONYMS

AfCFTA	African Continental Free Trade Area
BNR	National Bank of Rwanda
BoT	Bank of Tanzania
BOU	Bank of Uganda
CIT	Corporate Income Tax
COSCO	China Ocean Shipping Company Limited
COVID-19	Corona Virus Disease 2019
EABC	East African Business Council
EAC	East African Community
FAO	Food and Agriculture Organization
FEAFA	Federation of East African Freight Forwarders Association
G20	Group of Twenty: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union
GDP	Gross Domestic Product
ICO	International Coffee Organization
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
NBS	Tanzania National Bureau of Statistics
NCTTCA	Northern Corridor Transit and Transport Coordination Authority
NISR	National Institute of Statistics Rwanda
OPEC+	Organization of the Petroleum Exporting Countries and Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, and South Sudan
PAYE	Pay as You Earn
RECDTS	Regional Electronic Cargo and Driver Tracking System

RSSR	Restricted Sum of Squares
RSSUR	Unrestricted Sum of Squares
SCT	Single Customs Territory
TICTS	Tanzania International Container Terminal Services
ToT	Terms of Trade
TPA	Tanzania Ports Authority
UBOS	Uganda Bureau of Statistics
UCDA	Uganda Coffee Development Authority
UCPI	UNCTAD Commodity Price Index
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTO	World Trade Organization
YoY	Year-on-Year

ACKNOWLEDGEMENTS

This report would not be possible without the support of the senior leadership teams of TradeMark East Africa (TMEA), the United Nations Economic Commission for Africa, Sub-Regional Office of Eastern Africa (UNECA SRO-EA), and the African Economic Research Consortium (AERC).

Anthony Mveyange, Research and Learning Director at TMEA, Andrew Mold, Chief of Regional Integration and AfCFTA Cluster at UNECA SRO-EA; and Mark Korir, Manager of Collaborative Masters in Agricultural and Applied Economics at AERC coordinated and supervised the production of the report. The lead author was Laura Naliaka. Anthony Mveyange, Andrew Mold and Samiha Chowdhury provided substantive inputs, revisions, comments, and feedback. Evious Zgovu, Mark Korir, Kevin Rombo, and Rachael Nsubuga also provided useful comments and feedback. DLWV Creative produced the infographics and typeset the report.

Special thanks to the joint communications task force, including Nelson Karanja and Ann Mbiruru from TMEA; Didier Habimana from UNECA SRO-EA; and Senvy Maistry, Charles Owino, and Edith Mutui from AERC. Kevin Rombo and Josepha Manyinda from TMEA also provided excellent logistical support.

EXECUTIVE SUMMARY

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

- **Exports have mostly recovered to pre-crisis levels:** Aggregate exports from the region declined sharply in April 2020 but picked up again in the ensuing months. By the third quarter, most of the EAC Partner States' exports surpassed their 2019 levels.
- **Intra-EAC trade exhibited greater resilience than the extra-EAC trade:** Given the fragility of supply chains and the global trading system during the pandemic, extra-regional trade was generally more impacted than intra-regional trade. But the picture was mixed, with some extra-regional exports, such as minerals, doing exceedingly well.
- **Imports rebounded rapidly:** Initial precipitous declines in imports broadly reflected the adverse trade performance of the EAC's main trading partners during the early phases of the pandemic, as reflected in sharply lower cargo volumes passing through the regional ports of Mombasa and Dar-Es-Salaam in the months of April and May. But the imports of all the EAC Partner States subsequently recovered to pre-pandemic levels by the second half of 2020, after governments' lockdown restrictions were eased and a broader global trade recovery started to take place.

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

- **Informal cross border trade remains adversely affected:** For instance, in Uganda, informal cross border trade collapsed from an average of USD 44 million in the first quarter of the year to USD 1.15 million by the end of November 2020. Regional borders remain closed for most informal cross-border traders, impacting negatively on the livelihoods of the communities that depend on such trade.
- **The value and composition of the region's export basket have shifted:** The crisis has negatively impacted some traditional exports. For example, from May 2020, tea exports declined. Coffee exports from Kenya and Tanzania followed a similar trend. Nonetheless, Burundi, Rwanda, Uganda, and Tanzania registered large increases in mineral exports. As a result, the regional dependence on commodities trade has increased.

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

- i) Despite growing fiscal pressures, EAC governments should continue to provide financial and regulatory **support to key export sectors**. The pandemic is far from over, and ring-fencing crucial export sectors from lockdown measures may still be necessary.
- ii) The pandemic has exposed the vulnerability of certain global value chains. The relative resilience of intra-regional trade attests to the importance of **strengthening regional value chains (RVCs)**, particularly as the region moves into the implementation stage of the African Continental Free Trade Area (AfCFTA).
- iii) Governments and other relevant stakeholders should **address the challenges facing informal cross-border traders**. The pandemic has had a severe negative impact on communities that are heavily dependent on informal cross-border trade, exacerbating, particularly, the challenges faced by women traders.
- iv) The EAC Partner States should **support the development and implementation of technological innovations** to address the bottlenecks that have arisen during the crisis along the Northern and Central Corridor. One case of good practice is the *Regional Electronic Cargo and Driver Tracking System* (RECDTS), which facilitates the issuance of the EAC COVID-19 digital certificates mutually recognised by the Partner States, and thus contributes to reducing delays at border points.

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

OVERVIEW

A high degree of uncertainty still surrounds the economic impact of the COVID-19 pandemic on the global economy, and particularly the prospects for developing countries. The pandemic and the associated containment measures caused unprecedented economic and social disruptions globally, fuelling fears of “*the greater trade collapse of 2020*” (Baldwin, 2020).¹ The WTO’s (2020a) forecasts initially buttressed this gloomy picture, suggesting that global merchandise trade volume could plummet by between -13 and -32 per cent in 2020.²

With the subsequent easing of lockdown measures, international trade has shown signs of bouncing back from the COVID-19 induced slump. WTO (2020b) projections now show a recovery, albeit weak, in the growth of global merchandise trade of 7.2 per cent in 2021 after a -9.2 per cent decline in 2020. The IMF (2021a) and World Bank (2021) also forecast growth in merchandise trade of 7 per cent and 8 per cent, respectively.

Although the final figures for the whole year are not yet available, regional estimates for 2020 have also started to reveal a more positive picture. In September 2020, merchandise exports from Sub-Saharan Africa - one of the regions that experienced the deepest initial contraction in trade - increased by 9 per cent year-on-year (YoY),³ compared to the precipitous 58 per cent YoY decline registered in April (Ferrantino et al., 2020a; 2020b). Similarly, the World Bank (2021) indicates a strong growth rebound of 4.5 per cent in agricultural commodity exports from Sub-Saharan Africa. However, these projected trajectories are still subject to the evolution of the pandemic and overall governments’ responses.

Amid projections of global and regional recovery, for trade sector it is still unclear how East African Community (EAC), as a regional block, has fared since the onset of the pandemic; the region still lacks the evidence-based, detailed account of the economic and trade impacts of the pandemic. So far, there have only been preliminary assessments using provisional and partial data.⁴ This report addresses the need for a more comprehensive understanding of the impact of the COVID-19 pandemic on trade performance across individual EAC member states and collectively as a block. The report also highlights policy options for governments to consider as recovery plans are underway.

The study focuses on how the crisis has impacted on patterns and trends in merchandise trade. Several reasons motivated this focus. Firstly, data availability⁵ - data on merchandise trade are consistently and readily available across countries. Secondly, to better understand the finer impacts of the crisis, the analysis used monthly data. Unlike service data, monthly merchandise data are available from all Partner States in the region. Thirdly, except for the tourism and transport sectors, most of the initial disruptions to trade were due to physical impediments (lockdowns) that directly affected merchandise trade.

1 Unlike the great trade collapse of 2008/2009, which was driven by a massive demand side shock, the COVID-19 crisis is characterized by both massive demand and supply-side shocks across various sectors of most economies.

2 Since World War II, the world trade has dipped into negative territory only four times and this was during: (i) The oil-shock recession of 1974/75 (ii) The inflation-defeating recession of 1982/83 (iii) Tech-Wreck recession of 2001/02 (iv) The great trade collapse of 2008/2009 (Baldwin, 2020).

3 Year-on-year percentage change is preferred as it strips out any seasonality.

4 See Banga et al. (2020) and Mold and Mveyange (2020a and 2020b).

5 The report excludes an analysis of the service sector (whose impacts could be severe) because of data unavailability or scattered inconsistent data if available.

The analysis also covers January 2019 and October 2020,⁶ with data sourced from national and regional sources such as the Central Banks, Bureaux of Statistics, Trade Corridors Authorities, and Revenue and Port Authorities.⁷ Timeliness and apparent inaccuracies/discrepancies⁸ in global sources are the reasons for selecting regional and national data sources for analysis.

This report consists of five sections. Section 1 begins with an overview of the region's general macroeconomic conditions. Section 2 describes recent trade patterns and performance, highlighting the impact of the COVID-19 pandemic on EAC's aggregate trade flows, composition, and the direction of trade. Section 3 describes the trends in the transport and logistics sectors in the wake of the crisis. Section 4 points out some of the trade facilitation measures that have been instrumental in augmenting trade and transport within the region. Section 5 concludes and provides a set of policy implications.

⁶ The assessment of South Sudan's aggregate trade only covers the period between January 2019 and April 2020 because of data limitations.

⁷ Because of the lack of data, South Sudan's trade data is from the IMF Direction of Trade Statistics database, which captures mirror data based on other countries' reports.

⁸ Data often constructed on mirror-data and show large discrepancies from the official sources.

A composite image featuring a woman in a face mask in the upper half and hands holding money in the lower half, separated by a blue horizontal band with white text.

1. THE EAC'S ECONOMIC GROWTH PERFORMANCE AT A GLANCE

This section provides a brief macroeconomic overview of the EAC block, as a backdrop to the subsequent analyses.

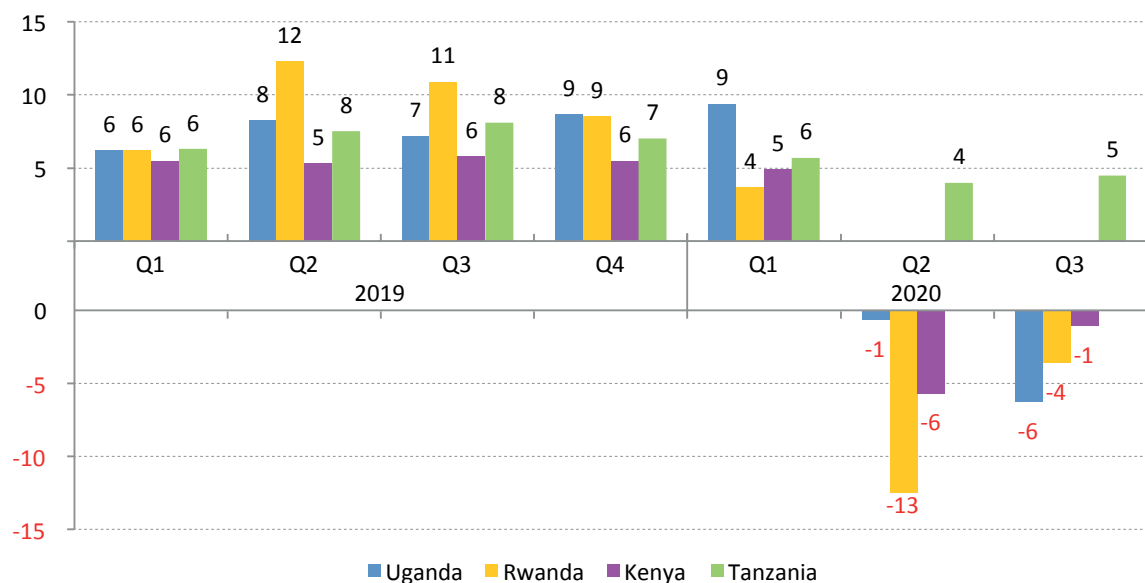
1.1. Sharp GDP declines and shrinking service sector

On the global scale, the IMF (2021a) recently revised its estimate of the decline in world output in 2020 to -3.5 per cent – a slightly better figure than previous estimates, reflecting the stronger than expected global economic recovery in the second half of the year. Global trade has been impacted more heavily, however, with a current estimate of a -9.6 per cent contraction throughout 2020.⁹

After a consistently strong economic performance over recent years, the EAC's economic growth rapidly decelerated in the first quarter of 2020 and, except for Tanzania, the economies of the region contracted in the second quarter.

After a consistently strong economic performance over recent years, the EAC's economic growth rapidly decelerated in the first quarter of 2020 and, except for Tanzania,¹⁰ the economies of the region contracted in the second quarter. However, following the partial easing of the lockdown restrictions in the last half of the year, there was a subsequent moderation of the economy. (Figure 1.1).

Figure 1. 1: Quarterly GDP Growth Rates (%) for Select EAC Countries



Source: KNBS (2020a), NBS (2020), NISR (2020) and UBOS (2020).

⁹ Initial forecasts for 2020 were far more pessimistic, with the WTO estimating that world trade could decline over the course of the year by -11 to -32 percent.

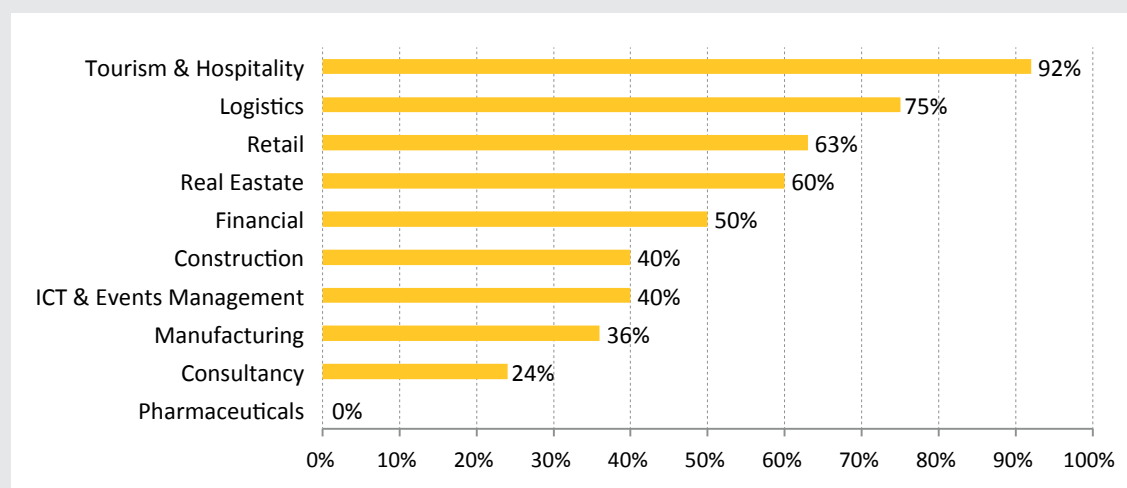
¹⁰ The reasons for the discrepancy is related to the fact that, combined with a relatively robust merchandise trade performance, Tanzania did not implement any lock-down measures.

Sectoral analysis indicates the sharp contraction and collapse of certain service sub-sectors,¹¹ particularly in accommodation and food services sectors, induced a significant GDP contraction in East African economies (KNBS, 2020; NISR, 2020; UBOS, 2020), although the agricultural sectors were generally much more resilient. Box 1 highlights how the business sector perceived the impact of the economic crisis to the region.

Box 1: Impact of COVID-19 on the Regional Business Sector

At the height of the pandemic's initial impact on the regional economy, the East African Business Council (EABC) carried out an online survey to assess how the COVID-19 pandemic impacts the different sectors in the EAC region. The findings suggest that tourism, logistics, and retail suffered the most significant reduction in cash flows (Figure 1.2).

Figure 1. 2: Average Reduction in Cash Flows due to COVID-19 by sector (2020)

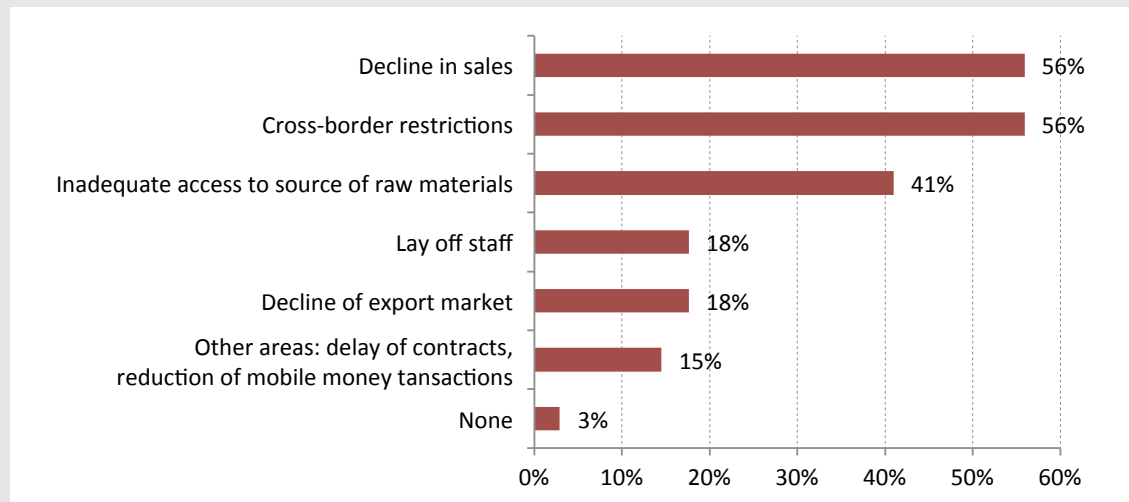


Source: EABC (2020).

11 Most economies in the region have been highly dependent on services, and it now accounts for almost over half of regional GDP. In the trade accounts, too, a growing dependence on services is apparent. In recent years, both Tanzania and Kenya have posted trade surpluses in services, in contrast to their large merchandise trade deficits (UNCTADStat, 2020).

The survey results further indicated that decline in sales, cross-border restrictions and inadequate access to raw materials as the leading supply chain challenges facing the business sector (Figure 1.3).

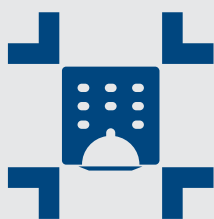
Figure 1. 3: Area of Supply Chain Affected



Source: EABC (2020).

In response, the EAC governments implemented a raft of stimulus measures to cushion businesses from the pandemic's adverse effects, focused on sectors most negatively impacted. For instance, Rwanda launched a fund to support the affected businesses through subsidised loans from commercial banks, microfinance institutions and credit guarantees (IMF, 2021b).¹² Other countries such as Kenya, Uganda and Tanzania followed suit with similar stimulus packages.

Unfortunately, the financial sustainability of the launched stimulus packages is not assured. Increased budgetary pressures because of the large drop in fiscal revenues and the rise in expenditures for compensatory social protection and health measures are the main threats to these stimulus packages. Of particular concern now is the fact that some fiscal and monetary measures have already ended, despite ongoing fears of virus mutations and resumption of lockdown measures that threaten businesses' sustainability.



Sectoral analysis indicates the **sharp contraction** and **collapse** of certain service subsectors **particularly in accommodation and food services sectors**, induced a significant GDP contraction in East African economies

¹² See IMF (2021b) Policy Responses to COVID-19 Tracker for detailed fiscal and monetary measures implemented by various countries



2. RECENT TRADE PATTERNS AND DEVELOPMENTS

In the initial months after its onset, the pandemic triggered massive supply and demand shocks in China- the country where the virus was first detected (WHO, 2020). Due to the complexity of integrated value chains between China and the rest of the world,¹⁶ the pandemic's adverse impact on the Chinese economy had an almost immediate ripple effect on global trade. By the second quarter of 2020, the virus had spread globally provoking stringent border controls, a generalised economic activity slowdown and provoking a global trade contraction.

So far, the EAC Partner States have not suffered the severity of health consequences experienced in other parts of the world. However, as noted in section 1, the region is not immune to adverse economic consequences, despite the favourable structural factors such as the demographic dividend and a high share of the labour force still dependent on subsistence agriculture (Mold, 2020).¹⁷ Trade flows have been significantly affected by EAC's interconnectedness with trade partners globally. This chapter assesses how the pandemic has impacted the region's aggregate exports and imports and the overall trade composition and direction.

2.1. The Decline and Recovery of EAC's Aggregate Exports

Aggregate exports from the region declined to their lowest values in April 2020. However, they started recovering in the ensuing months. In fact, in the third quarter of 2020, most of the EAC Partner States' exports surpassed their 2019 levels (Figure 2.1). Kenya's exports dropped by 33 per cent in April due to the dramatic 83 per cent decline in re-exports¹⁸ but started increasing in the subsequent months (Figure 2.1: Panel 3). The recovery reflected the increase in exports of manufactured products, especially industrial supplies (non-food) and machinery and other capital equipment.¹⁹ Moreover, Kenya's massive decline in re-exports in April must also be contextualised against extraordinarily high re-exports just before the crisis, which were almost fivefold their typical values, reflecting trader's efforts to stock up in anticipation of the likely disruption resulting from the pandemic (Mold and Mveyange, 2020a).

Exports from most of the EAC Partner States for the most part recovered to the pre-COVID-19 levels by the third quarter of 2020.

The steep recoveries in aggregate exports of Burundi, Rwanda, and Uganda correlate with substantial increases in mineral exports.

On the flipside, Tanzania experienced a relatively strong export performance during the pandemic period - especially in the third quarter (Figure 2.1: Panel 1), essentially driven by increased mineral exports. Gold exports alone garnered USD 2.85 billion (a 33.6 per cent increase) between January and November, on account of both increased volumes and price (BoT, 2020a and Zacharia, 2020). Similarly, steep recoveries in Burundi, Rwanda and Uganda's aggregate exports positively correlate with their substantial mineral exports (Figure 2.1: Panels 2, 4 and 5).²⁰ However, the recovery in regional exports does not hinge purely on mineral exports- even when excluding mineral exports, the revival is still notable although less pronounced.²¹ Going forward, fluctuations in the price of

16 China has become the main supplier of intermediate inputs for manufacturing companies abroad. Currently, about 20 percent of global trade in manufacturing intermediate products originates in China, up from 4 percent in 2002 (UNCTAD, 2020a). Similarly, imports of manufactured products from China to EAC account for about 32 percent of the total, compared to the 6 percent of the total in 2002 (UNCTADStat, 2020).

17 It has been shown that youthful populations are less susceptible to the negative health consequences from COVID-19. Agriculture has also been one of the few sub-sectors where the economic impacts of the crisis have been relatively limited.

18 Similar trend is observed in the YoY analysis.

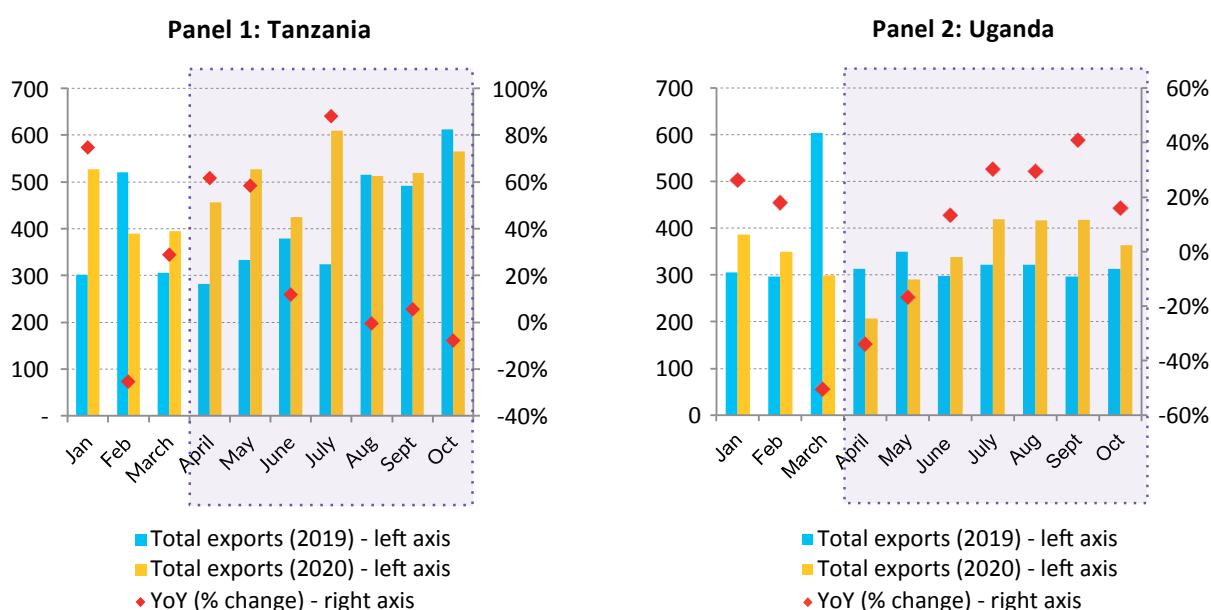
19 These exports increased by 66 percent between April and June 2020 (KNBS, 2020b)

20 These minerals are mostly destined to United Arab Emirates.

minerals, especially gold, which investors prefer for hedging against the dollar, might affect the region's aggregate export performance.

Given its state of security, the situation of South Sudan merits a particular mention. Oil exports – principally destined for the Chinese market²² – had been significantly disrupted prior to the pandemic due to political instability and civil unrest. Production levels were well below their peak that was attained in 2014-15. IMF DoT data, based on mirror data from other trading partners, reveal a massive decline of exports by 99 per cent YoY in March (Figure 2.1: Panel 6). However, these figures may be vastly overestimating the disruption to trade, as export data up to the end of the third quarter from both Kenya and Uganda (South Sudan's main regional trading partners and on whom the country is dependent for most of its essential imports), show only a modest disruption in the case of imports from Uganda, and a very significant increase in imports from Kenya. In any case, there is no doubt that the pandemic has caused economic hardship and imposed further constraints on the South Sudanese economy, resulting in the devaluation of the South Sudanese Pound after foreign currency reserves had been depleted (Mayen, 2020). At a time of historically low oil prices, the country's over-reliance on oil revenue to finance about 98 per cent of its annual operating budget has become a major liability (FAO, 2020a).

Figure 2. 1: EAC Economies Aggregate Monthly Exports (USD Millions)



21 Burundi's exports exhibit a consistent upward trend in the third quarter of 2020 reflecting the increase of raw coffee exports from an average of BIF 654 in the second quarter to BIF 4500 in the third quarter (BrB, 2020). Although Uganda's exports also retain an upward trend, the values are much lower; its exports increased by about 21 per cent between the second and third quarter, compared to the 50 percent increase when the mineral exports are included (BoU, 2020b). Similar trend is observed in Rwanda during the same period. Exports without minerals increased by 46 per cent while export inclusive of minerals increased by 101 per cent (NISR, 2020b).

22 More than 95 percent of South Sudan's exports are destined for China (IMF, 2020).

Figure 2. 1: EAC Economies Aggregate Monthly Exports (USD Millions) *continued*



Source: : BoT (2020b), BoU (2020b), KNBS (2020b), NISR (2020b), BrB (2020) and IMF (2020)

Notes: Kenya and Burundi's export values were reported in the local currency but converted to USD using the respective months' prevailing exchange rate. However, the depreciation of their local currencies against the USD affects the export values.

BOX 2: Impact of COVID-19 on EAC's Trade – A Structural Break Analysis

Massive and sudden shocks to various financial and economic variables may result in structural breaks in the respective series. This section examines whether the EAC region trade flows were subject to structural breaks due to the COVID-19 pandemic. Using monthly export and import data for Kenya, Rwanda, Tanzania and Uganda for the period January 2015 to October 2020, we first carry out the Chow Breakpoint Test, an F-statistic²³ computed using the following formula:

$$F = \frac{(\bar{u}'\bar{u} - (u_1'u_1 + u_2'u_2))/k}{(u_1'u_1 + u_2'u_2)/(T-2k)}$$

Where, $\bar{u}'\bar{u}$ is the sum of squared residuals over the whole sample of time series (also known as the restricted sum of squares), $u_1'u_1$ is the sum of squared residuals for the sub-sample before and up to the identified break date, $u_2'u_2$ is the sum of squared residuals for the sub-sample at and after the identified break date, $(u_1'u_1 + u_2'u_2)$ is the unrestricted sum of squares, T is the total number of observations, and k is the number of restrictions.

The break dates used in the Chow Breakpoint Test are based on the graphical representations of the respective time series and the results of the estimations are shown below:

Table 2. 1: EAC Partner States Structural Break Analysis Estimates

COUNTRY	BREAK DATE	EXPORTS F –STATISTIC	IMPORTS F –STATISTIC	IMPORTS F –STATISTIC
Kenya	April 2020	3.725*	May 2020	1.603
Rwanda	April 2020	4.314*	March 2020	10.339***
Tanzania	March 2020	10.984***	May 2020	0.567
Uganda	April 2020	2.238	April 2020	1.008

Source: Authors' computations

Note: *** p<0.01, ** p<0.05 and * p<0.1

The results are mixed.²⁴ The estimates suggest that the exports from the EAC countries exhibit structural breaks at the pre-determined break dates, except for Uganda's exports. The null hypothesis of no structural break in exports is marginally rejected at the 10 per cent level of significance for Kenya and Rwanda and at the 1 per cent level for Tanzania. The test also indicates structural break on imports from Rwanda.

23 The restricted sum of squares (RSS_R) assumes that the sub-period regressions are not different and that the intercept and the slope remain the same for the entire period. Conversely, the unrestricted sum of squares (RSS_{UR}) assumes that the intercept and the slope coefficients are different for the sub-periods. If there is no structural change, then RSS_R should not be statistically different from RSS_{UR} as inferred from the F-statistic (Gujarati and Porter, 2009).

24 Similar results hold even when the analysis transformed data from levels into natural logs.



Aggregate exports from the region **declined** to their lowest values in April 2020. **Exports** from most of the **EAC Partner States** for the most part **recovered** to the **pre-COVID-19** levels by the **third quarter of 2020**.

2.2. Intra-EAC trade exhibited greater resilience compared to the extra-EAC trade

The severity of the COVID-19 pandemic to intra- and extra-regional trade was uneven. For instance, in Burundi and Uganda, the extra-EAC exports dropped by larger magnitudes than the intra-EAC exports in the second quarter of 2020 (Figure 2.2). The spikes in extra-regional exports in these two countries, particularly in the third quarter, correlate with the surge in their mineral exports.

This is important because East Africa still suffers from multiple vulnerabilities that could compromise long-term economic growth and imperil developmental prospects. Growth in most regional economies is excessively dependent on domestic demand. While investment levels have improved, they are still insufficient to attain the ambitious growth targets set

in national development plans. Moreover, regional economies exhibit a lack of structural transformation (Martins, 2017) and sustain large trade deficits that act as impediments to sustained economic growth and development (Thirlwall, 2011; Hussain, 1999). Crucially, the regional economy is still highly fragmented, with low levels of intra-regional trade and investment (ECA, AUC and AfDB, 2017). These issues highlight the need for greater regional cooperation and integration, which are at the core of the AfCFTA.

Regional economies exhibit a lack of structural transformation and sustain large trade deficits that act as impediments to sustained economic growth and development.

Figure 2.2: EAC Countries Monthly Intra and Extra-Regional Exports (% change)

	BURUNDI			KENYA			UGANDA	
	Intra-EAC	Extra-EAC		Intra-EAC	Extra-EAC		Intra-EAC	Extra-EAC
Jan-20	-21	-15		-6	30		29	15
Feb-20	-25	-17		21	-3		-9	-9
Mar-20	-35	16		14	1		-12	-14
Apr-20	-39	-42		-51	-9		-20	-23
May-20	-7	-23		31	-1		10	-54
Jun-20	-7	67		22	4		19	15
Jul-20	110	804		30	-3		2	31
Aug-20	-48	-85		8	8		7	3
Sep-20	89	52		-2	-2		-7	2
Oct-20	-	-		-8	5		1	16

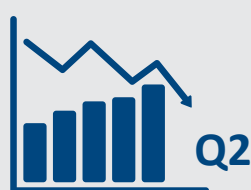
Source: BrB (2020), KNBS (2020b), BoU (2020).

Note: Aggregation of intra-EAC for Burundi comprises Kenya, Uganda, Rwanda and Tanzania; Kenya's includes Uganda, Tanzania and Rwanda; Uganda's consists of Kenya, South Sudan, Tanzania, Burundi and Rwanda.

Challenges of implementing the COVID-19 protocols²⁵ contributed to the initial declines of intra-EAC exports (Banga et al., 2020). Testing drivers at the borders' entry and exit points resulted in long queues extending up to 50 kilometres in Busia – the border between Kenya and Uganda (NCTTCA, 2020a).²⁶ The increases in intra-regional exports in the subsequent months reflect the initiatives adopted by the EAC governments to reduce the bottlenecks while still observing the COVID-19 health protocols. The Regional Electronic Cargo and Driver Tracking System (RECDTS) developed by EAC Secretariat with support from TradeMark East Africa (TMEA) is an example of such initiatives. RECDTS is a mobile phone application system that enables the issuance of the EAC COVID-19 digital certificates that the Partner States mutually recognise to minimise the cross-border delays (NCTTCA, 2020b). The EAC Secretariat has also called for harmonisation of the COVID-19 testing fees and validity period of the certificates. However, as discussed in sections 3 and 4, declines in intra-EAC exports in the third-quarter signal emerging trade facilitation challenges.

“It is critical for transporters in the region to embrace the recently launched Regional Electronic Cargo and Driver Tracking System to improve the truck out-turn and allow partner states to electronically share truck drivers' test results, minimizing the need for multiple COVID-19 tests in a single trip.”

Dr. Peter Mathuki,
CEO, East African Business Council



The severity of the **COVID-19** crisis to **intra- and extra-regional trade** was **uneven**. **Intra-EAC trade** exhibited **greater resilience compared** to the **extra-EAC trade**. For instance, in **Burundi and Uganda**, the **extra-EAC exports dropped** by larger magnitudes than the **intra-EAC exports** in the **second quarter of 2020**

2.3. Informal cross-border trade has been adversely affected

One of the main measures taken by the EAC Partner States to stem the virus's spread was curtailing of cross-border movements. Albeit with some restrictions, only truck drivers delivering essential items could move across the region. Consequently, cross-border traders' livelihoods – mostly women - were severely affected (UNECA, 2020b; Luke et al., 2020; Banga et al., 2020) as further elaborated in Box 3. The country context analysis also paints a nuanced picture on pandemic's adverse effect on cross-border trade. Rwanda's informal cross-border trade is dominated by local agricultural produce and livestock, with D.R. Congo being the leading trading partner (UNECA, 2019). Before the pandemic struck, more than 40 thousand small scale traders would cross the Petite-Barriere border crossing between Rwanda and D.R. Congo in a day (World Bank, 2020a) and continued to use the simplified declaration and preferential tariff (Umurengezi, 2020).

The closure of borders by both countries affected the border communities' livelihoods causing fears of food insecurities in D.R. Congo's North Kivu. To ensure informal cross-border trade continued, officials from

Both Rwanda and D.R. Congo encourage the informal cross border traders to operate in cooperatives to minimize pedestrian traffic at the borders.

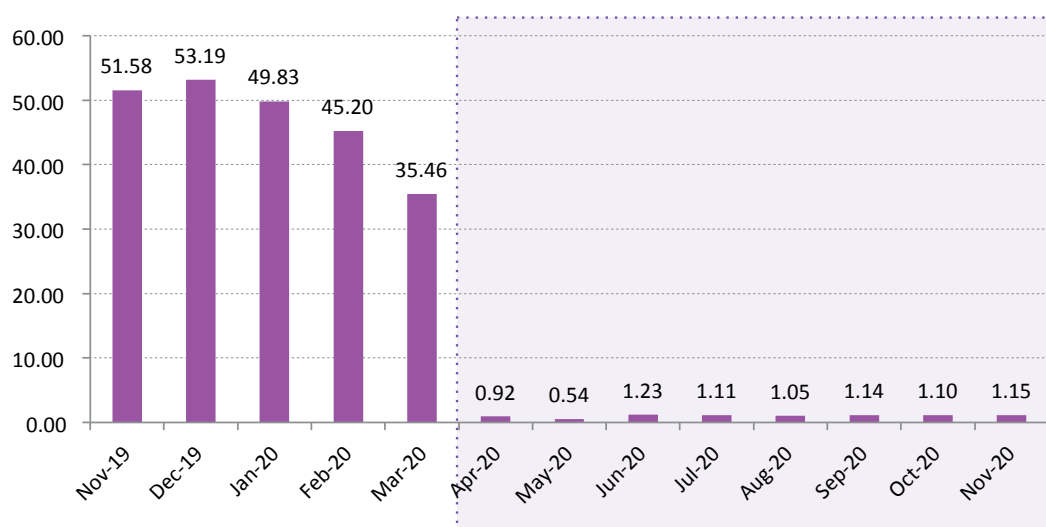
²⁵ The steep decline in Kenya's intra-regional exports in April must be contextualised against the extraordinarily high exports figures just before the crisis. These exports, however, rebounded to the pre-pandemic levels in the following months (Figure 2.2).

²⁶ Additionally, in May 2020, there was a truck drivers' impasse in Tanzania because of Rwanda's proposed swapping of drivers at the Rusumo border. After deliberations with officials from Tanzania, Rwanda stated that goods entering the country will be offloaded or transhipped at entry point, except for trucks carrying perishable goods and petroleum products destined to Rwanda (Mugisha, 2020).

the two countries agreed to encourage traders to operate in cooperatives to reduce the number of people who would have to cross the border daily. Unfortunately, several complaints emerged on the proposed cooperative model – it excluded small scale traders, mostly women, because of a requirement that goods traded must be worth between USD 300 and USD 1000. Before the pandemic, traders from D.R. Congo could purchase enough goods in Rwanda with a capital of just USD 100 (Nyirabihogo, 2020).

In Uganda, informal cross border trade declined precipitously from an estimated USD 44 million in the first quarter of 2020 to just USD 1 million by April 2020. Even the re-opening of Uganda's borders in September 2020 did not revive informal cross border trade (Figure 2.3) signalling the pandemic's impact was profound. Anecdotal evidence suggests that this pattern has been replicated across the region.

Figure 2.3: Uganda's Informal Exports (USD millions)



Source: BoU (2020b)

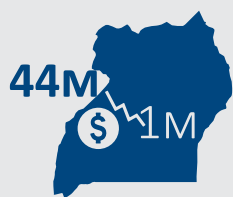
BOX 3: COVID-19 Induced Challenges Faced by Informal Cross Border Traders

Loss of income: Cross-border trade is an essential income source of income for cross-border communities, especially women and smallholder farmers. Many of these communities depend on the proceeds from the informal cross-border trade to purchase essentials to survive. The restriction of movement due to border closures resulted in significant revenue loss as they could not access the cross-border markets to purchase or sell their stocks.

Increased financial stress: Most informal cross-border traders are typically unbanked and rely on informal loan sharks for bulk stock purchases. They tend to borrow money early in the morning to acquire merchandise and payback in the evening of the same day once they have sold their goods. Losses from unsold stock due to COVID-19 movement restrictions quickly escalated into a spiral of debt.

Reversal of gains in women's economic empowerment: The informal cross border trade offers women an independent income source, which can further their empowerment in traditionally male-driven households and communities. Removing this income source, coupled with increased confinement at home, risks raising gender-based domestic violence rate.

Adopted from UNECA (2020).



In **Uganda**, informal cross border trade declined precipitously **from** an estimated **USD 44 million** in the first quarter of 2020 to just **USD 1 million** by April 2020. Even the **reopening** of **Uganda's borders** in September 2020 **did not revive** informal cross border trade.

2.4. Imports Declined and Trade Balances Narrowed

Another critical feature of the pandemic is its aggregate impact on imports to the EAC. Although imports exhibited a downward trend since the beginning of 2020, April recorded the steepest decline. Kenya, the largest importer in both value and volume terms, registered the highest drop of 33 per cent, followed by Uganda at 31 per cent (Figure 2.4: Panels 1 and 2). However, the imports to all the EAC Partner States started returning to the pre-pandemic levels in the second half of 2020 (Figure 2.4).

There was a marked decline of imports to the region in April, but by June 2020 the imports to all the EAC Partner States had started recovering.

As elaborated in subsection 2.8, EAC's import performance broadly reflects its main trading partners' performance. Approximately 60 per cent of the EAC's total imports originate from Asia with China and India taking up half of this total (UNCTADStat, 2020). As the first country in the world affected by the pandemic, aggregate exports from China to the rest of the world were adversely affected in the first quarter of the year, declining by 9.3 per cent (OECD, 2020). This supply-side disruption also manifested itself in Eastern Africa about two months later, in the form of lower imports (Mold and Mveyange, 2020b). The substantial decline of the volume of oil cargo also played a role in driving the region's import bill down.²⁷ However, the quick rebound in Asia's economic activities contributed to the spike in imports to EAC in the second half of 2020.²⁸

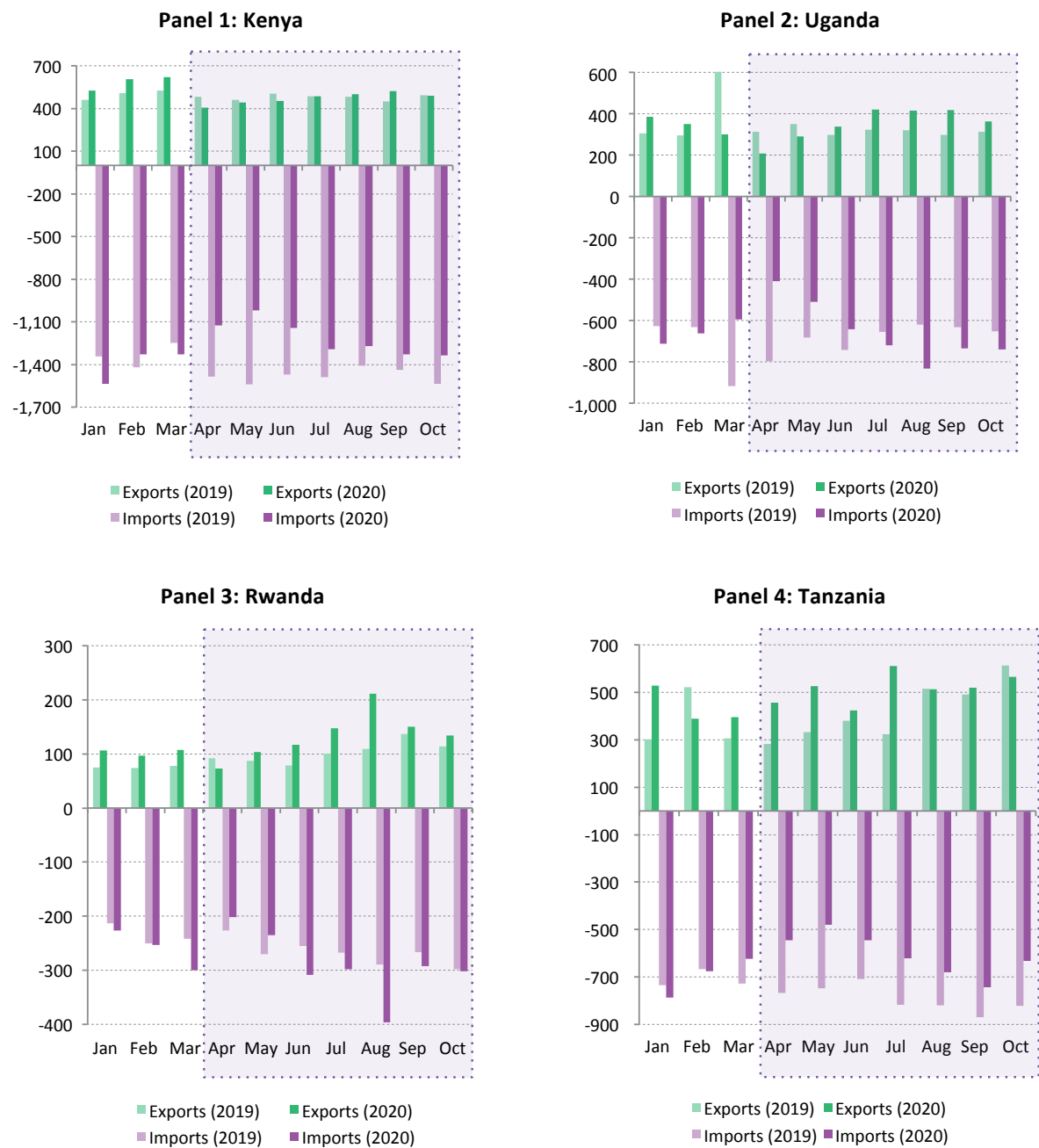
On a positive note, although large trade deficits have been a pervasive feature of the EAC economies (Mold and Naliaka, 2018), the EAC countries' trade balance temporarily narrowed during the early stages of the pandemic. Relatively large declines in imports compared to exports (Figure 2.4) explain the narrowing of the trade imbalance. At the height of the crisis, Tanzania even managed to record a trade surplus in May 2020 (Figure 2.4: Panel 4), due to the high-value minerals exports, which increased by 116 per cent between February and May 2020 (BoT, 2020b).

Regional trade balances narrowed during the early stages of the pandemic.

²⁷ As pointed out in section 3.1, petroleum, oil and lubricants import throughput at the port of Mombasa declined by 53 per cent in May 2020.

²⁸ At the height of the pandemic in China, its purchasing manager's index fell to 36 in manufacturing and 30 in non-manufacturing sector while industrial production registered negative growth for the first time in 30 years (World Bank, 2020b). With the easing of the lockdown restrictions, China's overall exports started increasing and registered a positive YoY increase of 3.5 percent in April, signalling a rebound in manufacturing (Ferrantino et al., 2020c)

Figure 2.4: EAC Countries Exports, Imports and Trade Balance (Millions USD)



Source: KNBS (2020b), BoU (2020b), NISR (2020b) and BoT (2020b).

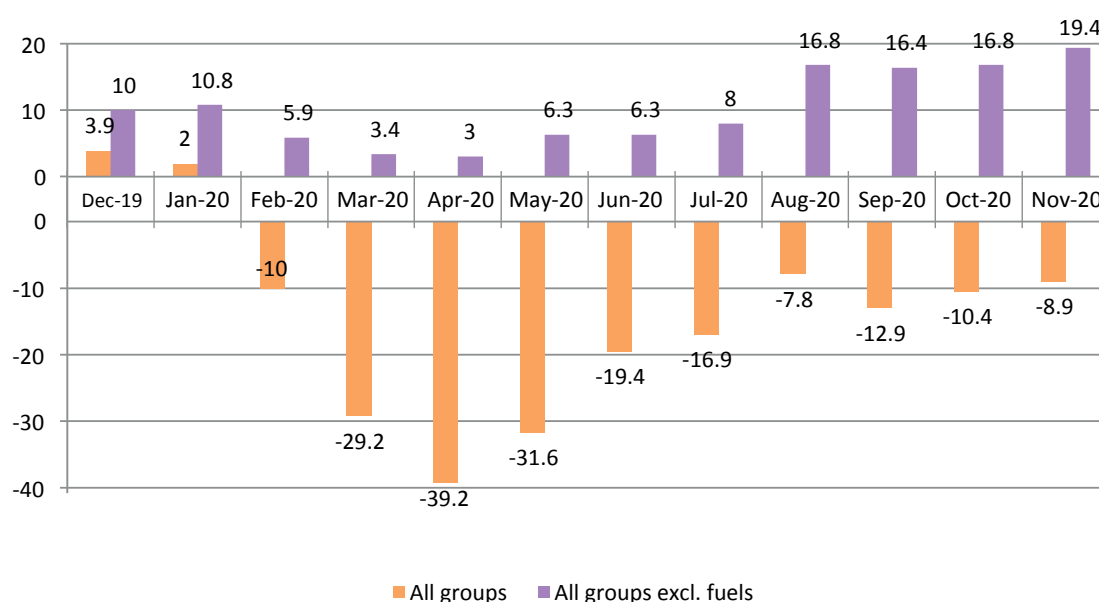


There was a **marked decline of imports** to the region **in April**, but by **June 2020** the **imports** to all the **EAC Partner States** had **started recovering**.

2.5. Heterogeneous impacts on EAC's primary export commodities

The pandemic has had disparate impacts on the EAC's export basket's value and composition. Except for oil, and contrary to initial expectations, the prices of commodities have not been severely affected by the pandemic as initially expected. The UNCTAD commodity price index reveals that all commodity groups' prices, excluding oil, recorded increasing trends (Figure 2.5). As a result, EAC countries are expected to have experienced improved terms-of-trade (ToT) – an unusual outcome for the region experiencing a massive external shock.²⁹ The remainder of this section assesses the price trends of select commodities in East Africa.

Figure 2.5: UNCTAD Commodity Price Index Growth Rate (YoY % Change)



Source: UNCTAD (2021)

a) Crude oil

Crude oil registered the most striking decline in price, with the average prices for Brent, Dubai and WTI declining by approximately 66 per cent between January and April 2020 (World Bank, 2020c). Speculation about the impact of the COVID-19 pandemic on oil demand in China- the world's second-largest consumer of oil – caused substantial falls in oil prices. The declines intensified as the virus spread and countries started closing their economies and imposing travel restrictions. The breakdown of the OPEC+ talks on crude oil production levels in March 2020 exacerbated the declines (UNCTAD, 2020a and World Bank, 2020d).

This period of depressed oil prices was fortuitous for the region, improving the ability of countries to maintain other essential imports.

²⁹ Disruptions to trade usually lead to deterioration in the terms of trade, with a larger decline in export revenues, but smaller decline in imports because the elasticity of demand for the commodity exports tends to be lower than the elasticity for diversified imports (Olabisi and Sawyer, 2020).

South Sudan was adversely affected by these developments. Oil prices, however, started to recover gradually from May 2020 after the OPEC+ members and its partners agreed to cap oil production levels, coupled with a modest recovery in post-lockdown consumption in some countries. Nonetheless, on balance, this period of depressed oil prices was fortuitous for the region, improving the ability of countries to maintain other essential imports. Forecasts suggest that oil prices will average USD 44/barrel in 2021 compared to the 2019 levels of USD 61/barrel, providing significant relief to the region's fuel import-dependent economies.³⁰

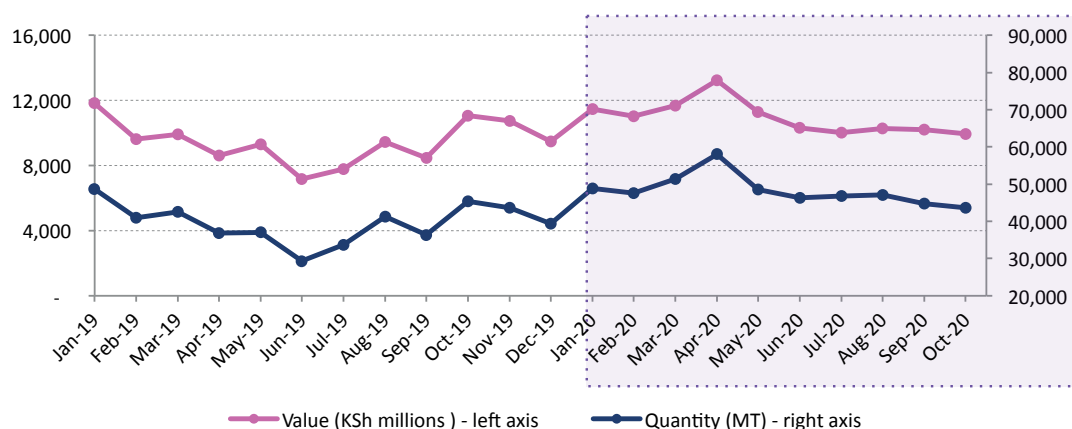
b) Tea

After a strong performance in the first quarter of 2020 (Figure 2.6), tea exports from the EAC Partner States, except for Uganda, declined in the second quarter (BrB, BoU, BoT, KNBS and NISR, 2020). In Kenya, black tea exports, which account for approximately 12 per cent of the EAC's total exports (COMTRADE, 2020), moderately declined during the pandemic period. Nonetheless, year-on-year comparisons reveal that tea exports performed better between January and Sept 2020 compared to the same period in 2019. Over-production³¹ and challenges in accessing markets because of global supply chain disruptions continue to concern the sector (AFA Kenya Tea Directorate, 2020a and 2020b).

For the tea sector, market access is still a challenge due to the impact of the COVID-19 pandemic on commodity distribution and trading across the globe.

The spike in Kenyan tea exports in April 2020 was due to increased demand among its traditional markets such as Saudi Arabia and the U.K. and emerging markets such as China, Malaysia, Uzbekistan, and Germany (AFA Kenya Tea Directorate, 2020c),³² driven by stifled supply from other major black tea producers such as India.³³

Figure 2.6: Kenya's Tea Exports



Source: KNBS (2020b)

³⁰ The outlook indicates that prices are likely to remain significantly below their pre-pandemic levels, depending on the pandemic's duration and severity and the OPEC+ members easing the production cuts in 2021 (UNCTAD 2020a and World Bank, 2020d).

³¹ This has resulted to depressed prices at the Mombasa auction (World Bank, 2020c).

³² In April, the quantity of Kenya's tea exports to Pakistan and Egypt which are its main destination markets declined by 4 percent and 22 percent YoY. However, the quantity of exports to Malaysia increased by a massive 412 percent YoY, followed by Uzbekistan at 389 percent, China at 220 percent, Saudi Arabia at 180 percent, Germany at 178 percent, and UK at 142 percent (AFA tea directorate, 2020c).

³³ The lockdown measures in Assam and Darjeeling - India's most important tea producing region - ground the plucking season to a halt (World Bank, 2020d and Financial Times, 2020a). The concomitant shortages and increased demand for tea from other region resulted in an increase in auction prices in April 2020, encouraging traders to offload more tea at the auction (Andae, 2020b).

Ultimately, the recovery of tea exports from other major producers and the pandemic's evolution will determine the value and volume of tea exports from the EAC. Given its dominant role, the implementation of recent Kenya's Ministry of Agriculture policy, regulatory and administrative reforms can also help promote the sector's stability in Kenya and across the region.

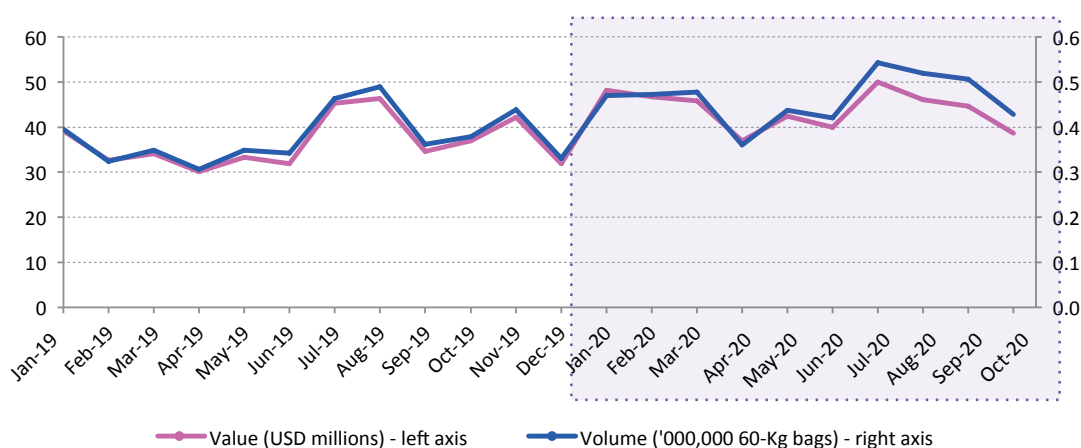
c) Coffee

Coffee accounts for 6 per cent of EAC's total exports (COMTRADE, 2020) and is one of Uganda's leading foreign exchange-earners. During the pandemic, coffee exports registered mixed trends. Exports from Kenya and Tanzania, mostly Arabica beans, declined in the second quarter of 2020. Depressed demand after closures of cafes and restaurants that purchase the bulk of coffee globally (BoT and KNBS, 2020b)³⁴ spurred such declines. A recent study by ICO (2020) asserts that globally, a one per cent drop in GDP growth is associated with 0.95 per cent decrease in coffee consumption.³⁵

Exports from Uganda, predominantly Robusta beans, declined by 19 per cent in April 2020,³⁶ but steadily increased in the following months to reach a peak of USD 50 million in July 2020 – the highest amount since 2017 (Figure 2.7). Two reasons account for the increase in Ugandan exports: favourable weather and higher coffee beans production because of the newly planted coffee trees (UCDA, 2020a). However, logistical issues such as lack of containers and truck drivers' delay at border points still affected Ugandan coffee exports (UCDA, 2020a and b).³⁷

In 2020, Uganda's coffee exports increased by 22 per cent and 18 per cent in volume and value, respectively.

Figure 2.7: Uganda's Coffee Exports (USD Millions)



Source: BoU (2020b).

d) Gold

Gold is another leading commodity export for countries in East Africa. In stark contrast to the primary commodities, the gold price's substantial increase has been a significant boon to gold exporting countries. The increased demand for gold by investors who consider it a haven for hedging against the weaker dollar

³⁴ Increased panic buying and stockpiling by households during that period was unlikely to have had a sustained effect on consumption (ICO, 2020).

³⁵ This is a reduction of growth in global demand for coffee by 1.6 million 60-kg bags in absolute terms.

³⁶ This was precipitated by the low price of Robusta beans (Uganda's dominant coffee exports) in April 2020– the lowest price in the last decade, largely explainable by strong exports from Vietnam, the world's second largest supplier of coffee (UCDA, 2020a and World Bank, 2020d).

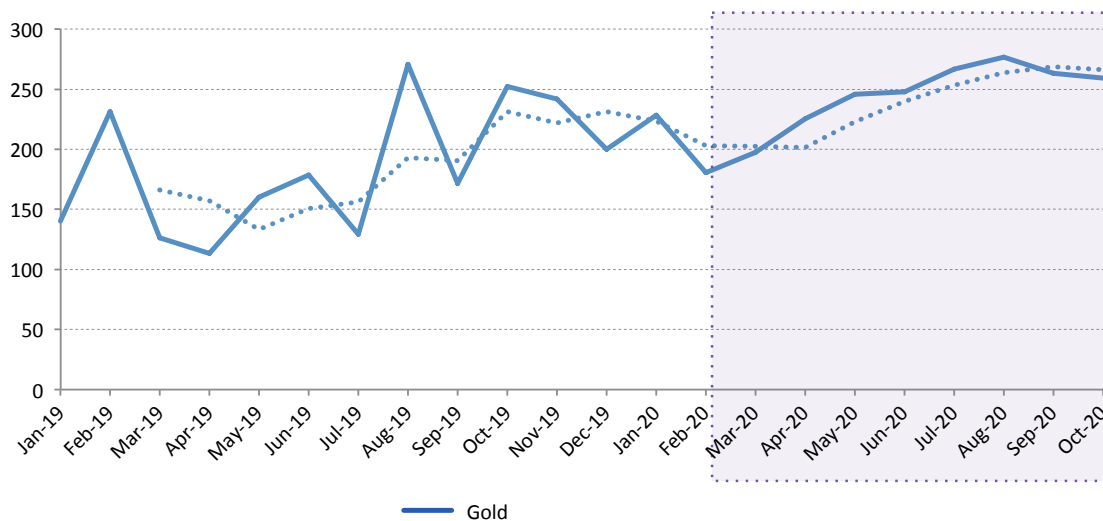
³⁷ The reduction in Uganda's coffee exports in the fourth quarter of 2020 was cyclical, due to the end of harvest in some parts of the country.

Between January and November, Tanzanian gold exports increased by 33.6 per cent, garnering USD 2.85 billion in export revenues.

exports steadily increased during the pandemic period (Figure 2.8). The rise in gold prices has been instrumental in narrowing the country's trade deficits. Burundi, Rwanda and Uganda also recorded significant increases in their gold exports

and the COVID-19 pandemic uncertainties drove up its price. Disruptions to mine production due to pandemic containment measures, especially in South Africa and South America, further supported the price increases (World Bank, 2020d). Consequently, Tanzania's gold

Figure 2.8: Tanzania's Gold Exports (USD Millions)



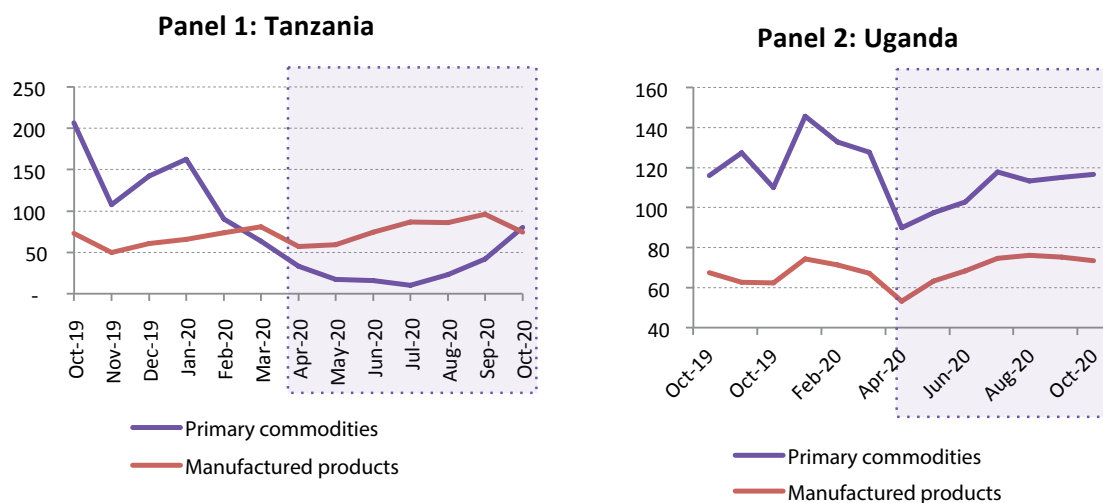
Source: BoT (2020b).

e) Manufactured exports

Manufactured export products are indispensable in the EAC's export basket, making about 20 per cent of the total exports, but accounting for around 42 percent of intra-regional trade (UNCTADStat, 2020). Unlike primary/traditional commodities, manufactured exports did not exhibit sharp declines during the pandemic period (Figure 2.9). Exports of manufactured goods by Uganda and Tanzania were resilient for most of the second and third quarter of 2020. Kenya's exports of manufactured products declined in April but increased to the pre-pandemic levels by the third quarter (KNBS, 2020b). The rebound effect also provides credence to East African governments' need to create supporting and thriving environments to bolster manufacturing in their economies.

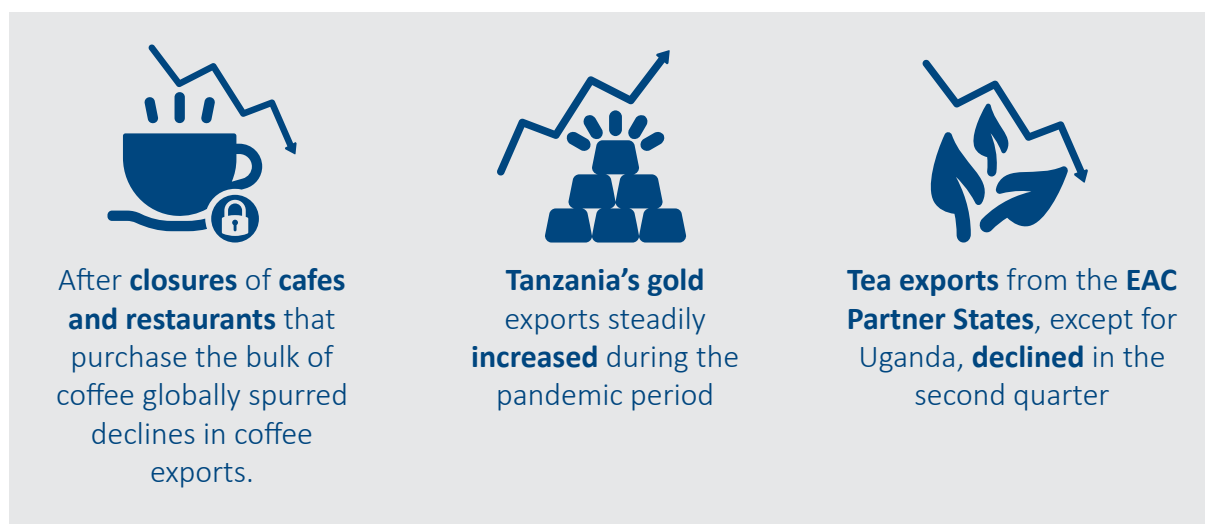
Unlike primary/traditional commodities, manufactured exports did not exhibit sharp declines during the pandemic period.

Figure 2.9: Primary versus Manufactured Exports (USD Millions)



Source: BrB (2020), KNBS (2020b), BoU (2020).

Note: Aggregation of intra-EAC for Burundi comprises Kenya, Uganda, Rwanda and Tanzania; Kenya's includes Uganda, Tanzania and Rwanda; Uganda's consists of Kenya, South Sudan, Tanzania, Burundi and Rwanda.

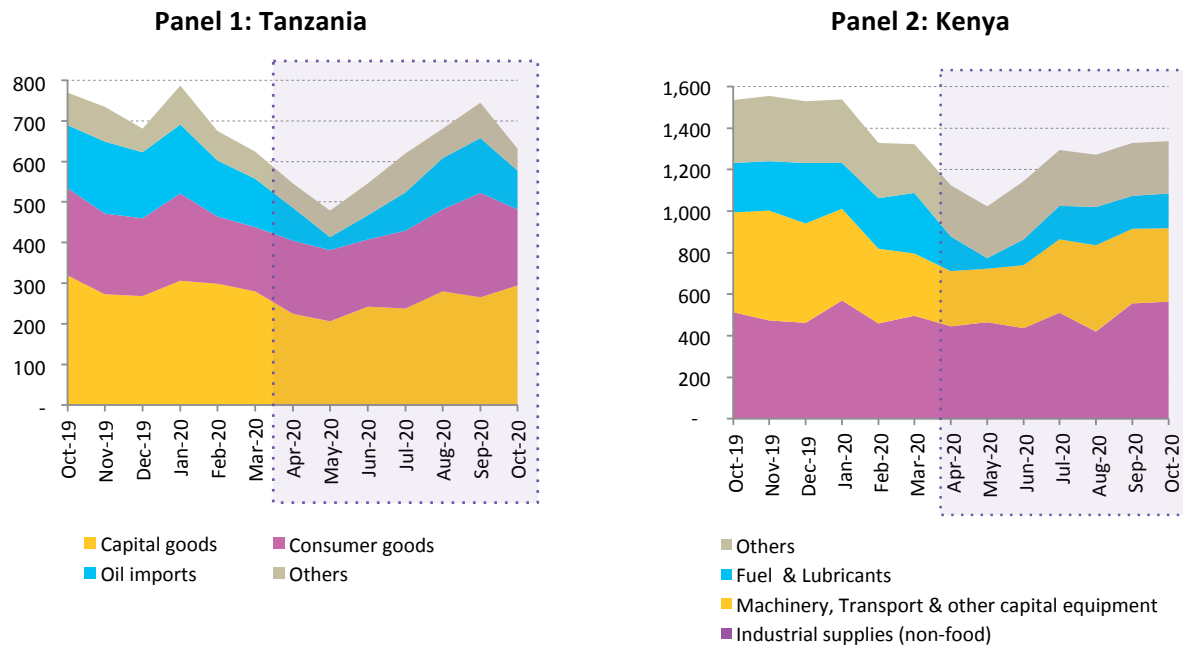


2.6. A precipitous decline in imports and subsequent recovery

From the beginning of 2020, aggregate imports into Kenya and Tanzania – the principal gateways for trade in the EAC region – exhibited a downward trend, with the lowest imports registered in May – before recovering rapidly in the second half of 2020 (Figure 2.10). The reduced imports in May correlate with the massive decline in the value of oil imports.³⁸ But it was also accompanied by a significant decline in consumer goods. As economic activity in the region started to rise, imports started improving in the second half of 2020.

³⁸ Over the past five years, oil imports accounted for approximately 16 percent of the region's total imports (UNCTADStat, 2020).

Figure 2.10: Select EAC Countries Imports by Products (USD Millions)



Source: BoT (2020) and KNBS (2020b).

Capital goods and intermediate/consumer products exhibited mixed trends. In Kenya, capital goods (machinery, transport and other capital equipment) imports declined by an average of 14 per cent in the first quarter of 2020 but increased by 1 per cent in the second quarter and 7 per cent in the third quarter. Conversely, imports of industrial supplies (non-food) were generally stable, apart from the 17 per cent decline in August, followed by a strong rebound of 32 per cent in September (Figure 2.10). Tanzania experienced similar trends. Except for the 23 per cent decline in consumer goods in February 2020, capital goods imports were more adversely affected than consumer goods imports (Figure 2.10).³⁹ All these trends matter because the declines in capital and intermediate goods could impact on the productivity of regional industries and their prospects for future growth.

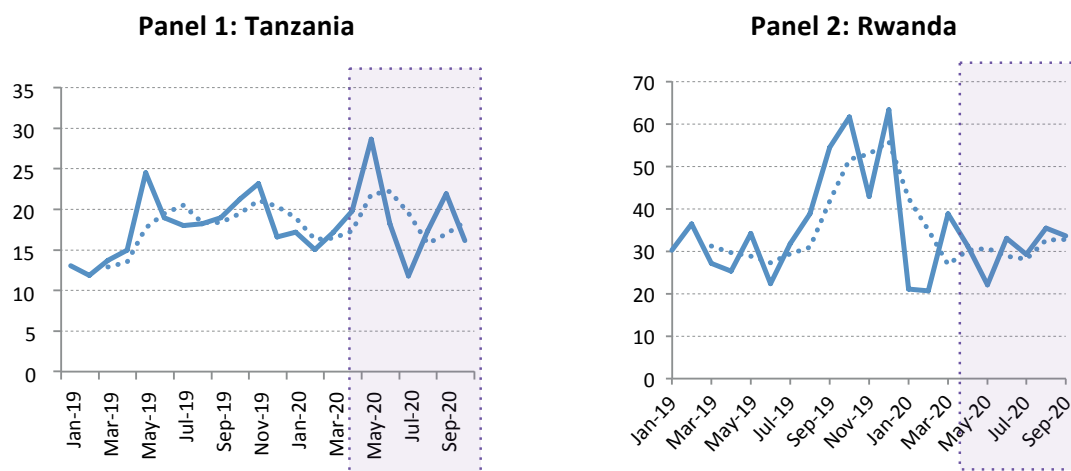
Declines in capital and intermediate goods imports could impact on the productivity of regional industries and their prospects for future growth.

Food security is another major issue for the East Africa region. The region's net food importers⁴⁰ revealed mixed trends over the year. Although Rwandan food imports declined in the first two quarters of 2020, there were signs of recovery in the third quarter of the year. By contrast, Tanzanian food imports steadily increased in the first and second quarters of 2020 and started declining in the third quarter (Figure 2.11). The upsurge of desert locusts and floods experienced in Kenya and Uganda also raised food security concerns for the region.

³⁹ In April, capital goods imports declined by 20 per cent while consumer goods imports increased by 14 per cent.

⁴⁰ While aggregate figures indicate that EAC is a net food exporter, this is mainly driven by the high net export values for Kenya and Uganda. Over the past decade, Kenya and Uganda's net exports amounted to an average of USD 2.6 million while the net imports values for Burundi, Rwanda and Tanzania amounted to USD 1 million (UNCTADStat, 2020).

Figure 2.11: Select EAC Countries Food Imports (USD Millions)



Source: BoT (2020b) and NISR (2020b).



From the beginning of 2020, aggregate imports into Kenya and Tanzania – the principal gateways for trade in the EAC region – exhibited a downward trend, with the lowest imports registered in May – before recovering rapidly in the second half of 2020.

2.7. Relatively stable prices despite the crisis

An immediate preoccupation surrounding a global crisis of this nature is how it will impact on price stability. Previous crises have often resulted in inflationary pressures, reducing real incomes, and threatening to undermine progress made on poverty reduction. This time, things have been somewhat different- inflation has been relatively stable across the EAC, despite the pandemic (Table 2.2). Food and dairy prices however fluctuated during the pandemic duration, with cereal and sugar prices rising the most (Figure 2.12).⁴¹ These price hikes raise potential food security and poverty/welfare concerns if they continue to rise further (Luke et al., 2020; Banga et al., 2020; AGRA, 2020). In some countries (e.g., Rwanda), the price of transport services also increased because of the disruption caused by lockdowns, but for the most part, price changes in the transport sector were relatively modest because of the simultaneous contraction in demand. Although Rwanda's transport sector registered a spike in May 2020, price levels moderated in subsequent months (NISR, 2020).

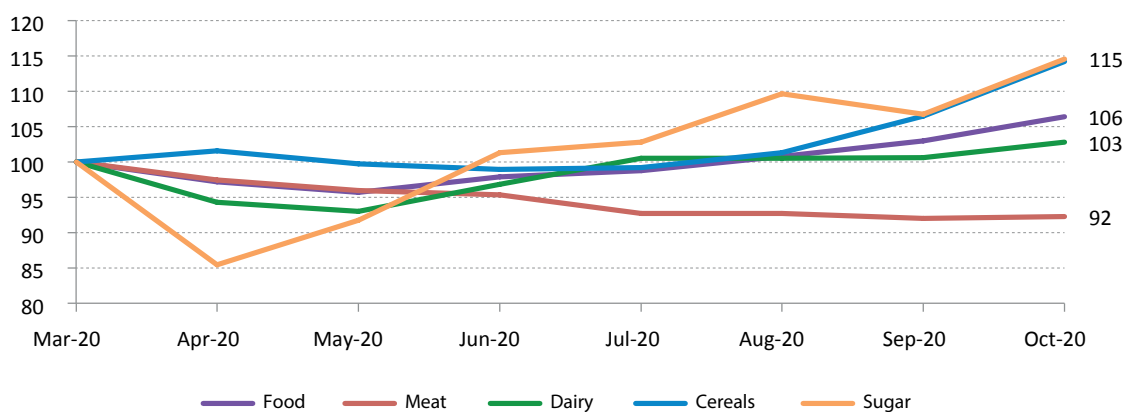
⁴¹ The export-promotion strategy was transformed into a comprehensive Industrial Development Strategy (IDS) in 2002, identifying sectors such as textile, garment, leather and leather products as priority export sectors..

Table 2. 2: Monthly % Change in General Price Levels (in days)

	KIGALI		BUJUMBURA		KAMPALA		BUKAVU		GOMA	
	Border	Dest.	Border	Dest.	Border	Dest.	Border	Dest.	Border	Dest.
Jan -20	3	4	4	4	4	5	3	5	3	5
Feb -20	3	4	3	5	4	6	3	6	3	5
Mar -20	4	6	3	7	5	7	4	8	4	7
Apr -20	7	10	5	9	5	9	7	13	7	11
May -20	8	11	5	8	5	9	8	12	8	11
Jun -20	7	11	5	8	5	7	7	12	7	11
Jul -20	6	10	4	7	5	7	6	12	6	11
Aug -20	5	10	5	8	5	7	5	14	5	11
Sep -20	6	10	5	7	5	8	6	12	6	11

Source: BrB (2020), KNBS (2020), NISR (2020), BoT (2020) and BoU (2020).

Figure 2.12: FAO Monthly Real Food Price Indices
(Index numbers, Mar-20 = 100)



Source: FAO (2020b).



Inflation has been relatively stable across the EAC, despite the pandemic

2.8. Directional trade impacts – A return to the pre-pandemic trajectory

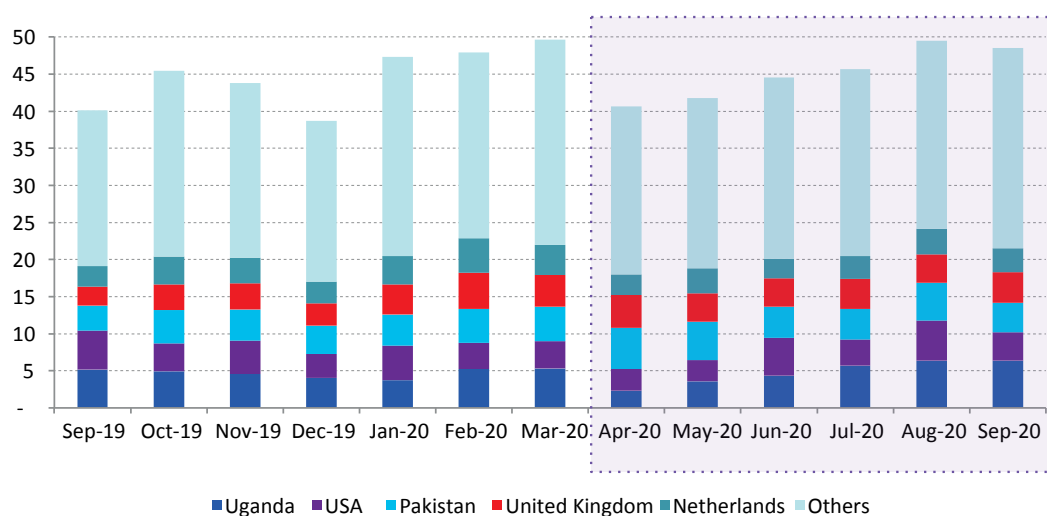
Demand shocks and logistical challenges hindered exports from the EAC Partner States to their leading export markets, both regionally and globally (Figures 2.13 and 2.14). For instance, in April 2020, Kenya's exports to Uganda declined by more than half due to logistical challenges at the key cross-borders- Busia

The disruptions to trade during the pandemic highlights the vulnerability of the EAC to supply chain shocks.

and Malaba. Similarly, in April 2020, Kenya experienced a 20 per cent dip in its exports to the USA⁴² because of the suspension of international flights, and the contracted demand.⁴³ These disruptions reveal the vulnerability of the EAC to supply chain shocks. The gradual removal of lockdowns in the second half of 2020 has, nonetheless, helped to revitalise exports to some of the main destinations (Figure 2.13).

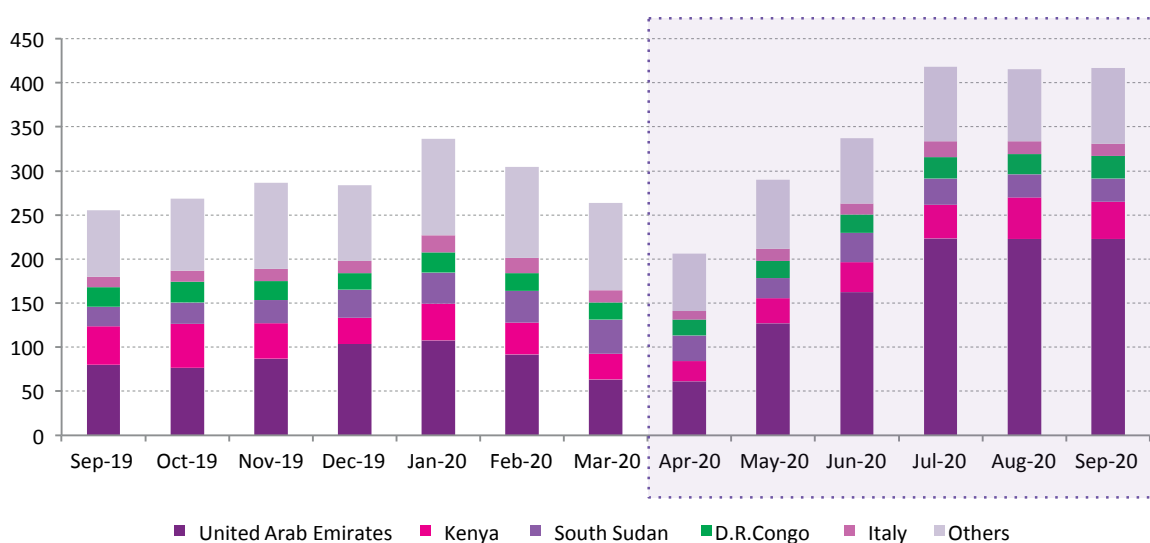
Uganda showed similar trends of recovery in its exports to extra-regional markets. Exports to the United Arab Emirates (UAE), its leading trading partner, had deteriorated since the beginning of 2020, with the lowest figures registered in April 2020, but recuperated sharply after that - the high price of gold being the significant explanatory factor (Figure 2.14).

Figure 2.13: Kenya's Export Destinations (*KES Billions*)



Source: KNBS (2020b).

Figure 2.14: Uganda's Export Destinations (*USD millions*)



Source: BoU (2020b).

42 These are largely apparel and textile exports under AGOA, yet most fashion outlets in the United States remained closed due to lockdown measures.

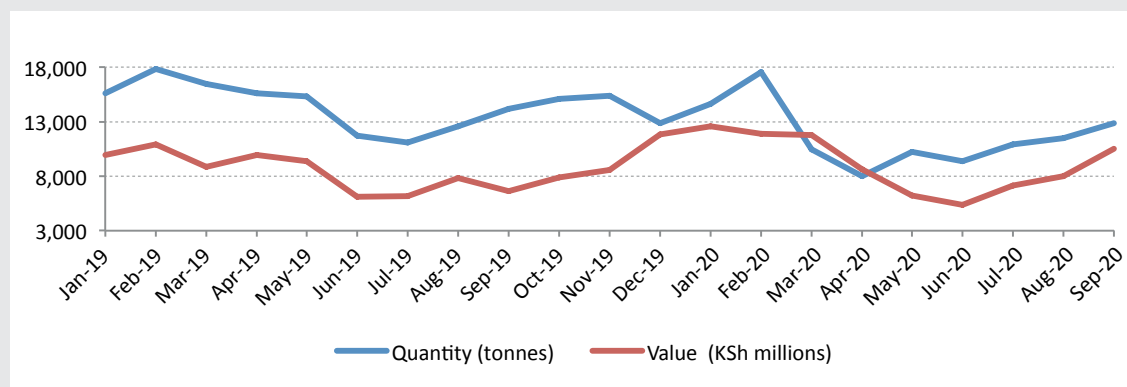
43 This forced the firms in Kenya's export processing zone (EPZ) that produce these textile and apparel for export to shift gears and begin producing personal protective equipment.

To illustrate the initiatives aimed at reviving and increasing intra- and extra-regional trade in East Africa, Box 4 provides a snapshot of the Kenyan government's export diversification into European market initiatives to cushion its horticultural sector.

Box 4: Government Initiatives to Cushion Kenya's Horticultural Exports from the Crisis

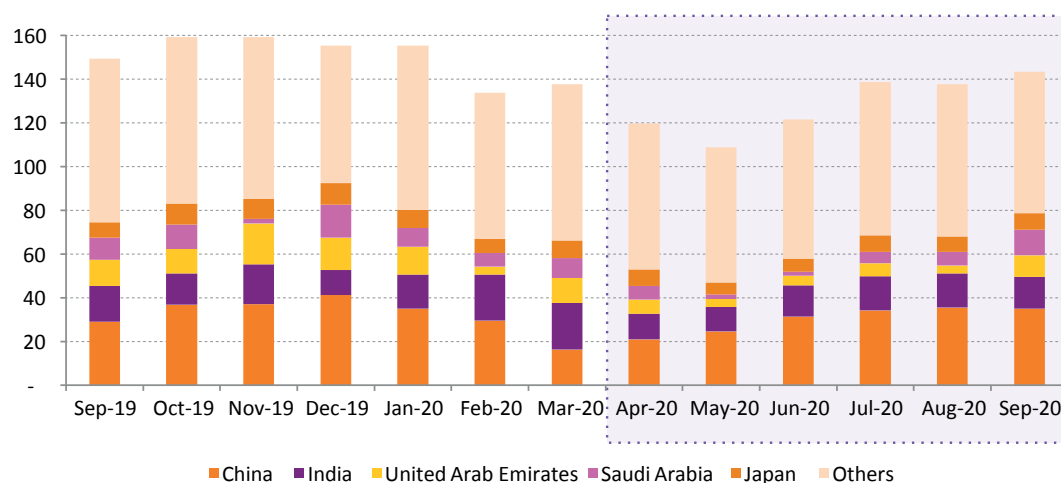
Horticulture is one of Kenya's major exports. Flowers account for a considerable share of the horticultural exports followed by vegetables and fruits. The European Union and the United Kingdom- the leading destination for these exports- imposed lockdowns and travel restrictions towards the end of the first quarter and second quarter of 2020, leading to adverse effects on Kenyan exports. For instance, closure of the Dutch flower auction- Kenya's largest flower market – due to dampened demand- forced flower farms to destroy thousands of their flowers. The volume of exports declined by about 24 per cent in April 2020 (Figure 2.15), followed by a furlough or layoffs of thousands of workers in the flower farms.

Figure 2.15: Kenya's Cut-Flower Exports

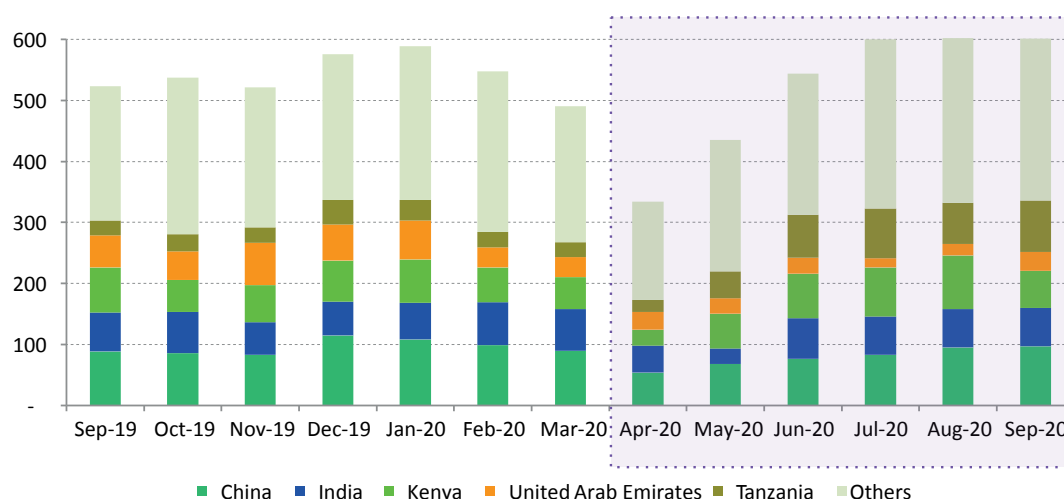


Source: KNBS (2020b).

Stimulus programmes by the government, such as fast-tracking of payment of Value Added Tax (VAT) refunds, enabled some horticultural farms to stay afloat in the wake of reduced revenues. The government also supported access to their export markets by repurposing international passenger flights to carry horticulture produce (Financial Times, 2020b). Kenya approached 12 airlines to complement the national carrier Kenya Airways' efforts in exporting the horticultural produce (Flora daily, 2020). The re-opening of the Dutch flower auction and increased cargo flights also boosted the flower exports from Kenya in the second half of 2020.

Figure 2.16: Kenya's Main Source of Imports (KES Billions)

Source: KNBS (2020b).

Figure 2.17: Uganda's Main Source of Imports (USD millions)

Source: BoU (2020b).

An assessment of imports reveals similar patterns. Imports from China declined sharply in early 2020, with the sharpest decline recorded in March for Kenya and April for Uganda.⁴⁴ Consistent with the resurgence of industrial production in China, the value of imports in the EAC subsequently recouped to the pre-pandemic levels in the second half of 2020 (Figures 2.16 and 2.17).

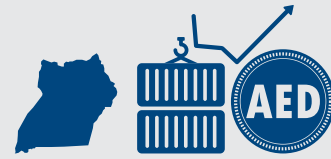
The diversification of trading partners, especially during a global economic crisis, can cushion the EAC region from supply chain disruptions experienced in its dominant trading partners. Exploring more vigorously new trading opportunities could help address the unhealthy trade balances between the dominant EAC's Partner States China⁴⁵ and India. In this sense, the African Continental Free Trade Area (AfCFTA) kick-off in January 2021 is a crucial first step in abating the over-reliance on imports from Asia. At the heart of the AfCFTA is the promotion of regional value chains, thereby boosting intra-African trade while taking advantage of a large unified market.

⁴⁴ The study focused on 12 countries in the sub-Saharan region: Algeria, Angola, Egypt, Ethiopia, Ghana, Kenya, Namibia, Nigeria, Senegal, South Africa, Tunisia, and Uganda.

⁴⁵ The substantial drop in imports, especially those sourced from China, provided a respite by narrowing the trade deficits, albeit temporarily, in the region. As seen in sub-section 2.4, the trade balances had already started widening in the third quarter of 2020 and is expected to maintain the same trend as China's economies continues recovering from the effects of the pandemic.



Kenya's exports to Uganda declined by more than **half** due to **logisticals** at the key cross-borders- **Busia and Malaba**



Exports from Uganda to the United Arab Emirates (UAE), its leading trading partner, had **deteriorated** since the beginning of 2020, **but recuperated** sharply



Imports from China declined sharply in early 2020, with the **sharpest decline** recorded in **March for Kenya** and **April for Uganda**



3. TRENDS IN THE TRANSPORT AND LOGISTICS SECTORS

The disruptions induced by the COVID-19 pandemic severely impacted East Africa's transport and logistics sectors, as it did elsewhere in the world. At the height of the lockdown measures in China, the backlog at its major ports, the cancellation of ocean carrier sailings, and a shortage of truck drivers to pick up containers resulted in a global slowdown in manufacturing (IFC, 2020). East Africa did not escape this fate. The spillover effects from the global slowdown in manufacturing manifested as declining cargo passing through Mombasa and Dar-es-Salaam ports. For instance, although Mombasa's Port usually receives three massive shipments each month from China under the Evergreen Line and COSCO ship, none of these docked at the Port in January or February 2020 (Anyanzwa and Olingo, 2020). Lockdown measures within the region also affected the flow of goods between the EAC member states. This section explores the cargo throughput performance at the main ports in the region and movement of goods along the Northern and Central Corridor.

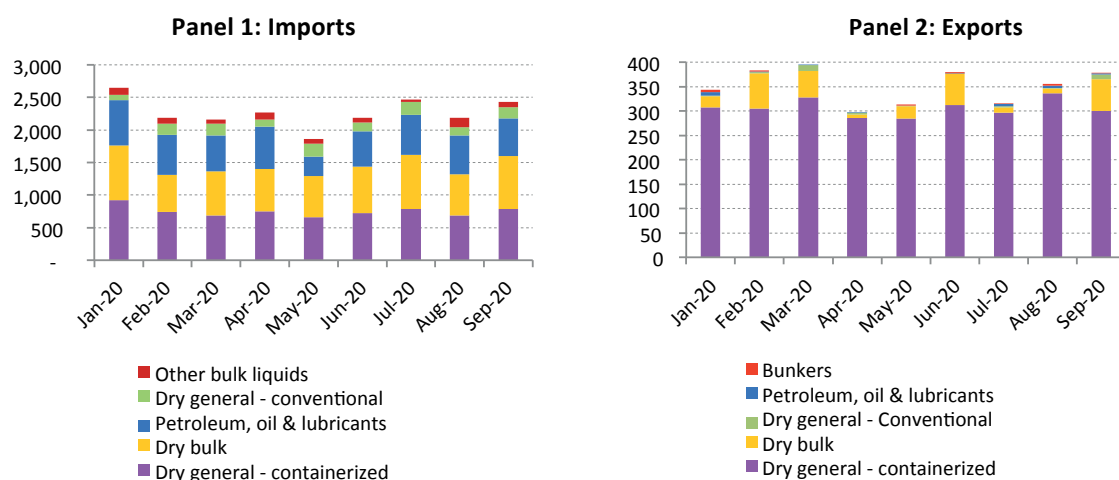
"Trucks that normally take three days to move from Mombasa to Kampala now take eight days. With this trend demand for goods will also be affected."

Adan Mohamed,
*Kenyan EAC and Regional Development
Cabinet Secretary, Government of Kenya*

3.1 Recovery in cargo at Mombasa and Dar es Salaam ports

Both export and import cargo at the Mombasa Port recovered in the third quarter of 2020. The volume of import cargo throughput dropped to its lowest value in May – an 18 per cent decline. This decline was driven by a 53 per cent decline⁴⁶ in petroleum, oil and lubricants cargo (Figure 3.1: Panel 1). However, by the end of the third quarter, cargo volumes at the Port started recovering, partially due to the substantial increase in the oil imports. Export cargo increased in the first quarter, in apparent anticipation of the subsequent disruption to trade, as traders, firms and governments struggled to stockpile goods (Figure 3.1: Panel 2). However export cargo recorded significant declines in the second quarter of the year – decreasing by 16 per cent in April 2020, reflecting an 85 per cent decline of dry bulk exports,⁴⁷ but recovering in the subsequent months.

Figure 3.1: Port of Mombasa Monthly Cargo (Thousand metric tonnes)



Source: KNBS (2020b).

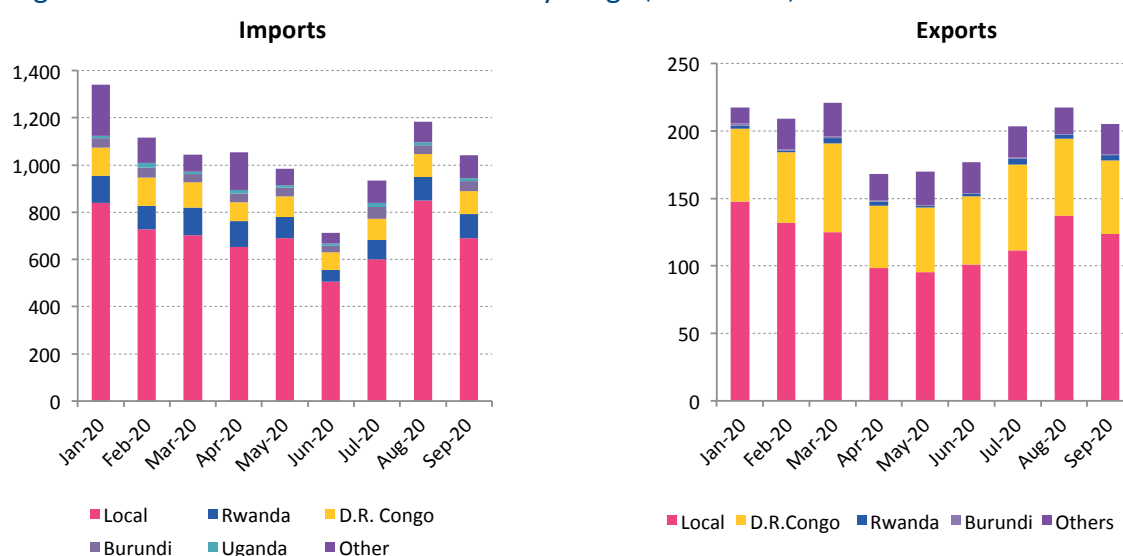
46 Attributable, as previously noted, to both depressed demand from the region and production cuts by OPEC+ member countries.

47 This refers to cargo (both raw and manufactured) that is transported unpacked in large quantities. It comprises bulk minerals (such as iron ore, sand and gravel), grains, chemicals etc.

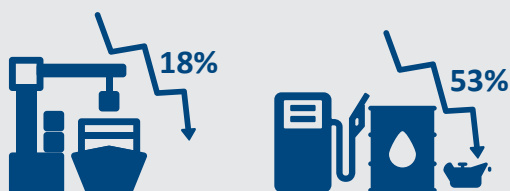
Mombasa port also registered an increase in the dwell time, ship turnaround time and berth time in April 2020 – a month after Kenya reported its first COVID-19 cases and introduced lockdown measures.⁴⁸ Notably, the ships *dwell and berth time* registered YoY percentage increase of 48 and 52 per cent, respectively, while the *ship turnaround time* increased by 25 per cent. The introduction and implementation of the COVID-19 health protocols fuelled these delays. Social distancing requirements and transporters struggling to comply with the health protocols also affected traffic flow (NCTTCA, 2020b). The ship's *turnaround time* in subsequent months moderated because of initiatives such as modernising equipment and expanding berths (NCTTCA, 2020c).

At the Dar-es-Salaam Port, import traffic registered declining trends in the first half of 2020, culminating in a 28 per cent fall in June – but started improving in the third quarter. Fall in Tanzanian imports was the main driver of the significant decline in import cargo in June 2020. D.R. Congo registered the steepest decline in export cargo of around 30 per cent in April 2020 followed by export cargo throughput from the local (Tanzania) market of about 21 per cent in the same month (Figure 3.2: Panel 2). The reduction in imports to Rwanda in the same month reflected cross-border challenges, especially at the Rusumo border. The export cargo through the Port revealed a V-shaped recovery (Figure 3.2).⁴⁹

Figure 3.2: Port of Dar-es-Salaam Monthly Cargo (USD Millions)



Source: TPA (2020).



The volume of **import cargo** throughput at the port of Mombasa dropped to its lowest value in **May** - an **18 per cent decline**. This was attributed to a **53 per cent decline** in **petroleum, oil and lubricants cargo**

⁴⁸ Dwell time refers to the time that elapses when cargo is being offloaded from the ship to when it leaves the gate of the port; Ship turnaround time is measured from the time the vessel arrives at the port area (fairway buoy) to the time it leaves the port area demarcated by the fairway buoy; Ship waiting before berth time is measured from the time the vessel arrives at the fairway buoy to the time at its first berth, including waiting for their own convenience (NCTTCA, 2020a)

⁴⁹ The average ship turnaround time at Dar-es-Salaam port was approximately 11 days in the first quarter but reduced to just three days by the third quarter. (TTFA, 2020). Barring August, thanks to measures adopted by port authorities, both the transit and local container dwell times decreased to the pre-pandemic levels by the second half of 2020.

3.2. Increased cargo transit time along Northern and Central Corridors

The overall picture with respect to delays on the EAC's main transport arteries – the Northern and Central Corridors – broadly shadows the Ports delays described above. To ensure a continued and uninterrupted flow of essential goods across the region, the corridors and borders remained open to truck drivers even after governments put lockdown measures in place. Operating along the corridors and fast-tracking border crossing required truck drivers and their crew members to abide by the different countries' specific health protocols. However, challenges, including increased transport costs and the pandemic's initial stages, hindered implementing such protocols. For instance, on the Northern Corridor, the health protocols required Kenyan cargo transporters to acquire COVID-19 certificates at the point of departure, yet there was a lack of capacity to carry out the tests resulting in delays.⁵⁰ As a consequence, the delays unravelled some of the gains in transit times made pre-pandemic.⁵¹

Cargo transit times worsened on all routes, increasing along the Mombasa-Malaba route from 7 days in the first quarter of 2020 to 11 days by the second quarter (Figure 3.3). Alarming, transit times remained relatively high in the third quarter of 2020. Transit time along the Mombasa-Malaba route for September was almost twice the previous year. The Mombasa-Busia route was nearly three times higher, indicating the challenges still facing the cross-border truckers.

Cargo transit times worsened on both the Northern and Central Corridors.

Along the Central Corridor, the transit time from Dar-es-Salaam to various cities in the neighbouring countries more than doubled in the months after the first quarter of 2020 (Table 3.1). The marked increase in transit times highlights the challenges at border points.

Figure 3.3: Cargo Transit Time from Mombasa to Busia and Malaba (in days)

	MOMBASA - MALABA	MOMBASA - BUSIA
Jan-19	6.9	5.8
Feb-19	6.1	2.1
Mar-19	4.9	3.9
Apr-19	6.0	4.5
May-19	4.4	5.5
Jun-19	5.4	4.8
Jul-19	6.6	7.6
Aug-19	6.7	9.8
Sep-19	5.2	13.6
Oct-19	6.5	10.4
Nov-19	6.7	8.4
Dec-19	6.3	4.4
Jan-20	6.3	3.8
Feb-20	8.2	9.5
Mar-20	6.4	11.5
Apr-20	10.1	14.3
May-20	13.0	14.1
Jun-20	9.9	14.3
Jul-20	10.9	17.5
Aug-20	10.6	14.9
Sep-20	10.0	17.3

Source: KRA (2020).

50 Case in point is the Miritini testing station in Mombasa which could then only carry out 100 tests in a day against a demand of 400 (FEAFA, 2020).

51 Implementation of the Single Customs Territory (SCT)- a trade facilitation initiative meant to improve the efficiency of the Northern and Central corridors- in July 2014 reduced the transit time on the Northern Corridor from 18 days to four days from Mombasa in Kenya to Kampala in Uganda and from 21 days to six days from Mombasa-Kigali. Similarly, on the Central Corridor, the transit time between the port of Dar es Salaam and Kigali (or Bujumbura) has been reduced from over 20 days to just six days (UNECA, 2019).

Table 3. 1: Cargo Transit Time from Dar-es-Salaam to Various Towns *(in days)*

	KIGALI		BUJUMBURA		KAMPALA		BUKAVU		GOMA	
	Border	Dest.	Border	Dest.	Border	Dest.	Border	Dest.	Border	Dest.
Jan -20	3	4	4	4	4	5	3	5	3	5
Feb -20	3	4	3	5	4	6	3	6	3	5
Mar -20	4	6	3	7	5	7	4	8	4	7
Apr -20	7	10	5	9	5	9	7	13	7	11
May -20	8	11	5	8	5	9	8	12	8	11
Jun -20	7	11	5	8	5	7	7	12	7	11
Jul -20	6	10	4	7	5	7	6	12	6	11
Aug -20	5	10	5	8	5	7	5	14	5	11
Sep -20	6	10	5	7	5	8	6	12	6	11

Source: KRA (2020).



Cargo transit times worsened on all routes, increasing along the Mombasa-Malaba route from 7 days in the first quarter of 2020 to 11 days by the second quarter



Along the **Central Corridor**, the **transit time** from **Dar-es-Salaam** to various cities in the **neighbouring countries** more than **doubled** after the **first quarter of 2020**. The **increase** in **transit times** highlights the **challenges** at **border points**



4. TRADE FACILITATION MEASURES BY THE EAC PARTNER STATES

After the World Health Organization recognised COVID-19 as a global pandemic in February 2020, some EAC Partner States adopted stringent measures to contain the spread of the virus. While the steps were in sync with the need to facilitate the movement of goods within the region, the initial lack of coordination in implementation and cohesive administrative actions among member states was an Achilles heel. For instance, lack of harmonised testing protocols on the COVID-19 pandemic resulted in the drivers' test results taking long and, in some cases, rejected by Partner States (NCTTCA, 2020a).

Several stakeholders supported measures to help mitigate the pandemic's adverse effect and overcome the coordination challenges. The EAC set out guidelines to facilitate the movement of goods and services in the region during the pandemic, including a regional mechanism for testing, certification, and the monitoring of truck drivers (EAC, 2020a). Other initiatives include TradeMark East Africa's USD 24 million Safe Trade Emergency Facility⁵² and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ's) support of mobile laboratories, test kits, and personal protective equipment to the East African Community (Mold and Mveyange, 2020a).



The EAC and several stakeholders have supported measures to help mitigate the pandemic's adverse effect and overcome the coordination challenges

⁵² "The Safe Trade Emergency Facility is supported by TMEA donors [European Union, United Kingdom, Netherlands, Canada, Denmark, Finland and Ireland]. Safe Trade aims to ensure safe movement of goods by supplying critical personal protective equipment (PPE) at ports and borders, using technology to enhance cargo and driver tracking, and developing protocols to guide border clearance procedures."



5. CONCLUSIONS AND POLICY IMPLICATIONS

5.1. Conclusions

This report presents new evidence on the impacts of the pandemic on East African trade and commerce. The study provides a detailed analysis of EAC trade, transport and logistics sectors' performance amidst the COVID-19 pandemic. The analysis used monthly data from national sources and other government agencies across EAC member states. The findings include an encouraging V-shaped recovery in aggregate trade flows and cargo, a narrowing of regional trade imbalances, and a relative resilience in intra-EAC trade.

Nevertheless, the report also highlights the negative impacts of the pandemic on trade and commerce in the region. The collapse of informal cross-border trade, if not revived, may have dire consequences for border communities, particularly the women who are heavily dependent on this trade. Increases in transit times along the major corridors is also a major cause of concern. If not reversed, this could adversely affect consumer welfare, aside from rendering businesses and the trading environment uncompetitive. The uncertainties about the pandemic's trajectory suggest that the EAC economies are not out of the woods yet.

5.2. Policy Implications

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

- i) Despite growing fiscal pressures, the EAC governments should continue to provide financial and regulatory **support to key export sectors**. The pandemic is far from over, and ring-fencing crucial export sectors from lockdown measures may still be necessary.
- ii) The pandemic has exposed the vulnerability of certain global value chains. The relative resilience of intra-regional trade attests to the importance of **strengthening regional value chains (RVCs)**, particularly as the region moves into the implementation stage of the African Continental Free Trade Area (AfCFTA).
- iii) The EAC Partner States need to **double-down on policies to diversify their economies**. Unlike previous crises, the pandemic was fortunately not accompanied by an across-the-board decline in the relative prices of commodities. However, excessive commodity export dependence still exposes the regional economy to unnecessary risks. The AfCFTA could be instrumental in achieving this goal.
- iv) Governments and other relevant stakeholders should **address the challenges facing informal cross-border traders**. The pandemic has had a severe negative impact on communities that are heavily dependent on cross-border informal trade.
- v) The EAC Partner States should **support the development and implementation of technological innovations** to address the bottlenecks that have arisen during the pandemic along the Northern and Central Corridor. One case of good practice is the Regional Electronic Cargo and Driver Tracking System (RECDTS), which facilitates the issuance of the COVID-19 digital certificates mutually recognised by the Partner States, and thus contributes to reducing delays at border points.

The crisis is not over yet. Some EAC member countries are facing second waves of the pandemic and imposing the necessary lockdown measures.⁵³ However, lessons learnt during the first wave could be instrumental in minimising logistical disruptions in the future. Therefore, the EAC governments should continue with the coordinated approach in addressing the COVID-19 induced trade and other economic challenges.



⁵³ For instance, Rwanda re-introduced strict lockdown measures in January 2021 due to the surge in COVID-19 cases in Kigali.

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United Nations
Economic Commission for Africa



ISBN: 978-99977-775-5-3

