

AfCFTA's Impact on East African Exports and Household Livelihoods

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Highlights

- GDP) and FDI may not be the primary determinants of export growth in the East African Community (EAC) countries.
- Export incentives and regulatory frameworks can play a significant role in stimulating exports.
- Political stability and robust institutions attract FDI, fostering business confidence, and leading to trade and economic growth.
- Inconclusive initial impacts of EAC and AfCFTA membership on exports and household welfare.

Executive Summary

- The effects of AfCFTA and EAC membership on export promotion and household welfare in East African countries were examined.
- Findings indicate that export performance is positively affected by investment, imports, consumption, political stability, and government effectiveness. While GDP and FDI lack significant implications, EAC and AfCFTA membership's impact on exports remains unclear.
- For household welfare, GDP, domestic savings, trade, rule of law, and corruption control have positive effects. Surprisingly, EAC membership negatively impacts household welfare, while AfCFTA membership has a positive but insignificant effect.
- Policymakers should focus on investments, a rule-of-law environment, and strategic export promotion based on import composition analysis.

INTRODUCTION

- The African Continental Free Trade Area (AfCFTA) significantly boost exports and improve household welfare (Abrego et al., 2020).
- However, existing research is limited on the specific effects of the AfCFTA on these outcomes in EAC countries.
- Emerging as the fastest-growing region within Africa, real GDP growth in East Africa is anticipated to surge from an estimated 1.5 percent in 2023 to 4.9 percent in 2024 and further accelerate to 5.7 percent in 2025.
- This study aims to evaluate the impact of the AfCFTA and EAC membership on export promotion and welfare enhancement in Tanzania, Uganda, Rwanda, Kenya, and Burundi.

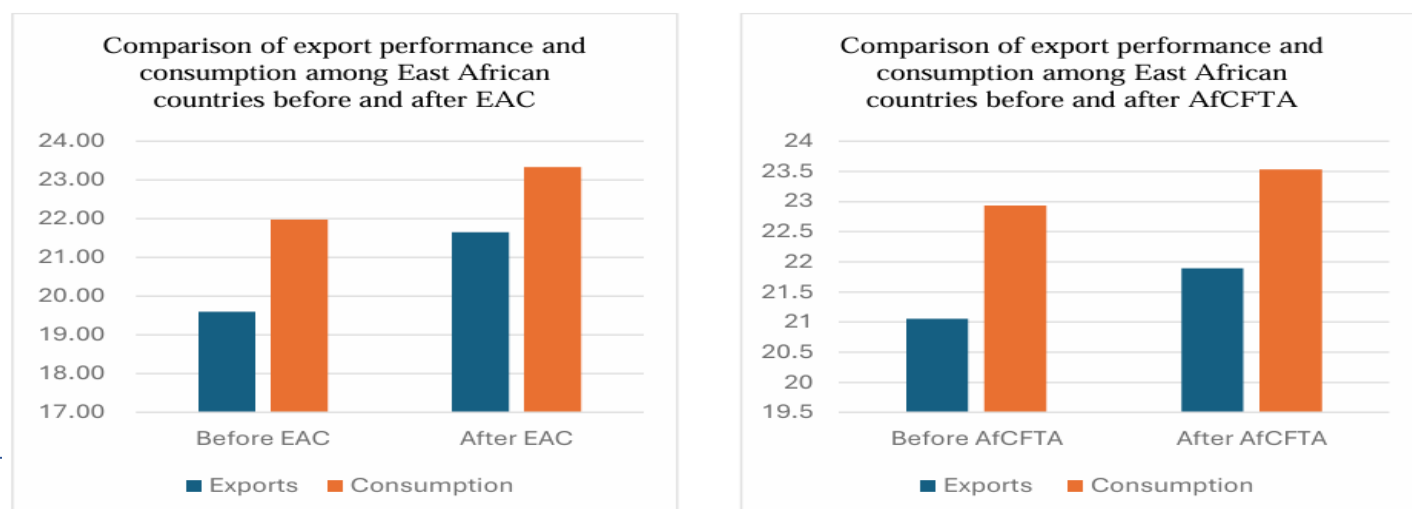


Figure 1. Evolution of exports and household consumption among selected East African countries.

METHODOLOGY

- A panel econometric model was estimated for five EAC member states (Burundi, Kenya, Rwanda, Tanzania, and Uganda) from 1997 to 2020.
- Exports and household expenditures served as the dependent variables. Control variables included GDP, openness (exports as a percentage of GDP), domestic saving, foreign direct investment, and dummies reflecting AfCFTA and EAC memberships.
- Pooled Ordinary Least Squares (POLS) emerged as the most appropriate method due to the specific configuration of the panel data.

FINDINGS

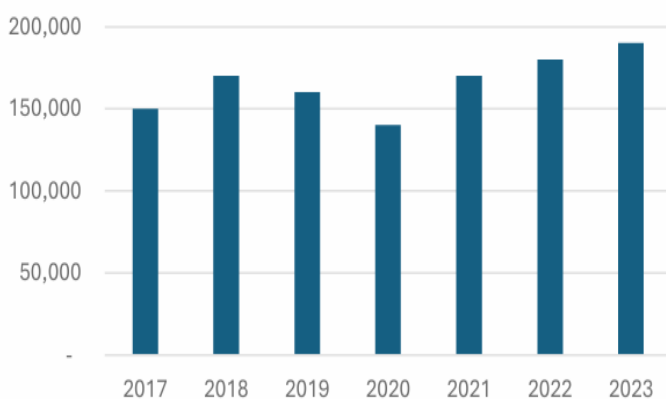
Intra-African Trade Performance

- The African Continental Free Trade Area (AfCFTA) represents a significant stride towards enhancing intra-regional trade within Africa.
- This strategic initiative offers a promising avenue for the continent to mitigate the adverse effects of external shocks and bolster its economic resilience (African Trade and Economic Outlook, 2024).

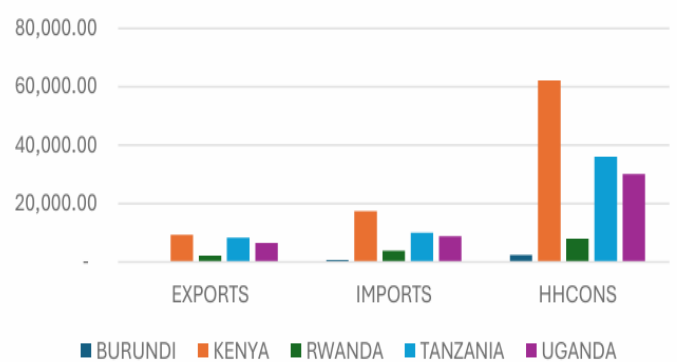
Drivers of Export Performance in EAC countries

- Estimation results reveal a positive association between export growth and several key factors (investment, imports, consumption, political stability, and the rule of law) within the East African Community (EAC).
- Contrary to established economic theory, the analysis finds no statistically significant effect of GDP, FDI, and infrastructure development on export performance in the EAC. Besides, the study finds a positive but statistically insignificant effect of EAC membership on export performance.
- Furthermore, the impact of AfCFTA membership on exports remains inconclusive, while its effect on exports is not significant.

Intra-African trade performance (USD million)



Exports, imports, and household consumption in selected EAC countries in 2020 (USD million)



Drivers of Household Welfare in EAC countries

- The estimation results demonstrate a positive effect of several key factors (GDP, domestic savings, trade openness, rule of law, and corruption control) on household welfare within the East African Community (EAC).
- Unexpectedly, results reveal a negative impact of EAC membership on household welfare. This counterintuitive finding suggests that regional integration might have unintended negative consequences for household welfare in some cases.
- Regarding AfCFTA membership, the study finds a positive but statistically insignificant effect on household welfare. This indicates that while AfCFTA might have potential benefits for household welfare, its impact is not statistically significant within the study period.

CONCLUSION

- There exist valuable insights into the factors influencing exports and household welfare in EAC countries.
- While traditional factors like GDP and FDI might not be the main drivers of export growth, investment, imports, political stability, and good governance are crucial.
- The impact of EAC and AfCFTA membership on exports and household welfare remains unclear and requires further investigation.
- Policymakers should focus on sectoral development, inclusive participation, and good governance to maximize the benefits of regional integration and improve household welfare in the EAC.

POLICY RECOMMENDATIONS

- Policy interventions should be strategically targeted towards sectoral development and diversification. A more in-depth analysis is required to comprehend how the AfCFTA will influence specific industries within EAC nations.
- Policymakers should implement initiatives that promote inclusive participation in the AfCFTA to foster widespread economic welfare: access to trade finance, simplifying customs procedures, and setting up the schemes for necessary skills development for small and medium enterprises (SMEs).
- Further, by prioritizing sectoral development, diversification, and inclusive participation, EAC countries can effectively leverage the AfCFTA to maximize export growth and improve the welfare of a broader range of economic actors.

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