

# Consequences of Economic Integration Initiatives in Africa: International Trade in the IGAD Region

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## Abstract

The process of close integration in Eastern Africa has resulted in changes in trade structures and production processes across borders. This paper presents the transformations taking place in trade exchange in one of the initiatives of the African community: the Intergovernmental Authority on Development (IGAD). This paper offers a multidimensional analysis of the changes in foreign trade structures of IGAD states, for example, trade creation effects, changes in competitiveness, trade concentration or the similarities of IGAD's trade with selected economic integration communities in Sub-Saharan Africa. In order to ensure uniformity in this analysis, the study is based on data compiled by international organizations, mainly the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO).

**Keywords:** IGAD; foreign trade; trade creation effect; trade diversion effect; East Africa.

**JEL classification:** F14, F15

## 1. Introduction

In the Eastern African region there are several barriers to regional cooperation such as disparities in the levels of social and economic development, the problem of poverty, institutional and infrastructural weaknesses, epidemics, political instability and not infrequent military conflicts as well. Quite often, one of the reasons for the failure of integration initiatives was attempts to transplant the integration solutions worked out in developed countries to Africa. These models, consistent with literature on theories of international cooperation, did not perform well in the African reality. However, despite these barriers the Intergovernmental Authority on Development (IGAD) was established in 1996<sup>1</sup> and has remained in effect ever since and at present comprises of eight countries: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan<sup>2</sup> and Uganda. IGAD's mission is to guarantee food security for the people and promote peace. It also oversees security and economic situations (IGAD 2014). IGAD's role, especially in the peace processes in Africa is remarkable (Healy 2013). Among IGAD's many objectives are boosting regional economic cooperation in Eastern Africa, boosting joint development strategies (for example, harmonizing policies with regard to trade and customs) and promoting and realizing the objectives of the Common Market for Eastern and Southern Africa (COMESA) and the African Economic Community (Dundas 2011).

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<sup>1</sup> IGAD had its origins in the disastrous droughts that struck the Eastern African region in 1973 and 1984. In 1986 with support from the community the Intergovernmental Authority on Drought and Development was established (IGAD 2014).

<sup>2</sup> The youngest member of this organization, joined IGAD in 2011.

The aim of this paper is to analyse foreign trade changes in IGAD member states and the role that the states play in global exports with respect to liberalization processes, their integration initiatives and competitiveness changes. The paper focuses on commodity foreign trade that the investigated states have chosen as the underpinning of their strategies of opening up to the world economy, especially to the African economy. The analysis spans the years 1995-2015 (in some cases, also 1994 ). To make sure that the results are consistent and comparable, data were obtained from databases kept by international organizations, mainly from the United Nations Conference on Trade and Development (UNCTAD) database.

The paper consists of four sections, introduction and conclusion. First, it presents the IGAD community against the background of other African organizations. This section uses the most important and popular indicators to depict IGAD's position in the African economy. Standard measures as well as more comprehensive methods like concentration and similarities are used in this section. The second section is a study of the main changes in IGAD members' foreign trade, especially in terms of trade creation effects and technology intensity. The next section analyses the changes in the competitiveness position of selected IGAD members' exports (Ethiopia, Kenya and Sudan). Then the paper presents some policy recommendations concerning international economic relations of the IGAD region. In policy recommendations author focuses on the last trends and tendencies in the world economy, including Chinese New Silk Road strategy or situation in the EU countries and their impact on the trade and investments in IGAD states.

## **2. IGAD Integration Initiative Against the Background of Other African Communities**

IGAD is one of the newest integration initiatives in the African continent. Unfortunately, there are a lot of doubts if this community is an international organization under international law evidently and closely related to its possession of international legal person status and exercisable power. Generally, it meets the objective criteria<sup>3</sup> and thus it can be said that IGAD has an international legal personality. The *IGAD Agreement* does not spell out any clear rule regarding IGAD's international legal personality. However, Article 3 of the agreement states: 'The Authority shall have the capacity of a legal person to perform any legal act appropriate to its purpose, in accordance with the present Agreement. In particular, it shall have the capacity: (a) to contract; (b) to acquire and dispose of immovable and movable property; and (c) to institute legal proceedings. The Authority shall, in exercising its legal personality, be represented by the Executive Secretary' (Agreement Establishing the IGAD 1996). This provision relates to IGAD's legal personality and capacity in an ambiguous way. Although the IGAD Agreement does not contain express provisions on IGAD's international legal personality, the expressly granted treaty-making power as well as immunities and the clear recognition of the right to cooperate with other subjects of international law make the possession of international legal personality by IGAD explicit. In addition, in order to execute its objectives, IGAD has adopted relevant institutional acts which comply with the rules of its constitution and applicable international laws (Weldesellassie 2011).

Leaving IGAD's formal aspect aside, it is worth analysing this community in relation to its economic performance. Against the background of other African organizations, the IGAD community seems to be an important economy, though it integrates a relatively small number of states. Especially in terms of regional GDP, its share in the world GDP, real GDP per capita growth rates and FDI flows or populations, IGAD seems to be a relevant community in African

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<sup>3</sup> IGAD has been created by countries by a treaty under international law and has its own international organs.

society. It also achieves high indicators of intra-regional trade share in comparison to other analysed organizations, indicating close trade interdependence among IGAD members. Certainly, it is inferior to the largest economic blocs in Africa such as the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC).<sup>4</sup> In terms of the intra-regional trade intensity index, IGAD's intra-regional trade is slightly relatively more important than trade flows with non-member states. Unfortunately, GDP per capita and FDI inflows per capita locate IGAD at a disadvantage in comparison to the other integration initiatives analysed later in the paper (Table 1).

It is worth mentioning that in Africa we observe the 'spaghetti bowl' phenomenon in terms of international agreements and African regional economic organizations (Hartzenberg 2011). Every country from this continent participates in at least two economic communities, 30 states take part in three international agreements, 18 countries in four organizations, with Kenya, the leader in this field, participating in five economic blocs. This accumulation of economic agreements results in obstacles to the trade effect of preferential integration and obfuscates the whole picture of the regional cooperation process (Idrisu 2012).

**Table 1.** IGAD region against the background of other African communities (selected indicators 2015)

Indicator	IGAD	CEMAC	COMESA	EAC	ECCAS	ECOWAS	SACU	SADC	WAEMU
Intra-Regional Trade Intensity Index	102.83	178.72	9.70	136.04	193.59	6.66	4.39	13.50	5.81
Intra-regional trade share	8.21	7.05	6.00	11.00	8.85	4.32	3.13	12.15	3.75
Regional GDP in current prices (US\$ billion)	160.37	76.15	551.30	79.14	179.20	37.21	396.32	565.04	260.33
Regional GDP per capita	743	1,763	1,144	580	1,216	1,027	6,859	2,174	1,090
Regional GDP share in World GDP (%)	0.13	0.06	0.44	0.06	0.14	0.24	0.32	0.45	0.21
Real GDP per capita growth rates (%)	7.22	5.25	5.77	6.29	4.62	6.91	3.38	3.88	4.46
Inward FDI flows (US\$ million)	3,304	6,356	18,003	2,578	6,162	11,846	2,265	8,198	1,282
Outward FDI flows (US\$ million)	n.a.	n.a.	5,283	n.a.	n.a.	1,288	-73	2,591	-4
Inward FDI flows per capita (US\$)	15.30	150.60	37.35	18.88	41.80	39.61	39.20	31.54	5.37
Regional population (in thousand)	215,912.1	42,204.3	482,012.1	136,532.4	147,424.3	299,069.2	57,780.4	259,896.0	238,826.15
Regional share in world population (%)	3.14	0.63	7.02	1.99	2.15	4.35	0.84	3.78	3.48

Note: The intra-regional trade intensity index is used to determine whether the value of intra-regional trade is greater or smaller than would be expected on the basis of the region's importance in world trade. Formula of intra-regional trade intensity index:

<sup>4</sup> We should be cautious in analysing intra-regional trade shares because organizations with a higher number of states and larger regions (in terms of total trade) tend to present a higher intra-regional trade share.

$$ITH_{i,t} = \frac{\left( \frac{IT_{i,t}}{T_{i,t}} \right)}{\left( \frac{T_{i,t}}{T_{w,t}} \right)}$$

where  $IT_{i,t}$  denotes region  $i$ 's intra-regional trade in year  $t$ ,

$T_{i,t}$  denotes region  $i$ 's total trade in year  $t$  ( $i$ 's total imports plus total exports),

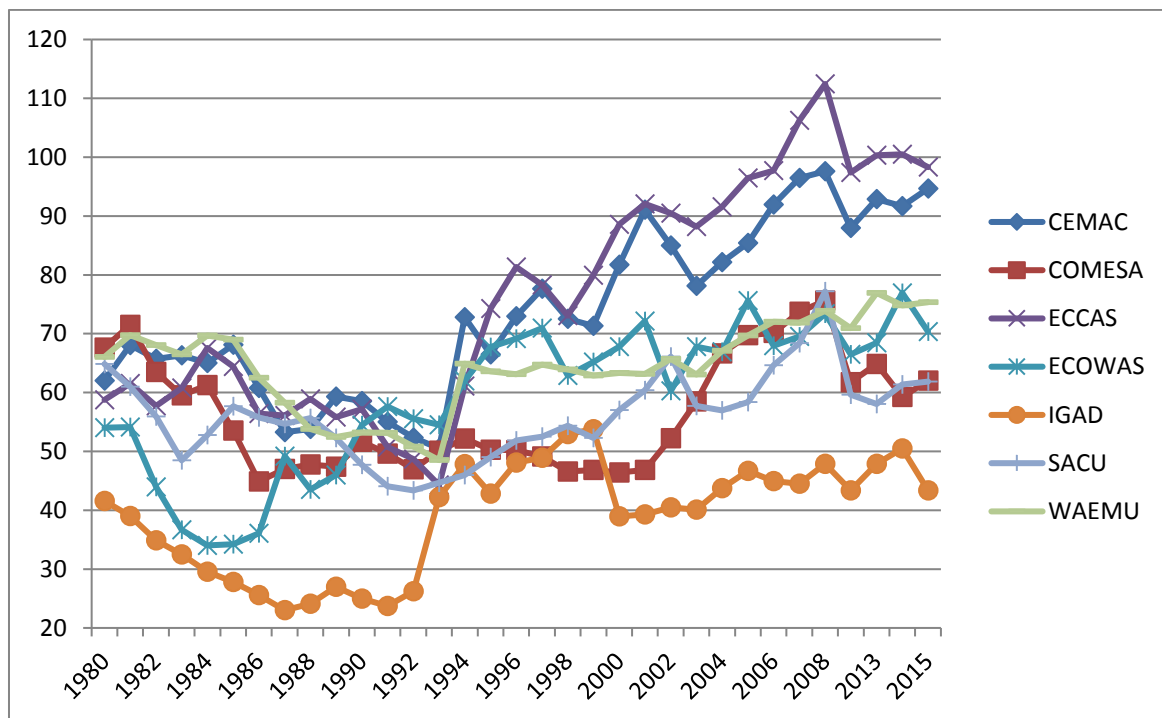
$T_{w,t}$  denotes the world's total trade in year  $t$  (world's total imports plus total exports).

The value ranges from 0 to  $\frac{T_{w,t}}{T_{i,t}}$ . When  $ITH_{i,t}$  is equal to zero in the case of no intra-regional trade; when  $ITH_{i,t}$  is

equal to one (or 100) if the region's weight in its own trade is equal to its weight in world trade (geographic neutrality); when  $ITH_{i,t}$  is higher than one (or 100) if intra-regional trade is relatively more important than trade flows with the rest of the world.

Source: Author's study on the basis of (United Nations 2016; RIKS Platform 2014; The World Bank 2016).

The factors that were to become particularly important in boosting the integration processes and socioeconomic development were the growing openness of the economies and their ability to exploit the opportunities of globalization. While analysing the changes in foreign trade channels of IGAD members, it is relevant not only to study the basic indexes of foreign trade exchange, but also to present the processes in which the trade structures of these countries are integrating, becoming similar or drifting apart. In comparison to the other African international organizations, IGAD's openness is limited. It is plausibly an effect of military conflicts within this region (the war between Ethiopia and Eritrea between May 1998 and June 2000, or the ongoing Somali civil war) which coincided with the downturn in the Kenyan economy during the last term of Daniel Toroitich arap Moi's presidency. After IGAD was established, we observe a considerable increase in openness or, more precisely, a shift from near autarky to limited trade exchange, but after 1999 the openness has been maintained between 40-50 per cent (Figure 1).



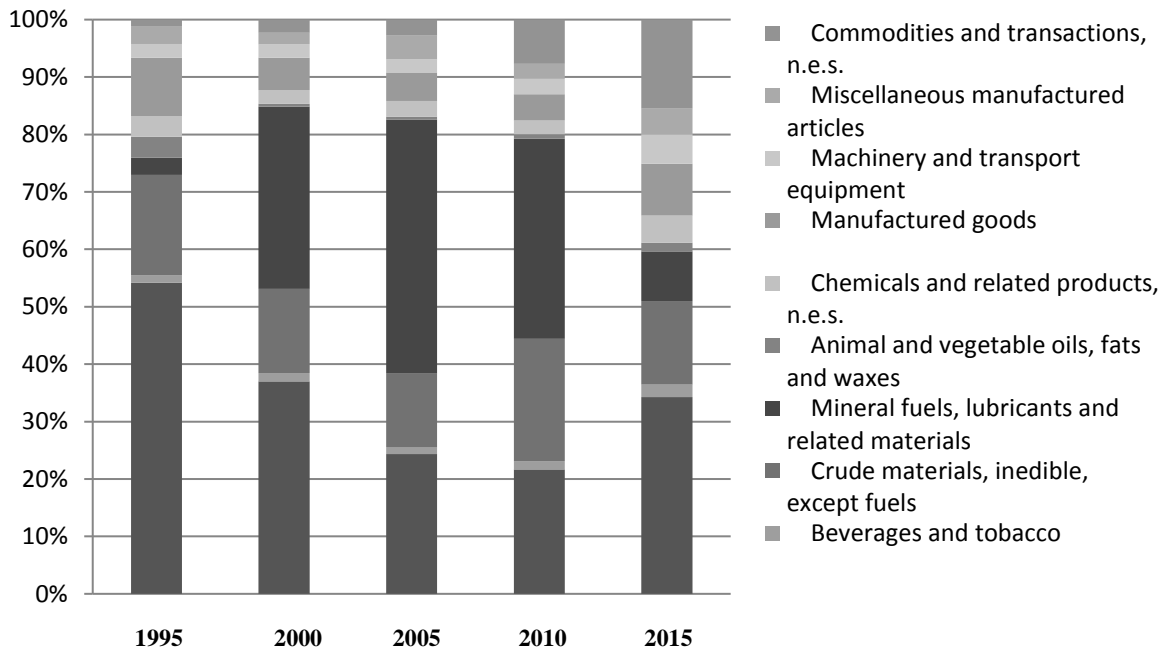
**Figure 1.** Openness of selected international economic communities in Africa (1980-2015) (foreign trade as a % of GDP)

Source: Author's study on the basis of (UNCTAD 2016).

As a matter of fact, IGAD's share of foreign trade in global trade is not significant and has been subject to considerable fluctuations in the last decade. Members of the organization are more active in terms of imports of goods and services (more than 0.25 per cent of global imports in 2015) than in terms of exports (about 0.1 per cent of global exports). IGAD's share of foreign trade in total developing African states' trade, however, points to the important position of the organization in the continent. In 2015, the share of the countries in question in African exports was about 3.2 per cent and it has been quite stable since 2000. We can observe a rising trend in imports: IGAD states' share of imports in developing African countries' imports increased from 6.5 per cent in 2000 to 7.5 per cent in 2015. This increase can be explained primarily by the increasing share in imports of Kenya, Sudan and Uganda (UNCTAD 2016).

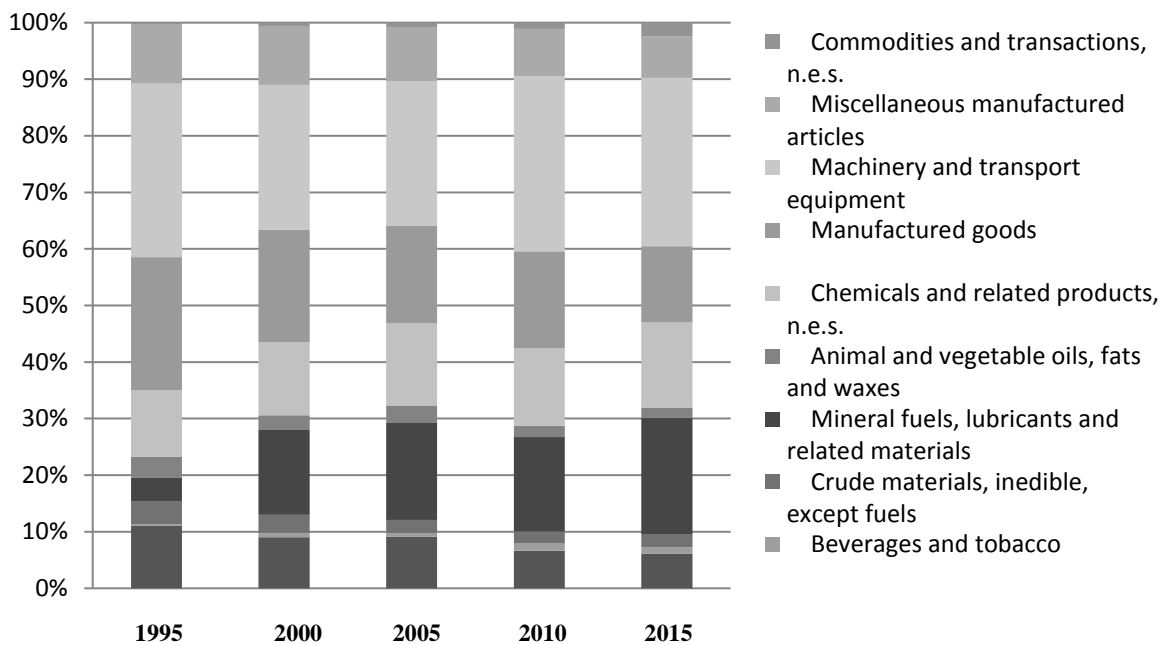
COMESA seems to be IGAD's most important export market, which should not be surprising, because this bloc is the largest in the Eastern African region and also covers almost all IGAD countries (except for Somalia). In 2015, IGAD directed to this community primarily food and livestock (32 per cent of the total exports to the bloc), manufactured goods (21 per cent) and chemicals (10 per cent). The South African Development Community (SADC) remained a significant export partner for IGAD, where it exported mainly manufactured goods (25 per cent of the total exports to the community) and chemical products (15 per cent). In terms of imports COMESA is also a lead market which provided the IGAD region with machinery and transport equipment (70 per cent of the total imports from the organization) in 2015. The second significant African bloc that is active in IGAD imports is SADC. This community from Southern Africa mainly provided manufactured goods (31 per cent) and food and live animals (22 per cent) (UNCTAD 2016).

Analysing the trade structure of IGAD countries, we can observe significant changes between 1995 and 2015. Food remained the predominant export product of the IGAD region; however, its share has decreased through the years. Crude materials (mostly hides, textiles, wood and oil seeds) also have a considerable share in IGAD's exports. The insignificant share of manufacturing goods and still little progress in this field over the past decade indicates that IGAD's exports are not advanced (Figure 2). The import structure of IGAD states, in turn, has also not changed considerably lately. Machinery and manufactured goods, chemicals and fuels continue to shape the structure of imported commodities. All mentioned products, except for fuel, have not changed their share in imports significantly. Only fuel's share has increased significantly since 1995 (Figure 3).



**Figure 2.** Export structure of the IGAD countries in 1995-2015

Source: Author's study on the basis of (UNCTAD 2016).

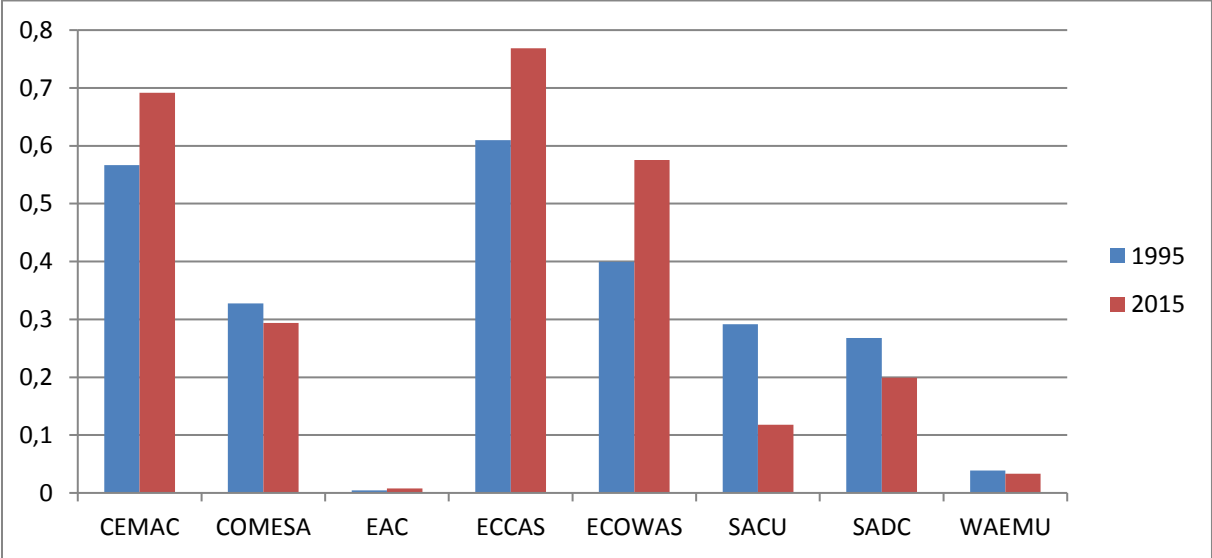


**Figure 3.** Import structure of the IGAD countries in 1995-2015

Source: Author's study on the basis of (UNCTAD 2016).

The diversity of the revealed comparative advantages is also reflected in the degree of similarities between foreign trade commodity structures of IGAD states. In this study, the foreign trade commodity structures of the largest economic blocs in Africa were adopted as the model. This analysis enabled us to indicate the economic integration blocs similar to IGAD in terms of foreign trade structures (applying Standard International Trade Classification, Rev.3). The Euclidean metric formula was used in the study of the degree of similarity. Comparing

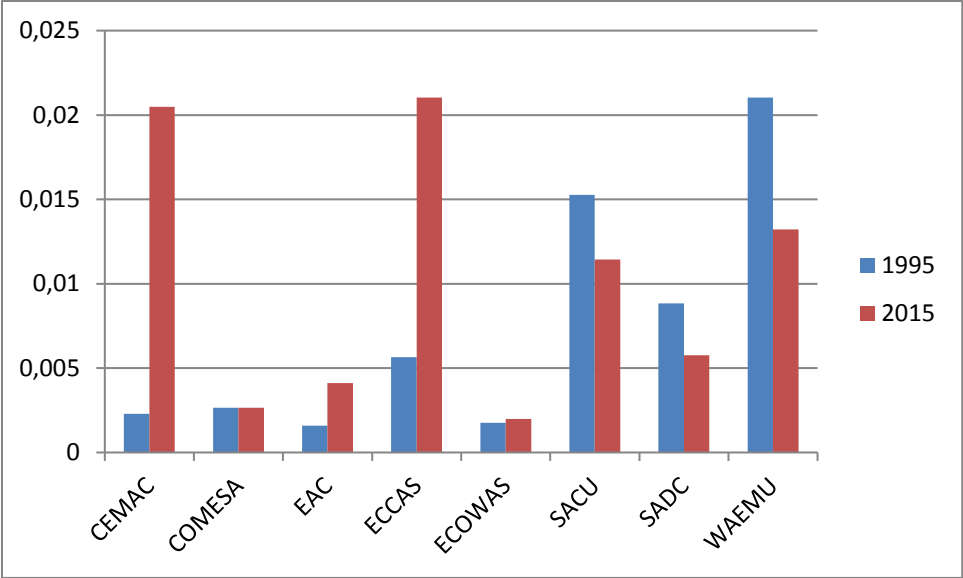
1995 and 2015, it can be observed that the structure of commodities exported by IGAD was almost exact to the East African Community’s (EAC) structure, which the IGAD members (Kenya and Uganda) largely shape. We also observed that IGAD is becoming more similar to the Southern African Customs Union (SACU), SADC and West African Economic and Monetary Union (WAEMU) models. IGAD has clearly drifted away from the Economic and Monetary Community of Central Africa (CEMAC), COMESA, Economic Community of Central African States (ECCAS) and Economic Community of West African States (ECOWAS) models (Figure 4). COMESA’s exports are much more concentrated on fuels and manufactured goods and food and live animals do not hold important positions in the organization’s exports. ECOWAS, CEMAC and ECCAS focus generally on mineral fuel exports and other groups of products have a limited share in their export structures (UNCTAD 2016).



The Euclidean metric  $\sqrt{\sum_{i=1}^n (x_i - y_i)^2}$  has been used as the measure of similarity. The closer the value is to one, the more different are the export structures of the analysed blocs. The closer the value is to zero, the more similar the commodity structures.

**Figure 4.** Indicators of similarity of the export commodity structure of the IGAD states in 1995 and 2015 *Source:* author’s own calculations on the basis of (UNCTAD 2016) using SITC Rev.3.

As for the similarity in imports, we can observe small values of the Euclidean metric, which implies a considerable similarity in the import structures of the examined countries with reference to the analysed integration blocs. Among these organizations, IGAD is characterized by the highest similarity with ECOWAS, COMESA and certainly EAC models. Further, in the analysed period, IGAD experienced the greatest decrease in similarity between its import structure and CEMAC and ECCAS models. Generally speaking, the relatively low values of the indicators which describe similarity in import structures mean that the structures of imported commodities deviate insignificantly from the model established by the other African communities (Figure 5).

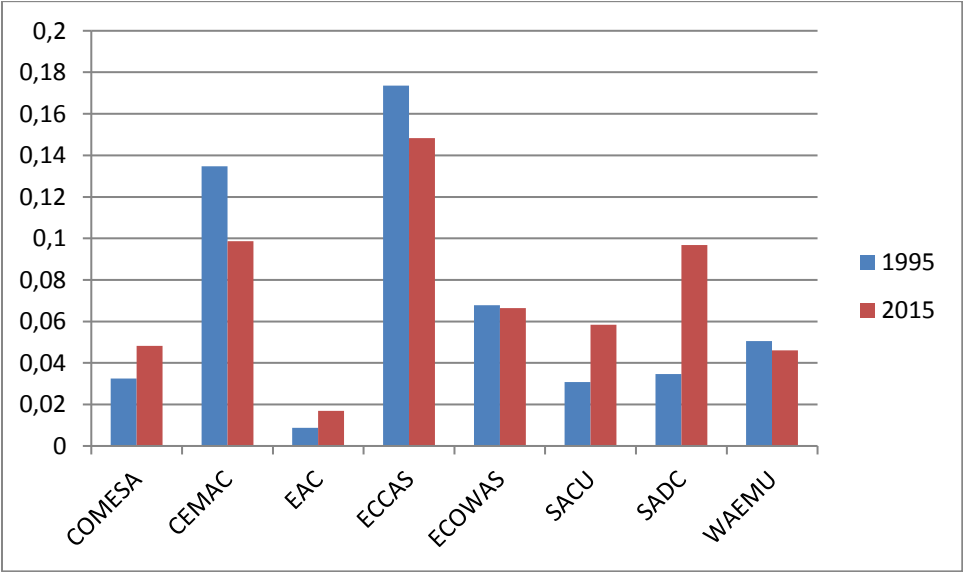


The Euclidean metric  $\sqrt{\sum_{i=1}^n (x_i - y_i)^2}$  has been used as the measure of similarity. The closer the value is to one, the more different are the export structures of the analysed blocs. The closer the value is to zero, the more similar the commodity structures.

**Figure 5.** Indicators of similarity of the import commodity structure of the IGAD states in 1995 and 2015

Source: Author’s calculations on the basis of (UNCTAD 2016) using SITC Rev.3.

In terms of shaping the geographic composition of trade partners, the IGAD region seems to behave similarly to all analysed economic communities in Africa. In exports and imports, Euclidean metric values are small which indicate little distance to the analysed economic African blocs. These indicators also prove that in IGAD, like in all African communities, there is substantial diversification of trade partners. Generally speaking, the analysed organizations are almost identical in terms of the geographic structure of imports and slightly different in terms of export structures (Figures 6 and 7).

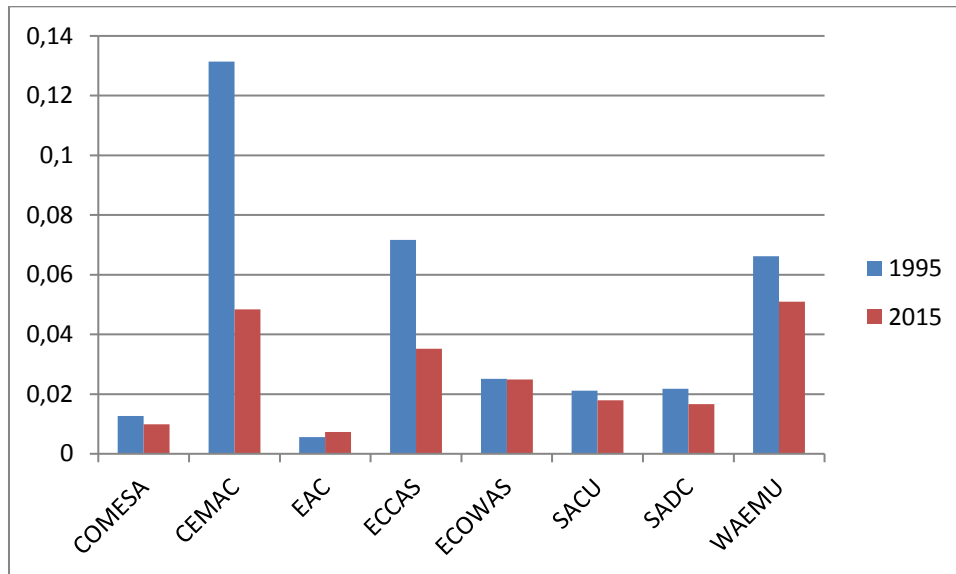




Note: The Euclidean metric  $\sqrt{\sum_{i=1}^n (x_i - y_i)^2}$  has been used as the measure of similarity. The closer the value is to one, the more different are the export structures of the analysed blocs. The closer the value is to zero, the more similar the commodity structures.

**Figure 6.** Indicators of similarity of the export geographical composition of IGAD states (1995 and 2015)

Source: Author's calculations on the basis of (UNCTAD 2016).



The Euclidean metric  $\sqrt{\sum_{i=1}^n (x_i - y_i)^2}$  has been used as the measure of similarity. The closer the value is to one, the more different are the export structures of the analysed blocs. The closer the value is to zero, the more similar the commodity structures.

**Figure 7.** Indicators of similarity of the import geographical structure of the IGAD states in 1995 and 2015

Source: Author's calculations on the basis of (UNCTAD 2016).

### 3. Foreign Trade Changes in IGAD Member States: Selected Statistics

When analysing IGAD's trade exchange, it is hard not to notice the asymmetry of this exchange. More than 80 per cent of the entire trade of the community is by Ethiopia, Sudan and Kenya. In 2015, Kenya had a 33.6 per cent share in exports and imports, Sudan a 25.4 per cent share and Ethiopia a 22.7 per cent share (UNCTAD 2016). It would be hard to question the fact that foreign trade within IGAD had no prominent place in the trade of all the members of the organization, which focused on other markets. States in the IGAD region trade little among themselves with the exception of Uganda, Kenya and Ethiopia (Table 2). In 1995, the main trade markets for IGAD were developed countries (70 per cent of total trade), but by 2015 the share of these markets had decreased to 50 per cent. The most important export markets for IGAD in 2015 were UEA (14 per cent), China (8 per cent)<sup>5</sup> and Tanzania and the Netherlands

<sup>5</sup> African countries are generally already flooded with Chinese products. Chinese exports to IGAD countries reached \$12,3 billion in 2016, a figure that is likely much higher because of underreporting and smuggled goods.

(both 5 per cent). In 2015, the IGAD states imported mostly from China (16 per cent), India (11 per cent), Saudi Arabia (7 per cent), the United States (6 per cent) and the UAE (6 per cent) (UNCTAD 2016). It should be noted that there has been a growth trend in foreign trade of all IGAD countries from 2000, which was disturbed in 2009 by the global crisis (Chauvin and Gleis 2011).

**Table 2.** Percentage share of trade turnover with the IGAD region in the foreign trade of the bloc's members (2015)

Country	Export	Import
Djibouti	11.2%	3.2%
Eritrea	0.1%	1.7%
Ethiopia	19.4%	2.7%
Kenya	15.0%	1.4%
Somalia	0.2%	1.0%
Sudan	3.4%	2.3%
Uganda	20.6%	13.6%

Source: Author's calculations on the basis of (UNCTAD 2016).

### 3.1. Trade Diversion and Trade Creation Effect

It is worth answering the question if IGAD's establishment in 1996 resulted in a trade creation effect and a trade diversion effect. Due to the limited length of this paper, only the results of this analysis are presented. This approach relies on the indices of income elasticity of import demand. The trade diversion effect occurs when the average dynamics of IGAD imports from countries outside the organization ( $e_{c1}$  – before integration,  $e_{c2}$  - after integration) before the establishment of the bloc in relation to the annual average dynamics of IGAD states' GDP before 1996 is higher than these indicators after the establishment of IGAD ( $E_{c1}$  – before integration,  $E_{c2}$  - after integration). Matrices of intra-regional trades, calculated dynamics of GDP and import from non-members of IGAD for two periods 1994-96 and 1997-99 should be created in the analysis. The results are:

$$\frac{e_{c1}}{E_{c1}} = 0.745353; \quad \frac{e_{c2}}{E_{c2}} = 1.028765$$

$$\frac{e_{c1}}{E_{c1}} < \frac{e_{c2}}{E_{c2}} \rightarrow \text{the trade diversion effect is not observed}$$

This means that the creation of the IGAD region in 1996 did not contribute to the emergence of the trade diversion effect. Intra-trade did not push out trade with states outside the community. This is also proved by the percentage share of imports with IGAD in imports of community members (Table 3). Moreover, we should take into account some important limitations of this analysis. Firstly, the research takes into consideration only short periods of time (three years before and after the introduction of changes in IGAD's status). For a longer

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IGAD economies are exporting far less to China than they're importing. In 2016 total IGAD's exports to China amounted to \$1,9 billion.

period, perhaps these indicators may be different. Secondly, according to official data, the consensus view is that intra-African trade is generally low. These results, however, are problematic because they do not take into consideration any informal trade flows, which are relatively high in East Africa. For instance, Ugandan informal exports to its neighbors represented US\$ 224 million or 83 per cent 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 (Afrika and Ajumbo 2012).

A popular method of calculating the trade creation effect is gross effect by Balassa (1998). This means that we do not adjudicate whether raising imports has replaced domestic production or third countries' production. First, the total creation effect was calculated. Two years were taken into consideration: 1997 (the first year after the reorganization of IGAD) and 2015 (the last year for which statistics are available for most of the member states). The creation effect for exports and imports was calculated according to the following method assuming linear extrapolation:

*A. Export creation effect (total)*

$$E_{ex}^C = X_{1997}^C - [X_{1996}^C + \frac{X_{1996}^C - X_{1991}^C}{5}]$$

where

$E_{ex}^C$  - creation effect in total exports

$X_{1997}^C$  - real exports of each country to the IGAD region

$X_{1996}^C + \frac{X_{1996}^C - X_{1991}^C}{5}$  - the hypothetical exports of each country if the IGAD region does not exist

*B. Creation effect in i product group export*

$$E_{ex}^i = X_{1997}^i - [X_{1996}^i + \frac{X_{1996}^i - X_{1991}^i}{5}]$$

where

$E_{ex}^i$  - creation effect in *i* product group

$X_{1997}^i$  - real exports of *i* product group in 1997

$X_{1996}^i + \frac{X_{1996}^i - X_{1991}^i}{5}$  - the hypothetical exports of *i* product group if the IGAD region does not exist

*C. Import creation effect (total)*

$$E_{im}^C = F_{1997}^C - [F_{1996}^C + \frac{F_{1996}^C - F_{1991}^C}{5}]$$

where

$E_{im}^C$  - creation effect in total imports

$F_{1996}^C$  - real imports of each country from the IGAD region

$F_{1996}^C + \frac{F_{1996}^C - F_{1991}^C}{5}$  - the hypothetical imports of each country if the IGAD region does not exist

*D. Creation effect in i product group import*

$$E_{im}^i = F_{1997}^i - [F_{1996}^i + \frac{F_{1996}^i - F_{1991}^i}{5}]$$

where

$E_{im}^i$  - creation effect in  $i$  product group

$F_{1997}^i$  - real import of  $i$  product group in 1997

$F_{1996}^i + \frac{F_{1996}^i - F_{1991}^i}{5}$  - the hypothetical imports of  $i$  product group if the IGAD region does not exist

For 2015 an analogical methodology was applied.

Unfortunately, there are no explicit results of this calculation. Generally, we cannot see any impressive and stable trade creation effects in IGAD members, though some trade liberalization measures have been introduced. The exports creation effect existed at the beginning of the changes in IGAD regulations, unlike the imports creation effect, which was stronger in 2015. In 1997, total exports of member states to the IGAD region accounted for US\$ 432 million, (23 per cent was the creation effect). In 2015, this tendency was the opposite when the total exports of member states to the IGAD region amounted to US\$ 2,336 million, which, according to the calculation, was 0.01 per cent less because of the existence of this community. It is observed that export creation occurred mostly because of Ethiopia. Only three countries' exports (Ethiopia, Somalia and Sudan) benefited from the changes in IGAD regulations in 1996. In 2015, the situation worsened: only in Somalia and Uganda was there the creation effect while the overall (for all member states together) export creation effect did not occur. In terms of imports, there were opposite effects: the first year after changes in IGAD's status did not bring any import creation, but in 2015 the total effect occurred because of Eritrea, Kenya and Somalia. In 1997 total imports of member states from the IGAD region accounted for US\$ 638.5 million, which, according to the calculation, was 0.02 per cent less because of the existence of this community. In 2015, total imports of IGAD members from the community amounted to US\$ 1,947 million, with the creation effect of 0.05 per cent (Table 3).

**Table 3.** The effects of IGAD initiative on trade creation and diversion (1997 and 2015) (US\$ in thousand)

Country	Creation effect in total exports		Creation effect in total imports	
	1997	2015	1997	2015
Djibouti	-20 600	-9 056	-101	934
Eritrea	-2 521	-275	n.a.	50 175
Ethiopia	13 889	-44 150	-41 862	-40 751
Kenya	-43 003	-298 813	15 730	54 806
Somalia	487	1 925	-1 044	47 497
Sudan	522	-110 399	-1 963	-93 053
Uganda	-3 602	85 863	-16 831	-159 379
<b>TOTAL</b>	<b>1009</b>	<b>-275</b>	<b>-101</b>	<b>934</b>

Source: Author's calculations on the basis of (UNCTAD 2016).

In terms of product groups it is difficult to evaluate which type of goods benefited the most from the IGAD initiative. We also face serious lack of data for many states. The highest creation effect occurred in product group 'crude materials, inedible, except fuels' in Ethiopia in 1997 Ethiopia's exports in this product group increased by 24 per cent because of the creation effect. The largest negative influence of IGAD initiatives on exports was seen in Kenya's manufactured goods' exports in 1997, which were 6.7 per cent lower than without IGAD's existence. In 2015, Uganda experienced the most significant creation effect in terms of food and live animals -- 14.2 per cent of the exports of this product group were the result of the creation effect. Generally, Kenya's exports suffered the most because of IGAD, especially the

product groups of 'machinery and transport equipment' and 'food and live animals'. The negative impact on these product groups amounted to 75 and 47 per cent respectively. Nevertheless, the largest decrease in export values was observed in Sudan in terms of mineral fuels, lubricants and related materials (Table 4).

Research on the import creation effect has some limitations because of the limited availability of statistical data for 1997. This is also the reason why we focus on IGAD's impact on imports only in 2015. The creation effect was visible especially in the more advanced product group of 'machinery and transport equipment' in 2015. This effect was driven mainly by Eritrea's imports of this product group, but almost all IGAD members (except for Uganda) registered import creation effects in this product group. The creation effect in Eritrea's imports of 'machinery and transport equipment' amounted to more than 96 per cent. The most dramatic decrease in the imports of almost all product groups due to the creation effect was seen in Eritrea and Uganda. Eritrea suffered most from the negative creation effect in the group 'food and live animals', whereas Uganda registered the deepest negative effect in 'manufactured goods' imports (almost 37 per cent lower than without IGAD's existence). A serious negative creation effect was also seen in Ethiopia's imports of mineral fuels, lubricants and related materials. Generally, 'manufactured goods' was the group of products that suffered the most due to the import creation effect in 2015 (almost 29 per cent decrease in value because of IGAD's new status), but this falloff was driven only by Uganda (Table 5).

**Table 4.** The exports creation effect in terms of product groups (1997 and 2015) (US\$ in thousands)

		Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes	Chemicals and related products,n.e.s.	Manufactured goods	Machinery and transport equipment	Miscellaneous manufactured articles
Djibouti	1997	-2037.9	-182.7	-3.5	n.a.	-842.2	-1159.3	-3182.1	-4414.5	-922.7
	2015	3870.6	34.6	2392.9	-19603.4	402.9	548.5	1296.2	773.7	1228.1
Eritrea	1997	-104.1	n.a.	-367.1	n.a.	-2273.8	100.4	10.5	913.9	-503.5
	2015	-146.4	50.5	-39.1	n.a.	n.a.	-3.1	-1.8	-20.6	-6.9
Ethiopia	1997	3218.6	7.6	9331.4	1312.1	n.a.	n.a.	11.5	n.a.	3.6
	2015	-62283.3	-148.2	13653.7	n.a.	n.a.	-1065.1	1575.6	2443.6	1234.3
Kenya	1997	-2685.7	2340.8	-3455.4	-21719.7	-5144.6	-3728.5	-6465.1	-122.4	-2377.9
	2015	-71065.4	-29397.6	-5893.7	-5109.6	-17437.0	-28511.0	-57020.9	-80715.3	-4815.5
Somalia	1997	2.1	n.a.	n.a.	n.a.	n.a.	-14.1	184.4	281.2	51.2
	2015	157.3	n.a.	983.6	n.a.	n.a.	n.a.	n.a.	645.4	7.9
Sudan	1997	436.8	n.a.	33.6	n.a.	n.a.	146.1	52.8	-157.6	9.9
	2015	-6.2	364.3	-301.6	-123064.0	n.a.	3605.5	5584.3	1579.1	1760.2
Uganda	1997	-4953.9	n.a.	-3581.7	4007.1	n.a.	63.3	304.3	171.1	-0.3
	2015	29598.0	12217.2	-7013.4	2399.0	-7344.7	4553.5	10911.5	7318.9	11227.4
Total	1997	<b>-6124.1</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-9083.7</b>	<b>n.a.</b>	<b>-3739.7</b>
	2015	<b>-99875.4</b>	<b>n.a.</b>	<b>3782.4</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-67975.2</b>	<b>10635.5</b>

Source: Author's calculations on the basis of (UNCTAD 2016).

**Table 5.** The imports creation effect in terms of product groups (1997 and 2015) (US\$ in thousands)

		Food and live animals	Beverages and tobacco	Crude materials. Inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oil, fats and waxes	Chemicals and related products, n.e.s.	Manufactured goods	Machinery and transport equipment	Miscellaneous manufactured articles
Djibouti	1997	-1693.3	-0.3	660.5	449.2	n.a.	39.4	310.8	7.0	94.5
	2015	-695.1	54.8	313.3	21.6	5.3	10.6	191.2	716.2	234.2
Eritrea	1997	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	2015	-13601.1	-249.1	-1439.1	-8901.7	-411.3	-969.0	-4528.7	74364.2	5888.0
Ethiopia	1997	-451.9	-137.7	-313.8	-453.4	-370.8	-2551.2	2452.8	642.0	-718.4
	2015	4294.4	2014.2	5712.0	-81944.2	-858.6	4610.4	2646.0	17157.4	5598.2
Kenya	1997	13586.2	100.4	-3896.1	5727.0	n.a.	74.6	157.1	207.8	-102.6
	2015	29455.1	-2274.0	4037.5	761.9	1354.1	685.7	2368.4	15923.4	2493.9
Somalia	1997	-13305.7	8675.4	1428.4	6947.0	-3558.4	-3219.5	2933.7	-386.0	-1554.8
	2015	3080.5	10491.0	21001.9	n.a.	n.a.	1485.9	3313.4	541.3	6508.3
Sudan	1997	-3376.4	338.6	-1128.1	-652.1	441.8	2159.3	160.8	76.2	15.8
	2015	-47034.8	-14591.1	111.6	-48582.9	-4953.9	5907.5	2629.7	7185.8	1666.9
Uganda	1997	6362.4	-165.0	-3090.3	-37989.1	-2802.2	6297.3	6876.8	1737.1	6031.2
	2015	7941.8	-8341.8	2978.3	-39879.9	-1724.5	-21425.4	-97963.4	-5597.3	-4999.4
<b>Total</b>	<b>2015</b>	<b>-16559.2</b>	<b>-12896.0</b>	<b>32715.5</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-9694.3</b>	<b>-91343.4</b>	<b>110291.0</b>	<b>17390.1</b>

Source: Author's calculations on the basis of (UNCTAD 2016).

### 3.2. Trade Concentration

The geographical concentration of IGAD members' (except for Sudan and Eritrea) exports and imports was investigated with the Herfindahl-Hirschman Index (HHI). Eritrea experienced the most significant increase in the geographical concentration of exports. In 2000, almost 45 per cent of Eritrea's exports went to Yemen. By 2015, however, the structure of its main export partners' had shifted towards Canada, where almost 94 per cent of its exports went. The opposite trend is observed in Djibouti, where exports focused on Ethiopia (47 per cent) in 1995. In 2015, Djibouti exported mainly to UAE (21 per cent) and Yemen (18 per cent). Kenya was characterized by the lowest geographical concentration. Its exports focus was on markets in Uganda, the Netherlands, the UK and USA. Analysing the diversification in import markets we also cannot see any uniform trends in all IGAD states. Only Eritrea and Uganda decreased their import concentrations slightly. In 2015, Eritrea imported primarily from China, Egypt and Italy, while Uganda imported from India, Kenya and China. Kenya and Sudan held the lowest import concentration indexes in 2015. However, import market concentration indices measured in HHI are much lower than HH indexes in exports. This implies a rather moderate concentration of imports of IGAD members (Table 6).

**Table 6.** Index of export and import market concentration of the IGAD countries (1995 and 2015)

	Exports		Imports	
	1995	2015	1995	2015
Djibuti	0.273	0.108	0.082	0.118
Eritrea	0.254	0.884	0.112	0.098
Ethiopia	0.134	0.060	0.068	0.099
Kenya	0.064	0.053	0.057	0.063
Somalia	0.541	0.475	0.106	0.160
Sudan	0.068	0.302	0.048	0.062
Uganda	0.076	0.065	0.119	0.080
IGAD	0,045	0,045	0.044	0.060

Note: A HH index below 0.01 indicates a highly competitive index. A HH index below 0.15 indicates an unconcentrated index. A HHI index between 0.15 and 0.25 indicates moderate concentration. A HHI above 0.25 indicates high concentration.

HH index formula:  $HHI = \sum^n S_i^2$ , where  $S_i$ : market share of country  $i$

Source: Author's calculations on the basis of (UNCTAD 2016).

While analysing the synthetic measures of concentration of commodity structures of exports and imports (applying Standard International Trade Classification, Rev.3), we can observe that there is no clear tendency among IGAD member states. States such as Sudan, Somalia and Eritrea were characterized by really high concentration of exports in 2015. In 2015, almost 81 per cent of Sudan's exports were realized by groups of crude and refined petroleum and gold. Somalia primarily exported livestock (sheep, goats and bovine) and wood charcoal. Eritrea concentrated its exports on gold, silver and hides. Both the Gini coefficient and the Herfindahl Index (HI) in these three countries were high and pointed to the high degree of commodity export concentration. The other IGAD members, especially Kenya, were characterized by more diversified exports in 2015. Kenya exported mainly tea and coffee, cut flowers and refined petroleum. Djibouti concentrated its exports on refined petroleum, livestock and coffee. Ethiopia, in turn, focused on exporting coffee, oily seeds, vegetables and cut



flowers. Uganda sold abroad primarily coffee, broadcasting equipment and fish. Uganda is a country that has managed to diversify the structure of its exports most significantly in 1995-2015. In contrast, in Djibouti, Eritrea and Sudan the opposite trend is observed. In the period under analysis Djibouti focused more on exports of livestock and petroleum, while Eritrea exported gold and Sudan sold petroleum and gold abroad. The commodity concentration was lower in imports, regardless of the indicators which were taken into account. Unquestionably, Somalia had the most concentrated imports. In Somalia, vegetables, rice, raw sugar, pasta and wheat flour constituted more than half of the imports value in 2015. The other countries were characterized by more fragmented and diversified imports (Table 7).

**Table 7.** Synthetic indicators of commodity export and import concentration of the IGAD states (1995 and 2015)

	Exports						Imports					
	Gini coefficient		H index		Share of 3 most important product groups (%)		Gini coefficient		H index		Share of 3 most important product groups (%)	
	1995	2015	1995	2015	1995	2015	1995	2015	1995	2015	1995	2015
Djibuti	0.46557	0.62564 8	0.05 0	0.09 9	26.8 9	46.0 3	0.43158 8	0.47860 8	0.05 0	0.04 3	25.9 1	23.8 7
Eritrea	0.56529 5	0.94967 1	0.15 2	0.26 3	57.1 7	72.8 5	0.66954 8	0.61099 1	0.08 2	0.05 0	41.2 6	30.4 6
Ethiopia	0.89019 3	0.82382 1	0.42 0	0.16 8	82.2 2	64.8 5	0.59947	0.58488 6	0.07 4	0.06 1	39.0 0	33.1 5
Kenya	0.66222 4	0.52828 2	0.14 6	0.08 8	50.0 0	43.2 2	0.57145 4	0.56917 3	0.05 3	0.08 2	31.5 8	37.2 7
Somalia	0.96219 5	0.88540 7	0.53 0	0.47 6	88.6 2	80.7 1	0.62935 5	0.76172 2	0.11 7	0.12 4	50.4 0	51.6 3
Sudan	0.81737 7	0.78641 9	0.13 1	0.33 5	52.9 8	83.7 7	0.55650 6	0.49913 7	0.06 5	0.03 8	37.1 0	19.2 4
Uganda	0.92304 8	0.56015 5	0.58 0	0.08 7	85.3 1	38.1 4	0.55850 5	0.54152 2	0.04 1	0.07 0	23.1 7	35.1 0

Note: H index formula:  $HI = \sqrt{\sum_k (x_{ik} / \sum_k x_{ik})^2}$ , where  $x_{ik}$  = country i's exports of product k

Source: Author's calculations using SITC Rev.3 on the basis of (UNCTAD 2016).

### 3.3. Trade by Technology Intensity

A weakness of the export structure of IGAD members is that the high-tech products' share of their exports continues to be low. This opinion is expressed here although it is still uncertain whether in the case of developing countries high-tech exports can really be treated as a solid indication of their technological development (Mani 2000; Srholec 2005). These doubts are usually justified by the statement that technologically advanced exports do not necessarily have to be the result of actual innovative activities in the countries, but rather of a suitable position in global value chains based on revealed comparative advantages (vertical specialization) (Dicken et al. 2011). We can explain the low technological advancements in IGAD countries by their very low share of expenses on research and development. For example, Kenya allocated most expenses to R&D activities, (0.42 per cent of its GDP in 2015), followed

by Uganda, which allocated 0.41 per cent of its GDP to this goal. In comparison, the average for the EU-27 in this regard was 2.03 per cent of the GDP in 2015 (Eurostat 2016). Total R&D personnel per million inhabitants amounted to 150 in Ethiopia in 2010, 180 in Kenya, 63 in Uganda in 2007 and 751 in Sudan in 2005<sup>6</sup> (the latest available data). As compared to developed countries, these figures are considerable lower. For instance, in 2010, in UK the total number of R&D personnel per million inhabitants was 8,448, in Finland it was 14,900 and in Japan it was 9,105. The number of researchers per million dwellers in the IGAD states was also lower. In 2007, there were 30, 93 and 29 researchers in Ethiopia, Kenya and Uganda respectively. As compared to numbers from developed countries (10,094 in Finland, 6,942 in Japan, or 6,187 in the UK in 2007) these figures are small (UNESCO 2014). In the Global Innovation Index (2013), Uganda was the leader in the IGAD region – it had the 89<sup>th</sup> place among 142 countries in this ranking, while Sudan held the last but one position in this ranking (World Economic Forum 2013). In turn, in the Knowledge Economy Index 2015, Kenya (111) reached the highest position.

With regard to the share of high-tech product exports in the total manufactured goods' export value, in 2015 it was the highest for Sudan (42 per cent). However, this data is merely an estimation and this share is questionable because of a lack of latest R&D statistics and the low rank that the country has in the Global Innovation Index. The second country in terms of high-tech exports is Uganda. The country's high percentage of high-tech exports is primarily the result of inflows of foreign direct investment connected with parts and components for electrical and electronic goods and the development of this sector within the country.<sup>7</sup> Also, Uganda has improved its performance partly due to the recently increased investments in oil manufacturing and services sectors, which are reflected in improvements in its exports structure. In Eritrea, Ethiopia and Somalia around half of the manufactured exports still consist of labor-intensive and resource-intensive products.<sup>8</sup> We can see an optimistic tendency in high-skill and technology-intensive exports between 1995 and 2015. The share of these exports increased in all analysed countries, except for Somalia (Table 8).

**Table 8.** Structure of manufactured products in terms of technological advancements (1995 and 2015)

		Djibouti	Eritrea	Ethiopia	Kenya	Somalia	Sudan	Uganda
Labor-intensive and resource-intensive	1995	23.8%	18.9%	97.0%	35.9%	16.9%	83.0%	17.6%
	2015	14.0%	57.8%	56.1%	36.0%	47.7%	35.6%*	28.5%
Low-skill and technology-intensive	1995	16.6%	11.8%	0.0%	21.4%	29.0%	0.6%	21.1%
	2015	11.6%	1.7%	2.3%	14.9%	1.3%	11.3%*	15.6%
Medium-skill and technology-intensive	1995	41.9%	54.7%	0.0%	13.4%	30.2%	11.1%	30.5%
	2015	41.9%	9.2%	31.5%	16.7%	31.5%	11.1%*	17.0%
High-skill and technology-intensive	1995	17.6%	14.6%	3.0%	29.4%	23.9%	5.3%	30.7%
	2015	32.5%	31.3%	10.0%	32.4%	19.5%	42.0%*	38.9%

Note: \*: Estimation.  
Source: (UNCTAD).

<sup>6</sup> Overestimated or based on overestimated data according to UNESCO.

<sup>7</sup> The World Investment Report 2013 shows that Uganda is the leading recipient of FDI in the East African region (UNCTAD 2013).

<sup>8</sup> The massive oil and gas deposits found in Kenya, Somalia and Uganda, are going to define their economies as so-called petro-dollar economies. In these three countries have operated Pan-Continental, Tullow, Anadarko, ENI, Statoil, CAMAC, BG Group, Swiss Oil, Total, CNOOC, General Energy Plc, Conoco-Philips, Royal Dutch Shell, Exxon Mobil and BP (New African 2014).

#### 4. Competitiveness of Exports of the Selected IGAD States

IGAD's accession to international markets has resulted in adjustments to global trade systems and in changes in competitiveness indicators. Generally, we observe economic synergies between Africa and the world by revealing the advantages resulting from combining sectoral and national potentials on a win-win basis. Consequently, it is worth analysing the changes in the competitive positions of IGAD states. The analysis covers three economies in the IGAD region: Ethiopia, Kenya and Sudan and their relations to selected regions and country groups. The rest of the IGAD countries had to be excluded from this study due to lack of reliable and comparable data. Annual export and import dynamics were calculated in order to evaluate the changes in competitive positions. These indicators were adjusted to currency exchange fluctuations (changes of exchange rates of the local currencies to US\$) and volatility of commodity prices in the international market. The indicator formula is:

$$\Delta_{adj}X_n^j - \Delta X_n^j / \Delta X_n$$

where  $\Delta_{adj}X_n^j$  is adjusted annual dynamics export of region/country j in n product group,  $\Delta X_n^j / \Delta X_n$  is real dynamics of export value of region/country j in n product group in relation to real annual dynamics of total export of the analysed country.

If the indicator is above zero ( $\Delta_{adj}X_n^j - \Delta X_n^j / \Delta X_n > 0$ ), it means that the analysed country improved its competitive position in a given region/country.

If the indicator is below zero ( $\Delta_{adj}X_n^j - \Delta X_n^j / \Delta X_n < 0$ ), it means that the analysed country deteriorated its competitive position in a given region/country.

Generally, it is difficult to find a common tendency in changes in competitive positions in particular product groups. Only in beverages and tobacco all analysed countries indicated improvements in their international positions. In the case of other product groups the results varied widely. For example, Uganda's competitive position improved in almost all product groups and in relation to the analysed regions during 1995-2015. Kenya's competitive position deteriorated in relation to developed countries, especially in relation to Eastern African developing states. In the case of Ethiopia, a lot of data is not available, so it is difficult to point out a trend in changes in its international position. Sudan's competitive position worsened almost in all the product groups in relation to the analysed regions, except for fuels and chemicals (Table 9).

**Table 9.** The matrix of changes in the competitive positions of exports of Ethiopia, Kenya, and Sudan between 1995 and 2015

	Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Chemicals and related products, n.e.s.	Manufactured goods	Machinery and transport equipment
<b>Ethiopia</b>							
World	-	+	+	n.a.	-	-	+
Developing countries	+	+	-	-	+	+	n.a.
Developed countries	-	n.a.	+	n.a.	-	-	n.a.
African developing countries	+	+	-	-	+	+	n.a.
Eastern Africa developing countries	+	n.a.	+	n.a.	-	-	+
<b>Kenya</b>							
World	-	+	+	-	+	+	+
Developing countries	+	+	+	-	+	+	+
Developed countries	-	+	+	-	-	-	+
African developing countries	+	+	+	-	+	+	+
Eastern Africa developing countries	+	+	-	-	-	-	-
<b>Sudan</b>							
World	-	+	-	+	+	-	-
Developing countries	-	+	-	+	-	-	-
Developed countries	-	n.a.	-	+	+	-	-
African developing countries	-	n.a.	-	+	+	-	-
Eastern Africa developing countries	-	+	-	+	+	-	-

Note: '+': Improvement in competitive position during 1995-2015.

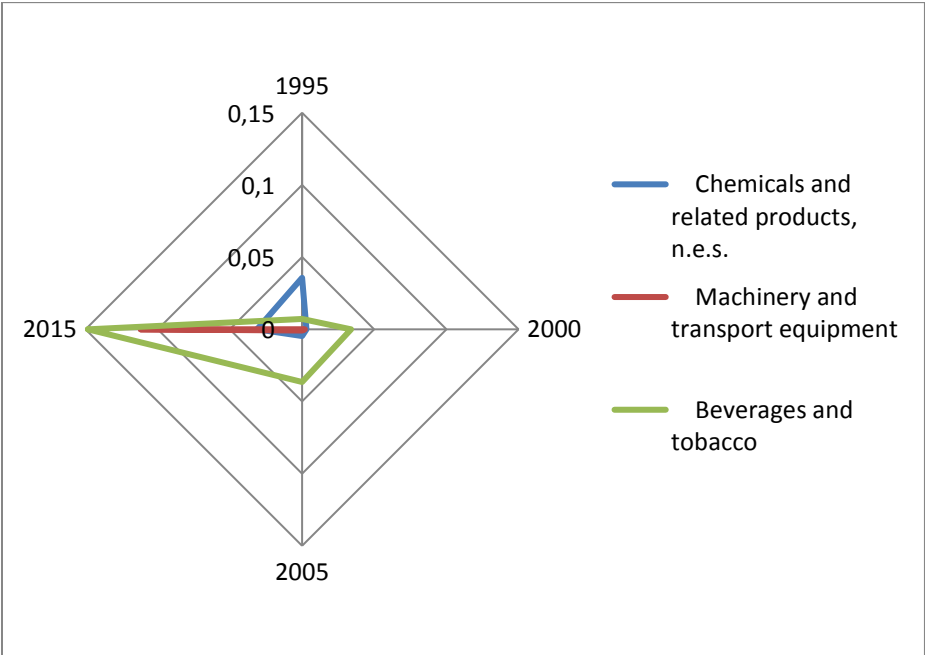
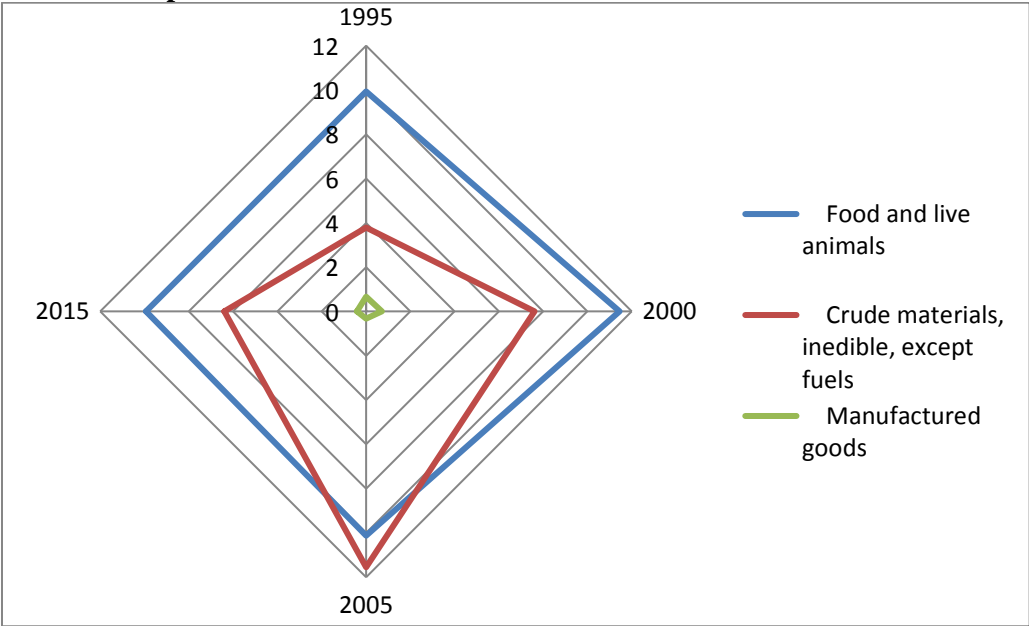
'-': Deterioration of competitive position during 1995-2015.

Source: Author's calculations on the basis of (UNCTAD 2016).

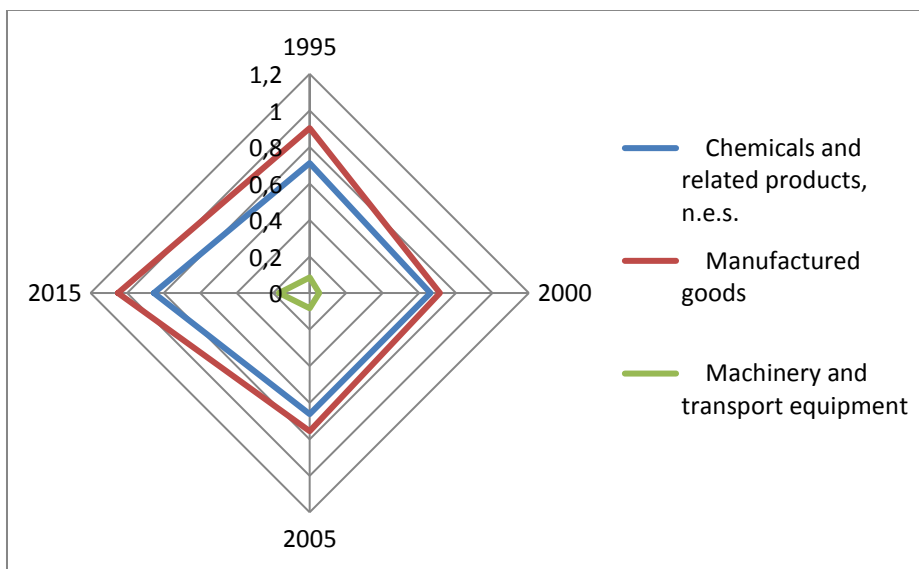
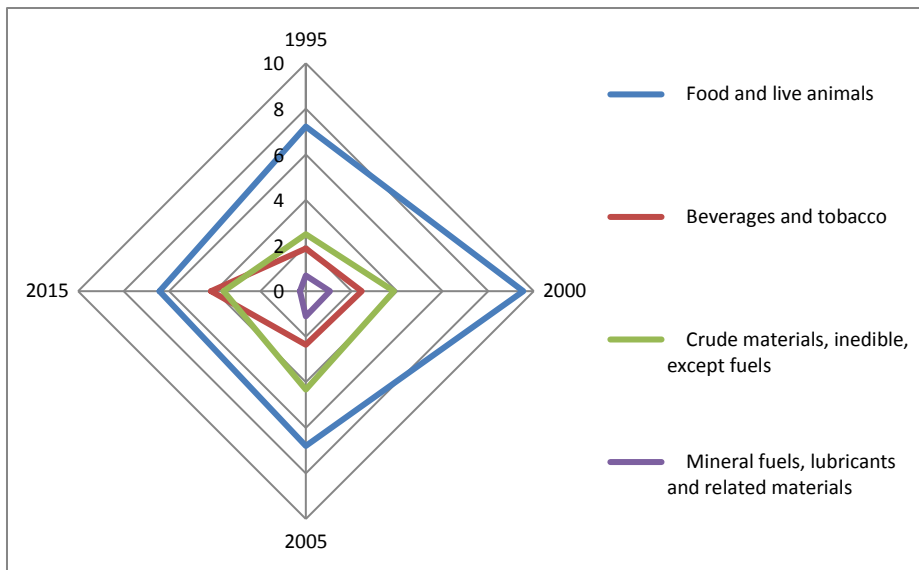
The commodity structure of exports and changes in competitive positions of IGAD countries are related to specialization in international exports. In order to express the relative comparative advantage of a given commodity group in exports, it is most appropriate to calculate the International Specialization Index. For this, we used the revealed comparative advantage index (Balassa 1965). Generally, the IGAD countries export primarily those products

in which they have a comparative advantage or in which their competitiveness has improved recently. When we calculate the revealed comparative advantage index for selected countries we see that they moved in the same direction as the changes in competitive positions calculated earlier. Ethiopia and Kenya were characterized by revealed comparative advantages in terms of food and live animals and crude materials. Additionally, Kenya proved to be competitive in beverages and tobacco and in manufactured goods. Sudan specialized only in mineral fuels. The remaining product groups seemed to be still in a disadvantaged position in world trade exchange. None of these countries had comparative advantages in more technologically advanced commodity groups, such as machinery and electronics or transport industry products (Figure 8).

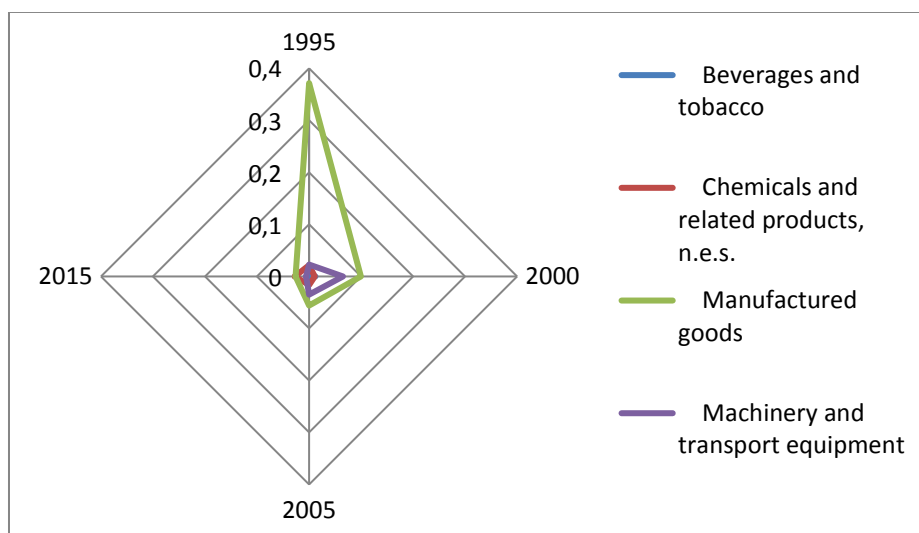
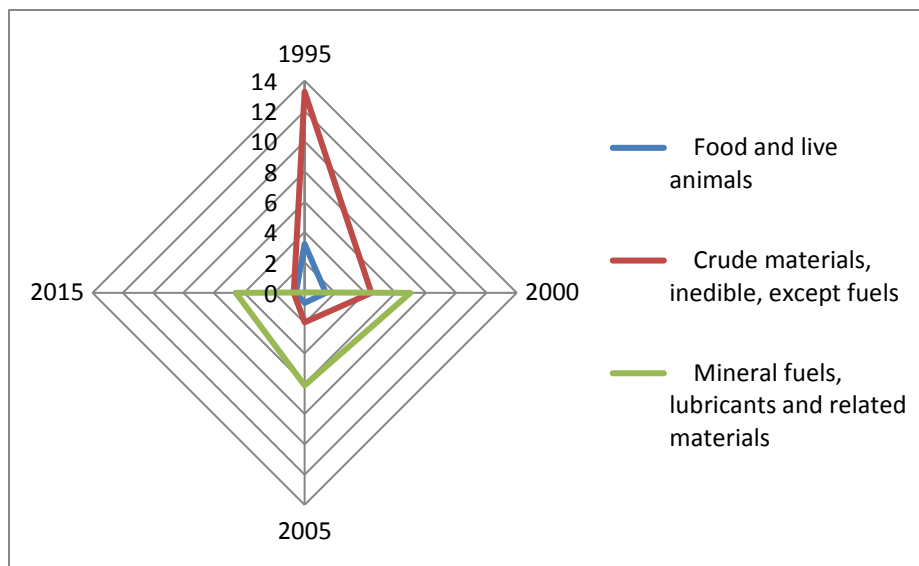
**A. Ethiopia**



**B. Kenya**



### C. Sudan



Note:  $RCA_{ik} = (x_{ik} / \sum_k x_{ik}) / (x_{wk} / \sum_k x_{wk})$ , where:  $x_{ik}$  = country  $i$ 's exports of product  $k$ ;  $x_{wk}$  = world exports of product  $k$

$RCA_{jk} > 1$  – revealed comparative advantage in export of product  $j$

**Figure 8.** The revealed comparative advantage indexes ( $RCA_j$ ) of Ethiopia, Kenya and Sudan between 1995 and 2015

Source: Author's calculations on the basis of (UNCTAD 2016).

The following conclusions can be drawn from this analysis for the three selected IGAD members:

1. Ethiopia:

- a. generally, we cannot observe any explicit positive trend in Ethiopia's overall competitiveness due to both external and domestic factors including poor international prices, structural supplies and logistical challenges;

- b. the country improved its competitiveness especially in exports of beverages and tobacco with regard to all analysed regions and groups of states;
- c. in terms of more advanced goods (for example, machinery and transport equipment), it improved its competitiveness with respect to the world as a whole and its closest neighborhood (East Africa);
- d. generally, we observe a deterioration in the country's competitive position in terms of mineral fuels, but we do not have complete data to illustrate exports;
- e. revealed comparative advantages improved in three of the six analysed groups of products between 1995-2015. Beverages and tobacco, crude minerals (except fuels) and machinery and transport equipment; food and live animals; chemicals and related products; and manufactured goods deteriorated their  $RCA_i$  between 1995-2015; the most dramatic decrease in the  $RCA_i$  index was noticed in manufactured goods;
- f. in 2015, the country was characterized by revealed comparative advantages in primary products, for example, food, live animals and crude materials; the most significant increase in the  $RCA_i$  index was observed in crude materials;
- g. unfortunately more advanced products such as manufactured goods, are still at a comparative disadvantage, though improvements in the  $RCA_i$  of these products, especially in machinery and transport equipment have been observed.

## 2. Kenya:

- a. we can observe an explicit trend in its competitiveness position: almost all product groups, except for mineral fuels, improved their positions;
- b. an important aspect of the improvement in Kenya's competitiveness position is the fact that the product group 'machinery and transport equipment' improved its competitiveness in relation to almost all analysed regions (except for Eastern Africa developing countries);
- c. deterioration in mineral fuels, lubricants and related materials' competitiveness positions with respect to all regions indicates that Kenya's exports have become more advanced;
- d. between 1995-2015 the most significant increase in  $RCA_i$  was observed in beverages and tobacco and also in crude minerals, except fuels;
- e. improvements in Kenya's competitiveness position in exports can be explained by its promoting trade facilitation through enhancements at the Port of Mombasa (now operating 24/7), investing in improvements in the northern corridor road network, starting the construction of the Standard Gauge Railway to link Mombasa to Kampala with a loan from China, launching the Lamu Port and South Sudan-Ethiopia Transport road and rail network with the construction of berths at Lamu and the Jomo Kenyatta International Airport which remains the gateway to East Africa;
- f. Kenya actively promotes and conducts trade with all its neighbors.

## 3. Sudan

- a. we can observe a clear trend in Sudan's competitiveness position: almost all product groups, except for mineral fuels and chemical products, deteriorated their positions; mineral fuels, lubricants and related materials were the only products that improved their competitive positions with regard to all analysed regions; between 1995-2015 the most significant increase in  $RCA_i$  was observed in mineral fuels, lubricants and related materials;



- b. deterioration in almost all product groups' competitiveness positions with respect to all regions indicates that Sudan's exports have become less advanced and more concentrated on resource-based goods;
- c. crude materials, inedible, except fuels significantly deteriorated their RCA; between 1995-2015;
- d. the pessimistic picture of Sudan's exports' competitiveness and in its comparative advantage is because of the very difficult and unstable political and international situation in this state; although Sudan is a member of COMESA, it has not implemented the tariff-reform program; moreover, the depletion of its foreign exchange reserves limits the potential for a significant reduction of tariffs or other restrictions on imports;
- e. unbalanced exports and concentration on resources is the result of the policy of elimination of external debt.<sup>9</sup>

## **5. Policy recommendations: international economic relations**

The current priority for IGAD countries' governments is to reduce the development gap between the region and more developed states. One of the means to achieve this goal is to ensure proper management of foreign trade, gradually join the global economy (being a signatory of many international agreements) and shape doing business environment. Moreover, IGAD region characterizes quite high economic growth, unfortunately this growth is not sustained.

Based on the research conducted, the following conclusions and recommendations can be offered to stimulate IGAD states international expansion in terms of foreign trade and foreign investments:

1. IGAD is characterized by the high economic potential, development opportunities and growing competitiveness (in international terms) against the background of many African states. However, many areas of IGAD's real economy and financial sector need improvements, e.g. the level of development of education, technology and infrastructure, research level, barriers to the issuance of construction permits, or problems with the supply of electricity, and the protection of minority investors. These critical areas need changes and improvements. They are pointed out inter alia by the international organizations when they create the multidimensional indexes and rankings.
2. IGAD's market still needs advanced technology solutions in almost every dimension of economic activity. In terms of foreign trade, IGAD countries do not have any reveal competitive advantage or specialization in any advanced products exports. Countries import most of technologically advanced product groups. Therefore, IGAD states governments should support and be extremely interested in international cooperation in these terms.
3. The total exports potential of IGAD region is high, especially when we analyse its main trade partners and indicative trade potential. However, the exports structure within the main trading partners (countries and integration groups) needs improvements towards more advanced product groups. The most popular exports goods are quite primary. If IGAD states wanted to

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<sup>9</sup> As Sudan had become the world's largest debtor to the World Bank and the International Monetary Fund by 1993, its relationship with the international financial institutions soured in the mid-1990s. Since then the government has taken steps to improve its performance. Fiscal expansion, high oil exports and substantial inflows of capital have contributed to a strengthening of the dinar (PRS 2011).

join into global value chains and wanted to be ranked in upmarket segments in terms of value added embodied in gross exports of IGAD countries partners, it should rebuild the exports structure and focus more on advanced products.

4. The intensification of economic expansions needs the actions at the level of central and local government administration of all IGAD's countries. It will be necessary to gather detailed information on the African markets and other prospective global markets for IGAD exporters and entrepreneurs, their potential, development opportunities, consumer demand, institutional conditions (including trade barriers, tax systems, investment incentives), conditions and climates to operate as well as identifying priority markets and industry directions for potential cooperation.
5. It is worth to consider China as a very important economic partner of IGAD region, especially when we think about the New Silk Road strategy. China has already financed and built a railway between Djibouti to Addis Ababa, the continent's first transnational electric railway. In Kenya, a Chinese companies has built a new railway connecting Nairobi to the country's port city of Mombasa, which will reach Uganda, Rwanda, and the Democratic Republic of Congo in the end.
6. China aims at establishing ties between the main markets of the Middle East, Central Asia and Africa. The New Maritime Silk Road is dedicated to consolidate port infrastructure in order to strengthen commercial and energetic corridors that go through the South China Sea, the Persian Gulf and the Red Sea, encompassing Peninsulas such as Indochina, Hindustan, Arabia and the Horn of Africa. It is a way of increasing Chinese presence in the face of the existing chokepoints of the region, such as the Strait of Bab el-Mandeb, between the Red Sea and the Indian Ocean, the Strait of Ormuz, between the Persian Gulf and the Indian Ocean, and the Strait of Malacca, between the Indian Ocean and the South China Sea. Regarding the African continent, Northeast Africa and especially the IGAD region are the other pole of the maritime connection provided by the New Silk Road initiative. The position of countries such as Djibouti and Kenya reveals the role of the Horn of Africa as the other pole of the New Maritime Silk Road. This region may potentialise Chinese policies towards Africa.
7. IGAD's governments should consider expanding and developing the number of diplomatic missions, consular offices, chambers of commerce etc., not only in Africa, but in the most important trade and investment partners. These entities would strengthen the presence of IGAD states' enterprises abroad and support their business. Moreover, many countries should develop the economic sections of existing diplomatic missions and set up targeted governmental economic agencies. This would help to better understand the specifics of the markets and the support companies from IGAD states in the foreign markets. The increase in the number of governmental agencies would also indicate a desire to strengthen relations with continental countries, which could facilitate the pursuit of business interests and increase the interconnectedness.
8. Effective stimulation of economic expansion of IGAD states will require the further development of trade and investment support instruments such as government guarantees, export credits (preferential ones) and interbank investment funds as well as the implementation of new measures. Another important element of governmental support may be the encouragement in setting up chambers of commerce and commerce both in new abroad agencies as well as in existing ones which serve free advisory and consultation activities. It will

be important to create and support existing governmental consulting agencies and capital groups that serve companies from IGAD region that plan abroad existing.

9. It will be necessary to institutionalize promotional activities on selected (priority) markets and their specific information campaign. It is important to strengthen the promotion and long-term development of the perception of both the country itself and the products and services offered by the various enterprises from IGAD region. The national branding activities aiming at creating a proper image of the IGAD states brand awareness in the African markets are needed. It is important that the products from IGAD region offered abroad should be identified with modernity, solidity and quite high quality workmanship.
10. It is important for entrepreneurs and supporting agencies to seek and identify international market niches in which they may achieve the competitive advantage in long term. Moreover, they should anticipate the changes that have taken place in the exports markets and the prospects for their further development.
11. In terms of foreign investments activity of IGAD states, the consideration should be given to the interest of internationalization in the form of investments of a minority character. At the initial stage of internationalization, IGAD countries investors and entrepreneurs need business partners from well-developed or higher than IGAD states developed countries in order to better understanding the market, culture, including business culture, increase efficiency in recruitment, confidence and efficiency in building relationships at central or local government level. This seems particularly important at the beginning of the IGAD states capital expansion. At the same time, such investment projects should allow entrepreneurs from IGAD countries access to East African and global markets - increasing export as a result - through existing distribution networks, business contacts, and market knowledge.
12. In the context of investment international cooperation, it is desirable for IGAD states' government agencies to cooperate with other government agencies (from other countries) in promoting mutual investment. More bilateral or multilateral investment agreements can stimulate capital flows between IGAD and the world.
13. It is advisable to use the knowledge of other countries (e.g. China, the U.S., the EU states) and economic operators with greater experience in international expansion, especially in more advanced markets. It is worth to establish cooperation with such foreign agencies, both public and private. Selection and implementation of selected actions and measures could contribute to improving the effectiveness of the expansion in the international markets with the great demand for products and businesses.
14. If companies (private and public ones) wanted to develop international relation, they should create cooperation with well-developed and fast developing countries' enterprises in a form of joint ventures. These forms of cooperation can be extremely useful in common direct investments and undertakings of logistic and distribution nature. This form of investment activity will help to bridge the barriers associated with different business culture and doing business standards in IGAD states and the developed and developing markets.
15. The reasons for intensifying foreign economic cooperation with IGAD states include: growing private consumption and governmental expenditures, which are connected to building the transport, telecommunication, production infrastructure, and social services; demographic

potential and demographic structure, growing middle class; changing the global economy and joining to global value chains.

16. IGAD states' governments should be more interested in international cooperation in developing services. Very perspective are services, such as: research and development, banking, financial and business services, transport and logistics, telecommunications and the energy sector, including especially renewable energy sector. In the investment inflows dimension, good prognosis can be formulated to the construction industry (mainly transport infrastructure), food and agriculture, pharmaceutical, hotel, medical and chemical industries.
17. From the international perspective of well-developed and fast developing countries the most prospects export product groups to IGAD markets are: many types of high quality industrial products, mainly mining machinery, construction machinery, agricultural machinery and equipment, simple and easy-to-use equipment, consumer goods, especially electronics, cars and their parts, as well as furniture, telecommunications equipment, household appliances, office supplies. The growing middle class also offers the opportunity to export luxury goods, specialized high-standard services, jewelry, clothing, food products, advanced technology, electronics, and automotive industry products.

## **Conclusion**

Leaving aside the influence of the redistribution of income between countries with different levels of development, which has already been discussed on numerous occasions in academic literature, the introduction of international fragmentation of production has made it possible to boost selected branches of the IGAD economy in which there had already been comparative advantages or at least a fair chance for increasing international competitiveness (Feenstra 1998). Therefore, it is an attractive development strategy for the Eastern African region to participate in international trade (Ernst & Young 2014).

Reducing the development gap between them and the developed countries and creating a stable economic environment is a priority for the IGAD states (IFC and The World Bank 2016). One of the ways of achieving this goal is by ensuring proper management of foreign trade and gradually joining the global economy. However, IGAD members are very diverse in terms of their economic levels and social and institutional development, and there are also considerable differences in the orientation of their foreign policies which translate into trade flows. The community has not defined one common policy and its members largely realize their particular goals, thus causing even greater economic polarization in the region. However, the omnipresent delocalization and fragmentation of production have not left this region unaffected. The most economically advanced countries in the region joined the international trade the earliest. Transformations in Eastern African economies resulted in foreign enterprises deciding to take advantage of the countries' comparative advantages. Thanks to its factors of production and level of development the IGAD region seems to be attractive for four types of investors, looking for four things: resources, a ready market, a reduction in production costs and strategic assets (for example, the power industry and the railroad network) (Proksch 2003; Ernst & Young 2014).

Nevertheless, we should remember that the IGAD region is still unstable and that it is a pivotal geopolitical pressure point in world politics. That is why economic development and integration within the community may be the solution to political, ideological, religious and ethnic problems which are often compounded by natural disasters like widespread droughts and famines in the region.

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